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Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, Ontario M4P 1E4

Re: Staff Discussion Paper: Activity and Program Based Benchmarking in the Electricity Distribution Sector - OEB File No. EB-2018-0278

Dear Ms. Walli:

Attached please find Cornerstone Hydro Electric Concepts Association's (CHEC) comments with respect to the Board's invitation to comment on the OEB Staff Discussion Paper: Activity and Program-based Benchmarking in the Electricity Distribution Sector, dated February 25, 2019. This submission addresses the several questions outlined in the OEB's Discussion Paper and follows the same format (see Attachment A).

CHEC is an association of sixteen (16) local distribution companies (LDC's) that have been working collaboratively since 2000. The comments over the following pages express the views of the CHEC members.

We trust these comments and views are beneficial to the Board's initiative. CHEC looks forward to continuing to work with the Board on this matter.

Yours truly,

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ATTACHMENT A

After reviewing the OEB Staff Discussion Paper, CHEC's responses to the individual questions are as follows:

Q1. What other elements, if any, should the OEB consider in its development of an APB framework?

CHEC is supportive of the four (4) elements, namely benchmarking methods, level of cost granularity, data and activities/programs, currently proposed by the OEB. These components are considered critical in order to determine benchmarking outcomes that are informative and actionable. In reference to these elements, CHEC would stress the importance of definitions regarding what costs are being included in each benchmarking category. Clear definitions are critical to ensure consistency across the sector. A definitive explanation as to what is being used to normalize and calculate the benchmarks is also important, specifically the denominator, to ensure accuracy and comparability of the calculations.

CHEC would also suggest a fifth element, which has to do with the reporting of APB benchmarking results. For example, during the development of the APB framework, suggestions have been put forth regarding the incorporation of APB results into the Distributor Scorecard or rate application. While these are potential possibilities, neither may be a preferred solution. Both options may only aid in confusion and misunderstanding at the consumer or stakeholder level.

Since a primary objective of APB benchmarking is to identify best practices for improved utility performance, perhaps there are other more effective means for communicating the results and ensuring best practices are incorporated at the utility level.

If the OEB is persistent on merging APB Benchmarking into the existing Distributor Scorecard or rate applications, CHEC would like to better understand the actions being taken and the impact of those actions. At the very least, an element that discusses outcomes and how they are to be applied should be included in the Staff Discussion Paper, so expectations are clear at the onset and as the program evolves.

Q2. What level of cost disaggregation is suitable for activities/programs benchmarking?

For APB Benchmarking purposes, CHEC is supportive of reporting at Level 2 (Figure 4, page 33) as this should be an adequate level to be able to compare information across all rate-regulated utilities.

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CHEC recognizes that the regulator is seeking deeper granularity and OEB Staff are recommending Level 3, but at this level there is the inherent risk of utilities shifting costs to non-benchmarked categories. If cost-shifting were to occur, it would defeat the overall effectiveness of the program. At Level 2, all OpEx costs are accounted for, which will mitigate the risk of costs shifting to other "non-benchmarked buckets".

If the OEB is tenacious about Level 3 reporting, then the OEB must provide clear expectations as to what expenses are to be allocated to each benchmarking bucket. Deferring to the Accounting Procedure Handbook (APH) is not sufficient. Clear guidance will remove doubt and will provide a consistent methodology for all utilities to follow, rather than leaving benchmarking processes open to interpretation. Any expectations identified should be communicated in user-friendly, plain language, as not all utility staff involved with the benchmarking process are accountants.

Q3. Does the preliminary list provide a set of activities / programs for benchmarking that are meaningful in terms of utility operations and customer service?

CHEC is supportive of the preliminary list of activities/programs provided for benchmarking, with a few exceptions.

CHEC would suggest that both bad-debt and collection activities be included as customer service activities. The addition of these activities is recommended due to legislative and regulatory changes that were introduced in February 2017 to mandate the ban on winter disconnections for residential customers. Bad-debt and collection costs have increased substantially in recent years and are anticipated to continue to increase as a consequence of this legislation. CHEC views bad debt and collections as a trend and risk that will challenge all utilities into the foreseeable future. It is also noted that a ban on winter disconnections was not identified nor included on the "emerging issues" list on page 24 of the Staff Discussion Paper.

If bad-debt and collection activities are to be included, it is only reasonable that two other activities are removed. CHEC would suggest that "distribution station equipment" and "maintenance of poles, towers and fixtures" be removed based on these activities being the least OM&A cost represented in table 12, pages 34 & 35 of the Staff Discussion Paper.

Q4. Should the OEB pursue a phased approach for benchmarking activities and programs? Why?

CHEC is supportive of a phased approach as a phased approach helps to overcome resistance to change, allows lessons learned in early phases to be incorporated at later phases, and it ensures that a solid foundation of project-level data is available as the program evolves.

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With that said, CHEC is not supportive of retrospective benchmarking as historical data is not relevant to the APB benchmarking process and will not achieve the required objectives. CHEC is support of prospective benchmarking where going forward expectations are clear and understood by all concerned.

Q5. What benchmarking method(s) should the OEB use to benchmark activities/ programs? Why?

CHEC is primarily supportive of the cost/volume analysis as the preferred methodology for APB Benchmarking. This method is simple, easily explainable, and removes the assumptions used in more complicated models (i.e. econometric benchmarking).

CHEC does not discount the use of the other benchmarking methods but does note that unit cost benchmarking can be too simplistic and may not be meaningful if there are large differences between utilities and their cost drivers. In contrast, econometric benchmarking requires complex modeling, which may not be easily explainable or understood by the end users. As such, use of these methodologies should be limited to activities/programs that cannot be adequately benchmarked using the cost/volume methodology.

Q6. What is the preferred method that will be well understood by customers and other stakeholders?

As noted above, CHEC is of the view that the cost/volume analysis method will be best understood by the stakeholders involved.

Also noted above, CHEC is not yet convinced that APB Benchmarking is best served at the customer level. At the present time, CHEC is of the view that the objectives of APB Benchmarking are best achieved between the utilities and under the direction of the regulator.

Q7. 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 objective here is not to determine which methodology provides the best indication of performance, but to determine which methodology provides the utility with the necessary tools to identify and incorporate best practices.

As noted above, there are many advantages to the cost/volume analysis methodology. This methodology may not be the best indication of performance, but it does provide sufficient information for cost control and decision-making purposes without the added complexity and sophistication of econometric benchmarking. Results are easily

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understood and can be compared across the sector and across years for the purposes of identifying best performers and assessing continuous improvement. Although not recommended, in extreme cases sub-categorization could be introduced to further enhance an analysis.

The primary disadvantage of the cost/volume methodology is the potential lack of available "volume" data required to perform the analysis. While it is preferred that additional data requirement be kept to a minimum, volumetric data should be readily available for most utilities.

Q8. What data considerations should the OEB take into account?

CHEC is of the view that data already provided to the OEB through RRR filings, rate applications, and other means should be the primary data source for APB Benchmarking. As noted in the Staff Discussion Paper, data from RRR filings and rate applications should be sufficient to support the majority of APB Benchmarking activities/programs while minimizing the need for additional reporting requirements.

Q9. 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)?

CHEC would prefer that no new data requirements be introduced but understands that reality dictates that some new data requirements may be inevitable (for example, the volumetric data proposed in Question 7 above).

As previously noted, CHEC would recommend that any new data requirements be captured on a prospective basis, rather than historically, as historical data may not be readily available. CHEC is also of the view that benchmarking requirements and expectations need to be set prior to any new data requests. This way it is clear to all stakeholders as to what is required.

Q10. What are the potential gaps in data gathering and what are the suggested mitigation solutions?

CHEC is of the view that potential gaps in data gathering can be avoided if APB Benchmarking is approached prospectively, with clear expectations for the benchmarking requirements communicated at the onset. This approach creates a level playing field among the electrical sector participants to ensure that the benchmarking process is applied consistently and effectively.

Q11. What transitional issues need to be addressed?

CHEC is supportive of APB Benchmarking being implemented at anytime during the year but would prefer the data gathering process be synchronized with the beginning of

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a calendar year (e.g.: January 1st), rather than for a portion of a year. A fractional implementation would only provide minimal data, which would diminish the accuracy of the benchmarking process and limit the interpretation of the results. When planning the implementation of the APB Framework, sufficient time should be provided to allow utilities the opportunity to become familiar with and transition to the new requirements and prepare for the data gathering process.

Other Comments:

In addition to the above, the Staff Discussion Paper mentions APB Benchmarking will evolve over time. As such, one can assume that this will eventually result in further data analysis and reporting requirements as the initiative evolves. Therefore, CHEC suggests that this would be an opportune time for the OEB to review all current data reporting requirements and eliminate those that add little or no value to the current reporting equation. Redundant or obsolete reporting is inefficient and adds no value to the OEB, the utility, or the end customer.

All of which is respectfully submitted.