



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



The Renewed Regulatory Framework – an overview

RRFE Information Sessions

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Outline

- Overview of the Renewed Regulatory Framework
- Performance Measures
- Rate-setting under the RRFE
- Importance of planning in the RRFE
- Status of implementation and next steps

Renewed Regulatory Framework Objectives

- Shift the focus from utility cost to value for customers
- Better align utility reliability and quality of service levels with customer expectations
- Institutionalize continuous improvement and innovation
- Provide for a comprehensive approach to network investments to achieve optimum results
- Better align timing and pattern of expenditures with cost recovery
- Provide a sustainable, predictable, efficient and effective regulatory framework

The Renewed Regulatory Framework for Electricity

- Comprehensive approach to rate setting for distributors that focuses on outcomes
 - Monitor and measure performance against defined performance outcomes
 - Three incentive based rate setting alternatives suited to individual utility circumstance
 - Enhance asset planning oversight based on five year plans – good planning

Defined Outcomes

- Customer Focus
 - services are provided in a manner that responds to identified needs customer preferences
- Operational Effectiveness
 - Continuous improvement in productivity and cost performance is achieved; and utilities deliver on system reliability and quality objectives
- Public Policy Responsiveness
 - Utilities deliver on obligations mandated by government (e.g. in legislation and in regulatory requirements imposed further to Ministerial directives to the Board)
- Financial Performance
 - Financial viability is maintained; and savings from operational effectiveness are sustainable

Monitoring Distributor Performance

- Distributors will be use the scorecard to report their progress in meeting the Outcomes.
- Scorecard will be developed and used to monitor individual distributor performance and where appropriate to compare performance across the distribution sector.
- The Scorecard will:
 - link measures directly to the performance outcomes identified by the Board;
 - effectively organize performance information in a manner that facilitates evaluations and meaningful comparisons;
 - signal to Board if mid-way corrective action is needed; and
 - evolve as new standards and measures are developed to assess distributor performance against outcomes.

Proposed Scorecard

- The proposed scorecard organizes information in a manner that facilitates evaluations and meaningful comparisons.
- Distributors would be required to report on an annual basis.

Distributor Name	Performance Outcomes	Performance Categories	Measures (new in red)
	Customer Focus	Service Quality	Connection of New LV Services (DSC s7.2, RRR s Appointments: Scheduled (DSC s7.3, RRR s2.1.4 Appointments: Met (DSC s7.4, RRR s2.1.4.1.3) Telephone Accessibility (DSC s7.6, RRR s2.1.4.1.5
		Customer Satisfaction	1st Contact Resolution Billing Accuracy Results of Distributor Customer Satisfaction Survey
	Operational Effectiveness	Safety	Public Safety measure
		System Reliability	System Average Interruption Duration Index (Loss c System Average Interruption Frequency Index (Loss
			Asset Management
		Overall cost performance	Adjustment to Costs fr Adjustment to Costs fr Total Cost Benchmarking Efficiency Assessment Econometric Benchma significantly superior, & Unit cost/peer group b through 5) per Customer OM&A Cost per kWh Delivered per Circuit Km of Line per Customer Net Plant Cost per kWh Delivered per Circuit Km of Line
Public Policy Responsiveness	Government Directive on Conservation & Demand Management	Net Annual Peak Demand Savings (MW) Net Cumulative Energy Savings (GWh)	
	Connection of Renewable Generation	% of CIA Completed for Renewable Generation Fac applicable timeline prescribed by Ontario Regulator Electricity Act, 1998 MicroFit Connection measure	
Financial Performance	Financial Ratios	Liquidity: Current Ratio (Current Assets/Current Lia Leverage: Total Debt (includes short-term and long- Profitability: Regulatory Return on Equity (RRR 2.1:	

The Scorecard

- Scorecard is owned by the utility
 - A tool to use in presenting the distributor's plan
- Will use RRR information
 - Distributor adds specific data and explanations
- Posting of completed scorecard
 - OEB website
 - Distributor's website

Distribution Rate Setting Options

- Three options available – utility selects plan that best meets its profile
 - 4th Generation Incentive Regulation Mechanism (4th GIRM)
 - Custom Incentive Regulation
 - Annual Incentive Regulation Index

4th Generation IRM

- Builds on 3rd Generation IRM and expected to be selected by distributors with ongoing regular capital investment and are looking for predictable rate adjustments
- Initial rates set based on forward test year Cost of Service
- 5-year term (Cost of Service + 4 years of incentive rate adjustments)
- Formulaic annual adjustments to rates based on inflation adjusted for productivity
 - Industry specific inflation factor for materials; Ontario based index for labour
 - Productivity adjustment based on industry's total factor productivity – Ontario specific “X” factor
 - A “stretch factor” based on relative performance
- Opportunity for distributors to request funding for major capital investment needs through a rate adders (ICM)

Custom IR

- Suited to those distributors with large or highly variable capital requirements
- Rates set for entire term based on a projected Cost of Service
- Minimum term 5 years
- Rates designed to recover approved 5-year revenue requirement, built in smoothing
- Productivity improvement is built in through the OM&A changes over the 5 year term
- Distributor expected to operate within approved capital and OM&A amounts

Annual IR Index

- For distributors that are in a “steady-state” with largely sustainment investment
- Annual rate adjustment based on 4th GIRM inflation minus largest X-factor (productivity factor and highest stretch factor)
- Leads to relatively lower rewards but with minimal regulatory process
- Capital spending expected to be predictable and stable, no capital spending adjustment mechanism
- No fixed term

Distribution System Planning under the RRFE

- Good plans are the backbone of the new approaches to rate setting
- Consolidated distribution system plans that integrate all investments and reflect good asset management practices
- Planning is the key to meeting expectations for predictable and smooth rates, pace and prioritization
- Regional infrastructure planning and greater coordination between utilities
- Modernization of the networks – smart grid implementation

Where are we now?

- Smart Grid:
 - Supplemental Report issued in February
 - Smart Grid Advisory Committee meetings
- Planning:
 - Filing requirements issued in March
 - Regional Infrastructure Planning regulatory instruments
- Performance and Benchmarking
 - Draft policy issued regarding rate setting formula
 - Scorecard for performance measurement this Fall
- Rate-setting approaches to be implemented for 2014 rates
 - Cost of service and incentive rate-setting

RRFE What's Next?

- Performance against outcomes
 - Regulatory mechanisms review
 - Incentives and consequences for performance
 - Encouraging innovation
- Developing metrics for the scorecard
 - Metrics for reliability
- Review of distributor's plans
- Smart rates – TOU, revenue decoupling
- Providing options to allow for distributor efficiency

Questions

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