

BOARD SUPPLEMENTAL INFORMATION REQUESTS**TO BOARD IR NO. 1****TO DIRECT ENERGY REGULATED SERVICES (DERS)****BR-DERS-2**

Reference: (1) p. 4 & 5/27, DLAI Second Report.

Preamble: DLAI provides its opinion in summary form and makes reference to a top-line basis (overall cost per customer for customer care services excluding meter reading costs), an individual service cost basis (cost per customer for individual services) and a unit cost comparison for particular service elements.

DLAI also noted that it carried out its analysis of the relationship between DERS' submitted costs and those established for the industry benchmark on a unit cost and cost-per-customer level.

Request:

- (a) Please describe the advantages and disadvantages of a unit cost analysis and a cost-per-customer analysis (both on an overall service basis and individual service basis).
- (b) Given the Board's direction to undertake a comprehensive benchmarking study to determine if the charges under the MSA represent fair market value for the services provided and if not, what the fair market value is for the services, what analysis method does DLAI consider to be most appropriate and why?

Response:

- (a) An overall cost per customer analysis allows better comparison at an aggregate level to other comparable utilities. It is the most common yardstick of measurement in the industry and allows for comparison of utilities of different sizes and outsourcers. It is however only an aggregated cost and does not identify service cost differences [e.g. billing costs]. Comparison at a unit price level allows an evaluation of actual services [e.g. billing costs, cost of a call centre call] and gives some insight into potentially disparate contract conditions. The latter measure often gives a more detailed insight into market value being received for individual services.

In the case of DERS' current application, DLAI believes that overall cost per customer provides a reliable picture of the value of the agreement.

- (b) See answer to (a). Both measures have value.

Additional Request:

- (c) The advantages and disadvantages of individual service cost analysis on a cost per customer basis were not discussed in (a) as requested. Please provide an appropriate response.

Cost analysis at a service level allows (a) comparison of individual services to assess whether a specific service category is above or below benchmark levels (b) provides the basis for investigation of the reasons for such over/under positioning of costs and (c) allows for closer identification of reasons for overall over/under placement of total costs in relation to the benchmark. The disadvantage of comparison at this level is that it can be seriously affected by service level demands and blurring of service descriptions. Typically, when one service cost is exceptionally high and another exceptionally low, it is likely that some costs are being allocated differently to the benchmark respondents.

- (d) Given that response (a) indicates that overall cost per customer analysis allows for comparison of utilities of different sizes and outsourcers, please indicate what is meant by “comparable” utilities in the first sentence of the response.

Utilities of comparable size, scope of operations and scope of outsourcing service.

- (e) The Board notes that DERS filed evidence from Dr. Chwalowski in Application 1302109 and that Dr. Chwalowski also filed evidence in the ATCO Group of Companies Affiliate Proceeding (Application 1237673, previously 2000233 & 2000234).

The following excerpt¹ is from Dr. Chwalowski’s Rebuttal Evidence from the ATCO Group of Companies Affiliate Proceeding:

Q9: DID THE HAGLER BAILLY REPORT PROVIDE FMV FOR CUSTOMER CARE?

A9: In the Hagler Bailly report, the FMV for Customer Care was *not* estimated. Instead, cost per bill and cost per seat-hour FMVs were estimated, respectively. The reason for doing so was that this is how commercial vendors set prices and that these were unit quantities that are independent from operations. Customer Care FMV is rarely, if ever, calculated since it depends on operations and thus is not directly comparable. FMV for Customer Care cannot be calculated directly from these two components without making additional assumptions and obtaining data for additional Customer Care components.

Point: FMV was and should be calculated for operations-independent parameters.

¹ PA Consulting Group Rebuttal Evidence, August 3, 2001, p. 11 of 28.

The following excerpt is from ATCO' Rebuttal Evidence from the ATCO Group of Companies Affiliate Proceeding:

The Manner in which Fair Market Value is determined

In any commercial arrangement for the provision of services, there are two major components: the per-unit billing quantities and the volume of services required. **Fair Market Value is the appropriate determination of unit costs.** This is an area where an apples to apples comparison can be made through benchmarking studies. If the question to each supplier is precisely asked, the results provided by each supplier can be reasonably compared.

However, benchmarking is much more difficult when the volume of services required is added to the mix. It is much less likely that other utilities or vendors are experiencing similar requirements for services. The appropriate methodology is to determine the levels of services required on a forecast basis, and to multiply those quantities by the unit values contained in the Singlepoint and I-Tek agreements. Service levels (usage levels) should be reviewed by the Board to determine if they are prudent. Rates (unit values) should be reviewed by the Board for consistency with the requirement for affiliate transactions. **Any other approach, such as benchmarking the total costs, inevitably results in an apples to oranges comparison.**²

In Application 1302109 (Transcript pp. 1052-1053), a DERS representative indicated that the market price related to the unit costs that are established under the MSA would be the primary area of interest in doing a price review. It would be the unit costs as opposed to the resultant revenue requirement costs.

Later in the same proceeding (Transcript p. 1490), the DERS representative indicated that he wasn't sure whether it was appropriate to compare DERS' customer care costs of unbundled service with those of fully-bundled service providers on a cost-per-customer basis.

Later in the same proceeding, (Transcript pp. 1491-1492) Dr. Chwalowski indicated that it was inappropriate to compare prices between integrated utilities and unbundled utilities on a price per customer basis and that it was more appropriate to compare on a unit price basis. Dr. Chwalowski also provided various reasons for his assertion.

The Board notes that Dr. Chwalowski indicated that customer care FMV is rarely, if ever, calculated since it depends on operations and therefore, Dr. Chwalowski claims not directly comparable. The Board also notes that ATCO submitted that FMV is the appropriate determination of unit costs and that benchmarking the total costs would result in an apple to oranges comparison. The Board notes that DLAI has taken the total

² ATCO Group Rebuttal Evidence, August 3, 2001, p. 4 of 14.

customer care costs for each of the benchmark utilities and divided by the reported number of customers in each respective utility in order to come up with the benchmark overall cost per customer. A similar calculation was made at an individual service category level as well.

Given the above comments by Dr. Chwalowski, ATCO and DERS in previous proceedings and given that the activity levels associated with the individual customer care services vary between benchmark respondents and given that this activity level has a direct impact on the overall cost per customer, why does DLAI consider that overall cost per customer provides a reliable picture of the value of the MSA? Based on DLAI's experience and on benchmark responses, DERS activity levels are not dissimilar to other respondent utilities on a service-volume-per-customer basis. This being the case, overall cost per customer is a reliable indicator of market value at a service level..

DLAI recognized the possibility of an "apples to oranges" comparison and took steps to qualify the respondent population to minimize such risk. We asked not one question to each respondent as is suggested, but a large number of questions designed to "level the playing field." As previously stated, DLAI believes that both scope and volume of services of respondents is within reasonable tolerances when matched to DERS' business environment.

BR-DERS-4

Reference: (1) p. 6/25, DLAI First Report.

Preamble: DLAI indicated that while it has made every reasonable effort to produce well founded findings, benchmarking is neither an exact science nor a purely statistical exercise.

Request:

- (a) In doing benchmarking, what does DLAI consider to be the most important factors to consider and why?
- (b) What alternative approaches did DERS consider for the benchmark study? Please describe the alternatives and the advantages and disadvantages of each alternative.
- (c) Why did DERS/DLAI select the chosen benchmarking approach instead of one of the alternatives identified in (b)?
- (d) Does DLAI consider that a benchmark study should be able to provide explanations for cost differences between utilities on both a qualitative and quantitative basis? Please explain.

Response:

- (a) Ensuring comparison on the most consistent basis possible and achieving a sample size that validates the end result to the greatest extent possible.
- (b) DLAI looked at telephone polling and use of existing data bases.
- (c) It was considered that neither alternative would better meet the criteria described in (a) above.
- (d) On a quantitative basis the benchmark is considered a reasonable basis for comparison. A qualitative assessment regarding the quality of service delivered to respondent utilities is more difficult as it depends on those respondents who submitted data on service levels and targets, those respondents being approximately half of the total respondent population.

Additional Request:

- (e) With respect to response (a), please provide more elaboration on “the most consistent basis possible”. Are you referring to the selection criteria noted in BR-DERS-8(a)?

The most consistent respondent base in respect of size of utility, scope of operations and extent of outsourcing.

- (f) With respect to response (a), please explain how you balance or trade off a comparison on “the most consistent basis possible” versus “sample size”?

In the case of a benchmark directed to a specific utility, as in DERS’ case, the respondent base should meet the criteria described above even though this may reduce the size of the sample. The sample size should be as large as possible but should not be designed to include utilities that do not meet all of the selection criteria.

- (g) With respect to question (f), what attributes of an entity or factors related to the entity (see BR-DERS-8b) did DLAI consider could be overlooked in order to increase the sample size and why?

See previous response.

- (h) With respect to question (b), the Board was not looking for mechanical approaches but instead was looking for broader study approaches such as vendor surveys versus utility surveys and other possible location alternatives such as western Canada, mix of US and Canadian utilities, etc. Given this further explanation, does DERS have further comment?

Given the range of the respondent group, DERS believes that the DLAI benchmarking study captures the majority of outsource vendors operating in Canada and includes the results that would be gathered from a vendor survey. DERS remains of the view that a Canadian study is more appropriate than one including U.S. utilities, and there are insufficient entities operating in Alberta for a robust comparison.

- (i) The Board notes that DERS filed evidence from Dr. Chwalowski in Application 1302109 and that Dr. Chwalowski also filed evidence in the ATCO Group of Companies Affiliate Proceeding (Application 1237673, previously 2000233 & 2000234).

The following excerpts³ are from Dr. Chwalowski’s Rebuttal Evidence from the ATCO Group of Companies Affiliate Proceeding:

Q3: WHAT IS THE PURPOSE OF BENCHMARKING?

A3: In general, the purpose of benchmarking is to compare some aspects of an entity’s characteristics or operations with appropriate peers with the goal of establishing the relative standing of that entity.

Any benchmarking has numerous limitations and is only as good as the data used to develop key parameters. Benchmarking is most effective in delivering a range of characteristic values, rather than in providing a precise determination of certain values. The reason for that is typically associated with the following factors:

- The size of the benchmarked sample – the larger the sample, the more reliable the data

³ PA Consulting Group Rebuttal Evidence, August 3, 2001, Q3/A3, pp. 4 & 5 of 28 and Q7/A7, pp. 9 & 10 of 28..

- Similarity with the subject of benchmarking – care must be exercised to choose entities that are the most alike in their key characteristics with the benchmarked entity
- Temporal effects – entities undergo changes from year to year (organizational capabilities, scope of work, purchase of large systems) that have significant impact on their performance characteristics
- Relationships – there are different levels (weak, strong) of relationships between various characteristics that must be properly recognized; only a careful analysis can determine if valid conclusions can be derived using certain data.

It is important to note what is *not* benchmarking. Here are a few examples:

- Getting selective data from a limited number of entities without any in-depth analysis
- Mixing and matching data from different, unrelated sources
- Making assumptions that a certain grouping of data is common to other entities

Point: Benchmarking has to be conducted very carefully to obtain meaningful results; ultimately it provides only guidance rather than any definitive answers.

Q7: WHAT IS THE PROPER APPROACH TO CONDUCTING CUSTOMER CARE COST BENCHMARKING?

A7: In order to conduct benchmarking that would provide justifiable Customer Care results, it is necessary to satisfy the following **basic conditions**:

- Examine a representative, large enough grouping of utilities or commercial vendors and develop questions related both to costs as well as operations.
- A properly conducted analysis relies on answers to several hundred questions that relate to both areas and is provided by a utility employee.
- Typically, to verify the provided data, there are extensive interviews with a utility staff to ensure that questions were properly and correctly understood.
- The provided data are analyzed and appropriate quantities or representative ratios are developed to evaluate utility performance and to provide context to the results.

- The same process is repeated for a number of utilities of different sizes, types, locations, and other characteristics to obtain “average” representative quantities that are meaningful.

All benchmarking data has limitations. The selection of the technique to obtain such data must be done with the utmost care and the results of such benchmarking should not be used for purposes for which they were not designed. Even the most careful benchmarking has limitations and only provides an indication of the range of acceptable figures.

In the specific case of ASL, the analysis of utility operations and costs would have been inadequate, since this is an outsourced, unregulated Customer Care operation and has somewhat different operating characteristics. To validate the analysis, it was necessary to obtain and review prices and available functionality of Customer Care services offered by commercial vendors.

Point: Even the most careful and best controlled benchmarking cannot be used to determine a specific utility price structure for Customer Care services.

With respect to the two excerpts (“Q3/A3” and “Q7/A7”), please identify all statements or comments that DLAI does not agree with and why.

DLAI does not agree with:

- Maximizing the sample size at the expense of key criteria set out in (e) above.
- While we agree with the point regarding “relationships,” we feel that very few benchmark projects have the time or budgets to take this factor into account.
- The same comment applies to the point about “interviews with utility employees”. It would be extremely costly to do this in the context of a Canada-wide benchmark. DLAI took the approach of following up by telephone where responses were questionable in its opinion.
- Obtaining the price of services is not feasible, given the confidentiality of MSA terms.

- (j) With respect to excerpt “Q7/A7”, shown in question (i), please verify whether in the DERS benchmark study, DLAI satisfied the basic conditions outlined by Dr. Chwalowski. If the answer is no, please explain why. Please also comment on any other deviations from these basic conditions that were implemented by DLAI in its study and supporting rationale.

DLAI believes such basic conditions were met.

- (k) The Board notes that in its benchmark study, DLAI did not appear to supplement the utility surveys by obtaining and reviewing prices and available functionality of customer care services offered by commercial vendors. Please indicate why DLAI did not take such action in support of Dr. Chwalowski's claim, (from excerpt "Q7/A7" shown in question (i)), that in order to validate the analysis of utility operations and costs, in the specific case of ATCO Singlepoint (now I-Tek), prices and available functionality offered by commercial vendors needed to be obtained and reviewed.

DLAI did not feel that such a step was feasible, given that MSAs signed by respondent utilities are necessarily confidential. DLAI did however check service levels to identify irregularities and inconsistencies where such data was in the public domain.

BR-DERS-6

Reference: (1) p. 7/27, DLAI Second Report.

Preamble: DLAI indicated that it believed that the DLAI benchmark study has established fair market value for customer care services and therefore satisfies the first EUB requirement.

DLAI also indicated that it believes that mapping of charges made by ITEK under the MSA to the benchmark results is a reasonable general basis for assessment of the fair market value of those charges.

Request:

- (a) Why does DLAI consider that its benchmark study has established fair market value for customer care services?
- (b) How would DLAI describe a benchmark study that has not established fair market value for customer care services?
- (c) With respect to DLAI's second comment noted above on the mapping of charges, is DLAI referring to the unit rates for the various customer care service components listed in the MSA or cost per customer for individual customer care services?

Response:

- (a) Because of the scope of the benchmark and the fact that comparisons have been carried out at both overall and unit cost levels.
- (b) Where significant differences have been shown for similar sizes of utility in respect of benchmark and utility costs at a cost per customer level and/or where some unit costs are significantly higher than those of comparable utilities. Service level requirements would also have to be taken into account in making this determination.
- (c) Both.

Additional Request:

- (d) With respect to question (a), what specifically is DLAI referring to when it indicates that the DLAI benchmark study has established fair market value for customer care services? Is it referring to the "foundation benchmark values" shown in Figure 1?

Yes. Similarly the reference applies to adjusted benchmark values after elimination of meter reading costs, as shown in figure 3.

- (e) With respect to response (b), please describe the specific item DLAI is referring to when it indicates similar “sizes” of utility.

In the context of DERS’ comparisons, “smaller” utilities means those with less than 75,000 customers.

- (f) With respect to response (b), is DLAI assuming that the utilities in the benchmark have all met the criteria identified in BR-DERS-8(a)?

The respondents all meet the majority of the criteria and come close to others. Their qualification to be valid respondents was verified by our consultants.

- (g) With respect to response (c), why does DLAI consider that cost per customer for individual customer care services is a reasonable general basis for assessment of the fair market value of the charges under the MSA?

It is the lowest level of comparison possible under the circumstances.

BR-DERS-7

Reference: (1) p. 2 & 3, Letter from DERS dated September 23, 2004

Preamble: In the referenced letter, DERS indicated that at the outset of this project, a **decision** was made to benchmark only Canadian utilities. DERS indicated that it was its **belief** that a study focused on Canadian entities has more relevance than one that focuses on, or included U.S. entities. DERS submitted that a study focused on Canadian costs will eliminate any disagreement respecting currency conversion and labor cost comparisons as occurred in DERS' DRT/RRT hearing in September 2003.

Request:

- (a) Did DERS make the noted decision based on a recommendation of DLAI?
- (b) Does DLAI support DERS' noted belief?
- (c) What would DLAI consider to have been the advantages and disadvantages of including U.S. entities in the DERS benchmark study? Please discuss fully.

Response:

- (a) The decision to benchmark only Canadian utilities was made by DERS prior to the retention of DLAI. In discussions with DLAI DERS investigated the reasonableness of benchmarking only Canadian utilities, and determined that that approach should result in a valid benchmark study.
- (b) Yes.
- (c) US utilities operate under different circumstances to those in Canada in respect of labour costs, unionization, competitive environment, size of market etc. Their inclusion would have increased the size of the sample but would likely have skewed the results.

Additional Request:

- (d) With respect to response (c), does DLAI consider that eastern Canadian utilities operate under the same circumstances at DERS in respect of labour costs, unionization, competitive environment, size of market, etc? Please elaborate.

DLAI does not believe that Eastern utilities operate under identical circumstances as DERS. However, the level of difference is not sufficiently large to invalidate any responses to benchmark questions. DLAI took all reasonable steps to assess the impact of such differences before including any utility as a respondent to the benchmark.

BR-DERS-8

Reference: (1) p. 1, Terms of Reference.
(2) p. 3/25, DLAI First Report.

Preamble: In the Terms of Reference, it indicates that information will be collected from **other utilities that have outsourced comparable services** in order to create a data base of comparable customer care costs and services.

In its first report, DLAI indicated that in order to achieve a valid benchmark it was necessary for DLAI to solicit information from utilities across Canada.

The Board is interested in understanding the criteria DLAI used to select entities for which to benchmark. A number of statements made in the DLAI reports appear to indicate that many factors were considered.

Request:

- (a) What selection criteria does DLAI consider appropriate in order to select utilities to be included in a customer care benchmark study?
- (b) With respect to the DERS benchmark study and the selection of an entity to be surveyed, what attributes of an entity or factors related to the entity does DLAI believe are important to consider in order to provide the best benchmark for DERS' customer care service costs? Please rank the attributes and/or factors from most important to least important.
- (c) How many utilities in the DERS benchmark survey match DERS' profile or situation with respect to the key attributes and factors DLAI considers to be important in choosing a benchmark respondent?

Response:

- (a) Size, scope of operations, utility's regulatory environment, extent of outsourcing, etc.
- (b) From most to least important – size, extent and scope of outsourcing, maturity of outsourcing relationship, scope of operations, length of outsourcing contract.
- (c) The majority of respondents match some or all of the criteria making up DERS' profile. DLAI cannot be more precise because it is legally obliged to protect the identity of the respondents.

Additional Request:

- (d) With respect to response (a), please provide further elaboration on what is meant by "size" and "utility's regulatory environment"?

“Size” generally relates to number of customers and/or scope of operations.

Utility’s “regulatory environment” relates to whether or not public, arms-length regulation is a feature of its operation..

- (e) With respect to response (a), what other factors or utility characteristics does DLAI consider appropriate?

Service levels demanded under the MSA, state of use of technology, age of technology.

- (f) With respect to response (b), please explain why the factors were ranked in this order.

This order was considered most appropriate for comparison to DERS.

BR-DERS-9

Reference: (1) p. 3 & 4/25, DLAI First Report.

Preamble: In its first report, DLAI indicated that in order to achieve a valid benchmark it was necessary for DLAI to solicit information from utilities across Canada. DLAI also indicated that for reasons of meaningful comparison, it was decided to collect information only from utilities with more than 75,000 customers. DLAI also noted that this cut-off did not preclude solicitation of information from utilities in all geographic areas of the country. DLAI also indicated that it was confident that the fourteen utilities represent a meaningful cross-section of the Canadian industry, with a balance of gas and electric utilities and a broad range of customer bases in terms of size.

Request:

- (a) Why was it necessary for DLAI to solicit information from utilities across Canada in order to achieve what it considers, a valid benchmark?
- (b) Why does DLAI consider that 75,000 customers is an appropriate cut-off to use in order to provide a meaningful comparison?
- (c) Why does DLAI consider it more appropriate to obtain a cross-section of larger utilities and geographically across Canada rather than just focusing on entities with certain key attributes or entities that exist in a similar situation as DERS?

Response:

- (a) Because it wanted to achieve the largest number of respondents possible and therefore make the results more representative of the industry as a whole.
- (b) Larger utilities tend to use more outsourcing services and be more sophisticated in contracting for them. The cut-off chosen excludes these small utilities, for instance all but the largest municipal utilities, many of whom operate in a different environment in terms of scope of outsourcing, regulation, operational sophistication etc.
- (c) DERS is a larger utility with operational and service attributes very similar to other larger utilities. Although a focus on other Alberta utilities alone may provide a more appropriate comparison to matched criteria entities (see BR-DERS-8), such a study would have limited data points and would not allow for confidentiality.

Additional Request:

- (d) With respect to response (c), if DLAI's benchmark values ((overall cost per customer for customer care services excluding meter reading costs), individual service cost basis (cost per customer for individual services) and a unit cost comparison for particular service

elements)), were only established for the Alberta utilities that were surveyed, please explain how this would not allow for confidentiality given that in BR-DERS-36, DLAI indicated that it was legally obliged not to show any data for individual utilities.

The Alberta respondent population was small.

- (e) With respect to the benchmark values identified in question (d), please provide these values for the group of Alberta utilities that were surveyed.

For reasons of confidentiality, DLAI is unable to do so.

- (e) Given DERS' concerns expressed in its letter dated December 10, 2004, with respect to different billing requirements in Alberta (and similar concerns expressed by ATCO as noted in BR-DERS-10), why does DLAI consider it more important to include more utilities (outside Alberta) in the benchmark survey versus having a study with less data points?

The Alberta respondent population was small, making statistical validity of results an issue.

BR-DERS-11

- Reference:**
- (1) p. 1, Terms of Reference.
 - (2) p. 9/25, DLAI First Report.
 - (3) DLAI Questionnaire.

Preamble: The Terms of Reference state that only DLAI will have access to company-specific data generated from the benchmarking process, that participants in the benchmarking will be protected in this regard and that DERS agrees only to require access to aggregated results.

In the DLAI First Report, DLAI indicated that it was prohibited from providing other measures, such as minimum and maximum ranges for data sets in order to guarantee the anonymity of individual respondent utilities.

The questionnaire requested that the survey respondents provide a lot of details on unit costs for subcomponents of the various customer care services (i.e. unit cost for rebills, unit cost per collections call, etc) but this information was not included in the DLAI reports. The results of other questions asked are also not included in the DLAI reports.

Request:

- (a) Please identify the measures that DLAI considers would reveal the identity of the respondent utilities.
- (b) For the measures identified in (a), please explain why DLAI considers that these measures would reveal the identity of the respondent utilities.
- (c) Without revealing the identity of any respondent utilities, did DLAI consider that reporting of certain findings by utility could have been accomplished by only labelling each utility by Utility A, Utility B, etc? Why or why not?

Response:

- (a) The majority of outsourcing contracts are in the public domain due to regulatory requirements. However, only a small number of respondents provided detailed information on unit costs etc. Providing maximum and minimum cost ranges or data plots for these few respondents would allow minimal research to determine their identities.
- (b) See (a).
- (c) See (a).

Additional Request:

- (d) With respect to response (a), if a utility already had its outsourcing contract in the public domain, why would it be concerned about being identified?

Many public domain references to outsourcing contracts are redacted to exclude specific pricing details. The information was given in response to the benchmark questionnaire was provided to DLAI only under conditions of strict confidentiality.

BR-DERS-14

Reference: (1) p. 2, Letter from DERS dated December 10, 2004

Preamble: DERS noted that it believed it was important to analyze in detail the findings shown on Figure 4 of the DLAI Second Report to ensure there is no opportunity for cherry-picking and that the focus remains on the **total cost per customer**.

Request:

- (a) In the context of customer care services, does DERS consider that the **overall cost to customers** should be determined by applying the unit cost of each customer care service component to the actual amount of activity or usage for each respective customer care service component?

Response:

- (a) Yes. Under the pricing structure in the MSA between DERS and ATCO I-TEK, it is the unit pricing, applied to activity or usage, which determines the overall cost to customers. It is important, however, to focus on the total or overall cost to customers resulting from the application of unit pricing to activity because, as demonstrated in tables 1 through 3 of DERS' December 10, 2004 submission to the Board, the resultant cost per customer for any individual service may be higher or lower than the benchmark value due to the pricing structure inherent in the individual agreement and customer behaviour, while the overall cost of all services remains reasonable.

Additional Request:

- (b) In BR-DERS-31, DERS recalculated the annual cost per customer for DERS' call centre using the benchmark calls per year per customer instead of its original forecast calls per year per customer.

The Board would like DLAI to comment on the appropriateness of comparing modified estimates of DERS' 2004 total customer care costs to the average actual customer care costs (without meter reading costs) of the benchmark respondents (1. all "cluster" benchmark respondents and 2. Alberta only respondents) for the 2003 fiscal year.

The modified estimates of DERS' 2004 total customer care costs would be established by applying a standard activity level (1. average of all "cluster" benchmark respondents and 2. average of Alberta only respondents) to the unit cost of each customer care service component in the MSA and aggregating these results.

The Board would like DLAI to provide the results of the above noted comparisons using the two noted data sets: the "cluster" benchmark respondents and the "Alberta only" benchmark respondents.

DLAI believes it is entirely appropriate to compare DERS modified costs against the benchmark following removal of meter reading charges. Meter reading is a self contained function for all other benchmark respondents and the services carried out elsewhere match those carried out by the wire company in the Alberta service model.

As stated earlier, DLAI cannot isolate Alberta respondents from the benchmark.

DLAI considers the comparison of DERS' customer care costs at a "standard activity level" to unit costs in the MSA would be of doubtful value because:

- Respondent contracts are not always built around activity levels and the population of the sample would therefore be relatively small.
- DLAI did not ask for comprehensive volumes in its benchmark questionnaire and would be unable to compare DERS MSA unit costs on a comprehensive basis
- Unit costs tend to be higher for smaller utilities than for larger organizations, tending to skew a benchmark in which larger utilities predominated..

BR-DERS-17

Reference: (1) p. 5/25, DLAI First Report.
(2) p. 2, Letter from DERS dated December 10, 2004

Preamble: DLAI indicated that it has no means of confirming the level of consistency used by respondents in defining the scope of a particular service when completing benchmark questionnaires (e.g. the actual processes ascribed to “call centre services”). DLAI stated that it had to rely on respondents’ judgment in this regard.

With respect to the exclusion of meter reading costs from benchmark values, DERS indicated that it is not known to what extent there is an overlap in the meter reading and billing functions in the benchmark respondents. DERS also indicated that it was its understanding that there can be a significant overlap in these functions and that the meter reading function, in some cases, provides many of the calculations performed within DERS’ billing function. DERS submitted that while the difference in functionality and associated cost cannot be quantified, it should be kept in mind when DERS’ costs are compared to the benchmark values.

Request:

- (a) Did DLAI provide a description of the customer care functions, used in its questionnaire, to the benchmark respondents?
- (b) If the answer to (a) is no, please explain why. If the answer to (a) is yes, please provide the material given to the benchmark respondents.
- (c) With respect to the potential overlap in meter reading and billing functions, did DLAI ask benchmark respondents to comment on this issue?
- (d) Given that the purpose of the DERS benchmarking study was to determine if the charges under the MSA represented fair market value for the services provided, did the services (functions or processes) under the MSA drive the formation of the DLAI Questionnaire and the way benchmark respondents had to respond and outline their respective costs?
- (e) If the answer to (d) is no, please explain why.

Response:

- (a) Initially no. However, in cases where it believed a respondent had misinterpreted the scope of the function to be reported based on questionnaire responses, DLAI called by telephone to ensure consistency of description and clarification of response. When the issue of potential overlap of functions between meter reading and billing became an issue for DERS, DLAI asked for functional clarification from DERS and called a number of respondents to validate consistency of functional descriptions.
- (b) No written material is available

- (c) No – but DLAI followed up with a number of respondents when this became an obvious issue in DERS particular case. DLAI clarified what services and functions other utilities included under the heading of “meter reading” and investigated the possibility of overlap of services in the case of DERS.
- (d) No
- (e) The benchmark was specifically designed NOT to be targeted towards DERS but to reflect the situation of the industry as a whole. DLAI deliberately avoided questions on issues specific to DERS. The questionnaire was designed specifically to include ALL potential areas of cost relevant to customer care, in order to provide the best overall comparison. For instance, meter reading costs were collected, even though DERS does not incur such costs.

Additional Request:

- (f) With respect to response (a), why didn't DLAI provide a description of the customer care functions to the benchmark respondents?

DLAI took the approach that, when initially contacting the potential respondents, it was better to ask questions regarding functions to establish compliance with benchmark reporting. DLAI feared that written descriptions would be misinterpreted to the extent that actual costs would be incorrectly recast to meet the written description.

- (g) With respect to response (a), how did DLAI establish its belief that a respondent had misinterpreted the scope of the function? Please provide examples.

Examples were:

- Number of bills and billing cycle were inconsistent with the number of customers reported.
 - Number of calls to the call centre was significantly above/below the average number of calls per customer per year for the benchmark as a whole.
 - Costs for a particular service were significantly above/below the mean of other respondents.
- (h) The response to BR-DERS-19 indicates that DLAI provided generic descriptions of service functions to respondents on the basis of industry standards. In light of response (a) noted above, please confirm that the function descriptions noted in BR-DERS-19 were only provided to survey respondents in cases where it believed a respondent had misinterpreted the scope of the function to be reported based on questionnaire responses.

When initially contacting the potential respondents, DLAI asked questions regarding service functions to establish compliance with benchmark reporting. DLAI followed up with questions to all respondents where misinterpretation was considered to be a possibility.

BR-DERS-19

Reference: (1) p. 3/25, DLAI First Report.
(2) Decision 2003-106, Table 8 (RRT Customer Care Costs) and Table 12 (DRT Customer Care Costs).

Preamble: The noted references outline specific customer care functions and cost categories.

Request:

- (a) Please provide a detailed description of the customer care functions listed (meter reading, bill printing and processing, etc) in the DLAI report
- (b) Please cross reference the customer care components shown in the DLAI report with the components included in the noted Tables in Decision 2003-106.

Response:

- (a) DLAI provided generic descriptions of service functions to respondents on the basis of industry standards.

Meter reading includes all functions from physical recording of meter information to downloading of such information to the CIS system for bill calculation.

Bill printing includes all billing calculations plus the physical action of bill printing, envelope stuffing, mailing etc.

Credit and collections includes all normal payment functions, such as cash, credit card, bank transfer, ATM and web payment etc. Also included in this function are normal credit granting and management procedures and follow up of doubtful and overdue accounts.

Call centre operations includes all functions related to response to customer telephone, e-mail and mail enquiries.

- (b) The table below shows the cross reference between the DLAI report and the Tables in Decision 2003-106.

DLAI Report Categories	Tables from Decision 2003-106 Categories
Meter Reading	N/A
Bill Printing and Processing	Billing Services
Credit and Collections	Credit Management Services
Call Centre Operations	Customer Assistance Services
Process Support	Walk-in Services
	Other Additional Services
	Time & Materials
	Postage and Stationery
Technological Support	Incremental Processing

The categories used in the DLAI Report correspond generally to the DERS services as described in the tables from Decision 2003-106. It is important to note, however, that in a number of significant examples, the functions outsourced by DERS are much broader in scope and complexity than the definitions provided in the DLAI benchmarking document. These differences must be taken into account and adjustments made to the price comparisons to reflect both the larger scope of outsourced services and the added complexity of the Alberta market.

For example, the DLAI definition of billing is a system-managed billing calculation and the bill print functions. This assumes the utility provides a clean file of billing information that the outsourcers use to generate and print the customer statement.

DERS, however, has outsourced a number of other significant billing related services to ATCO I-Tek that are covered by the billing services fee. These include:

- management of the complex data transactions between industry parties in Alberta's deregulated industry environment;
- operations management and maintenance support of all systems and software used to deliver the contracted services to DERS;
- operation and maintenance of CIS and fixing of CIS production failures for daily operations and regular billing cycles;
- monitoring and tuning of CIS databases; maintenance of the CIS maintenance environment including the development and test program libraries, databases and jobs;
- maintenance of the CIS applications training environment;
- upgrade of CIS application development tools and performance monitoring tools;
- mainframe batch processing and production for retail billing;
- processing for all online inquiries and standard industry transactions as well as full range of technology infrastructure support related to the services including operational recovery;
- disaster recovery capability; and
- information security management and other services.

In addition, ATCO I-Tek is also contracted to perform a number of labor intensive billing services, all of which are covered by the base billing fee. These services include a wide range of manual quality assurance processes and transactions related to customer and account management, energy usage management and retail billing as well as extensive balancing and controls functions.

Additional Request:

- (c) With respect to response (b), DERS notes that the functions outsourced by DERS are much broader in scope and complexity than the definitions provided in the DLAI benchmarking document and that these differences must be taken into account and adjustments made to the price comparisons to reflect both the larger scope of the outsourced services and the added complexity of the Alberta market.

Did DLAI make adjustments to the price comparisons to reflect both the larger scope of the outsourced services and added complexity of the Alberta market? If yes, please elaborate. If no, please explain why not.

No. But DLAI did consider the scope of DERS' operations in the context of the benchmark respondents when making the decision not to do so. It was felt that Atco's service portfolio was in most respects the same as other benchmark respondents except that technology costs were not included in billing costs but were reported separately.

- (d) With respect to response (b), DERS lists a number of billing related services performed by ATCO I-Tek that are covered by the billing services fee.

Are the listed items included in the customer care service costs submitted by the benchmark respondents? If yes, please elaborate. If no, please explain why not.

Yes, based on DLAI's follow up questions.

BR-DERS-20

Reference: (1) p. 4/27, DLAI Second Report.
(2) p. 16, PA Consulting Report

Preamble: DLAI indicated that if measured on a top-line basis alone, ITEK charges are measurably above fair market value when compared to the benchmark results.

PA referred to the concept of Fair Market Value and indicated that it refers to pricing and corresponding service levels that represent a band of mean levels between low and high prices available in the marketplace.

Request:

- (a) Please confirm that DLAI is defining that fair market value is equivalent to its benchmark results for overall cost per customer for customer care services.
- (b) Does DLAI agree with PA's concept of Fair Market Value? Please also indicate why or why not.

Response:

- (a) DLAI believes that measurement of fair market value is a combination of prices charged by outsourcers to similar customers plus or minus adjustments for service level demands, volumes and support costs.
- (b) Fundamentally yes, but DLAI believes that other factors such as age of technology and cost of support must be taken into account.

Additional Request:

- (c) With respect to response (a), what is meant by "combination of prices"?

The aggregate of base charges and unit prices for services.

- (d) With respect to response (a), what is meant by "support costs"?

Such items as technology and network costs, website maintenance, internal systems and process support.

- (e) With respect to response (a), please provide examples of FMV using results from the DLAI Second Report.

DLAI believes such examples are provided in its report.

- (f) With respect to response (b), please provide further elaboration.

Where a supplier is supporting old or obsolete technology or systems, the cost of doing so is almost certain to be higher than that of supporting more modern solutions. The difference in such costs must be factored into any discussion of market value.

BR-DERS-21

- Reference:**
- (1) p. 5/27, DLAI Second Report.
 - (2) p. 3, Letter from DERS dated December 10, 2004
 - (3) p. 8/27, DLAI Second Report.

Preamble: In its report, DLAI noted that in Decision 2003-106, the customer care costs submitted by DERS were estimates and these estimates were based on certain assumptions made by DERS regarding high call volumes and call duration during the transition period from ATCO to DERS. DLAI indicated that in order to improve analytical accuracy, **revised estimates** were used for analysis in the DLAI report based on DERS' twelve-month test period forecasts. In addition, DLAI indicated that the CPI inflation factor included in DERS' filed twelve-month test period forecast was removed from DLAI's analysis.

In its letter, DERS indicated that its costs in the DLAI Second Report were the 2004, 12 month test period costs contained in its 2003/2004 DRT/RRT Application except that the annual CPI factor was set to unity.

DLAI indicated that in order to achieve a more direct comparison to the benchmark figures, DERS revised its original 2004 figures by taking out the CPI inflation factor and **revising** call centre volumes and call durations to reflect twelve-month test period forecast.

Request:

- (a) Given DLAI's apparent contradiction of DERS' statement with respect to which customer care costs estimates were used, please clarify which customer care cost estimates DLAI used to derive the total annual cost per customer figures of \$58.98 and \$58.53 respectively for electric and gas.
- (b) For electric and gas, please provide the activity level or usage or billing determinants for all customer care components in the MSA that were used by DLAI to derive the above noted annual costs per customers shown in (a) and also provide the same data used to derive the customer care costs in the 12-month test period in the 2003/2004 DRT/RRT Application.

Response:

- (a) The customer care cost estimates that DLAI used to derive the cost per customer were the 2004 forecast numbers as presented in DERS 2003/2004 DRT/RRT application with the CPI inflation factor set to 1.
- (b) Please refer to attached schedule BR-DERS 21(b) for all activity level and usage assumptions used by DLAI to determine the annual costs per customer. The activity

level and usage assumptions are identical to those used in DERS 2003/2004 DRT/RRT Application and provided in IR response BR-DERS-15(c) of that application.

Additional Request:

- (c) With respect to the schedule provided in response (b), please explain how for the DRT, the average number of customers in 2004 is 806,399 when the number of customers at the beginning and end of 2004 were estimated at 807,430 and 809,126 respectively.

The 2004 monthly and average number of customers by rate class was provided on Schedule 4.2 in DERS' 2003/04 DRT application. Shown below are the total monthly customer counts and the resulting arithmetic average used to determine the 2004 I-Tek costs.

Month	Customers
Jan-04	807,430
Feb-04	807,307
Mar-04	807,187
Apr-04	806,029
May-04	806,029
Jun-04	805,596
Jul-04	804,397
Aug-04	803,515
Sep-04	805,237
Oct-04	806,711
Nov-04	808,229
Dec-04	809,126
Average	806,399

BR-DERS-23

Reference: (1) p. 8 & 9/27, DLAI Second Report.
(2) p. 25/25, DLAI First Report.

Preamble: Figure 2 shows a benchmark value of \$58.51 and \$55.02 respectively for Electric Utilities and Gas Utilities and Figure 3 shows a revised benchmarking value (without meter reading charges) of \$48.01 and \$48.74 respectively.

Request:

- (a) With respect to the exclusion of meter reading costs, please identify the factors that would explain why the benchmark value for the Electric Utilities drops about 18% while the benchmark value for the Gas Utilities drops about 11%.
- (b) Based on the logic in the hypothetical example shown in Appendix B of the DLAI First Report, please confirm that if one utility in a group of utilities did not report meter reading costs while the other utilities did, parties would have to be cognizant of the fact that if they wanted to make a comparison between the benchmark and the overall cost-per-customer of a given utility that does include meter reading costs, for example, the overall cost-per-customer benchmark would tend to be understated.
- (c) Is part of the explanation described in (a) above related to the approach shown in the hypothetical example in Appendix B of DLAI's First Report whereby the overall cost-per-customer benchmark takes the total cost for each customer service area reported by each utility and divides by the number utilities?

Response:

- (a) Different meter reading costs were reported by gas and electric utilities when responding to the benchmark.
- (b) Comparison of benchmarks always needs to be based on comparable categories of service. DLAI made every effort to ensure that ALL costs were reported by each utility, and if this was the case, the overall cost-per-customer would not be understated. As an example, if meter reading costs were not reported, the utility did not incur those costs, and the overall total service cost for that utility is still correct.

DLAI feels it is important to realize that the overall test for market value will always be overall cost per customer. Over-emphasis on category cost comparisons will not change overall market value of an outsourcing agreement.

- (c) Yes

Additional Request:

- (d) In deriving the \$58.51 per customer (electric utilities) and \$55.02 per customer (gas utilities) benchmark values shown in Figure 2 (p. 8/27 Second DLAI Report), did all the utilities associated with these derivations report meter reading costs?

All those who reported meter reading as part of the scope of outsourced services. This amounted to over 80% of the respondents.

BR-DERS-32

Reference: (1) p. 2, Terms of Reference.

Preamble: The May 20, 2004 Work Plan shows various tasks.

Request:

- (a) Please describe the material that was provided by DERS to DLAI for review.
- (b) With respect to the preparation of the initial analysis material, please describe the identified issues and shortfalls.

Response:

- (a) DERS provided specific material to DLAI prior to the benchmark project, including evidence filed by Platts and PA Consulting in Application 1302109, DERS' customer care cost model, and relevant portions of Decision 2003-106. Additional discussion took place around benchmark questionnaire design and the profile of respondents to be invited to participate.
- (b) A limited number of issues were identified in areas such as consistency of reporting and common understanding of process parameters among respondents. These issues were discussed and resolved without identification of respondent utilities.

Additional Request:

- (c) During the hearing with respect to Application 1302109, Dr. Chwalowski described a table, shown on page 15 of the PA Consulting Report, which lists issues that he believed should be considered when one wants to do a comparison between pricing for services provided by different providers. Which issues listed in the table did DLAI consider in its DERS benchmarking study?

All issues.

- (d) For each issue in the table noted in question (c), please describe why the factor was or was not considered relevant to the current DERS benchmarking study.

All factors were considered relevant to a varying degree of importance. All were considered in the benchmark data collection process and later comparison to DERS

- (e) With respect to the issues listed in the table noted in question (c), please describe how DLAI made adjustments for each of the issues it considered relevant.

DLAI did not make adjustments to benchmark data submitted by respondents.

- (f) With respect to the Exclusive Provider clause in the MSA (clause 2.2), what impact does DLAI consider this clause could have on the DERS customer care service pricing in the short and long term? How did DLAI take into account this specific clause in its benchmarking study?

Most other respondents have unique clauses in their contracts. Other utilities have such a clause or a near equivalent and its impact is therefore built into other respondent data. DLAI did not try to adjust benchmark data to reflect these differences.

BR-DERS-38

Reference: (1) p. 7/27, DLAI Second Report.
(2) p. 25/25, DLAI First Report.

Preamble: DLAI indicated that when overall cost per customer was used as a primary indicator, only three utilities in the sample fell outside one standard deviation from the mean value.

Request:

- (a) Please confirm that the principles of data base analysis noted in First Report and the overall cost per customer calculation example, apply to the overall cost per customer reference noted above from the Second Report.

Response:

- (a) Confirmed.

Additional Request:

- (b) In deriving the benchmark values in Figure 3 (benchmarks without meter reading costs), (p. 9/27 DLAI Second Report), was the data used from the 14 survey respondents or only the 11 "cluster" utilities?

The cluster utilities.

- (c) Did all of the utilities used to derive the benchmark values in Figure 3 report costs for all customer care services except for meter reading?

More than 90% did so. To the best of DLAI's knowledge, only where services were not used were costs not reported.

- (d) If the response to (c) is no, why is it appropriate to compare DERS' customer care costs against this benchmark?

Please refer to (c) above.

BR-DERS-39

Reference: (1) p. 8/27, DLAI Second Report.

Preamble: Figure 2 maps DERS' costs to the benchmark.

Request:

- (a) Why does DLAI consider it appropriate to compare DERS' costs against the mean of the "cluster utilities" rather than against the mean of all the survey respondents or the mean of only a few utilities, which best match the profile and situation of DERS?

Response:

- (a) Statistically it is important to exclude outliers from any such analysis in order to avoid "skewing" of means and to develop the most representative mean possible in the circumstances. Please also refer to response to BR-DERS-9.

Additional Request:

- (b) With respect to response (a), please explain why DLAI appears to select a discrete quantity for FMV while, in the ATCO Affiliate Proceeding and Application 1302109, PA Consulting appeared to prefer a price band approach for FMV.

DLAI agrees that a band of values is an appropriate approach to establishment of FMV. DLAI normally considers plus or minus 10% from benchmark values to be appropriate. DLAI chose to report discrete values in this case because figure 3 demonstrates that DERS' overall costs fall outside this "normal" range and should therefore be best compared at a discrete level.

- (b) Did the three utilities excluded from the "cluster" sample report costs for all customer care services consistent with the "cluster" utilities? Please elaborate.

Yes

BR-DERS-40

Reference: (1) p. 9/25, DLAI First Report.
(2) p. 1/16, DLAI Questionnaire.

Preamble: In its report, DLAI indicated that in all analyses, “cost-per-customer” has been calculated on the basis of dividing the total cost for each service by the total number of customers served overall.

In the questionnaire, DLAI asks the utility to identify the number of customers it serves and it also asks for a breakdown between mass market and large volume customers. With respect to these questions, DLAI also notes that where a customer receives both gas and electric service, the respondent should treat this as a single customer.

Request:

- (a) How did DLAI define “customer” for the respondent utilities?
- (b) Did DLAI consider each metered account for a specific service to be a customer?
- (c) Did all utilities report the number of customers on a consistently defined basis?
- (d) If the answer to (c) is no, how much impact could this have on the \$/customer figures?
- (e) How many utilities surveyed in the DERS benchmark study provide both electric and gas services?
- (f) Given DLAI’s comment with respect to treating customers that receive both gas and electric service as a single customer, wouldn’t this lead to a potential overstatement of the cost per customer since the combined utility would report total costs?
- (g) If a utility reported customer care costs related to both electric and gas services, how did DLAI allocate the costs in order to provide appropriate gas and electric statistics?

Response:

- (a) A person or organization receiving a bill or other communication from the utility.
- (b) No
- (c) Yes
- (d) n/a
- (e) Only one respondent provided both gas and electric service. However, it reported its figures separately on two different questionnaires with appropriate volumes, costs, services levels etc.
- (f) DLAI asked such utilities to allocate and report gas and electric costs and customer base separately.

- (g) DLAI performed no reallocation of respondent data.

Additional Request:

- (h) With respect to response (f), please provide the page reference on the questionnaire that outlines such request given that the questionnaire indicates that where a customer receives both gas and electric service, the respondent should treat this as a single customer.

DLAI requested a split of costs following circulation of the questionnaire because the respondent utility offering both products found it easier to report costs separately. Presumably their accounting systems made such differentiation.

BR-DERS-45

Reference: (1) p. 2/3, DLAI Questionnaire Introduction.

Preamble: DLAI indicated to the survey respondent that when entering costs, it should enter all costs in each of the major areas, whether or not the services are outsourced. DLAI also indicated that the respondent should use unloaded costs; namely those costs charged back to the utility by the outsourcer.

Request:

- (a) When respondents provided costs for customer care services that were not outsourced, did they include internal cost loadings in these figures?

Response:

- (a) DLAI asked for costs that were submitted to regulatory authorities. These may or may not have included some or all loadings.

Additional Request:

- (b) With respect to response (a), why didn't DLAI ask the survey respondent to identify any associated loadings?

DLAI specifically asked for unloaded costs and was in no position to verify whether all loading factors had been eliminated by respondents.

- (b) With respect to response (a), can DLAI provide any assurance that the potential internal loadings would not distort the results of its benchmark to any great extent? Please elaborate.

Had any utility's costs been significantly inconsistent with overall benchmark data they would have been called-back and any significant loadings identified and eliminated.

Abbreviations Used in Board IR # 1:

AE	ATCO Electric
AG	ATCO Gas
ITEK	ATCO I-TEK
DERS	Direct Energy Regulated Services
DLAI	Douglas Louth Associates Inc.
DLAI First Report	Results of Benchmark Study into Customer Care Costs and Services at Fourteen Canadian Utilities, September 20, 2004, DLAI.
DLAI Questionnaire	Utility Customer Care Cost and Service Questionnaire, DLAI.
DLAI Questionnaire Introduction.	Utility Customer Care Cost and Service Questionnaire, Introduction, DLAI.
DLAI Second Report	Assessment of the Outsourced Customer Care Service Arrangements between DERS and ITEK, December 1, 2004, DLAI.
MSA	DERS/ITEK Master Services Agreement
PA	PA Consulting Group
PA Consulting Report	Competitive Price Assessment for ATCO ITEK Customer Service Contract with Direct Energy, PA Consulting Group, May 14, 2003