Renewed Regulatory Framework

INVESTMENT RECOVERY

Investment Recovery

- Regulatory framework should allow for annual adjustment to an LDC's rate base, which will impact on Revenue Requirement (RR) and rates

The need for adjustments to current treatment of rate base driven by:

- Limitations of current Incremental Capital Module approach
- Capital intensive nature of current environment
  - Growth in replacement of aging infrastructure
  - Changing nature of distribution system (incorporation of DG, implementation of Smart Grid, smart meters)
- Desire for rate smoothing
  - Incremental annual rate changes avoid rate shock during Cost of Service (CofS)

Near term proposal to achieve necessary rate base adjustment

Annual examination of change to rate base and rates as part of an IRM filing. This approach:

- Allows for annual adjustments to rate base based on prior year(s) actual
- Allows for the ICM rider to be calculated each year or,
- Allows for the ICM adder to be calculated each year and trued-up for variance account balance
- Allows LDCs to respond to changing environment
- Works for LDCs that may have difficulty forecasting and delivering on multi-year plans

How annual examination of change to rate base could work

Approach to annual examination of change to rate base will depend on the LDC's circumstances

- **Approach 1**: Establish a rate rider based on detailed review of forecast changes to rate base
  - Oral hearing
  - Written Hearing
- **Approach 2**: Establish a rate adder to provide required funding but defer detailed review of changes to rate base to next Cost of Service ("CofS") hearing

Approach 1: Establish rate rider based on detailed review of forecast changes to rate base

- “Need” and “prudence” review of capital investments driving rate base would occur as part of IRM process
  - Would apply to full capital program not just limited subset as per current ICM approach
- Determination of rider would include adjustment for actual year-end rate base in prior years
- Need for oral vs. written IRM hearing could be driven by specified criteria:
  - Materiality of rate increase
    - Increase beyond x% would be oral
  - Nature of investments
    - Typical capital investment similar to previously approved levels … written hearing
    - Unique investments or a large increase in investments over previously approved levels …oral hearing

Approach 2: Set a rate adder with detailed review of rate base changes at next CofS

- Adder amount set annually as part of IRM and would include adjustment for actual year-end rate base in prior years
- No detailed review of capital plans during IRM period
- Need and prudence review of capital spending, including true-up of variance account, at next CofS

Multi-Year Approach

- Another potential solution for achieving necessary rate base adjustments is the introduction of multi-year forecasts of rate base as part of a CofS filing. Capital plans and in-service additions would be approved in CofS and the resulting rate base impacts on revenue requirement would be fixed over the IRM period. This approach:
  - May be more efficient for consideration of capital requirement when examining with CofS filing
  - May provide better context for the asset condition and system demand assessments when integrated with the 5 year plan
  - Would work for LDCs that have experience and are comfortable with multi-year forecasts
  - LDCs under annual examination may transition to the multi-year approach when circumstances allow
- If multi-year approach is used, the CofS review must identify annual changes to rate base to be recovered in rates during the IRM period.

Work required to implement changes to rate base

- Update Filing Requirements (Chapter 3. Filing Requirements for Incentive Regulation Mechanism Rate Applications)
  - Revise Section 2.2 Incremental Capital Module
- Updates to IRM Model
- New capital module