CURRENT REGULATORY AND RATEMAKING ISSUES
AMERICAN GAS ASSOCIATION ACCOUNTING PRINCIPLES
COMMITTEE MEETING – AUGUST 14-16, 2017
INCLINE VILLAGE, NEVADA

RUSSELL A. FEINGOLD  VICE PRESIDENT
TODAY’S DISCUSSION

• Recent activities by utilities and regulators
• Observed rate case and financial results
• Regulatory highlights in the power industry
• Expectations for the future
RECENT ACTIVITIES BY UTILITIES AND REGULATORS
THE CURRENT STATE REGULATORY LANDSCAPE...

- Streamlining of the regulatory process for both gas and electric utilities continues in a number of states.

- There has been an increase in the number of “limited issue rider” regulatory proceedings (i.e., infrastructure cost recovery, revenue decoupling, rate stabilization).

- Over 60 electric and gas utility rate cases are pending in 30 states.

- Authorized returns on equity for both gas and electric utilities continue to trend slightly downward.

- In a number of states, regulators continue to be very focused on electric utility issues (e.g., value of distributed energy resources, net metering issues, smart grid/AMI deployment, grid modernization).
“STREAMLINING” THE REGULATORY PROCESS

• There is a recognition by all parties that the regulatory process has become much more complex than in the past
  o Maintaining the proper level of regulatory scrutiny and accountability has led over time to a lengthening of the regulatory process – with financial implications for the utility and its customers.

• Ability of the regulator, utility, and its stakeholders to operate within the regulatory process to address and resolve the utility’s various ratemaking and regulatory issues in an efficient and cost-effective manner
  o Can be thought of as a “modernizing” of the existing ratemaking process in order to lower costs to consumers and to ensure the financing and construction of the gas utility’s necessary infrastructure investments.
“STREAMLINING” THE REGULATORY PROCESS – HOW IS IT BEING DONE?

• Approval of *ratemaking trackers* that address particular cost elements that cannot be adequately recognized and reflected in rates through the traditional rate case process

• Approval of *rate of return stabilization mechanisms* or *formula rates*

• Approval of step adjustments through *multi-year rate plans*

• Adoption of *future test years* and more balanced rate base and expense adjustments in rate cases

• The streamlining of the ratemaking and regulatory processes through the fostering of *rate case settlements* and other Alternate Dispute Resolution (ADR) processes
HOW ARE GAS UTILITIES ADDRESSING THE VARIABILITY OF FIXED COST RECOVERY DUE TO CHANGING GAS USE?

1. Weather Normalization Adjustment (WNA) mechanisms that adjust rates for changes in usage caused by weather

2. Revenue Decoupling Mechanisms

3. Straight Fixed-Variable (SFV) Rate Design

4. Rate Stabilization Mechanisms

5. Monthly customer charges that more fully reflect the gas utility’s fixed costs of providing delivery service; and

6. A measure of “normal weather” (other than the 30-year measure of normal weather) that is an accurate predictor of the weather expected by the utility in future years
WEATHER NORMALIZATION MECHANISMS

Source: American Gas Association (As of December 2016)
REVENUE DECOUPLING MECHANISMS

Source: American Gas Association
(As of December 2016)
FLAT MONTHLY FEE RATE DESIGN (SFV)

Source: American Gas Association
(As of December 2016)
INFRASTRUCTURE COST RECOVERY MECHANISMS

Source: American Gas Association
(As of December 2016)
BAD DEBT RECOVERY MECHANISMS

Source: American Gas Association
(As of December 2016)
### ATLANTA GAS LIGHT’S ALTERNATIVE RATE PLAN

- **The Georgia Rate Adjustment Mechanism (GRAM)**
  - Approved in February 2017 – annual earnings review and base revenue adjustment process
  - The GRAM establishes an ROE range of 10.55% to 10.95%, with a target of 10.75% (± 20 basis point band)

<table>
<thead>
<tr>
<th>Rate Decrease</th>
<th>10.95%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Rate Adjustment</td>
<td>10.55%</td>
</tr>
<tr>
<td>Rate Increase</td>
<td>10.55%</td>
</tr>
</tbody>
</table>

- Annual rate adjustments made on a prospective basis
- Revenue True-Ups (RTU): compare actual base revenues to previous base revenue projections
- Established contents of annual filing
- Quarterly financial filings
THE STRUCTURE OF MULTI-YEAR RATE PLANS

(1) As of January 2017

2-Step Rate Plan (18 states)
3-Step Rate Plan (4 states)
Over 3-Step Rate Plan (1 state)
NATURAL GAS ENERGY EFFICIENCY PROGRAMS

Source: American Gas Association
(As of December 2016)
OBSERVED RATE CASE AND FINANCIAL RESULTS
RATE CASE TRENDS
GAS AND ELECTRIC UTILITIES

Completed Utility Rate Cases
2009-2017

Source: S&P Global Market Intelligence and Black & Veatch
Excludes “limited issue rider” regulatory proceedings
RATE CASE TRENDS
GAS AND ELECTRIC UTILITIES

Pending Rate Cases

Source: S&P Global Market Intelligence and Black & Veatch
Excludes “limited issue rider” regulatory proceedings
Filed Rate Cases
(January - April)

Source: S&P Global Market Intelligence and Black & Veatch
Excludes “limited issue rider” regulatory proceedings
RATE CASE TRENDS
GAS AND ELECTRIC UTILITIES

Requested Revenue Increase
Average Per Utility
2009-2017

Source: S&P Global Market Intelligence and Black & Veatch
Excludes “limited issue rider” regulatory proceedings
RATE CASE TRENDS
GAS AND ELECTRIC UTILITIES

Authorized Percentage of Requested Revenue Increase
Average Per Utility
2009-2017

Source: S&P Global Market Intelligence and Black & Veatch
Excludes “limited issue rider” regulatory proceedings
RATE CASE TRENDS
GAS UTILITIES

Return on Equity - Gas Utilities
2009-2017

Source: S&P Global Market Intelligence and Black & Veatch
Excludes “limited issue rider” regulatory proceedings
RATE CASE TRENDS
ELECTRIC UTILITIES

Return on Equity - Electric Utilities
2009-2017

Source: S&P Global Market Intelligence and Black & Veatch
Excludes “limited issue rider” regulatory proceedings
RATE CASE TRENDS
GAS AND ELECTRIC UTILITIES

Authorized Return on Equity
2009-2017

Source: S&P Global Market Intelligence and Black & Veatch
Excludes “limited issue rider” regulatory proceedings
# RATE CASE TRENDS

**GAS AND ELECTRIC UTILITIES**

**Requested Return on Equity**

**January – June 2017**

<table>
<thead>
<tr>
<th>Month</th>
<th>Electric Utility</th>
<th>Gas Utility</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low ROE</td>
<td>High ROE</td>
</tr>
<tr>
<td>June</td>
<td>9.90%</td>
<td>10.00%</td>
</tr>
<tr>
<td>May</td>
<td>9.90%</td>
<td>10.75%</td>
</tr>
<tr>
<td>April</td>
<td>8.40%</td>
<td>10.57%</td>
</tr>
<tr>
<td>March</td>
<td>10.10%</td>
<td>10.50%</td>
</tr>
<tr>
<td>February</td>
<td>9.75%</td>
<td>10.50%</td>
</tr>
<tr>
<td>January</td>
<td>9.80%</td>
<td>10.50%</td>
</tr>
</tbody>
</table>

Source: S&P Global Market Intelligence and Black & Veatch
Excludes “limited issue rider” regulatory proceedings
RATE CASE TRENDS
GAS AND ELECTRIC UTILITIES

Average Authorized Return on Equity
2017 to Date

Source: S&P Global Market Intelligence and Black & Veatch
Excludes “limited issue rider” regulatory proceedings
RATE CASE TRENDS
GAS AND ELECTRIC UTILITIES

Rate Case Lag - File to Completion
2009-2017

Source: S&P Global Market Intelligence and Black & Veatch
Excludes “limited issue rider” regulatory proceedings
RATE CASE TRENDS
GAS AND ELECTRIC UTILITIES

Percentage of Completed Rate Cases Settled
2009-2017

Source: S&P Global Market Intelligence and Black & Veatch
Excludes “limited issue rider” regulatory proceedings
ELECTRIC UTILITY REGULATORY ISSUES
WHAT ABOUT THE ELECTRIC SIDE OF UTILITY REGULATION?

• A growing number of states with “Utility of the Future” initiatives

• Continuing proceedings on pricing of distributed energy resources (DER) and net energy metering (NEM) tariffs (e.g., AZ, NV, NH, CT, MD)

• Ongoing rate recovery of grid modernization and reliability-enhancing investments

• Electric vehicle charging infrastructure and rates (CA, PA, MO, DC, FL, UT)

• Renewable energy tariffs (MN, VA, MI)
“UTILITY OF THE FUTURE” STATE REGULATORY INITIATIVES (1)

(1) As of May 2017
### HOW MANY WAYS CAN WE CHARACTERIZE THE FUTURE OF ELECTRIC UTILITIES?

<table>
<thead>
<tr>
<th>State</th>
<th>Initiative</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York</td>
<td>Reforming the Energy Vision (NY-REV)</td>
</tr>
<tr>
<td>California</td>
<td>The Business Model for the Electric Utility of the Future</td>
</tr>
<tr>
<td>Illinois</td>
<td>NextGrid</td>
</tr>
<tr>
<td>Minnesota</td>
<td>e21 Initiative</td>
</tr>
<tr>
<td>Ohio</td>
<td>PowerForward</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>Investigation into Grid Modernization</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>Electric Grid Modernization Stakeholder Working Group</td>
</tr>
<tr>
<td>Maryland</td>
<td>Utility 2.0 Investigation and Grid Resiliency Task Force</td>
</tr>
</tbody>
</table>
SOME COMMON THEMES IN THESE TYPES OF PROCEEDINGS

• Technological innovations driving change in the power industry (non-wires alternatives, demonstration projects)
  • Smart grid (AMI, distribution automation)
  • Micro-grids, EVs
  • Smart inverters
  • Behind-the-meter and utility scale distributed energy resources (DER)
  • Energy storage

• Market redesign
  • Grid optimization, integration of DER, distribution resource planning

• Rethinking the utility business model

• Regulatory reform
  • Incentivizing behavior through outcome-based rather than cost of service regulation
  • Net energy metering
  • Time-of-use rates
ADDRESSING CHANGES TO THE COST-OF-SERVICE REGULATORY MODEL

• Redefining how utilities can make a profit
  • Flat or declining sales
  • Third-parties making capital investments in the grid (non-wires alternatives)
  • Reduced opportunity for uplift in earnings through growth in rate base – new revenue streams are needed

• A number of regulators are examining Performance-Based Regulation (PBR) as alternative to cost-of-service regulation
  • New York
  • New Mexico
  • Pennsylvania
  • Vermont
  • New Hampshire
  • Rhode Island
  • Michigan
EXPECTATIONS FOR THE FUTURE
THE EXPECTED FUTURE TRENDS IN UTILITY REGULATORY AND RATEMAKING ACTIVITIES

• Regulatory lag and earnings attrition will continue to be addressed through greater adoption of:
  • Future test years
  • Step-rate adjustments
  • Rate cases with multi-test periods

• Higher standards for investment justification will be pushed by utility stakeholders in an attempt to moderate future rate increases.
  • Fully developed business cases
  • Cost-benefit analyses

• Outcome-based utility performance will take on an increasingly important role in rate cases as regulators shift their emphasis from cost of service regulation and growth in earnings through increases in rate base.
THE EXPECTED FUTURE TRENDS (CONT.)

• Performance-Based Regulation (PBR) will likely be adopted by regulators over time as a greater number of performance metrics are incorporated into the ratemaking process.

• The manner in which regulators address the transformational changes occurring in the electric utility market (e.g., NY-REV) will influence how gas utilities are treated for ratemaking purposes.
Building a world of difference.

Together

BLACK & VEATCH

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