ENTEGRUS™

Entegrus Powerlines Inc.
320 Queen St. (P.O. Box 70)
Chatham, ON N7M 5K2
Phone: (519) 352-6300
Toll Free: 1-866-804-7325
entegrus.com

April 20, 2012

Ms. Kirsten Walli
Ontario Energy Board
PO Box 2319
27th Floor, 2300 Yonge Street
Toronto, Ontario M4P 1E4

Re: Renewed Regulatory Framework for Electricity
Board File Nos.: EB-2010-0377, EB-2010-0378, EB-2010-0379, EB-2011-0043 and EB-2011-0004

Dear Ms. Walli,

Entegrus Powerlines Inc. ("Entegrus") appreciates the opportunity to comment on the "Renewed Regulatory Framework for Electricity".

If you have any questions or concerns, please contact me.

Regards,

[Original Signed By]

David C. Ferguson
Director of Regulatory & Administration
Phone: (519) 352-6300 Ext. 558
Email: david.ferguson@entegrus.com

cc: Jim Hogan, President & CEO of Entegrus Inc.
Dan Charron, President of Entegrus Powerlines
Chris Cowell, Chief Financial and Regulatory Officer
Andrya Eagen, Senior Regulatory Specialist

Entegrus Powerlines Comments on the Renewed Regulated Framework for Electricity

Entegrus Powerlines ("Entegrus") welcomes the opportunity to comment on the "Renewed Regulatory Framework for Electricity" ("RRFE") as outlined in the Board's letter of April 5, 2012:

General Matters

- **What is your vision for a sustainable and long-term regulatory regime?**
- **What changes would be needed to evolve planning, mitigation and performance policies towards your vision?**

The vision for a sustainable and long-term regulatory regime should incorporate a balance between the following outcomes:

1. Strong delivery service to customers, consistent with their needs;
2. Reasonable cost to customers;
3. A sustainable distribution system for the long-term; and,
4. Reasonable opportunity for distributors to earn a fair return that can also attract adequate capital funding.

Entegrus believes that despite the inherent challenges involved in comparing distributors, benchmarking should be employed to measure factors 1, 2 and 3 above. There are many legitimate reasons why a comparison of distributors can never be absolutely precise – for instance: system design, service territory size and urban/rural distribution. Normalization may never completely adjust for these variations. However, the fact that any specific benchmarking methodology will be inherently imperfect should not preclude the use of it as a tool.

Where benchmarking demonstrates that a distributor has achieved balanced outcomes, there should be an opportunity for a more streamlined regulatory process relative to other distributors.

To implement this approach, benchmarking would need to evolve beyond the current cost efficiency rankings, in order to incorporate broader Service Quality Index ("SQI") comparisons amongst tranches of similar distributors. This could take the form of a Balanced Scorecard, an instrument already used by many regulated and unregulated businesses to measure comprehensive organizational success. The potential components of such a Scorecard are outlined later in this document.

Where the Scorecard demonstrates that a distributor has achieved balance, the regulatory process could be adjusted as follows:

- Incentive Rate Mechanism Applications – reward with larger productivity spreads
- Cost of Service Applications – streamline the regulatory process by allowing for less frequent re-basing
- Regulatory Reporting Requirements – streamline the regulatory process by requiring less frequent reporting (i.e. annually versus quarterly)

The frequency of Cost of Service applications is an important consideration. On one hand, customers might achieve better rate certainty with long-term locked-in periods between re-basing, such as 10 years.

On the other hand, the risk to distributors of locking in for a long period is simply too great – a dramatic change in circumstance early on could create upheaval and financial distress. Accordingly, Entegrus recommends that the current 4 year re-basing period be maintained, but with an option for high-performing distributors to extend for another 4 years, subject to off-ramp provisions. An Incentive Rate Mechanism ("IRM") approach would continue to be employed in the intervening periods where no Cost of Service occurred.

A flexibility valve will still be required in order to provide cost allowance for continued industry development and evolution. For instance, recent government directives have impacted distributor cost structure, including: smart meters, renewable generation, IFRS and the Late Payment Penalty. Cost allowances for such industry developments could be based on a generic hearing for matters related to mandated industry change initiatives. Z-factor events should also continue to be recognized on a timely basis in rates.

To provide symmetry for industry cost allowances and z-factor events, off-ramp or sharing provisions should be in place for earnings in excess of a certain Regulated ROE deadband range.

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

- **How might the Board's approach to the application review process be proportionate to the characteristics of the application (including quality) and the performance of the applicant?**

Entegrus agrees that it is the responsibility of distributors to submit complete and high quality applications to the Board on a timely basis. It is acknowledged that from a distributor perspective, this responsibility can be challenging at times, while balancing resource requirements across an organization. Ultimately, Entegrus fully respects the role of the regulator and the need to provide the regulator with the best quality of information. To that end, Entegrus is focused on continuing to improve its submissions and puts forth significant effort toward doing so.

The challenge in this context is the determination of non-subjective measures of application quality. An academic approach to grading an application does not seem appropriate. However, there are some application characteristics that are less subjective and therefore more quantifiable, such as:

1. Timeliness of application submission
2. Whether the application meets the minimum filing requirements

In terms of potential rewards, it is initially tempting to say that a high-performing distributor meeting these characteristics should receive a minimized scope of intervention. However, even a strong application may require significant examination by stakeholders due to key issues within the application. Accordingly, to protect ratepayer interests, scope of intervention should be based on the issues in the application.

Another rewards consideration is to extend timelines to allow a distributor more flexibility in processing interrogatories and preparing submissions. However, this would likely extend and slow down the regulatory process, which would also be contrary to the public interest.

Conversely, should penalties for relatively poor applications be considered? If meaningful financial penalties were put in place, the quality of applications would no doubt improve. However, this improvement would come at a cost – either in terms of distributor in-house staffing or consulting fees. The costs saved by the Board in reviewing higher quality applications might then be offset by increased distributor costs.

Entegrus believes that the answer lies in adding application timeliness and quality measures into a Balanced Scorecard approach, as further discussed below.

Performance & Incentives (EB-2010-0379)

- **What outcomes for customer service and company cost performance should be established?**
- **What standards and metrics for customer service and company cost performance should be established in regard to these outcomes? How do the performance benchmarks that are in place today relate to your proposed metrics?**
- **What are the characteristics of a "high-performing regulated entity" (i.e. what specific metrics can be used to evaluate the level of performance of the regulated entity)?**

As discussed above, Entegrus believes that a Balanced Scorecard with targets set via benchmarking could be used to measure the success of a distributor in achieving balance outcomes.

A more robust focus on metrics should drive more efficiency and more focus on outcomes which are valued by stakeholders. Despite the inherent challenges of comparison, distributors will need to respect the process and work toward an obligation of continuous improvement. The starting point for these metrics should <u>not</u> be current company performance, because this does not recognize historic achievement of efficiencies. Rather, the focus should be on achieving targets established using benchmarking.

Under this system, if a distributor meets all the Scorecard targets, the regulatory process would be adjusted as follows: larger productivity spreads, less frequency for re-basing and less frequency for regulatory reporting. Further, for distributors meeting the standard, additional productivity spread could be awarded based on benchmarked cost efficiency (similar to the current methodology but with more factor spread).

In terms of the Scorecard metrics, the current SQIs and cost efficiency measures are a good starting point. Significant historical data already exists for these metrics, which will assist with ensuring sufficient baseline data and reduce the lead time needed for implementation. It is recommended that a working group be formed to determine if the metrics can be further honed. This working group may need to be perpetual (with revolving membership) in order to assist the Board with input over time as the industry continues to evolve.

Conceivably, this Balance Scorecard could include the following combination of old and new metrics:

1. Customer Outcomes: SAIDI, SAIFI, Telephone Accessibility, Quality and Timeliness of OEB Submissions, plus selected other current SQIs
2. Sustainability Outcomes: Ratio of Capital Expenditures to Depreciation, Age of System by Asset Category, Lost Time Accident Rate
3. Efficiency Outcomes: OM&A Unit Cost (similar to the current econometric model)
4. Fair Return: Regulated Return on Equity (as a memo item only for off-ramp evaluation clarity)

As the Balanced Scorecard evolves, the following additional measures could be added:

- Delivery Service – Overall Customer Service Satisfaction: This would be done by means of real time follow-up survey of First Contact Resolution by an independent firm. The firm would contact a sample of distributor customers within a day of their service contact. Service contacts would encompass inbound customer service calls of an operational or billing nature.
- Sustainability – Succession Planning: This could be measured on a "Yes/No" basis by reviewing a distributor's succession plan for utility personnel to ensure that it meets minimum requirements.
- Sustainability – Government Directives: The focus would be on implementation progress with past directives such as smart meters / TOU and future directives such as smart grid.

It is suggested that these latter measures, or any other new measures, could first appear on the Scorecard as "memo items" for monitoring purposes, until sufficient baseline data is gathered to establish targets.

For a summary of the above-described regulatory framework for consideration, please refer to **Exhibit A.**

Rate-setting & Migitation (EB-2010-0378)

- **How might the Board align rate-setting with multi-year investment plans? Do you have a preferred approach, and what are its benefits and disadvantages?**

Entegrus supports a multi-year capital plan as part of re-basing, as opposed to the current test year approach to capital. Under this scenario, IRM would remain in place for the period between re-basings. It is acknowledged that a multi-year capital plan will likely result in additional IRM rate variation from year-to-year. However, this may provide more demonstrable linkage to the ratepayer between rates and capital expenditure / replenishment.

Entegrus believes that the Incremental Capital Module should continue to be employed for significant and unexpected capital expenditures that may arise despite strong asset planning.

Planning (EB-2010-0377)

- **How might the Board facilitate regional planning and the effective execution of the resultant plans as appropriate?**
- **If we revise cost responsibility under the Transmission Code in respect of transmission line connection facilities to pool the costs, should the pooling be on a province-wide basis, a regional basis, or some combination? Should the cost responsibility rules for industrial customers and distributor customers be the same? Why or why not?**

Entegrus believes that coordinated regional planning is an important and necessary concept. However, despite best efforts of all parties, sometimes plans are not executed because cost consensus is inherently difficult to achieve. This appears to be a result of, among other things, the method of allocating costs to distributors for transmission investments.

Firstly, a review of the definition of transmission connection costs should be considered to determine if some costs currently classified as connection costs should instead be considered as network costs.

Secondly, a more province-wide approach to cost responsibility for transmission line connection facilities would assist in facilitating transmission development. This would streamline valuable projects in geographic areas where cost allocations to distributors might otherwise prove too onerous.

Ultimately, Entegrus believes that regional plans should be filed with the Board. A mechanism should be established to escalate the review of projects by the Board where consensus over the necessity of investments cannot be achieved. The asset plans of all distributors, as filed under Cost of Service, should make reference to the regional plans filed with the Board.

Exhibit A

Summary of Regulatory Framework for Consideration

Balanced Scorecard

The Balanced Scorecard would be designed to take into consideration the comprehensive key outcomes for various stakeholders including customers, the OEB and distributors.

Outcome Measures

The target or range for each outcome would be based on industry benchmarking. Measures of outcome success could include the following:

	Status (G / Y / R)	Measure Assessment
Customer Outcomes		
SAIDI, SAIFI		Target
Telephone Accessibility		Target
Customer Satisfaction / First Call Resolution		Target
Timeliness and completeness of regulatory applications		Pass/Fail
Sustainability Outcomes		
Ratio of Capital Expenditures to Depreciation		Range
Lost Time Accident Rate		Target
Compliance with Government Directives		Pass/Fail
Succession Planning		Pass/Fail
Efficiency Outcomes		
Base level of OM&A Unit Cost Efficiency Achieved		Target

Incentive

If all of the above Outcome Measures are achieved (green light status across the board), the distributor would be eligible for the following incentives:

Incentive Rate Mechanism - larger productivity spreads
Cost of Service Applications - the potential for less frequent re-basing
Regulatory Reporting - less frequency for reporting (i.e. annually vs. quarterly)

Additional Efficiency Incentive

To drive additional cost efficiency, further productivity adjustments could be made to provide additional incentive to distributors. This could be done based on comparative OM&A Unit Cost Efficiency amongst those distributors meeting all Outcome Measures.