



Ontario Energy Board

Commission de l'énergie de l'Ontario

Defining & Measuring Performance of Electricity Distributors (EB-2010-0379)

Board Staff Presentation

January 10, 2013

- Purpose of today's session:
 - To discuss Board staff's proposal, historical cost data, and PEG's concept paper and to identify significant issues and areas of concern.
- Agenda:
 1. Process to Date;
 2. Staff Proposal and Issues for Consultation;
 3. Historical Cost Data, PEG's Concept Paper and Issues for Consultation; and
 4. Next Steps.

Please submit your questions at any time during the presentation by sending an e-mail to RRF@ontarioenergyboard.ca.

Process to Date

Date	Issue / Document
Oct 27-10	Development of Renewed Regulatory Framework for Electricity announced.
Dec 17-10	Consultation process initiated.
Feb 2-11	Stakeholder Meeting to help foster a common understanding of the three initiatives that commenced development of a Renewed Regulatory Framework for Electricity.
Nov 8-11	Staff discussion papers and supporting consultant reports issued.
Dec 8-11	2-day Information Session on staff discussion papers and consultant reports for participants to ask clarifying questions to better understand the documents.
Feb 6-12	The Board issued a letter providing an update to interested stakeholders on the consultation process and “straw man” model posted.
Feb, Mar-12	Chair of the Board hosted a series of meetings with leaders of interested stakeholders to discuss at a strategic and conceptual level the development of the framework.
Mar 28-12	2.5-day Stakeholder Meeting to provide a forum for discussion on key issues related to the development and implementation of the renewed framework.
Apr 5-12	List of issues for written comment issued.
Oct 18-12	Report of the Board – A Renewed Regulatory Framework for Electricity Distributors: a Performance Based Approach issued.



- **Proposed Measures**
 - measures that might best reflect a distributor's effectiveness and/or continuous improvement in achieving the performance outcomes; and
- **Proposed Scorecard**
 - a way to effectively organize how distributors report on their performance.

Summary of The Proposed Measures

Performance Outcomes	Performance Categories	Measures (new in red)
Customer Focus Services are provided in a manner that responds to identified customer preferences.	Service Quality	Connection of New Services (DSC s7.2) Appointments: Scheduled (DSC s7.3) Appointments: Met (DSC s7.4) Telephone Accessibility (DSC s7.6)
	Customer Satisfaction	Complaints by consumers and market participants (RRR 2.3.1) Customer Survey Results
Operational Effectiveness Continuous improvement in productivity and cost performance is achieved; and utilities deliver on system reliability and quality objectives.	System Reliability	System Average Interruption Duration Index - Code 2 Outages (RRR s2.1.4.2.2) System Average Interruption Frequency Index - Code 2 Outages (RRR s2.1.4.2.4)
	Overall cost performance	Efficiency ranking resulting from comparative cost analysis OM&A Cost per Customer Net Plant Cost per Customer Capital Budget vs. Actual
	Asset Management	<i>To be determined in consultations...</i>
Public Policy Responsiveness Utilities deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directives to the Board).	Government Policy Directive on Conservation & Demand Management	2014 Net Annual Peak Demand Savings Target (MW) 2011-2014 Net Cumulative Energy Savings Target (GWh)
	Connection of Renewable Generation	Average time to connect (DSC s6.2 and RRR s2.3.11)
Financial Performance Financial viability is maintained; and savings from operational effectiveness are sustainable.	Financial Ratios	Liquidity: Current Ratio
		Leverage: Total Debt to Equity Ratio
		Profitability: Financial Statement Return on Equity
		Profitability: Regulatory Return on Equity



Many of the Proposed Measures are Existing Measures

- Many of the proposed measures leverage existing standards and measures:
 - it will be determined later whether the standards and measures not included on the scorecard will continue to be part of the Board's regulatory reporting requirements.
- The proposed measures:
 - are defined;
 - are common in other jurisdictions;
 - are being reported and/or recorded;
 - have a building database (confidence in data); and
 - have consequences, e.g.:
 - Compliance process;
 - Stretch factor assignment; or
 - Case-by-case review.
- Board has set targets for some of these measures.

Some New Measures are Proposed

Performance Categories	Measures
Customer Satisfaction	Complaints by consumers and market participants (RRR 2.3.1)
	Customer Survey Results
Overall cost performance	Net Plant Cost per Customer
	Capital Budget vs. Actual
Asset Management	<i>To be determined in consultations...</i>
Connection of Renewable Generation	Average time to connect (DSC s6.2 and RRR s2.3.11)

- Staff's current thinking on these measures is provided in the background slides at the end of this slide deck.
- Consultations underway with the Distribution Network Investment Planning Working Group to identify potential new measures for asset management.

Issues for Consultation on the Proposed Measures

1. Do the proposed measures (on the proposed scorecard) align with, and reflect a distributor's effectiveness in achieving, the Board's performance outcomes?
2. Do the proposed measures meet the Board's criteria?

Criteria	Description in Board Report
Customer-oriented	be reflective of customer needs and expectations
Encourages Improvement	encourage year-over-year performance gains
Trend Analysis	reveal current performance and signal future performance
Measurable	be measurable by each distributor, and be aligned with their reporting for their own internal purposes to the extent possible
Considers Business Conditions	consider the characteristics of a distributor's service territory
Practical	be practical

3. What are your preferred measures and why?

Issues for Consultation on the Proposed Measures / 2

4. With respect to the financial ratios, staff proposes that ROE be calculated two ways: based on “regulatory” and “financial statement” assumptions. Is this appropriate?
5. Do existing consequences associated with the proposed measures (e.g., retention of achieved productivity gains, compliance process; stretch factor assignment; or case-by-case review) continue to be appropriate? Why/why not?
6. Are the **new** proposed measures appropriate?
 - a. What are the costs of tracking the **new** proposed measures that do not leverage existing Board requirements?
 - b. Are there other measures that should be considered (e.g., community involvement, employee safety, environmental impact)?

Proposed Scorecard

- The proposed scorecard organizes information in a manner that facilitates evaluations and meaningful comparisons.
- Distributors would be required to report on an annual basis.

Staff Proposal *Illustration of a Potential Electricity Distributor Performance Scorecard* **DRAFT**

Performance Outcomes	Performance Categories	Measures (new in red)	2011	2010	2009	2008	2007	Trend	Target	
Customer Focus <small>Services are provided in a manner that responds to identified customer preferences.</small>	Service Quality	Connection of New Services (DSC s7.2)							90%	
		Appointments: Scheduled (DSC s7.3)							90%	
		Appointments: Met (DSC s7.4)							90%	
	Customer Satisfaction	Telephone Accessibility (DSC s7.6)							65%	
Operational Effectiveness <small>Continuous improvement in productivity and cost performance is achieved, and utilities deliver on system reliability and quality objectives.</small>	System Reliability	Complaints by consumers and market participants (RRR 2.3.1)								
		Customer Survey Results								
	Overall cost performance	System Average Interruption Duration Index - Code 2 Outages (RRR s2.1.4.2.2)								
		System Average Interruption Frequency Index - Code 2 Outages (RRR s2.1.4.2.4)								
		Efficiency ranking resulting from comparative cost analysis								
Asset Management	OM&A Cost per Customer									
Public Policy Responsiveness <small>Utilities deliver on obligations mandated by government (e.g. in legislation and in regulatory requirements imposed further to Ministerial directives to the Board)</small>	Government Policy Directive on Conservation & Demand Management	Net Plant Cost per Customer								
		Capital Budget vs. Actual								
	Connection of Renewable Generation	To be determined in consultations...								
Financial Performance <small>Financial viability is maintained, and savings from operational effectiveness are sustainable.</small>	Financial Ratios	2014 Net Annual Peak Demand Savings Target (MW)								
		2011-2014 Net Cumulative Energy Savings Target (GWh)								
		Average time to connect (DSC s6.2 and RRR s2.3.11)								
		Liquidity: Current Ratio								
		Leverage: Total Debt to Equity Ratio								
		Profitability: Financial Statement Return on Equity								
		Profitability: Regulatory Return on Equity								

Trend Legend: ■ increasing ■ decreasing ■ steady

Proposed Scorecard Features

- Five most recent years of available data would be displayed on the scorecard:
 - to align with planning and rate-setting;
- Trends would be de-noted:
 - Increasing;
 - Decreasing; and
 - Steady;
- Board targets would be listed; and
- Section on Management Discussion and Analysis:
 - would allow distributors to provide “notes” to accompany their score card filings (e.g., similar to notes provided in a Financial Statement).

Issues for Consultation on the Proposed Scorecard

7. With respect to scorecard features:
 - a. is five-years appropriate?
 - b. is the trend line appropriate?
 - c. should all measures have targets? If so, how should they be determined?
 - d. are other features needed (e.g., graphics, averages, absolute values, etc.)?

8. Should “aggregate” performance be shown on the scorecard? Why/why not? For example:
 - a. Should the performance categories be weighted to prioritize them in order of importance? If so, how and by whom?
 - b. Should the measures be weighted? If so, how and by whom?



Placeholder for

Historical Cost Data, PEG's Concept Paper and Issues for Consultation



Next Steps

Target	The outcome based framework		Electricity distribution rate-setting
	Performance	Benchmarking & Rate Adjustment Indices	
2013			
January	Stakeholder meeting		
	Working group meetings	Data validation due	
February		Working group meetings	
April	Staff Report issued	Consultant report issued	
	Stakeholder meeting		
May			Stakeholder conference
	Written comments due		
June	Supplemental Report of the Board & Consultant final report issued (incl. rate adjustment indices & filing guidelines)		
July	Proposed RRR amendments issued		

All materials will be posted on the Board's website at www.ontarioenergyboard.ca as they become available.





Background Slides

Staff's Current Thinking on the Proposed New Measures



New Measures under Customer Satisfaction

- Complaints by consumers and market participants (RRR 2.3.1); and
- Customer Survey Results.
- Commonly used measures;
- Complaints already being captured; and
- Some distributors survey their customers.



New Measures under Connection of Renewable Generation

- Average time to connect (DSC s6.2 and RRR s2.3.11).
- Information already being captured;
- To more closely align with load connection requirements; and
- Supports public policy responsiveness in relation to renewables.



New Measures under Overall Cost Performance

- Net Plant Cost per Customer; and
- Capital Budget vs. Actual.
- Commonly used measures;
- Net Plant Cost already being published;
- Capital measures complement existing OM&A measures; and
- Budget vs. Actual more closely aligns with move to multi-year planning and approvals.





Background Slides

Highlights from Board Report



Performance outcomes



Customer Focus

- services are provided in a manner that responds to identified customer preferences;



Operational Effectiveness

- continuous improvement in productivity and cost performance is achieved; and utilities deliver on system reliability and quality objectives;



Public Policy Responsiveness

- utilities deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directives to the Board); and

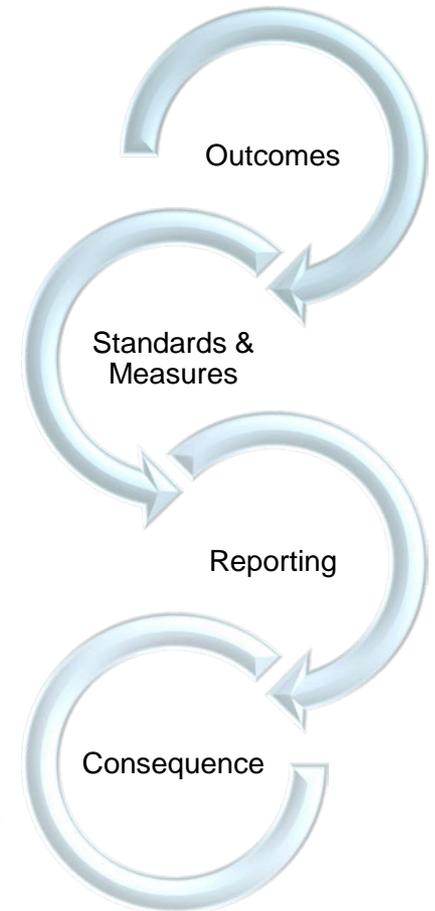


Financial Performance

- financial viability is maintained; and savings from operational effectiveness are sustainable.

Performance measurement and continuous improvement

- The achievement of the performance outcomes will be supported by specific measures and targets and annual reporting.
- Distributor performance will be compared year over year, both to prior performance and to the performance of other distributors.
- Existing regulatory mechanisms will be maintained, subject to certain refinements.



Monitoring distributor performance

- The Board will continue to require consistent, meaningful and timely reporting to enable it to monitor performance and determine if outcomes are being achieved.
 - This will allow the Board to take corrective action if required, including the possible termination of the rate-setting method and requiring rate rebasing.
- 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.
- Additional regulatory mechanisms may be necessary, and further consultation planned in due course on:
 - development of incentives to reward superior performance; and
 - potential consequences for inferior performance.