

Multi-Year Incentive Rate Regulation for Natural Gas Utilities

COMMENTS OF ENERGY PROBE RESEARCH FOUNDATION

Energy Probe suggests that the appropriate goal for any Incentive Regulation (IR) plan is to provide a reasonable prospect for a better long term outcome for consumers than might be expected under the Cost of Service (COS) alternative.

Given its history of controlling rates since the early 1990s, Energy Probe believes that it is unlikely that an IR plan for Union Gas Limited could improve upon the achievements of COS regulation. Union Gas Limited should be invited to present any plan to the Board and stakeholders that it considers likely to improve upon the status quo. However, in the absence of any significant new proposals, Energy Probe suggests that the status quo should remain, and that Union Gas Limited should continue to be regulated through COS.

On the other hand, Energy Probe is concerned by the consistent underperformance of Enbridge Gas Distribution Inc. (EGDI) relative to Union Gas Limited for a period approaching a decade and a half. Under the oversight of the Board and stakeholders, EGDI has not been able to control its rates. As Union Gas Limited has demonstrated, rate control is achievable. A change in regulatory approach applicable to EGDI should be considered, with the objective of recapturing some of the ground lost by EGDI relative to Union Gas Limited. If this is not achievable, then at a minimum, EGDI's rate trend should be more closely aligned with Union Gas Limited's long term trend.

The approach Energy Probe recommends with respect to EGDI would eschew earnings sharing, a short term of 3-4 years, multiple off-ramps and Z factors. Instead, Energy Probe favours more powerful profit-based incentives provided by a longer term (5 to 7 years) and a firm rate commitment to consumers for all non-flow through factors (e.g. gas cost) over the full term of the plan with minimal allowances for unusual capital projects, like those involving power generators. Cost allocation and rate design should be settled by Board order in advance of the commencement of any IR plan and not subject to adjustment by the utility during the plan except by Board order.

The reporting provisions should be thorough enough to identify any instances of unsustainable earnings management that might be employed by the utility to game the provisions of an IR program. In particular, the utility should have an onus to identify and explain any material changes in accounting or tax treatment, discontinuities in capital programs, affiliate transactions, or changes in corporate structure.