March 27, 2019

Kirsten Walli, Board Secretary
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON, M4P 1E4

Attention: Ms. Walli

Re: PUC Distribution Inc.'s (PUC Distribution) Comments on the OEB's Discussion Paper Regarding Activity & Program Based Benchmarking (APB) Initiative
Board File No. EB-2018-0278

I am writing to provide PUC Distribution's comments on the Ontario Energy Board's ("OEB's") *"Staff Discussion Paper – Activity and Program Based Benchmarking for Electricity Distributors"*.

PUC Distribution believes that having a framework to enable the comparison of utility cost performance in specific capital and OM&A activities / programs will be beneficial only to the extent that they facilitate an apples-to-apples comparison across different utilities and different programs.

To facilitate this comparison, PUC Distribution submits that the OEB's framework must be flexible enough to allow utilities to make appropriate adjustments to reflect their unique circumstances and to facilitate an apples-to-apples comparison across different utilities. It would, of course, be incumbent upon the utility to justify that any such adjustments are appropriate.

The OEB has been exploring total cost benchmarking on overall operating and capital costs at the aggregate level since 2013. This experience, in particular the benchmarking evidence filed by different LDCs in their cost of service applications, demonstrates on the evidentiary record that in certain instances utility specific adjustments are not only appropriate – they are necessary to facilitate an accurate comparison.

PUC Distribution identified two such adjustments that were necessary for accurate benchmarking as part of its last cost of service application (Board File No. EB-2017-0071).

Adjustment 1: The Virtual Utility Adjustment
PUC Distribution Inc. is a local distribution company and is a subsidiary of PUC Inc., which is a holding company that is 100% owned by its shareholder, the Corporation of the City of Sault Ste. Marie. PUC Services Inc. ("PUC Services") is a multi-utility services company that is also 100% owned by the Corporation of the City of Sault Ste. Marie.[1]

PUC Distribution operates as a virtual utility. It does not have any employees and relies on PUC Services to provide the necessary resources to operate the distribution utility through a management service agreement. PUC Distribution owns the distribution assets (land and land rights, poles, conduit, conductors, transformers and meters) and operates the distribution system through PUC Services. PUC Services is an integrated utility service provider and provides services to its affiliated companies (including PUC Distribution) and external entities. PUC Services charges PUC Distribution at cost for direct services, such as capital additions or maintenance of the distribution, and charges for services such as billing, customer care, administration, etc. at a cost using allocation factors based on the

---

[1] EB-2017-0071 - Exhibit 1 Section 2.1.3.14 at Page 19

type of shared service provided. The fees paid by PUC Distribution to PUC Services are determined annually in compliance with the management services agreement.[2]

Because of its status as a virtual utility, items in PUC Distribution's OM&A expenses will differ from those utilities that do not operate under a virtual utility structure.   For example, PUC Services charges PUC Distribution for costs associated with depreciation and financing of the vehicles, tools, computer equipment, office equipment etc. that is used to provide services to PUC Distribution and are therefore shown as an OM&A expense for PUC Distribution. Whereas for other utilities that own such vehicles and equipment, these expenses are included in depreciation and financing costs.[3]

For this reason, PUC Distribution submits that it should be permitted to adjust relevant OM&A costs for benchmarking purposes to remove amounts charged by PUC Services for depreciation and financing costs – to ensure PUC Distribution's OM&A costs are compared to other LDCs on a like-for-like basis.

Adjustment 2: The Transmission (Transformation Connection) Adjustment

PUC Distribution also differs from many other Ontario LDCs because it owns and operates transmission transformer stations that are used to provide service to Sault Ste. Marie.

While customers of other Ontario LDCs must pay Transmission Transformation Connection rates, customers of PUC Distribution do not pay anything ($0) for Transmission Transformation Connection because the costs associated with these transformer stations are incorporated into the PUC distribution rates.

This is shown clearly in Appendix B of the PUC Distribution Settlement Proposal filed September 14, 2018 (Board File No. EB-2017-0071).

Benchmarking between LDCs would be unfair if transmission transformation costs are included as within scope for benchmarking of one LDC (because those costs just happen to be funded through distribution rates), while they are excluded from scope for another LDC (because those costs just happen to be funded through Transmission – Connection rates).

For this reason, PUC Distribution submits that any benchmarking of distribution costs should be adjusted to remove items that are otherwise funded through other line items of the total electricity bill this would be consistent with the exclusion of transmission related costs in the Boards existing total cost benchmarking.

Sincerely,

_____
Andrew Belsito, CPA, CMA
Rates and Regulatory Affairs Officer
PUC Distribution Inc.
Sault Ste. Marie Ont.
Email: Andrew.Belsito@ssmpuc.com
Phone: 705-759-3009

---

[2] EB-2017-0071 - Exhibit 1 Section 2.1.3.14 at Page 20
[3] EB-2017-0071 – Responses to Interrogatories filed August 9, 2018, 1-SEC-21 at page 64.