

Presentation to Representatives of the Electricity Regulatory Authority of Albania (ERE)

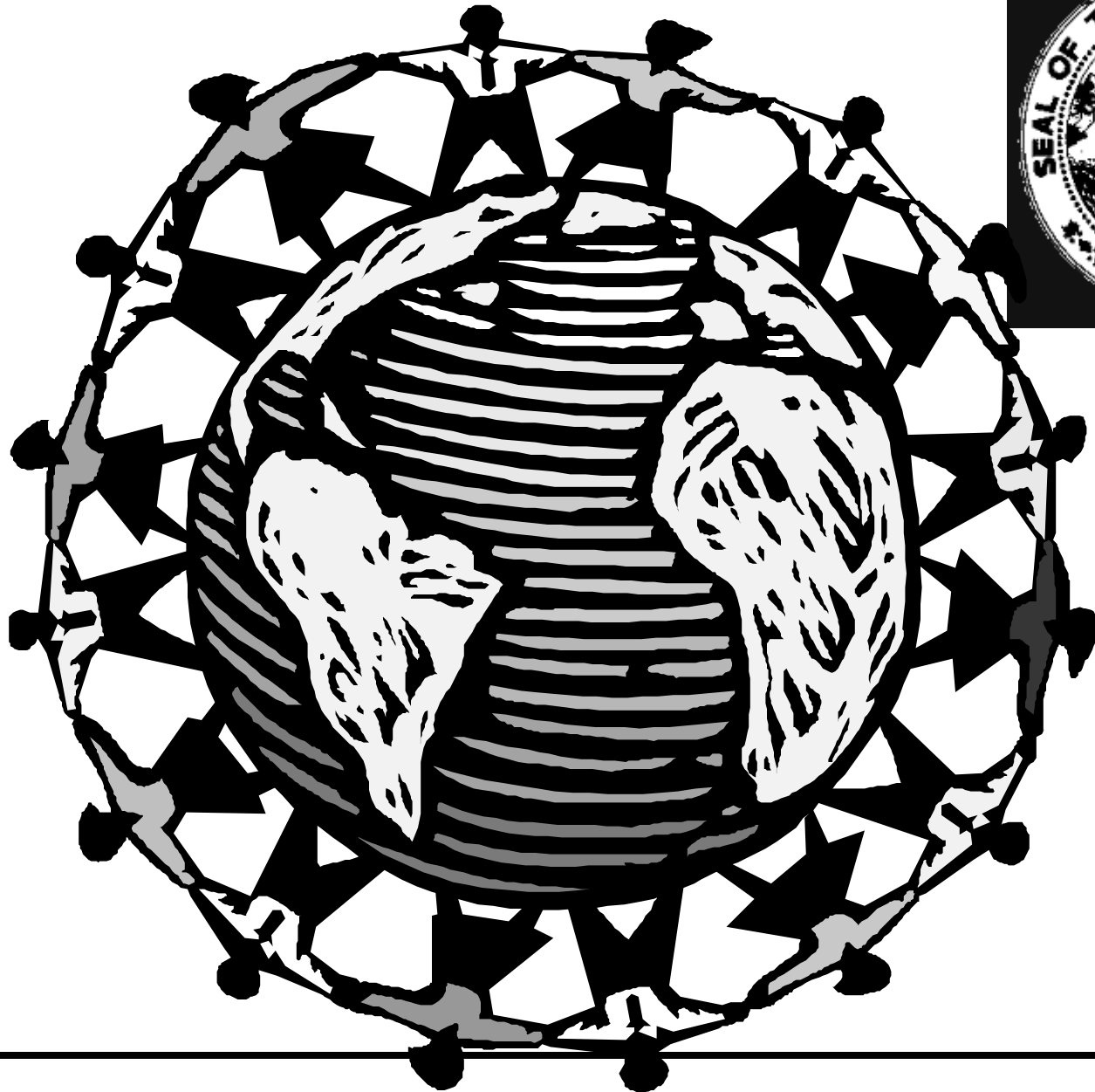


Industrial Rates in Indiana

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Indiana Utility Regulatory Commission
(IURC)**

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Utilities Regulated by IURC

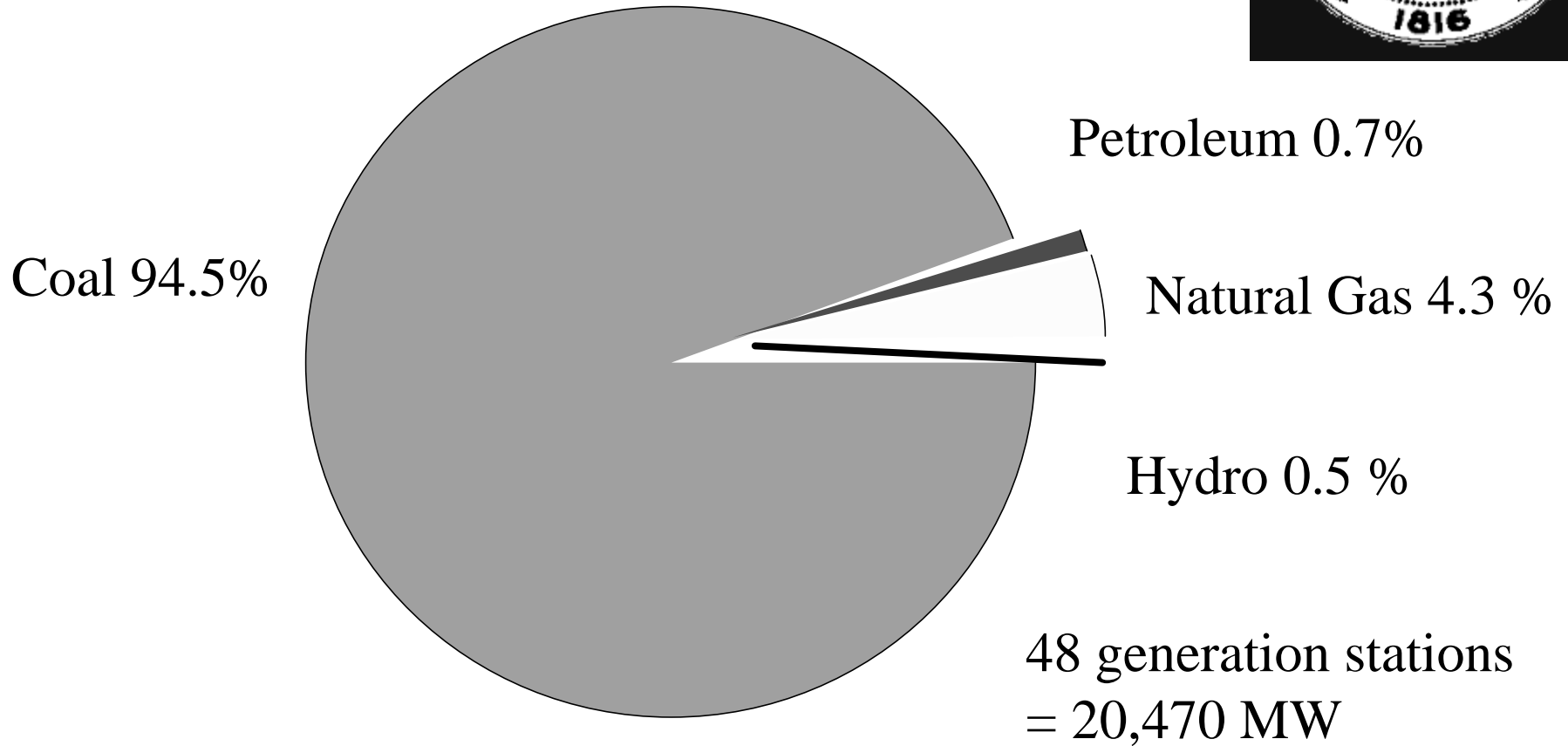
- Electric
- Gas
- Telecommunications
- Water
- Sewer



Electric Utilities

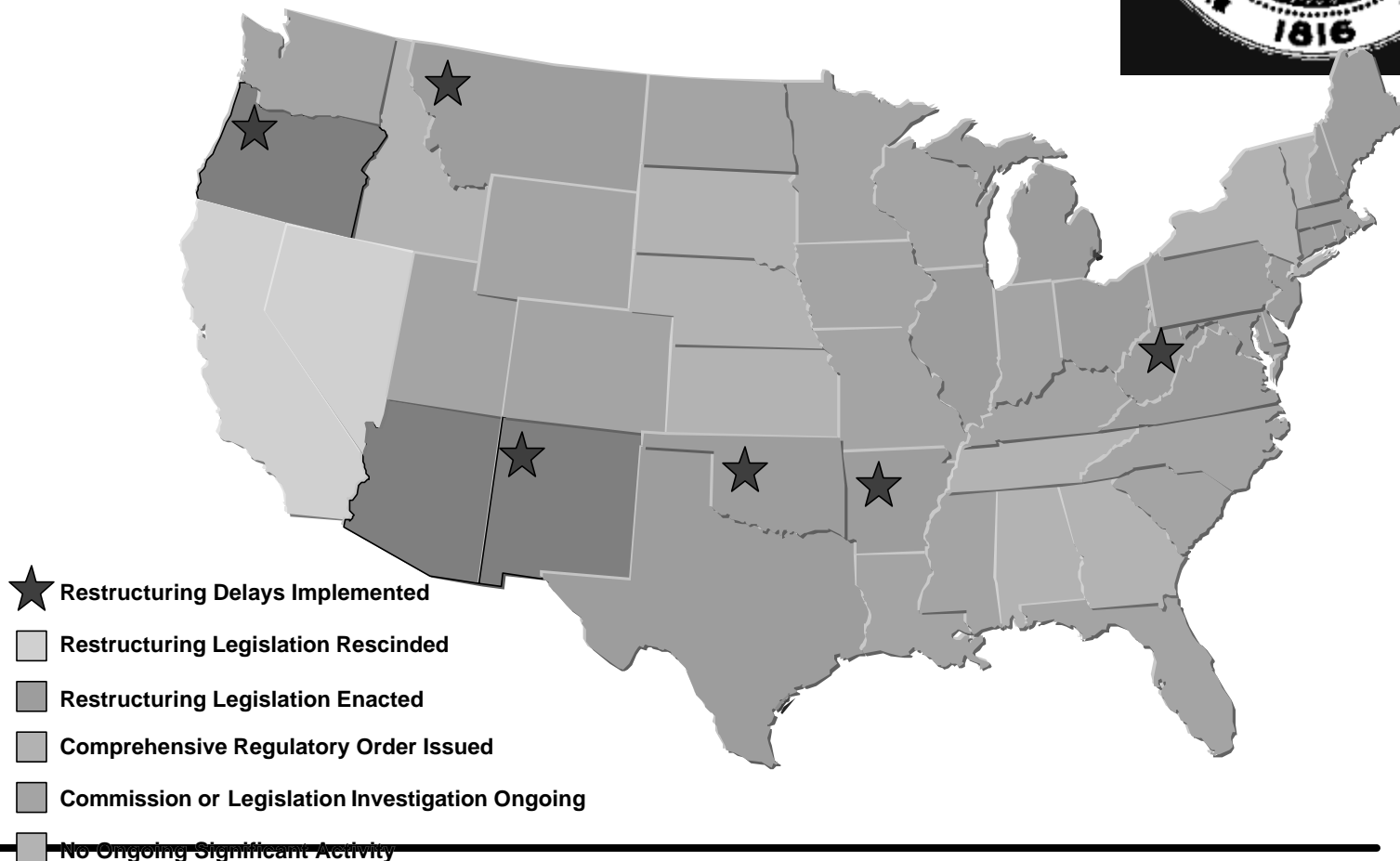
- 5 Investor owned
- 79 Municipals, 25 under IURC jurisdiction
- 43 Rural Electrical Member Cooperatives, 4 under IURC jurisdiction
- 9 Independent Power Producers

Generation by Fuel Type In Indiana



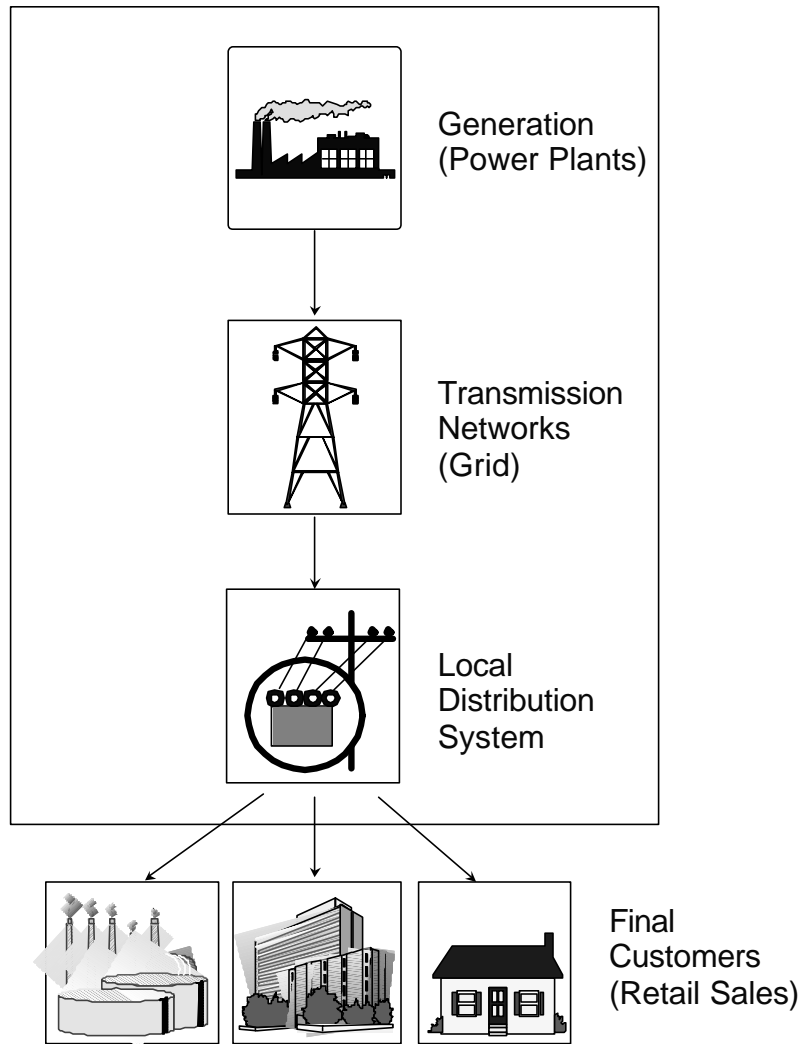


A Checkerboard of Deregulation



Source: Cambridge Energy Research Associates

Vertically Integrated Utility



Summary of ROE Estimates and Areas of Disagreement

	<i>Witness / Party</i>	<i>Morin / PSI</i>	<i>Inman / IURC</i>	<i>Kaufman / OUCC</i>	<i>Gorman / PSI-IG</i>
Original	CAPM	10.20 - 10.70%	9.21%	7.98 - 8.59%	9.50 - 9.80%
	DCF	10.70 - 13.60%	10.42 - 13.52%	7.94 - 10.12%	10.10%
	RP	10.90 - 12.30%	9.69 - 11.02%	NA	NA
	ARP	11.30 - 11.40%	11.30 - 11.40%	NA	9.40 - 10.90%
	Recommendation	11.50%	10.25 - 10.50%	9.15%	10.00%
Updated	CAPM	10.90 - 11.40%	NA	8.48 - 9.09%	NA
	DCF	10.30 - 12.10%	NA	8.02 - 9.67%	NA
	RP	10.90 - 12.50%	NA	NA	NA
	ARP	11.30 - 11.40%	NA	NA	NA
	Recommendation	11.20%	10.35 - 10.55%	9.25%	NA
Major Areas of Disagreement - All Models					
All	Floatation costs Adjustment	0.30%	0.15%	0.05 - 0.10%	0.00%
CAPM	Beta	0.72	0.72	0.65 - 0.70	0.64
	Market Risk Premium Mean "Arithmetic vs. Geometric"	Arithmetic	Both	Both	Arithmetic
	ECAPM	Accept	Reject	Reject	Reject
DCF	Half - vs. Full - Year Div. Growth	Full-Year	Half-Year	Half-Year	Full-Year
	Quarterly Compounding Adj.	0.20%	0.20%	0.00%	0.00%
RP	Risk Premium Mean "Arithmetic vs. Geometric"	Arithmetic	Both	NA	NA



Cost of service/rate design

- Inter class subsidies
- How the issue is addressed:
- Each class allocated costs and plant as if it were a company
- An income statement is prepared for each class
- A rate of return and dollar return is derived for each class

Cost of Service/rate design



- The general concept is that if each class is earning the same return, that is the overall return for the company, no subsidies exist.
- What to do if the returns are unequal
- The concept of gradualism.

Types of Industrial rates

- Typical tariff
- Complex tariff
- Interruptible
- Economic Development Rate
- Customer Specific Contract





Eligible Customers and Suppliers

- SOLR (Supplier of Last Resort)
- Affiliated Interests and Codes of Conduct