The Ontario Energy Board

Review of Regulatory Framework for Electricity

Presentation of the Medium Size Distributors Group
Members of the Group

- Bluewater Power Distribution
- Brantford Power
- Canadian Niagara Power
- EnWin Utilities
- Erie Thames Powerlines
- Essex Powerlines
- Greater Sudbury Hydro
- Guelph Hydro
- Halton Hills Hydro
- London Hydro
- PUC Distribution
- Welland Hydro

*Each Member serves 15k-150k Customers
*Total Group serves 550k Customers
MEDIUM SIZE LDC ISSUES

• Economies of scale curve is U-shaped, so bigger LDCs ≠ greater efficiency or better customer experience

• Regulatory burden can distort U-shape, needlessly distract from customer-focus

• Wide variation in LDCs (size, location, age of plant, customer preferences, local economics) means one size regulation does not fit all

• Incentive rate-making is good theory, but not necessarily good practice

• Price index ≠ actual baskets of prices, X-factor from benchmarking ≠ actual efficiency

• No way of knowing if costly regulatory regime now increasing or decreasing LDCs’ efficiency
OVERVIEW OF ELECTRICITY REGULATION

- OEB Act and Electricity Act was new regime, OEB had no prior experience, had to borrow from others (primarily Ofgem, UK)
- Ontario now has enough experience and data to develop our own models – more relevant to customers and LDCs
- Regulators everywhere create more regulation, unaware that its cumulative burden may pass the point of diminishing returns, and that it may be the wrong tool
- OEB now has the opportunity to lead by example: reject any part of your regulatory regime that is not both prudent and necessary.
OVERVIEW OF ONTARIO ELECTRICITY REGULATION (cont’d)

- In 8 years (2005-13) OEB budget grew by 45%
- For every additional dollar OEB spends our members’ costs increase, e.g., by 5-8 dollars for some of them
- 5% of OM&A costs are regulatory costs
- Whether regulation now benefits consumers as much as it costs them is debatable
- The Five Staff Reports add burden, with no proposal to reduce the burden elsewhere
VISION FOR SUSTAINABLE REGULATORY REGIME

• A renewed regulatory framework should be an improved regulatory framework

• Price shock will increase, but LDCs are a small (and shrinking) % of total price

• OEB can’t fix price shock by increasing an already excessively costly regulatory regime

• “If it ain’t broke, don’t regulate it”: long list of What’s New on OEB website suggests micro-regulation
CHANGES NEEDED FOR THIS VISION

• Improve OEB’s “envelope approach” for rates by correcting the base, and if future expense is within range, no approval required

• If an LDC wants more than range, it can off-ramp to a more onerous process

• OEB still has authority to review and veto increases if the facts justify it, but this should be rare

• Transition to end benchmarking, stretch factors and price indexes
CHANGES NEEDED FOR THIS VISION (2)

- Do not prescribe a single outcome or minimum level for all, let each LDC propose its balance between cost and reliability/service level, based on its customer research and judgment

- Diverse Inputs + Universal Outputs ≠ Customer-focused Outcomes

- OEB should focus on ensuring LDCs meet a few key outcomes

- OEB should ask Minister to amend or repeal directives or legislation that appears needlessly prescriptive or costly
DESIRABLE OUTCOMES

• Price: Protect Total Bill
  – Stability: For big cost drivers see Ministry-OPA

• Price: Distribution Portion
  – Stability: LDCs create local multi-year proposals

• Service: Traditional (Safety & Reliability)
  – Responsiveness: Not a source of complaint for most LDCs

• Service: New Products (CDM, Smart Grid)
  – Responsiveness: LDCs create locally appropriate mix
Thank you

• QUESTIONS?