Renewed Regulatory Framework for the Electricity Distribution and Transmission Sectors

Executive Roundtables
Agenda

- Introductions
- Objective of the meeting
- Overview of RRFE
- Discussion
  - Board’s approach to regulatory framework
  - Elements of the framework
- Last words and next steps
RRFE Consultation Meetings

- Roundtable meetings stakeholders
- Eight meetings, 110 participants invited
  - Consumer groups
  - Distributors, transmitters and agencies
  - Academics and financial community
- Focus is on substantive approach to regulating rates, not on Board process
- Intent is to be forward looking and proactive
- Stakeholder participation is essential to success
OEB Objectives - Electricity

- OEB objectives in regulating the electricity sector
  - Protect the interests of consumers with respect to price, quality and reliability of supply
  - Promote economic efficiency and cost effectiveness
  - Facilitate maintenance of financial viability of the sector
- Mandate is carried out by setting rates charged by monopoly utilities that are “just and reasonable”
  - Fair to consumers
  - Provide utility with a fair return on invested capital
Looking Back – the last 10 years

• The Board, utilities and stakeholders have gained significant knowledge and experience in rate regulation
• Utilities have matured as investor owned business corporations
• Public policy objectives continue to evolve to incorporate economic and environmental objectives
Looking Ahead – the next 10 years

• Price of electricity is projected to increase significantly as we renew our electricity assets, provide for network expansion and diversify our supply mix
• Rate applications reflect increasing investments to renew and expand infrastructure to meet demand and maintain system operability and reliability
  – Additional investment to respond to public policy directions to develop smart grid and increase renewables
• Consumers expect reliability and quality of service to be maintained or enhanced
• Consumers expect to pay “reasonable” rates
OEB Response: A Renewed Regulatory Framework for Electricity

- Announced in 2010 to ensure that regulation reflects increased need for infrastructure investment and focuses on total bill impact
- Formally launched in 2011 with updated and broader focus
- RRFE to ensure sustainable, long-term and efficient framework for rate regulation that:
  - Builds on Board experience and expertise
  - Reflects the evolving maturity of the sector
  - Allows for necessary investments
  - Encourages utility efficiency
  - Manages bill impacts
• Establish performance outcomes that reflect consumers’ expectations and encourage enhanced utility productivity
• Provide for efficiently planned investments in grid sustainment, expansion and modernization
• Align rate setting cycle and investment planning horizon and provides for efficient recovery of costs
• Increase efficiency in the regulatory process through greater focus on outcomes
Key Features of the Board’s ‘Strawman' Model

• Integrated investment planning
  – Sustainment, expansion, generation, smart grid and regional considerations
• Treatment of capital
  – approved multi-year investments recovered over multi-year term
• Performance standards and incentives
  – Desired outcomes established for the utilities
  – Incentives available for achieving investment plan objectives
• Rate setting
  – OM&A indexed to performance outcomes and a productivity measure
  – Investment costs passed through based on approved plan
  – Total cost benchmarking implemented to encourage effective cost containment
• Cost of Service/IRM term
  – reflects approved investment spending horizon
• Total bill mitigation
Discussion

• Approach for the regulatory framework
• Key elements of the Board’s approach
Next Steps

• Stakeholder Roundtable - Feb 21 – March 7
• Meeting notes and participants to be posted
• Stakeholder conference - March 28-30
• Written comments received - April
• Board policy statement – Spring/Summer