Ontario Energy Board

Renewed Regulatory Framework
for the
Electricity Distribution and Transmission Sectors

Notes from Executive Roundtable with Academics, Finance Industry, Consultants & PWU

March 6, 2012

The discussion topics raised with the participants included:

- Challenges
- Productivity
- Financing and approach to regulation

Views and comments

- Mismatch between need to expectations wide – between need to invest and consumer comfort with historically low prices
- Are there alternatives to the way the rate-setting process can work such that it recognizes the need for a longer-term focus?
- Competition for capital will be a challenge
- Regardless of macroeconomic and policy swings, need to focus on long-term investment needs to deliver reliability
- A regional planning process with integration of different resources is important for efficiency
- Regulatory uncertainty is unfavourable to bond ratings (cost of service good; multi-year approaches raise uncertainty and risk)
    - Will there be downside protection in the framework?
- Cashflow-based ratios key in ratings criteria
    - Do not adjust depreciation to stretch out/defer recoveries (NTD: not done in Ontario to date)
    - Allowing CWIP into ratebase before asset in service an option. Resultant smoothing beneficial to ratepayers and cashflow ratios
- Concern that there is potential risk with current off-ramp “downside” (i.e., -300 basis points too high; however, it was acknowledged that returns under IR to date in Ontario have not eroded)
- Concern that any performance “consequences” not result in stranding

- Potential outcome classifications identified:
    - Financial
    - Reliability
    - Customer service/satisfaction
    - Employee
    - Environment (e.g., integration of renewables)
- Focus on financial incentives to drive efficiencies disregards / discourages long-term thinking and innovation
- Clarity of outcomes vis-à-vis Regional Planning are needed
- Diversity of distributors: some may not be capable of doing what the Board appears to expect of them vis-à-vis infrastructure investment planning
- Due to number of companies to regulate, suggest Board "start small" and perhaps try small scale tests of regulatory reforms before implementing broadly
- Need performance outcomes to track whether companies are focusing appropriately on adequate sustainment capital to avoid in the future the situation we are in today (vis-à-vis aged infrastructure)