

UNDERTAKING NO. E.6.3

UNDERTAKING:

Tr. Vol. 6, para. 1360

FOR MR. CAMFIELD TO FILL IN BLANKS OF SECTION 14.1 OF THE EDR HANDBOOK

RESPONSE:

The *Comparators and Cohorts Mechanism* will be used to assist Board Staff to screen and review EDR rate filings by the Local Distribution Companies (LDCs) within the Ontario Energy Board's 2006 EDR proceeding. The mechanism provides an objective basis to determine comparable peer groups (Cohorts) and to compare the costs (Comparators) of the LDCs of the Province of Ontario.

The *Comparators and Cohorts Mechanism* is defined as a four-step analytical procedure, as follows:

1. Screen and Organize LDC Data: LDC data and information regarding costs, resource inputs, output quantities, and technology and business descriptors will be analyzed with modern statistical tools. Statistical tools and methods will be utilized to assess data quality (reliability, accuracy, and consistency), and to help understand relationships among data. For each of the unbundled services, the data will be organized according to defined cost categories.
2. Determine Cost Drivers with Econometric Methods: Econometric methods will be utilized to determine the statistical relationships between cost categories and resource inputs, and *cost drivers*. Cost drivers include output quantities and unit-of-output quantities; and market context and technology descriptors (together referred to as *business context*).
3. Determine Cohorts with Clustering Methods: LDCs will be assigned to Cohorts with cluster analysis. Cluster analysis will group LDCs according to similarity of cost drivers including output quantities and business context.
4. Determine and Report Cost Comparators: For pre-defined comparators (heretofore referred to as comparative diagnostics), each LDC will be

gauged according to its relative position within the statistical distribution of costs of the LDCs within its Cohort (peer group) and as a whole.

Comparators (Step 4 of the C&C Mechanism) refers to unit-of-output and other comparative cost metrics. Comparators will be used to gauge the relative cost performance of the LDCs, and will be determined for the cost categories of each of the *unbundled services*. For each of the unbundled services and administration, two cost categories will be defined:

- *durable resource inputs* (capital) recorded as assets but measured as *net capital stock*;
- *non-durable resource inputs* including labor and non-labor costs recorded as operating expenses.

Cohorts (Step 3 of the C&C Mechanism) refers to peer groups of LDCs. Cohorts will be determined for each of the two cost categories of unbundled services and for administration, according to similarity of cost drivers. Cohorts will be obtained by applying cluster analysis methods to weighted or unweighted cost drivers, as determined in Step 2 of the C&C Mechanism. A cost driver's weight will be based upon the absolute value of the elasticity of cost with respect to the cost driver.