



**Course length:** 2.5 hours    **Cost:** \$295-\$350\*  
**Prerequisites:** None    **Subscription:** 2-12 months  
**CPE credits:** 2 (see website for more details)

### An uncomplicated study of regulated utilities and the unique way in which they earn a profit

A surprising number of utility employees do not understand how their utility makes money! How Utilities Make Money explains the basics in simple and easy-to-understand terms. This learning path introduces basic financial concepts for a non-regulated company (a lemonade stand) and then compares these concepts to those that apply to a regulated utility. The learning path also explains the basic concepts of utility regulation, why a utility operates under rules different from non-regulated companies, and how rates are set such that the utility has the opportunity to collect enough to cover expenses as well as a reasonable return on its equity. Included are practical examples and exercises to help learners understand basic financial concepts and the unique way in which utilities earn a profit.



\* Please contact us for bulk discounts and site license pricing.

### WHO WILL BENEFIT FROM THIS COURSE?

- Any employee who works for a regulated utility or anyone needing to learn the basics of how utilities make money
- Employees of companies providing services to utilities who need a better understanding of a utility's business motivations

### WHAT PARTICIPANTS WILL LEARN

- How non-regulated, competitive companies create revenue, earnings and return on equity investment
- Basic utility concepts such as revenue, earnings, rate of return, capital, and depreciation
- How and why the utility industry is regulated
- How regulated utilities create revenue, earnings and return on equity
- How utility earnings can exceed or fall short of what the regulator authorizes

### COURSE AGENDA

#### Business Basics for Competitive Companies

- Capital expenditures vs. expenses
- Sources of capital
- The concept of debt/equity (capital structure)
- Pricing for non-regulated companies
- What are earnings?
- How does a non-regulated company measure success (concept of return on equity)
- How a non-regulated company can increase earnings

#### How and Why Utilities Are Regulated

- What is regulation?
- How regulation affects utility earnings
- Who are state and federal regulators
- The regulatory compact
- Functions and goals of regulation

#### Business Basics for Regulated Utilities

- Why capital investments are important to utilities

- Utility expenses and why they are important to distinguish
- Sources of capital
- Pricing (rates) for regulated utilities
- How revenues and earnings are calculated
- Utility return on equity
- Why a regulated utility is different from a non-regulated, competitive company

#### How Utility Rates and Earnings Are Determined

- Cost-of-service ratemaking concepts
- Rate base
- How depreciation affects the value of utility rate base
- Not all investment goes into rate base
- Rate of return and how it is set in a cost-of-capital proceeding
- What is fair and reasonable return on equity (ROE)?
- How rates are set
- Details of the regulatory process
- The revenue requirement and how it is allocated among customer classes and charge types
- Incentive regulation (performance-based and market-based)

#### How Utilities Can Exceed or Fall Short of Authorized Earnings

- Earnings and expenses
- How energy deliveries affect revenues
- The role of capital investment in rate base and authorized ROE in utility earnings
- How utilities can earn extra profit by offering additional services
- Incentives
- Cost of debt
- Decoupling
- How earnings can be increased under cost-of-service ratemaking
- Earnings risks for utilities
- Example of how utility earnings are calculated

