

**RÉPONSE DE CONCENTRIC
À L'ENGAGEMENT NUMÉRO 19**

Engagement n° 19 (demandé par la Régie)

Élaborer sur les méthodes de reddition de comptes dans le cadre de MRI dans d'autres juridictions dans une forme similaire au rapport annuel du Distributeur

Réponse de Concentric à l'engagement n° 19 :

1 **As indicated during the hearing, Concentric's experience with annual reporting**
2 **associated with a PBR is that utilities file all a single report each year with**
3 **information necessary to calculate rates for the upcoming plan year. If the PBR**
4 **plan has an earnings sharing mechanism, this filing would apply the ESM to the**
5 **prior year's earnings to determine whether a rate adjustment is necessary.**
6 **These annual reports are reviewed by the regulator and approved before new**
7 **rates go into effect. Further, it is our understanding, based on a review of PBR**
8 **policy orders, that they file only one report each year as part of implementation**
9 **of the PBR. We will address the precedent in the United States and Canada.**

10 **A. Summary of Results**

11 **The review of annual reporting policies in each of the three Canadian**
12 **jurisdictions that have I-X based PBR confirms this testimony. It is also**
13 **confirmed by the most recently approved I-X plan in the United States.**

14 **B. United States**

15 **Concentric has reviewed the most recently approved MRI order in the United**
16 **States, an I-X based plan proposed by Eversource. The United States has moved**
17 **away from I-X based plans over the past decade, but this order is relevant to the**
18 **hearing request.**

19 **Eversource shall submit an annual PBR compliance filing, including all**
20 **information and supporting schedules necessary for the Department to**
21 **review the proposed PBR adjustment for the subsequent rate year. Such**
22 **information shall include the results and supporting calculations of the**
23 **PBR adjustment factor formula, descriptions and accounting of any**
24 **exogenous events, and an earnings sharing credit calculation for the**
25 **year two years prior to the rate adjustment. In addition, Eversource shall**
26 **file revised summary rate tables reflecting the impact of applying the**
27 **base rate changes provided in the PBR compliance filing. [Reference:**
28 **Order in D.P.U. 17-05, issued November 13, 2017, p. 413]**

29 **Concentric notes that many US utilities are required to file FERC Form 1 reports**
30 **each year that provide significant detail with respect to investments and**
31 **expenses. In our view, these reports provide information that may be useful for**
32 **certain purposes, including benchmarking analyses, but that detailed cost**

1 information is not useful for purposes of assessing a PBR plan, is unlikely to
2 provide valid insights, and conflicts with the goal of regulatory efficiency.

3 C. Canada

4 Concentric has also reviewed the initial policy orders in each of three Canadian
5 jurisdictions that have MRI plans, as well as annual reports that have been filed
6 by at least one utility in each of these jurisdictions: Alberta, British Columbia,
7 and Ontario.

8 1. Alberta

9 The Alberta PUC polices were established in its first generation PBR Decision
10 2012-237, issued September 12, 2012. Alberta approved an I-X mechanism that
11 includes Y and K factors. Distribution utilities were required to maintain
12 accounting records but were not required to file a complete set of cost
13 information with their annual reports. Annual reports include the following
14 information:

- 15 • base rates from the current year by rate class that will be the starting
16 point for the upcoming year's rates
- 17 • I factor calculation as described in Section 15.1.1 with supporting
18 backup
- 19 • Z factors approved during the previous 12 months calculated as
20 described in Section 15.1.2
- 21 • K factor adjustment related to approved capital trackers calculated as
22 described in Section 15.1.3
- 23 • Y factor adjustment to collect Y factors that are not collected through
24 separate riders calculated as described in Section 15.1.4
- 25 • billing determinants for each rate class for gas applications
- 26 • billing determinants that will be used to allocate items that are not
27 subject to the I-X mechanism to rate classes as described in Section
28 15.1.5
- 29 • backup showing the application of the formula by rate class and
30 resulting rate schedules
- 31 • a copy of the Rule 005 filing filed in the current year
- 32 • any other material relevant to the establishment of current year rates

33 [Decision 2012-237, Paragraph 965, p. 206-207]

34 Concentric understands that Rule 005 provides annual reporting requirements of
35 financial and operational results in Alberta. However, Rule 005 filings provide
36 significantly less detail than the Minimum Filing Requirements (MFR) and
37 General Rate Application (GRA) schedules that Alberta utilities had been filing

1 prior to the implementation of PBR (AUC D-2012-237 paragraph 852). Intervenors
2 argued that utilities ought to be required to file MFR as part of their annual PBR
3 filings. The Commission disagreed, but ordered that utilities at least maintain the
4 ability to file this level of detailed information.

5 863. For a company under PBR, the requirement to file the AUC Rule 005
6 schedules in both its annual PBR rate adjustment filing and a separate
7 AUC Rule 005 application, does not exempt the company from its
8 obligation to maintain detailed accounts in accordance with the acts,
9 regulations, Commission rules, or Commission decisions applicable to
10 the company. Therefore, unless otherwise directed or exempted by the
11 Commission, the companies are directed to maintain the ability to file a
12 complete set of MFR and GRA schedules with actual results for all years
13 within the term of the company's PBR plan. The companies are not
14 required, however, to file a complete set of MFR and GRA schedules
15 annually. [Decision 2012-237, Paragraph 863, p. 186]

16 This is confirmed by a review of Fortis Alberta's September 10, 2018 annual rate
17 adjustment filing (in compliance with AUC 20414-D01-2016) that includes only the
18 information necessary to calculate new rates. It does not include detailed
19 expense information.

20 2. British Columbia

21 On September 15, 2014, the British Columbia Utilities Commission (BCUC)
22 approved a 2014-2018 PBR plan for FortisBC (Decision G-139-14). The plan has
23 subsequently been extended through 2019. This plan is an I-X plan that includes
24 a capital recovery incentive component. The decision approving the plan
25 directed FortisBC to provide the following information in its annual reports:

- 26 a. Customer growth, volumes and revenues;
- 27 b. Year-end and average customers, and other cost driver information
28 including inflation;
- 29 c. Expenses (determined by the PBR formula plus flow-through items);
- 30 d. Capital expenditures (as determined by the PBR formula plus flow-
31 through items);
- 32 e. Plant balances, deferral account balances and other rate base
33 information and depreciation and amortization to be included in rates;
- 34 f. Projected earnings sharing for the current year and report on true-up
35 to actual earnings sharing for the prior year; and
- 36 g. Any proposals for funding of incremental resources in support of
37 customer service and load growth initiatives.

38 A review of the Fortis annual reports (electric and gas) reveals that they provide
39 detailed information on plant balances necessary to apply the capital recovery

1 component, but they do not provide detailed O&M costs as they are not
2 necessary in order to calculate new rates. [Reference, for example, the FortisBC
3 electric annual report filed on August 10, 2018, approved by letter order on
4 November 5, 2018]

5 3. Ontario

6 Ontario implemented its 4th generation IRM in October 18, 2012, making
7 modifications to the 3rd generation IRM that had been implemented in a July 14,
8 2018 policy decision. The 4th generation IRM provides utilities with the option to
9 propose a “Custom IR” plan, with many electric utilities opting for this option.
10 The utility operates under a five-year revenue requirement plan with annual
11 filings to update the I factor and other items necessary to calculate new rates.

12 By way of example, Toronto Hydro has a custom price cap formula with an
13 inflation factor that is updated annually. Other elements are fixed at the
14 beginning of the plan including the stretch factor, annual capital factor, and a
15 symmetrical earnings sharing mechanism. The filing for year 5 of their plan was
16 made on August 31, 2018 with a decision issued on December 13, 2018 (EB 2018-
17 0071).

18 Toronto Hydro's filing includes a spreadsheet-based template model that
19 calculates rates, reflecting the updated I factor and updates for pass-through
20 items. The filing includes details on plant accounts for purposes of calculating
21 capital-related items. It does not include detailed O&M expenses. In summary, it
22 includes the information necessary to calculate new rates.

23 There was testimony presented by PEG in this proceeding suggesting that
24 Ontario is considering requiring greater cost information that would be used for
25 benchmarking purposes. Ontario relies on benchmarking as part of its regulatory
26 framework because of the large number of distribution utilities in Ontario.
27 Ontario has just recently opened a proceeding to examine the potential to
28 supplement its benchmarking efforts (EB-2018-0278). A letter filed by the OEB
29 on September 10, 2018 is the only document in the file and the initiative is yet to
30 be framed. The 3-page letter includes a single paragraph that describes the
31 intent of this initiative:

32 In its Report on the Renewed Regulatory Framework, the OEB signaled
33 its intent to evolve its performance benchmarking to allow for a more
34 meaningful review of utility operations in key areas of their operations
35 and support the OEB's objective of ensuring that utilities deliver cost
36 effective outcomes that are valued by consumers. As a first step, OEB
37 developed a utility Scorecard utilizing existing and new measures to
38 monitor utility performance. The Scorecard included measures of
39 reliability, customer satisfaction, and financial performance, among
40 others. The OEB believes that it is now appropriate to proceed with

1 **implementing activity level benchmarking of utility operations to further**
2 **assist in assessing utility cost structures, setting just and reasonable**
3 **rates and monitoring utility performance. Program and activity level**
4 **benchmarking is expected to enhance utility performance and increase**
5 **the effectiveness and efficiency of regulation. The benchmarking of**
6 **activities and programs will complement the OEB's total cost**
7 **benchmarking for electricity distributors which has been in use since**
8 **2006. This will also enable the OEB to further implement more**
9 **proportionate reviews of utility rate applications.**

10 **The OEB indicates that it intends to use a consultative approach, with a staff**
11 **discussion paper to be issued at the end of 2018. A 15-member industry**
12 **stakeholder working group has been identified. The OEB further notes that it has**
13 **retained the services of PEG to support this effort.**

14 **In Concentric's experience, it is premature to draw any conclusions regarding**
15 **the new Ontario benchmarking initiative, including the data that will be collected,**
16 **how it may be used, and whether it will have any bearing on future PBR annual**
17 **reports.**