The Renewed Regulatory Framework – an overview

RRFE Information Sessions

Presenter: Brian Hewson
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.
The proposed scorecard organizes information in a manner that facilitates evaluations and meaningful comparisons.

Distributors would be required to report on an annual basis.

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**Proposed Scorecard**

<table>
<thead>
<tr>
<th>Performance Categories</th>
<th>Measures (new in red)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer Focus</strong></td>
<td></td>
</tr>
<tr>
<td>Service Quality</td>
<td></td>
</tr>
<tr>
<td>Appointment Schedule</td>
<td></td>
</tr>
<tr>
<td>Appointment: Rescheduled (OSC 0.7, RRR 2.1)</td>
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<tr>
<td>Appointment: Missed (OSC 0.7, RRR 2.1)</td>
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<tr>
<td>Telephone Accessibility (OSC 0.7, RRR 2.1)</td>
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<td>1st Contact Resolution</td>
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<tr>
<td>Billing Accuracy</td>
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<tr>
<td>Results of Distributor Customer Satisfaction Survey</td>
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<table>
<thead>
<tr>
<th>Operational Effectiveness</th>
<th>Measures (new in red)</th>
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<tbody>
<tr>
<td>Safety</td>
<td>Public Safety measure</td>
</tr>
<tr>
<td>System Average Interruption Duration Index (Loss of Load)</td>
<td></td>
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<tr>
<td>System Average Interruption Frequency Index (Loss of Load)</td>
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<tr>
<td>Customer Specific Reliability measure</td>
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<table>
<thead>
<tr>
<th>Asset Management</th>
<th>Measures (new in red)</th>
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<tbody>
<tr>
<td>Overall cost performance</td>
<td></td>
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<tr>
<td>Total Cost Benchmarking</td>
<td></td>
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<tr>
<td>Adjustment to Cost savings for Energy Efficiency Assessment and Economic Benchmark significantly superior in Unit cost per group by (through Section)</td>
<td></td>
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<tr>
<td>OMSA Cost</td>
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<tr>
<td>per Customer</td>
<td></td>
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<tr>
<td>per KVAh Delivered</td>
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<tr>
<td>per Circuit Kms of Line</td>
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<tr>
<td>Net Plant Cost</td>
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<tr>
<td>per Customer</td>
<td></td>
</tr>
<tr>
<td>per KVAh Delivered</td>
<td></td>
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<tr>
<td>per Circuit Kms of Line</td>
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<table>
<thead>
<tr>
<th>Public Policy Responsiveness</th>
<th>Measures (new in red)</th>
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</table>
| Government Directive on Conservation & Demand Management | Net Annual Peak Demand Savings (MM)
| Net Cumulative Energy Savings (MM) |
| Connection of Renewable Generation | % of CLE Committed for Renewable Generation, For applicable timeline prescribed by Ontario Regulation 98 |

<table>
<thead>
<tr>
<th>Financial Performance</th>
<th>Measures (new in red)</th>
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<tbody>
<tr>
<td>Financial Ratios</td>
<td></td>
</tr>
<tr>
<td>Liquidity: Current Ratio (Current Assets/Current Liabilities)</td>
<td></td>
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<tr>
<td>Leverage: Total Debt (includes short-term and long-term)</td>
<td></td>
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<tr>
<td>Profitability: Regulatory Return on Equity (RRR 2.1)</td>
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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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