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

BY EMAIL

October 25, 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
Tillsonburg Hydro Inc.
2024 Cost of Service Application
OEB File Number: EB-2023-0053

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

Yours truly,

Original Signed By

Petar Prazic

Digitally signed by Petar Prazic
Date: 2024.10.25 16:15:19 -04'00'

Petar Prazic
Senior Advisor – Major Applications - Electricity Distribution

Encl.

cc: All parties in EB-2023-0053

ONTARIO ENERGY BOARD

OEB Staff Submission

Tillsonburg Hydro Inc.

Cost of Service Application

EB-2023-0053

October 25, 2024

1. Introduction

This is OEB staff's submission on the settlement proposal filed by Tillsonburg Hydro Inc. (Tillsonburg Hydro) 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 on September 16, 2024. The parties to the settlement proposal include Tillsonburg Hydro and all approved intervenors: Energy Probe Research Foundation (Energy Probe) and Vulnerable Energy Consumers Coalition (VECC) (collectively, the Parties). OEB staff attended the settlement conference; however, it was 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 $7.20 (5.8%).[1]

[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 is 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 Tillsonburg Hydro.

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 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
- 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-2023-0053: 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 capital expenditures and in-service additions agreed to by Parties in the Settlement Proposal.

No change has been proposed to 2023 net in-service additions and a 10% reduction has been agreed to 2024 net in-service additions, reducing it by $207,669. This reduction reflects the uncertainty that not all the planned capital programs will be completed in the test year aligning with the underspending trends in the historical years.

The OEB staff supports the reduction to 2024 in-service additions noting that the reductions will be applied to system renewal and system service categories. Considering the adjustment to 2024 net in-service additions, the net in-service additions for Tillsonburg Hydro in the 2023 Bridge Year and the 2024 Test Year will be $2,182,260 and $1,869,204 respectively.

The parties have also agreed that Tillsonburg Hydro, as a part of its next DSP, will implement a formal Asset Condition Assessment process along with a formal process to prioritize its capital projects to guide its asset replacement programs. OEB staff supports this change noting that formalization of these processes should allow Tillsonburg Hydro to maintain consistency in its capital planning process.

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 agreements reached through the settlement process.

The Parties have agreed to a 2024 rate base of $19,413,320 and depreciation expense of $902,988 which reflect the proposed 10% reduction in 2024 net in-service capital additions.

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.

Tillsonburg Hydro proposed total OM&A expenses of $3.272M for the 2024 Test Year in the Application, an increase of $757k or 30% (or 2.42% compounded annually) compared to the 2013 OEB-approved OM&A spending of $2.5M. In the Application, Tillsonburg Hydro stated that the OM&A cost increases since 2013 have been driven by increased salaries and Billing & Collecting.

Through settlement, the Parties have agreed to a 2024 OM&A envelope reduction of $60K, resulting in a 2024 OM&A of $3.212M.

The revised 2024 OM&A spending represents an increase of 28% (or 2.25% annually) compared to the 2013 OEB-approved OM&A amount.

In considering Tillsonburg Hydro's cost efficiency performance, OEB staff notes that Tillsonburg Hydro improved from Cohort 4 in 2013 to Cohort 3 (the third most efficient group) in 2021 to Cohort 2 in 2022 (the second most efficient group).

OEB staff submits that the envelope reduction of $60k in OM&A is reasonable, noting that Tillsonburg Hydro's increase has kept pace with inflation while it has made progressive efficiency gains. OEB staff further submits that the settled OM&A envelope should ensure that Tillsonburg Hydro has sufficient resources to maintain a safe and reliable distribution system.

In its settlement proposal Tillsonburg Hydro agreed to report back at its next Cost of Service application on collaborations with other utilities and provide information on the impact of these collaborations on its operational efficiencies and expenses. OEB staff has no concerns with this commitment.

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

OEB staff has no concerns with 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?

Tillsonburg Hydro proposed to use the OEB capital structure and the OEB's cost of capital parameters for the short-term debt rate and return-on-equity. For the long-term debt rate Tillsonburg Hydro proposed a debt rate of 6.08%, which is the weighted average interest rate of its actual and existing variable rate third-party debt and the notional long-term debt.

As part of the agreements reached through the settlement process, Tillsonburg Hydro agreed to update the long-term debt rate to the OEB's 2024 deemed long-term debt rate of 4.58%.[5]

OEB staff has no issues with the cost of capital or capital structure and supports the long-term debt rate update.

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

OEB staff does not have any concerns with the forecast PILs expense of $61.69k as agreed to by the Parties. The PILs expense reflects the application of the small business deduction on a utility stand-alone basis, consistent with the requirements set out in the OEB's Filing Requirements.[6]

In this Settlement Proposal, the Parties agreed to Tillsonburg Hydro's proposal of not applying Accelerated Investment Incentive Program (AIIP) to the Capital Cost Allowance (CCA) for 2024 onwards, i.e., the legacy CCA practice of the half-year rule is applied in the Test Year in the PILs model instead of the application of the AIIP.

OEB staff notes that Chapter 2 of the 2024 Filing Requirements does not have a specific requirement for the inclusion or exclusion of the AIIP in the PILs model. While the AIIP provides enhanced first-year CCA deductions for the eligible capital additions, current tax rules allow companies to claim any amount from zero up to the maximum allowable CCA amount for the year. Additionally, the AIIP begins to phase out starting in 2024 and ceases by the end of 2027. During the phasing-out period from 2024 to 2027, the effect of the AIIP is twice the normal first-year claim under the legacy half-year rule for the CCA.

Tillsonburg Hydro stated that it has elected not to claim the AIIP for the capital additions starting in 2024 to avoid future credit and debit entries into Account 1592, Sub-account CCA Changes, and this approach has been agreed to in settlement in other recent applications before the OEB.[7] OEB staff notes that the OEB recently approved a similar approach by Wasaga Distribution, allowing it to not applying the AIIP in its cost of service application.[8]

In the context of this Settlement Proposal, OEB staff does not take issue with the exclusion of the AIIP in its CCA claim for Tillsonburg Hydro's PILs for the 2024 Test Year because the AIIP will be fully phased out by 2028 and the exclusion of the AIIP from 2024 to 2027 would not have a significant impact on ratepayers. OEB staff notes that if Tillsonburg were to adopt the AIIP in its test year's PILs, the PILs expense would be reduced by approximately $13k which in turn would have reduced the revenue requirement by the same amount.

[5] OEB Letter – Cost of Capital Parameters, October 31, 2023
[6] Chapter 2 Filing Requirements for Electricity Distribution Rate Applications – 2023 Edition for 2024 Rate Applications, December 15, 2022
[7] Exhibit 6, page 13
[8] EB-2023-0055, Decision and Rate Order, April 20, 2024, page 4

Additional details of Account 1592, Sub-account CCA Changes are discussed under Issue 6.1.

3.3 Is the proposed Other Revenue forecast appropriate?

OEB staff submits that Tillsonburg Hydro's Other Revenue forecast is appropriate, noting that it reduced the as-filed amount of $478k by $95k (20% reduction) due to the removal of interest amounts in deferral and variance accounts which had erroneously been included.

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 this aspect of the Settlement Proposal.

The Parties agreed 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.

Intervenors expressed concern as to how under the virtual utility structure Tillsonburg Hydro is able to meet the various obligations, including certain MIFRS accounting standards, imposed on Tillsonburg Hydro as a regulated distributor. Parties agreed that Tillsonburg Hydro will file an independent study in its next Cost of Service application that reviews its virtual utility operating structure, with the purpose of confirming it is meeting its various obligations as an OEB-regulated electricity distributor. Furthermore, parties recognized that in the event Tillsonburg Hydro alters its corporate structure prior to its next rebasing application, the scope of the independent study may change accordingly.

OEB staff submits that the proposed independent study is an appropriate measure to confirm Tillsonburg Hydro, as a virtual utility, is meeting its various obligations as an OEB-regulated electricity distributor. OEB staff notes that a similar independent study was approved in Wasaga Distribution Inc.'s 2024 Cost of Service proceeding.[9]

3.5 Is the proposed calculation of the Revenue Requirement appropriate?

OEB staff submits that the methodology used by Tillsonburg Hydro to calculate the Revenue Requirement is appropriate.

Issue 4: Load Forecast

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

[9] Decision and Rate Order, EB-2023-0055.

The Parties agreed to the load forecast as updated in response to updates and corrections resulting from the Issues Meeing and pre ADR clarification questions.

OEB staff supports the proposed consumption, demand and customer forecasts of 183 GWh, 286 MW, and 8,653 respectively (Table 12 of the settlement proposal). Relative to the Application, this reflects an increase of 8 GWh, 22 MW and a decrease of 130 customers.

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 the cost allocation as updated as a result of the Issues Meeting process. Tillsonburg Hydro updated its demand allocators profiles using a historic average of the years 2021, 2022, and 2023.

The revenue-to-cost ratios for the GS < 50 kW, GS 500 – 1,499 kW, USL, and Street Lighting rate classes were all above the prescribed range, and the Sentinel Lighting revenue-to-cost ratio was below the range.[10] For the rate classes above the range, Tillsonburg Hydro proposes to decrease the ratio to the top of the range, 120%. To offset this decrease, for all classes below 100%, Tillsonburg Hydro proposes to increase the ratio to 95.97%. This addresses the Sentinel Lighting rate class, bringing it well into the range.

OEB staff has no concerns with the cost allocation as updated.

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

The Parties agreed that Tillsonburg Hydro’s proposal for fixed / variable splits is appropriate.

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) and Low Voltage (LV) Service Rates appropriate?

The Parties agreed that Tillsonburg Hydro’s proposal for RTSRs is appropriate.

OEB staff does not have any concerns with the proposed RTSRs.

5.4 Are the proposed loss factors appropriate?

The Parties agreed that Tillsonburg Hydro’s proposal for loss factors is appropriate. The proposed total loss factor of 1.0298 reflects a decrease from the current approved loss

[10] Settlement Proposal, Table 13, page 7.

factor of 1.0333.

OEB staff does not have any concerns with the proposed loss factors.

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

The Parties agreed with Tillsonburg Hydro's proposed Specific Service Charges and Retail Service Charges. OEB staff has no concerns with the proposed Specific Service Charges and Retail Service charges.

5.6 Are rate mitigation proposals required and appropriate?

The Parties agreed that no mitigation was required. OEB staff agrees, and has no concerns.

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 Proposal reached by the Parties relating to deferral and variance accounts (DVAs).

In the Settlement Proposal, the Parties agreed to the disposition of the following DVA balances as of December 31, 2022, and forecasted interest through to April 30, 2024, over a two-year disposition period.

- Group 1 DVAs of a total debit balance of $1,303,550
- Group 2 DVAs of a total credit balance of $29,368

The Group 2 DVA balances also include forecasted principal amounts up to April 30, 2024.

As part of the Settlement Agreement, the Parties agreed to the following adjustments:

a) Tillsonburg Hydro is to forecast the Pole Attachment Revenue Variance Account balance to April 30, 2024, and to dispose of the account on a final basis, subject to future use to reflect further changes in pole attachment rates in 2025 and beyond;

b) Tillsonburg Hydro can dispose of the OEB Cost Assessment Variance Account balance to April 30, 2024 on a final basis, which will allow the account to be closed;

c) The Parties agreed to the adjustment in response to the Pre-ADR clarification

6-Staff-1 regarding Account 1592, Sub-Account CCA Changes. The adjustment to the accelerated CCA for the years 2019 to 2023 is based on the effective tax rate as approved in the previous Cost of Service application, resulting in a NIL balance in this Sub-Account. iThis sub account will remain open for any future changes to CCA rules.

d) Tillsonburg Hydro will write off the amounts tracked in the Customer Choice Deferral Account, the Green Button Deferral Account, and the LRAM Variance Account, and will close the Customer Choice Deferral Account and the Green Button Deferral Account going forward.

e) A disposition period of 24 months for the deferral and variance accounts being cleared in this proceeding.

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 fully phased out in 2028. In its July 25, 2019 letter *Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance*, the OEB provided accounting direction on the treatment of the impacts from accelerated CCA resulting from the AIIP.[11] 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.

Tillsonburg Hydro's effective tax rate as approved in its last rebasing application is 0%.[12] Therefore, there is no revenue requirement impact of the application of accelerated CCA to be recorded in sub-account CCA Changes of Account 1592.

OEB staff does not take issue with the nil balance reported in Account 1592, Sub-account CCA Changes, from January 1, 2013 to December 31, 2023, as agreed to by the Parties. 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 came into effect. The letter does not discuss a situation when utilities do not have PILs embedded in rates.

OEB staff is of a view that it is reasonable for Tillsonburg Hydro to report no balance in the Account 1592 sub-account CCA changes, given that it did not have PILs embedded in rates as approved in its last rebasing application. Furthermore, the Accelerated CCA

[11] OEB letter, Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance, July 25, 2019
[12] EB-2012-0168, Decision and Order, Revenue Requirement Workform

provides a greater deduction against taxable income compared to legacy CCA. Although, Tillsonburg Hydro applied the AIIP in its actual tax returns from 2019 to 2023, it reported PILs payables of $15k and $3K in its 2022 and 2023 tax returns, respectively, despite no PILs being recovered through base rates for these periods.

OEB staff acknowledges Tillsonburg Hydro's proposal to revert to the legacy CCA practice of the half-year rule starting in 2024 as discussed under Issue 3.2. OEB staff notes that the non-application of the AIIP in the PILs model for the Test Year and beyond should be reflected in the actual tax filings. Furthermore, if there are any behaviour changes (i.e., changes in the approach for applying the AIIP) in the actual tax filing, such as Tillsonburg Hydro claiming CCA amounts differently than the half-year rule, the incremental revenue requirement impact should be recorded in the Account 1592 sub-account. OEB staff takes no issue with the Parties' agreement that Tillsonburg Hydro shall maintain the existing 1592 sub-account to capture any impacts from future changes to the CCA rules and any behavior changes in 2024 to 2027 when the AIIP is still available.

Issue 7: Other

7.1 Is the proposed effective date appropriate?

OEB staff has no concerns with the Parties' proposal that rates become effective the date they are implemented.

As Tillsonburg Hydro submitted its Cost of Service Application for rates effective May 1, 2024 on April 30, 2024, this has resulted in a significant discrepancy between the as-filed requested effective date and the expected actual effective date. Parties proposed as an example that if new rates were implemented and effective as of November 1, 2024, Tillsonburg Hydro would need to receive approval of the settlement proposal on or before November 15, 2024. If approval of the settlement proposal were be provided after November 15, 2024 but on or before December 15, 2024, rates would then be implemented and effective on December 1, 2024.

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

OEB staff agrees with the Parties that Tillsonburg Hydro has responded appropriately to all outstanding OEB directions.

~All of which is respectfully submitted~