2^{nd} Generation rate adjustment mechanism for Electricity Distribution Sector

Presented to the OEB Working Group
October 26th, 2007

Andy Poray – Hydro One Networks Inc
Paula Conboy – PowerStream Inc.

Objectives of 2nd Generation "*IRM*"

a. Provide regulatory certainty during the 2007-2009 period of the rate plan
b. Drive out efficiencies improvements
c. Lay a foundation for 3rd generation IRM

In fact, only a) was achievable

Objectives of 2nd Generation “*IRM*”

- During the proceeding most stakeholders agreed that:
  - There was insufficient quantitative evidence to suggest that there **exists** significant efficiencies to be “driven out” since the prolonged rate freeze period (3 tranches and Bill 210).
  - There was insufficient **time** to drive out efficiencies
  - There was no **incentive** to drive out efficiencies (any savings “clawed back” at rebasing)

2nd Generation "Price Adjustment Mechanism"

- Insufficient time to **<u>understand</u>** and take into account the rapidly changing and complex context in which LDCs are operating *(but we have that now!)*
- GDP-IPI selected because it was easily understood despite not providing an appropriate inflationary
- Generic X factor based on numerous North American jurisdictions
  - Similarities pretty much start and finish with the fact that we convey electricity at voltages no greater than 50kv
  - Our diversity, geography, ownership structure, productivity differences are all significantly different than all other North American jurisdictions
  - Generic x factor has punished the efficient LDCs and rewarded the less efficiency LDCs – completely opposite to what it is designed for!
- No adjustment for capital expenditures

2nd Generation "Price Adjustment Mechanism"

- What we got was a

Transitional Price Adjustment Mechanism

Or

Rate attrition mechanism

Benefits of 2nd Generation "Price Adjustment Mechanism"

- Price certainty
- Reduced regulatory burden (applications easy to process)
- Flexibility to self-elect re-basing year