

Comments to the OEB and Working Group re: Better IRM Outputs



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3 Objectives for Ratemaking

Process	Fast
Cost	Cheap
Output	Good



What are Outputs?

- Main outputs of ratemaking: Rates
- Additional outputs (COS):
 - Board Orders regarding future years (e.g. cost allocation)
 - Non-rate Board Orders (e.g. file Cap Asset Plan)
 - Scrutinized, LDC-specific information
 - Settlement agreement undertakings



Cost of Service Ratemaking

Process	Slow
Cost	Expensive
Output	Good

Involved

Evidentiary-based

Scrutinized, LCD-specific,
broadly-considered rates



2GIRM Ratemaking

Process	Fast
Cost	Cheap
Output	Bad

Mechanistic

Model-based

Extrapolated, province-specific,
narrowly-considered rates



Proposed 3GIRM

Process	Fast
Cost	Cheap
Output	Poor

Mechanistic

Model-based

Extrapolated, province-specific,
narrowly-considered rates



Issues

- Are poor outputs acceptable for ratemaking?
- If not:
 - Should the outputs be improved in 3GIRM?
 - Should the outputs be improved in 4GIRM?
- Where to find better IRM inputs that will yield better IRM outputs?



The Holy Grail of Outputs

Output	Good
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Scrutinized,
LCD-specific,
broadly-
considered rates

FROM COS



COS Outputs as IRM Inputs

- Recognize the Board's willingness and aptitude for creating COS outputs with future year implications
- Use good COS outputs - in core model and other applications - to produce good IRM outputs
- E.g. X factor (incl. stretch/diversity), CapEx, term before next COS



Integrated Ratemaking

Set IRM model	OEB / Working Group
Set default factors and values (e.g. X, K, term of IRM)	OEB / Working Group
Evaluate default values on an LDC-by-LDC basis	COS
Order for LDC-specific values (i.e. default or other)	COS
Use set model and factors with LDC-specific values	IRM
Re-evaluate values	COS



Advantages

Sustainability	High	Allows projected costs to be recovered via price trends
Predictability	High	Price trajectory established at COS; set model and factors
Effectiveness	High	Mimic competitive market; link inputs (\$) to LDC outputs
Practicality	High	Slight cost increase for COS; big benefits of LDC-specific rates
Usefulness	High	Greater buy-in for IRM model due to LDC-specific values



Result for IRM Ratemaking

Process	Fast
Cost	Cheap
Output	Good