



# **Utah Committee of Consumer Services**

**March 12, 2024**



# 2024 Legislative Update

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# Case Updates

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# General Rate Case Primer

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## General Rate Case (GRC): Overview

- Cost of service (i.e. cost-based) price regulation for monopoly utilities substitutes for competition found in unregulated markets
- Before a utility can increase rates charged to customers, it must file a general rate case application with the Utah Public Service Commission and obtain the Commission's approval.
- The rate case application is accompanied by the testimony and exhibits of utility witnesses, which represent the utility's evidence supporting its rate proposals.
- The utility has a substantial, legal "burden of proof" to demonstrate that its request for a rate increase is justified.
  - Note: recent legislation likely shifts the burden of proof from Rocky Mountain Power to other parties.



## GRC: Schedule

- A schedule is set shortly after the rate application is filed that governs the information gathering process (discovery), filing of direct, rebuttal and surrebuttal testimony by parties and Commission hearings.
- The Commission has 240 days (8 months) to hold hearings, consider the testimony and recommendations of parties and issue a Report and Order on whether it will allow all, some or none of the requested rate increase.
- Hearings are normally conducted by the Commission over a two-week period, but in certain instances the Commission has elected to bifurcate hearings between revenue requirement and cost-of-service/rate design.



## GRC: Parties

- The Division of Public Utilities (DPU) and Office of Consumer Services (OCS) have “automatic” status as interveners in the case.
- Both the DPU and OCS closely scrutinize the information provided by the utility and file extensive discovery to acquire additional information not supplied by the utility in its initial filing.
- Other interveners in the case may include industrial, consumer, and environmental groups.



## GRC: Phases

- **Revenue Requirement:** determines the total dollar amount that can be collected from customers. Often the depreciation rates are addressed in a separate proceeding. Sometimes the allowed rate of return is determined in a separate sub-phase of the general rate case.
- **Cost of Service/Rate Design:** determines how the costs are allocated to and collected from the different classes of customers
  - Costs are allocated based on “cost causation” (how much it costs to serve different types of customers).
  - OCS represents residential and small commercial customer in this phase of the case. (For RMP, these customers are the residential classes – Schedules 1 - 3, small commercial – Schedule 23, irrigators - Schedule 10.)
  - Rate design elements include: monthly customer charges, volumetric rates (i.e. per kwh or dth) and for larger customers include demand charges and other administrative charges.
  - Different customer classes have different rate designs.
- General Rate Cases set base rates while other proceedings set other rate elements which are added to base rates to comprise the total bill.
  - Energy Efficiency, Energy Balancing Account, Wildland Fire Balancing Account, REC Balancing Account





## GRC: Revenue Requirement Calculation

- The Revenue Requirement is set as follows:
  - Determine appropriate test period
  - Determine allowed and appropriate level of expenses
    - Includes most currently allowed expenses, sometimes adjusted for inflation and/or known changes
    - Many types of expenses will be forecast if using a forward test period
  - Determine current rate base (consists of all allowed capital investments that currently exist or will go into service during the test year.)
    - Determine the allowed rate of return.
    - Incorporate the appropriate level of taxes and appreciation associated with the current rate base.



## Revenue Requirement: Test Year

- The test year concept represents the period of time used by the Commission to analyze revenue, expense and rate base data for the purposes of determining changes to the level of revenue requirement.
- The objective is to select a test year that best reflects a utility's expected conditions in the rate effective period.
  - Alternatives include: historic (use known costs from a recent, representative year), historic plus known and measurable changes, future (forecast the costs for a year that closely matches when new rates will go into place) or a combination of future and historic.
  - Utah allows up to a 20-month forward test period.
- Since 2006, the Commission has relied on a future test year for setting revenue requirement
- Because of a several year period during which test periods were hotly contested, Commission rules require that utilities file its proposed test period with accompanying supportive testimony at the time that the notice of upcoming rate case is filed. The test period is then decided before the case is filed and the 240 day timeclock begins.



## Revenue Requirement: Expenses & Rate Base

- **Operating Expenses** include fuel for generation plants, purchased power and transmission services, plant maintenance, taxes, depreciation and labor costs.
  - Some types of expenses aren't allowed in rates: corporate advertising, charitable giving
  - Forecasts, especially those including escalation of costs, are reviewed for reasonableness
  - Appropriate salary and bonus levels are examined based on industry standards and bonus criteria
  - Net power costs are projected and set in the general rate case, but trued up annually in the EBA cases.
- **Rate Base** (i.e. capital investments) are carefully reviewed to ensure that investments are prudent and appropriately meet ratepayer needs.
  - Are investments necessary to serve customers?
  - Are investments least cost considering risk?
  - Are costs associated with investments consistent with industry standards?
  - Will the investments (i.e. resources) be in service during the test period?



## Revenue Requirement: Rate of Return

- Utility Earnings - The Commission typically updates a utility's rate of return in each general rate case based on detailed financial analysis submitted by expert witnesses.
- The financial analysis looks at actual costs of obtaining capital, the actual capital structure (how much debt and equity) in comparison to the appropriate capital structure to minimize ratepayer costs.
- In addition to recovering the capital costs, utilities are allowed to make a certain level of profit for its shareholders.
- Rates are set by including a return component, which is calculated by multiplying the rate base by the allowed rate of return. This represents the Company's profit level. If a utility's earnings exceed its authorized return, then regulators may initiate a rate case to reduce rates.

# GRC: Rate Design Principles

- **Fairness:** Try to minimize inter and intra class subsidies. No undue discrimination. Treat similar customers the same and different types of customers differently.
- **Cost Causation:** Set rates based on the actual costs incurred to serve customers in part to send appropriate price signals.
- **Efficiency:** Aim to design rates to result in an efficient use of resources.
- **Stability:** Minimize rate shocks or unexpected changes to rates.
- **Revenue Collection:** Effectively collect the utility's revenue requirement while avoiding significant over or under collection of revenues from individual classes.
- **General Attributes:** simplicity, understandability, feasibility of application and interpretation.

Rate design often involves balancing competing goals.



## GRC: Cost Allocation

- Class Cost of Service Study A utility prepares a COS Study in each general rate case for purposes of allocating any change in revenue requirement among customer classes.
- The results from the COS Study indicate:
  - Whether individual classes provide sufficient revenue to cover allocated costs; and
  - What level of rate change is necessary to bring a class closer to the costs of serving that class.
- The underlying assumptions of a utility's COS Study are often challenged by parties and changes to the study may be proposed for adoption by the Commission.



## GRC: Rate Spread

- The COS results, along with the ratemaking principles set forth above, are used by parties as a guide to develop rate spread proposals and by the Commission to make rate spread decisions,
- A fundamental ratemaking objective is to ensure that each class receives a rate change that moves it closer to cost-of-service. If a particular class's forecasted test year revenue is below the expected cost to serve, then the Commission may decide to give that class a disproportionately higher rate increase to move it in the direction of cost-of service.
- Rate spread can be a hotly contested area that pits the OCS, who represents residential and small commercial customers, against intervener groups representing large commercial and industrial classes.
- At times, the OCS must carefully balance the interests of the different customer classes we represent.



## GRC: Rate Design

- After the revenue increase is spread to the individual classes, it needs to be collected from customers through specific charges on monthly utility bills.
- A little science, a bit of art, and a long run view is required to develop effective rate design proposals that will send proper price signals to customers regarding their use of energy. Often a rate analyst will attempt to balance key ratemaking principles, but the maxim that “costs should follow causation” is the cornerstone of setting proper utility rates.
- DEU rate elements are primarily the monthly Basic Service Fee and the volumetric rate. (Specialty rate classes contain different types of rate design.)





## Conclusion

- The general rate case involves several different types of technical expertise. The OCS will assemble a team of internal and external experts.
- Questions?



# Closed Session

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Pursuant to Utah Code Section 52-4-205 (1)(c):  
*Strategy sessions to discuss pending or reasonably  
imminent litigation*



# Questions/Discussion

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# Other Business/Adjourn

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