

**Mission
Statement**

*The WUTC
protects consumers
by ensuring that
utility and
transportation
services are fairly
priced, available,
reliable, and safe.*



Revenue Caps, Price Caps, and Decoupling *Incentives for What?*

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Rates in a Dynamic World

- **Incentives Happen**

- Multiple Incentives; Multiple Variables
- Intended / Unintended / Interrelated
- Depend on Tariff Design

- **Times Change**

- All forms of regulation are vulnerable to trends and volatility
- Durable model must be adaptable over time

- ***Multiple Variables***
 - Plant
 - O & M
 - Fuel
- ***Multiple Methods (mix and match)***
 - Unit-rate ¢/kwh, \$/therm
 - Inverted rates (rise with consumption)
 - Capped rates for (in)definite time
 - Capped revenue for (in)definite time
- ***Multiple Incentives***
 - Fuel usage
 - Investment in plant
 - Quality of Service

Approach	Traditional	Inverted block	Fuel Benchmark	Price Cap	Revenue Cap D/C
Plant:	ROR: Single Bundled Unit Rate	ROR	ROR	Rate Cap on Bundle ¢/kwh	Rev Cap on PO&M
O&M:		Bundled	Bundled		Per-unit rate
Fuel:		Inverted Rates	Benchmark w/bands		
Company Incentive to:					
Save Fuel	--	-- --	0	0	0
Invest in Plant	+	++	+	+ -- --	+ -- --
Provide Quality Serv	+ --	+ --	++ -- --	-- --	--
Customer Incentive to:					
Save Fuel	+	++	+	+	+
Adaptability	++	++	--	-- --	-- --

Times Change

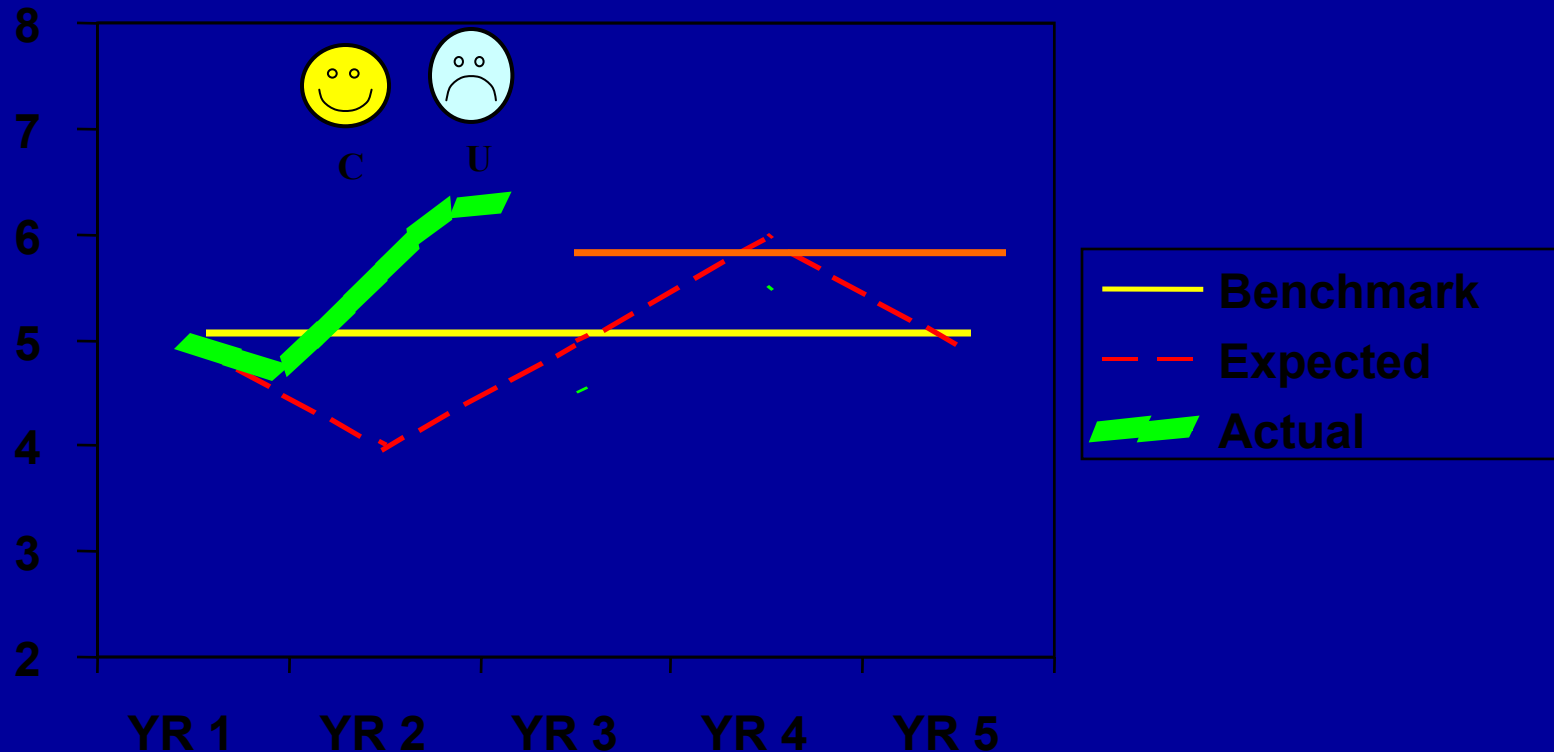


“Prediction is very difficult, especially about the future.”

Niels Bohr

Danish physicist (1885 - 1962)

Times Change (and then what?)



Approach	Traditional	Inverted block	Fuel Benchmark	Price Cap	Revenue Cap D/C
Plant:	ROR: Single Bundled Unit Rate	ROR	ROR	Rate Cap on Bundle ¢/kwh	Rev Cap
O&M:		Bundled	Bundled		on PO&M
Fuel:		Inverted Rates	Benchmark w/bands		Per-unit rate
Company Incentive to:					
Save Fuel	--	-- --	0	0	0
Invest in Plant	+	++	+	+ -- --	+ -- --
Provide Quality Serv	+ --	+ --	++ -- --	-- --	--
Customer Incentive to:					
Save Fuel	+	++	+	+	+
Adaptability	++	++	--	-- --	-- --

Summary



- Incentives Happen
 - Multiple Incentives; Multiple Variables
 - Intended / Unintended / Interrelated
 - Depend on Tariff Design
- Times Change
 - All forms of regulation are vulnerable to trends and volatility
 - Traditional regulation with inverted fuel rates may prove more durable than revenue caps