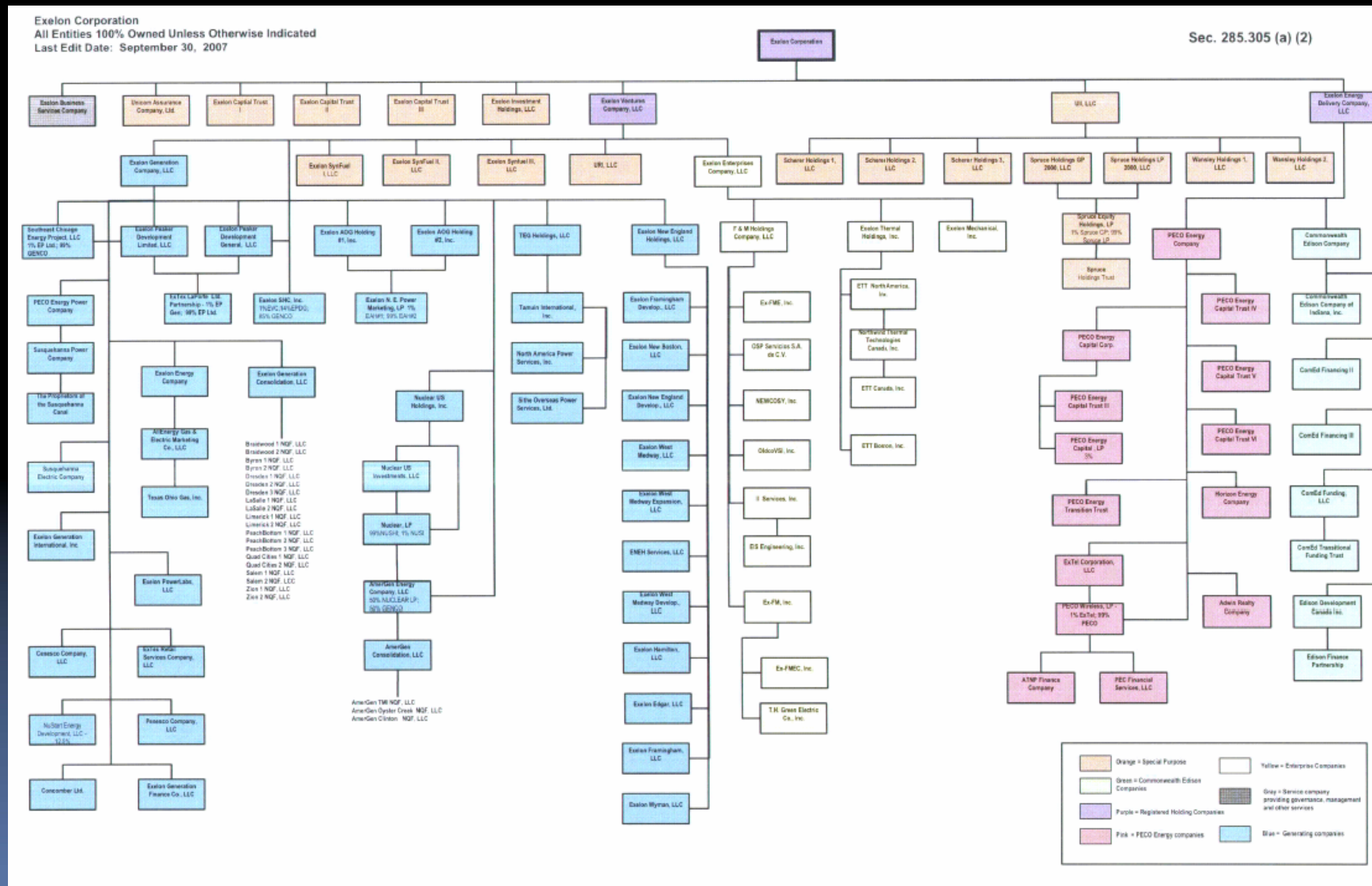


Preventing Regulated Operations from Subsidizing Competitive Ones

## **STRUCTURAL ISSUES**

# The Challenge...



# The Tools

- Structural separation
- Functional separation
- Integrated distribution company
- Centralized services company
- Affiliate operating agreements

# Structural Separation

- Separate entities
- Common ownership and control
- Regulate intercompany transactions
- Limit information exchange

# Functional Separation

- One entity with both regulated and competitive operations
- Independent functioning
  - Physical separation
  - Limit employee transfers
  - Prohibit joint marketing and advertising
  - Limit sharing of customer information
  - Prohibit tying

# Integrated Distribution Company

- Utility elects not to provide any “unregulated” electric service.
- Utility may not promote, advertise, or market supply services.
- Utility may not discriminate in processing requests for service.

# Centralized Service Company

- Separate entity under common ownership
- CSC provides administrative and management services to several affiliated entities.
- Regulator needs access to CSC books and records related to transactions with the utility.
- Operating agreement defines services and sets prices.

# Affiliate Operating Agreement

- Identifies the services that the utility and its affiliate(s) may provide to one another.
- Sets the terms and conditions for providing those services.
- Defines the methodology for setting the prices of those services.