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VIA EMAIL: [boardsec@oeb.ca](mailto:boardsec@oeb.ca) & RESS

January 23, 2018

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
PO Box 2319  
27<sup>th</sup> Floor – 2300 Yonge Street  
Toronto, ON M4P 1E4

Dear Ms Walli:

**RE: Application for Deferral Account: Transition to Monthly Billing**

Pursuant to the Board's letter of April 15, 2015, regarding Amendments to the Distribution System Code (DSC), Board file number EB-2014-0198, Greater Sudbury Hydro Inc (GSHI) hereby applies for a deferral account to record costs associated with the mandatory transition to monthly billing.

The Board's letter indicated that "distributors may apply for a deferral account with evidence demonstrating that such an account would meet the eligibility requirements". GSHI presents the following evidence, based on the criteria set out in the Filing Requirements for Electricity Distribution Rate Applications section 2.9.6 Establishment of New Deferral and Variance Accounts.

**Causation – The forecasted expense must be clearly outside of the base upon which rates were derived.**

Prior to the mandatory transition to monthly billing, GSHI billed its residential and general service <50 kW customers on a bi-monthly basis. The billing costs included in GSHI's most recent Cost of Service Application (2013, EB 2012-0126) were based on a bi-monthly frequency. The Board's amendment to the DSC has doubled the billing volume and associated costs for these customers.

**Materiality – The forecasted amounts must exceed the OEB-defined materiality threshold and have a significant influence on the operation of the distributor, otherwise they must be expensed in the normal course and addressed through organizational productivity improvements.**

The materiality threshold has been calculated based on section 2.0.08 Materiality Thresholds of the Filing Requirements for Electricity Distribution Rate Applications. GSHI's revenue requirement was determined as \$22,254,104 during the most recent Cost of Service Application (2013, EB-2012-0126). Per the guidelines,

materiality is calculated as 0.5% of the revenue requirement, which is \$111,271. GSHI has calculated the proposed deferral amount for 2017 to be \$229,750 and is discussed in detail below.

**Prudence – The nature of the costs and forecasted quantum must be reasonably incurred although the final determination of prudence will be made at the time of disposition. In terms of quantum, this means that the applicant must provide evidence demonstrating as to why the option selected represents a cost-effective option (not necessarily least initial cost) for ratepayers.**

GSHI implemented the mandatory transition as per the Board’s timelines indicated in the April 15, 2015 letter. GSHI has attempted to mitigate the increased costs by running an e-billing campaign in an effort to get customers to switch to e-billing and reduce the postage and stationary costs associated with the increased volume of bills. GSHI was successful in the campaign and converted over 4,100 accounts to the e-billing option and as a result saved approximately \$27,500 in postage and stationary for electricity bills annually. GSHI continues to promote e-billing in an effort to continue to reduce costs by promoting the e-billing option to customers when they call into its customer service representatives and through social media on an on-going basis. GSHI is also planning on running another e-billing campaign in 2018.

### Costs and Benefits

In the first full year subsequent to the transition to monthly billing, GSHI has quantified the increased costs to be \$283,591. This is based on the actual 2017 expenses incurred (preliminary/unaudited), for postage, stationary and incremental labour. These costs are over and above what was included in rate base during GSHI’s Cost of Service Application (EB-2012-0126). These costs are actual costs incurred in 2017 and reflect the reduction in costs of approximately \$27,500 discussed above.

GSHI also notes that, in addition to increased costs, there is also a benefit realized through moving to monthly billing. GSHI acknowledges that there is a one-time cash balance increase realized subsequent to the initial transition to monthly billing and the interest on the higher cash balance is a benefit. GSHI has quantified the annual interest on the one-time cash balance increase to be \$53,840 annually based on the OEB Prescribed interest rates in effect during 2017 (1.10% in Q1-Q3 and 1.50% in Q4).

To calculate the amount requested for deferral, GSHI has applied the Price Cap Index from each IRM Application since its last rebasing to the expense amounts for stationary and postage included in its 2013 Cost of Service Application (EB-2012-0126). GSHI has included a detailing of the \$1.3M Customer Billing budget (Account 5315) noted in Appendix 2-G of the Chapter 2 Appendices submitted with its Cost of Service Application Settlement Proposal on April 8, 2013, as Attachment 1. This budget was prepared in



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the manner determined in the Transfer Pricing Study, included in the 2013 Cost of Service Application (Exhibit 1, Tab 1, Schedule 11, Attachment 1).

GSHI has quantified the amount of increased costs as a result of the move to monthly billing, net of the interest benefit described above and the escalated amount for postage and stationary included in rate base (see Attachment 2 for calculations and pertinent information). In total, GSHI requests \$229,750 be recorded in a deferral account in 2017, representing 2017 incremental costs. GSHI also requests that it be allowed to continue to record annual incremental costs, calculated in the same manner, until such time as it rebases. The proposed journal entries have been included as Attachment 3.

Should the Board require any additional information or clarifications, please do not hesitate to contact the undersigned.

Respectfully submitted,

A handwritten signature in blue ink that reads 'Luttrell'.

Tiija Luttrell  
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**Attachment 1**  
**Budget Details**

**Account**

*5315-Customer Billing*

Billing Expenses	139,114
Customer Service/Account Management	483,901
Supervision & Business Analyst	172,011
IT costs & amortization	104,084
Stationary	81,965
Postage	172,688
Miscellaneous	2,000
Bank Charges	22,750
Rent (Occupancy, + Prop Tax & Dep'n)	16,879
Training	8,310
Software Support	106,055
Hub Support	30,000
Total	<u><u>1,339,757</u></u>

## Attachment 2 - Monthly Billing Deferral Calculations

COS Budget - Price Cap Index	2013 Test Year				
	Budget	2014	2015	2016	2017
Inflation Factor (weighted)	0%	0.93%	1.23%	0.38%	1.07%
Postage	172,688	174,300	176,449	177,126	179,015
Stationary	81,965	82,730	83,750	84,071	84,968
	<u>254,653</u>	<u>257,030</u>	<u>260,200</u>	<u>261,197</u>	<u>263,983</u>
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016*</b>	<b>2017</b>
Price Escalator	N/A	1.70%	1.60%		1.90%
Stretch Factor	N/A	0.30%	0.45%		0.30%
Price Cap Index	<u>N/A</u>	<u>1.40%</u>	<u>1.15%</u>	<u>0.00%</u>	<u>1.60%</u>

\*No rate increase taken in 2016

### Incremental Labour

1 additional FTE for the year	75,773	Over and above what was included in the 2013 COS
60% attributed to Hydro	45,464	Per Transfer Pricing Study

### Total Costs - 2017

Postage Expense 2017	350,141	60% of 2017 Canada Post Invoices - based on Transfer Pricing Study
Stationary Expense 2017	151,969	60% of Doculink Invoices - based on Transfer Pricing Study
Incremental Labour 2017	<u>45,464</u>	As above
	547,574	
Escalated COS Budget	<u>(263,983)</u>	As above
Total Increased Costs	283,591	

Interest on Additional Cash	(53,840)	Interest calculated on additional cycles billed over the transition at the OEB's Prescribed Rates
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**Total Deferral Request - 2017**                      **229,750**

### Attachment 3 - Proposed Journal Entries

Greater Sudbury Hydro Inc proposes the following account and journal entries in relation to the requested deferral for incremental operating monthly billing expenses.

#### Requested Account

1508 Other Regulatory Asset – Sub Account Transition to Monthly Billing – Operating

#### Proposed Journal Entries

USofA		Account Description
XXXX	DR	Various Expense Accounts
2205	CR	Accounts Payable

To record incremental operating costs incurred for the transition to monthly billing

USofA		Account Description
1508	DR	Other Regulatory Asset – Sub Account Transition to Monthly Billing – Operating
XXXX	CR	Various Expense Accounts

To re-class incremental operating costs related to the transition to monthly billing in a deferral account for future disposition.

USofA		Account Description
1508	DR	Other Regulatory Asset – Sub Account Transition to Monthly Billing – Operating
4405	CR	Interest & Dividend Income

To record carrying charges, at the rate prescribed by the Board, on the principal balance of the Transition to Monthly Billing Deferral account – Operating.