Presentation to Representatives of the Electricity Regulatory Authority of Albania
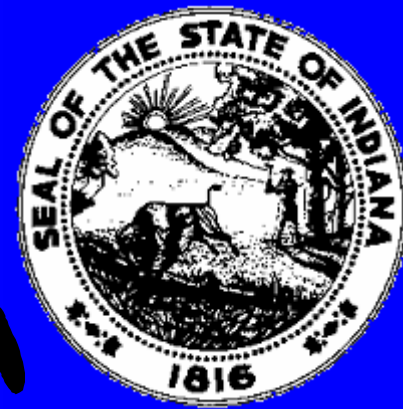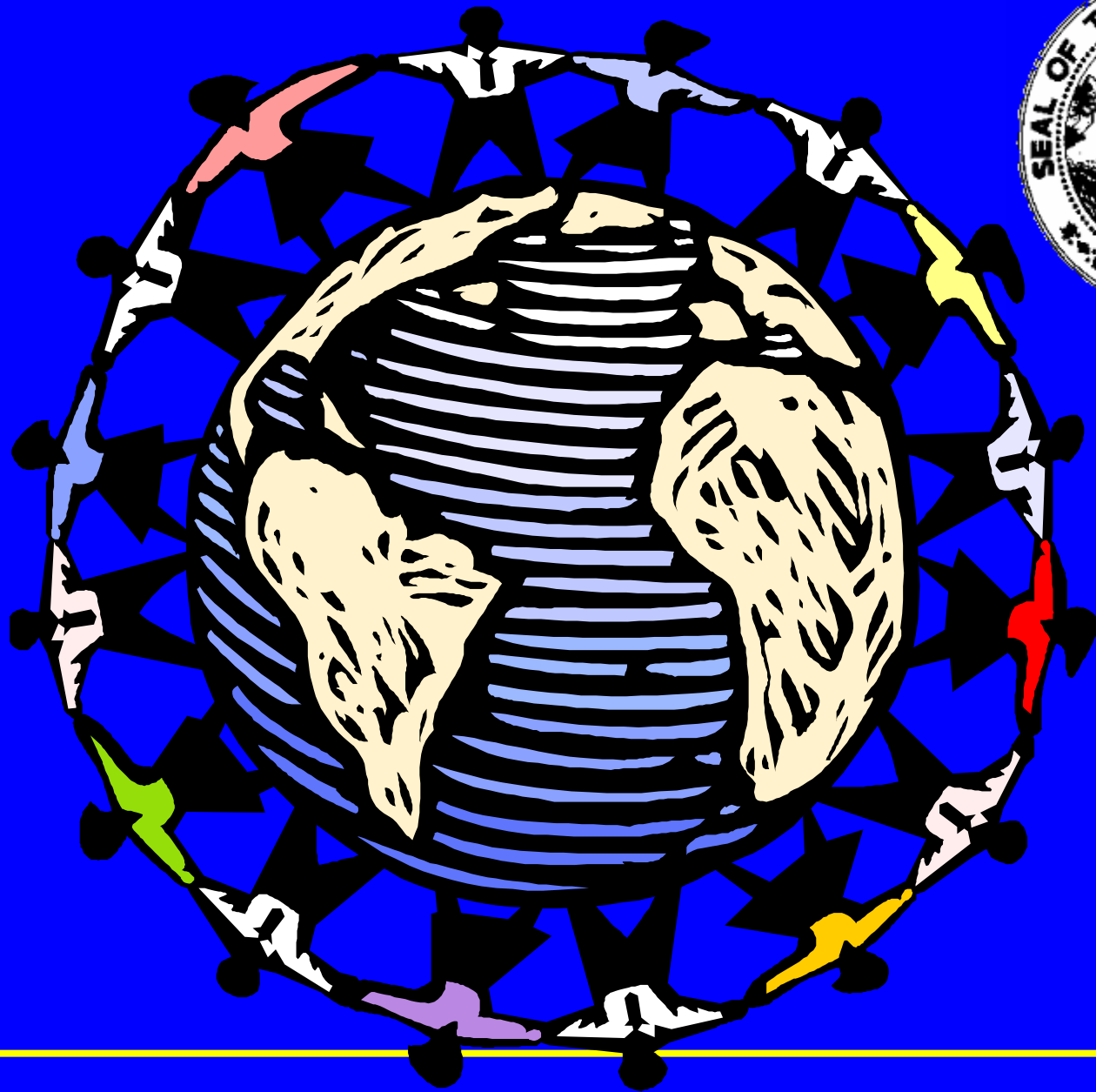
Ratemaking in Indiana

Jerry Webb

Director Gas, Water and Sewer Division

Indiana Utility Regulatory Commission
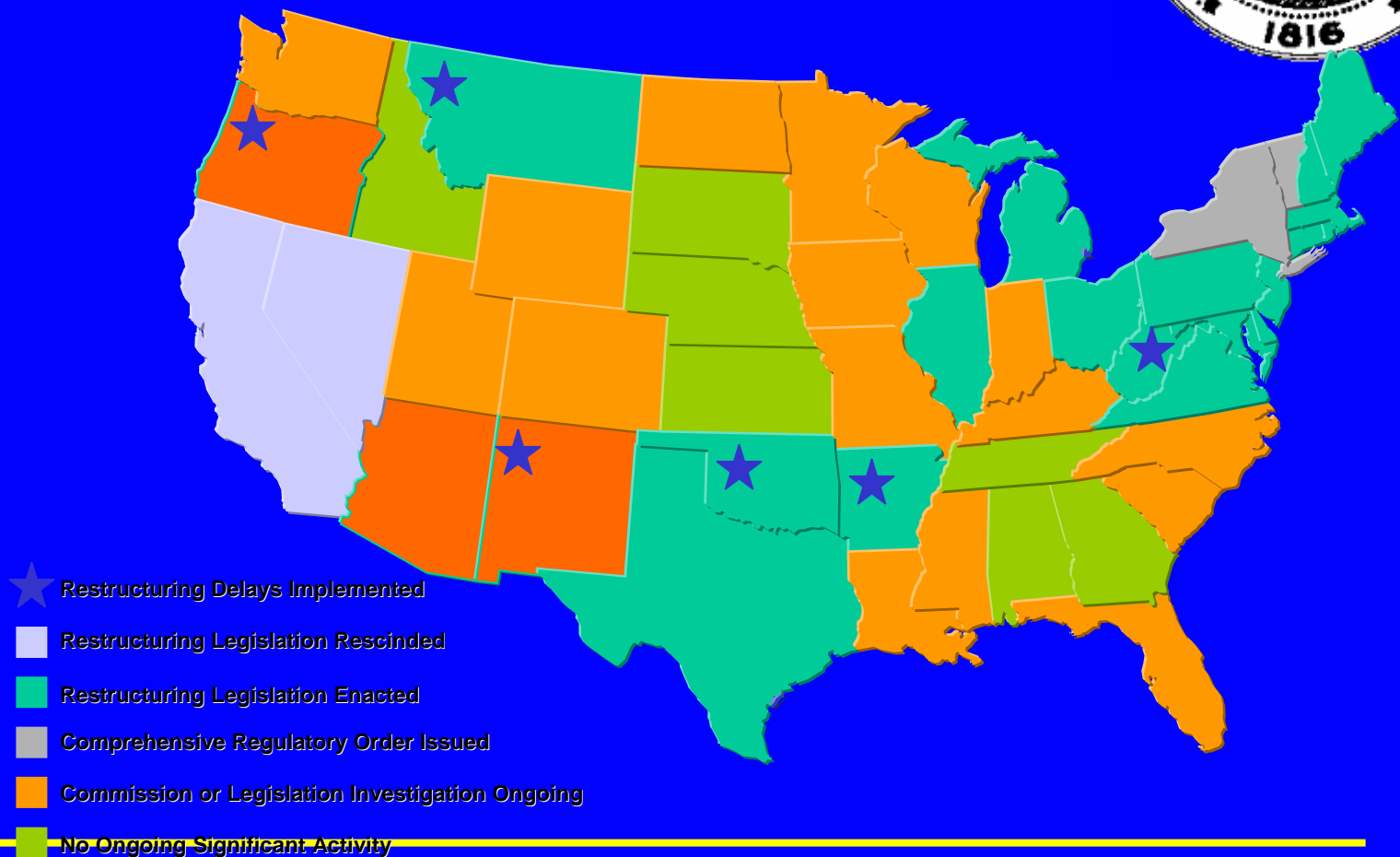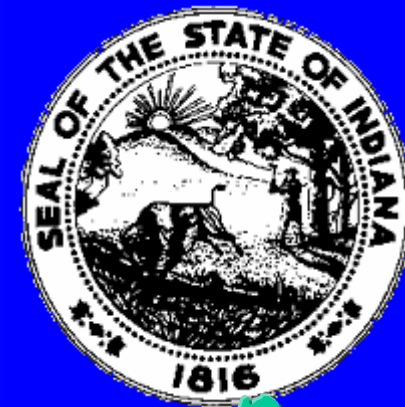
October, 2005

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

Legend:
- ★ Restructuring Delays Implemented
- Restructuring Legislation Rescinded
- Restructuring Legislation Enacted
- Comprehensive Regulatory Order Issued
- Commission or Legislation Investigation Ongoing
- No Ongoing Significant Activity

Source: Cambridge Energy Research Associates

4

Vertically Integrated Utility

Generation by Fuel Type In Indiana

Petroleum 0.7%

Coal 94.5%

Natural Gas 4.3 %

Hydro 0.5 %

48 generation stations = 20,470 MW

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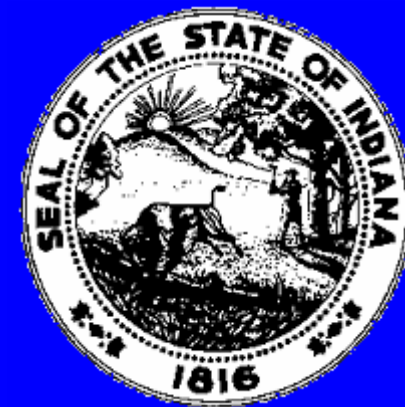
- 11.2 % increase in revenues or
- $178,303,000

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

Communication within the IURC

- NOTE: Either as this part of the presentation is being made or at its conclusion, Mr. Sutherland, Mr. Storms, and Mr. Webb will discuss this in more detail. Participation from ERE is welcome.

Communications within the IURC

- No formal rule prescribing the process of internal communication during a rate case
- Communications process varies considerably depending on size of case and the team members
- The Administrative Law Judge and a Commissioner are assigned to the case by the Commissioners
- Technical staff are assigned to the case by Division Directors and sometimes by or with the advice of the Chief Operating Officer
- All of the employees of the IURC assigned to a case are collectively referred to as the team; the administrative law judge is the overall team leader for the case as a whole and there is also a technical staff team leader

Communications within the IURC

- Communications during a large case consists of the following:

✓ Meetings

✓ E-mails

✓ Staff Reports

Communications within the IURC

- Internal meeting may be held prior to the prehearing conference/preliminary hearing to see if there are any outstanding issues or problems with test year

- This case is bifurcated-meaning we have one prefiling and hearing date for Utility and another prefiling and hearing date for all other parties

Communications within the IURC

- Staff report will be issued a few days prior to the utility's hearing

- A meeting likely will be held to discuss the issues in the case prior to the hearing and to see if there are any bench questions that need to be asked.

- During the hearing at breaks, there are frequently meetings among the team members to discuss issues

Communications within the IURC

- Same process repeated for the second hearing and pre-filed testimony of all other parties

Communications within the IURC

- Deciding the case

✓ IURC gets "help" from parties by having the parties submit proposed orders and exceptions to proposed orders and briefs for any legal issues

✓ After all the proposed orders have been submitted, there usually will be a team meeting to discuss issues, decide which issues are uncontested and make preliminary decisions as to contested issues

Communications within the IURC

- ✓ At the meeting just discussed, the administrative law judge may ask for help from tech staff in writing parts of the order or may decide to write a draft order himself
- ✓ The draft order is circulated among team members and this may be an iterative process
- ✓ Intermediate input and feedback from other Commissioners may be sought on important issues and to develop consensus
- ✓ Once the team has a good proposed order it is circulated to the other Commissioners
- ✓ The proposed order is presented for official approval at a normal weekly public meeting of Commissioners

The Issues

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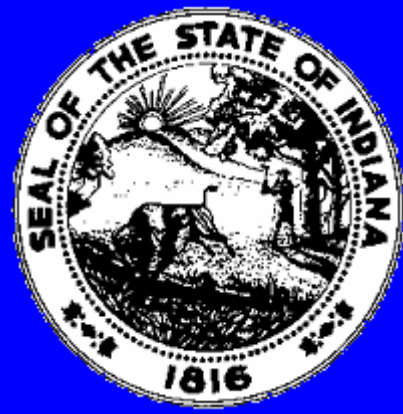- Uncontested and found to be $3,662,350,000

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

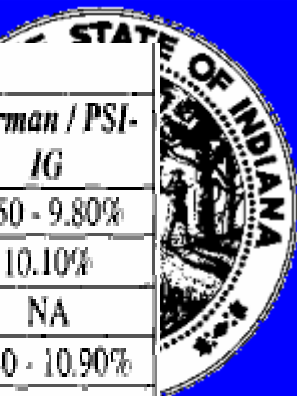- Public Safety advertising—proposed an increase of $619,000

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

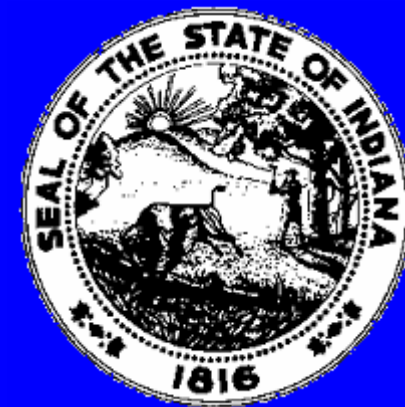|	Witness / Party	Morin / PSI	Inman / IURC	Kaufman / OUCC	Gorman / PSI-IG
Original	CAPM	10.20 – 10.70%	9.21%	7.98 - 8.59%	9.50 - 9.80%
	DCF	10.70 – 13.60%	10.42 - 13.52%	7.94 – 10..12%	10.10%
	RP	10.90 – 12.30%	9.69 - 11.02%	NA	NA
	ARP	11.30 – 11.40%	11.30 - 11.40%	NA	9.40 - 10.90%
	Recommendation	**11.50%**	**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
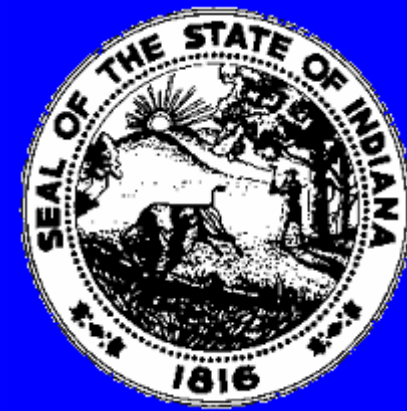
Cost of Service/rate design

- 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