

Respondent No. 2 - Draft Regulations on Tariff Setting Methodology

In general, this is very nicely done.

On non-fuel O&M, I would carefully define interest so that you do not double count interest in the return on investment. What interest is associated with can be a little fuzzy, so it might be better to say interest not on long term debt and then specify that long term debt interest is in the cost of capital.

I would specify how the rate base is determined, including whether it is current or original cost, how the test year will be determined, and how you will determine prudence, used and useful, and CWIP vs AFUDC.

I would also specify whether the WACC is real or nominal. It appears that it is nominal since it includes LTBR, but the 5.5% might be based on current experiences with inflation, which may or may not hold in the future. I am unsure the source of the 5.5% in the ROE formula, so I cannot comment on that. So if the WACC is expected to be nominal, then the rate base should be original cost. We should not inflate both WACC and rate base.

I would specify in the WACC that the debt costs are actual debt costs.

In the price cap formula, consider a K factor if you have investment targets.