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 2 **Efficiency Assessment**
 3 Total costs for all electricity distribution companies are evaluated by the Pacific Economics
 4 Group LLC (PEG) on behalf of the Board to produce an efficiency ranking. A “predicted cost” is
 5 then calculated. The magnitude of the difference between the distributor’s actual and predicted
 6 costs will result in the distributor falling into one of five categories. For the fifth year in a row RHI
 7 is in Group 4 in 2015 which is defined as 10%-25% above predicted costs or Fair.

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 9 While RHI has not advanced to Group 3 it has improved significantly since 2011 and 2012 when
 10 cost performance was at 18.3% above predicted costs to 10.6% above predicted costs in 2015.

11 Table3(A)
 12 Summary of Cost Performance Results
 13

	Cost Performance				
	2011	2012	2013	2014	2015
Renfrew Hydro Inc.	18.3%	18.3%	15.7%	10.4%	10.6%

Source: Empirical Research in Support of Incentive Rate-
 Setting, 2015 Benchmarking Update,
 Report to the Ontario Energy Board, July 2016

14 RHI is trending in the right direction and getting close to Group 3 category in terms of cost
 15 control performance however the benchmarking model is predicting a rise based on budgeted
 16 figures in the RHI application. According to the model in 2016 RHI will be 10.8% above
 17 predicted costs, and 12.5% above predicted costs for 2017.

Renfrew Hydro Inc.				
		2015 (History)	2016 (Bridge)	2017 (Test Year)
Cost Benchmarking Summary				
	Actual Total Cost	2,494,345	2,617,350	2,758,733
	Predicted Total Cost	2,243,986	2,349,515	2,433,805
	Difference	250,359	267,835	324,927
	Percentage Difference (Cost Performance)	10.6%	10.8%	12.5%
	Three-Year Average Performance			11.3%
	Stretch Factor Cohort			
	Annual Result	4	4	4
	Three Year Average			4

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3 However, based on latest forecasts we estimate the 2016 capital budget will come in around
 4 \$386,000, \$180,000 less than budgeted. As a result RHI will be 10% above predicted costs in
 5 2016, and 11.8% above predicted costs in 2017 if budgeted amounts are incurred.

Renfrew Hydro Inc.				
		2015 (History)	2016 (Bridge)	2017 (Test Year)
Cost Benchmarking Summary				
	Actual Total Cost	2,494,345	2,597,388	2,739,783
	Predicted Total Cost	2,243,986	2,349,515	2,433,805
	Difference	250,359	247,873	305,978
	Percentage Difference (Cost Performance)	10.6%	10.0%	11.8%
	Three-Year Average Performance			10.8%
	Stretch Factor Cohort			
	Annual Result	4	4	4
	Three Year Average			4

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RHI will continue to perform asset assessments to determine opportunities to extend asset life without compromising safety or reliability. Reductions in the capital program expenditures through asset life extension will improve cost efficiency performance and eventually enable RHI to achieve Group 3 status. RHI will also continue to seek out cost savings through collaborative solutions and shared services to achieve this goal.

Renfrew Hydro continues to face significant cost pressures within the regular electrical business and outside the business. With this application significant cost increases above the 2010 Cost of Service Approved Budget are as follows:

- Increased Operations, Maintenance and Administration expense including:
 - Rent for new office/line depot facility (\$16k)-Required
 - Underground Locates (\$11k)-Mandatory
 - Maintenance (\$25k)- Recommended
 - Monthly Billing (\$28k)- Mandatory
 - Billing and software (\$28k)-Mandatory
 - Regulatory expenses (\$24k)-Mandatory
 - Smart Meters (\$50k)- Mandatory

- 1 ▪ Bad Debts- (\$8k)- Uncontrollable

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3 Many of these increased costs can be directly attributed to public policy or OEB regulatory
4 requirements and are beyond the control of RHI. RHI expects that future policy decisions such
5 as the Burden Reduction Bill (Bill 218) and Green Button Initiative will also have a negative cost
6 impact that will require additional revenue from ratepayers if implemented. RHI recommends
7 that a cost benefit analysis of each proposal should be undertaken for RHI's customers before
8 further programs or policies are required by RHI.

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10 *Total Cost per Customer*

11 An evaluation by PEG on behalf of the Board produces a cost per customer metric. This is a
12 measure of total operating and capital costs in a year divided by the number of customers a
13 utility serves. The cost per customer in 2015 was \$584 which is a 4% increase over 2014
14 (\$559).

15 For the reasons outlined in Exhibit 4 total OM&A increased in 2015. In addition to the regulatory
16 and public policy impact on costs referenced above, RHI was forced to rent a new location for
17 its line depot and also consolidated its offices into the line depot location. There was also
18 increased salary and costs related to succession efforts for the President, increased
19 maintenance expense, and labour costs. There was also increased emphasis under the capital
20 program to upgrade aging assets to maintain reliability and safety of the system. Customer
21 growth is stagnant in Renfrew and in some customer categories declining for various economic
22 reasons.

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24 *Total Cost per KM of Line*

25 This measure sums the total capital and operating costs and divides the cost figure by the
26 kilometres of line that the utility operates to serve its customers. In 2015 RHI Total Cost per Km
27 of Line is \$31,574, approximately 5% greater than 2014. While this was an increase in 2015 it
28 followed three years of significant decrease from 2011 value of \$42,516. There has been some
29 modest growth in underground line attributable to new subdivision development which has
30 lowered Cost per Km values in recent years, however the distribution system is aging and in
31 need of investment which will start to increase the Cost per Km going forward. RHI will continue
32 to perform asset assessments and utilize condition based monitoring to extend asset life without
33 compromising safety or reliability.