Country	QUESTION 1: WHAT ARE THE OBJECTIVES OF RATE REGULATION? (a) What the objectives of rate regulation (i.e. restrict prices, influence the level of supply or demand or restrict and encourage competition) (b) How are these objectives reflected in the rate setting mechanism? (i.e. is the rate mechanism designed to give a fair rate of return, incentives to meet targets (i.e. investment or service levels), is there flexibility for the entity to set prices or are there other aspects of the rate setting mechanism that are relevant?	QUESTION 2: WHAT RIGHTS OR OBLIGATIONS DOES THE REGULATION CREATE? (a) Does the rate-regulated entity have an exclusive right to operate in the market; (b) Is the right to operate established by license and is there a cost of acquire a license and can the license be revoked? (c) Can the entity chose to stop providing the goods and services and how is this achieved	QUESTION 3: HOW DOES THE RATE-REGULATED ENTITY ENFORCE ITS RIGHTS (a) Does the entity provide for retrospective recovery or reversal of costs? (b) What happens when the entity ceases to provide the regulated goods or services?	QUESTION 4: HOW DOES THE RATE REGULATION ENSURE RECOVERY OR REVERSAL OF COSTS? (a) What is the mechanism for tracking the recovery or reversal of costs? (b) Has there been a recent trend of an increase in the variance between actual and recovered costs?
United Kingdom	Regulated via central independent bodies depending on the nature of the goods or services provided. The rate setting mechanism is normally a price or revenue cap with revenue caps being set every 5 years based on forecast operating and capital expenditure. Revenue is normally linked to inflation. The aim of the rate setting mechanism is for an entity to over-deliver on customer service targets and outperform both the operating and capital expenditure targets (i.e. 'incentive based.')	Entity's right to operate set by license with the regulator having powers to enforce compliance with the license and legislation. The regulator generally can terminate a licence but with 25 years notice.	The entity generally has the ability to appeal against a regulator's decision by reference to the UK Competition Commission.	In the UK, where actual costs are different to those forecast, there is no automatic 'true up' to revenue. Instead, to the extent agreed upon outputs are achieved at lower cost, the entity keeps the benefit for a period of time. To the extent that exact costs exceed forecast, a claim can be made in certain circumstances to the regulator, but the success of the claim is not automatic. Otherwise, forecasts are revised for the full 5 year period.
France	Similar to the UK in that regulation is primarily for the power and gas networks and is via central quasi-government bodies depending on the nature of the goods or services provided. The rate setting mechanism is normally a price or revenue cap with revenue caps being set every 4 years based on forecast operating and capital expenditure. Revenue is normally linked to inflation. The aim of the rate setting mechanism is for an entity to over-deliver on customer service targets and outperform both the operating and capital expenditure targets (i.e. 'incentive based.')	Entity's right to operate set by licence with the regulator having powers to enforce compliance with the licence and legislation. The regulator generally can terminate a licence but with a number of years notice.	The entity generally has the ability to appeal against a regulator's decision.	Where actual costs are different from those forecast, the regulation provides for an amortisation mechanism of the difference over the remaining term of the current tariff period. The amortisation is automatically added to or deducted from the forecast eligible costs of the following year (subject to a floor and cap). At the end of every year during a given tariff period, the cumulative amount of differences is recalculated and the amortisation is adjusted for the following years. At the end of a tariff period, an overall negotiation is held with the regulator to review the scope of eligible costs for the next period, and also to determine if and how the accumulated amount of unamortised differences at the end of the tariff period will be incorporated in the tariff of the new tariff period.
Australia	Regulation is via the individual states or a national regulator depending on the nature of the rate regulated activity. Current rate setting mechanisms include local enforcement to prevent overcharging although reforms are underway in some areas to move towards a UK model where tariffs are based on a rate of return on operating and capital expenditure which is already used by some industries (i.e. Network operators). The objective of the rate regulation to protect the interests of customers and to set fair prices and a certain level of service standards.	Entity's are generally licensed to provide the goods and services and can choose to stop providing goods and services by relinquishing their licence. There are circumstances where an entity may be the sole operator of a rate regulated asset, and there are restrictions or conditions on relinquishing the operating licence. Such terms may prevent simply relinquishing the licence.	National and state regulation which can be enforced in courts of law against alleged breaches of regulation.	Industries using the rate of return model require periodic reassessment, normally every 5 years of forecast expenditure similar to the UK model.
USA	The objective of rate regulation is to set "just and reasonable" rates or prices in the absence of competition. Regulation of retail rates is via the individual state regulators in the majority of cases although rates for wholesale and most transmission services are established by a federal regulator. Rates are normally set based on the submission by the entity of supporting evidence to the regulator presenting the cost of providing service and ensuing rate levels. The regulator will usually hold public and legal hearings as the evidence is examined. The primary objective of this process is to set rates which will allow the entity to recover its costs to provide utility service which includes operating and maintenance expense, taxes, depreciation and an opportunity to obtain a fair return on investment.	The entity has an exclusive right to provide service in its designated service territory for the regulated service. The nature of that right varies somewhat by state; in most cases there is not a cost to acquire a license, but in some limited cases a fee is paid. The right to exclusively serve a designated territory can potentially be revoked with the entity being compensated if that occurs. The entity has an obligation to serve all potential customers in its service territory. The regulations give the entity the right to "just and reasonable" rates to be set by the regulator with an appeal to the courts available. Regulated utilities cannot add, modify or abandon types of services or service areas without approval of the regulator.	The legal system is the primary measure to enforce rights and obligations. Regulatory decisions are reviewable by designated courts on appeal by the utility. In most cases, rates are set based on historic or projected cost levels and an expected return on investment; the entity has risks and opportunities as actual costs and revenues differ from amounts estimated in the rate setting process. In many cases, regulators allow certain elements of costs (for example, fuel and purchased power costs) to be tracked and actual costs incurred are billed through the use of frequent billing adjustments. Except for any such explicit and pre-approved separate tracking mechanisms, the entity is not able to retroactively bill for actual costs incurred. If the entity ceases operations, in the near term the assets would continue to be operated under the oversight of bankruptcy law under existing rate structures and customers would continue to be liable for payment for services previously rendered.	In most states periodic reports are filed in which the regulator monitors recovery of costs and returns earned. If those reports show the entity is recovering more than its costs plus its authorized return, the regulator may initiate a proceeding to potentially reduce rates. If the entity is under recovering or expects to soon be under recovering, the entity may initiate a proceeding to request a specified increase in rates in the future. In those proceedings, the entity submits evidence about its required return and the costs expected to be incurred. For certain elements of costs that are tracked to provide actual recovery, there may be separate routine proceedings by the regulator to monitor that activity. In recent years, due in part to increased investments for reliability and environmental compliance, the amount by which many entities have been under recovering compared to costs plus authorized returns has been greater than in prior years, which has resulted in more frequent initiation by entities of proceedings to increase rates.

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Canada	(a) Generally rate regulation happens at the provincial level and is aimed at electricity and natural gas transmission and distribution. These industries tend to create "natural monopolies". Given this situation, one objective of rate regulation is to protect consumers by setting rates for transmission and distribution that are "just and reasonable". Another objective is to allow utilities a reasonable opportunity to recoup costs and earn a fair return for the significant financial investment they make in order to supply and deliver energy to consumers. (b) While the approach varies by jurisdiction, one common approach is to establish base rates for each distribution utility through a comprehensive review of the utility's costs as detailed in its rate application. This review occurs periodically (e.g., every four to five years). In the intervening years, the regulator provides for inflationary increases adjusted by a productivity measure. Rates are set through a quasi-judicial process that requires utilities to present evidence to justify rate increases.	(a) Yes, entities that are subject to rate regulation usually have a monopoly over the service they provide in a particular region. (b) Yes, rate regulated utilities are licensed. The regulator routinely inspects and audits the utilities it has licensed for compliance and financial viability. The regulator has powers to take enforcement action against utilities, including revoking licenses. (c) There is limited experience with regulated entities ceasing to provide their services. It is unclear how this could be achieved, except for in extreme cases of bankruptcy and other similar situations.	(a) Recovery of or reversal of costs is only achieved with permission of the regulator. This permission may be implicit (e.g., based on the nature of the cost, such as commodity price variances) or explicit (e.g., for more unusual or one off types of variances). (b) See Question 2. There is little or no experience of this happening.	(a) Costs that are allowed by the regulator as recoverable or returnable are tracked as variance or deferral accounts by the utility and recovered or returned to customers over the period prescribed by the regulator. Sometimes they are recovered/reversed in the next year. In order to avoid rate shocks, larger amounts will be recovered over a longer period as prescribed by the regulator. However, it should be noted that not all cost variances are automatically recoverable or returnable so there is no "ensuring" that all variances will be trued up. (b) There is a general sense that regulators are trying to create improved efficiencies. In a highly public case last year, the Regulator called Toronto Hydro's request for $500M in increased costs for rate basing purposes to deal with capital replacement and maintenance issues "not credible".
Japan	There are various different types of rate regulations trying to achieve similar but slightly different objectives, such as: - Prices of public service (tuition fee for national university and charges for document issuance) are regulated primarily on a national basis, because a sole supplier (often government arms) dominates the market, and there could be no social mechanism other than regulations to set the price level that is appropriate politically and socially. - Prices of medical/healthcare service & medicine are regulated on a national basis to some extent, to achieve multiple competing objectives, such as setting a socially acceptable level of access to services/product, limiting public subsidy, compensating/promoting R&D activities by pharmaceutical or provision of quality services. - Public transportation (such as train, bus, domestic airline) are often regulated either nationally or locally, primarily to ensure a level of competition among less than the ideal number of competitors. Additional objective may be explicitly embedded such as promoting railroad development, or to prevent accidents by permitting too much price competition (that could result in less investment into safety). Service providers are often private entities but includes government arms or government-owned entities. - Public utility prices (such as electricity, gas and water) are regulated either nationally and/or locally, since the market tends to be naturally monopolised by one or a few limited number of providers per region. There are regulated markets (often for retail markets) and unregulated markets (often for whole sale or business to business market). - Certain types of insurance (such as compulsory automobile liability insurance that all drivers must purchase) may be viewed as price regulated, as a national regulator in consultation with public, set the price. The objective is to ensure the constant pricing across the nation at an appropriate level of premium in light of the insurance risk that a private insurance company would be exposed to. Prices are often set at a level in light of the cost (and a level of return in case a provider is private business) and are not flexible once approved or decided. Application for changes as well as regulator procedures are often necessary to change the price.	(a) - Depending on how you view, 'exclusive' right may or may not exist. For example, on public service, the provider is naturally limited to government (or its agency), there is even no need to make it clear by giving a license. On public transportation, a license to operate (certain line/route etc.) may need to be clearly granted but a different entity may be granted a similar license to operate the same or similar service, depending on demand etc. On public utility, a permission by public authority is needed. Although it is often not anticipated that additional provider appear to whom a permission is given to, exclusiveness of the licence is not necessarily evident. (b) - Since explicit regulatory approval is required, it is broadly correct to deem a license is needed to get a right to operate. The cost to get a license is not necessarily clear cut, since regulated entity need to comply both with initial and on-going requirement etc., which is a cost. The license may be potentially revoked by regulators but such are rarely observed. (c) - Depending on public importance and the existence of alternative service provider, hurdle for stopping could be different. In certain cases, an entity's right to operate comes with obligations to provide to secure all applicable customers being covered by the service provider.	(a) - Often the cost considered in setting the price is based on estimate at a time of approval of price/rate, the excess cost or unexpected favourable impact on actual cost may only be reflected to the next price setting. Accordingly, the cost is expected to be recovered broadly over periods. However, there is a scope of cost that can become a basis of price and certain cost overrun etc. may not be recoverable at all. (b) - The regulation does not necessarily take such case into consideration but the loss, for example, would not be expected to be compensated all the time. It is also noted that the concept of 'cost' is rarely pure IFRS-based accounting concepts and is often more affected by local accounting and regulatory reporting standards. Considering such de-link, if a strict accuracy is to be established to state IFRS based cost is to be recovered/reversed, such could be difficult.	(a) - Regulatory pricing mechanism often starts from past history or expected costs based on such for the next approval round of price regulation. Accordingly, new price tends to reflect cost largely over time. However, certain unexpected elements (such as unexpected shrink in demand) are not automatically reflected to the price in subsequent years. Such may or may not be considered in future negotiation with regulators. (b) - Unfortunate natural disaster in 2011 affects electricity industry (including subsequent increase in use of certain type of source of power), which has made it more difficult for the industry to recover cost that are increased by purchasing more fuels than anticipated. Such changes in sourcing is not automatically reflected to regulated prices.