



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

**BY EMAIL**

February 6, 2025

Ms. Nancy Marconi  
Registrar  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4  
[Registrar@oeb.ca](mailto:Registrar@oeb.ca)

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission  
Welland Hydro-Electric System Corp.  
2025 Cost of Service Application  
OEB File Number: EB-2024-0058**

---

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to the direction provided in the Procedural Order No. 3.

Yours truly,

Narisa Jotiban  
Senior Advisor – Electricity Distribution Rates

Encl.

cc: All parties in EB-2024-0058



# **ONTARIO ENERGY BOARD**

## **OEB Staff Submission**

**Welland Hydro-Electric System Corp.**

**Cost of Service Application**

**EB-2024-0058**

**February 6, 2025**

## 1. Introduction

This is OEB staff's submission on the settlement proposal filed by Welland Hydro-Electric System Corp. (Welland Hydro-Electric System) related to its application for May 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 December 4, 2024 to December 5, 2024. The parties to the settlement proposal include Welland Hydro-Electric System and all approved intervenors, namely: The Coalition of Concerned Manufacturers and Businesses of Canada (CCMBC), 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 total bill decrease of \$4.71 (3.5%).<sup>1</sup>

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 Welland Hydro's application and the settlement proposal.

---

<sup>1</sup> Excluding 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*<sup>2</sup> (RRF), the *Handbook for Utility Rate Applications*<sup>3</sup>, 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,<sup>4</sup> as shown below.

- 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 one additional sub-issues to issue 7 related to Welland Hydro-Electric System's proposal to obtain payment from the Independent Electricity System Operator (IESO) for Renewable Generation Connection Rate Protection.

---

<sup>2</sup> Report of the Board – [Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach](#), October 18, 2012

<sup>3</sup> [Handbook for Utility Rate Applications](#), October 13, 2016

<sup>4</sup> EB-2024-0058, [Decision on Issues List](#), October 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.

Through settlement, the Parties agreed to a reduction of \$280k (6%) to net in-service additions for the 2025 Test Year on an envelope basis, for a total of \$4,535k net in-service additions.<sup>5</sup> The specific adjustments in the settlement agreement are used to make changes to other parameters necessary for calculating the revenue requirement.

The Parties also agreed that Welland Hydro-Electric System will update its asset condition assessment for the fleet of power transformers and shall deploy the purchased 4MVA transformer at the location with the poorest health index of those suitable for replacement with the purchased transformer.

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 Welland Hydro-Electric System 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 \$46.0M, a \$59k (0.1%) reduction from \$46.1M (updated in response to interrogatories).<sup>6</sup> 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 \$2,089k, a \$7k (0.3%) reduction from \$2,096k in the application.<sup>7</sup> The adjustment to the depreciation expense reflects the changes made to the 2025 in-service additions, as indicated above under Issue 1.1.

#### 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.

---

<sup>5</sup> Settlement Proposal, Table 1.1B, p. 14

<sup>6</sup> Ibid, Table 1.2B, p. 18

<sup>7</sup> Ibid, Table E, p. 9

Welland Hydro-Electric System proposed total OM&A expenses of \$8.8M (excluding property tax) for the 2025 Test Year in the Application, an increase of 30% (or 3.4% compounded annually) compared to the 2017 OEB-approved OM&A spending of \$6.8M.<sup>8</sup> In the Application, Welland Hydro-Electric System stated that the OM&A cost increases since 2017 have been primarily driven by inflation, salaries, wages and benefits, billing contract services, information systems, locates, stores material, postage, ADMS Software, tree trimming, and cyber security services.<sup>9</sup>

In response to interrogatories, the 2025 OM&A budget was revised to \$8.7M.<sup>10</sup> Through settlement, the Parties agreed to add \$42,000 for cloud computing implementation costs to the revised Test Year OM&A budget of \$8.7M, prior to applying an envelope reduction of \$180,000. The Parties agreed that Welland Hydro-Electric System will not use the DVA to account for incremental cloud computing implementation costs.<sup>11</sup> Additional details of the DVA Account 1511 Cloud Computing Implementation Costs are discussed under Issue 6.1.

With respect to Other Post-employment Benefits (OPEBs), the Parties agreed that the use of accrual-based accounting for the recovery of OPEBs and the manner in which to address the transition impact of the change from cash to accrual-based accounting for OPEBs are appropriate.<sup>12</sup> Additional details are discussed under Issue 3.4.

In addition, the Parties agreed that the Settlement Proposal does not preclude Welland Hydro-Electric System from seeking rate recovery of amounts related to the Final Notice of Amendment to the Distribution System Code issued on December 23, 2024 regarding Amendments to Facilitate the Connection of Housing Developments and Residential Customers (EB-2024-0092) and acknowledged that the forecasted impact of these amendments will have a material financial impact to Welland Hydro-Electric System.<sup>13</sup>

Overall, the agreed upon 2025 OM&A expense (excluding property tax) is \$8.6M which represents an increase of 27% (or 3% compounded annually) compared to the 2017 OEB-approved OM&A amount.<sup>14</sup>

OEB staff submits that the envelope reduction of \$180k in OM&A is reasonable and that the settled OM&A envelope should ensure that Welland Hydro-Electric System has sufficient resources to maintain a safe and reliable distribution system.

---

<sup>8</sup> Settlement Proposal, Table 2.1B, p. 21

<sup>9</sup> Updated Exhibit 4, pp. 17-21, August 23, 2024

<sup>10</sup> Settlement Proposal, Table 2.1B, p. 21

<sup>11</sup> Ibid, p. 20

<sup>12</sup> Ibid

<sup>13</sup> Ibid

<sup>14</sup> Ibid, Table 2.1A, p. 21

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 3.1A of the settlement proposal summarizes the cost of capital calculation for the Application, interrogatories and settlement agreement.

In the Application, Welland Hydro-Electric System presented a debt instrument table for the 2025 Test Year which shows four previously approved loans with TD Securities as well as one new third-party loan of \$2.5M starting with the start date of January 1, 2025 (at an interest rate of 4.493 %).<sup>15</sup>

Through settlement, Welland Hydro-Electric System agreed to reduce the interest rate for the new third-party loan by 100 basis points to 3.493% for the purpose of calculating revenue requirement.<sup>16</sup> The 2025 weighted average long-term debt rate based on the five loans is calculated at 2.99%<sup>17</sup> which is lower than OEB's deemed long-term debt rate of 4.66% for 2025.<sup>18</sup>

The agreed upon short-term debt rate (updated through interrogatories to reflect the OEB's 2025 deemed short-term debt rate) used in the cost of capital calculations is 5.04%.<sup>19</sup>

With respect to capital structure, the Parties agreed on the use of the OEB-approved deemed capital structure of 4% short-term debt, 56% long-term debt and 40% equity.<sup>20</sup>

Overall, the settlement agreement results in a calculated weighted average cost of capital of 5.57% for the 2025 Test Year.<sup>21</sup> OEB staff notes that the agreed upon weighted average cost of capital of 5.57% is lower than the OEB's 2025 weighted average cost of capital of 6.51%.<sup>22</sup>

---

<sup>15</sup> Updated Exhibit 5, Table 5-12, p. 8, January 2, 2024

<sup>16</sup> Settlement Proposal, p. 24

<sup>17</sup> Ibid, Table 3.1A, p. 24

<sup>18</sup> <https://www.oeb.ca/regulatory-rules-and-documents/rules-codes-and-requirements/cost-capital-parameter-updates>

<sup>19</sup> Settlement Proposal, Table 3.1B, p. 25

<sup>20</sup> Ibid

<sup>21</sup> Ibid

<sup>22</sup> <https://www.oeb.ca/regulatory-rules-and-documents/rules-codes-and-requirements/cost-capital-parameter-updates>

In addition, the Parties agreed that Welland Hydro-Electric System will comply with the outcomes of the cost of capital parameter update and the cost of capital generic proceeding as they are applicable to Welland Hydro-Electric System. The Parties also agreed that Welland Hydro-Electric System shall use (a) the interim cost of capital parameters and the deferral and variance accounts from the OEB letter dated October 31, 2024 from EB-2024-0063; and (b) the interim deemed short term debt rate and deferral and variance account established in the OEB letter dated July 26, 2024 to capture the revenue requirement impact from the changes to the Deemed Short-term Debt Rate described therein. OEB staff is of the view that this is appropriate.<sup>23</sup>

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?

Overall, OEB staff supports the forecast PILs expense of \$322,981 as agreed to by the Parties.

Through Settlement, the Parties agreed to Welland Hydro-Electric System's proposal of not applying Accelerated Investment Incentive Program (AIIP) to the Capital Cost Allowance (CCA) for 2024 onwards,<sup>24</sup> i.e., the legacy CCA practice of the half-year rule is applied in both the Bridge Year and the Test Year in the PILs model instead of the application of the AIIP.

Per the Filing Requirements,<sup>25</sup> OEB staff notes that there is no specific requirement for the inclusion or exclusion of the AIIP in the PILs model. OEB staff also notes that AIIP provides enhanced first-year CCA deductions for the eligible capital additions. Companies are allowed to claim from zero to the maximum allowed CCA amount for the year under the current tax rules. Welland Hydro-Electric System stated in the Application that it proposed not to use the AIIP starting from 2024 given that the AIIP will be phased out entirely by 2028.<sup>26</sup> OEB staff notes that during the phasing-out period from 2024 to 2027, the effect of the AIIP is twice the normal first-year claim as compared to the legacy half-year rule for the CCA.

Although the CCA is considered an optional claim, OEB staff notes that regulated utilities typically claim the maximum allowed CCA in the Test Year, which is consistent with the requirement that maximum CCA must be claimed when computing taxes

---

<sup>23</sup> Settlement Proposal, p. 24

<sup>24</sup> Ibid, p. 27

<sup>25</sup> [Filing Requirements for Electricity Distribution Rate Applications – 2023 Edition for 2024 Rate Applications, Chapter 2 - Cost of Service](#), December 15, 2022

<sup>26</sup> Updated Exhibit 6, Section 6.2.1.7, p. 13



payable for purposes of the 2006 OEB Tax Model.<sup>27</sup>

In its letter *Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance*, the OEB provided accounting guidance (CCA Guidance) on the impacts from accelerated CCA resulting from the AIIP.<sup>28</sup> The CCA Guidance states that the OEB expects utilities to reflect any impacts arising from CCA rule changes in their cost-based applications for 2020 rates and beyond. The OEB may consider a smoothing mechanism to address any timing differences that could lead to volatility in tax deductions over the rate-setting term.

In response to the pre-settlement clarification question on the impact of applying the AIIP to both 2024 and 2025 PILs with the smoothing adjustment, Welland Hydro-Electric System stated that the grossed-up PILs amount in this scenario would be \$289k, which is \$29k less than the proposed PILs amount of \$318k under the current proposal of not applying the AIIP from 2024 onward.<sup>29</sup> In the event that the utility decides to claim the AIIP for the period from 2024 to 2027 (i.e. change its behavior), OEB staff is of the view that the differences from the inconsistent application of the AIIP between the rates and the actual tax returns should be tracked in Account 1592 sub-account CCA Changes.

OEB staff does not take issue with the exclusion of the AIIP in its CCA claim for Welland Hydro-Electric System's PILs for the 2025 Test Year because the impact of the test year's PILs on the difference between the inclusion and exclusion of the AIIP is not material and would not have a significant impact on ratepayers. In addition, OEB staff notes that the CCA claim on assets would not be lost but rather be deferred to a later time.

OEB staff notes that there is no need for the smoothing mechanism since Welland Hydro-Electric System is not applying accelerated CCA from 2024 onward.

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 has no issues with the revised 2025 Test Year Other Revenue of \$961k, an increase of \$23k compared to \$939k in the Application (as set out in Table 3.3A of the settlement proposal). This adjustment is mainly driven by increases in Other Income or Deductions.

---

<sup>27</sup> [2006 Electricity Distribution Rate Handbook](#), p. 62

<sup>28</sup> OEB Letter, [Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance](#), July 25, 2019

<sup>29</sup> Settlement Proposal, Appendix F, OEB Staff's Pre-Settlement Clarification Questions, Question 8

- 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 all 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.<sup>30</sup>

#### Other Post-employment Benefits

Through settlement, the Parties agreed that Welland Hydro-Electric System's proposal to change its accounting for OPEB costs in rates from cash basis to accrual accounting basis is appropriate.<sup>31</sup>

OEB staff notes that the *Report of the OEB: Regulatory Treatment of Pension and Other Post-employment Benefit Costs* (Pension and OPEBs Report)<sup>32</sup> states that the accrual basis of recovery for OPEBs is the default method, unless it does not result in just and reasonable rates. The Pension and OPEBs Report also notes that if transition of the recovery basis is necessary and the transition issues are manageable for the utility, it is open to the OEB to require a transition to a recovery mechanism suitable for the utility's particular circumstances.

OEB staff submits that Welland Hydro-Electric System's change of the accounting basis for OPEBs from cash basis to accrual basis is appropriate. The use of the accrual method of recovery for OPEBs aligns with the default method in the OEB's Pension and OPEBs Report. OEB staff also notes that transitional adjustments are not required since there is no rate impact from the write-off of the Account 1508 sub-account OPEB actuarial gains/losses and there was no cash vs accrual variance account established in last rebasing application.

Additional details of Account 1508 sub-account OPEB actuarial gains/losses are discussed under Issue 6.1.

- 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 3.5A of the settlement proposal shows the change in revenue requirement between the Application, interrogatory response, and the settlement proposal.

---

<sup>30</sup> Settlement Proposal, p. 30

<sup>31</sup> Ibid

<sup>32</sup> EB-2015-0040, [Report of the Ontario Energy Board, Regulatory Treatment of Pension and Other Post-employment Benefits \(OPEBs\) Costs](#), September 14, 2017

As indicated on Table 3.5A, the Parties agreed to a service revenue requirement of \$13.7M and a base revenue requirement of \$12.7M. These values reflect a reduction in the 2025 Test Year capital and OM&A expenditures of \$280k and \$234k, respectively, compared to the Application.

#### **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 methodologies and the resulting load forecasts are appropriate.

Through interrogatories and pre-settlement clarification question responses, the Parties agreed to update the Load Forecast Model<sup>33</sup> using actual data for the period January 2020 to September 2024 to derive the forecasted number of customer connections and using actual data for the period January 2014 to September 2024 to derive the forecasted kW and kWh. In addition, the Parties agreed to introduce a COVID variable to the regression equations and exclude large use customer data from the Load Forecast Model.

The updated forecasts for customer connections, kW and kWh were agreed upon by all the Parties, as indicated in Tables 4.1A of the settlement proposal.

OEB staff supports the proposed consumption, demand and customer forecasts of 391 GWh, 388 MW, and 34,352 respectively. Relative to the Application, this reflects an increase of 10.1 GWh for consumption, 13.8 MW for demand and 263 for customer numbers.

#### **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 clarification question responses, and the settlement proposal, the Parties accepted the results of Welland Hydro-Electric System's cost allocation methodology and its proposed revenue-to-cost ratios.<sup>34</sup>

In its last cost of service application, Welland Hydro-Electric System used the load profiles provided by Hydro One in 2004 in its cost allocation model. In this Application, Welland Hydro-Electric System proposed a methodology to update its load profiles using a Historical Average Method, based on actual hourly load by rate class in 2021,

---

<sup>33</sup> Settlement Proposal, [Load Forecast Model](#), January 23, 2025

<sup>34</sup> Settlement Proposal, p. 35

2022 and 2023.<sup>35</sup> Through interrogatories, Welland Hydro-Electric system revised its load profiles to correct for errors.<sup>36</sup>

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 the residential rate class and 0.8 to 1.2 for the remaining rate classes) except the Sentinel Lighting rate class which is below the minimum range.<sup>37</sup>

Through settlement, the Parties agreed to update the revenue-to-cost ratios as indicated on Table 5.1A of the settlement proposal. Based on the revenue-to-cost ratios produced by the 2025 cost allocation model, the revenue-to-cost ratio for the Sentinel Lighting rate class was adjusted upward from 0.7291 to 0.8 while the revenue-to-cost ratio for the residential rate class was adjusted downward from 1.0287 to 1.0284 in a single year to offset the increase for the Sentinel Lighting rate class. After this adjustment, the residential rate class remains the rate class with the highest revenue-to-cost ratio.<sup>38</sup>

OEB staff has no concerns with the cost allocation methodology and allocations 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, Welland Hydro-Electric System proposed to maintain the fixed/variable splits for the Street Lighting, Sentinel Lighting and Unmetered Scattered Load (USL) rate classes since the proposed fixed charge for these rate classes are below the cost allocation ceiling value.<sup>39</sup>

For GS<50 kW and GS>50 kW rate classes, Welland Hydro-Electric System proposed to maintain the current 2024 approved fixed charges for these rate classes since the resulting fixed charges from the Cost Allocation Model, assuming the fixed/variable portion is maintained, is above the ceiling fixed charge from the Cost Allocation Model.<sup>40</sup> OEB staff notes that this approach is in compliance with the Filing Requirements.<sup>41</sup>

Through settlement, the Parties accepted Welland Hydro-Electric System's proposal for rate design including the proposed fixed/variable splits and the resultant proposed fixed and variable charges.<sup>42</sup>

OEB staff submits that the proposed rate design, including the fixed/variable splits and

---

<sup>35</sup> Exhibit 7, p. 23

<sup>36</sup> 7-Staff-63 IRR

<sup>37</sup> Exhibit 7, Table 7-7, p. 10

<sup>38</sup> Settlement Proposal, Table 5.1A, p. 35

<sup>39</sup> Updated Exhibits 8, pp. 6-7

<sup>40</sup> Ibid, Table 8-5, p. 7

<sup>41</sup> [Filing Requirements for Electricity Distribution Rate Applications – 2023 Edition for 2024 Rate Applications, Chapter 2](#), December 15, 2022, p. 51

<sup>42</sup> Settlement Proposal, p. 37

resultant fixed and variable charges, is appropriate.

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

In the Application, Welland Hydro-Electric System states that it does not currently have, nor incur, low voltage service charges.

In response to interrogatories,<sup>43</sup> Welland Hydro-Electric System updated its RTSR rates to reflect the OEB's 2025 preliminary Uniform Transmission Rates (UTRs).<sup>44</sup>

The Parties accepted that the RTSR rates are appropriate.

OEB staff has no concerns with the RTSR rates as agreed to by the Parties. However, OEB staff notes that on January 21, 2025, the OEB issued its Decision and Rate Order (EB-2024-0244) on the 2025 UTRs<sup>45</sup> which shows an increase in the 2025 Network Service Rate compared to the 2025 preliminary number.

Since the agreed upon RTSR rates were derived based on the 2025 preliminary UTRs, OEB staff submits that Welland Hydro-Electric System should file updated "RTSR Workform" and "Tariff Schedule and Bill Impact Model" (in Excel format) to reflect updated RTSR rates based on the 2025 UTRs from the Decision and Rate Order (EB-2024-0244), for all rate classes.

5.4 Are the proposed loss factors appropriate?

The Parties agreed that the proposed loss factors are appropriate.<sup>46</sup>

OEB staff supports the proposed loss factors as shown in the settlement proposal.<sup>47</sup>

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

In the Application, Welland Hydro-Electric System proposed to maintain the Specific Service Charges as approved in its 2017 cost of service (EB-2016-0110) with an exception of its monthly microFIT service charge which Welland Hydro-Electric System proposed to use the OEB's generic charge of \$4.55 instead of the OEB-approved charge of \$11.00 from its 2017 rebasing application.<sup>48</sup> Welland Hydro-Electric System stated that the change to the microFIT charge will not have a material impact to any customer group.<sup>49</sup>

---

<sup>43</sup> 8-Staff-68 IRR

<sup>44</sup> EB-2024-0244, [OEB letter – 2025 Preliminary Uniform Transmission Rates and Hydro One Sub-Transmission Rates](#), November 1, 2024

<sup>45</sup> EB-2024-0244, [Decision and Rate Order](#), January 21, 2025

<sup>46</sup> Settlement Proposal, p. 40

<sup>47</sup> Ibid, Table 5.4, p. 40

<sup>48</sup> Updated Exhibit 8, p. 11

<sup>49</sup> Ibid

Through interrogatories, Welland Hydro-Electric System proposed to amend its proposal to adopt the OEB's generic monthly microFIT service charge of \$4.55 and instead proposed to maintain the current rate of \$11.00 since it appropriately represents the actual cost related to microFIT accounts.<sup>50</sup>

Through settlement, the Parties agreed that the proposed specific service charges including the microFIT monthly service charge and the retail service charges are appropriate.<sup>51</sup>

OEB staff has no issues with the agreed upon specific service charges including the microFIT monthly service charge and retail service charges. OEB staff notes that the agreed upon 2025 wireline pole attachment charge, and 2025 retail service charges are consistent with the values approved in the OEB's Decisions and Orders.<sup>52</sup>

#### 5.6 Are rate mitigation proposals required and appropriate?

The Parties agreed that no rate mitigation is necessary since the total bill impacts for all rate classes are less than 10%.<sup>53</sup>

### 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 proposals for disposition of the Group 1 and Group 2 accounts, requests for discontinuation of accounts, and the continuation of existing accounts,<sup>54</sup> are appropriate.

The Parties agreed to the disposition of the following DVA balances as of December 31, 2023 and forecasted interest through to April 30, 2025, over a one-year disposition period:<sup>55</sup>

- Group 1 DVAs credit balance of \$227,189 (excluding Account 1589)
- Account 1589 RSVA – Global Adjustment credit balance of \$41,601
- Group 2 DVAs credit balance of \$1,108,196

#### Account 1508 - OPEB Actuarial Gains or Losses Deferral Account

Through settlement, the Parties agreed to write off the current balance in Account 1508

---

<sup>50</sup> 8-Staff-69 IRR

<sup>51</sup> Settlement Proposal, p. 41

<sup>52</sup> EB-2024-0226, [Decision and Order](#), September 26, 2024 and EB-2024-0227, [Decision and Order](#), September 26, 2024

<sup>53</sup> Settlement Proposal, Table C, p. 7

<sup>54</sup> Ibid, pp. 43-47

<sup>55</sup> Ibid, Table 6-1A, pp. 44-45



OPEB Actuarial Gains or Losses Deferral Account to Other Comprehensive Income (OCI).<sup>56</sup>

In the Decision and Rate Order for Welland Hydro-Electric System's 2017 cost of service application, Account 1508 OPEB Actuarial Gains or Losses Deferral Account was established as part of an accounting order to record the cumulative actuarial gains and losses in OPEBs liabilities as supported by actuarial valuations.<sup>57</sup> The accounting order indicates that the account shall be discontinued earlier of either a decision made by the OEB to implement a policy in respect to the OPEB which differs from the approach approved in the accounting order or Welland Hydro-Electric System's next rebasing application.

In response to the interrogatory,<sup>58</sup> Welland Hydro-Electric System updated the cumulative balance in Account 1508 OPEB Actuarial Gains or Losses Deferral Account to be a credit of \$261,293 as of December 2023. In addition, Welland Hydro-Electric System confirmed that it would write off this balance to OCI and discontinue this account effective May 1, 2025.

In response to the pre-settlement clarification question,<sup>59</sup> Welland Hydro-Electric System further confirmed that there is no rate impact with the disposal of this non-cash tracking account since the account will be cleared through OCI.

OEB staff does not take issue with the proposal to write-off the Account 1508 OPEB Actuarial Gains or Losses balance to OCI since the actuarial gains or losses on OPEB is a non-cash item and there is no rate impact of this write-off. OEB staff also notes that this account should have been closed back in 2017 when the OEB's Pension and OPEBs Report<sup>60</sup> was issued. However, OEB staff does not take issue with Welland Hydro-Electric System's proposal, given that there is no rate impact on the ratepayers. OEB staff submits that Welland Hydro-Electric System should update the 2025 DVA Continuity Schedule to remove this account balance to reflect this write-off.

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

Bill C-97, the *Budget Implementation Act, 2019, No. 1* received Royal Assent on June 21, 2019. Bill C-97 introduced the AIIP which provides for a first-year increase in CCA deductions on eligible capital assets acquired after November 20, 2018.

---

<sup>56</sup> Ibid, p. 43

<sup>57</sup> EB 2016-0110, [Decision and Rate Order](#), Schedule C: Accounting Order, May 4, 2017

<sup>58</sup> 4-Staff-50 (f) IRR

<sup>59</sup> Settlement Proposal, Appendix F, OEB Staff's Pre-Settlement Clarification Questions, Question 6 (c) & 6 (d)

<sup>60</sup> EB-2015-0040, [Report of the Ontario Energy Board, Regulatory Treatment of Pension and Other Post-employment Benefits \(OPEBs\) Costs](#), September 14, 2017

Based on the CCA Guidance, the OEB established a separate sub-account of Account 1592 - PILs and Tax Variances, Sub-account CCA Changes to track the impact of any differences that result from the CCA change to the tax rates or rules that were used to determine the tax amount that underpins rates. OEB staff notes that Welland Hydro-Electric System does not elect to apply accelerated CCA from 2024 onwards.<sup>61</sup> As such, the impact of the accelerated CCA ended at end of 2023 for the utility.

The credit balance of \$559,371 in sub-account CCA Changes of Account 1592 represents the full revenue requirement impact of the application of accelerated CCA as of December 31, 2023, including interest to April 30, 2025. OEB staff is supportive of Welland Hydro-Electric System's calculation of the CCA differences that is accumulated in Account 1592, Sub-account CCA Changes, from its effective date in 2018 to the end of 2023, as agreed to by the Parties. OEB staff notes that Welland Hydro-Electric System calculates the CCA differences by comparing the CCA on the actual 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.<sup>62</sup> OEB staff also notes that this calculation method has been used by distributors, accepted by the Parties, and approved by the OEB in a number of previous Cost of Service proceedings.<sup>63</sup>

OEB staff acknowledges Welland Hydro-Electric System'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 both the Bridge Year and the Test Year should be reflected in the actual tax filing. As agreed to by the Parties, Welland Hydro-Electric System shall continue to keep open Account 1592 – PILs and Tax Variance for 2006 and Subsequent Years – CCA Changes for the purposes of tracking any material changes in law but is not otherwise obligated to record any amounts in this account.<sup>64</sup> OEB staff takes no issue with this approach that Welland Hydro-Electric System keeps the Account 1592 sub-account CCA changes open to capture the impact of the future CCA rule changes. Based on OEB staff's understanding, Welland Hydro-Electric System will follow any future OEB guidance, if any, with respect to accelerated CCA.

#### Account 1511 - Cloud Computing Implementation Costs

In response to the pre-settlement clarification question,<sup>65</sup> OEB staff notes that Welland Hydro-Electric System estimated a one-time implementation cost of \$210,000 related to moving CIS to cloud, which includes CIS vendor costs, system integration, and data migration. This amounts to \$42,000 in the 2025 Test Year and subsequent years of the

---

<sup>61</sup> Updated Exhibit 6, p. 13

<sup>62</sup> Settlement Proposal, Appendix F, OEB Staff's Pre-Settlement Clarification Questions, Question 8

<sup>63</sup> EB-2023-0033, [Decision and Order](#), November 23, 2023; EB-2022-0049, [Decision and Order](#), October 13, 2022; and EB-2022-0044, [Decision and Order](#), November 22, 2022

<sup>64</sup> Settlement Proposal, p. 43

<sup>65</sup> Ibid, Appendix F, OEB Staff's Pre-Settlement Clarification Questions, Question 10



rebasement term as the contract term associated with the vendor's cloud proposal is five years.

Through settlement, the Parties agreed that \$42,000 for cloud computing implementation costs, which represents a \$210,000 spending amortized over the rate term, is to be added to the Test Year OM&A budget. The Parties agreed that Welland Hydro-Electric System will not use the cloud DVA to account for incremental cloud computing implementation costs.

The OEB issued an Accounting Order (003-2023) in November 2023 which established the cloud DVA.<sup>66</sup> The Accounting Order states that a utility may propose the regulatory treatment for any material cloud implementation costs expected during its rate-setting term at the utility's next rebasing application. The proposal could include consideration of a new deferral account or other approaches that take into account the timing and duration of the contract term.

OEB staff supports the Parties' agreement related to the cloud computing proposal because the proposed treatment for the cloud implementation cost in this proceeding appears reasonable. In this case, OEB staff notes that the Cloud Computing DVA is not needed, hence OEB staff supports the discontinuance of the account.

#### Discontinuation of Group 2 Accounts

Through the settlement, the Parties agreed to discontinue the following Group 2 accounts:

- Account 1508 Pole Attachment Revenue Variance
- Account 1508 OEB Cost Assessment
- Account 1508 Retail Service Change Incremental Revenue
- Account 1508 Green Button Initiative Costs
- Account 1508 OPEB Actuarial Gains or Losses Deferral Account
- Account 1557 Meter Cost Deferral Account (MIST Meters)
- Account 1508 Getting Ontario Connected Act (GOCA) Variance Account
- Account 1511 Cloud Computing Implementation Costs

OEB staff supports the discontinuation of the above Group 2 accounts since the costs for some accounts either have been forecasted and included in the rates (for example, Account 1508 OEB Cost Assessment and Account 1508 Retail Service Change Incremental Revenue) or the relevant policy initiatives for some accounts has been completely implemented and there are no further anticipated activities moving forward (for example, Account 1508 Green Button Variance Costs and Account 1511 Cloud Computing Implementation Costs).

---

<sup>66</sup> [Accounting Order \(003-2023\) for the Establishment of a Deferral Account to Record Incremental Cloud Computing Arrangement Implementation Costs](#), November 2, 2023

**Issue 7: Other**

7.1 Is the proposed effective date appropriate?

OEB staff supports the settlement proposal with respect to Welland Hydro-Electric System's requested effective date of May 1, 2025.<sup>67</sup>

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

OEB staff supports the Parties' view that Welland Hydro-Electric System has responded appropriately to all previous OEB directions.<sup>68</sup>

7.3 Is the proposal to obtain payment from the IESO for Ratepayer Protection under O.Reg.330/09 for Renewable Generation Connection Rate Protection (RGCRP) for the period 2025 to 2030 appropriate?

In the Application, Welland Hydro-Electric System proposed to update RGCRP amounts for the period 2025 to 2030 to reflect updated depreciation based on previously approved investments.<sup>69</sup>

In response to interrogatories, Welland Hydro-Electric System revised the RGCRP amounts to correct for errors in the calculations.<sup>70</sup>

Through settlement, the Parties agreed that the revised RGCRP amounts for the period 2025 to 2030 are appropriate.<sup>71</sup>

OEB staff has no concerns with the updated RGCRP amounts for the period 2025 to 2030.

~All of which is respectfully submitted~

---

<sup>67</sup> Settlement Proposal, p. 48

<sup>68</sup> Ibid, p. 49

<sup>69</sup> Exhibit 2, pp. 50-51

<sup>70</sup> 2-Staff-28 to 2-Staff-32 IRRs

<sup>71</sup> Settlement Proposal, p. 50