

1 Q (a) How does Hydro propose to determine excess earnings (KCM, page
2 56, lines 4-8)?

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4 (b) How does Hydro propose to deal with excess earnings?

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6 (c) Is Kathleen McShane aware of any situations where there was no
7 limitation on a fully regulated utility's earnings or revenue? If so,
8 please describe the situation(s).

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10 A. (a) Because Hydro's earnings are not expected to approach a
11 compensatory return, a specific construct for determining excess
12 returns has not been developed. However, Hydro would anticipate
13 that earnings in excess of a compensatory return would be measured
14 on a utility stand-alone basis using a model similar to that used by the
15 Board to determine excess earnings for Newfoundland Power.

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17 (b) Since Hydro's utility earnings during the test period will not exceed a
18 compensatory level, no specific methodology for dealing with excess
19 earnings has been developed. In principle, however, excess earnings
20 could be returned to customers in the subsequent year via a one-time
21 credit to customer bills.

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23 (c) To Ms. McShane's knowledge, in Canada, only regulators in
24 Newfoundland and Quebec have implemented caps on earnings. In
25 other Canadian jurisdictions, absent an incentive plan which includes
26 an earnings sharing mechanism, all earnings in excess of the allowed
27 return are to the account of the shareholder. The converse is also

1 true: the risk that utility earnings will fall short of the allowed return is
2 the shareholder's risk.