



## Annual End of Year Issue December 2005




### Terzic on Strategy

#### Regulation's 'Golden Rule'

By Branko Terzic, Deloitte Services, LP

How would utility executives apply the Golden Rule to management of a regulated utility? I ask because the cover story for *Business 2.0* magazine's December 2005 issue is "My Golden Rule." The article consists of statements from eminent CEOs and entrepreneurs about a single rule they wished to share. Some of the responses were insightful, others witty and few inane, but none were from an executive at a regulated utility. So I have decided to fill the gap. Here are some suggested Golden Rules for managing under regulation. If I missed any you think should have been included, please send them along.

#### 'It's all in the rate base.'

Upon joining the old Wisconsin Power & Light from Xerox in 1978, the then-young executive Errol Davis observed in a *Fortune* magazine article that utilities were a crazy business, in that one could increase earnings by redecorating one's office. Now retiring after many years as CEO of successor company Alliant Energy, Davis may have had it right from the start.

#### 'Don't fight the numbers.'

No one likes to file for a rate increase, but when it's time – it's time. There is never a good time to file for a rate increase, so why not file when the numbers indicate that it's time? Permanently lost sales volumes and many higher expenses, when not

subject to management discretion, will probably not fix themselves. So again, when it's time, it's time.

#### 'Weather happens, so deal with it.'

Cool Summers and warm Winters usually bode poorly for electric and gas utilities. Not much to be done when weather diverges from "average" except that we may now wish to reconsider what constitutes average. (This is not my endorsement of any specific global warming theory.) For management with low sales due to adverse weather, the most difficult thing to do is explain to a board of directors how low reported earnings become "authorized earnings" when normalized for weather.

#### 'The cost causer is the cost payer.'

This was a favorite of the Rev. Stanley York, former chairman of the Wisconsin Public Service Commission. It is one of those things that seems so simple in theory but turns out to be very difficult in practice. One of the first articles on electric rate design, in an 1890s electric engineering society journal, describes it in terms of a farmer's pricing of "hides, beef and tallow" from a single cow. If reminded by a reader, I may explain in a later article how this is relevant to Chairman York's observation.

#### 'Everyone is someone's native load.'

This is another chairman's favorite saying, but this one is from former FERC Chairman Martin Allday. Martin uttered

this a couple of times during the course of debate on electric rate policy at the FERC. It was even put to music during a holiday skit. This statement is much in dispute in certain states today.

#### 'When in doubt – follow the money!'

Sorting out complicated regulatory filings and rulings can be a challenging task. This is one rule I shared with my staff at both the Wisconsin PSC and FERC. Even the most obscure change in a regulatory rule affects someone's pocketbook somewhere – or the request would not have been made. Thus managers, faced with a rule change, should "follow the money" in deciding how to respond.

#### 'If the regulator ain't happy, ain't no one happy!'

This is cited with a nod to the purveyor of a T-shirt I saw with a similar sentiment about Mothers. The "regulator" in this case means not just the commissioners but the entire staff. This statement reminds us that a key competency, or rather "the" key competency, is the ability to manage under regulation.

*Branko Terzic, a former utility CEO and FERC commissioner, is global and regulatory policy leader in energy and resources at Deloitte. He can be reached at [bterzic@deloitte.com](mailto:bterzic@deloitte.com). Terzic is a regular contributor to New Power Executive.*