

November 3, 2017

EMAIL

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

Dear Ms. Walli:

**Re: Alectra Utilities – Application for Distribution Rates and Other Charges
Effective January 1, 2018 (EB-2017-0024) – Comments re Draft Issues List**

We are counsel to the applicant, Alectra Utilities Corporation (“Alectra”), in the above-noted matter. We are writing pursuant to Procedural Order No. 2 issued by the Ontario Energy Board on October 24, 2017. In that order, the Board invited Alectra and parties to provide comments on the draft issues list attached to the Order in the event parties were unable to reach an agreement on the list. As the parties were unable to reach an agreement, these are Alectra’s comments.

Alectra has no concerns with respect to the draft issues list attached to P.O. No. 2.

Alectra takes this opportunity, however, to provide its view of the proper scope of proposed issue 1.1. It is necessary to do so as some parties may seek to expand the scope of that issue (or to add a new issue) to examine the appropriateness or impact of the change to Horizon’s capitalization policy as a result of the business combination which created Alectra.

In Alectra’s submission, properly interpreted, issue 1.1. captures (1) whether Alectra’s proposed Year 4 Custom IR Update for the Horizon rate zone is appropriate and (2) whether Alectra has properly calculated the Horizon rate zone earnings sharing mechanism. Neither of these issues concerns the change in capitalization policy. The appropriateness or impact of that change is not and should not be an issue in this proceeding. This is so for the reasons discussed further below.

First, the proposed “capitalization” issue is inconsistent with the Settlement Agreement approved by the OEB in EB-2014-0002. In the Agreement, parties specifically contemplated the possibility of future accounting policy changes. This forecloses any argument that such changes

could warrant special treatment, for e.g. an increase or reduction in rates or z-factor treatment.¹ Moreover, parties not only contemplated such changes but specifically turned their minds to how they should be reflected in rates. That is because the Agreement discusses accounting changes specifically in relation to the determination of the earnings sharing calculation. At page 30, under the heading, “Earnings Sharing Mechanism”, the parties agreed that Horizon would not make any accounting change that has “the effect of reducing or increasing utility earnings” unless directed to by the OEB or an accounting body or government with the approval of the OEB. Put differently, the parties recognized that accounting policy changes (such as a change in capitalization policy) might occur and that these would be dealt with through the ESM.

However, with respect to the issue of the calculation of the Horizon ESM in this case, the capitalization change is entirely irrelevant. This is because what is at issue is Horizon’s 2016 earnings. In other words, the earnings in the year prior to the merger. The capitalization change in 2017 could have no impact on those earnings. The fact that the change in capitalization policy does not impact the 2016 ESM was readily acknowledged by Board Staff in its submissions relating to Issue 1.1.² A review as proposed by Board Staff is not related to the application before the Board and would be inefficient from a regulatory perspective.

Second, and in any event, the change to the capitalization policy should have no impact on the Year 4 Update and any subsequent Year update. This is because the evidence is that the change to Horizon’s capitalization policy is a function of the business consolidation involving Horizon, Enersource, PowerStream and HOBNI. The change would not have occurred but for the consolidation. Pursuant to IFRS, Alectra was required to align Horizon’s capitalization policy with PowerStream’s.³

Accordingly, as explained in the evidence, Alectra has determined the Update by treating Horizon on a stand-alone basis. This is consistent with OEB policy. The OEB’s MAADs policy provides that rates for consolidating distributors should be determined on a stand-alone basis during the deferred re-basing period.⁴ The decision in EB-2016-0025 is consistent with this policy choice.

In the present case, distribution rates to be charged by each of the consolidating distributors have been calculated on a stand-alone basis. Thus, the rates for the Enersource, PowerStream, Brampton and Horizon rate zones have all been calculated pursuant to their individual rate mechanisms. In the case of the first three distributors, that is pursuant to their respective Price Cap IR mechanisms and, in the case of Horizon, pursuant to its Custom IR framework.

Moreover, the OEB’s filing requirements reinforce that the Horizon Update should be determined on a stand-alone basis. The filing requirements provide, in Chapter 2, that changes to a distributor’s capitalization policy are to be dealt with on rebasing, not in an annual rate

¹ Chapter 3 (Incentive Rate-Setting Applications) of the Filing Requirements describes a Z-factor claim as “a request to recover costs associated with unforeseen events that are outside the control of a distributor’s ability to manage, such as damage that is the result of a storm”.

² Board Staff correspondence, November 3, 2017, p. 2.

³ Exhibit 2, Tab 1, Schedule 2, p. 3.

⁴ OEB *Handbook to Electricity Distributor and Transmitter Consolidations*, p. 12.

filing such as the Horizon Update.⁵

In sum, for all of the above reasons, issue 1.1 should not be expanded or a new issue added to address the Horizon capitalization policy.

Yours truly,

A handwritten signature in blue ink, appearing to read 'C/S' followed by a stylized flourish.

Crawford Smith

CS/tm

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⁵ Chapter 2 (Cost of Service) of the Filing Requirements states in Section 2.2.2.3: “the applicant must provide its capitalization policy, including changes to that policy since its last rebasing application filed with the OEB.”