

**“Moving Toward Value in Utility Compensation”
Workshop in Accordance with the
Integrated Distributed Energy Resources (IDER) Proceeding | R.14-10-013**



Date: June 13, 2016
Time: 10:00 AM to 3:00 PM (PST)

Auditorium, California Public Utilities Commission
505 Van Ness Avenue | San Francisco, CA

Conference Phone Number: 866-832-3002
Participant Passcode: 7708062

Webcast: [Join Webex by Clicking Here](#)
Meeting Number: 810 745 656
Meeting Password: !Energy1

Workshop Objective: To build understanding of utility finance for the purpose of growing distributed energy resources in California.

Final Agenda

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|--|----------------------------|
| A. Welcome and Introduction from Workshop Facilitator, Matthew Tisdale, Advisor to Commissioner Michel Florio | 10:00 AM – 10:05 AM |
| B. Remarks from Assigned Commissioner Michel Florio | 10:05 AM – 10:15 AM |
| C. Presentation of “<i>r minus k</i>” <ul style="list-style-type: none">• Steve Kihm, Principal and Chief Economist, Seventhwave | 10:15 AM – 12:00 PM |
| D. Lunch Break | 12:00 PM – 1:00 PM |
| E. Panel Presentations by Utilities and Consultants <ul style="list-style-type: none">• Lawrence Kolbe, The Brattle Group – Shareholder Value Concept• Tres Petmecky, Vice President and Treasurer, Southern California Edison (SCE) – Utility Investment Decision Process | 1:00 PM – 2:00 PM |
| E. Facilitated Discussion | 2:00 PM – 3:00 PM |
| F. Conclude | 3:00 PM |

Guiding Discussion Questions:

These questions are based on party comments responding to Commissioner Florio's "Ruling Introducing a Draft Regulatory Incentives Proposal for Discussion and Comment." The workshop and these questions focus on the $r \text{ minus } k$ concept at the center of the Ruling and support the intention to build understanding of utility finance for the purpose of growing distributed energy resources (DERs) in California.

1. Does $r \text{ minus } k$ adequately represent key factors impacting utility investment decisions? If so, how? What alternatives to $r \text{ minus } k$ better represent why a utility elects to invest or not?
2. Utilities argue "...when set properly at k , the allowed equity rate of return enables equity investors to earn the same rate of return that they could earn elsewhere in the economy on comparably risky investments. This return is the value created for investors." They also state that they "have sufficient motivation to invest when $r \text{ equals } k$, which fully compensates investors for the provision of their funds." Is this correct? If so, does it imply utilities already have a financial incentive to source DERs instead of rate-based assets?
3. How does $r \text{ minus } k$ address the structure and timing of payments and the benefit to utilities of longer-term depreciated assets which provide utilities with a return on investment every year until the asset is fully depreciated?
4. How does $r \text{ minus } k$ account for increased risk (real or perceived) associated with utility expenses, whether they are DER-related or any other?
5. How does $r \text{ minus } k$ account for ratepayer interests?
6. ORA states, "... utilities retain discretion to defer upgrades until they are needed; any difference between the funding granted in a General Rate Case (GRC) for distribution upgrades and the cost of actual infrastructure deployments is retained as earnings. A dollar spent on infrastructure investments creates a revenue stream for future years; a dollar not spent on infrastructure investments provides a dollar available for shareholder returns in the current year. In terms of utility financial incentives, there is tension between prudent investment and deferral of capital projects." Is this correct? If so, how does the equation account for the utility incentive to defer upgrades and investments that are approved through the GRC?

Other Information:

For procedural details relating to the Integrated Distributed Energy Resources [IDER] proceeding [R.14-10-003], commenting and the record development process, and the role of this workshop within the proceeding, please refer to the "Assigned Commissioner's Ruling Introducing a Draft Regulatory Incentives Proposal for Discussion and Comment," issued on April 4, 2016. The ruling can be found at this link: <http://docs.cpuc.ca.gov/SearchRes.aspx?DocFormat=ALL&DocID=159702148>. The Administrative Law Judge's Ruling of May 18, 2016 noticing this workshop can be found at this link: <http://docs.cpuc.ca.gov/SearchRes.aspx?DocFormat=ALL&DocID=162003491>

The contact person regarding this workshop and proceeding is Natalie Guishar, Regulatory Analyst in the Commission's Energy Division. She can be reached at natalie.guishar@cpuc.ca.gov or at 415-703-5324.