



Multi-year Incentive Rate Regulation for Natural Gas Utilities

**Stakeholder Meetings
October 4, 6 and 13, 2006**

Revised October 20, 2006

Outline of Presentation

- Stakeholder Meetings
- Overview of Process and Timelines
- Issues List
- Next Steps

Stakeholder Meetings

October 4th Meeting:

Union

Enbridge

October 6th Meeting:

VECC

SEC

CCC

IGUA

LPMA

October 13th Meeting:

OPG

TCE

City of Kitchener

TCPL

Hydro One

ECNG

Energy Probe

Pollution Probe

GEC

Overview of Process

October 2006	<ol style="list-style-type: none">1. Stakeholder Meetings – October 4, 6 and 13th2. All Stakeholder Meetings - TBA
November 30, 2006	Staff discussion paper issued
January 2007	Stakeholder review and comment; opportunity for expert reports to be submitted
February 2007	Oral Presentations and stakeholder recommendations
March 2007	Board policy on framework
April 2007	Utility-specific applications

Process - Initial Stakeholder Consultation

- Introduce team
 - Marika Hare
 - Pascale Duguay
 - Laurie Klein
 - Angela Pachon
 - Adrian Pye
 - Michael Millar
 - Mark Lowry (Board expert)
- Seek initial comments and views of stakeholders
 - Review staff's initial list of issues
 - Stakeholders invited to discuss their options and recommendations

Process - Initial Stakeholder Consultation (cont'd)

- Scope of project:
 - Generic framework to determine annual adjustment mechanisms for gas utilities
 - Term of plan
 - Non-routine adjustments (or Z-factors), cost pass-through (or Y-factors) and off-ramps
 - Reporting requirements
 - Rebasing rules
 - DSM
 - Other adjustments
- Not part of project:
 - Revenue cap vs. price cap assessment
 - ESM
 - Cost-of-service rebasing
 - Service quality indicators
 - ROE (no change from base)

Process - Initial Stakeholder Consultation (cont'd)

- All stakeholder meetings:
 - Finalize issues list
 - Stakeholders invited to further discuss their options and recommendations

Process - Staff Discussion Paper

- Staff will propose options and recommendations to address issues list
- Provide a base for stakeholders to file written comments

Process - Stakeholder review and comment on paper

- Opportunity for stakeholders to provide expert reports
- Provide comments on staff paper

Process – Oral Presentations

- Stakeholders to present options and recommendations
 - Stakeholders will clarify, elaborate and address questions on their representations
- Stakeholders will be invited to ask questions, participate in an interactive discussion and debate issues with other experts
- Stakeholders will be invited to provide written critical analysis of other experts' opinions

Issues List

- Criteria of IR plan
- Mechanics of price cap adjustment
- Inflation factor
- Productivity and stretch factors
- Non-routine adjustments (or Z-factors) and cost pass-through (or Y-factors)
- Off-ramps
- Plan term
- Rebasing rules
- Reporting requirements
- DSM

Issues – Criteria of IR Plan

- In the NGF Report, the Board noted that the IR Plan must meet the following criteria:
 - Establish incentives for sustainable efficiency improvements that benefit customers and shareholders
 - Must create an environment that is conducive to investment, to the benefit of customers and shareholders
 - Must be sustainable over the term of the plan

Issues – Criteria of IR Plan (cont'd)

Initial views of UGL and EGD:

- Need to include parameters / boundaries of the IR plan. For example, whether outsourcing and restructuring are allowed; customer attachments
- Utilities will provide list of parameters / boundaries for stakeholder review at all stakeholder meetings

Initial views of other parties:

- Agree that parameters should be included in IR plan. For example, whether restructuring for Income Trust is allowed
- Will provide parameters for stakeholder review at all stakeholder meetings
- Will also provide a list of goals for IR plan
- Raise concerns regarding timing of expert

Issues – Mechanics of Price Cap Adjustment

- Should a single annual adjustment apply to the overall customer base?
- Should different annual adjustments apply to different services – distribution, transmission and storage?
- Should different annual adjustments apply to each customer class?

Issues – Mechanics of Price Cap Adjustment (cont'd)

Initial view of UGL and EGD:

- A single annual adjustment apply to the overall customer base

Initial views of other parties:

- Are there data availability issues to having different annual adjustments apply to different services?
- TCPL – UGL's transmission should be treated separately

Issues – Mechanics of Price Cap Adjustment (cont'd)

- Where is marketing flexibility needed and why?
- Examples of marketing flexibility could include:
 - Rate redesign
 - Negotiated rates that do not exceed the price cap
 - Modification to rate schedules for gas-fired power generators as per settlement agreement EB-2005-0551

Issues – Mechanics of Price Cap Adjustment (cont'd)

Initial views of UGL and EGD:

- UGL seeks flexibility to increase fixed charges to more closely align with costs
- UGL will not negotiate rates below price cap
- UGL and EGD may require modifications to rate schedules for generators
- How should discretionary services be handled (e.g., EGD's Schedule G)?

Initial views of other parties:

- Raise concerns with rate redesign during plan term

Issues – Inflation Factor

- Inflation factors could include:
 - CPI
 - Can GDP-IPI
 - Industry-specific PI
- Should the inflation factor be based on an actual or forecast?

Board staff is recommending Can GDP-IPI as the inflation factor

- Fixed or variable:
 - Frequency of update – yearly?
 - Handling of revisions – establish threshold?

Issues – Inflation Factor (cont'd)

Initial views of UGL and EGD:

- Use forecast CPI as the inflation factor because its easier to explain to consumers.
- Raise issues on how to handle revisions to GDP-IPI.
- Industry-specific more closely reflects costs but data issues exist.

Initial views of other parties:

- VECC – inflation factor needs to be robust

Issues – Inflation Factor (cont'd)

Initial views of UGL and EGD:

- Update the inflation factor annually, with no threshold
- ROE formula to remain unchanged but outcome to be adjusted on annual basis

Initial views of other parties:

- VECC agrees with UGL and EGD regarding ROE formula and outcome
- SEC view is that outcome should remain unchanged

Issues – Productivity and Stretch Factors

- What approach should be used to determine the productivity factor?
 - TFP research:
 - Utility-specific productivity factor based on historical cost data
 - Industry-specific productivity factor
 - British-style cost & output forecasting exercise where costs are projected over the plan term
 - California-style attrition mechanism where there is a multi-year forecast of capital spending & index-based O&M adjustments

Issues – Productivity and Stretch Factors (cont'd)

- Fixed or variable productivity factor?
- Should a stretch factor be included?
- Stretch factor determined by:
 - Industry precedent?
 - Benchmarking studies?
 - Incentive power research?

Issues – Productivity and Stretch Factors (cont'd)

Initial views of UGL and EGD:

- UGL's X-factor = 0; includes an implicit stretch factor
- How should declining usage be incorporated into plan?
- Determination of stretch factor?
- Cooperative TFP study done jointly with stakeholders, utilities and OEB?

Initial views of other parties:

- VECC proposes that the gas utilities update their TFP studies and Mark Lowry to review
- SEC and Energy Probe propose that Mark Lowry prepare TFP study for stakeholder review
- Hydro One – need to capture the benefits and costs of capital (e.g., operational benefits to EGD's main replacement)

Issues – Non-Routine Adjustments

- Should the Board establish criteria for allowing certain costs to be recovered through rates?
- A criteria set could include:
 - The event causing the cost must be exogenous to the utility
 - The event must occur after the implementation of the IR plan
 - The utility cannot control the costs
 - The costs are not a normal part of doing business
 - The event affects the utility disproportionately
 - The costs are not included in the IR plan
 - The cost must have a major impact on the utility
 - The cost impact must be measurable
 - The utility must incur the cost prudently

Issues – Non-Routine Adjustments (cont'd)

- Should the Board establish a threshold level?
 - Threshold level should be large enough to have a material impact on revenues such as 1% or 1.5% of revenues.
- What should be the process for establishing prudence prior to the disposition of the deferral/variance accounts?
 - Frequency of disposition - annual?

Issues – Non-Routine Adjustments (cont'd)

Initial views of UGL and EGD:

- High level criteria for Z-factors, for example:
 - ◆ Changes mandated by legislative (at all levels)
 - ◆ Changes in GAAP
 - ◆ Changes in regulatory

Initial views of other parties:

- Agree that criteria for Z-factor needs to be outlined in specific detail

- City of Kitchener – need to include non-routine revenue

Issues – Routine Adjustments (or Y-factors)

Initial views of UGL and EGD (cont'd):

- Need to include cost pass-through (or Y-factors) in IR plan to account for the following:
 - ◆ Gas supply related accounts
 - ◆ DSM
 - ◆ UGL's proposed 20 year trend weather-normalization methodology
 - ◆ Annual adjustments to ROE outcome
 - ◆ Non-routine reliability and safety costs
 - ◆ EGD's customer information system (CIS)

Initial views of other parties:

- Need to establish criteria for Y-factors

Issues – Off-Ramps

- Should off-ramps be included?
- How should the Board determine the conditions that could trigger the off-ramp?
 - under “financial” performance
 - over “financial” performance
- Should the off-ramps be symmetrical?

Issues – Off-Ramps (cont'd)

- UGL's initial view – if parameters of IR plan are set correctly, no need for off-ramps
- EGD's initial view – if the financial integrity is threatened EGD would file an application

Initial views of other parties:

- VECC – need off-ramps because no ESM. Off-ramps need to be symmetrical
- SEC and Energy Probe – no off-ramps

Issues – Plan Term

- What is the appropriate length of the plan – 3, 4, or 5 years?

Board staff is recommending that the plan term be 5 years (i.e., 2007 base year + 4 years)

Issues – Plan Term (cont'd)

Initial view of UGL and EGD is that the plan term be 6 years (i.e., 2007 base year + 5 years)

Initial views of other parties:

- VECC – mid-term review to examine unanticipated costs, etc.
- SEC and Energy Probe – periodic reporting requirements. Supports plan term of 6 years.
- Some parties suggest staggering cost-of-service rebasing

Issues – Rebasing Rules

- Should the Board develop rebasing rules?
 - Each IR plan must begin with a thorough CoS rebasing review
 - Rebasing could also take into account an efficiency carryover mechanism to bolster long-term performance incentives. For example, new rates could be based 50% on rate case, 50% on 1-year extension of expiring mechanism.

Issues – Reporting Requirements

- What information should the Board consider when updating the IR plan?
- Reporting frequency?
- How should the Board evaluate the IR plan to ensure that the goals of the plan are met?
- How should the Board establish provisions to discourage opportunistic timing of maintenance & capital spending?

Issues – Reporting Requirements (cont'd)

UGL will propose reporting requirements for stakeholder review at all stakeholder meeting

- Initial views of other parties:
- Information needs to be in public domain
 - Need to identify efficiency improvements
 - What should be the public process to discuss issues, etc. during the plan?
 - Energy Probe – need to capture actual ROE and improvement impacts on corporate company. Develop benchmarking indicators.

Issues - DSM

- How should DSM be incorporated into the price cap?
- How to match DSM 3-year plan with IR plan term?

Issues – DSM (cont'd)

Initial view of UGL and EGD is that DSM program costs be included in Y-factors (i.e., cost pass-through)

Initial view of other parties:

- SEC – include DSM in productivity factor
- Pollution Probe – include as cost pass-through with a continuation of the LRAM, DSMVA and an improved SSM

Next Steps

- Set dates for All Stakeholder Meetings
 - November 2-3, 2006