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

BY EMAIL

February 14, 2025

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 Staff Submission
Northern Ontario Wires Inc.
2025 Cost of Service Application
OEB File Number: EB-2024-0046

In accordance with Procedural Order No. 3, please find attached OEB staff's submission in the above referenced proceeding.

The applicant and intervenors have been copied on this filing.

Yours truly,

Vithooshan Ganesanathan

Digitally signed by Vithooshan Ganesanathan
Date: 2025.02.14 11:06:23 -05'00'

Vithooshan Ganesanathan
Advisor – Electricity Distribution Rates

Encl.

cc: All parties in EB-2024-0046

ONTARIO ENERGY BOARD

OEB Staff Submission

Northern Ontario Wires Inc.

Cost of Service Application

EB-2024-0046

February 14, 2025

Introduction

Northern Ontario Wires Inc. (Northern Ontario Wires) filed a Cost of Service application (the Application) with the Ontario Energy Board (OEB) on August 30, 2024, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the rates that Northern Ontario Wires charges for electricity distribution, to be effective May 1, 2025.

The OEB issued an approved issues list for this proceeding on November 11, 2024.[1] A settlement conference was held from December 12-13, 2024 and January 6, 2025. Northern Ontario Wires filed a Settlement Proposal on February 7, 2025. The parties to the Settlement Proposal are Northern Ontario Wires and all approved intervenors: School Energy Coalition and Vulnerable Energy Consumers Coalition (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, for a typical residential customer with a monthly consumption of 750 kWh, the total bill impact will be a decrease of $0.68 per month, or 0.48% before taxes and the Ontario Electricity Rebate.

This submission reflects observations that arise from OEB staff's review of the evidence and the Settlement Proposal. It is intended to assist the OEB in deciding upon Northern Ontario Wires' application and the Settlement Proposal.

Overview

OEB staff has reviewed the Settlement Proposal in the context of the objectives of the *Renewed Regulatory Framework,*[2] the *Handbook for Utility Rate Applications,*[3] and the OEB's statutory objectives for electricity. OEB staff submits that the Settlement Proposal is in the public interest and that the accompanying explanation and rationale are adequate to support the Settlement Proposal. OEB staff further submits that the Settlement Proposal would result in just and reasonable rates.

The OEB-approved Issues List is provided below.

- Issue 1: Capital Spending and Rate Base
- Issue 2: Operating, Maintenance and Administration (OM&A)

[1] OEB-approved Issues List.
[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.

- 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

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 provides reasons for OEB staff positions by commenting on its most material aspects, rather than examining each sub-issue individually.

Issue 1: Capital Spending and Rate Base

OEB staff supports the reduction in capital expenditures and in-service additions agreed to by the Parties in the Settlement Proposal to reduce the cost impact for customers.

The Parties agreed to reduce Northern Ontario Wires' proposed 2025 net in-service additions from $1,826,925 to $1,300,000 to smooth the escalation of capital spending from historical years into the Test Year.[4] The notional changes have been reflected in the categories of capital spending. The Settlement Proposal states that three voltage conversion projects, the Kapuskasing 5 kV to 25 kV Conversion Upgrade, Iroquois Falls 2.4 kV and Millgate 2.4 kV to 12 kV Upgrade, will be paced or delayed in order to achieve the agreed upon reduction in capital expenditures and in-service additions.[5]

The Parties recognized that Northern Ontario Wires will have discretion to adjust spending as needed to effectively manage its distribution system and to help mitigate the risk of extending the timing of these projects.[6]

For the 2026-2029 period, exclusive of the Cochrane Municipal Transformer Station project, the Parties have agreed to reduce the planned average annual net in-service additions from $1,813,312 to $1,600,000. The Parties agreed that this reduction mitigates the increase in capital spending relative to historical levels, while acknowledging that some increase is necessary. The new budget will be used for future reviews of Northern Ontario Wires' capital expenditures, with spending adjustments as needed to accommodate specific project requirements.

[4] Settlement Proposal, page 11.
[5] *Ibid.*
[6] *Ibid.*

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 proposed 2025 rate base is $15.96M, a $152k (0.9%) reduction from the amount updated through interrogatories[7]. OEB staff submits that the reduction is reasonable as it brings the proposed 2025 in-service additions closer to historical actuals. The adjustments agreed to by the Parties for capital additions, depreciation, and allowance for working capital contribute to the adjusted rate base.

Issue 2: OM&A

OEB staff submits that the agreement reached by the Parties with respect to the 2025 OM&A expenses is reasonable. The Parties agreed to a reduction of $450k to Northern Ontario Wires' proposed OM&A for the 2025 Test Year.

With the $450k reduction, the new proposed total 2025 OM&A for Northern Ontario Wires is $4.10M. From the 2017 OEB-approved OM&A, this represents an increase of $1.3M or 33%. The Parties acknowledged that the significant increase in Northern Ontario Wires' 2025 OM&A budget is due to several cost drivers such as the nature of Northern Ontario Wires' service territory, particularly the extensive vegetation management required, and the need to increase and retain the employee complement to adequately service its three distinct service territories.[8] Additionally, there are various other non-inflationary cost drivers which have impacted Northern Ontario Wires from 2017 to 2025.

OEB staff submits that, given these factors, the increase in the 2025 OM&A budget is reasonable. OEB staff submits that the $450k reduction strikes a balance between minimizing the cost impact on customers and providing sufficient funding for Northern Ontario Wires' 2025 OM&A budget.

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?

Northern Ontario Wires proposed to use the OEB deemed capital structure of 4% short term debt, 56% long term debt, and 40% equity. Northern Ontario Wires updated the cost of short term debt and the return on equity to reflect the OEB's 2025 Cost of Capital Parameters. The long-term debt was updated to include the new debt obtained

[7] Response to clarification question - SEC-13.
[8] Settlement Proposal, page 16.

by Northern Ontario Wires in December 2024.

OEB staff notes that Northern Ontario Wires confirmed that it will comply with the applicable cost of capital parameters resulting from the OEB's generic proceeding on Cost of Capital and Other Matters, EB-2024-0063.[9]

OEB staff takes no issue with the proposed capital structure or the updated cost of capital.

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

OEB staff takes no issue with the proposed PILs amount of nil as shown in Table 10 of the Settlement Proposal. [10] The PILs also reflected a five-year smoothing method for capital cost allowance (CCA) to address the phase-out of the accelerated CCA rules in 2028.

The smoothing adjustment added to the Test Year regulatory net income before taxes of $37k, set out under Issue 3.2 of the Settlement Proposal,[11] is calculated based on forecasted capital additions in 2028 and 2029. Northern Ontario Wires applied a portion of the non-capital losses accumulated from prior periods to offset the $37k PILS caused by the smoothing adjustment, bringing it back to nil, as originally proposed.

Regarding the CCA smoothing method, OEB staff notes that in its July 25, 2019 letter titled Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance, the OEB stated that it may consider a smoothing mechanism to address any timing differences that could lead to volatility in tax deductions over the rate-setting term. OEB staff also notes that CCA smoothing proposals have been previously accepted by the OEB in settlement proposals of other proceedings.[12] In OEB staff's view, the agreed-upon smoothing adjustment calculation is an appropriate method to address the phase-out of accelerated CCA. Therefore, OEB staff does not take issue with Northern Ontario Wires' smoothing adjustment calculation.

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

Issue 4: Load Forecast

The Parties agreed to the load forecast subject to an update to include 2024 historical actual data.

[9] Commitment #18.
[10] Settlement Proposal, page 23, Table 10.
[11] Settlement Proposal, page 23, Table 9.
[12] Brantford Power Inc. 2022 Cost of Service Decision and Rate Order, EB-2021-0009, November 25, 2021, PUC Distribution Inc. 2023 Cost of Service Decision and Rate Order, EB-2022-0058, April 6, 2023

OEB staff submits that the proposed load forecast, as updated in the Settlement Proposal, is reasonable.

OEB staff supports the proposed consumption, demand and customer forecasts of 115 GWh, 158 MW, and 7,702 connections respectively (Tables 13 and 14 of the Settlement Proposal). Relative to the Application, this reflects a decrease of 1 GWh for consumption, and an increase of 1 MW for demand and 15 connections.

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 that Northern Ontario Wires' cost allocation was appropriate subject to corrections to the allocation of secondary cost to the General Service (GS) > 50 kW rate class.

The GS < 50 kW revenue-to-cost ratio is above the prescribed range at 136.68% and GS > 50 kW and Street Lighting are at 67.80% and 77.00%, respectively, while the prescribed ranges for all three classes are 80% to 120%. The other two rate classes, Residential and Unmetered Scattered Load, are within the OEB prescribed ranges.[13] The Parties agreed that Northern Ontario Wires would reduce the revenue-to-cost ratio for GS < 50 kW to 120% in 2025 by making offsetting increases to GS > 50 kW and Street Lighting, bringing GS > 50 kW up to 83.81% in 2025. The Parties agreed that Street Lighting would be brought to 77.72% in 2025, and increased to the 80% minimum in two more steps, concluding in 2027.

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

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

The Parties agreed that the fixed charge for the GS > 50 kW rate class would be maintained at the current level. The fixed charge for this rate class is already above the ceiling as defined in the cost allocation model.[14]

In its initial application, Northern Ontario Wires proposed to establish a standby charge, with a rate equal to the volumetric rate of the GS > 50 kW rate class. It expressed concern about the potential for lost revenue if any customer(s) were to install load

[13] Settlement Proposal, Table 15, page 26.
[14] Defined in the cost allocation model as the minimum system with Peak Load Carrying Capability adjustment.

displacement generation, but does not currently have any customers that the standby charge would apply to.

Northern Ontario Wires' proposal to establish a standby charge was withdrawn as part of the Settlement Proposal. The Parties noted that there are currently no customers that a standby charge would apply to. OEB staff agrees that it is appropriate to withdraw the standby charge when there are currently no customers that it would apply to.

OEB staff has no concerns with the proposed rate design including the fixed/variable splits.

5.6 Are rate mitigation proposals required and appropriate?

The Parties agreed to phase in increasing the revenue-to-cost ratio for the Street Lighting rate class over three years, with increases in 2025, 2026, and 2027. This proposal reduces the total bill impact to the Street Lighting rate class to 10.4% in 2025.

The Parties also agreed that Northern Ontario Wires would mitigate the impact to the GS > 50 kW rate class. While the impact did not trigger the 10% total bill threshold for necessitating mitigation, the Parties agreed that mitigation was appropriate given a distribution rate impact of 56.5% pre-mitigation. The Parties agreed that a rate rider would be applied to reduce the distribution bills for GS > 50 kW customers by a total of $125k, starting at $82.5k in 2025 and diminishing over three years. The rate rider would be funded by Northern Ontario Wires. As a result, the distribution bill impact in 2025 is 35.8%, with a total bill impact of 2.8%.

In the context of a complete settlement, OEB staff has no concerns with the proposal to mitigate the bill increases for the GS > 50 kW and Street Lighting rate classes.

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?

The Parties agreed to the disposition of the following Deferral Variance Account (DVA) balances as of December 31, 2023 and forecasted interest through to April 30, 2025, over a one-year disposition period:

- Group 1 DVAs of a total debit balance of $100,130
- Group 2 DVAs of a total credit balance of $151,325

Some of the Group 2 DVA balances also include forecasted principal amounts up to April 30, 2025.

In the Settlement Proposal, the Parties agreed to the following:

- The Parties agreed that the Pole Attachment variance account should be forecast to April 30, 2025 and disposed of on a final basis and the account closed.
- The Parties agreed that there are no relevant impacts for Northern Ontario Wires to record in the Getting Ontario Connected Account, and that the account can be closed.
- The Parties agreed that Northern Ontario Wires has no costs to record in a Cloud Computing Implementation Costs Deferral Account, or planned in its 2025 OM&A budget, and that accordingly no such account is presently required. This agreement is without prejudice to Northern Ontario Wires' ability to come forward with a request to establish such an account should it take steps to implement cloud computing prior to its next Cost of Service application.
- The Parties agreed that RCVA accounts 1518 and 1548 should be forecast to April 30, 2025, and disposed of on a final basis and the accounts closed.

OEB staff supports the agreement reached by the Parties related to the DVAs. OEB staff's submission on certain accounts are as follows:

Account 1511 Incremental Cloud Computing Implementation Costs

In the Accounting Order establishing the deferral account to record Incremental Cloud Computing Arrangement Implementation Costs, the OEB stated that the deferral account is generally intended to record cloud computing implementation costs when utilities first transition from on-premises solutions to cloud computing. [15]

In response to an OEB staff interrogatory, Northern Ontario Wire stated that it was "…currently considering migration to a cloud-based solution for an upgraded NorthStar billing system and will consider use of the deferral account consistent with the guidance that has been provided for this and any other cloud-based solutions that may arise."[16]

OEB staff does not take issue with the Parties' agreement to close the generic Incremental Cloud Computing Implementation Variance account as part of the

[15] OEB Accounting Order for the Establishment of a Deferral Account to Record Incremental Cloud Computing Arrangement Implementation Costs, November 2, 2023, pages 3-4.
[16] IR Commitment Error Checking, Question 49.

Settlement Proposal. Northern Ontario Wires is unable to forecast costs beyond the 2025 Test Year related to the future adoption and expansion of cloud computing solutions cost allocations. Furthermore, OEB staff does not take issue with the Parties' agreement that Northern Ontario Wires can come forward with a request to establish such an account specific to the utility, should it take steps to implement cloud computing prior to its next Cost of Service application. OEB staff notes that the Incremental Cloud Computing Implementation Variance Account was never intended to be an on-going variance account to be used by the utilities to true up the cloud related expenditure/expenses that are embedded in rates. Rather, the generic deferral account is "intended to record cloud computing implementation costs when utilities first transition from on-premise solutions to cloud computing solutions".[17]

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 by 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, the OEB provided accounting direction on the treatment of the impacts from accelerated CCA resulting from the AIIP. The OEB established a separate sub-account, Account 1592 – PILs and Tax Variances, Sub-account CCA Changes to track the impact of any differences that result from the CCA change to the tax rate or rules that were used to determine the tax amount that underpins rates.

The credit balance of $74,673 in sub-account CCA Changes of Account 1592 represents the full revenue requirement impact of the application of accelerated CCA as of December 31, 2024, including interest to April 30, 2025.

The Parties also agreed to the continuation of Account 1592 – PILs and Tax Variances, Sub-account CCA Changes subsequent to December 31, 2024. Although Northern Ontario Wires has smoothed out the AIIP impact in its incentive period in this proceeding and AIIP is going to fully phase out by 2028, OEB staff agrees that Account 1592, Subaccount CCA Changes should remain open to track the impact of any differences that result from a change in the CCA rule used to determine the tax amount that underpins rates. [18]

In the Settlement Proposal, the Parties agreed to discontinue the following Group 2

[17] OEB Accounting Order for the Establishment of a Deferral Account to Record Incremental Cloud Computing Arrangement Implementation Costs, November 2, 2023.
[18] Account 1592, Sub-account CCA Changes was established in the OEB's letter Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance, July 25, 2019.

accounts:

- Account 1508 OPEB
- Account 1508 Pole Attachment Revenue Variance
- Account 1508 Customer Choice Initiative Costs
- Account 1508 ULO Implementation Cost
- Account 1508 OEB Cost Assessment
- Account 1518 Retail Cost Variance Account – Retail
- Account 1548 Retail Cost Variance Account - STR
- Account 1508 Green Button Initiative Costs
- Account 1508 GOCA Variance Account
- Account 1511 Incremental 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 Pole Attachment Revenue Variance) or the relevant policy initiatives for some accounts have been completely implemented and there are no further anticipated activities moving forward (for example, Account 1508 Green Button Variance Costs and Account 1508 GOCA Variance Account).

Issue 7: Other

7.2 Is the proposal for an Advanced Capital Module for the New Cochrane Municipal Transformer Station appropriate, and does the proposal include sufficient justification and cost estimates to show need and prudence?

OEB staff supports the proposed changes to the New Cochrane Municipal Transformer Station project agreed to by Parties in the Settlement Proposal and the need for an Advanced Capital Module treatment in the current filing.

The proposed New Cochrane Municipal Transformer Station is estimated to have a total cost of over $14.6M, which is significantly higher than Northern Ontario Wires' average annual capital budget of $1.6M. The Parties agreed that Northern Ontario Wires has established the need for the project given the age and condition of the existing Cochrane Transformer Station and the anticipated new load growth in the impacted area.[19]

To manage the project's costs and minimize the impact on customers, the Parties have agreed to changes in the project in-service date.

[19] Settlement Proposal, page 38.

The Parties agreed to shift the in-service date from 2028 to 2029, deferring the impact on Northern Ontario Wires' revenue requirement and eliminating the need for Northern Ontario Wires to seek Advanced Capital Module or Incremental Capital Module funding. The Parties accepted Northern Ontario Wires' evaluation that postponing the project's in-service date by one year does not introduce unacceptable incremental risk to Northern Ontario Wires' distribution system.[20] Northern Ontario Wires confirmed that it will not seek Advanced Capital Module or Incremental Capital Module funding relief for the project during the 2026 to 2029 IRM period.

The Parties agreed that they would not object to Northern Ontario Wires applying the day/month that the project is put into service rather than using the half year rule.

Northern Ontario Wires confirmed that it will report annually on the project's progress from 2026 to 2029, providing updates on scope, costs, and new load associated with the project.

~All of which is respectfully submitted~

[20] Settlement Proposal, page 38.