Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL

January 15, 2024

Ms. Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Marconi:

Re: Ontario Energy Board (OEB) Staff Submission
Synergy North Corporation
2024 Cost of Service Application
OEB File Number: EB-2023-0052

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

Yours truly,

Original Signed By

Amber Goher Digitally signed by Amber Goher Date: 2024.01.15 13:48:28 -05'00'

Amber Goher
Advisor – Electricity Distribution Rates I

Encl.

cc: All parties in EB-2023-0052

ONTARIO ENERGY BOARD

OEB Staff Submission

Synergy North Corporation

Cost of Service Application

EB-2023-0052

January 15, 2024

1. Introduction

This is OEB staff's submission on a settlement proposal filed by Synergy North Corporation (Synergy North) related to its application for May 1, 2024 electricity distribution rates (Application). The settlement proposal represents a complete settlement on all issues on the OEB-approved issues list.

The settlement proposal was arrived at during a settlement conference held from November 20, 2023 to November 21, 2023. The parties to the settlement proposal include Synergy North and all approved intervenors, namely: School Energy Coalition (SEC), Vulnerable Energy Consumers Coalition (VECC), Association of Major Power Consumers in Ontario (AMPCO) and Consumers Council of Canada (CCC) (collectively, the Parties). OEB staff attended the settlement conference; however, it is not a party to the settlement proposal.

If the settlement proposal is approved, a typical residential customer with a monthly consumption of 750 kWh would see a total bill[1] increase of $0.44 (0.35%) in Kenora and $6.76 (5.56%) in Thunder Bay.

[1] Including taxes and the Ontario Electricity Rebate

2. Overview

OEB staff submits that the settlement proposal is in the public interest and the accompanying explanation and rationale are adequate to support the settlement proposal. OEB staff further submits that the settlement proposal would result in just and reasonable rates for the customers of Synergy North.

OEB staff's position was developed in consideration of the objectives of the *Renewed Regulatory Framework*[2] (RRF), the *Handbook for Utility Rate Applications*[3], applicable OEB policies, relevant OEB decisions, and the OEB's statutory obligations.

This submission provides reasons for OEB staff's position by commenting on each issue as they appear on the OEB-approved issues list, as shown below.[4]

- Issue 1: Capital Spending and Rate Base
- Issue 2: Operating, Maintenance and Administration (OM&A)
- Issue 3: Cost of Capital, PILs, and Revenue Requirement
- Issue 4: Load Forecast
- Issue 5: Cost Allocation, Rate Design, and Other Charges
- Issue 6: Deferral and Variance Accounts
- Issue 7: Other

[2] Report of the Board – *Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach*, October 18, 2012
[3] *Handbook for Utility Rate Applications*, October 13, 2016
[4] EB-2023-0052: OEB approved Issues List

3. OEB Staff Submissions on the Issues

The OEB-approved issues list included seven issues, each of which contains one or more sub-issues. OEB staff's submission is categorized in accordance with the approved issues list.

Issue 1: Capital Spending and Rate Base

1.1 Are the proposed capital expenditures and in-service additions appropriate?

OEB staff supports the proposed capital expenditures and in-service additions. Through settlement, the Parties agreed to a reduction of 2024 opening net fixed assets of $32k based on capital work completed in 2023. The Parties also agreed to an envelope reduction of $500k (3.4%) for 2024 in-service additions, resulting in a proposed in-service additions budget for the 2024 Test Year of $14.4M.[5]

As described in the settlement proposal, the reduction to capital in-service additions is on an envelope basis, even though it has been applied to specific asset classes for the purposes of rate calculations.

OEB staff submits the proposed in-service additions budget is sufficient for Synergy North to continue to operate its system reliably.

The Parties also agreed that Synergy North will separately track the system average interruption frequency index (SAIFI) and system average interruption duration index (SAIDI) at a cause code level for the former Thunder Bay Rate Zone and Kenora Rate Zone until the next rebasing and will submit the information as part of that application.[6]

1.2 Are the proposed rate base and depreciation amounts appropriate?

OEB staff considers the 2024 rate base and depreciation amounts reasonable. The 2024 rate base and depreciation amounts have been calculated on the basis agreed to by the Parties.

The proposed 2024 rate base is $160M, a $36k (0.02%) reduction from the amount included in the Application.[7] The minimally adjusted rate base agreed to by the Parties is due to reductions in capital additions and OM&A being offset by increases in cost of power and working capital allowance. The proposed 2024 depreciation amount is $6.2M.

[5] Settlement Proposal, pp. 14-16
[6] Settlement Proposal, p. 15
[7] Settlement Proposal, pp. 17-19

Issue 2: OM&A

2.1 Are the proposed OM&A expenditures appropriate?

OEB staff considers the agreement reached by the Parties with respect to 2024 OM&A expenses reasonable.

Synergy North proposed total OM&A expenses of $21.4M for the 2024 Test Year in the Application, an increase of 19% (or 2.6% compounded annually) compared to the 2017 actual OM&A spending of $17.9M. Synergy North stated that the OM&A cost increases have been driven by inflation, salaries and benefits, increased tree trimming costs, higher levels of general administration (IT and cybersecurity) and overhead costs reflecting a growing asset base.[8]

In 2017, Thunder Bay Hydro achieved an efficiency assessment of 4 in Pacific Economics Group's (PEG) Benchmarking report to the OEB. Post merger, Synergy North has achieved merger efficiencies and moved into Group 3 as a merged entity[9]. As stated in the settlement proposal, Synergy North is expected to remain in Group 3 (the third most efficient group) productivity rating in 2024.

Through settlement, the Parties have agreed to an envelope reduction of $600k to Synergy North's proposed 2024 OM&A expenses. The revised 2024 OM&A spending represents an increase of 16% (or 2.2% compounded annually) compared to the 2017 actual OM&A spending. OEB staff notes that Synergy North has achieved approximately $884k in sustained annual operating savings as a result of the amalgamation of Thunder Bay Hydro and Kenora Hydro in 2019[10] due to FTE reductions, consolidation of office space and services such as billing, corporate IT, regulatory and financial functions.[11]

In the context of the overall settlement proposal, OEB staff submits that the envelope reduction of $600k in OM&A is reasonable. OEB staff further notes that the settled OM&A envelope should ensure that Synergy North has the resources to maintain a safe and reliable distribution system.

2.2 Is the proposed shared services cost allocation methodology and the quantum appropriate?

OEB staff supports the proposed shared services cost allocation methodology and quantum.

[8] Exhibit 4, p. 19 & 24
[9] PEGs Benchmarking Report to the OEB, July, 2023
[10] EB-2018-0124
[11] Exhibit 1, p. 101

Issue 3: Cost of Capital, PILs, and Revenue Requirement

3.1 Is the proposed cost of capital (interest on debt, return on equity) and capital structure appropriate?

OEB staff supports the proposed cost of capital and capital structure as summarized in Tables 3.1A and 3.1B of the settlement proposal on the basis that the cost of capital calculation has been determined in accordance with OEB policies and practices. The proposed short-term debt rate and return on equity are based on the OEB's latest cost of capital parameters for 2024.[12] The long-term debt rate, applied to Synergy's actual debt, is set at 4.20%, with the forecasted interest rate for three loans with 2023 and 2024 start date set at 4.92% as this is the most recent funding rate received from the TD Bank on December 1, 2023. The notional debt rate[13], which is applied to the difference between the deemed amount of debt and actual debt, has been calculated by excluding the principal and interest associated with the City of Thunder Bay debt[14] from the weighted average cost of long-term debt, as shown in Table 3.1B of the Settlement Proposal.

The Parties have agreed on the use of the OEB-approved deemed capital structure of 4% short term debt, 56% long term debt and 40% equity.

OEB staff submits that the agreed upon capital structure and cost of capital parameters are appropriate.

3.2 Is the proposed PILs (or Tax) amount appropriate?

OEB staff does not take issue with the forecast PILs expense of $920k as agreed to by the Parties. Furthermore, OEB staff is of the view that the calculation of the PILs, including the recognition of accelerated CCA in the 2024 Test Year in the settlement proposal is appropriate.

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 expected to be phased out starting in 2024 and fully phased out in 2028.

In its July 25, 2019 letter titled Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance (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, Account 1592 - PILs and Tax Variances, Sub-account CCA Changes to track the impact

[12] OEB Letter – Cost of Capital Parameters, October 31, 2023
[13] EB-2023-0052 Exhibit 5, p. 10
[14] Prior to October 1, 2021, this debt had an effective interest rate of 0% under the City of Thunder Bay's rate minimization approach.

of any differences that result from the CCA change to the tax rate or rules that were used to determine the tax amount that underpins rates.

The credit balance of $1.97M in the CCA Changes sub-account of Account 1592 represents the full revenue requirement impact of the application of accelerated CCA as of December 31, 2023, including interest up to April 30, 2024.

OEB staff is supportive of Synergy North's calculation of the CCA differences that are accumulated in Account 1592, Sub-account CCA Changes, from January 1, 2019 to December 31, 2023, as agreed to by the Parties.

OEB staff notes that Synergy North calculates the CCA differences by comparing the CCA on the actual (or forecast, as applicable) capital additions in the respective period under the legacy rule to the accelerated CCA on the same capital additions in the respective period under the AIIP. OEB staff notes that this calculation method has been used by distributors, accepted by parties, and approved by the OEB in a number of previous cost-of-service proceedings.[15]

Synergy North has not proposed a smoothing mechanism to address the tax impacts over the five-year IRM term for the AIIP CCA changes.[16] The Parties agreed on this approach. As a result, no smoothing proposal related to those future changes has been incorporated in the Test Year PILs calculation. OEB staff does not take issue with this agreed-upon approach.

3.3 Is the proposed Other Revenue forecast appropriate?

OEB Staff has no concerns with the proposed Other Revenue forecast. Through interrogatories and the pre-settlement clarification questions, Synergy North updated the 2024 Test Year other revenue forecast to $2.83M, an increase of $134k compared to $2.70M included in the Application (Table 3.3A of the settlement proposal). This reflected actual in-service additions and accounted for the additional capital contributions received to date in 2023.

3.4 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?

OEB staff does not take issue with the settlement proposed by the Parties for this element of the application.

[15] Milton Hydro Distribution Inc. 2023 Cost of Service Decision and Order, EB-2022-0049, October 13, 2022 and Kinston Hydro Corporation 2023 Cost of Service Decision and Order, EB-2022-0044, November 22, 2022
[16] 9-Staff-71, IRR

The Parties agree that the impacts of any changes in accounting standards, policies, estimates and adjustments have been properly identified and recorded, and the rate-making treatment of these impacts is appropriate.

3.5 Is the proposed calculation of the Revenue Requirement appropriate?

OEB staff supports the proposed revenue requirement which has been calculated in accordance with the agreements reached through the settlement process.

The Parties agreed to a service revenue requirement of $37.9M and a base revenue requirement of $35.1M.[17] These values reflect a reduction in the 2024 Test Year capital and OM&A expenditures of $500k and $600k, respectively, compared to the Application. The values also reflect changes to revenue offsets, depreciation, cost of capital, working capital allowance, PILs and the RRRP rates published by the OEB.[18] Table B (p.7) of the settlement proposal shows the change in revenue requirement between the Application, interrogatories, and the settlement proposal.

Issue 4: Load Forecast

4.1 Is the proposed load forecast methodologies and the resulting load forecasts appropriate?

OEB staff submits that the load forecast included in the settlement proposal is reasonable.

OEB staff supports the proposed consumption, demand and customer forecasts of 992 GWh, 1,198 MW, and 71,423 respectively (Table 4.1A of the settlement proposal). Relative to the Application, this reflects an increase of 4 GWh for consumption and 2 MW for demand. The proposed customer forecast increases by one compared to the Application.

Issue 5: Cost Allocation, Rate Design, and Other Charges

5.1 Are the proposed cost allocation methodology, allocations, and revenue-to-cost ratios, appropriate?

The Parties agreed to two changes to the cost allocation proposed by Synergy North.

1. The weighting factors for Billing and Collecting were revised in response to information about the allocation of printing, postage, and rent.[19]
2. The revenue surplus from increasing the revenue-to-cost ratio of the Street Lighting Rate class into the OEB's prescribed range over the next two years is applied only toward reducing the revenue-to-cost ratio of the General Service <

[17] Settlement Proposal, Table 3.5A, p.34
[18] EB-2023-0268, December 7, 2023
[19] Response to Clarification question VECC-75.

50 kW rate class. This is the rate class with the highest revenue-to-cost ratio.

The revenue-to-cost ratios for all rate classes except the Street Lighting rate class are within the OEB prescribed ranges. The Street Lighting revenue-to-cost ratio is 64.7%, while the prescribed range is 80% to 120%.[20] The Parties agreed Synergy North would increase the revenue-to-cost ratio to 71% in 2024 and 80% in 2025.

OEB staff has no concerns with the cost allocation methodology as agreed to by the Parties, or with the resulting revenue-to-cost ratios.

5.2 Is the proposed rate design, including fixed/variable splits, appropriate?

The Parties agreed that Synergy North would apply the existing fixed charge from the Thunder Bay Rate Zone as the 2024 harmonized fixed charge in the General Service > 50 kW and Intermediate rate classes. The Parties agreed that Synergy North would apply its initial proposal to maintain the fixed/variable split for the General Service < 50 kW rate class, despite this resulting in an increase to the fixed charge, where the fixed charge is already above the ceiling as calculated by the cost allocation model. The Parties took this approach to mitigate bill impacts resulting from rate harmonization.

In the context of managing bill impacts resulting from rate harmonization, OEB staff does not have any concerns with the proposed rate design, including the fixed/variable splits.

5.3 Are the proposed Retail Transmission Service Rates (RTSR) appropriate?

OEB staff supports the RTSR rates as agreed to by the Parties.

5.4 Are the proposed loss factors appropriate?

OEB staff supports the proposed loss factors as shown in the settlement proposal.

OEB staff notes that the proposed loss factor of 3.98% reflects an increase from Thunder Bay's approved loss factor of 3.94% and a decrease from Kenora's 4.3%.

5.5 Are the Specific Service Charges and Retail Service Charges appropriate?

The Parties agreed that Synergy North would adopt the specific service charges from the Thunder Bay Rate Zone for the entire harmonized service area, except for the charge for an Easement Letter, which is proposed to increase from $15.00 to $26.75.

OEB staff has no concerns with Synergy North's proposed Specific Service Charges and Retail Service charges.

5.6 Are rate mitigation proposals required and appropriate?

[20] Settlement Proposal, Table 5.1A, p. 39

The Parties agreed that Synergy North would adjust the revenue-to-cost ratio for its Street Lighting class to 80% over two years, to mitigate bill impacts that would result from making the adjustment in a single year. Offsetting decreases were made to the GS < 50 kW rate class, the rate class with the highest revenue-to-cost ratio, to maintain revenue neutrality, as noted in section 5.1.

OEB staff has no concerns with the agreed-upon rate mitigation.

Issue 6: Deferral and Variance Accounts

6.1 Are the 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?

OEB staff supports the settlement agreement reached by the Parties relating to deferral and variance accounts (DVAs).

The Parties agreed to the disposition of the following DVA balances as of December 31, 2022 and forecasted interest through to December 31, 2023, over a one-year disposition period.

- Group 1 DVAs of a total debit balance of $2,623,183, including
  - Thunder Bay rate zone debit balance of $2,329,052
  - Kenora rate zone debit balance of $294,131
- Group 2 DVAs of a total credit balance of $4,774,848, including
  - Thunder Bay rate zone credit balance of $2,527,686
  - Kenora rate zone credit balance of $376,432
  - For combined Synergy (since amalgamation) credit balance of $1,870,730

Four Group 2 DVA balances include forecasted principal amounts up to December 31, 2023, and one Group 2 DVA account includes a forecasted principal amount up to April 30, 2024.[21]

In its pre-filled evidence, Synergy North did not request any new accounts. Instead, it sought approval to continue four existing Group 2 accounts for future deferrals. These include Accounts 1518/1548 – Retail Cost Variance Account and Account 1508 – OEB Cost Assessment in both the Thunder Bay and Kenora rate zones, as well as Account 1508 – Green Button Initiative in the combined Synergy rate zone. Additionally, Synergy North requested the discontinuation of Account 1592, sub-account CCA Changes in the combined Synergy North rate zone due to the anticipation of no future activity after its disposal.

[21] Settlement Proposal, p. 51

Through interrogatories,[22] OEB staff noted that Account 1518/1548 needs to be closed to comply with Chapter 2 of the OEB's *Filing Requirements for Electricity Distribution Rate Applications*. Similarly, Account 1508 - Green Button Initiative also requires closure because Synergy North has included $76k Green Portal expenses in its revenue requirement of 2024 test year. OEB staff also noted that Account 1592 sub-account CCA Changes, needs to be continued, considering the phase-out of AIIP starting in 2024 and that Synergy North is not using any smoothing mechanism to address further CCA changes between the CCA on the actual (or forecast, as applicable) capital additions in the respective period under the legacy rule and accelerated CCA on the same capital additions in the respective period under the AIIP in its next incentive period. VECC also highlighted the necessity to close Account 1508 OEB Cost Assessment, as it was initially established to address a change in the OEB's assessment methodology, which has now been completed.

In its interrogatory responses, Synergy North agreed to close Accounts 1518/1548 and Account 1508 OEB Cost Assessment, and to continue Account 1592 sub-account CCA changes. As part of the settlement proposal,[23] Synergy North also agreed to close Account 1508 - Green Button Initiative.

OEB staff has no issue with the proposed continuation and discontinuation of these Group 2 accounts.

Issue 7: Other

7.1 Is the proposed effective date appropriate?

OEB staff supports the settlement proposal with respect to Synergy North's requested effective date of May 1, 2024.

7.2 Has the applicant responded appropriately to all relevant OEB directions from previous proceedings?

OEB staff supports the Parties' view that Synergy North has responded appropriately to all previous OEB directions.

7.3 Is the rate harmonization proposal appropriate?

Synergy North proposed, and the Parties agreed that rates would be harmonized in a single year. Total fixed revenue and total variable revenue (from both rates zones) for each rate class were used as a starting point for cost allocation and rate design. New rates were then set based on the combined billing determinants.

[22] 9-Staff-70, 9-VECC-71, 9-Staff-71, IRR
[23] Settlement Proposal, p. 51

OEB staff has no concerns with the proposal for rate harmonization.

~All of which is respectfully submitted~