

1 **RFIs on 2006 Peer Group Report**

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3 **Q. Please file a copy of this report for the record.**

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5 A. Attachment A is a copy of the report *Peer Group Performance Measures for*
6 *Newfoundland Power* dated December 21, 2006.

**Peer Group Performance Measures
for Newfoundland Power**

December 21, 2006

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Peer Group Performance Measures For Newfoundland Power

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1.0 Introduction

In Order No. P.U. 19 (2003), the Board of Commissioners of Public Utilities (the “Board”) ordered that Newfoundland Power Inc. (“Newfoundland Power” or “the Company”) file with the Board by March 31, 2004 a report suggesting a “peer group” of utilities and performance measures upon which to evaluate the Company’s performance.

On March 1, 2004, the Company submitted a draft report entitled *A Report on Peer Group Performance Measures for Newfoundland Power* (the “Draft Report”) which reviewed the Company’s initial findings in relation to utility performance measures and benchmarking initiatives. The Draft Report recommended the adoption by the Board, on an interim basis, of several performance measures that could be used to benchmark Newfoundland Power’s performance against composite performance measures available from the Canadian Electricity Association’s (CEA) Committee on Corporate Performance and Productivity Evaluation (COPE).

On March 19, 2004, the Board wrote to Newfoundland Power seeking clarification of certain matters relative to the recommendations contained in the Draft Report.

On March 31, 2004, Newfoundland Power submitted a report entitled *A Supplementary Report on Peer Group Performance Measures for Newfoundland Power* (the “Supplementary Report”) addressing the questions contained in the Board’s letter and recommending certain additional measures. In the Supplementary Report, Newfoundland Power indicated it would participate in the COPE 2003 data cycle, and report to the Board on its evaluation of the COPE process.

On February 28, 2005, the Company submitted a report entitled *Peer Group Performance Measures for Newfoundland Power* (the “February 2005 Report”), which provided comparative statistical data together with an assessment of the appropriateness of the recommended performance measures.

The February 2005 Report included comparisons between the Company and a composite of Canadian utilities and a composite of American utilities. The report indicated that, due to concerns with data availability and quality and observed differences in participating utilities’ operating profiles, it was not possible for Newfoundland Power to draw meaningful conclusions regarding the Company’s performance through comparisons with others. The February 2005 Report also committed the Company to report annually on the measures presented until otherwise directed by the Board.

This report is provided in fulfillment of the Company’s commitment to report annually on the measures presented in the February 2005 Report.

2.0 Performance Measures

This report provides a comparison of Newfoundland Power performance measures against the performance measures of a composite of Canadian and U.S. utilities.

2.1 Canadian Utility Measures

The following measures are presented for comparing the Company's performance against a composite of Canadian utilities:

1. Direct Distribution OM&A (operations, maintenance & administration cost) per circuit kilometre;
2. Direct Customer Service OM&A per customer;
3. Corporate Services OM&A as a percentage of Total Corporate OM&A;
4. Total Corporate OM&A per MWh;
5. System Average Interruption Frequency Index (SAIFI);
6. System Average Interruption Duration Index (SAIDI); and
7. All-injury Frequency Rate (Injuries per 200,000 hours worked).

Appendix A shows comparisons of the Canadian utility composite measures and the equivalent Newfoundland Power data. For this report, as with the previous reports, the Company used data from COPE, as well as information from the CEA's annual *Service Continuity Report on Distribution System Performance in Electrical Utilities* and Accident Statistics Reports. All of the CEA financial measures were obtained from COPE.

Due to concerns over changing data definitions and changes in participants, the CEA has restricted the data available for trending certain financial measures to composite information from those utilities that have reported data for each of the previous three years. Since only composite results are available, high and low range results are no longer included in the comparisons.

Appendix B contains the profiles of the Canadian utilities that participated in COPE in 2003.¹

In 2005, the CEA issued a policy paper, *Benchmarking Data in Regulatory Settings*, regarding the appropriate use of CEA utility data in assessing utilities' performance in a regulatory setting. Appendix E contains the CEA policy paper.

The CEA policy paper states that it is currently developing appropriate benchmarking performance measures for use in a regulatory setting. The performance measures resulting from this review may or may not include the measures presented in this or previous reports and will be dependent upon their being considered appropriate for regulatory use by the CEA. The CEA currently restricts the use of data that it considers not appropriate for use in a regulatory setting. However, the CEA will allow utilities to use composite financial data for 2003 to 2005 during the transition period.

¹ A more recent version of this table is not available from COPE. Since 2003, FortisBC and Toronto Hydro are no longer participating in COPE, while Nova Scotia Power is participating.

2.2 U.S. Utility Measures

The following measures are presented for comparing the Company's performance to a peer group of U.S. utilities:

1. Total Distribution Operating Expense per Customer;
2. Total Distribution Operating Expense per MWh;
3. Total Customer Service Expenses per Customer;
4. Total Administration and Other Operating Expense per Total Operating Expense (Excluding fuel and purchased power);
5. Total Operations Expense per Energy Sold (Excluding fuel and purchased power); and
6. Total Operations Expense per Customer (Excluding fuel and purchased power).

All of these measures are based on information found in utility filings with the Federal Energy Regulatory Commission (FERC). FERC requires major electric utilities to annually file prescribed information regarding their operations. This principally involves the reporting of accounting information broken down in accordance with the FERC code of accounts. The FERC filings are public information.

Appendix C contains the comparisons of the composite measures for U.S. utilities and the equivalent Newfoundland Power data. For each measure, the number of utilities providing data for the composite information and the range of individual results is provided.

The measures for the U.S. data are presented without any adjustment for exchange rates. With the significant shifting in exchange rates since 1999, converting U.S. dollar figures to Canadian figures would greatly distort cost trends.

Appendix D is a list of the U.S. utilities from which the composite measures in Appendix C were compiled. The composite benchmark data for 2005 contains one less contributor than previous years, as New Hampshire Electric Cooperative Inc. did not file their data with FERC for 2005.

3.0 Summary and Conclusion

This report presents comparative utility data for a variety of measures of utility performance. The measures shown are the same measures as were provided to the Board in the February 2005 Report.

The February 2005 Report assessed a number of performance measures for comparing the performance of Newfoundland Power to other utilities. The Company concluded in the February 2005 Report that it was difficult to draw meaningful conclusions regarding the Company's performance through comparisons with other utilities. This is because of continued concerns with data availability and quality and observed differences in participating utilities' operating profiles. The Company's assessment remains unchanged.

Newfoundland Power will continue to report to the Board annually on the measures presented herein until otherwise directed by the Board.

Appendix A

CEA Composite Comparisons

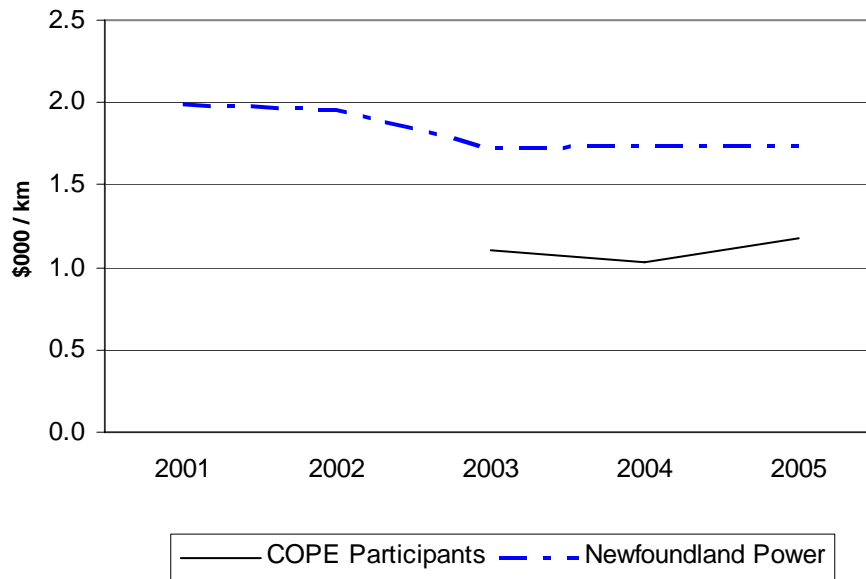
Appendix A

CEA Composite Comparisons

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Direct Distribution OM&A Per Circuit Kilometre (2005\$)



Year	CEA COPE Composite	Newfoundland Power
2001		1.989
2002		1.949
2003	1.102	1.726
2004	1.035	1.732
2005	1.173	1.737

This is the Direct Distribution OM&A per Circuit Kilometre measure as defined by CEA's Committee on Corporate Performance and Productivity Evaluation (COPE). It measures the total direct cost of operating labour and materials, excluding allocated corporate shared services, involved in the operation and maintenance of the distribution portion² of the electrical system, expressed on a per distribution circuit kilometre basis.

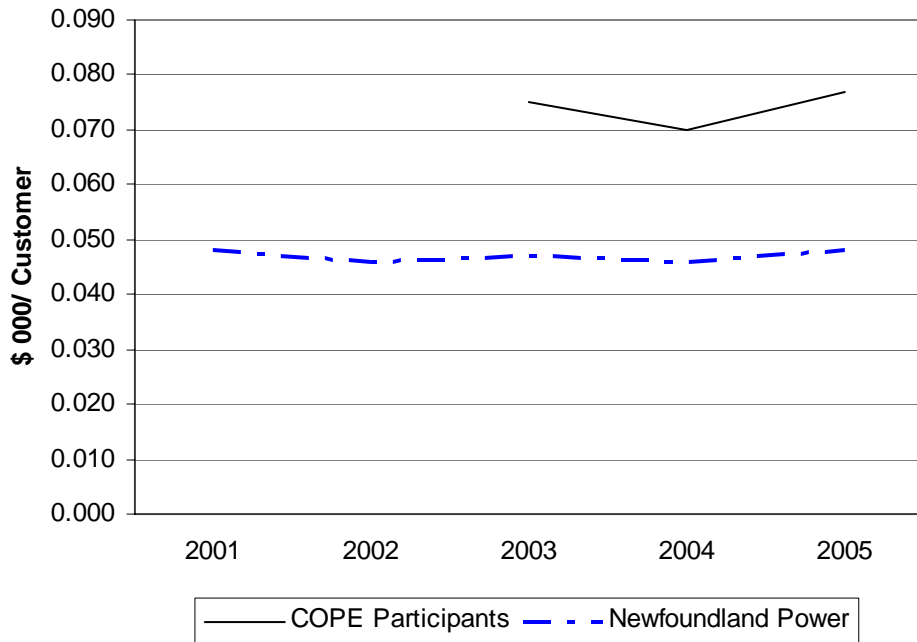
COPE composite data for trending purposes is only available for 2003, 2004, and 2005 and encompasses 10 reporting utilities.³

The trend line for Newfoundland Power shows a reduction in the Direct Distribution OM&A per Circuit Kilometre over the five year period. With only three years of historic CEA data available for trending, it is difficult to draw any definitive conclusions from comparison of the two trend lines.

² The distribution system is the portion of the electrical system that links the transmission system to customer facilities.

³ Due to CEA restrictions on use of data for trending purposes, 2001 and 2002 composite data is not provided.

Direct Customer Service OM&A per Customer (2005\$)



Year	CEA COPE Composite	Newfoundland Power
2001		0.047
2002		0.046
2003	0.075	0.047
2004	0.070	0.046
2005	0.077	0.048

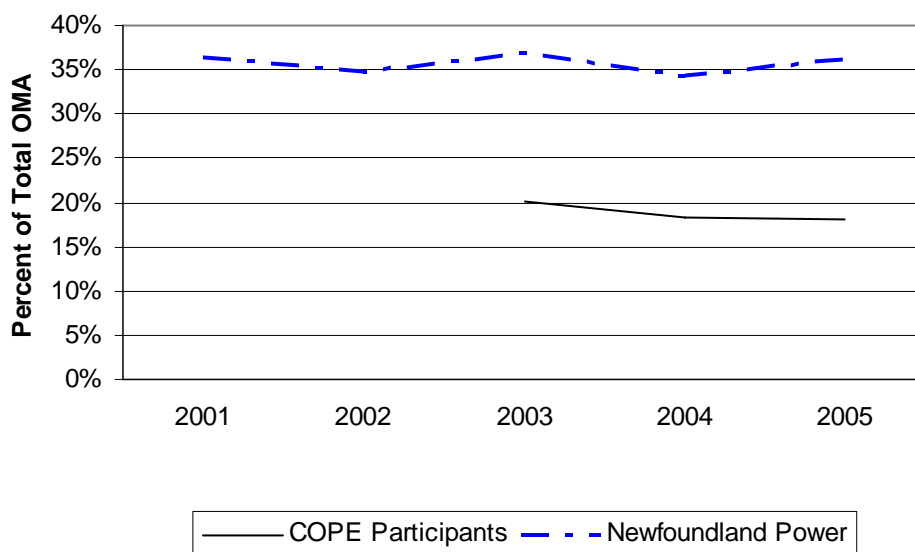
This is the Direct Customer Service OM&A per Customer measure as defined by COPE. It measures the total direct cost of operating labour and materials, excluding allocated corporate shared services, associated with the management of customer relations and billing functions, expressed on a per customer account basis.

COPE composite data for trending purposes is only available for 2003, 2004, and 2005 and encompasses 5 reporting utilities.⁴

The trend line for Newfoundland Power shows a relatively stable Direct Customer Service OM&A per Customer over the five year period. With only three years of historic CEA data available for trending, it is difficult to draw any definitive conclusions from comparison of the two trend lines.

⁴ Due to CEA restrictions on use of data for trending purposes, 2001 and 2002 composite data is not provided.

Corporate Services OM&A as a Percentage of Total Corporate OM&A



Year	CEA COPE Composite	Newfoundland Power
2001		36.4%
2002		34.7%
2003	20.1%	36.8%
2004	18.2%	34.2%
2005	18.0%	36.3%

This is the ratio of Corporate Services OM&A expressed as a percentage of Total Corporate OM&A as defined by COPE. Corporate Services OM&A includes operating labour and materials associated with corporate shared services⁵ compared to the total cost of operations, maintenance, and administration.

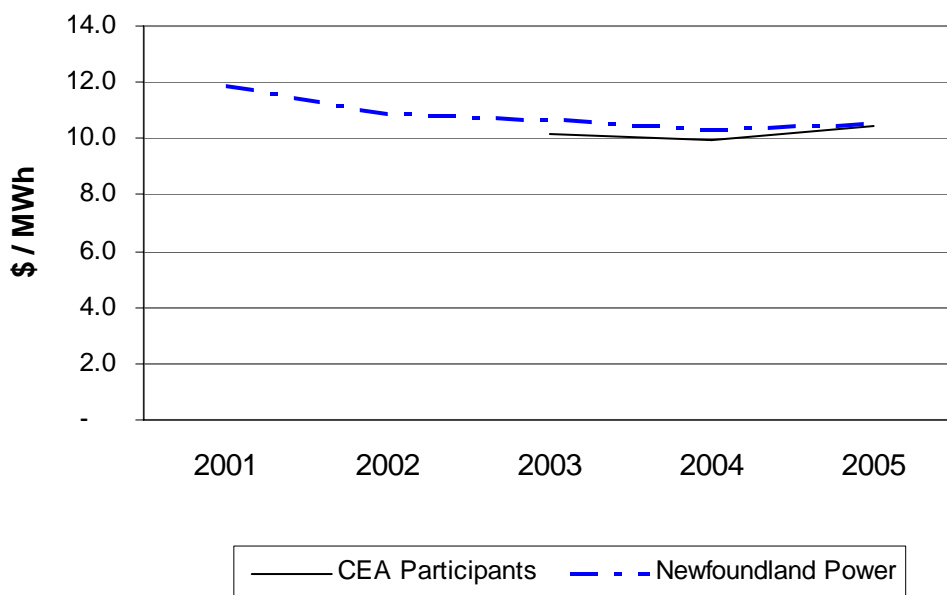
COPE composite data for trending purposes is only available for 2003, 2004, and 2005 and encompasses 8 reporting utilities.⁶

The trend line for Newfoundland Power shows a relatively stable ratio of Corporate Services OM&A to Total Corporate OM&A. With only three years of historic CEA data available for trending and a limited number of reporting utilities, it is difficult to draw any definitive conclusions from comparison of the two trend lines. While Newfoundland Power's number is higher than the COPE composite, it is more consistent with the US data. This may be attributable differences in accounting practices and operating profiles.

⁵ Includes corporate administration, legal, finance, human resources, internal audit, and information services functions.

⁶ Due to CEA restrictions on use of data for trending purposes, 2001 and 2002 composite data is not provided.

Total Corporate OM&A per MWh (2005\$)



Year	CEA COPE Composite	Newfoundland Power
2001		11.9
2002		10.9
2003	10.1	10.7
2004	9.9	10.3
2005	10.5	10.5

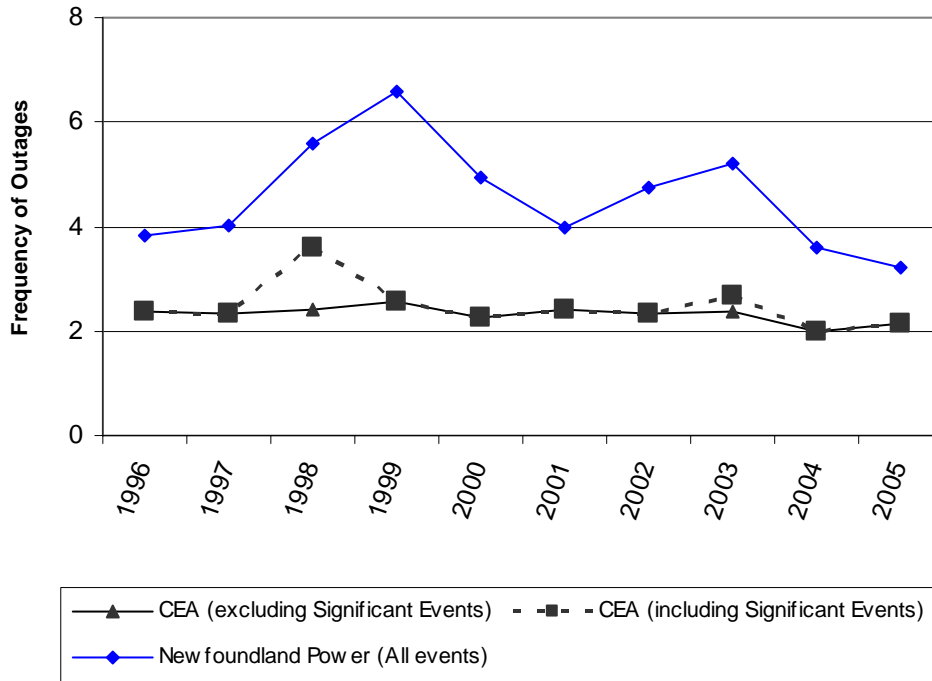
This is the ratio of Total Corporate Services OM&A per MWh delivered. Total Corporate OM&A includes all operating labour and materials for the electrical utility business. The MWh delivered figure includes both energy sold to end users and energy sold for resale.

COPE composite data for trending purposes is only available for 2003, 2004, and 2005 and encompasses 5 reporting utilities.⁷

The trend line for Newfoundland Power shows a reduction in the Corporate OM&A per GWh over the five year period. With only three years of historic CEA data available for trending, it is difficult to draw any definitive conclusions from comparison of the two trend lines.

⁷ Due to CEA restrictions on use of data for trending purposes, 2001 and 2002 composite data is not provided.

System Average Interruption Frequency Index (SAIFI)



Year	CEA (Excluding Significant Events)	CEA (Including Significant Events)	Newfoundland Power
1996	2.39	2.39	3.82
1997	2.35	2.35	4.02
1998	2.40	3.58	5.60
1999	2.56	2.56	6.60
2000	2.26	2.26	4.93
2001	2.41	2.41	3.99
2002	2.33	2.33	4.76
2003	2.37	2.67	5.20
2004	1.98	1.98	3.58
2005	2.13	2.13	3.21

SAIFI is a standard industry index of the average annual cumulative frequency of service interruptions to customers.

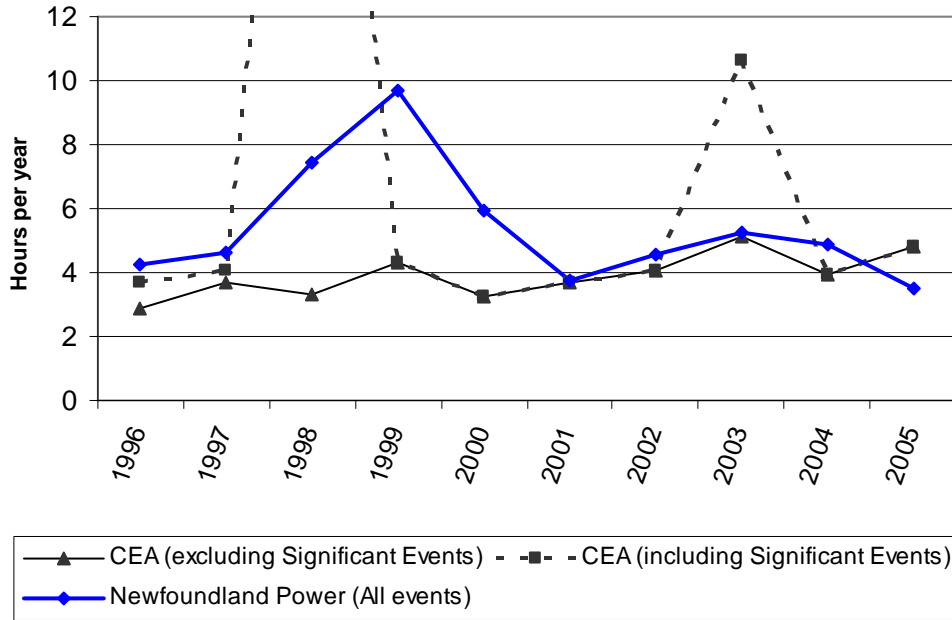
The CEA trend line is the composite performance for over 30 Canadian participants (31 participants in 2005). The trend line shows significant variability year over year when significant events are included in the CEA data. While there appears to be a slight decline in the trend lines for Newfoundland Power and the CEA composite, this variability in the data makes it difficult to draw conclusions about any underlying trend. Also, technological advances that

improved data collection may have impacted the trend in reliability data. This factor was recognized by COPE in the following statement:

“It is important to note that technological advances in data collection systems coupled with additional rigor in the data processes as a result of utilities’ increased focus on customer service and outage management implies that there has been additional improvement in the average number of outages experienced by customers that does not appear in the trend line.”⁸

⁸ 2003 *Industry Evaluation Distribution Business Unit Executive Summary*, CEA COPE report, December 2004, page 5.

System Average Interruption Duration Index (SAIDI)



Year	CEA excluding Significant Events	CEA including Significant Events	Newfoundland Power
1996	2.86	3.67	4.23
1997	3.70	4.06	4.64
1998	3.32	30.31	7.41
1999	4.31	4.31	9.70
2000	3.23	3.23	5.93
2001	3.67	3.67	3.73
2002	4.06	4.06	4.54
2003	5.11	10.65	5.28
2004	3.95	3.95	4.86
2005	4.80	4.80	3.53

SAIDI is a standard industry index of the average annual cumulative duration of service interruptions to customers.

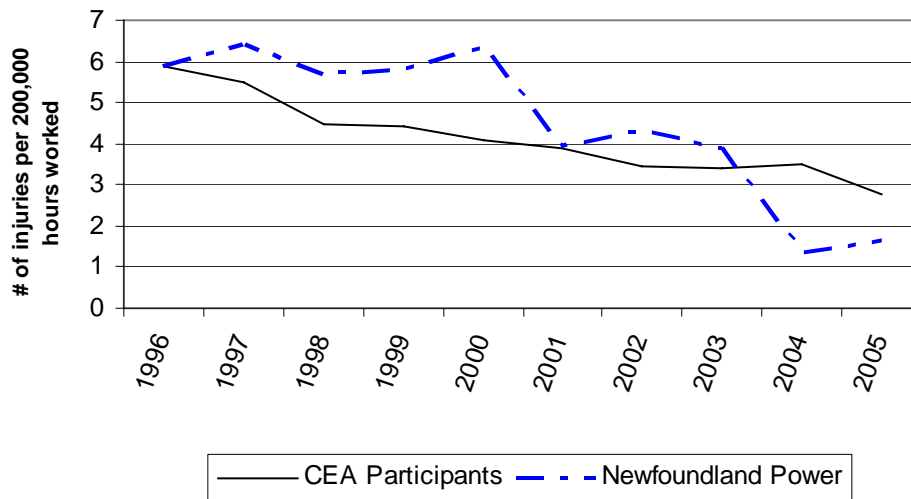
The CEA trend line is the composite performance for over 30 Canadian participants (31 participants in 2005). The trend line shows significant variability year over year, especially when significant events are included in the CEA data. The trend lines also appear to show a decline in SAIDI for Newfoundland Power and a slight increase in the CEA composite. The variability makes it difficult to draw conclusions about any underlying trend. Also, technological advances that improved data collection may have impacted the trend in reliability data. This factor was recognized by COPE in the following statement:

“Though the data over the 10-year period shows a slight increase, technological advances in data collection systems coupled with additional rigor in the data collection processes as a result of utilities’ increased focus on customer service and outage management implies there has been additional improvement in the average duration of outages experienced by customers that does not appear in the trend line data.”⁹

The anomalous results evident in the “CEA including Significant Events” trend line reflect the Quebec ice storm in 1998 and the eastern North America power blackout in 2003.

⁹ 2003 *Industry Evaluation Distribution Business Unit Executive Summary*, CEA COPE report, December 2004, page 3.

All-injury Frequency Rate (Injuries per 200,000 hours worked)



Year	CEA Composite	Newfoundland Power
1996	5.90	5.90
1997	5.51	6.44
1998	4.47	5.67
1999	4.41	5.84
2000	4.09	6.35
2001	3.91	3.96
2002	3.47	4.33
2003	3.41	3.87
2004	3.48	1.36
2005	2.76	1.65

This represents the rate of disabling injuries and medical aid injuries per 200,000 exposure hours (hours worked).

The CEA data is based on approximately 40 participating Canadian utilities (41 in 2005). Both the CEA and the Newfoundland Power trend line show a clear and comparable level of improvement.

Appendix B
2003 CEA Overall
Company Profile Matrix

2003 CEA COPE PARTICIPANTS COMPANY PROFILE

Sources: COPE's 2003 Executive Summary Report for the Distribution Business Unit, December 2004.

	ALM	ATE	BC	BCT	ENX	FAB	FBC	HQ	MH	NB	NP	HO	OTT	SK	SP	TH
Ownership	Private	-	Public	Public	Public	Private	Private	Public	Public	Public	Private	Public	Public	Public	Public	Public
Revenues (\$000,000)	155	374	3,424	574	1,209	210	163	11,425	1,287	1,311	384	4,058	93	99	1,243	2,412
Employees (FTE)	225	851	4,406	304	1,084	795	379	21,410	5,118	2829	667	3,967	472	115	2,376	1,552
Gross Fixed Assets (\$000,000)	1,557	2,202	15,293	3783	1,158	1,427	603	70,308	9,566	6,016	1,008	14,362	709	158	5,892	2,865
Business Unit Operations:																
Power Supply			X				X	X	X	X	X				X	
Transmission	X	X		X	X		X	X	X	X	X	X		X	X	
Distribution		X	X		X	X	X	X	X	X	X	X	X	X	X	X
Customer Service			X			X	X	X	X	X	X	X	X	X	X	X
Other Utility								X	X						X	
% Generation Split: H/F/N	0	0	90/10/0	0	0	0	100/0/0	96/1/3	98/2/0	23/60/17	0	0	0	0	19/81/0	0
Installed Capacity (MW)	0	0	11,300	0	0	0	205	33,614	5,481	3,770	144	0	0	0	3,194	0
Transmission Circuit Length (km)	11,551	8,606	-	18,300	280	0	1,722	39,177	20,370	6,686	2,062	28,621	0	37	12,863	0
Distribution Circuit Length (km)	-	62,281	56,534	-	6,556	95,581	5,372	106,074	86,775	19,990	8,397	119,000	4,870	782	140,733	16,400
Urban/Rural	Both	Both	Both	Both	Urban	Both	Both	Both	Both	Both	Both	Both	Both	Urban	Both	Urban
Customers Served (Meters)	-	174,147	1,635,388	-	368,673	394,600	90,325	3,592,677	501,356	316,319	213,203	1,126,522	267,337	57,000	432,644	668,673

ALM: AltaLink Management
 BCT: BC TransCO
 FBC: FortisBC
 NB: New Brunswick Power
 OTT: Hydro Ottawa
 TH: Toronto Hydro

ATE: ATCO Electric
 ENX: ENMAX
 HQ: Hydro-Québec
 NP: Newfoundland Power
 SK: City of Saskatoon Electric System

BC: BC Hydro
 FAB: FortisAlberta
 MH: Manitoba Hydro
 HO: Hydro One
 SP: SaskPower

Appendix C

American (U.S.) Peer Group Composite Comparisons

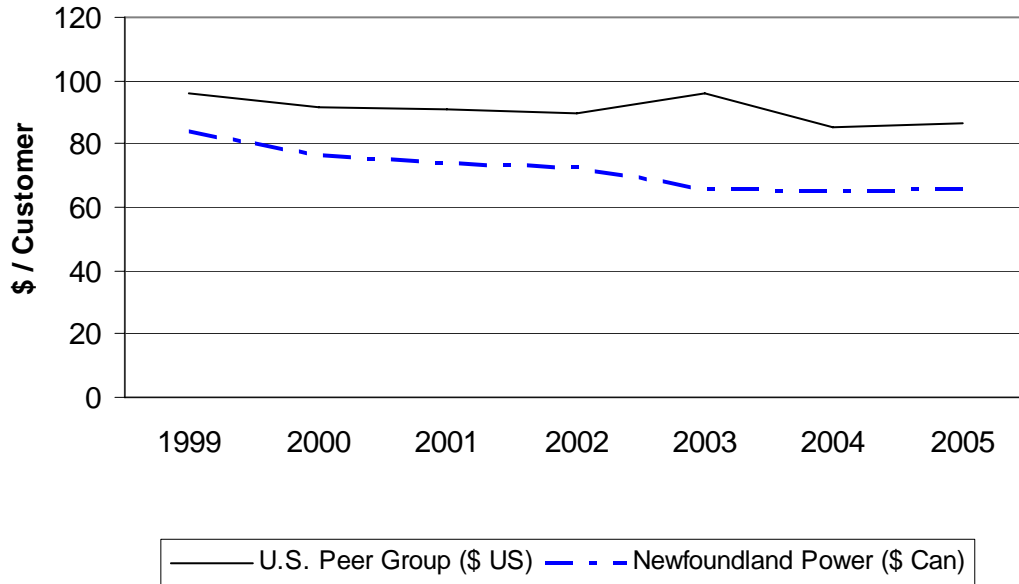
Appendix C

American (U.S.) Peer Group Composite Comparisons

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**Total Distribution Operating
Expense Per Customer
(2005\$)**

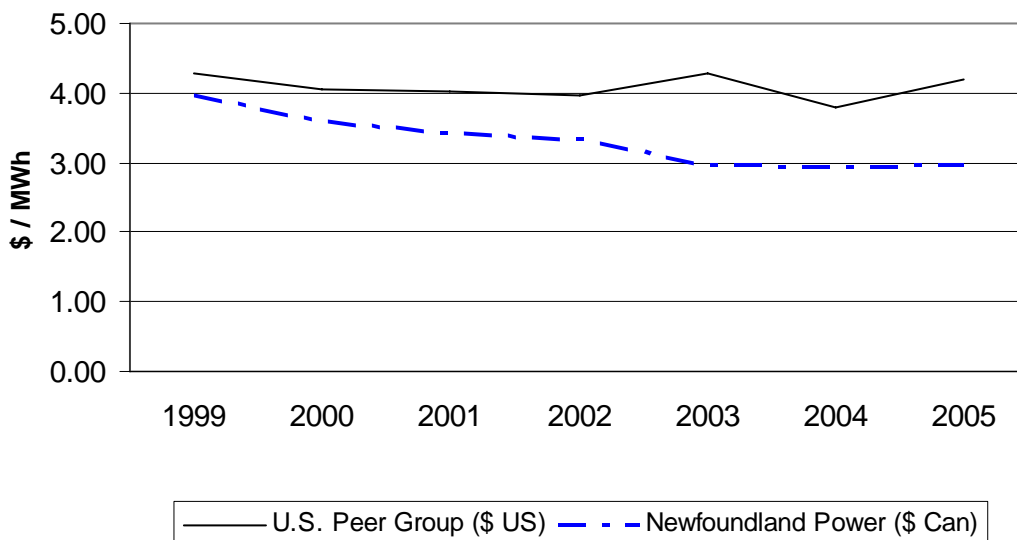


Year	U.S. Peer Group Composite	Newfoundland Power
1999	95.8	84.0
2000	91.8	76.3
2001	90.8	73.8
2002	89.9	72.9
2003	96.0	65.8
2004	85.1	65.3
2005	86.2	65.4

This measure represents the total cost of operating and maintenance for the distribution function, as defined under the FERC code of accounts, expressed on a per customer account basis. These costs substantially mirror the costs included in Direct Distribution OM&A as defined by COPE.

The Company has included 7 years of historic data for trending purposes. The trend shows a general downward trend for both Newfoundland Power and the U.S. peer group. The U.S. utilities' individual 2005 measures range from approximately \$43 to approximately \$160 per customer.

**Total Distribution Operating Expense
Per MWh
(2005\$)**

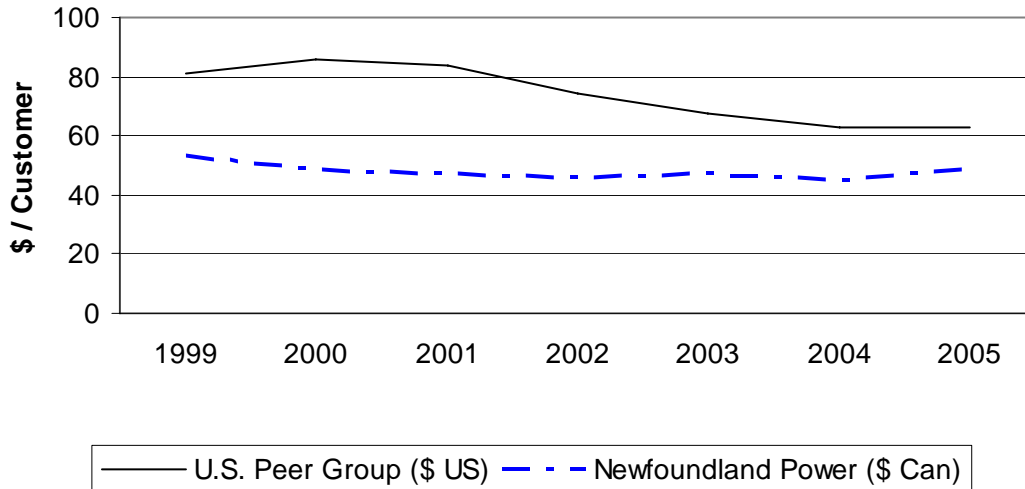


Year	U.S. Peer Group Composite	Newfoundland Power
1999	4.29	3.98
2000	4.06	3.59
2001	4.02	3.42
2002	3.96	3.34
2003	4.28	2.97
2004	3.80	2.93
2005	4.18	2.95

This measure represents the total cost of operating and maintenance for the distribution function, as defined under the FERC code of accounts, expressed on a per MWh of retail sales basis. The distribution operating and maintenance costs substantially mirror the costs included in Direct Distribution OM&A as defined by COPE. The MWh of retail sales includes the total MWh sales of electricity for retail rate schedules. It does not include sales for resale such as those to other distribution companies and retailers, nor energy interchanged through the power system (usually through transmission facilities).

The Company has included 7 years of historic data for trending purposes. The trend shows a general downward trend for Newfoundland Power and a relatively flat trend for the U.S. peer group. The U.S. utilities' individual 2005 measures range from approximately \$2 to approximately \$14 per MWh.

**Total Customer Service Expenses
Per Customer
(2005\$)**

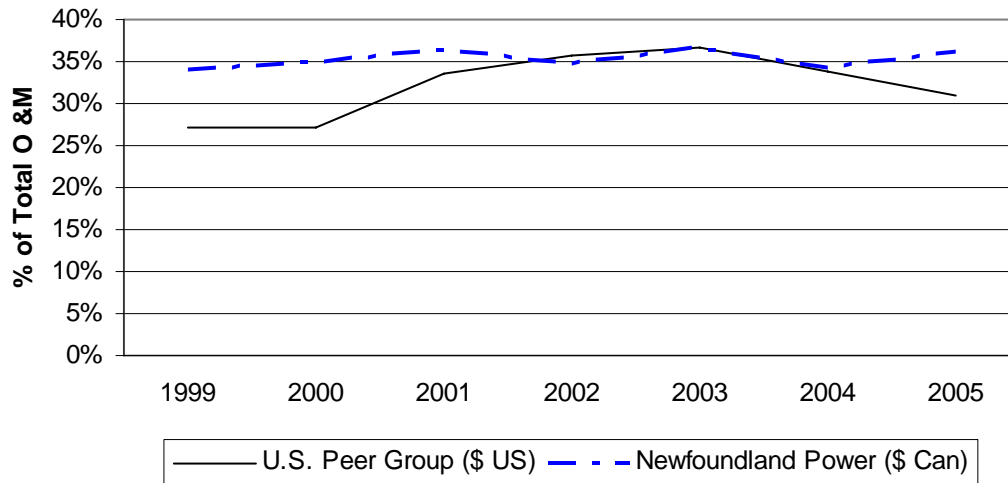


Year	U.S. Peer Group Composite	Newfoundland Power
1999	81.1	53.2
2000	86.0	48.5
2001	83.8	47.4
2002	74.3	45.6
2003	67.3	47.1
2004	63.2	46.2
2005	62.6	48.4

This measure represents the total cost of operating and maintenance for the customer accounting and customer service functions, as defined under the FERC code of accounts, expressed on a per customer account basis. These costs substantially mirror the costs included in Direct Customer Service OM&A as defined by COPE.

The Company has included 7 years of historic data for trending purposes. The trend for Newfoundland Power in recent years is relatively flat while the trend for the U.S. peer group is downward. The U.S. utilities' individual 2005 measures range from approximately \$33 to approximately \$145 per customer.

**Total Administration and Other Operating Expense
Per Total Operating Expense
(Excluding fuel and purchased power, 2005\$)**



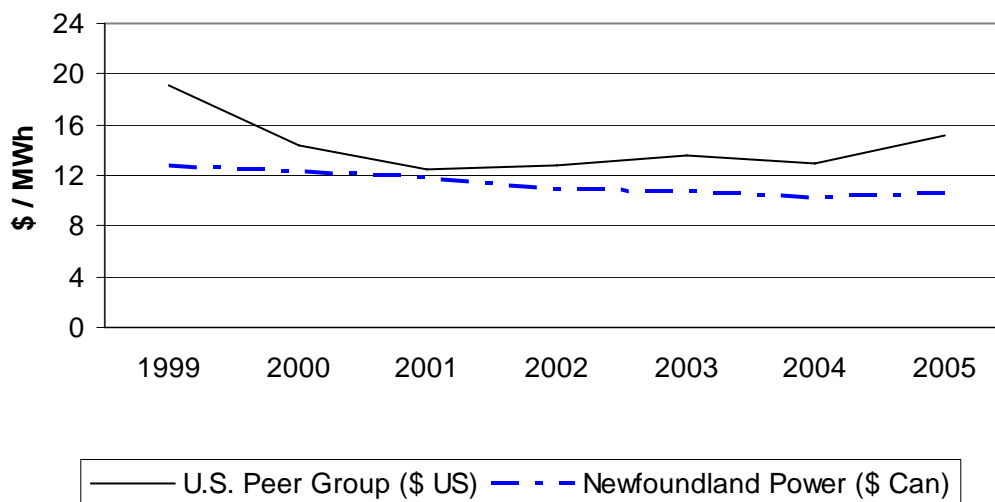
Year	U.S. Peer Group Composite	Newfoundland Power
1999	27.1%	34.0%
2000	27.2%	34.9%
2001	33.5%	36.4%
2002	35.7%	34.7%
2003	36.6%	36.8%
2004	33.7%	34.2%
2005	30.9%	36.3%

This measure is a ratio of the total administration and general expense to the overall corporate electrical operating and maintenance expense (excluding fuel and purchased power) as defined by the FERC code of accounts. The FERC administration and general costs are very similar to the Corporate Service OM&A as defined by COPE. The overall corporate operating and maintenance expense (excluding fuel and purchased power) is also very similar to the Corporate Overall OM&A as defined by COPE.

The trend line for the U.S. utilities shows an increase between 2000 and 2003 and a decline thereafter. The initial increase appears to reflect a dramatic reduction in production expenses (net of fuel and purchased power) that occurred between 1999 and 2001. The U.S. utilities' individual 2005 measures varied from approximately 12% to 53%.

The trend line for Newfoundland Power is relatively flat over the seven-year period.

**Total Operating Expense
Per Energy Sold
(Excluding fuel and purchased power, 2005\$)**



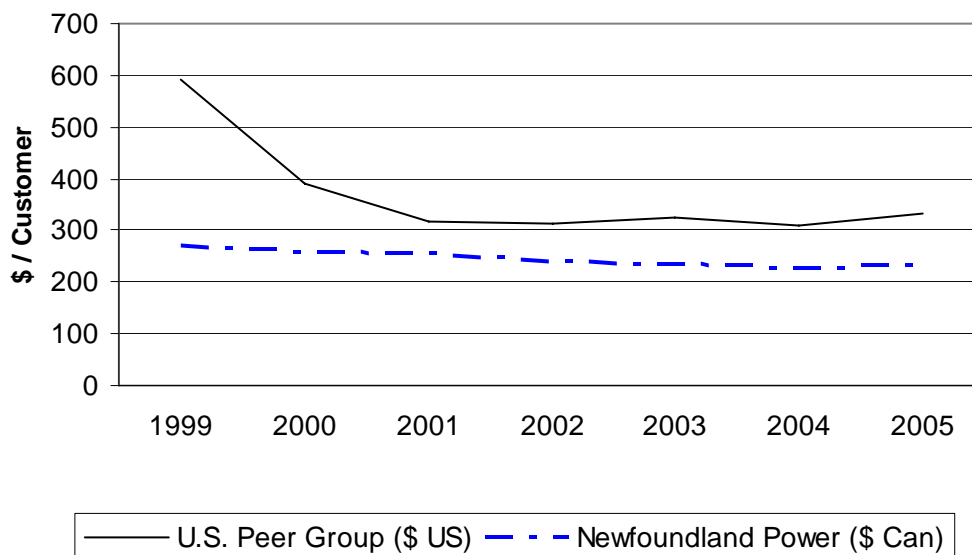
Year	U.S. Peer Group Composite	Newfoundland Power
1999	19.1	12.8
2000	14.3	12.3
2001	12.5	11.9
2002	12.7	10.9
2003	13.5	10.7
2004	13.0	10.3
2005	15.1	10.5

This measure represents the corporate electrical operating and maintenance expense (excluding fuel and purchased power), as defined by the FERC code of accounts, expressed on a per MWh of total energy sold basis. Total energy sold includes sales according to retail rate schedules, and sales for resale, such as sales to other distribution companies, sales to retailers, and energy interchanged through the power system (usually through transmission facilities).

The trend line for the U.S. utilities shows a significant decrease up to 2001 and a slightly upward trend since 2001. This reflects a dramatic reduction in production expenses (net of fuel and purchased power) that occurred between 1999 and 2001. The reduction in production expenses is likely due to industry restructuring or a change in policy for reporting such costs to FERC. The U.S. utilities' individual 2005 measures varied from approximately \$5 to \$39 per MWh.

The trend line for Newfoundland Power shows a decline over the seven-year period.

**Total Operating Expense
Per Customer
(Excluding fuel and purchased power, 2005\$)**



Year	U.S. Peer Group Composite	Newfoundland Power
1999	590.53	269.73
2000	392.07	260.67
2001	318.82	255.96
2002	313.44	238.80
2003	325.14	236.20
2004	308.49	229.36
2005	333.62	233.08

This measure represents the corporate electrical operating and maintenance expense (excluding fuel and purchased power), as defined by the FERC code of accounts, expressed on a customer account basis.

The trend line for the U.S. utilities shows a significant decrease up to 2001. This decrease reflects a dramatic reduction in production expenses (net of fuel and purchased power) that occurred between 1999 and 2001. The reduction in production expenses is likely due to industry restructuring or a change in policy for reporting such costs to FERC. Beyond 2001, the trend is relatively flat. The U.S. utilities' individual measures varied from approximately 207 to approximately 594 in 2005.

The trend line for Newfoundland Power shows a decline over the seven-year period.

Appendix D

List of Companies Included in U.S. Utility Peer Group

**Companies Included in U.S. Utility Peer Group
(2005 Information)**

Company	Number of Customers	Sales (MWh)	% Production of Total O&M	% Transmission of Total O &M
Atlantic City Electric Company	709,371	10,080,109	33.8	1.7
Bangor Hydro-Electric Company	130,927	1,625,584	0.3	12.1
Central Hudson Gas and Electric Corporation	289,961	4,275,597	3.3	9.3
Central Illinois Public Service Company	368,090	10,621,946	0.1	9.3
Central Vermont Public Service Corporation	151,191	2,300,103	8.9	18.3
Unitil Energy Systems, Inc.	74,194	1,238,842	0.1	30.2
Delmarva Power & Light Company	505,821	14,101,673	5.1	6.9
Duquesne Light Company	586,050	13,896,547	0.0	4.6
Green Mountain Power Corporation	91,358	2,008,251	8.5	31.3
Illinois Power Company	605,282	15,860,576	0.2	11.9
Kingsport Power Company	45,960	2,096,027	0.0	4.5
Metropolitan Edison Company	530,060	14,008,539	-17.6 ¹	81.5 ¹
The Narragansett Electric Company	477,379	7,093,149	0.0	17.5
New York State Electric & Gas Corporation	859,877	15,127,234	1.2	10.5
Orange and Rockland Utilities, Inc.	216,988	4,316,469	1.9	8.2
Rockland Electric Company	71,533	1,738,407	0.0	4.0
The Union Light, Heat and Power Company	131,028	3,968,232	0.0	41.1
West Penn Power Company	702,801	20,070,803	1.0	21.9
Western Massachusetts Electric Company	204,150	3,113,996	0.6	13.4
Wheeling Power Company	41,294	2,144,090	0.0	8.4

¹ Anomalous results appear to be related to accounting issues.

Appendix E

CEA Policy Paper Benchmarking Data in Regulatory Settings



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Canadian Electricity Association Policy Paper Benchmarking Data in Regulatory Settings (BD/RS)

As approved by the CEA Executive Committee 14 October 2005

1.0 Overview

CEA and its members are seeking to improve their common frame work for utility performance measurement and best practices in order to ensure that the industry, shareholders, customers and rate-payers benefit from improved performance.

For many years, Canadian utilities have been participating, via CEA and other benchmarking organizations, in studies concerning the continuity of service, customer's satisfaction, employee safety and cost related indicators. The main purpose of these efforts was to improve the operational performance of the participating utilities. The process involved:

- Identifying participating utilities and the key performance indicators
- Gathering data on various performance indicators
- Conducting analysis to identify "best performers"
- Establishing working groups to validate "best performers" and determine "best practices" in the various business areas. In many cases this effort included a review of reporting practices to validate "best performers".

Since the main focus of these efforts was to improve operational performance, through the identification of utility "best practices", the data collection methods were not of sufficient quality for use in benchmarking for Regulatory purposes.

Regulators in Canada are increasingly requesting data and results from these benchmarking studies as a basis to assess electric utility company performance. While CEA and its members believe there are limitations to the use of benchmarking data in regulatory processes, CEA and its members are actively engaged with regulators to improve regulatory reporting in Canada.

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2.0 Context

Many of the current indicators used are intended for operational purposes and as such do not require the degree of accuracy implicit in regulatory proceedings

Participation in benchmarking studies typically are voluntary. Regulatory actions using data for purposes it was not intended is likely to result in incorrect results and could therefore inhibit participation in benchmarking activities for the purpose of operational improvement. This would adversely impact the ability to identify best practices and the pursuit of performance improvement and ultimately will do a disservice to the ratepayer.

CEA believes it has a responsibility to develop the appropriate cautions concerning the use of non-verified benchmarking data in regulatory settings, and provide these cautions to members for their use when interfacing with regulatory bodies.

Given the inherent challenges in benchmarking with others, utilities have tended to limit the use of "peer group" benchmarking to discovery and identification of "best practices". For utilities, the relative ranking of the participants or the comparison of a utility to a composite has limited value and, when taken at face value, has little correlation to individual utilities' performance. The ultimate goal is performance improvement through informed decision making and the determination and utilization of "best practices".

By its very nature, "peer group" benchmarking is an extremely challenging undertaking. Attempts to account for unique operating and business environments are complex and require detailed information. This detailed information, while more than adequate for the "discovery" process which is at the heart of performance benchmarking, is often not of sufficient quality to be used in regulatory environments.

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3.0 Policy

3.1

Policy 1

Appropriate benchmarking performance information (which is accurate, verifiable, and verified and includes the proper consideration, caveats, standardized interpretations and collection methodologies) will be developed by CEA for use in Regulatory settings. Participating CEA members commit to work towards providing data that meets these criteria, on a yearly basis, that will be used in the development of an agreed-to set of indices.

3.2

Policy 2

CEA members do not support a peer-to-peer approach when assessing a company's performance and especially to establish pass/fail criteria for breach and consequence, due to the complexity of identifying true "peers". This complexity is due to differences between companies' geography, climate, customer mix, growth rate, system age, resource mix, degree of interconnection, impact of significant events, and a range of other factors.

3.3

Policy 3

As a result of the complexity of "peer" benchmarking, trending the performance of an individual utility over time should be used as opposed to peer-to-peer benchmarking

3.4

Policy 4

CEA and its members will work cooperatively with regulatory authorities to ensure that indicators used in regulatory settings are accurate, verifiable and verified, and are meaningful. Through CEA's Councils, and in cooperation with members of CAMPUT, appropriate benchmarking indicators for assessing individual company performance over time will be developed.

3.5

Policy 5

CEA members will meet or exceed standards of data quality, integrity and consistency of reporting for these indicators

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3.6

Policy 6

Improved productivity and performance result in significant benefits to companies, shareholders and customers. CEA therefore will continue to promote the use of benchmarking to identify best practices for performance improvement.

3.7

Policy 7

Only composite benchmarks deemed appropriate for regulatory environments, will be produced. Participants are cautioned that publication of metrics not identified as appropriate for regulatory environments in composite or other form in a regulatory forum or elsewhere may result in blocking further participation by that member or the termination of further CEA benchmarking on that metric.

3.8

Policy 8

CEA will subject all proposed new or modified indices to an agreed review process by the appropriate Council to ensure that the qualifying criteria are met.



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4.0 Impact on CEA Activities

CEA Councils will develop as appropriate a short set of high-level indicators to be proposed as appropriate for regulatory purposes.

CEA Councils will provide direction to CEA data gathering bodies. This will include direction on the appropriate breadth and scope of data being gathered, and any changes required to the current indicators.

CEA's data gathering programs will establish standards for data quality, integrity and consistency of reporting.

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5.0 Implementation

The CEA Policy on the use of Benchmarking Data in Regulatory Settings will be developed and refined by the Task Group.

The CEA Policy will be presented to Councils in August-September for review.

Once vetted by the Councils, the Policy will be submitted for approval to the CEA Executive Committee and Board of Directors in October and November, and, pending approval, will become public..

Beginning in fall 2005, the Councils will work with CEA data gathering programs to define the appropriate indicators for use in regulatory settings.

CEA Councils will provide strategic direction of data gathering bodies and activities beginning in 2006.

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