

# The Ratemaking Process

When a regulated Missouri utility files for a rate increase, the Commission typically has 11 months from the date the case is filed to make a decision on the proposal. Because the issues are complex, the Commission will suspend the proposed rates to allow for a thorough review. The Commission also hears rate decrease cases where it may consider lowering rates.

Prior to any hearings, the PSC staff — a group of engineers, economists and auditors — will conduct an independent, thorough review of the company's books and records. This can take several months to complete and permits the staff to provide the Commission with a recommendation in the case.

Other parties, such as the Office of the Public Counsel (the ratepayers advocate), consumer groups or industrial customers may also submit recommendations as to what type of rate change, if any, should be granted.

Parties in a rate case meet in a pre-hearing conference to discuss issues in the case. This procedure may help parties reach agreements which settle all or some issues in the case. This frequently results in cases being concluded sooner than the 11-month time period provided by law. The Commission must approve any proposed settlement to ensure that the agreement is a reasonable resolution of the case and in the public interest.

## Two-Step Process

Ratemaking is a two-step process. The first step is to determine the "revenue requirement" — the amount of money the utility should collect from its retail customers each year.

The determination of the 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.

The second step is to design rates that will collect that revenue requirement from the utility's customer classes (i.e., residential, commercial, industrial).

## Local Public Hearings

In some cases, the Commission will hold local public hearings to give the public an opportunity to express its opinion and/or bring any service-related issues to the Commission's attention. Local public hearings are generally held in communities affected by the proposal.

## Evidentiary Hearings

If an agreement in a rate case cannot be reached by the parties, formal evidentiary hearings are held. The utility company has the burden of proof to show its request is reasonable. Testimony is prepared, exhibits are marked, and a court reporter records all proceedings and live testimony. Testimony must address the issues in the case. In most cases, the utility, the PSC staff, the Office of the Public Counsel and any intervenors will present testimony in writing, followed by cross-examination.

The five members of the Missouri Public Service Commission read the written testimony, review exhibits and briefs, hear the cross-examination, ask the witnesses questions and weigh the evidence in order to reach a result.

## Reviewing the Record

After the hearings are completed, a transcript of the case is prepared, and attorneys prepare briefs outlining their positions. The Commissioners review the record and the facts of the case to make their decision.

The Commission will only authorize rate changes that are just and reasonable based on the evidence in the case. The company must be allowed the opportunity to make enough money to meet reasonable expenses, pay interest on debts, and provide a reasonable return to shareholders.

## The Decision

When a decision is made, the Commission announces it through a written report and order. That order is subject to a court review which may be initiated by anyone except the PSC staff.

## For More Information

The Missouri Public Service Commission (PSC) regulates investor-owned water, sewer, natural gas, electric and steam utilities. The PSC also has limited jurisdiction over telecommunications providers in Missouri. The PSC works to ensure Missouri citizens receive safe, reliable and reasonably priced utility services. If you have an inquiry, billing question or service-related issue that your utility provider cannot answer, please call the PSC at **1-800-392-4211** or visit our website at **psc.mo.gov**.



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