

Problem Set 3

(Due in Class #16)

On 16 April 2002 a Massachusetts utility, Fitchburg Gas and Electric Company, proposed a Performance Based Rate Making (PBR) scheme for the setting of its electricity tariffs. On 6 January 2003 this scheme was rejected by the Massachusetts Regulator (the Department of Telecommunications and Energy or DTE).

The relevant documents are:

<http://www.state.ma.us/dpu/electric/02-23/416initfili.pdf>
<http://www.state.ma.us/dpu/electric/02-23/17order.pdf>

Read the proposal from the company and the rejection note by the regulator and answer the following question:

With reference to the Fitchburg Gas and Electric Company proposal discuss (1) the advantages of PBR schemes for the setting of prices for a regulated industry (2) the pros and cons of the particular scheme proposed by Fitchburg Gas and Electric and (3) the efficacy of the decision of the DTE not to accept the scheme.

You should make reference, where relevant, to material we have covered in the course. Your answer should be typed and be no more than 1 side of paper, single spaced, normal font size. Normal hand-in rules apply.