
IPUMSU

MICHIGAN STATE UNIVERSITY | INSTITUTE OF PUBLIC UTILITIES Regulatory Research and Education
517.355.1876 | 517.355.1854 fax | ipu.msu.edu | ipu@msu.edu



IPU Ratemaking Course

April 8-10, 2019

A concise and comprehensive introduction to public utility accounting, financing, and pricing to ensure sustainability and protect ratepayers.

Program Agenda - preliminary

Sunday

1:00-5:00 pm **Introduction to Public Utility Regulation [Beecher]**
240 min. Kellogg Center – Room 105
Optional preconference program (separate registration is required).
Recommended for those relatively new to public utility regulation.

Monday

7:30-8:30 am **Registration and Breakfast**
A full breakfast is provided daily at 7:30 am in the Lincoln Room Hallway.
Daily networking breaks are at 10:00 am and 3:00 pm.

8:15-8:30 am **Welcome and Introductions**
15 min. Kellogg Center – Lincoln Room (all sessions)

8:30-12:15 pm **Foundations of Public Utility Regulation and Ratemaking**
195 min. Introduction to the course and case. System capacity and sustainability. Regulatory policy foundations. Jurisdiction for utility rates. Role of accounting. Accounting governance (FASB, GASB). Generally accepted principles and standards. Regulatory accounting vs. GAAP. Uniform systems of accounts (USoA). Financial statements and reports. Regulatory auditing. Ratemaking process and key steps. Revenue requirement formulas (public, private). Test year periods for rates. Standards of review. Case study overview.

12:15-1:30 pm Lunch at the Brody Hall Cafeteria (voucher provided)

1:30-5:15 pm **Balance Sheet, Capital Expenditures, and Rate Base (Capex)**
195 min. Balance sheet overview. Capital planning and asset management. Certificates of need and preapproval. Utility plant in service. Contributed capital (CIAC). Funds for construction (AFUDC, CWIP). Asset valuation. Acquisition adjustments. Asset service lives. Accumulated depreciation. Deferred income taxes. Working capital. Reserve accounts. Regulatory assets and liabilities. Deriving the rate base. Rate case adjustments. Case study exercises.

5:30-6:30 pm **Wine and Cheese Networking Reception**

Tuesday

- 8:30-12:15 pm **Income Statement, Revenues, and Operating Expenditures (Opex)**
195 min. Income statement overview. Water sales by class. Operating revenues. Operating expenses. Disallowed expenses. Depreciation expenses. Reserve funding (TIER). Income and other taxes. Cost-adjustment mechanisms (trackers). System improvement charges. Revenue-assurance mechanisms. Financial auditing. Management auditing. Rate case adjustments. Case study exercises.
- 12:15-1:30 pm Lunch at the Brody Hall Cafeteria (voucher provided)
- 1:30-5:15 pm **Cash Flow, Debt and Equity Financing, and Revenue Requirements**
195 min. Cash-flow statement overview. Funding vs. financing. Utility ownership structures. Corporate governance and accountability. Financial regulation and reporting. Risk factors and disclosure. Capital structure (debt and equity). Debt financing and credit ratings. Equity financing and capital markets. Weighted cost of capital. Authorized rates of return. Risk-based incentives. Role of regulatory lag. Performance-based regulation. Financial ratios. Revenue requirements. Rate case adjustments. Revenue conversion factors. Case study exercises.

Wednesday

- 8:30-12:15 pm **Tariffs, Cost Allocation, Rate Design, and Consumer Policies**
195 min. Rate schedules (tariffs). Full-cost concepts. Wholesale and retail rates. Price elasticity of demand. Price discrimination and subsidization. Cost-of-service studies. Customer classification. Cost functionalization. Fixed and variable costs and charges. Metering and billing. Rate-design alternatives. Sales forecasting and normalization. Revenue-assurance mechanisms. Rate design and risk. Consumer rights and responsibilities. Affordability and assistance. Implementing rate changes. Case study exercises.
- 12:30-2:00 pm **Working Lunch with Wrap-Up Discussion**
90 min. Summary findings for the rate case. Evaluating the regulatory model. Regulatory alternative. Emerging ratemaking issues. Closing discussion.



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Program Faculty



Mr. Danny Kermode (dkermode@wutc.wa.gov) is the Assistant Director for Water and Transportation at the Washington Utilities and Transportation Commission. Mr. Kermode has more than thirty years of accounting experience. Previously, as a Senior Energy Policy Advisor, he reviewed and analyzed technical information and regulatory policy issues while providing advice on current and emerging energy issues. He has been a program faculty member for the Institute of Public Utilities' Annual and Advanced Regulatory Studies Programs. He has worked on a number of international peer-to-peer projects for USAID. Mr. Kermode has appeared as an expert witness in numerous contested cases, presenting financial, income tax, and accounting issues. He has also published several research papers. Mr. Kermode holds a Bachelor of Science degree in Accounting from Arizona State University and is a Certified Public Accountant.



Dr. Janice Beecher (beecher@msu.edu) has served as IPU Director since 2002, bringing more than thirty years of applied research experience to the position. Her areas of interest include regulatory principles, institutions, governance, and pricing and she specializes in the water sector. She is a frequent author, lecturer, and participant in professional forums and Editor of the journal *Utilities Policy* (Elsevier). She co-authored the book *Risk Principles for Public Utility Regulators* (MSU Press). Dr. Beecher is presently serving on the U.S. EPA's Environmental Finance Advisory Board and has served as an appointed advisor to the State of Michigan on infrastructure and water policy. She previously held positions at The Ohio State and Indiana Universities and the Illinois Commerce Commission. She is a faculty member in MSU's Department of Political Science and holds a Ph.D. in Political Science from Northwestern University.

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Program Notes

Internet access

Free internet access is available throughout the Kellogg Center using the login MSUnet Guest.

Accessing program materials

Presentations and supplemental materials are available to all attendees. Please navigate to the attendee link on the program web page and enter the program password: _____.

Submitting questions during the program

Program attendees are encouraged to ask clarifying questions at any time. To queue up a question for speakers from your phone, tablet, or computer, visit www.sli.do and enter event code #_____. Downloading the sli.do app is optional.

Continuing education credits

If you would like IPU-MSU to certify your attendance for continuing education purposes, please complete the personal attendance form and turn it in at the conclusion of the program. IPU programs are NASBA-approved for Continuing Professional Education (CPE) credits in accounting. For Continuing Legal Education (CLE) credits and others, attendees must submit application materials to their certifying body.

IPU will provide a confirmation letter and certificate based on reported attendance and program hours. All attendees will earn credit toward IPU's Certificate of Continuing Regulatory Education. Please visit ipu.msu.edu/ccre for details.

Evaluation forms

IPU is committed to continuous improvement and your feedback is very important to us. Please complete the daily and overall evaluation forms, which can be accessed through the attendee link on the program web page.

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