
**ÉTABLISSEMENT D'UN MÉCANISME DE RÉGLEMENTATION INCITATIVE
ASSURANT LA RÉALISATION DE GAINS D'EFFICIENCE PAR LE
DISTRIBUTEUR D'ÉLECTRICITÉ ET LE TRANSPORTEUR D'ÉLECTRICITÉ
- APPLICATION DE L'ARTICLE 48.1 DE LA LRÉ ET SUITE DE LA DÉCISION
D-2014-033**

DOSSIER R-3897-2014

1. PBR in Ontario

1.1 Please confirm that Ontario power distributors operated for several years under the legislatively-imposed rate freeze in the early years of the last decade. How might this have influenced the subsequent productivity trend of Ontario distributors?

1.2 Please confirm that the X factor in the Board's 1st Generation IR plan was based on a Board-Commissioned study of the TFP trends of Ontario power distributors

1.3 Please confirm that the X factor in the Board's 2nd Generation IR was informed by a survey of studies of the TFP trends of US power distributors.

1.4 Please confirm that the productivity component of the X factor for the Board's 3rd generation IR mechanism was based on a Board-commissioned study of the TFP trends of US power distributors.

1.5 Please confirm the following.

- a) Under 4th generation IR, the stretch factor is based on econometric benchmarking studies and not on TFP studies.
- b) The base productivity factor is based on a Board-commissioned study of the TFP trends of Ontario power distributors.
- c) The filing of a "custom IR plan" requires benchmarking evidence.

1.6 Please confirm that the large number of distributors in the province may also explain the Board's preference for *price* caps over *revenue* caps.

2. PBR in Alberta

2.1 Please confirm that the X factor in the ENMAX FBR was informed by a survey of utility productivity trends from around the world including Ontario, the United States, New Zealand, and Victoria, Australia.

2.2 Please confirm that, prior to the implementation of PBR, the regulatory system in Alberta which gave rise to the AUC's concerns about performance incentives involved frequent rate cases, like the current regulatory regime of Hydro Quebec.

2.3 Please confirm that the base productivity trend in the PBR plans for most Alberta energy distributors is based on an AUC-commissioned study of the TFP trends of US power distributors.

2.4 Please confirm the following.

- a) In a controversy over the appropriate X factor, utilities are incentivized to argue for a low X factor.
- b) In the Alberta proceeding the utilities' proposed X factors were at least 200 basis points below that which the AUC approved.
- c) In the Alberta proceeding, the X factors proposed by interveners and the independent expert were much closer to what the AUC approved than the utilities' proposals.
- d) Please confirm that the AUC established an allowed rate of return on equity of 8.3% for the 2013-2015 period and that all three electric utilities exceeded the allowed ROE by at least 100 basis points in both 2013 and 2014?
- e) Is it your view that, in controversies over the target return on equity in rate cases, there is "no apparent right or wrong answer"?

3. PBR for Consolidated Edison

3.1 Please confirm that the approach to PBR adopted by the NYPSC for Consolidated Edison is similar to that adopted for most New York gas and electric utilities.

3.2 Please substantiate your statement on p. 49 that "The incentive regimes implemented by the NYPSC in the past, however, have not included strong efficiency incentives?" Were earnings sharing mechanisms and relatively short plan terms part of the problem?

3.3 Is the need for special reliability incentives diminished when a utility operates under frequent rate cases? In the absence of counterbalancing cost containment incentives, can stand alone reliability incentives therefore result in *excessive* cost?

3.4 Please confirm that over the course of Consolidated Edison's rate plans that the reliability requirements have gotten more detailed and more areas have been incentivized.

4. PBR in the United Kingdom

4.1 Please confirm that the price control regime for newly privatized power distributors and transmitters in Britain was instituted by Offer, a predecessor to [M1]Ofgem.

4.2 Please confirm that the RIIO approach to regulation involves a multiyear rate plan with a revenue cap escalator based on forecasted cost, revenue decoupling, award-penalty mechanisms, and cost trackers.

4.3 Please confirm that the "innovation incentives" in the RIIO system are essentially cost trackers for innovative pilot projects.

4.4 Please explain which "incentives were introduced for capital efficiency" as noted on page 52 of your report.

4.5 p. 53 Is it fair to say that a chronic tendency for utilities to exaggerate their capex needs has been a salient shortcoming of the British approach to regulation?

4.6 Please explain the Information Quality Incentive mentioned on page 55 of your report and the reasons for its institution.

4.7 Please confirm that Ofgem, like the Ontario Energy Board and the AER, uses an econometric approach to statistical benchmarking as described on page 54 of your report.

4.8 Please confirm that most of the "output categories" in RIIO that are described on page 55 of your report are common to many PBR plans.

4.9 Does the RIIO system place any more emphasis on "stakeholder engagement", as stated on page 57, than is typical in North American rate proceedings?

5. PBR in Australia

5.1 Please provide a more expansive discussion of why the ACCC chose to implement an efficiency carry forward mechanism mentioned on page 61.

5.2 Please provide a more complete discussion of the Efficiency Benefit Sharing Mechanism described on page 62 and the regulator's rationale for it.

5.3 Please provide a more complete discussion of the regulator's rationale for the Capital Expenditure Sharing Scheme described on page 63.

5.4 Please confirm that exaggerated cost forecasts have been a chronic problem in Australian regulation, as in Britain.

5.5 Please confirm that PBR for distribution networks in Australia was initially undertaken by state regulatory commissions such as the Essential Services Commission of Victoria.

5.6 Please confirm that the AER has recently made some large cost disallowances for power distributors on the basis of benchmarking studies. Please confirm that the Better Regulation program has added a substantial emphasis on benchmarking for power transmission and distribution utilities.

5.7 Why did the AER decide that it needed a "Better Regulation" program?

6. PBR in Norway

You state on page 78 that "Appropriate incentives are needed to counterbalance the cost-cutting incentive to ensure that service quality is not unreasonably compromised." Given the stronger cost containment incentives generated by a multiyear rate plan, is it generally more desirable to monitor reliability or to have award/penalty mechanisms for reliability?

7. Appendix

In *Table 1: Summary of Six Jurisdictions* on page A-1, please confirm the following:

- a) Revenue decoupling is part of RIIO for both power transmitters and distributors and is described in their licenses as a "correction factor".
- b) RIIO involves a revenue cap that is escalated based on the growth in the British Retail Price Index or RPI that Ofgem refers to as "indexation".
- c) The PBR plan for Alberta featured a rate cap for electric distributors and a revenue per customer cap for gas distributors.