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UTILITY MODELS:

QUESTIONS FOR REGULATORS AND STAKEHOLDERS TO ASK AND ANSWER AS UTILITIES EVOLVE

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Every utility regulatory model has embedded incentives. This list is intended to help state policymakers and other stakeholders pinpoint questions they can ask and answer to explore how incentives from cost of service regulation and performance regulation relate to today's power system goals.[*]

QUESTIONS FOR STATES WITH COST OF SERVICE REGULATION

- What types of utility activities or investments does the current financial structure incent? Is it equipped to provide comprehensive and coordinated solutions across issues facing utilities today and in the future?
- What do customers want? What role does customer satisfaction play in utility profitability?
- What policy, financial, market, and operational considerations, constraints, and opportunities should be analyzed to determine an appropriate role for utilities going forward? Should they be the sole providers of electricity services or should they enable a role for customers and third-party providers?
- Are current financial incentives for utilities aligned with efficient utility operations, adequate and reliable service for consumers, and just and reasonable rates? Are they aligned with goals for environmental performance?
- In addition to well-known monopoly incentives, have utility monopsony incentives been analyzed? Are there ways to regulate monopsony incentives in the public interest?

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[*] For more information, see:
http://energyinnovation.org/resources/our-publications/going-deep-performance-based-regulation/
http://westernenergyboard.org/wp-content/uploads/2015/03/03-09-15-Synapse-WIEB-Utility-Performance-Incentives
http://americaspowerplan.org

- How will today’s regulation lead utilities toward constructive responses to new challenges that require innovation, such as new technology, changing customer preferences, security, and storm damage recovery? Does today’s regulation reward adaptation and innovation?
- How does current utility planning handle risk management? What does this mean for customers? For utility investors?
- What is the state of communications and trust among those engaged in regulation? Are communications open and broad-ranging or constrained to taking positions in formal, litigated cases? Are there opportunities to improve the amount and quality of utility stakeholder communications?
- If commission time and resources are constrained, is there potential to reorient away from case dispute resolution and toward longer-term policy and planning?
- Could formula-based approaches or revenue caps with periodic, planned rate cases provide a more efficient way to set rates?

QUESTIONS FOR STATES ASSESSING PROPOSALS FOR PERFORMANCE REGULATION

- What standards, metrics, or measurements are already in place and how has the utility performed against those? How do these complement newly proposed incentives?
- Have the overall goals of the performance regulation program been clearly defined?
- Have particular outputs and quantitative metrics been associated with overall program goals? Can these metrics be tracked and verified with existing or easily-obtained data?
- How do the new goals and metrics relate to existing standards and metrics?
- Who are the stakeholders—those with a stake in utility goals sufficient to motivate their inclusion in discussions about defining those goals? Have they been adequately consulted?
- How will future performance be reported? Would a template or a scorecard be appropriate?
- Is there sufficient knowledge about historical and likely future utility performance to set ambitious but reasonable targets for new metrics? How far into the future should targets be set in order to give utilities adequate time to pursue sustainable new business activities?
- Would incentives and penalties be appropriate to focus utility endeavors on new goals? Would it be appropriate to incent or penalize performance on some of the metrics and track others for future consideration?
- What is an appropriate overall financial impact on the utility for the full set of incentives and penalties? How does this relate to the level of ambition of the targets? Is a higher return appropriate for utilities if they take on more risk to facilitate the transition?

- Are the costs and benefits of performance incentives reasonably balanced? Are symmetrical or asymmetrical performance rewards and penalties better suited to the circumstances? What would capture utility management attention? How should effects on utility investors be factored into this calculus?
- What is the trade-off between tying metrics as closely to goals as possible and ensuring performance is firmly within the utility's control? Are there ways utilities can influence outcomes they may not directly control?
- Are there factors against which utility performance should be normalized, such as weather or regional economic development?
- Beyond normalization, are there other ways to build in opportunities for metrics, targets, or financial incentives to evolve in response to changing circumstances and measured performance, without introducing unnecessary risk into the program?