

Case Summaries

One-Time Extraordinary Costs

1. *In re: Petition for approval of storm cost recovery clause to recover storm damage costs in excess of existing storm damage reserve, by Florida Public Utilities Company*, DOCKET NO. 041441-GU, 2005 Fla. PUC LEXIS 671 (Fla. PUC 2005).

After three major hurricanes hit Florida in 2004, the utility (Florida Public Utilities Company) was faced with significant one-time, extraordinary costs to restore service totaling \$619,227. There was an existing storm damage reserve, which amounted to just \$59,070 at the time of the major storms, but the utility had stopped making accruals to the reserve in 2003. In a prior proceeding, the Florida commission had determined that the utility had overearned by \$117,773. In this proceeding, the utility sought to recover the extraordinary storm costs, as well as an additional \$300,000 to replenish the storm reserve.

2. *In the matter of the Application of Entergy Arkansas, Inc. for Approval of Changes in Rates for Retail Electric Service*, 259 P.U.R.4th 434, 2007 Ark. PUC LEXIS 324, at *43 (August 13, 2007).

In this proceeding, the utility (Entergy Arkansas) sought rehearing on certain issues relating to its petition to increase its retail electric rates. The Arkansas commission had approved a current storm expense level of \$14,449,000, when the utility had requested a level of \$29,720,000. A further issue was how to determine the level of the storm reserve. The Arkansas commission set the liability account to zero, while the utility sought a debit balance of \$26 billion.

3. *Re: Investigation of Central Maine Power Company's Revenue Requirements and Rate Design (Phase II)*, Docket No. 97-580, 2000 Me. PUC LEXIS 470, at *33 (Jan. 19, 2000)

Following a major ice storm that inflicted significant damage to the transmission and distribution infrastructure, the utility (Central Maine Power) deferred \$50.7 million in incremental costs. However, the utility did obtain federal assistance of \$19.6 million and also received a contribution of \$800,000 from the state's largest telephone utility. The utility sought to recover the remaining incremental costs over two years, while the consumer's advocate recommended spreading the recovery over five years.

Valuation of Assets

4. *Re: West Penn Power Company*, 32 P.U.R.4th 245, 1979 Pa. PUC LEXIS 37, at *50-59 (Pa. PUC 1979)

In this case, the utility (West Penn Power Company) sought a revenue requirement increase of \$73,759,000. There was a dispute as to how to calculate the fair value of the utility's "used and useful" property. While the consumer advocate argued for an adjusted original cost measure, commission staff used five measures to come up with fair value, and the utility claimed the average of the original cost.

5. *Re: Northern Indiana Public Service Company*, 85 P.U.R.4th 605, 1987 Ind. PUC LEXIS 180, *115-119 (Ind. PUC 1987)

In another rate case, this utility (Northern Indiana Public Service Company) also sought a change in depreciation rates. The utility's electric property included 12 fossil fuel generating facilities, one hydroelectric facility, and three combustion turbine facilities. The parties disagreed about the calculation of the fair value of the utility's rate base. Under Indiana law, the fair value of property is to be construed as the "current, fair cash value."

6. *Re: Arizona-American Water Company, et al.*, 2004 Ariz. PUC LEXIS 13 (April 26, 2004)

The utility sought a rate adjustment, requesting a revenue requirement increase of \$8,246,082. For its calculation, the utility used a rate base of adjusted reconstruction cost less depreciation (RCND). The commission staff proposed an average of the original cost rate base and the RCND, and the consumer advocate argued for utilizing solely the fair value rate base.

Cost Allocations

7. *Re: Application of Yankee Gas Services for a Rate Increase*, DOCKET NO. 01-05-19PH01, 215 P.U.R.4th 185, 2002 Conn. PUC LEXIS 52, at *293-298 (January 30, 2002)

This case involves a request for a rate increase by the utility (Yankee Gas Services), which had been recently acquired by a parent company (Northeast Utilities). An affiliate of NU began providing the utility with services that the utility used to perform itself, such as accounting, administrative, and legal services. In turn, two of Yankee's affiliates provided services to the utility. The question was how to treat this situation so as to ensure that ratepayers were paying just and reasonable rates.

8. *Re: Southern Connecticut Gas Co., et al.*, 2002 Conn. PUC LEXIS 33, at *65 (Feb. 22, 2002)

After being acquired by a parent company (Energy East), the utility (Southern Connecticut Gas) was provided with administrative, management, and other services by the parent. While the utility's cost allocation manual dealt with the issues created by a parent company providing some services, it did not deal with charges by unregulated affiliates to regulated ones.

9. *Re: Application of the Connecticut Water Company to Engage in Unregulated Business or Activity*, Docket No. 97-12-22, 188 P.U.R.4th 143, 1998 Conn. PUC LEXIS 250, at *11-12 (Aug. 21, 1998).

This is an application by the utility for approval to perform non-regulated activities, which was prohibited by a 1975 commission order. The company wanted to form a subsidiary to perform these non-regulated activities, including water company operations performed for other water systems, such as water testing, advice on compliance with regulations, and others. The issue became how to allocate costs between the regulated utility and the unregulated subsidiary.

10. *In the Matter of the Application of Baltimore Gas and Electric Company for Revisions in its Gas Rates*, Case No. 8697, 1997 Md. PSC LEXIS 281, at *1-5 (June 27, 1997)

In this case, the utility (Baltimore Gas & Electric Co.) had affiliated entities that engaged in non-regulated activities. The commission had instructed the utility to establish principles to ensure that the utility's regulated activities were not subsidizing the non-

regulated subsidiaries. The utility came up with a cost allocation and transfer pricing manual, in which it laid out the plan. One intervenor raised concerns that the ratepayers must benefit from the intangible aspects of the utility, such as the trade name, goodwill, and logo.

Excessive Prices Paid to Affiliates

11. *In the Matter of The Application of Gold Canyon Sewer Company for a Determination of Fair Value of its Utility Plant and Property and for Increases in its Rates and Charges for Utility Service Based Thereon*, 2007 Ariz. PUC LEXIS 127, at *39-44 (Ariz. PUC 2007)

This proceeding involved a request by the utility for a determination of the fair value of its plant and property, and a request to increase its rates. An unregulated affiliate provided the utility with most operational services, but the contract for said services were not negotiated at arms-length. The issue was whether the affiliate profit should be included in the utility's rate base, and whether the operational costs charged by the affiliate could be recovered.

12. *Re: Continental Telephone Company of the Northwest, Inc.*, CAUSE NO. U-85-32, 1986 Wash. UTC LEXIS 50, at *22-28 (Wash. UTC 1986)

The utility in this case sought a rate increase through tariff revisions. The utility had a supply contract with an affiliate, which was not negotiated at arms-length due to the relationship between the two entities. The issue was the extent to which the costs of these contracts could be passed onto ratepayers in the form of operation expenses. The utility had the burden to show the reasonableness of such payment or compensation.

13. *Application of Central Telephone Company of Virginia and Southern Telephone Company for an increase in rates*, CASE NO. 19773, 1978 Va. PUC LEXIS 103, at *11-12 (April 18, 1978):

In this application for an increase in rates, the utility, which was a subsidiary of a parent company, purchased supplies from a service company, another subsidiary of the parent. The prices paid by the utility were set by the parent. The issue was how to determine the reasonableness of these prices paid by the utility to an affiliated entity, and how to compute a fair rate of return for the utility. To the extent the utility had overpaid the service company, the rate base would have to be adjusted.

Depreciation Rates

14. *Re: Public Service Company of Indiana, Inc.*, Docket No. 37414-S2, 1990 Ind. PUC LEXIS 108, at *150, 112 P.U.R.4th 94 (April 4, 1990):

In this rate case, there is a lengthy discussion by the commission of depreciation rates. The property subject to depreciation included production plants, transportation-related property, and transmission and distribution equipment. While the utility (and commission staff) supported an equal life group procedure, the consumer advocate argued for an average life group procedure. The question for the commission was which procedure to adopt.

15. *Re: Pacific Gas & Electric Co.*, 1981 Cal. PUC LEXIS 1279 (December 30, 1981):

In this rate case, the commission allowed the utility (PG&E) to raise rates, but not by as much as requested. Notably, this rate case took place during an economic downturn, and the commission expressed concern about the ability of ratepayers to handle a substantial rate hike. One issue in the case was the rate of depreciation. The utility proposed a more rapid depreciation rate on a generation facility. The question for the commission was whether to make a change to its established depreciation policy.