



Course length: One day

Prerequisites: None

CPE credits: 8

A customized study of ratemaking and how it is changing to meet the evolving utility business model

This applied workshop provides a forum for utility leaders to solidify their understanding of ratemaking principles and how they have been applied to their utility, and to explore changes to ratemaking that may result from the current industry evolution. This seminar addresses the utility's key rate issues and the principles that regulatory commissions apply when making rate decisions. Participants will explore how ratemaking is evolving and how this evolution can provide new earnings opportunities. Activities throughout the day will allow participants to discuss key issues and explore possible future strategies and outcomes. Note that this seminar is applicable to gas utilities, electric utilities, and dual commodity utilities and will be adjusted based on your utility's business.



WHO WILL BENEFIT FROM THIS SEMINAR?

- Vice presidents at utilities who are not directly involved in ratemaking
- Utility directors, managers and supervisors identified as future leaders
- Similar leaders at holding companies with investments in utilities
- Leaders from companies that provide services to utilities and interact with utility executives and/or regulatory commissioners

WHAT PARTICIPANTS WILL LEARN

- The key drivers that impact customer rates
- How rates impact customer groups, other stakeholders, and utility shareholders
- How the General Rate Case process is applied to your company including cost of capital, rate base, the revenue requirement, class allocation, setting rates, and rate adjustments between cases
- Details on the rate design process
- Details of current rate issues at your utility and the potential effects of different outcomes
- Possible future adjustments to the cost-of-service model and new earnings opportunities

COURSE AGENDA

Introduction

- Visioning a future grid
- How evolution may impact ratemaking

Fundamentals of Cost-of-service Ratemaking and Revenue Allocations

- Foundational principles for rates including James Bonbright principles
- Key concepts including Just and Reasonable, Good Utility Practice, balancing multiple priorities

- Overview of your company's rate proceedings schedule and how regulatory lag is addressed
- Risks for your company associated with ratemaking
- Overview of the ratemaking process
- Alternatives to cost-of-service ratemaking (performance-based, market-based)
- Key intervenor groups and their influences (groups will be assigned a role for case studies)
- Case Study: Identify three top issues for your intervenor group

Determining the Revenue Requirement

- 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)
- Case Study: Your company's capital plan, intervenor group positions on capital spending
- 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)
- Calculating the total revenue requirement
- Case Study: Intervenor positions in a general rate case

Revenue Allocation

- Why allocating the revenue requirement to customer classes is important
- Revenue allocation methodologies including cost-of-service studies and cost drivers per customer class
- Revenue allocation at your company
- Case Study: Intervenor group position on class allocation





Rate Design and Rate Calculations

- 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
- Alternative structures for fixed charges (non-grid costs, grid costs)
- Alternative structures for demand charges (measurement period, coincident vs. non-coincident)
- Alternative structures for energy charges (interruptible, low-income, multi-block, seasonal, time-of-use, critical peak pricing, real-time pricing)
- Rates used to pay distributed resources (net metering, avoided-cost, feed-in-tariff, value-of-solar, distributed LMP)
- 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
- Case Study: Applying rate design to a key issue your company is facing and how intervenors are likely to react to company proposals

Utility Earnings

- How your company makes money based on cost-of-service principles
- How other ratemaking methods such as performance-based impact your company's earnings
- How actual results fluctuate from rate case forecast
- The principle of decoupling and how it applies to your company
- Disallowances, fines, compliance issues
- Key factors that impact your company earnings year-to-year
- Key earnings risks for your company

- Discussion: What is likely to have the greatest impacts on your company's earnings in the next decade?

The Future – Partially Beyond Cost-of-Service?

- Implications of a world of growing distributed energy resources plus uncertain future demand/usage
- Pressures on the current cost-of-service model
- Future concepts that may evolve cost-of-service ratemaking (shared savings incentives, U.K.-style RIOO, New York REV concepts)
- Possible future revenue streams for utilities
- Potential new business models for utilities
- Current future-based regulatory initiatives affecting your company
- Discussion: What are most the most significant rate issues for your company?

Note on Activities: Case studies on key issues are included throughout the day. For each case study, an explanation of your company's current position will be provided. Participants in groups will be assigned a specific intervenor group to represent throughout the day. At each case study, groups will develop a position on the issue from the perspective of their assigned group and will present this in response to your company's position.

