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VIA E-MAIL AND WEB POSTING

May 30, 2013

To: All Licensed Electricity Distributors
All Participants in Consultation Process EB-2010-0379
All Other Interested Stakeholders

**Re: Update on Timeline for Expert Reports and Written Comments
Defining and Measuring Performance of Electricity Distributors (EB-2010-0379)**

On May 3, 2013, the Ontario Energy Board (the “Board”) posted on its website a report prepared by Board staff’s expert consultant, entitled “Empirical Work in Support of Incentive Rate Setting in Ontario” (the “PEG Report”). The PEG Report makes specific recommendations for the inflation, productivity and stretch factor parameters for incentive rate setting, and for the benchmarking of electricity distributor total costs.

In the cover letter accompanying the release of the PEG Report, the Board invited stakeholders to file written comments on the PEG Report as well as their own separate expert reports by June 13, 2013. On May 16, 2013, a Q&A Session was held to give stakeholders an opportunity to ask clarifying questions to better understand the PEG Report. A two-day Stakeholder Conference was held on May 27 and 28, 2013. The transcripts for the Q&A Session and the Conference are available on the Board’s website (www.ontarioenergyboard.ca).

At the Stakeholder Conference, three participants indicated that they would be filing separate expert reports. Participants at the Conference commented that reviewing those expert reports would help them prepare their written comments to the Board. The Board agrees that additional time is required and is therefore revising the timelines and the availability of cost awards for these activities as set out below.

Furthermore, at the Stakeholder Conference updated PEG Working Papers, which were posted on the Board’s website on May 24, 2013, were presented and discussed. An update to the PEG Report to accompany this work will be posted on the Board’s website on May 31, 2013. To facilitate stakeholder review of the updated PEG Report, a redline version of it will also be provided. Also at the Stakeholder Conference, PEG was asked to carry out two new estimates: (1) a re-estimate of their total cost benchmarking results excluding the LV data adjustments to test whether the trend variable is being unduly influenced by those adjustments; and (2) to derive a simple average TFP. The results of this work will be posted on the Board’s web site on June 13, 2013.

Update on Timeline for Expert Reports and Written Comments

In response to participants' comments, the Board will now make provision for stakeholders to review the expert reports filed by other stakeholders before they file their own written comments. Consequently, the updated timeline for expert reports and written comments is as follows:

- Expert models and datasets supporting the recommendations presented at the Stakeholder Conference must be filed with the Board by **May 31, 2013**;
- Expert reports must be filed with the Board by **June 13, 2013**. Provision for questions to the experts on their reports, models and datasets is discussed below; and
- Stakeholder comments must be filed with the Board by **June 27, 2013**.

All filings to the Board must be made in accordance with the filing instructions set out in Attachment A.

Clarifying Questions on the Experts' Reports

At the Stakeholder Conference it was suggested that stakeholders that have clarifying questions on the expert reports, models and datasets filed by other stakeholders have the opportunity to ask them via e-mail. The Board asks that the stakeholders that have sponsored the experts use their best efforts to ensure that answers to those questions are provided by their respective experts.

To facilitate this process:

- Stakeholders and Board staff are asked to e-mail their clarifying questions directly to the representative of the stakeholder that has sponsored the expert (i.e., Maurice Tucci at mtucci@eda-on.ca for Adonis Yatchew, Judy Kwik at jkwik@elenchus.ca for Frank Cronin, and Gia DeJulio at gdejulio@enersource.com for Steve Fenrick) and "cc" RRF@ontarioenergyboard.ca;
- Stakeholders are asked to e-mail their clarifying questions for PEG to RRF@ontarioenergyboard.ca. Stakeholders are also asked to limit any clarifying questions to PEG's new work carried out subsequent to the Stakeholder Conference;
- Stakeholders and Board staff are asked to include "EB-2010-0379 PSE Model Question", "EB-2010-0379 Cronin Model Question", "EB-2010-0379 Yatchew Model Question", or "EB-2010-0379 PEG Model Question" in the subject line of their email; and

- Stakeholder representatives and Board staff are asked to e-mail their experts' responses directly to each stakeholder that submitted the question, and to "cc" RRF@ontarioenergyboard.ca.

Board staff will ensure that all such e-mails are placed in the web drawer for this consultation (EB-2010-0379) so that all stakeholders can have access to the questions and responses.

List of Questions for Written Comment

At the Stakeholder Conference, the Board indicated that it would prepare a list of questions on topics of particular interest to the Board in relation to matters discussed at the Conference. The Board's questions are set out in Attachment B. This list is not intended to be exhaustive, and stakeholders may address other matters in relation to benchmarking and/or rate adjustment parameters in their comments that they feel are pertinent.

Cost Awards

Cost awards will be available to eligible participants in relation to the review the four expert reports, including any questions, to a maximum of 20 hours.

If you have any questions regarding this consultation, please contact Lisa Brickenden at 416-440-8113, or by e-mail at RRF@ontarioenergyboard.ca. The Board's toll-free number is 1-888-632-6273.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary

Attachment A – Filing Instructions
Attachment B – List of Questions for Written Comment

ATTACHMENT A
To Letter Dated May 30, 2013

Filing Instructions

Two (2) paper copies of each filing must be provided, and should be sent to:

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, Suite 2700
Toronto, Ontario M4P 1E4

The Board requests that stakeholders make every effort to provide electronic copies of their filings in searchable/unrestricted Adobe Acrobat (PDF) format, and to submit their filings through the Board's web portal at <https://www.pes.ontarioenergyboard.ca/eservice/>, quoting the file number **EB-2010-0379**. A user ID is required to submit documents through the Board's web portal. If you do not have a user ID, please visit the "e-filings services" webpage on the Board's website at www.ontarioenergyboard.ca, and fill out a user ID password request. Additionally, stakeholders are requested to follow the document naming conventions and document submission standards outlined in the document entitled "RESS Document Preparation – A Quick Guide" also found on the e-filing services webpage. If the Board's web portal is not available, electronic copies of filings may be filed by e-mail at boardsec@ontarioenergyboard.ca.

Those that do not have internet access should provide a CD containing their filing in PDF format.

Filings to the Board must be received by the Board Secretary by **4:45 p.m.** on the required date. They must quote the applicable file number (**EB-2010-0379**) and include your name, address, telephone number and, where available, your e-mail address and fax number.

All materials related to this consultation will be available for viewing at the Board's offices and on the Board's website (www.ontarioenergyboard.ca).

If the filing is from a private citizen (i.e., not a lawyer representing a client, not a consultant representing a client or organization, not an individual in an organization that represents the interests of consumers or other groups, and not an individual from a regulated entity), before making the filing available for viewing at the Board's offices or placing the filing on the Board's website, the Board will remove any personal (i.e., not business) contact information from the filing (i.e., the address, fax number, phone number, and e-mail address of the individual). However, the name of the individual and the content of the filing will be available for viewing at the Board's offices and will be placed on the Board's website.

ATTACHMENT B
To Letter Dated May 30, 2013

List of Questions for Written Comment

The Board would be assisted by stakeholders' comments on the following questions. As noted earlier, this list is not intended to be exhaustive, and stakeholders may address other matters in relation to benchmarking and/or rate adjustment parameters in their comments that they feel are pertinent.

The Inflation Factor

Preamble:

On October 18, 2012, the Board issued its Report of the Board entitled "A Renewed Regulatory Framework for Electricity Distributors: A Performance Based Approach" (the "RRFE Report"). A copy of the RRFE Report is available on the Board's website at www.ontarioenergyboard.ca.

In the RRFE Report, the Board determined that it is now appropriate to adopt a more industry-specific inflation factor [p. 16] and provided the following policy direction:

- The inflation factor must be constructed and updated using data that is readily available from public and objective sources (e.g. Stats Canada);
- To the extent practicable, the component of the inflation factor designed to adjust for non-labor price inflation should be indexed by Ontario distribution industry-specific indices; and
- The component of the inflation factor that adjusts for labor prices will be indexed by an appropriate generic and off-the-shelf labor price index.

The Board also indicated in the RRFE Report that volatility will be mitigated by the methodology adopted by Board.

1. For each expert's recommended approach (including PEG's):
 - a. Is the proposed approach appropriate? Does it meet the Board's policy direction noted above?
 - b. Are the recommended sub-indices appropriate?
 - c. Should the Board be concerned with volatility in the inflation factor?
2. What is your preferred approach and why?

The Productivity Factor

Preamble:

With respect to the productivity factor, the Board provided the following policy direction in the RRFE Report [p. 17]:

- It is intended to be the external benchmark which all distributors are expected to achieve;
- It will be based on Ontario Total Factor Productivity (TFP) trends; and
- It will continue to use an index-based approach for the derivation of an industry productivity trend to form the basis for the productivity factor.

3. For each expert's recommended approach (including PEG's):
 - a. Is the proposed approach appropriate? Does it meet the Board's policy direction noted above?
 - b. Are the recommended inputs and outputs appropriate?
4. What is the appropriate value for an Ontario electricity distribution Total Factor Productivity trend? Why?

Total Cost Benchmarking

Preamble:

The Board states in the RRFE Report that benchmarking models will continue to be used to inform rate setting, and that the Board will continue to build on its approach to benchmarking with further empirical work on the electricity distribution sector in relation to the distributor customer service and cost performance outcomes, including total cost benchmarking [p. 60].

5. For each expert's recommended approach (including PEG's):
 - a. What do you perceive to be the strengths and weakness of the various consultants' approaches?
 - b. Are the outputs and recommended business condition variables appropriate?
6. What is your preferred approach and why?
7. In PEG's unit cost/peer group model:
 - a. Are the recommended peer groups appropriate?
 - b. If not, what peer groups would you recommend and why?
 - c. Should each distributor's unit cost be compared to the average unit cost for the peer group or to the median unit cost for the peer group?

Preamble:

Electricity distributors in Ontario procure high voltage (HV) and low voltage (LV) services in different ways. Some distributors own HV equipment, others do not. Also, LV costs differ depending on who the services are purchased from. The costs associated with each situation are accounted for differently and reside in different places. Without approximating these differences in the total cost benchmarking, the total costs for some distributors may appear understated while the total costs for other distributors may appear overstated.

This matter was a subject of consultation with the Performance and Benchmarking Working Group.

8. In general, is the approach to dealing with differences in HV & LV services modelled by PEG appropriate?
9. Specific to LV services, on December 6, 2012 Board staff posted on the Board's website a set of data that was provided by Hydro One to support the empirical analysis on payments to Hydro One for LV service for each distribution company for the period 2002-2011 ([Summary of Hydro One Low Voltage Charges to Distributors 2002–2011](#)). During the Stakeholder Conference the issue of appropriate LV costs to be included in the benchmarking models was raised.
 - a. Which of the following LV-related charges should be included in total cost benchmarking? If you recommend *excluding* a charge, please explain.
 - Common ST Lines
 - HVDS-HIGH
 - HVDS-LOW
 - LVDS
 - Meter Charge
 - Monthly Service Charge
 - Shared LV Line
 - Shared LVDS
 - Specific Distribution Line
 - Specific LV Line
 - Specific Primary Lines
 - Specific St Lines
 - b. The Performance and Benchmarking Working Group raised concern that in circumstances where a shared LV line spans sparsely populated areas of Hydro One's service area, the inclusion of 100% of the "Shared LV Line" costs in the embedded distributor's benchmarking costs may unfairly overstate the LV costs for that distributor.

How might the Board identify these circumstances and only allocate "Shared LV Line" costs in proportion to the "Shared LV Line" that is in the embedded distributor's service territory?

Efficiency Cohorts/Rankings & Stretch Factors

Preamble:

The Board notes in the RRFE Report that stretch factors are intended to reflect the incremental efficiency gains that distributors are expected to achieve under incentive regulation and can vary by distributor and depend on the efficiency of a given distributor at the outset of the incentive regulation plan [p. 17]. The Board provided the following policy direction:

- The Board's approach in relation to the use and assignment of stretch factors will continue;
- Distributors will continue to be assigned annually to efficiency cohorts;
- Assignments will be made on the basis of total cost benchmarking evaluations; and
- The Board will further consider whether the current stretch factor values continue to be appropriate or whether there should be greater differentiation between the values.

10. For each expert's recommended approach:

- a. Is the proposed approach appropriate? Does it meet the Board's policy direction noted above?
- b. What is your preferred approach and why?

11. What are appropriate stretch factor values? Why?

Implementation Considerations

Preamble:

Under all three of the rate setting approaches set out in the RRFE Report, a regulatory review may be initiated if a distributor's annual reports show performance outside of the ± 300 basis points earnings dead band or if performance erodes to unacceptable levels [p. 13].

Performance is measured after the price cap index ("PCI")¹ formula has been applied to adjust the distributor's rates (i.e., ex post).

12. What indicators should the Board consider monitoring on an on-going basis to test the reasonableness of the results of its PCI formula before it is applied to adjust the distributor's rates (i.e., ex ante)?

¹ The Board's comprehensive price cap index is comprised of the inflation factor less the productivity factor less the stretch factor.

Preamble:

In the RRFE Report, the Board states that it will update the industry productivity factor every five years (e.g., the update after 2014 would be in 2019) [p. 17]. Furthermore, when updated by the Board, the new X-factor will automatically be applied to all distributors that are then on the Annual IR Index mechanism [p. 22].

13. When the Board updates the industry productivity factor every five years, should the new productivity factor be automatically applied to all distributors that are then on 4th Generation IR? Why or why not?

General

14. With respect to your preferred approaches, as identified in your answers to prior questions, what other implementation matters, if any, need to be considered by the Board?