

Missouri Public Service Commission

Local Public Hearing and
Customer Outreach/Education





Quick Facts

- Commission has 11 months from the date a request is filed to make a decision
- Utility has burden of proof
- Rates are set based on company's prudently-incurred costs
- Rates reflect prior investment in infrastructure

The Decision Makers

- The five-member Commission makes its decision on evidence provided by the **Parties**, which include:
 - The **company** (The applicant)
 - **OPC** (The consumer advocate)
 - **Intervenors** (i.e. Cities, Industrial customers)
 - The **PSC Staff** (A neutral party)





The Decision-Making Process

- Written testimony is submitted by the utility, PSC staff, the Office of the Public Counsel and the other parties
- Facts of a rate case are outlined during formal evidentiary hearings
- Expert witnesses testify and answer questions
- The five members of the PSC weigh the evidence in order to reach a result



Reality – Case Law and Authority

- The Commission has to follow Missouri Statutes, rules and established case law
- Must assure safe and adequate utility service at just and reasonable rates (Authority – Sec. 393.130 RSMo)

Reality -- Case Law and Authority

- The U.S. Supreme Court has ruled that when using cost of service ratemaking, rates are set to provide utility shareholders an opportunity to earn a reasonable return on their investments.





Rate Of Return “Guarantee”?

- **There is no guarantee**
- In some cases, a utility might not actually earn its allowed return





Staff Audit & Review



- PSC Staff performs in-depth, on-site audits of the utility; all records are thoroughly reviewed
- PSC Staff evaluates whether expenditures were prudently incurred in the course of business
- PSC Staff often argues over the disallowance of certain expenses
- Positions presented in “trial type” evidentiary hearings

Examples of Expenses Typically Not Allowed

- Luxury boxes at sporting events
- Country Club dues
- Advertising that does not benefit the customer





Staff Audit & Review



- If PSC staff determines a utility is making too much money, it may ask the Commission permission to file an “over-earnings complaint”
- Case is litigated before the PSC

Setting Rates: Two-Parts

- Revenue Requirement
- Rate Design





Revenue Requirement

Revenue Requirement focuses on four factors:

- (1) The company's reasonable and prudent operating expenses;
- (2) The total investment or "rate base" upon which a return may be earned;
- (3) The accumulated and on-going depreciation of plant and equipment; and
- (4) The "rate of return" or profit the utility has an opportunity to earn



Revenue Requirement

$$RR = C + (V - D) R$$

where:

RR = Revenue Requirement;

C = Prudent Operating Costs, including Depreciation Expense and Taxes;

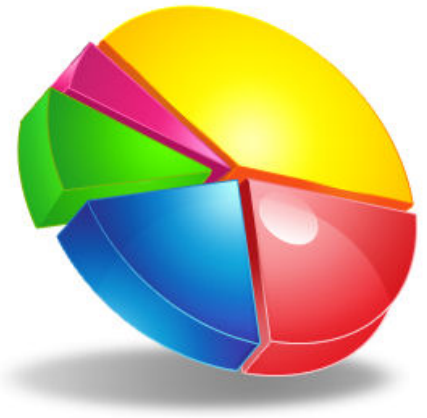
V = Gross Value of Utility Plant in Service (lines, pipes, power plants...);

D = Accumulated Depreciation (Utility collects an amount of depreciation each year on its investments); and

R = Rate of Return (profit the utility has an opportunity to earn)

Rate Design

- When a Revenue Requirement is determined, customer rates are set to recover that money.
- How much of that “pie” should come from residential customers, commercial customers, industrial customers, etc.
- In a rate case, parties may have different views on how the “pie” is sliced.





Agreements Reached

- Parties may meet and settle issues
- Commission must review and approve any agreement
- Commission must ensure that agreement is reasonable and in the public interest



What We Need To Know

- Quality of Service Issues
- Billing Questions
- Customer Service Issues
- Company Disputes



Contact Information



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