Non – Rate Regulation

Presentation to the Georgian National Energy and Water Supply Regulatory Commission

Batumi, Georgia
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NON-RATE REGULATION: A sampling of issues

- Certificate of Public Convenience and Necessity
- Environmental Surcharge
- Fuel Adjustments
- Demand Side Management and Integrated Resource Plans
- Annual Reports
- Inspections and Meter Testing

Certificate of Public Convenience and Necessity (CPCN) KRS 278.020 (1)

Key points:

- Statute is general – parameters of PSC decision have evolved over time through legal precedents
- Applicant must show a need for proposed facility
- Utility must show it has considered reasonable options
- Wasteful duplication is not allowed
- “Least cost” principle flows from absence of wasteful duplication
- Grant of a CPCN leads to a presumption of future cost recovery

Environmental Surcharge KRS 278.183

- Adopted in 1992 - allows coal-burning electric utilities to recover costs of environmental compliance without having to go through a complete rate case – main focus is air emissions
- Process is similar to rate case – allows intervenors, discovery, hearings, etc.
- Presumption of compliance with environmental mandates
- Utility entitled to rate of return on environmental investments
- If compliance plan include construction of facilities, utilities may file for CPCN as part of compliance plan

Electric Fuel Adjustment Clause 807 KAR 5:056

- Review Monthly FAC Calculations
- 6-month and 2-year review cases
- Coal Contract files

Purchased Gas Adjustments

- No specific statute or regulation applies
- Filed in compliance with Local Distribution Company’s tariff
- Typically filed quarterly
- Orders establish the utility’s expected gas cost, which is billed

Integrated resource plans 807 KAR 5:058

- Applies to all jurisdictional electric utilities with generating facilities
- Requires filing of IRPs every three years
- Plans include load forecasts, resource needs and plans for meeting those needs
- Supply-side and demand-side solutions must be included
- PSC staff evaluates plans and issues reports, but the Commission does not approve or deny IRPs

Demand-side management KRS 278.285

- Utilities may propose plans
- PSC has no authority to require DSM
- Programs may include smart meters, home energy assistance programs
- Cost-effectiveness
- Consistency with IRP

Demand-side management   KRS 278.285

- Recovery of program costs, including incentives

- Recovery of DSM costs includes foregone revenue

- Several utilities have pilot programs to test smart grid technologies in combination with time-of-day or demand-based variable rate structures

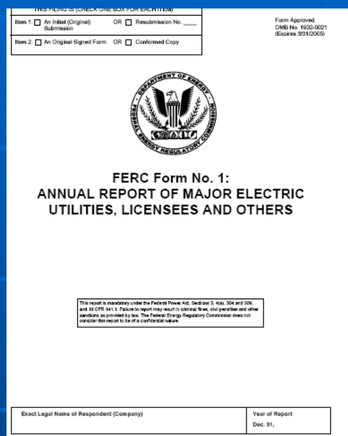
Annual Reports KRS 278.230(3)

- Approximately 300 Annual Reports submitted
- Generally 25 to 140 pages each, depending upon utility type/class.
- Includes information pertaining to counties served, number of sales, types of sales, service loss information, construction project information, as well as a great variety of other financial and operating statistics.
- Extension requests accepted (30 day intervals when granted)

Annual Reports KRS 278.230(3)

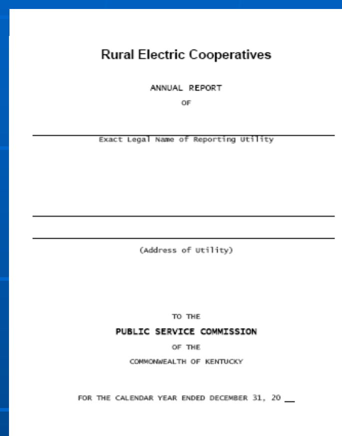
- Approximately 200 Annual Reports completed electronically by utilities and hard copy printed directly from the PSC web portal.
- Approximately 100 Annual Reports are filed by using blank reports utilities receive from us in December. We then input each report on the web portal, line by line, to create an electronic version on the company's behalf.

Utility Types Required to File Annual Reports

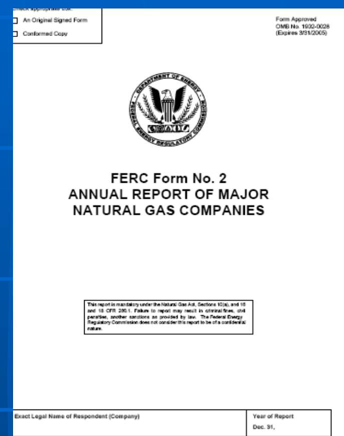

FERC Form No. 1:
ANNUAL REPORT OF MAJOR ELECTRIC UTILITIES, LICENSEES AND OTHERS

Exact Legal Name of Respondent (Company)
Year of Report
Dec. 31,

Investor-Owned Electric
(132 pages)

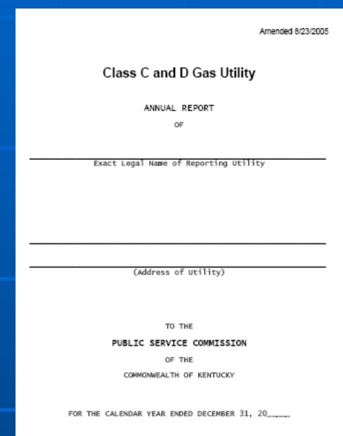

Rural Electric Cooperatives
ANNUAL REPORT
OF
Exact Legal Name of Reporting Utility
(Address of Utility)
TO THE
PUBLIC SERVICE COMMISSION
OF THE
COMMONWEALTH OF KENTUCKY
FOR THE CALENDAR YEAR ENDED DECEMBER 31, 20 __

RECC
(38 pages)

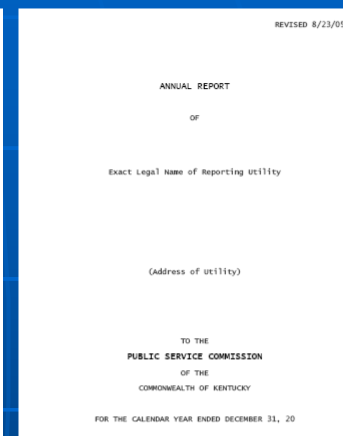

FERC Form No. 2
ANNUAL REPORT OF MAJOR NATURAL GAS COMPANIES

Exact Legal Name of Respondent (Company)
Year of Report
Dec. 31,

Gas Distribution (A&B)
(138 pages)


Amended 8/23/2005
Class C and D Gas Utility
ANNUAL REPORT
OF
Exact Legal Name of Reporting Utility
(Address of Utility)
TO THE
PUBLIC SERVICE COMMISSION
OF THE
COMMONWEALTH OF KENTUCKY
FOR THE CALENDAR YEAR ENDED DECEMBER 31, 20____

Gas Distribution (C&D)
(24 pages)


REVISED 8/23/05
ANNUAL REPORT
OF
Exact Legal Name of Reporting Utility
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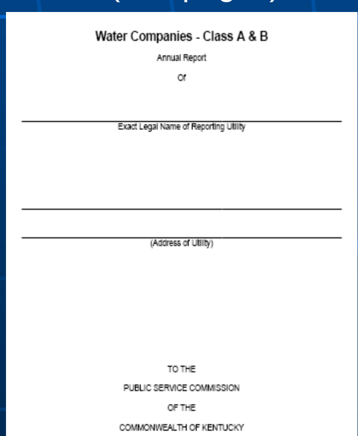
FOR THE CALENDAR YEAR ENDED DECEMBER 31, 20

Local Exchange Carrier
(32 pages)


Water Companies - Class A & B
Annual Report
Of
Exact Legal Name of Reporting Utility
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TO THE
PUBLIC SERVICE COMMISSION
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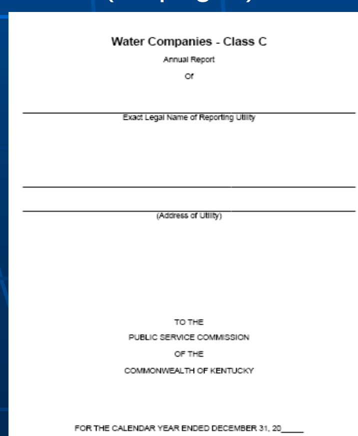
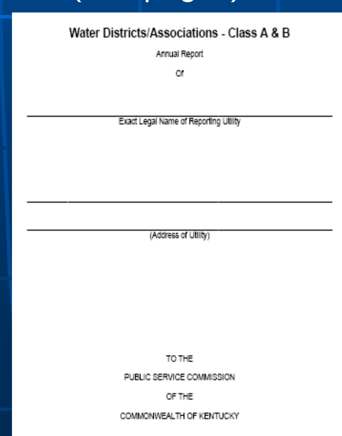
COMMONWEALTH OF KENTUCKY

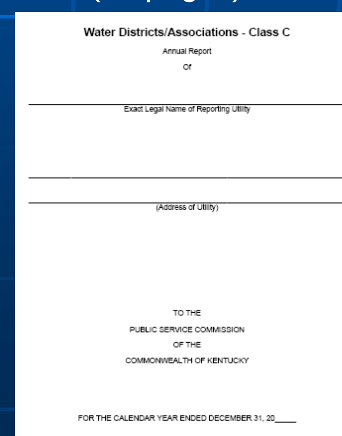
Inv-Owned Water (A&B)
(44 pages)


Water Companies - Class C
Annual Report
Of
Exact Legal Name of Reporting Utility
(Address of Utility)
TO THE
PUBLIC SERVICE COMMISSION
OF THE
COMMONWEALTH OF KENTUCKY
FOR THE CALENDAR YEAR ENDED DECEMBER 31, 20____

Inv-Owned Water (C)
(36 pages)


Water Districts/Associations - Class A & B
Annual Report
Of
Exact Legal Name of Reporting Utility
(Address of Utility)
TO THE
PUBLIC SERVICE COMMISSION
OF THE
COMMONWEALTH OF KENTUCKY

Water Districts / Assoc.
(A&B) (40 pages)


Water Districts/Associations - Class C
Annual Report
Of
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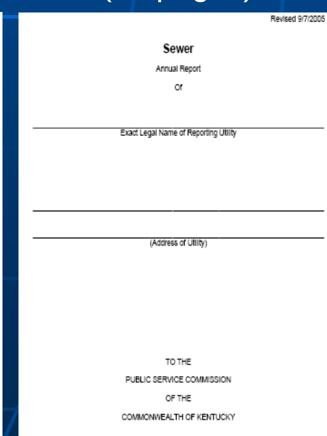
FOR THE CALENDAR YEAR ENDED DECEMBER 31, 20____

Water Districts / Assoc.
(C) (34 pages)


Revised 9/7/2005
Sewer
Annual Report
Of
Exact Legal Name of Reporting Utility
(Address of Utility)
TO THE
PUBLIC SERVICE COMMISSION
OF THE
COMMONWEALTH OF KENTUCKY

Sewer
(28 pages)

Gross Operating Revenue Reports KRS 278.140

- PSC funding mechanism
- Over 800 submitted each year; generally 1 to 3 pages each, depending upon utility type
- No extension requests

Utility Types Required to File Gross Reports:

- Investor-Owned Electric Company
- Rural Electric Cooperative Corporation
- Gas Distribution
- Local Exchange Carrier
- Competitive Local Exchange
- Paging
- Cellular
- Long Distance Carrier
- Operator Service Provider
- Investor-Owned Water Company
- Water District
- Water Association
- Sewer Company

Gross Operating Revenue Reports

Year	Millage Rate	Revenues
84-85	1.1088	$3,295,333,156.76
94-95	1.599	$4,332,601,635.55
04-05	1.726	$6,462,071,441.41
05-06	1.670	$6,835,693,045.51
06-07	1.643	$7,662,630,092.29
07-08	1.706	$7,622,802,343.26
08-09	1.603	$8,107,700,217.04
09-10	1.538	$8,453,608,026.09
10-11	1.583	$8,214,621,735.10
11-12	1.529	$8,501,910,252.17

Inspections

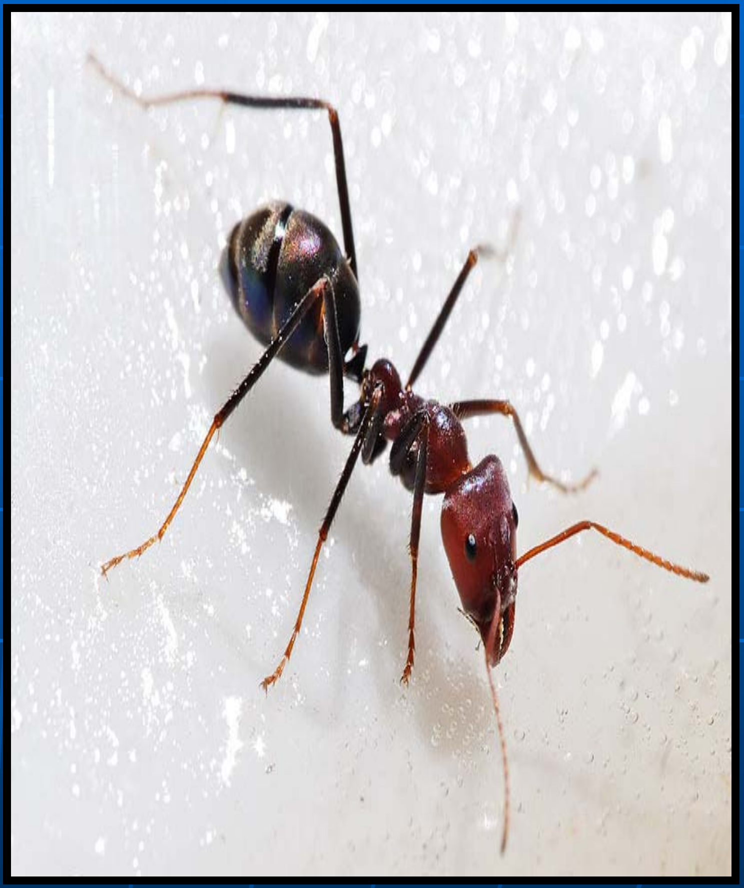
The purpose of an inspection is to document that a utility has a system in place that demonstrates its compliance with Public Service Commission regulations and the laws of the state of Kentucky.

Inspections

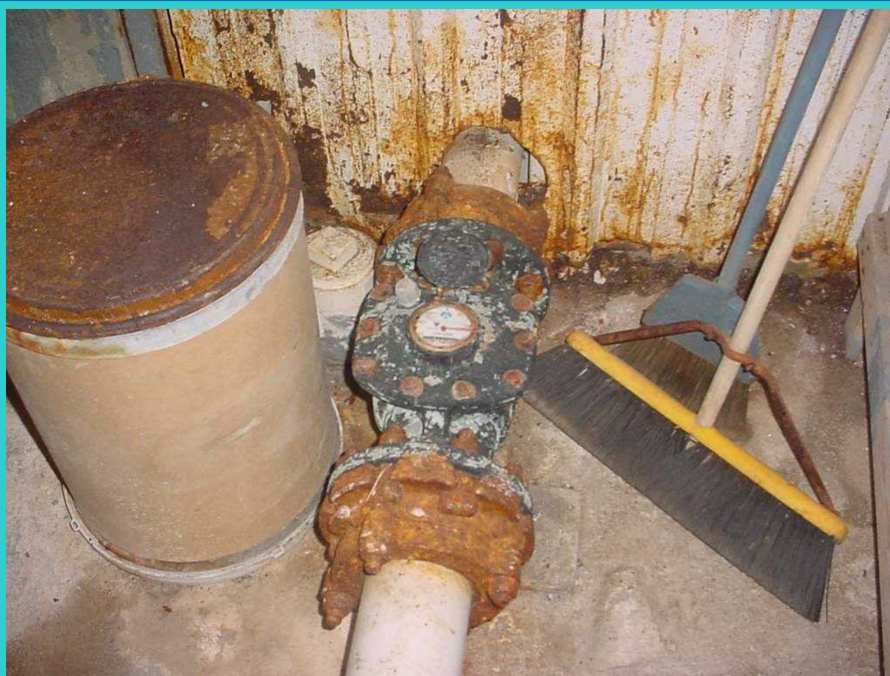
- Gas: every 3 years; high-risk utilities more often
- Water/Sewer: every 1.5 years
- Electric: every 2 years
- Telecom: every 2 years

Electric


28 10:33AM



Water



This? or This?

This? or This?

Gas – Accident Investigations


RAM


CAUTION
GAS
PIPELINE

METER TESTING

- Certifying utility's meter testing staff by conducting and proctoring meterman's provisional and permanent tests
- Standards testing and certifying of utility's standards such as a meter bench and tanks involved
- Complaint meters tested

Drinking Water Inspections
KY Division of Water

- DOW inspections focus on the drinking water system's ability to meet the treated water quality standards
  - Inspections are conducted annually
- Sanitary Surveys are more comprehensive and include technical, managerial and financial
  - Every 3 years

Energy Deregulation:
A Kentucky Perspective

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Quang Nguyen, Legal Division
Kentucky Public Service Commission

SHIFT TO DEREGULATION

- Mix of political and economic forces
- Airline Deregulation Act of 1978
- Banking Act revoked in 1999
  - Ended separation between commercial banking and investment banking
- Telecommunications Act of 1996
  - Local telephone companies were required to share their lines with competitors at regulated rates

NATURAL GAS DEREGULATION

- Driven by energy crises in 1970s – motive was to stimulate domestic production by removing price controls
- Natural Gas Policy Act of 1978
- Natural Gas Wellhead Decontrol Act of 1989
- Progressive deregulation of wellhead prices; fully implemented by 1992
- FERC Order 636 - Interstate pipelines became transporters only
- Natural gas is now a market-traded commodity with prices driven by supply, demand and other economic forces

ELECTRIC INDUSTRY DEREGULATION

- Public Utilities Regulatory Policy Act of 1978 (PURPA)
- Energy Policy Act of 1992 (EPAct 1992)
- Federal Energy Regulatory Commission Orders 888 and 889

A COMPETITIVE MARKET FOR ENERGY

- Full consumer choice at retail level
- Access provided by local "wire service" monopoly
  - Local utility owns and maintains distribution network
  - Billing and other customer service functions will be handled by local utility

A COMPETITIVE MARKET FOR ENERGY

- Transmission lines are owned and maintained by electric utility companies
  - Regional independent system operator handles operation and access to the transmission grid
- Utilities, power marketers, independent power producers, and other entities compete for business of supplying electrical energy

PROPONENTS OF DEREGULATION

- Benefits consumers in the form of lower prices and more choices
- Prices are pushed closer to the cost of producing goods and services than in other market environments
  - Prices could fall if the regulated prices were higher than cost per unit
  - However, prices could rise if regulated prices were below the cost of production

THE KENTUCKY EXPERIENCE

- In 2000, the Special Task Force on Electricity Restructuring recommended that Kentucky take no action to restructure its electric utility industry
- The Task Force found, among other things:
  - No compelling reason at the time for Kentucky to move quickly to restructure
  - Restructuring would cause greater variability in electricity rates over time
  - Price gains from restructuring were predicated heavily on excess generating capacity in the electricity market

DEREGULATION OVERVIEW

- By 2000, 24 states had begun restructuring to create wholesale competition
  - 8 states took no action toward restructuring, including Kentucky
- To ease the transition, restructuring states typically had to:
  - Require or encourage divestiture of generation assets by utilities to promote competition among generators
  - Allowed full or partial recovery of stranded costs of divestiture through charges to consumers
  - Frozen rates for a period of time to protect consumers from increases in prices while competition got underway and stranded costs were recovered

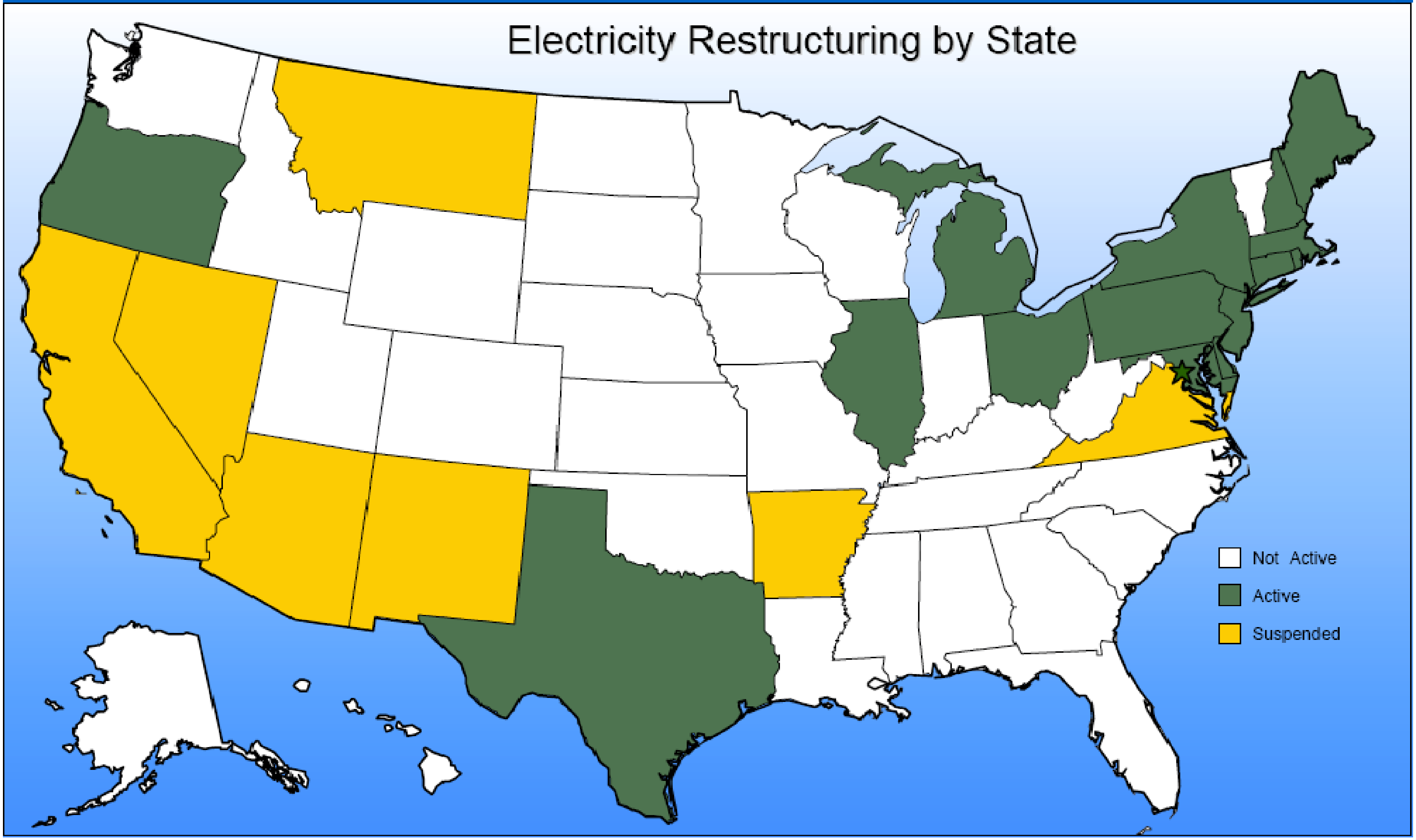
DEREGULATION OVERVIEW

- To date, the creation of retail competition has generally not been successful
- From 2002 to 2006, average prices rose 21% in regulated states as compared to 36% in deregulated states where rate caps had expired
  - California energy crisis
  - Maryland 70%
  - Illinois 65%

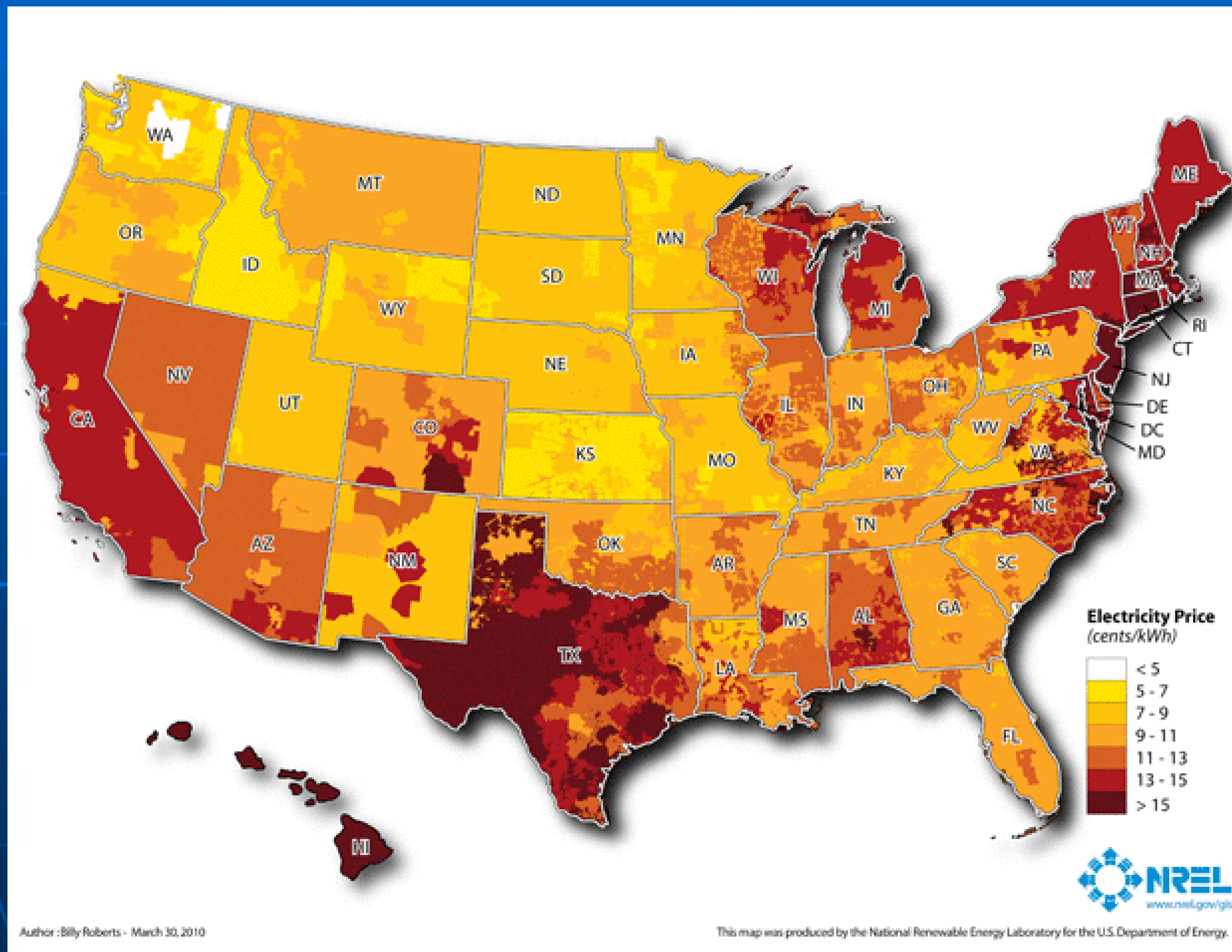
DEREGULATION OVERVIEW

- Increase in fuel costs
- Lack of supply to meet growing demand
- Specter of market manipulation
- 7 states have now suspended its restructuring and considering returning to a regulatory structure

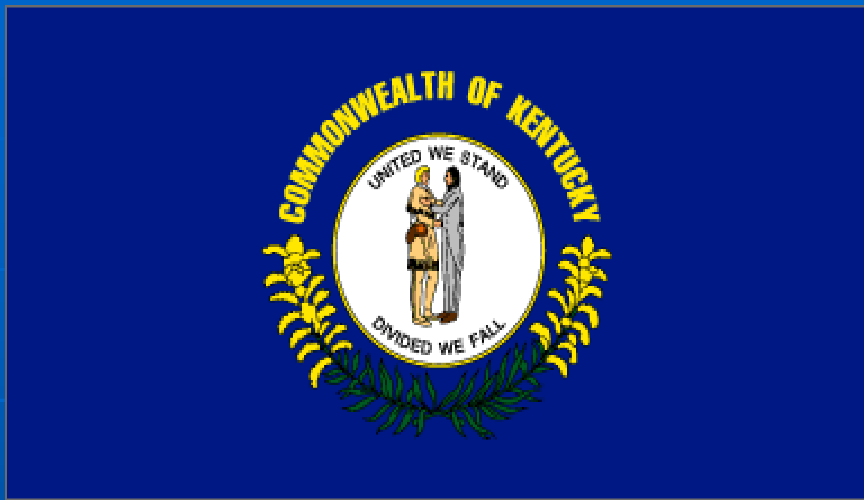
STATUS OF DEREGULATION

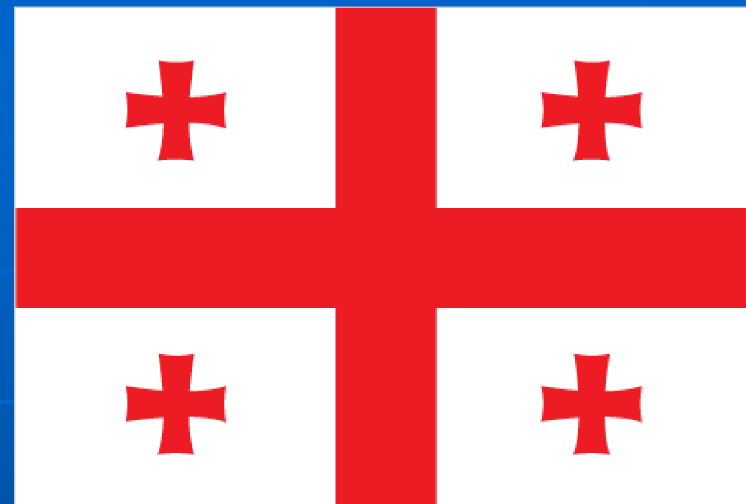


ELECTRIC PRICES IN U.S.



QUESTIONS?





Didi madloba

THANK YOU