

Seeking Normality: Establishing 2006 LDC Rates

Presentation to OEB-Sponsored Review

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What is Energy Probe?

- National consumer and environmental watchdog
- Active before OEB on gas and electricity matters since 1972
- Broad public interest perspective focused on promoting economic efficiency in resource use
- ~10K financial supporters in Ontario, many of whom receive daily EP updates

Presentation Outline

- Distinguishing Performance Based Ratemaking (PBR) from Cost of Service (CoS) regulation
- Getting benefits from benchmarking
- Issues not identified in the issue review circulated by OEB staff
- What do customers need?

PBR vs. CoS

- Customers have paid ~\$6B in distribution rates since 1999 without the costs being scrutinized
- Current rates under “PBR 1” have CoS elements, e.g. PILS, MARR adjustments
- Proper PBR requires a CoS starting point and some method of accurately assessing actual weather adjusted returns on utility operations: Neither exist now
- CoS 1 (with benchmarking) first, PBR 2 later

Benefiting from Benchmarking

- Benchmarking is only a starting point, best for identifying (not explaining) outliers
- EP leading benchmarking evidence at RAR hearing: Range of transition costs per customer \$20/customer vs. \$140/customer or more!
- Benchmarking limited to Ontario LDCs risks systematic bias, benchmarking must include external reference points
- OEB should develop, present and maintain an ideal utility model using best practices & external references and recognizing efficiency drivers

Benchmarking example: Labour cost

- Some indications that Ontario electric sector overall labour cost (price x productivity) may not be competitive with comparables like gas
- In EP's Feb./'04 presentation to OEB LDC efficiency review we argued labour cost is key efficiency driver and OEB should assemble data
- Recognition of pension costs needs OEB supervision, risk of hidden liabilities

Issues Missing from OEB “Potential Issues” List (June 16)

- Treatment of revenue from ancillary businesses
- Opportunities and processes for public participation
- SQI standards, rebasing, losses
- Conditions of service (e.g. for demand: unified energy units? Capacity take-or-pay charges?)
- EP is disappointed that cost allocation changes won't be implemented until '07

What Do Customers Need?

- Due process (including disclosure, right to intervene, and decisions with reasons) is the best way to respond to consumers
- Customers are not a single interest group, not even within rate classes
- Rate mitigation can be costly and harmful to consumers, transparency needed for issues like class revenue/cost ratios