



# Contemporary Ratemaking

## Fundamentals, Advanced Ratemaking and Hot Topics

### Course Highlights

- The course is a **cost effective, multiple day, onsite training course** for your team, focused on developing, preparing and presenting the best positions on behalf of regulated utilities
- Course instructors and facilitators blend an academic and policy foundation with pragmatic guidance based on decades of ratemaking practice in multiple jurisdictions
- The course includes detailed presentation materials, interactive hands-on exercises and mock rate hearing participation
- Course content covers the following:
  - Fundamentals of economic regulation and division of regulatory authority
  - Strategic implications of the ratemaking process—it's more than changing regulated revenues
  - Traditional ratemaking cost of service, functionalization, classification, allocation and rate design
  - Ratemaking implications of depreciation, deferred taxes, capital structure and cost of capital
  - Cost allocation methods and their impact on resulting rates
  - Alternative rate mechanisms, including decoupling, formula-based rates and straight fixed variable rates
  - Developing and defending specialized rate mechanisms and issue-specific riders
  - Market based rates, system access and standards of conduct

### What Others Are Saying About the MCR Course

"The facilitators were extremely knowledgeable – top notch people who really know the rates area"

"Got me thinking on how much we drive the company's results with our work"

"The best training session I have participated in, great group interaction"

"The case studies were welcome additions to the curriculum"

"I liked the materials provided; they can be used as a reference for the future"

### Who Should Participate?

- Professional staff who are relatively new to rates, regulation and the ratemaking process
- Analysts, accountants, attorneys, engineers, economists and others who support rate case preparation
- Experienced staff who could benefit from a comprehensive review of the ratemaking process and insightful analysis of "leading edge" issues

### Why MCR?

MCR is uniquely positioned to facilitate your *Contemporary Ratemaking* course. Specifically, MCR brings the following qualifications:

- **In-depth understanding of utilities**, including operations, cost of service, rate design and regulatory policy. We effectively engage and lead the nation's best utility operations in cost allocation, finance, capital structure, cost of capital, rate of return, O&M and capital budgeting, infrastructure replacement, rate and rider design, tariff language and rate case preparation and presentation
- **In-depth understanding of the regulatory environment**, ensuring that class participants are well prepared to be effective in any regulatory setting
- **In-depth experience with developing and leading superior rate, regulatory and witness effectiveness programs**, utilizing MCR's established tools and the approaches developed over many years, clients and jurisdictions. Our experience and approach ensure that participants will be confident in their ability to understand and manage the ratemaking process while leading to successful regulatory results
- **An interactive teaching approach** led by seasoned facilitators to convey information in a classroom setting that facilitates interaction and "deep dives" into key topics

**This course is created by utility professionals exclusively for utility professionals, customized to meet clients' needs!**

# MCR's Typical Approach to Contemporary Ratemaking Training

## Fundamentals of Ratemaking

Module		Topics	What You Will Learn
Session 1	<b>Course Introduction: Economic Regulation</b>	Fundamentals of economic regulation Regulatory overview Who regulates what: state and federal jurisdictional splits	<ul style="list-style-type: none"> <li>• Areas of regulation in addition to economic regulation</li> <li>• Reasons for regulated rates</li> <li>• Economic impacts when regulated rates are more or less than fair market value</li> <li>• Industry segments that are and are not under rate regulation</li> <li>• Regulatory bodies that have jurisdiction over industry segments</li> <li>• Evolution of regulation and impacts on industry activity</li> <li>• Current market and regulatory framework</li> </ul>
Session 2	<b>Strategic Ratemaking</b>	Strategic implications of the ratemaking process Using the ratemaking process to influence stakeholders' behaviors	<ul style="list-style-type: none"> <li>• Ratemaking 101 – Mastering the basics</li> <li>• How to use the strategic potential of the ratemaking process to: <ul style="list-style-type: none"> <li>– Achieve stakeholder objectives</li> <li>– Establish goals and ensure corporate alignment</li> <li>– Communicate key messages</li> <li>– Influence customer and competitor behavior</li> <li>– Implement risk management and profit strategies</li> <li>– Reward and penalize performance</li> <li>– Change rates and revenues</li> </ul> </li> </ul>
Session 3	<b>Determining Revenue Requirements, Allocating Costs, and Designing Rates – a federal jurisdictional perspective</b>	Why the federal and state perspectives differ Federal regulatory background Typical federal ratemaking goals	<ul style="list-style-type: none"> <li>• Similarities and differences in ratemaking drivers at the federal and state levels</li> <li>• Statutory and regulatory authority for the Federal Energy Regulatory Commission</li> <li>• Process and timing of a case at FERC</li> <li>• Cost of service, functionalization, classification, allocation, and rate design</li> </ul>
Session 4	<b>Determining Revenue Requirements, Allocating Costs, and Designing Rates – a state jurisdictional perspective</b>	State regulatory background Determining revenue requirements <ul style="list-style-type: none"> <li>• Rate base</li> <li>• Operating costs</li> <li>• Cost of capital</li> </ul> Cost allocation and rate design	<ul style="list-style-type: none"> <li>• Deciding whether to file for new rates</li> <li>• Determining revenue requirements, revenue deficiencies and designing rates for full revenue recovery</li> <li>• Cost of capital issues as they apply to rate design</li> <li>• Components that make up operating expenses</li> <li>• How to adjust historic costs for the recovery period</li> <li>• How to allocate various customer and/or service types</li> <li>• Keys to success in the ratemaking forum</li> </ul>
Session 5	<b>The Van Go Exercise</b>	Calculating rate base and return Calculating cost of service Classifying costs Designing rates Course review	<ul style="list-style-type: none"> <li>• Apply and practice principles from the previous lessons through a practical, hands-on group exercise</li> </ul>
Session 6	<b>Mock Rate Hearings</b>	Practical application of ratemaking concepts Hands-on activities	<ul style="list-style-type: none"> <li>• How the ratemaking concepts are presented as issues in rate cases</li> </ul>

# Advanced Ratemaking & Hot Topics

Module		Topics	What You Will Learn
Session 7	<b>Alternative Rate Mechanisms</b>	<p>Mechanisms to address:</p> <ul style="list-style-type: none"> <li>• Infrastructure</li> <li>• Safety / system integrity</li> <li>• Bad debt</li> <li>• System expansion</li> </ul> <p>Alternatives to true-up adjustments</p> <ul style="list-style-type: none"> <li>• SFV</li> <li>• Rate stabilization plans</li> </ul>	<ul style="list-style-type: none"> <li>• How to design, and successfully advocate for specialized rate mechanisms</li> <li>• How others are using rate mechanisms to meet revenue needs between rate cases</li> <li>• Why volumetric rates do and do not make sense</li> <li>• Variations on mechanism that decouples volumes from revenues</li> <li>• Alternatives to traditional decoupling</li> </ul>
Session 8	<b>Depreciation and Deferred Income Taxes</b>	<p>Establishing useful lives and salvage values ELG and ALG Advocacy positions</p>	<ul style="list-style-type: none"> <li>• Fundamentals of a depreciation study</li> <li>• Typical advocacy positions</li> <li>• Relationship between depreciation expense revenues and earnings</li> <li>• Fundamentals of tax depreciation and deferred income taxes</li> <li>• Bonus depreciation</li> </ul>
Session 9	<b>Cost of Capital Determination</b>	<p>Capital structure Cost of debt Cost of equity</p>	<ul style="list-style-type: none"> <li>• Which capital structure is used</li> <li>• Actual vs. hypothetical</li> <li>• Components of debt cost</li> <li>• Understanding DCF, CapM and other ROE tools</li> </ul>
Session 10	<b>Cost of Service Allocation Methods</b>	<p>Single coincident peak Average and excess peak Twelve coincident peaks Summer/winter peak average Summer coincident peak</p>	<ul style="list-style-type: none"> <li>• Allocate the Company's revenue deficiency calculation to rate classes in a manner that reflects cost causation</li> <li>• Provide jurisdictional split for ratemaking</li> <li>• Functionally split revenue requirements</li> </ul>
Session 11	<b>Generation Issues</b>	<p>Renewables: solar, wind Shale deposits</p>	<ul style="list-style-type: none"> <li>• Analyze power system integration of renewable generation</li> <li>• Assess current transmission expansion plans in light of resources</li> </ul>
Session 12	<b>Ratemaking Implications of Energy Efficiency Initiatives</b>	<p>State of the states Typical program features Rate design issues</p>	<ul style="list-style-type: none"> <li>• Variations of energy efficiency measures that have been adopted in the U.S.</li> <li>• What measures have been targeted to which customer groups</li> <li>• Market potential studies</li> <li>• How to address costs, lost revenues and lost opportunities</li> </ul>
Session 13	<b>It's Your Choice!</b>	<p>Topic of special interest to you!</p>	<ul style="list-style-type: none"> <li>• Q&amp;A session with our experts</li> <li>• Customized session based on your needs</li> <li>• Etc.</li> </ul>

**By the end of this course, participants will have a thorough understanding of basic and advanced ratemaking principals.**

## Course Facilitators

### Cindy Menhorn

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Cindy Menhorn is Vice President of Electric Rates and Regulatory Services at MCR. She has more than 30 years of rates and regulatory experience. Cindy's expertise includes work on over 80 rate cases and testimony before numerous state commissions. She directed a multifunctional rate department by managing all aspects of electric rate case development, including development of revenue requirements, cost of service studies, revenue allocation and rate design, rate case strategy, testimony development and interrogatory response development. She graduated magna cum laude with a Master of Business Administration from Indiana University of Pennsylvania and magna cum laude with a Bachelor of Business Administration with a concentration in Finance from Seton Hill University.

### Ian MacDougall

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Ian MacDougall is a Consultant in the Regulatory Services practice at MCR. He has 15 years of gas and electric utility regulatory experience. Ian's expertise includes work as an analyst and project manager for multiple large gas and electric IOUs, specializing in rate design, alternative ratemaking, cost of service, and cost recovery mechanisms. Ian graduated with a Bachelor of Science from University of Maryland.

### *Other MCR Training Offers*

***Becoming a More Effective Witness***<sup>™</sup> provides a comprehensive approach to developing and refining communication skills by combining classroom instruction, workshop activities and mock hearing experiences. This course addresses the theory, application and practice of effective witness skills and techniques; provides practical guidance to prepare and present every phase of testimony; and focuses on the unique challenges of presenting testimony before a regulatory body.

### *About MCR*

MCR is a national management consulting firm specializing in energy matters. We were founded in 1999 on the principle our clients deserve the industry's best insights delivered through the highest quality and innovative solutions. We are a boutique consulting firm with seasoned professionals providing specialized advice in areas such as rates and regulatory matters, energy efficiency, financial forecasting, risk management, and strategic and capital planning.



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