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BY EMAIL AND WEB POSTING

March 30, 2021

To: All Licensed and Rate-regulated Electricity Distributors
All Other Interested Parties

Re: **Activity and Program-based Benchmarking (APB) Initiative (EB-2018-0278)
Update and Stakeholder Meeting**

On [November 12, 2020](#), the Ontario Energy Board (OEB) issued a letter advising all licensed electricity distributors and other interested stakeholders that it was moving forward with the Activity and Program-based Benchmarking (APB) initiative to encourage continuous improvement by regulated utilities and increase regulatory efficiency. The initial phase of APB has focused on electricity distributors, with later stages looking at other regulated sectors. The OEB's letter also included a request for information from distributors to support the analysis of identified programs for APB.

The purpose of this letter is to provide the APB results arising from the use of additional data gathered following the November data request, and to outline the expected use of the APB results on a go-forward basis. The OEB also plans to host a stakeholder meeting to discuss the initiative and specifically the results discussed in this letter.

In light of the mandate to look for efficiency in its processes, as well as the opportunity to use benchmarking to drive better utility performance, the OEB's goal is to use APB to benefit consumers and utilities by:

- Driving improved industry performance
- Improving regulatory effectiveness through the establishment of clear outcomes
- Encouraging utilities to continuously improve and innovate customer service
- Enabling a more efficient regulatory process, both internally and for applicants, as well as being innovative in regulatory approach.

Background

In the [APB Staff Discussion Paper issued in 2019](#) (the Discussion Paper), 10 programs were selected for benchmarking based on an analysis of information applying quantitative and qualitative criteria. The programs were identified as material to the utility's management in order to be a driver of change in the utility sector. The Discussion Paper indicated that the six Operations, Maintenance and Administration (OM&A) programs and four capital programs selected represent about 40% of a six-year average total OM&A expenses and 47% of a six-year average total gross capital account balances, respectively.

The APB results for the 10 programs are expected to be refined in the future with further data and as a result of discussions with stakeholders. At this stage, however, the results of the 10 programs with the additional data appear valid for use in the regulatory process. APB is expected to be used in the assessment of utility rate applications. Although a couple of the programs are not at a stage of benchmarking completeness due to some identified data issues (e.g. potential cost classification or lack of relevant data), all can support utility continuous improvement testing and many will support cross-utility comparisons as APB advances. For instance, it is expected that APB could highlight differences between one utility's benchmarking cost results (such as billing or metering) and those of a top-performing utility during the course of a regulatory proceeding. As such, APB may be used as a screening tool (to identify preliminary issues as part of proportionate application reviews) and an enquiry tool (for interrogatories to review and investigate areas of cost performance).

The OEB acknowledges there were concerns expressed by some distributors about how APB will be implemented and the use of econometric benchmarking. The OEB confirms the previously stated approach that APB will rely on unit costs as the primary benchmarking method. Unit cost provides the basis for driving utility performance by assessing continuous improvements, and in many cases provides for comparability across the sector. Overall, it allows simplicity, utility ease of replication and data availability. In the initial stages of establishing APB, however, unit cost benchmarking can be supported by econometric benchmarking to help with the interpretation of results. As discussed in the Discussion Paper, the econometric models provide a basis for assessing programs' viability for cross-sector comparisons and identify where there are good prospects for that, and where there may not be, or at least where further work needs to be done to assess why the results of models were not strong. The benefit of this approach is that econometric modelling provides a reasonability check on the results of the unit cost benchmarking and thus, econometric benchmarking can play a supporting role to enhance unit cost accuracy and usability. For example, econometric benchmarking provides for opportunities to improve unit cost accuracy through the creation of multiple scale variables (e.g., number of customers and kilometers of line), such that relevant business conditions can be applied to address the scale of utility operation. During the early stages of APB implementation, this approach is expected to provide for a better understanding of the benchmarking results and adds confidence to the overall benchmarking process.

APB Benchmarking Results

To facilitate its development of APB, the OEB requested data from distributors for information that was not available or currently reported. This was done through a survey. This data was added to information the OEB already had through the Reporting and Record-keeping Requirements (RRRs) and other filings that had been used to develop initial unit cost and econometric measures for each of the programs. The OEB thanks the distributors for their participation in the survey and for the provision of the requested data in December 2020.

In support of the APB work, the project's consultant, Pacific Economics Group Research LLC, has produced [Report to the Ontario Energy Board - New Developments in Activities and Program Benchmarking](#) (the PEG Report). The PEG Report provides a detailed analysis on the impacts of the new data in the 10 program models and details the results of the programs under both unit cost and the econometric benchmarking methods. The sector-wide results are discussed below.

To assess the programs for cross-sector comparisons, PEG used a metric of “% of companies within 50%,” which represents the percentage of distributors whose results differed by less than 50% in either direction from the benchmark. This measure gives an indication of the dispersion of benchmarking outcomes, which provides the notion of overall comparability across the sector. The benchmark performance for the econometric models is the percentage of distributors that are within 50% of the predicted cost, and for unit cost it is the percentage of distributors that are within 50% of the average unit cost.

The PEG Report has provided the sector-wide unit costs and econometric results for the 10 programs. On an overall basis, the table below shows a comparison of the two methods for the programs. On average, 58% and 52% of distributors are “within 50%” for econometric benchmarking and unit cost, respectively. The results for most programs for both unit cost and econometric benchmarking are good and provide a sufficient basis for their use. The unit cost results of a few programs (e.g., Station Equipment OM&A, and Station Capex) are below what was expected indicating a very wide dispersion and will require further review and/or additional data to support their use in cross-sector comparisons.

	Econometric Results	Unit Cost Results
	% of companies within 50% of Predicted Cost	% of companies within 50% of Average Unit Cost
Billing O&M	71%	60%
Poles, Towers, and Fixtures O&M	46%	36%
Line O&M	64%	66%
Metering O&M	60%	66%
Vegetation Management O&M	49%	53%
Station Equipment O&M	57%	24%
Poles, Towers, and Fixtures Capex	67%	61%
Station Capex	21%	16%
Line Transformer Capex	83%	72%
Meter Capex	59%	63%
Average	58%	52%

The sector-wide improvements to the econometric benchmarking models from the previous results compared to the current results are provided in the table below. PEG has concluded that the additional data have improved the models in almost all cases, and particularly with the Capex programs. To assess the improvement an additional metric was used to consider the levels of explanatory power of the models. The “R-squared value” represents the level of the model’s statistical accuracy: the higher the value, the more accurate the result.

With the additional data the average results for the 10 programs show the R-squared is 0.77 and the percentage within 50% of the predicted cost is 58%.

Model	Previous Results		Current Results		Improvement	
	R-squared value	% of companies within 50%	R-squared value	% of companies within 50%	R-squared value	% of companies within 50%
Billing O&M	0.870	79%	0.888	71%	0.018	-8%
Poles, Towers, and Fixtures O&M	0.462	52%	0.496	46%	0.034	-6%
Line O&M	0.867	49%	0.884	64%	0.017	15%
Metering O&M	0.749	37%	0.839	60%	0.090	23%
Vegetation Management O&M	0.818	69%	0.856	49%	0.038	-20%
Station Equipment O&M	0.680	30%	0.794	57%	0.114	27%
Poles, Towers, and Fixtures Capex	0.698	63%	0.851	67%	0.153	4%
Station Capex	0.376	22%	0.490	21%	0.114	-1%
Line Transformer Capex	0.813	22%	0.885	83%	0.072	61%
Meter Capex	0.594	37%	0.678	59%	0.084	22%
Average	0.693	46%	0.766	58%	0.074	12%

The PEG Report in Section 4 provides detailed benchmarking results on a distributor-specific basis for both unit cost and econometrics benchmarking for each of the 10 programs set out in various tables.

Reporting Changes to Support APB

The PEG results from the inclusion of additional indicators that to support annual benchmarking of the 10 programs, there is a need for a small number of new annual data requirements. The new data would be limited to the number of substations and poles, and capital expenditures in the fixed assets schedules. There is also a need to collect certain static data however less frequently (to be informed by stakeholder input). For example, this may consist of a data request every two or three years to collect easy-to-answer binary questions in relation to whether billing and station maintenance activities are outsourced.

In addition, how these data are measured require improvements in certain areas. These include data in relation to vegetation management and asset age. Once clarifications are achieved, these static data would be collected less frequently as noted above.

Stakeholder Meeting

OEB staff will hold a stakeholder meeting to discuss APB and in particular: data issues that may improve the results for some programs, data requirements for reporting and the next steps, including the expected use of the APB results in rate cases.

The meeting via Zoom will be held on **May 6, 2021, from 10:00 am to 12:30 pm**. Details for the meeting will be communicated in due course. Any stakeholder wishing to participate in the meeting is asked to respond to this letter indicating their interest by email to veronica.mendes@oeb.ca by April 21, 2021.

Cost Awards

Cost awards will be available under section 30 of the *Ontario Energy Board Act, 1998*, for participation in the Stakeholder Meeting for eligible participants. Those parties that participated in the previous APB consultation remain eligible (i.e., participated in APB working group or provided letters of comments on the Discussion Paper). Any stakeholder that wishes to seek an award of costs should indicate so in their email registering for the meeting, no later than April 21, 2021. Costs will be recovered from all licensed electricity distributors and apportioned based on their respective customer numbers.

Appendix A to this letter contains important information regarding cost awards and the timelines set out in the Appendix will be strictly enforced.

Any questions relating to this letter should be directed to IndustryRelations@oeb.ca.

Sincerely,

Original Signed By

Brian Hewson
Vice President, Consumer Protection & Industry Performance

APPENDIX A

COST AWARDS

Cost Award Eligibility

The OEB will determine eligibility for costs in accordance with its *Practice Direction on Cost Awards*. Any person intending to request an award of costs must file with the OEB a written submission to that effect by **April 6, 2021** identifying the nature of the person's interest in this process and the grounds on which the person believes that it is eligible for an award of costs (addressing the cost eligibility criteria as set out in section 3 of the *Practice Direction on Cost Awards*). All requests for cost eligibility will be posted by the OEB.

Rate-regulated electricity distributors will be provided with an opportunity to object to any of the requests for cost award eligibility. If an electricity has any objections to any of the requests for cost eligibility, those objections must be filed with the OEB by **April 9, 2021**. Any objections will be posted by the OEB. The OEB will then make a final determination on the cost eligibility of the requesting participants.

Cost Eligible Activities and Hours

Cost awards will be available to eligible stakeholders that attend the Stakeholder Meeting to be held on May 6, 2021. They will be eligible for a cost award for preparing for the meeting as well as attendance to a **maximum of 10 hours**.

Cost Awards

When determining the amount of cost awards, the OEB will apply the principles set out in section 5 of its *Practice Direction on Cost Awards*. The maximum hourly rates set out in the OEB's Cost Awards Tariff will also be applied. The OEB expects that groups representing the same interests or class of persons will make every effort to communicate and co-ordinate their participation in this process. Interested parties are reminded that cost awards are made available on a per eligible participant basis, regardless of the number of professional advisors that an eligible participant may wish to retain.

The OEB will use the process set out in section 12 of its *Practice Direction on Cost Awards* to implement the payment of the cost awards. Therefore, the OEB will act as a clearing house for all payments of cost awards in this process. For more information on this process, please see the OEB's *Practice Direction on Cost Awards* and the October 27, 2005 letter regarding the rationale for the OEB acting as a clearing house for the cost award payments. These documents can be found on the OEB's [Rules, Codes, and Requirements webpage](#).