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National
Association of
Regulatory
Utility
Commissioners

Electric Distribution Rate Setting Process

Thomas Dvorsky
Director, Office of Electric, Gas and Water
New York State Public Service Commission
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Rate Case Schedule

- NY Public Service Law Requires Decision Within 11 Months of Filing Date
- Prior to Filing: Staff rate case team formed in anticipation of a rate case filing
- Months 1-4:
 - Analysis of Filing by a Public Service Commission staff team, including lawyers, accountants, engineers, economists, financial analysts and consumer service specialists is assembled to investigate the Company's proposal. They will develop a counter proposal.
 - Other interested groups can intervene
 - Consumers
 - Large Users of Utility Service
 - City Governments (New York City)
 - An Administrative Law Judge is assigned to preside over the case, hear all the evidence and recommend a decision to the Public Service Commission.



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Rate Case Schedule

- Months 5-7
 - Testimony filed by Staff and other interested groups
 - Rebuttal testimony by utility company
 - Hearings with cross-examination of all expert witnesses
 - Groups Participating in Rate Case May Negotiate a Settlement of the Issues and submit it to the Administrative Law Judges
- Months 7-9
 - Initial and Reply Briefs filed with Administrative Law Judges
 - Administrative Law Judges Issue Recommended Decision
- Months 9-11
 - Briefs filed with Commission
 - Commission deliberations produce a written Order deciding all outstanding issues and determining the revenue requirement



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Revenue Requirement Components

- Operating Expenses
- Depreciation and Amortization
- Taxes
- Return on Investor Provided Capital



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Operating Expenses

- Largest Operation Expense Items
 - Purchased Power, Purchased Fuel
 - Labor Expenses: Salaries and Benefits
 - Energy Efficiency
 - Renewable Resources
- Many Other Smaller Expense Items



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Depreciation and Amortization

- Depreciation based on original cost of the asset divided by its expected useful life
 - Replacement value or current market value are not used to calculate depreciation
- Amortizations
 - US accounting rules permit utilities to eliminate expenses from the income statement and record them as a regulatory asset
 - Regulatory assets are then amortized over a time period that is determined by the Commission



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Taxes

- Property Taxes
- Income Taxes
 - The combined federal and state income tax rate is about 40%
- Regulatory Assessment as a % of Revenues
- Other Taxes
 - Payroll
 - Revenue
 - Dividend



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Return on Investor Provided Capital

- Weighted Average Cost of Capital
 - Capital Structure debt and equity components measured on basis of book value
 - Cost of debt is the actual interest rate cost of the debt adjusted upward for amortization of issuance expenses
- Rate Base



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Rate Base

- Total Utility Plant less Accumulated Depreciation
- Deferred Taxes
- Working Capital
- Earnings Base to Capital Structure Adjustment
 - Earnings Base is Rate Base Plus Construction Work that is in Progress but not completed
 - Construction that is not completed is not included in rate base to set rates unless the utility needs additional cash flow to make it easier to finance its business



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Other Issues

- Revenue Decoupling
 - Electric: Revenue per Class
 - Gas: Revenue per Customer
- Test Year
 - Historic Period: twelve-month period expiring at the end of a calendar quarter no earlier in time than 150 days before the date of filing
- Future Rate Year
 - Projected operating results for the new 12-month rate period and must include a verifiable link between the two periods.



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Other Issues

- Multi-year Rate Plans
 - 2-5 years
 - Make Rate Increase Percentages More Level
 - Return on Equity Premium
 - Return on Equity Sharing Cap
 - 50-100 basis points over ROE
 - At minimum 50% sharing of excess earnings goes to ratepayers