

# **Traditional Vs. Performance Based Regulation**

**Marika Hare, Director Regulatory Affairs**

**Enbridge Gas Distribution**

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# Overview

- Our experience with targeted Performance-Based Regulation (TPBR)
- Where we are now
- Future regulatory initiatives

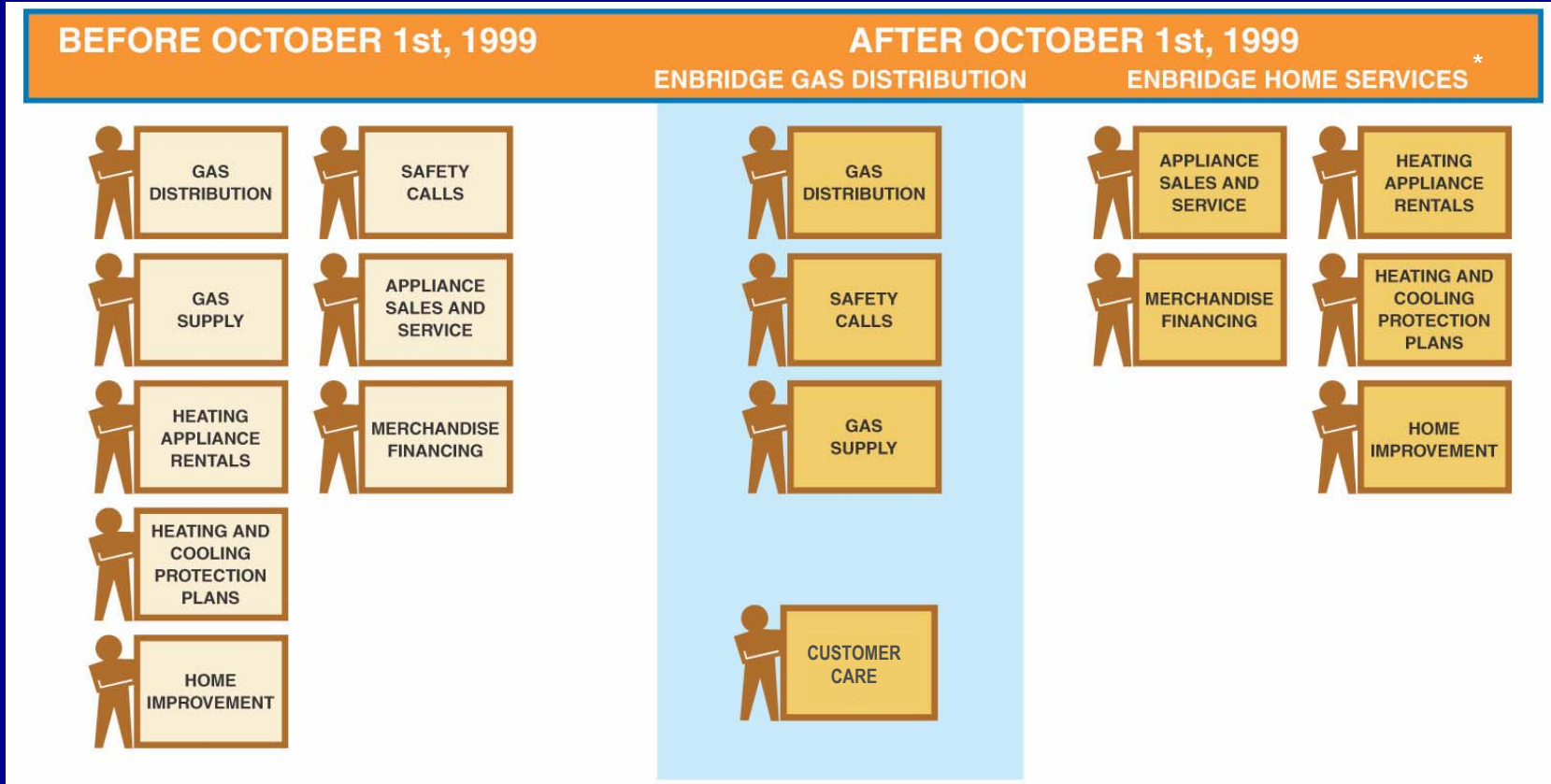
## **Why TPBR?**

- **Cost of service can be complex, costly & time consuming**
- **Other utilities were pursuing PBR with success**
- **Utilities given incentives to be more efficient**
- **Benefits for consumers and shareholders possible**

# Our TPBR Plan

- TPBR plan developed with OEB for Operating & Maintenance costs in 2000, 2001 and 2002
- O&M targeted plan approved April 1999
- 3-year revenue cap, 2000 - 2002 inclusive
- Other costs under cost of service
- Escalation a function of growth plus inflation less productivity offset
  - $O\&M_t = O\&M_{t-1} (1+G-x)(1+I) +/- Z$
  - I = Inflation = Ontario CPI; G = Growth, X = Productivity = .63% + stretch factor of .5%
- Included Z factors, non-routine adjustments, service quality indicators, DSM savings mechanism

# Changes to the Utility



# Further Changes

- **Enbridge Commercial Services (2000)**
  - Information Technology, Facilities Management, Fleet & Equipment Services  
(2003 — Enbridge Gas Distribution)
- **Enbridge Inc. (2000)**
  - HR, finance, internal audit and public affairs employees
- **CustomerWorks (2002)**
  - Billing, Call Centre, Credit Services, Meter Reading, e-commerce, Customer Support  
(2002 — Accenture)

# What Worked

- 📄 **Employee culture changed**
- 📄 **More focus on being efficient**
- 📄 **O&M expenditures effectively managed**
- 📄 **No need for annual hearings on O&M**
- 📄 **Learned from our experience**

## What Didn't Work

- ⌚ Complexity, time and costs of regulatory proceedings did not diminish
- ⌚ Not having any sharing mechanism meant ratepayers perceived no benefit
- ⌚ Intervenors unhappy 2003 O&M levels higher than at start of TPBR plan
- ⌚ Intervenors and Board unhappy with level and timing of disclosure about outsourcing
- ⌚ Led to lack of trust

## Where We Are Today

- **Currently in 2003 hearing**
- **2004 application proposes to get our hearing schedule back on track**
  - Addresses impact on customer rates & rate retroactivity
  - Simple rate index application
  - Rates fixed at CPI can be expected to provide a consumer benefit of .5% per year
- **Looking for ways to change our approach**

# Our Hopes for Future Regulation

- Right kind of PBR can provide benefits to all stakeholders including consumers
- Five-year PBR term needed
- Focus should not be on cost-cutting alone
- Light-handed
- Less complex, time-consuming and costly
- Consultations with regulator and stakeholders key

