Workshops on Renewed Regulatory Framework for Electricity (RRFE) Implementation

Questions and Answers

The Board held workshops on the implementation of the Renewed Regulatory Framework for Electricity Distributors in October/November 2013. Below are Board staff's responses to questions posed by distributors during the workshops.

General

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1. There is a high priority on value for customers. Who decides what value is? And based on what? Were distributors not providing value to their customers in the past?

The Board has always given value for consumers a high priority. With the renewed regulatory framework's focus on performance outcomes the Board is shifting the emphasis from the focusing on costs to ensuring that the service being provided is delivering value to the customers. This is why engagement with customers is so important, to provide the customer's perspective. Through the engagement and developing understanding of the system, we are trying to ensure the customers are aware of what they are getting for their money.

2. If the ICM threshold is too high distributors may not be able to ramp up capital during the IRM years...how is this reconciled with the pacing and prioritization the Board is seeking?

The rate setting options of Custom IR and Price Cap (with ICM) are designed to provide distributors with the tools to address the capital investments that they identify as part of their planning process. Selecting the right option for your investment plans will allow you to achieve the pacing and prioritization expectations. In its Report on Rate Setting Parameters, the Board acknowledged that stakeholders had raised issues about the ICM. The Board indicated that it would monitor the use and application of the ICM, but expected that under Price Cap IR the ICM would continue to be used on an exception basis.

3. Assigning the largest stretch fact for an Annual IR application defeats the purpose of establishing this option in the first place. Why are you forcing small distributors that want a very simplified application process to take a smaller increase in their rates?

If a distributor is concerned about the difference between what would have been its assigned stretch factor and the stretch factor it would receive under the Annual IR, then perhaps the Annual IR mechanism is not for you. The Price Cap IR option is likely more suitable especially if you consider that the option to defer your next regularly scheduled rebasing is still available. On the other hand, if your horizon for your next rebasing is 7-10 years, and you are not concerned with the rate increase differential between the two stretch factors, then the Annual IR is for you.

4. How can a utility demonstrate in an application that it has engaged with its customers?

Distributors should engage with customers in a way that works for your Service Area. The objective of the customer engagement is to understand what customers are looking for in electricity delivery service and to develop the awareness of the value of the service that is being provided. Therefore we are looking for the results of the engagement and how it has been employed in the development of your Distribution System Plan and your application. It is not anticipated that the distributor will be seeking consent / support for each individual investment.

5. Regarding Long Term Load Transfers (LTLT), sometimes the most economical solution is for a customer to be 'transferred' to a neighboring distributor (rather than building out your system to connect a single customer). However, if the neighboring distributors' rates are higher than the customer may be unwilling to move...how should this be addressed?

The Board has announced a review of polices related to LTLTs.

6. Where do you see Intervenor participation going in light of the Board's expectation for greater consumer engagement?

The Board is consulting on this now. Board staff has met with intervenors to discuss Board staff's new approach to rate-setting process (more streamlined, materiality with respect to interrogatories).

Transitions

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1. If a distributor is on a Custom IR plan, what happens following the first five year cycle?

The cycle begins again and the distributor can choose any of the three options for the next five year cycle.

2. In the case of an amalgamation, how do the rate-setting options work? Which of the schedules do you follow?

The Board has recently announced a review of its policies related to MAADS and this issue is likely to be canvassed in that initiative. In the normal course this would be determined on a case by case basis. It would depend on what the new entity chooses to do i.e., will they want to stay out for up to five years.

3. Since the Board's guidance on innovation and the scorecard have not been finalized will this year rebasers be left behind?

At the moment both these matters are being considered by the Board. The scorecard is a mechanism for organizing information about the utility; its use will be on a going forward basis to monitor a distributor's achievement of the Outcomes and continuous improvement, it's not intended as a rate setting mechanism. In terms of any policy regarding innovation, the Board has indicated that it will be part of a development of appropriate regulatory mechanisms to encourage continuous improvement and will be part of the mechanisms for encouraging performance going forward after the policies are set. Any new policy regarding performance and continuous improvement can apply on a go forward basis for all distributors that will be part of the consultations.

Scorecard

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1. Will distributors be given any feedback on their scorecards? What is the process once they are filed?

First the Board has not finalized the scorecard so how it may deal with the scorecard is yet to be determined. The intention is that the information for the scorecard comes from the existing RRR as much as possible to minimize any additional reporting. However in the RRFE Report the Board indicated it would monitor the Scorecards. There was no indication of a specific feedback process in general; the scorecard is intended to be the distributor's story. Board staff will follow up if there is any inconsistency or anomalies in the data as has been the practice for several years now.

2. The Board is aiming to streamline the regulatory process through RRFE, but there is a disconnect between this intention and the new scorecard which, as an addition to the RRR, seems to create another burden

The Scorecard will rely mainly on RRR data, so the incremental work to produce the Scorecard is expected to be minimal. The process for completing the Scorecard is being developed with the intent that it be part of the RRR system. It is expected that once the scorecard is completed there will be a new assessment of the RRRs to consider if they may be further streamlined / reduced.

Smart Grid

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1. How does smart grid funding work? Will deferral and variance accounts, rate riders, and rate adders still be available?

Given that the Board has determined that grid modernization is an integral part of the ongoing development of the system; the deferral and variance accounts, rate riders, and rate adders previously established for 'smart grid' investments will no longer available once you have filed a Distribution System Plan as part of a rate application. For distributors that have not yet filed a Distribution System Plan, the deferral and variance accounts, rate riders, and rate adders previously established by the Board will still be available.

2. Are smart grid investments to be distinctly identified from the rest of the Distribution System Plan (i.e., a separate smart grid plan)?

Under the integrated approach to planning grid-enhancing advanced information and exchange systems and equipment (i.e., 'smart grid') are considered integral to all utility investment. Distributors are expected to file a single Distribution System Plan with all categories of network investments should be planned together. No distinction is made for regulatory purposes between 'smart grid' and more traditional investments undertaken by distributors.

3. Will utilities at different 'degrees of modernization' be viewed differently?

The Board’s Report recognized that there is a diversity of circumstances among distributors and that the needs of an electricity distributor's system and its customers vary significantly across the province. For example, an investment considered standard practice for one distributor may represent a significant modernization activity for a different distributor because of differences in size, geography, or evolution of customer preferences.

4. For projects that have been given a grant from the Smart Grid Fund, how can distributors get the balance recovered in rates?

Deferral and variance accounts, rate riders, and rate adders are still available if you are still on 3G IRM, otherwise those investments should be included as part of your Distribution System Plan (i.e. the costs should be embedded in the capital budgeting process). Evaluation criteria for Smart Grid Fund projects and the Board's grid modernization expectations are aligned.

5. What mechanisms are available (or will be available) to facilitate information sharing among LDCs?

The Smart Grid Advisory Committee ('SGAC') has discussed this and may in future propose a mechanism for information sharing. Currently, some distributors are sharing information in smaller groups / informally and are encouraged to continue doing so.

6. How can a distributor bring forward an investment proposal for an investment such as a GIS, for example, where the investment in and of itself does not have a positive business case but it enables other investments / processes that do have a business case or will otherwise help the distributor achieve its goals / objectives?

It is up to electricity distributors to demonstrate how their investments are integrated within their Distribution System Plans to meeting their goals, objectives and delivering customer value.

Distribution System Plans/Chapter 5 of Filing Requirements

FORMAT AND LEVEL OF DETAIL:

1. Does the Asset Management Plan include general plant?

While the focus is on the distribution system, the processes used by a distributor to plan maintenance and investments for all asset categories should be included in a Chapter 5 filing. Investments in general plant can be significant (e.g. new office or equipment maintenance facilities) and should therefore be considered as part of the pacing and prioritization that should be undertaken in developing the DS plan.

2. Should the description of plan costs also be broken into buckets?

Chapter 5 calls for a consolidated plan that incorporates all elements. Within each plan, however, capital expenditures should be broken down into “buckets” corresponding to the categories indicated.

3. In Table 2/Appendix 2-AB, how should distributors classify projects that include investments in multiple asset categories? Often, projects that are ultimately chosen are the ones that achieve multiple benefits and therefore could belong to more than one category.

Distributors will have to make a judgement call based on the initial or 'trigger' driver of a project. For material projects, it is important to explain the relationship between the costs and benefits attributable to each category (i.e. driver) addressed by an integrated project.

4. Where does information for the Bridge and Test year of the previous CoS application go in Table 2?

Since the historical period covers the five years previous to the current Test year, the first historical year is the previous Bridge year and the second historical year is the previous Test year.

5. Are the categories Table 2 prescribed or can distributors use their own?

We recognize that internally distributors use all sorts of terms to describe the same 'types' or 'buckets' of investments. For filing under Chapter 5 though, the use of common terminology in rates applications promotes a common understanding among all stakeholders which can help facilitate the application review process.

EVALUATION OF PLAN:

6. Chapter 5 lists the criteria the Board will use to evaluate material investments. Are distributors required to follow these criteria when providing information to support the material investments in their DS Plan?

The Board will apply the evaluation criteria to material investments as appropriate. The Board recognizes that some criteria (safety, reliability etc.) are applicable to a broad range of projects/activities and that the scope of other criteria – such as cyber-security and interoperability – may be more limited.

7. Chapter 5 captures an internal planning/budgeting process. What is the benefit of opening that process up to public scrutiny?

A high level understanding of the planning and decision making process that resulted in the capital investments proposed for recovery in rates will reduce the need to scrutinize an application line-by-line and facilitate the identification of the most important issues to be assessed in the application, streamlining the overall process.

8. Will the Board compare the underlying assumptions used for a distributor's plans with those used in other distributor applications? Are distributors expected to address such comparisons in justifying their plans?

Planning assumptions are examined on a case-by-case basis. Comparisons can be expected where warranted regarding, for example technical requirements and standards, and a distributor should consider whether including information on alternative assumptions might help support their use of the assumptions chosen.

9. What degree of variance between plan and actual is considered material and how much detail should be provided by way of explanation?

As noted in Chapter 5, some variance is expected; the onus is on the applicant to identify 'material' variances and determine the level of detail required to explain the cause of the variance and the impact, if any, on the current plan.

10. The detailed filing requirements in Chapter 5 seem incongruous with the Board's new outcomes based approach to rates. How does the Board expect Chapter 5 filings to help streamline the application process?

A DS Plan should describe and explain why and how the distributor will modify its distribution system to deliver service to customers over the next 5 years, and at what cost. Providing a coherent overview of the relationships between the various elements of the distributor's system planning process and the nature and timing of the capital expenditures proposed for recovery in rates will better inform the application assessment process, especially in relation to discovery and interrogatories.

11. What level of detail is required for a business case with respect to asset replacement or refurbishment and condition assessment?

Generally, business cases should provide sufficient detail to justify a material investment in terms of need, cost and timing, referencing relevant aspects of the asset management and capital expenditure planning processes outlined elsewhere in the filing. The onus is on the distributor to determine the level of detail required.