



**Course length:** Four hours (two sessions can be presented in one day)

**Prerequisites:** None

**CPE credits:** 4

## An uncomplicated look at utility ratemaking

One of the most important factors in utility earnings is ratemaking. And as the utility industry evolves with growth of renewables, distributed energy resources, electric vehicles, and active customers, rate design is becoming an increasingly important issue. How Your Utility Sets Rates is customized to your utility and takes an uncomplicated look at the often complex process of ratemaking for a regulated investor-owned utility. Participants will learn the principles behind utility ratemaking and how this process can impact customers, system reliability and safety, future investments opportunities, and company earnings.



## WHO WILL BENEFIT FROM THIS SEMINAR?

- Future utility leaders
- Utility employees from departments such as operations, engineering, information technology, and customer service who do not fully understand the ratemaking process
- Virtually any utility employee who could benefit from a better understanding of how their company sets rates
- Utility business partners who need to better understand how the utility business functions

## WHAT PARTICIPANTS WILL LEARN

- The fundamentals of cost-of-service ratemaking
- Revenue allocation
- How the revenue requirement is determined and adjusted between rate cycles
- The principles of rate design
- How ratemaking impacts your customers and your company, plus what to expect in the future

## COURSE AGENDA

### Introduction (30 minutes)

- Welcome
- Why ratemaking is fundamental to your business
- The rate balancing act
- The key questions that ratemaking must answer
  - How much revenue?
  - Who should pay what portion of the revenue?
  - How are rates designed to collect revenues
- Forces changing the business and how they may impact future ratemaking

## Fundamentals of Cost-of-Service Ratemaking and Revenue Allocation (30 minutes)

- Foundational principles for rates
- Key concepts including Just and Reasonable, Good Utility Practice, balancing multiple priorities
- The concept of cost-of-service ratemaking
- The eight steps to setting rates
- Alternatives to cost-of-service (performance-based, market-based)
- Overview of your company's rate proceedings schedule and how regulatory lag is addressed
- Key intervenor groups and their influences (groups will be assigned a role for case studies)

## Determining the Revenue Requirement (1 hour)

- What the revenue requirement is and why it is important
- Establishing rate base (capital cost, depreciation, allowance for funds used during construction, other components such as working capital and deferred taxes, looking at your company's historic and forecast rate base)
- Determining the cost-of-capital (debt, equity, preferred equity, debt/equity ratios)
- Forecasting usage and expenses (test year expenses, forecast usage and other rate determinants, key cost drivers for your company)
- Depreciation (what it is and how it is determined)
- Taxes (including actual taxes versus taxes for ratemaking purposes)
- Adjusting the revenue requirement between rate cycles
  - Incremental adjustments to capital and expense
  - Revenue decoupling
  - Formula ratemaking adjustments
- Calculating the total revenue requirement





## Revenue Allocation (30 minutes)

- Why allocating the revenue requirement to customer classes is important
- Revenue allocation methodologies
- Revenue allocation at your company

## Rate Design and Rate Calculations (1 hour)

- Rate design principles
- The issue of fixed costs and usage-based rates
- Considerations in determining charge types (fixed/ customer charges, demand charges, usage charges) and allocating revenues to charge types
- How fixed charges are structured
- How demand charges are structured
- How energy charges are structured
- Rates for paying distributed resources
- Calculating rates
- How supply costs are handled
- Differences in FERC and state ratemaking
- How performance-based ratemaking differs from cost-of-service
- Overview of rates for your company

## How Ratemaking Impacts Your Company and Possible Future Changes (30 minutes)

- How ratemaking impacts company earnings and risk profiles
- Pressures on the current cost-of-service model
- Possible future revenue streams for utilities
- How business changes may impact ratemaking
- Current future-based regulatory initiatives affecting your company
- Discussion: What are most the most significant rate issues for your company?

