



NEW YORK STATE Public Service Commission



NY Ratemaking Process

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Rate Case Schedule

- NY Public Service Law Requires Decision Within 11 Months of Filing Date
- Prior to Filing: Staff rate case team formed in anticipation of a rate case filing
- Months 1-4:
 - Analysis of Filing by a Public Service Commission staff team, including lawyers, accountants, engineers, economists, financial analysts and consumer service specialists is assembled to investigate the Company's proposal. They will develop a counter proposal.
 - Other interested groups can intervene
 - Consumers
 - Large Users of Utility Service
 - City Governments (New York City)
 - An Administrative Law Judge is assigned to preside over the case, hear all the evidence and recommend a decision to the Public Service Commission.



Rate Case Schedule

- Months 5-7
 - Testimony filed by Staff and other interested groups
 - Rebuttal testimony by utility company
 - Hearings with cross-examination of all expert witnesses
 - Groups Participating in Rate Case May Negotiate a Settlement of the Issues and submit it to the Administrative Law Judges
- Months 7-9
 - Initial and Reply Briefs filed with Administrative Law Judges
 - Administrative Law Judges Issue Recommended Decision
- Months 9-11
 - Briefs filed with Commission
 - Commission deliberations produce a written Order deciding all outstanding issues and determining the revenue requirement



Revenue Requirement Components

- Operating Expenses
- Depreciation and Amortization
- Taxes
- Return on Investor Provided Capital



Operating Expenses

- Largest Operation Expense Items
 - Purchased Power, Purchased Fuel
 - Labor Expenses: Salaries and Benefits
 - Energy Efficiency
 - Renewable Resources
- Many Other Smaller Expense Items



Depreciation and Amortization

- Depreciation based on original cost of the asset divided by its expected useful life
 - Replacement value or current market value are not used to calculated depreciation
- Amortizations
 - US accounting rules permit utilities to eliminate expenses from the income statement and record them as a regulatory asset
 - Regulatory assets are them amortized over a time period that is determined by the Commission



Taxes

- Property Taxes
- Income Taxes
 - The combined federal and state income tax rate is about 40%
- Regulatory Assessment as a % of Revenues
- Other Taxes
 - Payroll
 - Revenue
 - Dividend



Return on Investor Provided Capital

- Weighted Average Cost of Capital
 - Capital Structure debt and equity components measured on basis of book value
 - Cost of debt is the actual interest rate cost of the debt adjusted upward for amortization of issuance expenses
 - Cost of equity measure by combination of the Discounted Cash Flow Model (weighted by 2/3s) and the Capital Asset Pricing Model (weighted by 1/3)
- Rate Base



Rate Base

- Total Utility Plant less Accumulated Depreciation
- Deferred Taxes
- Working Capital
- Earnings Base to Capital Structure Adjustment
 - Earnings Base is Rate Base Plus Construction Work that is in Progress but not completed
 - Construction that is not completed is not included in rate base to set rates unless the utility needs additional cash flow to make it easier to finance its business



Other Issues

- Revenue Decoupling
 - Electric: Sales
 - Gas: Customers
- Test Year
 - Historic Period: Adjust to reflect normal conditions
 - Future Rate Year: Fully projected from historic period



Other Issues

- Multi-year Rate Plans
 - 2-5 years
 - Make Rate Increase Percentages More Level
 - Return on Equity Premium
 - Return on Equity Sharing Cap
 - 50-100 basis points over ROE
 - At minimum 50% sharing of excess earnings goes to ratepayers