

Hybrid System Case Study Teams

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What you are to do

- Design one element of a hybrid regulation system for the electric company (balance sheets presented in the Appendix)
 - price or revenue cap (4 Groups)
 - earnings sharing system (3 groups)
- Verbal report (3-4 Syndicate Groups)
 - designate someone to give the report

Price-Revenue Cap Groups

- Develop price or revenue cap proposal.
 - You must choose one or a combination.
- Develop whatever service baskets, RPI - X, revenue ceilings, etc. you believe are appropriate.
- Assume that there are good inflation indices.
- Assume no historic productivity information.



Earnings Sharing Groups

- Develop a proposal for an earnings sharing arrangement.
- Assume that the benchmark return on equity is 13.75% (11.5% WACC).
- Include whatever elements, tapers, etc., you believe are appropriate.

Economic and political context

- transitioning country where infrastructure expansion is a primary objective, inflation is high, and the government and regulatory agency are new

Consider....

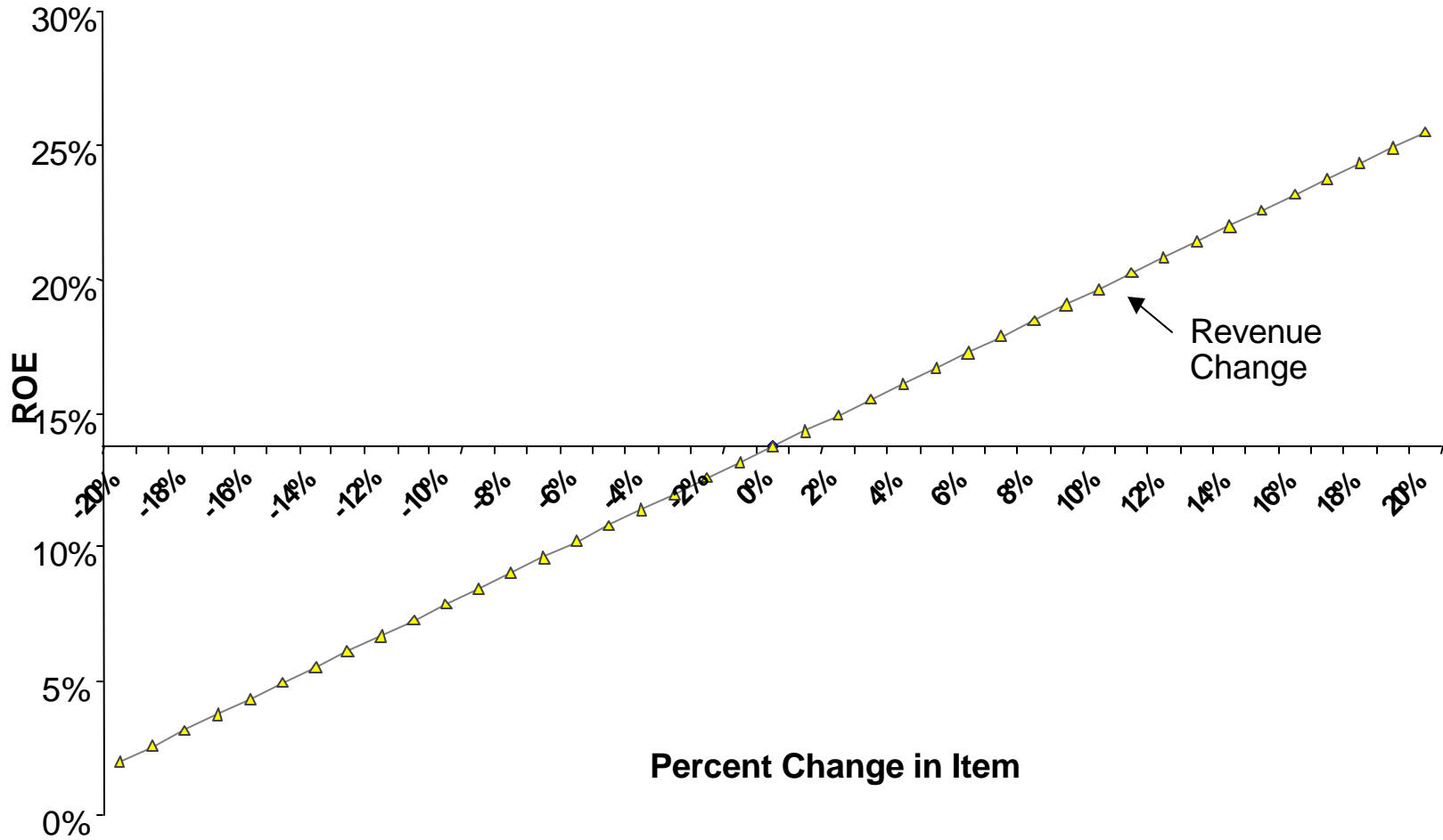
- How much will the company have to cut costs or increase sales to....
 - increase profits under your price or revenue cap?
 - meet taper points in your earnings sharing?
- What costs would you expect the company to cut under your plan?



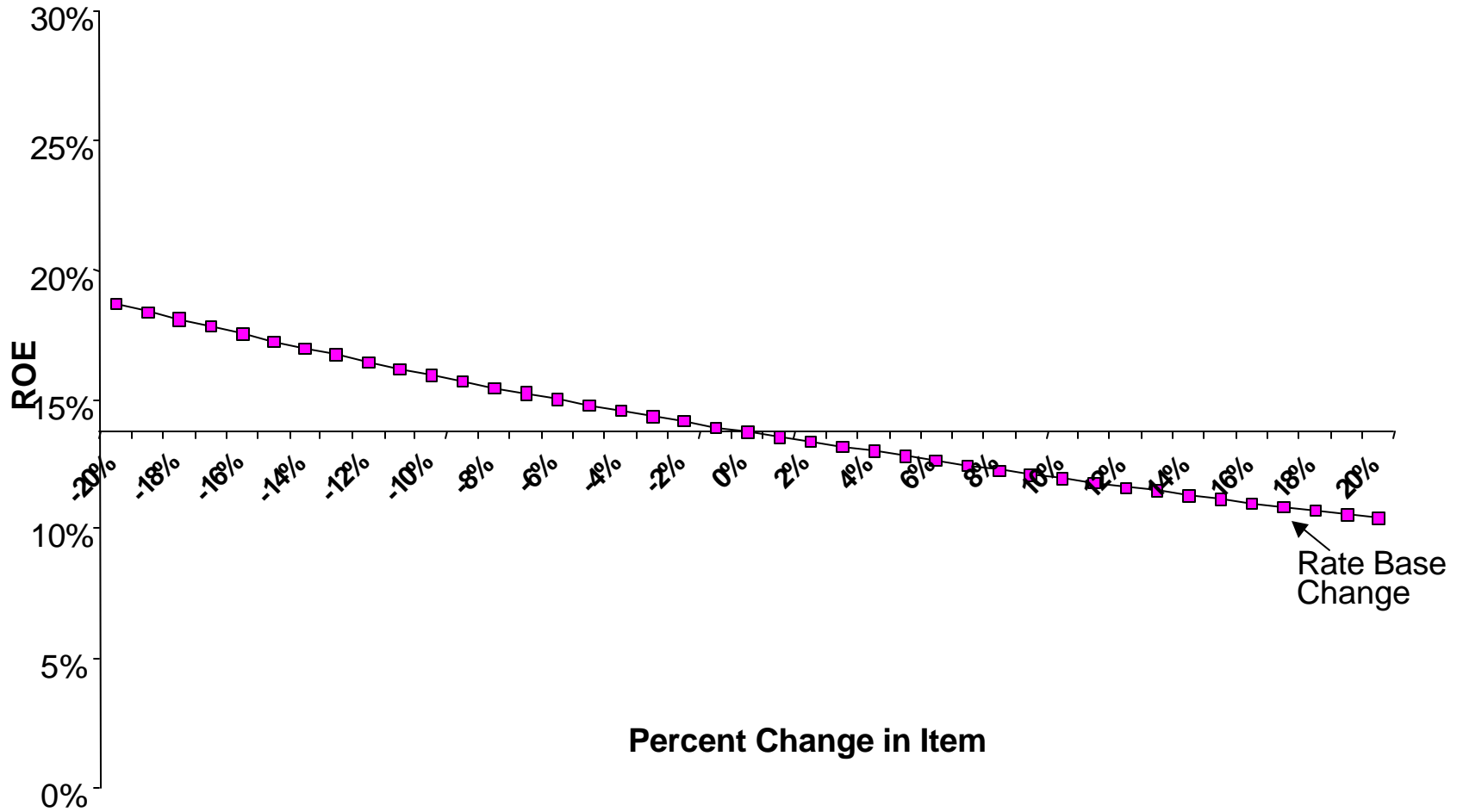
Illustration of company effort

- The following slides illustrates how company effort to decrease expenses, decrease rate base, or increase sales affect return on equity.

Effect of Cost and Revenue Changes on ROE



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