Capital Additions Tracker

Cecil Wright, Assistant General Counsel, IUB
Bob LaRocca, Utility Specialist, IUB

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Under traditional rate regulation of natural gas utilities, a utility does not recover a return on or a return of capital investments until the Board has approved the inclusion of the capital investments in rate base in a general rate proceeding and final rates from that proceeding are effective. A return on the capital investment is set by the Board and is the overall rate of return approved by the Board. The return of investment is the depreciation rate approved by the Board for each type of property.

Under Iowa Code § 476.6(8), the Board can approve automatic adjustment mechanisms, also known as trackers, for natural gas utilities as long as the utility files a schedule with the Board. Under this provision, the Board has reviewed proposed trackers based upon criteria established historically and adopted by the Board in the Board's electric service rules. The criteria adopted are as follows:

(1) Are incurred in supplying energy;

(2) Are beyond the direct control of management;

(3) Are subject to sudden important change in level;

(4) Are an important factor in determining the total cost to serve; and

(5) Are readily, precisely, and continuously segregated in the accounts of the utility.

Under these five criteria, the Board has approved trackers for the cost of natural gas for natural gas utilities and the cost of electric energy for electric utilities.

In recent years, natural gas utilities have been requesting that the Board allow the utility to recover a return on and return of capital investment for certain types of infrastructure investment. The utilities have argued that "regulatory lag," which is the time between when the capital investment is made and the date recovery begins, limits the utilities' ability to earn its overall rate of return since the amount of investments have increased due to government requirements or new federal natural gas pipeline safety regulations.

In at least three rate cases, a natural gas utility has proposed a tracker to recover certain capital investments. The Board rejected the proposed tracker each time because of the types of investments the utility proposed to recover and because the utility did not propose a lower return on the investment associated with the reduced risk of recovery. When the Board rejected the last tracker, the Board stated that it would propose a rule to establish criteria for a tracker that was specifically limited to recovery of a return on and return of capital infrastructure investment that was required by government action or by new federal natural gas pipeline safety regulations.

The Board opened a rule making in June 2011 to add the five criteria described above to the natural gas service rules and to also establish criteria for the recovery of specific capital infrastructure investment between general rate proceedings. In the proposed rule, the Board proposed the following criteria:

(1) Does not serve to increase revenues by directly connecting the infrastructure replacement to new customers.

(2) Is in service but was not included in the utility's rate base in its most recent general rate case.

(3) Replaces or modifies existing infrastructure required by state or local government action or is required to meet state or federal natural gas pipeline safety regulations.

In the proposed rule, the Board described the information that the utility was required to file to support the investment proposed to be recovered, established procedures for filing for recovery, and set the return on investment to be allowed in recovery at the utility's cost of debt from the utility's last general rate proceeding.

The utilities filed comments suggesting modifications to the proposed rule, especially comments directed at expanding the criteria to cover additional investments and even operation and maintenance expense. The Board is considering these comments and whether to make revisions to the proposed rule based upon the comments.