
INTRODUCTION

The Federation of Rental-housing Providers of Ontario (FRPO) commends the Board in its initiation of this process and the efforts to review and consider the regulatory construct for the benefit of customers, utilities and the Ontario economy in general. The many facets of this review speak to the inter-dependence and complexity of the Board's role in regulating the electricity market in the public interest.

FRPO has not previously been involved in electricity proceedings at the Board but wanted to expand the voice of our members in this important aspect of energy matters. This process was chosen as opportunity to understand the high level regulatory issues associated with the electricity market and to hear ideas from Board staff, their experts and many experienced stakeholders. We hoped the proceeding would be an excellent opportunity to leverage our experience in natural gas matters and our consultant's experience in municipal water services to provide informed submissions.

In recognizing the experience and the significantly more informed opinions of others, we have decided to provide our most significant submissions on those areas where we believe we can make a contribution and not try to provide in-depth answers to all of questions posed by Board Staff. We trust our submissions will be of assistance to the Board. Those areas include Distribution Network Investment Planning, Regulatory Framework for Regional Planning for Electricity Infrastructure and Defining and Measuring the Performance of Electricity Transmitters and Distributors.

General

What is your vision for a sustainable and long-term regulatory regime?

At the outset of the process, expecting that the Board was seeking substantial change, we were drawn to the approach by OFGEM in their Revenue = Incentives + Innovation + Outputs (RIIO) structure. However, after reviewing some of the early experience of OFGEM and considering the views of multiple stakeholders at the Information Session and Stakeholders Conference, we believe that evolution not revolution is the better course of change. While not universally accepted, especially by utilities, there was some acknowledgement at the Stakeholder Conference that Third Generation Incentive Rate Making (3GIRM) was showing signs of working. Also, OFGEM has admitted some challenges in their initiation of the RIIO approach. It is our view that a evolution of 3GIRM, informed by OFGEM experience, would serve the interests of Ontario better than a substantial departure from the current framework. The end goal would be an effective, yet streamlined approach that creates an alignment between customer expectations and utility outcomes in a sustainable fashion.

What changes would be needed to evolve planning, mitigation, and performance policies towards your vision?

The changes that we would promote are covered in more detail below. In general, the changes would fall into 3 categories: Capital Planning, Integration of Planning and Improved Understanding of Customer Expectations and Satisfaction.

Planning (EB-2010-0377)

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?

How might the Board facilitate regional planning and the effective execution of the resultant plans as appropriate?

It is our view that the diverse nature of dozens of utilities fed by one arms-length, independent transmitter distinguishes the electric challenge from the Gas Framework. Clearly, mechanisms need to be established to provide a holistic view of the many options between generation, transmission, distribution and conservation to establish the most effective delivery to customers. While the OPA is charged with the responsibility, it was our perception that there is currently insufficient incentive to ensure effective communication between the OPA and both the OEB and LDC's. This was evidenced by the interactions in the first stakeholder meeting in December and the subsequent submission by the OPA to explain what it does.

It is recognized that the role of the OPA may be considered in the recently announced government review. However, from the base of the current status quo, we would recommend that the evolved regulatory construct facilitates and/or incents more effective communication and collaboration by the OPA to ensure that integrated planning informs major investment decisions particularly where multiple utilities are affected. One possible approach to improve this effectiveness would be for the Board, or some other entity with authority, to systematically survey stakeholders for their informed views on the performance of the OPA. These views would inform improvement and, ideally, have financial consequences for the OPA.

With an effectively functioning planning authority, utility capital submissions would be supported by the planning authority's document defining what needs to be done. The utility/transmission company would only have to substantiate the how it will done, how much it will cost and that it will be done cost effectively.

If we revise cost responsibility under section the Transmission System 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?

Possibly the strongest area of consensus in the Stakeholder's Conference was the need to change the Transmission System Code to eliminate the barrier created by the "first to identify a problem gets penalized" analogy. While the regulatory principle of cost causality was generally accepted, the opportunity to share the cost of improvement among beneficiaries was seen as more equitable. In our view, that consideration would support a regional basis of cost pooling recognizing the region could be very wide in distribution of costs for mega-projects (e.g. Hydro One's Bruce to Milton Project).

We further believe that cost responsibility rules would be the same for industrial customers and distribution customers to adhere to the principle of cost causality independent of the class of customer.

How might coordinated regional planning between utilities and third parties (e.g., municipalities) promote the efficient and cost-effective development of infrastructure and enhanced regulatory predictability, while maintaining reliability and system integrity? What are the implications, if any, for distribution network investment planning?

One of the interesting aspects of the commercialization of the electricity sector is the evolved relationship of the electrical with the municipality it serves. While on the one hand, the municipality is the owner (in whole or in part) and on the other hand it is the recipient of services for its citizens and businesses. At the same time, it is a vested stakeholder in the sound and considered planning of network assets in its owned road allowances. Yet, in our understanding, the process and principles for establishing cost responsibility for required network relocations has not evolved.

One possible step in the right direction would be the development and application of a model

franchise agreement similar to the natural gas sector. In our view, the application of a model franchise agreement could create more certainty for both the LDC and the municipality in this era of significant infrastructure renewal. In addition, it could incent the collaborative approach to planning of the network assets as future relocation costs would be allocated based upon the presence of municipal approval. It may also result in more effective coordination of replacement schedules for mutual benefit.

How can the Board satisfy itself that multi-year investment plans are appropriate?

What empirical and qualitative tools and methods might be used to inform: (a) utility planning processes; (b) utility applications to the Board; and/or (c) the Board's review of utilities' plans?

How should smart grid investments be treated (i.e., as part of rate base, or based on type of activity/asset)?

We believe that one component of planning that seems to be mysteriously absent from the conversation on capital plans is the concept of sustainability. While the sustainability of the process has been highlighted, we are surprised that importance of a sustainability criteria for approval of the capital plan has not been strongly advanced.

In considering this issue, an obvious analogous situation is the state of water and wastewater in province. In recognizing the decades of under-investment in infrastructure by the utilities, the regulation of these systems has been evolving to require a financial plan that demonstrates the sustainability of the level of investment in infrastructure renewal. It is based on the concept that the amount of replacement should reflect the expected asset life to ensure that the "snowplough effect" of deferred capital to future customers is avoided. In our view, this practice is underpinned by the principle of reducing the risk of inter-generational subsidies and ought to be applicable in the current electric context.

This sustainability criteria would form the additional high level test for the quantity of

infrastructure that ought to be replaced. For some utilities, the test might inform a gap between the actual and sustainable levels of investment. This gap could be considered as part of an Incremental Capital Module.

In addition, we would submit that replacing "like for like" is not in the interest of either utilities or the customers that rely on their services. Therefore the utility would then provide its proposed infrastructure plan including the application of newer technology to ensure that the investments are being made with the future in mind. These investments could include incremental investments to facilitate the smart grid. In our view, these smart grid investments would be treated as rate base. One way of considering this would be to consider the life of these assets. If these assets have service lives measured in decades, would we look back two decades from now and refer to the technology as smart grid or state of the art at the time.

While this approach is likely to create upward pressure on rates, we believe that the long term public interest and future generations ought to be considered in designing the regulatory framework. To do otherwise, in our submission, would not be in the public interest.

Performance & Incentives (EB-2010-0379)

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

Meeting customer expectations did receive a significant amount of discussion in the Papers and Studies, Information Sessions and the Stakeholder Conference. However, there did not appear to be a significant amount of evidence that the utilities understood their customers' expectations. We think that there was consensus amongst stakeholders that reliability of service was very important as baseline of LDC performance. It was also clear to us that customers value reliability differently. We commend Board staff's efforts to survey customers to hear directly from those customers how they value reliability.

We would submit that the outcomes for customer service performance ought to be derived from customer input to what it is they value. Through surveys and stakeholder engagement, LDC's could establish a baseline for customer expectations. From that starting point, the LDC's could be incented to meet an established criteria and be incented to exceed that criteria where improvement is valued.

What standards and metrics for customer service and company cost performance should be established in regard to these outcomes?

How might the Board enhance the alignment of customer and company interests through the use of incentive mechanisms?

We understand that utilities can be uncomfortable with benchmarking as it can create inappropriate comparisons. It would be our view that each utility would determine its customers' expectations for performance initially using common attributes of performance developed initially through some form of working group. With the baseline established, the utility could then be incented to improve its performance in areas deemed valuable by their customers. However, over time concepts for comparison across utilities could be developed using the process of best practices. This could evolve into LDC incentives for customer satisfaction and engagement similar to OFGEM's evolving programs.

An example of an attribute of performance that could be considered is the effectiveness of utility communication as perceived by its customers. Most customers do not fully understand rate setting, their bill and components such as the Global Adjustment. Notwithstanding one panelist's view, the utility and not the Board, is in the best position to help its customers understand. While some customers are disinterested, the utility has the opportunity to reach those customers that want to understand on a regular basis. If a customer is informed about how the rates are set, the expectation for future rates and opportunities they have to minimize their own bill, they can act to control a portion of their costs. Further, to the extent that they understand the source of the upward pressure on rates, they can accept their responsibility to contribute to needed

investment and/or have their voice heard on issues of energy policy matters. From past utility experience, it has been determined that customers views of utility performance are well correlated with their view of how well the utility is communicating.

What incentives, if any, are appropriate to reward utilities for cost-effective and efficient performance, including appropriate rewards for exceeding standards for customer service, and company cost performance? What incentives, if any, are appropriate for the purposes of rewarding performance with regard to multi-year capital programs?

We strongly believe in multi-year capital programs that are developed on the basis of sustainability and future-oriented in the application of technology (as described above). Once approved by the Board, the utility ought to report annually to the Board on its progress measured against its approved plan. This is one area where the Board could establish, as part of its incentives, a fast-track review of the annual plan if the utility reports progress within a reasonable tolerance of its established plan. Further the Board could consider, for those utilities that perform according to plan, modifications to the Capital Modules that allow inclusion of some portion of invested capital inside of an IRM period to address the utilities' concerns over a multi-year capital module.

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

Should the Board amend the ICM rules as proposed by some participants to provide for an interim solution? If so, how? What are the implications of such an interim change in the context of the longer-term RRFE approach of incorporating multi-year capital plans in rates?

In addition to the potential for fast-tracking provided above the Board could consider, for those utilities that perform according to plan, modifications to the Capital Modules that allow inclusion of some portion of invested capital inside of an IRM period to address the utilities' concerns over

a multi-year capital module. We believe this addition, designed well, could align utility performance with a long term view.

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?

As described above, effective communication to customers is a key component of implementing capital plans that result in significant rate increases. If utilities are seen as being accountable for their investment in infrastructure, customer dissatisfaction can be minimized.

In the case of a smaller utility with a significant lumpy investment, the establishment of a regulatory asset to effect rate smoothing could be an appropriate mechanism.

Other

In light of what you heard at the March 28-30, 2012 Stakeholder Conference, what are your priorities for the Board's development of the RRFE and how might the Board manage the transition to the renewed regulatory framework in a manner consistent with your priorities?

In our view, the most important priority is addressing the capital needs of the utilities. By establishing a multi-year approach to capital founded on sustainable investment in current technology, the utilities can be incented to invest wisely in much needed infrastructure. This approach ought to be coupled with the expectation that the utility will enhance its customer communication to promote understanding of the need for these investments.

The transition to the multi-year capital models for all utilities may take some time. However, if the Board commits to a framework multi-year capital plans based upon sustainable investment

strategies, utilities can invest in the facility studies and communication strategies to be ready to submit its capital plan at its next cost of service application. This should allow a smoothing of the approval work at the Board and a collective learning by all utilities as the processes are developed and refined.

Are there other key issues that should be considered in the development of the RRFE?

While we view the capital needs of the utilities as a paramount, an important expeditious step that does not have to await a Renewed Framework is the revision of the Transmission System Code to increase the opportunity of integrated forward planning in this time of change.

CONCLUSION

The Renewed Regulatory Framework is an important step in ensuring that Ontario's electricity market is given the best opportunity to evolve in the best interest of the economy and of the people of Ontario. The Federation of Rental-housing Providers of Ontario thank the Board for the opportunity to learn and contribute to this process. We remain available to assist, as the Board sees fit, in the process to follow.