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DECISION AND ORDER

EB-2020-0249/EB-2018-0219

PUC DISTRIBUTION INC.

Application for rates and other charges to be effective May 1, 2022

BEFORE: Emad Elsayed
Presiding Commissioner

Lynne Anderson
Chief Commissioner

April 29, 2021



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1 INTRODUCTION AND SUMMARY

In this Decision and Order, the Ontario Energy Board (OEB) approves the amended and restated Incremental Capital Module (ICM) application (Amended Application) filed by PUC Distribution for new rates effective May 1, 2022.

PUC Distribution serves approximately 33,500 mostly residential and commercial electricity customers in the City of Sault Ste. Marie as well as parts of Prince Township, Dennis Township and the Rankin Reserve. The utility is seeking OEB approval for incremental capital funding related to the implementation of the Sault Smart Grid Project (SSG Project or Project).

The SSG Project is a proposed community wide smart grid which will cover PUC Distribution's entire service territory. The SSG Project is expected to transform the applicant's entire distribution system through an integrated project implementing various technologies such as Voltage/VAR Optimization, Distribution Automation and Advanced Metering Infrastructure. The SSG Project is scheduled to be in-service by December 31, 2022.

Typically, a distributor applying for incremental capital funding for 2022 would be expected to apply for OEB approval as part of its 2022 Incentive Rate-Setting Mechanism (IRM) application. However, in this case, PUC Distribution indicated that it is applying in advance in 2021 because it requires regulatory approval before it can commence the SSG Project and complete it in 2022.¹

¹ EB-2020-0249/EB-2018-0219, PUC_IRR_20210125, January 25, 2021, (Staff-4(b))

2 THE PROCESS

This Amended Application, filed on October 29, 2020, is a continuation of an earlier proceeding (EB-2018-0219) related to the SSG Project and the two proceedings were therefore combined, as indicated in the OEB's letter of November 12, 2020.²

The parties that were granted intervenor status and cost award eligibility in EB-2018-0219 were deemed to be intervenors and eligible for cost awards in this proceeding.³

Following the issuance of the completeness letter for the Amended Application, Environmental Defence submitted a request for intervenor status and cost eligibility.⁴ Environmental Defence was not an intervenor in the earlier proceeding but was approved as an intervenor in the current proceeding and is eligible to apply for an award of costs under the OEB's *Practice Direction on Cost Awards*.⁵

The other approved intervenors in this proceeding are Consumers Council of Canada (CCC), School Energy Coalition (SEC), and the Vulnerable Energy Consumers Coalition (VECC).

The application was supported by pre-filed written evidence and a completed Incremental Capital Model. During the proceeding, PUC Distribution responded to interrogatories and, where required, updated and clarified the evidence. A Technical Conference was held on February 17, 2021. PUC Distribution filed its Undertaking Responses from the Technical Conference on February 26, 2021 and its Argument-in-Chief on March 12, 2021. Final submissions on the application were filed by OEB staff, Environmental Defence, CCC, and SEC on March 22, 2021 and by VECC on March 23, 2021.

² On January 31, 2019, PUC Distribution filed an IRM application with the OEB under section 78 of the Ontario Energy Board Act, 1998 seeking approval for changes to its electricity distribution rates to be effective May 1, 2019. The OEB assigned file number EB-2018-0219 to the application. As part of its 2019 IRM application, PUC Distribution applied for an ICM to recover costs associated with the implementation of the SSG Project. The OEB bifurcated the application and issued a Partial Decision and Order on the IRM portion of the application on June 20, 2019. A Final Rate Order on the IRM portion was issued on July 9, 2019. The ICM portion was placed in abeyance by the OEB in response to a letter from PUC Distribution on June 28, 2019 advising that it would be amending the ICM application. After the Amended Application was filed, the OEB issued its completeness letter dated November 12, 2020 in which the OEB stated that for administrative purposes the OEB assigned a new file number for the Amended Application (EB-2020-0249), however it was appropriate to combine the two proceedings and both docket numbers should be referenced in all filings and correspondence.

³ EB-2020-0249/EB-2018-0219, OEBltr_Complete_PUC Distribution_Smart Grid_20201112_signed, November 12, 2020

⁴ Received November 17, 2020

⁵ EB-2020-0249/EB-2018-0219, OEBltr_ED_intvnr_PUC Distribution_Smart Grid_20201118, November 18, 2020

On April 1, 2021, PUC Distribution filed a reply submission as well as an update to its evidence related to the Contribution Agreement between Natural Resources Canada (NRCan) and PUC Distribution.⁶

On April 7, 2021, the OEB issued a letter requesting that PUC Distribution file a summary clarification of the changes to the Contribution Agreement and how the amendments impact the current proceeding. PUC Distribution filed the requested clarification on April 14, 2021.⁷

⁶ EB-2020-0249/EB-2018-0219, PUC_EVD Update_20210401, April 1, 2021

⁷ EB-2020-0249/EB-2018-0219, PUC_SUB_Clarification_20210414, April 14, 2021

3 THE SAULT SMART GRID PROJECT

3.1 Summary of the Proposed SSG Project

The SSG Project is comprised of three key components – Voltage/VAR Optimization (VVO), Distribution Automation (DA) and Advanced Metering Infrastructure (AMI) Integration – the benefits of which can be summarized as follows:

- **VVO:** allows a utility to operate its distribution system at the lower end of the acceptable voltage ranges and reduces reactive power in the distribution system resulting in lower system losses, lower energy consumption, and an overall system energy and demand reduction.⁸
- **DA:** provides better monitoring and control of the distribution system by providing real time data as well as the capabilities to remotely locate faults and remotely operate equipment to restore service in the event of fault or loss of upstream power.⁹
- **AMI:** allows a utility to leverage its AMI data for better data analytics and reporting.¹⁰

PUC Distribution noted that each of VVO, DA and AMI are not novel technologies. The innovative aspect(s) of the proposed SSG Project is the combination of all three technologies into a single project, and the contribution of funding from NRCan to reduce the cost of implementing these technologies across PUC Distribution's entire distribution system.¹¹

Customer Benefits

The actual net benefit to customers can vary and is dependent on numerous factors, including energy consumption and electricity prices. As an example of electricity price variability, using the 2019 Regulated Price Plan (RPP) Price Report, the projected annual net benefit to customers from the SSG Project is \$616,897.¹² However, based on the 2021 RPP Price Report as at the time of the filing of PUC Distribution's interrogatory responses, the annual net benefit to customers is estimated to be

⁸ EB-2020-0249/EB-2018-0219, PUC_Amended APPL_ICM_20201028, October 29, 2020, p. 25

⁹ Ibid, pp. 26-28

¹⁰ Ibid, pp. 29-30

¹¹ EB-2020-0249/EB-2018-0219, PUC_ARGChief_20210312, March 12, 2021, p. 10

¹² Regulated Price Plan Supply Cost Report, May 1, 2019 to April 30, 2020; EB-2020-0249/EB-2018-0219, PUC_Amended APPL_ICM_20201028, October 29, 2020, Appendix AA15 Cost of Power Forecast Spreadsheet

\$331,626.¹³ The amount of savings is also dependent on PUC Distribution's success in achieving an anticipated 2.70% reduction in energy consumption from VVO. To arrive at its benefit estimates, PUC Distribution netted all the estimated sources of savings and costs against the incremental revenue requirement (full year) of the SSG Project.

Project Costs

The total Project cost estimate is \$32,938,213.¹⁴ Included in this total cost estimate is the engineering, procurement, and construction (EPC) contract cost of \$27,745,044 which is structured as a "maximum price limit" project consisting of two steps. Step 1 is defined as the Upfront Engineering for which pricing has been fixed at \$5,086,378. Step 2 is defined as the Balance of Work and is set at a maximum limit of \$22,658,667. The total of the EPC Contract is therefore capped at \$27,745,044, which is why it is referred to as a "maximum price limit".¹⁵ The balance of the Project cost relates to PUC Distribution's own engineering (including preliminary engineering works), project management and legal costs.¹⁶

Contribution Agreement with NRCAN

PUC Distribution entered into a Contribution Agreement with NRCAN (Contribution Agreement) to qualify the SSG Project for funding under the NRCAN Smart Grid Program. Under the Contribution Agreement, NRCAN agreed to fund the lesser of 25% of total Project costs incurred or \$10,626,500 (NRCAN Contribution).¹⁷ The estimated NRCAN Contribution is \$8,109,553, which is 25% of the current eligible Project cost estimate (\$32,438,213).¹⁸ PUC Distribution stated that implementation of the SSG Project is predicated on the objective of a "no net bill increase" for its customers, and the NRCAN Contribution makes this a possibility.

PUC Distribution is requesting incremental funding through the ICM mechanism based on the net of the total Project cost and the NRCAN Contribution, which is a net capital

¹³ EB-2020-0249/EB-2018-0219, PUC_IRR_20210125, January 25, 2021, p. 45 (Staff-6(b))

¹⁴ EB-2020-0249/EB-2018-0219, PUC_Undertakings_TC_20210226, February 26, 2021, Appendix JTC1.7

¹⁵ EB-2020-0249, PUC_Amended APPL_ICM_20201028, October 29, 2020, p. 16

¹⁶ EB-2020-0249, PUC_Amended APPL_ICM_20201028, October 29, 2020, Appendix AA12-1 – Project Cost Summary

¹⁷ Ibid, Appendix AA4-2 Contribution Agreement (amended), p. 2

¹⁸ \$32,938,213 less approximately \$500,000 which are the estimated ineligible costs under the NRCAN program as they were incurred before the contribution eligibility period, or categorized as ineligible for purposes of contribution calculation (e.g. legal expenses), although they are recognized as part of the total cost of the project. The most recent NRCAN Contribution Agreement notes \$300k in ineligible costs, however, throughout the evidence in the current proceeding, PUC Distribution indicated \$500k in ineligible costs to date. The Amended Application indicated that the Contribution Agreement would be finalized with NRCAN if the OEB approves the ICM project that is the subject of this proceeding.

cost of \$24,828,660.¹⁹ ICM funding is calculated based on the return on capital, depreciation and taxes of the Project's in-service capital. As PUC Distribution is scheduled to rebase in 2023, and is requesting ICM funding in 2022, it has applied the half-year rule, as discussed below, and calculated its annual incremental revenue requirement to be \$875,610.²⁰

3.2 Summary of Issues

A number of issues were raised by the parties and OEB staff for the SSG Project. This included areas such as:

- risk, related to both forecast costs and savings
- the timing of the application given that the SSG Project is expected to go into service in December 2022
- the impact on customers and whether the customer engagement was appropriate
- whether conditions of approval should be imposed if the OEB approves the Project

Environment Defence, SEC and OEB staff supported the SSG Project. CCC and VECC both indicated that while they support innovation and smart grid technologies, they do not support the Project as structured given the risk and timing.

Risk (Costs and Savings)

Environmental Defence submitted that the SSG Project will result in savings to customers and improve system reliability while also eliminating greenhouse gas emissions and creating jobs and economic growth.²¹ Environmental Defence submitted that the SSG Project will also reduce transmission grid and generation costs, and that the calculation of net benefits by PUC Distribution have been conservatively estimated and may likely be higher.²²

SEC submitted that this ICM proposal is inherently high risk but should be approved with certain conditions. With respect to the cost and savings SEC submitted the following:

¹⁹ \$24,828,660 = \$32,938,213-\$8,109,553

²⁰ EB-2020-0249/EB-2018-0219, PUC_Amended APPL_ICM_20201028, October 29, 2020, pp. 39-40

²¹ EB-2020-0249/EB-2018-0219, ED_Arg_20210322, March 22, 2021, p. 2

²² EB-2020-0249/EB-2018-0219, ED_Arg_20210322, March 22, 2021, pp. 3-4

- With respect to the size of the Project, it appears to be the second largest single capital project for an existing utility in the last decade relative to the size of the utility. It will increase PUC Distribution's net fixed assets by 35.5% before accounting for the NRCan funds, and about 25.9% after deducting that contribution. The result will be an increase in revenue requirement of more than 13%.²³
- The Project can only deliver on the premise of a "no net bill increase" if the benefits materialize.
- There may be GHG reductions over the first 10 years with a value of \$1.4 to \$6.0 million depending on how it is calculated. Given this is a 10-year estimate for a project with a much longer life, these benefits should be an important consideration.²⁴

VECC noted the following concerns with the SSG Project:

- The low level of Project cost certainty and percentage of completed work.
- The outdated and imprecise nature of the preliminary design work on the VVO and DA systems, which is over six years old and not at a maturity level that reflects an accurate cost estimate.
- The unstable economics of the Project given the fluctuation in the cost of power.
- The unpredictability of the capital reductions and operations and maintenance expenses.²⁵

CCC expressed concern that PUC Distribution had not undertaken any pilots with respect to the proposed technology.²⁶

Some intervenors argued that if the OEB approves this application, PUC Distribution should accept incremental risk if VVO savings are not achieved.

In response to concerns regarding Project cost variability, PUC Distribution submitted that the EPC Contract maximum fixed price represents 82.8% of the total Project costs. Therefore, the remaining variability in Project costs is 17.2% of the total costs which are largely attributable to work being performed by its affiliate, PUC Services Inc. (PUC Services). PUC Services believes that its estimate has a +/-20% variability embedded.

²³ EB-2020-0249/EB-2018-0219, SEC_Final Argument_PUC_20210322, March 22, 2021, p. 2

²⁴ Ibid, pp. 4-5

²⁵ EB-2020-0249/EB-2018-0219, VECC_SUB_PUC_20210323, March 23, 2021, pp. 2-6

²⁶ EB-2020-0249/EB-2018-0219, CCC.Submission.PUC.SSG, March 22, 2021, p. 5

This results in a maximum price variability of \$1,150,035 on a total Project cost of \$33,495,218 (or +/- 3.4%) which is within the range of price variabilities the OEB has approved in respect of other ICM applications.²⁷

PUC Distribution also submitted that it provided a sensitivity analysis showing a range in the net present value of annual net benefits to customers from VVO savings (2022-2041) based on scenarios of 2%, 2.7%, and 4% VVO savings, all of which show that its customers are better off with the SSG Project than without it. PUC Distribution identified additional benefits, such as improved reliability. PUC Distribution also noted that the EPC Contract contains a liquidated damages clause which will have the effect of reducing the total cost of the SSG Project if specific targeted VVO savings are not achieved.²⁸

With respect to its planning process, PUC Distribution replied with the following details:

- The assumptions and technologies used in its engineering studies were reviewed as part of the Request for Proposal (RFP) process. This culminated in the execution of a maximum price limit contract (EPC Contract) with defined performance obligations and liquidated damages tied to those obligations.²⁹
- PUC Distribution did not pursue a smaller scope pilot because it would require all of its customers to pay for a pilot that only a small subset of customers would benefit from.³⁰

Timing

SEC submitted that the SSG Project is projected to result in changes to the utility's distribution system, and as such, would normally be considered in the context of a Distribution System Plan and a rebasing application. However, SEC noted that if the utility waits until rebasing, the NRCan Contribution may be lost.³¹

OEB staff was comfortable with the timing of the application but proposed certain updates that PUC Distribution should file as part of its 2022 IRM application.

CCC submitted that the expected in-service date of December 31, 2022 is based on OEB approval in March 2021 – if the in-service date was any later it would not qualify as a 2022 ICM project, and PUC Distribution would be required to file its funding request as part of its 2023 rebasing application. CCC also submitted that the Project should be

²⁷ EB-2020-0249/EB-2018-0219, PUC_ReplySUB_20210401, April 1, 2021, pp. 14-15

²⁸ Ibid, pp. 5-6

²⁹ Ibid, p. 11

³⁰ Ibid, p. 12

³¹ EB-2020-0249/EB-2018-0219, SEC_Final Argument_PUC_20210322, March 22, 2021, pp. 2-3

brought forward in PUC Distribution's 2023 rebasing application in the context of a new Distribution System Plan.³²

In its reply submission, PUC Distribution emphasized that the timing of this application is driven by the need to obtain approval by a certain date in order not to lose out on the NRCan funding.³³

With respect to the in-service date of the SSG Project, PUC Distribution stated that it does not expect an April or May OEB approval to alter the expected in-service date of December 31, 2022. PUC Distribution also accepted the updates proposed by OEB staff for the 2022 rate application.³⁴

Impact on Customers and Customer Engagement

SEC submitted that customer engagement in relation to this Project is suspect – customers were not given a full picture. However, the City of Sault Ste. Marie has been actively involved in reviewing the Project from its inception and throughout, so SEC believes the City is cognizant of the economic and other benefits of the Project.³⁵

CCC submitted that it does not accept that PUC Distribution can “secure, or is willing to secure its promise for “no net bill increases” for all of its customers.”³⁶ CCC's conclusions are based on certain concerns and considerations which are outlined in its submission.³⁷ Some examples include:

- PUC Distribution is relying on studies that were undertaken between 2014-2016 – the relevance of those reports should be reassessed.
- In the utility's 2018 Distribution System Plan, smart grid investments were given the lowest priority amongst its customers.
- Some customers are expected to see bill increases, particularly low-volume consumers.³⁸

OEB staff submitted that it is unclear if customers were told that, in order to see an overall reduction in their bills, a certain level of benefits would need to be achieved.³⁹

³² EB-2020-0249/EB-2018-0219, CCC.Submission.PUC.SSG, March 22, 2021, pp.4-5

³³ EB-2020-0249/EB-2018-0219, PUC_ReplySUB_20210401, April 1, 2021, p. 10

³⁴ Ibid, p. 16

³⁵ EB-2020-0249/EB-2018-0219, SEC_Final Argument_PUC_20210322, March 22, 2021, p. 3-4

³⁶ EB-2020-0249/EB-2018-0219, CCC.Submission.PUC.SSG, March 22, 2021, p. 4

³⁷ See Ibid, pp. 4-6 for the full discussion

³⁸ EB-2020-0249/EB-2018-0219, CCC.Submission.PUC.SSG, March 22, 2021, pp. 5-6

³⁹ EB-2020-0249/EB-2018-0219, OEBstaff_SUB_ICM_PUC Distribution_20210322, March 22, 2021, p. 7

PUC Distribution acknowledged that certain customers, particularly those that use very low volumes of electricity, may see slight bill increases. However, most customers will see no net bill increase and, on aggregate across all customers, the estimated savings of 2.70% energy consumption from VVO will result in a net present value of benefits to customers of \$12.51M.⁴⁰ PUC Distribution also clarified that for the 2018 Distribution System Plan, the lower ranking for smart grid investments was for those specifically aimed at connecting renewable generation, and PUC Distribution would continue to follow this practice.⁴¹

Conditions

VECC submitted that if the OEB decides to approve the request, conditions should be applied that include the shareholder sharing some risk with the utility's customers if the benefits are not achieved.⁴²

Conditions of approval set out in the submissions of intervenors and OEB staff are outlined in section 5 of this Decision.

PUC Distribution submitted that it is "willing to propose as part of its next cost of service application an appropriate metric and performance targets to symmetrically link VVO performance of the SSG Project to the utility's allowable ROE in respect of the SSG Project."⁴³

Findings

The OEB approves PUC Distribution's application for ICM funding for the SSG Project and the associated rate riders, effective May 1, 2022. The OEB accepts the net capital cost forecast of \$24,828,660 and the revenue requirement calculation of \$875,610 for determining the ICM rate riders.

The OEB finds that the SSG Project is in the public interest, delivering direct benefits to customers through reduction in energy consumption, reliability improvements and improved planning and data reporting systems. The Project's proposed execution approach is innovative, locally supported and has secured significant funding from NRCan provided that OEB approval is obtained by May 31, 2021 and the project is executed by March 31, 2023.

The three individual components of the SSG Project (VVO, DA and AMI) have been successfully implemented by other utilities in parts of their system in the past. However,

⁴⁰ EB-2020-0249/EB-2018-0219, PUC_ReplySUB_20210401, April 1, 2021, p. 13

⁴¹ Ibid, pp. 11-12

⁴² EB-2020-0249/EB-2018-0219, VECC_SUB_PUC_20210323, March 23, 2021, p. 6

⁴³ EB-2020-0249/EB-2018-0219, PUC_ReplySUB_20210401, April 1, 2021, p. 7

what is innovative and unique about this application is that PUC Distribution is proposing to implement all three components in one single project through its entire system.

As described in more detail in the following sections, the OEB finds that PUC Distribution has met the ICM eligibility criteria of materiality, need and prudence. However, the risks associated with this Project need to be effectively managed and mitigated.

Some intervenors proposed that this Project be deferred to provide an opportunity for more technical assessments, an updated Distribution System Plan, more cost certainty, or to examine the possibility of executing the Project in a phased approach. The OEB finds that, on balance, this Project presents a unique innovative opportunity utilizing the NRCan Contribution to execute this Project, and that risks can be mitigated through appropriate measures. Delaying the Project or executing it in phases would forgo the NRCan Contribution, would not enable PUC Distribution to achieve a “no net bill increase” for its customers, and/or would require that all customers pay for a pilot that benefits a small sub-set of customers.

Regarding the issue of risk sharing, the OEB finds that PUC Distribution shall file all available information on the proposed Project performance metrics that it intends to track, along with proposed targets, in its next rebasing application. This shall include an appropriate metric and targets to symmetrically link the VVO performance of the Project to PUC Distribution’s allowable ROE for this Project.

Approval of PUC Distribution’s Amended Application is subject to certain conditions described in Section 5.

4 INCREMENTAL CAPITAL MODULE (ICM)

4.1 Background

The OEB's ICM policy⁴⁴ was established to address the treatment of a distributor's capital investment needs that arise during a Price Cap IR rate-setting plan and which are incremental to a calculated materiality threshold. An ICM is a means by which a distributor can collect additional revenue from customers to fund capital expenditures in the years between cost of service applications. The ICM is available for discretionary or non-discretionary projects and is not limited to extraordinary or unanticipated investments. However, ICM funding is not available for typical annual capital programs, nor is it available for projects that do not have a significant influence on the operations of the distributor.

To qualify for ICM funding, a distributor must satisfy the OEB's well-established eligibility criteria of materiality, need and prudence as outlined in the ACM Report.⁴⁵ PUC Distribution addressed these criteria in its submissions.

In its submission, OEB staff discussed the three ICM criteria, and some of the inherent risks of the Project, performance targets/metrics and the treatment of liquidated damages.

The intervenors' submissions did not specifically discuss the ICM criteria. As noted in the previous section, some intervenors discussed the benefits of the proposed SSG Project. Most intervenors discussed the Project risks, and some proposed certain conditions that should be included if the OEB approves the SSG Project.

In its reply submission, PUC Distribution noted that no party disagreed that the ICM criteria were met.

The Half-Year Rule

The OEB's policy allows for a full year's depreciation, capital cost allowance, and return on capital, for all years of a Price Cap IR plan *except* the final year prior to rebasing.⁴⁶ In the final year prior to rebasing, the standard half-year rule is used for calculation of the

⁴⁴ The OEB's policy for the funding of incremental capital is set out in the *Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module*, September 18, 2014 (ACM Report) and the subsequent *Report of the OEB New Policy Options for the Funding of Capital Investments: Supplemental Report* (Supplemental Report) (collectively referred to as the ICM policy).

⁴⁵ ACM Report, p. 17

⁴⁶ Supplemental Report pp. 7-11. When the half-year rule is applied, only half of the annual depreciation and CCA is allowed for depreciation and tax/PILs purposes. This ensures that the distributor recovers only a half-year of return on depreciation and capital as per the intent of the half-year rule.

depreciation and return on capital, and associated taxes/payments in lieu (PILs) are treated as if it was the first year that an asset enters service.⁴⁷

4.2 ICM Criteria - Materiality

The ICM criteria addresses materiality in two steps. The first step requires that the ICM capital exceeds the ICM “materiality threshold formula”⁴⁸, which serves to define the level of capital expenditures that a distributor should be able to manage within current rates. Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount and must clearly have a significant influence on the operations of the distributor.⁴⁹ A second, project-specific, materiality test provides that minor expenditures, in comparison to the overall capital budget, should be considered ineligible for ICM treatment. Moreover, a certain degree of project expenditure over and above the OEB-defined threshold calculation is expected to be absorbed within the total capital budget.⁵⁰

Eligible Incremental Capital and Project-Specific Materiality Threshold

PUC Distribution is forecasting a total capital budget of \$33,495,218 for 2022 including the proposed SSG Project. The OEB-defined materiality threshold for PUC Distribution is \$5,414,316.⁵¹ The maximum available eligible incremental capital amount is \$28,080,902, calculated as the difference between the forecasted 2022 capital budget and the OEB-defined materiality threshold.⁵²

PUC Distribution noted that the proposed \$24,828,660 ICM amount for the SSG Project is above the materiality threshold and within the maximum eligible incremental capital. Further, the SSG Project ICM amount is not a minor expenditure in comparison to PUC Distribution’s overall capital budget and is clearly outside of the utility’s typical annual capital programs. Therefore, PUC Distribution submitted that it has met the ICM “materiality” criteria.⁵³

OEB staff submitted that if the OEB approves the SSG Project, PUC Distribution should be required to provide an updated ICM Model as part of its 2022 IRM application to

⁴⁷ ACM Report, p. 23

⁴⁸ The ICM materiality threshold formula refers to the updated multi-year materiality threshold formula as defined on p. 19 of the Supplemental Report.

⁴⁹ ACM Report, p. 17

⁵⁰ Ibid

⁵¹ The OEB-defined materiality threshold is the product of depreciation expense included in rates and the materiality threshold percentage (\$5,414,316 = \$3,780,329 x 143%). The materiality threshold is based on an updated price cap index of 1.90% (inflation rate of 2.2% minus a stretch factor of 0.3%).

⁵² \$28,080,902 = \$33,495,218 – \$5,414,316

⁵³ EB-2020-0249/EB-2018-0219, PUC_ARGChief_20210312, March 12, 2021, pp. 8-9

update for the following:

- The OEB-approved inflation factor applicable for 2022 rates
- Any changes to PUC Distribution's forecasted 2022 capital budget, if applicable
- Actual 2020 demand data on Tab 3 of the ICM Model

OEB staff submitted that these changes would ensure that both the materiality threshold and maximum eligible incremental capital are appropriately calculated, based on the most up-to-date information. OEB staff noted that, despite the forthcoming updates in 2022, the maximum amount of capital for the SSG Project recoverable under the ICM is unlikely to change as a result of these updates. OEB staff noted that the net cost of the SSG Project being requested under the ICM is well within the maximum eligible incremental capital amount of \$28,080,902. OEB staff also noted its expectation that PUC Distribution will provide an update on the in-service date at the time of the 2022 IRM update.

OEB staff submitted that the SSG Project makes up a significant portion of PUC Distribution's 2022 forecast capital budget⁵⁴ and therefore satisfies the project-specific materiality threshold.

PUC Distribution agreed that if the OEB approves the SSG Project, it would file the updates noted by OEB staff as part of its 2022 IRM application.⁵⁵

Significant Influence on Operations and Accelerated CCA

OEB staff submitted that the as-filed ICM project (SSG Project) would, absent other factors, have a significant influence on the utility's operations. The incremental revenue requirement is calculated as \$875,610 and the revenue requirement from PUC Distribution's last rebasing application was \$19.1 million.⁵⁶ However, OEB staff noted that the as-filed revenue requirement applies legacy capital cost allowance (CCA) rules, rather than accelerated CCA, to the Payments in Lieu of Taxes (PILs) component of the ICM revenue requirement.⁵⁷

OEB staff calculated that the revenue requirement for the ICM, if revised to incorporate accelerated CCA would be \$38,212, which would not appear to have a significant

⁵⁴ 74% = \$24,828,660/\$33,495,218

⁵⁵ EB-2020-0249/EB-2018-0219, PUC_ReplySUB_20210401, April 1, 2021, p. 16

⁵⁶ EB-2017-0071

⁵⁷ EB-2020-0249/EB-2018-0219, OEBstaff_SUB_ICM_PUC Distribution_20210322, March 22, 2021, p.

influence on the operations of PUC Distribution in 2022.⁵⁸

OEB staff noted that while the Filing Requirements generally require accelerated CCA to be excluded from the calculation of the ICM revenue requirement, the Filing Requirements also indicate that the OEB **may** consider accelerated CCA in assessing the impact of the proposed capital project on the operations of the utility in determining if ICM funding is warranted (**emphasis added**).⁵⁹

OEB staff submitted that accelerated CCA should not be applied to the ICM revenue requirement for 2022. Instead, the ICM revenue requirement impact from accelerated CCA should be recorded in Account 1592, Sub-account CCA Changes.⁶⁰

OEB staff submitted that the disposition of a forecasted balance in Account 1592 in relation to the SSG Project can be addressed in PUC Distribution's 2023 cost of service application. OEB staff further submitted that disposition of Account 1592 in relation to the SSG Project in PUC Distribution's 2023 cost of service application along with consideration of any potential ICM true-up and the inclusion of the SSG Project into rate base would assist in providing a more complete picture of the SSG Project.⁶¹

OEB staff indicated its support of the SSG Project with a revenue requirement excluding accelerated CCA based on i) the merits of the Project, ii) the Project having significant influence on the utility's operations over the life of the Project, and iii) the forfeiting of the NRCan Contribution if the application is not approved.

PUC Distribution submitted that OEB staff erred in calculating the revenue requirement with the inclusion of accelerated CCA and that OEB staff did not properly adjust the accelerated CCA amount by the half-year rule to properly calculate the impact on the ICM revenue requirement.⁶²

PUC Distribution provided its calculation of the impact of applying accelerated CCA with the half-year rule on the ICM revenue requirement and noted that this results in a revenue requirement of \$702,347, which exceeds the utility's materiality threshold. PUC Distribution submitted that the SSG Project passes the materiality component of the ICM test regardless of whether accelerated CCA is applied or not.⁶³

⁵⁸ Ibid

⁵⁹ Filing Requirements for Electricity Distribution Rate Applications – 2020 Edition for 2021 Rate Applications – Chapter 3 Incentive Rate-setting Applications, May 14, 2020, Pages 30-31

⁶⁰ EB-2020-0249/EB-2018-0219, OEBstaff_SUB_ICM_PUC Distribution_20210322, March 22, 2021, p. 14

⁶¹ EB-2020-0249/EB-2018-0219, OEBstaff_SUB_ICM_PUC Distribution_20210322, March 22, 2021, p. 15

⁶² EB-2020-0249/EB-2018-0219, PUC_ReplySUB_20210401, April 1, 2021, p. 8

⁶³ Ibid, p. 9

Findings

The OEB finds that materiality criterion is met for this ICM application.

There are two OEB tests for ICM applications to address materiality. The first test requires that the ICM amount be within the Maximum Eligible Incremental Capital. The Maximum Eligible Incremental Capital is the difference between the forecasted total capital expenditures for 2022 and the materiality threshold calculated using the formula established by the OEB in the ICM policy. The OEB accepts the calculations of \$5,414,316 for the ICM materiality threshold and of \$28,080,902 for the Maximum Eligible Incremental Capital. These values were updated for the 2021 inflation factor. No parties took exception to these calculations. The ICM amount in this application of \$24,828,660 is below the Maximum Eligible Incremental Capital, and therefore this materiality test has been met.

The OEB notes that there is a significant difference between OEB staff's calculation including the impact of accelerated CCA on the ICM revenue requirement and the calculation provided by PUC Distribution in its reply submission. These calculations both arose during submissions and, therefore, have had limited testing. The OEB therefore concludes that it is appropriate to exclude the impact of accelerated CCA from the calculation of the ICM revenue requirement. PUC Distribution shall continue to record the impact of accelerated CCA in Account 1592 for all of its capital projects, including the SSG Project, and bring the balance forth for disposition in PUC Distribution's 2023 cost of service application.

The second project-specific test states that minor expenditures compared to the utility's overall capital budget would not be eligible for ICM treatment. The SSG project ICM amount (\$24,828,660) is significant (74%) compared to PUC Distribution's overall capital budget which is \$33,495,218 and would, therefore, be eligible for ICM treatment. The OEB also notes that the capital expenditures approved for PUC Distribution as part of 2018 cost of service rate application were \$5.4 million.

The OEB disagrees with the use of the materiality threshold from the Chapter 2 Filing Requirements for determining whether an ICM project has a significant influence on the operation of a utility. The Chapter 2 materiality threshold is for the purpose of determining whether explanations needed to be provided in a cost of service rate application for variances, and therefore was established for a different use. However, the SSG Project will clearly have a significant influence on the operation of the distributor when considering its size relative to PUC Distribution's capital budget.

Based on the above, the OEB finds that the SSG Project meets the materiality criterion.

The OEB does not find it necessary for PUC Distribution to file an updated ICM model as part of its 2022 IRM application. The OEB is approving rate riders in this proceeding that will be effective May 1, 2022. The rate riders to be utilized are those that were provided in the updated ICM Model filed by OEB staff in its interrogatories and confirmed by PUC Distribution.

The ICM funding being approved is based on the half-year rule for 2022, and the OEB has required PUC Distribution to file a rebasing application for 2023. So, the ICM rate riders will only be effective in the 2022 rate year and have been calculated as a half-year of the revenue requirement. The approved funding is also based on PUC Distribution's forecast of costs for the Project. The OEB concludes that any updated parameters for 2022 are not likely to be material to the rate riders being approved.

The OEB also requires PUC Distribution to establish the generic ICM sub-accounts. Per the ICM policy, these sub-accounts are subject to the assets being used or useful (i.e. in-service). If the assets for the Project are not in-service in 2022, they are treated as construction work in progress. On that basis, if the Project does not go into service in 2022, the actual capital amount to be recorded in the capital-related ICM sub-accounts would be zero. As part of PUC Distribution's 2023 rebasing rate application, the OEB can assess the impact of the in-service date for the Project. Per the ICM policy, if there are significant variances between the revenue requirement based on actual in-service capital and the revenues collected through the ICM rate riders, the OEB may decide to true up any differences.

4.3 ICM Criteria – Need

In order to qualify for ICM funding for a particular project, a distributor must demonstrate that there is a need for the incremental funding.

The OEB's ACM Report requires a three-fold test to demonstrate need:

- The Means Test
- 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.⁶⁴

⁶⁴ ACM Report, p. 17

Means Test

If a distributor's most recently available regulated return on equity (ROE) exceeds 300 basis points above the deemed ROE embedded in the distributor's rates, then funding for any incremental capital project would not be allowed.

PUC Distribution's deemed ROE approved by the OEB as part of its 2018 cost of service proceeding is 9.00%. Its historical ROE for 2019 was 8.87% and its forecasted ROE for 2020, 2021 and 2022 is 7.89%, 7.04% and 7.60%, respectively.⁶⁵

OEB staff noted that, under typical circumstances, a distributor applying for a 2022 ICM would have 2020 actual ROE results but, in this case, PUC Distribution provided its 2019 actuals which are the most recent available given the timing of the filing. OEB staff submitted that, given that PUC Distribution did not over-earn in its last actual historical year (2019) and is not forecasting to over-earn in 2020, PUC Distribution passes the Means Test.⁶⁶

PUC Distribution submitted that no party disagreed that PUC Distribution passes the Means Test.⁶⁷

Discrete Project and Unfunded Through Base Rates

PUC Distribution noted that the SSG Project was not included in its most recent cost of service application because the status of the NRCan Contribution was unknown at that time. The SSG Project is therefore outside of the base upon which current rates were derived and the incremental capital amount being requested in this application is directly related to the cost of deploying the SSG Project.⁶⁸

OEB staff agreed that the SSG Project would introduce certain new smart grid technologies that are not currently implemented anywhere in PUC Distribution's system. OEB staff submitted that the SSG Project is discrete and unfunded through base rates.⁶⁹

⁶⁵ EB-2020-0249/EB-2018-0219, PUC_ARGChief_20210312, March 12, 2021, p. 12

⁶⁶ EB-2020-0249/EB-2018-0219, OEBstaff_SUB_ICM_PUC Distribution_20210322, March 22, 2021, p. 17

⁶⁷ EB-2020-0249/EB-2018-0219, PUC_ReplySUB_20210401, April 1, 2021, p. 5

⁶⁸ EB-2020-0249/EB-2018-0219, PUC_Amended APPL_ICM_20201028, October 29, 2020, pp. 14 and 49

⁶⁹ EB-2020-0249/EB-2018-0219, OEBstaff_SUB_ICM_PUC Distribution_20210322, March 22, 2021, pp. 17-18

PUC Distribution submitted that no party disagreed that the SSG Project is a discrete project and unfunded through base rates.⁷⁰

Claimed Driver

In its Argument in Chief, PUC Distribution stated that it addressed the need criterion in the Amended Application and its submission focused on elaborating on key points made in the Amended Application.

PUC Distribution described the expectations of customers for cost control, improved reliability and communication with their utility, as well as better service options in how they interact with their utility. Additionally, increasing development of distributed energy resource technologies and electric vehicle use is expected to continue the growing operational performance and delivery requirements of distribution system operators.⁷¹ PUC Distribution believes the SSG Project will contribute to the four main performance outcomes of the OEB's Scorecard (i.e., Customer Focus, Operational Effectiveness, Public Policy Responsiveness, and Financial Performance).⁷²

OEB staff submitted that the need for the SSG Project has been reasonably established. OEB staff accepted that there are generally increasing expectations from customers and agreed that there are potential benefits of the SSG Project that may be realized.⁷³

OEB staff also agreed that the objectives that the SSG Project seeks to achieve are reasonably in line with certain objectives of the OEB Act.

Findings

The OEB finds that the need for funding for the SSG Project has been reasonably established.

The OEB finds that the SSG Project meets the three-fold test for project need, according to OEB's ACM Report, for the following reasons:

- The Means Test

PUC Distribution's regulated ROE for 2019 was 8.87% and this is forecast to drop to 7.89% for 2020. This is within 300 basis points of the deemed ROE

⁷⁰ EB-2020-0249/EB-2018-0219, PUC_ReplySUB_20210401, April 1, 2021, p. 5

⁷¹ EB-2020-0249/EB-2018-0219, PUC_Amended APPL_ICM_20201028, October 29, 2020, p. 46

⁷² Ibid, p. 47

⁷³ EB-2020-0249/EB-2018-0219, OEBstaff_SUB_ICM_PUC Distribution_20210322, March 22, 2021, p. 19

embedded in the distribution rates, and therefore the OEB agrees the means test is met.

- Discrete Project

The OEB agrees that the amount requested is based on a discrete project. It is a novel project and therefore not part of an ongoing capital program.

- Outside of Base Rates

The OEB agrees the amount requested is unfunded through base rates. The OEB accepts PUC Distribution's explanation that the SSG Project was not included in its 2018 cost of service rate application because the participation of NRCan was uncertain at the time.

However, the OEB finds that it would have been helpful to have a better understanding as to where the SSG Project fits within PUC Distribution's overall capital investment priorities, which is typically done through the development and implementation of a comprehensive Distribution System Plan. The estimated cost of the SSG Project represents a significant investment relative to the size of the utility. A detailed up-to-date Distribution System Plan would have been helpful in supporting the presumption that this Project has a higher priority than other capital investments. This issue is addressed later under the conditions of approval.

4.4 ICM Criteria - Prudence

A distributor needs to establish that the incremental capital amount it proposes to incur is prudent. To satisfy the prudence test, a distributor must demonstrate that its decision to incur the incremental capital represents the most cost-effective option for its customers (though, not necessarily the least initial cost option).⁷⁴

PUC Distribution considered three options before coming to the determination to proceed with the SSG Project and provided a discussion of each option. Option 1 was to complete the SSG Project over two years following OEB approval. Option 2 was to develop the SSG Project over a period of ten years. Option 3 was to not proceed with the SSG Project.

Option 2 was not considered acceptable as it would result in PUC Distribution forfeiting the NRCan Contribution and therefore the total project cost would be borne by PUC Distribution's customers. Additionally, the anticipated benefits would be delayed by up to nine years. Option 3 was not recommended because it would keep PUC Distribution

⁷⁴ ACM Report, p. 17

from modernizing its grid and keeping up with the technological advances facing all utilities which would be contrary to good utility practice.⁷⁵ Option 1 was chosen as it allows customers to realize the benefits of the Project sooner and allows for access to the NRCan Contribution, thereby reducing the capital cost of the Project.

OEB staff submitted that, while at a high-level option 1 appears to be the most prudent option, there are also several risks associated with the SSG Project. OEB staff provided a discussion on a non-exhaustive list of risks and provided its thoughts on each, summarized as follows:⁷⁶

- The total net benefit to customers is highly dependent on how much reduction in energy consumption the VVO implementation is able to achieve and the fact that benefits will vary amongst customers (i.e., low consumption customers will not receive as much benefit). OEB staff noted that the anticipated 2.70% reduction is an estimate and a more conservative estimate of 2.0% may be more appropriate. However, generally speaking, the SSG Project can reasonably be expected to deliver positive value to customers (on aggregate) in the long run.⁷⁷
- VVO will be implemented fully, but the scope of the DA component may be reduced to keep the costs within the maximum price of the EPC Contract. Given that the reliability benefits of DA are not included as part of the “no net bill increase” calculation, the approach to implementing DA is reasonable.⁷⁸
- There are certain customers connected to the 34.5kV system that would not receive the benefits of VVO, however, they will receive the potential benefit of increased reliability from the implementation of DA. OEB staff submitted that the SSG Project will provide net positive benefits to PUC Distribution’s customers as a whole.⁷⁹
- There is a portion of the Project cost which is not subject to a fixed or maximum price and therefore it is reasonable to assume that a portion may change in some manner. OEB staff submitted that while the Project costs are variable in some way, this is not unlike other ICM proposals filed with the OEB. At the time of rebasing, any distributor that has an approved ICM from a previous application

⁷⁵ EB-2020-0249/EB-2018-0219, PUC_Amended APPL_ICM_20201028, October 29, 2020, pp. 51-52

⁷⁶ EB-2020-0249/EB-2018-0219, OEBstaff_SUB_ICM_PUC Distribution_20210322, March 22, 2021, pp. 19-25

⁷⁷ Ibid, pp. 21-23

⁷⁸ EB-2020-0249/EB-2018-0219, OEBstaff_SUB_ICM_PUC Distribution_20210322, March 22, 2021, pp. 23-24

⁷⁹ Ibid, p. 24

must compare actual capital spending with the OEB-approved amount and provide an explanation for variances.⁸⁰

PUC Distribution submitted that no party disagreed that the SSG Project meets the Prudence test.⁸¹

Findings

The OEB finds that PUC Distribution has demonstrated that its plan to proceed with the SSG Project is prudent. The SSG Project is a significant step towards PUC Distribution's grid modernization which is the primary driver for this Project. This includes reducing energy/commodity costs for end-use consumers, improving reliability, and improving operational control and data availability. The individual project components (VVO, DA and AMI) are technically sound and have been implemented by other utilities.

This prudence was demonstrated at various stages of the SSG Project. First, PUC Distribution conducted a detailed assessment of three alternatives to meet the Project need and concluded that developing the project over two years following OEB approval and utilizing NRCan Contribution represented the preferred alternative. The NRCan Contribution makes it possible to implement the project with a "no net bill increase" to customers.

Second, in order to secure a competitive price for the Project, PUC Distribution conducted a competitive, public tendering process to select a contractor for EPC services. The EPC Contract, dated October 7, 2020, includes a liquidated damages clause which could result in reducing the Project cost for customers if the Project is delayed or if certain targeted energy savings (VVO component) are not achieved.

Third, PUC Distribution completed a sensitivity analysis to show that some small variation in the projected energy savings would still result in benefits to PUC Distribution's customers arising from the SSG Project.

⁸⁰ Ibid, pp. 24-25

⁸¹ EB-2020-0249/EB-2018-0219, PUC_ReplySUB_20210401, April 1, 2021, p. 5

5 CONDITIONS OF APPROVAL

Submissions on Conditions of Approval

SEC, VECC, and OEB staff identified certain conditions that should be required if the OEB approves the SSG Project.

SEC proposed that the OEB include conditions that limit the risks being taken by the customers of PUC Distribution, and provided a list of those conditions in its submissions.⁸²

VECC submitted that, if the OEB decides to approve the proposed SSG Project, conditions should be applied that include the shareholder sharing the risk with PUC Distribution's customers if the net benefits are not achieved.⁸³

OEB staff submitted that if the OEB approves this Project, it would be appropriate to establish metrics that link performance measures to revenues. OEB staff recommended that PUC Distribution file all available information on the proposed metrics that it intends to track in relation to the SSG Project as part of its 2023 rebasing application. Further, PUC Distribution should be required to propose performance targets in its 2023 rebasing application, including how much risk PUC Distribution believes is reasonable for it to bear if it does not deliver on its savings forecasts.⁸⁴

In its reply submission, PUC Distribution stated that it is willing to propose, as part of its next cost of service application, appropriate metrics and performance targets to link VVO performance of the SSG Project to PUC Distribution's allowable ROE in respect of the SSG Project. However, any risk sharing proposal would need to be symmetrical. If PUC Distribution accepts downside risk based on VVO savings performance being less than target, then PUC Distribution must also have the upside benefit if VVO savings are higher than target.⁸⁵

In addition to filing an updated ICM Model as part of its 2022 IRM application for certain items as noted in the Materiality section of this Decision, PUC Distribution stated that it would agree to certain conditions of approval which are outlined in its submission.⁸⁶

⁸² The conditions of approval as proposed by SEC are listed in its submission, EB-2020-0249/EB-2018-0219, SEC_Final Argument_PUC_20210322, March 22, 2021, pp. 5-6

⁸³ EB-2020-0249/EB-2018-0219, VECC_SUB_PUC_20210323, March 23, 2021, p.6

⁸⁴ EB-2020-0249/EB-2018-0219, OEBstaff_SUB_ICM_PUC Distribution_20210322, March 22, 2021, pp. 26-27

⁸⁵ EB-2020-0249/EB-2018-0219, PUC_ReplySUB_20210401, April 1, 2021, p. 7

⁸⁶ Ibid, pp. 16-17

Findings

In order to manage the risks associated with this Project and appropriately monitor its progress, the OEB approval is subject to the following conditions:

1. PUC Distribution shall file its next rebasing application for 2023 rates no later than August 31, 2022.
2. PUC Distribution shall file an updated Distribution System Plan at the time of its next rebasing application which demonstrates how the SSG Project is being accommodated through the re-prioritization of other capital expenditures.
3. PUC Distribution shall provide a detailed report as part of its next rebasing application, which compares the SSG Project costs and benefits as implemented to what was forecast in this application.
4. PUC Distribution shall file all available information on the proposed Project performance metrics that it intends to track, along with proposed targets, in its next rebasing application. This shall include an appropriate metric and targets to symmetrically link the VVO performance of the Project to PUC's allowable ROE for this Project.
5. PUC Distribution shall post on its public website a report, within 18 months of Project completion, and with annual updates for 10 years thereafter which shows the actual benefits of the SSG Project, broken down by customer class.
6. Any EPC Contract liquidated damages resulting from "performance" or "delay" shall be used to reduce the Project capital cost and would be settled at the time of the next rebasing.
7. The OEB does not find it necessary for PUC Distribution to file an updated ICM model as part of its 2022 IRM application. As noted in the findings on Materiality, the rate riders to be utilized are those that were provided in the updated ICM Model filed by OEB staff in its interrogatories.⁸⁷ PUC Distribution shall include the approved ICM rate riders on its proposed tariff for its 2022 rate application.

⁸⁷ Confirmed by PUC Distribution

6 ACCOUNTING ORDER

In its application, PUC Distribution indicated that it would record actual ICM amounts in the generic Account 1508 sub-accounts established for ICMs. There is no Accounting Order with respect to these accounts because they were established in the ICM policy.

PUC Distribution also provided an updated draft Accounting Order to reflect ICM sub-accounts, including those related to the NRCan funding that will be required and the journal entries that will be recorded if the ICM is approved for inclusion in rate base at rebasing.⁸⁸

OEB staff submitted it does not have any concerns with the draft accounting order as provided in PUC Distribution's undertaking responses.

Findings

The OEB approves the draft accounting order provided by PUC Distribution which includes the journal entries for the ICM generic sub-accounts from the ICM policy and for the NRCan funding, which is a unique aspect of the Project.

⁸⁸ EB-2020-0249, PUC_Undertakings_TC_20210226 (Appendix JTC1.2)

7 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. The Ontario Energy Board approves the amended and restated Incremental Capital Module (ICM) application filed by PUC Distribution Inc. for new rates effective **May 1, 2022**, subject to the conditions set out below.
2. The Accounting Order set out in Schedule A of this Decision and Order is approved.
3. PUC Distribution Inc. shall file its next rebasing application for 2023 rates no later than **August 31, 2022**.
4. PUC Distribution Inc. shall file an updated Distribution System Plan at the time of its next rebasing application which demonstrates how the SSG Project is being accommodated through the re-prioritization of other capital expenditures.
5. PUC Distribution Inc. shall provide a detailed report as part of its next rebasing application, which compares the SSG Project costs and benefits as implemented to what was forecast in this application.
6. PUC Distribution Inc. shall file all available information on the proposed Project performance metrics that it intends to track, along with proposed targets, in its next rebasing application. This shall include an appropriate metric and targets to symmetrically link the VVO performance of the Project to PUC Distribution Inc.'s allowable ROE for this Project.
7. PUC Distribution Inc. shall post on its public website a report, within 18 months of Project completion, and with annual updates for 10 years thereafter which shows the actual benefits of the SSG Project, broken down by customer class.
8. PUC Distribution shall include the approved ICM rate riders on its proposed tariff for its 2022 rate application.
9. Any EPC Contract liquidated damages resulting from "performance" or "delay" shall be used to reduce the Project capital cost and would be settled at the time of the next rebasing.

Cost Awards

The OEB will issue a separate decision on cost awards once the following steps are completed:

1. Intervenors shall submit their cost claims with the OEB and forward to PUC Distribution Inc. by **May 6, 2021**.
2. PUC Distribution Inc. shall file with the OEB and forward to intervenors any objections to the claimed costs by **May 17, 2021**.
3. Intervenors, to which PUC Distribution Inc. filed an objection to the claimed costs, shall file with the OEB and forward to PUC Distribution Inc. any responses to any objections for cost claims by **May 25, 2021**.
4. PUC Distribution Inc. shall pay the OEB's costs incidental to this proceeding upon receipt of the OEB's invoice.

How to File Materials

Parties are responsible for ensuring that any documents they file with the OEB, such as applicant and intervenor evidence, interrogatories and responses to interrogatories or any other type of document, **do not include personal information** (as that phrase is defined in the *Freedom of Information and Protection of Privacy Act*), unless filed in accordance with rule 9A of the OEB's [Rules of Practice and Procedure](#).

Please quote file number, **EB-2020-0249/EB-2018-0219**, for all materials filed and submit them in searchable/unrestricted PDF format with a digital signature through the OEB's web portal at <https://p-pes.ontarioenergyboard.ca/PivotalUX/>.

- Filings should clearly state the sender's name, postal address, telephone number, fax number and e-mail address.
- Please use the document naming conventions and document submission standards outlined in the [Regulatory Electronic Submission System \(RESS\) Document Guidelines](#) found at www.oeb.ca/industry.
- Parties are encouraged to use RESS. Those who have not yet [set up an account](#), or require assistance using the web portal can contact registrar@oeb.ca for assistance.

All communications should be directed to the attention of the Registrar at the address below and be received by end of business on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Georgette Vlahos at Georgette.Vlahos@oeb.ca and OEB Counsel, Ljuba Djurdjevic at Ljuba.Djurdjevic@oeb.ca.

Email: registrar@oeb.ca

Tel: 1-877-632-2727 (Toll free)

DATED at Toronto April 29, 2021

ONTARIO ENERGY BOARD

Original Signed By

Christine E. Long
Registrar

SCHEDULE A
TO DECISION AND ORDER
ACCOUNTING ORDER
PUC DISTRIBUTION INC.
EB-2020-0249/EB-2018-0219
April 29, 2021

PUC Distribution Inc. - 2022 ICM Application – The Sault Smart Grid project

PUC Distribution Inc. (“PUC”) shall establish nine (9) deferral sub-accounts to capture the accounting treatment for the ICM application EB-2020-0249/EB-2018-0219 for The Sault Smart Grid Project (the “Project”). The following is a list of the nine (9) accounts with their descriptions, including a request for approval of three (3) additional sub-accounts to record capital contribution amounts received against the Project.

1) Account 1508 Other Regulatory Assets, Sub-account Incremental Capital Expenditures

This sub-account shall be used to record actual ICM capital amounts, subject to the assets being used or useful (i.e. in service). For incremental capital assets under construction, the normal accounting treatment will continue as construction work in progress prior to these assets going into service and hence, being eligible for recording in this sub-account.

2) Account 1508 Other Regulatory Assets, Sub-account ICM Carrying Charges

Carrying charges calculated based on the actual revenue requirement associated with the approved ICM shall be recorded in this sub-account. Carrying charges shall be calculated using simple interest applied to the opening balances in *Account 1508 Other Regulatory Assets, Sub-account Incremental Capital Expenditures*. The interest rate shall be the rate prescribed by the Board.

3) Account 1508 Other Regulatory Assets, Sub-account ICM Depreciation Expense

This account shall be used to record the depreciation expense associated with the eligible capital amounts recorded in *Account 1508 Other Regulatory Assets, Sub-account Incremental Capital Expenditures*.

4) Account 1508 Other Regulatory Assets, Sub-account Accumulated Depreciation

This account shall be credited with the amounts charged to *Account 1508 Other Regulatory Assets, Sub-account Depreciation Expense*.

5) Account 1508 Other Regulatory Assets, Sub-account ICM Rate Rider Revenue

Amounts recorded in this account shall include the actual rate rider revenues collected in relation to the Board-approved rate riders determined for the ICM project.

6) Account 1508 Other Regulatory Assets, Sub-account ICM Rate Rider Carrying Charges

This account shall be used to record the carrying charges that apply to *Account 1508 Other Regulatory Assets, Sub-account ICM Rate Rider Revenues*. Carrying charges shall be calculated using simple interest applied to the opening balances in the account and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

PUC Distribution shall establish three (3) new sub-accounts to record amounts associated with capital contributions received for the Project. These three (3) new accounts will capture capital contributions, associated carrying charges and amortization, as described below.

7) Account 1508 Other Regulatory Assets, Sub-account Deferred Revenue – Contributed Capital

This sub-account shall be used to record amounts received in contributed capital for the Project.

8) Account 1508 Other Regulatory Assets, Sub-account Deferred Revenue Carrying Charges

This sub-account shall be used to record carrying charges on *Account 1508 Other Regulatory Assets, Sub-account Deferred Revenue – Contributed Capital*. Carrying charges shall be calculated using simple interest applied to the opening balances in the account. The interest rate shall be the rate prescribed by the Board.

9) Account 1508 Other Regulatory Assets, Sub-account Deferred Revenue Amortization

This sub-account shall be used to record the amortization associated with the capital contribution amounts recorded *Account 1508 Other Regulatory Assets, Sub-account Deferred Revenue – Contributed Capital*.

The following outlines the accounting entries in the year the Project assets are placed into service:

OEB # **Description**

Dr: 1508 Other Regulatory Assets - Sub-account Incremental Capital Expenditures
Cr: 2055 Construction Work in Progress
To record the transfer of construction work in progress relating to the ICM capital expenditures.

Dr: 1508 Other Regulatory - Sub-account ICM Capital Expenditures Carrying Charges
Cr: 1525 Misc. Deferred Debits/Credits
To record carrying charges on the ICM capital expenditures.

Dr: 1508 Other Regulatory - Sub-account "ICM Depreciation Expense"
Cr: 1508 Other Regulatory - Sub-account "Accumulated Depreciation"
To record depreciation expense related to the ICM capital expenditures.

Dr: 1100 Cash/Accounts Receivable
Cr: 1508 Other Regulatory - Sub-account "ICM Rate Riders"
To record the collection of ICM rate rider billings.

Dr: 1525 Misc. Deferred Debits/Credits
Cr: 1508 Other Regulatory - sub-account "ICM Rate Rider Carrying Charges"
To record carrying charges on the ICM rate riders collected

Dr: 1110 Account Receivable
Cr: 1508 Other Regulatory – Sub-account “Deferred Revenue – Contributed Capital”
To record the amount received in contributed capital for the Project.

Dr: 1525 Misc. Deferred Debits/Credits
Cr: 1508 Other Regulatory - Sub-account "Deferred Revenue -Carrying Charges"
To record carrying charges on the contributed capital received for the Project.

Dr: 1508 Other Regulatory – Sub-account “Deferred Revenue – Contributed Capital”
Cr: 1508 Other Regulatory - Sub-account "Deferred Revenue Amortization"
To record the amortization associated with contributed capital for the Project.

The following outlines the entries upon approval of the ICM included with PUC's next Cost of Service rebasing application planned for 2023:

<u>OEB #</u>	<u>Description</u>
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Dr: 1600-1990	1606-1990 PP&E Accounts
Cr: 1508	Other Regulatory Assets - Sub-account Incremental Capital Expenditures

To transfer the ICM capital expenditures into the applicable fixed asset accounts.

Dr: 5705	Depreciation Expense
Cr: 1508	Other Regulatory - Sub-account "ICM Depreciation Expense"

To transfer the ICM depreciation expense to the depreciation expense account.

Dr: 1508	Other Regulatory - Sub-account "Accumulated Depreciation"
Cr: 2105	Accumulated Depreciation

To transfer accumulated depreciation to the accumulated depreciation account.

Dr: 1508	Other Regulatory - Sub-account "ICM Rate Riders
Cr: 4080	Distribution Revenue

To transfer previously collected funds to a revenue account.

Dr: 1508	Other Regulatory - Sub-account "Deferred Revenue -Carrying Charges"
Dr: 1508	Other Regulatory - sub-account "ICM Rate Rider Carrying Charges"
Dr: 1525	Misc. Deferred Debits/Credits
Cr: 1508	Other Regulatory - Sub-account ICM Capital Expenditures Carrying Charges

To reverse carrying charges, which would be included in a revenue requirement true-up, as approved.

Dr: 1508	Other Regulatory – Sub-account “Deferred Revenue – Contributed Capital”
Cr: 2440	Deferred Revenue Liability

To transfer contributed capital for the Project to deferred revenue.

Dr: 1508	Other Regulatory - Sub-account "Deferred Revenue Amortization"
Cr: 4245	Government and Other Assistance Directly Credited to Income

To transfer the amortization of deferred revenue to income.