



## **UTILITY PROFITS:** **How Much is Too Much?**

*Guest Op-Ed by Public Service Commissioner Brandon Presley*

How much is too much?

My main responsibility as a member of the Mississippi Public Service Commission is to ensure that the people and businesses of our state have safe, reliable utility service at the lowest reasonable cost and that the public interest receives firm protection by the PSC.

The duty to the public interest requires me to balance the revenue needs of utility companies to operate with the rates customers in our state pay for utility service. At times, the system of utility regulation gets out of balance with the scales tilting in the favor of the utilities to the detriment of the customers. We, at the PSC, have been working diligently to balance our regulatory environment over the past few years.

The PSC grants investor-owned utilities in Mississippi an opportunity to earn a profit on their investments at a rate set by the Commission. That rate of profit is built into the charges customers pay for electricity, natural gas, some telephones, and water and wastewater services.

How much is too much? I have become concerned that utility bills in Mississippi may be inflated because the profit rates established for electric and gas utilities are too high. What prompted my concern was the decline in interest rates on borrowed money, a key factor in deciding a utility's rate of return. As anyone who has refinanced a house, bought a car or shopped for a decent return on a certificate of deposit knows, interest rates are at rock-bottom levels.

The Mississippi PSC sets utility rates and profit allowances because the regulated electric and gas companies are monopolies -- they have defined territories with absolutely no competition. In fact, our state constitution clearly calls for regulation of these types of companies. These are private companies subject to state regulation. They are financed by a combination of equity funds (stock) raised from their stockholders and debt. The cost of their debt can be determined based on interest rates that utilities pay for short- and long-term borrowing.

The U.S. Prime Interest Rate in mid-2003 was 4 percent. Since then it has been as high as 8.25 percent in June of 2006, but never lower than what it is now: 3.25 percent. That means low borrowing cost for utilities, which should translate to lower rates for customers.

How much is too much? The return on equity (or profit allowed) is more difficult to determine, and it can be one of the most controversial issues facing a utility regulator.

In concept, the allowed return on equity is the return that utilities must offer to attract investors. In recent years most regulatory commissions have allowed a return on equity of about 10 percent.

It has been as low as 6 percent in some cases and as high as 16 percent in others. Today the last approved return on equity for Entergy Mississippi was 11.63%, while Mississippi Power Company earned 10.62%. The companies' average return, as last approved is 11.128%. I think that is too high.

In addition to being protected from competition as monopolies, utilities have seen reduced risk from hurricanes and other acts of nature thanks to a state-approved program known as "securitization." At the same time, utilities in Mississippi use various "riders" which allow dollar for dollar recovery of certain expenditures related to storm damage, environmental compliance, energy efficiency and even certain asset purchase costs among others. Every one of these "riders," and other forms of guaranteed recovery, lower the risks utility companies face.

Understanding risk is another reason why we, as the PSC, need to ask the tough questions about utility profits. We are Commissioners, elected by the public to ask the tough questions of these companies on behalf of customers who entrust us with that duty. It is not enough to just go along with the system in place. It is high time these rates were questioned. We are doing just that.

Government-sanctioned profits of 10 to 11 percent for electric and gas utilities seem high when you consider low interest rates, the average U.S. stock risk premium, and reduced utility risk. If utility profits are inflated, utility bills are inflated. There is one thing that is certain, if interest rates had gone up as much as they have come down, utility companies would be lined up asking for rate increases.

How much is too much? The Public Service Commission owes the people of Mississippi an answer to that question. I hope the recent inquiry about this topic, supported by all three Commissioners, will produce that answer and a positive result for the people of our state.

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