



Ontario Energy Board
Commission de l'énergie de l'Ontario

Proposed Approach & Work Plan



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Proposed Approach

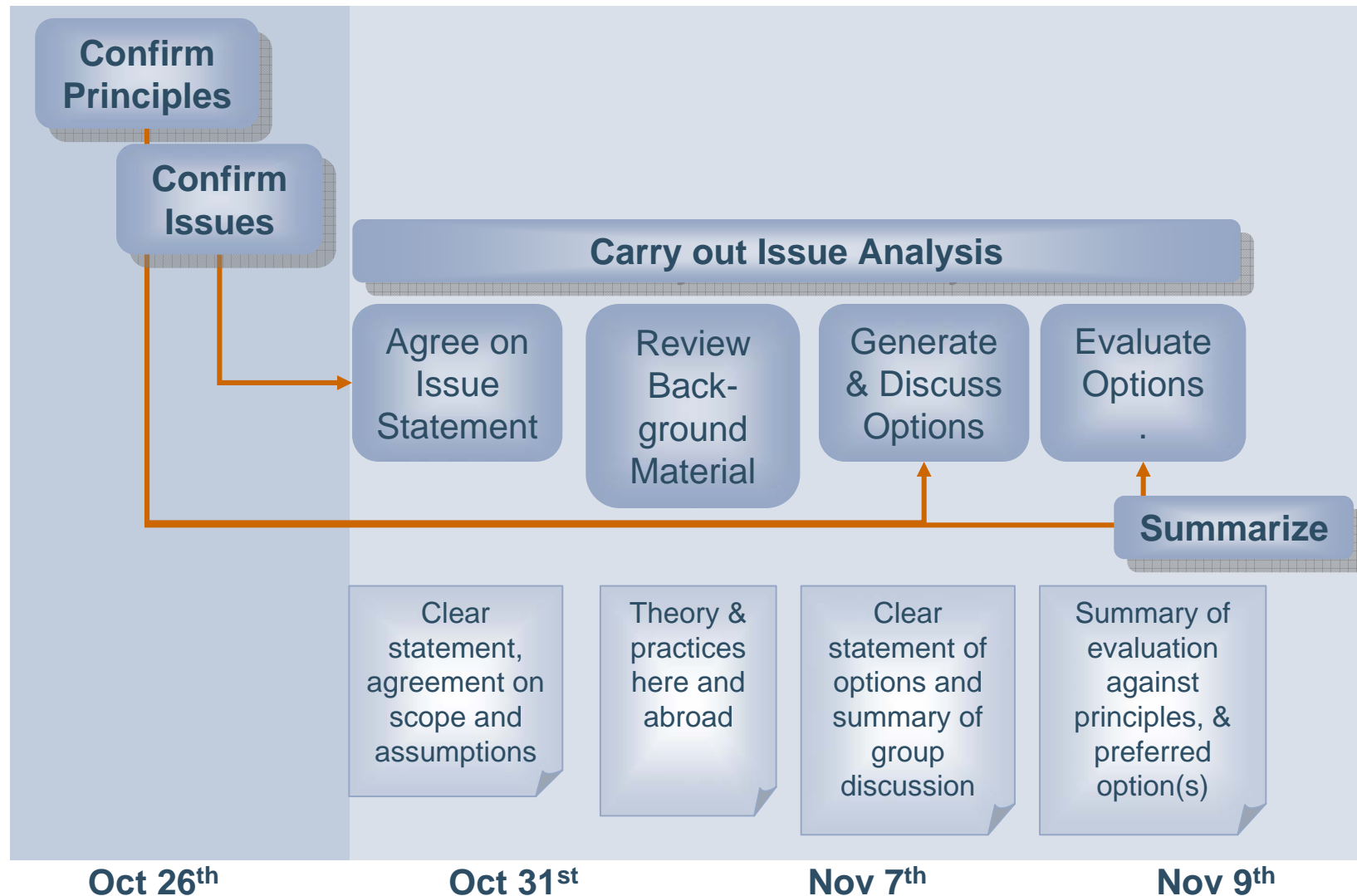
Pure Process...

What is the *purpose* of our work, and what is our role?

- To develop 3rd Generation IRM the Working Group will:
 - Provide specific knowledge and expertise; and
 - Carry out the analysis necessary for purposes of detailing issues and reviewing and evaluating options.
- The group's work will be documented and will form part of the staff paper.



Proposed Approach to Carry out This Analysis



What *products* will we have at the end of the, and what role will they play?

SUMMARY OF RECOMMENDATION

Issue Statement
Scope
Assumptions

Options

Background Information

Summary of Group Discussion
Evaluation of Options

Key Implementation Considerations

Recommendation

Appendices...

Criteria (TBC)	Options...		
Sustainable Sector Promoted & Consumer Interests Protected			
Rational Investment Encouraged			
Flexible to Endure Changes in Sector			
Predictable and Understood by Stakeholders			
Capable of Being Implemented Through Efficient & Effective Regulatory Process			

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Proposed Work Plan

Content...

Getting Started...

- We need principles to guide our work – serve as criteria when we evaluate options.
- We need to confirm the issues that will be the focus of that work



Staff's Current Thinking on Guiding Principles

- After reviewing comments from stakeholders, Staff revisited the underlying principles presented in the scoping paper.
- Staff considers that the **9** principles that guided the development and implementation of 1st Generation IR remain valid. Staff proposes to adopt these principles for 3rd Generation IR.
- In addition, staff considers that predictability and stability should also be included as a guiding principle on this process.



Underlying principles for development of 3rd Generation IRM

1. All specific requirements of the legislation and regulations should be addressed .
2. The IR framework should protect customers and result in prices for regulated services that are just and reasonable.
3. The IR framework should discourage cross-subsidization between regulated and competitive services.
4. The IR framework should encourage greater economic efficiency by providing the appropriate pricing signals and a system of incentives to maintain an appropriate level of reliability and quality of service.
5. The IR framework should permit the utility an opportunity to earn a reasonable return on shareholder capital and to maintain its financial viability.
6. The IR framework should be transparent and as simple as possible. The cost of administering IR, including costs imposed on all participants, including the regulated entity and the regulator, should not exceed the benefits available from IR.
7. IR should allocate the benefits from greater efficiency fairly between the utility/shareholder and the customers.
8. A IR framework should be flexible and able to handle changing and varied circumstances.
9. The IR framework should facilitate the use of efficient processes.
10. Provide predictability and stability in rates so as consumers and electricity distributors are better able to plan and make decisions.



Working Group Confirmation of Guiding Principles

- In light of this morning's discussion on Today's Context, are these principles appropriate for our need as criteria to help us evaluation options?



Staff's Current Thinking on the Issues

- Parties have confirmed importance of the identified issues
 - Capital investment;
 - *Is there a need for special treatment of capital spending in a framework?*
 - Lost revenue due to changes in electricity consumption; and
 - *Alternative mechanisms will be considered.*
 - Distributor diversity
 - *How and to what extent should distributor diversity be reflected in a framework?*



Staff's Current Thinking on the Issues

- **Capital investment**
 - This consultation should consider how IRM might provide for prudent investment necessary to maintain an appropriate level of reliability and quality of service.
 - A distributor is responsible for making its investments based on business conditions and the objectives of its shareholders within the constraints of regulated rates and subject to service quality standards set by the Board.
 - Under / over investment should be discouraged.



Staff's Current Thinking on the Issues

- **Lost revenue due to changes in electricity consumption**
 - This consultation should consider how IRM might better align the financial interests of distributors with consumer interests and government policy objectives.
- **Distributor diversity**
 - This consultation should consider how the IR framework might be flexible so as to handle changing and varied circumstances; while ensuring that the principles underlying the method by which the rate adjustments are determined are consistent between distributors.



- **The Rate Adjustment Mechanism**
 - Term and Starting Base
 - Form
 - If index, inflation and productivity factors, etc...
 - Treatment of Unforeseen Events
 - Earnings sharing
 - Reporting and data requirements
 - Rebasing rules

Working Group Confirmation of Issues to be Considered in our Work

- Need to address the “big picture issues”
 - Analysis will flesh out details and identify options on the basic elements for the framework (as noted in last slide).
 - Principles as criteria will reveal preferred options.
- In light of this morning’s discussion on Today’s Context, are there additional big picture issues that we need to analyse?



Content of our Work Plan

- What issues will be analysed and when?
 - Oct 31st
 - Nov 7th
 - Nov 9th



Beginning with the End in Mind...

- This consultation will culminate with the issuance of a Board report setting out the principles and methodology for 3rd Generation IRM.
- Staff will facilitate a review and evaluation of options with the working group that leads to the most practical outcome:
 - Appropriate for most distributors.
 - Includes criteria for exceptions and exclusions such as distributor-triggered review and Board-triggered review.





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Wrap Up & Next Steps

Today we:

- ✓ gain a better understanding of Ontario's experience with incentive regulation;
- ✓ facilitate common understanding of the 3rd Generation IRM consultations and the role of the working group; and
- ✓ establish an agreed upon approach and work plan.