

Ontario Energy Board
2300 Yonge St, 27th Floor
Toronto, ON M4P 1E4
Attn: Ms. K. Walli
Board Secretary

March 27, 2019

Dear Ms. Walli

Re: **EB-2018-0278 Activity and Program Benchmarking for Electricity Distributors**

Quantitative data analysis, like benchmarking, is among the essential management tools used to responsibly run a business. Managers complement the results of quantitative techniques with qualitative factors, strategic considerations knowledge and judgement. Regulated Local Distribution Companies (LDCs) are no different: they rely on quantitative techniques and other information to provide their customers with safe, reliable service at a reasonable price – and are prepared to engage with the regulator, sometimes in a public forum, when analyzing their data. It is in this spirit that the Electricity Distributors Association (EDA) offers these comments to the Ontario Energy Board (OEB, the Board) on its Activity and Program Benchmarking (APB) initiative.

The EDA's members are the face of Ontario's electricity industry to the end use consumer and have a unique accountability to serve the customer. Benchmarking is among the analytical techniques available that can, in combination with other information, help both the utility and the regulator demonstrate the appropriateness of the results obtained for the resources expended. It can be used to identify aspects of utility operations that require further probing, to understand how different utilities organize their resources to serve their customers, as well as to identify opportunities for utility improvement.

The OEB's APB project has taken its first step and LDCs expect that there will be many follow on activities. The EDA's comments provided herein respond to the Staff Discussion Paper (SDP), our only point of contact with this initiative to date. Context is always important.

The EDA considers context doubly important when performing quantitative analysis to avoid misinterpreting the analytical findings or inappropriately leveraging the available data. The EDA recommends that the OEB first scope the 'problem' that benchmarking is to address so that the data and methodology can be appropriately and cost effectively tailored.

The remainder of these comments are organized under the following headings:

- Eligible activities
- Scope
- Data
- Methodology.

These comments also address some ‘gaps’ in the Staff Discussion Paper (SDP). The EDA acknowledges that characterizing these issues as gaps may reflect our lack of knowledge of the contemplated scope of the project. Appendix A cross references these comments with the Issues For Stakeholder Comments that are attached to the SDP.

The EDA’s organization of the headings differs from that presented in the SDP, specifically the discussion of data considerations precedes the discussion of the appropriate methodology. LDCs are resource and cost conscious, they consider it responsible to leverage the data currently available rather than to propose a methodology that might require additional work to acquire suitable data. To be clear, LDCs are not opposed to acquiring additional data, their perspective is that additional data should be gathered to deal with a targeted need and gathered in a cost-effective manner.

Eligible activities

LDCs reviewed the SDP’s process for identifying the eligible activities and observe that the staff’s approach would be more suitable if the industry, technology and government policy all exhibited stability over a lengthy period of time. At this time however, stability does not exist:

- disruptive technology is increasingly available, such that the customer can achieve a level of grid independence
- government policy is under review, such as the recently announced review of the Industrial Conservation Initiative (ICI) that will impact the quantification of the commodity cost, the single most significant line item on the bill
- the OEB is reviewing the Regulated Price Plan (RPP) as well as the Global Adjustment price signal to Class B consumers - both of which will impact the quantification of the commodity cost,
- Ontario electricity distribution sector continues to restructure.

The identified activities should be evaluated for whether they will continue to be performed for the foreseeable future and, if they will persist, whether they will continue to be performed as they are today.

The activities considered for benchmarking analysis should be evaluated for:

- overlap (to avoid double counting)
- priorities (e.g., some LDCs may devote more resources to preventative activities that put downward pressure on remedial activities whereas other LDCs may “run to failure” (i.e., not perform routine maintenance, and instead replace the asset when it breaks down) in which case they can be expected to put almost no resources into preventative activities and bulk of the resources into remedial activities)

- the timing of the adoption of the activities that the LDC performs (e.g., some LDCs were early adopters of customer surveys and incorporated these findings into their operating practices while others have transitioned to this approach more recently)
- consistency of cost driver; for example, whether the LDC relies on manual processes or whether it has successfully automated an aspect of the provision of service (e.g., some LDCs customer intake processes rely on a Customer Service Representative to gather the information, which impacts OM&A, whereas others use web based interfaces and a customer self serve approach, which impacts capital costs)
- whether the identified activities provide a suitably complete representation of LDC performance.

The OEB may want to consider including data that depicts the LDC's attributes, such as:

- exogenous data (e.g., population density statistics)
- the level of service provided to consumers (e.g., reliability, customer care)
- endogenous factors that characterize the LDC (e.g., deployment of innovative technologies)
- reporting standards and related data (e.g., accounting standard, capitalization ratio).

Scope

The EDA concurs that it is reasonable to examine relatively few activities at the outset. In fact, the EDA's members suggest that the OEB consider running the first, and possibly second, round of benchmarking on a test basis using fewer activities. This will permit all LDCs, as well as intervenors and OEB staff, to determine if a selected activity is appropriate for assessing performance, to determine if a selected activity is suitable for comparing LDCs to one and other, and to acquire a working level of literacy and hands on experience with the technique prior to the OEB applying it, potentially when making decisions. LDCs note that the Board's Total Factor productivity (TFP) analysis used in its Total Cost Benchmarking (TCB) and its Cost Allocation Review – Informational Filing (CAR-IF) initiatives did not include this step and that data issues were subsequently identified in both projects.

The extent of the testing will depend on how the Board intends to use the results. If, for example, the Board wishes to use the results of APB to identify areas of an LDC's operations that require further scrutiny then a less intensive test period may be appropriate. If, however, the Board intends to immediately proceed to rely on benchmarking analysis and its results when setting rates then a more thorough and considered test period may be suitable. LDCs anticipate that the Board will rely on a range of information sources when analyzing results, making sound decisions and so on.

LDCs are willing to explore the application of benchmarking using the activities identified in the SDP, subject to the comments made elsewhere about the existence, quality and organization of the supporting data.

Data

Our members view the Board staff's position on leveraging existing data as a practical first step and anticipate that the Board's benchmarking analysis will benefit from data refinements.

LDCs have been complying with the Board's Record-keeping and Reporting Requirements (RRR) for nearly two decades. The Trial Balance (TB) data they report in fulfillment the Board's RRR is derived from the data used to prepare the LDC's audited financial statements. It is important to recognize that the objective of the audited financial statements is to demonstrate the economic reality of the LDC to the shareholder and to prospective providers of capital. LDCs expect that the OEB uses TB data to assess the financial well being of individual LDCs and of the industry as a whole, in order to demonstrate that it is achieving its legislative objective of maintaining a financially viable industry. The EDA questions whether TB data can satisfy the criteria or standards such that it will be meaningful for benchmarking analysis.

Our members also point out that TB data displays the costs of any given activity or program in a number of accounts and that any individual account will include the costs incurred for a number of activities and programs. For example, Uniform System of Account (USoA) account 1830 "Poles, Towers and Fixtures" captures costs of system access (e.g., planned expansions, pole line relocations required by the municipality), of infrastructure renewal (e.g., when the LDC's pole testing program detects a compromised pole that must be replaced) and of emergencies. USoA accounts are activity based and balances are reported using the Fully Allocated Cost (FAC) method that assigns overheads and other such costs to activities. This means that the reported costs are not exclusively related to activities, they include allocated attributable costs (e.g., a portion of the costs of running the business as a business) where the attributable costs recorded by one LDC may or may not be comparable to those recorded by another LDC.

All accounting professionals will remind the users of financial data that materiality plays a role, that the capitalization ratio changes year over year, that if a significant capital project is to be completed in any year then other projects may be deferred to future periods, and that professional judgement is applied when preparing statements. The EDA reminds the Board that LDCs transitioned away from Canadian Generally Accepted Accounting Principles at different times and that not all Ontario LDCs transitioned to the International Financial Reporting Standard (IFRS). It also reminds the Board that despite the Accounting Procedures Handbook's (APH) provision of definitions and guidance, the assignment of costs to individual USoA accounts is subject to interpretation that can, for example, result in differences in capitalization policies.

LDCs understand that the OEB desires to leverage the RRR and TB data for reasons of practicality: it exists, it covers a long time period, at a high level it is not inconsistent as it was prepared to comply with the OEB's RRR and its APH. The EDA proposes that the data used for Benchmarking suitably align with the activity being analyzed and with the basis on which the data was collected and quantified.

LDCs note that in past periods they, or OEB staff, have identified anomalies or errors in RRR data. Some, not all, of these errors and anomalies were able to be addressed. LDCs are cautious about relying on data that may be known to be problematic and suggest that the OEB take appropriate steps to address this concern.

One of the purposes of benchmarking is to identify superior and inferior levels of performance. LDCs propose that the OEB provide both its approach to identifying outlier data points or outlier data sets and its position on whether it will include or exclude such data when benchmarking. There are statistical methods available to identify outliers. It is necessary for LDCs to know how data will be managed so that LDCs can be informed of how to understand and interpret the results of benchmarking.

Methodology

The EDA proposes that the OEB select the methodology that is best aligned with the characteristics of the data. For example, where suitable data on cost drivers is readily available the OEB may be able to apply either Cost/Volume or Econometric techniques. If such data is not available, or it is considered cost prohibitive to acquire it, the OEB could instead use the unit cost technique. The EDA sees little value in using a methodology that requires a different standard of data to that which is readily available. Once the OEB identifies its preferred methodology LDCs suggest that it consider the benefits of running an alternative methodology to test for convergence of results and for consistency.

Gaps

The unaddressed issues (or the 'gaps') listed below may reflect the fact that EDA and its members lack insight into the OEB's project plan and project management.

One gap is that the SDP does not reference "Lessons Learned", either by the OEB in conducting the TCB used to support its TFP or by the regulators in the jurisdictions that have adopted APB. The OEB should address this gap at the earliest possible opportunity so that unproductive activities are avoided and resources are not squandered.

LDCs seek information on both the OEB's proposed methodology, or criteria, for identifying superior performance (e.g., whether a specific metric has been exceeded, best recorded outcome) and, having identified superior performance, the further steps that it may take. LDCs observe that while quantitative data can be used to identify performance it provides little to no insight into how the observed performance was achieved. As stated earlier: context is always important.

All LDCs seek to understand how the OEB intends to incent LDCs to share best practices that may be identified through benchmarking. Our members perceive that any proprietary advantage would be quickly eroded upon sharing and that this outcome should be explicitly considered.

There is more than one reference in the SDP to the OEB contemplating using the results of APB when setting rates. LDCs expect that the relationships and mechanism will be scoped and communicated early in the project so that LDCs can understand them and support the Board in identifying a mutually reinforcing approach to data acquisition, methodology, analysis and application of conclusions. A case in point is the industry's experience with TFP. Among other things, TFP analysis incorporates the effects of increased energy deliveries, a factor which LDCs have no control over and no explicit policy driver to achieve - in fact they have an explicit policy of CDM which puts downward pressure on energy deliveries - yet it is included in the quantification of the stretch factors that directly impact the LDC's rates. Since TFP benchmarking and APB appear to overlap the OEB should consider how it will use APB when setting rates. LDCs seek insight into the operation of the mechanism that will link APB to the rate setting process so that they can demonstrate that they are proceeding in a responsible manner that aligns well with both energy policy and regulatory policy.

The OEB should anticipate that an LDC's APB results could result in an LDC simultaneously being identified as superior performer, as an inferior performer and aligning with the industry's central tendency. These outcomes should be analyzed for consistency, for example versus the observed outcomes of TCB.

Concluding Thoughts

LDCs are businesses and understand the benefits of having access to data. Each LDC serves its customers and operates as a business with specific objectives, strategic interests, risks and so on. Ontario's LDCs are diverse and this diversity is manifested in many ways – including in the data provided to the regulator. The EDA looks forward to engaging with the Board to appropriately resolve the issues identified herein, to manage the emerging issues and to achieve the available benefits at the lowest possible cost – as customers expect.

Please do not hesitate to contact Kathi Farmer at 905.265.533 or at kfarmer@eda-on.ca if you have any questions on this submission.

Sincerely

Original Signed by

J. Rangooni
Vice President, Policy and Government Affairs

Att.

Appendix A: Issues for Stakeholder Comment

Question Number	Question	Cross Reference to EDA comments
Q.1	What other elements, if any, should the OEB consider in its development of an APB framework?	Please see “Gaps”, pp. 5-6
Q.2	What level of cost disaggregation is suitable for activities/programs benchmarking?	Please see “Data”, pp. 3-4
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?	Please see “Eligible Activities”, pp. 2-3
Q.4	Should the OEB pursue a phased approach for benchmarking activities and programs? Why?	Please see “Scope”, pp. 3
Q.5	What benchmarking method(s) should the OEB use to benchmark activities/ programs? Why?	Please see “Methodology”, pp. 5
Q.6	What is the preferred method that will be well understood by customers and other stakeholders?	Please see “Methodology”, pp. 5
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?	Please see “Methodology”, pp. 5
Q.8	What data considerations should the OEB take into account?	Please see paragraph 1, pp. 1 and “Data”, pp. 3-4
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)?	Please see “Data”, pp. 3-4 “Methodology”, pp. 5, “Concluding Thoughts”, pp. 6
Q.10	What are the potential gaps in data gathering and what are the suggested mitigation solutions?	Please see pp. 2, paragraph 2
Q.11	What transitional issues need to be addressed?	Please see “Data”, pp. 3-4 Please see “Gaps”, pp. 5-6 Please see “Scope”, pp. 3