

ELECTRIC UTILITY REGULATION

Austin City Council

Electric Utility Oversight Committee

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OUTLINE

I. INTRODUCTION

A. Why Regulate?

II. REGULATORY FRAMEWORK

III. COST OF SERVICE RATEMAKING

A. Revenue Requirement

B. Cost Allocation

C. Rate Design

I. A. WHY REGULATE?

- Necessity and monopoly are almost prerequisites of public utility status.
- Monopoly ... market failure to which public utility industries are especially susceptible.
- Natural Monopolies ... a single firm can supply a market at a lower cost than two or three firms can.

I. A. WHY REGULATE?, CONTINUED

- Balancing the competing interests of public utility and utility ratepayers.
- Regulation strikes a balance between the utility's and ratepayers' interests by allowing the utility to present its case for a rate increase while affording ratepayers an opportunity to vet the utility's claim and identify offsetting cost savings, which regulators can use to mitigate the potential increase.

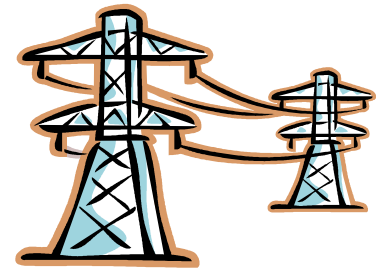
II. THE REGULATORY FRAMEWORK

- Prior to deregulation, utilities were integrated and “bundled.”
- They owned the generation, transmission and distribution, and retail electric provider portions of the business. The state regulated all three.



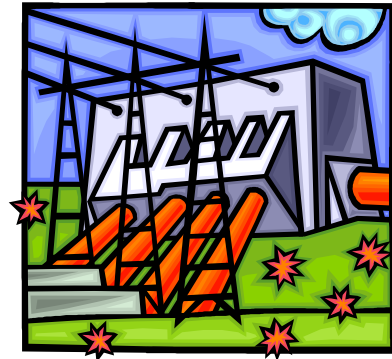
ELECTRIC UTILITY REGULATION IN TEXAS

- The “old world” - Cities and Courts
- “With its strong belief in local self-government, it was not surprising that Texas was the last state to adopt a statewide regulatory system.”
 - Don Butler (1979)
- 1975 - PURA and the PUC
- The “Golden Age” of Regulation: The 70’s and 80’s.



REGULATED UTILITIES

- Areas Outside of ERCOT (rates set by PUC)
 - SPS / Excel
 - Entergy
 - SWEPCO
 - El Paso Electric
 - Fully bundled / Fully regulated
- Co-ops (rates set by Co-op boards)
- Municipally Owned Utilities (“MOUs”) (rates set by city council / appealable to PUC in limited circumstances.)



III. COST OF SERVICE RATEMAKING

A. REVENUE REQUIREMENT / COST OF SERVICE

- Test Year Concept
- Regulatory Lag
- Piecemeal Ratemaking
- Non-Recurring Expenses
- Known & Measurable / PTYAs
- Expenses: Just and Reasonable
- Invested Capital: Used & Useful / Prudence



A. REVENUE REQUIREMENT, CONTINUED

- Recovering the Revenue Requirement.
- Base Rates vs. Power Supply / “Pass Through Rates”
- Tariffs / Riders / Surcharges / Rates / Fees

III. COST OF SERVICE RATEMAKING, CONT.

B. COST ALLOCATION

- Functionalization
- Class Allocation
 - “At Cost of Service”



III. COST OF SERVICE RATEMAKING, CONT.

C. RATE DESIGN

- Designing rates
- Customer Classes
- Weather / Growth Adjustments
- Example:
 - $\$1\text{B} / 1\text{B kWh} = \1 per kWh
 - $\$1\text{B} / 500\text{M kWh} = \2 per kWh
- Special / Discounted Rates

III.C. RATE DESIGN, CONTINUED

AUSTIN ENERGY “PASS THROUGH” RATES

1. Power Supply Adjustment (PSA)
Power Supply / Power Supply Contracts
2. Community Benefits Charge (CBC)
Energy Efficiency Costs
Customer Assistance Program
Service Area Street Lighting
3. Regulatory Charge (RC)
TCOS
ERCOT

QUESTIONS?

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