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File 10329

VIA COURIER and RESS FILING

Ms. Kirstin Walli,
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor,
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli,

Re: Activity and Program Based Benchmarking (APB) for Electricity Distributors (EB-2018-0278)

Power Workers' Union ("PWU") represents a large portion of the employees working in Ontario's electricity industry. Attached please find a list of PWU employers.

The PWU is committed to participating in regulatory consultations and proceedings to contribute to the development of regulatory direction and policy that ensures ongoing service quality, reliability and safety at a reasonable price for Ontario customers. To this end, please find the PWU's comments on the issues identified in the Board staff Discussion Paper entitled *Activity and Program Based Benchmarking (APB) for Electricity Distributors (EB-2018-0278).*

We hope you will find the PWU's comments useful.

Yours very truly,
PALIARE ROLAND ROSENBERG ROTHSTEIN LLP

Richard P. Stephenson
RPS:pb

Attach.

Doc 2817496 v1

List of PWU Employers

Algoma Power
AMEC Nuclear Safety Solutions
Atlantic Power Corporation - Calstock Power Plant
Atlantic Power Corporation - Kapuskasing Power Plant
Atlantic Power Corporation - Nipigon Power Plant
BPC District Energy Investments Limited Partnership
Brant County Power Incorporated
Brighton Beach Power Limited
Brookfield Power Wind Operations
Brookfield Renewable Power - Mississagi Power Trust
Bruce Power Inc.
Canadian Nuclear Laboratories (AECL Chalk River)
Compass Group Corporation of the County of Brant
Covanta Durham York Renewable Energy Ltd.
Entegrus
Erie Thames Powerlines
Erth Corporation
Great Lakes Power (Generation)
Great Lakes Power Transmission
Grimsby Power Incorporated
Halton Hills Hydro Inc.
Hydro One Inc.
Independent Electricity System Operator
Inergi LP
InnPower (Innisfil Hydro Distribution Systems Limited)
Kenora Hydro Electric Corporation Ltd.
Kinectrics Inc.
Kitchener-Wilmot Hydro Inc.
Lake Superior Power Inc. (A Brookfield Company)
London Hydro Corporation
Milton Hydro Distribution Inc.
New Horizon System Solutions
Newmarket Hydro Ltd.
Norfolk Power Distribution Inc.
Nuclear Waste Management Organization
Nuvia Canada
Ontario Power Generation Inc.
Orangeville Hydro Limited
Portlands Energy Centre
PowerStream
PUC Services
Rogers Communications (Kincardine Cable TV Ltd.)
Sioux Lookout Hydro Inc.
SouthWestern Energy
The Electrical Safety Authority
TransAlta Generation Partnership O.H.S.C.
Westario Power
Whitby Hydro Energy Services Corporation

EB-2018-0278

Activity and Program Based Benchmarking (APB) for Electricity Distributors

Comments of the Power Workers' Union

1. INTRODUCTION

The RRFE provides LDCs with an incentive to minimize overall costs. APB could be an effective tool for LDCs to better understand their cost drivers and identify areas of improvement to achieve lower overall costs. However, a focus on certain activities may have adverse unintended consequences and create perverse incentives if the results are primarily used for evaluating LDCs in a manner similar to total cost benchmarking.

It is the PWU's view that APB should be used principally as a tool to aid utilities minimize their costs within the existing ratemaking framework and not to evaluate the performance of specific activities undertaken by LDCs. The appropriate APB methodology and implementation depend on which outcomes are prioritized by the OEB. The PWU's view is that the value of the APB framework is in the information it provides an LDC to improve its cost performance.

2. ADDITIONAL CONSIDERATIONS

Q. 1 What other elements, if any, should the OEB consider in its development of an APB framework?

The OEB Staff's discussion paper does not adequately consider LDC performance that is not directly related to costs, such as safety and reliability. Introducing APB could create issues if the results are used principally to deny costs or increase the x-factor. If

there is a focus on cost benchmarking results over reliability and safety metrics, and a revenue requirement impact associated with that focus, there could be consequences to long-term system integrity.

Further, APB may incent LDCs to focus on the costs of a specific activity at the expense of activities in which they can more efficiently reduce costs. Opportunities for improvement in an activity that an LDC is already considered to have performed well may be overlooked. This risk would be heightened if the OEB relies on APB results for cost of service application decisions. Any additional focus on certain activities will reduce the focus on other activities in both the distribution system planning process and the application process.

3. ACTIVITIES/PROGRAMS

Q.2 What level of cost disaggregation is suitable for activities/programs benchmarking?

Q.3 Does the preliminary list provide a set of activities / programs for benchmarking that are meaningful in terms of utility operations and customer service?

Q.4 Should the OEB purse a phased approach for benchmarking activities and programs? Why?

The appropriate level of granularity depends on the purpose of the results. The PEG report notes that the marginal benefit of APB declines with increased granularity.[1] This is because the level of comparability between LDCs declines as costs become more disaggregated. Benchmarking an activity's sub-components could be useful for LDCs to identify cost drivers and best practices in respect of the mix of those sub-components. However, disaggregated costs are less comparable between utilities so evaluating LDC performance based on disaggregated costs would not be appropriate.

If the selected benchmarking method requires additional data from LDCs the OEB should phase in benchmarking activities gradually. Increasing the data required from utilities increases the regulatory burden. It may take substantial resources to collect new

[1] PEG - APB Report to the OEB, page 8

data for ten activities upon introduction of the APB framework so this increased burden should be implemented over multiple years. A smaller set of preliminary activities may also allow for a more efficient rollout of additional programs.

4. METHODOLOGY

Q.5 What benchmarking method(s) should the OEB use to benchmark activities/ programs? Why?

Q.6 What is the preferred method that will be well understood by customers and other stakeholders?

Q.7 What benchmarking method(s) provides the best indication of performance efficiency to allow distributors to understand the results, and provides the opportunity to undertake the appropriate action to improve their performance? Why?

The optimal benchmarking method depends on which outcomes the OEB prioritizes. The Unit Cost and Cost/Volume methods provide the clearest results that are understandable to LDCs, intervenors, and customers but the results do not consider all cost drivers. The results could provide meaningful information for LDCs to identify which activities have the most room for improvement and which factors are driving certain costs. The econometric method allows for more comparability between LDCs at the expense of methodological complexity.

The OEB should use the Unit Cost or Cost/Volume method if the priority is to help LDCs improve efficiency by identifying cost drivers and best practices. The results may not be as directly comparable but LDCs can take LDC-specific factors into account when evaluating the performance of its activities against other utilities. Unit Cost and Cost/Volume benchmarking provides results that are easier for all LDC employees to interpret and allows the LDCs to set targets that are straightforward.

The econometric method is difficult to interpret without knowledge of econometric methodologies. It would be difficult, or perhaps impossible, to determine exactly how a change in how an LDC approaches an activity would impact their benchmarking results. The Unit Cost method is advantageous over the Cost/Volume method because it does not require additional data. The PWU's view is that Unit Cost method would be most useful and least onerous for utilities.

The econometric method should be used if the priority is to compare the performance of LDCs. Though it is complex, the econometric method allows for the greatest degree of scaling and adjustments to account for LDC-specific characteristics. Though no method would provide a perfect comparison, it would not be appropriate to use APB results to evaluate LDC performance if LDC-specific factors are not fully considered.

5. DATA CONSIDERATIONS

Q.8 What data considerations should the OEB take into account?

Q.9 Should the OEB undertake to start collecting new data now to support future benchmarking under the APB framework (e.g. data associated tree trimming and asset sub-categories such as by type of poles or transformers)?

Q.10 What are the potential gaps in data gathering and what are the suggested mitigation solutions?

APB should not increase the regulatory burden for utilities by introducing additional data requirements. The provincial government recently proposed amendments to the Ontario Energy Board Act to reduce regulatory burden.[2] The regulatory burden for LDCs is already substantial and would only be worsened by increasing data requirements. The OEB should consider whether these efforts to reduce the regulatory burden will restrict the data available for APB.

The cost of incremental data reporting to LDCs is not justifiable when methods that do not require additional data are available. The Unit Cost method should not require additional data so it is the method that creates the least regulatory burden.

6. TRANSITIONAL ISSUES

Q.11 What transitional issues need to be addressed?

APB should be implemented in a way that creates the least burden for LDCs. A measured approach to implement APB efficiently and minimize the LDCs regulatory burden should not be outweighed by the OEB's desire to implement APB quickly.

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[2] Building a Modern, Efficient, and Effective Energy Regulator for Ontarians - March 21, 2019