

Utility Regulation 101

Presentation for the House Committee on Environment and Energy

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Why Regulate?

- Why are some private industries subject to a large measure of government control?
 - They are “natural monopolies”
 - High fixed infrastructure costs that, once established, discourage new entrants
 - They are “affected with a public interest” and affect “the common good”
- “Regulatory Compact”
 - Describes the relationship between regulators and utilities
 - Utility accepts an obligation to serve all customers in its service territory
 - Regulator sets rates that will compensate the utility fully for the costs it incurs to meet that obligation
- Compare with market-based companies
 - Prices controlled naturally by the supply of and demand for services
 - Fuel dealers that provide “delivered” fuels such as propane and heating oil; ISPs
 - Attorney General

What is Regulated?

- **Rates**
 - Rates must be “just and reasonable”
 - Goal – efficient service, without unreasonable costs
 - Methods:
 - Traditional cost of service
 - Utility recovers the “prudent” and “used and useful” costs it incurs to serve customers, plus a reasonable rate of return (profit)
 - Ratemaking can take 7-8 months
 - Alternative or incentive regulation
 - Revenue decoupling – severs link between sales and revenues
 - Performance-based – profit aligns with societal goals
 - Flexibility in pricing
 - Consolidated Communications; GMP; VGS
- **Quality and terms of service**
- **Financial management**
- **Infrastructure siting and construction**
 - CPGs for the construction of electric generation, electric transmission, natural gas transmission, telecommunications facilities

Who is Regulated?

17 electric distribution utilities

- 1 investor-owned utility
- 14 municipal electric utilities
 - VT Public Power Supply Authority (11)
- 2 member-owned cooperatives

1 transmission utility

- VELCO (Vermont Electric Power Co., Inc.)
- Statewide, transmission-only, for-profit company formed in 1956
- Owned by all VT distribution utilities and VLITE (a public benefit corp.)

Who is Regulated (cont'd)?

1 natural gas utility

- Vermont Gas Systems

3 energy efficiency utilities

- Efficiency Vermont (statewide)
- Burlington Electric Department
- Vermont Gas Systems

Who is Regulated (cont'd)?

Owners and operators of electric generating systems

- Utility and “merchant” (private) generators

Private water and private large wastewater utilities

- “Large” means at least 750 source connections
- Rates; finances; service quality; disconnections

Who is Regulated (cont'd)?

Telecommunications companies

- **9 incumbent local exchange carriers (ILECs)**
 - 1 RBOC (Regional Bell Operating Company); Consolidated
 - 8 independent telephone companies
 - These are the traditionally rate-regulated landline “carriers of last resort” that operate in service territories; basic rates and service quality
- **Competitive local exchange carriers (CLECs)**
 - Cellular providers and fixed, interconnected VoIP providers (rates are not regulated)
- Vermont Universal Service Fund Charge – 2.4% of intrastate retail service

11 cable television companies

- PUC is the “local franchising authority”
- A CPG required to operate; renewed every 11 years
- Build-out requirements and line extensions
- Support for PEG Access is required (public, educational, and government access television)
- Rates and programming are not regulated

Who Regulates at the State Level?

Department of Public Service

- Executive branch agency
- Advocates on behalf of the “public interest” in PUC proceedings
- Energy and telecommunications planning
- Broadband mapping
- The Consumer Affairs and Public Information division (CAPI) helps resolve customer complaints with utilities

Who Regulates at the State Level (cont'd)?

Public Utility Commission

- Independent, quasi-judicial entity (3 commissioners)
 - Full-time Chair nominated, appointed, and confirmed like a Superior Judge
 - Part-time commissioners appointed in a similar manner
 - 6-year staggered terms
- Types of proceedings:
 - Formal court-like proceedings based on the rules of civil procedure
 - Formal parties; decisions based on formally-admitted evidence
 - Workshops and investigations
 - Rulemakings