SOCIETY OF UTILITY AND REGULATORY FINANCIAL ANALYSTS

50TH Financial Forum

April 20, 2018

Safe, Resilient, Customer-Focused Infrastructure

Welcome

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All comments in this presentation are my own and do not necessarily represent the opinions/positions of the OUCC, the Utility Consumer Counselor, or Governor Eric Holcomb.

Introduction

- Nobody wants to experience service failures that may be caused by inadequate infrastructure. Nobody wants to take the blame for these failures. ESPECIALLY WHEN SAFETY IS A CONCERN.
- But, infrastructure improvements come at a cost that will by borne by ratepayers. Proposals and mechanisms should be challenged if the cost is excessive or the project is unnecessary.
- **Safety and infrastructure needs should not be a blank check.** The need for safe, sufficient and reliable service must be balanced against the cost to ratepayers.

Proliferation of Trackers and Recovery Mechanisms - Examples

- Revenue Stabilization Mechanisms - Decoupling
- Plant Recovery Mechanisms
- Projected/Future Test Years
- Expense Mechanisms
- Infrastructure Replacement Surcharges
- Consolidated Tariffs
- Acquisition Adjustments
- Conservation Programs
- Demand Side Management Programs
- Environmental Compliance

Investment Solutions to Deliver a Positive Customer Experience While Maintaining Balance:

- Why are incentives needed to accomplish added investment?
- Develop consensus on what is included:
  - Utilities tend to want broad definitions
  - Consumer advocates tend to want limited definitions
- Develop consensus on what information the utility will provide upfront:
  - Limited time frames to review proposals
  - Providing information upfront reduces discovery

Maintaining Balance:
(Continued)

- Specific Plans – Expected Results
- Plans – Mechanisms should address stated needs
- Quid Pro Quo: Trackers and other regulatory mechanisms may require the utility to provide information upfront in return for an expedited schedule.
- Review Process – Limited timeframe
  - Very difficult to verify or review reasonableness and prudency of projects and costs in a short timeframe. Transparency is needed.
  - Should unverified costs be subject to future disallowances if found to be overstated or imprudent?

Maintaining Balance:
(Continued)

- Sunset provisions or re-evaluation
- Plans - Mechanisms should not provide unintended or hidden incentives
- Beware of overlapping recovery mechanisms
  - DSICs and Forecasted/Future Test Years
  - Budgeted Rates and Decoupling
  - DSM lost revenue and RAMs
- New legislation and rulemakings may alter existing recovery mechanisms

Regulatory Lag

- Trackers and other regulatory mechanisms are designed to reduce regulatory lag.
- Is there a downside to eliminating all regulatory lag?
- When costs are tracked, there is a reduced incentive to minimize costs.
- General rate cases are still necessary for proper regulation. They offer the only forums for full reviews of all revenues, expenses, and operations.

Impact on Cost of Equity

- Do Trackers and Regulatory Mechanisms Reduce Risk?
  - Yes
  - More Timely Recovery
  - Enhance Earnings
  - Reduce Earnings Volatility
- Should Estimated Cost of Equity be Reduced to Recognize the Impact of Trackers?
  - Generally: No
  - If companies contained in a proxy group have similar trackers; its use should mitigate the need to make an adjustment in most cases
- What's a cost of equity analyst to do?

Conclusions

- There are pros and cons to trackers and other regulatory mechanisms.
- Quid Pro Quo: Make sure you get the Quo
- Time to conduct a thorough review
- Beware of interplay between various trackers and other regulatory mechanisms

Thanks