Utility Rate Adjustments – General Rate Case Filing

Regulatory Authority

Every state has an agency to perform economic regulation of monopoly providers of essential utility services. In Oregon, it's the Oregon Public Utility Commission (PUC). ORS 757.040 expressly charges the PUC with representing utility customers and the public generally "in all controversies respecting rates, valuations, service and all matters of which the commission has jurisdiction," and to use those powers "to protect such customers, and the public generally, from unjust and unreasonable exactions and practices and to obtain for them adequate service at fair and reasonable rates."

Ratemaking

The PUC sets rates within a reasonable range that protects the competing interests of the utility and its customers. To protect customers, the rates must be set at a level sufficiently low to avoid unjust and unreasonable exactions. To protect the utility investor, the rates must provide sufficient revenue not only for operating expenses, but also for the capital costs of the business. Governmental regulation has implied limits that preserve the private rights of these for-profit businesses. Although subject to regulation, public utilities remain private enterprises.

Once new rates are set, the utility is obligated to charge only the rates approved by the PUC, unless changed by the PUC. This ensures the PUC alone is empowered to judge the reasonableness of rates and prohibits price discrimination by ensuring all 'similarly situated customers' are subject to the same rates, terms, and conditions.

Ratemaking Process

Ratemaking is performed through a quasi-judicial process similar to a civil court proceeding. Multiple parties participate, including the PUC Staff, ratepayer organizations, environmental and social justice communities, and the utility. The proceedings generally characterized by extensive discovery, multiple rounds of pre-filed testimony, legal briefings, and oral argument.

Under Oregon law, a regulated utility may propose to change rates for service with the PUC at any time. For these general rate proceedings, the PUC will conduct up to a year-long investigation to determine if rate changes are warranted by evaluating costs – such as operating amid maintenance, depreciation, cost of capital, and revenues. PUC Commissioners base their decision on the analysis and information provided, and evidence brought forth in the evidentiary hearing process.

The PUC's ultimate goal is to set rates that provide the utility the opportunity to collect enough revenue to recover (1) reasonable operating expenses and (2) to earn a reasonable return on investments it has made to provide service.[1] The rate of return represents the utility's opportunity to earn a profit on investment, but utilities are not guaranteed a fair rate of return.

The ratemaking process allows the PUC to set just and reasonable rates based on a forecast of the utility's revenue needs, but it does not, however, render a precise result. Some estimates of expenses will be too high; others will be too low. The utility absorbs the expenses if they are higher than expected and benefits if the expenses are lower, which gives the utility the incentive to manage its operations efficiently to reduce expenses and attain its authorized return on investment. If actual costs deviate significantly from those estimated in rates, then a utility, the PUC, or a customer may initiate a new rate proceeding.

Is a general rate case the only way customer rates are changed?

No. The PUC has also established mechanisms to require electric and natural gas utilities to annually adjust their rates (increase or decrease) to reflect changes in the actual cost of wholesale energy. Electric utilities do this with an annual Power Cost Adjustment, while natural gas utilities file a Purchased Gas Adjustment. These adjustments are designed to ensure the customer pays only actual commodity costs, with a portion of these costs shared with utility shareholders.

In addition, there are other filings submitted by utilities to the PUC each year that may impact customer rates, such as renewable energy additions and wildfire mitigation costs.

---

[1] To determine how much revenue a utility should be allowed to receive, the PUC uses a standard ratemaking formula generally expressed as R = E + (V-d)r, where

"R" represents revenue requirement

"E" represents allowable operating expenses

"V" represents rate base

"d" represents accumulated depreciation, and

"r" represents the rate of return allowed on the rate base.