FORTIS ONTARIO

April 20, 2012

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, ON M4P 1E4

Dear Ms. Walli:

RE: RENEWED REGULATORY FRAMEWORK FOR ELECTRICITY ("RRFE")
BOARD FILE NOS.: EB-2010-0377, EB-2010-0378, EB-2010-0379, EB-2011-0043 AND EB-2011-0004

In accordance with the Board's letter dated April 5, 2012, FortisOntario has prepared the following comments to assist the Board with its RRFE initiative. FortisOntario is the only investor owner of local distribution companies ("LDCs") in Ontario, which gives it a unique private enterprise perspective on a renewed regulatory framework for electricity. These submissions have generally been organized by the issues set out in Attachment A of the Board's letter of April 5, 2012.

At the outset, before addressing any specific issues, we wish to comment on the general issue of the "regulatory burden" raised during the stakeholder session. FortisOntario respectfully disagrees with the proposition that a disproportionate amount of resources is spent on the regulation of what amounts to only approximately 20% of a customer's electricity bill. The Board's mandate is to regulate **100%** of an LDC's revenue requirement, which is the sum of all prudently incurred costs of providing service and a reasonable allowed rate of return on shareholder's equity. FortisOntario believes that this mandate is best served in an open forum where all parties are given opportunity to debate, before the regulator, what is reasonable and prudent. This same mandate should extend to all LDCs, regardless of size, when requesting regulatory approval of their revenue requirement.

Because electricity distributors are regulated monopolies, FortisOntario submits that fulsome regulation is necessary to ensure that distribution rates are just and reasonable, and that electricity is being distributed in a safe and reliable manner. While regulation may be perceived as burdensome by some distributors, FortisOntario submits that, regardless of size, regulation is necessary for the Board to satisfy its legislative objectives of: protecting the interests of

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consumers with respect to prices and the adequacy, reliability and quality of electricity service; and promoting economic efficiency and cost effectiveness in the distribution of electricity. FortisOntario regards the distribution monopoly it holds as a privilege, and accepts that this privilege comes with responsibility in the form of fulsome regulation.

Rate-Setting & Mitigation (EB-2010-0378)

Issue: How might the Board align rate-setting with multi-year investment plans?

FortisOntario believes that LDCs should have the option of filing multi-year investment plans that will serve as the foundation for rates set in a cost of service application, as well as the subsequent IRM period. It would be appropriate for an LDC to file a multi-year investment plan where the proposed test year capital budget departs from the historic trend of capital investments. Such a multi-year investment plan should be filed as part of a cost of service application, along with evidentiary support. That evidence should be tested in the cost of service proceeding based on the following principles:

- typical/base capital sustainment budgets prepared in accordance with good utility practice would attract less scrutiny than extraordinary capital sustainment budgets; and
- capital enhancement projects would be evaluated on their own merits.

FortisOntario proposes that distributors who file multi-year investment plans should be required to regularly report back to the Board on their actual capital investments relative to their approved capital plans. If a distributor fails to invest in capital as presented in its approved multi-year plan for reasons within its control, the cost of capital being recovered through rates for projects not implemented should be recorded in a variance account to return to ratepayers (i.e., the distributor would be penalized for not following its approved capital budget). If a distributor does not follow its approved multi-year budget for reasons outside of its control, the distributor would not be penalized. FortisOntario submits that this methodology could work alongside an incremental capital module.

FortisOntario also supports decoupling certain operating and capital expenditures for multi-year investment planning and regulatory certainty. Controllable operating costs and typical/base capital investment requirements may be established during a cost of service proceeding and be subject to incentive regulation for a multi-year period.[1] These controllable operating costs and typical/base capital investments would flow through the regulatory cycle under an IRM process. However, extraordinary sustainment and enhancement capital investments identified in the cost of service proceeding would require additional reporting requirements including an examination of variance against plan (Board approved) that would rationalize the rates approved in the cost of service and justify the next rate period.

Issue: To support the cost-effective and efficient implementation of Board-approved network investment plans by transmitters and distributors and to help mitigate the effects of any unavoidable and significant bill impacts, what mechanisms might be appropriate?

[1] For clarity, FortisOntario defines typical/base capital as the minimal capital expenditure required to sustain the distribution system and to connect typical customer growth requirements.

FortisOntario submits that the GDP-IPI used as the price escalator for IRM applications does not recognize actual cost pressures faced by LDCs, and is, therefore, an inappropriate price escalator proxy. FortisOntario believes that the adoption of a proxy that more accurately reflects cost pressures faced by LDCs would result in more realistic rate adjustments during the IRM period, which would reduce the need for a revenue requirement catch-up in the subsequent cost of service application. This proposal would mitigate larger one-time rate increases in the Test Year by smoothing rates over the entire regulatory cycle.

Performance and Incentives (EB-2010-0379)

Issue: What outcomes for customer service and company cost performance should be established?

Under the present regulatory cycle of cost of service followed by three years of incentive regulation, FortisOntario believes a major weakness is the inability, during the incentive phase of regulation, to reasonably score LDCs on productivity. This weakness is in large part due to the number of LDCs operating in Ontario and the inconsistencies in and/or quality of regulatory reporting of key metrics. This is not meant to be a criticism of any one LDC but more a realization of the diverse nature of the participants in the sector. For example, service quality and reliability statistics may be viewed as a key metric. Not all LDCs have the same level of infrastructure and technology to report these metrics in a comparable manner. Those that deploy SCADA technology may monitor outage statistics much more accurately; and, possibly to their own detriment when compared to another LDC lacking such technology.

As an investor owner of LDCs, FortisOntario was asked by the Board, “How do you measure performance and report to your shareholder?” The answer is “Against ourselves”. FortisOntario sets targets related to matters such as system reliability, safety and customer satisfaction. It tracks and reports these metrics consistently over a period of time (measured in years) and reports against its previously established objectives. As performance improves the expectations are raised.

FortisOntario suggests that this manner of defining and measuring performance can be extended to the regulatory process. As part of the cost of service proceeding, each LDC should be required to submit its targets, based on historical trending, to be used in the IRM phase of regulation for approval by the Board. During the IRM phase, each LDC should be required to report as part of its regulatory reporting requirements its actual performance relative to its Board approved targets. Reporting must be consistent with the proposal approved in the cost of service proceeding. The current arbitrary stretch factor used in IRM should be replaced by each LDC's performance score against targets established based on meaningful historic benchmarks in the cost of service proceeding. This places the accountability to manage towards improved performance squarely on the shoulders of the LDC. Targets may include but not limited to reliability, safety and environmental, customer satisfaction and controllable operating costs.

Planning (EB-2011-0043)

How do we optimize planning across the sector to ensure that investment decisions achieve the level of reliability and quality of supply that consumers demand and are paying for?

FortisOntario supports the notion presented at the stakeholder conference that transmission enhancements and expansions ought to be a pooled transmission cost. FortisOntario's reasons are as follows:

1. these are large and lumpy investments and often unaffordable by LDC customers;

2. most existing customers are enjoying the transmission investments of yesteryear, while the present specific and localized customers and next generation customers will pay the cost of expanding and modernizing the system; and

3. pooling would levelize costs.

With the exception of non-contestable work (i.e., work on a transmitters' existing facilities), network expansions that do not form part of a designation proceeding should be approved on a competitive basis through the leave to construct process. In other words, the Board should not assume that network expansions should automatically default to incumbent transmitters.

We hope that these comments are of assistance to the Board.

Sincerely,

Original Signed by

Douglas Bradbury
Director, Regulatory Affairs