Alternatives to Cost-of-Service Regulation

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Here’s a few straw men…

Allowed Revenue

(Capital Investment) x (Allowed Rate of Return) +

Fuel + Purchased Power + O&M

Alternative #1: New Performance Metrics

Fuel + Purchased Power + O&M +

(Capital Investment) x (Allowed Rate of Return) +

Performance Payments

Possible Performance Metrics

Gross or net pollutions emissions - target

Gross or net electricity consumption - target

Outage frequency and duration - target

Total cost - target

Question: Which metrics, and how to rank them?

Alternative #2:
Lower Rate + New Performance Metrics

Fuel + Purchased Power + O&M +

(Capital Investment) x (Lower, Market-Based Rate) +

Performance Payments

Setting the Rate of Return

1. Index of bonds from highly-rated utilities

2. Ten-year T-bill rate plus average historical margin with highly-rated utilities

These rates are about <u>half</u> current rates.

Utility made whole if performance metrics met.

Alternative #3:
Pure Performance-Based Regulation

Fuel + Purchased Power + O&M +

~~(Capital Investment) x (Allowed Rate of Return) +~~

Performance Payments

No explicit rate of return

Utility would earn similar profit if performance metrics achieved, but no explicit tie to capital investments.

Base + Metric-tied payments

#4: Kyle-Addition

- For Profit Utility Subsidiaries - Regulated or Unregulated