

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

Who We Are



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:	
– LOCAL DISTRIBUTION COMPANIES	5
– INTRASTATE PIPELINE	1
MOTOR CARRIERS OF HOUSEHOLD GOODS	255
SMALL POWER PRODUCERS	281
TELEPHONE:	
– 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	<u>119</u>
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



Rates are fixed pursuant to the procedure and criteria established in G.S. 62-133

Revenue Requirement is determined as $\text{Expenses} + (\text{Rate Base} \times \text{Rate of Return})$

- 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.)



- As a general matter, rates are established based on what the utility has already spent, utilities do not recover expenses and capital costs in advance.
 - 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



- Single Issue Ratemaking – Rather than requiring a general rate case, the legislature has created “Riders” which allow for the recovery of specific individual issue costs incurred on a more frequent (often annual) timeline.
 - 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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