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

BY EMAIL

March 21, 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 (OEB) Staff Submission
Greater Sudbury Hydro Inc.
2025 Cost of Service Application
OEB File Number: EB-2024-0026

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to the OEB's March 10, 2025 letter.

Yours truly,

Iris Qi Digitally signed by Iris Qi Date: 2025.03.21 14:27:29 -04'00'

Iris Qi
Analyst – Electricity Distribution Rates

Encl.

cc: All Parties in EB-2024-0026

ONTARIO ENERGY BOARD

OEB Staff Submission

Greater Sudbury Hydro Inc.

Cost of Service Application

EB-2024-0026

March 21, 2025

1. Introduction

This is OEB staff's submission on the settlement proposal filed by Greater Sudbury Hydro Inc. (Greater Sudbury Hydro) related to its application for May 1, 2025 electricity distribution rates (Application). The settlement proposal represents a partial settlement on the issues on the OEB-approved issues list. The unsettled portion of Issue 6.1 pertains to Account 1508, Sub-Account OPEB Cash to Accrual Transitional Amount and Account 1508 – Sub-Account Actuarial Gains & Losses (OPEB accounts), and will proceed to a hearing.

The settlement proposal was arrived at during a settlement conference held from February 10, 2025 to February 12, 2025. The Parties to the settlement proposal are Greater Sudbury Hydro and all approved intervenors, namely: Association of Major Power Consumers of Ontario, and Coalition of Concerned Manufacturers and Businesses of Canada, School Energy Coalition, Vulnerable Energy Consumers Coalition (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 $0.54 (0.38%).[1]

OEB staff notes that the above bill impacts exclude any bill impacts resulting from the disposition of the Account 1508-Other Regulatory Asset, Sub-Account OPEB as Issue 6.1 pertaining these accounts.

OEB staff submits that it supports the Parties' proposal to deal with the disposition of Greater Sudbury's OPEB accounts as a separate issue, to be determined through a written hearing process. The complexity and materiality of the proposed disposition warrant a distinct hearing process to ensure a comprehensive evidentiary record and a thorough review Parties through interrogatories and written submissions. This approach also ensures that the panel has the necessary time and information to consider the appropriate disposition methodology, while allowing the remainder of Greater Sudbury's application to proceed in a timely manner.

[1] Before 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, Other Charges
- Issue 6: Deferral and Variance Accounts (DVAs)
- 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-2024-0026, Decision on Issues List, December 19, 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, with the exception of the Advanced Capital Module (ACM) projects, appropriate?

OEB staff supports the proposed capital expenditures and in-service additions.

In the Application, Greater Sudbury Hydro proposed capital in-service additions of \$13.91M for the 2024 Bridge Year and \$12.41M for the 2025 Test Year.[5]

As a result of the settlement proposal , the Parties agreed to the net in-service additions for the 2024 Bridge Year as proposed by Greater Sudbury Hydro and agreed to reduce the net in-service additions by \$0.86M (by 7%) to \$11.55M for the 2025 Test Year.[6] Additionally, the Parties have also agreed to revise planned expenditures for the 2026 to 2029 period, resulting in a 6% reduction in years 2026, 2028, and 2029, and a 3% reduction in year 2027. The lower amount of reduction in 2027 is due to the impact of the proposed Moonlight MS ACM project. While the Parties are not requesting approval for the non-test year budgets, nor does the OEB approve them, the non-test year budgets are often used as a reference for evaluating the capital spending in its next cost of service proceeding.

As part of the settlement proposal, Greater Sudbury Hydro has also agreed to:

1. Implement the required processes to track the number of outages and duration of outages by equipment type, and report back at the next rebasing application.
2. For all reliability metrics, Greater Sudbury Hydro shall track and report the data by its six non-contiguous service areas.
3. Conduct analyses to compare equipment failures of major assets with health index information results from the Asset Condition Assessment and report back in the next application. For example, compare the failure trend of wood poles with the Health Index trend in the Asset Condition Assessment (ACA).
    - Report on the wood pole test results by year (number of poles tested and breakdown of pole condition) and review the appropriateness of the proposed 3-year timeline for wood pole testing.
    - Review the appropriateness of including a telecommunications duct within the scope of its construction activities where appropriate and report back on implementation opportunities and any cost savings achieved.

[5] GSHI_IRR_2025_Filing_Requirements_Chapter2_Appendices_20250204 App.2-BA_Fixed Asset Cont
[6] Settlement Proposal, p. 12

- Consider the feasibility and cost-effectiveness of cable injection as an alternative to cable replacements in its next five-year investment plan.

OEB staff agrees with the above six commitments. Equipment failure, identified as a critical controllable parameter, accounted for 37% of system interruption minutes and contributed to 41% of total recorded service interruptions during the period from 2019 to 2023. While Greater Sudbury Hydro reports that it tracks equipment failures, it does so without categorizing them by equipment type at a granular level.

By disaggregating the reliability data for its six non-contiguous areas, Greater Sudbury Hydro will be better positioned to identify specific challenges, allocate resources effectively, and implement targeted improvements. This level of granularity supports a more comprehensive understanding of service reliability and ensures that investment planning and operational strategies are aligned with the customer needs of each service area.

Furthermore, OEB staff also finds the latter three commitments appropriate as they promote accountability, ensure a proactive approach to infrastructure maintenance, and encourage cost-effective, innovative solutions to enhance system performance and reliability.

Overall, OEB staff agrees with the pacing proposed by the Parties in the settlement proposal as well as the agreements above. OEB staff submits that the proposed in-service additions budgets for 2024 and 2025 are reasonable for Greater Sudbury Hydro to meet its reliability, service quality, and other objectives.

1.2 Are the proposed rate base and depreciation amounts appropriate?

The proposed 2025 rate base is $127.15M, a $0.52M (0.4%) decrease from the $127.67M from the pre settlement clarification responses. The adjustments agreed to by the Parties in the following areas contribute to the adjusted rate base: adjustment to 2025 in-service additions, depreciation, and allowance for working capital.

The proposed 2025 depreciation expense is $5.44M, which is a $0.03M decrease from $5.47M in the pre settlement clarification responses. The adjustment to the depreciation expense reflects the changes made to the 2025 in-service additions, as indicated above under Issue 1.1.

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

1.3 Is the in-service addition of the Cressey (MS3) Substation ACM project appropriate?

As part of the OEB's 2020 cost of service decision (EB-2019-0037), Greater Sudbury Hydro was approved to apply for the ACM funding for its Cressey substation rebuild project scheduled for 2021. The ACM was approved for $4.66M and actual capital expenditure came in at $4.75M, a variance of 0.09M. Greater Sudbury Hydro proposed including $4.75M to the 2025 rate base and Parties agreed that the $4.75M in-service addition of the Cressey (MS3) Substation ACM project is appropriate.

OEB staff submits that the $4.75M in-service addition ($90k above the $4.66M approved spending) to the 2025 rate base is reasonable.

1.4 Is the proposed ACM for the Moonlight (MS18) Substation Rebuild appropriate?

The Parties agreed that the proposed ACM for the Moonlight (MS18) Substation Rebuild is appropriate, including the current estimated cost of $6.48M.

Based on the Substation Condition Assessment Report submitted as part of the application, the Moonlight station has health index score of 38 (lowest of 25 stations) and has been categorized in red category (Poor Condition – Mitigation is required immediately, within one year). The report also mentions that the transformer insulation shows low dielectric strength, the switchgear is severely rusted, and the station yard has several safety-related issues. Based on these findings OEB staff believes that Greater Sudbury Hydro has reasonably demonstrated the need to undertake this investment. The estimated cost provided also seems reasonable on the basis of the conceptual budget and the costs of other comparable projects.

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.

Greater Sudbury Hydro proposed total OM&A expenses of $20.22M for the 2025 Test Year in the Application, an increase of 24.57% (or 4.45% compounded annually) compared to the 2020 OEB-approved OM&A spending of $16.24M. In the Application, Greater Sudbury Hydro stated that the OM&A cost increases since 2020 have been primarily driven by shared service corporate cost allocation, labour & burden, future pension benefit interest expense, contract labour, and vegetation management contract labour.[7]

Through settlement, the Parties agreed to a 2025 OM&A envelope reduction of $1.30M, resulting in OM&A expenses of $18.92M. The revised 2025 OM&A spending represents an increase of 16.50% (or 3.1% compounded annually) compared to the 2020 OEB-approved OM&A amount.[8]

OEB staff supports the proposed OM&A budget for the 2025 test year. OEB staff submits that the envelope reduction of $1.30M in OM&A is reasonable. The settled OM&A budget of $18.92M should ensure that Greater Sudbury 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?*

Due to its corporate structure, Greater Sudbury Hydro obtains a large portion of its services from affiliates, making periodic reviews of its shared service arrangement essential. In the 2020 Cost of Service settlement proposal, the Parties agreed that Greater Sudbury Hydro would retain a third-party consultant to independently review its shared services arrangements and related cost allocation methodology.

Greater Sudbury Hydro engaged KPMG to conduct the review, and their report, “The KPMG Report”, is included in the Application. Greater Sudbury Hydro claims that the recommendations from the KPMG report were implemented in 2023 and are also embedded in the 2025 Test Year budgets.

In the settlement proposal, the Parties accepted Greater Sudbury Hydro’s proposed shared service cost allocation methodology.

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?

Greater Sudbury Hydro proposed to use the OEB deemed capital structure, which consists of 4% Short Term debt, 56% Long Term debt, and 40% Equity, along with the

[7] Exhibit 4, Tab 1, Schedule 1, pp. 3,4
[8] Settlement Proposal, p. 19

OEB's 2025 cost of capital parameters[9] for the short-term debt rate and return on equity. For the long-term debt rate, Greater Sudbury Hydro proposed a rate of 4.26%, which is the weighted average rate of its total of $63 million in third-party debt and affiliate promissory note. This rate is lower than the OEB's deemed long-term debt rate of 4.66% for 2025.[10]

In addition, the Parties agreed that Greater Sudbury Hydro will comply with any orders or directions from the OEB resulting from the Cost of Capital Generic Proceeding[11] that are applicable to Greater Sudbury Hydro. The Parties agree that Greater Sudbury Hydro shall: (a) use 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) shall use 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.[12]

OEB staff submits that the agreed upon cost of capital calculations have been appropriately determined in accordance with OEB policies and practices. 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 $799k as agreed to by the Parties.[13] OEB staff does not oppose the Parties' agreement related to the calculation of the PILs amount, including the recognition of accelerated capital cost allowance (CCA) in the 2025 Test Year. Greater Sudbury did not propose a smoothing mechanism for the tax impacts over the five-year IRM term. Instead, Greater Sudbury will utilize Account 1592 to record the impacts of CCA changes. OEB staff has no concerns with this approach.

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 $2.19M, an increase of $122.87k compared to $2.07M in the Application (as set out in Table 11 of

[9] 2025 Cost of Capital Parameters
[10] 2025 Cost of Capital Parameters
[11] Generic Proceeding – Cost of Capital and Other Matters, EB-2024-0063
[12] Settlement Proposal, p. 22
[13] Settlement Proposal, p. 23

the settlement proposal).

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, with the exception of the unsettled issues[14].

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

As indicated on Table 12 of the settlement proposal, the Parties agreed to a service revenue requirement of $33.37M and a base revenue requirement of $31.17M. These values reflect the impact of the reduction in OM&A expenditures of $1.3M (discussed under Issue 2.1), compared to the Application. The values also reflect changes to revenue offsets, depreciation, PILs, cost of capital, and working capital allowance.

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.

The Parties agreed that the load forecast, as updated prior to the settlement conference, is appropriate.

OEB staff supports the proposed consumption, demand and customer forecasts of 835 GWh, 803 MW, and 10,306 customers respectively. Relative to the Application, this reflects a decrease of less than one GWh for consumption and less than one MW for demand. The proposed customer forecast increases by 3 customers compared to the Application.

[14] Settlement Proposal, Unsettled Issues, p. 5

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 Greater Sudbury would update the peak demand allocators to remove load associated with EV charging from the peak demand. While the initial application assumed that EV charging load would be equal in every hour of the day, the parties assumed that customers would avoid EV charging during peak hours. The Parties accepted the results of Greater Sudbury Hydro's cost allocation methodology and its proposed revenue-to-cost ratios.[15]

The revenue-to-cost ratios for all classes except for the sentinel lighting rate class fell within the OEB policy range. Greater Sudbury Hydro proposed, and the Parties accepted, that the revenue to cost ratio for the sentinel lighting rate class would be increased from 79.49% to 80%, the lower end of the OEB's policy range, in 2025. To maintain revenue neutrality, the revenue-to-cost ratio for the street lighting rate class is reduced to 119.89% from 119.96%. No further adjustments are proposed outside of the test year.

In the context of a settlement proposal, OEB staff has no issues 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 and the proposed change to 30-day fixed charges, appropriate?

The Parties agreed that Greater Sudbury Hydro would not implement its proposal to reflect rates on the tariff sheet on a 30-day basis. Instead, its rates would be reflected on a monthly basis. The Parties accepted the approach to rate design including the proposed fixed/variable splits.

OEB staff submits that the proposed rate design, including charging fixed charges on a monthly basis, and the fixed/variable splits are appropriate.

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

The Parties accepted that the RTSRs and LV charges are appropriate.

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

[15] Settlement Proposal, p. 30

5.4 Are the proposed loss factors appropriate?

OEB staff takes no issue with the proposed total loss factor of 1.0459. This is based on a supply facilities loss factor of 1.0071 and a distribution loss factor of 1.0386.

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

The Parties accepted that Greater Sudbury Hydro's proposed Specific Service Charges and Retail Service Charges are appropriate.[16] OEB staff supports the Parties' agreement.

5.6 Are rate mitigation proposals required and appropriate?

The Parties agreed that no mitigation is required. OEB staff agrees that no mitigation is required, 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, their disposition and period thereof, requests for new accounts, requests for discontinuation of accounts, and the continuation of existing accounts, appropriate?

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, are appropriate.[17]

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: [18]

- Group 1 DVAs of a total credit balance of $379,322, including Accounts 1588 and 1589
- Group 2 DVAs of a total debit balance of $140,533, excluding the OPEB Accounts as part of the unsettled issues

Some of the Group 2 DVA balances also include forecasted principal amounts up to

[16] Settlement Proposal, p. 36
[17] Settlement Proposal, pp. 36-42
[18] Settlement Proposal, Table 21&22, p. 39

December 31, 2024.[19]

Through settlement, the Parties agreed to the following[20]:

a) Disposition of Account 1508 – Pole Attachment Revenue Variance Account with a debit balance of $699,100 including the forecast balance of $164,388 for 2024 and $43,706 for the first 4 months of 2025 and interest until the end of April 30, 2025 and to discontinue the account following the disposition.[21]
b) Disposition of Account 1592 – sub-account CCA Changes with a credit balance of $354,732 including interest until the end of April 30, 2025.
c) Upon final disposition, discontinue Account 1508 – sub account Pole Attachment Variance Account, Account 1508 – sub accounts related to Cressey Station ACM, RCVA Accounts and Account 2405 – LRAMVA[22]

Parties also agreed to deal with the disposition of Greater Sudbury's OPEB accounts as a separate issue, to be determined through a written hearing process. OEB staff supports their proposal, as explained in more detail in the Introduction.

Lost Revenue Variance Adjustment

Greater Sudbury Hydro is seeking clearance of $41,331 lost revenue variance adjustment amount. Greater Sudbury was previously approved to clear a net credit balance of $37,640 but due to an oversight in that rate proceeding the rate rider to settle the balance was not included on Greater Sudbury's tariff sheets.[23] Greater Sudbury Hydro confirmed this in response to interrogatories.[24] Settlement Parties have agreed to clear the requested amount, adjusted for interest, as per Table 28 in the settlement proposal as part of this proceeding.[25] OEB staff support the settlement proposal.

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

[19] Settlement Proposal, DVA Continuity Schedule, tab 2b
[20] Settlement Proposal, pp. 36-42
[21] Ibid
[22] Settlement Proposal, pp. 36-42
[23] Decision and Order, EB-2022-0034, March 23, 2023
[24] Interrogatory, 9-Staff-59
[25] Settlement Proposal, Table 28, p. 41

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.

Greater Sudbury Hydro recorded a credit entry of $433,354 representing the revenue requirement impact of the CCA Changes from Nov 21, 2018 until May 1, 2020.[26] OEB staff reviewed this request and noted that the 2019 differences belong to the previous rate period and should have been forecast and disposed of in Greater Sudbury Hydro's last cost of service application.[27] Nevertheless, Greater Sudbury justified the inclusion of these amounts by stating that it is appropriate to seek disposition now to ensure fairness and to return funds to ratepayers.[28] Parties agreed to dispose of the 2019 differences. OEB staff notes that the balances were calculated in line with OEB guidance and has no concerns with the Parties' agreement to dispose of the 2019 balance in fairness to the ratepayers.

Greater Sudbury did not record any impacts from the CCA Changes for 2020 through 2024, with the exception of those related to its Cressey Substation ACM, as impacts were already embedded in its rates.[29] OEB staff submits that this treatment is appropriate.

The credit balance of $354,732 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.

Issue 7: Other

7.1 Is the proposed effective date appropriate?

In the application, Greater Sudbury Hydro requested an effective date of May 1, 2025.

Through settlement, the Parties agreed that Greater Sudbury Hydro's new rates should take effect upon implementation. The new rates can be implemented on the first of a month if approval is received within 9 days of that date.

[26] Exhibit 9, Tab 1, Schedule 6, pp. 1-4
[27] Interrogatory, 9-Staff-57
[28] IRR, 9-Staff-57
[29] Exhibit 9, Tab 1, Schedule 6, p. 92

As discussed above, the Parties agreed that the unsettled portion of Issue 6.1, which relates to Account 1508, Sub-Account OPEB Cash to Accrual Transitional Amount and Account 1508 – Sub-Account Actuarial Gains & Losses, should proceed to a hearing and is not included in the settlement proposal. The Parties agreed that there is no need to delay the implementation of the settlement proposal's impact due to the hearing of the unsettled issues.

OEB staff supports the settlement proposal with respect to the effective date.

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

OEB staff supports the Parties' view that Greater Sudbury Hydro has responded appropriately to all previous OEB directions.

~All of which is respectfully submitted~