



MISSISSIPPI PUBLIC UTILITIES STAFF

EXECUTIVE SUMMARY

**Annual Report
For the Fiscal Year
Ending June 30, 2015**

**Virden C. Jones
Executive Director**

December 30, 2015

The Honorable Governor Phil Bryant, Lieutenant Governor Tate Reeves,
Members of the Legislature and State Elected and Appointed
Officials of the State of Mississippi
Jackson, Mississippi

Re: Mississippi Public Utilities Staff
2015 Fiscal Year Executive Summary

Ladies and Gentlemen:

In accordance with Sections 27-101-1 and 27-101-3, Mississippi Code of 1972, we provide you the Mississippi Public Utilities Staff Executive Summary of the 2015 Fiscal Year Annual Report. This Summary outlines the Staff's various activities, functions and accomplishments during the fiscal year July 1, 2014 through June 30, 2015.

Respectfully submitted,

Virden C. Jones
Executive Director

The Public Utilities Staff (Staff) was created in 1990 and charged under Mississippi Code Annotated, §77-2-1, with representing the broad interests of the State of Mississippi by balancing the respective concerns of the residential, commercial and industrial utility customers, the state agencies and the public utilities. The Staff has investigative and advisory authority on matters that include:

- Reviewing and investigating contested matters before the Public Service Commission (Commission) and making recommendations with respect to the reasonableness of rates charged or proposed to be charged by public utilities;
- Reviewing, investigating and making recommendations with respect to services furnished or proposed to be furnished by public utilities;
- Making Commission recommendations for public utility rates, service or area when deemed necessary and in the broad public interest.

The Staff is composed of 28 employees with a variety of technical expertise (engineering, accounting, legal, economics, telecommunications and administration). The Staff is under the direction of the Executive Director and is organized into five divisions which are: Legal; Administrative Services; Economics and Planning; Water and Sewer; and Electric, Gas, and Communications.

During FY 2015, the Staff participated in 232 utility filings before the Commission. This involved reviewing and investigating contested and uncontested matters and included making recommendations to the Commission with respect to the reasonableness of rates charged or proposed to be charged by utilities. In addition, the Staff continually reviewed, investigated and made recommendations with respect to proposed new investments and to new services furnished or proposed to be furnished by jurisdictional public utilities.

ELECTRIC

FUEL - The Staff has maintained its continuous monitoring activities and other statutory duties related to the fuel adjustment clauses, as interpreted by the Mississippi Attorney General, and has continued audit procedures during the course of its monitoring activities. Accordingly, the Commission contracted independent auditors for fuel audit and financial reviews of Entergy Mississippi, Inc. (“EMI”) and Mississippi Power Company (“MPCo”). On January 12, 2015, the Staff filed its Summary and Comments of the Staff’s Certified Public Accountant which addressed the reports filed by the Commission’s consultants. The financial audits of the independent auditors confirmed that there were no material misstatements of allowable fuel and purchased energy expenditures during the audit period. On January 13, 2015, the Commission certified all of the reports to the Legislature.

FORMULARY PLANS - The Commission suspended EMI’s Formula Rate Plan Evaluation filing due to be filed on or before March 15, 2014, in January 2014, in anticipation of EMI’s rate case filing. The Commission’s approval of the Joint Stipulations between the Staff and the company, made on December 11, 2014, is set forth in the 2014 Fiscal Year Annual Report. MPCo’s formulary rate plan provides for two annual filings: a projected filing in December for the following test year and a “Look Back” filing in March of the year following the projected year to review actual results. On March 17, 2015, MPCo filed its 2014 Look-Back Evaluation under Rate Schedule PEP-5, reporting an ARRI of 6.906% which was within the range of no change (6.453% to 7.453%), indicating no need for a surcharge or refund. The Staff and company have not yet agreed on certain expense disallowances, therefore, the filing remains open pending a resolution.

ENERGY EFFICIENCY - Pursuant to the Commission’s rule on conservation and energy efficiency programs, each qualifying electric and gas utility filed a Quick Start Plan, which was approved by the Commission on June 3, 2014. As required by that order, cost recovery riders were filed by the utilities to establish rates for recovery of Quick Start Program costs. The Commission approved each cost recovery compliance filing and rate calculations according to Staff’s recommendations, deferring any performance-incentive mechanisms until the Comprehensive Portfolio Plan phase.

INVESTIGATION OF THE ADOPTION OF A UNIFORM FORMULA RATE PLAN - The Commission’s proceeding to investigate and review the adoption of a uniform formula rate plan (“FRP”) for EMI and MPCo was opened in June 2014, to investigate the formulaic methodologies used in the electric companies’ FRPs to calculate the return on investment, and to study the merits of adopting a uniform FRP that could be applied, in whole or in part, to both EMI and MPCo in order to achieve greater consistency in the plans. Staff’s review is still in progress, and this matter remains pending.

MISO – CREATION OF LRZ 10 AND EMBA - Local Resource Zones (“LRZs”) are geographic regions within the MISO footprint developed to ensure planning resources can meet load within each geographic area. LRZs affect resource adequacy planning and market design as well as transmission cost allocation. When EMI joined MISO there were nine geographic regions in MISO South. The Commission directed EMI and MISO to investigate whether joining an existing LRZ or establishing a separate Mississippi LRZ would better serve EMI ratepayers. The investigation determined that a Mississippi LRZ would improve transmission planning transparency, avoid costs and reduce exposure to transmission projects that offer little to no benefit to Mississippi ratepayers. The Commission approved the creation of “LRZ 10” and a Local Balancing Authority operated by EMI (“EMBA”), which were approved by FERC on July 21, 2015, and implemented within MISO on December 1, 2015.

KEMPER COUNTY PROJECT - On August 9, 2014, MPCo declared the Kemper Project’s CCGT generating facilities to be in service, and subsequently filed a report and analysis supporting that decision. In February 2015, the Mississippi Supreme Court reversed the Commission’s order approving MPCo’s Mirror CWIP Rate Case proposal, which allowed the company to recover construction costs and to book those collections to a regulatory liability account to mitigate the Kemper Project’s future rate impacts. As a result of the Supreme Court’s order directing a refund of all revenue collections under the Mirror CWIP order, MPCo filed for emergency rate relief in Docket 2015-UN-80. The Commission granted MPCo’s request on August 13, 2015, authorizing interim and emergency relief of \$159 million. The Company also filed an in-service asset proposal related to the CCGT. Following investigation, the Staff and company stipulated to, among other items: a \$126 million revenue requirement, a credited refund to address the difference between the temporary and the stipulated rates, an ROE of 9.225%, and additional common equity contributions by MPCo’s parent, Southern Company. The Commission adopted the stipulation on December 3, 2015.

PLANT DANIEL - On April 3, 2012, the Commission issued an order granting MPCo a Certificate to build the Plant Daniel scrubber. On May 3, 2012, the Sierra Club appealed the Commission’s order and on August 1, 2014, MPCo and the Sierra Club executed a Settlement Agreement that resulted in Sierra Club’s withdrawal from the proceeding. On November 30, 2015, MPCo placed the units in commercial operation.

TELECOMMUNICATIONS

The impact of competition and migration to different technologies, such as cable, wireless, and satellite providers in Mississippi continues to affect local exchange companies’ access lines. Reports indicate that wireline access lines have decremented over 256,000 from December, 2009 to December, 2013.

The FCC has adopted net neutrality rules that reclassify broadband Internet access service to a telecommunications service under Title II and establish bright line rules.

Many needy Mississippians receive discounted phone service through Lifeline programs. The Staff and Commission continue to monitor the reforms of these programs with the FCC and are in full support of the FCC's efforts to modernize the program, eliminate waste, fraud, and abuse, improve program administration and integrity, and streamline eligibility databases. Mississippi received over \$15 million from the Lifeline program in 2014. Mississippi also remains one of the largest national beneficiaries of funds allocated from the federal high-cost support under the federal universal service support program. In 2014, Mississippi received over \$188 million in high-cost universal service funding. These funds are utilized by ETCs to improve the wireless and wireline network infrastructure in high cost areas of our state. FCC 11-161 will transition the universal service fund to the Connect America Fund which focuses on accelerating broadband build-out. The FCC offered the right of first refusal to price cap companies in Mississippi on April 29, 2015, in which they had until August 27, 2015 to accept or decline. If accepted, carriers have six years to build out broadband service to the funded locations in their service areas.

On May 5, 2011, the Commission approved Docket No. 2011-AD-129 which implemented mandatory pooling of numbers in the Mississippi 662 Number Plan Area ("NPA"). Mandatory pooling of NPA 662 began in September 2011 and is currently forecasted to exhaust in the 2nd quarter of 2028. On April 9, 2013, the Commission approved an order increasing the Telecommunications Relay Service ("TRS") surcharge for landline services to \$.10/month. The Commission has been administering this fund under Statute 77-3-501 for 23 years.

The Staff monitors events of concern with the FCC and files comments upon the consent of the Commission. Recent comments filed included call completion concerns; prohibiting the in-person distribution for handsets to prospective Lifeline customers; and cramming.

GAS

FORMULARY PLANS - On September 5, 2014, Atmos Energy, Inc. ("Atmos") filed its annual evaluation for the twelve month period ended June 30, 2014. Following stipulated adjustments, the Commission approved an increase to the company's Earned Return on Equity ("ROE") from 7.04% to 8.47%, which resulted in a revenue requirement increase of \$4,440,737, applied over the remaining 9 months of the billing period to create a Stable/Rate Factor of 1.669, which equated to an increase of \$1.45 in an average monthly bill of 5 mcf for a residential customer. On May 1, 2014, CenterPoint Energy, Inc. ("CenterPoint") filed its annual Rate Regulation Adjustment Rider and Weather Normalization Adjustment Rider evaluation with an earned return of 2.12% which fell below the allowed return of 9.274% and outside the range of no change of 8.274% to 10.274%, indicating the need for a revenue increase of \$4,066,534. Several adjustments were made by Joint Stipulation, the net effect of which increased the earned return to 4.36%, resulting in a revenue requirement increase of \$2,783,300, approved by the Commission on August 5, 2014. On September 15, 2014, Willmut Gas and Oil Company ("Willmut") made its annual Rate Stabilization Adjustment ("RSA") filing for the 12 months ending June 30, 2014. The filing reflected an earned ROE of 3.47% and an allowed return of 9.57% on a rate base of \$18,863,772. Because the earned return fell outside the range of no change of 8.57% to 10.57%, an upward revenue adjustment of \$911,175 was indicated. The company filed a revised RSA with an allowed ROE of 9.58% with an earned return of 3.42% on a rate base of \$18,839,080. The revised filing indicated that a revenue increase of \$919,166 was necessary. The Staff identified errors in the calculation of the earned ROE and gross and net revenue adjustments in both the original and amended filings, and noted several concerns with the filing and the current RSA tariff. The company and the Staff reached a Joint Stipulation on May 12, 2015, agreeing to no change in rates, and to review Willmut's RSA Rider in the following months for possible revisions to address various issues.

SYSTEM INTEGRITY PLAN - On May 30, 2014, Atmos filed a notice of intent to establish a System Integrity ("SI") Plan and Rural Development Pilot Program, proposing an incremental investment of \$10 million per year for SI improvements. Many of Atmos' lines were constructed 70-80 years ago and are beyond their anticipated service life, while new regulations by the U.S. Department of Transportation encourage accelerated repair and replacement of gas pipeline infrastructure. To comply, Atmos will substantially increase its SI capital budget over the next ten years, and will spend about \$29 million in 2015. The Commission adopted the stipulation entered into by Staff and Atmos on August 20, 2015, noting that Staff will review all proposed capital projects on an annual basis.

PURCHASED GAS ADJUSTMENTS - The Staff continued monitoring the purchased gas adjustments of the three major LDCs with no significant adjustments recommended. Atmos and CenterPoint engaged in Commission-approved hedging programs to help reduce the volatility of natural gas purchase prices. Staff reviewed hedging gains, losses, and related expenses which are recoverable through the PGA with no significant errors noted. In addition, the Commission entered an order allowing Staff to contract with Carr, Riggs & Ingram ("CRI") to provide PGA audit services for the three LDCs. Both Atmos and CenterPoint received clean audit opinions, with one minor issue noted for Willmut that Staff addressed with the Commission. The Commission approved CRI's audits for the twelve month period ended September 30, 2014, incorporating Staff's recommendations.

WATER & SEWER

The Staff reviewed 32 water and sewer cases that included applications for construction of facilities, applications to serve customers and applications to revise the rates and charges authorized by the Commission. The Staff audited water and sewer companies, made cost studies of construction projects, monitored construction of new facilities and examined customer service practices of water and sewer utilities. Also, the Staff reviewed over 32 water block grant applications and made recommendations to the Mississippi Development Authority.

ECONOMICS & PLANNING

Issues relating to electricity were reviewed. Kemper Plant construction monitoring by the Independent Monitor was followed and various possibilities for efficiencies were studied. ROE formulas were evaluated and redesigned. Regulatory innovation in other states was monitored. General market conditions are continually reviewed as they relate to utilities. We also assess environmental regulations that may impact costs in Mississippi. The EPA's Clean Power Plan is under review. The director is on several national committees and is a referee for research articles in academic journals.