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Witness: Julia Frayer
Request from: Department of Energy and Environmental Protection

Question:

(PBR- Z factor) Refer to Exhibit CLP-PBR-1p. 74. Provide a summary of Z Factor designs tested and implemented in other jurisdictions, including the decision where such designs were approved, the qualifying criteria for associated expenses and the associated tariffs

Response:

The following table summarizes the Z-Factor provisions approved in a sampling of jurisdictions that have deployed an I-X based PBR framework. Approval of these mechanisms does not necessarily constitute approval of specific cost adjustments that are generally evaluated on a case-by-case basis.

Jurisdiction / Regulatory decision	Approved Z-Factor scope and qualifying events	Criteria for Z-Factor eligibility	Materiality threshold	Reference
New Hampshire – Public Service Company of New Hampshire	Approved a relatively narrow Z-Factor covering specific cost changes resulting from state or federal government actions, regulatory cost reassignments, and changes in accounting rules. These adjustments may be forward-looking when known and measurable.	Cost changes must fall within the Commission's defined categories and satisfy the applicable threshold. The Commission adopted its earlier definition for the exogenous-event provision.	$1.5 million revenue-requirement impact	New Hampshire Public Utilities Commission Order No. 28,170 (July 25, 2025), Docket DE 24-070, pp. 2 and 54.
Alberta –	Approved a general Z-Factor for	All five criteria must be met: (1) outside	Dollar equivalent of an after-tax 40-	AUC Decision 27388-D01-2023

Jurisdiction / Regulatory decision	Approved Z-Factor scope and qualifying events	Criteria for Z-Factor eligibility	Materiality threshold	Reference
Electric and Gas Distribution Utilities	significant positive or negative financial impacts from exogenous events. May apply to capital or O&M. No exclusive list of qualifying events is prescribed.	management's control; (2) material impact; (3) no significant influence on the inflation factor; (4) prudently incurred costs; and (5) unforeseen event. The impact must also lack another reasonable recovery mechanism within the PBR framework.	basis-point change in ROE, calculated using the utility's equity supporting 2023 going-in rates; escalated annually by I-X	(October 4, 2023), Appendix 5, pp. 119–120.
Massachusetts – Eversource (NSTAR Electric)	Approved exogenous costs from: (1) tax-law changes uniquely affecting the industry; (2) industry-specific accounting changes; and (3) regulatory, judicial, or legislative changes uniquely affecting the industry.	Cost change must be beyond company control, arise from qualifying legal/accounting/regulatory action, uniquely affect electric distribution rather than the general economy, and not be reflected in GDP-PI. Supporting evidence is required, and eligibility is determined case by case.	$4 million per individual event in the first PBR year, adjusted annually by GDP-PI Generally noncumulative, with limited exceptions for related property-tax events	MDPU, NSTAR Electric Company d/b/a Eversource Energy, D.P.U. 22-22, Final Order, (November 30, 2022), pp. 71–76.
Massachusetts – Fitchburg Gas and Electric Light Company (Unitil Electric)	Approved the standard MA categories of industry-specific tax, accounting, regulatory, judicial, and legislative changes.	Beyond management control; arises from qualifying changes in requirements or directives; unique to the distribution industry; material; and not reflected in the inflation index or otherwise in PBR formula.	$110,000 per event with annual GDP-PI adjustments	MDPU, Fitchburg Gas and Electric Light Company d/b/a Unitil, D.P.U. 23-80/D.P.U. 23-81, Final Order (June 28, 2024), 51–54

Jurisdiction / Regulatory decision	Approved Z-Factor scope and qualifying events	Criteria for Z-Factor eligibility	Materiality threshold	Reference
Massachusetts – Massachusetts Electric Company and Nantucket Electric Company (National Grid Electric)	Approved the standard Massachusetts categories. Also expressly approved potential Z-Factor recovery for certain major storm-related O&M expenses, subject to additional conditions and prudence review.	Qualifying costs must be beyond control, arise from industry-specific legal/accounting/regulatory changes, not be reflected in the applicable inflation adjustment, and meet the significance threshold. For major storms, additional storm-fund eligibility requirements apply.	$3.6 million per individual event initially, adjusted annually by GDP-PI Special storm provision: individual storm O&M expenses above $30 million, where the storm fund balance plus costs exceeding $30M, exceeds $75M.	MDPU, Massachusetts Electric Company and Nantucket Electric Company, each d/b/a National Grid, D.P.U. 23-150, Final Order (September 30, 2024), pp. 94–96.
Ontario – Electricity Distributors	Approved a general Z-Factor mechanism for extraordinary, unforeseen events outside management's control. Examples include severe storms and other exceptional events. The framework does not restrict claims solely to legal or regulatory changes.	Three principal tests: (i) causation, (ii) materiality, and (iii) prudence. Costs must be incremental to those reflected in rates; management must show the event could not reasonably have been planned or budgeted for. Current guidance also requires the distributor's achieved ROE not to exceed its deemed ROE by more than 300 basis points.	Under the OEB's 3rd Generation IRM, the standard Z-factor materiality thresholds are C$50,000 for utilities with distribution revenue requirements up to C$10M; 0.5% of distribution revenue requirement for utilities above C$10M through C$200M; C$1M for utilities above C$200M. The threshold applies on a per-event basis.	Ontario Energy Board, Supplemental Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, Docket EB-2007-0673, (September 17, 2008), Appendix B, VII-VIII

Jurisdiction / Regulatory decision	Approved Z-Factor scope and qualifying events	Criteria for Z-Factor eligibility	Materiality threshold	Reference
			However, utilities operating under OEB-approved Custom IR plans may be subject to different, utility-specific materiality thresholds.	
Hawaii – Hawaiian Electric Companies	Approved a broad Z-Factor mechanism for exceptional events beyond reasonable utility management control. Potential examples discussed in the proceeding include tax-law changes, natural disasters, and pandemics, but the Commission deliberately did not establish an exclusive or automatically approved list. Changes to ROE or credit ratings do not qualify.	Six criteria: (1) outside control of a prudent utility; (2) directly related to the exogenous event; (3) impact outside the original rate base; (4) prudently incurred; (5) not otherwise recovered through rates, insurance, government aid, or third parties; and (6) above materiality threshold. Each request is evaluated individually.	$4 million per event for HECO; $1 million per event for HELCO and MECO	Hawaii Public Utilities Commission, Decision and Order No. 37507 (December 22, 2020), Docket 2018-0088, pp. 57–60 and 80.