Service Quality Regulation in Electricity Distribution – The Ontario Experience

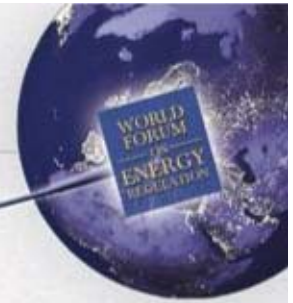## Paul Vlahos, Board Member, Ontario Energy Board

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Presentation Outline

- Objectives of service quality regulation
- Determining adequacy of performance
- Regulatory response
- Ontario's experience
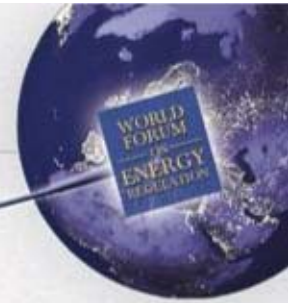- Conclusions

Service Quality - Objectives

- Emulate the results of competitive markets to produce appropriate price/quality combination
- Integrate service quality with rate regulation whether under cost-of-service regulation or performance-based regulation

Options for Determining Adequacy

- Ideally, and ultimately, adequacy should be assessed by determining customers' willingness-to-pay and incremental utility costs
- Alternatively, adequacy may be assessed by adopting off-the-shelf standards
- Alternatively, adequacy may be assessed by performance trending for each utility
- Alternatively, adequacy may be assessed by "yardsticking"
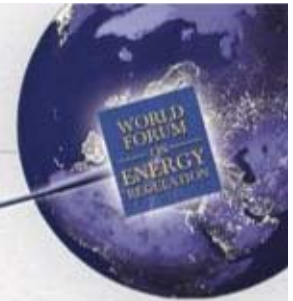
Willingness-to-Pay and Costs

- Emulates competitive market results as it produces "optimum" allocation of society's resources
- Need specific studies to derive optimum and set standard
- When many utilities involved, jurisdiction-wide studies are subject to challenges of not being applicable to the specifics of a utility

Adopting Off-the-Shelf Standards

- Off-the-shelf standards can be adopted from the literature and copying from other jurisdictions

- Appropriateness of adopting "off the shelf" standards, particularly if used for rewards/penalties, can be challenged by the sector and by a specific utility
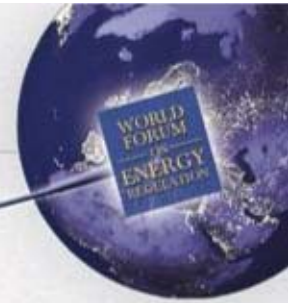
Performance Trending

- Relatively easy to observe and monitor and it is utility-specific. Can set expectation for utility to improve over time and, at a minimum, not be outside a recent historical range (say, 3 years)
- A practical first step before other alternatives are explored
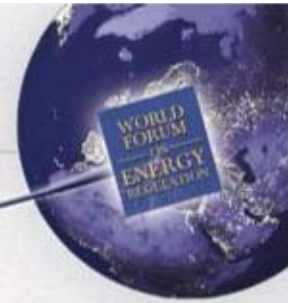- Hard to know whether to require improvements as there is no standard

Yardsticking

- Yardsticking more supportable if utilities are grouped in cohorts. Cohort groupings should use at least two collaborative methods.

- Rankings may be used in the ratemaking process, or at least use the rankings as an indicator for particular scrutiny. Good behaviour motivator when rankings are published

- Groupings are not that easy and are challengeable

- Most effective method when there are many utilities in a jurisdiction and if used in combination with standards
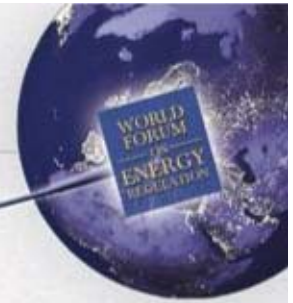
Regulatory Response

- Performance is a function of spending - should therefore be an integral part of ratemaking
- If appropriate spending is provided, there must be "sticks" for underperformance
- Need for "carrots" is debatable
- Watch for "gold plating" in over-performers
- Monitoring/auditing is very important, particularly during PBR

Ontario's Experience

- No prior Board experience before rate regulating electricity utilities in 1999
- Early on, Board adopted sector-wide standards for commercial aspects of service quality, which were later "codified" (penalties if not in compliance). For system reliability (SAIDI, CAIDI, SAIFI), Board relied on Performance Trending method (most recent 3 years)
- Board has not yet adopted standards for system reliability. Without adopting standards, there cannot be codification. Board continues to rely on the Performance Trending method

Board's Reasons for Not Codifying System Reliability

- No consistent reporting yet on system reliability measures
- No objective measures have yet been established
- There have been no studies on willingness-to-pay
- Costs may be prohibitive for some utilities to undertake substantial expenditures to raise system reliability performance

(Board has commenced a fresh review of all of the above)

Conclusions

- Standards for commercial aspects of service quality relatively easy to adopt
- Adopting system reliability standards is a lot more difficult
- If you embark on setting system reliability standards, give yourself a lot of time