

Performance Based Regulation: A Review of Design Options

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Key Themes of the Elenchus Report

1. All regulatory regimes have incentives, often implicit.
2. Performance Based Regulation is essentially an enhancement of traditional Cost of Service (COS).
3. The appropriate PBR regime depends on the context.
4. PBR regimes generally evolve over time to address new policy issues and identified shortcomings.
5. The evolution tends to increase complexity.
6. PBR will continue to evolve in the future.

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Context: The First Design Consideration

- Start with clearly defined objectives
- The design must reflect the context, including:
 - Current regulatory framework
 - Current utility performance
 - Industry structure
 - Data quality and access
 - Government policy
 - Stakeholder perspectives
 - Trends in the sector
 - Short term and long term goals

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Evolution: It's Natural

- Regulatory principles (stability, predictability)
- Plan for and manage the pace of change
 - Set objectives and the transition process in advance
 - Monitor results and evaluate transparently
 - Consider changes in the context
 - Remain committed to the objectives
- Benefits of evolving the PBR regime over time
 - Stakeholder and utility support grows
 - Expertise increases
 - Data improves (anticipate future requirements)
 - The path to the objectives can be modified

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Complexity: Finding the Balance

- Part of the normal evolution of PBR
- Add-ons: capital factor, efficiency carry-over
- Trade offs: e.g. earnings sharing
- More advanced analytics
- Integrate with other regulatory objectives
- The policy environment is becoming more complex; an expanded role for regulators
- The business of electricity is becoming more complex (technology, non-utility alternatives, etc.)

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Future: More Change is Coming

- Government policy
- Technology (generation, network and information)
- Customer preferences (information availability, responsiveness, innovation, Google)
- Speed of change has accelerated
- Risk: the monopoly is not secure; hence, the traditional regulatory compact may not be assured
- PBR can either impede or embrace change – it depends on the design

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Recap: It's a Delicate Balance

- Design Flexibility versus Predictability
- Service Innovation versus Risk
- Protecting Customers versus Service Providers (a new regulatory compact?)
- Operational Cost versus Service
- Technological Change Leader versus Follower

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