

Overview of Formula Rates in Illinois

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- ❖ The information I present today should not be construed to represent the opinions or viewpoints of the Illinois Commerce Commission or of its staff
- ❖ The information I present today is intended to promote understanding and discussion of the topics presented and may not reflect my professional opinion on a specific issue when testifying as an expert witness

Illinois Formula Rates: How We Got Here

- ❖ Public Act 97-0616, enacted in 2011
- ❖ Energy Infrastructure Modernization Act (“EIMA”)
 - ❖ Current language is located in 220 ILCS 5/16-108.5
 - ❖ Requires the two participating utilities to invest over \$3 Billion combined for projects including Illinois electric grid modernization, smart grid, training facilities, and energy low income support programs
 - ❖ In return, Participating Utilities are permitted to implement performance-based formula rates

Illinois Formula Rates: Summary of Main Features

- ❖ Traditional revenue requirement formula but some inputs are mandated:
 - ❖ ROE = 580 bp + US T-Bond yield monthly average in past calendar year.
 - ❖ Based on prior year actual operations.
 - ❖ Reconciliation: rate base is measured at year end; interest rate reflects the ICC approved weighted average cost of capital (WACC) for rate year.
- ❖ Reconciliation
- ❖ ROE Collar (+/- 50 basis points)
- ❖ No rate design determination

Illinois Formula Rates: Cost Recovery Protocols

- ❖ Formula rates “[p]ermit and set forth protocols, subject to a determination of prudence and reasonableness consistent with Commission practice and law” for the recovery of:
 - ❖ Incentive Compensation
 - ❖ Pension and Other Post Employment Benefits (“OPEB”) Expense
 - ❖ Employee Severance Costs
 - ❖ Return on Pension Asset
 - ❖ Rate Case Expense
 - ❖ 5-year Amortization of Certain Costs (i.e., storm damage)
 - ❖ Existing Regulatory Assets
 - ❖ Historical Weather Normalized Billing Determinants
 - ❖ Allocation Methods for Common Costs

Illinois Formula Rates: Comparison of Ratemaking Proceedings

Traditional Rate Case

- ❖ Utility files new rate case when its earnings are deemed insufficient. Rates are set for an indefinite period.
- ❖ Rates are set to recover representative costs on a going forward basis. Utility chooses either a historical or future test year.
- ❖ 11-month process
- ❖ No reconciliation or “true-up” to actual costs
- ❖ No ROE collar adjustments
- ❖ Includes a rate design determination

Formula Rate Case

- ❖ Utility files updates every May 1 to set rates for next calendar year. Rates set annually and takes effect the following January.
- ❖ Rates set to recover actual costs for the next year using estimates based on the prior year.
- ❖ 240 day process
- ❖ Includes annual reconciliation or “true-up” to actual costs
- ❖ Includes ROE collar adjustments
- ❖ No rate design determination

Illinois Formula Rates: Timeline of the Formula Rate Process



2017 Formula Rate Case

9/12/2017

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Illinois Formula Rates: Example - Timeline for 2018 Rate Year

Source	2016	2017	2018	2019	2020
April, 2017 Filing using 2016 FERC Form 1 + 2017 Forecasted Plant		Rate Case	Rates		
May 1, 2019 Filing using 2018 FERC Form 1				Rec Case	Reconciliation

- ❖ In April 2017, utility filed formula rate case using an estimate of 2018 costs based on its most recent FERC Form 1 (2016) and forecast plant additions through 2017.
- ❖ Effective January 1, 2018, utility charges the rates determined in the 2017 formula rate case.
- ❖ In 2019, utility will file formula rate case with an annual reconciliation using actual 2018 costs (from the then available 2018 FERC Form 1).
- ❖ In 2020, the utility refunds (or charges) ratepayers for any over collection (or under collection) in 2018 rate year.

Illinois Formula Rates: Example - Process Over Multiple Years



Source	2015	2016	2017	2018	2019	2020	2021
April, 2015 Filing using 2014 FERC Form 1 + 2015 Forecasted Plant	Rate Case	Rates					
April, 2017 Filing using 2016 FERC Form 1			Rec Case	Reconciliation			
April, 2016 Filing using 2015 FERC Form 1 + 2016 Forecasted Plant		Rate Case	Rates				
April, 2018 Filing using 2017 FERC Form 1				Rec Case	Reconciliation		
April, 2017 Filing using 2016 FERC Form 1 + 2017 Forecasted Plant			Rate Case	Rates			
April, 2019 Filing using 2018 FERC Form 1					Rec Case	Reconciliation	
April, 2018 Filing using 2017 FERC Form 1 + 2018 Forecasted Plant				Rate Case	Rates		
April, 2020 Filing using 2019 FERC Form 1						Rec Case	Reconciliation

- ❖ In 2017, the Illinois formula rate Order will have three main parts:
 - ❖ A “formula rate update” that sets new distribution rates for 2018 based on 2016 data;
 - ❖ A reconciliation of costs utility charged in 2016 to ICC-approved 2016 actual costs, the difference of which will be charged or refunded to ratepayers in 2018; and
 - ❖ A calculation of the ROE collar, with the result charged or refunded to ratepayers in 2018.
- ❖ In 2017, the 2016 FERC Form 1 is used for two different purposes:
 - ❖ To estimate rates for 2018; and
 - ❖ To reconcile rates charged in 2016 (determined in 2015 rate case) to approved 2016 actual costs.