

Addressing RES Revenue Extremes



NARUC/USAID Energy Regulatory Partnership Program

The Public Services Regulatory Commission of Armenia
And
The Iowa Utilities Board

Windfalls and Shortfalls

- Need to balance interests of RES investors and retail ratepayers
 - Investors need opportunity to earn a reasonable return
 - Ratepayers should not have to pay rates resulting in unreasonably high profits to RES investors
- Simple fixed payment per unit risks over or underpayment



Variable Pricing

- Variable pricing can balance interests
 - Ensure revenues are sufficient to encourage investment
 - Ratepayers secure hedging benefit if electricity prices increase



Variable Pricing

- Many variations:
 - Can affect all or part of rate
 - constant premium or sliding
 - typically tied to market price for electric power



Constant Premium

- Constant premium is a fixed premium over the market price
- Good for dispatchable generation, as it creates an incentive to generate when demand and the market price are high
- However, does not address risk of paying more than necessary to attract investment



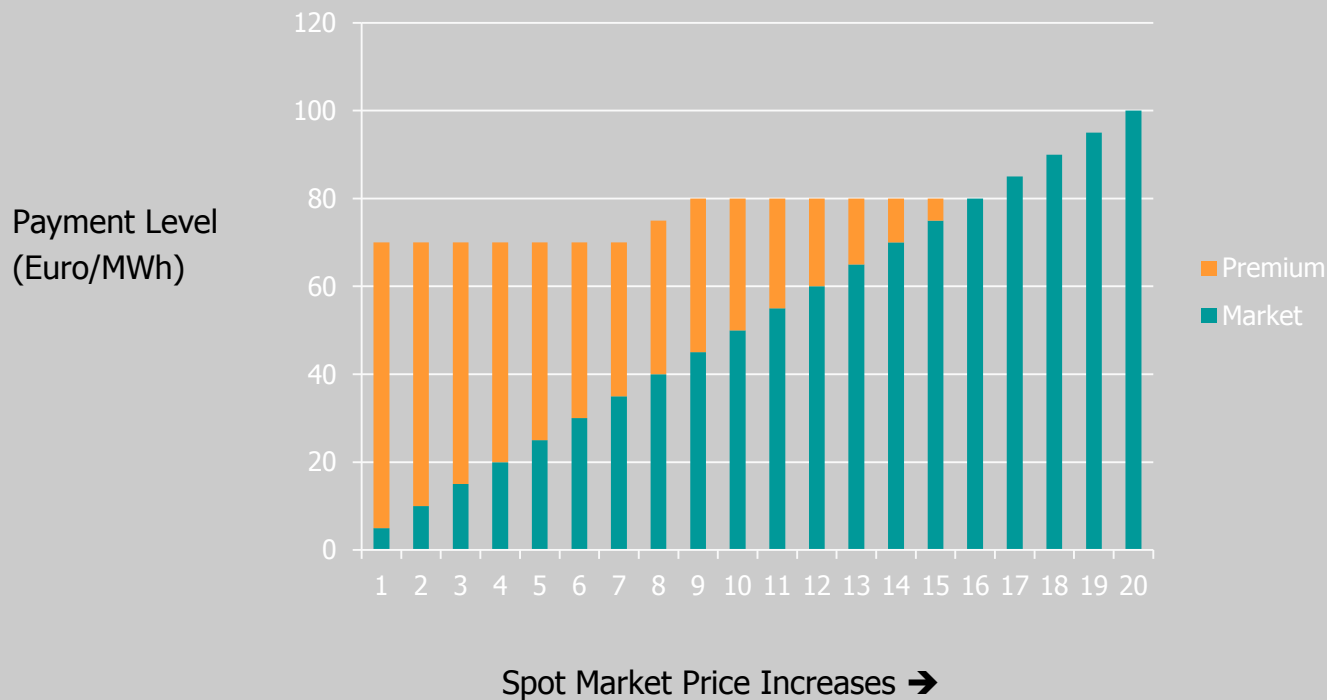
Variable Premium

- Variable premium pays a different premium depending on the market price
- Sliding scale uses cap and floor
- Spot market gap model has a cap



Sliding Scale Example

- Variable premium with floor and cap



Spot Market Gap Model

- Premium is capped at investor requirement, 8 cents/kWh here:

