



FINANCIAL INCENTIVES FOR UTILITIES TO PURCHASE RESOURCES: THE RIGHT REASONS, THE RIGHT WAY

Presented to

**HARVARD ELECTRICITY POLICY GROUP
FIFTY-SECOND PLENARY SESSION**

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By

Craig R. Roach, Ph.D.
Boston Pacific Company, Inc.
1100 New York Avenue NW
Suite 490 East
Washington, DC 20005
croach@bostonpacific.com
(202) 296-5520

BOSTON PACIFIC COMPANY, INC.

Outline

1. Putting the question in context
2. Does a financial incentive for purchases make sense?
3. Does the need for an incentive vary by regulatory regime?
4. Summing up





I. Putting the Question in Context

A. Goals and Challenges for America's Electricity Policy

1. Goals

- a) Best deal for ratepayers given market and regulatory conditions
- b) Deal includes price, risk, reliability, and environmental performance



I. Putting the Question in Context (continued)

2. Challenges

- a) Manage uncertainty
- b) Attract new technology

3. My view: Competitive markets and competitive procurements are the best way to get the best deal

II. Does a financial incentive for purchases make sense?

- A. It can make sense
 - 1. Must be done for the right reason to assure it is done in the right way
 - 2) Wrong reason?
 - a) Enticement to play fair with competitors





II. Does a financial incentive for purchases make sense?

(continued)

3. RIGHT REASONS?

- a) In a competitive market, reward follows risk
- b) See the incentive as a reward for risk management to benefit consumers
- c) Four examples:
 - Affiliate PPA
 - Tolling Agreements
 - Renewable Portfolio Standard
 - Overall Rates



III. Does the need for an incentive vary by regulatory regime?

A. Yes.

1. The more risks assigned to suppliers, the fewer left for the utility to manage
2. Example: New Jersey Auction
 - a) Three-year, fixed price standard contract
 - b) Most risk assigned to supplier, including RPS and market risk
3. Example: Oklahoma RFP
 - a) Long term, pay-for-performance contract
 - b) Many risks assigned to supplier, not fuel, market, or GCC risks

IV. Summing up

- A. Put debate in context of America's Electricity Policy
- B. Don't create a financial incentive for the wrong reasons – incentive to play fair
- C. Do it for the right reasons – as a reward for risk management to benefit consumers

