THE GAS COMPANY

Act 95 Workshop

Regulatory Framework Under PBR

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Regulatory Framework Under PBR

Act 95 requires the Commission to develop and implement a utility ratemaking structure that:

- Provides incentives for electric utilities to use cost-effective renewable resources
- May include performance-based ratemaking
- Allows deviations from RPS
- Maintains electric utility profit margins

Regulatory Framework Under PBR

Initial Concept Paper

TGC Comments

- Consider impacts on other regulated utilities' rate structures

- Model modifications to current rate design policies:
  - Eliminate inter- and intra-class subsidization

- Mainland PBR experiences may not be transferable
  - Typically promote measurable metrics, e.g., costs and service quality
  - Require use of inflation adjusters and productivity factors
  - Complexity reduces "transparency" for regulators and customers

Regulatory Framework Under PBR

Forms of PBR

Price Cap

- Rates are allowed to increase in relation to specific factors, e.g., inflation
- Revenue decreases if sales are limited/reduced, e.g., through conservation, energy efficiency, DG

Revenue Cap

- Utility's return independent of sales levels
- May require separate incentive mechanism for investment in renewables
- Revenue caps can be applied at any level -- customer, class, or overall

Regulatory Framework Under PBR

Alternative Regulatory Actions to Promote RPS Compliance

- Include non-utility on-site generation in RPS calculations by electric utilities
- Statewide competitive bidding regime for all new generation resources with externalities advantage for renewables
- Revisit Integrated Resource Planning