

# Welcome Zambian Energy Regulation Board!!

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# Filing Requirements and Procedures for Tariff Filings and Rate Cases

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- The information to be furnished by a utility when it files for tariff and/or rate changes is set forth in the Pennsylvania Code, Chapter 53.
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## Pa. Code §53.51 - 53.55

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- Information Furnished with the Filing of Rate Changes:
    - Applies to Utilities with over \$100,000 of gross revenues.
    - Applicable to all tariff and rate changes proposed by Utilities.
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## Pa. Code §53.52(a)

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- When filing tariff changes and/or rate changes, Utilities shall submit to the Commission statements showing answers to the following questions:
    - 1. The specific reasons for each change.
    - 2. The total number of customers served by the Utility.
    - 3. A calculation of the number of customers whose bills will be affected by the change.
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# Pa. Code §53/52(a)(Cont.)

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- 4. The effect of the change on the Utility's customers.
  - 5. The direct or indirect effect of the proposed change on the Utility's revenues and expenses.
  - 6. The effect of the change on the service rendered by the utility.
  - 7. A list of factors considered by the utility in its determination to make the change.
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## Pa. Code §53.52(a)(Cont.)

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- 8. Studies undertaken by the Utility in order to draft its proposed change.
  - 9. Customer polls taken and other documents which indicate customer acceptance and desire for the proposed change.
  - 10. Plans the Utility has for introducing or implementing the changes with respect to its ratepayers.
  - 11. FCC, FERC or Commission orders or rulings applicable to the filing.
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## Pa. Code §53.52(b)

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- Whenever a tariff revision or supplement which will increase or decrease the bills to its customers, it shall submit the following additional information:
    - 1. The specific reasons for each increase or decrease.
    - 2. The operating income statement for a 12-month period, the end of which may not be more than 120 days prior to the filing.
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## Pa. Code §53.52(b)(Cont.)

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- 3. A Calculation of the number of customers, by tariff subdivision, whose bills will be increased.
  - 4. A calculation of the total increases, in dollars, by tariff subdivision, projected to an annual basis.
  - 5. A calculation of the number of customers, by tariff subdivision, whose bills will be decreased.
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# Pa. Code §53.52(b)(Cont.)

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- 6. A calculation of the total decreases, in dollars, by tariff subdivision, projected to an annual basis.
  
  - The web site for the filing requirements is:
    - <http://pacode.com/secure/data/052/chapter53/chap53toc.html>
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## Pa. Code §53.52(c)

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- When a Utility files a tariff which will increase the bills of a customer or a group of customers by an amount, when projected on an annual basis, exceeding 3% of the operating revenues of the utility, or which will increase the bills of 5% or more of the customers, the following additional information is required:
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## Pa. Code §53.52(c)(Cont.)

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- 1. A Statement showing the Utility's calculation of the rate of return or operating ratio earned in the test year.
  - 2. A detailed balance sheet of the Utility as of the close of the test year.
  - 3. A summary, by detailed plant accounts, of the book value of the property of the utility at the end of the test year.
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## Pa. Code §53.52(c)(Cont.)

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- 4. A statement showing the amount of depreciation reserve at the end of the test year, applicable to the property in paragraph (3).
  - 5. A statement of operating income, setting forth the operating revenues and expenses by detailed accounts for the test year.
  - 6. A brief description of any major changes in the operating or financial condition of the Utility.
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## Pa. Code §53.53

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- When a proposed base rate increase is in excess of \$1,000,000, additional data to that already discussed is required to be filed by the Utility, including direct testimony.
  - This data is Utility type specific. We are providing copies of the additional Electric Utilities filing requirements
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# Exhibit C: General Filing Information - Electric Utilities

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- These filing requirements can be summarized as follows:
    - 1. Provide a summary discussion of the rate change request.
    - 2. Identify the proposed witnesses for all statements and schedules.
    - 3. Provide a single summary page, at present and proposed rates showing the following as claimed for the test year:
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# Exhibit C (Cont.)

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- Revenues
  - Operating Expenses
  - Operating Income
  - Rate Base
  - Rate of Return
  - 4. The impact of adding to service or removing from service a major generating plant.
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# Development of Baseline Date for the Test Year

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- ❑ The calculation of rates is founded in the device of a test year.
  - ❑ The term test year as used in the filing requirements refers to the test year chosen by the utility to support its filing.
  - ❑ The ultimate objective of the rate-setting process is to predict the operating results of the Utility during the period for which the rates being set will operate.
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# Historic Test Year

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- ❑ The factual basis of an historic test year approach is the book of accounts maintained by the Utility, pursuant to the Uniform System of Accounts (USOA) as prescribed by the regulators.
  - ❑ The USOA includes all operating results entered into specifically defined and separate accounts.
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## Historic Test Year (Cont.)

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- Conversion of the “per books” results to a valid historic test year ratemaking basis involved two basic steps:
    - In-period adjustments
    - Out-of-period adjustments
  - These adjustments are generally referred to as *pro-forma* adjustments.
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# *Pro-Forma* Adjustments

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- *Pro-forma* adjustments change test year data to reflect the full year effect of major known and certain changes in expense levels, rates and other ratemaking elements which will occur during or at the end of the test year.
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# Future Test Year

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- ❑ Most Utilities filing for rate increases in excess of \$1,000,000 use a future test year for ratemaking purposes.
  - ❑ A future test year employs the Utility's normal budget process to project operating results for a future period.
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## Future Test Year (cont.)

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- The future test year obviates the need for *pro-forma* adjustments since the budget process generally assumes “normal”, non-extraordinary operations.
  - The major advantage of the future test year is that rates will more closely reflect current Utility operating factors and general economic conditions.
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# Public Input Hearings

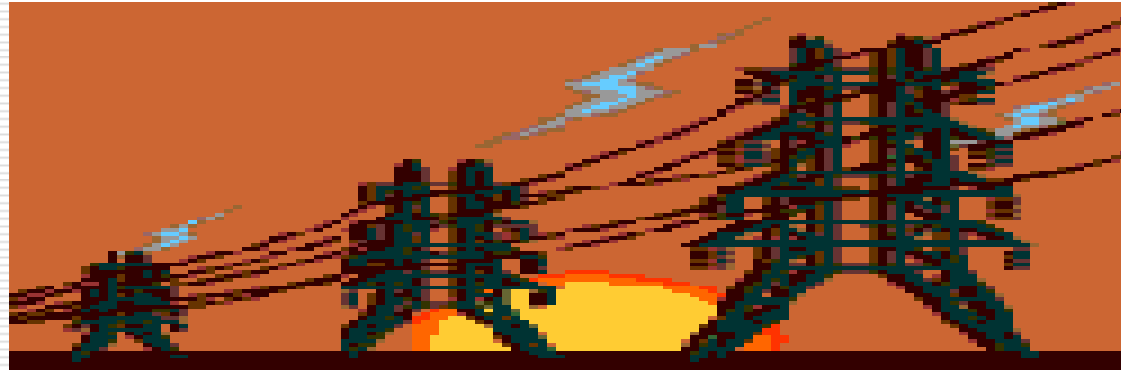
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- ❑ To hold at least one Public Input Hearing in the service territory for the Utility's customers.
  - ❑ Customers may provide testimony and/or exhibits before the Administrative Law Judge.
  - ❑ That testimony may be either sworn or unsworn.
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## Public Input Hearings (cont.)

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- Unsworn testimony by customers cannot be considered by the Commission in its deliberations of the issues in the case.
  - Sworn testimony by customers can be considered by the Commission in its deliberations of the issues in the case.
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# Office of Trial Staff

## Overview

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- ❑ The Office of Trial Staff was created to undertake the prosecutory role formally fulfilled by two bureaus (The Rates Division of the Law Bureau and the Bureau of Rates).
  - ❑ The Director of the Office of Trial Staff is designated as the “Chief Prosecutor” of the Commission, and is responsible for representing the public interest in all matters having an impact on rates in proceedings before the Commission.
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# Organization

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- Administrative
  - Legal Division
  - Technical Division
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# Duties and Responsibilities

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- The Office of Trial Staff's responsibilities center around representing the public interest in Commission proceedings concerning fixed utility rates. Fixed utilities are those companies that provide electricity, natural gas, steam heat, water, sewer, pipeline and telecommunications services to Pennsylvania consumers.
- As such, the Office of Trial Staff is responsible for reviewing Commission filings made by utilities involving rate-related matters.

## Duties and Responsibilities, cont'd.

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- The public interest referenced above generally means that the Office of Trial Staff is obligated to ensure that utilities charge rates that are reasonable, non-discriminatory, and are at a level that provides the utility with the ability to provide safe and reliable service at an affordable cost to all ratepayers.
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# OTS Function Statement

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- Created by statute, 66 Pa. C.S. §306, to represent the public interest in all Commission proceedings having an impact on rates.
  - Responsible to the Commission through the OED only for purposes of administrative matters. Due to its prosecutory role, the Office of Trial Staff works independently of the other Bureaus within the Commission. Staff is prohibited from communicating with the Commissioners, the assigned ALJ or any other Commission employee who may be advising in matters of an on-the-record proceeding, except through practices and procedures available to all parties.
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# Number of Utilities Regulated

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□ The PaPUC currently regulates 6,904 utilities. Listed by utility type:

■ Electric	62
■ Gas	30
■ Steam Heat	4
■ Pipeline	8
■ Water	110
■ Sewer	79
■ Telephone	484
■ Transportation	6,172

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# Case Work

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- **Complaints**
  - **Mergers**
  - **Proposed Rulemakings**
  - **Rate Proceedings**
    - **Electric**
    - **Gas**
    - **1307(f) – Purchased Gas Cost Rates**
    - **Telephone**
    - **Water**
  - **Tariff Revisions**
  - **Applications**
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# Rate Case Procedures - OTS Rate Case Schedule

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- Notice of Tariff Filing
  - Public Meeting Report
  - Administrative Law Judge Assignment
  - Hearing Notice
  - Internal Rate Case Schedule Prepared
  - Prehearing Conference
  - Interrogatories Prepared
  - OTS Direct Testimony
  - Public Input Hearings
  - Rebuttal Testimony
  - Surrebuttal Testimony
  - Evidentiary Hearings
  - Case Closed
  - Main Brief
  - Reply Brief
  - Administrative Law Judge Recommended Decision
  - Exceptions
  - Reply Exceptions
  - Commission Order
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## Cases of Interest

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- Joint Application of PECO Energy Company and Public Service Electric and Gas Company for Approval of Merger of Public Service Enterprise Group Incorporated with and into Exelon Corporation

*Docket No. A-110550F0160*

- City of Bethlehem - Water Base Rate Proceeding

*Docket No. R-00050680*

- Newtown Artesian Water Company Base Rate Proceeding

*Docket No. R-00050529*

- Columbia Gas of Pennsylvania, Inc. Tariff Filing Offering Two New Sales Services

*Docket No. R-00049783*

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# Key Employees

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Pennsylvania Public Utility Commission  
Office of Trial Staff

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# Overview of the Rate Setting Methodology and Rate Design

# Objectives

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- Our goal today is to provide an overview of the rate setting methodology and rate design.
  - As such, we are going to review the following ratemaking-related subjects:
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## Objectives (Cont.)

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- Revenue Requirements
  - Data Collection
  - Rate Base Determination
  - Expenses
  - Rate Design
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# Revenue Requirements (RR)

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- The fundamental principle of ratemaking is that rates should be set such that a utility has a reasonable opportunity to recover the costs incurred in providing utility service to the public.
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The equation that summarizes this principle is:

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□  $RR = E + ROR (RB)$

□ Where

□ RR = Revenue Requirements

□ E = Expenses

□ ROR = Rate of Return

□ RB = Rate Base

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## To put this equation into words:

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- The **Revenue Requirements** (RR) of a utility equals the **Expenses** (E) incurred, including wages and employee benefits, state and federal taxes and depreciation, plus a Return on Investment.
  - The **Return on Investment** is calculated by multiplying the overall cost of capital to the company (**Rate of Return** or ROR) against the net assets dedicated to the public use (**Rate Base** or RB).
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## To Summarize:

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- ❑ The **Revenue Requirement** is the total revenue that a utility needs to collect through rates charged to the public in order to recover its **Cost of Service**.
  - ❑ Determining the **Revenue Requirement** of a utility is the central issue in **Base Rate Cases**.
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# Data Collection

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- In order to determine the Revenue Requirements of a utility, the analysts and engineers must analyze the information filed by the utility. Since the filing requirements for Tariff Filings and Base Rate Cases will be discussed in more detail in another session, we will not address those here.
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- ❑ During a Base Rate Case, our analysts and engineers review the data that the utility is required to file.
  - ❑ In most cases, this data may not adequately explain an area of interest.
  - ❑ It, therefore, becomes necessary to ask for additional information from the utility in the form of data requests and interrogatories.
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- An example of the need for additional information is in the area of future test year revenues.
  - The utility may not provide details of how it estimated sales by customer class in the determination of its *pro forma* revenues.
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- Therefore, the analyst or engineer may ask a series of questions with the goal of obtaining enough additional information to make sense out of the utility's numbers.
  - Depending on the type of utility, these questions may include the number of projected customers by month, the estimated sales per customer, weather data, and any other relevant factors.
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## To Summarize:

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- Utilities are required to file certain information. However, when that is not detailed enough, we have the ability to request data that will more fully respond to our concerns about a particular subject. These questions are in the form of Data Requests and Interrogatories.
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# Rate Base Determination

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# Rate Base

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- ❑ Utilities are entitled, as a matter of U.S. Constitutional Law, to earn a fair return on the value of its property.
  - ❑ Utility property is included in rates only if prudently constructed and necessary (“used and useful”) to the provision of service.
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# Principles of Public Utility Rates

## Bonbright, P. 237

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- In its present form, the original cost or net investment standard may be defined as one which measures the rate base by summation of the actual legitimate costs of plant and equipment devoted to the public service.
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# Rate Base Related Issues

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- ❑ There are several items that are traditionally included in the determination of the total **Measures of Value** for utilities.
  - ❑ **Original Cost** is just one item. Other items included in the determination are as follows:
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# Measures of Value Issues

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- Cash Working Capital
  - Plant Held for Future Use
  - Depreciation Reserve
  - Construction Work in Progress (CWIP)
  - Allowance for Funds Used During Construction (AFUDC)
  - Excess Capacity
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## To Summarize:

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- The total value of the investment devoted to public service is made up of numerous components. Each of which must be individually analyzed in order to determine the proper amount on which the utility is entitled to earn a return.
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# Expenses

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# Operations and Maintenance Expense

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- This is usually the largest category (outside of fuel costs) of base rate expenses. It includes the cost of labor and expenses associated with the following activities depending on utility type:
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- ❑ The transmission and distribution of electricity,
  - ❑ The production, storage and distribution of natural gas and water,
  - ❑ Customer Service,
  - ❑ Sales expense, and
  - ❑ Administrative and general office functions.
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# Expense Issues

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- Depreciation Expense (e.g., service life, depreciation method)
  - Uncollectible Expense
  - Rate Case Expense
  - Consolidated Tax Savings
  - Employee Expenses
  - Normalized Expenses
  - Amortized Expenses
  - Post-Test Year Expenses
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# To Summarize

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- Operating expenses are one area of a base rate case that involves multiple potential issues. It also deals with various ways to look at each type of expense in terms of the ratemaking process. It is usually necessary to review several years' worth of data to come up with the proper level of an expense for ratemaking purposes.
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# Rate Design

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# Establishing Rates (Bonbright, p. 373)

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- ❑ The establishment of a rate for a regulated industry often involves two steps of different character.
  - ❑ The first is the adjustment of a general revenue level to the demands of a fair return.
  - ❑ The second is the adjustment of a rate schedule conforming to that level, so as to eliminate discrimination and unfairness from its details.
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# Rate Design

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- What this generally means is that the first step in designing rates is to determine the overall Revenue Requirements of the utility. Once that is accomplished, the next step is to complete a fully-allocated Cost of Service Study. Since this will be discussed in more detail later by Paul Metro, we will not get into it at this time.
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# Cost of Service Study

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- The Cost of Service Study is usually one of the more highly contested areas in base rate cases. The bottom line is that the results of the Cost of Service Study will provide the revenues needed to be collected by each customer class in order for the utility to have the opportunity to earn a fair return on its investments.
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# Factors Used in Designing Rates

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- There are numerous factors to consider when designing rates. The following is a list of some of those factors considered in major base rate cases:
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# Rate Design Factors

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- Class Revenue Requirement
  - Customer Count
  - Usage per Customer
  - Usage by Rate Block/Bill Frequency Analysis
  - Demand Charges
  - Energy Charges
  - Customer Related Costs
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# Rate Design Factors (Cont.)

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- Non-Customer Related Costs
  - IntraClass/InterClass Subsidies
  - Customer Charges
  - Minimum Charges
  - Minimum Allowances
  - Rate Shock
  - Interruptible Rates
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# Rate Design Factors (Cont.)

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- Declining Block Rates
  - Flat Rates
  - Commodity Charges
  - Current Rate Design/Rate Stability
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# Questions?

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- If you have any questions concerning the content of this presentation, please contact

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