Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL

April 24, 2020

Christine E. Long
Registrar and Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Long:

Re: Greater Sudbury Hydro Inc. (Greater Sudbury Hydro)
Application for 2020 Electricity Distribution Rates
Ontario Energy Board File Number: EB-2019-0037

In accordance with Procedural Order No. 1, please find attached OEB staff's submission on the settlement proposal in the above noted proceeding. Greater Sudbury Hydro and all intervenors have been copied on this filing.

Yours truly,

Original Signed By

Donald Lau
Project Advisor – Electricity Distribution: Major Rate Applications & Consolidations

Attach.

ONTARIO ENERGY BOARD

STAFF SUBMISSION ON SETTLEMENT PROPOSAL

2020 ELECTRICITY DISTRIBUTION RATES

Greater Sudbury Hydro Inc.

EB-2019-0037

April 24, 2020

INTRODUCTION

Greater Sudbury Hydro Inc. (Greater Sudbury Hydro) filed a cost of service application with the Ontario Energy Board (OEB) on October 31, 2019 under section 78 of the *Ontario Energy Board Act*, *1998,* seeking approval for changes to the rates that Greater Sudbury Hydro charges for electricity distribution, to be effective May 1, 2020.

The OEB issued an approved issues list for this proceeding on March 18, 2020. A settlement conference was held from March 23, 2020 to March 25, 2020 and Greater Sudbury Hydro filed a settlement proposal setting out an agreement among all the parties to the proceeding on April 20, 2020. The parties to the settlement proposal are Greater Sudbury Hydro and the approved intervenors in the proceeding: Energy Probe, School Energy Coalition, Vulnerable Energy Consumers Coalition, and Pollution Probe, collectively called the Parties. The settlement proposal represents a full settlement of all issues in Greater Sudbury Hydro's application.

For a typical residential customer with a monthly consumption of 750 kWh, the total bill impact under the filed settlement proposal is an increase of $2.75 per month before taxes or 2.44%.

This submission is based on the status of the record at the time of the filing of Greater Sudbury Hydro's settlement proposal and reflects observations that arise from OEB staff's review of the evidence and the settlement proposal. It is intended to assist the OEB in deciding upon Greater Sudbury Hydro's application and the settlement proposal.

Settlement Proposal

OEB staff has reviewed the settlement proposal in the context of the objectives of the *Renewed Regulatory Framework*[1], the *Handbook for Utility Rate Applications*[2], applicable OEB policies, relevant OEB decisions, and the OEB's statutory obligations. OEB staff submits that the settlement proposal reflects a reasonable evaluation of the distributor's planned outcomes in this proceeding, appropriate consideration of the relevant issues, and ensures that there are sufficient resources to allow Greater Sudbury Hydro to achieve its identified outcomes in the five years of the plan from 2020 to 2024.

[1] Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, October 18, 2012

[2] Handbook for Utility Rate Applications, October 13, 2016

OEB staff further submits that the explanations and rationale provided by the Parties support the settlement proposal and that the outcomes arising from the OEB's approval of the settlement proposal would reflect the public interest and would result in just and reasonable rates for customers.

Below, OEB staff provides specific submissions on the following issues in the settlement proposal:

- Impact of Covid-19
- Issue 1.1 - Capital
- Issue 1.2 - Operating, Maintenance, and Administration (OM&A)
- Issue 1.3 - Shared Services and Corporate Cost Allocation
- Issue 2.0 - Revenue Requirement
- Issue 3.0 - Load Forecast, Cost Allocation, and Rate Design
- Issue 4.0 - Accounting
- Issue 5.1 - Advanced Capital Modules
- Issue 5.2 - Effective Date
- Issue 5.3 - Rate Mitigation
- Issue 5.4 - Specific Service Charges, Retail Service Charges, and Pole Attachment Charge

Impact of Covid-19

The Parties have agreed that the settlement proposal will not take into account the Covid-19 pandemic as its impacts on Greater Sudbury Hydro and its customers are not known with any specificity at this time. The Parties further stated that, for the purpose of setting rates, by omitting Covid-19 impacts, it puts Greater Sudbury Hydro and their customers in the same position as distributors who rebased in 2020 prior to the Covid-19 pandemic.

OEB staff notes that on March 25, 2020, the OEB ordered the establishment of Account 1509 – Impacts Arising from the COVID-19 Emergency, together with three sub-accounts, for electricity distributors to use to track any incremental costs and lost revenues related to the COVID-19 pandemic. Further, on April 16, 2020, the OEB issued a letter regarding the OEB's approach to incentive rate-setting decisions for May 1, 2020 rates.[3] The OEB indicated that distributors may implement the change in rates

[3] Letter of the OEB - Approach to Incentive Rate-setting Decisions for May 1, 2020 Rates, April 16, 2020

on May 1, 2020 or have the option to postpone the change in rates to November 1, 2020. The letter further indicated that distributors that choose to postpone the implementation of their rate change to November 1, 2020 may track any temporarily foregone distribution revenue in Account 1509 - Impacts Arising from the COVID-19 Emergency, Sub-account Lost Revenues.

On April 23, 2020, Greater Sudbury Hydro filed a letter with the OEB stating that it proposes to defer the implementation of certain components of the settlement proposal to November 1, and track any foregone distribution revenue in Account 1509. Greater Sudbury Hydro proposed the following method for implementation:

- Defer the base distribution rate increase to November 1, 2020
- Defer the retail transmission service rates and low voltage rate increase to November 1, 2020
- Implement the proposed new rate riders on the approved effective date (which are a credit to ratepayers over the next 12 months), either May 1, 2020 or June 1, 2020 depending on the OEB's final decision, as set out in the settlement proposal
- Implement the new (lower) line loss factor on the approved effective date, either May 1, 2020 or June 1, 2020 depending on the OEB's final decision, as set out in the settlement proposal

Greater Sudbury Hydro stated that this approach to implementation is intended to benefit customers, particularly in the short term. The tables below shows the total bill impacts that a customer will experience with and without Greater Sudbury Hydro's proposed adjustments.

	TOTAL BILL IMPACT: MAY 1, NO DEFERRAL (Option 1)	TOTAL BILL IMPACT: MAY 1, DEFERRAL PER OEB LETTERS	TOTAL BILL IMPACT: MAY 1, ADJUSTED DEFERRAL PER GSHI PROPOSAL
Residential RPP (750 kWh per month)	2.44%	1.13%	0.15%

	TOTAL BILL IMPACT on May 1st: RATE RIDERS EXPIRING APRIL 30	TOTAL (FURTHER) BILL IMPACT: JUNE 1, NO DEFERRAL	TOTAL (FURTHER) BILL IMPACT: JUNE 1, DEFERRAL PER OEB LETTERS	TOTAL (FURTHER) BILL IMPACT: JUNE 1, ADJUSTED DEFERRAL PER GSHI PROPOSAL
Residential RPP (750 kWh per month)	1.13%	1.29%	0.00%	-0.97%

OEB staff notes that by implementing Greater Sudbury Hydro's proposed implementation plan, and assuming a May 1, 2020 effective date, customers will experience 0.15% total bill increase instead of the 1.13% increase customers would experience if Greater Sudbury Hydro deferred as per the OEB's April 16, 2020 letter, or the 2.44% increase that would occur if the rate increase was not deferred. Given the profound impacts that have arisen from the COVID-19 emergency, OEB staff supports Greater Sudbury Hydro's implementation plan. In OEB's staff view, Greater Sudbury Hydro's implementation plan balances the interests of consumers while ensuring that Greater Sudbury Hydro remains financially able to continue to maintain its systems over the long term.

Issue 1.1 Capital

Greater Sudbury Hydro proposed a total net capital expenditure of $9.41 million (net in-service additions of $9.66 million) for the 2020 test year. The majority of the capital investments are related to system renewal and system service categories, and include one station rebuild, voltage conversion, pole replacements, and line extensions. Greater Sudbury Hydro stated that its overall service area is expected to see slow population and economic growth, with the exception of the Kingsway Corridor, which is an important commercial area that requires increased capacity.

For the purposes of the settlement of all of the issues in this proceeding, the Parties have agreed to a reduction in net in-service additions of $0.58 million (6% reduction). To reduce this capital amount, Greater Sudbury Hydro removed the outage management system (OMS) and cable rejuvenation investments and reduced the capital amount for the 9M2 extension project. The Parties accepted that the level of planned net capital expenditures and the rationale for planning and pacing choices are appropriate and adequately explained.

OEB staff notes that, from 2015 to 2018, Greater Sudbury Hydro's actual capital spending was below its planned capital spending. On average, Greater Sudbury Hydro's underspending was 8%.[4] Greater Sudbury Hydro noted that this is within its corporate target of ±10% and that it has since increased inter-departmental communications, standardized distribution design and materials, and improved work order review to produce higher confidence in its project estimates. OEB staff submits that, based on the historical underspending, a 6% reduction to net in-service additions, as agreed to in the settlement proposal, is reasonable.

OEB staff has reviewed Greater Sudbury Hydro's system average interruption frequency index (SAIFI) and system average interruption duration index (SAIDI), excluding loss of supply and major events, and notes that the overall SAIFI and SAIDI is trending upwards. While Greater Sudbury Hydro removed the OMS investment, the OMS is a reactive investment for reliability while the leading cause of the SAIFI and SAIDI is caused by defective equipment. OEB staff notes that Greater Sudbury Hydro is investing 66% of its next five years capital investments in system renewal. OEB staff submits that Greater Sudbury Hydro is already addressing reliability issues through system renewal and that the removal of the OMS is reasonable.

Greater Sudbury Hydro identified in its evidence that the cable rejuvenation investment has one of the lowest priority rankings in comparison to prospective investments.[5] As Greater Sudbury Hydro has identified that this investment is low priority, OEB staff submits that for the purposes of an overall capital reduction the removal of the cable rejuvenation investment is reasonable.

Greater Sudbury Hydro also made reductions to the 9M2 extension project. OEB staff submits that the reduction in the 9M2 extension project is immaterial and OEB staff therefore has no issue with the reduction.

In summary, OEB staff has no concerns with the 2020 capital budget included in the settlement proposal.

Asset Condition Assessment

Greater Sudbury Hydro provided an Asset Condition Assessment (ACA) that was completed with the aid of Kinectrics, an external third-party utility consulting firm. The

[4] EB-2019-0037, Interrogatory Responses, March 10, 2020 (2-Staff-9c)
[5] EB-2016-0037, Distribution System Plan, October 31, 2019 (5.4.3.2.1.7 Cable Testing/Rejuvenation)

ACA identified assets that would need to be replaced in the next 10 years and proposed a paced replacement schedule. The assets are identified based on an asset health index which is established based on several weighted parameters that contribute to asset degradation. However, the final health index for an asset is the lower of the health index or an age limiter. The age limiter is the cumulative survival probability of an asset group at a given age. In other words, if an asset's health index show that it is in better condition than the age limiter, then the asset's final health index becomes the age limiter. Greater Sudbury Hydro justified the use of the age limiter as a way to avoid false positives that may result from scarce input data inaccurately providing high health index scores for old assets.[6] OEB staff agrees that age should be considered in a health index but notes that Greater Sudbury Hydro's method puts a large amount of weight on the age limiter, which is based on an average health score, as compared to the health index score, which is an asset specific score. OEB staff understands that information for some assets may be scarce; however, the intent of an ACA is not only to provide an understanding of the yearly replacement schedule on a macro level, but also to provide an understanding of a utility's assets and focus replacement on the worst performers. For future applications, OEB staff suggests that Greater Sudbury Hydro consider using age as one of the weighted parameter in the health index calculation, as was done in its 2011 asset condition assessment, rather than the current approach where age can supersede the health index results.[7]

Issue 1.2 Operating, Maintenance, and Administration (OM&A)
Greater Sudbury Hydro proposed a total OM&A spending of $17.4 million for the 2020 test year. This represented an increase of 22.1% from 2013 actual OM&A spending, or an average yearly increase of 3.2%. Greater Sudbury Hydro attributed this increase to a number of factors including:

- Increase in costs allocated from affiliates
- Increases in OEB Assessment Fees
- Costs associated with preparation of the Cost of Service application
- Change to monthly billing
- Increase in pole attachment costs
- Cyber security

The Parties agreed to an OM&A budget of $16.2 million, which represents a reduction of $1.15 million (6.6% reduction) to Greater Sudbury Hydro's proposed OM&A. This

[6] EB-2019-0037, Interrogatory Responses, March 10, 2020, (2-Staff-31)
[7] EB-2019-0037, Pre-ADR Clarification Questions, March 21, 2020 (2-SEC-19)

reduction represents the assumption of vacant full-time equivalent (FTE) positions and small cuts across numerous programs. The revised amount is an increase of 14% from the 2013 actual OM&A spending or an average yearly increase of 2%. It is also an increase of 5.7% from the 2019 actual OM&A spending. OEB staff notes that Greater Sudbury Hydro is in the Cohort 3 as per the *Empirical Research in Support of Incentive Rate-Setting: 2018 Benchmarking Update*[8] but has historically varied between Cohorts 3 and 4.

Greater Sudbury Hydro and Greater Sudbury Hydro Plus (GSHP), an affiliate providing services to the utility, have, on average, 5.08 vacant FTE positions from 2013 to 2019.[9] Greater Sudbury Hydro also stated that some of these positions were filled internally; for example the innovation officer[10] and distribution engineer.[11] Greater Sudbury Hydro also stated that it has experienced constant turnover in the customer service department as a result of retirements, transfers, and terminations.[12] As of January 2020, Greater Sudbury Hydro had 5.33 vacant FTE positions and, as updated in the settlement proposal, Sudbury Hydro is still expecting to hire approximately 3.37 FTEs.[13] Based on the average historical vacancies, the number of FTEs that are still vacant, and the possibility of retirements, transfers, and terminations, OEB submits that there is a high possibility of similar vacancy numbers for 2020. OEB staff submits that the assumption of vacant FTE positions is reasonable.

OEB staff also notes that a significant part of the OM&A increase is due to labour increases in incremental positions (i.e., 77% of the OM&A increase is a result of increases to labour complements and burden, other post employment benefit costs, and costs allocated from affiliates). Greater Sudbury Hydro has added six positions and GSHP has added ten positions (details of GSHP's relationship with Greater Sudbury Hydro are discussed in Issue 1.3 below) since Greater Sudbury Hydro's last cost of service application. The incremental positions include operations, customer service, project management, and information technology (IT) staff. OEB staff has considered the OM&A in the context of departmental efficiencies and Greater Sudbury Hydro's historical ability to fill these positions.

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[8] Report to the Ontario Energy Board – "Empirical Research in Support of Incentive Rate-Setting: 2018 Benchmarking Update", prepared by Pacific Economics Group LLC., August 2019
[9] EB-2019-0037, Interrogatory Responses, March 10, 2020, (4-SEC-25)
[10] EB-2019-0037, Interrogatory Responses, March 10, 2020, (4-Staff-56)
[11] EB-2019-0037, Interrogatory Responses, March 10, 2020, (4-Staff-61)
[12] EB-2019-0037, Interrogatory Responses, March 10, 2020, (4-Staff-48)
[13] EB-2019-0037, Pre-ADR Clarification Questions, March 21, 2020 (4-Staff-99)

OEB staff believes that the proposed reduction in OM&A is reasonable as there may be potential efficiencies in the customer service, IT, and project management departments.

For example, between 2016 and 2019, the number of customer calls in the customer service department has decreased by 20%.[14] With respect to IT, Greater Sudbury Hydro stated that additional resources were required to assist with the demands on the IT department, specifically increased support tickets. However, the number of IT support tickets has decreased by 33% between 2017 and 2018.[15]

Finally, Greater Sudbury Hydro stated that it needed additional resources for project management to manage large company-wide projects such as the grid modernization and station rebuilds.[16] However, Greater Sudbury Hydro acknowledged that certain aspects of the grid modernization program have slowed considerably due to the change in the provincial government.[17] In addition, there has been other station rebuilds similar to those that are being proposed over the next five years, such as the Kathleen Station and Capreol. Based on the slowdown in the adoption of grid modernization and Greater Sudbury Hydro's ability to rebuild stations with existing resources there are also potential efficiencies in the project management office.

Based on OEB staff's observations on Greater Sudbury Hydro's historical ability to fully fill all of their positions and potential efficiencies, OEB staff submits that the proposed reduction of $1.15 million is reasonable.

Issue 1.3 Shared Services and Corporate Cost Allocation

The Parties agreed that, for Greater Sudbury Hydro's next cost of service application, it would hire an independent third party to look at Greater Sudbury Hydro's shared services arrangements and cost allocation methodology. This independent third party will review services provided/received by Greater Sudbury Hydro and the allocation of costs, pricing of the services with market based pricing, and an assessment of the value the shared services to Greater Sudbury Hydro's customers.

GSHP provides most of the overhead services for Greater Sudbury Hydro and other affiliates. This includes finance, human resources, corporate communications, IT, customer service and billing, risk management, procurement, regulatory affairs,

[14] EB-2019-0037, Interrogatory Responses, March 10, 2020, (4-Staff-48)
[15] EB-2019-0037, Interrogatory Responses, March 10, 2020, (4-Staff-49)
[16] EB-2019-0037, Interrogatory Responses, March 10, 2020, (4-Staff-55)
[17] EB-2019-0037, Interrogatory Responses, March 10, 2020, (4-Staff-27)

accounting, and project management. The incremental positions discussed in the OM&A section are hired by GSHP and costs are then allocated to Greater Sudbury Hydro.

OEB staff notes that Greater Sudbury Hydro has not changed its pricing methodology since its last cost of service.[18] OEB staff submits that it is reasonable to have an independent third party review the corporate cost allocation from GSHP to Greater Sudbury Hydro before Greater Sudbury Hydro's next cost of service application.

Issue 2.0 Revenue Requirement

The Parties have agreed to a service revenue requirement of $26.705 million and a base revenue requirement of $25.152 million. This reflects a reduction of $0.58 million in net in-service additions and $1.15 million in OM&A. This also reflects updates to the cost of capital, other revenue, and payment in lieu of taxes (PILS). The table below shows the change in revenue requirement between Greater Sudbury Hydro's application and the settlement proposal.

	Application October 31 2019	**IRR March 10 2020**	**Variance from Original Filing**	**Settlement Proposal**	**Variance from IRRs**
Regulated Return on Rate Base	$6,482,132	$5,600,760	($881,372)	$5,565,056	($35,704)
OM&A Expenses	$17,388,957	$17,388,957	$0	$16,237,777	($1,151,180)
Property Taxes	$268,803	$268,803	$0	$268,803	$0
Depreciation Expense	$4,404,633	$4,375,882	($28,751)	$4,333,632	($42,250)
Income Taxes (Grossed up)	$409,974	$316,940	($93,034)	$300,042	($16,898)
Service Revenue Requirement	**$28,954,499**	**$27,951,342**	**($1,003,157)**	**$26,705,311**	**($1,246,031)**
Revenue Offset	$1,558,372	$1,519,787	($38,585)	$1,552,787	$33,000
Base Distribution Revenue Requirement	**$27,396,127**	**$26,431,556**	**($964,571)**	**$25,152,524**	**($1,279,032)**

The Parties settled on using Greater Sudbury Hydro's actual debt rate for the third-party long-term debt instead of the OEB's long-term debt rate. OEB staff agrees that using the actual long-term debt rate is more appropriate than a proxy and notes the third-party long-term debt is lower than OEB's long-term debt rate.

[18] EB-2019-0037, Interrogatory Responses, March 10, 2020 (Chapter 2 appendices – Appendix 2-N)

The Parties settled on an increase of $0.033 million to other revenues for Account 4360 – Loss of Disposition Utility and Other Property. This reflects Greater Sudbury Hydro's forecasted amounts for Account 4360 based on the most recent three years (2016, 2017, and 2018 in the original application). The $0.033 million increase is a result of updating the forecasted amounts with 2017, 2018, and 2019. OEB staff has no issue with the update to other revenues.

PILS - Accelerated Capital Cost Allowance

Bill C-97, the *Budget Implementation Act, 2019, No. 1* received Royal Assent on June 21, 2019. Bill C-97 introduced the Accelerated Investment Incentive (AII) program, which provides for a first-year increase in capital cost allowance (CCA) deductions on eligible capital assets acquired after November 20, 2018.

In the letter *Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance*[19], the OEB provided accounting guidance (CCA Guidance) on the impacts from accelerated CCA resulting from the AII program. The OEB established a separate sub-account of Account 1592 - PILs and Tax Variances, Sub-account CCA Changes to track the impact of any differences that result from the CCA change to the tax rates or rules that were used to determine the tax amount that underpins rates. OEB staff notes that Greater Sudbury Hydro did not elect to apply accelerated CCA in 2018 as shown in Greater Sudbury Hydro's 2018 tax return filed in the application and therefore, there was no balance in the Account 1592 sub-account as at December 31, 2018.

The CCA Guidance also indicated that utilities were to reflect any impacts arising from CCA rule changes in their cost-based applications for 2020 rates and beyond. The OEB may consider a smoothing mechanism to address any timing differences that could lead to volatility in tax deductions over the rate-setting term.

Greater Sudbury Hydro applied accelerated CCA in its 2020 PILs. In the settlement proposal, the Parties agreed that there is no need for a smoothing mechanism to address the impacts of accelerated CCA over the rate-setting term. Instead Greater Sudbury Hydro will use Account 1592 – PILS and Tax Variances, Sub-account CCA Changes to address future CCA rule changes. OEB staff takes no issue with this approach. Accelerated CCA is to be phased out from 2024 to 2027. Greater Sudbury Hydro's continued use of the Account 1592 sub-account will capture the impact of

[19] Issued July 25, 2019

differences that result from CCA rule changes, including the phasing out of accelerated CCA, from the accelerated CCA that underpins rates in the 2020 cost of service rate application. This would achieve the same intent as a smoothing mechanism. OEB staff also notes that Greater Sudbury Hydro has agreed to follow any future OEB guidance, if any, with respect to accelerated CCA.

Issue 3.0 Load Forecast, Cost Allocation, and Rate Design

In the context of the settlement proposal, OEB staff does not have any concerns with the proposed load forecast of 857 GWh, 879,590 kW, and 58,422 customer connections as shown in tables 13 and 14 of the settlement proposal. OEB staff submits that the agreed upon load and customer connection forecasts are appropriate.

For the purposes of the settlement of all of the issues in this proceeding the Parties agreed that the total Conservation Demand Management (CDM) adjustment of 3.0 GWh and 5,216 kWh proposed by Greater Sudbury Hydro is appropriate. OEB staff notes that this reasonably reflects the Minister of Energy, Northern Development and Mines' directive to the Independent Energy System Operator on March 20, 2019.[20] [21] The proposed Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) target is provided in Table 16. OEB staff submits that the agreed upon CDM adjustment and LRAMVA target are appropriate.

Cost Allocation

As part of the settlement proposal, the Parties agreed that the cost allocation methodology as proposed by Greater Sudbury Hydro is appropriate.

The resulting revenue to cost ratios as updated to reflect changes resulting from other terms of the settlement proposal are set out in Table 17 of the settlement proposal. Two rate classes are outside the prescribed ranges, Street Lighting is above the target range at 200.59%, and Sentinel Lighting is below at 75.64%. Both rate classes have a target range of 80-120%. The Parties agreed on a five-year transition to bring the Street Lighting revenue-to-cost ratios to the upper bound of its range, 120%. In 2020, the agreed upon ratio is 184.47% for Street Lighting and 78.69% for Sentinel Light. Offsetting adjustments for the Street Lighting rate class were also made to Residential,

[20] http://www.ieso.ca/-/media/Files/IESO/Document-Library/ministerial-directives/2019/Directive-Interim-Framework.pdf?la=en

[21] http://www.ieso.ca/-/media/Files/IESO/Document-Library/ministerial-directives/2019/Directive-CFF-Wind-down.pdf?la=en

the only other rate class with a revenue to cost ratio below 100%. The full five-year transition is set out in Table 18 of the settlement proposal.

In the context of the settlement proposal, OEB staff does not have any concerns with the cost allocation.

Rate Design

OEB staff notes that the transition to fully fixed residential rates was concluded in 2019. As a result, there are no impacts arising from the residential rate design policy.

The Parties accepted that the rate design as set out in Table 19 has been correctly determined. The Parties propose that the fixed charge in the General Service < 50 kW and General Service 50 to 4,999 kW rate classes remain at their current levels as the fixed charges are already above the ceiling value established by the minimum system with peak load carrying capacity adjustment. As a result, the entire rate increase is proposed to be applied to the variable charge. All other rate classes are proposed to maintain the existing fixed and variable proportions. While the fixed charge in the Street Lighting rate class is also above the ceiling, a rate decrease is proposed, so the rate adjustment does not result in the fixed charge being adjusted further above the ceiling.

OEB staff submits that the proposed rate design is appropriate.

Issue 4.0 Accounting

Other Post-employment Benefits

In the settlement proposal, the Parties agreed that Greater Sudbury Hydro's proposal to change its accounting for Other Post-Employment Benefit (OPEB) costs in rates from a cash to accrual accounting basis is appropriate.

The Parties also agreed to the establishment of Account 1508 – Other Regulatory Account, Sub-account OPEB Cash to Accrual Transition Amount. This sub-account will record the difference between the amount that Greater Sudbury Hydro has already recovered from customers for OPEBs in rates charged to date, compared to what would have been collected in rates had the accrual basis of recovery for OPEBs been in place since the beginning of recovery (cumulative difference). The Parties agreed that Greater Sudbury Hydro will calculate this amount before its next cost of service rate application.

OEB staff notes that the *Report of the OEB: Regulatory Treatment of Pension and Other Post-employment Benefit Costs*[22] (P&OPEBs Report) indicated that the accrual basis of recovery for OPEBs is the default method, unless it does not result in just and reasonable rates. The P&OPEBs Report also noted that if transition of the recovery basis is necessary and the transition issues are manageable for the utility, it is open to the OEB to require a transition to a recovery mechanism suitable for the utility's particular circumstances. In such a case, the OEB could require the utility to calculate the cumulative difference. This cumulative difference is similar to what Greater Sudbury Hydro has proposed to calculate in the OPEB Cash to Accrual Transition Amount sub-account as shown in the draft accounting order.

In a response to OEB staff's interrogatory[23], Greater Sudbury Hydro stated it has considered continuing to recover OPEBs on a cash basis but does not believe the cash basis of recovery best meets the regulatory principles noted in the P&OPEB Report. Instead, the accrual basis would meet the regulatory principles of fairness, minimizing intergenerational inequity and minimizing rate volatility.

OEB staff agrees with Greater Sudbury Hydro's treatment of OPEBs. The use of the accrual method of recovery for OPEBs aligns with the default method in the P&OPEBs Report. Greater Sudbury Hydro has considered continuing to use the cash basis but has chosen to change to the accrual method, which suggests that the transition is manageable. Greater Sudbury Hydro is also addressing the impact of the transition from cash to accrual and calculating the "cumulative difference to date" in the OPEB Cash to Accrual Transition Amount sub-account, which will be requested for disposition at a later date.

Disposition of Deferral and Variance Accounts

Greater Sudbury Hydro proposed to dispose of its Groups 1 (credit $2,342,137) and Group 2 (debit $3,687,060) Deferral and Variance Accounts (DVA) balances as at December 31, 2018, including forecasted interest to April 30, 2020. The Parties have agreed that the proposals for DVAs are appropriate, including the proposed disposition of those accounts. OEB staff notes that Greater Sudbury Hydro has proposed final disposition of the accounts.[24]

[22] EB-2015-0040, dated September 14, 2017
[23] EB-2019-0037, Interrogatory Responses, March 10, 2020 (4-Staff-66)
[24] EB-2019-0037, Interrogatory Responses, April 20, 2020 (4-Staff-111)

OEB staff submits that it is appropriate to dispose of the 2018 DVA balances on a final basis.

OEB issued the accounting guidance *Accounting Procedures Handbook Update - Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589* on February 21, 2019. This accounting guidance was to be implemented by August 31, 2019 retroactive to January 1, 2019. Distributors were expected to consider the accounting guidance in the context of historical balances that have yet to be disposed on a final basis. Final disposition can be requested if distributors have completed the review of historical balances and are confident that there are no systemic issues with their RPP settlement and related accounting processes.[25]

Greater Sudbury Hydro implemented the accounting guidance by December 31, 2019, retroactive to January 1, 2019.[26] Greater Sudbury Hydro stated it has reviewed the accounting guidance and considered it compared to its historical practices. It advised that it has not found any systemic issues with its RPP settlement and related accounting processes. It believes that its historical method would produce a materially similar true-up to the accounting guidance.

Greater Sudbury Hydro provided a summary of primary differences between its historical RPP settlement methodology and that described in the accounting guidance.[27] One difference identified is Greater Sudbury Hydro's use of a blended RPP rate to establish RPP Revenues in the RPP settlement calculation instead of applying the actual time of use/tiered rates to the consumption for each time of use/tiered category. OEB staff's view is that this is a systemic issue. However, OEB staff acknowledges that the difference between using a blended RPP rate and the method in the accounting guidance may offset over time and not be material. Moreover, OEB staff notes that the impact of this difference would be captured in Account 1588 – RSVA Power and Greater Sudbury Hydro has sufficiently addressed the size of the cumulative 2016 to 2018 balance in the account in relation to loss factors[28]. As mentioned in the Addendum to Filing Requirements[29], adjustments to account balances are required prior

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[25] Addendum to Filing Requirements for Electricity Rate Distribution Rate Applications – 2020 Rate Applications, issued July 15, 2019
[26] EB-2019-0037, Interrogatory Responses, March 10, 2020 (4-Staff-94)
[27] EB-2019-0037, Interrogatory Responses, March 10, 2020 (4-Staff-95)
[28] EB-2019-0037, Interrogatory Responses, March 10, 2020 (4-Staff-97)
[29] Addendum to Filing Requirements for Electricity Rate Distribution Rate Applications – 2020 Rate Applications, issued July 15, 2019

to requesting final disposition if the adjustments are material. Therefore, OEB staff does not believe an adjustment to Account 1588 – RSVA Power is needed and final disposition of the account is acceptable. OEB staff further notes that Greater Sudbury Hydro has confirmed it has fully implemented the accounting guidance by December 31, 2019. Therefore, the issue with the appropriate RPP rate to use in the RPP Revenue calculation should no longer be an issue going forward.

New Deferral Accounts

The Parties have agreed for Greater Sudbury Hydro to establish two new sub-accounts:

i. Account 1508 – Other Regulatory Asset, Sub-account OPEB Cash to Accrual Transition Amount. This sub-account will track transition costs related to the change from cash accounting to accrual accounting for OPEBs.

ii. Account 1508 – Other Regulatory Asset, Sub-account OPEB Actuarial Gains & Losses. This sub-account will track actuarial gains and losses in relation to OPEBs. Greater Sudbury Hydro may request the disposition of this sub-account in the future, should the gains and losses not substantially offset over time.

As discussed in the section above, OEB staff agrees with the establishment of the OPEB Cash to Accrual Transition Amount sub-account to address the transition impact of changing from the cash to accrual recovery basis for OPEBs.

OEB staff also does not take issue with the establishment of the OPEB Actuarial Gains & Losses sub-account. OEB staff notes the P&OPEB Report discusses the treatment of actuarial gains and losses under the International Financial Reporting Standard, where utilities who are recovering OPEBs on an accrual basis will not be able to dispose of any amounts pertaining to actuarial gains and losses because they will never form part of net income. The P&OPEB Report notes that the OEB has approved the use of a deferral account to capture the cumulative actuarial gains or losses in post-retirement benefits for some utilities and that utilities may propose disposition of the account if the gains and losses in the account do not substantially offset over time. Greater Sudbury Hydro's proposed sub-account is similar to the accounts which have been established for other utilities[30].

[30] Examples of utilities that have the existing account include Hydro Ottawa Limited (EB-2011-0054), Niagara Peninsula Energy Inc. (EB-2014-0096), Oshawa PUC Networks Inc. (EB-2011-0073) etc.

In addition, OEB staff submits that the eligibility criteria of causation, materiality and prudence in establishing new accounts per the *Chapter 2 Filing Requirements for Electricity Distribution Rate Applications for 2019 Rate Applications* have been met. Greater Sudbury Hydro discussed the eligibility criteria[31] in its initial application. In particular, regarding materiality, actuarial gains and losses have ranged from a loss of $2.3M to a gain of $6.8M between 2013 to 2018, which is greater than Greater Sudbury Hydro's materiality threshold of $115k.[32]

OEB staff has reviewed the draft accounting orders and has noted no issues.

Issue 5.1 Advanced Capital Modules

In its application, Greater Sudbury Hydro had requested the following Advanced Capital Modules (ACM) for 2021, 2022, 2023, and 2024 as follows.

Year	ACM	Cost
2021	Cressey MS3 Rebuild	$4,465,219
2022	Cressey Voltage Conversion	$522,700
	Moonlight MS18 Station Rebuild	$2,846,405
2023	Marttilla MS8 Station Rebuild	$2,451,977
2024	Paris MS13 Station Rebuild	$2,464,793

As part of the settlement proposal, the Parties agreed to ACM funding for only the Cressey MS3 Rebuild.

The *Report of the Board: New Policy Options for the Funding of Capital Investments: The Advanced Capital Module* (ACM Report) states that distributors proposing amounts for recovery by way of an ACM must meet the materiality, need, and prudence criteria.[33]

Materiality

The ACM Report states that distributors must meet an OEB-defined materiality threshold and minor expenditures in comparison to the overall capital budget are ineligible.

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[31] EB-2019-0037, Exhibit 9/Tab 1/Schedule 5/p.2-3

[32] EB-2019-0037, Exhibit 1/Tab 8/Schedule 4

[33] Report of the Board – New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, EB-2014-0219, September 18, 2014

Based on the ACM model, Greater Sudbury Hydro has a materiality threshold value of 134%. Depreciation included in Greater Sudbury Hydro's cost of service rates was $4.6 million; meaning only forecasted capital above $6.2 million is eligible for the ACM (134% x $4.6 million). With respect to the materiality threshold, OEB staff does not take issue with Greater Sudbury Hydro's calculations for the materiality threshold.

OEB staff submits that the Cressey M3 Rebuild is 35% of Greater Sudbury Hydro's planned 2021 capital budget and is not considered a minor expenditure.

Need

The ACM Report explains the need criterion as follows: [34]

> The distributor must pass the Means Test (as defined in the ACM Report).
>
> Amounts must be based on discrete projects, and should be directly related to the claimed driver.
>
> The amounts must be clearly outside of the base upon which the rates were derived.

The ACM Report further states:

> The use of an ACM is most appropriate for a distributor that:
> - does not have multiple discrete projects for each of the four IR years for which it requires incremental capital funding
> - is not seeking funding for a series of projects that are more related to recurring capital programs for replacements or refurbishments (i.e. "business as usual" type projects)
> - is not proposing to use the entire eligible incremental capital envelope available for a particular year.[35]

Under the Means Test, if a distributor's regulated return on equity (ROE) exceeds 300 basis points above the deemed ROE embedded in the distributor's rates, the funding for any incremental capital project will not be allowed. OEB staff submits that

[34] Ibid., p. 13
[35] Report of the Board: New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014, p. 14

Greater Sudbury Hydro's ROE for 2018 was 7.72%, which is below its deemed ROE of 8.98%.

In the 2020 test year, Greater Sudbury Hydro is rebuilding Gemmell station for $2.33M and the scope of work is to replace one transformer. The Moonlight, Marttilla, and Paris station rebuilds also involve replacing one transformer. OEB staff notes that most of the station rebuilds are for one transformer and that there has been one station rebuild every year from 2018 to 2019 and planned for each year in the plan term (i.e., 2020 to 2024). With the consistent rebuild of stations, OEB staff submits that this is in essence an annual station rebuild program and so OEB staff is of the view that the agreement reached by the Parties with respect to the ACM requests is reasonable.

In OEB staff's view, the one ACM project that is not necessarily 'typical' is the Cressey station rebuild, as it is replacing two transformers instead of one. OEB staff submits that comparing the scope of work of the Cressey station rebuild in relation to the other station rebuilds and the Gemmell MS for which the costs of the latter are reflected in and being recovered through base distribution rates, then the ACM request for the Cressey station rebuild is reasonable.

Prudence

The amounts to be incurred must be prudent. This means that the distributor's decision to incur the amounts must represent the most cost effective option (not necessarily least initial cost) for ratepayers.

OEB staff notes that the Cressey station rebuild scope of work is similar to that of the Kathleen station. Greater Sudbury Hydro completed the Kathleen station rebuild in 2018 for $3.32M. The scope of work for the Kathleen station rebuild was to replace two transformers and had a total station capacity of 15/20 MVA and six feeders.[36] The Cressey Station rebuild has a total station capacity of 20/26.66 MVA and has eight feeders.[37] OEB staff submits that based on the actual cost of the Kathleen station rebuild, the estimated cost for the Cressey Station rebuild is reasonable.

OEB staff also inquired if the Cressey station rebuild could be constructed in two phases, such that only one transformer is replaced each year to better pace the capital expenditures but Greater Sudbury Hydro stated that this would cause delays and

[36] EB-2019-0037, Interrogatory Responses, March 10, 2020 (2-Staff-18)
[37] EB-2019-0037, Interrogatory Responses, March 10, 2020 (2-Staff-25)

increased costs.[38] OEB staff agrees that completing the station as one project, in order to reduce delays and costs, is reasonable.

PILS

With regards to PILS in the ACM, the Parties agreed that Greater Sudbury Hydro will record the ACM revenue requirement impact of the difference between the CCA rule used in the ACM rate rider calculation and the CCA rule used in its actual taxes (i.e. accelerated CCA) in Account 1592 - PILs and Tax Variances, Sub-account CCA Changes, for future disposition. OEB staff does not take issue with this approach as the use of the 1592 sub-account will ensure that Greater Sudbury Hydro recovers the revenue requirement based on the CCA rules used in its actual taxes. The use of the sub-account will also allow for CCA rule changes to be dealt with on a consistent basis regardless of whether the impact is from a cost of service rate application or an ACM. OEB staff also notes that the Parties have agreed that Greater Sudbury Hydro will follow any future OEB guidance with respect to accelerated CCA.

Issue 5.2 Is the proposed effective date May 1, 2020 appropriate?

The Parties have agreed that an effective date of May 1, 2020 if the OEB renders its decision approving the settlement proposal on or before May 8, 2020 (which is the latest date that Greater Sudbury Hydro requires a decision in order to implement changes to rates for a May, 1, 2020 effective date), or June 1, 2020 if the OEB issues a decision after May 8, 2020. OEB staff has no objection to this proposal.

Issue 5.3 Are rate mitigation proposals required?

In Greater Sudbury Hydro's original application, the Sentinel Lighting rate class had a total bill impact of 11.4%. Per the Chapter 2 Filing Guidelines, a mitigation plan must be filed if total bill increases for any customer class exceeds 10%.[39] Greater Sudbury Hydro stated that whether rate mitigation is required is best assessed at the end of the application process. After the interrogatory process and settlement proposal, all total bill impacts for all rate classes were below 10%. OEB staff submits that no rate mitigation is required.

Issue 5.4 Are the Specific Service Charges, Retail Service Charges, and Pole Attachment Charge appropriate?

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[38] EB-2019-0037, Interrogatory Responses, March 10, 2020 (2-Staff-30)

[39] Filing Requirements For Electricity Distribution Rate Applications, July 12, 2018 (Section 2.8.13 Rate Mitigation)

Greater Sudbury Hydro has not changed its Retail Service Charges or Specific Service Charges except for the removal of collection of account charges and updating the use of "disconnect/reconnect" to "reconnection" for applicable specific service charges. This is consistent with the OEB's report that reviewed customer service rules.[40]

Greater Sudbury Hydro has proposed to use the OEB approved province-wide service charge for pole rentals. The OEB updated the generic pole attachment charge effective January 1, 2020 on November 28, 2019.[41]

OEB staff submits that the Specific Service Charges, Retail Service Charges, and Pole Attachment Charge are appropriate.

All of which is respectfully submitted

[40] EB-2017-0183, Report of the OEB – Review of Customer Service Rules, September 6, 2018
[41] EB-2018-0304, Letter of the OEB – Inflation Adjustment for Energy Retailer Service Charges and Wireline Pole Attachment Charge, November 28, 2019