
CHAPTER 1

INTRODUCTION

The Ontario Energy Board (“Board”) is responsible for the rate regulation of the electric distributors in Ontario under the Energy Competition Act, 1998.

This draft rate handbook has been developed by the staff of the OEB (“Staff”) as a proposal for the rate principles, policy, and procedure to be used for the establishment and adjustment of electric distribution rates in the Province of Ontario. In developing this handbook, staff relied heavily on the recommendations of several task forces consisting of representatives from the electric distribution industry, consumer advocates, gas industry, and other interested stakeholders. Without the counsel and substantial work products of these task forces, the Staff would have been substantially disadvantaged in understanding the issues confronting the industry and how to craft a rate handbook that balances the various interests.

The Electric Distribution Rate Handbook is intended to describe the regulatory framework that the Board will ultimately use to develop and administer electric distribution rates in the Province. It will ultimately consist of two parts: Part A provides the design and policies of the Board, while Part B will focus on the mechanics of rate administration. Thus, Part A describes the rate establishment and adjustment regulatory framework, while Part B (to be completed upon Board adoption of Part A) describes the specific calculations with examples.

As noted above, the Board Staff has developed this draft version of the Electric Distribution Rate Handbook which will be the subject of a Board consultation process to gather comments and revise the handbook. While the document may appear to contain statements of policy and position of the Board, these are staff’s recommendations of policy and position, have not been adopted by the Board, and are worded as they are for the ease of exposition.

1.1 BOARD CONSULTATION PROCESS

The Board is entering a public consultation process for the purpose of reviewing and revising the Staff’s proposed Electric Distribution Rate Handbook. The consultation process will consist of the following components:

- ♦ OEB Staff will hold a series of regional information seminars to describe the contents of the handbook and to answer questions.¹
- ♦ The Board will accept written comments on the handbook. To simplify the review of comments, those parties with similar interests are asked to submit joint comments. These comments should be submitted by *Tuesday, August 3, 1999*.
- ♦ In early August, a technical conference will be held to seek clarification of the submitted comments. A transcript of the technical conference will be made available to all parties on request.
- ♦ In late August, the Board will disseminate an issues list that will identify the issues on which the Board will hear oral submissions. If the parties have not already done so, the Board will suggest appropriate groupings of the parties based upon commonality of interest.
- ♦ The Board will hear time-limited oral submissions at a date to be scheduled.
- ♦ The Board will, based upon weighing the evidence provided in written and oral submissions, revise the handbook accordingly.
- ♦ The Board will issue its Electric Distribution Rate Handbook subsequently.

Both intervening (i.e. actively participating) and observing parties wishing to participate in the proceeding must provide written notice of their intent to do so by *July 9, 1999*. Details regarding the proceeding, as well as the procedure to participate, are provided in Notice of Proceeding, File No. RP-1999-0034 which covers this document.²

1.2 PURPOSE

The Electric Distribution Rate Handbook is intended to describe and document the rate regulatory mechanisms that the OEB intends to apply to development and adjustment of electric distribution rates over the first term of Performance Based Regulation (PBR) in the Province of Ontario.

There are several purposes that the rate handbook seeks to meet:

¹ Four seminars have been scheduled throughout the Province in July. Details concerning the seminars may be found in the transmittal materials covering this handbook, or may be obtained from Ms. Christiane Wong via fax or email. Fax (416) 440-7656, email: wongch@oeb.gov.on.ca

² Copies of the Notice may be obtained by contacting Mr. Paul Pudge, Board Secretary, on 1-888-632-6273, via fax at (416) 440-7656, or via email at boardsec@oeb.gov.on.ca

- ♦ The rate handbook describes the PBR rate regulation framework that the Board is adopting. PBR provides strong incentives for utilities to continue to improve their efficiency resulting in lower rates for customers and potentially higher profits for shareholders.
- ♦ The anticipated opening of the retail electricity market in 2000 requires the electricity distributors to unbundle their rates into distribution and commodity components. The rate handbook provides a simplified procedure to unbundle existing rates.
- ♦ The Board intends to allow adjustments to rates to incorporate a market-based rate of return (if desired) as well as for the costs incurred by a utility for the transition to the new market structure being implemented in Ontario. The rate handbook describes these adjustments.
- ♦ The handbook also describes the process for submitting evidence to the Board and the annual rate adjustment process.
- ♦ The rate handbook details the obligations of utilities in setting rates and filing certain information needed to administer rates with the OEB.

1.3 CONDITION OF LICENCE

When the rate handbook has been adopted by the Board, it will become a condition of the licences of electricity distributors in Ontario.

1.4 INTENT FOR REVISION

As mentioned above, this handbook covers the first PBR plan term (years 2000-2002). This first generation PBR mechanism is intended to be the first plan of many to follow. As experience with PBR is gained, certain components of the plan will be redeveloped and tailored to address issues discovered over the course of that term.

The first generation PBR plan has been developed with several considerations in mind. First, while the large number of utilities in the Province might provide useful information on their relative performance, differences in accounting practices confused interpretation of cost data. Therefore it was not possible to attribute the differences in cost among the utilities to differences in their performance, circumstance, and accounting practice. Through the implementation of the Board's Uniform System of Accounts (USoA), many of these differences should become much less pronounced. Adoption of the USoA will allow benchmarking of the Ontario distribution utilities to account for differences in circumstance and management performance in the future.

Second, there has been little recent work conducted by the electricity distributors on the issue of cost allocation. Due to the short time available to complete new cost allocation studies, it is not

possible to construct revised cost allocation studies before the market opens in 2000. This leaves little option but to carry on with the current cost allocation assumptions for the first PBR plan.

Third, no consistent standards of service quality and reliability have been applied to the industry historically. This means that customers receive differing qualities and reliabilities of service across the Province. Perhaps it is appropriate for service quality to differ across the Province, but the data necessary to assess the extent to which service quality differs is not available today.

The first term of PBR has been developed with these limitations in mind and its term, therefore, is relatively short (years 2000-2002). The Board will require that the electric distribution utilities address the data shortfalls such that better information is available in the design of the next PBR plan.

The Board intends to revise the rate handbook to reflect the next generation of PBR to be implemented in 2003. In order to revise the rate handbook, the Board will initiate an interim review of the PBR mechanism in mid- to late 2001. The scope of the review will include:

- ♦ The experience with PBR to date, and the substantive issues that must be addressed in the next generation plan
- ♦ The possible role of yardstick regulation based upon comparative cost performance of distribution companies
- ♦ Rebasement of rates based upon: 1) relative cost performance with consideration for circumstances beyond the control of management; and 2) recapture of some portion of the efficiencies gained by utilities over the first PBR term in the form of lower rates.
- ♦ The design and term of the second generation PBR plan
- ♦ Service quality standards, and
- ♦ Cost allocation between the various rate groups.

Current electric rates are based on cost allocation factors whose basic data were developed in the early 1980's. The Board will require distribution utilities, therefore, to develop revised cost allocation studies that reflect 1) the new structure of the industry and 2) current load profiles of the various rate groups. The Board strongly encourages utilities to jointly sponsor these studies, achieving economies where possible through joint development of load data.

Thus, the rate handbook will be revised as needed for the second generation of PBR. In addition, the Board may choose to supplement this handbook as needed.

1.5 OBLIGATIONS OF THE UTILITIES WITH REGARD TO RATES

In order to conform with this handbook, utilities must:

- ♦ Establish base unbundled rates that have separate distribution and commodity components. A simple procedure for accomplishing this is presented in Chapter 3 with a detailed calculation process in Appendix A.
- ♦ File these unbundled rates, along with the utility's election for its productivity factor and earnings cap, with the Board by May 1, 2000 if the utility has more than 30,000 customers or August 1, 2000 if the utility has 30,000 or fewer customers. The detailed description of the PBR rate adjustment process and the election of the productivity factor is discussed in Chapter 4.
- ♦ Institute service quality and reliability monitoring procedures in accordance with the service quality standards described in Chapter 5.
- ♦ File annual data in accordance with the filing requirements indicated in Chapter 6 with detailed account information in Appendix B.

This handbook is organized into seven chapters as follows:

- ♦ Chapter 2 provides an overview of the rate handbook.
- ♦ Chapter 3 discusses the establishment of initial rates, including a simple procedure to unbundle rates into distribution and commodity components.
- ♦ Chapter 4 discusses the PBR rate adjustment mechanism.
- ♦ Chapter 5 discusses service quality standards.
- ♦ Chapter 6 discusses the regulatory processes and filing requirements.
- ♦ Chapter 7 describes the sequence of events.

In addition, Appendix A includes further detail on rate unbundling and illustrative examples, Appendix B provides account details for financial filing requirements, and Appendix C provides a set of definitions.