

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 \neq 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?