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Experts criticize Duke's rate plan

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Upstate residents likely wouldn't be facing as steep of an increase in their power bills if South Carolina officials had used a different method of allocating costs as part of their analysis of Duke Energy's request to raise prices.

Residential customers who buy their power from Duke face a 9.2 percent price hike by February under a settlement agreement between the company and the Office of Regulatory Staff, the state agency charged with protecting the public interest in utility matters.

Costs for manufacturers, however, would drop at least 4.8 percent under the proposal, which must be approved by the Public Service Commission before it can take effect.

The burden of the rate hike would be spread more evenly among the different customer categories if the Office of Regulatory Staff had used the "average and peak" method of allocating power generation costs instead of the "coincident peak" method, according to two experts in utility regulation.

"Most places use the average and peak method," said Ed Bodmer, a Chicago consultant who has participated in utility rate cases for 30 years and given expert testimony in nine states.

Duke spokesman Jason Walls said the settlement agreement would better align customer rates with the actual costs of serving those customers.

The coincident peak method used by South Carolina looks solely at how much electricity the various customer categories use at "peak demand," the day of the year when power demand is highest. That tends to assign more of the capital costs of power generation to residential customers because they are most responsible for seasonal highs in power demand as they turn on heaters in winter and air conditioners in summer, the experts said.

The average and peak method used by other states takes into account another factor: the total kilowatt-hours that various customer categories use over the course of a year. That tends to put more of the costs on the shoulders of manufacturers, the experts said.

"Industry, while it doesn't use a lot of peak demand, uses a lot of energy over the year because it's running basically 24/7," said Carl Peterson, a professor in the Center for Business and Regulation at the University of Illinois Springfield.

Peterson said Michigan regulators use the average and peak method for cost allocation under the theory that the costs of "baseload" plants relate to total kilowatt-hours used and the costs of "peaking" plants relate to peak demand.

If South Carolina's Office of Regulatory Staff had employed the same method, Duke's residential customers might not be facing such a steep rate hike at the same time manufacturers are set to get a decrease, Peterson said.

"It certainly would even it out more," he said.

Which method is employed is a matter of regulatory philosophy, the experts said.

Randy Watts, electric regulation program manager at the Office of Regulatory Staff, said South Carolina has historically employed the coincident peak method because electrical systems in the South tend to be driven by peak demand.

"That is the main driver, and that is the one that has the most costs," he said.

The office looks at which customers are responsible for power generation costs instead of "how can we evenly spread these costs among everybody," Watts said.

He said the coincident peak method, which Duke recommended, allocates costs "at least as fairly as any of the others as far as we've seen."

Watts said power generation costs were the biggest cost issue in the Duke rate case, and the biggest piece of that is Duke's $2.4 billion expansion of the Cliffside coal plant just across the state line from Gaffney.

Rates would rise about 4 percent under the settlement proposal for commercial customers, a category that includes retailers. The proposed decrease for manufacturers would rise to 6 percent if they take certain power-conserving measures and opt out of Duke's energy-efficiency program, which is mandatory for all other customers.

Another factor that can be instrumental in which customers bear the biggest burden in a rate hike, according to the experts, is the level of representation of the various customer groups in regulatory proceedings.

In the Duke case, manufacturers were represented by the South Carolina Energy Users Group, which Watts said hired a lawyer and consultant to engage the Office of Regulatory Staff.

Residential customers, on the other hand, were not represented exclusively by anybody, he said, though his office is charged with taking their interests into account as part of the broader "public interest."

Bodmer said utilities have a strong interest in placating their big industrial customers and that state regulators tend to accept utilities' arguments on cost allocation.

"That's been my experience without a question," said Bodmer, an expert in the economics of electricity who used to work for the Illinois Commerce Commission.

Peterson said manufacturers and homeowners at one time had strong advocates in Illinois but not commercial customers.

"So who do you think was allocated that extra cost?" he said.

In South Carolina, legislators removed the consumer advocate from any role in utility regulation as part of a 2005 restructuring that created the Office of Regulatory Staff.

Rep. Harry Cato of Travelers Rest, who at the time chaired a committee with jurisdiction over utility matters, said the consumer advocate was not being realistic in constantly taking to court PSC rulings in favor of utilities.

Lawmakers wanted a "broad-minded" agency to protect the public interest "instead of just having a consumer advocate that just says, 'No, never a rate increase,'" Cato said.

Regarding the proposed settlement in the Duke rate case, Cato said he's "struggling" to understand a plan that hands homeowners an increase at the same time manufacturers get a decrease.

Cato, now speaker pro tem in the House, said he understands Duke is due for a general rate hike since it hasn't had one since 1991. But Cato said he'd rather see rates stay the same for manufacturers and less of an increase for homeowners.

"I can see the PSC making adjustments to this one," Cato said, adding that he needs to be careful not to be seen trying to influence the outcome of the rate case since lawmakers elect members of the commission.