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BY E-MAIL

November 3, 2017

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Alectra Utilities Corporation
Application for Rates
Board File Number EB-2017-0024**

Procedural Order No. 2, issued on October 24, 2017 (the Procedural Order), established that OEB staff was to file a draft issues list agreed to by OEB staff, intervenors and Alectra Utilities by November 3, 2017.

The Procedural Order further established that in the absence of an agreement on a draft issues list, OEB staff, intervenors and Alectra Utilities may file further comments with the OEB on the revised draft issues list contained in Schedule A of the Procedural Order by November 3, 2017.

OEB staff advises the OEB that no agreement has been reached by the parties on a draft issues list. The following are OEB staff's comments on the revised draft issues list.

OEB staff submits that the revised draft issues list contained in Schedule A of the Procedural Order is appropriate, subject to the qualification to Issue 1.1 OEB staff suggests below:

OEB staff first notes that Issue 1.1 is described as follows on the revised draft issues list from Procedural Order No. 2:

Is the Year 4 Custom IR Update proposed for the Horizon Utilities rate zone (RZ) complete and in accordance with the framework accepted by the OEB from the EB-2014-0002 settlement agreement and any applicable OEB policies, practices and requirements and, if not, are any proposed departures adequately justified?

OEB staff further notes in this context that interrogatory HRZ-SEC-6 asked Alectra Utilities to provide details regarding the impact of a change in the Horizon rate zone capitalization policy noted in the application, both in the test year and in each of the

next three future years and to confirm that the applicant is seeking the approval of the OEB for the change.

Alectra Utilities, in its response, provided the following table outlining the impacts:

	2017	2018	2019	2020	2021
Direct Labour Costs	\$1,726,949	\$1,794,753	\$1,821,276	\$1,857,701	\$1,894,855
Benefit Costs	\$436,627	\$450,321	\$465,135	\$474,438	\$483,927
Material Handling Costs	\$2,354,025	\$2,376,376	\$2,372,349	\$2,406,103	\$2,442,165
Fleet Costs	\$1,762,653	\$1,710,575	\$1,720,082	\$1,805,723	\$1,894,314
Total Impact	\$6,280,253	\$6,332,025	\$6,378,842	\$6,543,966	\$6,715,261

OEB staff notes that the above table demonstrates that the impacts of this change in accounting practice is significant as it represents over a six million dollar annual reduction in OM&A in the Horizon rate zone annually.

OEB staff observes in this context that the Horizon Utilities Corporation EB-2014-0002 Settlement Proposal filed September 22, 2014, subsequently accepted by the OEB in its Decision and Order of December 11, 2014, stated the following on page 12, regarding changes in accounting practices:

Horizon Utilities also agrees that it will not make any material changes in accounting practices that have the effect of either reducing, or increasing utility earnings unless otherwise directed to do so by the OEB, or by an accounting standards body and/ or provincial or federal government and approved by the OEB. Any such changes will be noted at the time of any proposed ESM disposition.

OEB staff notes that while HRZ-SEC-6 asked Alectra Utilities to confirm that it was seeking the approval of the OEB for this change, Alectra Utilities in its response did not address this matter. OEB staff further notes that the settlement proposal does state that this change will be noted at the time of any proposed ESM disposition. While the capitalization change does not impact the 2016 ESM, which is subject to review in this proceeding, OEB staff submits that the change in capitalization policy is significant and will affect the ESM in future years so it is appropriate to review the impact in the current proceeding.

OEB staff submits that the above provision of the settlement proposal may be interpreted as requiring OEB approval of material accounting changes such as the capitalization change, which has been made by Alectra Utilities in the Horizon rate zone. OEB staff therefore submits that consideration of this matter's relevance is a valid issue in this proceeding and should be encompassed within Issue 1.1.

Original Signed by

Martin Davies

Project Advisor, Rates
Major Applications

cc: Parties to EB-2017-0024