



**EB-2017-0024**

## **Alectra Utilities Corporation**

### **Application for electricity distribution rates and other charges beginning January 1, 2018**

#### **DECISION AND PARTIAL ACCOUNTING ORDER December 20, 2017**

Alectra Utilities Corporation (Alectra Utilities) 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. In its Decision on Issues List and Interim Rates and Procedural Order No.3, the OEB approved the establishment of three new accounts to track the change in capitalization for the Horizon rate zone (HRZ), Enersource rate zone (ERZ) and Brampton rate zone (BRZ).

The OEB made provision for comments on the recording details for these accounts to be submitted by the parties. Submissions were received from OEB staff, the School Energy Coalition (SEC), the Building Owners and Managers Association of Greater Toronto (BOMA), the Vulnerable Energy Consumers Coalition (VECC) and Alectra Utilities.

This Decision and Partial Accounting Order sets out the accounting details for the new accounts for the ERZ, BRZ and HRZ. The effective date will be February 1, 2017 and the accounts will continue until the OEB orders otherwise. The three new accounts will record the difference between the revenue requirement calculated using the pre-merger capitalization policies and the revenue requirement calculated with the new capitalization policy. The revenue requirement will be calculated based on actual costs each year for operations, maintenance and operating costs (OM&A), depreciation expense, income tax or payments in lieu of taxes (PILs), and return on capital (debt and equity).

This Accounting Order is partial as it does not include details on how the accounts will be disposed. Submissions on the options for disposition should be part of final arguments for this proceeding.

### **Effective Date of the New Accounts**

Alectra Utilities responded to undertakings provided at the Technical Conference held on November 30 and December 1, 2017. In undertaking JT.Staff-7, Alectra Utilities confirmed that the change in capitalization policy was effective on February 1, 2017 for the HRZ and ERZ - the date that Alectra Utilities was formed - and March 1, 2017 for the BRZ. Alectra Utilities maintained that the change in capitalization policy did not affect the fixed asset classes pre-merger or the opening balances.

Both Alectra Utilities and OEB staff proposed February 1, 2017 as the effective date for all three accounts.

### Findings

The effective date for the three new accounts is February 1, 2017 on the basis that this is when the new capitalization policy was adopted for the newly formed Alectra Utilities. For the BRZ, the OEB recognizes that there will be no entry until March 1, 2017. In order to leave all options open for the disposition of the new accounts, the OEB will not establish an end date for these accounts. The accounts will remain open until such time as the OEB orders otherwise.

### **Accounting Entries**

SEC argued that amounts recorded should be based on the actual spending by Alectra Utilities in a given year. SEC's proposed approach for accounting entries was to calculate the regulatory revenue requirement on an as-spent basis compared to the revenue requirement assuming the accounting change had not been made. The difference would be recorded in the new capitalization accounts. VECC supported the submission by SEC.

Alectra Utilities' proposal would record the impact resulting from the change to the capitalization policy for the following:

- OM&A expenditures in each year
- depreciation expense over the life of the underlying assets
- income tax or PILs for the amount paid to taxation authorities
- the annual return on the cumulative capital

OEB staff submitted that entries should be based on each utility's rebasing year. OEB staff's proposal would record the difference between the revenue requirement approved for the rebasing years as compared to the revenue requirement for the respective rebasing years had the new capitalization policy been in place. BOMA agreed with the submissions of OEB staff, subject to the caveat that the same process would take place in each rate year.

OEB staff further submitted that only 11/12ths of the amount calculated should be recorded for 2017. Both SEC and Alectra Utilities disagreed with this proposal. SEC argued that 100% of any difference in the regulatory revenue requirement for 2017 should be recorded. Alectra Utilities argued that the amounts should be based on the actual impact calculated on an annual basis.

SEC further noted that there is a collateral issue with respect to the earnings sharing mechanism (ESM) for the HRZ. The intent of the ESM mechanism is to share 50% of any earnings with customers above the OEB-approved return on equity. The change in the capitalization policy affects the earnings to be shared. SEC submitted that there should be an adjusting entry to the ESM account.

### Findings

The three new accounts will record the difference between the revenue requirement calculated using the pre-merger capitalization policies and the revenue requirement calculated with the new capitalization policy. The revenue requirement will be calculated each year based on actual costs for OM&A, depreciation expense, income tax or PILs, and return on capital (debt and equity).

This approach will result in the actual financial consequences of the change to the capitalization policy being recorded in the new accounts.

The OEB agrees with SEC that it is important to ensure that the new accounts for the capitalization change and the ESM account are coordinated to ensure there is no double-counting of earnings for the HRZ. The OEB will address this issue at the time it is considering the approach to disposition of the new accounts. This will ensure that all options remain open.

Alectra Utilities shall maintain records to show its calculations for the revenue requirement for each rate zone to at least the level of detail provided in Table 1 of the undertaking JT.Staff-7.

**Account Numbers**

OEB staff proposed account numbers for the three new accounts as follows:

Account 1508, Sub-Account Impact of Post-merger Capitalization Policy Changes ERZ

Account 1508, Sub-Account Impact of Post-merger Capitalization Policy Changes BRZ

Account 1508, Sub-Account Impact of Post-merger Capitalization Policy Changes HRZ

**Findings**

The OEB approves the account number and consistent descriptions proposed by OEB staff.

**THE ONTARIO ENERGY BOARD ORDERS THAT:**

1. Alectra Utilities shall establish the following accounts to record the changes to the revenue requirement, as defined in this Decision, resulting from the change in Alectra Utilities' capitalization policy:
  - Account 1508, Sub-Account Impact of Post-merger Capitalization Policy Changes ERZ
  - Account 1508, Sub-Account Impact of Post-merger Capitalization Policy Changes BRZ
  - Account 1508, Sub-Account Impact of Post-merger Capitalization Policy Changes HRZ
2. The accounts are effective February 1, 2017 and will remain open until the OEB orders otherwise.
3. Interest will be recorded on balances in the accounts at the OEB prescribed interest rate for deferral and variance accounts in separate sub accounts of these accounts for each rate zone.

**DATED** at Toronto, December 20, 2017

**ONTARIO ENERGY BOARD**

*Original signed by*

Kirstin Walli  
Board Secretary