

# Revenue Stability Model Rate Rider

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# Traditional Regulation: The Throughput Problem

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- Traditional ROR regulation sets *prices*, not *revenues*
  - The revenue requirement is simply an estimate of the total cost to provide service
- Without adjustment, consumption-based rates (\$/kWh and \$/kW) link profits to sales
  - The more kilowatt-hours a utility sells, the more money it makes
  - This is because, in most hours, the price of electricity is greater than the cost to produce it
    - *Utility makes money even when the additional usage is wasteful, and loses it even when the reduced sales are efficient*
- The profit incentive to increase sales is extremely powerful

# Manager A: Purple Results

## Manager B: Green Results

### Which Manager Gets Promoted?

% Change in Sales	Revenue Change		Impact on Earnings		
	Pre-tax	After-tax	Net Earnings	% Change	Actual ROE
5.00%	\$9,047,538	\$5,880,900	\$15,780,900	59.40%	17.53%
4.00%	\$7,238,031	\$4,704,720	\$14,604,720	47.52%	16.23%
3.00%	\$5,428,523	\$3,528,540	\$13,428,540	35.64%	14.92%
2.00%	\$3,619,015	\$2,352,360	\$12,252,360	23.76%	13.61%
1.00%	\$1,809,508	\$1,176,180	\$11,076,180	11.88%	12.31%
0.00%	\$0	\$0	\$9,900,000	0.00%	11.00%
-1.00%	-\$1,809,508	-\$1,176,180	\$8,723,820	-11.88%	9.69%
-2.00%	-\$3,619,015	-\$2,352,360	\$7,547,640	-23.76%	8.39%
-3.00%	-\$5,428,523	-\$3,528,540	\$6,371,460	-35.64%	7.08%
-4.00%	-\$7,238,031	-\$4,704,720	\$5,195,280	-47.52%	5.77%
-5.00%	-\$9,047,538	-\$5,880,900	\$4,019,100	-59.40%	4.47%



# Approaches Considered

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## ➤ Rate Design

- High fixed charges
- Removes customer incentive for efficiency
- Ignores real-life connection between consumption and costs

## ➤ Lost Revenue Adjustment

- Tracks revenues lost from specific energy efficiency or distributed resource programs
- High maintenance, potential for controversy & litigation

## ➤ Revenue Per Customer Decoupling

- Easy to implement – data comes from customer billing records
- Maintains customer incentives while removing utility disincentives



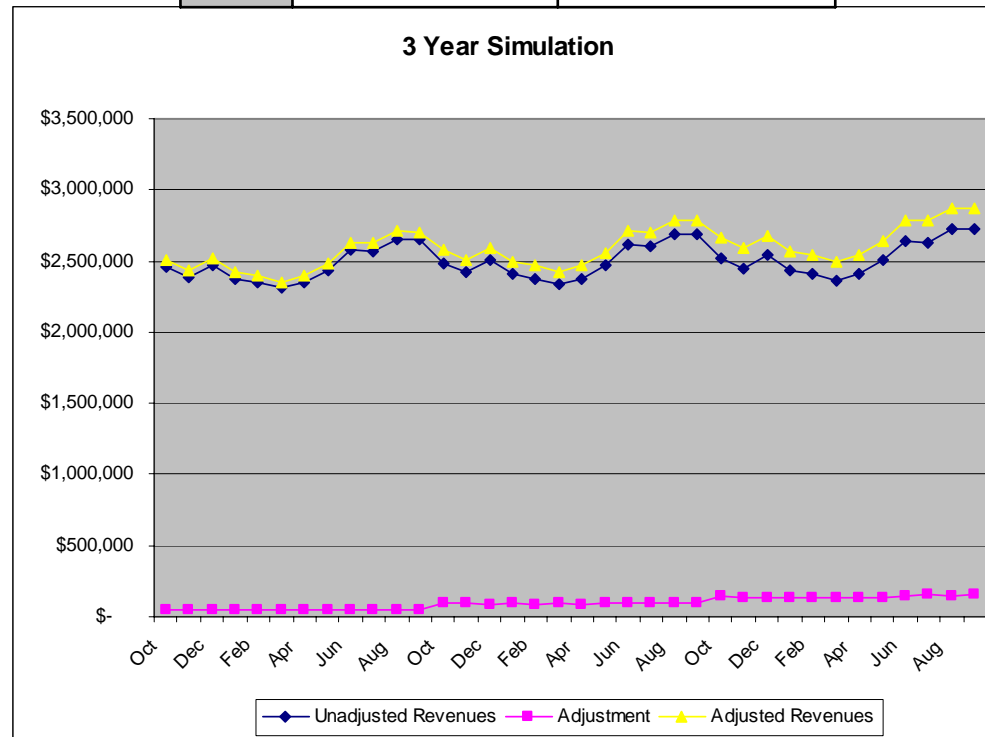
# Model Rate Rider: How It Works

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- Revenues = Number of Customers X Target Revenue per Customer
  - Changes in average customer consumption no longer changes revenues or profits
- Monthly Adjustments
  - Keeps adjustments smaller
  - Maintains seasonality of revenue stream
- Adjustments (through “K Factor”) can be made to reflect growth objectives/conditions

# PPL Simulation: Large General Service (LP-4): 2%/Yr. EE-DR & 3%/Yr. Customer Growth

Sum of Monthly Adjustments		
Year	Dollars	% Revenues
1	\$ 574,142	1.94%
2	\$ 1,136,800	3.80%
3	\$ 1,688,206	5.56%





# Finally:

## A Note About Prices

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- Customers do NOT all pay the same revenues!
- Customer Prices are still set on a volumetric basis
  - Class Average is driver for allowed revenue
  - Individual consumer bills still vary with consumption
- Consumers garner benefits of reduced consumption, while utility is held harmless from improved efficiency