

RÉGIE DE L'ÉNERGIE DOSSIER R-4167-2021
RÉPONSE DE L'AQCIE/CIFQ À L'ENGAGEMENT

E-1 Transcript, Vol 4, p. 162

Request:

Provide the calculation behind the 0.1 adder (asked by HQT).

Réponse de l'AQCIE/CIFQ :

PEG proposes a **0.10%** adder to the stretch factor to reflect the unusually large difference between the incentive power of the MRI and the incentive power of utilities regulated by the FERC. These calculations relied on the incentive power model that PEG developed with funding for various clients. Results of this research were published in a recent white paper that PEG prepared for Lawrence Berkeley National Laboratory.¹ The research results presented on page B.5 of this paper were used in the stretch factor adder calculations. We also used the fact that roughly 42% of the observations in PEG's productivity study were for utilities operating under formula rates. We assume that utilities not operating under formula rates field rate cases every three years. The right-hand column of the table indicates that utilities operating with a three-year rate case cycle achieve 0.90% productivity growth in the long run. Companies operating under formula rates meanwhile are assumed to have average annual performance gains that are equal to the 0.33% average for cost plus regulation (0.00%) and the long-run average for 2-year cost of service regulation (0.66%). We assume, finally, that HQT operates under a regulatory system equivalent to an MRI with a 5-year term and 50% earnings sharing. Over the first two rate cycles, the table indicates that the typical average performance gain under this regulatory system is 1.14%.

The difference in incentive power between the MRI of HQT and that of the typical sampled firm is then

$$1.14\% - (0.42 \times 0.33\% + 0.58 \times 0.90\%) = \mathbf{0.48\%}.$$

The proposed 0.10% stretch factor adder is plainly much lower than this and doesn't even take account of the ROE premia available since passage of the Energy Policy Act of 2005.

¹ Lowry, M.N., Makos, M., Deason, J., "State Performance-Based Regulation Using Multiyear Rate Plans for U.S. Electric Utilities," Ed. Schwartz, L., for Lawrence Berkeley National Laboratory, Grid Modernization Laboratory Consortium, U.S. Department of Energy, July 2017.