March 27, 2019

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

Re: Activity and Program Based Benchmarking (APB) Initiative
AMPCO Comments on Staff Discussion Paper
Board File No. EB-2018-0278

Dear Ms. Walli:

Attached please find AMPCO's comments on the OEB Staff Discussion Paper: Activity and Program Based Benchmarking For Electricity Distributors dated February 25, 2019 related to the above initiative.

Please do not hesitate to contact me if you have any questions or require further information.

Sincerely yours,

(Original Signed By)

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Staff Discussion Paper

Activity and Program Based Benchmarking For Electricity Distributors
EB-2018-0278

AMPCO's Comments

In October 2018, the Ontario Energy Board (OEB) announced an initiative to develop an Activity and Program-based Benchmarking (APB) Framework to encourage continuous improvement by regulated utilities.

On February 25, 2019, the OEB issued a Staff Discussion Paper: Activity and Program Based Benchmarking For Electricity Distributors as a key step in the process of developing and implementing APB as a tool for assessing the performance of regulated utilities. The OEB seeks comments on the Discussion Paper to assist the OEB in establishing the framework for activity and program-based benchmarking for electricity distributors. AMPCO's comments on the Staff Discussion Paper are provided below in response to the questions posed in the Discussion Paper.

Based on AMPCO's review of many utility rate applications, AMPCO has been a leading advocate of unit cost and cost/volume benchmarking of electricity distributor's capital investment programs and other activities to better assess individual utility cost management, cost efficiency and continuous improvement over time. AMPCO is extremely supportive of the OEB's initiative to develop an APB Framework. AMPCO sees activity/program benchmarking as a needed next step to enhance the regulatory process. APB will provide a new view of utility cost performance with comparisons across utilities, which will result in a better evaluation of the reasonableness of costs in electricity rate applications.

Critical Elements of an APB Framework

OEB Staff identify four critical elements of an APB Framework: Activities/programs to be benchmarked; Granularity of the analysis; Benchmarking methods; and Data considerations.

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

As the APB framework evolves and the OEB and stakeholders gain an understanding of the benchmarking results, it may make sense to add a fifth element to the APB Framework related to industry target setting. For example, the OEB could set an industry target for pole replacement by pole type based on $/pole. This type of industry performance incentive could be designed to encourage improved performance in targeted programs across all distributors.

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

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

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

The Discussion Paper proposes four levels of cost disaggregation below the current total cost benchmarking. OEB Staff suggest that programs/activities at Level 3 are the most relevant to the current APB initiative and OEB Staff identified a preliminary list of activities/programs consisting of 19 activities/programs – 11 OM&A and 8 Capital.

AMPCO sees the preliminary list of activities/programs for benchmarking as a good starting point for benchmarking as it appropriately considers activities and programs that are significant cost drivers and have available data, identified first through the use of accounting data and recent rate rebasing application of 30 distributors over a five-year period, and further checked for relevance through a qualitative analysis based on emerging issues in the Ontario Energy Sector and the four outcomes of the OEB's Renewed Regulatory Framework (RRF).

AMPCO supports the proposed phased approach for benchmarking activities and program outlined in the report as it represents a reasonable and focused process that is expected to evolve over time as activities and programs change and data analysis increases.

Level 4 cost disaggregation relates to asset level benchmarking based on asset sub-categories such as types of poles and transformers. As discussed below, AMPCO has used this level of cost data in reviewing rate applications and supports this level of benchmarking. AMPCO recommends the OEB require utilities to begin collecting asset cost and volume data for consistent assets between distributors sooner than later so that that the benefits of this view of cost performance can be built into the ABP Framework.

Benchmarking Methods

OEB Staff proposes using a combination of unit cost (including cost/volume) analysis and econometric modeling for benchmarking the selected activities/programs. Unit cost benchmarking would be the primary method under the ABP Framework and econometric modeling would provide a reasonability check on the results of the unit cost benchmarking.

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

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

AMPCO supports the three proposed cost benchmarking methods put forward by OEB Staff. These methods are well established and will provide valuable information on utility cost performance.

AMPCO agrees unit cost benchmarking is the easiest for customers and other stakeholders to understand as no specialized knowledge of econometrics is needed. Most customers can relate to a simple unit cost metric such as cost per customer and understand changes over time and differences between utilities. AMPCO submits cost/volume metrics such as average cost per pole are equally relatable and understandable from a customer perspective.

Data Considerations

OEB Staff's approach to data requirements for the initial implementation of the ABP involves leveraging

information from the existing RRR process and rate applications; ensuring accurate and consistent data reporting; and utilizing additional data that the utilities gather but not necessarily report to the OEB.

What data considerations should the OEB take into account?

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)?

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

OEB Staff has acknowledged the quality of data in terms of accuracy and consistency across the sector is essential to the robustness of the APB. AMPCO believes accurate and consistent data reporting is the most critical step to ensure overall confidence, acceptance and reliance of the benchmarking process by all parties.

In AMPCO's experience reviewing many electricity rate applications, there have been some issues with a few utilities regarding the quality of some aspects of RRR data and Distribution System Plan (DSP) asset data used to set capital investment levels in rebasing applications. The full extent of this issue is unknown, however, if unchecked it has the potential to materially impact ABP results and undermine the process. To address potential data quality issues, AMPCO recommends that an analysis be conducted on the existing data to further test for accuracy, consistency, and completeness of relevant data to satisfy the OEB and stakeholders that the data can be relied upon. In addition, AMPCO suggests that the OEB set a "Standard of Comparison" for each selected activity/program to be benchmarked to ensure comparability and consistency of the results.

The Discussion Paper recognizes there is a sufficient level of data reported in the current RRR to support benchmarking OM&A activities and programs. However, the accounting data for capital assets does not support detailed activity/program assessments. One idea is to have distributors report the data contents of their Distribution System Plans (DSP) as part of the RRR. To facilitate the ABP initiative getting off the ground, AMPCO supports the use of existing data as much as possible to reduce the burden on utilities and facilitate data consistency and completeness.

Distributors have identified additional capital data that they currently maintain and new data that would need to be collected for capital unit cost and cost/volume benchmarking at the sub-categorization of assets by types. For example, to achieve unit cost data on wood, concrete, steel and composite poles instead of at the pole level. Given that the OEB does not currently gather volume data or itemized capital expenditure data needed for benchmarking at this level, OEB Staff's Preliminary List of activity and program candidates does not include this level of benchmarking, i.e. at the sub-categorization of assets by types.

With respect to this next level of benchmarking, OEB Staff proposes an exploratory approach to assess the costs and benefits of benchmarking at this level given the data limitations that would have to be overcome. In AMPCO's experience, this level of cost/volume data by asset type has been extremely valuable information in assessing the reasonableness of individual utility capital investment plans related to specific asset types such as wood poles and different types of transformers, as it illuminates year over year unit cost changes in order to assess cost performance. In undertaking this previous unit cost analysis, AMPCO has had situations where asset data is not available for all asset groups, and within

specific asset groups, data may not be available for all asset types. There can also be data tracking issues due to system limitations (some utilities do not have fully automated systems) and in some cases there may be inconsistencies between databases resulting in double counting of assets and other data integrity issues which can impact benchmarking. Thus, AMPCO recommends that as new data is being collected the OEB test for data quality including accuracy, consistency and completeness.

On page 46 of the report, OEB Staff indicates that capital asset details such as plant age, remaining useful life and asset condition could be added to the ABP. In AMPCO's experience, different utilities have different definitions of remaining useful life. In addition, asset condition assessments vary between utilities and some utilities have significantly altered their asset condition assessment methodology between rebasing applications making year over year comparisons meaningless. These issues would need to be addressed in the development of unit cost benchmarking of select programs at the asset level.

AMPCO supports the level of benchmarking proposed by OEB Staff (Levels 1, 2 and 3). However, given the benefits of asset level benchmarking, AMPCO recommends the OEB begin the process of having utilities track cost and volume data for select assets sooner than later.

Transitional Issues

What transitional issues need to be addressed?

AMPCO commends the OEB's desire to work quickly on the implementation of APB given the benefits, while ensuring that a measured and progressive approach is undertaken as the APB framework evolves.

AMPCO sees availability of consistent and accurate data and utility buy-in as the largest transitional issues. In AMPCO's experience there have been several utilities who have indicated that they can't do unit cost and cost/volume benchmarking given their data limitations and/or they don't support unit cost and cost/volume benchmarking given the variations in their service territory i.e. urban versus rural or differences in asset types and installation conditions that impact individual costs. Overcoming these data and utility buy-in issues will be fundamental to ensuring the success of this benchmarking initiative.

Other Comments

Once the activity/program benchmarking is established and results have been verified, AMPCO believes it may be helpful for the OEB to consider adding productivity benchmarking to the Benchmarking Framework to look at how resources such as labour and vehicles are utilized across utilities. Labour and vehicle costs are significant inputs to activity and program costs.

Resource Utilization and Vehicle Utilization are two key standard business metrics that could be looked at to track the percentage of time employees and vehicles are being used to deliver specific activities and programs compared to other time away from work activities such as training and vehicle maintenance. This type of benchmarking would require a standard methodology to calculate how employees spend their time and how vehicles are used. Over time it may be possible to establish industry benchmarks or standard measures that can be used to compare and analyze resource and vehicle utilization results across the sector.