

A scenic photograph of a sunset over the ocean. The sun is low on the horizon, creating a bright, shimmering path of light across the water. A small sailboat is visible on the water. The foreground is filled with dark, silhouetted trees and foliage. The sky is a mix of blue and orange.

# Renewed Regulatory Framework for Electricity Distributors

*March 30, 2012  
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for School Energy Coalition*

# **School Energy Coalition**

- **Who We Are**
  - **Coalition of seven school board/management organizations**
  - **5000 schools with 2 million students**
  - **Spend \$550 million per year on energy**
- **Intervention Principles**
  - **Always look for the win-win solution**
  - **“Walk softly but carry a big stick”**
  - **Think long term**

# Issues

**The Board's “market proxy”  
role in setting LDC rates**

**The special problem of  
infrastructure investment**

# **The Market Proxy Responsibility**

- **Basic Purpose: Control of monopoly rents**
- **Approved by Canadian and U.S. courts**
- **Additional Purpose: Market imposes cost discipline; so should market proxy**
- **Cost of service is not market-like – market resists “cost-plus” pricing**

# Price Cap IRM as Market Proxy

- **Assumes prices change based on cost changes in a predictable pattern**
- **Measures empirically the past relationship between major inputs and price (i.e. revenue requirement)**
- **Captures all costs that impact price**
- ***Prima facie* a pure market proxy**

# Gas Utilities

- **SEC's oft-repeated goal – long term stable rates at less than inflation**
- **2007 Base Year, i.e. 6 years so far**
- **2013 Base Year, could extend to 2018 or beyond**
- **Long term rate stability**
- **Utilities prospering under this predictable revenue regime**

# **Alternatives/Strawman/TPBR**

- **Classic debate between top-down and bottom-up budgets**
- **Top down is the business paradigm**
  - **Projects/priorities fight for resources**
  - **Assumes business is a price taker**
- **Bottom up is a government paradigm**
  - **In theory, there is no upper limit on cost because no market to set price**
- **Gov't policy selected the business model**



# **Infrastructure Investment**

- **Show us the evidence of the “problem”**
- **Capital spending is a zero-sum game**
- **Different LDCs have different capital situations**

# **“Where’s the Beef?”**

- **The answer is not “read some rate applications”**
- **The answer is not Asset Condition Assessments**
- **The answer is empirical data, collected and analyzed rigorously**

# Asset Condition Assessments

- **Management tool**
- **Gathering information on the state of the system is valuable**
- **Tell you nothing about how much your capital budget should be**
- **Every organization has an ACA showing lots of work to be done**

# Infrastructure Spending Choices

- **Zero-Sum: A dollar of electricity infrastructure built is a dollar of school infrastructure not built**
- **True for many other customers**
- **Irrelevant whether rates “smoothed” – it is still money out of our pockets**
- **Show us why your infrastructure should take precedence over ours**

# **Different LDC Situations**

- **Starved for capital?**
  - Detailed vintage data by asset class
- **Customer growth impacts**
  - Track capex relative to growth
- **New requirements**
  - Components of rate base (net) driven by changes in the nature of the product
- **Geography**

### **10 Largest LDCs - 2010 Yearbook Data**

<b><i>Utility</i></b>	<b><i>PPE per Customer</i></b>	<b><i>Capex per Customer</i></b>	<b><i>Capex % Depr.</i></b>
<b>London</b>	\$1,330	\$180.79	166.60%
<b>Horizon</b>	\$1,420	\$165.49	157.75%
<b>Veridian</b>	\$1,484	\$247.32	211.95%
<b>Kitchener</b>	\$1,699	\$240.53	212.60%
<b>Ottawa</b>	\$1,772	\$297.64	207.17%
<b>Brampton</b>	\$1,928	\$265.94	202.37%
<b>PowerStream</b>	\$2,116	\$285.99	201.28%
<b>EnWin</b>	\$2,156	\$218.58	151.43%
<b>Enersource</b>	\$2,295	\$259.09	137.90%
<b>Toronto</b>	\$3,066	\$601.45	255.36%

# **What Should the Board Do?**

- **Understand the problem before trying to solve it**
- **Establish a base of standardized data including vintage, customer growth, etc.**
- **Identify the specific problem that requires incremental spending**
- **Ensure that all sources of that spending are canvassed, not just ratepayers**

# **Incremental Capital Module**

- **Current average spending by LDCs – 224% (or 191%) of depreciation**
- **Will increase with IFRS**
- **Not apparently influenced by whether on COS or IRM**
- **No correlation with ROE**
- **No apparent need to loosen up the ICM**
- **Impact would be rate increase of +2%**