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July 24, 2020

Delivered by Email
Ms. Christine Long, Registrar and Board Secretary
Ontario Energy Board
P.O.Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Long:

Re: Espanola Regional Hydro Distribution Corporation 2021 Cost of Service Application – Requested Adjustments

We are writing on behalf of Espanola Regional Hydro Distribution Corporation's ("Espanola Hydro") regarding its forthcoming 2021 Cost of Service ("COS") application ("Application").

Espanola Hydro is filing this letter with the Ontario Energy Board (the "OEB") proposing several adjustments to the OEB's Chapter 2 and 5 Filing Requirements applicable to the Application. The intervenors in Espanola Hydro's previous COS application and MAADs Application are copied on this letter.

Context: Espanola Hydro's Unique Circumstances

Espanola Hydro anticipates that preparing a full COS application would require immense resources and incur a significant amount of costs.

Espanola Hydro is a small utility that serves approximately 3,300 electricity customers in the Town of Espanola and the Township of Sables-Spanish Rivers.

Espanola Hydro has not been before the Board for a cost of service review in eight (8) years, has not had rates adjusted in over four (4) years, and has been operating under interim rates since May 1, 2016.

As a virtual utility with very few employees, Espanola Hydro will need to hire the service of PUC Services Inc. (the "PUC") (with which they have a Services Agreement effective until February 2022) to prepare the COS application.

The current estimate for preparing the Application if no adjustments are granted would be material in the circumstance. Traditionally, these costs are recoverable as an Application related expense. The current estimate for preparing the Application if no adjustments are granted would be material in the circumstances. Traditionally, these costs are recoverable as an Application related expense. These costs would place a large financial burden on the ratepayers of Espanola Hydro, which is not the intent of Espanola Hydro. Espanola Hydro's intention is to keep cost per customer as reasonable as possible while considering the OEB Filing Requirements and COS application process.

On August 22, 2019, the OEB issued its Decision and Order[1] approving the application pursuant to Section 86 of the *Ontario Energy Board Act, 1998* by North Bay (Espanola) Acquisition Inc. ("NBEAI"), as it was then, to purchase Espanola Regional Hydro Holdings Corporation and Espanola Regional Hydro Distribution Corporation, amalgamate with them, and operate the amalgamated company under the name Espanola Regional Hydro Distribution Corporation (EB-2019-0015) ("MAADs Application").

The MAADs Application contemplated a two phase transaction with North Bay Hydro applying in phase two pursuant to Section 86 of the *Ontario Energy Board Act, 1998* for approval to amalgamate Espanola Hydro and North Bay Hydro Distribution Limited ("North Bay Hydro").

The principle purpose of the adjustments requested below is to help reduce the financial burden on Espanola Hydro ratepayers and reduce the significant regulatory burden associated with the Application while ensuring that Espanola Hydro is put back on the right path with regards to its regulatory obligations.

<u>Proposal Regarding this Application</u>

Espanola Hydro has identified areas in the OEB's filing requirements that contribute significantly to the cost of preparing the COS application and proposes the following modifications:

1. **Limited Scope of Variance Analysis.**

   Espanola Hydro proposes limiting all variance analysis obligations for this Application to only the test year, the bridge year and no more than the last three (3) actual historical years. This would cover a period of 2017-2021.

   Completing this variance analysis for historical data beyond the last three (3) years is both onerous and time consuming.

   Specifically, Espanola Hydro currently relies heavily on paper records. To complete a historical variance analysis and explanation would require (a) Espanola Hydro staff to attempt to find the relevant records, then (b) for a PUC resource to review the records to attempt to "reconstruct" what happened each year. This typically would require numerous calls and correspondence between Espanola Hydro staff and PUC resources. The costs associated with the PUC resources are all charged incrementally under the PUC services agreement. In addition, since the original Espanola Hydro staff members may no longer be employed with the utility it is entirely possible that there will be instances where no records exist and no person remains with knowledge of what occurred.

   By reducing the scope of the variance analysis to a more recent time frame (bridge and test year and last 3 historical) would significantly reduce the volume of work effort required,

[1] EB-2019-0015 Decision and Order, August 22, 2019.

while at the same time ensuring that the OEB would still have the benefit of the most recent historical data upon which to analyze performance and to assess trends.

We propose that this approach would apply to all variance analysis requirements in the Chapters 2 and 5 Filing Requirements, including without limitation:

- Chapter 2, Exhibit 2, Section 2.2.1.1 Overview
- Chapter 2, Exhibit 2, Section 2.2.1.2 Gross Assets – Property Plant and Equipment and Accumulated Depreciation
- Chapter 2, Exhibit 2, Section 2.2.2.2 Capital Expenditures Summary and Variance Analysis
- Chapter 2, Exhibit 2, Section 2.2.2.8 Service Quality
- Chapter 2, Exhibit 3, Section 2.3.2 Accuracy of Load Forecast and Variance Analyses
- Chapter 2, Exhibit 3, Section 2.3.3 Other Revenue
- Chapter 2, Exhibit 4, Section 2.4.1 Overview
- Chapter 2, Exhibit 4, Section 2.4.2 OM&A Summary and Cost Driver Tables
- Chapter 2, Exhibit 4, Section 2.4.3 OM&A Program Delivery Costs with Variance Analysis
- Chapter 2, Exhibit 4, Section 2.4.3.1 Workforce Planning and Employee Compensation
- Chapter 2, Exhibit 4, Section 2.4.3.2 Shared Services and Corporate Cost Allocation
- Chapter 2, Exhibit 4, Section 2.4.3.4 One-time Costs
- Chapter 2, Exhibit 4, Section 2.4.4 Depreciation, Amortization and Depletion
- Chapter 2, Exhibit 4, Section 2.4.5.1 Income Taxes or PILs
- Chapter 2, Exhibit 5, Section 2.5.1 Capital Structure
- Chapter 5, Section 5.4.2 Capital expenditure summary

2. Scaling Back Certain Discrete Requirements.

In addition, we propose scaling back specific discrete requirements in the Chapters 2 and 4 Filing Requirements in the following ways:

<u>Exhibit 1</u>

2.1.2 Executive Summary and Business Plan:
We propose filing a simplified business plan for Espanola Hydro covering a future time horizon of one (1) year.

In effect, this would be a stand-alone business plan that would cover the period of time until the eventual amalgamation of Espanola Hydro and North Bay Hydro.

Following the amalgamation, the merged utility would scrap any old business plans and create a new business plan. Our goal would be to avoid creating a business plan beyond the period that it will actually be useful.

2.1.7 Customer Engagement and Community Meetings:
We would propose reducing the scope of customer engagement obligations by minimizing the obligations. To the extent we can keep work in-house and use a simpler (less expensive) online survey – rather than an expensive survey done by Innovative Research or another third party provider - that would be preferable.

2.1.8 Performance Measurement:
Similar to the discussion above on variance analysis, we would propose a strictly limiting the time for the scorecard performance analysis (over the last three (3) historical years). In addition, Espanola Hydro will complete the PEG benchmarking model as is normal.

Other than the changes to the variance analysis identified above, no other changes are proposed to Exhibit 1 at this time.

<u>Exhibit 2</u>

2.2.1.1 Overview:
We propose completing a rate base build up from the last Board-approved year in the normal and detailed continuity schedules.

However for the purposes of the more detailed and written variance analysis included in Exhibit 2, we would propose to limiting the variance analysis to the bridge year, test year and the last three (3) historical years (similar to the other variance analysis sections described above).

2.2.2.1 Distribution System Plan ("DSP"):
After the merger, North Bay Hydro will completely replace the Espanola Hydro distribution system planning function with existing North Bay Hydro resources. In this circumstance, it does not make sense to invest considerable funds to create a detailed DSP from scratch which document will be worthless after only 1 year. This would involve drafting a standalone DSP – which would be a waste of time and money.

We propose scaling back the scope of the DSP as follows:

- We propose deferring completing the formal Asset Management Plan and Asset Condition Assessment until after the North Bay Hydro merger. The Espanola Hydro asset management plan would simply be a one (1) year continuation of the status quo capital program. This gives North Bay Hydro time to complete this work in the years after the merger.
- We propose limiting the DSP to a limited one (1) year forward test year plan. The goal would be to set out the plan for the 1 year until merger with North Bay Hydro is completed, at which point any standalone DSP would become moot.

Other than the changes to the variance analysis, identified above, no other changes are proposed to Exhibit 2 at this time.

After the merger, North Bay Hydro is committed to managing the Espanola Hydro distribution system in accordance with good utility practice. North Bay and Espanola are aligned in their asset management approach and commitment to capital investment.

Exhibit 4-9

Other than the changes to the variance analysis, identified above, no other changes are proposed to Exhibits 4-9.

Chapter 2 Appendices

In addition to the changes to the variance analysis identified above:

Appendix 2K:
Espanola Hydro does not currently separate employee wages from benefits in their general ledger. It will be a manual process for each account to separate these amounts. We propose limiting this to the test year, bridge year and the last three (3) years of historical data.

Appendix 2-AB:
Limiting the requirement to categorize capital expenditures under the four key categories (System Access, System Service, System Renewal, and General Plant) to the bridge year, test year and previous three (3) historical years.

All Chapter 2 Appendices:
The limitation of test year, bridge year and last three (3) actual historical years as set out above in proposal item 1 be applicable and built into the Chapter 2 Appendices.

3. Goals of this Approach

By reducing costs in preparing the COS application, it would be beneficial to both Espanola Hydro and its ratepayers.

In addition, we believe that the modifications to the COS application as requested would provide sufficient information to assist the OEB in making its decision with respect to the COS application for Espanola Hydro. Specifically, this approach would still address a number of regulatory issues including:

- Moving Espanola Hydro from interim rates back to final rates. We note that our proposal includes a normal variance analysis for the period 2017-2021 ensuring the OEB has complete information when making this determination.

- Bringing Espanola Hydro back into compliance with OEB regulatory requirements by allowing Espanola Hydro to begin the transition of residential customers towards fully-fixed rates.

- Ending the ICM rate rider, and rolling the substation properly into rates.

- Disposing of Group 1 DVAs, which were last disposed of as of December 31, 2013 balances and LRAMVA which was last approved for 2014 rates for pre-2012 programs in 2011 and April 2012.

- Updating Espanola Hydro’s load forecast, cost allocation and rate design to reflect more current information.

Espanola Hydro respectfully requests that the OEB consider and grant the above proposal as submitted.

We would be pleased to discuss these matters with you further at your convenience.

Yours very truly,

BORDEN LADNER GERVAIS LLP

Per:

J Vellone

John A.D. Vellone

CC: Donald Rennick, Independent Participant
Wayne McNally, School Energy Coalition
Jay Shepherd, School Energy Coalition
Mark Rubenstein, School Energy Coalition
Mark Garner, Vulnerable Energy Consumers Coalition
Jane Scott, Ontario Energy Board