



34 King Street East, Suite 600  
Toronto, Ontario, M5C 2X8  
elenchus.ca

# Performance Based Regulation A Review of Design Options as Background for the Review of PBR for Hydro Québec Distribution and Transmission Divisions

## RESPONSES TO QUESTIONS OF PARTIES

**Prepared by Elenchus Research Associates, Inc.  
For Régie de l'énergie Québec**



**June 2015**

*Page Intentionally Blank*

## 1. QUESTION ADDITIONNELLE DE LA FCEI (PIÈCE C-FCEI-0006)

**Reference:** Rapport Elenchus, P.46, ligne 15 à 18 et p.67, lignes 13 à 15.

Could you provide the references to or the documents referenced showing the details of calculation for the «quantitative measures ».

### **Response:**

Links to the documents showing the details of the calculation for the «quantitative measures » are provided below.

For p. 46, ligne 15 à 18:

[CASE 13–E-0140 - Proceeding on Motion of the Commission to Consider Utility Emergency Performance Metrics](#)

For p. 67, lignes 13 à 15:

[Service standards guidelines](#)

[Electricity transmission network service providers Service Target Performance Incentive Scheme](#)

## 2. QUESTION ADDITIONNELLE DE HQD-HQT (PIÈCE C-HQT-HQD-0005)

Mr. Todd mentioned the creation of a “long list” of PBR programs from which a “short list” of 6 examples was selected for the Elenchus report. Please provide the long list, with any details gathered on these additional programs.

### **Response:**

The “long list” consisted of the following PBR regimes. Selected references are provided for the jurisdictions not included in the Elenchus PBR Report.

- Canadian jurisdictions
  - British Columbia (Fortis BC electricity; Fortis BC Energy)
    - To our knowledge, documents that best describe regime in British Columbia are [Fortis 2006 Settlement](#) and [Terasen Gas Settlement](#)
  - Alberta (generic electricity and natural gas regimes)
    - The electricity regime was covered in the Elenchus Report, and the information on natural gas regime can be found in the [AUC Decision 2012-237](#)
  - Ontario (electricity IR; Enbridge Gas Distribution; Union Gas)
    - The electricity IR was covered in the Elenchus Report, and IR plans for Enbridge Gas Distribution and Union Gas are described in the [Staff Assessment Plan on the Preliminary Assessment of Incentive Regulation Plans of the Natural Gas Utilities](#)
  - Quebec (Gaz Metro)
    - The performance incentive mechanism is illustrated in the [R-3599-2006](#)
- U.S. Jurisdictions
  - New York State (Consolidated Edison; Orange and Rockland Utilities)
  - California
  - Wisconsin
  - Michigan

- Massachusetts (Boston Gas; Columbia Gas)

For examining the PBR in the U.S., Elenchus mainly relied on the information provided in the [Alternative Regulation](#). The PBR in New York State was covered in the Elenchus Report and the description of the PBR in other states can be found in the above named document.

- Ofgem
  - The PBR in the United Kingdom was covered in the Elenchus Report.
- Australia
  - The PBR in Australia was covered in the Elenchus Report.

In addition to the above listed sources, Elenchus relied on the awareness of team members with respect to PBR regimes around the world based on past work on related issues.

### 3. QUESTION ADDITIONNELLE D'UC (PIÈCE C-UC-0005)

Page 9, lignes 4 à 7:

« The tailoring of PBR to apply specifically to distributors and transmitters by these regulators is relevant to the issues being addressed by the Régie which is examining regulatory models that could be used for both the Transmission and Distribution divisions of Hydro Quebec. »

Page 15, lignes 4 à 8

« Rather it will be necessary to recognize the unique economic and infrastructure characteristics of each utility and each jurisdiction in order to determine how to implement the guiding principles to performance based, or incentive, regulation that will be effective in achieving the specific objectives that the regulator is pursuing. »

#### **Questions:**

**Q.** Do you know of jurisdictions where a distributor and a transmission provider would be under the same PBR?

**Q.** If you do could you please give the references?

#### **Response:**

We are aware of one such instance in Northern Ireland, where transmission and distribution are combined.

Please see [Northern Ireland Electricity plc Transmission and Distribution Fifth Price Control \(RP5\)](#)

The natural gas regimes in Ontario might also be considered to be examples that include distribution and transportation of gas, particularly the Union Gas PBR.

Note that there are no many combined plans because integrated transmission and distribution electricity utilities are not common.

**Reference:** Page 45, lignes 21 à 24:

«However, in April 2007, the NYPSC directed all public utilities to “develop and implement mechanisms that true-up forecast and actual delivery service revenues and, as a result, significantly reduce or eliminate any disincentive caused by the recovery of utility fixed delivery costs via volumetric rates or marginal consumption blocks»

**Q.** Could you please elaborate a bit more on those «mechanism with true-up» and what they should actually achieve? (Régie requires to provide references only)

**Response:**

Please see [Order Requiring Proposals for Revenue Decoupling Mechanisms](#)

#### 4. QUESTION ADDITIONNELLE DU RNCREQ (PIÈCE C-RNCREQ-0006)

Ontario

Reference p. A-18 - text below the table (English Report)

«Several distributors have applied under the Custom IR option, including Hydro One Distribution, Toronto Hydro and Horizon Utilities. [...]»

Given that Hydro-Québec has more in common with Hydro-One and Toronto Hydro than with Ontario small municipal utilities, we are interested to know more about those custom incentive regulations.

**Q:** Could you please provide a written summary of the custom incentive about the custom incentive regulations for Hydro-One and Toronto Hydro? (Régie requires to provide references only)

**Response:**

The table below provides information about Hydro-One Custom IR and Toronto Hydro Custom IR applications:

<b>Application</b>	<b>Decision and Rate Order</b>	<b>Summary</b>
Hydro One Networks Inc. EB-2013-0416	<a href="#">Decision and Interim Rate Order</a>  <a href="#">Decision</a>  <a href="#">Rate Order</a>	<a href="#">Summary of Hydro One Networks Inc. Application</a>
Toronto Hydro-Electric System Limited EB-2014-0116	<a href="#">Decision and Interim Rate Order</a>	<a href="#">Summary of Toronto Hydro-Electric System Limited (Exhibit 1A, Tab 2, Schedule 1)</a>



## 5. QUESTION ADDITIONNELLE DE L'UMQ (PIÈCE C-UMQ-0007)

Préambule:

(pièce A-0003, p. 19 lignes 25 et ss; p. 20, lignes 1-2) (notre souligné)

1. Establish a system whereby it is in the utility's interest to be efficient.

2. *Establish a system that facilitates the comparison of utilities – that is, establish a form of “competition” in service efficiency.*

3. Separate rates from costs by using external inflation and productivity measures.

These are three of the key principles underpinning incentive and performance-based regulation.

Demande :

3. Le 2e principe ci-haut (**en surligné jaune**) réfère-t-il explicitement au balisage?

**Response:**

Yes, the second principle refers to benchmarking.

## 6. QUESTIONS ADDITIONNELLES DE SÉ-AQLPA (PIÈCE C-SÉ-AQLPA-0005)

Pièce A-0003, page 59 (adobe 65), lignes 12-14 (Australia) :

*“Within the term, rates are smoothed using a CPI-X escalator. This mechanism provides an efficiency incentive **since variances from the annual allowed revenue are retained by the utility.**”*

[Bold and underlined by SÉ-AQLPA]

**Q:** Under the Australian PBR, isn't there any sharing mechanism of variances at the end of the year?

### **Response:**

In Australia, Capital Expenditure Incentives Mechanism (CESS) and Efficiency Benefit Sharing Scheme (EBSS) offer electricity network companies incentives to spend efficiently and share the gains of efficiencies with consumers.

The variances of expenditures and the resulting sharing of gains and losses between providers and consumer are determined as part of the rate/revenue application for the upcoming regulatory control period.

For example, as part of the transmission provider's revenue application for the next regulatory control period the Capital expenditure sharing mechanism (CESS) is determined as follows:

1. The cumulative underspend or overspend for the current regulatory control period is calculated
2. The sharing ratio of 30 per cent to the cumulative underspend or overspend is applied. Under the CESS a service provider retains 30 per cent of an underspend or overspend, while consumers retain 70 per cent of the underspend on overspend.
3. The CESS payments are calculated taking into account the financing benefit or cost to the service provider of the underspends or overspends.

4. The CESS payments are added or subtracted to the service provider's regulated revenue as a separate building block in the next regulatory control period.

For further clarification regarding Capital Expenditure Incentives Mechanism (CESS), please see [FINAL DECISION-TransGrid transmission determination](#)

In the [Efficiency Benefit Sharing Scheme for Electricity Network Service Providers](#) the determination of the EBSS is described as follows:

1. *The regulatory regime provides for ex ante opex forecasts. The NSP keeps the benefit (or incurs the cost) of delivering actual opex lower (higher) than forecast opex in each year of a regulatory control period.*
2. *The EBSS carries forward a NSP's incremental efficiency gains for the length of the carryover period. This carryover period length will typically be five years for a five year regulatory control period.*
3. *The carryover amounts accrued in year  $i$  of period  $n + 1$  will be the summation of the incremental efficiency gains in period  $n$  that are carried forward into year  $i$ .*
4. *We add the carryover amounts as an additional 'building block' when setting the NSP's regulated revenue for the period  $n + 1$ .*
5. *The actual opex incurred in the base year is used as the starting point for forecasting opex for period  $n + 1$ .*
6. *Under this approach, the benefits of any increase or decrease in opex is shared approximately 30:70 between NSPs and consumers.*

**Reference:** Pièce A-0003, pages A-88 et ss.

For the record, please provide a definition of the « *Y Factor* ». It was omitted in your definitions.

**Response:**

In [Decision 2012-237](#) (page 131) the AUC defines a Y factor as follows:

*In a PBR plan, Y factor costs are those costs that do not qualify for capital tracker treatment or Z factor treatment and that the Commission considers should be directly recovered from customers or refunded to them. Y factor costs in turn, could either be costs the company is required to pay to a third party (such as the AESO) or other Commission-approved costs incurred by the company for flow through to customers.*

## 7. QUESTIONS ADDITIONNELLES DE L'AQCIE-CIFQ (PIÈCE C-AQCIE-CIFQ-0005)

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

**Response:**

Yes, the X factor in the OEB Board's 2nd Generation IR was informed by a survey of studies of the TFP trends of US power distributors.

Please see page 55 of the [Second-Generation Incentive Regulation for Ontario Power Distributors](#)

The [Board Report on 2<sup>nd</sup> Generation IR](#) may also be of interest.

**Question :**

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.

**Response:**

Yes, 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.

Please see pages 33-41 of [AUC decision 2009-035 \(March 25, 2009\)](#)

**Question:**

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?

**Response:**

The quoted statement was reporting on the stated opinion of the NYPSC.

According to the NYPSC, an earning sharing mechanism is an effective tool that allows customers to share in efficiency gains achieved during the plan period.

Regarding the term of the plan, the NYPSC indicated that short plan terms offer fewer benefits than long plan terms, which appears to be the reason that it is now considering extending the length of the rate plan.

The comment in the Elenchus Report reflects our understanding of the views of the NYPSC found at pages 46-58 of the [Reforming the Energy Vision](#)

The latest status of this process can be found at the following link:

[Reforming the Energy Vision Web Page](#)

**Question:**

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 incentivize.

**Response:**

Yes, the reliability requirements have gotten more detailed and more areas have been incentivized over the years.

Please see pages 69-72 of the [System Reliability Regulation: A Jurisdictional Survey](#)