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February 26, 2016

Ms. Kirstin Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 27th Floor  
Toronto, ON M4P 1E4

**Re: Greater Sudbury Hydro Inc - 2017 Cost of Service Rate Application**

Dear Ms. Walli:

Greater Sudbury Hydro Inc (“GSHi” or “the Utility”) last filed a Cost of Service rate application to the Ontario Energy Board (“the Board”) for rates effective May 1, 2013, and is therefore scheduled to rebase for rates effective May 1, 2017. GSHi is requesting to defer rebasing for a period of 8 months, for rates effective January 1, 2018.

This deferral request is based on a number of items for consideration:

### **Align Rate & Fiscal Years**

GSHi reports on a calendar fiscal year-end and desires to align its rate period with its fiscal period. The Utility anticipates that the alignment will result in a reduced administrative burden, improved budget planning and improved financial information by aligning rates charged with costs incurred.

### **Business Planning**

GSHi is currently engaged with Siemens’ Business Transformation Unit and is in the process of developing a detailed plan that will guide the Utility’s business objectives for the next decade. The planning process is a value-oriented approach that holistically considers all the business capabilities that GSHi will need to meet and exceed stakeholder expectations for the electricity industry of the future.

The effort involves four distinct phases; Orientation, Destination, Routing and Navigation. The first three phases represent an extensive planning process. To date the planning phases have identified 12 programs that include over 100 specific projects to be implemented over the 10 year planning horizon. The final planning phase, Routing, will be complete by Q3 of 2016 and will produce the detailed costing information

that GSHi will need to file a comprehensive rate application. The fourth and final phase, Navigation, describes the implementation of specific projects organized within a series of programs over a 5 year period with certain programs generally planned for a second 5 year horizon. These programs will include capital programs, which will therefore impact the Utility’s Distribution System Plan. Therefore, the completion of this plan is aligned with the objectives of the Renewed Regulatory Framework and is necessary to provide the level of detailed and reliable information required in the Utility’s Cost of Service or Custom IR filing. Additionally, the detailed project plan from the Routing phase will inform GSHi’s choice of filing methodology (either a Cost of Service Application or a Custom IR Application).

### Return-on-Equity

GSHi has considered its return on equity (“ROE”) performance over the past 2 years, and presents the following information for the Board’s consideration:

	2013	2014
ROE per Scorecard	19.00%	14.04%
Adjustment for taxes (DVA)	(2.19%)	(1.11%)
Re-statement as a result of IFRS conversion for Substation Assets	(1.02%)	(1.33%)
One-time impact of reduced maintenance expenses due to additional recoverable capital work performed in 2013	(1.78%)	-
One-time impact of smart meter disposition & rate rider	(1.88%)	(0.40%)
<b>ROE – Re-calculated</b>	<b>12.13%</b>	<b>11.20%</b>
ROE – Approved in 2013 COS	8.98%	8.98%
Difference	3.15%	2.22%

**Adjustment for taxes** – The Board has previously acknowledged and approved an adjustment as a result of the timing difference between the collection and payment of costs that flow through deferral and variance accounts.

**Re-statement as a result of IFRS conversion for Substation Assets** – GSHi’s 2013 Cost of Service (“COS”) was based on best efforts to componentize sub-station assets, replicate the annual amortization as compared to current GAAP and then translate to IFRS based on the new useful lives. In the Utility’s originally reported 2013 & 2014 amortization, GSHi staff did amend the useful lives of the assets, however the full implementation of IAS 16 was not completed for Substation Assets. The IFRS conversion has been completed and will be reflected in GSHi’s restated audited financial statements for the years ended December 31, 2013 and 2014. The above noted adjustment reflects what would have been recorded if the IFRS conversion was completed as filed in the Utility’s 2013 COS rates.

In re-stating its previous year financial statements, GSHi has also disposed of certain substations which had been decommissioned in previous years. The net impact of these disposals were considered immaterial to

the Utility at the time, however do have an impact on the calculation of ROE and that impact is captured in this adjustment.

**Other one-time impacts** - The Utility’s anomalous financial performance in 2013 was largely the result of one-time, non-recurring items and revenues. Among the factors contributing to the year’s overearnings were the income statement impact from the disposition of smart meters, a one-year rate rider for disposition of residual historical smart meter costs and unexpected capital work performed which was recoverable from external parties and therefore reduced operating expenses. These items improved GSHi’s ROE in 2013, however are not representative of the Utility’s ongoing financial performance.

GSHi believes the above matters should be considered in order to more accurately reflect the Utility’s financial performance in recent years, and should be weighed when deliberating the granting of this deferral request.

### Reliability Standards

The 2014 scorecard for GSHi provides detail pertaining to reliability standards. GSHi provides the following information for the Board’s consideration:

	OEB Target	2013	2014	2015 (Preliminary)
<b>SAIDI – Reported in RRR</b>	0.67 - 1.60	1.35	1.21	1.11
<b>SAIDI – Excluding Planned Outages</b>		<b>0.77</b>	<b>0.87</b>	<b>0.75</b>
<b>SAIFI – Reported in RRR</b>	0.84 - 1.16	1.16	1.83	1.25
<b>SAIFI – Excluding Planned Outages</b>		<b>1.00</b>	<b>1.69</b>	<b>1.14</b>

The above adjustments help to bring perspective to the Utility’s reliability standards.

SAIDI is drastically impacted by planned outages in each year. However, with or without this adjustment the Utility is still well within the OEB target for this indicator. GSHi considers its higher 2014 SAIFI an anomaly, which is illustrated by the lower SAIFI numbers in both 2013 and 2015.

Through the previously mentioned business planning process, GSHi intends to quantify at the program level a targeted reduction in SAIFI and SAIDI. The Utility considers completion of this process key in improving the long-term trend of these metrics, and therefore GSHi would like to emphasize the importance of thorough completion of the business planning process.

### Staffing

GSHi had retirements in 2015 for the positions of VP – Distribution Electrical Systems and VP – Corporate Services, the Utility’s two executive roles that oversee all GSHi management and staff. These roles have historically been significantly involved in the Utility’s rate applications. The VP – Distribution Electrical Systems position was filled internally in July 2015, while the new VP – Corporate Services was hired in November 2015 and is new to the electricity industry.

The Utility's apprehension towards the timing of the scheduled rate application is compounded by the current extended maternity leave of a key author of its rate filing. GSHi intends for this individual to be project lead on the filing and will provide continuity and significant experience from the Utility's previous rate application.

The Board, in granting this deferral request, will allow the executive time to become better versed in the intricacies of a rate application as well as allow its key person the time to return from extended leave by September 2016.

## Conclusion

GSHi has only preliminary numbers for its 2015 financial year, however it is anticipating that its 2015 ROE will be at or below the approved ROE. The Utility is anticipating that its average financial performance over the period since its last rate application will be close to or within its allowable return on equity.

GSHi applied for a zero percent increase of its distribution rates in its 4<sup>th</sup> Generation IRM rate application for rates effective May 1, 2016. The Utility is confident that it can manage its financial needs in the interim period between May 1, 2017 and January 1, 2018 and intends to maintain its current, approved distribution rates during the proposed eight month deferral period.

For these reasons, GSHi is requesting to defer its scheduled rebasing of rates for a period of 8 months, from rates effective May 1, 2017 to rates effective January 1, 2018.

Should you have any questions or require further information, please do not hesitate to contact the undersigned.

Yours Truly,



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