Ontario Energy Board

Renewed Regulatory Framework
for the
Electricity Distribution and Transmission Sectors

Notes from Executive Roundtable with Agencies & Transmitters

February 29, 2012

The discussion topics raised with the participants included:

- Approach for the regulatory framework
- Key elements of the Board's approach
- Performance outcomes
- Planning optimization
- Flexibility

Views and comments

Mitigation and Total Bill

- The OEB only controls about 50% of the total bill and utilities only account for about 20% of the total bill. Mitigation can only be applied by the Board to that 50%. Can result in bad outcomes (e.g., bad rate design, deferring necessary capital investments). The Board needs to regulate more of the electricity bill if total bill impact is the focus.
- The OEB is not trying to mitigate aspects of the electricity bill it has no control over but needs to express it as the total bill impact because that is what consumers understand.
- As the transmitter, we can only strive to be as efficient as possible to minimize bill impacts. We have no control over what other regulated utilities are requesting in their applications.
- With the focus on mitigating consumer bill impacts, the renewed framework needs to ensure there is adequate amount of investment.
- Under the current regime there is a bias to make generation investments relative to CDM programs. The Board should implement revenue decoupling to level the playing field and incent the right amount of CDM.

Regional Planning

- Utilities in each region should compare alternative investments and determine the least cost solution.

- Optimization is not limited to determining the least cost solution. Also need to maintain reliability and safety. Competitive procurement should also be used.
- The Board needs to start engaging residential consumers in determining reliability standards. The Board currently engages only large consumers.
- All utilities could get together to determine the optimal investments and present the regional plan to the Board. Then the utilities in each region reflect those investments in that regional plan in their next rate application. Then the utilities in each region come back to OEB in 5 years and inform the Board of the outcomes relative to the regional plan previously presented to the Board.
- On a regional basis, who is the proponent?
- How is a region determined for planning purposes?
- The Board needs to first determine if the investments are paid for on a regional basis and the beneficiary pays <u>or</u> if the costs associated with the investments are socialized and recovered from all ratepayers?
- Regional planning is already taking placing on an informal basis. However, utilities require increased predictability in terms of cost recovery and “who pays” for investments in the regional plan to be made in a timely manner.
- Due to microFIT and the increase in distributed generation connecting to the distribution system, there needs to be greater coordination between transmitters and distributors.
- Currently, the emphasis is on transmission investments (cost recovery from all ratepayers) even when it is not the optimal solution. The Board needs to change the framework so the optimal solution is first determined and then determine a fair allocation of the costs.

<u>Planning</u>

- It is difficult to have a standard time horizon for distribution and transmission investments.
    - Distribution investments such as feeders can be put in place much more quickly than transmission investments.
    - Transmission investments such as Bruce to Milton tend to require a longer term horizon due to factors such as obtaining all of the necessary approvals.

<u>Performance incentives</u>

- The current framework already has IRM in place which drives efficiencies to a certain extent.
- If bill impacts, performance, ROE, etc. are all reasonable (e.g., within a band), the Board should allow for a more streamlined approval process.
- Provide rewards/incentives to utilities.

    - For example, if the utilities have gone through the regional planning process properly, then the Board should fast-track approval of investments in the regional plan.

- The Board should focus resources only on material investments.
- Implementation of the new framework should not negatively impact regulated utilities.
- Tried to use benchmarking but it does not work because other regulated utilities are not similar enough.
- An alternative approach is to require each regulated utility to compare the outcomes in the current period relative to the outcomes in the previous period to determine if the regulated utility has improved its performance.