

# **IR Framework for Ontario Electricity Distributors Long-term Vision**

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The table below is a chart that illustrates, at a high level, milestones that take the OEB's regulation of the Ontario electricity distributors toward a long-term vision of a comprehensive and sustainable bifurcated incentive regulation (IR) framework. The Framework internalizes service quality regulation and is based on benchmarking for LDCs for which peers can be identified and an IPI-TFP for those for which no peers are identified. The timelines used are for illustrative purposes.

The chart starts off with the Board's approval of 1<sup>st</sup> Generation Performance Based Regulation) for the electricity distributors in 2000, a transition plan based on the IPI-TFP approach. The IR milestones achieved with this approval are: the introduction of service quality performance indicators (SQI); reporting on the service quality indicators by the distributors; monitoring of service quality performance by the OEB; TFP studies for 1988-1997; and annual filings of PBR data to be used to update/expand the TFP research to help set parameters for subsequent IR plan(s).

In 2002 Bill 210 imposed a rate freeze and from 2004 to 2006 there was the continuation of the phasing-in of the market-based ROE through funding of CDM programs. During this period reporting/monitoring of SQI and filing of PBR data continued.

Following model-based cost of service (COS) filings in 2006, 2<sup>nd</sup> Generation IR based on GDP-IPI – X as a function of simplicity and transparency for the short duration of the plan (maximum of 3 years), was introduced in 2007 and during the term of the plan the distributors' rates are rebased (COS) in three tranches over the three years. During this period, reporting/monitoring of SQI and filing of PBR data continued.

Following rate rebasing the distributors embark onto 3<sup>rd</sup> Generation IR based on IPI-TFP, a transition plan that provides time to review information required for benchmarking e.g. ensure consistency in financial reporting, completeness of information required for benchmarking, conduct LDC surveys, capital valuation. In addition it provides time to determine customer service expectations, review SQI standards, establish consistency in reporting of SQI performance. Benchmark studies and SQI studies are conducted as the basis for implementing benchmarking and SQI standards in IR.

Rate rebasing at the end of 3<sup>rd</sup> Generation IR will include internalization of SQI standards.

Following rate rebasing the bifurcated IR framework is implemented. Allowing for a period when the distributors are expected to move to the SQI standards, penalties are introduced for non-performance.

<b>Regulatory Approach</b>	<b>IR Milestones</b>	<b>Timeline</b>
1 <sup>st</sup> Generation PBR (IPI-TFP)	<ul style="list-style-type: none"> <li>➤ TFP Studies (1988-1997)</li> <li>➤ Start PBR Data Filing</li> <li>➤ Start SQI Reporting</li> </ul>	Approved 2000
Rate Freeze/CDM-ROE Phase-in	<ul style="list-style-type: none"> <li>➤ On-going PBR Data Filing</li> <li>➤ On-going SQI Reporting/Monitoring</li> </ul>	2002-2006
COS Model	<ul style="list-style-type: none"> <li>➤ Base Rates for 2<sup>nd</sup> Generation IR</li> <li>➤ On-going PBR Data Filing</li> <li>➤ On-going SQI Reporting/Monitoring</li> </ul>	2006
2 <sup>nd</sup> Generation PBR (GDP-IPI – X)	<ul style="list-style-type: none"> <li>➤ On-going PBR Data Filing</li> <li>➤ On-going SQI Reporting/Monitoring</li> </ul>	2007-2009 2008-2009 2009
COS Model	<ul style="list-style-type: none"> <li>➤ Rate Rebasings</li> </ul>	2007-2009
3 <sup>rd</sup> Generation IR (IPI-TFP)	<ul style="list-style-type: none"> <li>➤ On-going PBR Data Filing</li> <li>➤ On-going SQI Reporting/Monitoring</li> <li>➤ Review Financial Reporting Consistency</li> <li>➤ Review SQI Reporting Consistency <ul style="list-style-type: none"> <li>➤ Cost Benchmarking Study</li> <li>➤ SQI Standards Study/Surveys</li> </ul> </li> </ul>	2008-2012 2009-2013 2010-2014
COS Model	<ul style="list-style-type: none"> <li>➤ Rate Rebasings</li> <li>➤ Internalize SQI standards</li> </ul>	2013-2015
Bifurcated IR Framework: <ul style="list-style-type: none"> <li>▪ Benchmarking for LDCs with peers</li> <li>▪ IPI-TFP for one of a kind</li> </ul>	<ul style="list-style-type: none"> <li>➤ PBR Data Filing</li> <li>➤ SQI Reporting/Monitoring</li> </ul>	Start 2016
	<ul style="list-style-type: none"> <li>➤ Introduce SQI Penalties</li> </ul>	Start 2019

