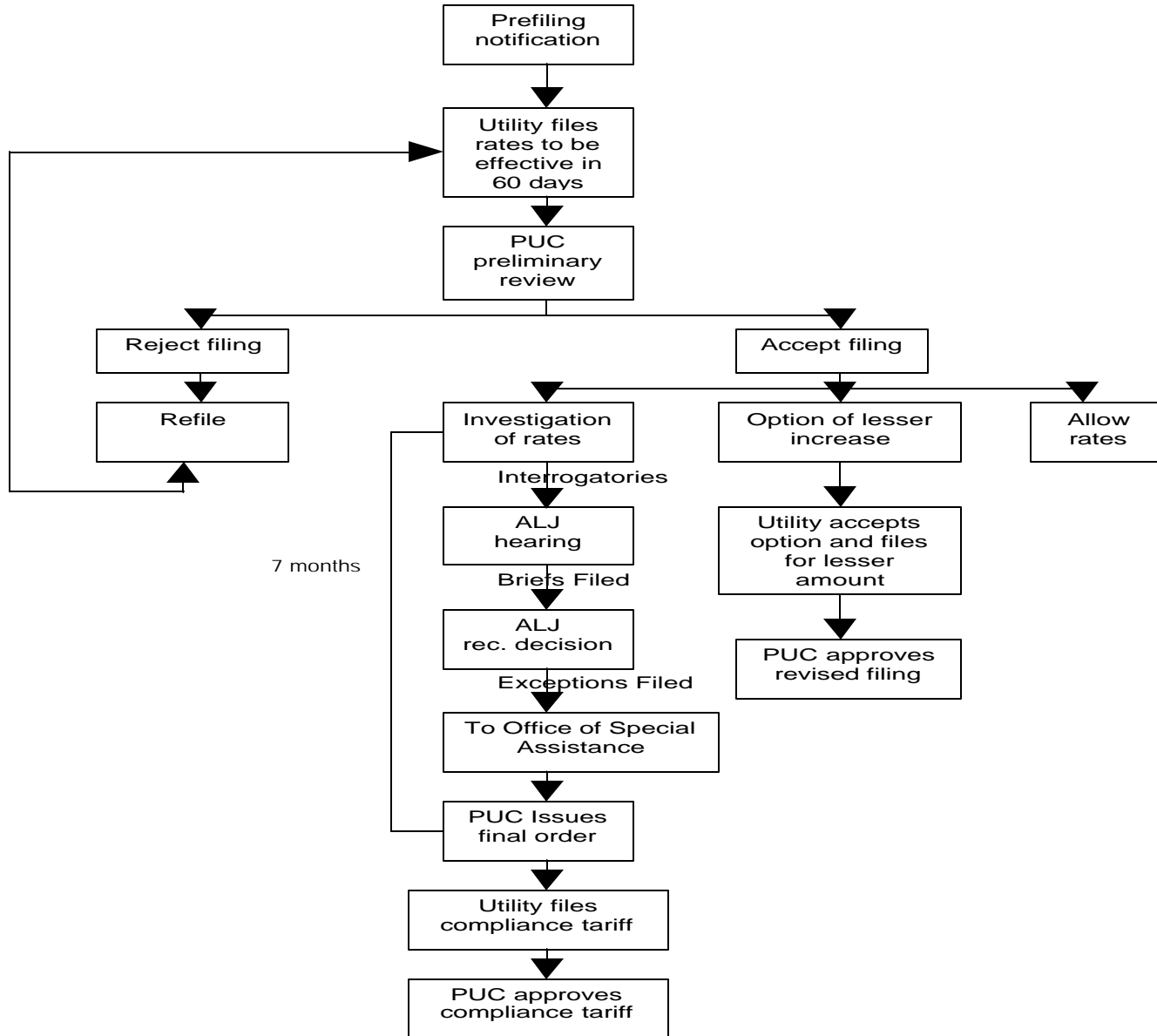


# PUC Ratemaking Process



**Parties may appeal  
any PUC ruling  
to Commonwealth Court**

## ⌘ **Commission has sixty days to act upon the filing of a base rate case**

- ☒ The Commission has three ways to resolve the request
  - Grant the entire amount
  - Develop an 'option' granting a portion of the request
  - Suspend and Investigate the request and take an additional seven months to complete the process.
    - **Option**
      - The option amount is developed without consultation with the company and is always less than originally requested
      - If the company accepts the option offered by the Commission, it will then file a compliance tariff and begin charging the new rates
      - When an option is accepted by the company, it is able to begin charging new (higher) rates within 90 days of its original request

- **Suspension and Investigation**
  - This is the typical procedure followed by large gas, water and electric companies
  - Driven by the number and complexity of potential issues to be resolved

### **Sample Schedule for Suspension and Investigation**

- September 14, 2004 – Company files direct case including increase request, direct written testimony and all supporting financial, economic and regulatory supporting information.
- October 15 to December 15 – Parties hold discovery conferences and discuss the possibility of settlement of single issues or the entire case.
- December 15 – Intervening parties file their direct testimony in opposition of the company's direct case.
- December 1 to January 31 – Public Input hearing are held within the company's service territory.
- January 31 – Parties file their rebuttal testimony to other intervening parties positions as described within their direct testimony filed on December 15.

## ☒ **Sample Schedule for Suspension and Investigation (Cont)**

- February 9 – Parties file their Surrebuttal testimony to the other intervening parties positions as described within their rebuttal testimony filed on January 31.
- February 15 to March 1 – FERC style hearings are held for cross examination of company witnesses and all other parties.
- March 1 – The record is closed.
- March 15 – Main Briefs are filed
- March 22 – Reply Briefs are filed
- April 22 – Administrative Law Judge's Recommended Decision Due
- May 5 – Exceptions to ALJ RD due
- May 13 – Reply Exceptions due
- June 14 – End of Suspension Period, Commission Must Act at a Public Meeting prior to this date.

## ⌘ Rate Case Example: PPL

### ☐ Rate Base











- Prepaid Postage

### ☐ Revenues

- Unbilled Revenues
- Late Payment Fees
- Sales Forecast

### ☐ Distribution System Improvement Service Charge

## Expenses

-  **Rate Cap**
-  **Costs resulting from Hurricane Isabel**
-  **Costs resulting from the imposition of AMR**
-  **Pension Expense**
-  **Injuries and Damages**
-  **Employees Health Insurance**
-  **Environmental Remediation Expense**
-  **Community Betterment Initiative (CBI)**
-  **Service Corporation Charges**
-  **Sustainable Energy Fund (SEF)**

# Taxes

## Rate of Return

- Capital Structure Recommendation
- Equity Return

	<b>DCF Discounted Cash Flow</b>	<b>RP Risk Premium</b>	<b>CAPM</b>	<b>Comparabl e Earnings</b>	<b>Reasonable Range</b>	<b>Point Recommendatio n</b>
<b>PPL</b>	10.69%(E) to 11.22%(NG)	11.75% (E & NG)	10.71% (E) to 11.22%(NG)	14.25%	11.0% to 11.75%	11.50%
<b>DOD</b>	9.3% to 10.26%	10.44%	11.00%	None	10.25% to 11.0%	10.75%
<b>OCA</b>	8.5% to 9.5%	None	9.1% to 10%	None	8.5% to 9.5%	9.5%
<b>OTS</b>	8.76% to 9.07%	None	None	None	8.75% to 9.0%	9.0%

## ⌘ **RATE STRUCTURE**

- ☒ **Transmission Service Charge (TSC)**
- ☒ **Revenue Increase Allocation**
- ☒ **Customer Charges (Rate RS)**
- ☒ **Rate Design (Rate RTS)**
- ☒ **Scaleback**
- ☒ **Traffic Lighting**

## ⌘ **Universal Service and Customer Programs**

- ☒ **On Track**
- ☒ **WRAP Funding**
- ☒ **On Track Eligibility**
- ☒ **Mandatory or Proactive Budget Billing Program**
- ☒ **Operation HELP**



## ⌘ PRICE CAP METHODOLOGY – ADDITIONAL DETAIL

- ☒ In the price cap methodology that is applicable for a total revenue determination (where a revenue requirement index fluctuates on the basis of the general economic price or inflation index - GDP-PI - minus the productivity factor or inflation offset) the revenue requirement index (%) is multiplied with a base year revenue requirement in order to produce the price cap adjusted “new” revenue requirement.

## ⌘ PRICE CAP METHODOLOGY (Cont)

- ☒ The “new” price cap revenue requirement needs to be allocated among various services and classes of customers. An easy method for initial allocations is to follow the proportions of service or service class revenues that existed in the revenue requirement of the base period.
- ☒ The price cap method can be applied to the prices of individuals services or the prices of baskets – groups of services, e.g., industrial electricity rates.

## ⌘ PRICE CAP METHODOLOGY (Cont)

- ☒ The application of the price cap method assumes that the beginning base level of revenues and/or service prices for a regulated utility are “just and reasonable.” Before starting with the application of a price cap method, it is preferred that the regulated utility undergoes one last review of its revenues and service rates under the conventional rate of return method.
- ☒ The price cap formula can include an exogenous factor index (%) that is designed to capture extraordinary revenue or price change effects, e.g., effects of accounting changes, extraordinary losses, etc.

## ⌘ PATRONAGE CAPITAL – ADDITIONAL DETAIL

- ☒ The accumulated patronage capital of a government-owned utility (equivalent to the retained earnings common equity capital of an investor-owned utility) enhances the financial position of the utility and improves its debt service coverage.
- ☒ Net earnings contributing to the formation of the patronage capital of a government-owned utility should be reinvested in utility property, plant and equipment. This sustains and improves finances and operations of the utility and makes it more attractive to privatization investors.

## ⌘ PATRONAGE CAPITAL (Cont)

- ☑ The government-owned utility's reinvested net earnings that form the patronage capital are akin to the internally generated funds for an investor-owned utility. The use of internally generated funds avoids external borrowing, especially if such borrowing is based on expensive foreign currency debt denominations.

