Renewed Regulatory Framework for Electricity Distributors

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Jay Shepherd
for School Energy Coalition
School Energy Coalition

• Who We Are
  • Coalition of seven school board/management organizations
  • 5000 schools with 2 million students
  • Spend $550 million per year on energy

• Intervention Principles
  • Always look for the win-win solution
  • “Walk softly but carry a big stick”
  • Think long term
Issues

The Board’s “market proxy” role in setting LDC rates

The special problem of infrastructure investment
The Market Proxy Responsibility

• Basic Purpose: Control of monopoly rents
• Approved by Canadian and U.S. courts
• Additional Purpose: Market imposes cost discipline; so should market proxy
• Cost of service is not market-like – market resists “cost-plus” pricing
Price Cap IRM as Market Proxy

- Assumes prices change based on cost changes in a predictable pattern
- Measures empirically the past relationship between major inputs and price (i.e. revenue requirement)
- Captures all costs that impact price
- *Prima facie* a pure market proxy
Gas Utilities

• SEC’s oft-repeated goal – long term stable rates at less than inflation
• 2007 Base Year, i.e. 6 years so far
• 2013 Base Year, could extend to 2018 or beyond
• Long term rate stability
• Utilities prospering under this predictable revenue regime
Alternatives/Strawman/TPBR

• Classic debate between top-down and bottom-up budgets

• Top down is the business paradigm
  – Projects/priorities fight for resources
  – Assumes business is a price taker

• Bottom up is a government paradigm
  – In theory, there is no upper limit on cost because no market to set price

• Gov’t policy selected the business model
Infrastructure Investment

• Show us the evidence of the “problem”
• Capital spending is a zero-sum game
• Different LDCs have different capital situations
“Where’s the Beef?”

• The answer is not “read some rate applications”
• The answer is not Asset Condition Assessments
• The answer is empirical data, collected and analyzed rigorously
Asset Condition Assessments

• Management tool
• Gathering information on the state of the system is valuable
• Tell you nothing about how much your capital budget should be
• Every organization has an ACA showing lots of work to be done
Infrastructure Spending Choices

• Zero-Sum: A dollar of electricity infrastructure built is a dollar of school infrastructure not built
• True for many other customers
• Irrelevant whether rates “smoothed” – it is still money out of our pockets
• Show us why your infrastructure should take precedence over ours
Different LDC Situations

• Starved for capital?
  – Detailed vintage data by asset class

• Customer growth impacts
  – Track capex relative to growth

• New requirements
  – Components of rate base (net) driven by changes in the nature of the product

• Geography
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<th>Utility</th>
<th>PPE per Customer</th>
<th>Capex per Customer</th>
<th>Capex % Depr.</th>
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<td>London</td>
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What Should the Board Do?

• Understand the problem before trying to solve it
• Establish a base of standardized data including vintage, customer growth, etc.
• Identify the specific problem that requires incremental spending
• Ensure that all sources of that spending are canvassed, not just ratepayers
Incremental Capital Module

• Current average spending by LDCs – 224% (or 191%) of depreciation
• Will increase with IFRS
• Not apparently influenced by whether on COS or IRM
• No correlation with ROE
• No apparent need to loosen up the ICM
• Impact would be rate increase of +2%