



BY EMAIL and RESS

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Our File: EB20180278

Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2018-0278 – Activity and Program Based Benchmarking – SEC Comments

We are counsel to the School Energy Coalition (“SEC”). These are SEC’s comments on the *Board Staff Discussion Paper: Activity and Program Based Benchmarking for Electricity Distributors*.

Overview

SEC commends the Board for launching the Activity and Program Benchmarking (“APB”) initiative. It is an important step in promoting continuous improvement by utilities and facilitating thorough scrutiny of their rate applications. SEC has consistently been a leading proponent of utility benchmarking and has often used unit cost benchmarking to measure utility performance in rate applications. Having the Board collect the necessary data, validate it, and provide the results so that comparisons of activity and program costs can be compared across utilities, is a positive step in providing the Board and consumer groups with greater tools in assessing utility costs.

SEC recognizes that there will be challenges in implementing the APB, including those outlined in these comments, but the Board should not allow perfection to be the enemy of the good. While some utilities have embraced benchmarking to better their own performance, many others have not.

A review of a utility’s capital and expatiating budgets incorporates two important and interrelated questions. First, is the utility doing the right type and quantity of work? Second, are they doing that work at a reasonable cost? With the RRF and the requirement of the filing of a Distribution System Plan, the Board has made important strides in having the information to evaluate the first question. However, evaluating the second question is still a struggle, since generally the only information that is provided or can be derived from the application is year-over-year unit cost information and even that is often limited. While an important indicator of utility performance over time, it does not indicate if the costs were reasonable in the first place.

Scope of Activities and Programs (Q2-Q4)

SEC is broadly supportive of the preliminary list of activities and programs that the Board has selected for benchmarking. They represent cost categories that make up the most significant portions of a utility's capital and OM&A budgets.

SEC does support including both bad debt and collection in the benchmarking exercise. When raised during the Working Group, many participants objected on the basis that the drivers of bad debt and collection costs are external to the utility (i.e. employment rates, household income etc.). SEC does not dispute this but notes that the information is still useful because insofar as the external factors can be normalized, better performing utilities can be easily identified, and best practices explored.

The Discussion Paper recommends that benchmarking be done at levels 1, 2, and 3. With respect to level 4, the asset sub-category basis, the paper recommends that since the information is not currently available, that an explanatory approach be taken to assess the costs and benefits of benchmarking at this level. SEC supports benchmarking at levels 1, 2 and 3 at this time, but stresses that the Board should do more than assess the cost and benefits of level 4 benchmarking. For certain assets, benchmarking at the sub-category level is needed to allow for a meaningful analysis of a utility's costs. Benchmarking based on level 3 information may result in significant 'apples' to 'oranges' comparisons. For example, with transformers there are order of magnitude scale differences in the costs of a pole top, pad mount and network transformers.¹ Under the proposed level 3 approach they would all likely be benchmarked together. SEC submits that while as a starting point levels 1, 2 and 3 should be benchmarked, the Board should fast track the requirement for utilities to track the costs of certain level 4 asset categories.

Benchmarking Methods (Q5-Q7)

SEC supports both traditional unit cost and econometric modeling for program and activity benchmarking. Each provides useful information in measuring how a utility performs. Unit cost is easily understandable, not just for the utility, the Board, and consumer groups, but also the public at large. It is also easier to take the unit cost information and compare it to past utility performance, as well as non-Ontario costs. Econometric benchmarking is useful in determining how different external factors should impact unit cost. It has the benefit of attempting to normalize the benchmark based on external variables. SEC supports Board Staff's view that APB should utilize both types of benchmarking.

Date Quality and Requirements (Q8-Q10)

Both having the necessary data and ensuring that it is correct, are key, to ensuring success of the APB.

Data Requirements. The Discussion Paper does recognize this data gap, and based on a survey of distributors, is confident that the information is generally available, although challenges do exist.² SEC submits collecting the necessary data needs to be the highest

¹ By way of example, based on the unit cost benchmarking study filed by Toronto Hydro in its current Custom IR application (EB-2018-0185), the cost to replace a pole top transformer is \$11,761, padmount or underground transformer is \$21,454, and a network transformer \$88,943. (EB-2018-0185, Exhibit 1C, Tab 2, Schedule 1, App B, p.32, Table C-8)

² *Board Staff Discussion Paper: Activity and Program Based Benchmarking for Electricity Distributors.*, p.46

priority for the Board. Without ensuring that it has the additional data needed to properly undertake activity and program benchmarking, the initiative will be of little use.

SEC does agree that wherever possible, the Board should use existing data sources, not only because it reduces any regulatory burden, but also it promotes consistency of data across the Board's regulatory activities. The fewer opportunities for utilities to submit what should be the same data, the better. The key source of annual data the Board receives is through the RRR filing process. Since the RRR process was never meant to collect data for the purposes of benchmarking costs at the program or activity level, it is not sufficient. For example, RRR only includes gross capital costs, not capital costs net of depreciation. In addition, the RRR does not require utilities' asset quantities, and so all that is available to the Board at this point to undertake unit cost analysis, is to make rough assumptions of the quantity of assets per km of line, which is information it does have. Even then, the information will not track the quantity of overhead versus an underground line.

- **Data Quality.** In addition to receiving additional data, the quality and consistency of all the data it uses needs to be ensured. In SEC's experience reviewing hundreds of rate applications over the years, there is a likelihood of material data quality and consistency issues. SEC understands that the Board has emphasized this issue with respect to the RRR filings, and has more closely scrutinized the data that comes in and is increasingly following up with utilities. But from discussions with Board Staff during the working group and at the stakeholder meeting, we understand what ends up getting flagged is general anomalous in RRR balances or significant variations in a given utilities' RRR balance year-over-year. All of this is an important step, but insufficient to ensure the quality of the existing data, let alone new data that comes in.

One of the problems SEC has is that it is not clear if there actually is a wide-spread data consistency issue. Experience tells us that there are sometimes issues, but the extent of them is entirely unknown. It may be very significant in which the entire integrity of the APB program may be called into question. On the one hand, the issues maybe immaterial and will have little to no impact on individual results.

SEC recommends that the Board undertake an audit of data quality and consistency issues to assess if there is a problem. This need not be a lengthy or complex undertaking. It could simply be a spot audit of a sample of utilities and a sample of USoA accounts, simply to check if utilities are following the Accounting Procedures Handbook correctly.

Just as important, in the areas where there is discretion or ambiguity, there should be consistent practice in how amounts are booked to different accounts. This is especially important with respect to the allocation and usage of different subaccounts, which can become important for unit cost benchmarking.

In SEC's experience, a lot of the data inconsistency issues are related to the allocation of the labour component in capital programs amongst different USoA accounts, where the underlying work project spans multiple different asset categories. There are a number of

reasonable ways that utilities allocate the labour costs amongst the USoA accounts, but if they are not doing it consistently, it will impact the data quality for benchmarking purposes.

APB Data and Results (Q11)

When releasing the results of APB, the Board should ensure that it provides all of the underlying data that makes up the analysis. The Board should also provide all the non-confidential data that it receives from utilities in a standard computer readable format (e.g. MS Excel). This will allow consumer groups, utilities, and the public to do their own analysis and potentially find useful information, correlations, and conclusions as a result. While the information is available upon request from Board Staff, it is not advertised by the Board, and the public would not know that it is available. Providing the information in an easily readable format, would be consistent with the provinces Open Government initiatives³ and similar to what the Federal Energy Regulatory Commission provides.⁴

Yours very truly,

Shepherd Rubenstein P.C.

Original signed by

Mark Rubenstein

cc: Wayne McNally, SEC (by email)
Interested (by email)

³ See <https://www.ontario.ca/page/open-government>

⁴ See <https://www.ferc.gov/docs-filing/forms/form-1/data.asp>