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VIA E-MAIL AND WEB POSTING

October 10, 2018

**To: All Licensed Electricity Distributors and Transmitters
All Rate Regulated Natural Gas Distributors
Ontario Power Generation
All Other Interested Parties**

Re: Activity and Program Based Benchmarking (APB) Initiative (EB-2018-0278)

The Ontario Energy Board (OEB) is launching an initiative to develop Activity and Program Based Benchmarking (APB) to encourage continuous improvement by regulated utilities. The purpose of this letter is to provide stakeholders with an overview of the initiative and the consultation approach the OEB is planning.

The OEB's Strategic Blueprint set out a strategic goal of "utilities delivering value to consumers in a changing environment". In its 2017-2020 Business Plan, the OEB identified the development of a framework for Activity and Program Based Benchmarking of electricity local distribution companies as a key initiative towards achieving this strategic goal.

While the OEB intends to develop APB for all rate-regulated utilities, it plans to undertake the initiative in several phases. Phase One will focus on development of APB for electricity distributors. Subsequent phases will address electricity transmitters, gas distributors and Ontario Power Generation. The OEB expects the model for APB developed in Phase One will provide a basis for subsequent phases.

Background

In 2012, the OEB launched the Renewed Regulatory Framework (RRF). The RRF set out the OEB's new approach to establishing rates and ensuring utilities deliver value to customers. It identified a number of initiatives intended to assist the OEB in its consideration of utility rate applications and ongoing utility performance, including greater reliance on the benchmarking of utility operations.

In its Report on the Renewed Regulatory Framework, the OEB signaled its intent to evolve its performance benchmarking to allow for a more meaningful review of utility operations in key areas of their operations and support the OEB's objective of ensuring that utilities deliver cost effective outcomes that are valued by consumers. As a first step, OEB developed a utility Scorecard utilizing existing and new measures to monitor utility performance. The Scorecard included measures of reliability, customer satisfaction, and financial performance, among others. The OEB believes that it is now appropriate to proceed with implementing activity level benchmarking of utility operations to further assist in assessing utility cost structures, setting just and reasonable rates and monitoring utility performance. Program and activity level benchmarking is expected to enhance utility performance and increase the effectiveness and efficiency of regulation. The benchmarking of activities and programs will complement the OEB's total cost benchmarking for electricity distributors which has been in use since 2006. This will also enable the OEB to further implement more proportionate reviews of utility rate applications.

Consultation Approach

Consultations on this initiative will begin with the issuance of an OEB staff discussion paper setting out the options for using APB in the electricity distribution sector. The discussion paper will provide stakeholders with an understanding of how APB may be used by the OEB to assess performance and encourage improvement in the sector. A key part of the discussion paper will be the identification of potential activities or programs that may be used for the basis of benchmarking utility performance. The discussion paper is expected to be issued in late 2018 and further details about the consultation process will be provided with the release of the paper.

The OEB has retained Pacific Economics Group Research LLC (PEG) to assist in the development of an activity based benchmarking framework. PEG has been asked to identify potential methodologies that could be used, assess data availability and potential limitations, and to review approaches used in other jurisdictions.

Given the importance of identifying the activities and programs that should be benchmarked in order for APB to provide benefits in terms of continuous improvement and regulatory efficiency, the OEB has established a working group to advise OEB staff. The working group is made up of knowledgeable stakeholders representing consumers and utilities. The working group's advice will assist in the preparation of the OEB staff discussion paper, in particular the identification of possible activities and programs that would provide performance benchmarks that are meaningful to all stakeholders. Nominations for the working group were invited from industry and consumer representatives. Composition of the working group has been designed to provide a balanced and broad representation of relevant interests with the appropriate level of expertise. The members of the working group are listed in Attachment A.

The OEB has determined that the consumer representatives on the working group will be eligible for costs. Costs to a maximum of actual meeting time plus up to 4 hours per meeting for preparation and reporting will be provided. The invited consumer representative stakeholders should refer to the OEB's [Practice Direction on Cost Awards](#) for information about the types of costs that may be claimed.

As indicated above, further details regarding both this phase of the APB initiative and additional phases dealing with other regulated entities will be issued in due course. Any questions related to this letter may be directed to IndustryRelations@oeb.ca.

Sincerely,

Original Signed By

Brian Hewson
Vice President, Consumer Protection & Industry Performance

Attachment A

Attachment A
APB Working Group

The following are stakeholder participants on the APB working group.

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| 1. Colin Anderson | AMPCO |
| 2. Karla Bailey | Thunder Bay Hydro |
| 3. Alyson Conrad | Waterloo North Hydro |
| 4. Greg Van Dusen | Hydro Ottawa |
| 5. Julie Girvan | Consumers Council |
| 6. Matthew Higgins | Toronto Hydro |
| 7. Rob Kent | Entegrus Powerlines |
| 8. Ivano Labricciosa | Oshawa PUC Networks |
| 9. Frank Lasowski | Milton Hydro |
| 10. Ian McKenzie | Tillsonburg Hydro |
| 11. Ken Robertson | CHEC |
| 12. Mark Rubenstein | SEC |
| 13. Byron Thompson | EnWin Utilities |
| 14. Maryanne Wilson | Oakville Hydro |
| 15. Alex Zbarcea | Hydro One |