Representing Ontario's Electricity Distributors

Renewed Regulatory Framework for Electricity

EDA's Recommendations

March 21, 2012

Overview

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Industry Challenges

- Need to address cost recovery for investments replacing aging infrastructure; LDCs have assets reaching end of life - need replacement to maintain reliability. New investment is also required to meet system growth and expansion.

- Need to address LDC concerns regarding regulatory burden – the resources required to prepare regulatory applications, responses to interrogatories and participation in the process are on the increase.

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Industry Challenges

- Need to break the present barriers to addressing regional transmission requirements through regional planning. To address this issue cost responsibility rules will require changes.

- Need to address customer concerns regarding projected increasing electricity prices of 46%* in upcoming five years with a large portion attributable to renewable energy programs, potentially impacting regulated price increases and the internal decision-making at utilities.

* Ministry of Energy Long Term Energy Plan 2010

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Industry Challenges

- Smart grid and other innovative technologies will require ongoing resource commitments in order to ensure that they are incorporated in a cost effective manner. In time, electric vehicles will create new challenges.

- Integrating distributed generation facilities will continue to increase in importance, particularly where changes are required to distribution systems. Variable energy resources will place new demands on distribution system operation.

EDA's Guiding Principles for Streamlined Regulation

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- There is a need to balance costs of regulation with the benefits to customers.
- The degree of regulatory oversight and reporting requirements should be proportionate to the policy objective/outcome.
- More emphasis should be placed on policy outcomes, not process.
- Duplication and overlap of reporting requirements should be eliminated.
- Administrative burden to LDCs should be minimized, streamlined.

EDA's Guiding Principles for Streamlined Regulation

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- Distributors should be provided flexibility to address their local circumstances.
- Distributors should not be involved in addressing broader societal issues that are properly the responsibility of governments.
- Distributors should be allowed to recover costs sufficiently to address aging infrastructure in a timely manner.
- Increased certainty and transparency should be provided for cost recovery by distributors.
- Decision-making by regulators needs to be timely.

EDA's Key Recommendations for Streamlined Regulation

EDA's Policy Position Paper "The Case For Reform" July 2011

- Revising the Regulatory Application Process
  - ✓ Develop standardized templates to streamline application process
  - ✓ Create metrics to limit review of application
  - ✓ Incorporate multi-year capital reviews within the regulatory cycle - reform the capital module for incorporating capital investments made during IRM period
  - ✓ Ensure that productivity and inflation factors reflect industry circumstances

- Revising the intervenor process
  - ✓ Permit OEB to lead and pre-screen interrogatories to avoid duplication
  - ✓ Require intervenors to demonstrate representative constituency
  - ✓ Review cost awards and eligibility for cost awards

OEB RRFE Consultation

- On Feb 6, 2012 the OEB presented a "straw man" model to provide a high-level illustration of how the RRFE papers might be brought together. The model is intended to incorporate linkages between outcomes, defined performance, measured performance and the regulatory mechanism.
- Distributors were asked to provide their views with respect to key recommendations on regulatory streamlining and overall guiding principles.
- After reviewing the five OEB discussion papers and the proposed "straw man" model, EDA staff worked with members to develop the following key responding points.

EDA Key Points for RREF consultation - Multi-Year Capital Investment Plans

- Incorporate multi-year capital investment plans within the regulatory process. Once approved on the basis of prudency, the capital invested each year should automatically be included in rate base and rates adjusted accordingly.

- Allow flexibility to move timing of projects within system plan timeframe to manage resources

EDA Key Points for RREF consultation - Templates and Standards for Rate Filing

- Harmonize information requirements for rate applications.
- Develop standardized templates for rate applications using a proportional approach.
- Establish standards for service and performance to review rate applications using a proportional approach.
- Ensure productivity and inflation factors reflect industry circumstances. (e.g. inflation for material, wages, fuel, equipment)

EDA Key Points for RREF consultation - Maintain Reliability

- Focus regulatory effort on balancing costs and benefits to consumers and LDCs-- predictable rate increases for customers without deferring the infrastructure investment necessary for reliable electricity supply.
- Safety (public and employee) should be given highest priority.
- Maintaining distribution system reliability should be given high priority.

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EDA Key Points for RREF consultation – Regional Planning

- Prioritize and set timelines for addressing more urgent issues (e.g. capital investment) and discrete straightforward issues (Sec. 6.3.6 TSC to remove a roadblock to regional planning).

- Regional planning should be driven by the goal of optimizing and providing stability for long term infrastructure investment requirements, accommodating renewable generation and smart-grid technologies. Plans should result in timely construction of necessary infrastructure.

EDA Key Points for RREF consultation – Rate Mitigation

- Rate mitigation may be considered only if total bill impacts of changes in distribution charges exceed a certain threshold (e.g. 10%).
- Distributors should not be expected to provide a mitigation plan for increases resulting from other components of the bill for which they are not responsible.
- Multi-year capital investment plans will reduce the need for mitigation.

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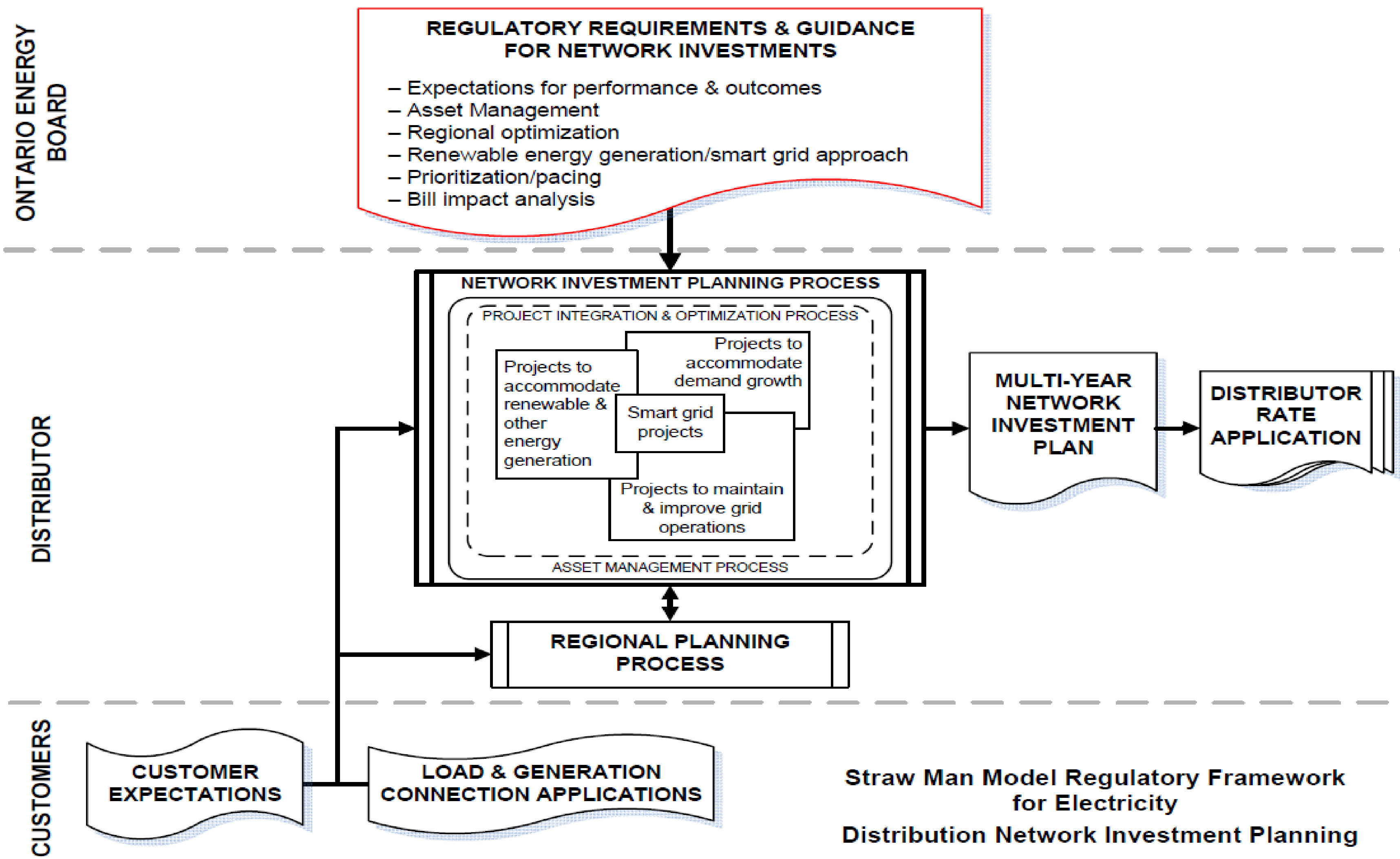
OEB Straw man Model

Regulatory Framework



Straw Man Model Regulatory Framework for Electricity Distribution Network Investment Planning

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OEB Straw man

Feature	Model Framework	Current Framework	Change	EDA Position
Integration of Planning	Plans include sustainment and expansion requirements, smart grid, generation connection and regional considerations. This is depicted in the graphic. 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.	**EDA supports longer horizon for addressing sustainment plans and coordination on transmission requirements.** **Performance incentives are worthy of further discussion – no current position.**
Treatment of Capital	Multi-year approval of capital plans to match approved multi-year investment plans throughout term. Outcome driven planning and focus on reliability.	Full review during rate application; may be adjusted during IRM via the incremental capital module.	Pre-approval of multi-year capital plans. Focus on reliability	**EDA supports proposals and continuation of revised capital module for unforeseen required capital additions.**
Total bill mitigation	*Ex-ante and ex-post.* Total bill considered. Threshold based on empirical data. Conventional and alternative mechanisms considered.	*Ex-post only.* Only distribution charges considered. 10% threshold. Conventional mechanisms only.	*'Ex-ante' added.* Changes in all charges considered. Threshold set empirically. Alternative mechanisms	**EDA does not support proposals. A few alternative mechanisms are beneficial (i.e. deferral acct, funding adders, CWIP).**

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OEB Straw man

Feature	Model Framework	Current Framework	Change	EDA Position
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.	**EDA generally supports direction.** **-Depends on how much review is expedited, the selection of experts for assessment of utility plans (prequalified list? agreed by LDC?), & flexibility to reschedule work** **-EDA is seeking to use standards and metrics to expedite rate approvals.** **- EDA is seeking metrics that would be the same as those used by LDC for self appraisal.**

OEB Straw man

Feature	Model Framework	Current Framework	Change	EDA Position
Approach to Rate Setting	Partial PBR: - OM&A is indexed to performance outcomes and a productivity measure; approved capital expenditures are 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 .	**EDA supports proposals to address need for significant capital investments. EDA supports different treatment of OM&A but productivity measure must be achievable** **Conditional support of envelope approach, if based on analysis of forecast cost and not past spending**
Period of COS/IRM review	Term is based on the utility's plan, as approved. Off-ramps determined by performance vis-a-vis 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.	**EDA supports proposals for flexible terms and off-ramps against plans.**

Proposed Next Steps

- EDA proposes OEB establishing working groups to further develop key recommendations on a priority basis .
- Scope for each working group should be defined with terms of reference.
- Working groups should address how to implement the key recommendations and identify issues that require further study.
- Working groups should address the more pressing issues on an interim basis, in time for 2013 distribution rate applications – e.g. revise incremental capital module rules as a transition measure and address cost responsibility issues related to transmission system upgrades so that distributors and transmitters can begin planning needed investments.