



Presentation to Representatives of the Public Utilities Regulatory Commission of Ghana

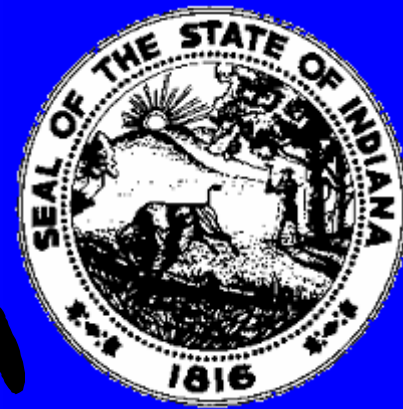
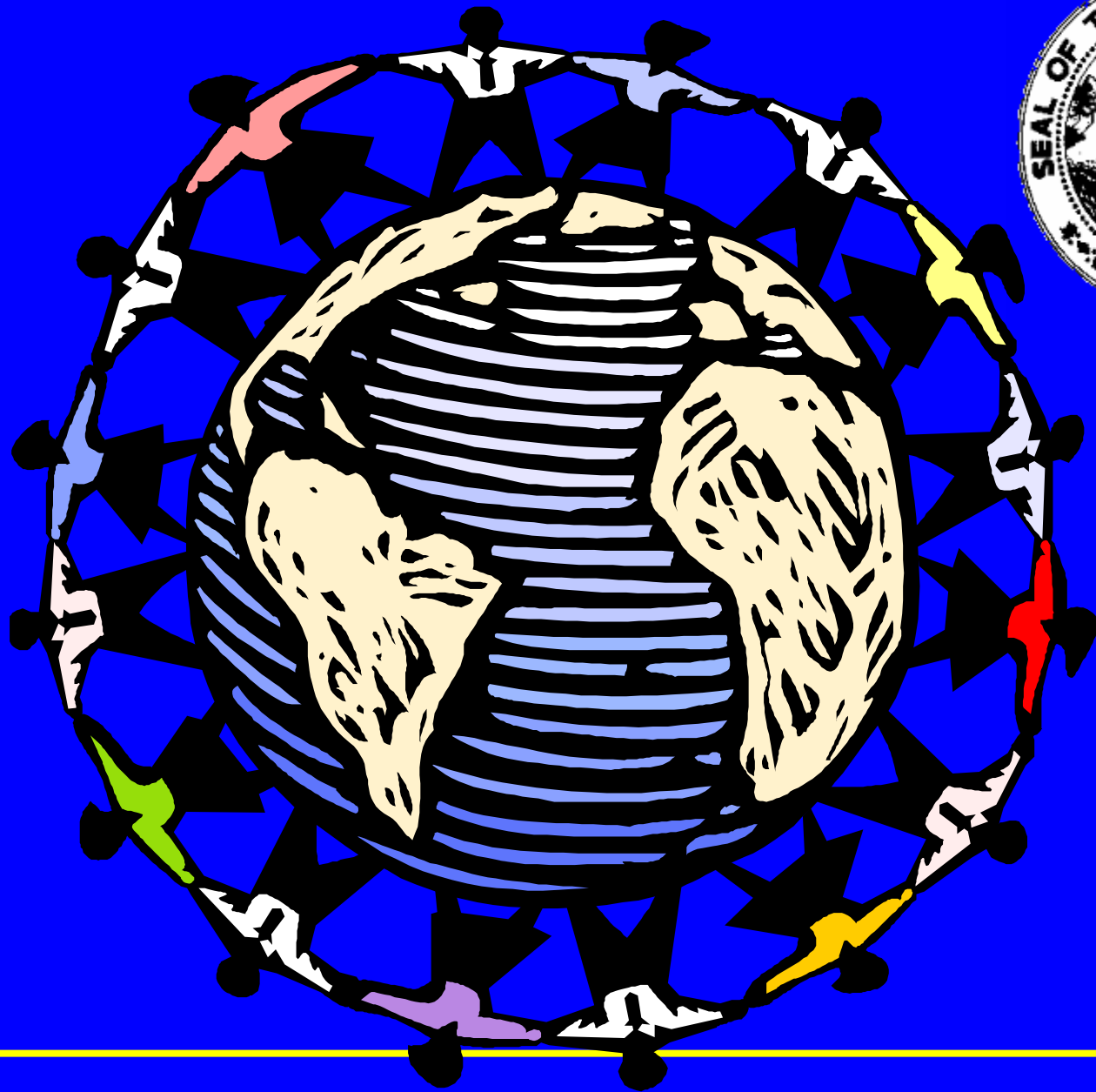
Ratemaking in Indiana

Jerry Webb

Director Gas, Water and Sewer Division

Indiana Utility Regulatory Commission

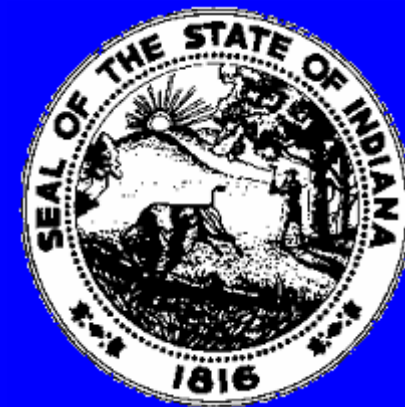
April, 2005





Utilities Regulated by IURC

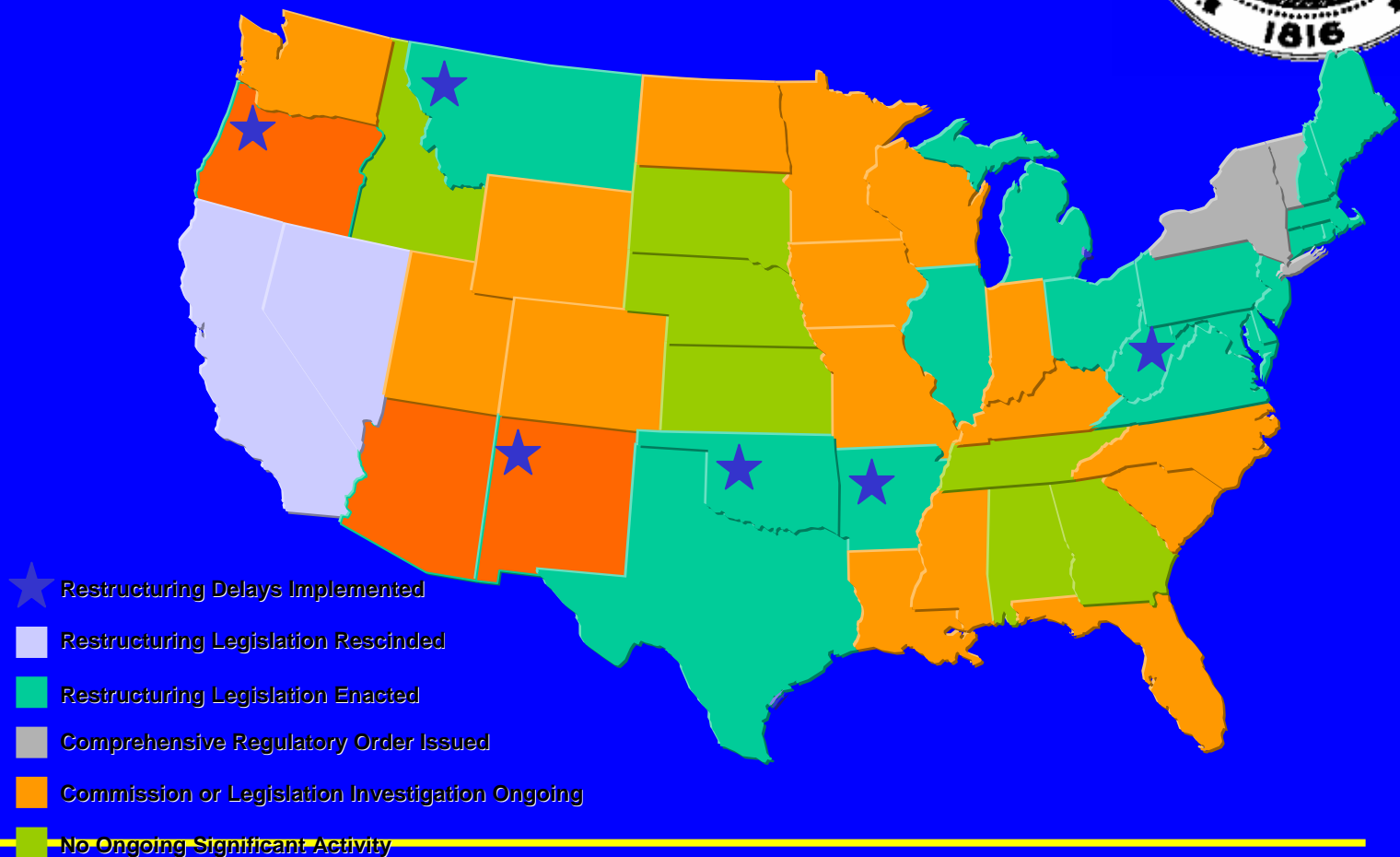
- Electric
- Gas
- Telecommunications
- Water
- Sewer



Electric Utilities

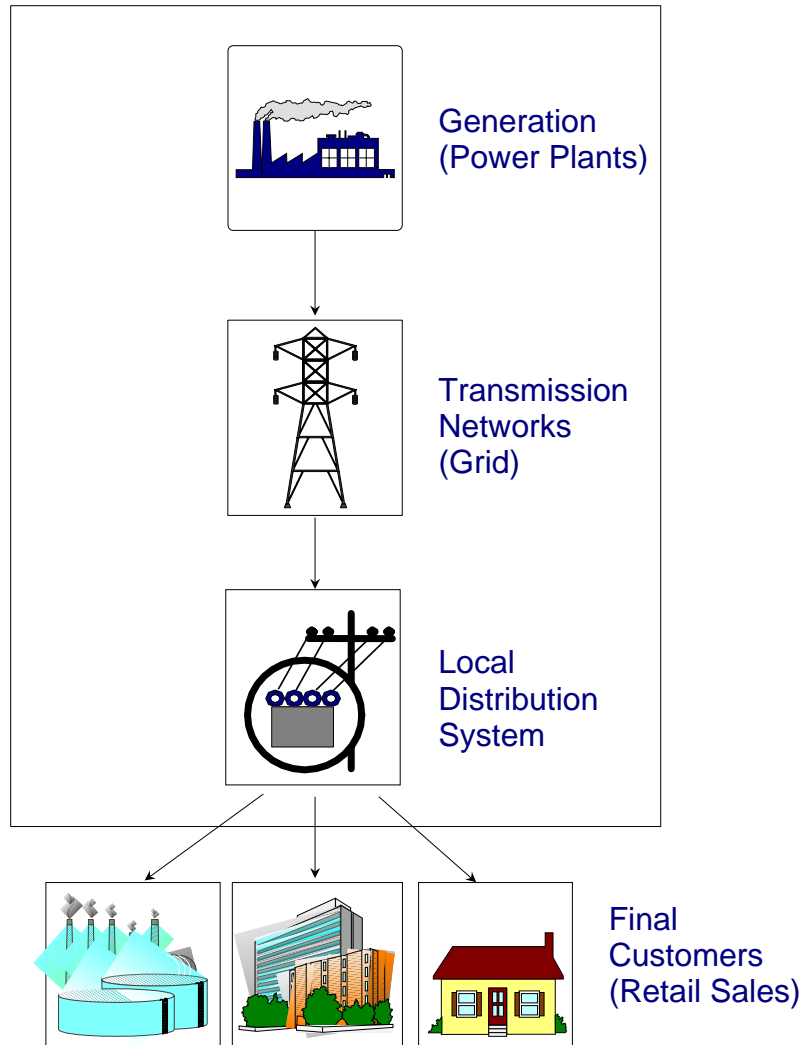
- 5 Investor owned
- 79 Municipals, 25 under IURC jurisdiction
- 43 Rural Electrical Member Cooperatives, 4 under IURC jurisdiction
- 9 Independent Power Producers

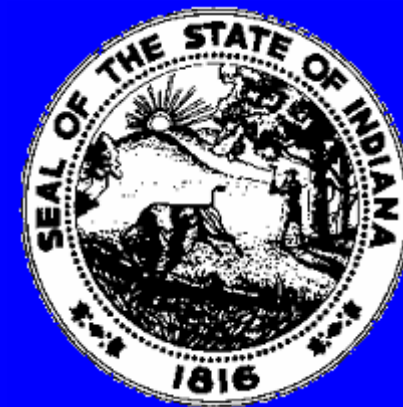
A Checkerboard of Deregulation



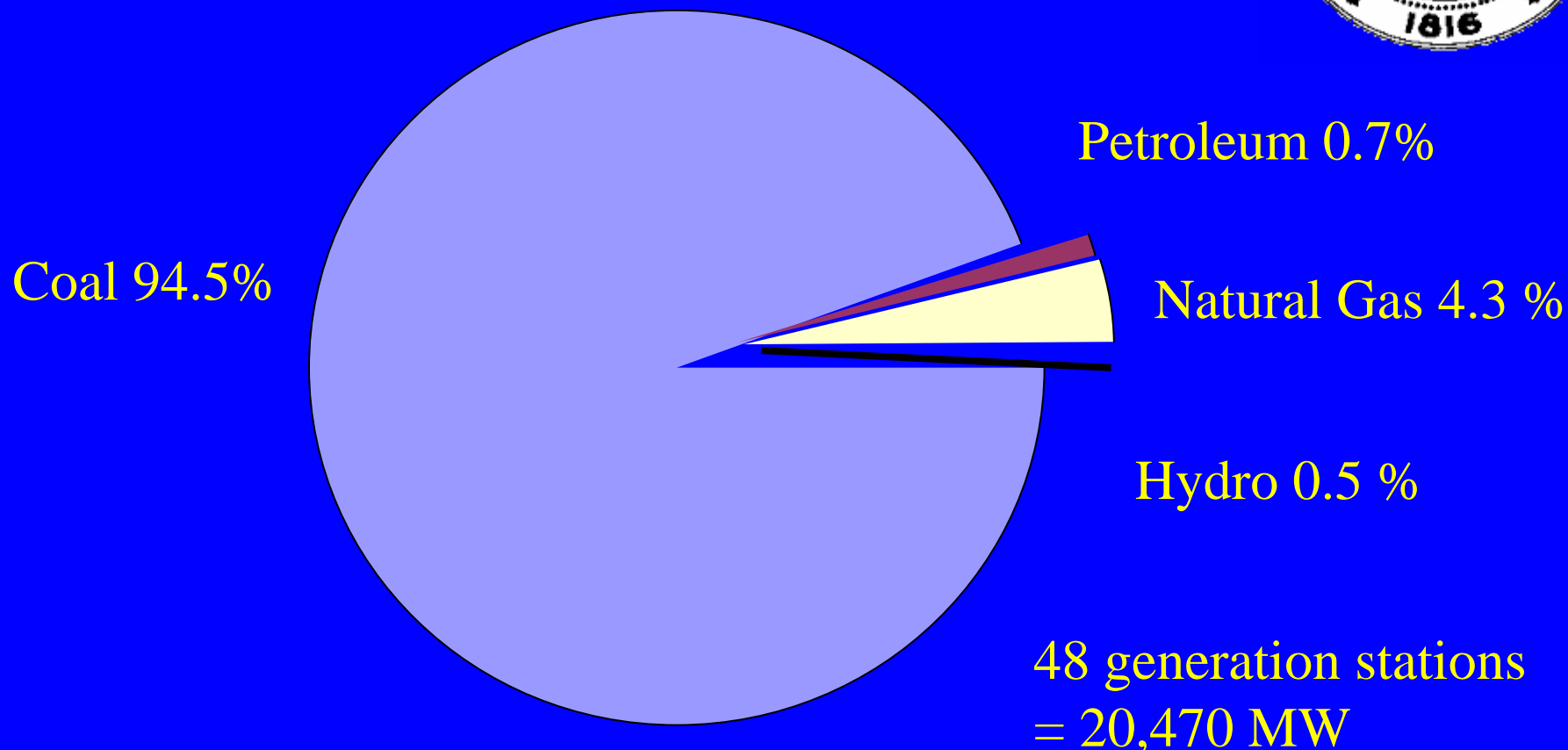
Source: Cambridge Energy Research Associates

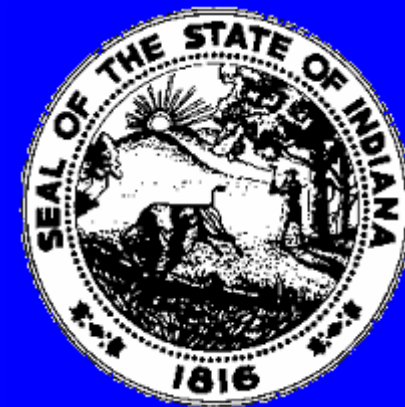
Vertically Integrated Utility





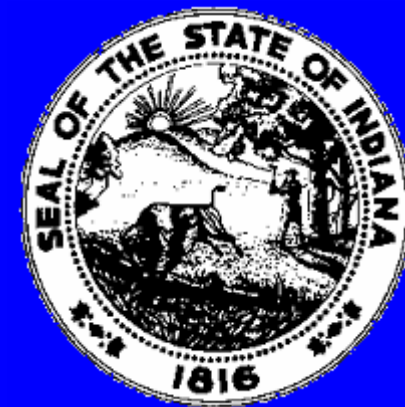
Generation by Fuel Type In Indiana





Electricity Grid

- United States
 - Federal Energy Regulatory Commission
 - Region
 - Regional Transmission Organizations
 - State
 - State Commissions
-



Electricity Regulation

- Generation
 - Wholesale = FERC
 - Retail = IURC
- Transmission
 - FERC
- Distribution
 - IURC



Main IURC Role



Utilities

Consumers

Represented by the Utility Consumer Counselor





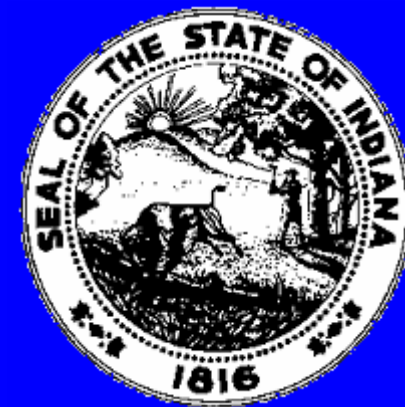
Commission Structure

- 5 Commissioners appointed by Governor to staggered terms; no more than 3 Commissioners may be of same political party and 1 Commissioner must be an attorney
- Total of 75 employees in IURC



Office Of Utility Consumer Counselor

- **THE Utility Consumer Counselor must be an Attorney**
- **Is appointed by Governor and serves at the pleasure of the Governor**
- **About 65 Total Employees**



PSI Energy Rate Case

- PSI Energy is subsidiary of Cinergy, which also owns Cincinnati Gas and Electric in Ohio
- 740,000 customers in 69 of 92 counties
- 11 generating stations totaling 6800 MW, mostly coal fired
- 5800 circuit miles of transmission line
- 20,500 miles of distribution line



Increase requested

- 11.2 % increase in revenues or
- \$178,303,000



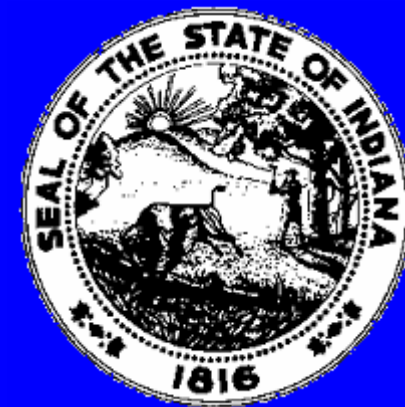
Minimum Standard Filing Requirements

- PSI Energy filed for its rate increase under this optional system
- The basic idea is that by filing large amounts of detailed information in a uniform manner ahead of time, the participants will be better informed and the Commission will be able to make a better decision in a shorter amount of time.



Minimum Standard Filing Requirements

- The standards themselves are very detailed and prescriptive
- See handout
- If this procedure is not used, the Commission usually has lots unanswered questions which tend to cause confusion and slow down the decision making process.



The Participants

- PSI Energy
- Office Of Utility Consumer Counselor
- Citizens Action Coalition
- Indiana and Purdue Universities
- Industrial Customer Group
- IBEW (union)
- Kroger (grocery store)
- SDI (steel company)
- NUCOR (steel company)



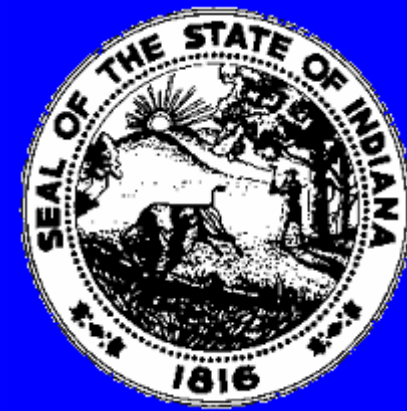
Time and logistics

- Petition filed December 30, 2002
- Prehearing Conference February 11, 2003
- Test Year is year ending September 30, 2002 with adjustments that are fixed, known and measurable up to one year beyond end of test year
- PSI Energy pre-files its case-in-chief April 11, 2003 with hearings starting on June 9, 2003



Time and Logistics

- All other participants pre-file their cases in chief on August 19, 2003
- PSI Energy pre-files rebuttal on October 6, 2003
- Field Hearings in cities around the state held on October 22 and 27, 2003
- Hearing on all other participants case in chief followed by PSI rebuttal hearing starts on November 3, 2003



Time and Logistics

- Proposed Orders and briefs and counter proposals filed after close of last hearing



The Issues

- Rate base and used and useful
- Uncontested and found to be \$3,662,350,000



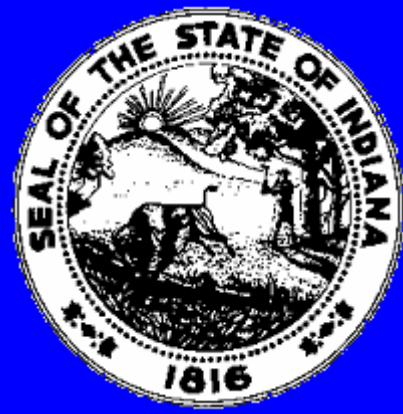
The Issues

- Two disputed revenue adjustments
- Off-system sales adjustment
- Rate Migration



The issues

- Long list (14) of disputed expense adjustments
- Examples are:
- Depreciation Expense---proposed an increase of \$79,088,000 based upon a depreciation study
- Public Safety advertising—proposed an increase of \$619,000



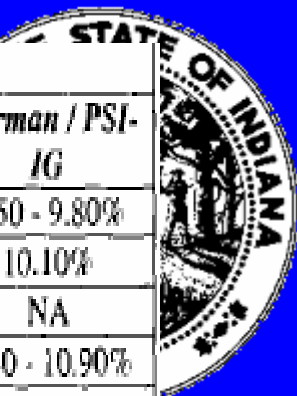
The Issues

- Expense adjustments continued
- Taxes—property, state and federal income tax

The Issues

- Return, return, return





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



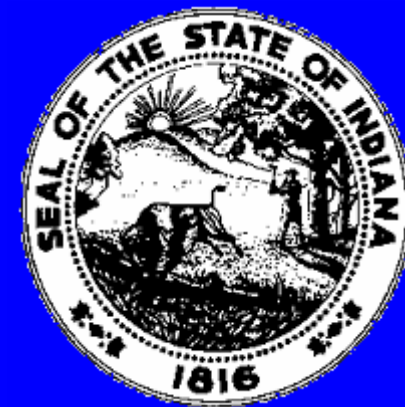
The Issues

- Return
- The decision is: 10.5% return on equity
- How did we get there?



Decision on Rate Increase

- Granted 8.36 % increase in revenues or \$107,344,000
- Results in \$1,406,596,000 in total operating revenues



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.



Rate design issues

- Real Time Pricing
- Power Share
- Trackers



Conclusion

- Commission issues Order on May 18, 2004
- Start to finish about 16.5 months
- Order is 145 pages of which about 40 pages are devoted to the issue of return