

Electric Rate Regulation:

Resource planning, construction certification, cost recovery

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Two applicable review processes:

- Integrated resource planning (IRP)
807 KAR 5:058
- Certificate of public convenience and necessity (CPCN)
KRS 278.020 (1)

Application of both processes is determined by statute, regulation and legal precedent

Planning for adequate capacity

Key points:

- Utilities are required to provide adequate service (KRS 278.030)
 - PSC requires adequate generating capacity, including reserve margin, as well as adequate transmission and distribution system capacity
- PSC requires integrated resource planning (IRP) by electric utilities (807 KAR 5:058) – includes detailed demand forecasts and plans for meeting demand – PSC places equal emphasis on managing demand as on adding capacity - three-year planning cycle with 15+ year planning horizons
- Specific projects to add generating capacity must be consistent with a utility's IRP

Planning for adequate capacity

IRP requirements (in part):

- Number of customers by class
- Demand forecasts by customer class
- Base load and seasonal peak demands
- Fuel consumption and cost
- Changes in population, economy, usage
- Assessment of current facilities
- Projected facility retirements
- Projected facility needs, expansions and construction
- Off-system sales and purchases

Retirement of generating facilities

Key points:

- Kentucky statutes do not require a utility to receive prior approval to retire generating capacity
- Utilities generally retire capacity for one or more of the following reasons:
 - It is an older facility that needs to be upgraded, but it is not cost effective to do so
 - The facility is obsolete, inefficient or uneconomical to operate
 - The facility is no longer needed due to changes in current or projected demand

Retirement of generating facilities

Key points:

- Other than regular review of utility IRPs, the PSC does not have a direct role in utility decisions regarding retirement of generating capacity
- PSC has broad authority under statute requiring utilities to provide adequate service
- PSC can investigate generating facility retirements in order to:
 - Determine whether a utility maintains adequate generating capacity to meet current and projected demand
 - Examine whether a utility has acted reasonably with respect to the impact on rates

Addition of new generating capacity

Key points:

- Utilities acquire new generating capacity to replace facilities that are going out of service or to meet projected demand, consistent with their IRPs
- Addition of capacity may involve any of the following, alone or in combination:
 - Construction of new utility-owned facilities
 - Lease or purchase of generating facilities
 - Contracts for purchasing power from a third party

**Prior to construction or acquisition
of any major facility, including an
electric generating facility, a utility
must apply for a certificate of
public convenience and necessity
(CPCN)**

The CPCN process - general:

- Statute (KRS 278.020) is general – parameters of PSC decision have evolved over time through legal precedents
- Wasteful duplication is not allowed – a utility may not overbuild or incur unnecessary costs
- “Least cost” principle flows from absence of wasteful duplication
 - Least cost not just construction or acquisition cost
 - Long-term costs also considered
 - PSC seeks least-cost reasonable option
- Grant of a CPCN leads to a presumption of future cost recovery

The CPCN process - generation:

Key points:

- Applicant must show a need for proposed facility – for generating facilities, this includes forecasts of both demand and future generating capacity
- Utility must show it has considered reasonable options, such as:
 - construction of various types of new facilities
 - purchase or lease of generating capacity
 - long-term contracts to purchase power from a third party
 - demand-reduction measures

The CPCN process - transmission:

Generally, no CPCN required for lines below 138 KV or for substations

- Lines of 138 KV require a CPCN and a siting review

Exceptions: upgrades of existing lines

lines less than a mile in length

- Same general principles apply – demonstration of need, absence of wasteful duplication
- Applicant has to demonstrate that a full range of options have been considered, including review of a variety of alternative routes to minimize impacts
- Local public meetings generally held

The CPCN process - distribution:

- Distribution system work (line upgrades, transformer replacement) is generally considered “ordinary course of business” that does not require CPCN
- “Ordinary course of business” means projects that do not materially affect a utility’s financial condition and thus will have no effect on rates
- Large distribution projects – for example, a system-wide upgrade to advanced metering technology – may require a CPCN

The CPCN process:

Procedure:

- No statutory time frame
- Intervention permitted
- Hearings/public comment meetings
- Public comments

Rate Recovery

- CPCN carries presumption of recovery through rates of all reasonable costs of the approved project
- Recovery through rates generally begins when facility goes into service – “used and useful principle” – rate cases are often timed to coincide with in-service dates of large projects such as generating facilities

Rate Recovery

- Advanced cost recovery in full generally is not permitted
- Some recovery of “construction work in progress” may be allowed in rates
- Cost of “ordinary course of business” projects (those not needing a CPCN) is built into rates