Hydro Ottawa Limited
3025 Albion Road North, PO Box 8700
Ottawa, Ontario K1G 3S4
Tel.: (613) 738-6400
Fax: (613) 738-6403
www.hydroottawa.com

Hydro Ottawa limitée
3025, chemin Albion Nord, C.P. 8700
Ottawa (Ontario) K1G 3S4
Tél. : (613) 738-6400
Téléc. : (613) 738-6403
www.hydroottawa.com

HydroOttawa

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

Subject: Comparison of Distributor Costs
Board File No.: EB-2006-0268

In response to the Board's letter of November 24, 2006, Hydro Ottawa is pleased to provide the following preliminary comments to the questions raised in the first stage of this consultation process.

Due to the limited timeframe provided, a thorough evaluation and response to the proposed cost comparison criteria is not feasible. It is expected that, once the Consultant's report is released, the opportunity to provide more specific commentary will follow. Furthermore, the context in which this cost data will be applied is key to determining the most effective cost tracking and comparative methodology.

Hydro Ottawa supports the overall goal of establishing a common methodology to measure and report operational efficiencies. In order to ensure like and relevant demographic and customer/business activities are compared, several factors must be weighed in determining the most appropriate "cost grouping". Similarly, specific definitions for OM&A costs need to be established to ensure comparable costs are being tracked and reported consistently. This is also true of SQI reporting.

The consistency and relevance of data is key to reaching accurate and informed conclusions. Although improvements have been made over the past several years, the unitized spreadsheets suggest that data consistency and accuracy problems still exist.

<u>Responses to Questions:</u>

1. Are the proposed aggregations, or alternatively, the 2006 EDR groupings appropriate?

The proposed aggregations are reasonable, provided there is greater consistency within the granular data sets. For example, accounting methodologies and business practices (i.e., service standards) within each LDC will influence the data comparisons for Administration, Bad Debt and Amortization Expenses. Greater definition of cost treatment would reduce the risk of inconsistencies. Equally important is the recognition that the associated cost drivers must reflect all the related sources of cost. For example, beyond customer base, LDC growth rates, geographical expanse (i.e., customer density versus km of line); distribution mix (i.e., underground versus overhead, variety of voltage levels and system configurations), weather patterns/events and customer activity volume (i.e., account turnover) can be substantially different across the Province. These variables, among others, will impact OM&A costs and should be factored into any review. The numbers cannot be considered in isolation of these considerations.

2. Should average labour costs be reported separately for comparison?

While looking at an LDC's labour cost trends over time may be appropriate, it is unlikely that a comparison between LDCs will provide meaningful data. Differences related to the level of contracting out at all levels within a LDC, either to affiliates or third parties, would make comparisons inappropriate.

3. What is the ideal level of granularity below the cost centre level of O&M and Administration that would be most useful, per US of A?

This depends upon the effort and associated relevance greater details would provide. A precursor to this step would be to ensure uniformity in the data collection and reporting of existing cost centres. For the information gathered between 2002 and 2005, inconsistencies between LDCs in how data was recorded would mean that there would be little value in greater granularity at this time. This will also be true for the 2006 data since no further guidance has been provided to LDCs that would improve the consistency.

For example, when Hydro Ottawa was doing its first reporting several years ago, it recorded call centre costs as "customer relations" activities in the absence of clear guidance, and since call centre costs are separate from, and broader than, "billing and collecting" activities. For consistency of reporting, Hydro Ottawa has continued this practice each year. It is likely that this would make its customer relations activities appear to be significantly higher than other LDCs.

4. Are the four cost drivers provided, appropriate?

They may be relevant, provided they are based on the same business practices and are associated to the study objectives, which are currently unknown. However, these drivers cannot be considered in isolation. Consideration should include:

- The accuracy of a LDCs measure of kilometers (km) of line. This is a difficult measure to obtain and often involves a manual review of maps. Furthermore, work with the cost allocation working group indicated that there were differences in how LDCs treated circuit km of line and geographic km of line. It is also not clear if all LDCs treat secondary services the same.
- The number of customers can be different between LDCs based on the extent to which individual metering has been used in apartment buildings and condominiums.
- The throughput of a LDC (MWh delivered) is affected by the mix of large and small customers. A LDC with a large industrial base would have greater throughput for fewer customers served. Therefore throughput and customers served must be considered together.
- The size of a service area has to be considered with the customer density but also should take into account physical barriers and variety of conditions within the service area.

5. What other cost drivers should be considered?

Any cost drivers need to be considered along with a number of qualitative and quantitative factors. These could include, but are not limited to:

- Customer activity levels such as net growth, turnover and inquiry rates. The larger the volume of "move in", "move out" activity, the greater the activity in all customer service functions, and typically the higher the risk of bad debts.
- Percentage of overhead/underground plant
- Configuration of the distribution system such as radial, network or loop including the number of different configurations and voltages to be managed
- Physical size and density of customer base
- External factors such as weather, foreign interferences, major LDC initiatives, age of plant, etc., all of which can impact SQI's
- Level of automation and outsourcing

6. Should different cost centres have different cost drivers? Is so, what is recommended?

Not all cost centres are impacted by the same cost drivers. This could also vary amongst LDC's, as noted in response to Question 1. The proposed cost-drivers, at the current level of aggregation, do not provide sufficient information on the key sources of cost. For example, the 'number of customers' driver does not represent the associated customer activity level. Tracking customer turnover rates, inquiries, associated bad debt and administrative expenses would provide greater insight, depending upon the use intended for cost centre data.

7. Are geographical locations; customers/km of line; number of customers; degree of outsourcing costs and SQI appropriate characteristics in which to compare distributors?

As noted previously, further granularity is required in order to capture the significantly unique geographical and business characteristics of each LDC. The OEB should consider a phased approach to getting to the appropriate level of granularity so that LDCs do not incur additional costs to collect and provide data unless the data will be used.

8. Are there additional characteristics of LDCs that should be considered?

Yes, as noted in response to Question 5. It would also be desirable to have a mechanism to recognize and adjust for abnormal events, such as labour action; mergers/acquisitions; extreme weather, etc., to ensure comparable data remains relevant, year over year. Not all of these characteristics can be compared on a quantitative basis. Qualitative factors will also have to be considered.

9. Should external benchmarks in other jurisdictions be considered in setting rates for Ontario distributors?

There are certain unique characteristics of the Ontario market that may reduce the relevance of external benchmarks. This uniqueness includes the number of LDCs, the unbundled nature of the industry and the extent to which the industry continues to restructure resulting in ongoing changes to an LDC's mandate. Therefore, external benchmarks, if any, should be utilized for general reference purposes only.

10. How can SQI's, as a driver of O&M be improved?

SQI's, as defined and reported can be misleading and may not accurately depict the 'value' gained from related expenditures. Qualitative measures are lacking which can be a direct driver of cost and SQI's results. For example, the reason(s) for customer inquiries; the number of repeat inquiries versus first-call resolutions; causal factors for outages which are controllable versus uncontrollable; percentage of overhead versus underground distribution; customer density, service territory size and LDC service policies and technical requirements, are just some of the underlying factors that can influence SQI results. Further granularity and consistency in reporting SQI's would make this a more informative driver. The OEB should renew its efforts to review the SQI's.

11. To further the development of utility comparisons, what additional data should be collected from distributors and why?

As a first step, it would be desirable to validate the usefulness of those measures LDC's currently collect and report. Until it is clearer as to what intent this comparative data will be used for, it is difficult to provide further suggestions.

Recognizing the Board plans to review the Accounting Procedures Handbook with the Uniform System of Accounts (US of A), we strongly recommend the Board complete this review before using any data for comparison purposes.

In summary, Hydro Ottawa supports the concept of establishing a common set of cost measures; however, based upon the data reported to date, issues of consistency exist. Further, the goal of establishing uniform cost drivers for cost centre groupings will require significant analysis if consistency is to be achieved. Until specifics on the intended use of this data is known, further comments cannot be offered.

Hydro Ottawa remains concerned about the short timeframe provided for comments. With an adequate lead time, LDCs would have been in a position to co-ordinate their responses. Given the direction the Board is taking for rate regulation through incentive mechanisms, the issue of comparators is a significant one for the LDCs. It will be critical that the Board be transparent in its approach to using cost comparisons and allow LDCs adequate time to review and comment on the implications, and adapt as required.

Thank you for the opportunity to provide input.

Yours truly,

Lynne Anderson
Director, Regulatory Services
Hydro Ottawa
3025 Albion Road North
Ottawa, ON K1G 3S4
lynneanderson@hydroottawa.com
telephone: 613-738-5499 Ext 527