Commission Impartiality, cont'd.

- Funding-- usually funded by an assessment based on the revenues of the companies under its jurisdictions, i.e., kWh or Mcf sold.
  - These assessments are then collected from the customers through their bills.
  - Thus a commission's funding is usually not subject to political pressures (commissions still adhere to normal state budgetary process).

Economic Regulation

Fair Return Opportunity

- Realistic chance to obtain a market derived cost of capital
- Opportunity for higher profits for exceptional performance
- Incentives for innovation and improvements

Government Duties

- Selection of workable market model
- Establishment of viable initial starting position
- Recognition of regional realities in energy and financial markets
- Establish effective regulation

Role of government policy

- Appropriate government policy in market structure can attract capital at reasonable cost
- To finance adequate service supply and reliability
- At reasonable costs to consumers

Reminder: Regulation Affects Value (and capital attraction)

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- Government policy, implemented by regulation, has a direct affect on value both in the process of privatization and after privatization.

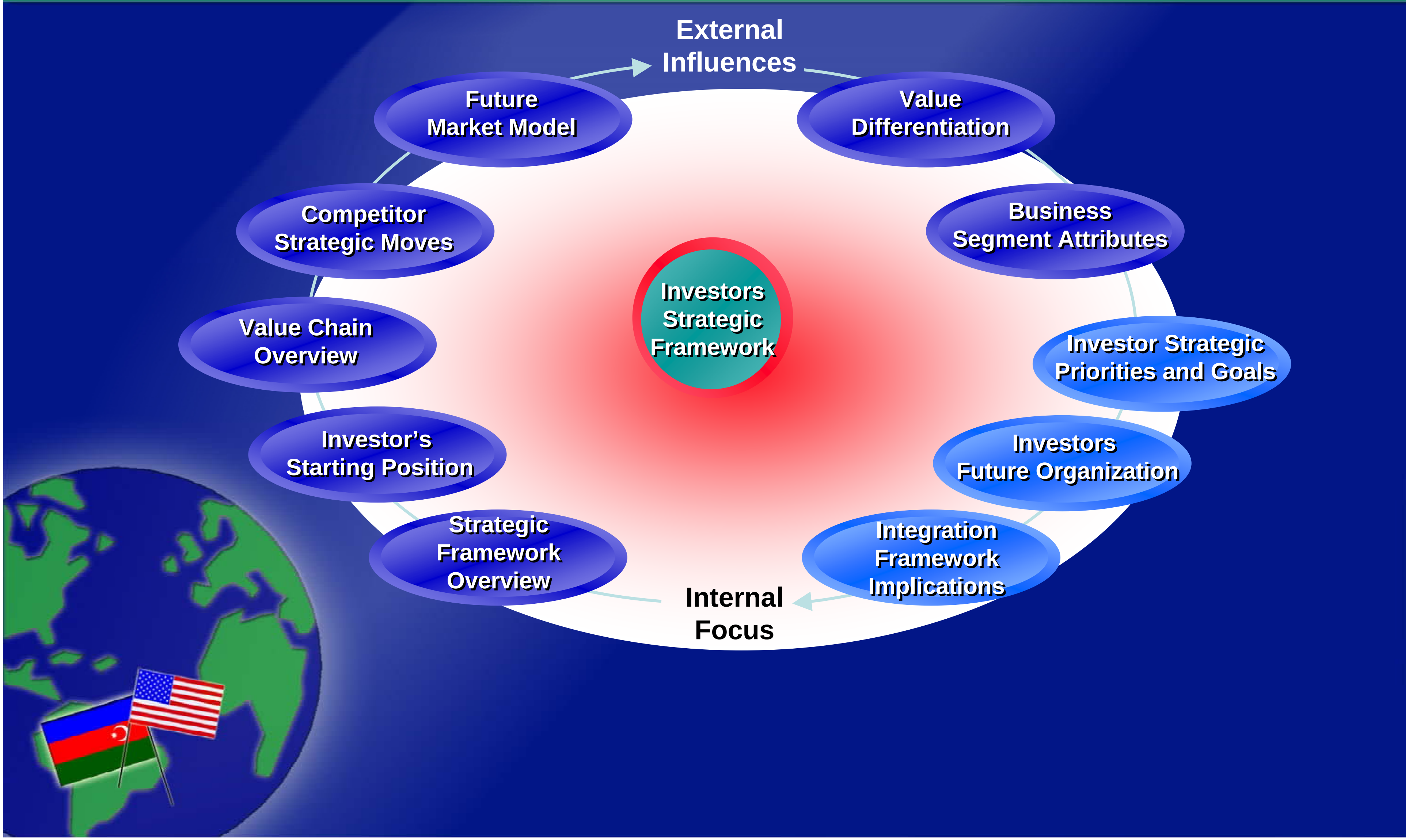
How government policy attracts capital

- Stable government and economic policies
- Predictable regulation
- Recognition by regulators of requirements of capital markets
- Desire to maintain national economic competitiveness

The Problem: Balancing Value Creation with public interest

Governments have multiple goals available when deciding to restructure and privatize any segment of the economy. At the same time <u>investors have many choices</u> including: country, industry, individual company, and choice of stocks versus bonds.

Investor’s Strategic Framework



Regulation Related to Consumer Welfare

- Low-Income Programs: to enable low-income customers some level of basic utility service.

- Weatherization Programs: to provide improvements to homes of low-income customers so that energy is used efficiently.

- Universal Life Line Rates: to provide basic telephone service . . .

Tariffs:
What Do They Represent

- Tariffs represent the schedules under which the total revenue of a company allowed by a regulatory commission is collected from its customers based on the class of service as well as type of service within each class.

- All customer bills have to reflect the rates published in the tariffs.

- Usually, no tariff can be changed without the approval of the regulatory commission.

Tariffs: What Do They Represent, cont'd.

- Tariff are public documents that are on file with the regulatory commission and available to the public on request.
- These days, most companies include their tariffs on their Web pages.
- A customer's bill that is in dispute is governed by the tariff that was last approved by the regulatory commission.

Tariffs:
What Do They Represent, cont'd.

- Since the tariffs are based on an estimated calculation of a company's annual revenue requirements, most regulatory commissions have the authority to examine a company's records if the commission believes that the company is earning over its authorized rate of return.

- Conversely, a company can request a rate increase if its current rate structure (and tariffs) result in under-earnings.

Tariffs:
What Do They Represent, cont'd.

- Either situation usually results in a complete rate case.
- Therefore, if an item is not in a commission-approved tariff, that item cannot be on a customer's bill!

Environmentally Beneficial Decisions

- Demand Side Management
- Time of Use Rates
- Renewable Portfolio Standards
- Generation and Transmission sitings

Environmentally Beneficial Decisions, cont'd.

Demand-Side Management (DSM)

- To protect natural resources (such as fossil fuels and water) from misuse or excessive use, DSM can be required of companies.
- Instead of only focusing on increasing supply to meet growing electricity or water needs, the utility company institutes commission-approved DSM programs of giving incentives for consumers to change demand behavior.
- For example, use of appropriately-sized appliances.

Environmentally Beneficial Decisions, cont'd.

Time-of-Use (TOU) Rates

- TOU Rates are different rates for different times of the day, such as off-peak and on-peak.
- TOU Rates is also an incentive for consumers to change their demand pattern so that, ultimately, growing electricity or water needs are met by changing the load profiles of the company.
- The goal is to conserve natural resources.
- TOU rates can be different for large (industrial), medium (commercial), and small (domestic) consumers.

In Conclusion

- Specific needs--Rate regulation has to be done carefully and adapted to each jurisdiction's requirements.

- Transparency--Governments need to establish transparent objectives

- Objectives-- must be compatible and proportionate

- Laws-- should be written enable regulators to meet objectives in most efficient and flexible manner

- Markets-- should be as close to natural as possible

Introduction to Regulation

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