

L1.SEC.5

5. [Page 24, 36, 47] Please discuss whether, given the proposal for an ICM and protections against volume declines, it is appropriate to use partial factor productivity for OM&A to adjust non-capital revenue requirement. In the event that is a viable option, please discuss options for the Board to address capital revenue requirement that would be consistent with an OM&A driven productivity factor, and would avoid double-counting of capex in the formula.

Response to SEC-5: The following response was provided by PEG.

PEG believes that separate treatment of OM&A and capital revenue is an option meriting serious consideration for the Amalco and other utilities that chronically seek supplemental capital revenue. PEG's gas utility productivity study in this proceeding provides the basis for an Inflation – (0.88% + Stretch) escalation formula for OM&A revenue and an Inflation – (-0.98% + Stretch) escalation formula for capital revenue. Use of these two escalators, instead of an Inflation – (0.00 + Stretch) escalator for all revenue, would slow growth in OM&A revenue. Capital revenue might not change, but the need for an ICM to supplement capital revenue would diminish. Separate ratemaking treatment of OM&A and capital revenue is a longstanding feature of incentive regulation in Australia, British Columbia, California, and Hawaii.