EB-2010-0249

ONTARIO ENERGY BOARD

IN THE MATTER of the *Ontario Energy Board Act*, 1998, S.O. 198, c.15, Schedule B, as amended;

AND IN THE MATTER OF a consultation initiated by the Ontario Energy Board relating to the reliability policies applicable to electricity distributors.

SUBMISSIONS
ON BEHALF OF THE
SCHOOL ENERGY COALITION

October 29, 2010

JAY SHEPHERD P.C.
2300 Yonge Street, Suite 806
Toronto, Ontario M1P 3E5
Tel: 416-483-3300
Fax: 416-483-3305

Jay Shepherd
Email: jay.shepherd@canadianenergylawyers.com

Counsel for the School Energy Coalition

Mark Garner
Email: markgarner@rogers.com

Consultant for the School Energy Coalition

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1 GENERAL COMMENTS

1.1 *Introduction*

1.1.1 On August 23, 2010 the Ontario Energy Board initiated a policy review of reliability standards for electricity distribution utilities in Ontario. SEC's submissions are guided by the Board's statements that there is a need for the codification of reliability standards and that reliability standards should support investment decisions.

1.1.2 In these submissions SEC seeks to be as precise as possible in the choice of the words used to describe reliability data and its use. The nomenclature we use follows largely from that used in "*System Reliability Regulation: A Jurisdictional Survey*", by Pacific Economics Group (the "PEG Report"). Reliability "indicators" are the measure of a certain event or outcome. An example of a reliability indicator is SAIDI. The reliability indicator, therefore, is the technical metric itself.

1.1.3 However, in this submission a distinction is made between a reliability "benchmark" which is defined as a set of indicators applied to a single utility (a target, in effect), and reliability "standards", which are a set of indicators used - in a binding way - to compare a number of utilities, or compare a utility's progress over time.

1.1.4 In SEC's submission the Board's current service quality indicator policy, which requires that an LDC meet a three year rolling average target, would be a benchmark. Currently there are no standards either provincial wide or among any smaller cohort of LDCs.

1.2 *Summary of Submissions*

1.2.1 These submissions are organized to address four questions:

(a) What should be the objectives of a policy related to reliability standards?

(b) How should the success of this policy be measured?

(c) What reliability indicators are required to support this policy?

(d) What regulatory regime or process best meets the objectives of the policy?

1.2.2 In its letter of October 7, 2010, the Board listed 15 specific questions. SEC has made submissions in respect to each these questions in the sections mentioned above. For convenience the questions are listed at the beginning of each section. A summary of SEC's submissions is set out below.

1.2.3 SEC's submissions start from a specific conceptual base. For schools, as for most

customers, reliability is essentially a binary concept. Either there is sufficient reliability to meet our needs, or there is not. Below the necessary threshold, customers including schools agree that reliability should be a high priority, and spending related to that priority is strongly supported. Once the necessary threshold is met, the value of incremental reliability-related spending drops rapidly. While the "threshold" level is not a bright line, most customers could identify, at least anecdotally, a narrow range within which they "expect" to have light when they flip the switch, and are willing to pay more to achieve that expectation.

1.2.4 ***Objectives of a "Reliability Policy".*** Reliability policies should have three objectives:

(a) The policies in general should attempt to reveal whether a utility's financial returns are made at the expense of service quality. Under incentive rate making there is an inherent economic incentive to under invest in capital during the period between rate rebasings. Reliability standards can help the Board, the utility, and the stakeholders understand the relationship between service quality and invested capital.

(b) Standards should be used to compare a utility's year-over-year performance, and to compare utilities to each other. Ontario has a large number of local distribution companies (LDCs). This fact provides an opportunity to use comparisons between LDCs to identify and promote best practices. While LDC owners tend to emphasize their differences, consumers expect that under similar circumstances there will be similar levels of service. For example, in the large urban areas like Mississauga, Ottawa or Toronto, customers expect similar "big-city" levels of service and reliability. Likewise, consumers in more isolated regions have, or should have, a shared expectation of reliability, sometimes associated with less distribution plant redundancy, but nevertheless common across different LDCs.

(c) The policy should be informative as to the most efficient capital investments to be made by the LDC. Reliability metrics will always be an imperfect guide to capital investment. Therefore the regulatory regime for implementing a reliability policy should include opportunities for interested parties to explore a LDC's proposed response to reliability issues.

1.2.5 ***Customers Experience - Willingness to pay.*** The customer survey information commissioned by the Board (the Pollara Surveys) shows that customers are largely satisfied with their distribution service. The SAIDI, SAIFI and CAIDI reported in the OEB's Annual Statistics show a trend toward improved reliability since 2006.

1.2.6 Customers are affected most by the length of an outage and by the customer service involved in informing them of a prolonged outage. Worst performing circuits are likely a prime driver of the length and frequency of outages, and therefore have high relevance to

the customer's experience. LDCs should also be required to adhere to customer service standards in respect to the restoration of service, and in informing customers as to the expected time to restore power.

1.2.7 The customers' experience should form a key measurement of the success of a reliability policy. There should be measurement of the benefit to customers of a reliability policy, especially if there are additional costs to be borne by the customer. A baseline customer survey may be useful in measuring the impact on consumers of any reliability policy. The survey undertaken by the Board, while useful for these proceedings, is not sufficient for that purpose. In order to best measure customer experience and expectations, input from LDCs and consumer groups should be solicited.

1.2.8 ***Robust Reliability Data.*** The Board should update and refine the reliability reporting requirements found in section 15 of the Rate Handbook and section 2.1.4.2 of the Record and Reporting Requirements (RRR). The data currently collected is LDC idiosyncratic. Different measurement techniques are used and different definitions followed, so comparisons are more difficult. Most of the data is collected manually and therefore subject to inaccuracies. Before a reward/penalty regulatory regime is introduced, the foundational data set needs to be improved.

1.2.9 The Board should require LDCs to meet IEEE1366 standard measurement definitions. A comprehensive guideline for LDCs should be published and the Board should undertake audits to ensure that data being collected is compliant with the guideline.

1.2.10 New reliability indicators should be introduced, including MAIFI, and Energy Not Supplied (ENS). These indicators can help in the system planning and investment of a utility. Worst circuit reporting and customer service measures would add meaningful data, both for consumers and as feedback to management and the regulator.

1.2.11 Outage data should be categorized so as to understand its duration (momentary, sustained, severe) and its reason (controllable, non-controllable, loss of supply, planned).

1.2.12 The widespread implementation of smart meters means that automated data collection will largely replace manual collection. This, in turn, will mean that older data sets will not be comparable to more recent and more accurate data. The Board should explore with the Smart Meter Entity and LDCs how smart meter reliability data can be collected in a cost effective manner. A plan should be developed to implement the collection of smart meter generated reliability data.

1.2.13 ***Regulatory Process.*** Section 15.2 of the 2006 Rate Handbook and section 2.1.4.2 of the Record and Reporting Requirements (RRR) form the current basis of the Board's reliability policy. These are reporting requirements, with guidance for utilities to maintain best practices. In SEC's submission these policies should be updated as

suggested above, but the regulatory regime of reporting and guidelines should be maintained. The lack of a solid data foundation makes it unwise to expand that at the present time.

1.2.14 Instead of making radical changes to the regulatory regime, SEC believes that in the near term a transitional set of policies should be established with the following key components:

(a) The Board should establish LDC cohorts, much as it did with OM&A benchmarking, such that reliability best practices and provincial standards can be established in the future. Initially targets only, they should take into consideration real differences among utilities, but still reinforce the concept that under similar circumstances all Ontario ratepayers should get similar levels of service.

(b) Reliability performance relative to the benchmarks should be filed in both COS and IRM rate applications. LDCs should be required to address both year-over-year changes to reliability indicators, and performance relative to their comparable peers. Ratepayers should have an opportunity to be heard when a LDC proposes to spend incremental monies to address reliability issues.

(c) Once more complete and accurate data is available through the smart meter system, the policy could be revisited to determine whether a penalty/reward/incentive regulatory regime – either automatic or discretionary - is warranted.

1.2.15 ***Regulatory Burden.*** Of considerable importance in our conclusion that radical changes are not timely is our assessment that an additional regulatory burden for reliability is not reasonable in light of the other new and important challenges being faced by the LDCs at the present time. During this period where CDM, smart meters, the Green Energy Act, and rate regulation are all requiring LDC management to deal with new ways of thinking and additional responsibilities, reminding the LDCs of the continued importance of reliability is absolutely useful. But, to now add an additional layer of regulatory requirements relating to reliability, particularly potential penalties, is in our view not useful. A more constructive and non-punitive approach is appropriate at this time.

2 POLICY OBJECTIVES

2.1 *Questions Addressed in this Section*

2.1.1 This section addresses the following questions posed by the Board:

> ***(a)*** *On what basis should a reliability requirement be established?*
>
> ***(b)*** *What improvements could be made to the current system reliability regulatory regime in Ontario?*

2.1.2 In its letter of August 23, 2010, the Board states that it "*expects the implementation of system reliability standards as regulatory requirements will support investment planning decisions.*"

2.1.3 SEC agrees that reliability indicators are a useful tool in considering an LDC's capital plan, in that they assist in identifying specific problems that need correction. During a rebasing application reliability indicators can also be important in understanding whether operating and maintenance costs are sufficient, and whether the utility has the appropriate programs that will provide reliable service. However, as we note below, it is also true that reliability is but one of the important factors in assessing spending levels for both capital and operations.

2.2 *Reliability and Ratemaking*

2.2.1 Under multi-year incentive regulation there can be perverse incentives created for a utility to under invest in capital between rebasing periods, in order to maximize returns to the shareholder or fund management's other priorities. However, in practice there are safeguards against this occurring. The most obvious is that utilities who propose large increases in capital spending during rebasing proceedings are likely to come under much greater scrutiny.

2.2.2 In SEC's submission no party put forward compelling evidence of under investment in capital due to the current rate making regime. In fact, the data provided in the annual statistics collected by the Board show an improving trend for reliability since 2005.[1] While it appears clear that a number of utilities under invested during the rate freeze of 2002 -2005, we regard that as a problem of transition, not as evidence that IRM produces low reliability. The reaction of newly formed LDCs to a surprise rate freeze is not, in our view, predictive of the reaction of utility management under a known multi-year rate-setting structure. In the latter case, the evidence does not appear to support the under investment thesis.

[1] See 2009 Yearbook of Electricity Distributors – August 25, 2010, page 14.

2.2.3 Even where under investment of capital occurs, it can be for many reasons other than attempts to increase returns to its shareholders at the expense of service. Similarly, even where reliability degradation occurs, it can be for reasons other than under investment in distribution plant. Weather is the most common example of that.

2.2.4 In SEC's submission there is no evidence of a pressing need to "counteract" the incentive rate making system currently in place with a stringent or punitive reliability regulatory regime.

2.3 ***Comparing Performance***

2.3.1 Ontario is one of the few jurisdictions with a large number of electric distribution companies. This creates an obvious opportunity for comparisons, something that the Board has already identified and utilized for OM&A.

2.3.2 On the other hand, the logistics of service can be different among these LDCs. Urban utilities have very different circuit engineering and face different physical plant issues than rural utilities. Small embedded distributors face issues of loss of supply risk that are different from those of a large utility connected directly to the transmission system.

2.3.3 Such differences do not mean that LDCs cannot or should not compare their reliability performance. The development of reliability standards can take into account the significant differences among utilities and cohorts can be created to make comparisons meaningful. In fact a number of the factors to consider in developing meaningful cohorts are set out at page 13 of the PEG Report.

2.3.4 In SEC's submission there is value in creating provincial reliability targets and restoration of service targets. Consumers of electricity service expect to have similar service in similar circumstances. For example, it would be difficult to rationalize why a school in Toronto should suffer more or longer outages than a school in Mississauga. While the respective utilities may have different challenges in meeting targets, this does not mean they should not be developed and implemented.

2.4 ***Reliability Performance and Capital Investment***

2.4.1 In SEC's submission it is critical to the success of a reliability policy that it inform a distributor's capital investments in a meaningful way. From a customer's perspective there is little value in a regulatory regime if customer service issues are left unaddressed. Thus, penalties or rewards for reliability performance only have value if they incent the appropriate investment. For that to be true, the reliability indicators must be easily translated to plant investment. In our view, there is no clear relationship between a particular reliability indicator and a particular capital investment. This suggests that

penalties or rewards are not a useful exercise at the present time.

2.4.2 In SEC's submission the objective of using reliability statistics to inform capital investment requires new statistics, such as MAIFI and "worst performing circuits". These will provide more meaningful information that relates more directly to the investments that are required.

2.4.3 Further, the best forum to translate the reported results into improvements in service is, in SEC's submission, a rate case where a utility's capital program is subject to scrutiny, and a constructive approach can be taken to reliability issues.

3 MEASURING RESULTS - CUSTOMER EXPERIENCE AND EXPECTATIONS

3.1 *Questions Addressed in This Section*

3.1.1 This section addresses the following questions posed by the Board:

> ***(a)*** *Surveys indicate that 82% of residential and 69% of business customers do not call in to report an outage. However, distributors' responses indicate that they still rely heavily on customer calls to know about an outage. As part of a program to improve reliability results, should distributors consider ways to improve or encourage customer reporting of outages? What other steps could be taken?*
>
> ***(b)*** *Surveys also indicate that improving distributor communication to customers during an outage, improves a customer's satisfaction and/or tolerance of an outage. Should the Board consider instituting requirements relating to improved communication? (For example, a distributor may be required to be able to inform customers about the cause of an outage and expected restoration time, within an hour of the outage occurring.)*

3.2 *Value of Survey Data*

3.2.1 Some LDC representatives have noted that customer perception can be different than actual experience. Caution was suggested when reviewing the results of customer perception surveys for this reason.

3.2.2 In SEC's submission, the difference between perception and experience is an important one, but it does not mean that a customer survey is unimportant. It is understandable that consumers sometimes do not accurately recall any specific outage. Many outages last less than a minute and the consumer may not even be at the location when the interruption occurs. However, proper questions in a survey can provide insight into service remedies – even if the remedy is simply to better inform the customer.

3.3 *Communicating to the Customer*

3.3.1 The Pollara Survey clearly shows that LDCs do not perform well in communicating either the reason for an outage, or when power will be restored. Approximately 50% of both residential and business customers showed satisfaction with their utility's ability to communicate when power might be restored.

3.3.2 In SEC's submission this is a significant deficiency. Customers, particularly those with public responsibilities like schools, must be able to make arrangements in a timely way when there is a prolonged outage. A school board responsible for the well-being of tens

of thousands of children must have the information necessary to meet that responsibility, and a power outage is one of those times where key decisions must be made not only quickly, but correctly. Information from their utility is critical in making these decisions.

3.3.3 In SEC's submission customer communication is an area where standards should be developed and enforced. For example, all LDCs should be required to have both a telephone and on-line service which communicates the area of an outage and the expected restoration time. For customers with critical obligations to meet, or who may be particularly sensitive to outages, an automated telephone, email or other notification system should be considered so that timely information is pushed out to those who need it.

3.4 ***Customer Willingness to Pay for Improved Reliability***

3.4.1 Little work has been done on the value of better reliability to customers. The Pollara Survey indicates that 84% of business customers are not prepared to pay more for more reliable service. For residential customers the figure was lower.

3.4.2 In SEC's submission no strong conclusion drawn from the residential consumer response to willingness to pay since there was no standard meaning to the term "outage". Therefore a residential consumer who recently experienced a prolonged outage may have been more likely to indicate a willingness to pay for greater reliability than a respondent who had recently experienced a momentary outage.

3.4.3 That having been said, the results of the survey are consistent with past work undertaken by the Board. In, the Review of Asset Management Practices in the Ontario Electricity Distribution Sector, the consultants stated: "*We do not have any concern that the utilities visited are failing to address important safety or reliability issues*[2]." SEC also notes that reliability indicators have shown improvement since 2005.

3.4.4 It should also be kept in mind that consumers can purchase power back up systems. This is often done by larger commercial and industrial customers. Residential consumers sometimes purchase power back up for critical equipment like computers, but this is fairly rare. The fact that few consumers purchase backup equipment is also an indicator of the satisfaction with the current level of service, as well as their willingness to pay for greater reliability.

3.4.5 In SEC's submission this does not imply that service is fine (especially in respect to the worst performing circuits), but we do caution against radical changes in the regulatory

[2] Review of Asset Management Practices in the Ontario Electricity Distribution Sector, March 10th, 2009 page 2.

regime based on the assumption there is a pressing need for change.

3.5 ***Measuring Results***

3.5.1 It is of course important that any reliability policy be subject to a review of its effectiveness. Simply improving the performance of a reliability indicator does not mean that the policy is effective. Ultimately, the value to consumers is the only important measurement. As pointed out in the PEG Report and supported by the results of the Pollara Survey, it is not clear that consumers place a high value on all improved reliability performance. The value consumers place on reliability is more nuanced than that.

3.5.2 In SEC's submission a customer survey is a valuable tool for assessing the effectiveness of a reliability policy. The survey undertaken by Pollara, while informative to these proceedings, is not sufficient as an ongoing tool for judging the policy's effectiveness. There would be value, in our view, in consulting with industry and interested parties in developing a more comprehensive survey.

3.5.3 At the stakeholder conference held by the Board some LDC representatives indicated they undertook "transactional surveys." These are questions asked of a consumers at the time of the problem. SEC recommends that the Board consider mandating at least a simple form of transaction surveys and having the aggregated data filed as part of a rate proceeding. A key component of that will be clear definitions of what is being assessed (what constitutes an "outage", for example), and appropriate, preferably standardized questions to determine customer reaction.

4 COLLECTING ROBUST RELIABILITY DATA

4.1 *Questions Addressed in This Section*

4.1.1 This section addresses the following questions posed by the Board:

(a) *In addition to SAIDI, SAIFI and CAIDI, what other system reliability measures could be used by Ontario distributors to more accurately monitor system reliability performance?*

(b) *Some jurisdictions have restoration standards that apply during major events. Would establishing such restoration standards for Ontario distributors be appropriate and effective?*

(c) *Board audits have shown that the length of an outage is highly dependent on how quickly crews can arrive at the scene of the outage. The actual time to repair the system often comprises only a small portion of the length of the outage. Would establishing a standard related to crew response times be appropriate and effective?*

(d) *What approaches should distributors use to normalize results for force majeure and other major events?*

(e) *Would the IEEE Standard 1366 be the most effective way to recognize the impact that force majeure or major events have on system reliability performance?*

(f) *If not the IEEE Standard, what other approach should be considered as a way to recognize the impact that force majeure or major events have on system reliability performance?*

(g) *To what degree will smart metering data impact the ability to monitor reliability performance?*

4.2 *Refining the Current Reporting Requirements*

4.2.1 The type and quality of the statistical data inform both the form of regulation, and how effective the policy will be in meeting its stated objectives. Deficient data is a poor basis upon which to built critical policy. In this regard SEC notes that there have been significant issues raised with the quality of the reliability indicators to date. In the Review of the Quality of Distributor Service Quality Data and Reporting, Board staff stated:

"*Our review identified significant deficiencies in the record-keeping and*

> *reporting practices of a number of distributors within the sample. It is not unreasonable to expect that the record-keeping and reporting practices of at least some of the distributors outside of the sample suffer the same deficiencies*[3]."

4.2.2 Changes were made only in May 2010 to LDC filing requirements. From the response of LDCs in this proceeding to Board staff's questions on the collection of reliability data, it appears clear that problems remain in obtaining a consistent and reliable set of data.

4.2.3 Whichever reliability indicators are relied upon, they must be consistent and apply standard methodologies. SEC's therefore supports the implementation of IEEE 1366 standards. In order for these standards to work effectively, LDCs should be encouraged to work together to develop industry guidelines for collecting data.

4.3 ***Potential New Reporting Requirements***

4.3.1 In SEC's submission the reliability indicators currently required by the Board should continue to be collected, but at least two others may be helpful:

(a) There is some evidence in the PEG report that including MAIFI would be useful in better understanding deficiencies in the distribution system. SEC notes that a number of utilities already collect MAIFI data.

(b) Energy Not Supplied is another measure which helps understand the magnitude of a LDC's reliability issues.

SEC supports adding both of these reliability indicators.

4.3.2 Even more important, however, is the data on worst performing circuits. Customers are affected mostly by prolonged outages, or outages that occur frequently. SEC submits that a utility's worst performing circuits are key to understanding prolonged and frequent outages. Therefore worst performing circuits should be reported on, together with the LDC's plans for dealing with them.

4.3.3 In our view, a simple first step in this direction would be to require all LDCs to report on their X number of worst performing circuits. The number of worst performing circuits reported should be dependent upon the size and complexity of the utility, ranging from two to ten or twenty.

4.3.4 Another possibility is to require reporting on all circuits that fail to meet an acceptable minimum reliability level, measured by both SAIDI and SAIFI. This would be a relatively low reliability level, given that the intent is to identify the most urgent

[3] Review of the Quality of Distributor Service Quality Data and Reporting, May 2009, page 2

problems, not to have a laundry list of all circuits that eventually need to be improved. Although this alternative has its advantages, on balance we believe that identifying the individual LDC's worst circuits is a better approach initially, with perhaps a transition to the more comprehensive approach later in the evolution of reliability standards.

4.4 *Categories and Reasons for Service Failure*

4.4.1 If reliability indicators are to be used to inform investment decisions, it is critical that the reasons for an outage be understood. This point is made clear in the PEG Report, and SEC agrees with this conclusion.

4.4.2 In accordance with section 15 of the 2006 Rate Handbook, LDCs are required to report the reasons for outages under one of 9 categories. However, under the Rate Handbook the reporting of this information is not mandatory (see section 15.3). In SEC's submission reporting on the reasons should be made mandatory, and should be made publicly available.

4.4.3 There are no reasons given for the outage categories in the 2006 Rate Handbook. SEC believes that the categories should be reflective of the policy objectives. If one of those objectives is to inform investment decisions, then the categories should distinguish between controllable and non-controllable events, loss of supply and controlled outages. These categories appear to be informally incorporated into the nine reasons set out in the Rate Handbook, but the distinctions are not clear, and the categorization is not sufficiently rigorous to be useful.

4.4.4 SEC submits that a re-examination of this section of the Rate Handbook should be undertaken once the Board has determined the objectives of the policy.

4.5 *Manual and Automated Reporting*

4.5.1 The PEG Report (see page 13) notes that there is generally a decrease in reliability as reported by the SAIDI-SAIFI-CAIDI statistics when utilities move from manual to automated systems. The authors also note that this in turn leads to inconsistency between the past data and new, standardized, reliability measures.

4.5.2 The widespread implementation of smart meters and automated controls required of a "smart grid" means Ontario is on the cusp of a change in how data is collected. This will result in better data and at a cheaper cost. In SEC's submission this is an important consideration as to whether LDCs should incur new costs to collect data at this time.

4.5.3 Rather than mandate the collection of additional data, in our view it would be more effective for the Board to assess through empirical analysis the comparability of the past data with new data, with a view to adjusting the old data to be more closely comparable.

5 REGULATORY PROCESS

5.1 *Questions Addressed in This Section*

5.1.1 This section addresses the following questions posed by the Board:

> ***(a)*** *What types of approaches should be considered for setting a performance target for reliability metrics?*
>
> ***(b)*** *Should the Board establish a province-wide performance target for each measure or individual targets for each distributor?*
>
> ***(c)*** *Should different targets be set for different classes of customers? (For example, should a higher target or different target be in place for large users vs. residential customers?)*
>
> ***(d)*** *What other issues should the OEB consider when developing formal system reliability requirements?*

5.2 *Current Regulatory Practice*

5.2.1 The current regulatory regime appears limited to Section 15 of the 2006 Electricity Distribution Rate Handbook, and to reporting requirements found in section 2.1.4.1 of the RRR. The 2006 Rate Handbook states that LDCs should be within a 3 year average of historical performance for SAIDI and SAIFI and CAIDI. However, utilities are not bound by this requirement in any specific manner. For example, there is no stated consequence for not meeting the Rate Handbook requirement, and it is not a licence condition.

5.2.2 In practice this means that any review of the achievement or failure to meet the benchmarks set out in the Rate Handbook takes place only during rate proceedings. In SEC's submission this should continue to the case.

5.3 *Targets and Penalties*

5.3.1 In the PEG Report the authors set out three different approaches to "reliability regulation" (see page 30-32). Monitoring is where utilities simply report to the regulator. Targets are monitoring subject to discretionary action by the regulator. Penalty/Rewards are a system under which utilities are penalized or rewarded for their benchmark performance.

5.3.2 PEG classifies Ontario as currently using a target regime. At the conference held by the

Board PEG made noted that the difference between a target regime and a penalty/rewards regime is in the former the regulator has more discretion. In a penalty/reward system the regulator relies on benchmarks around which "dead bands" are drawn so as to capture the error and natural variation in reliability indicators. Penalties or rewards naturally follow from being outside the acceptable range.

5.3.3 In the letter introducing this policy initiative, the Board stated that: "*the establishment of system reliability standards was a necessary part of the regulatory framework and that it intended to codify system reliability standards.*" SEC understands this to mean that the Board is considering the creation of a new code or amendment of a current code under section 70.1 of the OEB Act. Section 70.2(2) of the OEB Act requires among other things that a description of the anticipated costs and benefits of the proposed code. One reason for the implementation of a "reliability" code would be to introduce a system of penalties and rewards.

5.3.4 In SEC's submission such a policy is premature.

5.3.5 Good quality current reliability indicators, and robust historical data, simply do not exist at this time. Different definitions, errors in measurement and lack of reporting are among the data deficiencies. In SEC's submission the size of the "dead bands" that would need to be placed around the current reliability indicators in a penalty/reward system would – to be fair to the LDCs - need to be so large as to render any policy largely meaningless.

5.3.6 In addition, reliability data is about to undergo significant changes as smart meter information becomes available. This will make historical data non-comparable to new data. In fact there may be significant changes in the perception of LDC reliability once automated data from smart meters is available. Some currently "good performers" may in fact be "poor performers", and vice versa.

5.3.7 As well, there would be potentially significant costs associated with introducing another regulatory scheme for LDCs to meet. There is no clear indication of what the benefits to consumers would be or how much consumers would value those benefits. New or modified reliability indicators can be achieved, in SEC's submission, more efficiently through amendments to the RRR.

5.4 ***The Regulatory Burden***

5.4.1 The Board will be aware of SEC's consistent view that utilities are by their very nature regulated entities, and therefore that complaints about the "regulatory burden", and calls for "light-handed regulation", are not always well founded. Those positions are sometimes just the natural human resistance to the stress of being publicly accountable for your business decisions.

5.4.2 There is another side to that, however. It is not reasonable to ask LDCs to accept their regulatory obligations with equanimity unless one at the same time also ensures that only reasonable regulatory obligations are imposed. It is a balancing act for the regulator. To make sure everything a regulated entity does is up to snuff, the Board could impose essentially unlimited regulatory obligations. This is not sensible, but drawing the line is a judgment call that in our view must include how much the utility can reasonably handle at any given time.

5.4.3 We are particularly concerned that loading an additional regulatory requirement relating to reliability onto the backs of the LDCs at this time may be "the straw that broke the camel's back". LDCs, still consolidating the many changes that came as a result of market restructuring, and then a freeze, and then the IRM2 and IRM3 methods of rate regulation, are now facing new challenges resulting from government policy and the completion of the transition to the new distribution utility model.

5.4.4 Of course, cost allocation and rate design still have steps to be taken to complete the transition, and perhaps benchmarking as well. But more has been added. Replacement of every meter in the province with smart meters, and now the adjustment to new types, sources and management of meter data, are just one of those challenges. An increasing LDC role in conservation is another. The Green Energy Act will, for at least some utilities, involve rethinking the fundamental design of the local distribution infrastructure, and will add "customers" to the local grid that impose different requirements on how it operates. In short, LDCs have lots of important priorities.

5.4.5 Does this mean reliability should be ignored? No, of course not. In fact, in a period of massive change, it is critical that the LDCs keep reliability firmly in their minds. With so many other priorities, it would be easy to downgrade the importance of reliability, to the detriment of the customers. As well, a period of change is also an opportunity to build reliability protections into the changes that are otherwise being made.

5.4.6 But as important as it is to reinforce the obligation to deliver safe, reliable power, this is not the time, in our submission, to ratchet up the pressure on the LDCs in the reliability area, or to create a further regulatory burden on utilities that already have many new regulatory obligations.

5.5 ***Rate Filings and Utility Planning***

5.5.1 Even if penalties are to be imposed, which we do not agree is warranted at this time, it is not clear why a new process would be better than the currently existing rate case process.

5.5.2 If penalties are to be administered as part of a Code, LDCs would still have a process available to challenge the Board's findings. In fact, the quality of the data upon which to make any penalties or rewards would make it likely that challenges arise. In any event,

LDCs can already be required to provide reliability information and to have it scrutinized as part of a rate proceeding. While the Board cannot administer a penalty in a rate proceeding, it can incorporate funding into rates to remedy a reliability issue, or disallow costs incurred imprudently. These are more effective, and better understood, tools in any case.

5.5.3 It is also not clear how a code that has a separate process could incorporate rewards for utilities which are to be paid for by ratepayers. This may mean that any reliability regulatory scheme that relies on a code would have to be asymmetric, i.e. incorporating penalties only.

5.5.4 Finally, to our minds the relationship between issuing a penalty and improving reliability is not clear. It is possible within a rate proceeding to consider reliability indicators in the context of a utility's capital plan, and to be constructive about finding a solution. The rate proceeding provides an opportunity for the Board and the consumers affected to understand both the reliability performance, and how an LDC intends to address any deficiencies or work toward improving service.

5.5.5 SEC believes that the changes necessary to collect better data can be made through amendments to the RRR. Reliability indicators should be publicly available and made a filing requirement when an LDC files for new rates. Rate proceedings provide a forum for the data to be reviewed. Given the current state of the reliability indicators the rate proceeding also provides an opportunity to examine the robustness of an LDC's reliability data. This is an important consideration where manual collection and inconsistent data has been the norm.

5.5.6 In general, therefore, it is submitted that a penalty/reward scheme is not appropriate at this time, for the reasons noted above. From a customer point of view, the point of any reliability regulation is not to punish LDCs who don't do well. Rather, it is to improve and/or maintain reliability at appropriate levels. At the present time, there is no evidence to suggest that a command-and-control methodology like a penalty system will produce those results. In fact, we believe that it would be more likely to produce negative results, overburdening already challenged LDC management and thus undermining other priorities, while at the same time not directly incenting better reliability-related decisions.

5.5.7 Thus, while there may be an appropriate time to implement a penalty/reward system, in our view it is neither needed nor constructive at this time.

6 OTHER MATTERS

6.1 *Process and Participation*

6.1.1 We thank the Board for inviting us to participate in this process. We hope these submissions are useful, and we would appreciate the opportunity to continue to be actively involved in all future consideration by the Board of issues relating to reliability policies and standards**.**

6.2 *Costs*

6.2.1 The School Energy Coalition hereby requests that the Board order payment of our reasonably incurred costs in connection with our participation in this process. It is submitted that the School Energy Coalition has participated responsibly in all aspects of the process, in a manner designed to assist the Board as efficiently as possible.

All of which is respectfully submitted.

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Jay Shepherd
Counsel for the School Energy Coalition