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Guest column

Lifting the curtain on utility regulation

Kevin Gunn

The rate-making process for utilities can be complex, and the public often feels left out of the discussion. With a major rate case now beginning for Kansas City Power & Light, I thought I would try to lift the curtain on utility regulation and encourage more citizens to take part.

Missouri uses a time-tested process to set utility rates. As railroads and other utilities were developed more than a century ago, monopolies were the most efficient way to finance and build utility services. A special regulatory system was developed by states and defined by the U.S. Supreme Court to protect consumers against unfair pricing by these now-regulated monopolies.

Since 1913, the Public Service Commission — Missouri's first and oldest state agency — has regulated utility rates. The Public Service Commission is not a consumer advocate — that job falls to the Office of Public Counsel — nor is it an advocate for utilities. The commission, much like a court, is an unbiased and objective tribunal that makes findings of facts and conclusions of law based on the evidence in the record of each case before it.

Ratemaking is a two-step process. First, the revenue requirement must be determined: this is the amount of money the utility requires from retail customers to prudently provide safe and adequate service. The revenue requirement includes four factors: 1) the "rate of return" or profit the utility has an opportunity to earn; 2) the total investment or "rate base" on which a return can be earned; 3) accumulated and on-going depreciation of plant and equipment; and (4) the company's prudent operating expenses.

It is important to note that a return on a utility's investment is not guaranteed profit, but merely the opportunity to earn.

Once the revenue requirement is determined, the second step is to design a rate structure to equitably collect that revenue annually from different classes of utility customers: industrial, commercial or residential. The goal is to match as closely as possible the rates to the cost of providing service to that class.

In deciding cases, the commission takes testimony from parties, including its technical staff of engineers, lawyers and accountants who scrutinize and audit rate requests. Unnecessary or excessive expenses are not allowed.

The law also directs the commission to take into account something beyond hard numbers and accounting schedules; the commission must ensure that utility expenses, plants, services and operations are in the public interest. Input from the citizens themselves is essential to help determine that the public interest is properly served.

To ensure public input into the ratemaking process, local public hearings are held throughout the utility's service area. At these hearings, customers are briefed on the process by PSC staff. Citizens are then given the opportunity to provide sworn testimony that will be entered into the evidentiary record on which the commission will base its decisions in the case.

In this way, the PSC gives every utility consumer the chance to "take the stand" in rate cases, just like expert witnesses or company executives who testify in hearings.

The Public Service Commission regulates only investor-owned utilities. By law, rate cases must be completed in 11 months or less. Decisions by the commission must pass judicial review — they are often challenged in appellate courts — as part of our system of assuring due process.

The PSC strives to sustain the balance between customers and the utilities that serve them. Customers will receive notices in their billing statements about local public hearings regarding proposed changes in their rates and can always contact the PSC at www.psc.mo.gov or by calling (800) 392-4211. The input and participation of everyone is essential to keep that important balance between companies and customers.

Kevin Gunn is chairman of the Missouri Public Service Commission, the state agency that regulates investor-owned utilities.