



Idaho Public Utilities Commission

P.O. Box 83720, Boise, ID 83720-0074

C.L. Butch Otter, Governor

Paul Kjellander, Commissioner

Mack A. Redford, Commissioner

Marsha H. Smith, Commissioner

December 1, 2014

The Honorable C.L. “Butch” Otter
Governor of Idaho
Statehouse
Boise, ID 83720-0034

Dear Governor Otter:

It is my distinct pleasure to submit to you, in accordance with Idaho Code §61-214, the Idaho Public Utilities Commission 2014 Annual Report. This report is a detailed description of the most significant cases, decisions and other activities during 2014. The financial report on Page 8 is a summary of the commission’s budget through the conclusion of Fiscal Year 2014, which ended June 30, 2014.

It has been a privilege and honor serving the people of Idaho this past year.

Sincerely,

Paul Kjellander
President
Idaho Public Utilities Commission



This report and all the links inside can be accessed online from the Commission’s Website at www.puc.idaho.gov. Click on “File Room,” in the upper-left-hand-corner and then on “ IPUC 2014 Annual Report.”

Idaho Public Utilities Commission

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Executive Administrator	334-0330
Joe.leckie@puc.idaho.gov	
Executive Assistant	334-0339
gene.fadness@puc.idaho.gov	
Utilities Division	334-0367
Legal Division	334-0324
Rail Section and Pipeline Safety	334-0330
Consumer Assistance Section	334-0369
Outside Boise, Toll-Free Consumer Assistance	1-800-432-0369
Idaho Telephone Relay Service (available statewide)	
Voice:	1-800-377-1363
Text Telephone:	1-800-377-3529
TRS Information:	1-800-368-6185

With this report, the Idaho Public Utilities Commission has satisfied Idaho Code 61-214; this is a “full and complete account” of the most significant cases to come before the commission during the 2014 calendar year. (The financial report on Page 8 covers Fiscal Year July 1, 2013 through June 30, 2014.)

Anyone with access to the Internet may also review the commission’s agendas, notices, case information and decisions by visiting the IPUC’s Web site at: www.puc.idaho.gov. Commission records are also available for public inspection at the commission’s Boise office, 472 W. Washington St., Monday through Friday, 8 a.m. to 5 p.m.

The Idaho Public Utilities Commission, as outlined in its Strategic Plan, serves the citizens and utilities of Idaho by determining fair, just and reasonable rates for utility commodities and services that are to be delivered safely, reliably and efficiently. During the period covered by this report, the commission also had responsibility for ensuring all rail services operating within Idaho do so in a safe and efficient manner. The commission also has a pipeline safety section that oversees the safe operation of the intrastate natural gas pipelines and facilities in Idaho.

The Commissioners

Paul Kjellander

Commissioner Kjellander rejoined the Idaho Public Utilities Commission in April 2011 following his service as administrator of the Office of Energy Resources (OER). Kjellander, who was elected president of the commission in April 2011, was appointed to his current six-year term by Idaho Governor C.L. "Butch" Otter.



Kjellander previously served on the Commission from January 1999 until October 2007. In 2007, Governor Otter appointed Kjellander to head up the newly created OER. During his 3 ½ years at OER, Kjellander created an aggressive energy efficiency program funded through the federal American Recovery and Reinvestment Act. Kjellander was also elected to serve as a board member on the National Association of State Energy Officials.

Kjellander, a Republican, was elected to three terms (1994-1999) in the Idaho House of Representatives, where he served as a member of the House State Affairs, Judiciary and Rules, Ways and Means, Local Government and Transportation committees. During his last term in office, Kjellander was elected House Majority Caucus Chairman. His legislative service includes membership on the Legislature's Information Technology Advisory Council and the House/Senate Joint Committee on Technology. He also served as co-chairman of the Legislative Task Force on the Federal Telecommunications Act of 1996 and vice chairman of the Council of State Governments-West "Smart States Committee." His interim legislative committee assignments included the Optional Forms of County Government Committee, Capital Crimes Committee and the Private Property Rights Committee.

Kjellander has also served as director of the Distance Learning Program at Boise State University's College of Applied Technology and head of broadcast technology. At the BSU Radio Network he was station manager, director of the Special Projects Unit and director of News and Public Affairs.

Kjellander's undergraduate degrees from Muskingum College, Ohio, are in communications, psychology and art. He has a master's degree in telecommunications from Ohio University.

As a member of the National Association of Regulatory Commissioners (NARUC), Kjellander is co vice-chair of the Committee on Telecommunications and has also served on the Consumer Affairs and Electricity committees. He was appointed by the chairman of the Federal Communication Commission to the Federal/State Board of Jurisdictional Separations and served as chairman. He is currently serving as a NARUC representative to the North American Numbering Council (NANC) and the 706 Joint Board.

Marsha H. Smith

Commissioner Smith is serving her fourth term on the commission. Her current term expires in January 2015. Smith, a Democrat, served as commission president from November 1991 to April 1995.

Commissioner Smith represents Idaho on the Western Interconnection Regional Advisory Body and the State-Provincial Steering Committee.

Smith is past chair of the Western Electricity Coordinating Council (WECC) and a past president of the National Association of Regulatory Utility Commissioners (NARUC). She serves on the NARUC Board and is a member and past chair the association's Electricity Committee. She is also a member of the Steering Committee of the Northern Tier Transmission Group. She chaired the Western Interstate Energy Board's Committee for Regional Electric Power Cooperation (CREPC) from October 1999 to October 2005. She is a member of the National Council on Electricity Policy Steering Committee, the Harvard Electricity Policy Group and the Idaho State Bar.

Smith received a bachelor of science degree in biology/education from Idaho State University, a master of library science degree from Brigham Young University and her law degree from the University of Washington.

Before her appointment to the commission, Commissioner Smith served as deputy attorney general in the business regulation/consumer affairs division of the Office of the Idaho Attorney General and as deputy attorney general for the Idaho Public Utilities Commission. She was the commission's director of Policy and External Affairs and chair of the NARUC Staff Subcommittee on Telecommunications.

A fourth-generation Idahoan, Commissioner Smith has two sons.



Mack A. Redford

Commissioner Redford was appointed to the commission in February 2007 by Gov. Butch Otter. During 2008 through April 2009, he served as president of the commission. He was re-appointed by Gov. Otter in 2013. His term expires in January 2019.

At the time of his appointment, Commissioner Redford practiced law for the Boise-based firm of Elam & Burke PA, specializing in commercial transactions, construction and engineering law, mediation, real estate and general business.



Redford grew up in the Weiser and Caldwell areas, graduating from Caldwell High School. He received both his bachelor's and law degree from the University of Idaho and in 1967 became a deputy in the Idaho attorney general's office. In 1977, he became a deputy attorney general for the Trust Territory of the Pacific Islands, headquartered in Saipan, Northern Mariana Islands. The territory included a chain of 2,000 islands stretching from Hawaii to the Philippines.

In 1981, Redford became general counsel for Morrison Knudsen Engineers and Morrison Knudsen International, a position that took him to Saudi Arabia where MK was building the King Khalid Military City. In 1991, Redford was retained by TransManche Link, based in Folkestone, England, where he was legal counsel for the Channel Tunnel Contractors, the builders of the 31-mile Channel Tunnel connecting England and France. It is the second-largest rail tunnel in the world.

In 1992, Commissioner Redford joined the Boise firm of Park Redford & Burkett. In 1993, he was retained by the World Bank of the Government of Nepal as contract and claims counsel for the Arun III Hydroelectric Project. In 1996, he became general counsel for Micron Construction, which was later acquired by Kaiser Engineers. He joined the Boise law firm of Elam & Burke in 2001.

Since his appointment, Commissioner Redford has become active in the National Association of Regulatory Commissioners (NARUC) where he serves on the International Relations and Water committees as well as the Subcommittee of Nuclear Issues-Waste Disposal.

Commissioner Redford and his wife, Nancy, are the parents of two children.

IDAHO PUBLIC UTILITIES COMMISSION, 1913-2012

Commissioner	From	To
J. A. Blomquist	May 8, 1913	Jan. 11, 1915
A. P. Ramstedt	May 8, 1913	Feb. 8, 1917
D. W. Standrod	May 8, 1913	Dec. 1, 1914
John W. Graham	Dec. 1, 1914	Jan. 13, 1919
A. L. Freehafer	Jan. 14, 1915	Jan. 31, 1921
George E. Erb	Dec. 8, 1917	April 14, 1923
Everett M. Sweeley	May 23, 1919	Aug. 20, 1923
J. M. Thompson	Feb. 1, 1921	Dec. 20, 1932
Will H. Gibson	April 16, 1923	June 29, 1929
F. C. Graves	Sept. 7, 1923	Nov. 12, 1924
Frank E. Smith	March 6, 1925	Feb. 25, 1931
J. D. Rigney	July 2, 1929	Sept. 30, 1935
M. Reese Hattabaugh	March 2, 1931	Jan. 26, 1943
Harry Holden	March 27, 1933	Jan. 31, 1939
J. W. Cornell	Oct. 1, 1935	Jan. 11, 1947
R. H. Young	Feb. 1, 1939	March 19, 1944
B. Auger	Feb. 1, 1943	March 9, 1951
J. D. Rigney	March 30, 1944	April 30, 1945
W. B. Joy	May 1, 1945	March 9, 1951
H. N. Beamer	Jan. 17, 1947	Dec. 31, 1958
George R. Jones	March 12, 1951	Jan. 31, 1957
H. C. Allen	March 12, 1951	Feb. 28, 1957
A. O. Sheldon	March 1, 1957	June 30, 1967
Frank E. Meek	Feb. 1, 1957	Feb. 5, 1964
Ralph H. Wickberg	Jan. 14, 1959	Feb. 23, 1981
Harry L. Nock	May 1, 1964	Sept. 30, 1974
Ralph L. Paris	July 1, 1967	Oct. 5, 1967
J. Burns Beal	Dec. 1, 1967	April 1, 1973
Robert Lenaghan	April 1, 1973	April 15, 1979
M. Karl Shurtliff	Oct. 1, 1974	Dec. 31, 1976
Matthew J. Mullaney	Jan. 2, 1977	Feb. 15, 1977
Conley Ward, Jr.	March 7, 1977	Feb. 9, 1987
Perry Swisher	April 16, 1979	Jan. 21, 1991
Richard S. High	Feb. 24, 1981	April 30, 1987
Dean J. Miller	March 16, 1987	Jan. 30, 1995
Ralph Nelson	May 4, 1987	Feb. 12, 1999
Marsha H. Smith	Jan. 21, 1991	Now serving
Dennis S. Hansen	Feb. 1, 1995	Feb. 19, 2007
Paul Kjellander	Feb. 15, 1999	Oct. 19, 2007
Mack Redford	Feb. 19, 2007	Now serving
Jim Kempton	Oct. 22, 2007	April 1, 2011
Paul Kjellander	April 3, 2011	Now serving

Financial Summary – Fund 0229

FISCAL YEARS 2010 - 2014

<u>Description</u>	<u>FY2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>FY2013</u>	<u>FY2014</u>
Personnel Costs	\$3,369,100	\$3,275,500	\$3,304,100	\$3,491,500	\$3,528,900
Communication Costs	\$30,300	\$29,300	\$29,500	\$31,300	\$31,000
Employee Develop. Costs	\$44,200	\$46,700	\$62,500	\$55,600	\$53,200
Professional Services	\$12,900	\$12,500	\$9,800	\$9,700	\$12,300
Legal Fees	\$502,400	\$522,200	\$525,300	\$551,600	\$519,700
Employee Travel Costs	\$118,700	\$123,300	\$115,400	\$123,600	\$141,100
Fuels & Lubricants	\$2,700	\$2,900	\$4,100	\$4,700	\$2,700
Insurance	\$3,700	\$1,300	\$1,000	\$3,100	\$4,400
Rentals & Oper Leases	\$252,300	\$283,900	\$294,200	\$276,100	\$584,600
Misc. Expenditures	\$103,600	\$102,100	\$85,600	\$117,000	\$104,700
Office Equipment	\$0	\$34,400	\$0	\$13,000	\$11,900
Computer Equipment	\$0	\$0	\$24,300	\$29,200	\$66,400
Motorized/Non-Motorized Equipment	\$0	\$0	\$52,300	\$0	\$0
=====					
Total					
Expenditures	\$4,439,900	\$4,434,100	\$4,508,100	\$4,706,400	\$5,060,900
Fund 0229-20					
Appropriation	\$4,963,200	\$4,820,700	\$4,768,200	\$4,916,800	\$5,061,700

Unexpended Balance	\$523,300	\$386,600	\$260,100	\$210,400	\$800

Commission Structure and Operations

Under state law, the Idaho Public Utilities Commission supervises and regulates Idaho's investor-owned utilities – electric, gas, telecommunications and water – assuring adequate service and affixing just, reasonable and sufficient rates.

The commission does not regulate publicly owned, municipal or cooperative utilities.

The governor appoints the three commissioners with confirmation by the Idaho Senate. No more than two commissioners may be of the same political party. The commissioners serve staggered six-year terms.

The governor may remove a commissioner before his/her term has expired for dereliction of duty, corruption or incompetence.

The three-member commission was established by the 12th Session of the Idaho Legislature and was organized May 8, 1913 as the Public Utilities Commission of the State of Idaho. In 1951 it was reorganized as the Idaho Public Utilities Commission. Statutory authorities for the commission are established in Idaho Code titles 61 and 62.

The IPUC has quasi-legislative and quasi-judicial as well as executive powers and duties.

In its quasi-legislative capacity, the commission sets rates and makes rules governing utility operations. In its quasi-judicial mode, the commission hears and decides complaints, issues written orders that are similar to court orders and may have its decisions appealed to the Idaho Supreme Court. In its executive capacity, the commission enforces state laws and rules affecting the utilities and rail industries.

Commission operations are funded by fees assessed on the utilities and railroads it regulates. Annual assessments are set by the commission each year in April within limits set by law.

The commission president is its chief executive officer. Commissioners meet on the first Monday in April in odd-numbered years to elect one of their own to a two-year term as president. The president signs contracts on the commission's behalf, is the final authority in personnel matters and handles other



administrative tasks. Chairmanship of individual cases is rotated among all three commissioners.

The commission conducts its business in two types of meetings – **hearings** and **decision meetings**. Decision meetings are typically held once a week, usually on Monday.

Formal **hearings** are held on a case-by-case basis, sometimes in the service area of the impacted utility. These hearings resemble judicial proceedings and are recorded and transcribed by a court reporter.

There are **technical hearings** and **public hearings**. At technical hearings, formal parties who have been granted “intervenor status” present witness testimony and evidence, subject to cross-examination by attorneys from the other parties, staff and the commissioners. At public hearings, members of the public may testify before the commission.

In 2009, the commission began conducting telephonic public hearings to save expense and allow customers to testify from the comfort of their own homes. Commissioners and other interested parties gather in the Boise hearing room and are telephonically connected to ratepayers who call in on a toll-free line to provide testimony or listen in. A court reporter is present to take testimony by telephone, which has the same legal weight as if the person testifying were present in the hearing room. Commissioners and attorneys may also direct questions to those testifying.

The commission also conducts regular decision meetings to consider issues on an agenda prepared by the commission secretary and posted in advance of the meeting. These meetings are usually held Mondays at 1:30 p.m., although by law the commission is required to meet only once a month. Members of the public are welcome to attend decision meetings.

Typically, decision meetings consist of the commission’s review of decision memoranda prepared by commission staff. Minutes of the meetings are taken. Decisions reached at these meetings may be either final or preliminary, but subsequently become final when the commission issues a written order signed by a majority of the commission. Under the Idaho Open Meeting Law, commissioners may also privately deliberate fully submitted matters.

Commission Staff

To help ensure its decisions are fair and workable, the commission employs a staff of about 50 people – engineers, rate analysts, attorneys, accountants, investigators, economists, secretaries and other support personnel. The commission staff is organized in three divisions – administration, legal and utilities.

The staff analyzes each petition, complaint, rate increase request or application for an operating certificate received by the commission. In formal proceedings before the commission, the staff acts as a separate party to the case, presenting its own testimony, evidence and expert witnesses. The commission considers staff recommendations along with those of other participants in each case - including utilities, public, agricultural, industrial, business and consumer groups.

Administration

The Administrative Division is responsible for coordinating overall IPUC activities. The division includes the three commissioners, two policy strategists, a commission secretary, an executive administrator, an executive assistant and support personnel.

The policy strategists are executive level positions reporting directly to the commissioners with policy and technical consultation and research support regarding major regulatory issues in the areas of electricity, telecommunications, water and natural gas. Strategists are also charged with developing comprehensive policy strategy, providing assistance and advice on major litigation before the commission, public agencies and organizations. **(Contact Wayne Hart, 334-0354, or Gene Fadness, 334-0339, policy strategists.)**

The commission secretary, a post established by Idaho law, keeps a precise public record of all commission proceedings. The secretary issues notices, orders and other documents to the proper parties and is the official custodian of documents issued by and filed with the commission. Most of these documents are public records. **(Contact Jean Jewell, commission secretary, at 334-0338.)**

The executive administrator has primary responsibility for the commission's fiscal and administrative operations, preparing the commission budget and supervising fiscal, administration, public information, personnel, information systems, rail section operations and pipeline safety. The executive administrator also serves as a liaison between the commission and other state agencies and the Legislature. **(Contact Joe Leckie, executive administrator, at 334-0331.)**

The public information officer is responsible for public communication between the commission, the general public and interfacing governmental offices. The responsibility includes news releases, responses to public inquiries, coordinating and facilitating commission workshops and public hearings and the preparation and coordination of any IPUC report directed or recommended by the Idaho Legislature or Governor. **(Contact Gene Fadness, public information officer, at 334-0339.)**

Legal Division

Five deputy attorneys general are assigned to the commission from the Office of the Attorney General and have permanent offices at IPUC headquarters. The IPUC attorneys represent the staff in all matters before the commission, working closely with staff accountants, engineers, investigators and economists as they develop their recommendations for rate case and policy proceedings.

In the hearing room, IPUC attorneys coordinate the presentation of the staff's case and cross-examine other parties who submit testimony. The attorneys also represent the commission itself in state and federal courts and before other state or federal regulatory agencies. **(Contact Don Howell, legal division director, at 334-0312.)**

Utilities Division

The Utilities Division, responsible for technical and policy analysis of utility matters before the commission, is divided into four sections. **(Contact Randy Lobb, utilities division administrator, at 334-0350.)**

The **Accounting Section** of seven auditors audits utility books and records to verify reported revenue, expenses and compliance with commission orders. Staff auditors present the results of their findings in audit reports as well as in formal testimony and exhibits. When a utility requests a rate increase, cost-of-capital studies are performed to determine a recommended rate of return. Revenues, expenses and investments are analyzed to determine the amount needed for the utility to earn the recommended return on its investment. **(Contact Terri Carlock, accounting section supervisor, at 334-0356.)**

The **Engineering Section** of three engineers and two utility analysts reviews the physical operations of utilities. The staff of engineers and analysts develops computer models of utility operations and compares alternative costs to repair, replace and acquire facilities to serve utility customers. The group establishes the

price of acquiring cogeneration and renewable generation facilities and identifies the cost of serving various types of customers. They evaluate the adequacy of utility services and frequently help resolve customer complaints. ***(Contact Rick Sterling, engineering section supervisor, at 334-0351.)***

The **Technical Analysis Section** of three utility analysts and one economist determines the cost effectiveness of all Demand Side Management (DSM) programs including energy efficiency and demand response. They identify potential for new DSM programs and track the impact on utility revenues. They review utility forecasts of energy, water and natural gas usage with focus on residential self generation and rate design. ***(Contact Matt Elam, Technical Analysis section supervisor, at 334-0363.)***

The **Telecommunications Section** includes two analysts who oversee tariff and price list filings, compliance with federal and state telecommunications laws, area code oversight, Universal Service, Lifeline and Telephone Relay Service. They assist and advise the commission on technical matters that include advanced services and other matters as requested. During 2014 and 2015, telecommunications staff is conducting an analysis of the potential for broadband expansion. ***(Contact Carolee Hall, 334-0634 or Grace Seaman, 334-0352.)***

The **Consumer Assistance Section** includes five investigators who resolve conflicts between utilities and their customers. Customers faced with service disconnections often seek help in negotiating payment arrangements. Consumer Assistance may mediate disputes over billing, deposits, line extensions and other service problems.

Consumer Assistance monitors Idaho utilities to verify they are complying with commission orders and regulations. Investigators participate in general rate and policy cases when rate design and customer service issues are brought before the commission. ***(Contact Beverly Barker, administrator for the Consumer Assistance section, at 334-0302.)***

Rail Section

The Rail Section oversees the safe operations of railroads that move freight in and through Idaho and enforces state and federal regulations safeguarding the transportation of hazardous materials by rail in Idaho. The commission's rail safety specialist inspects railroad crossings and rail clearances for safety and maintenance deficiencies. The Rail Section helps investigate all railroad-crossing accidents and makes recommendations for safety improvements to crossings.

As part of its regulatory authority, the commission evaluates the discontinuance and abandonment of railroad service in Idaho by conducting an independent evaluation of each case to determine whether the abandonment of a particular railroad line would adversely affect Idaho shippers and whether the line has any profit potential. Should the commission determine abandonment would be harmful to Idaho interests, it then represents the state before the federal Surface Transportation Board, which has authority to grant or deny line abandonments. ***(Contact Joe Leckie, rail section supervisor, at 334-0331.)***

Pipeline Safety Program

The pipeline safety section oversees the safe operation of the intrastate oil and natural gas pipelines as well as interstate gathering lines in Idaho.

The commission's pipeline safety personnel verify compliance with state and federal regulations by on-site inspections of intrastate pipeline distribution systems. Part of the inspection process includes a review of record-keeping practices and compliance with design, construction, operation, maintenance and drug/alcohol abuse regulations.

Key objectives of the program are to monitor accidents and violations, to identify their contributing factors and to implement practices to avoid accidents. All reportable accidents will be investigated and appropriate reports filed with the U.S. Department of Transportation in a timely manner. ***(Contact Joe Leckie, pipeline safety program supervisor, at 334-0331.)***

Why can't you tell them no?

One of the most frequent questions we get after a utility files a rate increase application is, “**Why can't you just tell them no?**” Actually, we can, but not without evidence.

For nearly 100 years, public utility regulation has been based on this **regulatory compact** between utilities and regulators: *Regulated utilities agree to invest in the generation, transmission and distribution necessary to adequately and reliably serve all the customers in their assigned territories. In return for that promise to serve, utilities are guaranteed recovery of their prudently incurred expense along with an opportunity to earn a reasonable rate of return.* The rate of return allowed must be high enough to attract investors for the utility's capital-intensive generation, transmission and distribution projects, but not so high as to be unreasonable for customers.

In setting rates, the commission must consider the needs of **both** the utility and its customers. The commission serves the public interest, not the popular will. It is not in customers' best interest, nor is it in the interest of the State of Idaho, to have utilities that do not have the generation, transmission and distribution infrastructure to be able to provide safe, adequate and reliable electrical, natural gas and water service. This is a critical, even life-saving, service for Idaho's citizens and essential to the state's economic development and prosperity.

Unlike unregulated businesses, utilities cannot cut back on service as costs increase. As demand for electricity, natural gas and water grows, utilities are statutorily required to meet that demand. In Idaho recently, and across the nation, a continued increase in demand as well as a number of other factors have contributed to rate increases on a scale we have not witnessed before. It is not unusual now for Idaho's three major investor-owned electric utilities to file annual rate increase requests.

In light of these continued requests for rate increases, the Commission walks a fine line in balancing the needs of utilities to serve customers and customers' ability to pay.

When a rate case is filed, our staff of auditors, engineers and attorneys will take up to six months to examine the request. During that period, other parties, often representing customer groups, will “intervene” in the case for the purpose of conducting discovery, presenting evidence and cross-examining the company and other parties to the case. The Commission staff, which operates independently of the commission, will also file its own comments that result from its investigation of the company's request. The three-member Commission will also conduct technical and public hearings.

Once testimony from the company, commission staff and intervening parties is presented and testimony from hearings and written comments is taken, all of that information is included in the official record for the case. It is only from the evidence contained in this official record that the Commission can render a decision.

If the utility has met its burden of proof in demonstrating that the additional expense it incurred was 1) **necessary** to serve customers and 2) **prudently incurred**, the commission must allow the utility to recover that expense. The commission can -- and often does -- deny recovery of some or all the expense utilities seek to recover from customers if the commission is confident it has the legal justification to do so. (See pages 19 and 20.) Utilities and parties to a rate case have the right to petition the Commission for reconsideration. If reconsideration is not granted, utilities or customer groups can appeal the Commission's decision to the state Supreme Court.

In the end, the Commission's job is to ensure that customers are paying a reasonable rate and are receiving adequate and reliable service and that utilities are allowed to recover their prudently incurred expenses and earn a fair rate of return.