



PUBLIC MEETING

Utah Committee of Consumer Services

May 21, 2019



Welcome & Business



Case Updates



DEU Voluntary Renewable Natural Gas Program



Overview of Proposed Program

- Customers from any customer class can voluntarily sign up for “blocks” of renewable natural gas
- Each block is one therm and will start out priced at \$4
- The costs of the program will be tracked separately
- Program revenues will be used for:
 - Purchasing the green attributes of renewable natural gas to cover all quantities subscribed
 - All administrative costs of the program
 - To the extent funds remain, they can be used for “qualifying initiatives”
- Qualifying initiatives could include:
 - Purchasing additional renewable natural gas
 - Investment in renewable natural gas infrastructure
 - Investment in energy efficiency projects for non-profit or governmental customers



DEU Statement of Benefits

- DEU primarily touts the “positive impact on environment” as the benefit of this program
 - Support the local and national development of Renewable Natural Gas while helping avert escaping methane from going into atmosphere (i.e. – reduce GHG emissions, methane is 25 times more potent than CO2)
 - “Customers will have a new the opportunity to support the development of a sustainable future”
 - “All customers would benefit from reduced methane emissions and sustainable renewable energy.”
 - Improved air quality (avoid flaring of methane emissions)
- There are sources of pollution in the state that could be reduced by increasing biomethane production.
- Provides new options for customers to meet their environmental goals.



OCS Initial Analysis

- OCS generally supports providing utility customers options so long as the options do not shift costs to non-participating customers
- OCS has identified some potential concerns:
 - Is the messaging clear or could customers easily misunderstand some aspects?
 - Is the tariff specific and clear enough in defining the program?
 - The program has little to pattern after. DEU references other programs across America, but only 5 have been proposed and only 3 are in operation (one filed in 2018 but still in the regulatory process and is facing opposition, one recently filed in 2019)
 - DEU references a potential market for this product, but has only done limited market studies or customer surveys to understand what quantity might be demanded
 - Environmental benefits might be ambiguous – (1) if methane emissions are being decreased in areas of attainment, while the use/combustion of RNG is in areas of non-attainment, (2) use of Green Attributes
- OCS has sent out data requests to obtain more information and will continue to analyze the program in preparing its comments and recommendations.



OCS Concerns

- Potential messaging concerns:
 - It isn't clear that customers will understand the magnitude of costs for this program -- \$4/therm compares to average commodity costs of \$3.21/dekatherm (March 2019 Pass-Thru filing). 1 dekatherm = 10 therms. Average annual customer usage = 80 dekatherms. 100% RNG = additional \$3,200 annually.
 - DEU claims RNG is similar to Rocky Mountain Power's Blue Sky program despite major differences between the two industries (e.g. characterization of a "block", magnitude of pricing differential, no certification for RNG vs. transparent certification and tracking of electric Renewable Energy Credits, no clear RNG market vs. clear trading market for RECs) Note: when Blue Sky started, REC markets were also immature
- Tariff provisions that might be of concern:
 - DEU has up to two years to purchase the RNG or renewable attributes from time of customer purchase
 - DEU has not concluded their RNG RFP so the evidence may be insufficient to justify the initial proposed price of \$4 per therm.
 - DEU does not indicate what percentage of revenue collected ("surplus funds") will likely be used for the "qualifying initiatives"



Questions?

- Discussion of strategy for pending litigation will be addressed in closed session.



General Rate Case Primer



General Rate Case (GRC): Overview

- Cost of service (i.e. cost-based) price regulation for monopoly utilities substitutes for competition found in unregulated markets
- Before a utility can increase rates charged to customers, it must file a general rate case application with the Utah Public Service Commission and obtain the Commission's approval.
- The rate case application is accompanied by the testimony and exhibits of utility witnesses, which represent the utility's evidence supporting its rate proposals.
- The utility has a substantial, legal "burden of proof" to demonstrate that its request for a rate increase is justified.



GRC: Schedule

- A schedule is set shortly after the rate application is filed that governs the information gathering process (discovery), filing of direct, rebuttal and surrebuttal testimony by parties and Commission hearings.
- The Commission has 240 days (8 months) to hold hearings, consider the testimony and recommendations of parties and issue a Report and Order on whether it will allow all, some or none of the requested rate increase.
- Hearings are normally conducted by the Commission over a two-week period, but in certain instances the Commission has elected to bifurcate hearings between revenue requirement and cost-of-service/rate design.



GRC: Parties

- The Division of Public Utilities (DPU) and Office of Consumer Services (OCS) have “automatic” status as interveners in the case.
- Both the DPU and OCS closely scrutinize the information provided by the utility and file extensive discovery to acquire additional information not supplied by the utility in its initial filing.
- Other interveners in the case may include industrial, consumer, and environmental groups.

GRC: Phases

- **Revenue Requirement:** determines the total dollar amount that can be collected from customers. Often the depreciation rates are addressed in a separate proceeding. Sometimes the allowed rate of return is determined in a separate sub-phase of the general rate case.
- **Cost of Service/Rate Design:** determines how the costs are allocated to and collected from the different classes of customers
 - Costs are allocated based on “cost causation” (how much it costs to serve different types of customers).
 - OCS represents residential and small commercial customer in this phase of the case. (For DEU, these customers are all small customers in the GS class.)
 - Rate design elements include: monthly customer charges, volumetric rates (i.e. per kwh or dth) and for larger customers include demand charges and other administrative charges.
 - Different customer classes have different rate designs.
- General Rate Cases set base rates while other proceedings set other rate elements which are added to base rates to comprise the total bill.
 - Energy Efficiency, Infrastructure Tracker, 191 Account (commodity & related costs), CET, Energy Assistance



GRC: Revenue Requirement Calculation

- The Revenue Requirement is set as follows:
 - Determine appropriate test year
 - Determine allowed and appropriate level of expenses
 - Determine current rate base (consists of all allowed capital investments.)
 - Determine the allowed rate of return.
 - Incorporate the appropriate level of taxes and appreciation associated with the current rate base.



Revenue Requirement: Test Year

- The test year concept represents the period of time used by the Commission to analyze revenue, expense and rate base data for the purposes of determining changes to the level of revenue requirement.
- The objective is to select a test year that best reflects a utility's expected conditions in the rate effective period.
- **Test Year Alternatives:** The Commission is statutorily mandated to select from among three test year options:
 - (a) Historical Test Year with known and measurable adjustments;
 - (b) Mixed Test Year reflecting historical and forecasted information;
 - (c) Future Test Year reflecting fully forecasted information.
- Since 2006, the Commission has relied on a future test year for setting revenue requirement,



Revenue Requirement: Expenses & Rate Base

- **Operating Expenses** include fuel for generation plants, purchased power and transmission services, plant maintenance, taxes, depreciation and labor costs.
 - Some types of expenses aren't allowed in rates: corporate advertising, charitable giving
 - Forecasts, especially those including escalation of costs, are reviewed for reasonableness
 - Appropriate salary and bonus levels are examined based on industry standards and bonus criteria
 - Net power costs are projected and set in the general rate case, but trued up annually in the EBA cases.
- **Rate Base** (i.e. capital investments) are carefully reviewed to ensure that investments are prudent and appropriately meet ratepayer needs.
 - Are investments necessary to serve customers?
 - Are investments least cost considering risk?
 - Are costs associated with investments consistent with industry standards?



Revenue Requirement: Rate of Return

- Utility Earnings - The Commission typically updates a utility's rate of return in each general rate case based on detailed financial analysis submitted by expert witnesses.
- The financial analysis looks at actual costs of obtaining capital, the actual capital structure (how much debt and equity) in comparison to the appropriate capital structure to minimize ratepayer costs.
- In addition to recovering the capital costs, utilities are allowed to make a certain level of profit for its shareholders.
- Rates are set by including a return component, which is calculated by multiplying the rate base by the allowed rate of return. This represents the Company's profit level. If a utility's earnings exceed its authorized return, then regulators may initiate a rate case to reduce rates.



GRC: Rate Design Principles

- **Fairness:** Try to minimize inter and intra class subsidies. No undue discrimination. Treat similar customers the same and different types of customers differently.
- **Cost Causation:** Set rates based on the actual costs incurred to serve customers in part to send appropriate price signals.
- **Efficiency:** Aim to design rates to result in an efficient use of resources.
- **Stability:** Minimize rate shocks or unexpected changes to rates.
- **Revenue Collection:** Effectively collect the utility's revenue requirement while avoiding significant over or under collection of revenues from individual classes.
- **General Attributes:** simplicity, understandability, feasibility of application and interpretation.

Rate design often involves balancing competing goals.



GRC: Cost Allocation

- Class Cost of Service Study A utility prepares a COS Study in each general rate case for purposes of allocating any change in revenue requirement among customer classes.
- The results from the COS Study indicate:
 - Whether individual classes provide sufficient revenue to cover allocated costs; and
 - What level of rate change is necessary to bring a class closer to the costs of serving that class.
- The underlying assumptions of a utility's COS Study are often challenged by parties and changes to the study may be proposed for adoption by the Commission.



GRC: Rate Spread

- The COS results, along with the ratemaking principles set forth above, are used by parties as a guide to develop rate spread proposals and by the Commission to make rate spread decisions,
- A fundamental ratemaking objective is to ensure that each class receives a rate change that moves it closer to cost-of-service. If a particular class's forecasted test year revenue is below the expected cost to serve, then the Commission may decide to give that class a disproportionately higher rate increase to move it in the direction of cost-of service.
- Rate spread can be a hotly contested area that pits the OCS, who represents residential and small commercial customers, against intervener groups representing large commercial and industrial classes.
- At times, the OCS must carefully balance the interests of the different customer classes we represent.



GRC: Rate Design

- After the revenue increase is spread to the individual classes, it needs to be collected from customers through specific charges on monthly utility bills.
- A little science, a bit of art, and a long run view is required to develop effective rate design proposals that will send proper price signals to customers regarding their use of energy. Often a rate analyst will attempt to balance key ratemaking principles, but the maxim that “costs should follow causation” is the cornerstone of setting proper utility rates.
- DEU rate elements are primarily the monthly Basic Service Fee and the volumetric rate. (Specialty rate classes contain different types of rate design.)



Conclusion

- The general rate case involves several different types of technical expertise. The OCS will assemble a team of internal and external experts.
- Questions?



Policy Objectives



Closed Meeting

Pursuant to Utah Code Section 52-4-205 (1)(c):
*Strategy sessions to discuss pending or
reasonably imminent litigation*



Other Business



Adjourn
