

Developing A Renewed Regulatory Framework for Electricity



- Defining & Measuring Performance (EB-2010-0379)

- Foundations in place in Ontario for:
 - Service Quality Regulation; and
 - Incentive Regulation.
- It is important to the sector that the Board's regulatory framework sets appropriate standards for performance and efficiency and rewards distributors and transmitters that exceed these standards.

Defining and Measuring Performance: Service Quality Regulation

- Board has implemented a “standards approach” to service quality requirements for electricity distributors.
 - Distributors are currently required to comply with provisions in the Distribution System Code.
- Board has implemented a “monitoring approach” to system reliability for electricity distributors.
 - Distributors monitor system reliability indicators and report on them to the Board.

Consultations underway on the system reliability regime (EB-2010-0249) will inform this initiative.



Defining and Measuring Performance: Incentive Regulation Formula

$$\textit{Price Cap Index} = K + I - (p + sf) + Z$$

The 3rd Generation Incentive Regulation Price Cap, where:

- K is for continued migration to a 60:40 common capital structure;
- I is for change in inflation as measured by the Canada GDP IPI for final domestic demand;
- p (the productivity factor) is an empirically derived industry productivity trend, and sf (the stretch factor) is set by the Board as the incremental productivity gain for firms to achieve beyond the productivity factor (p and sf, collectively are referred to as the X-factor); and
- Z may allow for adjustment due to events that are not within management's control.

There is opportunity for additional capital spending, if required, via the Incremental Capital Module.

The development of the next incentive regulation plan will be informed by this initiative.



Defining and Measuring Performance in A Renewed Regulatory Framework for Electricity

To ensure that the Board's rate-making policies continue to facilitate the cost-effective and efficient implementation of Board-approved plans, and in light of the Board's refined approach to network planning,...

... this work will consider new ways of setting standards for performance and efficiency, providing appropriate incentives, and reviewing performance.



- **Setting Standards for Performance and Efficiency**
 - *Should the Board set additional standards for performance and efficiency?*
 - *If so, what standards might be appropriate and how might they be defined and set?*

- Providing Appropriate Incentives
 - *Should utility achievement of its investment plan objectives be encouraged through the use of appropriate incentives?*
 - *Should other utility outputs and/or positive outcomes be encouraged through the use of appropriate incentives?*
 - *How should appropriate incentives be implemented?*
 - *Condition approvals on performance?*
 - *Link revenues to standards for performance and efficiency?*
 - *Other?*

- **Reviewing Performance**

- *How might the Board embed performance reviews into the regulatory cycle (i.e., when and how will the Board assess performance)?*
 - *What analysis and requisite data, if any, is needed to support a review of utility performance?*

- Questions
- Comments
- Discussion

