

1 *NP-CA-13*

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3 **Q. Table 3, page 40 shows sample performance standards for inclusion in a**
4 **distribution reliability and service standard to be developed with reporting initiated**
5 **under the standard during 2008. The standards in Table 3 are identical to those**
6 **included in the *Successor Service Quality and Reliability Plan* established for Green**
7 **Mountain Power, as indicated in footnote 17.**

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9 **In 2005, Green Mountain power exceeded all performance benchmarks identified in**
10 **the *Successor Service Quality and Reliability Plan*.**

11
12 **With respect to the reference from *A Compendium of Electric Reliability Frameworks***
13 ***Across Canada* at line 19 of page 31 and the assertion that increased reliability**
14 **comes at a cost: How is Green Mountain’s performance in excess of established**
15 **benchmarks treated by the regulator? Does Mr. Bowman consider Green**
16 **Mountain’s performance as imprudent incurring unnecessary cost or an example of**
17 **good performance?**

18
19 **A.** Under traditional cost-of-service regulation, utilities are allowed to recover
20 prudently-incurred costs plus a return. Utilities can increase profits by increasing
21 spending provided they can show the costs were prudently incurred. This necessitates that
22 certain checks and balances be in place to ensure a utility is not overspending in an effort
23 to increase profits.

24
25 If Green Mountain were regulated under cost of service regulation, it would be necessary
26 to establish that costs were prudently incurred in order to recover the costs from
27 customers. For a cost to be considered prudent, it must benefit consumers. If Green
28 Mountain were meeting targets established on the basis of the value customers place on
29 reliable service, yet continued to spend money to improve reliability without proof that
30 the improved reliability were benefiting consumers (i.e., through cost reductions owing to
31 efficiency improvements), prudence could not be established, and the regulator would not
32 allow recovery of the costs from consumers.

33
34 Under performance based regulation, prices or revenues are capped, providing financial
35 incentive for a utility to improve efficiency and reduce costs to improve profit margins. If
36 Green Mountain were regulated under performance based mechanism there would not be
37 the same emphasis placed on establishing the prudence of its reliability expenditures
38 because it would be less able to pass the costs through to consumers owing to the
39 price/revenue cap. In this case, the regulator would need to determine if Green Mountain
40 were spending enough money on reliability to ensure performance is not deteriorating.
41 Provided Green Mountain’s performance exceeded the targets, there would be little
42 reason for the regulator to intervene as performance would be judged consistent with the
43 value consumers place on reliable service. Mr. Bowman understands from discussions
44 with Vermont Public Service Board staff that during the next three years during which
45 the “alternative regulation” plan will be in place, the Board will evaluate the plan to

1 determine if it is indeed streamlining the regulatory process and creating new incentives
2 for Green Mountain Power to improve customer service.

3
4 In summary, allocating money to ensure service levels consistent with the value
5 consumers place on service is an example of good performance. Allocating additional
6 money to improve performance beyond the value customers place on the service is not an
7 example of good performance because under a cost of service regulatory regime such as
8 that in Newfoundland and Labrador, the additional money goes to utility profits and
9 increased rates for consumers without equivalent value. BC Hydro provides a good
10 example of this principle. BC Hydro has second or third quartile reliability performance
11 (depending on the measure), yet has high customer satisfaction with respect to reliability.
12 Spending additional money to increase its reliability performance in an effort to make it
13 an industry leader would be inconsistent with the value its consumers place on reliable
14 service. As a result, BC Hydro is reconsidering its distribution reliability strategy to
15 determine the appropriate level of spending consistent with customer expectations.⁸
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⁸ See website: <http://tdmm.com/conferences/2004/presentations/panels/wednesday/balbirnie/CBRS-Murray-Keith.pdf>