KINGSTON

PBR Stakeholder Consultation Workshop, November 18, 1998

PBR Workshop Issues:

#1 27 Dots .....Yardstick Groupings

#2 72 Dots .....Standards

#3 80 Dots .....Base Rates

#4 33 Dots .....PBR Alternatives

#5 43 Dots .....Contestable Services & Service Baskets

Issues & Challenges:

- Is there a market issue? Can competitive side be used to subsidize the monopoly side for "contestables"?
- Shared services efficient and effective; is this viewed as competitive service?
- Posting rates to customers of all 270 utilities and seeing positioning of own utility would have a powerful impact on constituents!
- Cost effective way to monitor/regulate utilities.
- Very tight deadlines
- Already doing lots of things 'well'…let's not throw out good practices!
- Are the 'little' guys going to get squeezed out?
- Has it already been decided?
- Information overload

"Parking Lot"

- Bureaucracy
- Licensing process

Yardstick Groupings

Definition of Key Issues:

- Identify groups that are similar/homogenous/commonalties.
- Risk factors may require better definitions.
- How many groupings?
- Who decides on numbers of groupings and who fits into established groupings?
- Possible bonding of factors.
- Determine how to move from one group to another.

Most Important Views:

- Identify similar groupings.
- How to define the factors which form groupings:
  - OH vs UC
  - Geography
  - C/W weighting of factors
- Size:
  - Number of customers
  - Geographical area
  - Load
- Rate of growth:
  - Positive
  - Stable
- Voltages

- Discussion of Groupings:
  - Cluster analysis/statistical analysis
  - 5 to 10 groups
  - Remove extremes

Who Decides on How Many Groups?

- OEB and statistical analysis
- MEA
- question input to “unbiased” source

How to Move From One Group to Another?

- Identify change process
- Appeal process

Challenges:

- Reliable information quantitative.
- Qualitative measures.
- Hard issues? (number of customers)
- Education—stakeholders.
- Choosing “unbiased” source for all long-term decisions.

Ideas and Recommendations:

- Educate and consult.
- Define and implement process.
- Exceptions—each utility will be/is unique?
- Flexibility in grouping methodology (appeals process).
- Regulated remedy to exception.

Required Actions:

- More time and education.
- OEB could provide several options to consider.
- Focus on “quantitative” measure to start.
- Keep it simple (kiss)

Comments/Questions:

- Homogeneous grouping.
- What happens if you are in the 'wrong' group?
- How do you get out?
- Intent is to regulate Ontario Hydro at same time as we go through this process.
- May gain insight from dealings with Ontario Hydro.
- Would like to challenge that size is not a unique measure of management.
- MEA undertook a study to gather statistical data with Ontario Hydro 5-6 years ago.
- Regulations are not what the free market is all about.
- If utilities go under, who will accept them?
- Financially viable scheme should not cause failures.
- Z factors and exit ramps are critical to protect both the regulator as well as the utilities.
- Depending on numbers . . . if we stay 270 +, can find groupings.
- If amalgamations occur, may impact 'grouping' initiative.
- If there are wide deviations can look to see why and accommodate.
- Questioning whether 'forcing' people into groups is equitable.
- Comparing to a peer group for smaller utilities may be more attractive than other alternatives.
- Have advantage because of numbers to form comparable groups.
- No consensus on how to get qualitative measures.

Standards

What are the important standards that should be established?
How would you measure performance against those standards?

Key Issues:

- Determine baseline per customer class.
  - measurable
  - data
  - validity
  - consistency of reporting
- Universal standards for transitional period.
- Impact of standards on rates.
- Local factors impact on achieving standards.

Most Important Views:

- Shareholder/customer views.

Challenges:

- Consistency of Data.
- Changes in customer base and impact on standards.
- Ease of reporting and collecting (internal and external).
- Identify controllable factors.
- Effectiveness vs efficiency standards.

Required Actions, Recommendations and Ideas:

- Creation of universal standards.
- Propose standards.
  - Collect feedback
  - Revise
  - Implement
  - Evaluate
  - Revise

Comments/Questions:

- Reliability, safety, customer service.
- Determining what the standards are; they will need to be measurable.
- Must be consistently reported and be valid and reliable.
- Do all utilities gather data to same level?
- Universal standards for transition period.
- How do you 'start' this process?
- Do you get standards and learn from that experience?
- Concern around standard of quality—if standards set in stone will impact rates. Is that what we want? e.g. lighting example.
- The location of transmission station may impact certain utilities.
- "Working group" process, however difficult, may be the way to star. Don't have initial data to begin.

Challenges:

- Data collection.
- Changes in customer base, e.g. a company leaving system can have significant impact on smaller utilities.
- Spend $$$ to gather data that in the end might not be meaningful.
- Customer service satisfaction—are they using the same base line across the province?

Required Actions:

- Create universal standards.
- Go through a process of setting standards, evaluating, revising; not going to get it right the 1st time.
- Standards set in maintaining a system may be different than what is required with a new way of doing business; will vary with utilities.
- How is loss of supply measured?
- Rural areas will feel impact differently from urban areas.

Base Rates

Comments/Questions:

- How are we going to split the rates? Charges to be considered?
- What has to be rated? Declining block/demand/factors.
- Class of service—stay the same or establish new groups?
- How are costs of restructuring going to be recaptured? Who's paying?

Views:

- How are we going to group?
- Local municipalities will have a lot more on their plates as they corporatize.

Challenges:

- Collection of data—how comparable between groups?
- Customer—how will they view these changes?
- Need to establish wall between 'business' and 'politics'.
- Correction practices for past mistakes?
- Geographical differences need to be recognized in setting rates.

Base Rates:

- Do we need 270 + cost of service studies?
- How many rate classes will we be dealing with?
- How well do you understand incremental capital needs and development charges?
- Maintenance costs—how are they recoverable? Who pays for them?

  How to set up a mechanism to address growth through time.

Comments:

- Cross-subsidization must be eliminated.
- Shareholders may have their own ideas of setting rates; can impose their ideas on utilities—have economic growth in mind.
- Dealing with municipal councils who are looking for any reason to amalgamate.

Key Issues:

1. What factors will be considered?
2. Historical vs future.
3. Splitting of rates/creation of new rates/charges.
4. Rate design—declining block/service charge, etc.
5. Utility or peer group data to be used?
6. Classes of service.
7. Costs—new rate structures, regulation, etc.

Most Important Views:

- Cross-section of utilities by size, density, customer type.
- Consumer groups/industry.
- Municipalities.
- OEB, Provincial Government.

Potential Challenges:

- Data collection/comparability.
- Perception of fairness amongst classes of customers.
- Lobbying power of large industry.
- Separating politics from business.
- Poor past practices (artificially low rates—low spending).
- Could penalize current customers of efficient utilities by increasing rates.
- Geographical differences.

Ideas/Recommendations:

- Phase in period for transition from current rate structures, including rewards and penalties.
- Formalize peer groups (comparable, geographical from yardstick groupings).
- Develop a communication's strategy for dealing with customers, shareholders (2 way).

Required Actions:

- Talk to councils.
- Develop strategy to lead/advise councils.
- Opportunity for feedback to OEB on a continuing basis.
- Educate customers/staff.
- Maintain forum for utilities to deal with OEB (MEA?).

PBR Alternatives

Issues:

- Price caps and revenue caps have traditionally been used.
- Sliding scale.
- What are the cut-offs?
- Yardstick competition—groupings.
- Need to come up with formulas.
- Getting appropriate data.

Potential Challenges:

- What are reasonable benchmarks?
- What about a utility that is expanding?
- Pure plans—hybrid plans.
- Risk.

Important Views:

- From data of other industries being/been regulated…none have all fit under one.
- Issue: level playing field between MEU's and Ontario Hydro.
- Parameters will extend from low to high.

Comments/Questions:

- Too much working capital and depressed numbers; this is very critical information to pass along to ensure proper interpretation of data/financial numbers.
- If different forms of regulation applied, there will be no level playing field.
- OEB said "light" regulation!!! It doesn't feel very light!!!
- Customer density and geographical areas should also be considered.
- Cost effective form of regulation by OEB.
- Room to 'forbear' on part of OEB.
- Complication of entire PBR issue; is there a way to make it less complicated?
- Variance in size of utilities.
- Price Caps.
- Revenue Caps.

- Sliding Scale.
- Yardstick Competition.
- Difficult to understand pros and cons of the various alternatives.
- You will now be accountable—can't recuperate through rates.
- Possible hybrid approach which is a combination of some/all four.
- How does this work with Ontario Hydro/MEU new relationship.
- Need to get a better understanding of 4 options to make an educated decision/recommendations.
- Do we know distribution costs across all 270 + utilities?
- If it was done and could see degree of variability, could make educated decisions.
- If scatter chart is 'dense' would give us important data to support decisions.
- Data is all important to moving forward.
- How do we get our hands on 'meaningful' data to move forward—assemble data among utilities.
- Rates may not be telling the 'real' story—must look at data very carefully.
- Need to check with MEA to see if data is being collected.
- Are people using the same financial standards? We may not be capturing the 'differences'.

Lots of questions raised:

- What does each do to impact customer service?
- What is traditionally being used in other jurisdictions?
- Need to determine formulas to assess each one.
- How much more time and effort will be needed to gather data?
- How do you move from a group if there are amalgamations?
- Does one plan fit all?
- Should there be price/revenue caps for Ontario Hydro and yardstick competition for everyone else?

Recommendations:

- Need phase-in period.
- Learning curve needs time.
- Establish peer groups at early stage.
- Need to listen as well as pass on information.
- Inform Council to know what is 'real' and happening.
- Free and open dialogue—2-way communication.
- Reduce risk of having wrong decisions made by making recommendations and sharing information.
- Jobs will be changing.
- Need a common voice to deal with Board in a unified way.
- Needs to be some commonalties between standards/reliability; rates now based on demand.
- OEB will be concerned with regulating electrical aspects . . . What happens to utilities that have other areas—i.e., sewers, zoos, water?
- Utilities should not lose cost savings due to shared costs.
- Transmission and distribution presently bundled.
- Merged utilities/convergence; regulation may be satisfied by accounting practices.
- What difference does it make where the $ goes? Once ownership changes will need to know where $ goes.
- Method for establishing base rates—Cost of Service Study.
    a) Desirable
    b) Practical
    c) Good thing to do?

  Answer: No, no, no!

Contestable Services & Service Baskets

Key Issues:

What is a contestable service?

Definition — a service that can be supplied by someone other than ourselves, i.e., a private company.

- Billing and collection.
- Meter reading.
- Meter installation (accuracy, honesty).
- Energy SERVICES provider (power quality).
- Management service to other utility—rates, regulation.
- Line services to other utilities.
- Information services.
- Supplier of last resort—default (issue BAD DEBTS, collections, switching accounts).
- Can competitive side support the monopoly side to benefit shareholder?
- How do you account for losses (line) if you do not control metering?
- Deposit—can we charge? Suggestion for uniform deposit standard.
- Service drop, i.e., utility pole to home should remain in monopoly domain.
- Standard for flow of meter information.
- Stranded cost for meters.
- ACTION—leave on monopoly side! benchmark.
- Not just cost based, standard of local service.

Comments:

- Had a hard time with the definition.
- Something someone else can do . . . and we may not want to give up.
- Need to know our losses so rates can reflect that.
- What's going to happen to small utilities?
- Where do line services fall in? We have competition right now.
- Information services—knowing what's happening.
- Takes away local accountability.
- Stranded assets.
- Not just cost base - customers want standard base of service.
- Metering, billing and collecting—regulate utilities to ensure no cross-subsidization.
- Utilities are being asked to compete with one hand tied behind their backs.
  Some protection to prevent competition from under cutting utilities, e.g. metering services.
- A lot of barriers to getting back in once market edge and customers lost to competition.
- Presently have market power.
- Need to have some safeguards around true costs/transfer cost to other monopoly services to prevent competition from entering market.
- From the role of the regulator, must be able to sift/sort and separate monopoly function side to competitive pieces.
- Objective is to allow for flexibility to deal with competition without abusing monopoly side.
- Need to define contestable services and create ground rules – while not disadvantaging competition.

- Supplier of last resort service is a contested function.
- If you're left with 'deadbeats', you need to build in increased costs of recovering $.
- As far as small utilities are concerned, once "we are gone—we are gone!"
- There are advantages to being small—we listen better to our customers.
- Competition is going to be introduced into contestable services, e.g. billing, meter reading.
- Must ensure cherry picking does not occur.
- PBR can build in customer characteristics.
- There has to be a mechanism in place to set a rate for a particular service (bandwidth)—can't be above a certain level.
- A floor must be established so that there would be some measure of costing.
- Need to establish parameters.
- Competition can only get one of your customers at a time—you provide service to all the rest.
- There may need to be a certification process for competition to ensure they meet certain standards—don't want "fly by nighters".

Questions

- Default, switching of accounts, losses, bad debts; what happens to deposits?
- Embedded generation has driven the costs down; can benefits go back to customer? Can we have that option?
- How can you be accountable for line loss if not doing metering?

LONDON

PBR Stakeholder Consultation Workshop, November 19, 1998

Key Issues

#1 108 Dots.....Implementation/Base Rates

#2 82 Dots .....Transitioning Contestable Issues

#3 46 Dots .....PBR Yardstick Grouping

#4 40 Dots .....Standards

#5 39 Dots .....Z Factors

PBR Yardstick Grouping

PBR Yardstick Small Group Presentation

- Listed characteristics & came up with 5 most important in determining group.
- Others part of Standards' Group.
- Subgroups—may be 'Z' factor in determining standard or subgroup.

5 Most Important Characteristics:

1. Number of customer connections—# of connected services (customer size, class).
2. Peak load.
3. KWH throughput by class.
4. Geographical area/customer per density; circuit/km, voltage level.
5. Geographic location and climate, e.g. north—Sudbury…UG/OH
   Underground would be decision and determination of shareholders
   Age, reliability of system – not part of peer group characteristics
   Go with large/medium/small subgroupings-differences.

Comments:

- Groupings should be on objective characteristics:
  Establish benchmark; have flexibility in how to use better performance
  When you mix plans, i.e., yardstick and price cap—conflicting
- What you use to define the peer groups is very important…important to consider it gives you the right incentives and doesn't punish you.
- Establish benchmark(s) based on similarities.
- Utilities have become very committed to social/community projects—don't want to lose these positive elements.
- One/some utilities may be so unique so as not to fit well into a grouping.

Standards

Standards:

- Tried to determine what OEB should look at.
- Reliability.
- Quality—customer satisfaction.
- Safety.
- Efficiency.
- Financial.

Safety Standard:

- Injuries—lost time, severity, audit score would be a measurement of the performance.
- Severity of Ministry of Labour
- Effort put into public safety issues.
- Proactive costs—due diligence.
- Reactive costs—Workplace Safety Insurance Board

Reliability:

- Existing standards.
- Customer minute outages—planned.
- Response time to outages—unplanned.
- Number of outages in given time frame, quantity, maintenance, supply feeders.
- Already have existing standards.
- Poor, reliability—lose customers.
- Disincentive, will license be pulled?

Customer Satisfaction:

- Complaints, response, OEB to get action.
- Poor telephone response time.
- Reliability.
- Quality—voltage stability

Financial:

debt equity
rate of return

cost per customer

Challenges:

- Standard chart of accounts; best practices.
- Compile statistics to set standards.
- Customer satisfaction survey—price commodity—fluctuation.
- Wire service—grid service—marketer.

- Other measures other than how satisfied, i.e., if you made an appointment and didn't show up on time or time waiting on phone/for service.
- Planned/unplanned outages…due to supply from local distribution company or bulk supplier.

  Penalty associated with reliability…really big issue that needs to be looked at.

  Should be differentiation at the customer level to define service levels, i.e., minimum service—create new categories and charge customer accordingly.

  Could be negotiated with service provider.

  May not have to be under jurisdiction of O.E.B.

  Issues re local grid security…need to e certain standards.

  Equipment level—before/after meter.
- What do we mean by quality and reliability?

Base Rates

Issues/Questions:

- Key issues no matter what scheme is implemented.
- Fairness—sensitivity that things are going to be different.
- Water/sewage…billing will need to change, consider cost impact to customer.
- How to allocate costs to customers?
- Fixed cost/demand by customer class.
- Should a customer cost of service survey be done prior?
- Do we know how to do one?
- Implementation costs of transition are large—must be covered/how does it get built in?
- Not all plans are 'equal'.
- Different characteristics of customer class.
- Distribution losses—how to distribute them across customer classes.
- Need to be consistent rules to determine customer classes.
- The issue of an economic model and how you measure rate of return of investment.

  debt, equity structure
- For base rates, how do we treat one time capital expenditures re growth?

  capital investment

  replacement/renewal projects
- Policies re capital contributions should be standardized across province…feeder charge…presently local decisions.
- Who has authority to make this decision?
- Problem—local philosophy, community or local culture…need to leave some element of local control.
- Political issue: to get developers into community, some utilities offer contributions.
- How can you impose a system and ensure it's fair and equitable?

Fairness:

- Fair to all customer classes.
- Minimize rate shock by phasing in changes:
  - shock to customer class
  - shock to utility
  - need a mechanism to be sensitive to this
- Understanding of base costs in an integrated utility; shared services, forced restructure.

How to Allocate Costs to Customers:

- kWh.
- kW or kVA.
- Vary by customer class.
- Should cost of service study be required? Do utilities know how?
- Recover one time implementation cost; responsibility for—studies, education.

Available Data

- Cost to initially service different classes (region, etc.).
- Cost to maintain.
- Amalgamations could make historical data difficult to interpret.
- Utility differences in revenue from rates and revenue from contributed capital.
- Old decrepit plant vs newer systems.
- How do you establish initial rate and how to petition later?

Recommendations

- Yardsticks should not make initial rates the same between utilities.
- Idea: initial rates or revenue should be based on current or history.
- Don't want a system where everyone needs to file an application year one.
- Wire's charge should be based on a customer charge.
- Flat rate for each class? Maybe not.
  - kWh charge
  - Demand or connected kVA
- How to recover distribution losses—through fixed charges or variable based on kWh use?
- Should distribution losses be attributed to customers based on location? Voltage? Distance from TS?
- Economic model needs to be developed to match forecasted growth and revenue to capital investment.
- Utilities should be required to have consistent contributed capital, line extension principles.
- Panel be struck of representatives to provide first hand feedback from grassroots point of view to OEB
- OEB—cognizant of legislative changes; things we can/cannot do.

Transitioning Contestable Issues

Challenges:

- Group had difficulty with what is/is not contestable.
- Different levels of understanding, awareness, gap in variances, where we are coming from.
- Group asked more questions than decisions/answers.
- Lots of valid questions e.g. where does metering go?
- The larger the utility, the more complex and more choices; the smaller—less options.

Questions:

- Where must our people work, be?
- Are we going for functional or financial separation?
- Does one size really fit all?
- Where does software come in?
- Should you be responsible for losses?

Comments:

- Exemption rule for small municipality; How small is small?
- Reporting compatibility of the utility
- Recommendation to keep it 'simple' "KISS"
- It gets more difficult when there is competition around the fringe
- Inefficient to have 2 models going at the same time
- Need to check legislation…surplus funds need to be paid back to municipalities
- Reality Check…will PBR cause smaller utilities to merge because they cannot bear cost of regulation? If you make all types of exemptions, this would counter need to merge

What is contestable and what is not?

- How are they separated?
- Legal/financial separation.
- Where does the wires company service stop (at the meter?)
- How can small utilities separate those functions?
- Sharing of services with municipal authority.

"Z" Factors

Issues:

- Has a definition.
- Need to distinguish between events that are controllable/non-controllable.
- Definitions of catastrophic/non-catastrophic events.
- Big discussion around ice storm—a storm, uncontrollable of that magnitude should be a 'Z' factor.
- Municipality as shareholder—what protections are afforded?

- Geographic locations across Ontario, e.g., SW—thunderstorms.
- Catastrophic event should be 'definable'; materiality should be measurable.
- Legislative changes/accounting issues.
- If a legislative change like GST is brought in, beyond our control, this causes great strain/changes.
- Conflicting federal changes - legislation beyond our control, should be factored in.
- Environmental - changes to legislative issues, e.g., PCB amelioration.
- Start up costs – e.g., lawyers' fees, others that would have to be absorbed into costs for MEU's.
- At what point is event a 'Z' factor or something we should have known about (unforseen, uncontrollable e.g. relocation, widening of roads).
- Significance
- Build up of reserves.
- Allowances for where and how much needs to be worked out.
- Risks re weather - need trade off if allowances are not built in.
- Forced underground by municipalities -this issue must be sorted out.
- Some utilities had better maintenance standards and therefore didn't have as many losses/repercussions during ice storm
- Weather variances.
- Linkage/tie to standards.
- Extraordinary expense—not a business.

Comments:

- Once divest more than 20%, should have to operate by different set of rules.
- 15% of gross dividends can be applied in manner municipalities wish to e.g. dollars to do as they see fit.
- Not fair to encumber municipalities with local flavour.
- Expense on a year to year basis?
- Why is this important? Rates may not be set to allow you to recover these costs.

TORONTO

PBR Stakeholder Consultation Workshop, November 20, 1998

Prioritizing Key Issues:

113 Dots ..... PBR Design
99 Dots ..... Implementation
61 Dots ..... Standards
55 Dots ..... Transitioning Contestable Services
52 Dots ..... Base Rates
37 Dots ..... Capital Expansions
17 Dots ..... Earnings Sharing
15 Dots ..... Z Factors

PBR Alternatives & Competitive Issues

Key Issues:

- Level playing field treatment of SERVCO, MEU's, Gas L.D.C.s.
- O.E.B. objectives for MEU's performance?
- Fair impacts on customers.
- Effect of PBR type on establishment of contestable services.
- Regulatory costs, time frames.
- Consistent application of PBR to different types of ownership.
- Flexibility for local conditions.

Important Views:

- Shareholders
- Customers
- Government
- Regulator (OEB, councils)
- NUGs
- Bay St.

Challenges:

- Public acceptability and education
  by MEU's
  Resources and skills
- Cultural change with/in MEU's
- New risks
- Unintended consequences
- Consistency of reporting
- Representation before OEB

Recommendations:

- Pilot regulatory projects?
- Education
- Technical working groups
- OEB to understand MEU's cost structures
- Clear OEB statement of objectives for MEU's profit, behaviours
- Consistent accounting and reporting
- Ongoing review

Next Steps:

- Working groups
- Communications with stakeholders
- OEB education on process
- Monitor and review progress and problems, and adjust in mid-stream
- Keep it simple, especially at the start

Establishing Performance Standards

Questions:

- Standards for what part of the business?
- Different standards for different customer groups?
- Different standards for different types of utilities?

Issues:

- Customer broad definition
- Safety – public
- Outages
- Service response
- Quality
- Customer transfer
- Reliability time
- Environmental
- I.T./systems standards

Standard Application:

- Vary by peer group
- Vary within a utility, i.e., rural vs. urban – core subdivision by customer
- Range vs. and fixed/single
- Flexibility – situational
- Determine core standards for all utilities/providers – unique for situations

Define types of standards:

- engineering
- social
- customer
- quantitative and qualitative must be measurable

How/Who Creates:

OEB responsible; delegate?

- Multi-stakeholder
- ADR
- Collaboration
  - Customers, government, associates, interest groups from within business unit
- Periodic, regular review, adjusting as required

Resources:

- Existing:
  - TB & A., MEA, CSA, Foreign, CEA, ISO/QS, IEE, APPA, MEU's, IEEE
- Customers
- Marketing firms
- Other industries

Auditing/Methodology:

- Who's the watchdog?
  - consistency
  - accuracy
- Impact/inclusion of standards into PBR?
- Incentive and/or penalty.
- Mandate for record keeping.
- Who pays?
- Audit what?
- How do Z factors impact performance to standards?
- Who collects penalties – remediation
- Define standard floor not the ceiling
- Complaint review

Issues/Questions:

- Generated lots of ideas to make decisions about
- Nature of standards
- outages, quality standards re customer service and delivery
- Transfer time
- Liability issue
- Environmental/internal systems/IT
- Who/how should we supply?
- Vary by peer group, within utility by customer class (residential vs. commercial)
- Fixed single points or a range
- Might be better off to establish floor and then try to improve beyond; has been done successfully in other industries.
- Create generic/core standards with allowance for flexibility.

- Core standards – applicable to all utilities and providers.
- Qualitative as well as quantitative
- Who's in the driver's seat? OEB holds responsibility but may delegate responsibility to other bodies
- Multi-stakeholder interest groups
- Business units need to be given flexibility
- Need for periodic review; on-going adjustment as per continuous improvement model & due diligence
- Listing of appropriate standards can be polled as means of creating standards
- In spirit of benchmarking, can facilitate process
- Flagged need to monitor accurately and consistently
- PBR process should also look at standards being developed
- Need for flexibility, rewards/penalties
- How records are being kept – who will pay?
- How will Z factors impact standards?
- Penalty – who collects/keeps dollars?
- Range (e.g. SPC) – work towards improving
- Complaint review process needs to be put in place
- Customer cost impact – outages, different tolerances re residential/commercial services
- Generators vs. marketers
- Safety factor – gas vs. electricity – a need for variance
- Floor needs to be comparable between various commodities
- Allowance for varying performance levels if local customers are satisfied with price/service standards. Some communities may desire higher/lower levels of standards. Need flexibility
- Discussed niche markets – business decision
- As utilities become businesses, will learn standards wanted by customers
- Balance between OBCA & OEB standards…2 sets of responsibilities
- Extremely comprehensive list; don't want OEB to necessarily regulate them all
- Want to recognize customers' costs industrial base/factories – incentivize capital

Different Standards (Ours):

- Customer impact
- Costs i.e.
    - Differ by generators vs. marketers (for LDC's) needs in addition
    - Base standards with flexibility to increase
    - Variance for different customer within same utility

Different Utilities:

- Gas, electric distinction
- Comparable floor for commodities
- Restrict these standards to the wires (other business interests should not compromise standards)

Implementation/Base Rates

Issues:

- Fair treatment –timing of incorporation sooner vs later
- Rules application – SERVCO/MEU's
- OH still MEU regulator; how does April 1999 OH new companies affect rest of 1999, what happens to MEU rates.
- Relationship of OEB interim licensing vs. O/H approved rates
- What comprises the "base rate"?

Base Rate:

BUNDLED Including "commodity" (as is now)	**UNBUNDLED Distribution (regulated not competitive)**
• Transition period • Grandfather existing rates until PBR established? April 1999 – important date, or interim PBR scheme • Will need (very) flexible parameters during transition period • Line losses (where to be factored) • RRA should be treated equally between Servco and MEU.'s with rural areas • MEU's have different stating points • Standardization of data critical 1st step if no time then something other than COS will have to be starting point • Transformer allowances? where given	• Transmission (from IMO) • Fixed or variable (distribution component) • Basis – COS– uniform or established by each MEU • One of nineteen MEU's in this group have a COS study in place • Concerns 'traditional' costs – fit in 'unbundling'? • Allocating costs to wholesale directly thru LDC lines • 'Postage stamp' rate or variable • Development charges and contributed capital • Does base include new 'taxes' or added on to base • PIL corporate tax • Method of transfer in ownership (share holder by-laws) • Regulation on sharing mechanisms? Set by individual boards (politically driven?) • Timeframe unrealistic to answer above

Conditions:

- Climate's effect on load, labour, system durability
- Customer density, type
- Load density, 1 large customer vs. many small – e.g. Honda Plant
- Local by-laws O/H vs. U/G
- Political
- Condition of system
- Book value of system

PBR Yardstick Groupings

Distinguishing Characteristics:

- Size – customer number, geographic density
- Are extremes adequate or some midpoint
- Number of MEU's
- External uncontrollable issues
- Internal controllable issues
- Rural vs. residential
- North vs. south etc

How Many Groups:

- Manageable
- Enough to measure accurately
- Not so big as to absorb fringe members
- Similarity is key (not number of members)
- As many groups as necessary to capture utilities with majority of similar characteristics
- Can be anywhere in province
- How can gas companies have more uniform pricing? – no obligation to serve in high cost areas

Opting In/Out:

- You have to belong to a group – leave one to join another
- You must justify changing groups
- Some judgement on group may be necessary
- Minimum period in group is needed part of revue process

Comfort:

- Perception of fairness

Recommendations:

- Stakeholder development of group measure indices
- Test measure indices to ensure acceptable/workable and available

Rates of Change:

- May have diverse group of companies where rates of change are the same but different levels of starting points.
- May cause reverse incentives if cannot meet same levels
- May have to use different construction scheme; i.e. for different characteristics…different starting points

Transitioning Contestable Services

Issues:

- Contestable – customer chooses meters – 50 kW
- Meters
- Connection
- Transformers/switch gear
- Low voltage – service drop
- High voltage – service drop
- Meter reading
- Energy audits services
- Power quality – measurement
- Billing

Defining Criteria:

- Potential for alternative suppliers
- Potential for low cost or/and better service
- Customer benefit and benefit for all

Meter:

- standards
- cash register for utility
- licensed

Meter Reading:

- data
- quality
- time lines

Key Issues/Important Views:

- Define “contestable services”
- How to decide contestable, obligation to supply/serve potential for stranding
- Standards/licenses for alternate service providers
- Customer protection
- MEU’s
- MEU employees
- Interested parties – customers, OEB, Government (Provincial and Federal)
- Alternate service providers – need representation of views
- Employees at municipalities

Potential Challenges:

- Unbundle services/costs
- Billing for separate services – if MEU – new billing system
- Partial payment/collection/bad debt
- Time line – i.e., 50 kW meter
- Customer complaints/call centre routing
- Interface issues – processes for interacting with other service providers

Ideas/Recommendations:

- Phase-in approach
- Implementation task force to identify which should be contestable and when and standards
- Ongoing review

Required Actions:

- Identify stakeholders
- Establish task force

Issues/Questions:

- Tried to define 'contestable' services
- 2 schools of thought in group:
  - if customer making choice, it is contestable
  - If utilities are subcontracting, it is contestable
- All meters over 50 kW – should be contestable
- Connections – transformers/switch gear
- Low voltage – service drop
- Meter reading
- Energy audits
- Billing

THUNDER BAY

PBR Stakeholder Consultation Workshop, November 23, 1998

Key Issues:

#1 30 Dots .....Standards
#2 30 Dots .....Base Rates
#3 26 Dots .....PBR Design
#4 25 Dots .....Z Factors
#5 17 Dots .....Implementation
#6 15 Dots .....Transitioning Contestable Services
#7 15 Dots .....Earnings Sharing
#8 5 Dots .....Dealing with Growth

Distinguishing/Unique Features of North/West Region

- Conditions of supply
- OH/UG
- Service reliability standards
- Large variance among utilities in North
- Great distances, densities
- Remoteness of equipment
- Utilities generate own power
- Development charges issues
- Economic growth: mixture
- Some utilities charge back all or part to subdivision development
- Customer maintained lines
- Terrain variance, weather

Comments/Expectations

- Criteria for safe delivery of power that gives our customers the best price
- Realization that all distribution rates will be different
- Clearer definition of “benchmarks”; criteria associated with benchmarking peer groups
- Understand more about PBR options and how it will impact utilities in the future
- Have issues/information heard by OEB
- A better understanding of the impact of PBR’s on risk

Questions Needing Answers

- What are PBR’s? What is process? Need clearer direction
- How much activity is the “default supplier” going to have? (government regulations almost dictating)
- How will licensing process work?

"Z" Factors

- Pass throughs which get exempt from formula; i.e., catastrophic/weather
- Is equipment failure a 'Z" factor? Could arguably be under management issues
- Someone might be paying for a mismanaged utility
- If managed properly, perhaps everything would not have 'fallen to the ground'; compensated under formula for normal risks of business
- Need to have some kind of mechanism to take into account closure of major customer i.e., paper mill
- Is there a way to depreciate the 'Z' factor?

Competition

- At least 3 aspects to consider:
  1. competition vs peers in yardstick competition
  2. competition vs other utilities i.e. gas
  3. competition vs private companies for meter reading, billing, etc.

Timing

- Limitations:
  1. availability of data
  2. dollars to implement
  3. competing needs for your time i.e. day to day operations with limited staff

Earnings Sharing

- Sharing reduces incentive to improve
- That's why most plans are a blend of models in PBR toolbox

Implementation Issues

- Currently sharing some overhead costs
- Broken out on % basis – (easier for smaller utilities)

Contestable Services

- Challenge of not sharing costs that impact these
- Significant changes will greatly impact small blended utilities and its ability to be able to respond to new demands
- Cost of service survey would be a great imposition not only dollar wise but time wise; unrealistic expectations with limited staff
- Extremely tight timelines given the regular work that must be done
- Minimum standards – will be very difficult for smaller utilities to meet

Challenges

- How do you fund information systems to monitor and capture data?
- Not Y2K compatible to capture data…spending dollars on computer expenditures
- Spending annual margin on Y2K incompatibility
- Is billing going to be contestable?
- Don't want to spend big dollars creating billing system that will end up being contestable
- Experienced commissioners may want to opt out of the system
- No contract for out clauses will have major impact on costs-unionized
- With incorporation and dividing up of local hydro with 6 employees…hard to get excited!

- Costs being imposed and have limited resources to respond
- Assumption that all these changes will reduce costs – not necessarily the case
- Want clarification about role of intervenors
- Customers may want justification of rates
- Huge issue on funding side; where do dollars come from?
- Funding definite issue – offers counter balance to OEB
- Should be a process; others say none
- Criteria – needs some legitimacy, should have to go to utility first
- Need set of 'rules of road' if you can't resolve issue with utility
- Interpretation of rules – may also be an issue and can subsume the OEB
- Where is default supplier going to end up?
- Issue: cost of bad debts; mechanism to deal with default suppliers
- 3 substations in Dryden
  forced to buy piece of line for distribution
  being discussed by Market Standard Committee…to be resolved
  updates available on Market Standard Committee website

Standards

- Metrics for monopoly service
- Presently don't have a lot of data for these indices
- Need a long enough perspective (history) i.e. number of interruptions; need to know norm
- Need metrics to define thresholds i.e. when customers call into complain
- Need core set of standards
- Maintenance costs are available but not for reliability
- Hard to create a level playing field without critical data
- Presently track number of interruptions and what caused them
- Increase perceived efficiency at expense of future cost increases

What standards could you manage over the next number of years?

- 4 Dimensions -public safety, reliability, environment & service quality –responsiveness to customer complaints
- Need to have some basic minimum standards
- Need to have input from customer – what they are prepared to pay for
- In North, know our customers – strong incentive to keep standards up

Rewards/Penalties

- Don't know what performance is
- Need to gather data and create standards
- Categories –measures
- Measurements – incentives
-

Establishing Base Rates (N/W)

- Utility Forecast & Approval Program (UFAP)
- Database to benchmark from
- Fair dollar has been spent capturing this data
- Protected fields
- Capital expenditures not accurately captured

Rural Rate Assistance

- In the past, rural rate assistance applied only to Ontario Hydro customers
- Now, no difference
- Transmission rate will be postage stamped
- Need to go to smaller LDC's – wire charges will be higher in the North
- Range: 5¢ or greater
- After market opens up, where will dollars come from for rural rate assistance?
- Under expansion…
  - Will get funds over 5 years in decreasing amounts
  - Equalize rates
  - Who will collect/distribute dollars after April 1?
  - Cost of network is going to be subsidized

Plan Term

- Shorter term plan to minimize risk
- To start, use shorter term, evaluate then change
- Have detailed review after 12-18 months then extend to longer period
- Longer period with trigger points may be more desirable for smaller utilities from cost and utility perspective
- Level of cost that impacts smaller utility is critical to know

Ideas/Thoughts

- As long as benchmarks are set right, there is no need to review as often
- OPTA - to develop benchmark rates & to measure rates
- Worried about losing operating capital
- Staff report will be sent out to all stakeholders to review
- Some small utilities don't have dedicated line for internet to retrieve information – fax notice that it is on internet
- Some interest in a task force
- Fast Breaker will continue to be used
- Utility assets – may lease back at too high costs by municipalities - to be overseen by O.E.B.
- A lot going on at once -map out a timeline re accounting, licensing standards & PBR

Recommendations

- That O.E.B. hearings happen in municipality of the utilities, not in Toronto
- That LDC's be allowed to trigger a review in addition to O.E.B.
- More training needed but not in Toronto!
- Summation meeting including licensing, accounting, PRB
- Something to inform parties that have to make decisions; looking at end of winter
- Need to know "where we are" -definitive – what's happening

Events to Trigger a Review

- Some triggers should cause an automatic review
- Others should raise a 'red flag'; after a certain number, should trigger a review
- N/W operates on a different risk of margin

SUDBURY

PBR Stakeholder Consultation Workshop, November 24, 1998

Key Issues:

32 Dots ..... Competitive Issues
24 Dots ..... Capital Expansion
20 Dots ..... PBR Design
19 Dots ..... Implementation
14 Dots ..... Base Rates
13 Dots ..... Transitioning Contestable Services
9 Dots ..... Z Factors
5 Dots ..... Earnings Sharing

Issues:

- There is potential to select a group and then use 'Z' factors to separate out unique differences that make certain utilities not measurable on certain criteria
- Quality of service standards
- Cost differences e.g. 24-hour control
- Standardization vs flexibility issue
- Transition Issues at start and then alter procedures
- Competitive Issue example: flooded with customer calls asking for water tanks as gas company is changing billing system
- Thought we were moving towards customer service–one bill that melds gas, electricity, etc.
- Recommendation that communication wall should be flexible; irate customers do not want 2-3 bills
- Let's consider the customer in all of this–especially where it creates extra costs
- Development charges–'homogenization'; core set–large variance among utilities
- 20–30 charges that will have to be handled under regulatory process
- If you change, how will you deal with customers without getting them upset?
- Differences:
  - Voltage same but don't have substations
  - Different cost structures - Guelph/Sudbury example
  - Transmission service standards
  - Supply points
  - Age of systems
  - Forced roads – the road allowance is a squatter's right
  - Need to argue for easement; 1999 – end date for unregistered easement, need to negotiate with landowner
- Want practical ways to utilize PBR in day to day operations
- On-going process that will work for utilities as well as OEB
- Board's views on website; MEA response on website
- Formation of task forces to encourage dialogue and input, identify critical underpining.

Issues Raised/Ideas/Thoughts:

- Up to now appears to be based on financial
- So many different capital criteria
- Variance in customer service e.g. paying in cash
- Different expectations; will PBR be flexible?
- Concern that PBR may just be an aspirin – not deal with real problem
- Grids hardware in bad shape; will PBR just be icing?
- Hoping participants can share Northern examples e.g. tolerance for outages & development charges

  Example re outages: One utility shares small substation with another utility; whenever "they" go in, "we" loose power.
- Concern that PBR will encourage growth in Southern Ontario not in the North
- Historical data; inconsistency in past collection practices
- Issue…if you start collecting data now, you only have 1 year of data – is this the 'norm' on which to base the future?
- Requirement to compile data in some consistent manner – what standards are being met?
- Historically some have been public utility commissions – this will change and have an impact
- Is there going to be transparency, open sharing of information?
- Look at criteria for PBR – does it encourage amalgamation?
- Reflecting on 'economy of scale' – determine how this would impact utilities in North
- Distinction between encouraging finding economics of scale rather than assuming there are economics of scale
- Northern perspective – reliability statistics cannot capture those who 'sell short' – not putting dollars into capital expenditures into distribution system
- Element of minimum standards to ensure services are provided to a certain base level
- Need input from industry
- Incentives and constraints re cost of service
- Would like break down of what is monopoly and what is competitive
- Symmetry in regulation - that SERVCO be treated the same re distribution
- There needs to be a 'traffic cop' to ensure level playing field
- Mixture now due to contestable services; need some form of 'regulatory tool' to determine/handle efficiency or competition stifled
- Has consideration been given to peer review process?
- Opportunity for "collusion" - probably not, given 'competition'
- Cost of service appears to be 'heavy handed'
- Need to be careful that cost of regulation does not increase rates
- Imbedded subsidies hard to maintain in a competitive market

Questions Needing Answers:

- How do you establish initial rates?
- How do you use a "current" rate – do you back out all the component charges presently in blended cost?
- Is what's left – stranded debt; energy/generation/transmission fee?
- Are customers happy with what they get or do they need a transitional period to get there?
- Meter deposits–utilities have different policies; high rental population has one
- Supplier of last resort – who will be responsible for 'uncollectables'?
- Billing histories

- Would it make sense to initialize plans over 2, 3 or 4 years and then review on a staggered basis?
- Customer satisfaction
- Safety – 2 different rule books, one for Servco, one for everyone else
- Tree trimming standards, school education & substations
- Is there a way to capture minimum safety standards?
  - 'Reliability' added to interruptions (some way to measure)
  - Systems may not be measuring certain standards – some do it manually/automated
  - Not all report same way- must differentiate between planned/unplanned outages
  - Could service other utility's customers if sharing was implemented
  - 1-3 year contract, expiration of labour contracts
  - No contracting out clause
- 'Islanded' utility – impact on costs resulting from municipal amalgamations?

Challenges:

- Need for different standards for different utilities
- Need to reflect for differences between utilities e.g. linemen earn different $
- Controllable vs uncontrollable elements
- Set minimum standard levels for utilities:
  - Reliability
  - Safety (public) – advertising campaigns, kids' safety
  - Already have minimum standards –givens
  - Service Quality
  - Environment
- DSM Standards - energy efficiency
- DSM – obligations usually reside with 'wires'
- Power quality – might want to build in flexibility and charge for differences
- Need an efficient way to get future input; could be electronic meeting, conference call, website, 'chat' room
- Need benchmark standards to fit everyone and others that are specific to regions
- Caution -must consider urban vs rural as well as geographic regions
- Suggest targets for certain groups - bandwidth greater than 5 to start with
- Set standards for where we need to be 4 – 5 years down the road

Plan Term – Time Frame:

- Implement and review – hard to get it right the 1st go round – misclassification affect benchmarking
- Once you have better data, do a review and reassign to correct the plan

Exit Ramps & Trigger Events:

- Exit Ramps–a means to generate a review or exit from the plan
- Intervenors- could be customers, environmental groups, interest groups

Rural Rate Assistance:

- Large portion low density
- Either everyone should get it, or no one
- Compensation should be the same!
- Smaller utilities tend not to respond – look to MEA to submit on their behalf and be their voice

Rewards/Penalties:

- Penalties – e.g. build new plant if in best interest of customers otherwise not 'capital allowable'
- Set flexibility band for rewards/penalties
- When municipalities incorporate, don't confuse board with shareholders
- Lots of 'grey areas' to meet safety standards, employees, continuous improvement
- No problem setting penalties for not meeting minimum standards…the rest have to be situational

"Z" Factors:

- Road relocations
- Local by-laws that hinder work
- The cost of investing in a new transmission station – would that be a 'Z' Factor? Very significant capital expenditure – big hit out of your control
- Customer demands cash payments over the counter i.e. unique factor in defining peer groups
- Note that there are unique small communities all over the province; i.e., Sudbury's rock; on–going unique characteristic ("Y" factor) that does not apply elsewhere

Earnings Sharing:

- why not employees, starting with general manager
- If not-for-profit municipality, $ will all go back to the customers

Peer Groups:

- It's going to be a difficult daunting task to form peer groups
- There are differences in how we report costs which impact data
- Set manageable peer groups and then allow utilities come forward with their unique 'Y' factors, to indicate why they don't fit group
- Utilities should have to take on 'ownership' of where/why they do/don't fit in
- What are boundaries to fit in/out of groups?
- We are on a steep learning curve – not yet aware of what we should be aware of!
- If OEB sets number of peer 'groupings', it might be easier to work backwards
- Discussion around appropriate numbers of peer groups – 6 – 8 comes to mind
- Defining parameters of level playing field – i.e. geographical, utility size, revenue, plant value

Implementation:

- Quality of service – means different things to different people
- Implementation date - when Servco has to , and the rest of us should
- Three years is realistic for alignment of peer groups: Year 1- uniform system of accounts; Year 2- staff gets used to it; Year 3- implementation
- Staggered timing would allow for pilot/modelling of appropriate implementation
- Big learning curve; useful to know what measures will be required in order to work towards achieving them
- Different standards for suppliers
- Presently provide data to MEA and Ontario Hydro – the closest it can stay to existing format would be preferable
- If utilities change peer groups, this would be difficult
- Difficult for 'little' utilities to provide same level as larger ones
- Not too different from present – Mud Bank and UFAP
- It depends on level of detail the OEB is looking for
- 'Little utilities can't afford additional costs
- Recommend one page submission