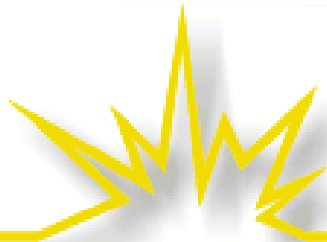


PBR

A California Example



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Overview

- SDG&E Proposed Decision
(98-01-014)
 - Basic Formula
 - Length & Offramps
 - Revenue Sharing
 - Service Quality
 - Pricing Flexibility



✓ Basic Formula

➤ $R_t = R_{t-1} * (1+P-X) + Z$

- R - revenue per customer or kWh
- P - inflation index
- X - Productivity improvement
- Z - Exogenous Factors



R - Revenue

- Choice of cust vs. kWh critical
 - DSM effect
 - Distribution Costs
 - How often are adjustments made (1 year)



P - Inflation

- Broad -- GNP deflator/CPI/WPI
- Targeted
 - Labor - Local wage index
 - Non-labor O&M - National utility index
 - Capital - Handy Whitman



X - Productivity Factor

- Rather Subjective
- Economy-wide 2 - 3% annual
- Historical performance of other utilities
- Policy goal
- "Stretch factor"



Z - Exclusions

- Large
- Outside utility control
- Not anticipated
- Not covered in P
- Consider deductible
 - \$5 million per event
 - \$10 million per year
- Hold out some activities??



Revenue sharing

- What if profits are above below expected
- Set base profit level -- 10% ROE
- If outside bandwidth rates adjusted
 - Simple -- above 13% or below 7%, share 50-50
 - Complex
 - Regressive
 - Progressive



California Example

➤ Co. Share

- ▶ 100%
- ▶ 25
- ▶ 35
- ▶ 45
- ▶ 55
- ▶ 65
- ▶ 75
- ▶ 85
- ▶ 95
- ▶ 100

➤ Earnings

- ▶ 0-25 b.p..
- ▶ 25-50
- ▶ 50-75
- ▶ 75-100
- ▶ 100-125
- ▶ 125-150
- ▶ 150-200
- ▶ 200-250
- ▶ 250-300
- ▶ 300+



Length & Offramps

- Length determines incentive level
 - 3 - 5 years common
- Offramps
 - If 150 b.p. from target, Utility or PUC can seek reopening
 - If 300 b.p from target, new rate case



Service Quality - 1

- PBR may give incentives to cut corners
- Specific items may vary depending on goals



Service Quality - 2

- Common in US
 - Number of outages (exclude unique events)
 - Duration of outages
 - Employee Safety
 - Customer satisfaction survey
 - Call center response
 - On-time appointments



Service quality structure

- Duration of outages
 - Benchmark - 52 min
 - Deadband - 0 min
 - Liveband - 15 min
 - Incentive \$250,000 per min
 - Max. incentive \$3,750,000
 - Symmetric? - Yes
- Other approach - direct payments
 - If appointment not kept, customer gets \$50



Pricing Flexibility

- Should Utility be allowed to offer discounts to encourage new business?
- Value of service pricing
- Could allow utility to make own assessment of need for discounts
- Can be difficult after PBR period