

Ontario Energy Board



The Scorecard Management Discussion & Analysis (MD&A) Guide

For Preparation of Management Discussion & Analysis on
Electricity Distributor Scorecards

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Disclaimer Notice

The *Scorecard MD&A Guide* (the Guide) has been prepared by OEB Audit and Performance Assessment as an operational document and is not intended to create any new OEB policy or to re-define the existing policy which can be found in *Report of the Board - Performance Measurement for Electricity Distributors: A Scorecard Approach*, the Renewed Regulatory Framework for Electricity or other documents of the OEB. Where needed, the Guide provides a reference for further information, or examples to clarify best practices that can be adopted by distributors.

All examples presented in the Guide regarding the Management Discussion and Analysis (the Scorecard MD&A) section of scorecard are for general illustration purposes only, and may not address the specific circumstances of any one distributor.

Purpose

The purpose of the *Guide* is to provide guidance to the electricity distributors and to aid distributors in preparation of the Scorecard MD&A section of their annual electricity distributor scorecards.

Introduction

The implementation of the distributors' scorecards has been a major and leading regulatory, consumer-centric initiative of the Ontario Energy Board's (the OEB) obligating the distributors to better serve their customers.

The scorecard and public reporting of distributor performance in a transparent manner is an important tool for customers to better assess the value they receive from their distributor, and how that compares to other distributors.

Producing high quality public reporting information for electricity customers in Ontario is expected from electricity distributors when they publish and disclose their scorecard performance on their websites. Scorecards need to be relevant and meaningful to distributors' customers. Therefore, ensuring that information for public consumption is informative, well written and well-presented is an important consideration.

The *Scorecard MD&A Guide* is intended to assist electricity distributors by providing guidance in preparing meaningful Scorecard MD&A commentary as part of their scorecard to allow distributors' customers to gain a better sense of how well their distributor is performing. The Scorecard MD&A forms a crucial part of the scorecard as discussed in the Guide.

The lack of context in the scorecard's performance figures and an inconsistency of style (within a Scorecard MD&A or among distributors' Scorecard MD&As) can be distracting to readers and diminish the effectiveness of the communication. Richness in the context of the Scorecard MD&A section of scorecard and a consistency in tone, structure and approach will:

- Enhance the effectiveness of the scorecard
- Provide appropriate context and management's insights
- Facilitate readers' understanding of the performance numbers, and
- Contribute to the interpretive experience of the distributor's performance

Ultimately, distributors will advance continuous improvement in the sector through achievement of benchmark performance on valued services and/or processes. As the Report of the Board on Performance Measurement for Electricity Distributors: A

Scorecard Approach (EB-2010-0379) dated March 5, 2014 stated regarding “Measure Refinement and Improvement over Time”:

Distributors are encouraged to differentiate themselves through sustained continuous improvement, innovation and services to their customers that are valued by those customers. Therefore and at this time, the Board encourages distributors to include discussion of their service offerings in the management discussion and analysis section of their Scorecards that are of particular importance and value to their customers, perhaps in the context of their customer satisfaction survey results. (page 31)

Distributors are encouraged to follow a series of governing principles when preparing the Scorecard MD&A section of their scorecards. The results for the financial and non-financial scorecard performance for the given year should be clearly explained. Information presented in the Scorecard MD&A should aim to focus on material information and trends, and discount immaterial or unimportant matters. The analysis part of the Scorecard MD&A should focus on the “story behind the numbers”, explaining the trends and reasons that account for the distributor’s performance during the reporting period. The Scorecard MD&A should be simple to understand and written using plain language, and should be kept to a reasonable length so as not to alienate or exhaust the reader. Finally, the Scorecard MD&A should provide an indication of any potential risks facing the company, the future prospects of the company and how the distributor expects to perform in the future based on an objective evaluation of the distributor’s results from past periods and an assessment of potential risks. The governing principles are discussed in greater detail in the balance of the Guide.

The Guide contains seven key sections:

- The Scorecard and its Objectives
- Definition of Scorecard MD&A
- Purpose of Scorecard MD&A
- Governing Principles for preparing Scorecard MD&A
- Minimum Requirements for Scorecard MD&A
- Scorecard MD&A - General Overview
- Appendices

The Scorecard and its Objectives

The scorecard underpins the Renewed Regulatory Framework (RRF) outcome-based approach wherein distributors are expected to meet the Board’s requirements and

achieve continuous improvements that reduce costs and deliver service levels that their customers value. Ultimately, the scorecard is a tool for customers to improve their energy literacy by providing information about their distributors and allowing them to assess for themselves the value of the service they receive.

The scorecard is designed to track and show an individual distributor's performance gains over a five-year period at a point in time. The scorecard measures how well Ontario's electricity distributors are performing each year. It is designed to encourage electricity distributors to operate effectively, continually seek ways to improve productivity and focus on improvements that their customers value. As of 2013, electricity distributors have reported their scorecard performance results annually, and the results are available to the public on both the [OEB's website](#) and company websites.

The OEB expects that scorecards serve as effective tools to allow meaningful comparability among distributors under a comprehensive and consistent set of performance measures. The scorecard includes traditional metrics for assessing a distributor's services, such as frequency of power outages, financial performance and costs per customer. In addition, future performance results (for 2014 and onward) will include a number of evolving metrics that directly reflect the customer experience, such as how well the distributor resolves a customer's concern on the first contact, the accuracy of customers' bills, public safety and more. The customer is the primary audience for the scorecard and it should be written and presented in a manner that is sensitive to that readership. The Scorecard MD&A is intended to help educate customers on the company's performance by providing them with a "story behind the numbers".

The Guide is greatly informed by Scorecard MD&A resources published by the Ontario Security Commission (OSC) and the Securities and Exchange Commission (SEC)¹ and, in developing the Guide, adopted many of their terms and definitions as well as their guidance regarding the Scorecard MD&A, in order to provide specific guidance for Ontario's electricity distributors for the purposes of preparation of the Scorecard MD&A.

¹ Ontario Security Commission, *National Instrument 51-102*, effective January 1, 2011.

Securities and Exchange Commission (USA), *Interpretation: Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations*, effective December 29, 2003.

Definition of Scorecard MD&A

The Scorecard MD&A is a narrative explanation, through the eyes of management, of how the distributor performed during the period, with respect to both financial and non-financial indicators. The Scorecard MD&A is an explanation of the company's financial and operational conditions and future prospects as well as performance relating to applicable distributor and industry standards and metrics. The Scorecard MD&A is intended to describe how the company measures the results in its scorecard and provide the context within which financial and non-financial information should be analyzed.

Purpose of Scorecard MD&A

The Scorecard MD&A is intended to provide a balanced discussion of the company's results of operations and financial condition including, without limitation, such considerations as service quality, service reliability, customer satisfaction, liquidity, and profitability. It is expected to be an open reporting of "good" news as well as "bad" news.

The Scorecard MD&A is intended to provide readers information necessary for them to gain a better understanding of a company's financial and non-financial condition, changes in financial and non-financial condition and results of operations. The Scorecard MD&A is expected to provide a narrative from a customer lens that is useful to customers. It contains important disclosures and provides an indication of the current period's performance and management's expectation regarding future performance.

The information provided by distributors on their future performance (or what can be construed as forward-looking information) may be subject to a number of risks, uncertainties and other factors that may cause actual events, conditions or results to differ materially from historical results or those contemplated by the distributor regarding their future performance. Some of the factors that could cause such differences include legislative or regulatory developments, financial market conditions, general economic conditions and the weather. For these reasons, the information on future performance is intended to be management's best judgment on the reporting date of the performance scorecard, and could be markedly different in the future.

The Scorecard MD&A is intended to provide information about the quality of, and potential variability of, a company's performance, so that customers can ascertain the likelihood of whether past performance is indicative of future performance. The

Scorecard MD&A is not intended for the distributor to disclose confidential and competitive information regarding its business activities.

A distributor may include discussion of any specific target that it sets for itself against any measure for which the OEB has not established industry or distributor-specific targets in the Scorecard MD&A.

Governing Principles for Preparing Scorecard MD&A

When preparing the Scorecard MD&A, distributors are encouraged to adhere to the governing principles as set out below:

	Governing Principle	The Scorecard MD&A Commentary
1	Express value of the service and performance results from a customer-centric lens and through the eyes of customers	<p>The scorecard is a tool for customers to improve their energy literacy and their knowledge of their distributor’s performance. Scorecard MD&A needs to provide information about distributor’s performance to allow the distributor’s customers to assess for themselves the value of the service they receive.</p> <p>The Scorecard MD&A needs to explain the distributor’s performance in a clear and concise manner from customer perspectives and using a customer centric lens. Customers should be able to understand and gain better insights about their distributor.</p> <p>Keep it simple. Use plain and neutral language in the Scorecard MD&A narrative. Avoid using technical terms.</p> <p>The distributor needs to strike a balance between providing sufficient details and making the report accessible, relevant, and meaningful to customers.</p>
2	Analyze and provide the “story beyond the numbers”	<p>Identify, discuss, and address the qualitative and quantitative factors which are necessary for an understanding and evaluation of the scorecard performance results.</p> <p>While the OEB uses distributors’ data to produce consistent scorecard reports for distributors, ownership of the data and scorecard resides with the distributor. Therefore, the distributor is the only party that knows why its numbers turned out the way they did.</p> <p>Explain the nature of and reasons for changes, trends, uncertainties and risks that have materially affected your company’s performance. The discussion should assist customers to understand trends, events, risks, and the underlying reasons or implications, and interrelationships between performance measures.</p>

	Governing Principle	The Scorecard MD&A Commentary
		<p>In specific circumstances, to the extent it is desirable to provide relevant information to enhance customers' understanding of an issue in greater detail, a web link to or highlight of a distributor's document may be provided in the Scorecard MD&A.</p> <p>Where practical, a distributor may make use of charts or graphs in the Scorecard MD&A where these tools aid discussion or make an important point not captured easily by text or the scorecard numbers.</p>
3	Provide objective forward looking views and explain the expected future outcomes	<p>Where applicable, e.g., performance target not met for a measure, the Scorecard MD&A should provide an indication of how the distributor expects to perform in future periods including any trends, events, risks, and underlying reasons.</p> <p>Where applicable for any scorecard measure, the distributor should describe any initiatives or plans and associated expected impacts and outcomes, if any, that the distributor is currently implementing or will be undertaking in the future that could influence the company's performance. This may include all categories of system investments such as distributor's capital expenditure plan, including investments to renew and expand the distribution system, investments identified in a regional planning process, and investments to accommodate the connection of renewable generation or to implement a smart grid, etc.</p>
4	Focus on materiality and material trends and uncertainties.	<p>Eliminate immaterial information that does not promote understanding of the distributor's operational and financial conditions, regulatory performance, capital resources, and changes in scorecard results.</p> <p>Identify and discuss known trends, demands, commitments, events and uncertainties that are reasonably likely to have a material effect on the distributor's scorecard performance.</p>
5	Provide important disclosures.	<p>The distributor should treat the scorecard like any other financial reporting document by providing disclosure through notes in the Scorecard MD&A. The scorecard should be 'full and frank' about both good and bad results at the company.</p> <p>Reporting issuers of financial statements may refer to any information that is used in their publicly filed MD&A for areas applicable to the Scorecard MD&A. The distributor may include such information in the Scorecard MD&A as long as the information is either already described from a customer-centric lens, or can be readily re-told if necessary from a customer-centric lens rather than an investor-centric lens. Such information needs to be in plain language and be intended to help customers better understand the distributor's performance results.</p>

Minimum Requirements for Scorecard MD&A

The Guide provides the following guidance with respect to the minimum requirements for preparation of Scorecard MD&A:

1. No blank fields on the Scorecard MD&A for any of the scorecard's performance measures;
2. Scorecard MD&A for measures with an industry or distributor-specific target and;
3. Scorecard MD&A for measures without an industry or distributor-specific target.

1. No blank fields on the Scorecard MD&A for any of the scorecard's performance measures

Excluding conservation & demand management, efficiency assessment, total cost per customer and total cost per Km of line measures, distributors are expected to report all scorecard measures on their 2014 Scorecard. Therefore, there should be no blank fields on the Performance Categories and Results Table going forward. Blank fields in the Scorecard MD&A are also unacceptable, even where the performance for the current year is steady and meets or exceeds applicable standards or metrics. Even when there is no change in performance for the year in question, the distributor is expected to provide commentary that augments the numbers provided in the scorecard, and provide a more complete picture of the distributor's performance.

Examples:

- *Distributor XYZ scheduled almost 1,500 appointments with its customers in 2014 to complete work requested by customers, read meters, reconnect, or otherwise necessary to perform. Consistent with the prior year, the utility met 99% of these appointments on time, which significantly exceeds the industry target of 90%.*
- *Distributor XYZ's return achieved in 2014 was 10%, which is well within the +/- 3% range allowed by the OEB. The average return over the past 3 years was 10.5% which is also well within return included in Distributor XYZ's approved rates. Distributor XYZ achieved returns higher than the deemed rate in 2013 and 2014 mainly due to higher revenue than forecast, as a result of increased energy consumption; and lower operating costs. Distributor XYZ has mitigated the overall real growth in its operating cost base with productivity savings arising from related process improvement initiatives.*

2. Scorecard MD&A for measures with an industry or distributor-specific target

Several measures on the scorecard have industry or distributor-specific targets. In addition to the governing principles, the Scorecard MD&A for these measures should address whether the target was met or not met, and what actions or strategies, if any, are contemplated by the distributor as a result of such performance.

Target Met

Where a target is met, the distributor should provide a Scorecard MD&A that discusses past results, results during the period, and how the distributor expects to perform in future periods.

Examples:

- *“In 2014 Distributor XYZ customer contact centre agents received over 104,000 calls from its customers – over 400 calls per working day. An agent answered a call in 30 seconds or less in 75% of these calls. This result significantly exceeds the OEB-mandated 65% target for timely call response. Year over year, the 2014 result amounts to a 5% improvement over 2013, driven primarily by a reduction in the number of calls. Call volumes decreases are attributed to successfully promoting online self-serve features, internal process improvements, and increased customer preference to contact Distributor XYZ via email.”*
- *“Distributor XYZ successfully met its Net Annual Peak Demand Savings target for 2014. This was achieved by fully leveraging the entire suite of Ontario Power Authority (“OPA”) province-wide demand management programs and placing increased emphasis on supporting the conservation efforts of large commercial, industrial and institutional customers. A new full time energy manager was retained to identify and pursue opportunities within these sectors.”*

Target Not Met

Where a target is not met, the distributor should provide Scorecard MD&A as to the past results, results during the period, and how the distributor expects to perform in future periods. Additionally, distributors are encouraged to comment on (a) material reasons for why the target was not met, (b) Management’s action plan or investment to meet the target in future year(s), and (c) any other important information relevant to the measure and expected performance. Distributors should use appropriate language that provides a reasonable indication of future expectations and levels of service that customers can expect from the distributor.

Examples:

- *“Distributor XYZ failed to meet the target to connect 90% of new residential services within the prescribed time frame of five business days. The company has undertaken a review of its internal processes and controls which affect this measure. The company has identified specific process improvements and expects to see an improvement in future periods.”*
- *“Distributor XYZ’s Average Number of Times that Power to a Customer is Interrupted (i.e., frequency) of 1.4 was above the target range of 0.7 – 1.3. The frequency of outages has gradually increased in recent years. The failure of aging infrastructure is causing a high volume of service interruptions. Distributor XYZ is taking action to address its declining trend in system reliability. It has conducted a detailed review of its distribution assets and prepared a comprehensive plan, which provides for the renewal of its distribution system over the next twenty years. Distributor XYZ has adopted a proactive, balanced approach to distribution system planning, infrastructure investment and replacement programs to address immediate risks associated with end-of-life assets; manage distribution system risks; ensure the safe and reliable delivery of electricity; and balance ratepayer and utility affordability.”*

3. Scorecard MD&A for measures without an industry or distributor-specific target

Where the measure specifies no target, the distributor is expected to provide commentary that provides the reader with insight into the measure, and the company’s internal perspective with respect to the measure and how the company feels it is performing in this area. A distributor may include discussion of any specific target that it sets for itself against any measure without an industry or distributor-specific target.

Examples:

- *“Total cost per customer is calculated as the sum of Distributor XYZ’s capital and operating costs, including certain adjustments to make the costs more comparable between distributors and dividing this cost figure by the total number of customers that XYZ serves. The cost performance result for 2014 is \$500 /customer which is a 1.2% increase over 2013.”*
- *“Distributor XYZ’s Total Cost per Customer has increased on average by 1.8% per annum over the period 2010 through 2014. Similar to most distributors in the province, Distributor XYZ has experienced increases in its total costs required to deliver quality and reliable services to customers. Province wide programs such*

as Time of Use pricing, growth in wage and benefits costs for our employees, as well as investments in new information systems technology and the renewal and growth of the distribution system, have all contributed to increased operating and capital costs. Distributor XYZ will continue to replace distribution assets proactively along a carefully managed timeframe in a manner that balances system risks and customer rate impacts as demonstrated in our 2015 rate application, Distributor XYZ will continue to implement productivity and improvement initiatives to help offset some of the costs associated with future system improvement and enhancements. Customer engagement initiatives will continue in order to ensure customers have an opportunity to share their viewpoint on Distributor XYZ's capital spending plans. The Ontario Energy Board (OEB) introduced the Customer Satisfaction Survey Results measure beginning in 2013. At a minimum, electricity distributors are required to measure and report a customer satisfaction result at least every other year. At this time the Ontario Energy Board is allowing electricity distributors discretion as to how they implement this measure."

- *"Over the past three years, Distributor XYZ has engaged a third party to conduct customer satisfaction surveys. These customer satisfaction surveys provide information that supports discussions surrounding improving customer service at all levels and departments within Distributor XYZ. The survey asks customers questions on a wide range of topics, including: overall satisfaction with Distributor XYZ, reliability, customer service, outages, billing and corporate image. In addition, Distributor XYZ provides input to this third party to enable them to develop questions that will aid in gathering data about customer expectations and needs. This data is then incorporated into Distributor XYZ's planning process and forms the basis of plans to improve customer satisfaction and meet the needs of customers. The final report on these customer satisfaction surveys evaluates the level of customer satisfaction and identifies areas of improvement. It also helps identify the most effective means of communication. Distributor XYZ's 2014 Customer Satisfaction Results contain a number of measures of customer satisfaction. In its 2014 Scorecard Distributor XYZ reported the number of customers that were very or fairly satisfied with Distributor XYZ. Distributor XYZ received a score of 95% in 2014 on this measure as compared to a score of 90% for 2013. Customer feedback indicates that the improvement in customer satisfaction result is due in part to our improved website and online self-service tools. Distributor XYZ will continue to use the survey results to identify additional improvement opportunities."*

Scorecard MD&A - General Overview

The distributor is expected to provide an overall overview of the scorecard performance for the reporting period. This general section serves as an executive overview that provides context for the remainder of the discussion. It provides a “big picture” of how the distributor performed and how the distributor expects to perform in future periods if such information helps increase customers’ energy literacy and their knowledge of distributors’ expected scorecard results. The distributor should avoid including any unnecessary duplication of the disclosure that is included in the remainder of the discussion of the MD&A in order to not overwhelm customers. The intent of the section is not to summarize the remainder of the discussion. Instead, the section should help customers understand material matters and significant events that are the most important information on the scorecard. This includes major known trends, demands, commitments, investments, events and uncertainties that are reasonably likely to have a material effect on the distributor’s performance.

Example of a General Overview of the Scorecard MD&A:

“In 2014, the Distributor XYZ exceeded all performance targets with the exception of the two measures of system reliability. Bad weather and increasing failure rates for aging distribution assets resulted in continued reliability challenges. A concerted effort was to reverse the decline in reliability and 2014 was a record year for distribution system investments. Like most utilities in Ontario, Distributor XYZ must replace aging infrastructure at an accelerated pace. In addition, vegetation control including tree trimming activities were increased in the year to reduce the vulnerability of the distribution system to bad weather events.

Also of note is a significant improvement in customer satisfaction in 2014. This is a result of soliciting and responding to customer feedback. In particular, new online self-service tools were introduced in the year. To further address growing customer demands for information, in the latter part of 2014, Distributor XYZ replaced its legacy billing and customer information system with a modern Enterprise Resource Planning (ERP) system. While the new ERP system is expected to take 18-months to fully implement, Distributor XYZ expects that, once it is operational, the richness of data in the new system will provide its customers with a broad array of useful, real-time, and interactive information that will permit them to better monitor and control their electricity consumption.

In 2015, the company expects to improve its overall scorecard performance results as compared to prior years. The performance improvements are expected as a result enhanced system reliability due to the company’s major investment in its distribution system reliability and continued responsiveness to customer feedback.”

Appendices

- Appendix A of the Guide provides the template for the Scorecard MD&A
- Appendix B of the Guide illustrates a number of examples to provide further guidance to the electricity distributors regarding preparation of an effective Scorecard MD&A