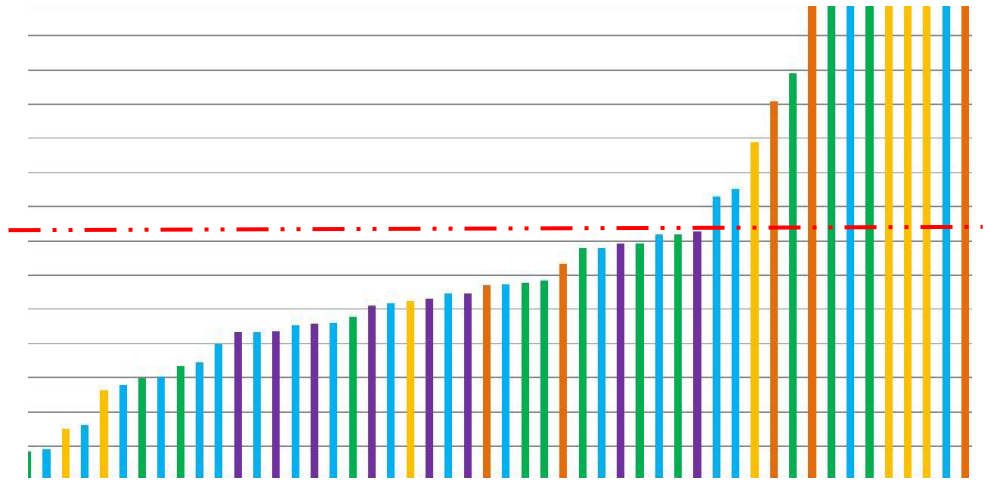


October 12, 2018

Activity and Program Based Benchmarking



Backgrounder

ACTIVITY AND PROGRAM BASED BENCHMARKING

What is APB?

Activities and program benchmarking (APB) is the assessment of utilities' costs at a more targeted level. To keep regulation in pace with the evolving energy sector, the OEB has developed a *Strategic Blueprint* in 2017 that is used to guide the OEB's priorities and business planning for the next five years. The APB was identified as a key initiative in the OEB's 2018 to 2020 Business Plan to deliver on the strategic goal that *Utilities are delivering value to the consumers in a changing environment*. Targeted benchmarking is expected to identify efficiencies in the utility, which will deliver value to the customers.

Why is the OEB undertaking APB?

The OEB's Renewed Regulatory Framework (RRF) holds utilities accountable for their performance through benchmarking, monitoring and reporting. APB explores the benchmarking of utility performance at the level of a specific activity or program. The program level assessment will support, enhance, and is complementary to, the OEB's outcome-based approach to rate setting.

The OEB currently assesses distributors' efficiencies through benchmarking that provides high-level ratings of distributors' total cost performance. Although these provide overall efficiency ratings, this benchmarking does not inform stakeholders about a utility's performance in regards to specific programs or activities that are targeted at customer service and operational efficiency. APB seeks to understand a utility's cost performance at a level that will allow cost comparisons to their peers and assessment of year-over-year continuous improvement based on key activities and programs. This approach strengthens the quality of the results for assessment of utility performance.

What are benefits of APB for the stakeholders?

For the OEB - A well-developed APB program will enhance regulatory effectiveness. The OEB can use more proportionate reviews of utilities' proposed revenue requirements by relying on information and analysis about a utility's investment planning, cost effectiveness, continuous improvement and operational excellence in meeting customer needs. APB will also support assessment across the sector and comparison with best in class performers.

APB complements the Total Cost Benchmarking that has been in use for some time. These are expected to improve overall regulatory effectiveness to the benefit of customers.

For the Customers - APB benchmarking will provide consistent evaluation and transparent reporting to customers about their utility's performance relative to other utilities and relative

to previous years. This provides further insight into whether their utility is delivering value in terms that are meaningful to customers.

For the Utilities – Utilities can identify and learn about potential areas where there are opportunities to enhance performance. This has the potential to inform on the specific areas to focus for improvements. APB will inform the best performers across various activities and programs and the sharing of best practices of these high performers can lead to improvements across the sector.

How do we intend to proceed with APB?

The OEB will develop and implement APB for all rate-regulated entities. This will be undertaken in several phases with the first phase focusing on APB for electricity distributors. The two stages for the first phase of the APB Project are:

- Fiscal Year 2018/19 – Complete development of a framework for program level benchmarking that can be used in the determination of rates, and for monitoring cost performance.
- Fiscal Year 2019/20 - Implement benchmarking at the program level.

In the subsequent phase, APB will be implemented for electricity transmitters, and then gas distributors and Ontario Power Generation.

Have other jurisdictions implemented APB for energy utility regulation?

Two jurisdictions that are using APB – Australia and the United Kingdom.

Australia

The Australia Energy Regulator (AER) pursues economic benchmarking and category analysis, involving APB for electricity transmitters and distributors. The benchmarking appraises total distribution cost and major cost levels. It features benchmarking methods that include economic models, unit costs, and productivity indexes.

Productivity indexes are used to gauge efficiency in the use of OM&A, capital, and total costs. Productivity indexes feature multidimensional output indexes and physical asset measures of capital quantities (e.g., line kilometers). Unit cost metrics are used to appraise total cost. Category analysis is applied to granular costs (e.g., pole replacement) using unit costs metrics.

Great Britain

In Great Britain, the Office of Electricity Regulation and Office of Gas Supply (Ofgem) benchmarking focuses on total operating expenses (opex) and capital expenditures (capex) known as total expenditures or “totex”. In the latest price control proceeding (RIIO-ED1) Ofgem developed econometric totex benchmarking models. One consists of the weighted average of

asset value and the number of customers served. The other consists of disaggregated benchmarking at activity / program levels.

The disaggregated model assesses cost in five specific cost areas: load-related capex, asset replacement, refurbishment, and civil works capex; non-core, non-load-related capex; network operating costs; and closely associated in-directs, business support, and non-operational capex.

What is the Stakeholder Consultation process?

The purpose of the stakeholder consultation is to, proactively engage utility stakeholders in the development of APB plus build understanding. This is planned through a focused Working Group for advice and followed by broader sector consultations.

The objective of engaging a Working Group is to inform and seek advice on the activities/programs to focus, methodologies and frameworks for benchmarking. All of the work from the Working Group will be used as part of the development of a discussion paper that will be the subject of broader consultations to share the APB frameworks and the identified activities for broader understanding and input.