




Solutions To Affordability Of Cost Covering Utility Tariffs For “Social Cost” Customers

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November 5 - 8, 2007

Solutions to the “Affordability Problem” In Price-Regulated Utility Service Structure



1. First Principle: Rates Should Cover Costs.
2. BUT Uncollectible Revenue From Consumers (Price > Payment)
3. SO Uncollectible Revenue is Expense in Price Regulation
4. ALLOCATION of “Deficiency” in Price-Regulated Service
5. TWO Solutions: Uncollectible Expense or Social Pricing

General Rule

$$\text{Cost Rate} - \text{Revenue Collected} = \text{Recovery}$$



The Problem: Revenue $<$ Cost



The Tariff Solution: First Case

No Need

\$1.00 electric cost

10 customers

\$1.00 electric rate

\$10 electric Sales

\$10.00 Revenues

No Need

No Need:

No Cost Recovery

Prices = Costs



The Tariff Solution: Second Case

Rate Base Need

\$1.00 electric cost

10 customers

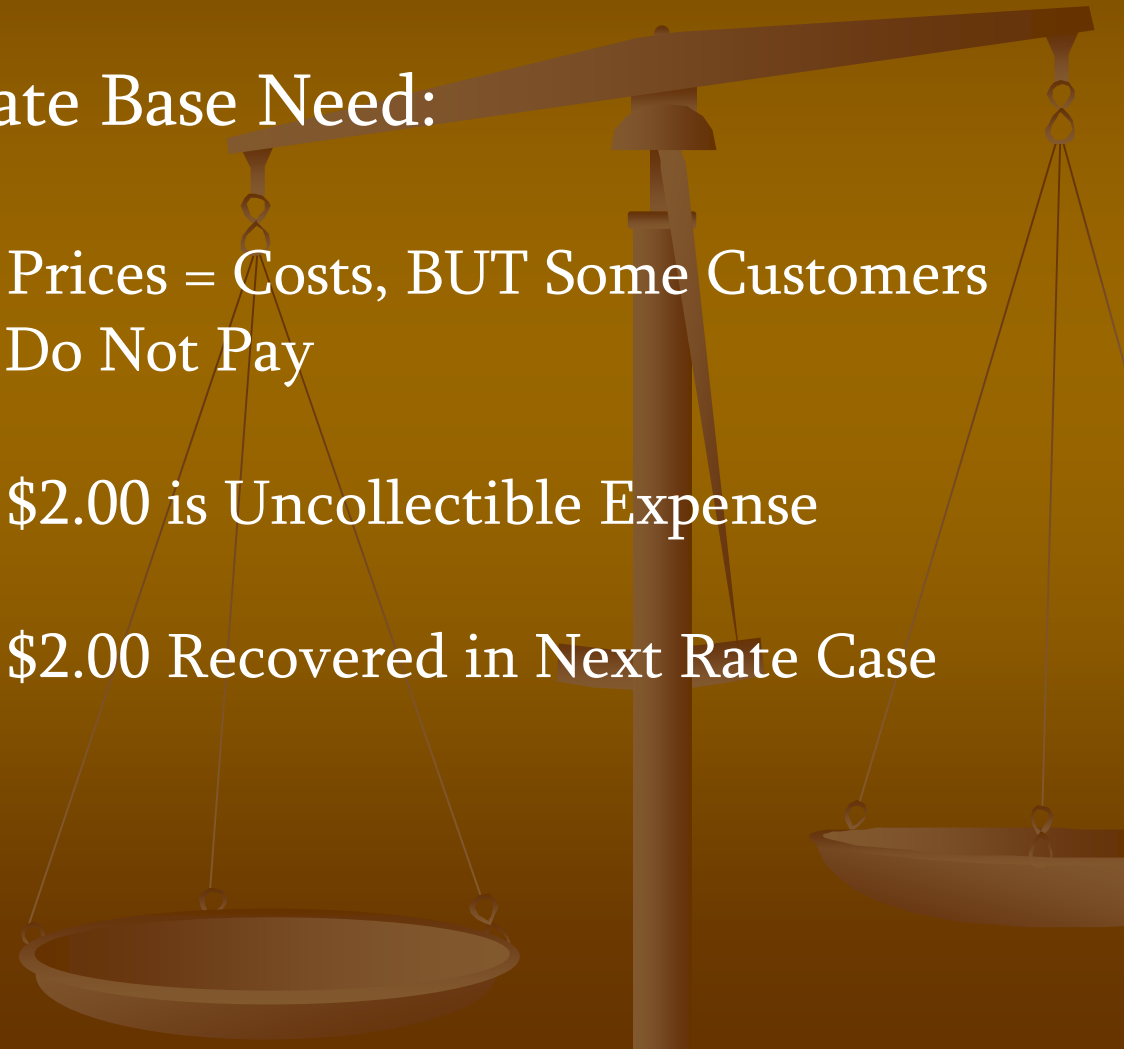
\$1.00 electric rate

\$10.00 electric
Sales

\$8.00 Revenues

\$2.00 Need

Rate Base Need:

- ✓ Prices = Costs, BUT Some Customers Do Not Pay
 - ✓ \$2.00 is Uncollectible Expense
 - ✓ \$2.00 Recovered in Next Rate Case
- 

The Tariff Solution: Third Case

Social Rate/No Need

\$1.00 electric cost

10 customers

\$.7 electric social
rate

\$10.00 electric Sales

\$7.00 Revenues

\$3.00 Need

Social Rate/No Need:

- ✓ Social Price Tariff set at \$.7 mcf
Cost of Service is \$1.00 mcf
 - ✓ \$3.00 Deficiency Between \$10.00
cost and \$7.00 Tariff
 - ✓ Allocated to rate classes in rate design
 - ✓ All Customers Pay
 - ✓ No Uncollectible Expense
- 

The Tariff Solution: Final Case

Social Rate/Need

\$1.00 electric cost

10 customers

\$.7 social rate

\$7.00 electric Sales

\$6.00 Revenues

\$3.00 Need

\$1.00 Not Paid

Social Rate/Need:

- ✓ Social Price Tariff set at \$.7 mcf
- ✓ *Cost of Service* is \$1.00 mcf
- ✓ \$3.00 Deficiency Between \$10.00 cost and \$7.00 Revenues allocated to rate classes in design
- ✓ \$1.00 Is Uncollectible Expense
- ✓ \$1.00 Recovered in Next Rate Case



Customer Assistance Program (CAP) Solution

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Utility Establishes CAP Program with
\$2.50 in CAP Fund. CAP is Utility
Operating Expense.

A faint, stylized illustration of a balance scale is visible in the background. The scale is tilted, with the right pan being lower than the left pan. The scale is composed of a central vertical post, a horizontal beam, and two pans hanging from the beam by strings. The entire image has a dark brown, monochromatic color scheme.

CAP: First Case

No Need

\$1.00 electric cost

10 customers

\$1.00 electric rate

\$10.00 electric
Sales

\$10.00 Revenues

No Need

No Need:

✓ No Cost

✓ \$2.50 Placed in Reserved



CAP: Second Case

Rate Base Need

\$1.00 electric cost

10 customers

\$1.00 electric rate

\$10.00 electric
Sales

\$8.00 Revenues

\$2.00 Need

Rate Base Need:

✓ \$2.00 Need

✓ \$2.50 CAP Fund

✓ CAP Fund Covers 100% of
Rate Base Need

✓ No New Expenses



CAP: Third Case

Social Rate/No Need

\$1.00 electric cost

10 customers

\$.7 electric social
rate

\$10.00 electric Sales

\$7.00 Revenues

\$3.00 Need

Social Rate/No Need:

- ✓ \$3.00 Need
- ✓ CAP Covers \$2.50 of Total
- ✓ \$3.00 Needed by Utility
- ✓ CAP Covers 83% of Social Rate
- ✓ Utility Loses 17% Revenue
- ✓ \$.50 Is Lost
- ✓ \$.50 is Expense In Next Rate Case or Lost

CAP: Final Case

Social Rate/Need

\$1.00 electric cost

10 customers

\$.7 social rate

\$7.00 electric Sales

\$6.00 Revenues

\$3.00 Need

\$1.00 Not Paid

Social Rate/Need:

CAP Covers \$2.50 of \$4.00 Need.

CAP Covers 63% of Social Rate/Need;

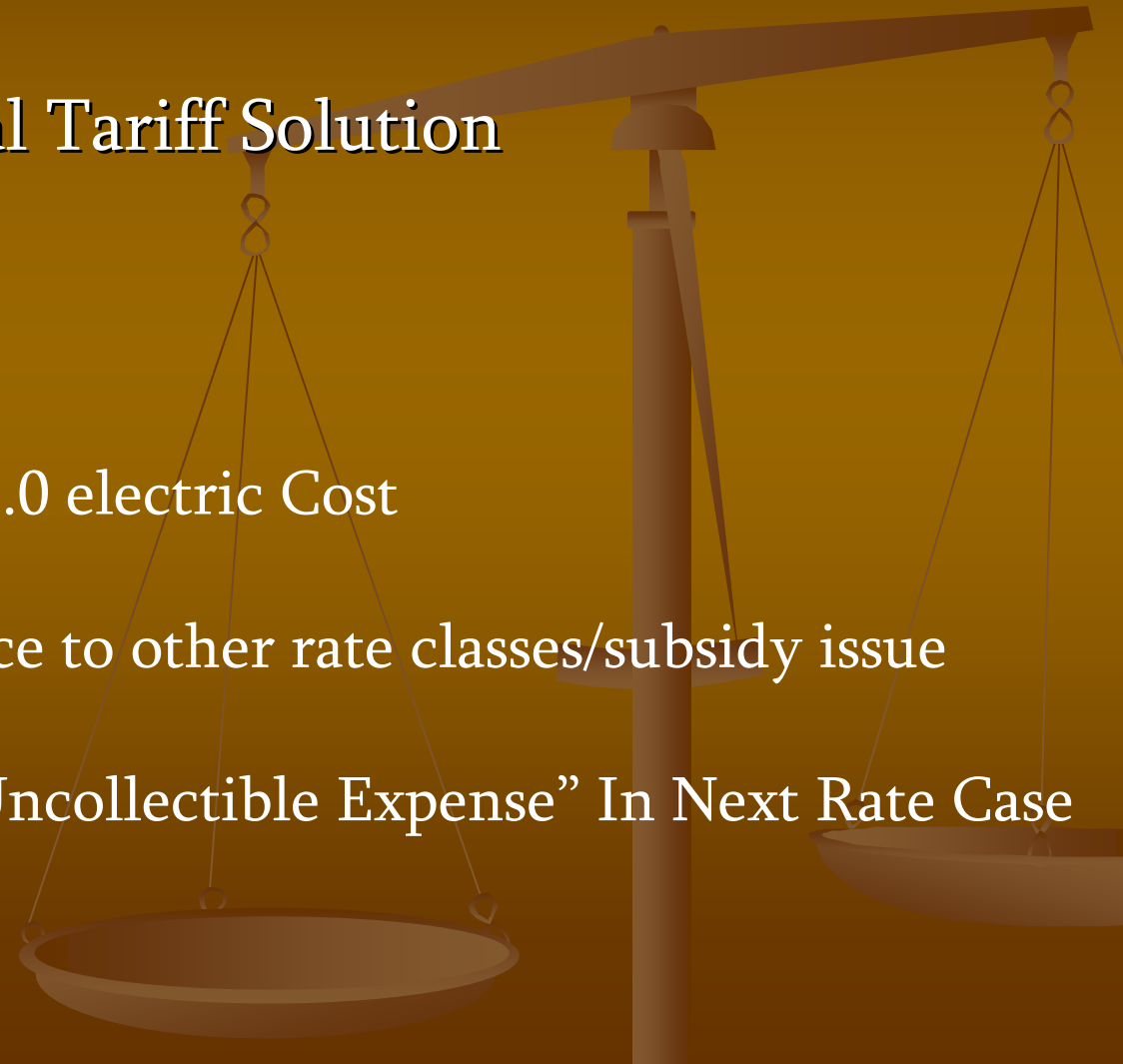
Utility Loses 37% Revenue

\$1.50 Is Lost/Uncollectible Expense
for Next Case



Solutions In Summary

Social Tariff Solution

- ✓ Set Social Tariff Price
 - ✓ .7 mcf Social Tariff for 1.0 electric Cost
 - ✓ Allocate .3 mcf difference to other rate classes/subsidy issue
 - ✓ Any Non-Payment is “Uncollectible Expense” In Next Rate Case
- 

Solutions In Summary

The CAP Solution

- ✓ Set Tariff Price at Cost
 - ✓ 1.0 electric Cost is 1.0 electric rate
 - ✓ Create “CAP Fund” for Set Amount
 - ✓ CAP Fund is Expense in Next Rate Case
 - ✓ Any Non-Payment is “Uncollectible Expense In Next Rate Case”
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