

1 **Q. Further to the reply to CA-NP-304, Ms. McShane states in that response that**
2 **Canadian regulators have been increasingly moving toward performance based**
3 **regulation. Where in Canada have regulators been increasingly moving towards**
4 **performance based regulation and how has that form of regulation affected and/or**
5 **how is it expected to affect the regulated utilities ability to earn the allowed return**
6 **from year to year.**

7
8 A. At the National Energy Board, Enbridge Pipelines became the first major pipeline subject
9 to incentive regulation in the mid-1990s. Other pipelines followed (e.g., TransCanada,
10 Westcoast, TQM) via multi-year settlements. A comprehensive incentive regulation
11 framework has been applied in Québec for Gaz Métro since 2000, and for Gazifère since
12 2006. In Ontario, performance-based regulation was adopted for the electricity
13 distributors in 2006, and comprehensive performance-based regulation was adopted for
14 the two major gas distributors, Enbridge Gas Distribution and Union Gas in 2008. In BC,
15 both FortisBC Energy (1998 to 2001 and 2004-2009) and FortisBC Inc. (1996 onward)
16 have operated under incentive rate plans at various times. The Alberta Utilities
17 Commission issued a decision in September 2012 adopting performance-based regulation
18 for the Alberta electric and gas distributors commencing 2013. The utilities that have
19 been subject to incentive regulation have been generally able to earn returns above the
20 return allowed, as they are incented to do, although the framework itself subjects them to
21 greater risk than a pure cost of service regime. The ability to earn returns above the
22 allowed is dependent on the ability of the utility to produce efficiency gains, in
23 conjunction with the specific parameters of the performance-based plan (e.g., how
24 additions to capital are dealt with in periods of high capital expenditures). Over time,
25 efficiency gains are likely to become more difficult to achieve.