

OREGON

Public Utility Commission

Managing the Modern Utility Rate Case Conference

Regulators View of the Most Pressing Rate Case Issues



Public Utility Commission of Oregon
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Regulators View on Ratemaking: The Regulatory Paradigm

- **Utility and its shareholders entitled to an opportunity to:**
 - Recover reasonably expected and prudent expenses
 - Achieve a fair return on their investment
- **Fair return on investment = what investor would receive from other investments with comparable characteristics and business risk**
- **Underlying assumptions will be wrong in any given year, but should level out over time**

Rate Case Issues are Increasingly Complex and Controversial

- **Power Costs and Resource Additions**
- **Employee Benefits**
- **Rate of Return**
- **Other Issues**

Power Costs and Resource Additions

Prudence of Resource Decisions

- **Ensuring Consistency with Acknowledged Integrated Resource Plans – or reasons why not**
- **Did utility perform adequate risk assessments?**
 - Portfolio risk (Diverse mix of supply-side and demand-side resources)?
 - Fuel risk?
 - Environmental risk (e.g., future CO₂ costs, other potential costs)?

Power Costs and Resource Additions:

Significant Recent and Potential Increases in Cost of:

- Fuel
- Environmental Compliance
- Hydro Relicensing

Power Costs and Resource Additions:

Effect of Power Cost Adjustments (PCAs)

- **Portland General Electric and PacifiCorp annually adjust power costs prospectively**
- **To date, no mechanism for true-up of power costs**
 - Setting baseline more contentious
- **Staff and consumer groups increasingly challenge utilities' power cost modeling**

Power Costs and Resource Additions:

Rate Treatment of Hedging Activities

- Costs traditionally included in rates at 100% when power costs updated
- Hedges transfer power cost risk from utility to customers
- Some parties support sharing of hedging costs, gains and losses with shareholders
- Uncertain how sharing of hedging would influence utility actions

Employee Benefits: Pensions

- Traditional defined-benefit versus lower-cost defined contribution plans
- Recent years' volatility and increases in pension expense
- More challenges to actuarial assumptions
- Larger variations in pension expense may result in more frequent rate filings or requests to track (through deferred accounting)

Employee Benefits: Health Insurance

- Pressure to set customer rates assuming utility will have employees pay larger share
- Difficult to forecast plans' cost changes for future test period

Rate of Return: How to Assess Risk Reduction of Rate Recovery Mechanisms?

- Traditional deferred accounting
- Annual power cost adjustments (with or without true-up)
- Decoupling/distribution margin and weather normalization adjustments

Other Issues: Treatment of Retired Plant

- Oregon law (ORS 757.355) interpreted by Court of Appeals to prohibit return on undepreciated plant retired from service
- Implications and incentives for other investment

Other Issues: Income Taxes

- **New 2005 Oregon law (SB 408) requires true-up of taxes collected with Taxes Paid that are properly attributed to regulated operations**
- **ORS 756.040 – Hope Standard still applies**
- **What does law require or allow for setting income taxes in general rate case?**

Other Issues: Pre-rate Case Audits

- **PUC re-established audit program and formed audit team in 2002**
- **Timely audits identify potential rate case issues, recommendations and adjustments**
- **Areas include abnormal expenses, non-utility revenues and costs, and allocation issues**