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Tariff Formulation: Overview and Goals

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Stakeholders in Tariff Construction Process Who is involved and what is at stake?

- Utilities want
 - Reasonable certainty
 - Ensured financial viability
 - Protection from ruinous price competition
- Customers want
 - Nondiscriminatory service at fair, reasonable and affordable rates
 - Protection from monopoly abuse
- Regulators want
 - Utility service that promotes the public good and sound public policy



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Tariff Goals

Considerations in tariff development

- **Financial Sustainability**
 - In Pennsylvania, utilities are entitled to earn a fair return of, and return on, their investments
- **Cost effectiveness**
 - Promotes efficiency of a utility's operations
 - Ensures that customers “get what they pay for”
- **Fair pricing**
 - Tariffed rates are “just and reasonable,” i.e. somewhere between extortion and larceny.



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Tariff Goals, continued

- Distributive justice
 - No inter-class subsidies – tariffs for each customer should accurately reflect true economic costs of providing service to that class
 - Exception: social tariff concepts, low income assistance – but then only intra-class subsidies should be used
 - No discriminatory rates
- Good governance
 - Promotes sound social policy
 - Includes pricing signals that promote efficient use of resources



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Tariff Goals, continued

- Other factors to consider
 - Performance monitoring of utility's services
 - Efficient and effective billing operations
 - Quality of service
 - Periodic tariff review
 - Ensure low income and vulnerable customers are addressed



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Other tariff considerations

- Tariffs should be publicly accessible
 - Pennsylvania requires tariff access at the Commission and the office of the Utility
- The tariff should encompass all conditions of service, including rates, rules and obligations
- A utility may not deviate from the conditions of the tariff