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BY EMAIL

December 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  
Grimsby Power Inc.  
Cost of Service  
OEB File Number: EB-2021-0027**

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Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 1.

Yours truly,

*Original Signed By*

Shuo Zhang  
Project Advisor – Electricity Distribution: Major Rate Applications & Consolidations

Encl.

cc: All parties in EB-2021-0027



# **ONTARIO ENERGY BOARD**

## **OEB Staff Submission**

**Grimsby Power Inc.**

**Cost of Service Application**

**EB-2021-0027**

**December 17, 2021**

## Introduction

Grimsby Power Inc. (Grimsby Power) filed a Cost of Service application with the Ontario Energy Board (OEB) on July 30, 2021, under section 78 of the *Ontario Energy Board Act, 1998* seeking approval for the rates that Grimsby Power charges for electricity distribution, effective January 1, 2022.

The OEB issued an approved issues list for this proceeding on September 20, 2021. A settlement conference took place on November 8, 9 and 10, 2021. Grimsby Power filed a settlement proposal representing a complete settlement of all issues on December 10, 2021. The parties to the settlement proposal are Grimsby Power and the approved intervenors in the proceeding: Niagara Peninsula Energy Inc., 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 \$0.70 per month before taxes, or 0.56%.

This submission is based on the status of the record at the time of the filing of the 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 has reviewed the settlement proposal in the context of the objectives of the *Renewed Regulatory Framework*<sup>1</sup> (RRF), the *Handbook for Utility Rate Applications*<sup>2</sup>, applicable OEB policies, relevant OEB decisions, and the OEB's statutory obligations. OEB staff submits that the settlement proposal reflects a reasonable evaluation of Grimsby Power's planned outcomes in this proceeding, appropriate consideration of the relevant issues and ensures that there are sufficient resources to allow Grimsby Power to achieve its identified outcomes in the five years of the plan from 2022 to 2026.

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

Below, OEB staff provides specific submissions on certain of the issues established by the OEB:

- 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 – Asset Condition Assessment
- Issue 5.3 – Customer Satisfaction
- Issue 5.4 – Definitions of the General Service Classes

### Issue 1.1 – Capital

Grimsby Power proposed a total net capital expenditure of \$2.5 million for the 2022 test year. The largest area of capital investments is related to system renewal projects driven by replacement of defective poles and the rear lot conversion program.

For the purposes of the settlement of all issues in this proceeding, the Parties agreed to a reduction of \$544k (approximately 20%) in the 2022 test year and a levelized capital

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<sup>1</sup> Report of the Board – Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, October 18, 2012

<sup>2</sup> Handbook for Utility Rate Applications, October 13, 2016

expenditure over the Distribution System Plan (DSP) period.

OEB staff notes that for rate setting purpose, although the OEB only considers capital expenditures for the 2022 test year, the total capital expenditures over the DSP period have been reduced from \$12.3 million to \$11.2 million.

OEB staff submits that the agreement reached by the Parties is reasonable compared to Grimsby Power's historical capital expenditures. OEB staff notes that the settled 2022 capital expenditures are \$459k (30%) higher than the 2016 OEB-approved amount. Compared to the average actual capital expenditures over 2016-2020, the settled 2022 budget represents an increase of \$401k (25%).

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

Grimsby Power proposed total OM&A spending of \$4.0 million for the 2022 test year in its original application. This represented an increase of 14.1% from the 2016 actual OM&A spending, or a compound annual growth rate of 2.2%. The OM&A increase is mainly driven by increases in staffing levels and wages and benefits increases.

The Parties agreed to an OM&A envelope reduction of \$270k to Grimsby Power's proposed OM&A for a revised budget of \$3.7 million. The reduction includes removing 80% of the total one-time cost (\$19k) associated with communication devices. The original application inadvertently included this one-time cost as an ongoing expense. The revised OM&A amount included in the settlement proposal would result in an increase of 6.9% from 2016 actual OM&A spending, or a compound annual growth rate of 1.1%. Grimsby Power was in Efficiency Assessment Cohort 2 (the second most efficient cohort) for the 2017-2020 period per the Pacific Economics Group's annual benchmarking study.<sup>3</sup> Grimsby Power moved to Efficiency Assessment Cohort 1 (the most efficient cohort) in 2021 and is forecast to remain in Group 1 over 2022-2025.

Grimsby Power also agreed to examine the billing costs associated with the Embedded Distributor Class of \$443 per bill (\$5,317 annually) that are charged to Niagara Peninsula Energy Inc. and report in its next cost of service proceeding on the possibility of reducing those costs going forward.

OEB staff supports the OM&A envelope reduction of \$270k. In OEB staff's view, the settled OM&A envelope is reasonable and demonstrates continuous improvement with

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<sup>3</sup> For example, Report to the Ontario Energy Board – "Empirical Research in Support of Incentive Rate-Setting: 2020 Benchmarking Update", prepared by Pacific Economics Group LLC., August 2021.

moving from Group 2 to Group 1 efficiency. The Parties have provided a breakdown of the reduction in Table 5 – 2022 Test Year OM&A Expenses of the settlement proposal.

## 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.

The 2022 test year opening rate base has been updated through the settlement proposal to reflect the most up to date forecast of in-service additions for the 2021 bridge year. The 2021 in-service additions have been updated from \$2.2 million to \$2.1 million. OEB staff supports this update that reflects the most up to date information.

The Parties agreed to a service revenue requirement of \$6.9 million and a base revenue requirement of \$6.4 million. This reflects a reduction of \$544k in capital expenditures and a reduction of \$270k in OM&A. This also reflects updates to the depreciation, cost of capital, working capital allowance and payments in lieu of taxes. Table 6 – 2022 Revenue Requirement Summary of the settlement proposal shows the change in revenue requirement between Grimsby Power's original application and the settlement proposal.

OEB staff takes no issues with the revenue requirement as presented in the settlement proposal.

### 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. The AIIP is scheduled to be phased out beginning in 2024.

In its July 25, 2019 letter ([CCA Letter](#)) titled Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance, the OEB provided accounting direction on the treatment of the impacts from accelerated CCA resulting from the AIIP. The OEB established a separate sub-account of Account 1592 - PILs and Tax Variances, Sub-account CCA Changes to track the impact of any differences that result from the CCA change to the tax rates or rules that were used to determine the tax amount that underpins rates.

The Parties agreed that forecast PILs has been accurately calculated, including the recognition of accelerated CCA in the test year. In Grimsby Power's case, accelerated CCA has resulted in the accumulation of non-capital losses for tax purposes. These losses are available to be carried forward to future tax periods to offset future taxes payable. The Parties accepted Grimsby Power's proposal to refund accelerated CCA related amounts accumulated over the 2018 to 2020 period entirely through the Account 1592 sub-account, rather than bringing forward and building in, on an amortized basis, unused tax loss carry forwards associated with accelerated CCA into the test year PILS calculation.

The CCA Letter also indicated that utilities were to reflect any impacts arising from CCA rule changes in their cost-based applications for 2020 rates and beyond and that the OEB may consider a smoothing mechanism to address any timing differences that could lead to volatility in tax deductions over the rate-setting term. The Chapter 2 Filing Requirements for Electricity Distributors states that the OEB will assess smoothing proposals on a case-by-case basis and if the OEB is satisfied with the smoothing proposals, the recording of impacts from these CCA changes in Account 1592 may not be required during the incentive rate-setting term.<sup>4</sup>

In the current application, Grimsby Power did not propose any smoothing adjustment to CCA that is reflected in PILs to address the phasing out of AIIP. OEB staff takes no issue with this approach, which was agreed to by the Parties.

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

#### Load Forecast

As a result of an update to the total system loss factor, the Parties agreed that the loss factor used in adjusting the wholesale purchases forecast to rate class sales should be updated. OEB staff notes that this approach of the total system loss factor calculated is consistent with the approach accepted in Espanola Regional Hydro Distribution Corporation<sup>5</sup> and decided by the OEB in InnPower.<sup>6</sup>

OEB staff does not have any concerns with the proposed load forecast of 259,973 MWh, 417,521 kW and 14,885 customers and connections as shown in Table 11 of the settlement proposal. This reflects an increase of 1,053 MWh and 706 kW, and a

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<sup>4</sup> Chapter 2 Filing Requirements for Electricity Distribution Rate Applications – 2021 Edition for 2022 Rate Applications, June 24, 2021, Page 38

<sup>5</sup> EB-2020-0020.

<sup>6</sup> EB-2016-0085, Decision and Order, March 8, 2018, Page 13.

decrease of 60 customers over the original application. OEB staff submits that the agreed-upon load and customer connection forecasts are appropriate.

### Loss Factor

The Parties agreed that Grimsby Power would calculate its loss factor using the A1 and A2 values in the Chapter 2 Appendix 2-R to calculate supply facility losses. The A2 entry reflects energy received onto Grimsby Power's distribution system inclusive of embedded generation. The A1 entry reflects the energy generated with respect to that energy received.

OEB staff has no concern with the proposed total loss factor of 1.0398 or the methodology to calculate it.

### Cost Allocation

The Parties agreed to two changes in Grimsby Power's cost allocation:

- 1) As noted in Section 1.2, costs associated with communication devices have been reduced by 80%. These costs are specific to the embedded distributor and are therefore directly allocated. The direct allocation was updated to reflect the lower amount.
- 2) The billing and collecting weighting factor used for the GS > 50 to 4,999 kW rate class was revised to 1.2. This reflects the removal of costs in account 5310, which are not incurred on behalf of this rate class.

Grimsby Power relied on the load profiles prepared by Hydro One Networks Inc., scaled for consistency with the load forecast.<sup>7</sup> It has committed to collect smart meter and interval data after the conclusion of this proceeding, to update its load profiles at the time of its next cost of service application.<sup>8</sup>

OEB staff has no concern with the cost allocation agreed to by the Parties. OEB staff supports Grimsby Power's commitment to propose updated load profiles at the time of its next cost of service application.

### Rate Design

The Parties agreed that the fixed charges for the GS > 50 kW and Embedded Distributor classes would remain at current approved levels of \$219.11 and \$17,333.83

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<sup>7</sup> Exhibit 7, page 5.

<sup>8</sup> 7-Staff-50.



respectively. Both fixed charges are above the cost of the minimum system with peak load carrying capability, as calculated by the cost allocation model, and commonly referred to as the ceiling.

For the Embedded Distributor rate class, the Parties agreed to a symmetrical true up mechanism if the annual sum of the monthly billed demand is either less than 87% or greater than 113% of the forecasted volume. This true-up mechanism applies to the revenue collected by Grimsby Power through the variable rate charged to the Embedded Distributor class.

OEB staff supports the Parties' agreement on fixed charges. The true up mechanism for the Embedded Distributor rate class applies to a single customer, Niagara Peninsula Energy Inc. The true up proposal is supported by all Parties to the settlement proposal. OEB staff has no concern with the true up mechanism.

## **Issue 4.0 Accounting**

In its pre-filed evidence, Grimsby Power proposed to dispose its Group 1 Deferral and Variance Account (DVA) balances, in the debit amount of \$707,823 as of December 31, 2020. Grimsby Power also proposed to dispose its Group 2 DVA balances, in the debit amount of \$30,034 as of December 31, 2020. The above-noted amounts include forecasted interest to December 31, 2021. All DVA balances are to be disposed over a one-year period.

As part of the settlement proposal, the Parties agreed to the disposition of Group 1 accounts with a debit balance of \$707,823 and Group 2 accounts with a credit balance of \$138,860. The Group 1 DVA balances have not changed from what was originally proposed. Changes in Group 2 DVA balance relate to the addition of the 2021 forecast for the pole attachment revenue variance account (\$81,926) and the exclusion of the balance recorded in the COVID-19 emergency account (originally a debit amount of \$80,199).

With respect to the COVID-19 emergency account, Grimsby Power originally proposed in its application to dispose a balance of \$80,199, including approximately \$2,500 recorded in the exceptional pool of costs associated with that account (e.g., implementation costs of emergency time-of-use rates, COVID-19 Energy Assistance Program and deferred global adjustment charges for electricity distributors).

Grimsby Power agreed to forego disposition of the \$80,199 balance tracked in the COVID-19 emergency account for the year 2020.

The OEB has determined that for the recovery of the COVID-19 deferral account, in the general pool of costs, 50% of the eligible amount may be collected from customers if a distributor's achieved return on equity (ROE) is 300 basis points less than its deemed ROE in the most recently-completed fiscal year.<sup>9</sup> Grimsby Power's 2020 achieved ROE was 8.12% (2020 deemed ROE was 9.19%), and accordingly, Grimsby Power has not passed the ROE-based means test associated with recovery of these amounts. Thus, OEB staff supports the Parties' agreement that Grimsby Power will forego disposition of the \$80,199 balance tracked in the COVID-19 emergency account.

## Issue 5.1 – Effective Date

The Parties agreed that an effective date of January 1, 2022 is appropriate. Grimsby Power filed this application on July 30, 2021, three months after the established deadline for January 1 filers.

OEB staff notes that the delay in filing the original application was due to the onset of the COVID pandemic. Grimsby Power requested, and the OEB approved, an extension to the filing from April 30, 2021 to July 31, 2021. In its letter granting the extension, the OEB stated that it "... anticipates that the OEB panel hearing the application will take into consideration any COVID-19 related delays in setting the effective date for Grimsby Power's 2022 rates".<sup>10</sup>

Grimsby Power indicated that it could implement new rates effective January 1, 2022 if it receives confirmation of the OEB's acceptance of the settlement proposal on or before January 21, 2022.

OEB staff agrees with the Parties that an effective date of January 1, 2022 is appropriate. In the event that a decision and final rate order cannot be issued in time for January 1, 2022 implementation, OEB staff agrees with the Parties that rates should be made interim as of January 1, 2022 and Grimsby Power should be permitted to track foregone revenue from the proposed effective date of January 1, 2022 until rates are implemented.

## Issue 5.2 – Asset Condition Assessment

In its last cost of service application, Grimsby Power agreed to "conduct an independent Asset Condition Assessment to be submitted as part of its next cost of service or

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<sup>9</sup> EB-2020-0133, OEB Report, Regulatory Treatment of Impacts Arising from the COVID-19 Emergency, June 17, 2021, page 17.

<sup>10</sup> OEB Letter, dated April 28, 2021.

Custom IR application”.<sup>11</sup>

Grimsby Power retained Kinectrics Inc. and performed an Asset Condition Assessment (ACA) study on its distribution assets. The ACA study was filed as part of the DSP.

OEB staff agrees with the Parties that Grimsby Power has fulfilled its obligation of conducting an independent ACA study.

OEB staff supports the Parties’ agreement that, going forward, Grimsby Power shall make efforts to, where appropriate, incorporate more inspection and testing data when assessing the health index of its assets and rely less on the age of the assets, and explain the extent to which it has succeeded in those efforts in its next cost of service application.

Grimsby Power also agreed that, on an going forward basis, it will make efforts to track interruptions caused by defective equipment on the basis of equipment type, and in its next DSP explain how those efforts have been incorporated into the DSP planning process. OEB staff supports this commitment.

### **Issue 5.3 – Customer Satisfaction**

In its decision on Grimsby Power’s last cost of service application, the OEB expected that “Grimsby Power will improve customers’ satisfaction in the area of customer communications. Grimsby Power is encouraged to monitor its operating performance and improvement in customer satisfaction and to report the results in its next rate application.”<sup>12</sup>

Since 2016, Grimsby Power has completed activities to improve customers’ satisfaction, including improving communication during outages using its website to show outage information on a map and communicating outages using various platforms (e.g., website and Twitter).<sup>13</sup> There has been an improvement in the customers’ satisfaction score from 75% in 2016 to 79% in 2019.<sup>14</sup>

OEB staff agrees with the Parties that Grimsby Power has responded appropriately to the requirement of monitoring its operating performance and improving customers’ satisfaction.

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<sup>11</sup> EB-2015-0072, Settlement Proposal, Revised July 28, 2016, page 12 of 39.

<sup>12</sup> EB-2015-0072, Decision and Order, August 18, 2016, page 7.

<sup>13</sup> 1-Staff-2.

<sup>14</sup> Exhibit 1, Tab 6, page 5 of 18.

## Issue 5.4 – Definitions of the General Service Classes

The Parties agreed with Grimsby power's proposal to amend the definition of its GS < 50 kW and GS 50 – 4,999 kW rate classes. The proposal is to define the boundary based on the average peak demand over the past year, rather than the highest peak demand in the past year. Grimsby Power indicated that this would result in a savings to the customers that would be reclassified as a result of this proposal.<sup>15</sup>

OEB staff has no concern with the proposal, and notes that this approach brings its class definitions into consistency with nearby local distribution companies including Alectra Utilities Corporation,<sup>16</sup> Burlington Hydro Inc.<sup>17</sup> and Niagara Peninsula Energy Inc.<sup>18</sup>

~All of which is respectfully submitted~

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<sup>15</sup> 8-Staff-52.

<sup>16</sup> Alectra Utilities, Conditions of Service, section 3.3, pages 66-69.

<sup>17</sup> Burlington Hydro Inc., Conditions of Service, sections 3.3 and 3.4, pages 65-67.

<sup>18</sup> Niagara Peninsula Energy Inc., Conditions of Service, section 3.2, page 52.