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BY EMAIL and RESS

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Ontario Energy Board
2300 Yonge Street
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Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2010-0379 – Staff Report on Performance Measurement

We are counsel for the School Energy Coalition. Pursuant to the Board's letter of July 4, 2013, this letter sets out SEC's comments on the "Staff Report to the Board on Performance Measurement and Continuous Improvement for Electricity Distributors" (the "Report").

Our comments are organized into four sections. First, we consider the overall structure of the Scorecard in light of the Board's objectives. Second, we discuss the price performance aspects. Third, we look at customer satisfaction and surveys. Finally, we respond specifically to the nine questions the Board has asked in its July 4th letter.

Structure of the Scorecard

SEC takes as its starting point the Board's stated objectives of the Renewed Regulatory Framework, as follows:

> *"The Renewed Regulatory Framework is a comprehensive performance-based approach to regulation that is based on the achievement of outcomes that ensure that Ontario's electricity system provides **value for money** for customers." [emphasis added]*

It is this central business concept of "value for money" that is fundamental to the RRFE initiative.

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In our view, that concept requires a two step analysis, and a Scorecard that is organized around the results of that analysis.

Step one is the “value” that the company – this case a distributor – is delivering to its customers. Part of the exercise of developing the Scorecard is to determine the basic things the customer gets from the company – the desirable attributes of the service being provided – and how those things can be expressed in common, easily understood metrics.

Step two is the “money” part, i.e. the price the customer is being asked to pay for that value, in this case as a bundled price.

SEC believes that the customers want four key things from its electricity distributors:

- ***Operational effectiveness.*** This does not mean cost performance (which is part of the “money” side of the equation), but does include reliability, safety, and sound management of the system and its asset base.
- ***Customer service.*** This includes the aspects of “Customer focus” listed in the Report.
- ***Public Policy Responsiveness.*** If the government requires the utility to deliver on a public policy objective, it should do so and do it well.
- ***Financial integrity.*** The distributor should keep its own financial house in order, so there will be no surprises for the customers later.

These largely equate to the four Performance Outcomes identified by the Board and included in the Scorecard proposed in the Report. The primary difference is that, in our view, Cost Performance is not one of the outcomes.

Cost Performance is – or should be – the price customers are being asked to pay for the other outcomes. While it is likely useful to report a number of components of cost, it is the overall price being charged that is the real comparator, whether compared over time or between distributors. This is not really different from the competitive markets. Component reporting adds valuable granularity, but it is the price that matters.

In the end, “value for money” requires, in our submission, reporting of the values being delivered, and reporting of the price to be paid for that value.

To that end, SEC proposes that the Scorecard be divided into two parts. The first part would be the Performance Outcomes proposed by Staff (subject to our later comments on some of them), and the second part would be a section on prices and costs, which would include those already proposed, and others as discussed below.

When you go to buy a car, there is a sticker or spec sheet that lists all of the various attributes of the particular vehicle that make it valuable, and that is all useful information. However, if there is no price, those attributes have no context, and are essentially non-referential. There, as here, value for money is understood by juxtaposing a clear statement of value with a clear statement of price.

It is submitted that the Board's Scorecard for electricity distributors should follow that pattern, identifying the value outcomes, and identifying the overall price for delivery of those outcomes, in both cases in a comparable and meaningful way.

Price and Cost Metrics

SEC generally agrees with the proposed cost metrics Staff is proposing in the Report, with two important exceptions.

First, SEC does not understand the value in reporting OM&A per kwh delivered or Net Plant per kwh delivered. It is widely understood in the industry that costs do not vary in any significant way with kwh delivered, so there is no apparent information quality in reporting that metric. Costs do vary with number of customers, and with circuit km. of line, so both of those measurements are useful. Energy volumes, while used as a billing determinant, are not in fact a material cost driver.

If the volume-related metric were Peak KW, perhaps that would have some value, and worth considering. Other choices might also be considered. Even there, though, it would seem to us that empirical work needs to be done to determine if there is a sufficient cost correlation for the metric to be meaningful.

Absent a change of that nature, SEC proposes that the metrics OM&A and Net Plant per kwh delivered be removed, as they are not reasonable ways to compare the relative cost effectiveness of distributors.

Second, and far more important, the cost components proposed by Staff, while valuable, do not include the most important of all, which is overall price.

In our submission, the Board should require LDCs to report on their overall price performance as part of the Scorecard. To do this, a price metric has to be developed that will deal with the following problems:

- Cost allocation differs from one LDC to another.
- Rate design, particularly fixed-variable split, will impact distribution bills to customers
- Different LDCs get different percentages of their revenues from the various customer classes
- Some of the costs of distribution are not included in the basic monthly and volumetric charges

With those in mind, SEC proposes that the Board develop an overall comparison of price that includes:

- Calculation of the total distribution bill for a typical customer in each rate class, using a standard volume assumption across the province (for comparability), and including all non-commodity rate riders and other charges.
- Weighting of the results of those calculations by revenue weights. That is, if Distributor A gets 45% of its revenue from Residential, and Distributor B gets 35% from Residential, then the typical Residential customer's bill in Distributor A gets a 45% weight, and in Distributor B gets a 35% weight.
- Place the weighted results on a common scale and average them, so that the results for one distributor are comparable to the results for another distributor, having adjusted for the different revenue weights.

We believe that the trickiest part of this is identifying the common scale (so that the distribution bills from different classes are averaged in a meaningful way without size of customer overwhelming the result), but that should be a tractable problem, solvable by the Board through an expert review and a short consultation.

The most important aspect of this is establishing a composite price metric that allows customers and other interested parties to understand how much the distributor is charging for the value outcomes that are described in the Scorecard. This is, in our view, the single most important fact that must be reported on the Scorecard.

In addition, we believe that the total monthly distribution bill for the typical customer in each class, as set out above, should be reported separately. In this way, the price for each customer group is compared, not just overall. As we note in our answer to Question 9, this is detail that might be included under a hyperlink.

<u>Customer Satisfaction</u>

The Report recommends that all distributors be required to survey their customers, in two basic areas:

- What do the distributor's customers "value and prefer"?

- How satisfied are the customers with the distributor's performance?

With respect to the former, SEC does not understand the purpose of surveying for this. What the customers value is well understood, and in fact the whole Report is based on the premise that the Board understands what customers value. That's what the performance outcomes are supposed to be all about. If we don't know what the customers value already, then how can we establish a scorecard that measures those things?

Indeed, the assumption that distributors have to survey their customers to find out what they value and prefer implies that distributors do not know what their customers want. That is directly contrary to our experience. Management of any given distributor will have many strengths and weaknesses, and those can differ from distributor to distributor. However, understanding the customers has always appeared to us to be on the "strengths" side, not the "weaknesses" side, with very few exceptions.

Therefore, SEC repeats what many distributors and ratepayer groups said during the consultation and working group process. Surveying customers to find out what they want is, for the most part, a complete waste of the ratepayers' money, and that is particularly true for smaller utilities.

Customer satisfaction is a different story. Surveying – particularly transactional surveying – that can be done on a cost-effective basis and has a standardized approach to ensure comparability, can be useful.

The Report proposes that this be done in a two-step process. The Board would identify issues that should be addressed in these surveys, and then the local distributor would design and implement local surveys to deal with those and other issues. The local distributor would be free to choose whatever survey approach (annual, transactional, etc.) they feel is appropriate for their local community.

We have two concerns about this:

- LDCs are not experts in the survey business, so this amounts to 75 distributors having to spend management and other staff time to figure out how to do this well. Then, each has to engage a survey company, and incur the costs associated with that.

- Each LDC will be motivated to ensure their company comes across in the best light. Even while using good survey practices, it is reasonable that they will ask the questions in such a way as to achieve that result. The survey results – from different questions asked in different ways – are unlikely to be comparable between utilities.

SEC proposes two steps to address these concerns.

First, SEC proposes that, with the exception of our second point below, surveys by individual distributors should not be mandatory, nor should the Board get into the survey business.

It would be useful to have a standardized customer satisfaction survey for all distributors in the province. That, however, would normally be expected to be the collective responsibility of the sector, typically through their industry association.

The LDCs in fact have common information bases for compensation and other things through their industry association. In SEC's view, the Board should encourage the distributors, through either the EDA or the OEA, to develop and implement a standardized annual customer satisfaction survey, to be carried out province-wide and reported by each LDC on their scorecard.

Second, many retail businesses have in recent years used automated transaction surveying as a low cost way of getting feedback on customer satisfaction whenever they engage the customer. This can be very effective, although normally it is necessary to provide an incentive to the customer to get them to go online and answer the survey.

To that end, SEC proposes that the Board encourage distributors to implement online transaction surveys, and authorize them to provide bill incentives (a $10 reduction in your next bill, for a residential customer, for example) for those who complete those surveys.

In order to ensure this is done in an efficient manner, SEC proposes that the Board start with a pilot project, choosing one or more distributors that are already doing online transactional surveys. The pilot project could test different software choices, and the effect of different incentives on uptake. This will keep the cost low, both in terms of avoiding everyone having to do their own software procurement, and establishing the optimum level of incentives.

SEC believes that, once a low-cost and effective online survey package is identified, it could be made a requirement of all distributors in a subsequent year.

Our conclusion, on the question of surveys, is that surveys to determine what the customers want are not a wise use of ratepayer dollars. A customer satisfaction survey to determine relative performance between LDCs should be developed by the industry, not by the Board. Low cost online transactional surveying can be made mandatory, but only once the optimal design has been determined through pilot projects.

The Board's Questions

1. ***Service Quality Requirements.*** SEC agrees that the nine proposed service quality metrics are appropriate.

2. ***Staff Survey Recommendation.*** Ensuring that distributors used "good survey practices" would, in our view, quickly become a costly, time-consuming, and contentious activity for the Board, with little value to show for it.

3. ***Non-Comparability of Surveys.*** Please see our comments in the immediately preceding section.

4. ***Distributor Input - Surveys.*** Not applicable to SEC.

5. ***First Contact Resolution.*** In our view, distributors who currently gather information on first contact resolution should be asked to provide to the Board details on how they do it, including the problems they have seen, and the solutions, if any, they have implemented. This could be in the responses to Question 6, but would probably be enhanced if more than an overview were to be provided. Those details could be published on the Board's website, and all stakeholders could be invited to comment on the optimum approach. This will effectively allow all distributors to assess how to do this best, and provide the Board with information to determine whether each distributor is achieving that result.

6. ***Distributor Input – First Contact Resolution.*** Not applicable to SEC.

7. ***Distributor Input – Billing Accuracy.*** Not applicable to SEC.

8. ***Allowed ROE.*** SEC does not believe that Allowed ROE has value on the Scorecard. We agree with Staff that Allowed ROE is not a target, but is rather an allowance, as the name implies. It is appropriate for a corporate scorecard, of course, and will for almost all utilities be well supervised by the Board of Directors and shareholder. For the regulatory Scorecard, it has little value. Actual regulatory ROE is valuable, because it speaks to the effectiveness of IRM, and because if it is too low or too high it can signal problems (insufficient spending control, load destruction, harvesting the assets, etc.). How the ROE compares to the Board's most recent Allowed ROE does not add any useful information.

9. ***Scorecard Presentation.*** SEC does not believe the current level of detail in the Scorecard is too much, although we believe that trend lines and colour coding are unnecessary. We do recommend that the Board consider whether hyperlinks can be used to provide detail underneath the main items reported. For example, the utility can report the five years of data for a metric, but a link on the website could allow the reader who clicked on it to see further information, such as a trend line, or other such analytics. Similarly, if unit cost benchmarking is to be reported, information such as trend line, adjustments to cost figures (which Staff has proposed for reporting), and even the results of other LDCs, could be provided through the hyperlink. Technology allows very simple data to be provided, while still giving the reader additional layers of detail if they wish. It would, in our view, be easy to embed this functionality in a standard Board Scorecard model, so that it is available to all users on the Board's website, and on the distributor's website.

<u>Conclusion</u>

The School Energy Coalition appreciates the opportunity to be involved in the working group, and now to provide input through these comments into the Scorecard. We hope our comments are of assistance to the Board, and would be pleased to participate in any future consultations in this area.

All of which is respectfully submitted.

Yours very truly,
JAY SHEPHERD P. C.

Jay Shepherd

cc: Wayne McNally, SEC (email)
Interested Parties