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

BY EMAIL

October 8, 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
Centre Wellington Hydro Ltd.
2025 Cost of Service Application
OEB File Number: EB-2024-0012

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to the direction provided in the OEB's letter dated September 24, 2024.

Yours truly,

Narisa Jotiban
Digitally signed by Narisa Jotiban
Date: 2024.10.08 13:18:26 -04'00'

Narisa Jotiban
Senior Advisor – Electricity Distribution Rates

Encl.

cc: All parties in EB-2024-0012

ONTARIO ENERGY BOARD

OEB Staff Submission

Centre Wellington Hydro Ltd.

Cost of Service Application

EB-2024-0012

October 8, 2024

1. Introduction

This is OEB staff's submission on the settlement proposal filed by Centre Wellington Hydro Ltd. (Centre Wellington Hydro) related to its application for January 1, 2025 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 August 19, 2024 to August 20, 2024. The parties to the settlement proposal include Centre Wellington Hydro and all approved intervenors, namely: School Energy Coalition (SEC) and Vulnerable Energy Consumers Coalition (VECC) (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 monthly distribution charge increase of $0.04 (0.03%).[1]

This submission reflects observations that arise from the OEB staff's review of the evidence and the settlement proposal. It is intended to assist the OEB in deciding upon Centre Wellington Hydro's application and the settlement proposal.

[1] Including taxes and the Ontario Electricity Rebate

2. Overview

OEB staff 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'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.

Below, OEB staff provides specific submissions on the issues 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 (DVAs)
- Issue 7: Other

The approved issues list also contains two additional sub-issues to issue 7 related to an Advanced Capital Module (ACM) proposal for a new distribution station build and a proposal to merge Centre Wellington Hydro's current GS 50-2,999kW and GS 3,000-4,999kW rate classes into one GS 50-4,999kW rate class.

[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-2024-0012, Decision on Issues List, June 28, 2024

3. OEB Staff Submissions on the Settlement Proposal

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.

In response to interrogatories, Centre Wellington Hydro updated its capital in-service additions budget for the 2024 Bridge Year and the 2025 Test Year to $3.6M and $1.4M respectively.[5]

Through settlement, the Parties agreed to a reduction of $150k (4%) in the 2024 Bridge Year closing balance in the System Renewal category, resulting in a proposed in-service additions budget of $3.4M for the 2024 Bridge Year. For the 2025 Test Year, the Parties agreed to a reduction of $200k in the closing balance in the System Renewal category as well as an addition of $75k to the System Access capital contributions. The resulting proposed net in-service additions budget for the 2025 Test Year is $1.2M, a decrease of 19% from $1.4M which was updated through interrogatory responses.[6]

OEB staff agrees with the pacing proposed by the Parties in the settlement proposal and submits that the proposed in-service additions budgets for 2024 and 2025 are sufficient for Centre Wellington Hydro to continue operating its system reliably.

1.2 Are the proposed rate base and depreciation amounts appropriate?

OEB staff supports the proposed rate base and depreciation amounts which have been calculated in accordance with the settlement proposal.

The proposed 2025 rate base is $20.6M, a $341k (2%) reduction from $20.9M (updated in response to interrogatories).[7] The adjustments agreed to by the Parties in the following areas contribute to the adjusted rate base: capital additions, depreciation, and allowance for working capital.

The proposed 2025 depreciation expense is $741k,[8] a $6k (1%) reduction from $747k (updated in response to interrogatories).[9] The adjustment to the depreciation expense reflects the changes made to the 2024 and 2025 in-service additions, as indicated above under Issue 1.1.

[5] CWH_2025_Chapter 2 IRR_20240801, Tab App.2-AA_Capital Projects
[6] Settlement Proposal, p. 12
[7] Ibid, p. 14
[8] Ibid
[9] CWH_2025_Chapter 2 IRR_20240801, Tab App.2-BA_Fixed Asset Cont

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 2025 OM&A expenses reasonable and appropriate.

Centre Wellington Hydro proposed total OM&A expenses of $3.1M for the 2025 Test Year in the Application, an increase of 34% (or 4.2% compounded annually) compared to the 2018 OEB-approved OM&A spending of $2.3M. In the Application, Centre Wellington Hydro stated that the OM&A cost increases since 2018 have been driven by inflation, labour related costs, labour allocation between capital and operations and maintenance, professional services (which includes contractors), membership dues, and IT expenses.[10]

Through settlement, the Parties agreed to a 2025 OM&A envelope reduction of $90k, resulting in $3.0M OM&A expenses. The revised 2025 OM&A spending represents an increase of 30% (or 3.8% compounded annually) compared to the 2018 OEB-approved OM&A amount.[11]

In considering Centre Wellington Hydro's cost efficiency performance, OEB staff notes that Centre Wellington Hydro improved from Cohort 3 (the third most efficient group) in 2018 to Cohort 2 (the second most efficient group) in 2022.[12]

OEB staff submits that the envelope reduction of $90k in OM&A is reasonable and that the settled OM&A envelope should ensure that Centre Wellington Hydro has sufficient 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.

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?

Table 7 of the settlement proposal summarizes the cost of capital calculation for the Application, interrogatories and settlement agreement.

In the Application, Centre Wellington Hydro presented a debt instrument table for the

[10] Updated Exhibit 4, p. 15, June 5, 2024
[11] Settlement Proposal, p. 16
[12] Empirical Research in Support of Incentive Rate-Setting: 2022 Benchmarking Update, July 2023, Table 4

2025 Test Year which shows four previously approved loans including a promissory note with the Township of Centre Wellington (at an interest rate of 7.25%) as well as two new third-party loans of $1.5M and $3.2M with no start date[13] (at an interest rate of 4.58% which is equal to the OEB's 2024 weighted long-term debt rate).[14] The 2025 weighted average long-term debt rate based on these six loans is calculated at 5.31%.[15]

OEB staff notes that a long-term debt rate of 4.58% was used in the cost of capital calculation instead of 5.31%, resulting in a weighted average cost of capital of 6.50% calculated for the 2025 Test Year.[16]

In response to interrogatories,[17] Centre Wellington Hydro recalculated its 2025 cost of capital by replacing the interest rate of 7.25% for the promissory note with the OEB's 2024 long-term debt rate of 4.58% for rate making purposes. In the same interrogatory responses, Centre Wellington Hydro also updated the interest rates and start dates for the two new third-party loans:

- $1.5M loan from Infrastructure Ontario with an effective date of October 15, 2024 and an interest rate of 5.05%
- $3.2M loan from Infrastructure Ontario with an effective date of July 1, 2025 and the OEB's 2024 long-term debt rate of 4.58%.

Through settlement,[18] the Parties agreed that Centre Wellington Hydro will use the OEB's 2024 weighted long-term debt rate of 4.58% for the proposed $1.5M loan from Infrastructure Ontario. In addition, the Parties agreed that Centre Wellington Hydro will use the OEB's 2025 weighted long-term debt rate for the proposed $3.2M loan. The OEB's 2024 weighted long-term debt rate of 4.58% is used as a placeholder in the settlement proposal and the proposed mid-Test Year issuance for this loan will be reflected when calculating the weighted average cost of debt. This approach results in a calculated weighted long-term debt rate of 3.86%. OEB staff notes that the agreed upon weighted long-term debt rate of 3.86% is lower than the OEB's 2024 long-term debt rate of 4.58%.

Centre Wellington Hydro used a short-term debt rate of 6.23% (the 2024 approved short-term debt rate) in all cost of capital calculations. Based on Centre Wellington Hydro's responses to OEB staff's interrogatories[19] and pre-settlement clarification question,[20] the Parties agreed that the 2025 deemed short-term debt rate (DSTDR) will be the deemed 2025 short-term debt rate determined by the OEB as part of the Cost of

[13] Updated Exhibit 5, Table 3, p. 5, June 5, 2024
[14] Cost of Capital Parameter Updates
[15] Updated Exhibit 5, Table 3, p. 5, June 5, 2024
[16] Ibid, Table 2, p. 4
[17] 5-Staff-45(d) IRR and 4-SEC-20 IRR
[18] Settlement Proposal, pp. 18-19
[19] 5-Staff-44 IRR
[20] Pre-settlement Conference Clarification Question Staff 1

Capital parameters to be published in the fourth quarter of 2024, and will be implemented in accordance with the direction set out in the OEB's Letter and Accounting Order issued on July 26, 2024.[21]

Overall, the settlement agreement results in a calculated weighted average cost of capital of 6.09% for the 2025 Test Year.[22] OEB staff notes that the agreed upon weighted average cost of capital of 6.09% is lower than the OEB's 2024 weighted average cost of capital of 6.50%.

The Parties noted that the settled cost of capital parameters will be updated once the OEB releases the 2025 Cost of Capital parameters.[23]

In addition, the Parties agreed that Centre Wellington Hydro will comply with the outcomes of the cost of capital parameter update and the cost of capital generic proceeding as they are applicable to Centre Wellington Hydro.[24] OEB staff is of the view that this is appropriate.

In the OEB's July 26, 2024 Letter and Accounting Order (EB-2024-0063), the OEB approved the establishment of a generic variance account for electricity distributors to capture certain revenue requirement impacts related to the DSTDR. It is OEB staff's expectation that Centre Wellington Hydro shall establish and record entries in the generic variance account, given that Parties agreed to Centre Wellington Hydro implementing the DSTDR in accordance with the direction set out in the OEB's Letter and Accounting Order.

All 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.[25]

OEB staff submits that the agreed upon cost of capital calculations have been appropriately determined in accordance with OEB policies and practices, including the OEB's latest cost of capital parameters. In addition, the agreed upon capital structure and updates to the cost of capital are appropriate.

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

OEB staff has no concerns with the forecast PILs expense of nil as agreed to by the Parties.[26] OEB staff does not oppose the Parties' agreement related to the calculation of the PILs amount and the application of legacy capital cost allowance (CCA) rules instead of accelerated CCA for the 2025 through 2029 years.

[21] EB-2024-0063, OEB Letter and Accounting Order – DVA Rate and DSTDR, July 26, 2024
[22] Settlement Proposal, Table 7, p. 19
[23] Ibid, p. 18
[24] Ibid
[25] Ibid, Chapter 2, Appendix 2-OA
[26] Ibid, pp. 20-21

The Parties also agreed that Centre Wellington Hydro would refile its 2018 through 2023 tax filings applying the same rules in place of the accelerated CCA that was applied in the Application.[27] Additional details are provided under Issue 6.1 including the utilization of Account 1592 PILs and Tax Variance for 2006 and Subsequent Years sub account CCA Changes.

Given that the test year's PILs is based on the legacy CCA rule, OEB staff notes that there is no need for the smoothing mechanism.

3.3 Is the proposed Other Revenue forecast appropriate?

OEB staff has no issues with the revised 2025 Test Year Other Revenue of $328k, a decrease of $27k compared to $355k in the Application (as set out in Table 9 of the settlement proposal).

This adjustment is mainly driven by decreases in Miscellaneous Service Revenues and Other Income and Deductions which are partly offset by an increase in Other Operating Revenues.

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 agrees with the Parties 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.[28]

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 settlement proposal and referenced documents.

Table 10 of the settlement proposal shows the change in revenue requirement between the Application, interrogatory response, and the settlement proposal.

As indicated on Table 10, the Parties agreed to a service revenue requirement of $5.0M and a base revenue requirement of $4.7M. These values reflect a reduction in the 2025 Test Year capital and OM&A expenditures of $275k and $90k, respectively, compared to the Application. The values also reflect changes to revenue offsets, depreciation, cost of capital, and working capital allowance.

[27] Settlement Proposal, p. 20
[28] Ibid, p. 23

Issue 4: Load Forecast

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

OEB staff submits that the agreed upon Load Forecast Model is appropriate.

In response to interrogatories, Centre Wellington Hydro updated the load forecasts and these updated forecasts were agreed upon by all the Parties, as indicated in Tables 11 and 12 of the settlement proposal.

OEB staff supports the proposed consumption, demand and customer forecasts of 141 GWh, 192 MW, and 9,579 respectively. Relative to the Application, this reflects an increase of 1.5 GWh for consumption and 1.2 MW for demand. The proposed customer forecast decreases by 14 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?

As updated through interrogatory responses, pre-settlement conference clarification question responses and the settlement proposal, the Parties accepted the results of Centre Wellington Hydro's cost allocation methodology and its proposed revenue-to-cost ratios.[29]

The Parties noted that while they do not necessarily accept the new methodology used by Centre Wellington Hydro to produce the updated load profiles used in the cost allocation model, they accepted the load profiles produced by that methodology for the purposes of the 2025 cost allocation.[30]

In the Application, the 2025 revenue-to-cost ratios from the cost allocation model for all rate classes fall within the OEB's prescribed range (0.85 to 1.15 for residential rate class and 0.8 to 1.2 for the remaining rate classes) except Unmetered Scattered Load (USL) and Street Lighting rate classes which are at 0.5334 and 0.5343 respectively.[31]

Through settlement, the Parties agreed to update the revenue-to-cost ratios for all rate classes as indicated on Table 13 of the settlement proposal. The revenue-to-cost ratio for the USL and Street Lighting rate classes were adjusted upward to 0.8 while the revenue-to-cost ratio for the GS<50kW rate class was adjusted downward from 1.0677 to 1.0215 in a single year to offset the increases for the USL and Street Lighting rate classes. After this adjustment, GS<50kW remains the rate class with the highest

[29] Settlement Proposal, p. 27
[30] Ibid.
[31] Ibid, Table 13, p. 27

revenue-to-cost ratio.[32]

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?

In the Application, Centre Wellington Hydro proposed to maintain the fixed/variable split for all rate classes except GS>50kW which is above the ceiling. For GS>50kW rate class, Centre Wellington Hydro proposed to maintain the fixed charge at the existing charge which remains above the ceiling and noted that this approach is in compliance with the Filing Requirements.[33]

Through settlement, the Parties accepted Centre Wellington Hydro's approach to rate design including the proposed fixed/variable splits.[34]

OEB staff submits that the proposed rate design, including the fixed/variable splits is appropriate.

5.3 Are the proposed Retail Transmission Service Rates (RTSR) and Low Voltage (LV) Service rates appropriate?

Through settlement, LV rates were adjusted to reflect an updated loss factor (see Issue 5.4 and Table 16 of the settlement proposal).

The Parties accepted that the RTSR rates and LV rates are appropriate. Centre Wellington Hydro stated that it commits to updating its RTSR rates once the OEB approves the updated Uniform Transmission Rates or Hydro One publishes its Sub-Transmission rates.[35]

OEB staff has no concerns with the RTSR and LV rates as agreed to by the Parties.

5.4 Are the proposed loss factors appropriate?

Through pre-settlement conference clarification questions, the proposed loss factor was reduced to 1.0485 from 1.0593 in the Application.[36] The update reflects the OEB's five-year average methodology of the supply facility loss factor used to determine a distribution loss factor.[37]

The Parties accepted the updated loss factors.[38]

[32] Settlement Proposal, Table 13, p. 27
[33] Exhibit 8, p. 10
[34] Settlement Proposal, p. 29
[35] Ibid, p. 30
[36] Pre-settlement conference clarification questions Staff 10 and VECC-63
[37] Settlement Proposal, p. 32
[38] Ibid

OEB staff supports the proposed loss factors as shown in the settlement proposal.[39]

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

Through settlement, the Parties accepted that Centre Wellington Hydro's proposed Specific Service Charges and Retail Service Charges are appropriate and noted that Centre Wellington Hydro will update those charges as appropriate when the OEB releases updated charges for 2025.[40]

OEB staff has no issues with the agreed upon approach for the Specific Service charges and Retail Service charges.

OEB staff notes that on September 26, 2024 the OEB issued its Decision and Order for 2025 Distribution Pole Attachment Charge[41] and 2025 Energy Retailer Service Charges.[42] It is OEB staff's expectation that Centre Wellington Hydro shall update its tariff of rates and charges accordingly.

5.6 Are rate mitigation proposals required and appropriate?

In the Application, Centre Wellington Hydro stated that the total bill impacts for USL and Street Lighting rate classes were above 10% but it did not propose any mitigation approach. Centre Wellington Hydro stated that it was open to exploring rate mitigation tactics for any classes that fall above the threshold.[43]

Through settlement, the total bill impacts for all rate classes except Street Lighting fall below 10% while the bill impact for Street Lighting is 31.3%.[44]

The Parties agreed that, although the total bill impact for the Street Lighting rate class is above the 10% threshold, no rate mitigation is required since Centre Wellington Hydro had consulted with the Street Lighting customer on the proposed increase.[45] OEB staff has no concern with this agreement since the customer has been informed of the bill increase.

OEB staff considers the bill impacts of the proposed revenue requirement (as set out in Issue 3.5) to be reasonable. Overall, the settlement proposal results in bill impacts (except the Street Lighting rate class) that range between -2.8% and 5.1%. For residential and GS<50kW rate classes, the monthly bill impacts including taxes and rebates are 0.03% and -0.8% respectively on a total bill basis.[46]

[39] Settlement Proposal, Table 17, p. 32
[40] Ibid, p. 33
[41] EB-2024-0227, Decision and Order, September 26, 2024
[42] EB-2024-0226, Decision and Order, September 26, 2024
[43] Exhibit 8, p. 27
[44] Settlement Proposal, Table 2, p. 10
[45] Ibid, p. 34
[46] Ibid, Table 2, p. 10

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?

Overall, OEB staff submits that the proposal for disposition of the Group 1 and Group 2 accounts, requests for new accounts, requests for discontinuation of accounts, and the continuation of existing accounts,[47] is appropriate.

The Parties agreed to the disposition of the following DVA balances as of December 31, 2023 and forecasted interest through to December 31, 2024, over a one-year disposition period: [48]

- Group 1 DVAs debit balance of $423,485 including Account 1589
- Group 2 DVAs credit balance of $251,962

Through settlement, the Parties agreed to the following:

- The balances in Account 1508 – sub account OEB Cost Assessment Variance Account, Account 1508 – sub account Ultra Low Overnight Account, Account 1508 – sub account Green Button Account, and Account 1508 – sub account Customer Choice Account will not be disposed of since they do not meet the materiality threshold.[49]
- To set up a new sub account under Account 1592 – PILS and Tax Variances to track the CCA credits from the application of accelerated CCA during the 2018 through 2023 years in the amount of $394k. The Parties agreed that as Centre Wellington Hydro refiles its historical tax returns and applies the legacy CCA rules instead of accelerated CCA, the credits in the sub account will be drawn down until there are no credits left. In the event the accelerated CCA credits taken by Centre Wellington Hydro from 2018 to 2023 (or some portion of them) are not reversed, it will bring forward any remaining credits for disposition in a manner to be determined at the time of the disposal.[50]

Account 1592 – PILs and Tax Variances, Sub-account CCA Changes

Bill C-97 introduced the Accelerated Investment Incentive Program (AIIP), which provides for a first-year increase in CCA deductions on eligible capital assets acquired after November 20, 2018. The AIIP is expected to be phased out starting in 2024 and

[47] Settlement Proposal, pp. 35-37
[48] Ibid, Table 18, p. 36
[49] Ibid, p. 35
[50] Ibid

fully phased out in 2028.

In its July 25, 2019 letter entitled *Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance* (2019 Letter), the OEB provided accounting direction on the treatment of the impacts from accelerated CCA resulting from the AIIP.[51] The OEB established a separate sub-account, 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 rate or rules that were used to determine the tax amount that underpins rates.

Centre Wellington Hydro states that the balance of Account 1592 sub-account CCA Changes is nil because there is no amount to refund customers, due to no PILs being embedded in its rates from 2018 to 2023.[52]

Accelerated CCA provides a greater deduction against taxable income compared to legacy CCA. The greater the CCA deduction, the lower the taxable income or the greater the tax loss in the case of no taxable income (and resulting tax loss carry-forward). Centre Wellington Hydro maintains a significant loss carryforward balance of $1.97M[53] at the end of 2023 and attributes $394k of those losses to the application of accelerated CCA.[54] Centre Wellington Hydro stated that it would have been able to maintain zero PILs from 2018 to 2023 even had the accelerated CCA related credits not been used. Furthermore, Centre Wellington Hydro stated that it has a large loss carryover and expects that PILs will remain zero to at least 2029.[55]

First, OEB staff does not take issue with the nil balance in Account 1592 sub-account CCA changes. The 2019 Letter requires utilities to bring the account for review and disposition in their first cost-based application following November 2018 when the AIIP was effective. The letter does not discuss a situation when utilities do not have PILs embedded in rates. OEB staff notes that it is reasonable for Centre Wellington Hydro to not have a balance in the Account 1592 sub-account CCA changes because it did not have PILS embedded in rates from its last rebasing application.[56] The fact that the utility applied the AIIP, in this case, would pass part of the benefits to the customers through the loss carryforward. Centre Wellington Hydro had applied the AIIP from 2018 to 2023 and the result of the application is an increase of the loss of $394k. This loss, if not reversed (as discussed below), would be shared with the customers by lowering the PILs to nil in Centre Wellington Hydro's rebasing applications moving forward.

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[51] OEB letter, Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance, July 25, 2019
[52] Exhibit 9, p. 13
[53] 6-Staff-48 IRR, part d, i
[54] Ibid, part d, ii
[55] Exhibit 9, p.13
[56] EB-2017-0032, Settlement Proposal, Revenue Requirement Workform

Second, OEB staff has no concerns with the agreed upon approach for Centre Wellington Hydro to refile its 2018-2023 income tax returns and to record the $394k credit in a new sub-account under Account 1592 and draw down the credit balance once the adjustments to previous years' tax filings are complete. OEB staff notes that in the event that the accelerated CCA is not fully reversed, the remainder will stay in the new sub account under Account 1592 and be dealt with at a future time. OEB staff recommends that this future time should be Centre Wellington Hydro's next cost-based application.

OEB staff notes that the agreed upon approach for the new sub-account under Account 1592 is innovative but acceptable. Centre Wellington Hydro accumulated approximately $1.6M in tax losses before it applied the AIIP in its 2018 to 2023 tax filings. The application of the AIIP increased tax loss significantly, which may take more than a couple of rate cycles to be fully utilized by Centre Wellington Hydro. From a good tax planning perspective, OEB staff submits that this novel approach does not put ratepayers at a disadvantage and also may benefit the utility. OEB staff agrees that in using this approach, Centre Wellington Hydro practices sound tax planning in reserving these CCA deductions for future use when they may incur taxable income.

Issue 7: Other

7.1 Is the proposed effective date appropriate?

OEB staff supports the settlement proposal with respect to Centre Wellington Hydro's requested effective date of January 1, 2025.[57]

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

OEB staff supports the Parties' view that Centre Wellington Hydro has responded appropriately to all previous OEB directions.[58]

7.3 Is the Advanced Capital Module proposal for the new distribution station build, Fergus MS-5, appropriate, and does the proposal include sufficient justification and cost estimates to show need and prudence?

Centre Wellington Hydro stated, in its Application, that the current capacity in its system allows for no more than one of the four existing Fergus stations to be removed from service simultaneously. Additionally, Centre Wellington Hydro noted that the existing station locations limit feeder egress to the location of loads and customers in a large part of Fergus.[59]

[57] Settlement Proposal, p. 39
[58] Ibid, p. 40
[59] Updated Exhibit 2, Distribution System Plan, p. 244 of PDF, June 5, 2024

Centre Wellington Hydro examined several options, including building a new Fergus MS-5 station, a status quo option, extending existing feeders from two other stations, and a voltage conversion option. While the Fergus MS-5 station is more costly than the status quo and feeder extension options, Centre Wellington Hydro noted that the alternative options do not address the resiliency concerns if two or more stations were to go offline or loading constraints from potential future load growth.[60]

OEB staff submits that the Fergus MS-5 station build is a prudent option that will address resiliency needs in the event that two or more stations are taken offline, while also considering potential future load growth in the area. OEB staff also submits that the project meets the ACM need criteria as the Fergus MS-5 station is a discrete project that is outside of the base upon which rates were derived given that Centre Wellington Hydro has noted that a new distribution station has not been built in its service territory since 1998.[61] As such, OEB staff submits that both the criteria for need and prudence for this ACM project have been met.

While the Parties agreed that the ACM proposal for the new Fergus MS-5 station was appropriate, the Parties agreed that, at the time Centre Wellington Hydro comes before the OEB to seek a rate rider to fund the station, the capital budget for this project will be capped at the current forecast of $3.355M. If the actual capital expenditure exceeds this amount, Centre Wellington Hydro will not include the additional revenue requirement above what is required to fund $3.355M in incremental capital at the time it applies for cost recovery during the Price Cap Incentive Rate-setting term. This cap also applies to any true-up at its next rebasing of the revenue collected by Centre Wellington Hydro through the ACM rate riders.[62]

The Parties also agreed that in the event the cost of the project exceeds $3.355M and Centre Wellington Hydro seeks to add that incremental cost to rate base at its next rebasing application, it must demonstrate that the project, at the new cost, has achieved the intended outcomes and continues to provide appropriate value to its customers, so that the cost is commensurate with the need and benefits. Evidence in support of the increased cost of the project (if the cost of the project exceeds $3.355M) will include a comparison between the project and the alternatives that were considered and rejected in favour of the Fergus MS-5 Station project.[63]

OEB staff notes that the approach agreed to by the Parties is a deviation from the ACM policy, which allows applicants to seek incremental costs at the time of applying for an Incremental Capital Module if it can demonstrate the prudence of the cost increases

[60] Updated Exhibit 2, Distribution System Plan, pp. 254-258 of PDF, June 5, 2024
[61] Updated Exhibit 2, p. 57, June 5, 2024
[62] Settlement Proposal, p. 41
[63] Ibid

(assuming the updated costs are less than 30% above what was documented in the Distribution System Plan).[64] OEB staff agrees with the Parties that the deviation will provide an enhanced incentive for Centre Wellington Hydro to control the costs of the project at or below a cost of $3.355M.

7.4 Is the proposal for merging the current GS 50-2,999kW and GS 3,000-4,999kW rate classes into one GS 50-4,999kW rate class appropriate?

In the Application, Centre Wellington Hydro proposed to merge its current GS 50-2,999kW and GS 3,000-4,999kW rate classes into one class GS 50-4,999kW. The Application stated that there is only one customer in the GS 3,000-4,999kW class that had persistently lingered near the lower threshold level and was likely to move there based on recent demand.[65]

In response to interrogatories, Centre Wellington Hydro stated that customers in the GS 50-2,999kW and GS 3,000-4,999kW classes are very similar to each other with respect to cost allocation parameters and service requirements. In addition, the cost and resource of preparing the billing and collections as well as the metering are identical.[66]

Through settlement, the Parties accepted that the proposal to merge the current GS 50-2,999kW and GS 3,000-4,999kW rate classes into one GS 50-4,999kW rate class is appropriate.[67]

OEB staff notes that by comparing a typical customer with a load that falls under GS 50-2,999kW and a typical customer with a load that falls under GS 3,000-4,999kW, the total bill impacts calculated based on the same unit rates for a combined GS>50kW rate class are reasonable (Table 2 of the settlement proposal).

Overall, OEB staff submits that the proposed merger of the rate classes is appropriate.

~All of which is respectfully submitted~

[64] EB-2014-0219, New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014, p. 12
[65] Exhibit 3, p. 3
[66] 3.0-VECC-18 IRR
[67] Settlement Proposal, p. 42