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Commissioners

Electric Utility Capital and O&M Budget Review Process

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May 23, 2011



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Capital and O&M Review

- **Process**
 - Though formal information requests, interviews of company personnel and site inspections of major on-going projects
- **Review**
 - All proposed capital projects and O&M programs for the projected rate year and three to five years beyond;
 - Budgeting process for project authorization and appropriation;
 - Estimating process, including order of magnitude estimates, and current working estimates;
 - Specific program and project cost estimation including details on, inflation factors, percent contingency, and model development and application.
 - Cost control process, including review of construction bids, tracking of expenditures, and review of final project cost to original estimates.
 - Collected 4 to 6 years of historical data on budgets and actual expenditures for each capital and O&M line item used to determine appropriateness of funding levels for future rate years



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Approach

- **Need**
 - Make a determination for each proposed project and program as to its necessity for the provision of safe and reliable service
- **Timing**
 - Review all proposed capital project schedules, interview specific project managers and perform discovery to determine appropriate plant in service dates.
- **Cost**
 - Review the company's budgeting process, cost estimation, bid check, and competitive bid process
 - Review the current working estimates for each project to determine the most likely final cost for imputation into the plant in-service model.
 - Use historic budgets and actual expenditure levels to determine appropriateness of funding levels for future rate years.
 - Request and determine corresponding capital expenditure or O&M cost savings as a result of implementing proposed projects and programs



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Adjustments

- Changes to in-service dates will be applied to the Company's proposed plant in-service model to determine appropriate level of net plant for revenue requirement purposes.
- For proposed capital projects not adequately justified, either by need or cost, remove corresponding plant from plant-in service forecast
- Remove corresponding capital / O&M projects or programs that will become unnecessary as a result of the proposed project or program
- Support a labor slippage adjustment to reflect the fact that proposed increased staffing levels will not be in place on the first date of the rate year if that is the case.



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CAPEX Reconciliation and Monitoring

- **Net Plant Cap**
 - Consider a downward reconciliation on utility infrastructure investments.
 - Use the net plant forecast as a target and have the company defer the carrying charges related to the difference between actual plant closed to books and the net plant target used for rate making
 - The deferred carrying charges can be used for future ratepayer benefits.
- **Monitoring**
 - Recommend quarterly reports on actual capital expenditures and specific project and/or program activities detailing how they differ from the projected forecasts.
 - Report should identify and provide detailed explanations for variations in cost of +/- 10% by project and/or program.
 - Report should contain justification for new capital projects the Company has developed that have not been presented in its last rate case as well as projects that were abandoned or materially altered in terms of scope.