

- 1 **Q. Reference: Report on Newfoundland Power’s Deferral Accounts, April 24,**
2 **2024, page 26.**
3
4 **“NP has a similar amount and treatment of deferral coverage to other utilities.**
5 **However, many of these other utilities have some form of incentive regulation that**
6 **requires them to find efficiencies for large portions of their costs. NP lacks this**
7 **additional incentive to reduce costs and find efficiencies while also benefiting from a**
8 **similar amount of deferral account coverage.”**
9
10 **a. Please provide Brattle’s definition of “incentive regulation.” What utilities in**
11 **Canada follow some form of incentive regulation and what utilities do not?**
12 **b. Is regulatory efficiency an important factor in jurisdictions that follow a**
13 **formulaic approach to rate setting, such as Alberta and Ontario? If so, why is**
14 **regulatory efficiency an important consideration in those jurisdictions?**
15 **c. In Brattle’s view, are there potential risks and challenges associated with**
16 **using a formulaic approach to rate setting?**
17 **d. Does Brattle agree that it is a common goal in all jurisdictions in Canada for**
18 **utility operations to operate efficiently?**
19 **e. Please provide supporting jurisdictional information, including quantitative**
20 **analysis by utility, to support Brattle’s finding that “...many of these other**
21 **utilities have some form of incentive regulation that *requires* them to find**
22 **efficiencies for *large portions* of their costs.” (emphasis added).**
23 **f. As outlined in the response to Request for Information PUB-NP-017, the**
24 **Company reduced its operating cost per customer by approximately 9.5% on**
25 **an inflation-adjusted basis. The operating cost per customer of the Company’s**
26 **U.S. peer group has increased by 15.1% over the same period when adjusted**
27 **for inflation. In Brattle's view, is this reflective of operating efficiency? If not,**
28 **why not? Further, is Brattle able to provide a similar analysis for other**
29 **Canadian utilities over the same time period for comparison purposes?**
30 **g. Please provide Brattle's understanding of the regulatory process for 2024 cost**
31 **recovery for each of Newfoundland Power and FortisBC Inc. Please specifically**
32 **address what revenue requirement components (e.g. depreciation, operating**
33 **costs and return on rate base) each utility is able to revise customer rates for**
34 **between fulsome general rate proceedings.**
35
36 **A. a) Incentive regulation is aimed at improving the performance of a regulated**
37 **utility through the use of rewards or penalties beyond those incorporated in**
38 **traditional cost-of-service regulation. The attempt is to break the link between**
39 **costs and revenues so that the utility has a greater incentive to reduce costs.**
40 **These often take the form of a multi-year rate plan, performance-based**
41 **regulation, or price/revenue cap models. Of the Canadian investor-owned**
42 **electric utilities included in the Report, FBC, AUC-regulated electric distribution**

- 1 utilities, and OEB-regulated electricity distribution companies have what would
2 typically be considered incentive regulation frameworks.
3
- 4 b) Typically, “regulatory efficiency” refers to how a regulatory agency operates
5 and not the efficiency with which the utilities under its jurisdiction operate.
6 Given the typical definition of regulatory efficiency, it is an important
7 consideration in all regulatory jurisdictions for rate setting to ensure timely
8 decisions regarding changes in rates and to reduce regulatory lag. Specifically,
9 in the context of Alberta and Ontario, we disagree with the characterization
10 that these jurisdictions follow a formulaic approach to rate setting. Alberta and
11 Ontario follow performance-based regulation and incentive rate-setting
12 approaches, respectively, which are not akin to formulaic rate setting. Other
13 jurisdictions, such as the Federal Energy Regulatory Commission (“FERC”),
14 employ a formulaic approach to setting rates for certain electric transmission
15 assets.
16
- 17 c) We do not suggest any benefits or challenges of formulaic rate setting within
18 our Report. It simply reflected the amount of deferral account coverage relative
19 to incentives inherent in various Canadian investor-owned electric utilities in
20 Canada. It is out of our purview for which the Board requested us to make
21 suggestions on a formulaic approach to rate setting for Newfoundland Power.
22
- 23 d) We will not opine on goals for all regulatory jurisdictions within Canada, as we
24 have not specifically reviewed the goals or mandates of each regulatory
25 jurisdiction in Canada
26
- 27 e) For example, under the AUC PBR framework, all operating and capital costs
28 included in rates, which are not subject to Z-Factor, Y-Factor, or Type 1 capital
29 treatment, are subject to being indexed by inflation less the X-Factor. These
30 represent a significant portion of these utilities’ revenue requirements. During
31 the term of the PBR (typically five years within Alberta), these utilities have
32 little, if any, ability to adjust these indexed costs once a PBR term has begun.
33 We have not reviewed the specific cost savings or efficiencies attributed to the
34 various incentive regulation frameworks across different jurisdictions in
35 Canada, as each jurisdiction may have its own set of performance metrics by
36 which it determines the effectiveness of its regulatory framework.
37
- 38 f) We have not specifically reviewed the data provided in response to PUB-NP-
39 017 nor the methods by which it was calculated. There are many metrics by
40 which a commission could determine operating efficiency, and these vary by
41 jurisdiction. As outlined previously, we did not analyze the performance metrics

1 of all Canadian utilities. Such an analysis is outside of the purview for which the
2 Board has asked us to provide a Report.
3
4 g) As previously stated, the specific rate setting and design mechanisms of these
5 utilities are not within the purview for which we were asked to provide a
6 Report. Therefore, we will not opine on the rate-setting practices in these
7 jurisdictions.