

GREATER SUDBURY HYDRO INC. (GSHI) – OPEB – REPLY TO PANEL QUESTIONS

EB-2024-0026

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Question 1:

1. Based on OEB staff's submission (supported by intervenors CCMBC and AMPCO), adjustments need to be made to Greater Sudbury Hydro's prior-period income/equity.

a. Please provide the impact of this adjustment on Return on Equity, the Debt/Equity ratio, cash flow and any other financial metrics based on OEB staff's submission.

b. Please provide the same information based on VECC's and SEC's submissions.

Answer:

Adjustments to be Made

Greater Sudbury Hydro Inc. ("GSHi") consulted with its external auditors, KPMG, regarding how any OEB decision would be reflected in the financial statements if issued prior to finalization of the FY2025 financial statements. Consistent with Note 1(d)(ii) – Regulatory balances in GSHi's audited FY2024 financial statements, the recognition and measurement of regulatory balances involves estimates and judgments, including interpretation of OEB regulations and decisions, and "the absence of OEB approval is a consideration in this evaluation."¹ As discussed with KPMG and supported by this note, any resulting change would not be a correction of an error but a difference in interpretation, and therefore would be recognized prospectively in the period of the decision.

Accordingly, in the event the OEB denies a material portion of the proposed transition amount before the FY2025 financial statements are finalized, GSHi would recognize the impact prospectively in FY2025 and would not restate or adjust prior-period income or equity.

However, for purposes of responding to this interrogatory, GSHi has prepared the *pro forma* impact as if applied to FY2024 results, as FY2024 is the most recent completed period with finalized financial statements and therefore provides the most appropriate base for analysis. Preparing the impact on FY2024 results will provide the Panel with an impact that would be anticipated to be similar to the impact on FY2025 results for the return on equity and debt/equity ratios.

¹ Greater Sudbury Hydro Inc. Website, Corporate – "GSH Inc. Financial Statements 2024" (audited financial statements; auditor's report dated 28 April 2025), PDF, <https://sudburyhydro.com/wp-content/uploads/2025/07/2024-12-31-Greater-Sudbury-Hydro-Inc-Financial-Statements.pdf>, pg 7.

Calculation of difference for analysis

In OEB staff’s submission², OEB staff propose a disposition amount of approximately \$9.5 million consisting of \$6.998 million plus the grossed-up PILs which they ask to be confirmed by GSHi. GSHi understands this proposal to be the sum of the “Differences” column in Appendix B of GSHi’s submission³, the sum of the Differences column for 2009 to 2019 which calculates the difference between the OPEB cost under the accrual method and the OPEBs paid under cash method that is considered to be embedded in rates in respective rebasing applications. This total is \$6,988,332. This compares to GSHi’s proposed transition amount of \$18,425,390, which has been updated and reduced from the \$19,176,084 in GSHi’s original submission. The amount of \$19,176,084 is what is reflected in the current FY2024 financial statements (values before PILs gross-up). The gross-up for PILs is calculated as $(X * 26.5\% / (1 - 26.5\%))$:

Table 1: Calculation of OEB Staff Proposal Impact

Description	GSHi FY2024 FS (a)	GSHi Updated Proposal (b)	OEB Staff Proposal (c)	Difference Between Proposals (c - b)	Difference for this Analysis (c - a)
Transition Amount	\$19,176,084	\$18,425,390 ⁴	\$6,988,332	(\$11,437,058)	(\$12,187,752) ⁵
PILs Gross-Up ($X * 26.5\% = Y$)	\$5,081,662	\$4,882,728	\$1,851,908	(\$3,030,820)	(\$3,229,754) ⁶
PILs Gross-Up (Iterative) ($Y / (1 - 26.5\%)$) - Y	\$1,832,164	\$1,760,440	\$667,695	(\$1,092,745)	(\$1,164,469) ⁷
Total	\$26,089,910	\$25,068,558	\$9,507,935	(\$15,560,623)	(\$16,581,975)

Columns (a), (b) and (c) above provide relevant values for the requested analysis. Column (a) are the figures that match GSHi’s 2024 fiscal year-end financial statements, column (b) is that same initial proposal but updated as part of this proceeding, and column (c) is OEB Staff’s proposal. The first difference column presents the difference between GSHi’s updated proposal and OEB Staff’s proposal, and the second difference column provides

² Ontario Energy Board, OEB Staff Submission, EB-2024-0026 (11 July 2025), pg. 9.

³ Ontario Energy Board, Greater Sudbury Hydro Inc. – OPEB Supplemental Evidence, EB-2024-0026 (9 May 2025), Appendix B: Option B — Cash pre-2009, Embedded-in-Rates 2009-onward (“Blended method”).

⁴ Ontario Energy Board, Greater Sudbury Hydro Inc. - OPEB Reply Submission, EB-2024-0026 (1 August 2025), pg. 5

⁵ Appendix A, Adjustment 1.

⁶ Appendix A, Adjustment 2 & 3.

⁷ Appendix A, Adjustment 4.

the adjustment that would occur to GSHi's FY2024 financial statements if OEB Staff's proposal were adopted and implemented for that fiscal year-end.

Debt/equity ratio

From Table 1 above, the "Difference for this Analysis" column summarizes the adjustment that would occur to GSHi's financial statements. Table 2 below summarizes the impact of the adjustment on GSHi's FY2024 financial statements:

Table 2: Impact of Adjustment on FY2024 GSHi Financial Statements

Description	FY2024 Reported	OEB Staff Proposal (Impact Adjusted)	Difference
Total Assets and Regulatory Debit Balances	\$179,146,126	\$163,728,620	(\$15,417,506)
Total Liabilities and Regulatory Credit Balances	\$115,790,349	\$112,560,595	(\$3,229,754)
Shareholder's Equity	\$63,355,777	\$51,168,025	(\$12,187,752)
Debt-to-Equity Ratio	1.83	2.20	0.37
Debt-to-Equity Ratio (%)	65% debt to 35% equity	69% debt to 31% equity	4% debt to (4%) equity

The shareholder's equity difference above consists of the adjustment to the principal balance of the transition amount (\$12,187,752). The PILs components do not impact the financial metrics because for financial statement purposes the asset to recover the iterative taxes offsets the liability to pay them (see Appendix A for details of how these adjustments would be recorded in the financial statements).

Return on equity

External financial statements - audited financial statements (actual equity):

Consistent with the "Debt/Equity ratio" analysis above, the proposed prior-period adjustment would reduce equity on GSHi's audited financial statements by \$12,187,752.

External financial statements – net income ("return"):

In the year of the OEB's decision, the net income would be impacted by the noted adjustment (net reduction of income in the year of \$12,187,752). This would flow through "net movement regulatory" on the income statement and would negatively impact the company's net income fully in the year the adjustment is recorded.

Regulatory financial values - no impact on regulatory deemed equity:

GSHi's regulatory deemed equity is a function of items that are not affected by the OEB's proposed OPEB adjustment (e.g., deemed capital structure applied to rate base, where rate base is driven by the average NBV of capital assets; plus working capital allowance derived from cost of power and OM&A recoveries). As such, the deemed equity used for ratemaking purposes remains unchanged.

Regulatory financial values - "Return" component of ROE is impacted in the year of initial adjustment:

In the year of the OEB's decision, regulated net income would be impacted by the same amount of the equity adjustment detailed in Table 2 above. The \$12,187,752 adjustment would flow fully through the income statement in the year of adjustment. Therefore, based on GSHi's approved 2025 revenue requirement:

Table 3: 2025 Regulated ROE – Impact of OEB Staff Proposal

	Regulated Net Income	Total Deemed Equity	Regulated ROE (%)
2025 Approved	\$4,577,550	\$50,861,663	9.00%
Adjust: OEB staff proposal	(\$12,187,752)	\$0	-
2025 Approved, Adjusted for OEB staff proposal	(\$7,610,202)	\$50,861,663	(14.96%)

All else equal, if OEB Staff's proposal is endorsed, the result of GSHi's regulated ROE using the approved 2025 rate application values would be negative in the year of adjustment – projected as (14.96%). GSHi would therefore be outside of the earnings deadband of +/- 3.00% by (11.96%) in this reporting period.

Regulatory financial values – "Return" impact in years beyond the initial adjustment:

The contemplated adjustment primarily affects the balance sheet and future cash flows, not the income statement. As GSHi makes OPEB payments, cash will decrease and the OPEB liability will decrease by the same amount. These payments do not create or eliminate revenue or expense in the period of payment and therefore do not affect net income used in the ROE calculation in any years beyond the initial adjustment. Accordingly, the calculated regulatory ROE (i.e., net income divided by regulatory deemed equity) in years beyond the initial adjustment is not directly impacted.

Cash flow mechanics in years subsequent to the initial adjustment (for clarity):

- Each OPEB payment reduces cash and the OPEB liability on the balance sheet.

- There is no corresponding income statement impact from the cash disbursement itself.
- Therefore, neither the numerator (return) nor the denominator (deemed equity) in the regulated ROE metric changes due to this adjustment.

ROE impact pertains to cash available for capital spending:

GSHi further expands on the impacts on its ROE in future years in the below section titled “Cash flow – if OEB Staff’s proposal is adopted”.

Cash flow analysis

This section analyzes the projected cash flows and accrual (expense) costs associated with GSHi’s OPEB proposal in this submission and the extent to which the timing of recovery in rates (via rate riders and accrual costs) coincides with actual OPEB cash outlays. The analysis relies on projections prepared by RSM for GSHi for the purposes of this response.

The analysis uses RSM’s “Closed” projections, which assume the staff complement as at December 31, 2025, and projects through 2072.⁸ This horizon, and the projection data on which it is based, materially captures nearly the entire period to which the transition balance pertains and is therefore an appropriate timeframe for this assessment.

GSHi has filed two supporting Excel workbooks:

1. **GSHI_OPEB_Reply_To_Panel_Projections_Summary_Worksheet_20251015.xlsx** – the raw workbook prepared by RSM for GSHi (unmodified).
2. **GSHI_OPEB_Reply_To_Panel_GSHI_Modified_Projections_Summary_Worksheet_20251015.xlsx** – a copy of the RSM workbook with two supplemental tabs added by GSHi (tabs named “GSHi Analysis CLOSED” and “GSHi Analysis Tables”). The supplemental tab “GSHi Analysis CLOSED” derives cash and accrual values adjusted, where appropriate, for rate-recovery purposes and summarizes the results to support this analysis. The outputs from this tab form the basis of the analysis in this section.

Reconciling DVA balances to RSM projection opening values

Appendix C bridges GSHi’s proposed transition amount (as at December 31, 2019), the accrual and payment activity in 2020-2024, and the actuarial gain/loss deferral account

⁸ See “GSHI_OPEB_Reply_To_Panel_RSM_Projections_Memo_20251015” submitted separately as part of this response for a memo submitted by RSM that explains the projections and methodology followed.

activity recorded in 2020–2023 to the opening values used in RSM’s projections (which start from December 31, 2024 closing balances).

Appendix C:

- Starts at the 2019 balance of the Transition Amount DVA.
- Tracks annual activity recorded 2020–2023 in both deferral accounts:
 - (i) the Transition Amount DVA (activity only pertaining to 2019, the as-of transition date), and
 - (ii) the Actuarial Gain/Loss DVA (with affiliate adjustments applied to actuarial entries).
- Stops at the opening values for the RSM projection set (i.e., the Dec 31, 2024, closings that form the projections’ starting point).
- Confirms that interim years’ accrual activity/changes in the OPEB liability were reflected in GSHi’s 2020–2024 approved distribution rates on an accrual basis, subject to normal forecast risk inherent in cost-of-service ratemaking.
- Sub-totals the principal in each deferral account and shows that the sum equals the principal amount GSHi proposes for disposition in this proceeding.

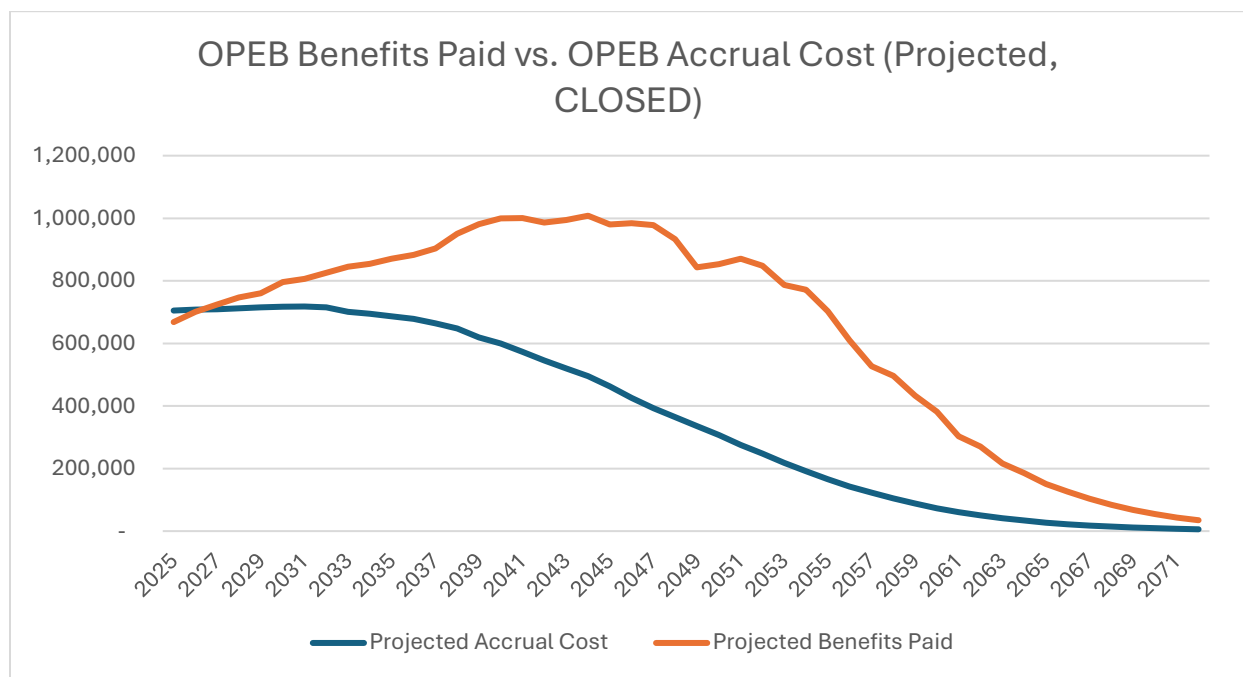
Regarding the 2024 actuarial activity, the actuarial gain/loss activity for 2024 was not projected or estimated in advance of fiscal year-end and therefore does not form part of this disposition request. It has been recorded to the Actuarial Gain/Loss DVA in fiscal 2024 for future consideration.

An Excel version of Appendix C is included to aid in following the reconciliation:

GSHI_OPEB_Reply_To_Panel_Supplemental_Supporting_Reconciliation_20251015.xlsx.

Cash flow – what this proposal covers

The chart below summarizes the anticipated cash-flow impacts from 2025–2072 associated with OPEBs, assuming GSHi transitions to accrual-based recovery with no transition amount. It compares projections for (i) the accrual costs proposed for recovery in rates with (ii) the OPEB benefits actually paid over the same period for the current staff and retiree complement on which these projections are based.



The chart is derived from RSM’s “Closed” projections, which forecast cash costs for the projected staff complement and retirees as at 2025 year-end through 2072. GSHi has taken RSM’s gross projections and applied an allocation factor to reflect only the portion attributable to GSHi’s ratepayers⁹.

If GSHi were to adopt accrual-based recovery without calculating and recovering a transition amount, then, over the projection horizon and for the current staff and retiree complement, GSHi would pay \$30,946,094 in OPEB benefits but recover only \$17,343,257 through accrual costs embedded in future rates for those employees, leaving a shortfall of \$13,602,837. This constitutes a permanent under-recovery because (a) historically, GSHi’s cash-based recovery of OPEB costs in rates provided no mechanism to recover future costs; and (b) prospectively, absent a transition rider, there is no mechanism to recover the shortfall. The foregone recovery would therefore be irretrievable upon transition if no transition amount is established.

Under GSHi’s proposal, future rates would embed the projected accrual cost amounts each year¹⁰, and the difference between projected benefits paid and projected accrual

⁹ This analysis relies on RSM’s “Closed” cohort projections - i.e., existing employees as of December 31, 2022, projected forward. It excludes future hires, departures, and other workforce churn after that date. Accrual costs for staff added post-transition are expected to be recovered prospectively in rates under accrual accounting (subject to normal forecast risk and actuarial gains/losses) and are outside the scope of this analysis, as the funding shortfall associated with the transition from cash to accrual accounting for OPEBs is not related to those employees. The accompanying RSM memorandum filed with this response provides further detail on the projection criteria.

¹⁰ These figures would form part of the amount embedded in future rates but not the entire amount because the “closed” projections pertains only to GSHi’s current staff compliment and retirees and does not account for employee turnover and replacement.

costs (i.e., the \$13,602,837 shortfall) should approximate the transition amount GSHi seeks to recover in this proceeding.

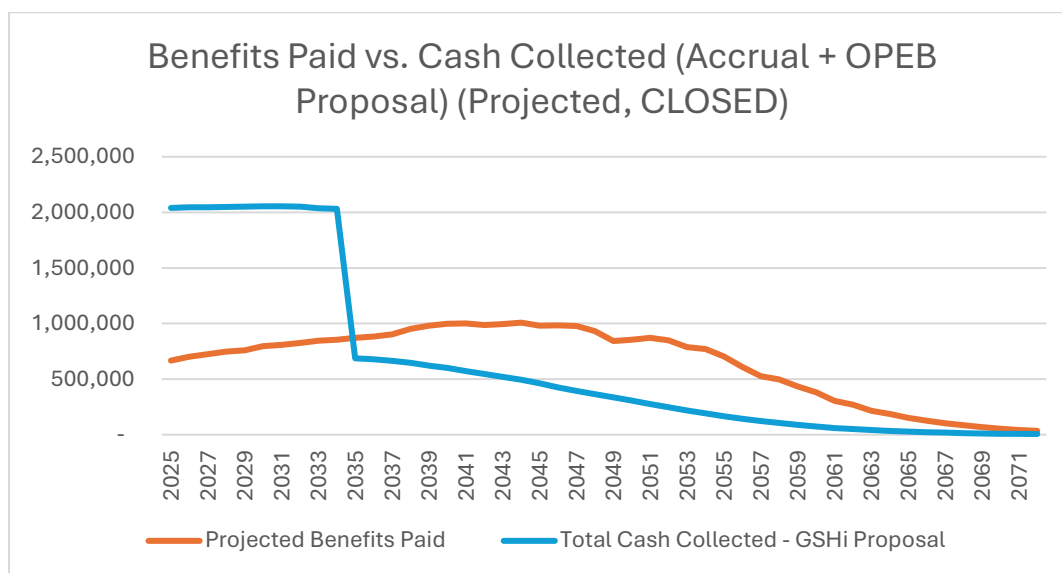
Cash flow – if GSHi’s transition-to-accrual proposal is adopted

The table below summarizes the projected values under GSHi’s accrual-based proposal.

Table 4: GSHi Accrual Proposal Projection Summaries

Description		Amount
Total Accrual Cost, Attributable to GSHi	a	\$17,343,257
Total Benefits Paid, Attributable to GSHi	b	\$30,946,094
Projected Cash Shortfall, Not Recovered in Future Rates	a – b = c	(\$13,602,837)
GSHi’s Net Proposal in This Proceeding (principal only)	d	\$13,367,257
Residual Permanent Shortfall (GSHi Proposal) ¹¹	c + d	(\$235,580)

The timing of cash recovery will depend on the approved rate rider. For modelling purposes, the projection assumes a 10-year recovery beginning in 2025. Of GSHi’s total proposal of \$18,186,744, \$4,819,487 represents the gross-up for PILs (Payments in Lieu of Taxes), which GSHi would remit annually as collected. The net principal relevant to funding OPEB obligations is \$13,367,257¹². On a 10-year rate rider recovery schedule, this equates to \$1,336,726 per year collected for this OPEB obligation.



¹¹ This shortfall is theoretical; from a materiality perspective this analysis could assume GSHi is recovering the full cash shortfall via this proposal. Some discrepancy exists in this analysis because of the timing between when GSHi established its transition amount in 2019 and the 5 years that have passed between then and the start date of these projections. The RSM projections are intended for illustrative purposes and approximate cash and accrual costs expected in future years.

¹² See Appendix B for an updated summary of GSHi’s proposal. This figure assumes that both the transition deferral account and the actuarial gain/loss deferral account are disposed of in a net rate rider.

Under this proposal, the combined cash recovered from (i) accrual amounts embedded in future rates (\$17,343,257) and (ii) the transition rider principal (\$13,367,257) totals \$30,710,514, compared with \$30,946,094 in projected OPEB cash costs for the current staff complement. The resulting net under-recovery over the projection period is \$235,580, as shown in Table 4.

Cash flow – if OEB Staff’s proposal is adopted

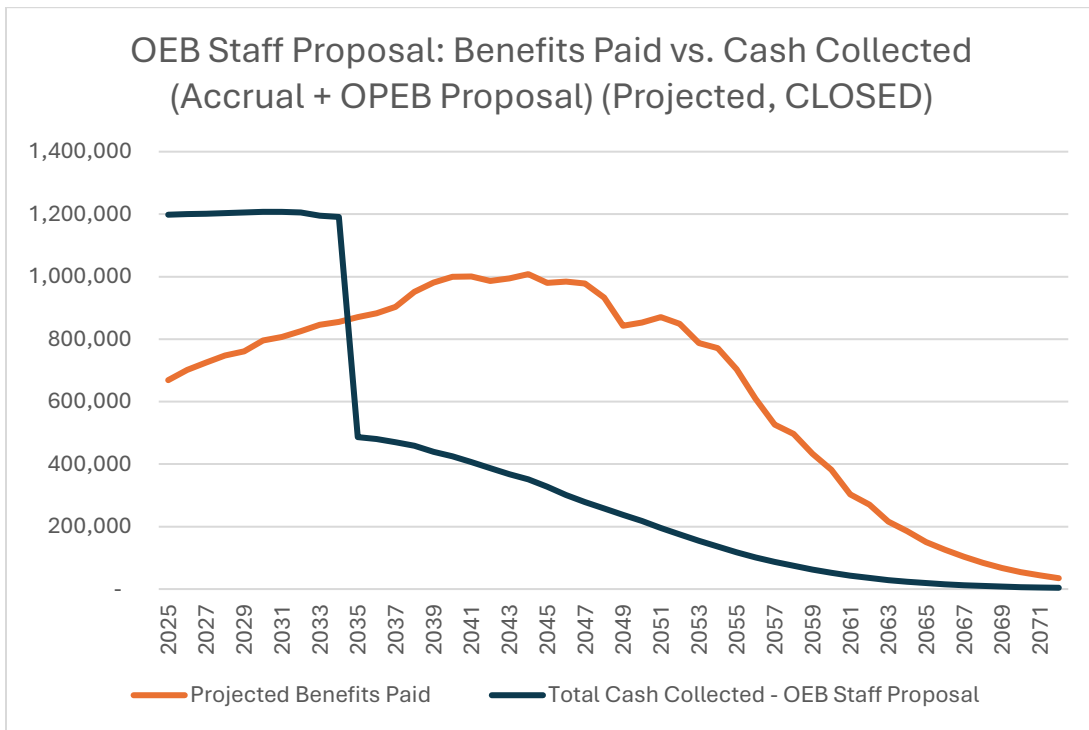
The table below summarizes the projected values under OEB Staff’s approach.

Table 5: OEB Staff Proposal Projection Summaries

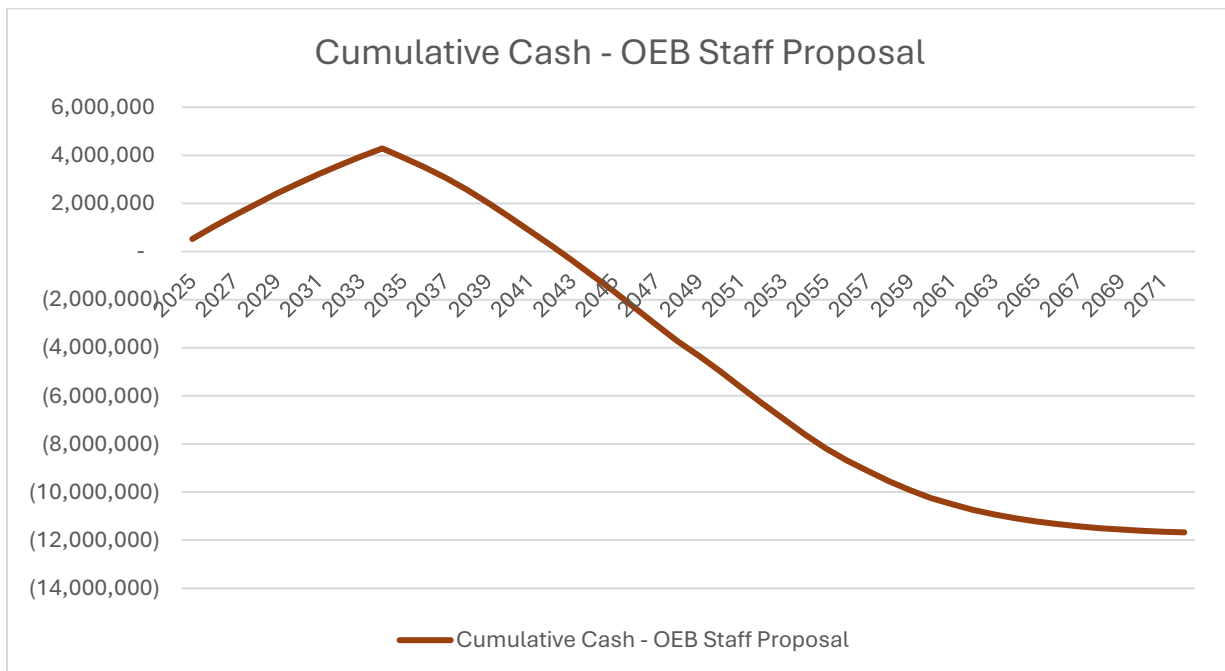
Description		Amount
Total Accrual Cost, Attributable to GSHi	a	\$17,343,257
Adjust for: Actuarial Gain Expected to Reverse ¹³	c	(\$5,058,133)
Total Benefits Paid, Attributable to GSHi	b	\$30,946,094
Projected Cash Shortfall, Not Recovered in Future Rates	(a + c) – b = d	(\$18,660,970)
OEB Staff’s Proposal in This Proceeding	e	\$6,988,332
Residual Permanent Shortfall (OEB Staff Proposal)	d + e	(\$11,672,638)

For comparability, the cash-flow projection assumes GSHi collects OEB Staff’s proposed amount over 10 years beginning in 2025. Under this approach, total collections reflect (i) the adjusted accrual recognized in rates, i.e., $(a + c) = \$12,285,124$ over the horizon, plus (ii) the transition rider principal $e = \$6,988,332$.

¹³ Because OEB Staff proposes not disposing of the actuarial gain/loss balance, the ~\$5.06 million (pre-tax) remains a liability to ratepayers on GSHi’s balance sheet. In practice, this liability would be resolved in one of two ways: (i) a one-time repayment to customers (e.g., via a future rate rider), or (ii) future actuarial experience that reverses the balance over time. In the latter case, the reversal would effectively reduce future accrual costs, and therefore the accrual amounts embedded in rates. For purposes of this analysis, to reflect the anticipated actuarial adjustment activity, and to reflect Staff’s intent to leave the DVA to unwind rather than clear it now, GSHi models this as a proportional offset to future accrual costs in the RSM projections. This approach preserves comparability of cash-flow impacts while aligning with the expected mechanics of OEB Staff’s proposal.



The above chart demonstrates the timing of the recovery if OEB Staff’s proposal is approved and collected via rate rider over a 10-year period. Total funding collected for the current staff complement would be \$19,273,456¹⁴, versus \$30,946,094 in projected OPEB cash outlays, yielding a net under-recovery of \$11,672,638 over the projection period (Table 5).



¹⁴ \$17,343,257 - \$5,058,133 + \$6,988,332 = \$19,273,456

On this basis, cumulative cash collected peaks at ~\$4.28 million in 2034, then turns net-negative by 2043. From 2043 through 2072, GSHi would fund \$11,672,638 of additional OPEB cash costs without corresponding recovery in rates, requiring financing via GSHi's ROE and/or incremental debt.

Cash flow – if the Cash-basis of recovery method is adopted

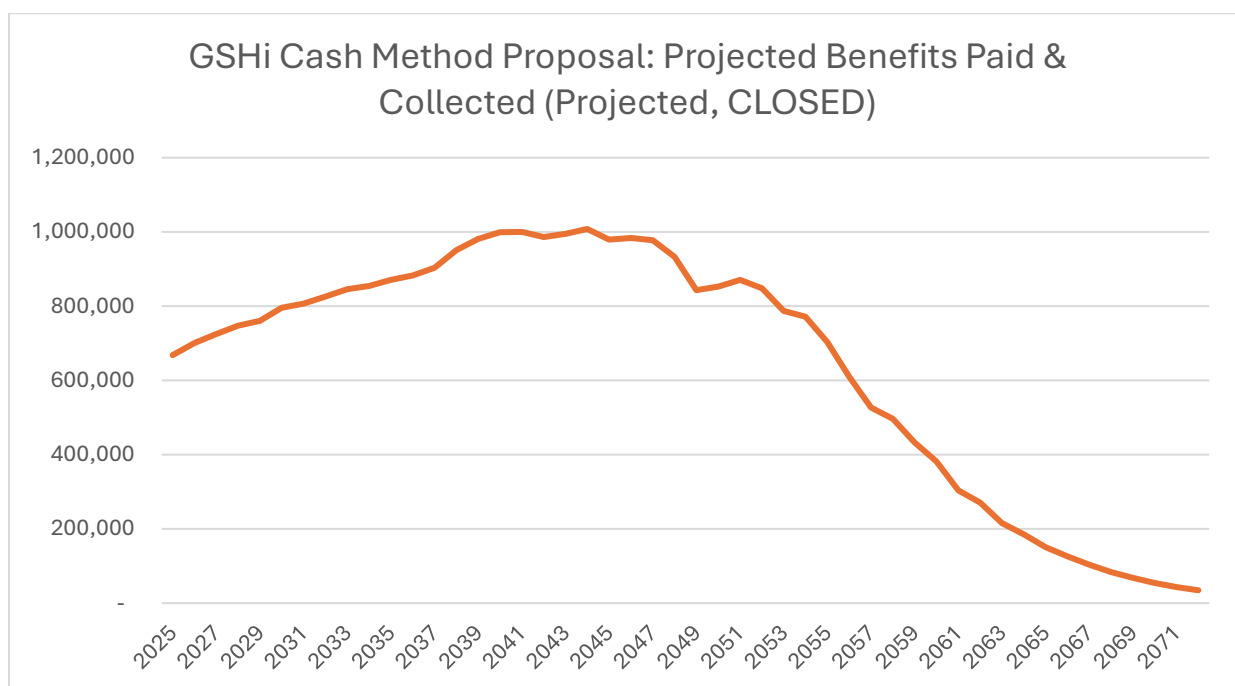
GSHi proposed the potential of reverting to the cash-basis recovery method in its most recent submission. This is the rate recovery method GSHi has had in place up to its transition date of December 31, 2019. If adopted, the timing of cash collected in rates would again be set to match the cash OPEB expenditures as they are incurred.

Table 8: GSHi Cash Proposal Projection Summaries

Description		Amount
Total Accrual Cost, Attributable to GSHi (\$0 recovered in rates, as rates would be on a cash basis not on accrual basis)	a	\$0
Total Cash Cost, Projected and Recovered in Rates	c	\$30,946,094
Total Benefits Paid, Attributable to GSHi	b	\$30,946,094
Cash Shortfall, Not Recovered in Future Rates	c – b = d	\$0
GSHi's Net Proposal in This Proceeding ¹⁵		\$0
Residual Permanent Shortfall (GSHi Cash-Based Proposal)	c + d	\$0

The chart below (for illustrative purposes) shows projected OPEB cash payments and the corresponding cash recovery in rates under a cash-basis approach for the relevant employees and retirees in the closed projection. Both are, in theory, identical. The projection ignores the potential for forecast risk inherent in the rate setting process; therefore the anticipated recovery in rates would be projected to match the cash cost precisely, with GSHi absorbing the forecast risk unless the OEB determined otherwise.

¹⁵ Under the cash-basis of recovery, GSHi's transition amount and actuarial gain/loss account would both become zero, and therefore no transition amount or actuarial gain/loss deferral account are required now or in the future, presuming GSHi remain on the cash basis of recovery.



The persistent impact of underfunding

The table below compares planned net capital expenditures with the cash from rates theoretically available to fund those expenditures over the five-year period following GSHi's most recent Cost of Service proceeding. Over the 2025–2029 period, the analysis indicates a \$5.769 million funding gap that would need to be debt-financed to maintain the planned capital program.

Table 6: Net Capital Expenditures vs. Cash Available for Capital (\$ thousands)

	2025	2026	2027	2028	2029	5-year Total
Net Capital Expenditures (Planned) ¹⁶ (a)	\$12,014	\$12,231	\$12,733	\$10,289	\$10,828	\$58,095
Cash available from rates to fund capital program ¹⁷ :						
Amortization/Depreciation	\$5,307	\$5,487	\$5,624	\$5,765	\$5,909	\$28,092
Return on Deemed Equity	\$4,578	\$4,734	\$4,852	\$4,973	\$5,097	\$24,234
Subtotal: Cash available for capital spending (b)	\$9,885	\$10,221	\$10,476	\$10,738	\$11,006	\$52,326
Cash shortfall (debt required) (b – a):	(\$2,129)	(\$2,010)	(\$2,257)	\$449	\$178	(\$5,769)

¹⁶ Ontario Energy Board, Greater Sudbury Hydro Inc. – Draft Rate Order, Filing Requirements: Chapter 2 Appendices, EB-2024-0026 (24 April 2025), Appendix 2-AB

¹⁷ Agrees to 2025 Revenue Requirement Workform, adjusted in 2026 for IRM increase (3.4%) and assumed 2.5% for 2027 and each year forward.

Holding other factors constant, to maintain its target capital program and its regulated capital structure, GSHi would need to borrow dollar-for-dollar for any OPEB under-recovery, because projected capital spending generally exceeds cash available in rates. This is expected to persist into future rebasing periods.

As shown earlier, under OEB Staff’s proposal the cumulative OPEB cash position turns net-negative by 2043, with a \$11,672,638 cumulative shortfall thereafter (2043–2072) that is not recovered in rates. In practice, this gap would need to be funded from GSHi’s ROE and/or incremental debt, placing additional pressure on the company’s ability to sustain planned distribution-system investment at prudent levels.

GSHi currently operates at ~65/35 debt-to-equity, while its consolidated parent, Greater Sudbury Utilities (GSU), targets and maintains 60/40 which is the same as GSHi’s regulated deemed debt equity structure. GSHi budgets capital accordingly, balancing distribution-system needs with prudent debt financing to sustain a healthy capital structure; however, adopting OEB Staff’s proposal would persistently increase financing needs (or compel reductions in capital investment) because cash collected in rates would not cover OPEB cash outflows over the long term.

Table 7: OEB Staff Cash Projection - Proposal Summary (Projected, CLOSED)

Period (year range)	Cash collected in period (Note)	Cash spent in period	Cumulative cash collected	Cumulative cash spent	Net cumulative balance	Cash from ROE or Debt in period	
2025-2029	6,008,301	3,601,716	6,008,301	3,601,716	2,406,585		
2030-2034	6,006,213	4,128,169	12,014,515	7,729,885	4,284,630		
2035-2039	2,334,523	4,588,572	14,349,038	12,318,457	2,030,581		
2040-2044	1,935,917	4,988,904	16,284,956	17,307,361	(1,022,405)	(1,022,405)	
2045-2049	1,403,353	4,717,317	17,688,308	22,024,678	(4,336,370)	(3,313,964)	
2050-2054	879,055	4,130,500	18,567,363	26,155,178	(7,587,815)	(3,251,445)	
2055-2059	441,777	2,769,407	19,009,140	28,924,585	(9,915,445)	(2,327,630)	
2060-2064	182,834	1,357,097	19,191,974	30,281,682	(11,089,708)	(1,174,263)	
2065-2069	65,831	531,682	19,257,805	30,813,364	(11,555,559)	(465,851)	
2070-2072	15,651	132,730	19,273,456	30,946,094	(11,672,638)	(117,079)	
Note: Cash collected equals the proposed rate rider plus the annual accrual amounts attributable to the closed projection employees.							

Table 7 above table presents, by five-year rebasing period, (i) the net cumulative cash balance related to the OPEB obligation and (ii) the “Cash from ROE or Debt in period,” which represents the in-period shortfall to be financed if GSHi is to maintain its planned

capital program. Under OEB Staff's proposal, these shortfalls continue to occur across future rebasing periods, evidencing the persistent impact of underfunding on GSHi's financing requirements.

Other financial metrics

Under OEB staff's approach, GSHi's actual capital structure would move from a debt-to-equity ratio of 1.83 to 2.20 (i.e., ~69% debt / 31% equity, versus the OEB's deemed 60%/40%).

Because distribution rates recover financing costs using the deemed capital structure, any leverage above 60% debt is not compensated for in revenue requirement, meaning the incremental interest cost associated with the higher debt load is borne by shareholders. The result is sustained pressure on interest coverage and liquidity headroom, with a corresponding reduction in ROE available to fund capital spending (since more of the OPEB cash outlay is funded from earnings rather than from the rate rider).

Over time, GSHi would need to re-establish a healthier 60/40 balance; absent new equity, the practical way to do that is to moderate capital spending growth, which then has to be carefully balanced against asset-management needs and reliability obligations. In addition, higher absolute outstanding debt raises refinancing risk and borrowing costs on future issuances, a risk that grows throughout the forecast.

In short, even before considering VECC/SEC's further reductions, adoption of OEB Staff's proposal would leave GSHi operating above the deemed capital structure for an extended period, with weaker leverage and coverage metrics, more debt-financed OPEB outlays, and less internal capacity to fund the distribution system - necessitating a slow, multi-year budgeted transition back towards 60/40.

Financial analysis based on VECC and SEC submissions

Consistent with Procedural Order No. 5, GSHi has evaluated the intervenor submissions. Both VECC and SEC endorse the core elements of OEB Staff's method and then propose additional exclusions that would further reduce the recoverable transition amount below OEB Staff's figure. These positions are documented in the VECC and SEC submissions filed July 18, 2025.

OEB Staff (baseline). Staff starts the transitional calculation at 2009 and excludes: (i) the initial recognition amount transferred to GSHi in 2000; (ii) all cash-accrual differentials from 2000-2008; and (iii) all actuarial gains/losses from 2000-2019. Staff's calculation for 2009-2019 yields a ~\$6.99 million (pre-tax) transition amount before any PILs gross-up.

VECC. VECC ultimately adopts the same 2009-forward frame as Staff, but proposes additional exclusions that further reduce the recoverable balance: (i) exclude 2009–2011 entirely; and (ii) exclude affiliate-related OPEB amounts for 2012–2019. Using values already on the record, we can quantify a minimum additional reduction relative to Staff as follows:

- Excluding 2009–2011 removes $\$910,218 + \$752,045 + \$740,516 = \$2,402,779$ (pre-tax).

On this basis, Staff’s \$6,988,332 would fall to \$4,585,553 (pre-tax) before any affiliate exclusions. VECC’s affiliate exclusion for 2012–2019 cannot be quantified on the record for the reasons previously explained (historic affiliate splits and “embedded-in-rates” accruals were not tracked at that granularity in an auditable way).

Implication under VECC (illustrative arithmetic and DVA interaction). Under VECC’s quantified exclusions, the transition amount would be \$4,585,553 (pre-tax) recoverable from ratepayers before any additional affiliate exclusions. At the same time, all parties (including VECC) propose not clearing the actuarial gains/losses DVA, which currently sits as a net actuarial gain (liability) of \$5,058,133 (pre-tax) - i.e., a liability to ratepayers based on entries booked in 2020–2023 for the same closed group/obligation. VECC’s approach disallows the underlying years for the transition calculation while retaining the actuarial gain DVA liability that arises from the same cost-causal period, which is conceptually inconsistent. Put simply: VECC’s quantified transition recovery (~\$4.59M) would coexist with a \$5.06M liability owed to ratepayers; if both were cleared concurrently (for illustration only), the net would be a repayment of ~\$(0.47) million (pre-tax) from GSHi to customers. This is difficult to reconcile with the evidence in the previous analysis in this submission in the section titled “Cash flow - what this proposal covers,” which shows that moving to accrual without a transition amount creates a permanent \$13.602 million shortfall for GSHi over the projection period. VECC’s approach would both reduce the transition recovery and flip GSHi into a net payer at transition, despite the underlying \$13.602 million under-recovery.

SEC. SEC likewise proceeds on a 2009-forward basis in practice, and proposes to strip out all affiliate-related OPEB from the transitional amount. As with VECC’s affiliate adjustment, SEC’s affiliate reduction cannot be calculated on the evidentiary record for the same data-availability reasons. Conceptually, however, SEC’s approach would reduce the recoverable balance below OEB Staff’s to the extent GSHi’s service from the affiliate is removed.

Actuarial gains and losses DVA account (all three parties). OEB Staff, VECC, and SEC each propose not clearing the actuarial gains/losses deferral account at this time, which leaves the balance to carry forward as a ~\$5.06 million (pre-tax) liability to ratepayers. All

three are silent on whether the balance should be adjusted given that underlying years are proposed to be disallowed. This is conceptually inconsistent: retaining a liability that arises from the same years being disallowed decouples the balance from its cost-causal period and creates an asymmetric outcome (ratepayers retain the benefit of the gain without ever funding the underlying liability on which the gain is derived).

Disposition period (cash-flow effects). While OEB Staff did not prescribe a period in its quantum discussion (GSHi has requested 10 years), VECC proposes ≤ 5 years, and SEC proposes 12 years. The period does not change the quantum ultimately recovered, but it does change annual cash flows:

- A shorter period (e.g., ≤ 5 years) increases annual rider collections (but from a smaller quantum if VECC's additional exclusions are adopted).
- A longer period (e.g., 12 years) lowers annual rider collections (but, on SEC's approach, this comes after applying affiliate-related reductions to the quantum).

As a simple scaling reference, each \$1.0 million in recoverable balance equates to about \$0.10 million per year over 10 years (pre-tax, before PILs). A 5-year period doubles that annual amount; a 12-year period reduces it to ~\$0.083 million per year.

Summary VECC and SEC both adopt the same 2009-forward starting point as Staff and then seek to further reduce the recoverable balance. GSHi has quantified VECC's minimum incremental cut at \$2.40 million (pre-tax) relative to OEB Staff's submission (with additional, unquantified reductions from affiliate exclusions). SEC's approach likewise reduces the OEB Staff proposal through unquantified affiliate exclusions.

The actuarial gain/loss DVA would remain as a \$5.06 million liability under all three approaches - despite disallowing years from which it arises - creating a mismatch with cost causality. Because the underlying retiree cash obligations are unchanged, any reduction below Staff's baseline (and any lengthening/shortening of disposition) worsens or reshapes the cash-flow gap that must be financed with ROE and/or incremental debt.

Question:

2. Please provide the bill impacts for Greater Sudbury Hydro's rate classes based on OEB staff's proposed disposition of approximately \$9.5M (\$6.998 million plus the grossed-up PILs to be confirmed by Greater Sudbury Hydro).

Answer:

The table below summarizes the rate riders for OEB staff's proposal, assuming a ten-year recovery period.

Rate Class	Allocated balance (Allocator: Distribution Revenue) A	Years for Recovery B	Units	kW / kWh / # of Customers	Allocated Balance (A / B)	Rate Rider
RESIDENTIAL SERVICE CLASSIFICATION	\$ 5,925,818	10	# of Customers	43,485	\$ 592,582	\$ 1.14
GENERAL SERVICE LESS THAN 50 KW SERVICE CLASSIFICATION	\$ 1,600,614	10	kWh	139,426,048	\$ 160,061	\$0.0011
GENERAL SERVICE 50 TO 4,999 KW SERVICE CLASSIFICATION	\$ 1,776,946	10	kW	792,309	\$ 177,695	\$0.2243
UNMETERED SCATTERED LOAD SERVICE CLASSIFICATION	\$ 12,893	10	kWh	856,205	\$ 1,289	\$0.0015
SENTINEL LIGHTING SERVICE CLASSIFICATION	\$ 14,424	10	kW	872	\$ 1,442	\$1.6542
STREET LIGHTING SERVICE CLASSIFICATION	\$ 177,240	10	kW	10,258	\$ 17,724	\$1.7278
Total	\$ 9,507,935				\$ 950,793	

Bill impact summary tables OEB staff's proposal are as follows:

Rate Class	Units		Sub-Total A		Sub-Total B		Sub-Total C		Total Bill	
	kWh	kW	\$	%	\$	%	\$	%	\$	%
Residential	750		\$ 1.14	3.06%	\$ 1.14	2.81%	\$ 1.14	2.10%	\$ 1.14	0.85%
General Service (Under) < 50kW	2,000		\$ 2.20	2.71%	\$ 2.20	2.47%	\$ 2.20	1.89%	\$ 2.20	0.67%
General Service (Over) >50kW	60,000	150	\$ 33.65	3.06%	\$ 33.65	2.74%	\$ 33.65	1.25%	\$ 38.02	0.39%
Street Lighting	304,920	855	\$ 1,476.51	2.90%	\$ 1,476.51	2.88%	\$ 1,476.51	2.66%	\$ 1,668.45	1.72%
Sentinel Lighting	78	0.2	\$ 0.33	2.91%	\$ 0.33	2.84%	\$ 0.33	2.60%	\$ 0.33	1.57%
Unmetered Scattered Load	289		\$ 0.43	3.04%	\$ 0.43	2.82%	\$ 0.43	2.25%	\$ 0.43	0.87%

The bill impact model has been filed with this submission -

(GSHI_OPEB_Reply_To_Panel_Tariff_Schedule_and_Bill_Impact_Model_OEB_Staff_Proposal_20251015.xlsx).

Question:

3. Please provide a proposed disposition period for these scenarios with supporting rational and detailed bill impacts calculations, in consideration of the OEB's mitigation policy, and intergenerational inequity concerns.

Answer:

GSHi proposes a ten-year disposition period for each of the OPEB scenarios. This is for the same reasons set out in our prior submissions in this proceeding:

GSHi selected a ten-year amortization because it strikes a practical balance between two policy objectives the Board has emphasized in past decisions, including EB-2011-0354. The transition amount relates to accrual-based OPEB costs that are fully recoverable December 31, 2019; the amortization of the recovery of that amount from ratepayers is purely a mechanism for managing the rate impact associated with the recovery of that amount. Recovering the amount over 10 years lowers the annual amount each customer sees on the bill, but it also shifts a larger share of the obligation onto future customers who did not benefit from the services that gave rise to the liability. Compressing the period has the opposite effect: it keeps the cost with today's customers—reducing intergenerational inequity—but increases the year-to-year bill impact.

Beyond roughly ten years, lengthening the schedule provides only modest additional bill relief while pushing a substantial portion of the cost decades forward. GSHi believes a ten-year horizon fairly balances those considerations, but acknowledges that a different period of amortization may be appropriate.¹⁸

¹⁸ Ontario Energy Board, Greater Sudbury Hydro Inc. OPEB Supplemental Evidence, Interrogatory Responses, EB-2024-0026 (13 June 2025), Tab 2, Interrogatory 55, pg. 1 of 3.

Appendix A: FY2024 Impact Calculations

	2024 Final FS	Adj 1	Adj 2	Adj 3	Adj 4	Adj 4	2024 Adjusted
Accounts receivable	12,438,989						12,438,989
Unbilled revenue:							
Energy sales	10,204,784						10,204,784
Distribution	2,385,267						2,385,267
Prepaid expenses	191,204						191,204
Payments in lieu of taxes recoverable	33,731						33,731
	25,253,975	0		0	0	0	25,253,975
PP&E	132,693,110						132,693,110
Intangible assets	205,691						205,691
Investment in ConverGen Inc	400,000						400,000
Total assets	158,552,776	0		0	0	0	158,552,776
Regulatory deferral account debit balances	20,593,350	- 12,187,752		- 3,229,754			5,175,844
Total assets and regulatory debits	179,146,126						163,728,620
Bank indebtedness	6,774,244						6,774,244
Accounts payable and accrued liabilities	5,001,952						5,001,952
Payable for energy purchases	10,221,450						10,221,450
Current portion of long-term obligations	1,054,994						1,054,994
	23,052,640						23,052,640
Deferred revenue	11,847,350						11,847,350
Deferred payment in lieu of taxes	2,029,209		- 3,229,754		1,164,469	- 1,164,469	-1,200,545
Promissory note payable	48,645,457						48,645,457
Long-term obligations	29,044,621						29,044,621
Total liabilities	114,619,277						111,389,523
Regulatory deferral account credit balances	1,171,072						1,171,072
Total liabilities and regulatory credits	A 115,790,349						112,560,595
Share capital	20,848,052						20,848,052
Retained earnings	41,961,833	- 12,187,752	3,229,754	- 3,229,754			29,774,081
Accumulated other comprehensive income	545,892						545,892
Total shareholder's equity	B 63,355,777						51,168,025
Total liabilities, reg balances and equity	179,146,126						163,728,620
Debt / equity ratio:	A / B 1.83						2.20
Debt / equity ratio (as a %):	65% to 35%						69% to 31%

Appendix B: Updated Summary of GSHi Proposal

Transition Amount:			
Description	GSHi	GSHPi	Total
Gross unfunded OPEB liability (pre-tax) (a)	16,109,318	3,680,589	19,789,907
Portion not attributable to GSHi & ratepayers (%) (b)	4.66%	(100% - 83.32%) = 16.68%	
Less: Portion not attributable to GSHi & ratepayers (\$) (a * b = c)	750,694	613,823	1,364,517
Sub-total: Gross unfunded OPEB liability attributable to GSHi & ratepayers (pre-tax) (a - c = d)	15,358,624	3,066,766	18,425,390 A
PILs tax gross-up			
(d * 26.5% / (1 - 26.5%)) = e			6,643,168 C
Transition Amount (d + e)			25,068,558
Actuarial Gain/Loss Deferral Account:			
Description	GSHi	GSHPi (Note)	Total
Actuarial gain/loss deferred (2020)	1,265,536	281,665	1,547,201
Actuarial gain/loss deferred (2021)	(993,633)	(229,542)	(1,223,175)
Actuarial gain/loss deferred (2022)	(5,284,414)	(1,043,804)	(6,328,218)
Actuarial gain/loss deferred (2023)	558,068	140,761	698,829
Sub-total	(4,454,443)	(850,920)	(5,305,363)
Less - portion not attributable to GSHi ratepayers (4.66%)			247,230
Sub-total: Gross deferred actuarial gain			(5,058,133) B
PILs tax gross-up			
(x * 26.5% / (1 - 26.5%))			(1,823,681) D
Actuarial Gain/Loss Proposed for Disposition			(6,881,814)
		Summary	
		Principal Amount Proposed	13,367,257 A+B
		PILs Amount Proposed	4,819,487 C+D
		Grand Total Proposal (Agrees to GSHi Proposed Rate Rider)	18,186,744
Note: Values already reduced for allocation from GSHPi to GSHi to account for amounts not attributable to GSHi.			

Appendix C: Reconcile GSHi Proposal to RSM Projections

	Entity	Opening balance	Current Service	Interest	Accrual activity	Benefits paid	Actuarial gain/loss	Closing balance	Transition amount DVA				Actuarial gain/loss DVA			
									Opening balance	Addition	Adjustment Amount	Closing balance	Opening balance	Addition	Adjustment Amount	Closing balance
																0
31-Dec-19	GSHi	13,958,484	206,028	531,842	737,870	(643,026)	2,055,990	16,109,318	0	16,109,318	(750,694)	15,358,624	0			0
31-Dec-20	GSHi	16,109,318	102,497	491,708	594,205	(495,543)	1,265,536	17,473,516	15,358,624			15,358,624	0	1,265,536	(58,974)	1,206,562
31-Dec-21	GSHi	17,473,516	93,694	447,880	541,574	(494,753)	(993,633)	16,526,704	15,358,624			15,358,624	1,206,562	(993,633)	46,303	259,232
31-Dec-22	GSHi	16,526,704	75,786	488,184	563,970	(507,801)	(5,284,414)	11,298,459	15,358,624			15,358,624	259,232	(5,284,414)	246,254	(4,778,928)
31-Dec-23	GSHi	11,298,459	43,802	555,953	599,755	(586,926)	558,068	11,869,356	15,358,624			15,358,624	(4,778,928)	558,068	(26,006)	(4,246,866)
31-Dec-24	GSHi	11,869,356	51,306	537,874	589,180	(592,562)	(18,750)	11,847,224	15,358,624			15,358,624	(4,246,866)			(4,246,866)
31-Dec-25	GSHi	11,847,224														
2025 Opening agrees to projections																
31-Dec-19	GSHPi	3,138,999	128,106	120,930	249,036	(76,440)	368,994	3,680,589	0	3,680,589	(613,823)	3,066,766	0			0
31-Dec-20	GSHPi	3,680,589	106,981	113,333	220,314	(49,353)	380,629	4,232,179	3,066,766			3,066,766	0	380,629	(112,089)	268,540
31-Dec-21	GSHPi	4,232,179	108,187	109,371	217,558	(51,211)	(310,192)	4,088,334	3,066,766			3,066,766	268,540	(310,192)	91,347	49,694
31-Dec-22	GSHPi	4,088,334	90,479	121,856	212,335	(52,933)	(1,373,426)	2,874,310	3,066,766			3,066,766	49,694	(1,373,426)	378,263	(945,468)
31-Dec-23	GSHPi	2,874,310	41,832	143,370	185,202	(71,590)	185,212	3,173,134	3,066,766			3,066,766	(945,468)	185,212	(51,010)	(811,266)
31-Dec-24	GSHPi	3,173,134	47,828	145,333	193,161	(93,569)	(2,961)	3,269,765	3,066,766			3,066,766	(811,266)			(811,266)
31-Dec-25	GSHPi	3,269,765														
2025 Opening agrees to projections												18,425,390				(5,058,132)
																13,367,257
GSHi Principal Amount Proposed																