



Bureau of
Energy Resources,
United States
Department of State



National
Association of
Regulatory
Utility
Commissioners

Tools for Regulators to Incentivize Better Licensee Performance

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Purpose of Regulation

- Natural Monopoly
- Essential Service
- Illinois: The General Assembly finds that the health, welfare and prosperity of all Illinois citizens require the provision of adequate, efficient, reliable, environmentally safe and least-cost public utility services at prices which accurately reflect the long-term cost of such services and which are equitable to all citizens.



Incentives

- RAP – “all regulation is incentive regulation”
- Cost of Service/Cost-plus
- Formula
- Performance-based



Incentives

- UK - RIIO – Revenue set with Incentives for delivering Innovation and Outputs
- Illinois example
 - Annual rate cases with reconciliations
 - Automatic Return on Equity (ROE) deductions if certain metrics are not met



Illinois EIMA – “Formula Rates”

- For Utilities
- Electric Infrastructure Modernization Act
- P.A. 97-616, eff. 01-26-2011 & trailer bills
 - 16-108.5 - Formula Rates
 - 16-108.6 - Smart Grid Advanced Metering Infrastructure Deployment Plan
 - 16-108.7 – Illinois Science and Energy Innovation Trust



Comparison of Two Ratemaking Proceedings

Traditional Rate Case

Rates set for an indefinite period.

Rates are set to recover
representative costs on a going
forward basis. Test year.

Utility files new rate case when its
earnings are deemed insufficient.

11 month process.

No reconciliation or “true-up” to
actual costs.

No ROE collar adjustments.

With rate design determination.

Illinois Formula Rate Case

Rates set annually and takes
effect the following January.

Rates set to recover actual costs
for the next year using
estimates based on prior year.

Utility files updates May 1 to set
next year’s rates. 240 day
process.

With ROE collar adjustments.

Metrics can affect ROE.

No rate design determination.



Illinois Public Utility Act Section 16-108.5(f) Nine Metrics

1. 20% improvement in SAIFI
 2. 15% improvement in CAIDI
 3. 20% improvement in SAIFI for its Southern Region and Northeast Region
 4. 75% improvement in the total number of customers who exceed the service reliability targets
 5. Reduction in issuance of estimated electric bills: 90% or 56%
 6. Consumption on inactive meters: 90% or 56%
 7. Unaccounted for energy: 50%
 8. Uncollectible expense: \$30,000,000 or \$3,500,000
 9. Opportunities for minority-owned and female-owned business enterprises
- Using various baselines outlined in the law



Return on Equity (ROE) collar adjustments

- Reconciliation Collar
- Downward adjustment of up to 40 basis points for missing metrics, between 5 and 7 basis points per metric



Illinois Admin Code Part 411

- Definitions
- Metrics and Reporting
- Customer satisfaction



Other Requirements and Incentives

- Other Customer Obligations
- Investigative authority; penalties and fines



What about RES?

- Alternative Retail Electric Suppliers
- Certification, Obligations, Reporting
- Retail Markets



Additional Avenues for Incentivizing

- Market based rate-setting
 - What does the market incentivize?
- Administrative change example - PJM reliability product in base residual capacity auction, Capacity Performance (CP)



Lessons Learned

- Should be a real economic incentive to provide high-reliability delivery performance
- Practical but challenging
- Incentives can go both ways



What Are You Incentivizing?

- Regulatory agreement
- Goals for your jurisdiction
- Best regulatory options



Questions?

