

PRICE REGULATION & ACCOUNTING II

NARUC Energy Regulatory Partnership Program

The Public Services Regulatory Commission of Armenia
and The Iowa Utilities Board



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UTILITY CAPITAL INVESTMENTS

Major capital investments relate to:

- Infrastructure improvement.
- Transmission/distribution line – new, replace, rebuild (increase size).
- Adding high voltage substations – with or without associated transmission line addition.
- Generating Unit additions – New addition – wind generation, nuclear, other.



RATEMAKING TREATMENT

Traditional cost recovery:

- After the fact – cost recovery after construction was complete.
- Part of a general rate case.
- After utility request for cost recovery was approved.
- Gradual recovery (rate based and depreciated).
- Project funding – outside resources.



INVESTMENT PROJECTS ISSUES ARE CHANGING

New infrastructure needs are:

- Existing generating units and transmission lines are getting old.
- Costs are rising.
- Need to meet load growth and plan for future needs.
- RPS requirements.
- Rate shock.



REGULATORY CONSIDERATIONS FOR RATE RECOVERY METHODS

- To provide some in-advance security to the utility.
- Risk shifting.
- Pre-approvals are granted upon a showing that such pre-approvals benefit customers.
- Includes full review of the recovery proposal.
- Decisions maintain flexibility and discretion.
- Cost increase – detail review.
- Pre-approval – adjustment to the utility's return on equity.



RECOVERY MECHANISMS - NEW

- Construction Work In Progress or CWIP.
- Advance approval with conditions (project milestones, cost caps).
- Adjustment clauses or riders.
- Formula rate structures, which allow for automatic recovery.
- Single issue rate increases.
- Securitization – often backed by statutes.



CASE STUDIES

- Cooper Tracker – automatic recovery of nuclear plant investment.
- Advance ratemaking principles for Marshalltown coal plant – pre-approval.
- Maryland Smart meter program – conditions on cost recovery.



QUESTIONS?



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