

**INTRODUCTION TO IOWA
TARIFF AND RATE ISSUES**

**A PRESENTATION TO
ANRE BY THE
IOWA UTILITIES BOARD
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October/November, 2002**

Iowa Tariff And Rate Issues

- Question: Which is More Important, Process or Philosophy?
- Answer: Neither, because both are essential to a fair outcome.

IUB Mission

Mission

- Performance excellence in regulation, where we assure lowans receive:
 - ◆ The best value in utility services
 - ◆ Safe and reliable utility services
 - ◆ Fair treatment
 - ◆ The information and services they need

Basic Concepts of Iowa Utility Regulation Law

- Strike a Balance
 - IUB has Rate and Service Authority (including Safety) Over Investor-Owned Utilities, §476.1
 - IUB Service Authority (including Safety) Over Electric Cooperative Utilities#, §476.1A
 - IUB has very limited Service Authority, plus Full Safety Authority, Over Electric Municipal Utilities, §476.1B
- #Coops may elect to be rate regulated (but only 1 has elected that)
- RATE REGULATION
 - ◆ Must Pre-Notify Customers of Rate Increases
 - ◆ Must Notify Customers Using Rate Increase Notice with Format Approved by Board
 - ◆ Request to Increase Rates Must Include with it Certain, Specific Information
 - ◆ Utilities May Request Interim Rates While Board Considers Full Request
 - ◆ Board Has 10 Months to Consider Full Request
 - ◆ Only Once Request for Increase at a Time, Unless Permission Given by Board

Basic Concepts of Iowa Utility Regulation Law

- Request to Increase Rates Must Include with it Certain, Specific Information
 - ◆ Letter of Transmittal
 - ◆ Evidence
 - ◆ Investment Value
 - ◆ Comparative Operating Data
 - ◆ Test year and Pro Forma Income Statements
 - ◆ Additional Evidence
 - ◆ Rate Base
 - ◆ Revenue Requirements
 - ◆ Capital Structure
 - ◆ Working Capital requirements
 - ◆ Income Tax Returns
 - ◆ Iowa jurisdictional expenses
 - ◆ Monthly Revenue by Rate Class (base rates & Adjustment Clause Revenue Separated)
 - ◆ Revenue Sufficiency Schedules
- ◆ Additional Evidence (continued)
 - ◆ Reports to Management (financial/operating)
 - ◆ Monthly Tax Accruals
 - ◆ Allocation Methods
 - ◆ Capital Stock Expense
 - ◆ Debt/Preferred Stock Info
 - ◆ Capital Surplus
 - ◆ Stockholder Reports
 - ◆ 10Q/10K Reports
 - ◆ Prospectus Info
 - ◆ Consolidated/Consolidating Financial Statements
 - ◆ Affiliate Transaction Records
 - ◆ Common Stock Info
 - ◆ Testimony & Exhibits of Witnesses
 - ◆ Advertising Info

Interim Rates

- May Be Filed by Utility, But Are Not Required
- Intended to Mitigate Regulatory Lag
- Decision Required Within 90 Days – Effective Immediately
- Cannot Be Appealed/Delayed
- Revenue Increases Subject to Refund
- Utilities File Bond or Corporate Responsibility Statement, Thereby Assuring Ability to Refund
- Filed Separately from Main Case
 - ◆ Each issue separately explained
 - ◆ Purpose
 - ◆ Regulatory principles relied upon (Citations)
 - ◆ Schedules Supporting Temporary Rate Capital Structure
 - ◆ Workpapers Required
- Objections Must Be Made With 30 Days
- Utility May Filed Reply to Objection

Procedural Schedule, RPU-02-3

- Initial Filing, 3/29/02
- Order Setting Procedural Schedule, 4/26/02
- Temporary Rate Hearing, 6/17/02
- Temporary Rates in Effect, 6/17/02
- OCA/Intervenors File Direct Testimony, 7/29/02
- OCA/Intervenors File Rebuttal Testimony to Each Other, 8/19/02
- Company Files Rebuttal Testimony, 9/6/02
- OCA/Intervenors file Rebuttal Testimony, 9/20/02
- Joint Statement of Issues/Pre-hearing Brief, 9/22/02
- Hearing to Cross Examine All Testimony, 10/22/02
- Initial Briefs, 11/18/02
- Reply Briefs, 12/2/02
- Final Order Deadline, 1/29/02, 10 Months After Initial Filing

IMPORTANT CONCEPTS

Costing Equation

- ◆ Revenue Requirement = Operating Expenses + Return on Investment
 - ◆ O&M Expenses
 - ◆ Depreciation
 - ◆ Taxes (property, sales, income)
 - ◆ Failing to pay for any of these confiscates property by lowering its value just as much as giving low return on investment

■ You Get What You Pay For

- ◆ HF 577
- ◆ Recognition of Property Rights is critical to be able to ATTRACT CAPITAL



Other Background Info

- **Bluefield Water Works Improvement Co. V. Public Service Commission, 262 U.S. 679 (1922)**

"[A] public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties."

- **Federal Power Commission v. Hope Natural Gas Co. 320 U.S. 591 (1944)**

Constitution requires no particular formula for setting rates; it is the "end result" which counts.

No person shall ... be deprived of...property, without due process of law; nor shall private property be taken for public use, without just compensation. (US Constitution, Amendment 5)



Other Background Info

- ◆ **Duquesne Light Co. v. Barasch, 488 U.S. 299 (1988)**

Constitution does not prescribe any one ratemaking methodology; no constitutional guarantee of recovery of prudent costs.

- ◆ **Smyth v. Ames, 169 U.S. 466 (1898)**

Rates need not provide for a profit when market conditions are averse if to do so would impose "unjust burdens on the public."

- ◆ **Alabama Power Co. v. Federal Power Commission 511 F.2d 383 (D.C. Cir. 1974)**

"It is a familiar rule of evidence that a party having control of information bearing upon a disputed issue may be given the burden of bringing it forward and suffering an adverse inference from failure to do so."

- ◆ **West Ohio Gas Co. v. Public Utilities Commission, 294 U.S. 63 (1935)**

"A public utility will not be permitted to include negligent or wasteful losses among its operating charges. The waste or negligence, however, must be established by evidence In all the pages of this record, there is neither a word nor a circumstance to charge the management with fault. There is not even a shadow of a warning to the company that fault was imputed and that it must give evidence of care....").

- ◆ **Business Risk as a Basis for Cost Disallowance: Market St. Ry. Co. v. R.R. Comm'n of California, 324 U.S. 548 (1945)**

"The due process clause has been applied to prevent governmental destruction of existing economic values. It has not and cannot be applied to insure values that have been lost by the operation of economic forces."

