

TRADITIONAL REGULATION

VS

**PERFORMANCE-BASED
REGULATION**

**Bill Grant
BC Utilities Commission
April, 2003**

Alternative Forms of Regulation



- **Traditional Rate Base
Rate of Return Regulation**
- **Performance Based Regulation
e.g. Benefit Sharing, Quality Targets**
- **Light Handed Regulation
e.g. Price Caps, Regulatory Holidays**

Regulatory Methods Matrix

Ratings: 1 - Poor 10 - Excellent

Customer Objectives	Traditional	PBR	Light-handed
Quality of Service	7	8	3
Capital Spending Optimization	7	8	?
Low Rates	5	7	5
Avoid Discrimination	8	8	4
Non-discriminatory Access	8	8	5
Unbundled Service Options	7	7	5
Information Disclosure	8	8	5
Customer Simplicity	3	3	5

Shareholder Objectives	Traditional	PBR	Light-handed
High Shareholder Returns	5	7	8
Stable Shareholder Returns	7	5-7	4-8

The Elements of PBR in British Columbia



- **Requires quality of service and reliability improvements before utility can keep a financial incentive.**
- **Financial incentives and cost sharing are derived for each major cost and revenue category over which a utility has control.**
- **Costs beyond the control of the utility are not provided an incentive,
e.g. taxes, extraordinary capital investments.**
- **Return on equity set by separate mechanism.**
- **Incentives are shared with customers and lower costs are embedded to customer benefit at the end of the PBR period.**
- **Duration of a PBR settlement is 3-5 years.
Annual performance reviews occur.**

“The Utilities Commission Act will be amended to focus more on performance-based and results-based regulation, including negotiated settlements, and to define effective consumer participation.”

Energy for our future:

A Plan for B.C.

November 2002

BC Gas 2003 Rate Hearing (Feb. 2003)

- **BC Gas had operated under some form of PBR since 1994.**
- **“The Commission has come to the view that multi-year PBR through negotiated settlement processes and periodic oral public hearings complement one another and provide the optimum overall regulation of the Utility.”**
- **“PBR achieved through negotiated settlements has provided many benefits to the on-going regulation of BC Gas.”**
 - **consensual agreements**
 - **incentives for Utility management to align their interests with the interests of ratepayers**

BC Gas 2003 Rate Hearing (Feb. 2003)

(cont'd)

- **quality of service measures**
- **quicken pace of innovations and cost reduction investments**
- **“The hearing provided a comprehensive review of BC Gas’ operations and has allowed the Commission an opportunity to deal with a number of structural issues which would probably not have been adequately addressed in a negotiated settlement process.”**

What's happening elsewhere in Canada?

- **The Maritime Provinces and Manitoba are not doing much related to PBR and ADR.**
- **Saskatchewan and Nunavut have separate review processes based on referrals from their governments.**
- **The Yukon has completed an NSP but has not yet initiated PBR. The NWT uses NSP to efficiently process individual community applications.**
- **Quebec remains supportive of PBR and ADR based on the Gaz Metro success. A task force is reviewing both PBR and ADR. Incentive regulation may be extended to Quebec Hydro at some future date.**

What's happening elsewhere in Canada?

(cont'd)

- **BC is similar to Quebec in its ongoing support for PBR and ADR. Incentive regulation may be extended to B.C. Hydro following completion of base year costs via a public hearing in 2004.**
- **The NEB remains supportive of PBR and ADR but has a “two door” option to allow pipelines and shippers to choose between settlements or public hearings.**
- **Ontario and Alberta seem supportive of PBR and ADR but the success rate of NSP and incentive regulation is modest.**

PBR Conclusions

- **PRB enhances regulatory objectives by aligning customer and shareholder objectives.**
- **A PBR can be designed so that cost control and utility accountability are not jeopardized.**
- **Quality of service is more directly recognized and rewarded.**
- **Utilities provide direct incentives for employees.**
- **Improves investment potential of mature utilities.**
- **Longer review periods reduce regulatory costs and streamline the regulatory workload.**
- **Periodic oral public hearings are desirable to deal with policy and structural issues, and to establish a new base year.**
- **Light-Handed (Price Cap) Regulation has little application for energy utilities since it directly contravenes the intent of the Regulatory Compact and may lead to discriminatory activities that could limit competition.**

NEGOTIATED SETTLEMENT PROCESS



- **“Settlements make winners -
Hearings make losers”**
- **Settlements lead to increased dialogue with
customers in competitive markets**

B.C. Utilities Commission

Negotiated Settlement Process : Policy, Procedures and Guidelines



- **A full application, workshops, and information requests ensure full disclosure**
- **Commission staff actively participate in negotiations**
- **Commission approval of full settlements including tradeoffs**



- **near 100% success rate**
- **utilities now work closely with customers**
- **modest time and cost savings**

What's needed to have a successful ADR process



- **Strong support from the regulatory tribunal.**
- **Education, Education, Education.**
- **Tribunal staff participation.**
- **Allow tradeoffs between competing issues.**
- **Get past the “Point of Despair.”**