

# Enbridge Targeted PBR Plan 2000 - 2002

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# Natural Gas Forum Report

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- **“the reluctance of many stakeholders to endorse PBR is related to their dissatisfaction with the trial PBR plans”**
- **“the PBR plans were widely considered unsuccessful”**
- **“PBR plans did not meet the expectations of the Board or the stakeholders, including the utilities”**
- **“customer groups were disappointed by what they saw as the absence of any explicit or tangible benefits resulting from the trial PBR plans”**

# Regulatory Environment in 1999

- **long process of the unbundling integrated natural gas utilities finally being implemented**
- **utilities and OEB anxious to adopt PBR mechanisms**
- **statutory hurdles to rate regulation by means other than cost of service being addressed by amendments to the OEB Act**

# Enbridge Consumers Gas Targeted PBR

- **O&M targeted plan approved by OEB April 1999**
- **3 year revenue cap, 2000-2002 inclusive**
- **O&M escalation a function of growth plus inflation less productivity offset**
- **stakeholders reluctant to give up COS:**
  - if PBR, they wanted a comprehensive plan
- **OEB regards the targeted plan as transitional**

## O&M Escalation Formula

$$O \& M_t = O \& M_{t-1} (1 + G - x)(1 + I) \pm Z$$

**I = Inflation = Ontario CPI**

**G = Growth = # of customer bills**

**X = Productivity = 0.63% + stretch factor of 0.50%**

# Targeted PBR Plan

## Other Features

- **Z-Factors:**
  - tax changes
  - regulatory orders
  - accounting rule changes
  
- **Service Quality Indicators**
  - telephone service factor
  - meter reading
  - emergency response time
  - distribution system integrity
  - gas utilization infractions
  
- **DSM shared savings mechanism**

# O&M Cap Escalators

<b>Year</b>	<b>CPI</b>	<b>Growth</b>	<b>X Factor</b>	<b>Escalator</b>
<b>2000</b>	<b>2.6%</b>	<b>3.45%</b>	<b>1.1%</b>	<b>5.01%</b>
<b>2001</b>	<b>3.5%</b>	<b>3.70%</b>	<b>1.1%</b>	<b>6.19%</b>
<b>2002</b>	<b>2.2%</b>	<b>3.03%</b>	<b>1.1%</b>	<b>4.14%</b>

# Integrated Distribution Utility 1998

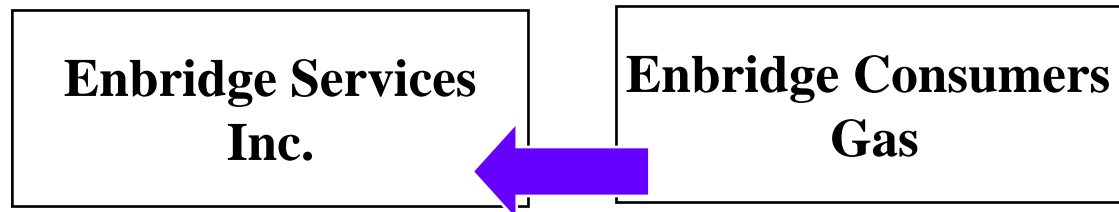
**Enbridge Consumers  
Gas**

**3750 employees**

- **distribution system**
- **storage**
- **commodity sales**
- **appliance sales & rentals**
- **customer care**



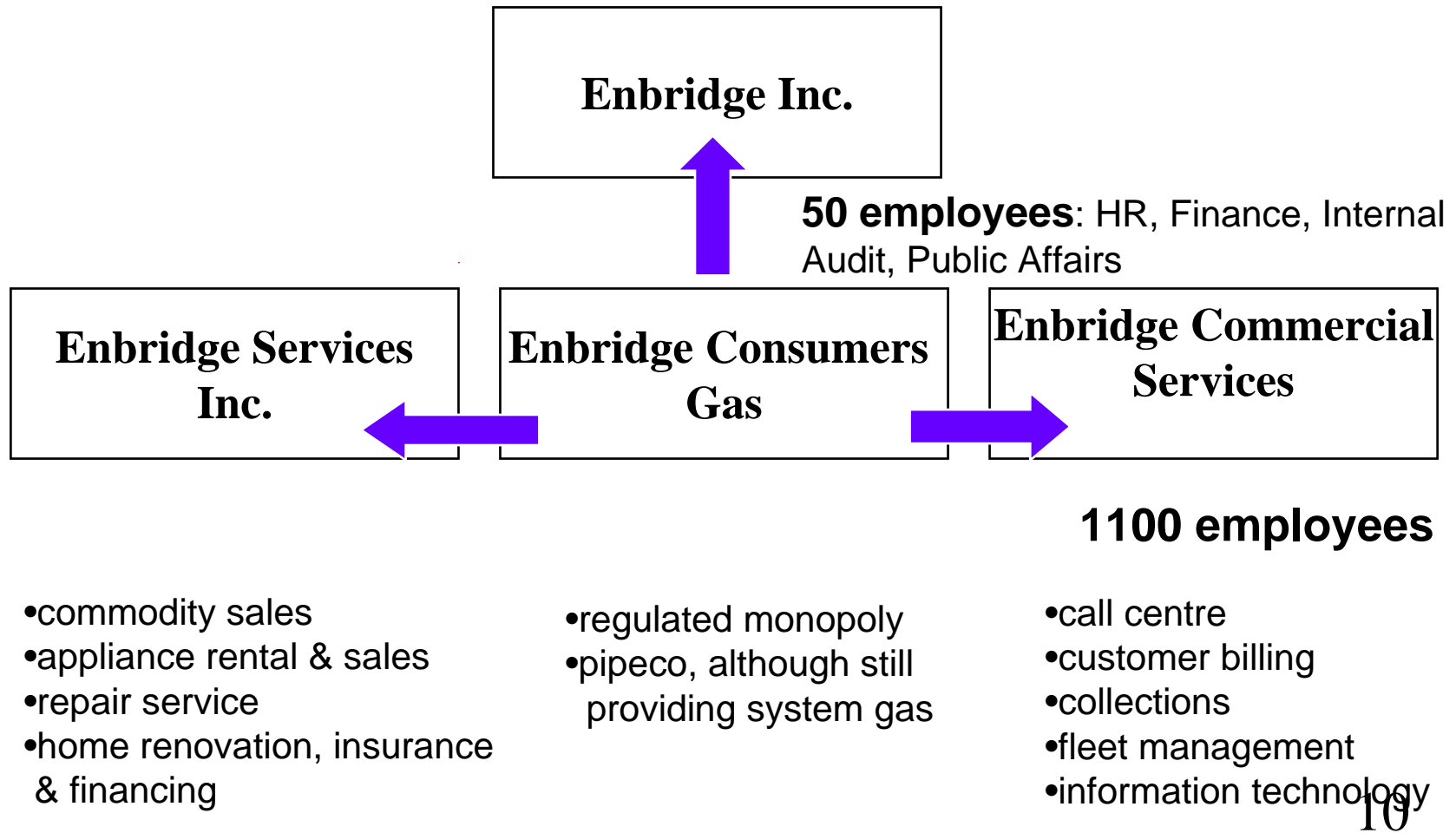
# Unbundling: Retail Affiliate Established 1999



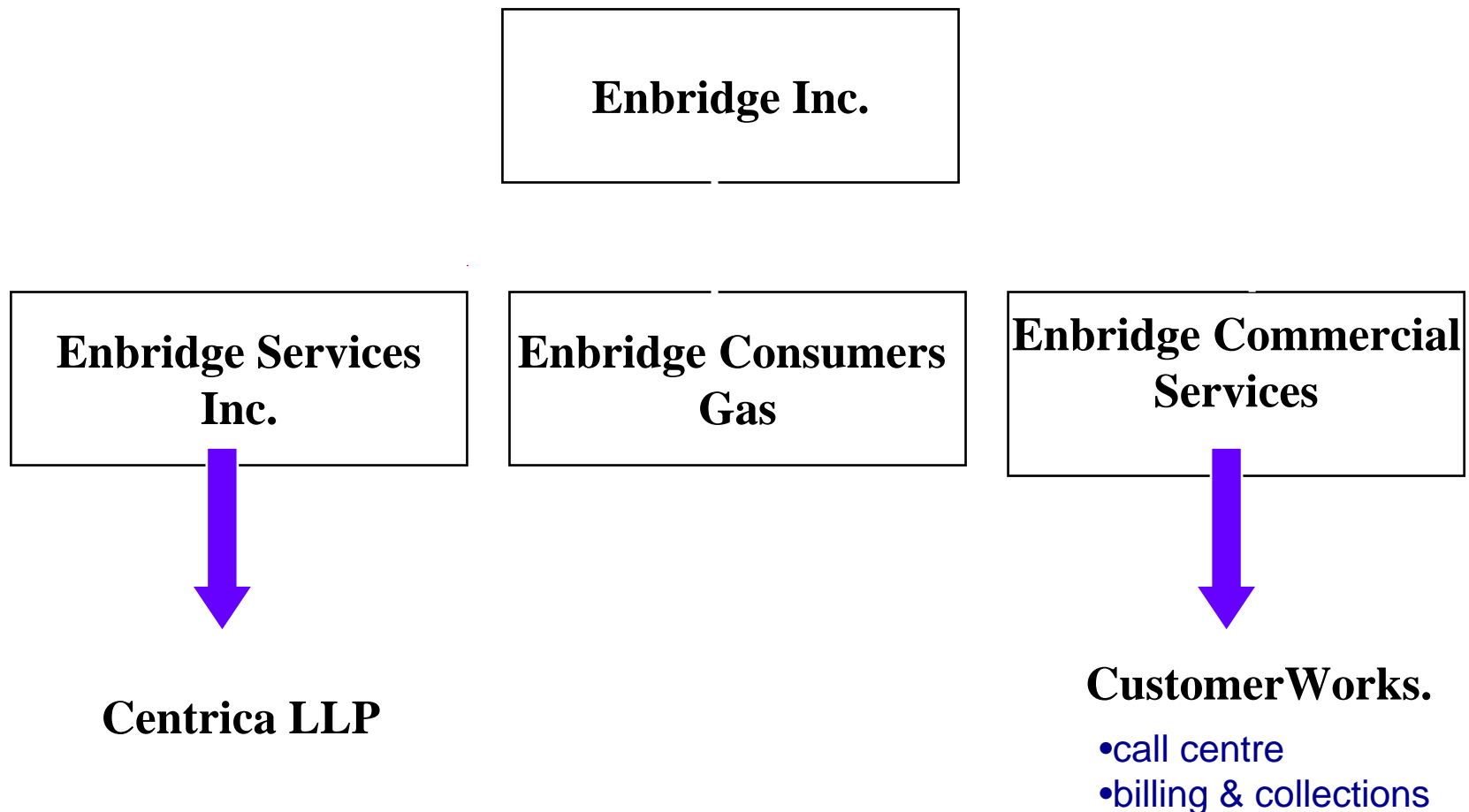
**570 employees**

- customer care
- commodity sales
- appliance rental & sales
- repair service
- home renovation, insurance & financing

# Commercial Services Affiliate Established, 2000



# Establishment of CustomerWorks and Sale of ESI, 2002



# Rebasing Issues

- **O&M budget increase – where’s the PBR benefit?**
- **provision of “core utility services” by others**
- **arrangements & cost of services provided by affiliates**
  - corporate fees--centres of excellence
- **these issues influenced EGD rate cases for years**
  - corporate cost allocation methodologies still an open issue before the Board

# Some Results

<b>Year</b>	<b><u>RR per Customer</u></b>	<b><u>O&amp;M per Customer</u></b>	<b><u>Allowed ROE %</u></b>	<b><u>Actual ROE %</u></b>
<b>2003</b>	<b>\$511</b>	<b>\$169</b>		
<b>2002</b>	<b>\$501</b>	<b>\$148</b>	<b>9.66</b>	<b>8.98</b>
<b>2001</b>	<b>\$521</b>	<b>\$157</b>	<b>9.54</b>	<b>10.8</b>
<b>2000</b>	<b>\$524</b>	<b>\$152</b>	<b>9.73</b>	<b>8.23</b>
<b>1999</b>	<b>\$529</b>	<b>\$156</b>	<b>9.51</b>	<b>7.94</b>

# NGF Conclusions on IR

- **annual system of COSR is inefficient**
- **Board intends to adopt the best aspects of both COSR and PBR**
- **the Board will establish a firm framework for Incentive Regulation**
- **there will be a “robust” rebasing between IR plans**
- **utilities should not alternate between COSR and Incentive Regulation**

# IR Conclusions

- **IR terms of 3-5 years**
- **yes to comprehensive plans**
- **yes to SQIs as a base; no incentives**
- **yes to inflation & productivity adjustments**
- **no to earning sharing mechanism**
- **devil in the details; need to determine**
  - deferral & variance accounts
  - Y factors
  - Z factors
  - inflation factor
  - total factor productivity & X factor
  - rebasing rules