

National Regulatory Research Institute

Publications and Products Released and In Progress July 2007 – July 2008

Electricity—Gas—Telecommunications—Water—Multi-Utility

All completed documents are available at www.nrri.org

Electricity

Papers

State Commission Electricity Regulation under a Federal Greenhouse Gas Cap-and-Trade Policy

Professor Andrew G. Keeler, Ohio State University, Report 08-01, January 2008

Climate change policy will fundamentally affect the way that electricity is generated in the United States. Elected officials, businesses, non-governmental organizations, and policy analysts and scholars are increasingly in general agreement that a mandatory policy that puts explicit limits on GHGs, or puts a price on GHG emissions, is an essential component of a federal policy response. A cap-and-trade system for GHGs is the most likely policy response.

Electricity Resource Adequacy: The Problem of State-Federal Jurisdiction

Scott Hempling, January 2008

Written for the Organization of MISO States, this paper analyzes the scope of state legal authority over safety, adequacy and reliability in light of Congress's 2005 decision to assign authority to the Federal Energy Regulatory Commission. The document addresses jurisdictional relationships: How does Congress's mandate trigger actions by the electricity reliability organization, the regional reliability organization, the regional transmission organization, the load serving entity and finally the state commissions? It concludes that multiple uncertainties about who plays what role make accountability unclear.

Model Demonstration Projects: Recommendations for Regulators
Scott Hempling, April 2008

With climate change legislation in the offing, there is a need for technological breakthroughs aimed at reducing emissions at reasonable cost. Utilities and others are proposing technology projects, not all of which will succeed. How should regulators address proposals for demonstration projects sponsored by multiple entities, particularly when the local utility wishes to participate in a project located in another state? Scott Hempling's paper, funded by the Electric Power Research Institute, addresses these questions.

Memorandum: Regarding the FERC NOPR on Wholesale Competition
David Boonin and Scott Hempling, March/April 2008

Suggesting ideas that states may wish to consider when responding to FERC's current NOPR on Wholesale Competition in Regions with Organized Markets, this memorandum also focuses on issues the authors feel can be enhanced to meet the NOPR's intended goals, with particular emphasis on FERC's obligation to consider retail customers as required by the Federal Power Act.

A Rate Design to Encourage Energy Efficiency and Reduce Revenue Requirements
David Boonin, Report 08-08, July 2008

Straight Fixed Variable (SFV) rate design is an overlooked method of decoupling a utility's income from sales. This report discusses the merits of SFV rate design together with Revenue-Neutral Energy Efficiency Feebates (REEF), which offer a complementary set of price signals designed to encourage customer conservation.

Presentations

FERC NOPR on Wholesale Competition: Teleseminar
David Boonin and Scott Hempling, March 27, 2008

Decoupling of Profits from Sales: A Briefing for IT Professionals
David Boonin, April 2008

Made to the Energy Executive Council and organized by Energy Insights, this presentation discussed the issue of decoupling from information technology and emphasized the pragmatic challenges in creating and implementing decoupling adjustments.

Quick Responses

Negative Salvage: Quick Response to California PUC Staff

David Boonin, March 2008

We provided assistance to the California Public Utilities Commission staff, offering various strategies to address net salvage particularly related to transmission facilities.

Natural Gas

Papers

Decision-Making Strategies for Assessing Ratemaking Methods: The Case of Natural Gas

Kenneth Costello, Report 07-10, September 2007

Intended to assist state commissions in assessing the public-interest effects of existing and new ratemaking methods, the paper presents decision-making strategies that state commissions can apply to make this determination when encountering existing and new ratemaking methods proposed by utilities and other parties. This report uses a case study of recent ratemaking proposals by natural gas utilities. These utilities have requested that their commissions approve new ratemaking proposals, which in some instances represent significant departures from traditional practices.

The Natural Gas Industry at a Glance

Kenneth Costello, January 2008

A primer on the natural gas industry, the paper presents some basic facts about natural gas, industry functions and structure, forms of commercial transaction, state and federal jurisdictions, and major current issues.

Natural Gas in a Carbon-Constrained World: Briefing Note

Kenneth Costello, March 2008

Synthesizes the presentations made at the 2008 NARUC Winter Meetings that address the connection between greenhouse gas legislation (GHG) and the natural gas sector. The consensus among presenters is that any GHG legislation will increase the demand for new gas-fired power plants, aggravating the tight gas market that has prevailed since the turn of this century. Some presenters projected that natural gas prices, which will affect all users of natural gas, could increase significantly over what they would be with no GHG legislation. Some presenters also argued that, in a carbon-constrained world, fuel switching from electricity to natural gas for direct applications (e.g., space and water heating) would produce large environmental and economic benefits. The document concludes by identifying issues that state

commissions might want to consider regarding the future role of natural gas in direct applications and fueling new generating facilities.

Gas Supply Planning and Procurement: A Comprehensive Regulatory Approach
Kenneth Costello, Report 08-07, July 2008

Presenting a regulatory approach for ensuring that a utility's gas supply planning and procurement activities serve customers effectively, the report empowers state commissions to make fact-based and policy-based decisions on a utility's gas supply plan and its execution. Notable issues include: (1) the role of price hedging in moderating the effect of volatile wholesale gas prices on retail customers; (2) long-term contracting for gas supplies and pipeline transportation; and (3) the early involvement of state commissions and stakeholders in the planning process.

Presentations

Natural Gas: Economics, Structure and Regulation
Kenneth Costello, Institute of Public Utilities Regulatory Studies Program, August 6, 2007

Provided a broad overview of the natural gas industry and its regulation by federal and state agencies, and also identified major issues facing the industry.

Decision-Making Strategies for Assessing Ratemaking Methods: The Case of Natural Gas
Kenneth Costello, NARUC Gas Subcommittee, July 15, 2007; FRI Public Utility Symposium, September 26, 2007

Revenue Decoupling for Gas Utilities
Kenneth Costello, Center for Public Utilities Basic Course, October 18, 2007

Discussed the basics of revenue decoupling, including its structure, implementation issues, and arguments for and against and its effect on different regulatory objectives.

Revenue Decoupling and Decision-Making Strategies for Ratemaking Methods
Kenneth Costello, Public Utilities Commission of Ohio, October 25, 2007

Addressed sundry issues surrounding revenue decoupling and other ratemaking methods.

Policy and Implementation Issues Surrounding Revenue Decoupling
Kenneth Costello, Presentation at the Virginia Decoupling Stakeholder Summit, November 8, 2007

Explored the policy implications of revenue decoupling and implementation issues that have arisen in various states.

Ratemaking and the Regulatory Balancing Act: The Case of Revenue Decoupling
Kenneth Costello, Institute of Public Utilities Policy Conference, December 4, 2007

Evaluated revenue decoupling from the perspective of the regulatory balancing act and long-standing regulatory objectives.

Briefing on the U.S. Natural Gas Sector and Its Regulation
Kenneth Costello, South Carolina Public Service Commission, February 11, 2008

The presentation provided an overview of the natural gas sector and its regulation by federal and state agencies; as well, it identified major issues facing the industry.

Natural Gas in a Carbon-Constrained World
Kenneth Costello, presentation before NARUC Gas Subcommittee, March 7, 2008, and NASUCA Gas Subcommittee, April 8, 2008

Telecommunications

Papers

Fundamentals of Telecommunications Regulation: Markets, Jurisdiction and Challenges
Peter Bluhm, Report 08-05, May 7, 2008

Assisting all newcomers to telecommunications regulation, the report broadly describes the components of the telecommunications industry and the methods by which it has been regulated. It describes universal service policies and mechanisms, and concludes by describing four major challenges facing the industry and state regulators.

Competitive Aspects of Special Access Services
Peter Bluhm
Planned release date: November 2008

This study has begun with special funding from NARUC. Confidential data collected in 2007 from a special NARUC study group is being analyzed, along with confidential data filed at the FCC within its own special access docket. NRRI has engaged Dr. Robert Loube to assist in analyzing the study group data and preparing the final report. In July 2008, the NARUC committee supervising the project may seek additional data. A final report from NRRI is due to NARUC in time for the annual meeting in November.

Carriers of Last Resort—An Opportunity for State Commissions

Peter Bluhm

Planned release date: November 2008

Will examine state commission policies regarding expectations of, and compensation for, carriers of last resort. The legal concept of COLR can serve as a platform to resolve complex issues about providing competitive choice in some areas and ensuring the continuation of universal service in others. The report will also suggest methods of clarifying state COLR policies.

Presentations

Universal Service

Peter Bluhm, assisted by Billy Jack Gregg and Joel Shifman, to NARUC Telecommunications staff, February 2008

Carriers of Last Resort Panel Discussion

Peter Bluhm, NARUC Telecommunications Committee, February 2008

Quick Responses

Universal Service: Fiscal Agent: Quick Response—Wyoming

Peter Bluhm, February 22, 2008

Provided a confidential evaluation of two bidders seeking to become the fiscal agent of the Wyoming commission's universal service programs.

Wireless Carrier Actual Cost (ICAC) Proposal: Quick Response—Washington

Peter Bluhm, March 13, 2008

Sent to Deputy Assistant Director, Telecommunications, Washington Utilities & Transportation Commission, a copy of materials on the "WICAC" proposal filed at the FCC.

Legislation on State Telecomm Regulation: Quick Response to Massachusetts Department of Telecommunications and Cable

Peter Bluhm, April 7, 2008

Provided copies of recent NRRI reports and underlying worksheets regarding state legislation on telecommunications regulation.

Federal Legislation on Universal Service: Quick Response—Nebraska
Peter Bluhm, April 8, 2008

Discussion regarding pending federal legislation in Nebraska affecting their universal service funding base.

AT&T Forebearance Petition: Quick Response to NARUC
Peter Bluhm, April 23 & 24, 2008

Assisted NARUC in collecting data to submit to the FCC regarding an impending forbearance decision regarding AT&T and its obligations to maintain and report accounting data.

Service Quality: Quick Response to Virginia State Corporation Commission
Peter Bluhm, May 27, 2008

Provided a link to prior NRRI studies regarding service quality to the Deputy Director, Division of Communications.

State Universal Service—Federal Court Decision: Quick Response—Nebraska
Peter Bluhm, March 7

Discussion covered a recent federal court decision in Nebraska affecting the state's universal service funding base.

Water

Papers

Small Water Systems: Challenges and Recommendations
Melissa Stanford, Report 08-02, February 2008

This report identifies the attributes and practices of successful small systems and examines policies, practices, and regulations that can help small systems increase economies of scale, improve management practices, and operate more efficiently and effectively. It recommends a variety of approaches that state commissions should consider in addressing the policies, procedures and regulation of small water utilities.

Water and Wastewater Research Agenda
David Denig-Chakroff, February 2008

Research Proposal: Water-Saving Device Promotional Programs: How Effective Are They?
David Denig-Chakroff, February 2008

The Water Industry at a Glance
David Denig-Chakroff, April 2008

A primer on the water industry and its regulation by federal and state agencies that also addresses major issues facing the industry.

Water Glossary and Acronyms
David Denig-Chakroff, May 2007

A glossary of water terms and links to other relevant glossaries of terms and acronyms.

Reducing Electricity Used for Water Production: Questions State Commissions Should Ask Regulated Utilities
David Denig-Chakroff, Report 08-06, June 13, 2008

Assists regulators wishing to develop policies to reduce electricity use by water utilities. It provides regulatory commissions with information about the electricity requirements for producing and delivering drinking water to customers, as well as effective practices water utilities should use to reduce and manage use of electricity. Since only about 15% of water utilities are regulated by state commissions, the paper discusses how commissions can affect the practices of the non-jurisdictional water utilities through commission regulation of the electric utilities that serve those water utilities. Finally, the report suggests questions commissions should ask of water and electric utilities to evaluate the effectiveness of electricity use by water utilities.

Presentations

The Water and Wastewater Research Agenda
David Denig-Chakroff, NARUC Winter Meetings, Washington, D.C., February 2008

Small Water Systems
David Denig-Chakroff, NARUC Winter Meetings, Washington, D.C., February 2008

Small Water Systems: Challenges and Recommendations
David Denig-Chakroff, April 2008

A web-meeting discussion for regulatory commissioners and staff to identify priority research topics.

Small Water Systems: Challenges and Recommendations: A Web-based Discussion and Summary of the meeting held on April 29, 2008
David Denig-Chakroff, May 12, 2008

Electricity Used for Water Production

David Denig-Chakroff, MARC Conference, Oklahoma City, June 2008

Certification Requirements as a Path to Improve Small Water Utility Operations: The Issues Facing Regulatory Commissions

David Denig-Chakroff, July 2008

Discusses the issues and challenges faced by regulatory commissions in establishing performance requirements and incorporating them into certification requirements for small water systems to improve utility operations, effectiveness and efficiency. The paper also addresses the question of how commissions can assure continuous high performance from small water utilities, once they receive certification; as well, it describes utility performance standards, based on current water industry "best practices;" suggests how such standards could be achieved through certification requirements; and proposes ideas for additional research on this topic.

Multi-Utilities

Papers

Private Equity Buyouts of Public Utilities: Preparations for Regulators

Stephen G. Hill, Report 07-11, December 2007

Prepares regulators to address mergers, with a focus on private equity buyouts. The paper analyzes the rationales for mergers, the differences between a private and a public buyout of a utility company from both a financial and regulatory perspective, and the public policy implications of that difference. The paper then outlines regulatory action that will help to ensure that the target utility continues to attract capital and execute its public service obligations at the lowest reasonable cost to ratepayers.

Pre-Filing Meetings: Who Can Say What?

Scott Hempling, January 2008

This presentation to the Missouri Commission addressed the appropriateness of parties meeting with Commissioners to discuss proposals they are considering filing officially. The paper asks (a) what procedural principles best serve regulation's purposes, and (b) can procedural informality co-exist with objectivity?

Advanced Metering Infrastructure: What Regulators Need to Know About Its Value to Residential Customers

Nancy Brockway, Report 08-03, February 2008

Provides regulators with a general framework for evaluating an electric utility's request for recovery of the costs of implementing an advanced metering infrastructure. It examines in

depth the disputes between consumer advocates who oppose AMI and environmentalists, and utilities who support AMI; as well, it places these disagreements in the context of a model for analyzing the overall costs and benefits of AMI.

“Must-Read” Books for Commissioners and Staff

Nancy Brockway, April 2008

An eclectic collection ranging from oft-cited treatises such as Bonbright and Kahn, to histories of the early days of regulated utilities that debunk some long-held notions about the origins of regulation, to quirky treatments of economic issues that shed new light on perennial regulatory problems.

Corporate Structure Regulation: Thoughts for Regulators

Scott Hempling, May 2008

This testimony before the Energy Committee of the U.S. Senate argues for regulatory alertness in the areas of corporate structure, due to Congress's 2005 repeal of the Public Utility Holding Company Act of 1935. The document explains that (a) effective corporate structure regulation should encourage efficient transactions and discourage inefficient ones, and that the repeal of PUHCA 1935 created gaps in corporate structure regulation. The testimony then argues that to restore public accountability in corporate structure transactions, regulators must identify and promote sensible corporate structures and apply cost-benefit standards. This effort requires multidisciplinary expertise and a shared multijurisdictional purpose.

Large Capital Projects: What are the Risks and Who Should Bear Them?

Nancy Brockway

Planned release: July 2008

Utilities are approaching their legislatures and commissions for "pre-approval" of expenditures for major capital projects. This research project focuses on how best to identify and assign the risks associated with these investments.

The Role of a Designated Commission Docket Manager

Nancy Brockway

A memorandum for the Alaska Commission, providing recommendations on how such a Commissioner could work with assigned staff, other Commission panel members, and the full Commission to ensure that a case was properly developed to allow the panel (and on appeal the full Commission) to make the policy decisions they considered best, supported by a full record, and consistent with due process.

Presentations

Advanced Metering Infrastructure: What Regulators Need to Know About Its Value to Residential Customers

Nancy Brockway, Consumer Affairs Committee & Staff Subcommittee on Electricity, NARUC Winter Meetings, Washington, D.C., February 2008

Reviewed the author's findings on residential consumer response to dynamic pricing as discussed in her recent NRRI report, *Advanced Metering Infrastructure: What Regulators Need to Know About Its Value to Residential Customers*.

Can Residential Customers Respond to Dynamic Pricing?

Nancy Brockway, Kansas Corporation Commission Workshop on Energy Efficiency, March 25, 2008

A review of the findings of Brockway's recent NRRI report, *Advanced Metering Infrastructure: What Regulators Need to Know About Its Value to Residential Customers*.

“Multi-Utility Industry at a Glance” and “Hot Topics in Multi-Utilities” sections on NRRI website

Nancy Brockway

Quick Responses

Historical Versus Forward Test Years: Quick Response to Wyoming

David Boonin and Ken Costello, April 2008

A quick response prepared at the request of the Wyoming PSC Staff on the issue of historical versus forward or future test years.