

ATTACHMENT A

About the “straw man” model Regulatory Framework

The “straw man” model regulatory framework for electricity distributors set out below is intended to provide a high level illustration of how the main components and outcomes discussed in the five staff discussion papers might be brought together in a coherent, internally consistent manner that highlights linkages between outcomes, defined performance, measured performance and potential regulatory mechanisms.

Key features of the regulatory framework are listed in column 1. Model framework elements corresponding to each feature are described in column 2. A summary of how each feature is treated in the Board’s current framework is in column 3. A brief note on how the model element contrasts with the current approach is in column 4. For cross-sectoral comparison purposes, a summary of the Board’s current approach to each key feature in the regulatory framework for gas distributors appears in column 5.

“Straw Man” Model Regulatory Framework for Discussion

Feature	Model Framework	Current Framework	Change	Gas Framework
Integration of Planning	Plans include sustainment and expansion requirements, smart grid, generation connection and regional considerations. This is depicted in the graphic below. Planning expectations developed to enhance predictability of reviews. Focus on outcomes.	Limited experience. No regional planning requirements. No tying to outcomes.	Longer planning/rate setting horizon. Coordination and integration facilitates optimal investments and cost savings. Performance affects distributor compensation / customer benefit symmetry.	EBO 188 deals with hydrocarbon pipeline investment, etc.

Feature	Model Framework	Current Framework	Change	Gas Framework
Treatment of Capital	Multi-year approval of capital to match from approved multi-year investment plans throughout term. Outcome driven planning and focus on reliability.	Full review during COS; may be adjusted during IRM via the incremental capital module.	Pre-approval of multi-year capital plans. Focus on reliability	Full review during COS.
Performance Standards and Incentives	Desired outcomes established for the utilities in addition to existing core performance standards: - Enhanced customer standards used to set outcomes. - Reliability standards developed. - Experts retained to assess utility plans and audit utility planning processes to assess the utility's effectiveness in prioritizing and pacing network investment with regard to bill increases to consumers. - Achievement of investment plan objectives will be encouraged through the use of specific incentives (i.e., financial, reputational, and proportionate processes).	Core performance standards currently in Codes and subject to compliance action. External benchmarks used to adjust rates. A financial incentive is built into the current incentive regulation plan formula for electricity distributors: when distributors "beat the X-factor bar" they are allowed to retain any achieved savings. SSM for CDM.	New performance expectations associated with investment planning and reliability. Potential for expedited review based on utility's effectiveness in prioritizing and pacing network investment with regard to bill increases to consumers. Financial consequences potentially tied to achievement of investment plan objectives.	Core performance standards currently in Rules and/or settlement agreements. External benchmarks used to adjust rates. Earnings Sharing Mechanism is built into to share above target earnings with consumers. SSM for DSM.

Feature	Model Framework	Current Framework	Change	Gas Framework
Approach to Rate Setting	Partial PBR: - OM&A is indexed to performance outcomes and a productivity measure; capital based on approved plan is a pass-through. - Total cost benchmarking of distributors implemented to encourage effective cost containment and help the Board to determine appropriate cost levels associated with investment plans. - Total factor productivity will inform, and total distribution cost benchmarking will be used to support an envelope approach to ratemaking.	Comprehensive Price Cap Plan with empirically-based rate adjustment mechanism.	Sever treatment of OM&A and capital to increase pursuit of operating efficiencies and recognize significant need for capital investment. Measures will be developed to ensure allocative efficiency.	Negotiated Comprehensive Price Cap and Revenue Cap Plans.
Period of COS/IRM review	Term is based on the utility's plan, as approved. Off-ramps determined by performance against plan	COS every four years; IR in between (3rd Gen IR). Off-ramps determined by financial criteria.	Period between COS reviews more flexible. Off-ramps more strict.	COS every six years; IR in-between.
Total bill mitigation	<i>Ex-ante and ex-post.</i> Total bill considered. Threshold based on empirical data. Conventional and alternative mechanisms considered.	<i>Ex-post</i> only. Only distribution charges considered. 10% threshold. Conventional mechanisms only.	<i>Ex-ante</i> added. Changes in all charges considered. Threshold set empirically. Alternative mechanisms.	No requirements.

ONTARIO ENERGY
BOARD

REGULATORY REQUIREMENTS & GUIDANCE FOR NETWORK INVESTMENTS

- Expectations for performance & outcomes
- Asset Management
- Regional optimization
- Renewable energy generation/smart grid approach
- Prioritization/pacing
- Bill impact analysis

DISTRIBUTOR

NETWORK INVESTMENT PLANNING PROCESS

PROJECT INTEGRATION & OPTIMIZATION PROCESS

Projects to
accommodate
renewable &
other
energy
generation

Projects to
accommodate
demand
growth

Smart grid
projects

Projects to maintain
& improve grid
operations

ASSET MANAGEMENT PROCESS

MULTI-YEAR
NETWORK
INVESTMENT
PLAN

DISTRIBUTOR
RATE
APPLICATION

REGIONAL PLANNING
PROCESS

CUSTOMERS

CUSTOMER
EXPECTATIONS

LOAD & GENERATION
CONNECTION APPLICATIONS

Straw Man Model Regulatory Framework
for Electricity
Distribution Network Investment Planning