



Annual Price Adjustments – Are they a necessary feature of Incentive Regulation

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Utilities operating under incentive regulation cannot simply pass changes in their input costs to customers. The need for annual adjustments under incentive regulation has been reviewed in other jurisdictions and some have expressed a preference for adjustments to take place every other year. This is a summary of the RIC's views on this issue.

**Summary
Document**

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The RIC is required to balance the interests of the service provider and customer. Regulators utilizing incentive regulatory frameworks try to ensure that service providers have an incentive to reduce costs so that prices are not adjusted every time input prices change. At the same time customers are also better able to manage the impact of annual changes to their budgets.

Why Annual Adjustments?

Incentive regulation seeks to imitate a competitive market.

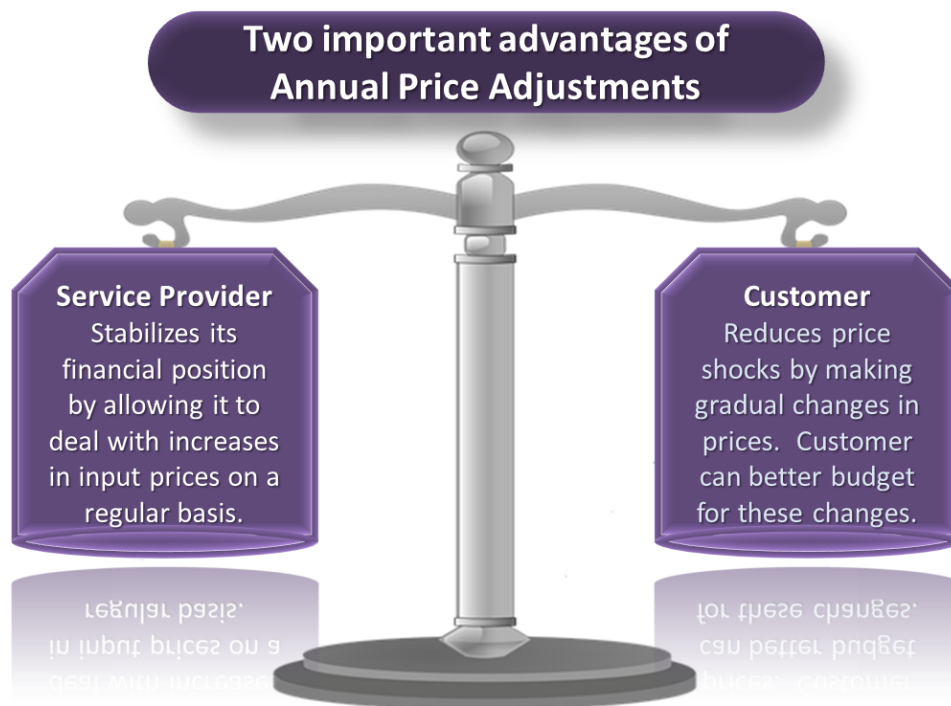
In a competitive market prices are likely to change more frequently.

Provides an incentive for the service provider to manage its costs during the regulatory period because it must wait at least a year for a price adjustment.

Allows the regulator to cushion the impact of price increases to customers.



Annual price adjustments are favoured by most regulators that utilize an incentive regulation framework.



The RIC welcomes views on the need for annual price adjustments.

All persons wishing to comment on the need for annual price adjustments are invited to review the main document and submit their comments using any of the options provided.