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BY EMAIL and WEB POSTING

November 12, 2020

To: All Licensed Electricity Distributors  
All Other Interested Stakeholders

**Re: Activity and Program-based Benchmarking (APB) Initiative (EB-2018-0278)**

The Ontario Energy Board (OEB) is moving forward with its initiative to develop Activity and Program-based Benchmarking (APB) to encourage continuous improvement by regulated utilities and increase regulatory efficiency. The OEB previously determined that the initial phase of the initiative would focus on development of APB for electricity distributors. The purpose of this letter is to provide an update on the work that OEB staff has undertaken on this initiative and to set out an information request for all licensed electricity distributors to support the APB initiative.

On February 25, 2019 an [OEB Staff Discussion Paper](#) (the Discussion Paper) on APB was issued for comment. Customer and utility stakeholders were supportive of the proposal to implement APB in commenting on the discussion paper. Stakeholders agreed that as a tool to provide deeper insight into distributor cost performance, APB will enable customers to better understand their distributor's operations and provide distributors with new opportunities for improvement in performance.

The OEB agrees with stakeholders and sees APB as means to streamline the regulatory process and improve regulatory efficiency and effectiveness through targeted performance assessment to support application reviews. Increased use of benchmarking will support the OEB's efforts to drive improved performance in the electricity distribution industry by identifying best-in-class program delivery and encourage utility innovation.

## **APB Model Development**

Given the support for the proposed APB approach and the acknowledged potential for significant benefits in terms of regulatory efficiency and improving utility performance, OEB staff has been working with our consultant, Pacific Economics Group (PEG) to evaluate the programs identified in the Discussion Paper. As stakeholders will recall, 10 programs had been identified by staff through its work with a stakeholder working group composed of consumers, utilities and other interested groups.

A set of econometric models has been developed for those 10 programs that received stakeholder support as the starting point for APB. While the purpose of each model is to predict (for each distributor) each program's cost based on variables that reflect the distributor's operating environment, the objective of this work has been to determine which programs show the greatest potential for benchmarking based on the accuracy of the model's predicted program costs.

Development of the models included populating the variables using currently available Reporting and Record-keeping Requirements (RRR) data, assessing the preliminary results, and further refining the models. Additional data previously submitted by distributors as part of rate applications was also leveraged, including fixed asset continuity schedules. Through this approach many programs have demonstrated that the actual program costs are often close to costs predicted by the models for many distributors.

## **APB Data Request**

While the results to date demonstrated the viability of program level benchmarking, in order to provide a strong foundation for the APB framework staff would like to ensure that the models accurately predict program costs for every program for nearly every distributor. In order to achieve this PEG has recommended the inclusion of additional variables into the models for which RRR data does not currently exist. This is especially pertinent to CAPEX programs for which limited data is collected through the RRR process.

The OEB has noted that there was acknowledgement by stakeholders, including distributors, in their comments on the Discussion Paper of the need for new data beyond what is currently reported in the RRR in order to support APB. Stakeholders encouraged the OEB to ensure any new data requirements on the basis of maximizing their value to the benchmarking while minimizing additional reporting. Staff has worked with PEG to identify what information will most significantly improve each model's ability to predict program costs, while also considering the level of effort required to provide it. The table below summarizes the expected improvements in the accuracy of the benchmarking models for the following key programs:

	Poles, Towers & Fixtures		Distribution Station Equipment	
	CAPEX	OM&A	CAPEX	OM&A
<b>Current accuracy with available data</b>	70%	46%	38%	68%
<b>Expected accuracy after information request</b>	>80%	>70%	>60%	>80%

Staff understands from earlier outreach to distributors that the information being sought, such as equipment age distributions, fixed asset continuity schedules, and system maintenance practices, is generally available to distributors and often submitted in rate applications. The intent of this information request is to ensure that all distributors are represented fairly in the benchmarking models, thus creating a level playing field for all. As such, increasing the models' ability to predict a distributor's program costs will provide opportunities to, enable fair and consistent assessments of distributor cost performance and lead to reduced need for filing historical data.

OEB staff is requesting all distributors provide the identified new information through responding to a brief questionnaire (Attachment A). We ask that you please submit the completed questionnaire by **December 10, 2020** to [performance\\_reporting@oeb.ca](mailto:performance_reporting@oeb.ca).

For any clarifications on the questionnaire, please contact Ben Bosch at [Ben.Bosch@oeb.ca](mailto:Ben.Bosch@oeb.ca).

Sincerely,

*Original Signed By*

Brian Hewson  
Vice President, Consumer Protection & Industry Performance

Attachment A: [APB Information Questionnaire](#)