

**BY EMAIL**

February 10, 2021

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

Dear Ms. Long:

**Re: Oshawa PUC Networks Inc. (Oshawa PUC Networks)  
Application for 2021 Electricity Distribution Rates  
Ontario Energy Board File Number: EB-2020-0048**

In accordance with Procedural Order No. 4, please find attached OEB staff's submission on the settlement proposal in the above noted proceeding. Oshawa PUC Networks and all intervenors have been copied on this filing.

Yours truly,

Georgette Vlahos  
Advisor – Electricity Distribution: Major Rate Applications & Consolidations

Attach.

# **ONTARIO ENERGY BOARD**

## **STAFF SUBMISSION ON SETTLEMENT PROPOSAL**

**2021 ELECTRICITY DISTRIBUTION RATES**

**Oshawa PUC Networks Inc.**

**EB-2020-0048**

**February 10, 2021**

# INTRODUCTION

Oshawa PUC Networks Inc. (Oshawa PUC Networks) filed a cost of service application with the Ontario Energy Board (OEB) under section 78 of the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to the rates that Oshawa PUC Networks charges for electricity distribution, beginning January 1, 2021. The application was accepted by the OEB as complete as of August 19, 2020.<sup>1</sup>

The OEB issued an approved Issues List for this proceeding on November 27, 2020.<sup>2</sup> A settlement conference was held from January 6 to 8, 2021 and Oshawa PUC Networks filed a settlement proposal setting out an agreement among all the parties to the proceeding on February 3, 2021. On February 5, 2021, Oshawa PUC Networks filed a corrected Settlement Proposal reflecting corrections in Appendix A. The changes only affected Appendix A and had no impact on the remainder of the settlement proposal. The parties to the settlement proposal were Oshawa PUC Networks and the approved intervenors in the proceeding: Association of Major Power Consumers in Ontario, Consumers Council of Canada, Distributed Resource Coalition, Energy Probe Research Foundation, Pollution Probe, School Energy Coalition, and the Vulnerable Energy Consumers Coalition. The settlement proposal represents a full settlement of all issues in Oshawa PUC Networks' 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 approximately \$1.84 per month before taxes or 1.48%.

This submission is based on the status of the record at the time of the filing of Oshawa PUC Networks' 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 Oshawa PUC Networks' application and the settlement proposal.

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<sup>1</sup> EB-2020-0048, Completeness\_Letter\_Oshawa PUC\_20200819, August 19, 2020

<sup>2</sup> EB-2020-0048, Decision on Issues List and Interim Rate Order, November 27, 2020

## Settlement Proposal

OEB staff has reviewed the settlement proposal in the context of the objectives of the *Renewed Regulatory Framework*<sup>3</sup>, the *Handbook for Utility Rate Applications*<sup>4</sup>, 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 Oshawa PUC Networks to achieve its identified outcomes in the five years of the plan from 2021 to 2025.

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 issues established by the OEB:

- Issue 1.0 - Planning
  - Issue 1.1 - Capital
  - Issue 1.2 - Operating, Maintenance, and Administration
- Issue 2.0 - Revenue Requirement
- Issue 3.0 - Load Forecast, Cost Allocation, and Rate Design
- Issue 4.0 - Accounting
- Issue 5.0 - Other
  - Issue 5.1 - Are the Specific Service Charges, Retail Service Charges, and Pole Attachment Charge appropriate?
  - Issue 5.2 - Is the proposed effective date (i.e. January 1, 2021) for 2021 rates appropriate?
  - Issue 5.3 - Has Oshawa PUC Networks responded appropriately to the prior directives or decisions of the OEB from Oshawa PUC Networks' 2015-2019 Custom Incentive Rate-setting Application (EB-2014-0101) and the 2020 Incentive Rate-setting Mechanism Application (EB-2019-0062)?

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<sup>3</sup> Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, October 18, 2012

<sup>4</sup> Handbook for Utility Rate Applications, October 13, 2016

## **Issue 1.1 - Capital**

Oshawa PUC Networks proposed total net capital expenditures of \$14.45 million for the 2021 test year. The largest areas of capital investments are related to system renewal and include programs for the replacement of overhead, underground and municipal substation distribution assets.

For the purposes of the settlement of all issues in this proceeding, the parties have agreed to a reduction of \$1.50 million in capital expenditures and in-service additions for the test year. In the settlement proposal, the 2021 net capital expenditure and net in-service additions after the reduction is \$12.95 million. The rationale for the proposed reduction in test year capital expenditures includes the more appropriate pacing of capital expenditures through the Distribution System Plan (DSP) planning period and better alignment of asset replacement needs, timing, and prioritization.<sup>5</sup>

OEB staff submits that the reduction of \$1.50 million or 10% of Oshawa PUC Networks' proposed capital expenditures is reasonable and agrees that it represents a more balanced pacing of capital expenditures through the DSP planning period. OEB staff notes that Oshawa PUC Networks' historical average annual net capital expenditure actuals (2015-2019) is \$13.02 million and Oshawa PUC Networks' average annual 2021-2025 forecasted net capital expenditures (including the \$1.50 million reduction) is \$13.95 million. In comparison to both forecast and historical net capital expenditures, OEB staff submits that the proposed test year amount of \$12.95 million reflects a reasonable level of capital spending for Oshawa PUC Networks.

## **Issue 1.2 - Operating, Maintenance, and Administration (OM&A)**

Oshawa PUC Networks proposed total OM&A spending of \$14.10 million for the 2021 test year. Oshawa PUC Networks stated that the major drivers in OM&A levels in the test year relative to the historical and 2020 bridge years are: inflation, labour costs, IT costs, and recurring costs associated with grid and data management tools.<sup>6</sup>

The parties agreed to an OM&A envelope reduction of \$275,000 to Oshawa PUC Networks' proposed 2021 OM&A costs. OEB staff submits that the reduction of \$275,000 in OM&A is reasonable. It is an overall envelope reduction and the parties

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<sup>5</sup> EB-2020-0048, OPUCN\_Settlement Proposal\_Corrected\_20210205, February 5, 2021, Page 11

<sup>6</sup> EB-2020-0048, Application, Exhibit 4, Page 10 of 133

have provided a breakdown of the reduction in Table 1.2B – Summary of OM&A Expenses with Variance of the settlement proposal.

The revised 2021 OM&A amount results in an increase of 18.45% from 2015 actual OM&A spending or 7.45% when compared to 2019 actual OM&A spending. The average yearly increases are 3.08% when compared to 2015 actuals or 3.72% when compared to 2019 actuals. OEB staff notes that Oshawa PUC Networks is in Cohort 2 as per the *Empirical Research in Support of Incentive Rate-Setting: 2019 Benchmarking Update*.<sup>7</sup>

OEB staff notes that the revised OM&A budget was agreed to by parties on an envelope basis, without explicit approval of one Full-Time Equivalent (FTE) who will lead a key account management initiative and continue with Conservation and Demand Management (CDM) activities. Regarding the approval of costs associated with CDM staffing activity, the OEB's policy states that costs attributable to the delivery of CDM programs (i.e. staff labour dedicated to such programs) must not be included in the revenue requirement to be recovered through distribution rates.<sup>8</sup>

In its interrogatory responses, Oshawa PUC Networks clarified that this FTE will complete some outstanding work related to the wind-down of the former Conservation First Framework (CFF).<sup>9</sup> However, the position will largely be involved with non-CFF work including assistance with energy efficiency and sustainability programs in the Durham Community Energy Plan and the Oshawa Community Greenhouse Gas Reduction Plan.<sup>10</sup> As a result, the cost of specific program delivery of former CFF conservation programs has not been included in revenue requirement. Considering the OM&A envelope reduction that was agreed to by parties, OEB staff does not oppose this position in the agreed-to OM&A budget.

## **Issue 2.0 - Revenue Requirement**

The parties have agreed to a service revenue requirement of \$27.95 million and a base revenue requirement of \$26.65 million. This reflects the reduction of \$1.50 million in net

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<sup>7</sup> Report to the Ontario Energy Board – “Empirical Research in Support of Incentive Rate-Setting: 2019 Benchmarking Update”, prepared by Pacific Economics Group LLC., August 2020

<sup>8</sup> *Chapter 2 Filing Requirements for Electricity Distribution Rate Applications – 2020 Edition for 2021 Rate Applications*, May 14, 2020, section 2.4.6.

<sup>9</sup> This includes wind-down administration of CFF activity until the second quarter of 2022 (4-Staff-70)

<sup>10</sup> EB-2020-0048, Interrogatory Responses, November 16, 2020 (4-VECC-32)

in-service additions and \$275,000 in OM&A. This also reflects updates to the cost of capital, and other revenue. The table below, replicated from the filed settlement proposal, shows the change in revenue requirement between Oshawa PUC Networks' initially filed application and the settlement proposal. OEB staff has no concerns with the revenue requirement calculations.

**Table 1 – Oshawa PUC Networks Revenue Requirement**

<b>2021 Test Year</b>	<b>Original Application</b>	<b>Interrogatories (Updates to Rates of Return)</b>	<b>Change</b>	<b>Settlement Proposal</b>	<b>Change</b>	<b>Total Change</b>
<b>OM&amp;A Expenses</b>	\$14,107,550	\$14,017,550	\$0	\$13,832,550	\$(275,000)	\$(275,000)
<b>Amortization/ Depreciation</b>	\$6,216,997	\$6,216,997	\$0	\$6,190,747	\$(26,250)	\$(26,250)
<b>Property Taxes</b>	\$152,097	\$152,097	\$0	\$152,097	\$0	\$0
<b>Capital Taxes</b>	\$0	\$0	\$0	\$0	\$0	\$0
<b>Income Taxes (Grossed Up)</b>	\$0	\$0	\$0	\$0	\$0	\$0
<b>Other Expenses</b>	\$34,374	\$34,374	\$0	\$33,542	\$(832)	\$(832)
<b>Return</b>						
<b>Deemed Interest Expense</b>	\$3,113,225	\$2,917,671	\$(195,554)	\$2,846,926	\$(70,745)	\$(266,298)
<b>Return on Deemed Equity</b>	\$5,025,821	\$4,919,676	\$(106,145)	\$4,895,650	\$(24,026)	\$(130,171)
<b>Service Revenue Requirement</b>	\$28,650,063	\$28,348,364	\$(301,699)	\$27,951,512	\$(396,852)	\$(698,551)
<b>Revenue Offsets</b>	\$1,299,981	\$1,299,981	\$0	\$1,296,999	\$(2,982)	\$(2,982)
<b>Base Revenue Requirement</b>	\$27,350,082	\$27,048,383	\$(301,699)	\$26,654,513	\$(393,870)	\$(695,569)

### PILS Expense- Accelerated Capital Cost Allowance

Bill C-97 introduced the Accelerated Investment Incentive program (AIIP), which provides for a first-year increase in capital cost allowance (CCA) deductions on eligible capital assets acquired after November 20, 2018.

In its July 25, 2019 letter ([CCA Letter](#)) titled *Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance*, the OEB provided accounting direction on the treatment of the impacts from accelerated CCA resulting from the AIIP. The OEB established a separate sub-account, 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 rate or rules that were used to determine the tax amount that underpins rates.

The parties agreed that Oshawa PUC Networks shall calculate the CCA differences that are accumulated in Account 1592 sub-account CCA changes from November 21, 2018 to December 31, 2019 by comparing the CCA on the actual capital additions in the respective period under the legacy rule to the accelerated CCA on the actual capital additions in the respective period under the AIIP. The calculated credit balance in the Account 1592 sub-account CCA Changes of \$125,774 represents the full revenue requirement impact of the application of the accelerated CCA as at December 31, 2019, including interest forecasted to December 31, 2020. The parties agreed that 100% of the revenue requirement impact is to be refunded to Oshawa PUC Networks' ratepayers. The parties also agreed that this approach will be used when Oshawa PUC Networks seeks disposition of the 2020 balance in the sub-account. OEB staff does not object to this approach, given the CCA Letter states that "determinations as to the appropriate disposition methodology will be made at the time of each Utility's cost-based application". In addition, OEB staff notes that a refund of 100% of the sub-account to ratepayers has previously been proposed by other distributors and the OEB ultimately accepted that approach through its approval of the settlement proposals in each respective proceeding.<sup>11</sup>

The CCA Letter also indicated that utilities were to reflect any impacts arising from CCA rule changes in their cost-based applications for 2020 rates and beyond and that 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. The *Chapter 2 Filing*

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<sup>11</sup> Hydro Ottawa 2021 Custom IR Decision and Order, EB-2019-0261, November 19, 2020 and Waterloo North Hydro Inc. 2021 Cost of Service Decision and Rate Order, EB-2020-0059, December 10, 2020



*Requirements for Electricity Distributors* further state that the OEB will assess smoothing proposals on a case-by-case basis and if the OEB is satisfied with the smoothing proposals, the recording of impacts from these CCA changes in Account 1592 may not be required during the incentive rate-setting term.<sup>12</sup>

Oshawa PUC Networks confirmed that it is not proposing a smoothing mechanism for the tax impacts over the incentive rate-setting mechanism (IRM) term and that it will continue to use Account 1592 going forward to capture the impact of any future CCA rule changes, including the impacts from the phasing out of the AIIP.<sup>13</sup>

The AIIP is scheduled to be phased out from 2024 to 2027. Oshawa PUC Networks' continued use of the Account 1592 sub-account will capture the impact of differences that result from CCA rule changes, including the phasing out of the AIIP. OEB staff submits that this would be a more accurate approach to account for any future CCA changes during the IRM term.

#### Cost of Capital

Parties have agreed to use a long-term debt rate of 2.227% on \$5 million long-term debt proposed to be issued in 2021; this is also the actual rate obtained on Oshawa PUC Networks' \$10 million issuance in late 2020, and reflects the best available information about current interest rates on maturities shorter than 30 years. The parties also agreed to use the OEB's deemed long-term debt rate of 2.85% for the unfunded portion of the deemed long-term debt (the notional debt).<sup>14</sup>

OEB staff supports the use of a 2.227% long-term debt rate on the \$5 million long-term debt proposed to be issued in 2021. As noted in the *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities*:

Third-party debt with a fixed rate will normally be afforded the actual or forecasted rate, which is presumed to be a "market rate". However, the Board recognizes a deemed long-term debt rate continues to be required and this rate will be determined and published by the Board. **The deemed long-term debt rate will act as a proxy or ceiling for what would be considered to be a**

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<sup>12</sup> Chapter 2 Filing Requirements for Electricity Distribution Rate Applications – 2020 Edition for 2021 Rate Applications, May 14, 2020, Page 38

<sup>13</sup> EB-2020-0048, Interrogatory Responses, November 16, 2020 (4-Staff-93)

<sup>14</sup> EB-2020-0048, OPUCN\_Settlement\_Proposal\_Corrected\_20210205, February 5, 2021, Page 19

**market-based rate by the Board in certain circumstances (emphasis added).**<sup>15</sup>

OEB staff does not take issue with the assumption of the 2021 deemed long-term debt rate for the unfunded portion of the deemed long-term debt (the notional debt). As noted in the OEB's *Filing Requirements for Electricity Distribution Rate Applications – 2020 Edition for 2021 Rate Applications – Chapter 2*, notional debt should attract the weighted average cost of actual long-term debt rather than the current deemed long-term debt rate issued by the OEB. The rate agreed to by the parties in this case is lower than what would it otherwise be had the parties used Oshawa PUC Networks' weighted average cost of long-term debt. As such, OEB staff views the agreed-to treatment for notional debt is in the public interest in the context of this settlement proposal.

### **Issue 3.0 - Load Forecast, Cost Allocation, and Rate Design**

#### Load Forecast

In the context of the settlement proposal, OEB staff does not have any concerns with the proposed load forecast of 1,075 GWh, 1,107,094 kW, and 75,694 customers and connections as shown in Table 3.1A of the settlement proposal. OEB staff submits that the agreed upon load and customer connection forecasts are appropriate.

#### Cost Allocation

As part of the settlement proposal, the parties accepted Oshawa PUC Networks' cost allocation results subject to updates to two changes. The meter count was updated in the General Service < 50 kW rate class, reflecting the number of customers in the rate class. The number of General Service > 50 – 999 kW customers receiving secondary distribution has been revised to be equal to the number of customers receiving line transformation from Oshawa PUC Networks. Revenue-to-cost ratios for the Street Lighting and Sentinel Lighting rate classes are above the OEB's target ranges and are proposed to be reduced to 120%, the upper end of the policy range, by increasing the classes with the lowest revenue to cost ratios, Residential and Unmetered Scattered Load.

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<sup>15</sup> EB-2009-0084, December 11, 2009, Page 53

**Table 2 – Oshawa PUC Networks Revenue-to-Cost Ratios**

Rate Class	Cost Ratios from Cost Allocation Model - Line 75 from O1 in CA	Proposed Revenue to Cost Ratios	Board Target Low	Board Target High
Residential	96.23%	97.65%	85%	115%
GS Less Than 50 KW	110.94%	110.94%	80%	120%
GS 50 To 999 KW	99.05%	99.05%	80%	120%
GS Intermediate 1,000-4,999 KW	108.31%	108.31%	80%	120%
Large Use	104.82%	104.82%	85%	115%
Street Lighting	175.81%	120.00%	80%	120%
Sentinel Lighting	123.14%	120.00%	80%	120%
Unmetered Scattered Load	93.54%	97.65%	80%	120%

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

#### Rate Design

In the settlement proposal, the parties agreed that the fixed charge for the General Service 1,000-4,999 and Large Use rate classes would be set at the Minimum System with Peak Load Carrying Capability (PLCC) adjustment (commonly referred to as the ceiling) for the 2021 test year.

OEB staff does not have any concerns with the rate design proposal.

### **Issue 4.0 - Accounting**

#### Leases

In accordance with the introduction of IFRS 16 - Leases, Oshawa PUC Networks recognized its existing building and IT equipment leases as finance leases in its audited financial statements effective January 1, 2019. This resulted in the recognition of right-of-use assets for its building and IT equipment leases of \$838,000 and \$509,000, respectively, as at January 1, 2019. Oshawa PUC Networks indicated that in its prior rebasing application, these leases were treated as operating leases and included in OM&A.<sup>16</sup> In the current proceeding, Oshawa PUC Networks proposed to continue to treat these leases as operating leases for the remaining lives of these right-of-use-

<sup>16</sup> EB-2020-0048, Interrogatory Responses, November 16, 2020 (1-Staff-17)

assets.<sup>17</sup> If Oshawa PUC Networks was to align the treatment of these costs for regulatory purposes with the way they are recognized for external reporting purposes (as finance leases), the main result would be an increase to rate base (and associated capital-related revenue requirement), and there would be no OM&A recorded.

As noted under Issue 1.2 of this submission, the parties agreed to an OM&A envelope reduction of \$275,000 to Oshawa PUC Networks' proposed 2021 OM&A costs. Issue 1.2 of the settlement proposal references clarification response 1-Staff-125 which, as noted above, confirms that Oshawa PUC Networks will continue to treat these leases as operating leases over the remaining lives of these assets.

Oshawa PUC Networks has noted that the revenue requirement difference between including the costs as a finance lease versus an operating lease in the test year is negligible.<sup>18</sup> The building lease expires in 2021 and the terms of an extension are not known yet. The revenue requirement difference for the IT equipment is immaterial, as depreciation and interest expense on the finance lease is expected to be similar to the approximately \$15,000 in OM&A costs, when treated as an operating lease.<sup>19</sup>

OEB staff does not object to the continued treatment of the building and IT equipment leases as operating leases. OEB staff notes that there is an immaterial revenue requirement difference between treating these costs as finance leases or operating leases for regulatory purposes. Furthermore, treating the leases as operating leases is generally a more straight forward and administratively simpler approach, as there are no transition matters with respect to the lease accounting methodology for ratemaking purposes.

#### Disposition of Deferral and Variance Accounts (DVA)

In its pre-filed evidence, Oshawa PUC Networks did not request the disposition of any DVA balances, except for Account 1568 – Lost Revenue Adjustment Mechanism Variance Account (LRAMVA). In the OEB's decision on Oshawa PUC Networks' 2020 IRM application, the OEB directed Oshawa PUC Networks to carry out a review by way of an external special purpose audit, at a minimum for Accounts 1588 and 1589, for the period January 1, 2017 to December 31, 2019. The special purpose audit was to be

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<sup>17</sup> EB-2020-0048, Responses to Pre-settlement Clarification Questions, (1-Staff-125), February 3, 2021

<sup>18</sup> Ibid.

<sup>19</sup> Ibid.

completed prior to any request for disposition of Account 1588 or 1589. The OEB gave the option to extend this special purpose audit to all Group 1 accounts.<sup>20</sup>

In its current application, Oshawa PUC Networks noted that it is exercising that option and is planning an external special purpose audit for all Group 1 DVAs for the three-year period noted above. Oshawa PUC Networks confirmed that it will dispose of Group 1 accounts in the next annual IRM filing once the audit is complete.<sup>21</sup> Oshawa PUC Networks originally requested not to dispose of any Group 2 accounts, explaining that its preference is to see the results of the special purpose audit first, in case any adjustments are necessary to those accounts as well.<sup>22</sup> Oshawa PUC Networks subsequently indicated that it did not believe the results from the Group 1 special purpose audit would lead to adjustments to Group 2 accounts.<sup>23</sup>

As part of the settlement agreement, the parties agreed that Oshawa PUC Networks will not dispose any Group 1 DVAs because of the ongoing audit. However, a debit of \$368,091, representing the value of all Group 2 DVAs and LRAMVA as at December 31, 2019 including forecasted interest to December 31, 2020 (excluding Account 1508 - Other Regulatory Assets, Sub-account Pension Cost Differential Deferral Account), will be disposed over a one-year period. OEB staff supports the settlement proposal reached by parties. OEB staff submits that disposition of Group 2 accounts would be consistent with the OEB's policy to review and dispose all accounts at the time of rebasing, unless otherwise as justified by the distributor or as required by a specific OEB decision or guideline.<sup>24</sup> OEB staff notes that disposition would assist in reducing intergenerational inequity, as the next typical disposition date for Group 2 accounts would be at Oshawa PUC Networks' subsequent rebasing application, which would be expected in five years.

OEB staff notes that the December 31, 2019 balances for Account 1592 and Account 1508 – Other Regulatory Assets, Sub-account Lost Revenue for Collection of Account and Reconnection Charges have not yet been audited, as the balances for these sub-accounts were recorded in the 2020 general ledger. Typically, audited balances are disposed. However, OEB staff notes that there are exceptions to this. For example, in

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<sup>20</sup> EB-2019-0062, Decision and Order, December 12, 2019, Page 13

<sup>21</sup> EB-2020-0048, Interrogatory Responses, November 16, 2020 (9-Staff-107(c))

<sup>22</sup> Ibid, 9-Staff-107(b)

<sup>23</sup> EB-2020-0048, Responses to Pre-settlement Clarification Questions (9-Staff-162 (a)), February 3, 2021

<sup>24</sup> Report of the Board on Electricity Distributor's Deferral and Variance Account Review Initiative (EDDVAR), July 31, 2009, Page 13

the disposition of retail service charge related variance accounts and Account 1508, Other Regulatory Assets, Sub-account Pole Attachment Revenue Variance, the OEB may consider disposing forecasted amounts up to the effective date of rebased rates.<sup>25</sup> OEB staff notes that Oshawa PUC Networks has provided the supporting calculation for the balances in Account 1592 and Account 1508, Sub-account Lost Revenue for Collection of Account and Reconnection Charges.<sup>26</sup> OEB staff reviewed the supporting calculations and did not note any issues. OEB staff further notes that Oshawa PUC Networks recorded the Account 1592 balance after the filing of its 2019 tax return, further supporting the calculation of the 2019 balance in Account 1592. Therefore, OEB staff supports the disposition of the two sub-accounts.

As noted above, parties have agreed not to dispose Account 1508 – Other Regulatory Assets, Sub-account Pension Cost Differential Deferral Account. OEB staff agrees that the sub-account should not be disposed. The sub-account is intended to capture the cumulative actuarial gains or losses in Oshawa PUC Networks’ post-retirement benefits.<sup>27</sup> The OEB’s *Report on Regulatory Treatment of Pension and Other Post-employment Benefits* (OPEBs) Costs states that utilities may propose disposition of an account that captures the cumulative actuarial gains or losses in post-retirement benefits in future cost-based rate proceedings if the gains and losses that are tracked in this account do not substantially offset over time.<sup>28</sup> As at December 31, 2019, Oshawa PUC Networks’ Account 1508, Sub-account Pension Cost Differential Deferral Account had a debit balance of \$31,282. OEB staff notes that from 2015 to 2019, annual transactions in the account have fluctuated between a credit of \$1,129,144 and a debit of \$1,302,342. It appears that the cumulative actuarial gains or losses have generally offset over time. Therefore, OEB staff agrees that disposition of this sub-account is not warranted at this time.

OEB staff supports disposition of the Group 2 accounts, as proposed by the parties in the settlement agreement. Group 2 and other DVA balances proposed for disposition in the settlement proposal are set out in the table below:

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<sup>25</sup> Chapter 2 Filing Requirements for Electricity Distribution Rate Applications – 2020 Edition for 2021 Rate Applications, May 14, 2020, Pages 57 and 65

<sup>26</sup> EB-2020-0048, Responses to Pre-settlement Clarification Questions, (4-Staff-156, Appendix 2 (AIIP) 4-Staff-156(a) and (c)) for Account 1592 and EB-2020-0048, Interrogatory Responses, November 16, 2020 (9-Staff-12, Appendix F) for Account 1508,

<sup>27</sup> EB-2011-0073, Accounting Order in Revised Draft Rate Order, December 23, 2011

<sup>28</sup> Report of the Ontario Energy Board, Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs, EB-2015-0040, September 14, 2017, Page 13

**Table 3: Group 2 and Other DVAs Requested for Disposition**

	Account Number	Principal Balance (\$) A	Interest Balance (\$) B	Total Claim (\$) C=A+B
Sub-Account - OEB Cost Assessment Variance	1508	379,519	37,140	416,658
Sub-Account - Pole Attachment Revenue Variance	1508	(189,648)	(6,758)	(196,406)
Sub-Account - Lost Revenue for Collection of Account and Reconnection Charges	1508	178,633	4,644	183,277
Sub-Account - Retail Service Charges Incremental Revenue	1508	(12,778)	(351)	(13,129)
Smart Meter Capital and Recovery Offset Variance - Sub-Account - Stranded Meter Costs	1555	(54,099)	(1,684)	(55,783)
Pension & OPEB Forecast Accrual versus Actual Cash Payment Differential Carrying Charges	1522	-	-	-
PILs and Tax Variance for 2006 and Subsequent Years-Sub-account CCA Changes	1592	(121,892)	(\$3,882)	(125,774)
<b>Total Group 2</b>		<b>301,627</b>	<b>32,990</b>	<b>208,843</b>
LRAM Variance Account	1568	144,976	14,271	159,247
<b>Total Group 2 and Other DVAs</b>		<b>446,603</b>	<b>47,261</b>	<b>368,091</b>

### **Issue 5.1 - Are the Specific Service Charges, Retail Service Charges, and Pole Attachment Charge appropriate?**

Oshawa PUC Networks is not requesting to change any of its Specific Service Charges and does not have a utility specific Wireline Pole Attachment Charge and uses the OEB approved generic charge for pole attachments. The OEB issued an Order for the Pole Attachment Charge on December 10, 2020, which suspended the 2021 inflationary increase. The current charge of \$44.50 remained in effect as of January 1, 2021 on an interim basis, until further notice.<sup>29</sup>

The OEB issued its Decision and Rate Order on the Retail Service Charges on December 3, 2020, which adjusted the 2021 Retail Service Charges by inflation.<sup>30</sup> Oshawa PUC Networks has adopted the OEB's generic Retail Service Charges established on December 3, 2020.

OEB staff submits that the update to the Retail Service Charges is appropriate. Further, parties have adopted the interim 2020 rate for 2021 as shown in Appendix A – Tariff of

<sup>29</sup> EB-2020-0288, Order, December 10, 2020

<sup>30</sup> EB-2020-0285, Decision and Rate Order, December 3, 2020

Rates and Charges to the settlement agreement. OEB staff submits that keeping the Pole Attachment Charge at the 2020 level is appropriate.

**Issue 5.2 Is the proposed effective date (i.e. January 1, 2021) for 2021 rates appropriate?**

The parties have agreed to an effective date of February 1, 2021 taking into consideration COVID-19 related delays. The settlement proposal states that should a decision not be received in time to implement new rates for February 1, 2021 (on or around February 19, 2021), Oshawa PUC Networks would be permitted to recover such lost revenue between February 1, 2021 and the implementation date, if required.<sup>31</sup>

OEB staff notes that on April 29, 2020, Oshawa PUC Networks filed a letter stating that due to the COVID-19 pandemic it was unable to submit its rebasing application by the filing due date of April 30, 2020 and requested an extension. Oshawa PUC Networks subsequently filed two additional letters requesting an extension to the filing of its application due to the COVID-19 pandemic. The OEB accepted these requests. The first response letter stated that “The OEB anticipates that the OEB panel hearing the application will take into consideration any COVID-19 related delays in setting the effective date for Oshawa Power’s 2021 rates.”<sup>32</sup> The second response letter stated that “This extension does not ensure that a January 1, 2021 effective date will be approved for Oshawa Power. The effective date for rates will be determined by the OEB panel hearing the application, however the OEB anticipates that the OEB panel will take into consideration any COVID-19 related delays.”<sup>33</sup>

Oshawa PUC Networks ultimately filed this application on July 24, 2020, approximately three months after the established deadline for January 1 filers.

Oshawa PUC Networks requested an almost four-week extension to file its interrogatory responses due to the complexity of the interrogatories and the COVID-19 pandemic.<sup>34</sup> The OEB granted this request.<sup>35</sup>

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<sup>31</sup> EB-2020-0048, OPUCN\_Settlement Proposal\_Corrected\_20210205, February 5, 2021, Page 38

<sup>32</sup> EB-2020-0048, OEB response: COS filing extension, August 10, 2020

<sup>33</sup> EB-2020-0048, OEB response: COS filing extension, July 6, 2020

<sup>34</sup> EB-2020-0048, Oshawa PUC Networks – Extension Request Letter, October 19, 2020

<sup>35</sup> EB-2020-0048, Procedural Order No. 2, October 22, 2020



There was also a short extension request for the filing of the settlement proposal (i.e. from January 29, 2021 to February 3, 2021) as parties continued to work to reach a settlement. This was granted by the OEB.<sup>36</sup>

Giving due consideration to the ongoing COVID-19 pandemic and the restraints this may have caused for the applicant, OEB staff submits that an effective date of February 1, 2021 is reasonable in the context of this settlement proposal.

OEB staff notes that if a decision and final rate order is not issued in time to implement a February 1, 2021 effective date (as noted above, this date would be on or around February 19, 2021), Oshawa PUC Networks would be required to file its calculations of any forgone revenue riders through a draft rate order process.

**Issue 5.3 – Has Oshawa PUC Networks responded appropriately to the prior directives or decisions of the OEB from Oshawa PUC Networks’ 2015-2019 Custom Incentive Rate-setting Application (EB-2014-0101) and the 2020 Incentive Rate-setting Mechanism Application (EB-2019-0062)?**

2015-2019 Custom Incentive Rate-setting (IR) Application

As part of the OEB’s decision on Oshawa PUC Networks’ 2015-2019 Custom IR application<sup>37</sup>, there were three key directions that were to be addressed as part of this current rebasing application:

1. The OEB encouraged Oshawa PUC to develop additional meaningful metrics and targets to demonstrate continuous improvement in its OM&A and capital programs, and required Oshawa PUC to file a revised set of metrics and targets as part of its first rate application after the completion of the term of this plan.<sup>38</sup>
2. The OEB encouraged Oshawa PUC to continue to refine its investment optimization and prioritization tools and to develop appropriate metrics to measure the efficiency of capital projects planning and execution.<sup>39</sup>
3. The OEB approved a system renewal capital variance account (Account 1508 – Sub-account Revenue Requirement Differential Variance Account related to System Renewal Capital Additions). The purpose of this account was to record the revenue requirement associated with the difference between actual and

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<sup>36</sup> EB-2020-0028, Procedural Order No. 4, February 2, 2021

<sup>37</sup> EB-2014-0101, Decision and Order, November 12, 2015

<sup>38</sup> Ibid, Page 11

<sup>39</sup> Ibid, Page 18

forecasted cumulative capital additions (net of capital contributions) for 2015-2019, should in-service capital additions be lower than, or the pacing of capital additions be slower than, forecast over the 2015-2019 period.<sup>40</sup> The Accounting Order for this account indicated that the balance in this account, if applicable, will be refunded to Oshawa PUC's customers at the time of Oshawa PUC's next rebasing.<sup>41</sup>

With respect to the first direction, Oshawa PUC Networks developed an internal corporate scorecard in 2016. This scorecard contains threshold, target and stretch objectives. Performance measures consist of the following categories: financial earnings, cost control, reliability, customer service, and safety and people. Oshawa PUC Networks indicated that targets are embedded in its management at-risk compensation plan to ensure alignment between corporate and individual performance outcomes.<sup>42</sup> In response to interrogatory 2-Staff-27, Oshawa PUC Networks provided a list of departmental metrics that impact its scorecard categories, as well as the results from its internal corporate scorecard from 2016 to 2019.<sup>43</sup> Further, Oshawa PUC Networks stated that the internal corporate scorecard has provided the visibility and has identified the short comings of current performance management systems and that these shortcomings are going to be addressed as part of future performance management programs.<sup>44</sup>

Additionally, as noted in its application, Oshawa PUC Networks has implemented new software (Quadra, to enhance the quality of estimates, and a new Centralized Maintenance Management System, to better manage and operate the maintenance program) to further improve its performance measurement and learning from historic performance data. Oshawa PUC Networks stated that it is moving forward to gather more data through this newly implemented software and develop a per-unit benchmarking framework to create benchmarks on which performance can be compared internally and externally.<sup>45</sup>

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<sup>40</sup> This is an asymmetrical account, in that overspending or faster pace of spending would not result in recording debit balances in this variance account

<sup>41</sup> EB-2014-0101, Rate Order, December 22, 2015, Schedule B

<sup>42</sup> EB-2020-0048, Application - Exhibit 1, Page 19

<sup>43</sup> Examples include: Reliability – Capital Projects Completion Status, Attendance, Crew Response Time, Equipment Infrared Heat Testing; Customer Service – Grade of Service, Attendance, New Meter Installation days, Public Outreach Events, Network Systems Uptime, Call Volume, Average Call Handle Time, Agent Productivity Report, Email Volume, Email Handle Time

<sup>44</sup> EB-2020-0048, Interrogatory Responses, November 16, 2020 (2-Staff-27(d))

<sup>45</sup> EB-2020-0048, Application Exhibit 1, Pages 91-92

For the test year, Oshawa PUC Networks proposed new metrics and targets to monitor the efficiency of its capital projects planning and execution and other performance areas. For the purpose of the settlement, the parties agreed to the proposed list of metrics and targets for 2021 as set out in Appendix F of the settlement proposal. As the targets only relate to 2021, the settlement proposal noted that Oshawa PUC Networks may update the metrics and targets after 2021, as it gains more insight and knowledge from the proposed metrics.

OEB staff submits that with the implementation of Oshawa PUC Networks' internal corporate scorecard, the settlement proposal reached by the parties, together with the new metrics and targets that were accepted by the parties, Oshawa PUC Networks has been responsive to the first directive of the OEB. Regarding the new metrics and targets, OEB staff notes that Oshawa PUC Networks has, wherever possible, chosen historical averages as its 2021 metric targets. OEB staff submits that, given the novelty of the metrics and Oshawa PUC Networks' relative inexperience with these metrics, using the historical averages for the 2021 test year target is a reasonable approach. OEB staff believes that having these targets in place will help Oshawa PUC Networks achieve some level of cost control and incent continuous improvement. As noted in the settlement proposal, Oshawa PUC Networks may update its metrics and/or targets as it gains more experience. OEB staff recommends Oshawa PUC Networks do so in the spirit of continuous improvement.

With respect to the second direction, the parties acknowledged that Oshawa PUC Networks' DSP included evidence on improvements it has made to its planning processes since its last rebasing application.<sup>46</sup> Going forward, the settlement reached by parties indicates that Oshawa PUC Networks agrees to continue to improve its distribution system planning process in the forecast period in cost effective ways to further improve its condition-based asset replacement strategy including incorporating a more risk-based asset prioritization process, which considers the preferences and long-term needs of customers in its service territory.<sup>47</sup> OEB staff supports this proposal by the parties and encourages Oshawa PUC Networks to continue to improve its capital management processes, including ensuring that its asset condition assessment methodology and prioritization of projects are performed on a rigorous, data-driven and analytical basis.

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<sup>46</sup> EB-2020-0048, OPUCN\_Settlement Proposal\_Corrected\_20210205, February 5, 2021, Page 12

<sup>47</sup> *Ibid*

With respect to Account 1508 – Sub-account Revenue Requirement Differential Variance Account related to System Renewal Capital Additions, Oshawa PUC Networks confirmed that from 2015-2019, it overspent on system renewal compared to the OEB-approved budget by a cumulative \$1.3 million. Therefore, no balance is available for disposition. OEB staff submits that this is appropriate.

#### 2020 Incentive Rate-setting Mechanism Application

As part of the OEB's decision on Oshawa PUC Networks' 2020 IRM application, there were two key directions.

First, as discussed under Issue 4.0 – Accounting of this submission, the OEB ordered an audit at a minimum for Accounts 1588 and 1589, for the period January 1, 2017 to December 31, 2019. As part of the settlement proposal in this proceeding, parties agreed that Oshawa PUC Networks will not dispose of its Group 1 DVAs because of the ongoing external special purpose audit ordered as part of the 2020 IRM decision. OEB staff supports this proposal.

Second, the 2020 IRM decision also approved the establishment of Account 1508 – Other Regulatory Assets, Sub-account Lost Revenue for Collection of Account and Reconnection Charges, effective July 1, 2019. This account was established to recover the lost revenue associated with the elimination of the Collection of Account charge and the waiving of the Reconnection charge until Oshawa PUC's next rebasing application.

In the current 2021 rebasing application, Oshawa PUC Networks indicated that due to the timing of its year-end 2019 external financial statement audit, and the approval date from the OEB for the use of this account (i.e. December 12, 2019), no balance was recorded until 2020. Oshawa PUC Networks proposed to continue to utilize this sub-account in order to have the balance as of December 31, 2020 audited and available for disposition at its next rebasing application and discontinue its use thereafter.<sup>48</sup> Oshawa PUC Networks confirmed that it will not record any new transactions into this account after December 31, 2020.<sup>49</sup>

As noted under Issue 4.0 – Accounting of this submission, parties have agreed to dispose the December 31, 2019 balance in this application. The settlement proposal notes that Oshawa PUC Networks will seek to dispose of the remaining 2020 balance in

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<sup>48</sup> EB-2020-0048, Application – Exhibit 1 Administrative Documents, Pages 25-26

<sup>49</sup> EB-2020-0048, Interrogatory Responses, Page 147 (9-Staff-114)

this account at the time of Oshawa PUC Networks' next rebasing application and discontinue its use thereafter. OEB staff supports the settlement reached by parties.

In conclusion, OEB staff submits that Oshawa PUC Networks has responded appropriately to the prior directives and decisions of the OEB in EB-2014-0101 and EB-2019-0062.

*All of which is respectfully submitted*