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Energy  
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BY EMAIL AND WEB POSTING

February 25, 2022

To: All Licensed and Rate-regulated Electricity Distributors  
All Other Interested Parties

Re: **Update on Activity and Program-based Benchmarking: Enhancements Initiative (EB-2018-0278)**

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The Ontario Energy Board (OEB) is announcing changes to the Activity and Program-based Benchmarking (APB) framework in line with its commitment to drive utility performance and support efficiencies in the regulatory process. This letter sets out the specific changes to certain unit cost metric calculations and identifies the data points needed to support them. In order to gather three years of historical results for these new unit cost calculations, a limited data survey is attached to this letter for utilities to submit fiscal 2018, 2019 and 2020 data points on a best-efforts basis. These changes reflect the input of stakeholders at the December 9, 2021 meeting as well as input received following the meeting.

The OEB is making these changes and implementing new annual reporting requirements to build upon its ongoing enhancement and evolution of its approach to benchmarking. APB can be used to help guide distributors on the level and nature of evidence required for their rebasing applications and will help inform the overall assessment of rate applications.

### **Specific Changes to Certain Unit Cost Calculations**

At the December stakeholder session, OEB staff outlined the proposed future state calculations for certain programs, including the anticipated value the proposed changes would bring to APB results. Valuable feedback was received during the session that resulted in specific follow up questions that OEB staff asked stakeholders to provide input on. Fourteen stakeholders provided feedback, which is summarized below and has been considered in arriving at the changes to the unit cost calculations, also discussed below.

Overall, stakeholders supported OEB staff's approach of continuous improvement to ensure APB results are meaningful without adding a significant reporting burden. One key theme of discussions was around the cyclical nature of spending for some programs and how that would impact the assessment of cost performance between distributors. This phase has focused on further developing unit cost metrics that are isolated from the sometimes-cyclical nature of investments. To accomplish this, the denominators of the unit cost calculations need to reflect the units of work performed (e.g. number of equipment maintained or installed) for which the numerator captures the cost. Many stakeholders agreed with this approach but highlighted that a lack of consistency in how costs are recorded may give rise to the inability of having a single measure of units of work completed. As an example, stakeholders largely agreed that for Vegetation Management Operations and Maintenance (O&M), using the total number of poles in the LDC's system as the denominator is not ideal. However, the amount of reactive work performed and whether the LDC performs vegetation management around secondary lines varies between distributors. As a result, there was no consensus on what the ideal denominator should be to ensure consistency of unit cost measurement across all distributors for that program.

A second key theme of the discussion was around the degree to which distributors are able to track costs and units of work completed at the level of granularity needed to facilitate current and future unit cost calculations. While some indicated that information is already available now and therefore historic data can be provided, others indicated that new processes may need to be implemented to track this information going forward. OEB staff will continue to engage the industry on developing consistency of cost recording and determining the ideal measure of units of work performed that best reflects those costs.

Despite these challenges, many stakeholders did agree on changes to certain unit cost programs that would improve comparability while also simplifying the calculations and leveraging data that is readily available. As an example, the change to the Lines O&M unit cost calculation will both simplify the method and leverage existing Reporting and Record-keeping Requirements (RRR) data, resulting in no new reporting requirements.

The following table summarizes this year's changes to six APB programs and highlights the benefits of the changes. Once the limited data surveys are submitted by distributors, OEB staff and Pacific Economics Group (PEG) will work to update the unit cost and econometric models with the new information and publish the results.

Program	Change	Benefit
Lines O&M	Eliminate scale variables and change the denominator to circuit kilometres of primary line	Simplifies calculation, ensures cost drivers are captured and uses data from pre-existing RRRs
Stations O&M	Exclude costs for high voltage (HV) stations equipment and add station Mega Volt Ampere (MVA) to the denominator	Better comparability between LDCs and more robustly captures cost drivers
Meter Capital Expenditures (CAPEX)	Numerator change from three-year average to a single year of costs	Better identification of trends in LDC unit cost over time
Stations CAPEX	Exclude HV equipment costs, change numerator from three-year average to a single year of costs, add station MVA to the denominator	Better identification of trend in LDC unit cost over time, denominator better reflects cost drivers
Line Transformer CAPEX	Numerator change from three-year average to a single year of costs, denominator change to the number of transformers installed	Better identification of trend in LDC unit cost over time, denominator better reflects cost drivers
Poles, Towers and Fixtures CAPEX	Numerator change from three-year average to a single year of costs, denominator change to the number of poles installed	Better identification of trend in LDC unit cost over time, denominator better reflects cost drivers

### **Historic Data Considerations**

For APB calculations where the formula has been changed as outlined above, historical data for the years 2018, 2019 and 2020 will be needed. Some of these data points can be gathered from the December 2020 APB information questionnaire and all of those data points will be needed for the 2020 fiscal year. For programs with substantive changes, such as where the denominator is a new variable and data was not previously submitted for it, distributors will need to submit data for all three years (2018, 2019 and 2020). As noted previously, some distributors have this information readily available while others have indicated that time and effort are required to collect it. OEB staff is cognizant of the challenges distributors face in reporting data that may not have been tracked historically and appreciates the effort to provide this on a best-effort basis.

To assist distributors, OEB staff has created a [template](#) for distributors to submit the historic data which contains detailed explanations of the required information. To support the ongoing collection of this data, the OEB will be making changes to the RRRs for reporting this data in 2022, which will be announced shortly. A summary of the data points within the template is provided below:

- 2020 Capital Additions to Uniform System of Accounts (USoA):
  - 1820 – for Stations CAPEX
  - 1830 – for Poles, Towers and Fixtures CAPEX
  - 1850 – for Line Transformers CAPEX
  - 1860 – for Meter CAPEX
- 2018, 2019 and 2020 Quantity of equipment installed for:
  - Poles, Towers and Fixtures (corresponding to USoA 1830 additions)
  - Line Transformers (corresponding to USoA 1850 additions)
- 2020 System information:
  - Number of stations – for unit cost and econometric models
  - Number of station transformers – for econometric models
  - MVA of station transformers – for unit cost and econometric models
  - Total number of poles – for unit cost and econometric models
  - Total number of line transformers – for econometric models

### **Timing and Next Steps**

For the historic data submission, we ask that distributors please fill out the [template](#) and submit it to [performance\\_reporting@oeb.ca](mailto:performance_reporting@oeb.ca) by March 14, 2022. OEB staff will then work with PEG to update the econometric and unit cost results in order to publish an updated APB report on the [APB webpage](#) reflecting the 2020 data and the changes to certain unit cost metrics outlined in this letter.

After submission of the annual RRR data is completed, OEB staff will work with PEG to update the econometric and unit cost results with fiscal 2021 data and publish the results on the APB webpage by September.

Any questions relating to this letter can be directed to the Performance Analytics & Reporting team at [performance\\_reporting@oeb.ca](mailto:performance_reporting@oeb.ca) or contact us at the OEB's toll-free number 1-888-632-6273.

Sincerely,

*Original Signed By*

Brian Hewson  
Vice President, Consumer Protection & Industry Performance