EB-2022-0028

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Sched. B, as amended;

AND IN THE MATTER OF an application by EPCOR Electricity Distribution Ontario Inc. for an order or orders approving electricity distribution rates and other charges commencing as of October 1, 2023.

EPCOR ELECTRICITY DISTRIBUTION ONTARIO INC.
COST OF SERVICE APPLICATION
ARGUMENT-IN-CHIEF

March 3, 2023

A. INTRODUCTION

1. EPCOR Electricity Distribution Ontario Inc. ("**EEDO**") submits this written argument-in-chief ("**Argument-in-Chief**") in respect of an application filed by EEDO on May 27, 2022 seeking an order of the Ontario Energy Board (the "**OEB**") approving just and reasonable rates and other charges for electricity distribution to be effective October 1, 2023 (the "**Application**"). The OEB assigned file number EB-2022-0028 to the Application.

2. On July 15, 2022, the OEB issued Procedural Order No. 1 approving Environmental Defence Canada Inc., School Energy Coalition and Vulnerable Energy Consumers Coalition as intervenors in this proceeding.

3. On July 22, 2022, the OEB by letter approved Small Business Utility Alliance as an intervenor in this proceeding (collectively with Environmental Defence Canada Inc., School Energy Coalition and Vulnerable Energy Consumers Coalition, the "**Intervenors**").

4. On July 28, 2022, the OEB issued its Decision on Issues List with the final and approved issues list for the Application (the "**Issues List**").

5. On September 23, 2022, EEDO filed an update to its Application requesting an effective date for new rates as of October 1, 2023, rather than the originally requested date of January 1, 2023, in order to ensure compliance with the Share Purchase Agreement between EEDO and the Town of Collingwood.

6. On November 9, 2022, EEDO, OEB Staff and the Intervenors attended a settlement conference.

7. On December 9, 2022, EEDO filed a settlement proposal with the OEB representing a partial settlement of the issues in this Application (the "**Settlement Proposal**"). On December 20, 2022, the OEB issued Procedural Order No. 5 pursuant to which the OEB

accepted the Settlement Proposal and scheduled an oral hearing in order to determine the remaining unsettled issues.

8. On February 14, 2023, in accordance with Procedural Order No. 5 a virtual transcribed oral hearing was held to hear further evidence in respect of the unsettled issues (the "**Oral Hearing**"). The Oral Hearing concluded on February 15, 2023.

9. This Argument-in-Chief is organized to address each of the unsettled issues as set out below. Under each subheading, EEDO summarizes the evidence in support of its position on each of the unsettled issues:

A. Introduction
B. MAADs Proceeding
C. Capital
D. OM&A
E. Revenue Requirement
F. Load Forecast, Cost Allocation and Rate Design
G. Accounting
H. Other

10. With the exception of section B below, in this Argument-in-Chief EEDO will not anticipate the arguments to be made by other parties on the unsettled issues. Instead, EEDO will provide its responding submissions after written arguments from the other parties are received.

11. EEDO submits that in the context of the relatively low level of its current rates, the rate increases being sought in this Application are reasonable and appropriate.

12. EEDO requests approval of its proposal for each of the unsettled items in order to continue to provide safe, reliable, cost-effective service to its customers.

B. MAADs PROCEEDING

13. Before specifically addressing the unsettled issues, it is important to provide some context around the issues raised at the Oral Hearing surrounding the evidence in the MAADs proceeding EB-2017-0373/0374 (the "**MAADs Proceeding**").

14. The OEB Panel hearing the MAADs Proceeding approved EPCOR Utilities Inc.'s ("**EUI**") acquisition of Collus PowerStream Corporation ("**CollusLDC**") based on the evidence filed by EUI and scrutinized by OEB staff and intervenors. In making its decision, the OEB recognizes that the MAADs Proceeding evidence is a forecast of **expected** future revenue requirements and service quality levels. It is crystal clear that these forecasts are not binding commitments. Indeed, as noted in the decision, when SEC sought to demand certain binding commitments (with respect to reliability and service quality) in the MAADs proceeding, the OEB panel rejected it:

> *"The condition of approval put forth by SEC that would require EPCOR to meet or exceed both reliability and service quality metrics goes beyond the "no harm" test by compelling an improvement, and is therefore not appropriate.*"

15. It is entirely open to an applicant in a MAADs proceeding to voluntarily commit to future revenue requirement conditions (**beyond** those during the deferred rebasing period), and such commitments may be incorporated as a binding condition in the OEB's approval. EEDO understands that this has been the case in at least two other MAADs proceedings (EB-2018-0242 and EB-2018-0270), but that was not the case for EUI's MAADs Proceeding to acquire CollusLDC.

16. At the time of its submissions in that proceeding, EEDO utilized the best available evidence to forecast anticipated future cost savings. However, the due diligence process in an acquisition process is inherently limited. Access to a virtual data room that contains corporate documents, undertaking site visits and interviews with a target's management yields useful information, but the knowledge gained is never comparable to the knowledge

that comes with the experience of operating a utility. With the benefit of five years of operating the utility, EEDO understands what is required to ensure safe and reliable electric distribution service.

17. Based on that due diligence process, EEDO's shareholder, EUI, completed the MAADs transaction expecting to earn a reasonable return on equity ("**ROE**") during the deferred rebasing period, and beyond. This has not materialized as decisions were made by EUI to accept a significantly lower ROE over the past four years, in order to make what EEDO believes are prudent, necessary capital and operating investments. EUI has earned approximately $3.4 million less than expected in the first four full years since acquiring the LDC.[1] In other words, the decision to take a lower ROE has meant that EEDO's shareholder has invested on average $850,000 per year over and above the expenses identified in the MAADs Proceeding.

18. Since 2019, the actual rate of return has been more than five basis points below its deemed rate, but EEDO has continued to prioritize capital investments and operating costs to ensure EEDO operates safely and reliably. EEDO believes that if those investments were not made (at its own expense during the deferred re-basing period), EEDO ratepayers would be forced to carry the large risks that threatened the future integrity of the distribution system. This is simply not acceptable to EEDO or EUI.

19. EEDO has taken the risk of the MAADs Proceeding projections for the last five years, by continuing to make necessary investments and expenditures (to the benefit of ratepayers) to position the utility to run safely, reliably and in a cost-effective manner for the long term.

20. Based on the above, EEDO's view continues to be that the MAADs Proceeding evidence has no relevance to the determination of "just and reasonable" rates for the cost of service term. The Application put forward by EEDO represents the prudent and reasonable costs that are required to operate the utility. EEDO's cost of service evidence, prepared in accordance with the OEB's Filing Requirements, should provide the OEB with sufficient

[1] EB-2022-0028, Oral Hearing Transcript, February 14 and 15, 2023, [Transcript] Volume 2, page 124 lines 1 to 14 and 27 to 28.

information about the current and on-going capital, operating, maintenance and administration costs to establish its proposed new rates.

C. CAPITAL

1.1 Capital

Is the level of planned capital expenditures appropriate and is the rationale for planning and pacing choices appropriate and adequately explained, giving due consideration to:

- *customer feedback and preferences*
- *productivity*
- *benchmarking of costs*
- *reliability and service quality*
- *impact on distribution rates*
- *trade-offs with OM&A spending*
- *government-mandated obligations*
- *the objectives of EPCOR Electricity Distribution Ontario Inc. and its customers*
- *the distribution system plan*
- *the business plan*

21. EEDO submits that the level of planned capital expenditures in the Application is necessary and the rationale for the planning and pacing is appropriate and has been adequately explained. On that basis, EEDO is asking the OEB to approve EEDO's 2023 Test Year capital expenditures of $4,295,838.[2]

22. Table 1.2-4 of the Application is reproduced below and outlines the proposed 2023 Test Year Capital Expenditures.[3]

[2] EB-2022-0028, Application, Exhibit 1 – Administrative Documents at pages 10 and 11.
[3] EB-2022-0028, Application, Exhibit 1- Administrative Documents at page 11.

Table 1.2-4

Proposed 2023 Test Year Capital Expenditures and 2013 Board Approved ($)

		A	B	C	D	E
	Category	**2013 Board Approved**	**2023 Test Year**	**Change**		**Annualized % Change**
				$	**Percent**	
1	System Access	75,500	601,079	525,579	696%	23%
2	System Renewal	1,475,708	2,066,743	591,035	40%	3%
3	System Service	40,000	1,372,616	1,332,616	3332%	42%
4	General Plant	382,000	255,400	-126,600	-33%	-4%
5	**Total**	**1,973,208**	**4,295,838**	**2,322,630**	**118%**	**8%**

23. Through its updated Distribution System Plan ("**DSP**"), EEDO has developed a mature asset management process and capital expenditure plan for the 2023-2027 period that appropriately and adequately responds to its customers' vision for a cost effective, reliable and responsive electric distribution utility that delivers its service through a resilient distribution grid. In order to achieve this vision, the updated DSP renews EEDO's assets, including hardening them to better withstand increasingly volatile climate patterns, improves system performance through technology and innovation and betters the customer experience from connection to outage management while anticipating future technology growth.

24. For the 2023 Test Year, EEDO expects to meet its proposed level of expenditures. For the 2022 Bridge Year, capital spend tracked closely to planned expenditures with the exception of: (i) higher than planned customer contributions; and (ii) a bucket truck which is approximately $0.5 million.[4] This truck was ordered in 2021 for a 2022 delivery but due to supply chain issues outside EEDO's control, this truck will not be delivered until 2023.[5]

[4] EB-2022-0028, Interrogatory Responses to SEC, 2-SEC-15 at page 9.
[5] Transcript, Volume 1 page 13 lines 3 to 20 and page 163 lines 1 to 16.

25. EEDO is confident in its ability to deliver the capital program that it has put forward. EEDO has worked to resolve the issues associated with historic capital underspend that pre-dated the sale of the utility in 2018, including addressing staff retention issues, strengthening relationships with contractors and ensuring internal resources are in place for planned projects.[6] For projects requiring external contractors, like many of the system service projects, EEDO has been able to execute prior work with these contractors. As such, EEDO is confident in its contractors' ability to complete the projects on time.

26. To reinforce EEDO's ability to deliver the 2023-2027 DSP capital program averaging $4M/year, during the four years from 2019 to 2022 EEDO planned to spend $14.2M, and spent $14M.[7] This is despite actuals being impacted by the delays referenced above of the bucket truck and higher than planned customer contributions made in 2022.

27. Further, to understand how EEDO plans to deliver the capital program, it is important to describe its buildup. There is approximately $2M/annum in system renewal pole line rebuild projects. EEDO has historically demonstrated an ability to deliver this scope of system renewal projects per year. The large step change in the capital program is within system service reflecting an increased investment in modernizing municipal substations ("**MS**") and innovation projects, areas lacking investment historically. These are largely contractor or equipment driven projects, not constrained by internal labour. This program requires higher system service investments within the initial stages of this DSP period due to the ArcPro GIS upgrade and Stayner MS upgrade projects.

28. In order to meet customers' needs and allow this utility to operate safely and reliably, EEDO believes its proposed capital investments are required, and from a cost perspective, are fair and reasonable. EEDO's net PPE per customer has been historically low as compared to other LDCs.[8] Using the OEB's 2021 Open Data for Electricity Distributors, EEDO ranked as the 16th lowest for net PPE per customer out of 57 LDCs for the 2021

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6 Transcript, Volume 1 page 13 lines 3 to 20 and page 163 lines 1 to 16.
7 EB-2022-0028, Undertaking J1.1; Transcript, Volume 1 page 163 lines 1 to 8.
8 Transcript, Volume 1 page 121 lines 13 to 19 and Volume 2, page 117 lines 1 to 14.

year.[9] [10] For this same metric, EEDO ranked 12th in 2017 and 15th in 2020.[11] To further illustrate the reasonableness of the increased 2023 capital investments, when using the all-LDC average from 2016 of $2,139 per customer, the proposed EEDO PPE per customer for 2023 of $2,173 is consistent with the average from six years ago.[12] This proposed EEDO PPE per customer is very much in line with EEDO's customer growth since its last rebasing and still remains low as compared to other LDCs.

29. During the DSP development, EEDO gave considerable thought to pacing out its capital expenditures focusing on investing approximately $2M per annum in system renewal pole line rebuild projects. In 2023 and 2024, priority system service and general plant projects push the costs above the average of the remaining years but these projects need to be completed early in the DSP period. EEDO submits that it has achieved an appropriate level of pacing over the five year DSP period.

30. In updating the DSP, EEDO utilized actual business perspectives and analytical condition assessment data to prioritize the needs of the utility. In doing so, EEDO has sought to strike a balance amongst multiple factors, including strengthening system reliability, proactively implementing solutions to mitigate future losses, planning for overdue maintenance and replacing poorly conditioned infrastructure.

[9] OEB 2021 Open Data for Electricity Distributors, Unitized Statistics and Other, Tab Unitized & Other Statistics [2021 Unitized Data]
[10] Lower rank means lower PPE investment.
[11] OEB 2017 Annual Yearbook for Electricity Distributors; OEB 2020 Annual Yearbook for Electricity Distributors. 2021 Unitized Data at Tab Unitized & Other Statistics.
[12] OEB 2017 Annual Yearbook for Electricity Distributors.

D. OM&A

1.2 OM&A

Is the level of planned OM&A expenditures appropriate and is the rationale for planning and pacing choices appropriate and adequately explained, giving due consideration to:

- *customer feedback and preferences*
- *productivity*
- *benchmarking of costs*
- *reliability and service quality*
- *impact on distribution rates*
- *trade-offs with capital spending*
- *government-mandated obligations*
- *the objectives of EPCOR Electricity Distribution Ontario Inc. and its customers*
- *the distribution system plan*
- *the business plan*

31. EEDO submits that the level of planned OM&A expenditures in the 2023 Test Year is appropriate and the rationale for the planning and pacing is appropriate, and has been adequately explained. On that basis, EEDO is seeking approval of a $6,530,315 OM&A budget for the 2023 Test Year.

32. The $6,530,315 OM&A budget for the 2023 Test Year is an increase of $1,945,155 from the 2013 OEB approved amount, which represents a 42.4% increase or an annualized increase of 3.6% over 10 years.[13] The proposed OM&A costs for the 2023 Test Year are aligned with EEDO's expectations for annual costs going forward.

33. While EEDO understands this is a significant increase from the 2013 OEB approved amount, EEDO believes that the proposed costs for the 2023 Test Year are reasonable

[13] EB-2022-00028, Application, Exhibit 4 – Operating Expenses at page 15 lines 8-9.

and reflect the minimum cost required to operate the utility in a manner that provides the level of service expected by customers while maintaining safe, reliable, and efficient operations.

34. It is also important to note the utility has experienced significant growth since its last rebasing. Over that ten year period, EEDO's customer count has increased by 18 percent.[14]

35. While the OM&A costs may be higher than what EUI anticipated when it acquired the utility in 2018, once EUI had full access to the utility's books and records, and some first-hand operational experience, it became evident that there were areas of the utility that were understaffed and unaddressed.

36. For instance, the utility did not have an embedded health and safety employee when EUI took over. Given the dangers associated with utilities and in order to ensure compliance with provincial legislation, EEDO determined that health, safety and environment ("**HSE**") support was immediately required for utility operations.[15] HSE services are now provided to EEDO by EPCOR Ontario Operations Management Inc. ("**EOOMI**") and EUI. The EOOMI Manager, HSE Services ensures EEDO's HSE practices are well designed and in compliance with legislation and works with EEDO's staff to implement and monitor those practices and procedures.[16] For the 2023 Test Year, the HSE support from EOOMI is equivalent to an approximate 0.37 FTE and EEDO is allocated $67,218 in shared services costs for this position.[17] EUI's HSE support includes: providing oversight and direct management of the EEOMI employee; developing HSE-related policies and procedures; and determining which HSE policies and procedures should apply to EEDO. In the 2023 Test Year, the allocated cost for the EUI HSE support is $12,353.[18]

[14] EB-2022-0028, Chapter 2 Appendixes_Settlement_20221209_App 2-IB.
[15] EB-2022-0028, Application, Exhibit 4 – Operating Expenses at page 67 lines 1 to 6.
[16] EB-2022-0028, Application, Exhibit 4 – Operating Expenses at page 66 lines 27 to 31.
[17] EB-2022-0028, Application, Exhibit 4 – Operating Expenses at page 67 lines 1 to 6 and page 71 at Table 4.4.2-7.
[18] EB-2022-0028, Application, Exhibit 4 – Operating Expenses at page 84 Table 4.4.2-13.

37. Despite the five year rate freeze preventing EEDO from recovering additional OM&A expenditures in rates, EUI made what it determined were the necessary OM&A expenditures. The shareholder absorbed these costs to the benefit of the ratepayer in order to ensure the utility was operating safely, reliably and efficiently.

38. In terms of OM&A spend since the last rebasing in 2013, there are a few items to note which have resulted in the non-linear progression of OM&A in recent historical actual fiscal periods. OM&A costs dip down in 2017 Actuals in and 2018 Actuals, from 2016 Actuals, and this is primarily driven by the retirement of the CEO in 2016. The CEO position was not replaced in 2017 or 2018, with the impending sale of EEDO to EUI; however this position would have been required and would have been filled if not for the sale. As a result the 2017 and 2018 costs would have been approximately $260k higher in both years for this position alone. Accordingly, in order to have a more realistic view of the change in OM&A costs for EEDO these costs would need to be shown in the cost trend.

39. In 2020 EEDO was not able to spend as much time on capital projects as staff had to follow certain guidelines during COVID and as a result less internal time and vehicle time was charged to capital than would normally be expected. This resulted in approximately $300k higher OM&A costs than would normally be expected in the 2020 year.

40. In the 2021 year there were three items which caused OM&A expense to be less than would be expected:

(i) There was a $99k accounting error which resulted in EEDO under-reporting these costs (i.e. OM&A costs should have been shown $99k higher);

(ii) EEDO was able to charge more internal time and vehicle time to capital than is possible on an ongoing basis due to much better than normal weather conditions and other factors (and this level of capitalization is not sustainable and has not been seen in any other year) and EEDO had lower than normal staff costs due to a key operations personnel vacancy for a good portion of the year in 2021 – these items resulted in approximately $150k of OM&A

savings which were not sustainable into future periods; and

(iii) EEDO had a very low bad debt expense in 2021 (approximately $4k, or about $56k lower than the normal average bad debt expense for the utility based on recent historical actuals from 2018) due to accounting adjustments of the balance sheet allowance for doubtful accounts balance and changes in the allowance for doubtful account calculations; and was not related to actual accounts written-off in the year. This one-time adjustment is not indicative of actual annual bad debt expense for the utility.

41. Altogether the impact of these items was approximately $300k of OM&A costs either missing in 2021 or at unsustainable low levels in 2021.

42. Taking these impacts into account, an updated view of the OM&A trend for EEDO is presented below and this shows a more natural progression of OM&A costs which is in-line with the actual ongoing and sustainable OM&A costs required to prudently and safely run the utility operations.

43. The table below included updated 2022 Bridge Year OM&A costs to actual 2022 OM&A costs as per undertaking J1.1.[19]

	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Bridge	2023 Test
OM&A	**4,415,105**	**4,564,301**	**4,704,707**	**4,917,146**	**4,617,976**	**4,799,257**	**5,594,161**	**6,111,438**	**5,512,097**	**6,184,661**	**6,530,315**
(1)					260,000	260,000					
(2)								(300,000)			
(3)									300,000		
(4)										17,206	
Recast OM&A	**4,415,105**	**4,564,301**	**4,704,707**	**4,917,146**	**4,877,976**	**5,059,257**	**5,594,161**	**5,811,438**	**5,812,097**	**6,201,867**	**6,530,315**

References in table above:

(1) Add: Vacant CEO Position
(2) Deduct: Lower Capital Work in 2020 due to COVID
(3) Add: Accounting Error and Unsustainable Low Cost in 2022
(4) Updates to 2022 Actual OM&A Costs

[19] EB-2022-0028, Undertaking J1.1.

44. During the Oral Hearing, it was suggested that a potential reasonable approach to assess the trending of OM&A costs would be to start with 2013 and add CPI each year. EEDO does not agree this is a reasonable approach. Looking at only CPI increases since 2013 would be far too simplistic and assumes that the base business of the utility would have to be exactly the same in 2023 for this to be a reasonable comparison. However, several things have changed in the utility since 2013 which would result in costs being higher than CPI.

45. For instance, as described earlier there has been significant customer growth since 2013 (and this would result in higher costs before inflation for customer billing activities). The asset base of the utility has also grown and this along with the customer growth would result in the system requiring higher operations and maintenance costs before CPI. Salary and wage increases have generally outpaced CPI in Ontario and this would also result in higher costs than simply looking at CPI. And finally, the utility required certain services which were not provided in, or were not required in 2013 such as dedicated HSE support and additional spending on items such as OT and SCADA support. These costs would also be higher than simply looking at CPI.

46. In addition to setting an OM&A budget for the Test Year based on direct operational experience and reasonable assessment of what is required to reliably and safely operate the distribution system, EEDO has compared its proposed OM&A costs and distribution revenue with its peer utilities, in order to better understand whether (on an overall basis) the reasonableness of EEDO's OM&A expenditure levels.[20] For distribution revenue per customer, utilizing the OEB's Open Data for 2021, for EEDO's 2023 Test Year, EEDO ranks as the 20th lowest[21] out of 57 LDCs on distribution revenue per customer.[22] Amongst LDCs with a similar customer count based on information from the OEB's 2020 Yearbook of Electricity Distributors, EEDO's 2023 Test Year distribution revenue per customer in this Application would be $496 which would still place EEDO amongst the lowest of similar

[20] Transcript Volume 2, page 20 lines 1 to 17.
[21] For Distribution Revenue per Customer, lower rank means lower revenue.
[22] Transcript Volume 2, page 20, lines 7 to 28 and page 117 lines 1 to 10; 2021 Unitized Data at Tab Unitized & Other Statistics.

sized utilities, even with taking into account the numbers in the comparison are from 2020.[23]

47. To further confirm the reasonableness of EEDO's proposed 2023 Test Year OM&A budget, EEDO looked at its OM&A cost per customer. As noted in the Application, EEDO's 2023 Test Year proposed OM&A cost per customer is $344 which is lower than the escalated 2020 industry average OM&A expenses per customer of $353.[24] Based on the 2023 Test Year expenses, EEDO ranks 33rd out of 57 LDCs on OM&A cost per customer.[25] This projection is likely conservative as it would not include the impacts of LDCs who have rebased rates in 2022 and 2023.[26]

48. With respect to FTEs, EEDO has 28 FTEs without shared services.[27] Once EUI corporate shared services and affiliate shared services are added in, based on assuming total compensation amounts of $150,000 for the shared service FTEs, as these services would be at approximately a manager level, EEDO's number is approximately 35 FTEs. Based on the OEB's 2021 Open Data for Electricity Distributors, 35 FTEs is average for EEDO's cohort.[28]

49. With respect to shared services costs, EEDO regularly reviews and evaluates all services required to prudently and safely run the utility on an ongoing basis, including parent and affiliate shared services. EEDO believes that the OM&A costs approved in the 2013 cost of service allocation do not adequately and fully reflect the costs necessary to run a utility in 2023.

50. The shared service model employed by EEDO allows for cost sharing of required services with other EEDO affiliates, including affiliates in Ontario and EUI. If EEDO did not use a

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[23] EB-2022-00028, Application, Exhibit 4 -- Operating Expenses at page 7, Table 4.1.1-2 and lines 1 to 5; OEB 2020 Yearbook of Electricity Distributors.
[24] EB-2022-0028, Application, Exhibit 4 – Operating Expenses at page 6 Table 4.1.1-1.
[25] Lower ranking means lower cost per customer. This ranking is derived from the figures in the 2021 Unitized Data escalated with the OEB's annual inflationary factor for 2022 and 2023.
[26] Transcript, Volume 2, page 20, lines 7 to 28 and page 117 lines 1 to 10.
[27] EB-2022-0028, Application, Exhibit 4, page 7 lines 13 to 14.
[28] Transcript, Volume 2, page 21, lines 5 to 28 and page 117 lines 1 to 10; 2021 Unitized Data at Tab Unitized & Other Statistics.

shared service model, the services required for the prudent and safe operation of the utility would instead be performed by EEDO, resulting in additional headcounts and a less robust suite of services. Using the example described earlier in this Argument-in-Chief, EEDO sees clear savings by utilizing the shared services model for its HSE support. EEDO has Ontario HSE support from EEOMI for the equivalent of an approximate 0.37 FTE and for an additional $12,353 EEDO has EUI HSE support, which includes the development, drafting and oversight of HSE policies.[29]

51. Another example of cost savings is with the Manager of Operations Network and Security ("**ONS**"). In 2019, EEDO replaced the antiquated and unsupported SCADA system with a modern SCADA operational technology ("**OT**") platform providing greater system measurement and historian access for data analytics. At the time of acquisition, there was no resource accountable for the OT network. EEDO had to incur the cost to resource this function. Included in this function was the implementation of the OEB cyber security framework on the new OT network. To achieve synergies and reduce the impact to EEDO, this resource is within EOOMI and shares this service with other EEDO affiliates in Ontario. In fulfilling this function for EEDO, the Manager of ONS is able to access support from EUI's IT shared service for expert advice in areas such as cyber security and network optimization.

52. The corporate shared services provided by EUI to EEDO (the "**Corporate Shared Services**") have attracted significant scrutiny in this proceeding. Table 4.4.2-13 from Exhibit 4 of the Application is reproduced below to illustrate the breakdown of the costs of these Corporate Shared Services.[30]

[29] EB-2022-0028, Application, Exhibit 4 – Operating Expenses at page 84 Table 4.4.2-13.
[30] EB-2022-0028, Application, Exhibit 4 – Operating Expenses at page 84 Table 4.4.2-13.

Table 4.4.2-13

EUI Corporate Shared Services Costs Allocated to EEDO ($)

	Function	A **2019A**	B **2020A**	C **2021A**	D **2022 Bridge Year**	E **2023 Test Year**
1	SCM	69,960	44,887	47,483	49,072	53,970
2	HR	92,417	101,46	110,466	116,390	127,880
3	IS	109,00	83,157	96,801	112,552	131,460
4	Corporate Finance Services	42,388	40,639	45,673	44,467	42,921
5	Executive and Executive	19,794	19,192	19,817	21,209	22,036
6	Treasury	6,647	6,452	9,861	9,338	10,448
7	Board	11,776	10,068	10,017	11,477	12,642
8	Audit and Risk Management	9,926	13,268	14,679	16,781	16,124
9	P&GA	2,536	2,609	10,574	3,736	21,123
10	Legal Services	14,427	15,530	15,743	15,771	16,805
11	HSE	8,607	16,828	14,779	15,514	12,353
12	Incentive Compensation	44,517	45,762	72,652	55,865	56,441
13	**EEDO Total**	**432,00**	**399,85**	**468,545**	**472,172**	**524,203**
14	Variance		(32,144	68,688	3,627	52,031

53. EUI's corporate cost allocation methodology for these Corporate Shared Services has been utilized and accepted by other Canadian regulators, including the Alberta Utilities Commission. As seen in the table above, for the equivalent of three to four FTEs, EEDO is able to access a rich, robust and diverse suite of services from EUI. EEDO does not believe it is possible to attain this same level of service through additional headcounts at the utility.

54. In the Application and the filed responses to Undertaking J1.6, J2.2 and J2.3, EEDO provides a description of the benefits of the Corporate Shared Services.[31] The Corporate Shared Services are required for the success of the utility and are integral in enhancing safety, driving efficiency, creating a culture of accountability, staff retention, developing and implementing policies, and aligning EEDO with best practices. As stated above, utilizing benchmarking data, EEDO has confirmed it is in-line with its peers on both OM&A cost per customer and FTEs. EEDO believes that the Corporate Shared Services model provides significant value to ratepayers and is required to run the utility in an efficient and cost effective manner.

[31] EB-2022-0028, Undertakings J1.6, J2.2 and J2.3.

E. REVENUE REQUIREMENT

2.1 Are all elements of the revenue requirement reasonable, and have they been appropriately determined in accordance with OEB policies and practices?

2.2 Has the revenue requirement been accurately determined based on these elements?

55. The outstanding issue on the revenue requirement in this proceeding pertains to the long-term debt, and specifically the rate of such debt, that EEDO will borrow from its parent company, EUI. EEDO does not believe that using the OEB deemed cost of long-term debt as a ceiling for historical inter-company debt issuances is reasonable.

56. When borrowing to fund infrastructure assets, EEDO believes it is a prudent practice to have the term of the loan match the long-term nature of the asset. As the majority of EEDO's assets are long lived, EEDO has requested long term debt issued to EEDO from EUI has a 30 year term. This provides customers with consistency in rates for a much longer period of time and reduces refinancing risk. Instead of facing refinancing multiple times throughout the life of an asset as shorter term loans expire, ratepayers are provided with certainty for a far longer period of time.

57. EEDO's understanding is that if it were able to go directly to the market or a bank to obtain financing, then the affiliate long-term debt ceiling would not exist. However, given EEDO's small size, EEDO is unable to access the debt market directly and a bank is unlikely to lend to EEDO for a 30-year term. As such, EEDO is in a position where it is most prudent and practical to access this debt through EUI.

58. For the 2022 Bridge Year, EEDO expects to add $1.20 million of new long-term debt. For the 2023 Test Year, EEDO expects to add an additional $1.20 million of new long-term

debt.[32] When combined with EEDO's existing long-term debt, the weighted average cost of long-term debt is estimated to be 3.98%.[33]

59. EEDO does not believe that using the 2022 OEB deemed cost of long-term debt is reasonable for the debt issuances anticipated in the 2022 Bridge Year and the 2023 Test Year. The OEB deemed long-term debt rate was effective January 1, 2022 and utilized data from the fall of 2021. Debt markets have moved substantially since the time this data was used to calculate the rate and it is no longer reflective of the market today.

60. For example, the OEB's methodology using September 2021 data resulted in a Long Canada Bond Forecast of 2.14%. With the market changes in the underlying 30 year rates, the current 30 year rate has been in the 2.60% to 3.00% range in April and May 2022.[34]

61. When accessing debt from EUI, there is a fair and transparent process in place, which utilizes directly available market data for determining underlying interest rates and a market approach to determining credit spreads (based on credit rating agency methodologies), to ensure that the rates being charged to EEDO are prudent and comparable to market.[35]

62. In the Application, interrogatory responses and at the Oral Hearing, EEDO has discussed in detail the procedures it follows to ensure that the ultimate actual debt rates used for EEDO are comparable to market-based rates on arm's-length commercial terms.[36] As a result, EEDO believes the proposed rate for affiliated long-term debt affiliated debt is fair, prudent and comparable to the market.

[32] EB-2022-0028, Application, Exhibit 5 – Cost of Capital, page 10 lines 18 to 22.
[33] EB-2022-0028, Application, Exhibit 5 – Cost of Capital, Capital Table 5.2-2 at page 10.
[34] EB-2022-0028, Application, Exhibit 5 – Cost of Capital, page 9 lines 21 to 25, page 10 lines 1 to 2.
[35]Transcript, Volume 2, page 26, lines 3 to 18.
[36] EB-2022-0028, EEDO Interrogatory Responses to OEB Staff, Response to 5-Staff-56, pages 80 to 86; Transcript, Volume 2, page 26, lines 3 to 18; EB-2022-0028; Application, Exhibit 5 – Cost of Capital, pages 9-10.

F. LOAD FORECAST, COST ALLOCATION AND RATE DESIGN

3.1 Are the proposed load and customer forecast including the application of Conservation and Demand Management savings, loss factors, and resulting billing determinants appropriate, and to the extent applicable, are they an appropriate reflection of the energy and demand requirements of EPCOR Electricity Distribution Ontario Inc.'s customers?

3.3 Are EPCOR Electricity Distribution Ontario Inc.'s proposals, including the proposed fixed/variable splits, for rate design appropriate?

63. EEDO submits that the proposed load and customer forecasts are an appropriate reflection of the energy and demand requirements of EEDO's customers. The proposed load and customer forecast was calculated using the OEB's methodology and is based on historical data.

G. ACCOUNTING

4.1 Have all impacts of any changes in accounting standards, policies, estimates and adjustments been properly identified and recorded, and is the rate-making treatment of each of these impacts appropriate?

4.2 Are EPCOR Electricity Distribution Ontario Inc.'s proposals for deferral and variance accounts, including the balances in the existing accounts and their disposition, requests for new accounts, requests for discontinuation of accounts, and the continuation of existing accounts, appropriate?

Existing Accounts

64. With one exception, settlement was reached on the treatment and disposition of group 1 and group 2 deferral account balances. In the Application, EEDO has included: Account 1508 Other Regulatory Assets, Sub-account OEB Cost Assessment Variance as a request

for disposition. The account has a principal balance of $235,952 accumulated over seven years.

65. As stated in the OEB's February 9, 2016 guidance letter: "Regulated entities are expected to seek disposition of the variance account balances when their rates, payment amounts or fees, as applicable, are next rebased/reset, and the accounts will be closed to any further entries at that time. Regulated entities are reminded that, in the normal course, any disposition of deferral and variance account balances must meet any OEB default or company-specific materiality thresholds".[37]

66. Given that EEDO's balance meets the requirements for disposition and EEDO has not rebased since the account was setup, EEDO submits that this disposition is appropriate. The balance of the account is beyond the $50,000 deferral/variance account materiality.

67. Regarding impacts related to deferred rebasing, had EEDO not included deferred rebasing as part of its agreement with the Town of Collingwood (the **"Municipality**") in the MAADs Proceeding**,** EEDO's Test Year OM&A forecast would have included an increase in on-going regulatory costs intended to reflect this change in methodology. Through the disposition of this deferral account, EEDO is requesting to recover amounts that would have otherwise been recovered through rates.

New Accounts

68. EEDO requests a Non-Utility Billing Variance Account ("**NBDA**"). The NBDA is requested given the uncertainty of the continuance of the shared services agreement (the "**Services Agreement**") with the Municipality. At the time of the Application's initial submission, EEDO had been provided with informal notice from the Municipality regarding the continuance of the non-electricity billing services provided to the Municipality by EEDO. As such, EEDO has uncertainty beyond its Test Year given the 12 month termination clause in the Services Agreement. Since this time, EEDO has been served with a formal

[37] OEB Guidance Letter re Revisions to the Ontario Energy Board Cost Assessment Model dated February 9. 2016 at page 2.

notice of exit for this line of business and an opportunity to rebid on the services covered by the Services Agreement.

69. As per the OEB's filing requirements, the establishment and approval of a new variance account requires three criteria to be met:

- Causation: the forecasted expense must be clearly outside of the base upon which rates were derived.

- Materiality: the forecasted amounts must exceed the OEB-defined materiality threshold and have a significant influence on the operation of the distributor, otherwise they must be expensed in the normal course and addressed through organizational productivity improvements.

- Prudence: the nature of the costs and forecasted quantum must be based on a plan that sets out how the costs will be reasonably incurred, although the final determination of prudence will be made at the time of disposition. In terms of the quantum, this means that the applicant must provide evidence demonstrating that the option selected represents a cost-effective option (not necessarily least initial cost) for ratepayers.

70. **Causation:** EEDO's relationship with the Municipality is less common than most LDCs as the Municipality is not the shareholder of the LDC, and as a result, other considerations beyond the control of EEDO may factor into the decision of the Municipality as to the timing of any changes to the Services Agreement. Based on the letter EEDO received from the Municipality, EEDO will not be recovering the same cost built into the rate filing and as the Services Agreement is built on mutually beneficial cost mitigation, a majority of the costs will continue to be incurred by EEDO, but without the revenue offset built into 'Other Revenue'.

71. **Materiality:** In order to maintain existing service levels and without further mitigation, the impacts of a complete loss of this line of business would lead to a net increase of

approximately $500,000 in OM&A costs currently allocated to this service, thereby increasing EEDO's revenue requirement.

72. **Prudence:** EEDO expects that it will need to take drastic measures to absorb this loss and as such EEDO requests that an NBDA account be established in order to mitigate related costs that would otherwise be included as OM&A costs in the Application. EEDO is continuing to work with the Municipality to maintain this service, even at a reduced cost in comparison to what is reflected in the 2023 Test Year forecast, and only seeks recovery of unavoidable costs that would still be incurred. These costs materially include an allocated portion of EEDO's customer information system ("**CIS**") costs along with an allocated portion of its metering communication network. Both of these expenses incurred will not materially vary should the Municipality decide to discontinue this arrangement. The projected impact is $200,000 annually commencing in 2024.

Recovery of Income Taxes Deferral Account

73. EEDO proposes to establish a Recovery of Income Tax Deferral Account ("**RITDA**") for use during the Price Cap IR Term covered by this Application. The purpose of the RITDA is for EEDO to record the difference between the zero cash income taxes included in the revenue requirement proposed in this Application and the actual cash income taxes for its EEDO operations (as calculated at the tax rate currently in place at the time of this Application) throughout the Price Cap IR Term, commencing in the year 2023.

74. Cost of Service methodology allows for the recovery of taxes in the test year. In this Application, taxes included in the revenue requirement are zero in the 2023 Test Year. Whereas the year 2023 sets the base for future years' revenue under Price Cap IR, and whereas income taxes payable in subsequent years of the Price Cap IR Plan are expected to be a material positive amount, embedding such a minimal tax amount in the base revenue requirement does not allow for recovery of taxes in 2023 and beyond. Establishing the requested deferral account will enable the recording and fair recovery of incurred income tax expenditures over the Price Cap IR Term once the loss carry-forward balance for regulatory purposes is fully utilized.

H. OTHER

5.1 Is the proposed effective date for 2023 rates appropriate?

75. During preliminary planning for the preparation of the cost of service application, EEDO staff inquired with OEB Staff to confirm when EEDO was scheduled to file a cost of service application, given the wording of the rate order from the MAADs Proceeding. EEDO was informed that its next cost of service filing was scheduled for May 1, 2023.

76. Further to this, EEDO opted to align its rate effective date with the January 1 fiscal year as allowed in the OEB's filing requirements, resulting in a January 1, 2023 application. While EEDO's diligence in this inquiry was limited, communication with OEB staff was intended to seek clarification on the anticipated effective date of the Application to ensure compliance with the OEB's decision.

77. On September 23, 2022, EEDO filed an update to the Application requesting an effective date for new rates of October 1, 2023.[38] This update was filed to ensure compliance with the requirement set out in the Share Purchase Agreement between EEDO and the Municipality for CollusLDC, which required EEDO to maintain existing rates for customers for five years following the closing date of October 1, 2018, save for adjustments by the OEB's Price Cap Incentive rate-setting option.

78. In addition, the Decision and Order from the MAADs Proceeding approves the request to defer the rebasing of CollusLDC for five years from the date of closing of the share acquisition transactions. As the resulting order has not been varied, it continues to bind the utility.[39]

79. Had EEDO submitted the initial application for a January 1, 2024 effective date, then it would have filed an incentive rate-setting mechanism electricity distribution rate ("**IRM**")

[38] EB-2022-0028, Updated Evidence.
[39] EB-2017-0373/74, Decision and Order at page 16.

application for May 1, 2023, which is equivalent to foregoing approximately $125,000 in distribution revenue.

80. In light of this change in effective date, EEDO will not be filing an IRM application for rates effective May 1, 2023. However, EEDO intends to file an IRM application for rates effective January 1, 2024 in order to align rates with its fiscal year as originally requested.

81. EEDO submits that the requested effective date of October 1, 2023 is appropriate given the contractual commitments, condition of the Decision and Order in the MAADs Proceeding and as EEDO will not be filing an IRM for May 1, 2023.

82. EEDO requests that the OEB grant an October 1, 2023 effective date and allow EEDO to file its first IRM application under its new cost of service on January 1, 2024.

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83. EEDO submits that in the context of the relatively low level of its current rates, the rate increases being sought in this Application are reasonable and appropriate.

84. For all of the reasons set out in this submission, EEDO respectfully requests that the OEB approve EEDO's proposal for each of the unsettled items in this proceeding.

All of which is respectfully submitted this 3rd day of March, 2023.

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