

# **Power Workers' Union Comments on Spending Pattern Analysis Report (EB-2025-0108)**

## **A. General Comment**

The PWU has previously expressed its concern over the framing of spending patterns by Ontario distributors as a major issue that warrants significant changes to the OEB's rate setting approach.

The PWU's position was taken based on such factors as the nature of the drivers that may skew spending patterns; the various initiatives that the OEB has already launched or implemented to achieve cost containment and efficiency; and benefits and cost of designing rate setting options in place of the current ratemaking mechanisms.

The Board and its consultant (PEG) should be commended for producing the Report which is based on theoretical and empirical research and for suggesting remedies to the observed skewedness in spending pattern. The Report should also be commended for suggesting potential remedies that ought to be further explored in the context the various initiatives underway or under potential generic proceedings as opposed to prescribing a solution.

However, the PWU's concern is even more pronounced now than before. This concern is informed by the stakeholder responses to PEG's voluntary survey which are discussed in the Report; the fact that spending pattern is not a uniform problem across all distributors; the lack of data and/or the complexity of the analyses needed to implement the recommended remedies; and the potential unintended consequences of alternative ratemaking approaches such as greater cost burden on consumers, greater regulatory burden, and erosion of regulatory predictability/stability that utilities need badly.

This is neither to deny the existence of an overall tendency for spending to surge towards the later years of a multi-year plan due to the aforementioned factors, nor to contest the potential sensitivity of spending pattern to such factors as incentive rate design, earning sharing mechanisms and rebasing rules.

Rather, the PWU believes that spending pattern is not necessarily an inefficient behaviour but a rational response to these factors.

In this regard, OEB's current rate setting approach (a form of PBR based on multi-year plans, typically 5-year plans) is more focused on cost containment than many approaches in other jurisdictions. Moreover, distributors strive to achieve efficiency and control cost while achieving a reasonable return for their shareholders. A good example of how the current rate-setting approach strives to ensure cost control would be the use of a single reference year base year to determine the revenue requirement of the next rate period, which the Report identifies as one reason why spending pattern is skewed.

The fact is that distributors are required to file historical data since the last rebasing along with variance analyses. The Board and intervenors invariably question any cost spikes observed in any of the historical years. It has been the Board's common practice to consider any unjustifiable spending patterns in any particular year when determining the revenue requirement of the test year.

The PWU acknowledges that there is always room for making improvement but submits that this can be done without resorting to novel rate setting mechanisms. It is in this spirit that the PWU provides the following brief comments on the specific remedies recommended by the Report.

## **B. Comments on Proposed Remedies**

- 1. *Examine a utility's spending pattern in the last plan more carefully when considering its appropriate revenue requirement for the next plan.***
  - The PWU agrees. As indicated earlier, the PWU submits that this has already been the practice and does not object to this specific proposal.
- 2. *Consider on an ad hoc basis special ratemaking treatment for sustained cost reduction initiatives that utilities pursue in later plan years. The utility could propose such a treatment during a plan or request it in the next rebasing. For example, a utility could propose in the penultimate year of the plan a labor force downsizing in the last year provided that they are compensated for downsizing costs.***

- It is not clear how this approach would work. If an LDC decides and manages to downsize and lower costs, it would keep the full profit and there is no incentive to use it to lower rates for consumers; this in turn would render any compensation lesser than the full profit unattractive. The PWU hopes to get a better understanding of this proposed remedy from future discussions. In general, however, this proposed remedy appears to incentivize distributors for decisions that can potentially compromise planned investment and reliability.

### **3. *Extend the duration of plans.***

- Extending the duration of plans, for example to 7 or 8 years, would have the opposite of the intended impact because LDCs would have to wait longer to increase their rates, deferring more costs and capital expenditures to test years. LDCs already have the option of deferring rebasing to 7 years and this would put additional cost pressure in the latter years of a 7-year period. Longer plan duration would also incorporate significant changes in costs, such as those resulting from collective labour agreements which often are agreed for shorter durations, usually 3 years. In fact, longer durations can render forecasting less reliable and therefore detrimental to the interests of both LDCs and consumers.

### **4. *Use multiple historical reference years in rebasings.***

- The PWU submits that this is one of the few remedies that are worth consideration and further discussion.

### **5. *Efficiency carryover mechanisms***

- In the PWU's view, the complexity of ECMs is justified only if applied selectively, which in itself results in further complication and, as the Report points out, could result in inefficient cost shifts.

### **6. *Reduce the extent to which rate resets between plans reflect the utility's cost in the latter years of prior plan through approaches like the following.***

#### **6a. *Yardstick Ratemaking***

- In the PWU's view, this is overly complicated and is duplicative of the existing stretch factor.

#### **6b. *Modify the existing Menus of Ratemaking Options***

- This is difficult to comment on since only one example is given - Annual IR - where after 5 years LDCs can take the 0.6% stretch factor without rebasing. In any case, the PWU is concerned by the

difficulty to design a menu of ratemaking options and also the regulatory burden resulting from different LDCs adopting different approaches.

**7. Add an earnings-sharing mechanism to the plan.**

- The PWU agrees with the Report that mandating ESMs can materially weaken utility incentives to achieve efficiencies and that they are not a good solution for skewed spending pattern.

**8. Reconsider capitalization rules for OM&A expenses.**

- The PWU agrees with the recommendation of holding a generic proceeding on capitalization policies.