

2018 ELECTRICITY DISTRIBUTION RATES
Alectra Utilities Corporation

EB-2017-0024

ONTARIO ENERGY BOARD
STAFF SUBMISSION ON RECORDING DETAILS
FOR NEW ACCOUNTS

December 7, 2017

INTRODUCTION

Alectra Utilities Corporation (Alectra) filed an application with the Ontario Energy Board (OEB) on July 7, 2017 under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B), and under the OEB's *Filing Requirements for Incentive Rate-setting Applications* seeking approval for changes to its electricity distribution rates to be effective January 1, 2018.

On November 17, 2017, the OEB issued a Decision on Issues List and Interim Rates and Procedural Order No. 3 (the Procedural Order). In the Procedural Order, the OEB stated, among other things, that it was adding a new issue to the final issues list as follows:

What is the appropriate way to account for the change in capitalization policy resulting from the merger for Alectra Utilities and its predecessor companies?

The OEB found that it was necessary to establish three new accounts to track the change in capitalization for the Horizon rate zone (RZ), Enersource RZ and Brampton RZ and provided that intervenors, Alectra and OEB staff shall file any comments on the recording details for specified new accounts with the OEB and forward any such comments to all parties on or before December 7, 2017.

The following are OEB staff's comments on the above matter.

Background

In the Procedural Order, the OEB noted that there was limited information in the application on the change to a common capitalization policy for Alectra, but that through interrogatories, the magnitude of the change for the Horizon RZ was determined to be in excess of six million dollars per year. There were also changes to capitalize more costs for the Enersource RZ and less costs for the Brampton RZ¹ although the magnitude of the latter changes is not known. The OEB also noted that the exact date and specific details of the transition to the harmonized capitalization policy were not clear in the evidence.

¹ EB-2017-0024 Interrogatory Responses CCC-12 filed October 11, 2017

The OEB further stated that it requires confirmation that the capitalization change has no impact on 2016 earnings for the Horizon RZ. The OEB also stated that the impacts for 2017 are to be tracked for all rate zones. Based on the dates in the Procedural Order, a decision for this proceeding would not be issued in 2017. The OEB accordingly found it necessary to establish three new accounts to track the change in capitalization for the Horizon RZ, Enersource RZ and Brampton RZ to ensure all options remained open and available for consideration, and rate retroactivity for the 2017 period would not become an issue.

The OEB therefore determined that parties should file comments on the recording details for the new accounts, such as the effective date and how entries should be recorded. The OEB noted that when distributors were required to change their capitalization and depreciation policies on the transition to International Financial Reporting Standards (IFRS), the OEB required these cost changes to be tracked in Accounts 1575 or 1576 for future disposition to customers. The OEB observed that an option for the new accounts for Alectra is that they be similar in nature to Account 1576.

The OEB noted that the nature of any disposition of these accounts was not being determined in the Procedural Order and that it would hear submissions on options for disposition of these accounts as part of final arguments.

OEB Staff Comments

OEB staff submits that the new deferral accounts for the Horizon, Enersource and Hydro One Brampton rate zones should be effective as of February 1, 2017, the date of the change in capitalization policies² until 2026 (or until Alectra's next rebasing, if different than 2026).

The amounts to be recorded in each of the deferral accounts should capture the difference between the revenue requirement approved for the respective rebasing years as compared to what the revenue requirement would have been for the respective rebasing years had the new capitalization policy been in place in the rebasing year.

For the Brampton RZ and Enersource RZ, OEB staff submits that Alectra should calculate the amounts to be recorded in the deferral accounts based on information from the two former distributors' most recent cost of service rate applications using the final Revenue Requirement Workform (RRWF). The amounts to be recorded will be the same

² EB-2017-0024 Technical Conference transcript Vol.2, p. 158, line 17

every year, based on the previous rebasing year, until Alectra rebases, with the exception of 2017 when only 11/12^{ths} of the amount calculated will be recorded in the deferral accounts.

For the Horizon RZ, OEB staff submits that Alectra should calculate the amounts to be recorded in the deferral account based on information from the Horizon Utilities' 2015 Custom IR application³ for each year from 2017 to 2019 using the RRWFs for each respective year. For the year 2017 Alectra should record 11/12^{ths} of the amount calculated based on the 2017 Revenue. For the year 2020 and until Alectra next rebases, it should record the amount calculated for 2019 based on the RRWF for the Horizon RZ from the Horizon Utilities' 2015 Custom IR application.

To capture the impact of the post-merger capitalization policy changes, OEB staff submits that the RRWFs for each of the three rate zones should be updated as follows:

- OM&A expenses should be updated as if the capitalization policy changes took place in the relevant rebasing/Custom IR year
- Gross fixed assets (average) and accumulated depreciation (average) should be updated to reflect the changes to the in-service capital additions as if the capitalization policy changes took place in the relevant rebasing/Custom IR year
- Update depreciation/amortization in the RRWFs to reflect changes to in-service capital additions as if the capitalization policy changes took place in the relevant rebasing/Custom IR year
- As a result of the above changes, the rate base would be updated in the RRWF model
- The resulting changes to return on rate base amounts for both interest expense and return on rate base would be reflected in the updated RRWFs
- The PILs models for each of the relevant rebasing/Custom IR years would then need to be updated to reflect the changes to in service-capital additions, making adjustments to the Capital Cost Allowance and depreciation etc. as required

For the Horizon RZ, where multiple consecutive RRWFs are to be used, there must be continuity in the fixed asset continuity and the rate base for the years 2017 to 2019.

The difference between OEB approved revenue requirement from the original RRWFs and the recalculated revenue requirement due to the capitalization policy change as calculated in the updated RRWFs, should be recorded annually in the deferral account for each of the affected rate zones, as follows:

³ EB-2014-0002

- For the Enersource RZ, the difference in the revenue requirement would be recorded in Account 1508, SA Impact of Post-merger Capitalization Policy Changes ERZ.
- For the Brampton RZ, the difference in the revenue requirement would be recorded in Account 1508, SA Impact of Post-merger Capitalization Policy Changes BRZ.
- For the Horizon RZ, the difference in the revenue requirement would be recorded in Account 1508, SA Impact of Post-merger Capitalization Policy Changes HRZ.

Carrying charges at the OEB prescribed rates for deferral and variance accounts would apply to these accounts.

OEB staff also submits that Alectra should provide Draft Accounting Orders for each of the three deferral accounts for the OEB's review and approval.

- All of which is respectfully submitted –