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BY EMAIL

May 17, 2021

Ms. Christine E. Long  
Registrar  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4  
[Registrar@oeb.ca](mailto:Registrar@oeb.ca)

Dear Ms. Long:

**Re: Ontario Energy Board (OEB) Staff Submission  
Espanola Regional Hydro Distribution Corporation  
Cost of Service  
OEB File Number: EB-2020-0020**

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Please find attached OEB staff's submission in the above referenced proceeding pursuant to Procedural Order No. 1. Espanola Regional Hydro Distribution Corporation and all intervenors have been copied on this filing.

Yours truly,

Jerry Wang  
Advisor – Electricity Distribution: Major Rate Applications & Consolidations

Encl.

cc: All parties in EB-2020-0020



# **ONTARIO ENERGY BOARD**

## **OEB Staff Submission**

**Espanola Regional Hydro Distribution Corporation**

**Cost of Service Application**

**EB-2020-0020**

**May 17, 2021**

## Introduction

Espanola Regional Hydro Distribution Corporation (Espanola Hydro) filed a cost of service application with the Ontario Energy Board on December 31, 2020, seeking approval for rates effective May 1, 2021.

The OEB issued an approved issues list for this proceeding on April 9, 2021. A settlement conference took place on April 14, 15 and 16, 2021. Espanola Hydro filed a settlement proposal representing a complete settlement of all issues on May 10, 2021. The parties to the settlement proposal are Espanola Hydro and the approved intervenors in this proceeding: Consumers Council of Canada, School Energy Coalition and Vulnerable Energy Consumers Coalition (the Parties).

For a typical residential customer with a monthly consumption of 750 kWh, the total bill impact if the settlement proposal is approved would be an increase of \$11.13 per month before taxes and the Ontario Energy Rebate, or 8.8%.

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

## Settlement Proposal

OEB staff submits that the settlement proposal reflects a reasonable evaluation of the distributor's planned outcomes in this proceeding and appropriate consideration of the relevant issues.

OEB staff notes that Espanola Hydro has provided only a one-year business plan and Distribution System Plan (DSP) for the 2021 test year in this application. This is in lieu of a full five-year plan, as would normally be filed for a cost of service application, because Espanola Hydro expects to amalgamate with North Bay Hydro Distribution Limited in 2022, after which the amalgamated entity would reconsider its capital plans on a consolidated basis.<sup>1</sup> This approach was accepted by the OEB.<sup>2</sup> OEB staff submits that the settlement proposal has appropriately taken into consideration these unique circumstances and ensures that there are sufficient resources to allow Espanola Hydro to achieve its identified outcomes and maintain a safe and reliable distribution system until its expected amalgamation with North Bay Hydro Distribution Limited.

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.

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

- 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 5.1 – Effective Date
- Issue 5.2 – Accounting Policies Analysis as per EB-2019-0015
- Issue 5.3 – Incremental Capital Module
- Issue 5.4 – Interim Rates
- Condition to File Future Applications

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<sup>1</sup> Espanola Hydro Letter to the OEB Re: Requested Adjustments, July 24, 2020, pages 3-4

<sup>2</sup> OEB Response Letter to Espanola Hydro, September 8, 2020

## Issue 1.1 – Capital

Espanola Hydro proposed total net capital expenditures of \$463k for the 2021 test year. The bulk of Espanola Hydro's proposed capital investments is related to system renewal, which focusses on distribution asset replacement as outlined in Espanola Hydro's DSP.

For the purpose of settling all issues in this proceeding, the Parties have agreed to accept Espanola Hydro's proposed test year net capital spending of \$463k. The settlement proposal included references to the evidence that gives due consideration of each of the sub-items under issue 1.1 as listed in the approved issues list.

OEB staff submits that Espanola Hydro's proposed test year budget is reasonable. It is a continuation of Espanola Hydro's historical levels of net capital expenditures, which over the past five years averaged \$474k. The proposed test year budget includes a forecast of system access spending that is based on historical spending, and largely the same budget in system renewal programs as had been spent in previous years. As with past years, there is no spending in system service because there is limited growth in Espanola Hydro's service territory in terms of both customer numbers and load, and Espanola Hydro's distribution system has sufficient capacity for the foreseeable future. For general plant, there is a small budget for tools and equipment. OEB staff submits that the proposed test year budget is a reasonable level of spending that will ensure Espanola Hydro has the resources to maintain a safe and reliable distribution system.

## Issue 1.2 – Operation, Maintenance and Administration (OM&A)

Espanola Hydro proposed total OM&A spending of \$1.65 million for the 2021 test year in its application. This represented an increase of 21.7% from 2012 OEB-approved OM&A spending, or a compound annual growth rate of 2.2%. Espanola Hydro stated that the OM&A increase is largely due to increased regulatory expenses, inflation and increase of one full-time equivalent in general administration.

The Parties agreed to an envelope reduction of \$80k to Espanola Hydro's proposed OM&A for a revised budget of \$1.57 million. The revised OM&A amount results in an increase of 15.4% from 2012 OEB-approved OM&A spending, or a compound annual growth rate of 1.6%. Included in the OM&A budget is a forecast of test year bad debt expenses of \$23k. The settlement proposal included references to the evidence that gives due consideration of each of the sub-items under issue 1.2 as listed in the approved issues list.

OEB staff submits that an envelope reduction of \$80k is reasonable. OEB staff notes

that Espanola Hydro has experienced virtually no growth in its service territory since its last rebasing application and the settled OM&A amount essentially provides Espanola Hydro with approximately the same budget as it has had historically, adjusted for inflation.

Notwithstanding the envelope reduction and OEB staff's acceptance of it, OEB staff would like to point out its concerns specifically with Espanola Hydro's regulatory costs associated with this cost of service application. OEB staff notes that Espanola Hydro and North Bay Hydro plan to rebase the consolidated entity in four years once the consolidation is complete (planned for 2022). In the absence of a complete consolidation, Espanola Hydro is expected to rebase in two years following the completion of this proceeding. In OEB staff's view, it is important to point out these concerns so that the consolidated utility (or Espanola Hydro as applicable) will be sufficiently informed when it prepares its next rebasing application.

OEB staff notes that the total one-time costs of this cost of service application is \$583k, which is over five times more than Espanola Hydro's total one-time costs for its 2012 cost of service application of \$98k. The breakdown of Espanola Hydro's one-time regulatory costs for this application is reproduced below:

Table 1 – Breakdown of Espanola Hydro's regulatory costs<sup>3</sup>

One-time regulatory costs	One-time Costs	Amortized test year amounts
Legal and rates consulting expenses to complete the application	\$100,000	\$20,000
Consultant - completion of application, interrogatories, settlement conference, draft settlement and final order	\$282,539	\$56,508
Services related to the Distribution System Plan and Asset Management Plan	\$65,000	\$13,000
Legal and rates consulting expenses for the settlement conference	\$50,000	\$10,000
Intervenor expenses	\$50,000	\$10,000
OEB Costs	\$20,000	\$4,000
Settlement conference expenses	\$5,000	\$1,000
LRAM consulting services	\$10,000	\$2,000
	\$582,539	\$116,508

Most of Espanola Hydro's regulatory costs are related to legal and consulting. OEB staff recognizes that, compared to 2012, there are some new requirements for cost of service applications, such as the requirement to file a DSP. However, OEB staff notes that Espanola Hydro was already permitted to file under a reduced set of filing

<sup>3</sup> Chapter 2 Appendices, Appendix 2-M

requirements, which, for example, allowed Espanola Hydro to file a one year DSP rather than a DSP covering a full five years as would normally be done. Further, Espanola Hydro also deferred the completion of an Asset Condition Assessment until after its expected merger with North Bay Hydro. Despite the reduced requirements, OEB staff submits that Espanola Hydro's one-time regulatory expenses are significantly higher than those of similar sized utilities that have recently filed cost of service applications (without reduced filing requirements).<sup>4</sup>

Before discussing OEB staff's analysis, OEB staff acknowledges that Espanola Hydro did provide its own set of benchmarked costs to give context to its own costs. This benchmarking compared Espanola Hydro's application costs against that of PUC Distribution Inc., Greater Sudbury Hydro Inc., North Bay Hydro Distribution Limited and Niagara Peninsula Energy Inc. and showed that Espanola Hydro's application costs were in-line with those other utilities.<sup>5</sup> However, OEB staff submits that it is not appropriate to compare against the utilities Espanola Hydro selected as those utilities each have customer bases that are orders of magnitude larger than that of Espanola Hydro.<sup>6</sup> In OEB staff's view, it is more appropriate to benchmark Espanola Hydro against other utilities with fewer than 10,000 customers, which are closer in size to Espanola Hydro:

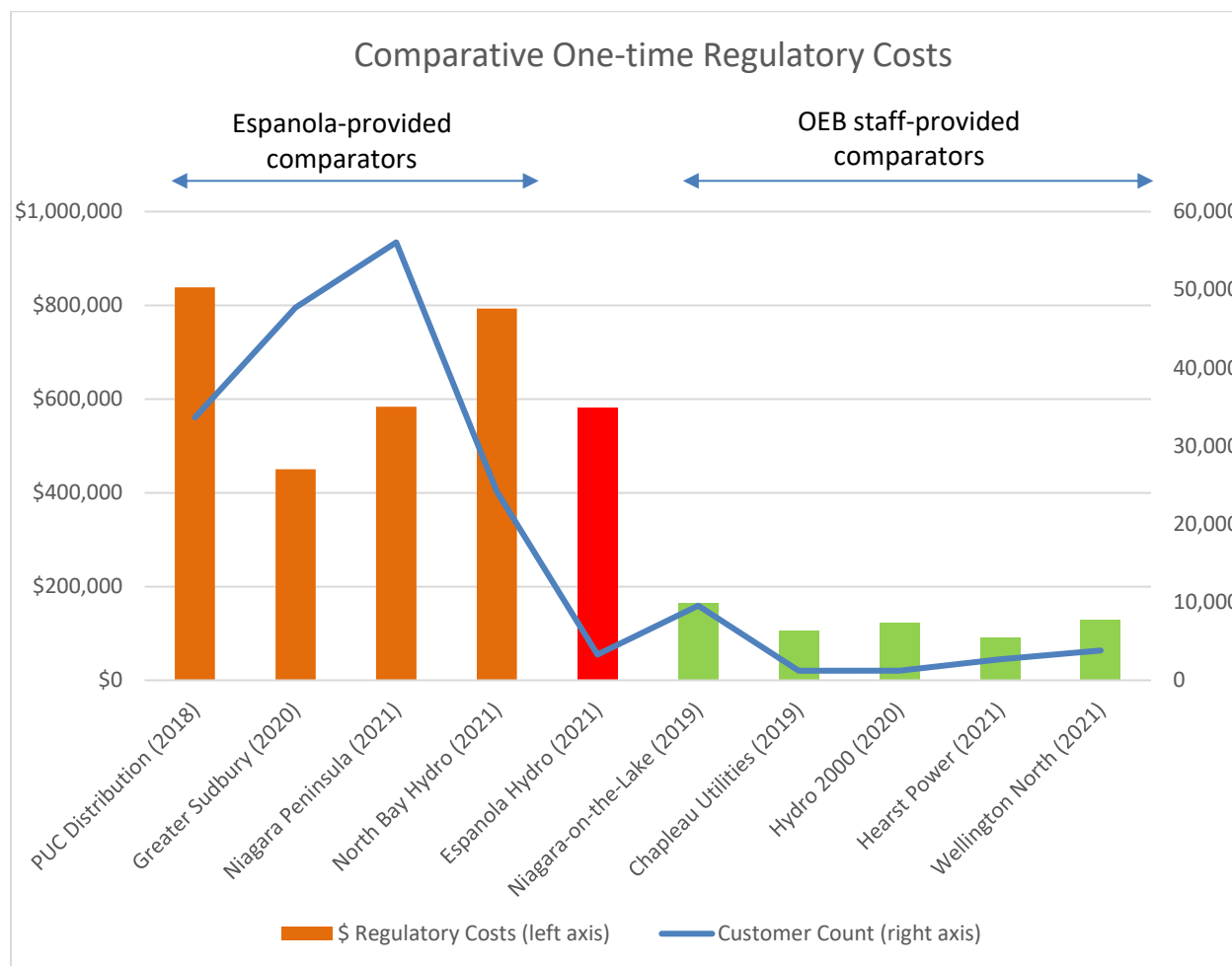
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<sup>4</sup> For comparison purposes, OEB staff considers similar-sized utilities to Espanola Hydro as utilities with less than 10,000 customers; Espanola Hydro has approximately 3,300 customers.

<sup>5</sup> IRR CCC-3

<sup>6</sup> The customer counts for those utilities range from 24,000 to over 50,000. See table 2; these numbers are taken from the OEB's 2019 Yearbook of Electricity Distributors.

Figure 2 – Comparative regulatory costs for similar sized utilities



As shown in the figure, Espanola Hydro's costs are comparable only to utilities with significantly larger customer bases. Compared to other similar sized utilities with recent cost of service applications, Espanola Hydro's one-time application costs are significantly higher.

OEB staff understands that Espanola Hydro does not have any dedicated regulatory staff and engages with third-parties for its regulatory applications. But even when comparing total regulatory budgets, Espanola Hydro's costs are significantly higher than that of other similar sized utilities (with the exception of Wellington North Power Inc.):

Table 3 – Comparison of Total Annual Regulatory Costs

EB #	Utility	Total annual regulatory costs (including one-time costs)
EB-2018-0056	Niagara-on-the-Lake Hydro Inc.	\$82,151
EB-2018-0087	Chapleau Public Utilities Corporation	\$63,595
EB-2019-0041	Hydro 2000 Inc.	\$66,768
EB-2020-0027	Hearst Power Distribution Co. Ltd.	\$83,050
EB-2020-0061	Wellington North Power Inc.	\$150,510
<b>EB-2020-0020</b>	<b>Espanola Hydro</b>	<b>\$144,183</b>

If looking at Espanola Hydro's OM&A on a program by program basis, OEB staff submits that a \$250k reduction to the regulatory one-time cost would be appropriate. This would make Espanola Hydro's annual regulatory budget more in-line with other similar sized utilities. That would equal a \$50k reduction in regulatory costs (since one-time costs are amortized over five years). That said, OEB staff understands that, in the interests of a full settlement of all issues in this proceeding, the Parties have agreed to an envelope reduction to OM&A of \$80k. OEB staff submits that this is a reasonable level of reduction in OM&A that would encompass OEB staff's recommended level of reduction to Espanola Hydro's regulatory costs, while still providing Espanola Hydro with a sufficient OM&A budget to operate and maintain its distribution system.

## Issue 2.0 – Revenue Requirement

The Parties agreed that the elements of the revenue requirement are reasonable and have been correctly determined in accordance with OEB policies and practices, subject to the adjustments identified in the settlement proposal.

As part of the revenue requirement calculations, the Parties agreed to remove the acquisition debt of \$7,789,530 from the cost of capital calculations. Based on this change, the Parties have agreed to a long-term debt rate of 2.90%.

OEB staff takes no issue with the cost of capital or the calculation of the revenue requirement as presented in the settlement proposal.

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

### Load Forecast

The Parties agreed to the load forecast from Espanola Hydro's application, subject to a change to the customer connection counts, and resulting changes to forecasted load.

The parties agreed that the forecasted connection counts should be at least as much as they were on December 31, 2020. This increased the residential connection count by four, and the General Service >50 kW count by one.

The proposed load forecast of 58.7 GWh, 39.1 MW and 4,177 customers as shown in Tables 3.1A and 3.1B of the settlement proposal is based on a model that captures variances in electricity purchases due to Heating Degree Days, Cooling Degree Days, an indicator of the Spring and Fall months, and the number of calendar days in the month.

OEB staff notes that the total observed system load has decreased from 60.8 GWh in 2010 to 57.5 GWh in 2019.<sup>7</sup> The proposed load forecast as detailed above, does not capture changes in usage on the basis of longer term trends such as those that might be caused by CDM or economic factors. The resulting proposed forecast has underestimated consumption in the years 2010 to 2014, and over-estimated consumption in the years 2015 to 2019.<sup>8</sup> It is therefore reasonable to conclude that it will likely over-estimate consumption in 2020 and 2021.

In response to interrogatories,<sup>9</sup> Espanola Hydro prepared a regression model that reflects a statistically significant decreasing trend. In addition to the trend variable, the regression statistics improved relative to the proposed forecast model<sup>10</sup> in three of the other four explanatory variables, and the Adjusted R Square improved from 91% to 93%. OEB staff considers the regression model prepared in response to the OEB staff interrogatory to be a better predictor of energy use for 2021. If this model were adopted, it would likely result in a lower than proposed forecast, and higher than proposed rates.

In the context of the settlement proposal however, OEB staff accepts the proposed load forecast given that it supports lower distribution rates.

### Cost Allocation

The Parties agreed that the cost allocation methodology, as updated through the interrogatories is appropriate.

Revenue-to-cost ratios for the Street Lighting, General Service > 50 kW and General Service < 50 kW were initially above the OEB's target ranges of revenue-to-cost ratios for these three rate classes. The revenue-to-cost ratio for the Sentinel Lighting rate class was below the OEB's target range for this rate class. The Parties proposed that

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<sup>7</sup> Exhibit 3, Table 3-2, page 4.

<sup>8</sup> Exhibit 3, Table 3-8, page 8.

<sup>9</sup> IRR 3-Staff-21

<sup>10</sup> Load Forecast Model, sheet Purchased Power Model, May 10, 2021.

the revenue-to-cost ratios outside the target ranges be brought to the nearest boundary of the target ranges. An offsetting adjustment increasing the Residential revenue to cost, to 92.35% is proposed. Residential is the only rate class other than Sentinel Lighting with a revenue to cost ratio below 100%. The agreed-upon revenue-to-cost ratios by rate classes are provided in Table 3.2 of the settlement proposal.

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

The Parties agreed that the fixed charge for the GS < 50 kW rate class be maintained at the current charge of \$27.06 for 2021 and through the Incentive Rate-setting Mechanism (IRM) period. It is currently above the Minimum System with Peak Load Carrying Capability adjustment as calculated by the cost allocation model (commonly referred to as the ceiling). The parties agreed that for this rate class, Espanola Hydro would apply to recover all IRM increases through the variable portion of the applicable charges.

The proportion of revenue collected from the fixed and variable charges is proposed to be maintained for all other non-residential rate classes. This results in fixed charges within the guidance from the cost allocation model.<sup>11</sup>

OEB staff notes that in an IRM proceeding, both the fixed and variable charges would normally increase by the applicable percentage as determined by the price cap formula. Therefore, the proposal to apply the entire increase to only the variable charge is a deviation from the normal practice. OEB staff notes that parties did not provide rationale for this deviation in policy. However, this approach was used in Waterloo North's approved settlement proposal.<sup>12</sup> OEB staffs submits that in the context of the complete settlement, it does not oppose the proposal for fixed charges. OEB staff notes that it may not accept such a deviation in other distributor cases, including Espanola Hydro's next cost-based application, without sufficient rationale. OEB staff notes that if the settlement proposal is approved, OEB staff will have the responsibility to ensure that the model allows for this change in Espanola Hydro's subsequent IRM applications.

### Residential Rate Design

The parties agreed that Espanola Hydro will begin a five-year transition to fully fixed residential rates in 2021. To further mitigate the impacts in 2021, it proposes to move 1/6<sup>th</sup> of the way to fully fixed residential rates in 2021, and then transition ¼ of the

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<sup>11</sup> Cost Allocation Model, Sheet O2 Fixed Charge|Floor|Ceiling, March 17, 2021.

<sup>12</sup> EB-2020-0059, Decision and Order, December 10, 2020.

remaining amount in each of the next four years in the IRM period.

OEB staff notes that despite the mitigation, the fixed charge is proposed to increase by \$7.63, from \$14.07 to \$21.70. Of this, \$3.41 is a result of the residential rate design transition,<sup>13</sup> and the remainder is due to the overall rate increase applied to the residential rate class. In addition, a residential customer at the 10% percentile of consumption will experience a total bill impact of 12.7%. This increase exceeds the thresholds for mitigation under the residential rate design policy of a \$4 increase to the fixed charge,<sup>14</sup> and a 10% increase to total bill.<sup>15</sup>

OEB staff submits that the proposal for residential rate design reflects a reasonable balance between the objective of a timely implementation of the fully fixed residential rate design policy, and mitigation of impacts to low-volume residential customers.

### Street Light

The parties have agreed to Espanola Hydro's proposal to calculate and apply the fixed monthly charge for street lighting on the basis of the number of connections.

OEB staff notes that while most distributors calculate and apply fixed charges for street lighting on the basis of street lighting devices, some distributors, such as Brantford Power Inc.<sup>16</sup> apply a monthly charge on the basis of the street lighting connection count. The billing determinant used does not impact the costs allocated to the street lighting rate class, nor does it impact the total revenue to be recovered from the class.

In the context of the settlement proposal, OEB staff does not have any concerns with the street lighting rate design agreed to by the Parties.

### Rate Mitigation

Based on the settlement proposal, the Sentinel rate class will exceed the 10% total bill impact threshold for mitigation. In addition, a Residential customer at the 10<sup>th</sup> percentile of consumption will exceed both thresholds for mitigation under the residential rate design policy.

With respect to the Sentinel rate class, the Parties note that the bill impact has already been mitigated by moving the revenue-to-cost ratio to only 80%, rather than increasing it to the same level as the Residential rate class. As well, the Parties noted that the Sentinel rate class is a small rate class and the absolute dollar increase of \$3.22 is

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<sup>13</sup> Revenue Requirement Work Form, sheet 12. Res\_Rate\_Design.

<sup>14</sup> EB-2012-0410, Board Policy, April 2, 2015, page 26.

<sup>15</sup> EB-2012-0410, Letter to All Licensed Electricity Distributors, July 16, 2015.

<sup>16</sup> EB-2016-0058.

small, and therefore no further rate mitigation is necessary.

OEB staff agrees with the Parties that Espanola's proposal to increase the Sentinel revenue-to-cost ratio to 80% while the residential rate class was increased to 92.37% reflects a level of mitigation relative to the increase that would be experienced had the Sentinel and Residential rate classes been increased to the same level. The total bill impact to the Sentinel rate class of 20.7% reflects an increase of \$3.30 per connection per month after HST and the Ontario Electricity Rebate. Espanola Hydro has 24 sentinel light connections.

The measures taken to mitigate the Residential rate class have been explained in Issue 3.3 of the settlement proposal, and above with respect to the residential rate design proposal.

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

## **Issue 4.0 Accounting**

### Disposition of Deferral and Variance Accounts

In its pre-filed evidence, Espanola Hydro proposed to dispose of its Group 1 Deferral and Variance Account (DVA) balances of \$816,037 debit as of December 31, 2019, which includes forecasted interest to April 30, 2021. Espanola Hydro also proposed to dispose of its Group 2 DVA balances of \$237,302 debit as of December 31, 2019, which includes forecasted adjustments for 2020 and forecasted interest to April 30, 2021.

For rate mitigation purposes, Espanola Hydro proposed to dispose of its general Group 1 balances (excluding 1588 – Global Adjustment) and Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) balances over five years. For the remaining Group 2 balances and account 1589 – Global Adjustment, Espanola Hydro proposed a standard one year disposition period.

During the course of the proceeding, Espanola Hydro revised its account balances. The Parties agreed to a disposition of Group 1 balances of \$672,242 debit and Group 2 balances of \$237,302 debit.

#### *Group 1 DVAs*

For accounts 1588 and 1589, Espanola Hydro identified a clerical error from 2015 and made a correcting adjustment of \$258,839 (credit) to account 1588 and an equal and offsetting debit adjustment to account 1589. The net impact to the total Group 1 balance

is zero, and Espanola Hydro confirmed that it has implemented multiple checks to ensure prevent future errors.<sup>17</sup>

OEB staff noted in interrogatories that the account 1588 balance is unusually large given the nature of the account. In response, Espanola Hydro further reviewed its account balance and made corrections to the account balance totalling (\$138,934).<sup>18</sup> Going forward, Espanola Hydro stated that it has made changes to its variance reporting process according to the OEB's new accounting guidance that would allow it to explain and reconcile any unusually large balances. OEB staff has reviewed the accounts 1588 and 1589 balances and submits that they are reasonable.

For account 1586, OEB staff and intervenors noted that the account balance was unusually high. In particular, OEB staff noted that the account balances were abnormally high relative to what OEB staff would expect Espanola Hydro to be billed annually for the Retail Transmission Connection Charge.<sup>19</sup> Espanola Hydro explained that low voltage charges attributable to account 1550 were erroneously recorded in account 1586 and revised the DVA continuity schedule to reflect the correct balances.<sup>20</sup> The adjustments to the two accounts were approximately equal and offsetting, except for a variance of \$1,740 from the net balance of the two accounts as originally filed.

OEB staff has reviewed the revised balances in accounts 1550 and 1586 and submits that they are reasonable. In reviewing the balances, OEB staff has compared the change in Hydro One Networks Inc.'s low voltage and retail transmission service rates, which are the drivers for the balances in these accounts, from 2012/2014 (2012 for when Espanola Hydro last had its low voltage rates adjusted, and 2014 for its retail transmission service rates) to now. The revised balances in accounts 1550 and 1586 are what OEB staff would expect based on the changes in Hydro One Networks Inc.'s rates since 2012/2014. OEB staff further notes that accounts 1550 and 1586 share the same billing determinants and so the movement of balances from one account to the other has no net impact on customers.

OEB staff supports the disposition of the Group 1 balances as accepted by the Parties.

#### *Group 2 and Other DVAs*

Espanola Hydro's Group 2 and other DVAs consist of account 1508 – Pole Attachment Variance Account, account 1592 – PILs and Tax Variance for 2006 and Subsequent

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<sup>17</sup> IRR Staff-41

<sup>18</sup> IRR Staff-40

<sup>19</sup> IRR Staff-53

<sup>20</sup> Ibid

Years – Sub-account CCA changes, and account 1568 – LRAMVA.

OEB staff has reviewed the account balances in these accounts and submits that they are reasonable. OEB staff provides further discussion of account 1592 – CCA changes in the section below.

#### 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](#)), 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 of Account 1592 – PILs and Tax Variances, Sub-account CCA Changes to track the impact of any differences that result from the CCA change to the tax rates or rules that were used to determine the tax amounts that underpins rates.

Espanola Hydro calculated the revenue requirement impacts of the CCA changes in 2018 and 2019 based on the difference between the calculated CCA of its actual capital additions in the respective period under the legacy rule versus the CCA calculated under the AIIP. Espanola Hydro proposed to return 100% of the balance (including interest forecasted to April 30, 2021) to customers.

OEB staff takes no issue with the approach agreed to by the Parties. OEB staff notes that 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.” OEB staff further notes that, in a number of 2021 rate proceedings, parties have agreed in settlement proposals on 100% of the revenue requirement impact of the CCA changes being refunded to customers and the OEB has issued decisions and orders approving those settlement proposals.<sup>21</sup>

#### New Variance Accounts

The Parties agreed to establish a new deferral and variance account – account 1508 – Broadband Pole Attachment Variance Account (Broadband account). The new Broadband account is intended to capture possible impacts to Espanola Hydro’s costs resulting from new provincial legislation, Bill 257, *Supporting Broadband and Infrastructure Expansion Act, 2021*. Espanola Hydro expects that Bill 257 will have

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<sup>21</sup> For example, Hydro Ottawa’s 2021 Custom IR proceeding EB-2019-0261 and Waterloo North’s 2021 cost of service proceeding EB-2020-0059.

material financial consequences that are not addressed in its base rates. In particular, Espanola Hydro noted provisions that could result in possible increases in utility costs to facilitate broadband attachments as well as changes to Pole Attachment charges for broadband connections.

In terms of causation, Espanola Hydro stated that the new account is intended to capture financial impacts of Bill 257, which are clearly outside of its base rates. In terms of materiality, Espanola Hydro noted that it is too early to forecast what the exact incremental costs will be as it will be defined by regulations yet to be introduced but proposed to use its materiality threshold of \$50k as defined in the Chapter 2 Filing Requirements for the aggregate balance of the account at the time of disposition. In terms of prudence, Espanola Hydro stated that the revenue impact in consideration is based on the exceptional requirements and remedies set out in Bill 257, and it is therefore reasonable for Espanola Hydro to establish a new account to track those impacts.

In the settlement proposal, the Parties included language that if the OEB were to establish an account in the future as part of a generic approach across all utilities to address the impacts of Bill 257, such account would take precedence and supersede this Broadband account.

OEB staff submits that the establishment of this account is premature at this time. As noted by Espanola Hydro, Bill 257 is enabling legislation – the regulations that will define the incremental costs have not yet been introduced, and it is therefore not possible at this time to forecast the type of costs and the amounts that should be recorded in this new account. On this basis, OEB staff submits that the new account does not meet any of the criteria and may be superseded by the OEB taking a generic approach to addressing the new provincial legislation across all utilities, if it finds it appropriate to do so. OEB staff does acknowledge the language in the settlement proposal that any generic approach of the OEB will take precedence; however, given the likelihood of the new provincial legislation affecting all utilities across the province, OEB staff submits it would not be regulatory efficient to establish a new account only for it to be superseded shortly thereafter. If, however, the OEB finds it appropriate to establish the Broadband Account as proposed by the Parties, OEB staff submits that it has reviewed the draft accounting order for the account and that it is correct.

#### Disposition Period

The Parties agreed to a five year disposition period for the general Group 1 DVA balances (excluding account 1589) and LRAMVA. The Parties agreed to a one year disposition period for account 1589 and the remaining Group 2 DVA balances. However, the settlement proposal contemplates an implementation date of July 1, 2021

for Espanola Hydro's new rates. In order to have the disposition rate riders terminate on April 30, 2022 (i.e. the anticipated end of the 2021 rate year), the settlement proposal has reduced the disposition period by two months. In other words, the Group 1 DVA (excluding account 1589) and LRAMVA rate riders have been calculated using a disposition period of 58 months (five years less two months) and the remaining accounts have been calculated using a disposition period of 10 months, with an intended effective and implementation date of July 1, 2021 for each.

OEB staff supports the proposed five year disposition period for Group 1 (excluding 1589) and LRAMVA balances and a one year disposition period for the remaining accounts. A five year disposition period would help mitigate bill impacts, which are especially high given that Espanola Hydro has not cleared its accounts since 2014. OEB staff notes that the Group 2 DVA balances, excluding LRAMVA, is a credit balance which further helps mitigate bill impacts, especially given a one year disposition. OEB staff has reviewed Espanola Hydro's calculations of DVA rate riders, which are based on a two month reduced disposition period as described above, and submits that they are correct.

## **Issue 5.1 – Effective Date**

The Parties have agreed that an effective date of May 1, 2021 is appropriate. Espanola Hydro filed this application on December 31, 2021, four months after the established deadline for May 1 filers. No other delays occurred during this proceeding.

OEB staff notes that the delay in filing the original application was due to the onset of the COVID pandemic, among other factors. Espanola Hydro requested, and the OEB approved, two separate extensions to the filing which extended the deadline from August 31, 2020 to December 31, 2020. In both letters granting the extensions, the OEB noted that it will take into consideration the impact of COVID-19 but does not ensure a May 1, 2021 effective date.

OEB staff agrees with the Parties that an effective date of May 1, 2021 is appropriate. Refer to Issue 5.4 below regarding Interim Rates.

In the settlement proposal, the Parties provided calculations of foregone revenue rate riders assuming an implementation date of July 1, 2021. These rate riders are calculated for Espanola Hydro to recover the foregone revenues in May and June 2021 over a ten month period ending in April 30, 2022. OEB staff has reviewed the calculations and submits that they are correct. However, OEB staff notes that these foregone revenue rate riders are only applicable if the OEB approves an effective date of May 1, 2021 and an implementation date of July 1, 2021 and approves the recovery

of the foregone revenues. If the OEB approves a different implementation date, the foregone revenue rate riders, if any are approved, would need to be recalculated.

## **Issue 5.2 – Accounting Policies Analysis as per EB-2019-0015**

In the OEB's Decision and Order in EB-2019-0015, the OEB ordered Espanola Hydro to complete an analysis on the differences in accounting policies between Espanola Hydro and North Bay Hydro Distribution Limited and provide it in Espanola Hydro's 2021 cost of service application (i.e. this application). The purpose of the analysis is to help determine whether there are any material differences in accounting policies and whether additional steps should be taken, such as establishing a variance account relating to accounting policy changes for Espanola Hydro for when it amalgamates with North Bay Hydro Distribution Limited and adopts the latter's accounting policies.

The Parties have agreed that Espanola Hydro has appropriately completed an analysis on the differences in accounting policies and that there are no material differences between the accounting policies of the two utilities. The Parties have therefore agreed that no variance account is required.

OEB staff has reviewed the evidence on the record and agrees with the position of the Parties taken in the settlement proposal.

## **Issue 5.3 – Incremental Capital Module**

Espanola Hydro requested to bring substation assets into rate base for which funding had previously been approved through an incremental capital module (ICM). The amounts relate to a new distribution station that was brought in-service in 2014. In Espanola Hydro's 2014 IRM application, it requested and was approved ICM funding for this new substation with a total estimated cost at the time of \$2,062,500. Espanola Hydro has been collecting the incremental revenue requirement associated with this amount from customers through ICM rate riders since 2014.

The actual cost of the substation is \$1,967,931 and Espanola Hydro calculated that, based on actual ICM rate rider revenues collected from customers, it had under-collected ICM revenues totaling \$35,917. Espanola Hydro proposed to bring the ICM substation amounts into rate base net of all accumulated depreciation and forgo the true-up of \$35,917 from customers.

The Parties have agreed to Espanola Hydro's proposal to bring its ICM assets into rate base, terminate the ICM rate riders and forgo the ICM true-up of \$35,917.

OEB staff submits that the proposed treatment of bringing ICM assets into rate base is

correct and takes no issue on this matter.

## Issue 5.4 – Interim Rates

After Espanola Hydro deferred its cost of service applications in 2015 and again in 2016, the OEB set Espanola Hydro's rates interim as of February 1, 2016. Espanola Hydro requested its rates as of February 1, 2016 now be set final.

The Parties agreed to set Espanola Hydro's rates as of February 1, 2016 as final.

OEB staff takes no issue with the Parties agreement to set Espanola Hydro's interim rates final. OEB staff notes that, in setting Espanola Hydro's rates interim, one of the OEB's original concerns was potential excess revenue in light of the fact that Espanola Hydro's regulatory return on equity (ROE) for 2014 was significantly greater than the amount its rates were designed to generate.<sup>22</sup> OEB staff notes that Espanola Hydro's regulatory ROE has been below its deemed ROE in every year since 2016, having significantly underearned in several of those years. OEB staff has reviewed the evidence on the record and submits that there are no excess revenues of concern in setting Espanola Hydro's interim rates final.

## Condition to File Future Applications

The Parties agreed that, as a condition to the settlement proposal, Espanola Hydro would file either:

- a) An application to amalgamate Espanola Hydro and North Bay Hydro Distribution Limited within one year of the issuance of the Final Rate Order in this proceeding; or
- b) A new cost of service rebasing application with a new five year DSP within two years of the issuance of the Final Rate Order in this proceeding. If Espanola Hydro proceeds with this option, it would not be entitled to a Price Cap IR formulaic increase to distribution rates in 2022.

The Parties agreed to this condition on the understanding that North Bay Hydro Distribution Limited would continue to lend financial support to Espanola Hydro and capital work would continue so as to maintain a safe and reliable distribution system.

OEB staff submits that this condition would help maintain the long-term viability of Espanola Hydro and protect its customers. This condition would ensure that, within the next two years, either Espanola Hydro is amalgamated with North Bay Hydro

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<sup>22</sup> EB-2015-0068, Order for Interim Rates, February 10, 2016

Distribution Limited (which has more financial resources and stronger financial health), or Espanola Hydro files a new cost of service application with a complete five year DSP. If Espanola Hydro is not ultimately amalgamated with North Bay Hydro Distribution Limited, a new cost of service application with a five year DSP would allow the OEB to better assess the long term system planning of Espanola Hydro and its plans to maintain its long term viability absent the amalgamation. Given that the Parties agreed to the above condition as part of the settlement, OEB staff takes no issue on the matter.

~All of which is respectfully submitted~