



Managing a Regulatory Mandated Get-Well Program

Presented by

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Consultants to the Utility Industry

Your ability to defend your Inspections, Replacement and Monitoring Capabilities will soften the blow of the Regulator's ire ... and perhaps may keep you from experiencing a Mandated Get Well Program

AGENDA:

- Regulatory Investigations – Can it happen to you?
- The Regulator's Carrot and Stick
- What is a Get Well Program
- The Three Things you need to defend:
 - Your Inspections; *Are you looking but not seeing?*
 - Your Repair/Replacement decisions ; *Are you doing the right things at the right time?*
 - Your Monitoring Capabilities; *How well do you know your system (Failures & Assets)?*

Some Observations...

1. **Regulators will routinely question** your Utility's reliability performance – and you be asked to provide the answers
2. **Senior Management will challenge**, and perhaps not fully fund all of your Division's budget requests – and you will have to deliver the results with less
3. **And when things go wrong** – you will be asked how you let that it happen

....Sometimes these can be become opportunities when you are armed with the right insights, skills, and process

Regulatory Activity

Rate Cases

There are over 100 active rate cases – it is during these reviews that Regulators get to ask detailed questions on reliability performance, costs and benefits.

- They do so using information requests or discovery and it is not unusual to receive over 100 plus detailed questions that need to be answered within 10 business days

Outside of Rate Cases:

Regulator's have always exercised their jurisdictional power to either open a full investigation (e.g. Docket) or an informal investigation, bringing you in for a public meeting

- As examples today, we have active storm dockets in NJ, MA, and CT involving utility performance during the 2011 Hurricane Irene (August) and October storm events
- And historically we have seen get well programs around reliability, such as the Chicago (ComEd) outages in 1999, the Salt Lake City (Utah Power/PacifiCorp) in 2004, and the Long Island Network outages (ConEd) in 2006 among others

Regulatory Recovery Mechanisms (Distribution)

how Regulators get the Utility's Attention

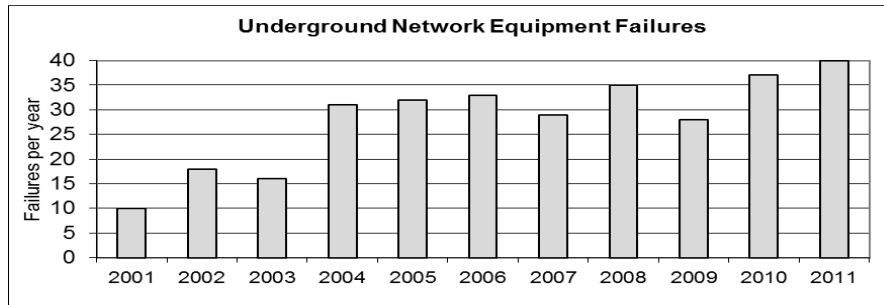
Focus Topic	Characteristics
Standard Rate of Return Regulation	Discrete rate cases (~every 'n' years)
	Revenue Requirements = ROR x Rate Base + O&M Costs
	Risks: Disallowance/reduced return for 'imprudence', negligence
	Incentive: Add capital to rate base, reduce operating costs
	Regulatory lag built in: test year or forecast - 'known and measurable'
	State by state (IOUs) or municipal review
	Interveners - State Consumer Counsel or AG, unions, industrials
	Docketed proceedings - discovery, experts, testimony, cross-exam
Formula rates, performance-based rates (PBR)	Adjusts rates automatically within 'dead bands'
	Penalties (and rewards?) for performance vs. targets (SAIDI, etc.)
	Avoids rate shock from multiple years between full rate cases
	Still subject to review, intervention, disallowance, but less risk
Rates frozen by settlement agreement	As an incentive to approve merger or other deal (de-regulation)
	Allows company to keep cost savings until rates unfreeze
	Reduces incentive to add cost to rate base (for a while)
Decoupling	Freeze total revenue or revenue per customer
	Needed to incent conservation (else utilities lose revenue)
	Adopted in CA, MA, others
Specific trackers	Accelerated recovery for specific costs, e.g., aging infrastructure
	Started with commodity costs, now spreading to reliability, etc.
	If broad enough, may obviate need for any full rate cases

Get Well Programs

Guess which utilities are currently in the middle of an underground network get well program?

Answer: All of them

Utility A – Averages about **30 failures a year**, with about two or three that are considered “recordable” events



Utility B – Operates a 10 MVA network, with 1125 customers fed from 51 transformers via 5 circuits, that had **2 equipment failures** in 2011



Utility C – Averages about **275 failures a year**, with about 1/3 considered “Reportable” events

Year	Reportable Events (REs)	Total Failures
2007	96	321
2008	69	284
2009	82	271
2010	111	275

Table 3-1: Reportable Events and Underground Failures

What Drives a Regulator to order a Get Well Program?

Common drivers include:

- Public Outcry, some one gets hurt, a spike in “Reportable” events within a short period of time, and/or a high visibility failure

In another words, you need to do something enough times or with such severity that it gets the Public and Regulator’s attention



**Posted: March 06, 2012 9:25 AM EST
CINCINNATI, OH (FOX19) -**

Fourth Street is reopened in Downtown Cincinnati after a pair of underground explosions. The explosions were reported just before 9 a.m. Tuesday morning at the intersection of Fourth and Main street.

Witnesses reported hearing two explosions, and seeing flames and black smoke shoot up in the air. Initial arriving units reported smoke emitting from three manholes in the middle of the intersection. There was also a report of smoke in a building on floors 2, 13, and 14 at 139 E. 4th St. Fire companies investigated this report and discovered that smoke was brought into the building via the HVAC intakes on Main Street. The intakes were shut down and the building remained operational. Duke Energy spokeswoman Sally Thelen says the explosions were caused by an electrical fire.

She says four manhole caps were displaced due to the incident. Duke employees shut down the underground power lines feeding the area.



Published: 3/01/2012 1:20 pm

Rochester, N.Y. -A fire in a manhole in the 300-block of Exchange Boulevard is connected to power outage in downtown Rochester and adjoining areas of Corn Hill this afternoon, officials said. Rochester Gas & Electric is reporting that 141 electric customers in the southern part of downtown Rochester and adjoining areas of Corn Hill are without power. Those customers are on Exchange Boulevard, South Fitzhugh Street and Clarissa Street, the utility said. Several large buildings, including the office building at 144 Exchange Blvd., which includes the **state Attorney General's Office, are among those without power**, as is Panzari's Italian Bistro, at 321 Exchange Blvd. Power will not be restored to these areas until about 6 p.m., according to RG&E's website.

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Avoiding (Surviving) a Mandated Get Well Program

Opportunities and Key Questions

The Top Three Things you need to defend:

1. **Your Inspections; Are you looking but not seeing?**
 - *Inspections are not failure analysis*
 - *Do your crews know what to look for?*
 - *During your inspections, do questions not answered default to the assumption everything is ok?*
 - *Do your forms have built-in business rules e.g. If you see this, please answer these questions, or perform this action*
 - *Is it paper driven or electronic (preferred – with pictures)*

2. **Your Repair/Replacement decisions; Are you doing the right things at the right time?**
 - *Failure Analysis – how sharp is your pencil?*
 - *Example: At what level do you know your system:*
 - *By Grid, Feeder, Splice, Cable, and Transformer or*
 - *Does it have greater detail by make and model of splice, year device was installed, the manhole location and if it is temperature and moisture dependent as key drivers to failure?*

3. **Your Monitoring Capabilities; How well do you know your system (Failures & Assets)?**
 - *How well do you know your system and how do you data mine the information available to perform defensible analysis?*
 - *Do you know what you know? Do you know what you don't know?*
 - *Primary and Secondary cable sizes and what manhole they run through*
 - *Product recalls and Industry Experience – Microprocessor Relays, 1950's vintage Protectors with Aluminum Bus, Transformer Designs that have proven to be less reliable*

Thank you for your time



Questions?

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