

Comparison of Distributor Costs
EB-2006-0268:
Sept 2007 Consultation
CLD Presentation



[Overview]

- Summary of CLD Analysis
 - General Comments
 - Data Related Concerns
 - Model Related Concerns
- Responses to Board Staff Questions (of Aug 24/07)
 - Data Improvement Issues
 - Methodologies
 - Benchmarking Uses in Ratemaking
- Concluding Remarks

[CLD General Comments]

- Generally supportive of the efforts towards developing the Distributor Cost Comparison
- Identified deficiencies in data and methodology limit the current value of the DCC in any quantitative application
- Deficiencies in the results can be remedied in the medium term, with benchmarking implemented afterwards
- Linkage to complementary initiatives and implementation plan will assist

[CLD Analysis: Data Concerns]

- Historical basis of reporting does not support accurate inter-distributor cost comparisons
- Certain data issues may ‘average out’ but will still strongly affect individual utilities
- Need to ‘cleanse’ the historic data, permit balanced adjustments
- Need to include capital related cost data, service level data

[CLD Analysis: Data Concerns]

- Suggestions and recommendations:
 - Determine well-defined cost categories through consultation and permit historical adjustments
 - Compensate for distortions in capital cost data arising from corporate structure
 - Establish consistent basis for reporting non financial data, such as reliability and service quality

[CLD Analysis: Model Concerns]

- Exclusion of capital and capital related costs, together with capital vintage
- Exclusion of service quality and reliability as explanatory variables
- Inclusion of energy delivered as an explanatory variable
- Use of total costs rather than costs per customer
- Inability to replicate results

[Staff Questions: Data]

- Are the data improvements (noted in the PEG report) necessary?
 - Generally, yes, but not all items listed
 - Suggest the addition of other cost drivers nominated through consultation process
 - Detailed historical info on plant additions, kWh deliveries etc may not be available, appropriate, or necessary
- ALL data used in the OEB/PEG analysis should be available to parties

[Staff Questions: Methodologies]

- Which method(s) should be used for benchmarking utility data?
 - Statistical Benchmarking (i.e., statistically relating utility costs to explanatory variables using regression analysis)
 - Offers many advantages including transparency, highly developed methodology not dependent on extreme values, explicit testing of parameter estimate significance, confidence intervals, individualized results, no artificial cohorts, etc

Staff Questions: Uses in Ratemaking

- Current 'state of the art' in Ontario not ready for quantitative ratemaking
- Most urgent and appropriate next steps are to establish common data reporting scheme and cleanse existing historical data (>2002)
- The DCC/IRM regimes should present incentives to utilities to ensure their reporting is aligned and accurate, rather than relying on 'enforcement' as suggested by PEG

[Staff Questions: Uses in Ratemaking]

- After correction of data and modelling issues, use of DCC becomes a policy issue around how to apply it to cost of service vs. IRM regimes – underlines need for DCC consultation to dovetail with other initiatives like IRM
- Statistical benchmarking offers good flexibility in application and accounts well for individual utility characteristics, especially compared to extreme value techniques

[Staff Questions: Uses in Ratemaking]

- A useful application of accurate benchmarking results would be for setting X factors for individual utilities.
- Grouping utilities into clusters or cohorts is unnecessary if the benchmarking models are accurate and comprehensive
 - Each individual utility can be compared to a benchmark based on its own explanatory variables

[Concluding Remarks]

- Current Concerns:
 - Reporting inconsistencies limit the value of current data in any benchmarking application
 - Methodology: refinements required in the treatment of capital, service quality, etc
- After current shortcomings are resolved, benchmarking can be a useful tool in ratemaking
- Deficiencies in data and methodology can be overcome in the medium term