

BY E-MAIL

May 23, 2025

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Marconi:

**Re: Greater Sudbury Hydro Inc. (Greater Sudbury Hydro)
2025 Cost of Service Rate Application
Ontario Energy Board (OEB) File Number: EB-2024-0026**

In accordance with Procedural Order No. 2, please find attached the Ontario Energy Board (OEB) staff interrogatories on the supplemental evidence filed by Greater Sudbury Hydro related to Other Post-Employment Benefits (OPEBs) in the above proceeding. The applicant and intervenors have been copied on this filing.

Greater Sudbury Hydro's responses to interrogatories are due by June 6, 2025.

Any questions relating to this letter should be directed to Georgette Vlahos at georgette.vlahos@oeb.ca or at 416-544-5169. The OEB's toll-free number is 1-888-632-6273.

Yours truly,

Georgette Vlahos
Advisor, Electricity Distribution Rates

Attach.

OEB Staff Interrogatories on Supplemental Evidence
2025 Electricity Distribution Rates Application
Greater Sudbury Hydro
EB-2024-0026
May 23, 2025

Please note, Greater Sudbury Hydro is responsible for ensuring that all documents it files with the OEB, including responses to OEB staff interrogatories and any other supporting documentation, do not include personal information (as that phrase is defined in the *Freedom of Information and Protection of Privacy Act*), unless filed in accordance with rule 9A of the OEB's *Rules of Practice and Procedure*.

Staff-1s

Ref 1: GSHI_OPEB_Illustrative_Example_20250509 Excel

Ref 2: Page 6

In reference 1, Greater Sudbury Hydro provided an illustrative example prepared by RSM to demonstrate the full lifecycle of OPEB costs for a single employee—from the date of hire through retirement and ultimately until death at age 95. Greater Sudbury Hydro stated that this single-employee model is deliberately chosen to simplify the demonstration, making it more accessible to parties seeking to understand the core concepts behind OPEB cost recognition.

In reference 2, Greater Sudbury Hydro states that because the model focuses on one employee, the arithmetic is easy to follow and the effect of every assumption change is immediately apparent. The same mechanics apply in aggregate to Greater Sudbury Hydro's full workforce; scaling up simply involves summing individual results. Interested parties are encouraged to review the *Projections* tab first, paying particular attention to the "Actuarial (Gain)/Loss" column, which shows how each change in assumptions restates previously booked current-service and interest costs.

Questions:

- (a) Please confirm whether the model assumes the utility recovers exactly equal amounts in rates as it incurs in costs under each method, with no difference between rate-setting and actual recovery. If not, please explain.
- (b) The model does not appear to compare historical amounts embedded in rates to actual OPEB accruals.

- i. Given that Greater Sudbury Hydro's approved OPEB accounting order¹ requires this comparison to prevent double-recovery, why was this not modeled or tested in the illustrative example?
 - ii. The model shows cost recognition starting in year 0 and ending at year 44. Please explain how this profile reflects or maps with Greater Sudbury Hydro's actual workforce. For example, what is the average remaining service life of Greater Sudbury Hydro's workforce, and how does that compare with the assumed 44-year model?
 - iii. The model appears to assume that no OPEB amounts were embedded in base rates during the period when the utility was recovering under the cash method. Is this assumption consistent with Greater Sudbury Hydro's actual rate-setting history? If not, please explain why a "zero recovery" proxy is valid for this model.
- (c) Please confirm whether Greater Sudbury Hydro has run the illustrative model using a sample or full population of its employees to verify that the logic holds under its actual workforce conditions. If yes, please provide the results.
- i. If not, please explain why this was not done.

Staff-2s

Ref: Page 15

Greater Sudbury Hydro provided Appendices A, B and C as different calculation methods for the transitional amount of OPEBs requested for disposition, and notes that these are the "practical options." OEB staff has recreated the table from reference 1 below:

¹ EB-2019-0037, Appendix A, Final Accounting Order

Practical options for calculating the transitional balance

Option	Treatment of pre-2009 cash costs in calculation (pre-OEB data gap)	Treatment of 2009 to transition date cash costs in calculation	Advantages	Considerations / Limitations	Liability Amount Calculated	Calculation Reference
A. Actual-Cash cost for all years ("GSHi method")	Actual cash OPEB payments	Actual cash OPEB payments	<ul style="list-style-type: none"> • Auditable data exist for the entire period. • Directly matches liability build-up. 	<ul style="list-style-type: none"> • Does not mirror the risk-sharing intent of the OEB's embedded-in-rates approach. 	\$19,176,084	Appendix A: Option A. Actual-Cash cost for all years ("GSHi method")
B. Blended Method: Cash pre-2009, Embedded-in-Rates 2009-onward	Actual cash OPEB payments (used as proxy for unavailable data)	Amount embedded in rates	<ul style="list-style-type: none"> • Employs the OEB Staff method wherever reliable "embedded in rates" data exist. • Minimises estimation error before 2009. 	<ul style="list-style-type: none"> • Introduces a timing mismatch for pre-2009 service; some forecasting risk remains with the utility. 	\$20,024,080	Appendix B: Option B. Blended Method: Cash pre-2009, Embedded-in-Rates 2009-onward
C. Embedded-in-Rates for all years ("OEB Staff method")	Not feasible – "embedded in rates" figures unavailable prior to 2009	Amount embedded in rates	<ul style="list-style-type: none"> • Aligns exactly with the OEB Report if full data existed. 	<ul style="list-style-type: none"> • Requires reconstruction of pre-2009 rate filings—an exercise that would be largely speculative, subject to significant error, and potentially infeasible. • GSHi's first actuarial valuation was completed in 2000; reliable data for earlier years do not exist. 	Cannot be fully calculated	Appendix C: C. Embedded-in-Rates for all years ("OEB Staff method")

Questions:

- (a) Please confirm that Greater Sudbury Hydro has not quantified the OPEB costs embedded in rates amounts for the period pre-2009 in any of the three options Greater Sudbury Hydro put forward in reference 1 except when it uses "cash OPEB payments" as a proxy values in Appendix B.
- (b) Given Greater Sudbury Hydro's approved accounting order for its OPEB Transitional Amount, which stated that utilities must demonstrate the difference between what has already been recovered in rates and what would have been recovered under the accrual method, please explain how Greater Sudbury Hydro's selection of Option A – without estimating the embedded-in-rates recovery for the pre-2009 period – aligns with the OEB's guidance to avoid potential double recovery.
- (c) Please confirm what sources Greater Sudbury Hydro consulted to determine that no embedded OPEB data existed prior to 2009.
 - i. Did Greater Sudbury Hydro assess the use of a proxy recovery amount (e.g. using 2009-2010 averages) to apply to the pre-2009 period, and what would be the result?

- (d) Please confirm and provide evidence that pension and OPEB costs were not co-mingled in rates from 2000-2019.
- (e) Please provide a revised calculation for Option C by excluding pre-2009 data using the same methodology. Please provide a set of rate riders in this scenario.

Staff-3s

Ref 1: Appendix A, Option A, page 23

Ref 2: Appendix B, Option B, page 24

Ref 3: Appendix C, Option C, page 25

In its supplemental evidence, Greater Sudbury Hydro includes an amount of \$6,491,000 described as the “opening accrued OPEB liability” for the year 2000, based on an actuarial estimate prepared under the accrual accounting method. This amount is included in all three options in calculating the transitional balance for disposition.

Questions:

- (a) Please confirm that the \$6,491,000 balance included in Greater Sudbury Hydro’s transitional recovery estimate represents the opening accrued liability for OPEBs as of the year 2000 under an accrual accounting approach.
- (b) Please confirm that Greater Sudbury Hydro has not provided any quantification or estimate of the OPEB-related costs embedded in rates prior to the year 2000.
 - i. If not confirmed, please explain Greater Sudbury Hydro’s rationale in including this in the OPEB transitional amount and how it aligns with the principles of fairness in the OEB’s Report on Pension and OPEBs.
- (c) Please provide any actuarial or rate-setting evidence Greater Sudbury Hydro may have reviewed to support Greater Sudbury Hydro’s assertion, i.e. its claim for disposition, that none of the \$6.491 million balance was already recovered from ratepayers.
- (d) Please provide any precedents where the OEB approved for disposition of an opening accrual liability prior to a distributor’s first cost-of-service application as part of a utility’s OPEB transitional amount.

Staff-4s

Ref 1: Section 4.4, Impact of Capitalized OPEB Costs, page 20

Ref 2: Appendix D

Ref 3: IAS 16 – Property, Plant and Equipment²

² [IAS 16](#)

Greater Sudbury Hydro provided an analysis in reference 2, which expands upon Appendix A and reconstructs, year-by-year, how OPEB costs flowed through both the income statement and the payroll-burden accounts using two different methodologies:

- 1) Actual capitalized amount – the accrual based OPEB cost that Greater Sudbury Hydro capitalized each year from 2000 to 2019, using a methodology to approximate the amount that would have been capitalized in each year, and
- 2) Cash-basis benchmark – the amount that would have been capitalized had Greater Sudbury Hydro capitalized OPEB costs on a cash basis from 2000 to 2019 despite having to report OPEB costs on an accrual basis.

Greater Sudbury Hydro stated that the comparison shows that under accrual-based reporting Greater Sudbury Hydro capitalized approximately \$927,683 less than it would have had it used cash-based accounting.

Under IFRS (IAS 16), only directly attributable costs related to bringing an asset into service are eligible for capitalization. For OPEBs, this typically means a pro-rated share of current service costs associated with employees working directly on capital projects.

Questions:

- (a) Please clarify how Greater Sudbury Hydro determined that it would have capitalized more OPEB costs under the cash basis of accounting than under the accrual basis, when the cash basis recognizes expenses only when benefits are paid - typically well after capital projects are completed.
- (b) Please explain whether Greater Sudbury Hydro's estimate of \$927,683 in undercapitalization reflects:
 - i. A difference in capitalization policy, or
 - ii. A change in the underlying allocation methodology (e.g. labor burdens or overheads), or
 - iii. Other
- (c) Please provide the criteria Greater Sudbury Hydro used under each accounting method to determine which OPEB costs were eligible for capitalization, and explain how these criteria differ between the cash and accrual approaches.
- (d) Given that capitalization under IFRS is based on direct attribution, and not the timing of payment or expense recognition, please explain why the basis of accounting impacts the quantum of capitalized OPEBs, assuming no change in project staffing or accounting policy.

Staff-5s

Ref 1: EB-2019-0037, Approved Accounting Order for Account 1508 – sub account OPEB Cash to Accrual Transitional Account

Ref 2: Appendix A (Greater Sudbury Hydro method)

The approved accounting order for Greater Sudbury Hydro's OPEB Transitional Amount, filed in EB-2019-0037, stated that the transitional balance will be determined by comparing the embedded-in-rates amounts (typically on a cash basis) to the amounts Greater Sudbury Hydro would have recovered if it had used the accrual method "since the beginning of time." In its current application, Greater Sudbury Hydro has proposed to calculate its transitional balance over the period from 2000 to 2019, covering the period from its corporatization to the 2020 transition to accrual accounting.

OEB staff notes that Greater Sudbury Hydro's first cost of service rebasing application was in 2009 (RP-2008-0274). As such, rates prior to 2009 were either based on historical municipal rates or continued frozen post-corporatization.

Questions:

- (a) Please confirm that Greater Sudbury Hydro's first cost of service rebasing application before the OEB was filed in 2009 (RP-2008-0074), and that prior to this, rates were set based on historic municipal rate structures or interim approvals.
- (b) Please explain how Greater Sudbury Hydro's calculation of its OPEB transitional amount from 2000 to 2008 aligns with the OEB's expectations in the OEB's 2017 Pension and OPEBs Report³, given that no cost of service-based rates were in place to quantify embedded OPEB recovery during those years.
- (c) Please provide any precedents where the OEB has approved the recovery of transitional OPEB balances calculated for periods prior to a utility's first cost of service rebasing.
- (d) Please clarify whether Greater Sudbury Hydro has considered limiting the calculation of its transitional balance to the period beginning with its first rebased rates, i.e. 2009-2019, and if not, explain why such an approach would be inconsistent with the intent of the accounting order.

³ [Report of the OEB - Regulatory Treatment of Pension and Other Post-employment Benefits \(OPEB\) Costs](#)

Staff-6s

Ref: Appendix D

In Appendix D, Greater Sudbury Hydro estimates that under accrual accounting, it would have capitalized \$927,683 more in OPEB costs than it did under cash-based accounting from 2000-2019.

OEB staff notes that expensed OPEBs are recovered immediately in the year incurred; capitalized OPEBs are recovery based on the useful life of the asset, but they also earn a return on capital while in rate base.

Questions:

- (a) Please confirm whether the transitional amount calculated in Appendix A and replicated in Appendix D (columns A through E) includes both expensed and capitalized OPEB accrual costs, or only the expensed portion.
- (b) Please clarify whether the actual cash payments used in Appendix D column B include only OM&A expensed payments or also capture any OPEBs that were capitalized and recovered through depreciation and return on capital.
- (c) Please provide a breakdown from 2009-2019 of how much of Greater Sudbury Hydro's total accrual-based OPEB costs were expensed through OM&A and how much were capitalized as part of capital projects.
- (d) Please confirm whether Greater Sudbury Hydro has estimated the total revenue requirement impact of capitalized OPEBs, i.e. the cost recovery through depreciation plus return on capital, and how this compares to the expensed portion over the same period.
- (e) Please confirm whether any of the OPEB costs that were capitalized in prior years are still being recovery today through depreciation or return on capital. If so, please quantify.
- (f) Please explain whether the transitional amount proposed for disposition of accounts for the ongoing recovery of capitalized OPEBs. If not, please explain.

Staff-7s

Ref 1: Section 4.1, Inclusion of Net Actuarial Gains/Losses Since 2020, page 10

Ref 2: [OEB's 2017 Report on Pension and OPEBs](#)

Greater Sudbury Hydro is proposing to dispose the full balance in its OPEB Actuarial Gains and Losses Deferral Account of \$7,218,181 inclusive of PILs, which it states has accumulated since transitioning to accrual-based OPEB accounting on January 1, 2020.

Greater Sudbury Hydro proposed to credit this amount to customers now to avoid intergenerational inequity.

In reference 2, the OEB's 2017 Report on Pension and OPEBs states,

The OEB generally expects that actuarial gains and losses will even out over time. However, if there is evidence of persistent and significant balances, the OEB will determine an appropriate regulatory treatment.

OEB staff notes that the disposition of the credit balance of \$7.2M in the OPEB Actuarial Gains/Losses account, if approved, would partially offset the recovery of Greater Sudbury Hydro's OPEB Transitional Amount requested, \$26.1M.

Questions:

- (a) Please confirm whether Greater Sudbury Hydro has analyzed the likelihood of future actuarial losses offsetting the current balance. If so, please provide the results of that analysis and explain whether it supports deferral or immediate disposition.
- (b) Please explain whether Greater Sudbury Hydro's position on disposing of the full actuarial gains and losses balance would change if the OEB were to significantly reduce the OPEB transitional amount it is proposing to recover.
- (c) Please provide any precedent cases that Greater Sudbury Hydro is aware of, in which the OEB approved the disposition of the actuarial gains/losses as part of the OPEB expenses.

Staff-8s

Ref: Application, Exhibit 9, Tab 1, Schedule 1, page 15, Table 5

The table referenced above shows the rate riders proposed by Greater Sudbury Hydro related to its proposed OPEBs amounts. The table notes that Distribution Revenue is used in column A as the allocator.

OEB staff notes that Greater Sudbury Hydro's 2025 Distribution Revenue was updated as part of the draft rate order process of this proceeding.

Question:

- (a) Please confirm if any changes are required to the calculated proposed rate riders.