

# Missouri Public Service Commission

Thank You For Attending  
This Local Public Hearing





# Quick Facts

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- 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

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- 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



# Case Law and Authority

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- 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)

# Case Law and Authority

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- 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.
- Decisions are subject to judicial review





# Rate Of Return

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- Commission sets rate of return (profit)
- Issue is debated
- **No guarantee (opportunity to earn)**
- In some cases, a utility might not actually earn its allowed return

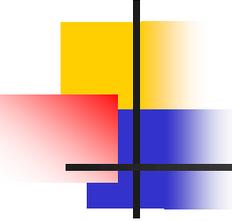




# Natural Gas Rate Cases

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- Rate case is about non-gas costs
  - Operating and maintenance expenses
  - A return on investment in plant (such as mains and service lines that deliver gas to your home)



# Natural Gas Rate Cases

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- Cost of natural gas not part of rate case
  - Makes up approximately 55% to 60% of your total monthly gas bill
  - Wholesale cost of natural gas unregulated
  - Primarily driven by supply, demand and the weather
  - Commission reviews gas purchasing practices of your natural gas company to ensure prudent decisions



# Staff Audit & Review

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- 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

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



# Staff Audit & Review

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- 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

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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

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

where:

**RR** = Revenue Requirement;

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

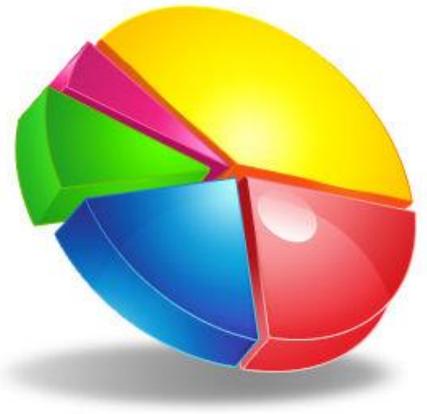
**V** = Gross Value of Utility Plant in Service (lines, pipes, power plants...);

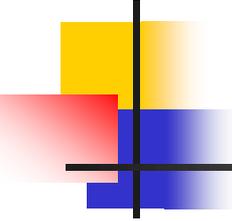
**D** = Accumulated Depreciation (Utility collects an amount of depreciation each year on its investments); and

**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.

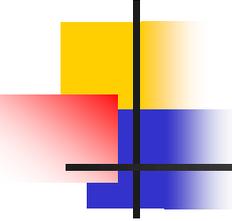




# Agreements Reached

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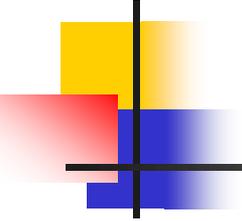
- Parties may meet and settle issues
- Commission must review and approve any agreement
- Commission must ensure that agreement is reasonable and in the public interest



# What We Need To Know

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



# Contact Information

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**1-800-392-4211**



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