



HOW UTILITY RATES ARE DETERMINED

As a utility company customer, you know how much you pay each month for utility service. After reading this information, you will know more about the process used to determine the rates for your electric, gas, telephone or water utility service. You will also be more prepared to become involved in the rate-setting process if you wish to participate.

BASIC INFORMATION

As you review this information, keep in mind that the Colorado Public Utilities Commission (PUC) strives to achieve a flexible regulatory environment that provides safe, reliable and quality services to utility customers on just and reasonable terms. In other words, the Commission strives to assure that you receive utility services at affordable prices and in a safe manner.

The PUC must also assure that utility companies have the opportunity to earn a reasonable return on their investments. This return on investment allows Colorado utilities to obtain the funds necessary to maintain or improve your service quality by building new facilities or restoring and modernizing existing ones.

If your utility company is regulated by the Commission, the rates for regulated services are strictly controlled. All regulated utilities must file rate and service schedules (tariffs) with the PUC. These tariffs, on file in the PUC Denver office and at the utility company office, specify the amount customers **MUST** be charged for each regulated service.

BEGINNING THE RATE CHANGE PROCESS

Before a regulated utility company may change a regulated rate or service, it must file a request (also known as an advice letter) with the PUC at least 30 days before the proposed effective date. This timeline can be reduced if the Commissioners give their approval.

In its request, the utility company must clearly state what dollar amount and percent of increase is being requested. It must also state reasons for the change and show how the proposed change will affect company revenue.

The company must fully document its need for any increase in revenue, as based on a "test year." A test year is a specific 12-month period in which the costs, investments and revenues of the company are documented, adjusted to reflect changes and used to demonstrate the company's need for a change in its rates.

To reach PUC Consumer Affairs:

1560 Broadway, Suite 250, Denver, CO 80202
303-894-2070 (local); 1-800-456-0858 (toll-free)
dora_puc_complaints@state.co.us

State law requires the company to notify its customers of rate change requests through a newspaper legal notice in counties where affected residents live. Or, the company can send you a special mailing notification or provide an insert or notation in your regular monthly billing.

THE RATE CASE, PHASE 1

Determining a reasonable and just percentage of increase or decrease in rates is the purpose of all parties involved in Phase 1 of the rate case. Those parties typically include Commission staff, utility company personnel, the Colorado Office of Consumer Counsel (OCC) and utility company customers and customer groups.

Step #1. Request Review and Action (Commission Staff):

The PUC's economics, engineering, financial and legal experts review the company's request and ask for clarification or supplemental information. After review of this information, at an open meeting PUC staff makes a recommendation for action to the Commissioners.

Several options are available to the Commissioners at this time.

- If a staff review shows the request is reasonable, staff may recommend that the Commissioners allow the new rates to go into effect as requested.
- If the filing needs further study, the Commissioners may set the filing for hearing and suspend the matter for a total of 210 days. Existing rates remain in effect during the suspension period. Most major rate change proposals are suspended to allow for detailed study and hearings.

Step #2. Interested Party Intervention (Commission Staff, OCC and Utility Company Customers):

If the Commission suspends and set a rate proposal for hearing, the OCC, utility company customers and other interested parties may become actively involved in the process.

At this time, the OCC and customer groups or individuals can file petitions with the PUC to become "intervenor" in the rate case. Utility company customers may petition to represent themselves; groups or organizations must be represented by attorneys.

Intervenor petitions must be filed by a specified date, as stated in the Commission order suspending the filing and setting it for hearing.

Intervenors can submit testimony, present witnesses and cross-examine witnesses presented by the utility company and other intervenors in formal hearings. Intervenors may also be subject to cross-examination when they testify.

If you do not wish to become a formal intervenor, you will have an opportunity to express your opinion at public hearings or through written comments. (See Step #4.)

Step #3. Pre-hearing Conference (Commission Staff, Utility Company Personnel, OCC and Utility Company Customers):

After the conclusion of Step #1, the Commission establishes a date for a pre-hearing conference. On that date, one or more of the Commissioners or an Administrative Law Judge conducts the conference, reviews intervenor petitions and announces acceptance or rejection of each petition. Discussion of specific issues and other procedural matters may also take place.

In the more complex rate cases, the PUC staff presents options for analysis of utility economics and rates. In some cases, the staff, the company and other intervenors may reach a settlement on part or all of the rate proposal. The staff testimony and any settlement reached, as approved by the Commissioners, may be presented at the formal evidentiary hearings.

Step #4. Public Opinion Hearings (Commission Staff, Utility Company Personnel and Utility Company Customers):

If the PUC schedules public opinion hearings, the dates, places, times and format will be announced. At these hearings, the utility company customers may give their views on rates and quality of service issues.

If, as a utility company customer, you do not wish to present oral comments at a public opinion hearing, you can also put your comments in writing and send them to the attention of a specific docket number at the PUC, 1560 Broadway, Suite 250, Denver, CO 80202. You may also file comments electronically at the PUC website (www.dora.colorado.gov/puc) by clicking on the “Consumers” tab.

Both oral and written comments can become part of the formal record and can be considered by the Commissioners in making their decision.

Step #5. The Formal Evidentiary Hearing (Commission Staff, Utility Company Personnel, OCC and Utility Company Customers):

One or more of the PUC Commissioners or an Administrative Law Judge (ALJ) presides over the evidentiary hearing, much like a judge presides in a courtroom. Exhibits are marked and a court reporter records all proceedings and testimony.

A hearing in a contested case usually progresses in the following order:

- The utility presents its testimony in writing, followed by cross-examination.
- Intervenors present their written testimony, followed by cross-examination.
- The PUC staff presents its testimony in writing, followed by cross-examination.
- The utility company presents rebuttal testimony, followed by cross-examination.

All testimony must address the issues in the case. The utility company, as well as most of the intervenors, will have an attorney and expert witnesses present to testify and answer questions.

Step #6. The Phase 1 Rate Case Recommendation and Decision (Commission Staff):

After the formal hearing, the Commissioners or the ALJ take the matter under advisement. If an ALJ presided over the hearing, he/she will make a recommendation about the total revenue required to achieve a specified rate of return on the utility's investments.

Before the Commissioners take final action, there is an opportunity for all parties to file formal exceptions. These are followed by replies to exceptions. The Commission may then adopt the ALJ recommendation or make changes based on arguments by the parties.

If one or more of the Commissioners presided over the hearing, the Commissioners will deliberate on the issues in an open meeting and will enter a rate order decision.

Whether achieved through the ALJ hearing process or the Commissioner hearing process, the rate order decision states the Commissioners' findings on the company's request, including an explanation of the basis for the rate order.

Step #7. Rate Case Appeals (Commission Staff, Utility Company Personnel, OCC and Utility Company Customers):

After the Commission enters the rate order decision, any party in the rate case has the right to ask the Commissioners to either reconsider, allow reargument or rehear the case. If a reconsideration, reargument or rehearing is granted and any party still is not satisfied with the decision, a request for review may be filed in the District Court. Likewise, if the Commissioners deny any such requests, the party may appeal to the courts.

THE RATE CASE, PHASE 2

Some time typically passes between Commission receipt of the utility company request, issuance of a rate order decision and the filing of a Phase 2 request. Sometimes the overall rate increase or decrease arrived at in Phase 1 will be implemented on an interim basis until the final rate distribution is decided in a Phase 2 order.

In Phase 2, the Commission must decide how the change in rates will be distributed between different classes of customers, (for example, residential or business – and the subclasses, if appropriate, of commercial and industrial.) This is known as cost of service allocation and rate structure or rate design.

In making such decisions, the Commission again follows the same staff recommendation and public comment steps detailed in Phase 1. Interested parties can again file exceptions and ask for reconsideration, reargument or rehearing.

After the Commission final order is signed and issued, and all requests for rehearing have been decided, the utility company may make whatever rate changes are authorized to go into effect on a specified date.

(2/13)

