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Electric Utility Revenue Stability Adjustment Factor

Section 1 – Background and Description

The Regulatory Subgroup of MADRI has been requested by the Steering Committee to prepare a model framework for implementing a revenue stability mechanism, previously referred to as the Revenue Stability Adjustment Factor, designed to mitigate the dependent relationship between electric distribution energy sales and profits, otherwise known as the “throughput incentive.”

A per-customer revenue stability mechanism is widely regarded as the best approach to meet this objective. This approach has already been implemented for distribution rates by Baltimore Gas & Electric and Washington Gas in Maryland. The Regulatory Workgroup has used these existing mechanisms from Maryland to craft a model framework for electric utilities.

The Revenue Stability Adjustment Factor is designed to keep electric utility per-customer revenue collections at a relatively stable level. This type of mechanism works in the same way as the fuel and purchased power cost adjustment mechanisms that have been in general use within the US regulatory scheme for a number of years; it is designed to function as a rider to certain basic rate schedules and to stabilize revenues by periodically adjusting base rates to eliminate swings in revenue collections associated with changes in average consumption by customers.

The Revenue Stability Adjustment Factor is not intended to introduce shortfalls or windfalls in revenues relative to what the utility would have experienced in the absence of the adjustment. Rather, it is intended to shield the utility from the adverse impacts of reduced consumption by consumers as a result of the deployment of demand-side resources such as distributed generation, load management and energy efficiency. In the absence of additional refinements in the computation of the revenues to be collected by the Revenue Stability Adjustment Factor, a significant difference between the incremental revenues associated with the addition or subtraction of customers and the average revenues for all customers could conceivably introduce such shortfalls or windfalls. To prevent this, the revenues to be generated by the Revenue Stability Adjustment Factor should be modified to reflect this difference. This is accomplished in this model rate rider through the use of a “K” factor which is used to refine the revenue shortage or excess to be collected by the Revenue Stability Adjustment Factor, as further described below.

The full “cycle” for this mechanism involves the following steps:

- A. Test-year revenue requirements should be established for the customer, demand, and energy charge components for each rate schedule to which this rider applies. This process can involve newly authorized revenue requirements set in a pending rate case, or it can rely on the most recent rate case information if no current rate case is underway.
- B. Determine a date on which the Revenue Stability Adjustment Clause is to be effective.

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C. There are three different “months” used in each Revenue Stability Adjustment Factor calculation:

- The “Reference Month” refers to the months for which actual billing data is used in the calculations. In the existing draft Model Rate Rider, the reference month is assumed to be the two calendar months prior to the Filing Month.
- The “Filing Month” refers to the month in which an actual calculation or reconciliation report is filed with the commission. The filing will use actual data from the Reference Month to compute the revenue adjustment factors. These factors will then be applied to bills in the billing month.
- The billing month is a month subsequent to the filing month in which the revenue adjustment factors are applied to bills. In the model rate rider, the billing month will follow the Filing Month by two calendar months.

D. Prepare Section 3 Filing Form for each applicable rate schedule and make filing on or before the 10th day of the filing month. [Note: Section 3 Filing Form not yet drafted].

E. Each subsequent filing month would use three different types of data:

- Test year data is used as the base for computing the target revenues for each tariff component, based on the per-customer average billing units for that component. Test year data is assumed to be based on the test information for each calendar month in the test year, in order to capture expected monthly deviations in consumption. This data may be weather normalized, but should match the underlying billing units used to compute the current tariff rates. Test year data is also used to compute a “K” factor for the kWh and kW (if applicable) distribution charges. The K factor is computed by comparing use per customers associated with customer growth during the test year to average use per customer for all customers in a given class.
- Reference Month data is used to reflect actual consumption in the form of billing units on bills actually sent to customers. Reference Month billing units are multiplied by the average consumption in the Test Year data and by the number of customers in the Reference Month to derive “Target Revenues.” Reference month billing units are multiplied by tariff revenues to derive actual revenues for the reference month. The difference between Target Revenues and actual revenues represents the revenue increase or decrease that must be generated by the adjustment factor.
- Forecast Billing Month billing units are used in conjunction with the revenue shortfall or overage to compute an adjustment factor for the given tariff component (demand or energy).

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Section 2 – Model Rate Rider for a Revenue Stability Adjustment Factor

1. Applicability


This Rider is applicable to the following rate schedules:

[list applicable rate schedules].

2. Definitions

- 2.1. **Test Year Revenues** means the expected revenues for the applicable rate schedule as calculated when the rate schedule rates were last set, excluding the adjustments made in this rate schedule.
- 2.2. **Revenue Stability Demand Charge Adjustment Factor** means the additional demand charge or demand credit provided for in this rate schedule and to be applied to customers' bills during the Billing Month.
- 2.3. **Expected Demand Charge Adjustment Factor Revenues** means the amount of revenues for demand charges that had been expected to be collected during the Reference Month through the application of the Revenue Stability Demand Charge Adjustment Factor, based on the use of the estimated billing units used in the computation of the Revenue Stability Demand Charge Adjustment Factor for the Reference Month,
- 2.4. **Actual Demand Charge Adjustment Factor Revenues** means the amount of revenues for demand charges actually collected during the Reference Month, based on the actual billings units used in computation of bills sent to customers during the Reference Month.
- 2.5. **Change in Demand Charge Revenues** means the test year average use per customer (measured in kW demand) multiplied by the change in number of customers since the like-month during the test year and multiplied by the demand charge for the applicable rate schedule and multiplied by the Demand Charge K Factor.
- 2.6. **Revenue Stability Energy Charge Adjustment Factor** means the additional energy charge or energy credit provided for in this rate schedule and to be applied to customers' bills during the Billing Month.
- 2.7. **Expected Energy Charge Adjustment Factor Revenues** means the amount of revenues for energy charges that had been expected to be collected during the Reference Month through the application of the Revenue Stability Energy Charge Adjustment Factor, based on the use of the estimated billing units used in the computation of the Revenue Stability Energy Adjustment Factor for the Reference Month,

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- 2.8. **Actual Energy Charge Adjustment Factor Revenues** means the amount of revenues for energy charges actually collected during the Reference Month, based on the actual billings units used in computation of bills sent to customers during the Reference Month.
- 2.9. **Change in Energy Charge Revenues** means the test year average use per customer (measured in kWh multiplied by the change in number of customers since the like-month during the test year and multiplied by the energy charge for the applicable rate schedule and multiplied by the Energy Charge K Factor.
- 2.10. **Filing Month** means the month in which a Revenue Stability Adjustment Reconciliation filing is .
- 2.11. **Reference Month** means the month that is two months prior to the filing month.
- 2.12. **Reference Month Revenues** means the actual revenues billed during the Reference Month.
- 2.13. **Billing Month** means the month that is the second succeeding month after the Filing Month and is the month during which the Revenue Stability Adjustment is applied to customers' bills.
- 2.14. **Estimated Customer Charge Billing Units** means the billings units expected to be used for customer charges on customers' bills during the Billing Month.
- 2.15. **Estimated Demand Billing Units** means the billing units expected to be used for demand charges on customers' bills during the Billing Month.
- 2.16. **Estimated Energy Billing Units** means the billing units expected to be used for energy charges on the customers' bills during the Billing Month.
- 2.17. **Average Energy Revenue** means the Test Year Energy Billing Units divided by the number of Test Year Customers and is computed separately for each billing class of customers.
- 2.18. **Incremental Energy Revenues** means the change in Test Year Energy Billing Units during the Test Year divided by the change in the number of Test Year Customers during the Test Year and is computed separately for each billing class of customers.
- 2.19. **Energy Charge K Factor (K_e)** means the Average Energy Revenue divided by Incremental Energy Revenues and is computed separately for each billing class of customers.
- 2.20. **Average Demand Revenue** means the Test Year Demand Billing Units divided by the number of Test Year Customers and is computed separately for each billing class of customers.

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- 2.21. **Incremental Demand Revenues** means the change in Test Year Demand Billing Units during the Test Year divided by the change in the number of Test Year Customers during the Test Year and is computed separately for each billing class of customers.
- 2.22. **Demand Charge K Factor (K_d)** means the Average Energy Revenue divided by Incremental Energy Revenues and is computed separately for each billing class of customers.

3. Revenue Stability Adjustment Factor

In addition to the amounts otherwise due from the customer under the customer's applicable rate schedule, the customer shall pay an additional amount, in the case of a positive adjustment, or receive a credit, in the case of a negative adjustment, equal to the Customer Charge Revenue Stability Adjustment Factor, the Demand Charge Revenue Stability Adjustment Factor and the Energy Charge Revenue Stability Adjustment Factor as calculated in Section 4 of this rate rider multiplied by the customer's customer, demand and energy billing units, respectively, appearing on the actual bill to which each such adjustment factor is being applied.

4. Calculation of Revenue Stability Adjustment Factors

- 4.1. **Customer Charge Revenue Stability Adjustment Factor** – The Customer Charge Revenue Stability Adjustment Factors is equal to the sum of the amounts resulting from the calculations in Sections. 4.1.1 and 4.1.2 below:
- 4.1.1. **Change in Customer Charge Revenues** – The Change in Customer Charge Revenues divided by Estimated Customer Charge Billing Units.
- 4.1.2. **Reconciliation of Differences Between Previously Estimated Customer Charge Billing Units and Actual Customer Charge Billing Units for the Reference Month** – An amount equal to the difference between Expected Customer Charge Adjustment Factor Revenues and Actual Customer Charge Adjustment Factor Revenues divided by Estimated Customer Charge Billing Units.
- 4.2. **Demand Charge Revenue Stability Adjustment Factor** -- The Demand Charge Revenue Stability Adjustment Factor is equal to the sum of the amounts resulting from the calculations in items 4.2.1 and 4.2.2 below:
- 4.2.1. **Change in Demand Charge Revenues** – The Change in Demand Charge Revenues divided by Estimated Demand Charge Billing Units.
- 4.2.2. **Reconciliation of Differences Between Previously Estimated Demand Billing Units and Actual Demand Billing Units for the Reference Month** – An amount equal to the difference between Expected Demand Adjustment Factor Revenues and Actual Demand Adjustment Factor Revenues divided by Estimated Demand Charge Billing Units.

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4.3. **Energy Charge Revenue Stability Adjustment Factor** -- The Energy Charge Revenue Stability Adjustment Factor is equal to the sum of the amounts resulting from the calculations in items 4.3.1 and **Error! Reference source not found.** below:

4.3.1. **Change in Energy Charge Revenues** – The Change in Energy Charge Revenues divided by Estimated Energy Charge Billing Units.

4.3.2. **Reconciliation of Differences Between Previously Estimated Billing Units and Actual Billing Units for the Reference Month** – An amount equal to the difference between Expected Energy Charge Adjustment Factor Revenues and Actual Energy Charge Adjustment Factor Revenues divided by Estimated Energy Charge Billing Units.

5. Monthly Filing

A Revenue Stability Adjustment Factor Reconciliation shall be filed monthly with the Public Service Commission (Commission) and become part of the Company's approved rates and tariffs, subject to any other rules and procedures of the Commission.

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Section 3 –Model Revenue Stability Reconciliation Form

[to be developed]

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Section 4 – Sample Completed Revenue Stability Reconciliation Form

See associated Microsoft Excel Document available at:

<http://WWW.raonline.org/MADRI/Archives/Uploads/Decoupling.zip>