



Ontario Energy Board

Commission de l'énergie de l'Ontario

PBR Working Group Meeting

January 21 & 22, 2013

Proposed Agenda for Monday

Monday, January 21, 2013

9:30 AM - 10:00 AM

Overview for the Next Two Days &
Review of Action from Last Meeting (Board Staff)

Total Factor Productivity (TFP) and Total Cost Benchmarking

10:00 AM - 12:00 PM

Refresher on TFP & Benchmarking Concepts (Larry Kaufmann, PEG)

12:00 PM - 12:30 PM

Lunch

12:30 PM - 1:15 PM

Incentives, Behaviour and Consequences: Data and Potential Benchmarking Alternatives
(Frank Cronin, Power Workers' Union)

1:15 PM - 2:00 PM

Toronto Hydro Productivity Studies (Ben La Pianta, Toronto Hydro)

2:00 PM - 2:30 PM

General Discussion

2:30 PM - 3:15 PM

CEIRM's Benchmarking Submission to 3GIRM Consultation 2008 (Neil Freeman, Horizon Utilities)

3:15 PM - 3:30 PM

Break

3:30 PM - 4:30 PM

General discussion

4:30 PM

Adjournment



Proposed Agenda for Tuesday

Tuesday, January 22, 2013

Assessing Performance

9:30 AM - 10:15 AM Performance Diagnostics (Jay Shepherd, School Energy Coalition)

10:15 AM - 11:00 AM Office of Gas and Electricity Markets “OFGEM”: Revenue = Incentives + Innovation + Outputs
“RIIO” (Jane Scott, Hydro Ottawa)

11:00 AM - 12:00 AM General Discussion
What value do measures and tools provide to the distributor, its customers, and the Board?

12:00 PM - 12:30 PM

Lunch

“Datapaloosa”

12:30 AM - **The Ontario Electricity Distributor Historical Cost Data – General Discussion**, including:
1. Potential data requests: Smart Meter Investment Costs; Review of Mergers & Name Changes Data File; and Review of Ontario Electricity Distributors’ Data Files from 2000 and 2001

2:30 PM - 2:45 PM

Break

- 4:00 PM 2. The reliability of the pre-2002 data for accuracy and consistency with the 2002 to 2011 Reporting & Record Keeping Requirements data
3. Availability of Ontario Hydro Retail System data (Gross Plant & Accumulated Depreciation)
4. Implications to empirical analysis and benchmarking

4:00 PM - 4:30 PM

Wrap Up & Next Steps (Board Staff)



Highlights from Report of the Board & Clarifications

Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, October 18, 2012



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 renewed regulatory framework is a comprehensive performance-based approach to regulation:
 - that promotes achievement of outcomes that will benefit existing and future customers;
 - will align customer and distributor interests, continue to support the achievement of important public policy objectives, and place a greater focus on delivering value for money; and
 - under which, a distributor will be expected to continuously improve its understanding of the needs and expectations of its customers and its delivery of services, which in turn can lead to reduced costs for customers.

Performance measurement and continuous improvement (cont'd)

- 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.
 - To facilitate performance monitoring and distributor benchmarking, the Board will use a scorecard approach to link directly to the performance outcomes.
- Existing regulatory mechanisms will be maintained, subject to certain refinements.
 - 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.



Monitoring distributor performance

- Scorecard will be developed and used to monitor individual distributor performance and to compare performance across the distribution sector.
- Distributors will be required to report their progress against the scorecard on an annual basis.
- The Scorecard will:
 - link metrics directly to the performance outcomes identified by the Board;
 - effectively organize performance information in a manner that facilitates evaluations and meaningful comparisons;
 - be used to provide a signal to Board if mid-way corrective action is needed; and
 - evolve as appropriate standards and measures are developed to assess distributor performance against performance outcomes.

Clarification: Monitoring distributor performance

The Scorecard is not intended to:

- replace the corporate scorecard, if one is already used by the distributor; or
 - It is acknowledged that the corporate scorecard will be more comprehensive than the regulatory scorecard, for example, by including measures important to the shareholder.
- replace RRR or filing requirements.

However, both are useful for identifying potential measures for the Scorecard.



- The standards and measures must be suitable for use by the Board:
 - in monitoring and assessing distributor performance against expected performance outcomes;
 - in monitoring and assessing distributor progress towards the goals and objectives in the distributor's network investment plan;
 - in comparing distributor performance across the sector and identifying trends; and
 - in supporting rate-setting.

Standards and measures (cont'd)

Standards & measures should:

- be aligned with, and reflect a distributor's effectiveness in achieving, the expected performance outcomes;
- be reflective of customer needs and expectations;
- encourage year-over-year performance gains;
- reveal current performance and signal future performance;
- reflect a distributor's effectiveness in prioritizing and pacing investment (with regard to total bill impacts) and implementing its capital plan;
- be measurable by each distributor, and be aligned with their reporting for their own internal purposes to the extent possible;
- consider the characteristics of a distributor's service territory; and
- be practical.

- Benchmarking models will continue to be used to inform rate setting.
 - It will inform the rate-adjustment mechanisms under 4th Gen IR and Annual IR Index, and the review and approval of applications under the Custom IR method.
- Benchmarking will continue to be used to assess distributor performance.

Benchmarking (cont'd)

- Benchmarking results will assist the Board in assessing distributor infrastructure investment plans and in determining appropriate cost levels in rates associated with those plans.
- The publication of benchmark results will continue to inform the public about distributor performance and facilitate comparisons among distributors.
- The Board's objective is to establish total cost benchmarking for the 2014 rate year.
 - Further work will involve comprehensive benchmarking (i.e., model(s) that combine standards for customer service and cost performance) to be applied in subsequent rate years.

Further empirical work

- Total cost benchmarking
- An Ontario TFP study
 - All distributors will be subject to the same productivity factor.
- A more Ontario-specific Inflation Factor:
 - must be constructed and updated using data that is readily available from public and objective sources;
 - to the extent practicable, the component designed to adjust for inflation in non-labour prices should be indexed by Ontario distribution industry-specific indices; and
 - the component designed to adjust for inflation in labour prices will be indexed by an appropriate generic and off-the-shelf labour price index (i.e., not distribution industry-specific).

Clarification: Empirical Work

- North American comparisons will be used to help the Board assess the reasonableness of any proposed standards, measures for performance and outcomes.
- North American data will not be used in the empirical/benchmarking work as the Board has committed to using Ontario data.
- Ontario electricity distributor data will be used to estimate Ontario electricity sector productivity and Ontario electricity distributor efficiency.

Background – Elements of the 3 Rate-setting Methods

	4th Generation IR	Custom IR	Annual IR Index
“Going in” Rates	Single forward test-year	Multi-year	Existing rates
Form	Price Cap Index	Custom Index	Price Cap Index
Coverage	Comprehensive	Comprehensive	Comprehensive
Annual Adjustment Mechanism	Inflation	Distributor-specific rate trend for plan term, informed by: (1) forecasts; (2) Board inflation and productivity analyses; and (3) benchmarking to assess reasonableness of forecasts	Composite Index
	Productivity		Peer Group X-factors: productivity and stretch
Role of Benchmarking	To assess reasonableness of forecasts and assign stretch factor		n/a
Sharing of Benefits	Productivity and stretch factor	Case-by-case	Productivity and stretch factor
Term	5 years (rebasings plus 4 years)	Minimum term of 5 years	No fixed term
Incremental Capital Module	On application	N/A	N/A
Treatment of Unforeseen Events	Existing Z-factor rules continue	Existing Z-factor rules continue	Existing Z-factor rules continue
Deferral and Variance	Status quo	Status quo, plus to track capital spending against plan	Disposition limited to Group 1; Separate application for Group 2
Performance Reporting and Monitoring	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.		