

For the Electric Distribution Sector

# **REGULATORY MODELING AND PRICING**

# The Question

How does the ICC capture information from electric utility operations...

...and then use it to set prices for distribution service?

# What Are the Tools?

- Uniform System of Accounts (USOA)  
<http://www.icc.illinois.gov/publicutility/usoa.aspx>
- Annual Report (Financial Statements)
- Rate Case Filing Requirements  
<http://www.ilga.gov/commission/jcar/admincode/o83/o8300285sections.html>
- Adversarial Proceedings
- Rate Case Discovery
- Revenue Requirement Model
- Cost of Service Study

# Uniform System of Accounts

- Requires the utility to capture financial information in a way that facilitates its review
- Prescribes the accounts to be used
- Provides specific instructions for certain items
- Collects costs by function
- Provides basis for both revenue requirement and cost of service study analyses

# Uniform System of Accounts

- Detailed accounts
  - See handout of account listing
  - Includes 438 different accounts
- Detailed account descriptions and specific instructions
  - Examples: Account descriptions for Accounts 108, 154, and 163
  - Examples: Electric Plant Instructions 1 through 10

# Uniform System of Accounts

Collects costs by function:

## Plant in Service

- Production
- Transmission
- Distribution
- Regional Transmission and Market Operation
- General
- Intangible

## Operating Expenses

- Power Production
- Transmission
- Regional Market
- Distribution
- Customer Accounts
- Customer Service and Informational
- Sales Expenses
- Administrative & General

# Annual Report

- Financial statements based on USOA
- Contains information at the account level
- Consistent reporting enables year-to-year analysis
- Provides starting point for developing a rate case

# Filing Requirements

- Prescribes the minimum information the utility must provide at the beginning of a rate case
- Utility begins with the annual report and from there develops its proposed revenue requirement
- Requires other information to enable review of utility proposal



# Adversarial Proceedings

- Robust debate is part of the analysis
- Invites stakeholder participation in the process
- Enables consideration of a wider range of perspectives

# Rate Case Discovery

- Written questions and answers between adversarial parties seeking further information or clarification
- Formal procedure
- Disagreements are resolved by the Judge hearing the case

# Revenue Requirement Model

- Begins with the revenue requirement (allowed revenues) proposed by the utility
- Incorporates the Commission's adjustments to rate base ( $RAB_f$ ), revenues and operating expenses, and rate of return (WACC)
- Derives the Commission approved revenue requirement.

# Cost of Service Study

- Functionalizes the utility's costs to production, transmission, distribution, and customer-related functions based on the USOA accounts
- Allocates the distribution and customer-related costs customer classes
- Develops unit costs