



# Interaction of Inflation, TFP, Stretch and ICM

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for School Energy Coalition*



## Capital Spending Trends

- **2012 Data on Capital Additions**
  - **Industry (weighted average) -**
    - 238% of depreciation
    - \$854 million ICM (130% threshold)
  - **Simple Average**
    - 244% of depreciation
  - **Industry Excl. Hydro One and Toronto**
    - 238% of depreciation
- **Impact on Rates under Current ICM**
  - 2.6% annual rate increase (average)



## Capital Spending Trends

- **2005-2011 Data on Capital Additions**
  - **Industry (weighted average) -**
    - 192% of depreciation
  - **Industry Excl. Hydro One and Toronto**
    - 179% of depreciation



## Yearbook Data

Capital Additions vs. Depreciation 2005-2012						
Year	CapAdds	ex. T/H1	Deprec.	ex. T/H1	Industry	ex. T/H1
2005	\$868,648,410	\$426,449,443	\$633,034,870	\$286,418,011	137.22%	148.89%
2006	\$1,074,037,660	\$497,481,291	\$676,385,286	\$301,153,495	158.79%	165.19%
2007	\$1,347,211,657	\$567,590,953	\$710,483,197	\$318,311,816	189.62%	178.31%
2008	\$1,372,884,926	\$603,468,317	\$742,706,093	\$327,195,485	184.85%	184.44%
2009	\$1,457,372,544	\$590,047,382	\$765,251,029	\$342,948,714	190.44%	172.05%
2010	\$1,804,926,943	\$691,548,390	\$804,634,237	\$361,965,537	224.32%	191.05%
2011	\$1,934,710,507	\$733,268,965	\$794,041,531	\$360,623,213	243.65%	203.33%
2012	\$1,864,090,893	\$802,292,406	\$783,141,384	\$336,623,444	238.03%	238.34%



## **Rate Implications**

- **Inflation – 1.7%**
- **Productivity – 0.0%**
- **Average Stretch – 0.3%**
- **Average ICM – 2.6%**
- **Total average IRM increase – 4.0%**
- **Plus incremental Custom IR rates**



## **Issues**

- **Overall rate increases unsustainable**
  - **4.0% vs. 1.4%**
    - **\$1.44 billion more over five years**
    - **Annual revenue +\$500 million in 2018**
- **Bias against smaller utilities**
  - **ICM available at high regulatory cost**
  - **therefore, majority of rate increases only available to larger utilities**

## **Solutions**

- **Reduce the basic IRM increase**
  - Increase productivity factor
  - Increase stretch factor
  - Apply IRM escalator to percentage of costs
- **Limit the ICM**
  - Increase the threshold to industry average
    - Probably 200% of depreciation, plus growth
  - Limit eligible capital spending
    - e.g. Reinstate the “extraordinary” criterion