

Introduction to the North Carolina Utilities Commission, Ratemaking and Cost Recovery

Presentation to the **Environmental Review Commission**

April 22, 2014

Chairman Edward S. Finley, Jr. North Carolina Utilities Commission

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NORTH CAROLINA UTILITIES COMMISSION

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Regulation of Public Utilities

- Purpose: protect the public's interest in receiving adequate utility service at reasonable rates.
- Traditional regulatory bargain: utilities exchange benefit of monopoly franchised service territory for obligation to provide adequate service to the public at reasonable rates.
- Commission's regulatory obligation: to be fair and reasonable to public utilities and their customers.
- Commission's regulatory tools:
 - certification of new facilities
 - rate establishment or review
 - service quality oversight
- Recent trends: regulation of certain utility industries and services by the Commission has become more complex due to changes in State and Federal law and rules, and industry trends. Certain utility services have been fully or partially deregulated.

- NCUC Organization
- Administrative agency under the auspices of the General Assembly; legislative oversight by House Public Utilities and Energy Committee, Senate Commerce Committee, and Joint Legislative Commission on Governmental Operations.
- Seven members: appointed by Governor, subject to confirmation by General Assembly. Terms of five Commissioners now serving are staggered, remaining portions of eight-year terms. Terms of two most recently appointed Commissioners are six-year terms. (G.S. 62-10)
- Chairman: appointed by Governor, four-year term, organizes Commission's work. Ex officio member of Geographic Information Coordinating Council. Membership responsibilities currently shared among Commissioners. (G.S. 62-12,13)

Regulated Entities

(As of 3/31/13)

	<u>QTY</u>
BUS / BROKER	19
ELECTRIC	5
ELECTRIC COOPERATIVES	31
ELECTRIC MERCHANT PLANTS	8
ELECTRIC RESELLER	7
FERRIES	, 17
NATURAL GAS:	17
- LOCAL DISTRIBUTION COMPANIES	5
- INTRASTATE PIPELINE	1
MOTOR CARRIERS OF HOUSEHOLD GOODS	255
SMALL POWER PRODUCERS	281
TELEPHONE:	201
COMPETING LOCAL PROVIDERS	173
INCUMBENT LOCAL EXCHANGE COMPANIES	16
LONG DISTANCE CARRIERS	306
PAYPHONE SERVICE PROVIDERS	67
SHARED TENANT SERVICES	19
WATER / WASTEWATER RESELLERS	872
WATER / WASTEWATER	119
TOTAL	2,201

Ratemaking Authority



The Commission has Ratemaking Authority pursuant to several sections of the Public Utilities Act, for example:

G.S. 62-130(a)-

"The Commission shall make, fix, establish or allow just and reasonable rates for all public utilities subject to its jurisdiction."

G.S. 62-131(a) -

"Every rate made, demanded, or received by any public utility, or by any two or more public utilities jointly, shall be just and reasonable."

G.S. 62-133(a) –

"... the Commission shall fix such rates as shall be fair both to the public utilities and to the consumer."

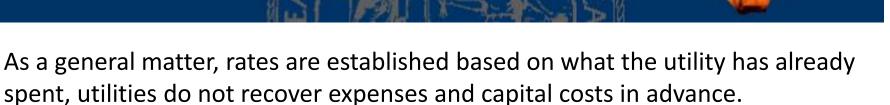
Ratemaking Overview



Revenue Requirement is determined as Expenses + (Rate Base x Rate of Return)

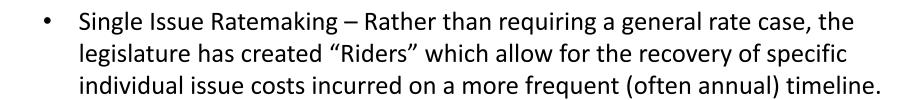
- Expenses can recover reasonable and prudent expenses, based on a modified historical test year.
 - Payroll, taxes, maintenance, depreciation
- Rate Base depreciated value of the property on which a utility may earn a rate of return.
 - "Used and useful" -Power plants, transmission and distribution lines, etc.
- Rate of Return % return that utility may earn on invested capital, including debt and equity investments.

Ratemaking Overview (cont.)



- Exceptions:
 - ❖ Federal Nuclear Waste Policy Act a per-kilowatt-hour fee has been imposed to pay for used fuel management and disposal (no such legislation for Coal disposal).
 - ❖ A reserve has also been established for nuclear plant decommissioning.
 - ❖ Deferral for storm cost recovery.
- Typically, return is earned on capital investment (rate base), and operating expenses are simply recovered. A test year is used in a general rate case to determine typical expenses.
 - Test year serves as a proxy for the anticipated level of expenses when the rates will be in effect.

Non-Traditional Ratemaking



Examples:

- ❖ G.S. 62-133.8 Renewable Energy/Energy Efficiency Portfolio Standard Rider (Electric Utilities)
- G.S. 62-133.2 Fuel Rider (Electric Utilities)

Non-Traditional Ratemaking (cont.)



Clean Smokestacks Act – G.S. 62-133.6

- Utilities were earning in excess of their approved rate of return, needed a general rate case to remedy.
- Significant environmental compliance costs were anticipated so as to comply with proposed air emission standards.
- The legislation allowed utilities accelerated recovery of costs to comply with new emissions standards (G.S. 143-215.107D) over seven year period.
- Base rates were frozen for a five year period.

Ratemaking – Reasonableness Standard

What is considered a reasonable and prudent cost for recovery?

Examples from most recent Duke Energy Carolinas, LLC, rate case - Docket No. E-7, Sub 1026:

- Examples of costs included in approved rates:
 - Cliffside Power Plant capital costs
 - Employee compensation
 - Regulatory Fee
 - Educational Advertising
- Examples of costs excluded from approved rates:
 - Country club memberships
 - Political contributions
 - Public Relations/Goodwill/Image Advertising

Questions/Contact

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Contact:

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