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**BY E-MAIL**

October 16, 2015

Tiiija Luttrell  
Greater Sudbury Hydro Inc.  
500 Regent St.  
P.O. Box 250  
Sudbury ON P3E 4P1

Dear Ms. Luttrell:

**Re: Greater Sudbury Hydro Inc.  
2014 Return on Equity Performance  
EB-2015-0071**

On September 30, 2015, the Ontario Energy Board publicly released scorecard results for all of Ontario's electricity distributors. These scorecards measure how well Ontario's electricity distributors are performing each year, and are designed to encourage electricity distributors to operate effectively, continually seek ways to improve productivity and focus on improvements that their customers value.

The scorecard includes a measure of each utility's regulatory return on equity (ROE). In the course of a sector-wide review of all distributors' ROE performance conducted in the summer of 2015, OEB Audit and Performance Assessment staff concluded that Greater Sudbury Hydro Inc.'s regulatory ROE measured 14.04% in 2014 – 506 basis points above the target ROE that was the basis upon which its rates were established. A summary of staff's assessment is attached. Staff also estimated that this level of overearnings represents a cost to residential customers of roughly \$0.23 per month.

Under OEB policy, a regulatory review may be triggered if a distributor's earnings are outside of a dead band of +/- 300 basis points from the OEB-approved return on equity. Any such review will be prospective, and could result in modifications, termination or the continuation of the respective Price Cap IR or Annual IR Index plan for that distributor.

Given the level of returns earned by Greater Sudbury Hydro Inc. in 2014, it is appropriate that the OEB consider whether an amendment to Greater Sudbury Hydro Inc.'s rate plan is warranted, in order to ensure that customers pay distribution rates that better reflect the value of the service provided to them.

Greater Sudbury Hydro Inc. is scheduled to file a cost of service application in 2017, and in the meantime may apply on November 2, 2015 for an annual adjustment to its rates as part of its Price Cap Incentive rate-setting plan. Greater Sudbury Hydro Inc. is reminded that a distributor filing an incentive rate-setting application may choose to file only for the transition to fixed rates for the residential class and for disposition of Group 1 deferral and variance account balances in accordance with OEB policies, without applying for adjustments to its base rates. Should Greater Sudbury Hydro Inc.'s application include a request for the inflationary base rate adjustment for 2016, the OEB will assess the appropriateness of granting Greater Sudbury Hydro Inc.'s request for an incremental adjustments to its base rates for the 2016 rate year given the earnings performance measured in 2014. It may also consider whether its 2016 rates should be set on an interim basis, so that earnings for 2016 can be considered in Greater Sudbury Hydro Inc.'s next rebasing application. These evaluations will form part of the application process in the current proceeding, and include the opportunity for Greater Sudbury Hydro Inc. to present its position and bring forward relevant information to the OEB.

Yours truly,

*Original signed by*

Kirsten Walli  
Board Secretary

## **Appendix A**

### **2014 Return on Equity Sector Review**

**Greater Sudbury Hydro Inc.**

**ROE Performance Summary**

**EB-2015-0071**

**October 16, 2015**

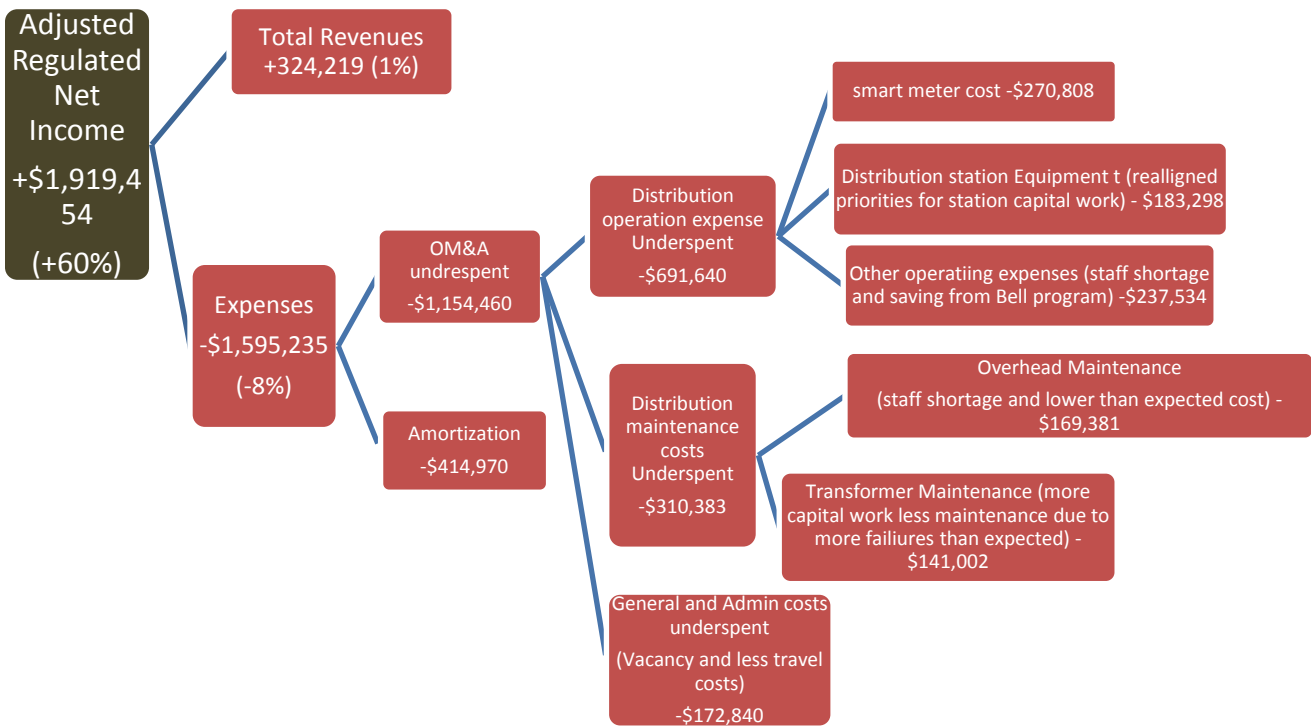
2014 ROE Over-Earner: [Greater Sudbury Hydro Inc. \(Greater Sudbury\)](#)

Greater Sudbury is scheduled to file an IRM rate application for 2016 rates.

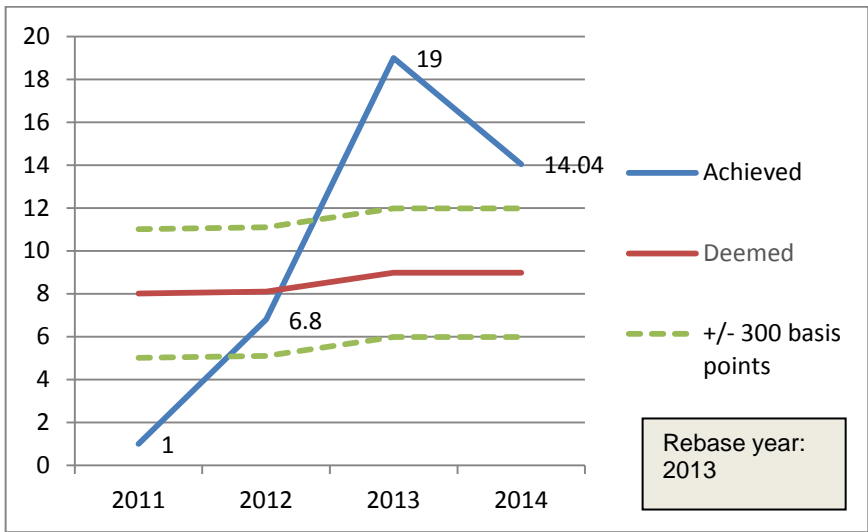
2014 ROE performance – 14.04% (206 Basis points over the Deadband)

Components of the ROE calculation	Deemed 2013 CoS	Achieved 2014	Variance	Variance %
ROE \$ approved in CoS / Adjusted Regulated Net Income	\$3,196,320	\$5,115,774	\$1,919,454	60%
Regulated Deemed Equity	\$35,593,759	\$36,443,375	\$849,616	2%
ROE	8.98%	14.04%	5.06%	

Main Drivers for Over-Earning in 2014



Historical ROE performance (2011 to 2014) – Three Years Over-Earning



Based on the OEB Audit staff's review, it appears that Greater Sudbury's 2013 higher over-earning as compared to 2014 because the distribution revenues in 2013 increased by 17% while 2014 distribution revenues only increased by 2% as compared to the forecasted distribution revenue approved in the 2013 CoS Decision and Order.

Notes:

1. Inconsistent DVA treatment embedded in achieved ROE calculations: Greater Sudbury expenses the DVAs in its actual tax provision and tax returns, which is not consistent with the treatment of the DVAs PILs embedded in the rates. The impacts to 2013 ROE and 2014 ROE are quantified to be 2.09% and 1.11% respectively (i.e. the 2013 achieved ROE would be 16.91% and the 2014 achieved ROE would be 12.93%).
2. Reliability performance: Greater Sudbury's SAIDI and SAIFI significantly increased in 2014 with the SAIFI outside the five historical year range. The distributor explained in the scorecard MD&A that "The failure of aging infrastructure is a leading cause of the higher volume of service interruptions. However, scheduled outages have also increased because of more rigorous safety procedures regarding worker safety and the type of work being undertaken."
3. Greater Sudbury indicated that staff shortage has been filled in 2015, however, no quantification was provided for this factor.