



Ontario Energy Board
Commission de l'énergie de l'Ontario

DECISION ON SCOPE OF REVIEW

EB-2017-0038

**ERIE THAMES POWERLINES
CORPORATION**

**Application for electricity distribution rates beginning
May 1, 2018**

By Delegation, before: Kristi Sebalj

June 8, 2018

TABLE OF CONTENTS

1	INTRODUCTION AND SUMMARY OF DECISION.....	1
2	THE PROPORTIONATE REVIEW APPROACH.....	4
3	THE APPLICANT AND THE APPLICATION.....	6
4	SCOPE OF REVIEW	9
5	CONCLUSION	19

SCHEDULE A – ISSUES LIST

1 INTRODUCTION AND SUMMARY OF DECISION

Erie Thames Powerlines Corporation (ETPL) serves approximately 18,500 customers in the municipalities of Port Stanley, Aylmer, Belmont, Ingersoll, Thamesford, Otterville, Norwich Burgessville, Beachville, Embro, Tavistock, Mitchell, Dublin and Clinton.

Erie Thames Powerlines Corporation (ETPL) filed a cost of service application on September 15, 2017 for rates effective May 1, 2018. Under the *Ontario Energy Board Act, 1998* (OEB Act), distributors must apply to the OEB to change the rates they charge their customers.

The OEB's policy for rate setting is set out in the Handbook for Utility Rate Applications (the Rate Handbook).¹ The Rate Handbook provides the key principles and expectations the OEB will apply when reviewing rate applications. The detailed expectations of a cost of service application are set out in Chapter 2 of the Filing Requirements for Electricity Distribution Rate Applications.²

ETPL's 2018 rebasing application is being considered as part of the OEB's pilot of a new proportionate review approach. The proportionate review approach involves an early in-depth review by OEB staff of ETPL's performance history, the current rebasing application and the alignment of proposals within the application with OEB policy. The results of staff's review are communicated by way of a staff report to a decision-maker, in this case, the Registrar. The decision-maker considers the staff review as well as the application documents to determine the appropriate process the OEB should employ to conduct its review of the proposals in the application. Where it is appropriate, a streamlined hearing of the application may be considered.

The OEB hosted a community meeting on December 12, 2017 in Ingersoll, Ontario to allow customers of ETPL to learn about the application, ask questions and provide their comments. There were specific questions and concerns raised by customers about ETPL's distribution rates being higher than most other utilities in south-western Ontario, the potential for cross-subsidization from ETPL to other companies in the ERTH Corporation, the cost of new connections, the lack of information about the potential for a merger with Goderich Hydro and the functionality of the new website and whether or not it provided value for money.

¹ OEB Handbook for Utility Rate Applications, October 13, 2016.

² OEB Filing Requirements for Electricity Distribution Rate Applications, 2017 Edition for 2018 Rate Applications, July 20, 2017.

OEB staff filed a report on February 26, 2018, summarizing the discussion at the community meeting.

OEB staff filed its Report to the Registrar (the Report) on March 14, 2018. The Report set out OEB staff's recommendations as to the issues that it believed should proceed to a hearing. OEB staff identified nine areas for which it recommended a hearing process and seven areas that may not require any further process.

The OEB is issuing this Decision on the Scope of the Hearing (Decision) under the delegated authority of the Registrar pursuant to section 6 of the OEB Act.

In making this Decision, the OEB reviewed the application, the historical performance of ETPL, the written correspondence between OEB staff and ETPL, and the Report.

For the issues that the OEB has determined will not go to hearing, the OEB finds that the outcomes arising from those proposals as set out in ETPL's application adequately reflect the public interest, are in accordance with OEB policy, and do not need to be further tested to be included in the calculation of just and reasonable rates.

For the reasons provided below, the OEB finds that the following six broad issues should proceed to a full hearing process, including an opportunity for discovery and for either written submissions or oral argument, as determined by the OEB.³

- 1) Rate Base
- 2) DSP and Capital Expenditures
- 3) Operating Costs
- 4) Cost of Long-Term Debt
- 5) Cost Allocation: Revenue-to-cost ratios and standby rate proposal
- 6) Deferral and Variance Accounts

For the reasons provided below, the OEB finds that the following four issues should proceed to an abridged hearing process, which will consist of an opportunity for written submissions only.

- 7) Load Forecast and Other Revenue
- 8) Revenue Sufficiency/Deficiency
- 9) Cost Allocation: Other than areas noted in (5) above
- 10) Rate Design: Bill Impacts and certain other areas

³ The issues list for the hearing is set out in Schedule A.

Where applicable, sub-issues have been identified within the broad issues as described in the findings set out in Chapter 4 of this Decision. The OEB may permit further refinement of the issues within these broad issues.

The OEB will allow for an award of cost for parties to which the OEB grants intervenor status and cost award eligibility for the participation in the hearing following a notice of hearing.

A notice of hearing will be issued in due course and a procedural order will be issued once the intervention period set out in the notice of hearing has closed.

2 THE PROPORTIONATE REVIEW APPROACH

With ETPL's consent, ETPL's 2018 rebasing application is being used to pilot and test the OEB's proportionate review approach. The objective of this approach is to establish a process that leverages OEB staff's initial, in-depth assessment of the applicant's historical performance, of the proposals within an application and of those proposals against current OEB policy. In respect of the assessment of the proposals within an application, the objective of staff's review, and of the OEB's determination, is to identify what issues require rigorous testing, and which of the proposals made by the applicant can be accepted as filed having met the OEB's expectations in terms of completeness and quality of information provided, evidentiary support for the proposals, alignment with OEB policy, utility performance achieved and the reasonableness of the resulting rates and charges.

Under this approach, OEB staff used a number of different tools and analysis techniques to develop a recommendation for the appropriate process that the OEB should use to address the requests set out in the application. While this is termed a "pilot", it is in fact a formal component of the OEB's review process for this application.

As discussed in the Report, OEB staff considered comments made by ETPL's customers at the community meeting held on December 12, 2017 in Ingersoll, Ontario, and through letters of comment. OEB staff undertook a detailed review of all aspects of the application. In addition, OEB staff used the Initial Triage Model (ITM) to guide its initial review of the application. The ITM includes a historical Comprehensive Performance Assessment Model (CPAM), which evaluates a utility's historical performance. The historical performance of the utility was considered in the OEB staff's review of the application. However, as the ITM, including the CPAM, is still under development, it was not a significant factor in OEB staff's final recommendations. OEB staff's detailed review, including determining alignment with OEB policies, was the main source for the recommendations set out in the Report.

As part of this review, OEB staff asked ETPL questions both via teleconference and in writing. The correspondence between OEB staff and ETPL led to the filing of a revised application on March 1, 2018 that reflects the correction of certain technical errors and the use of the best available information. A full description of the staff review process is set out in the Report.

The original and revised applications filed by ETPL, all relevant written correspondence between OEB staff and ETPL, the OEB Staff Summary of Community Meeting and the Report are available on the public record of this proceeding.

The OEB made this Decision on the scope of ETPL's 2018 rates proceeding based on its review of the application, the alignment of the proposals in the application with OEB policies, any correspondence between OEB staff and ETPL, the OEB Staff Summary of Community Meeting and the Report, which took into consideration the results of the ITM. All of the information on which the OEB relied to make its Decision is on the public record.

3 THE APPLICANT AND THE APPLICATION

ETPL serves approximately 18,500 customers in the municipalities of Port Stanley, Aylmer, Belmont, Ingersoll, Thamesford, Otterville, Norwich Burgessville, Beachville, Embro, Tavistock, Mitchell, Dublin and Clinton. The largest community served by ETPL is Ingersoll, which has a population of nearly 13,000. The total service area is approximately 120 km². ETPL's most recent rebasing application was for 2012 rates⁴.

ETPL is a fully embedded distributor that receives electricity at distribution level voltages from Hydro One Networks Inc. (Hydro One). Therefore, it is charged by Hydro One for low voltage distribution services. Hydro One is also an embedded distributor within ETPL's service territory at four locations and ETPL charges Hydro One embedded distributor rates for these four embedded points.

ETPL is entirely owned by ERTH Corporation, which in turn is owned by eight municipal shareholders, each of which has equal representation on the ERTH Board of Directors and equal voting power. ERTH Corporation also owns ERTH Limited, which in turn owns ERTH Business Technologies, ERTH Holdings Inc. and J-Mar Line Maintenance Inc.

ETPL filed a cost of service application on September 15, 2017 for rates effective May 1, 2018. ETPL updated the application on March 1, 2018 following OEB staff's in-depth review.

ETPL's 2018 cost of service application includes the following proposals:

- Request for approval to charge rates effective May 1, 2018 to recover a service revenue requirement of \$10,930,285, including a gross revenue deficiency (at existing rates) of \$315,992. This reflects a \$946,788 increase (9.5 percent) relative to the 2012 service revenue requirement (\$9,983,497) approved in ETPL's last rebasing.
- Proposed capital expenditures of \$3,242,950 for 2018. This is a \$402,950 increase (14 percent) relative to the 2012 approved capital expenditures (\$2,840,000) approved in ETPL's last rebasing.
- Proposed Operations, Maintenance & Administration (OM&A) budget of \$6,456,768 for 2018. This is a \$796,174 increase (14%) relative to the 2012

⁴ [EB-2012-0121](#)

approved OM&A budget (\$5,660,594) approved in ETPL's last rebasing. The actual 2012 OM&A expenditure was \$4,855,139, which is \$805,455 or 17 percent lower than the OEB approved level.

- A Distribution System Plan (DSP).
- Request for approval of the proposed load forecast.
- Request for approval to continue applying the specific service charges as previously approved by the OEB.
- Request to establish a stand-by rate for one customer.
- Request for approval of the proposed loss factor.
- Request for approval to dispose of specified deferral and variance account balances.

The bill impacts arising from ETPL's revised 2018 rebasing application are as follows:⁵

	Sub Total A		Sub Total C		Total Bill	
	\$	%	\$	%	\$	%
Residential 750 kWh	2.40	7.92	2.27	5.06	2.34	2.04
Residential 233 kWh	4.10	16.15	4.06	13.34	4.26	7.98
GS < 50 kWh, 2,000 kW	0.12	0.23	-0.21	-0.24	-0.96	-0.34
GS 50 to 999 kW	-88.38	-20.17	148.10	12.45	71.72	0.67
GS 1,000 to 4,999 kW	-1793.00	-22.97	-563.71	-2.90	-1832.46	-1.32
Large Use	-3371.55	-9.95	11014.52	10.78	26563.48	4.04
USL	-6.32	-31.06	-6.51	-26.86	-7.36	-15.36
Sentinel	5.86	27.55	4.66	17.90	5.26	10.53
Street Lighting	-7.74	-28.11	-6.18	-16.05	-7.02	-5.26
Embedded Distributor	-2340.52	-46.41	-4745.76	-40.87	-5347.50	-32.46

Sub-total A: Distribution excluding pass through

Sub-total C: Delivery

ETPL filed its 2018 application based on International Financial Reporting Standards (IFRS). ETPL adopted IFRS for financial reporting purposes in 2015 and has filed the various schedules under IFRS from 2014 onwards.

⁵ Residential 233 kWh is included as the average monthly consumption customers at the 10th percentile. See E8/T1/S4. p.1

ETPL submitted a DSP, which was reviewed by Costello Utility Consultants who confirmed that:

- ETPL addressed the performance outcomes identified by the OEB
- Appropriate performance metrics are in place
- The work planned for the forecast period reflects:
 - the condition of the assets
 - the risks they pose to safety and reliability
 - a reasonable assumption of system and load growth
 - the preferences of customers.

ETPL is seeking the disposition of a Lost Revenue Mechanism Variance Account (LRAMVA) balance of \$359,498 based on the draft verified results provided by the Independent Electricity System Operator IESO on July 31, 2016. No further changes to actual savings underpinning the LRAMVA balance were made by ETPL after the final verified results were filed on March 1, 2018. The LRAMVA balance was subsequently revised to \$360,312 to incorporate increases in the carrying charges due to corrections to the interest rate used for Q4 2017 and Q1 2018.

ETPL requested \$12,942 for 2018 Low Income Energy Assistance Program (LEAP) funding, based on 0.12% of its service revenue requirement.

4 SCOPE OF REVIEW

Background

In the Report, OEB staff discussed the OEB's decision with respect to ETPL's most recent cost of service application and provided its analysis of ETPL's past performance and all of the proposals set out in the current application.

In the Report, OEB staff recommended that the following nine issues proceed to a hearing:

Full Hearing Process Recommended

- Rate Base and Capital Expenditures
- Operating Costs
- Cost of Long-Term Debt, but not other areas of Cost of Capital
- Cost Allocation: Revenue-to-cost ratios and standby rate proposal
- Deferral and Variance Accounts, except LRAMVA

Written Submission Process Recommended

- Load Forecast and Other Revenue
- Revenue Sufficiency/Deficiency
- Cost Allocation: Other than areas noted above
- Rate Design: Bill Impacts and certain other areas

OEB staff also noted that depending on the OEB's determination with respect to the issues that go to hearing, consequential changes to rate base and certain components of the revenue requirement may be necessary.⁶

OEB staff provided detailed rationale supporting its recommendations in the Report. The Report also set out OEB staff's review process, which consisted of reviewing the results of the ITM followed by a detailed review of the application. OEB staff reviewed all aspects of the application and the supporting models. OEB staff held conference calls with ETPL on November 7, 2017 and December 12, 2017 to discuss the application and sent written questions to ETPL on January 29, 2018. ETPL responded to OEB staff's written questions on February 12, 2018.

⁶ EB-2017-0073, OEB Staff Report to the Registrar, March 14, 2018, pp. 6-8.

ETPL filed its updated application on March 1, 2018.

All written correspondence between OEB staff and ETPL is available on the public record of this proceeding, along with the original and revised applications filed by ETPL.

OEB staff noted that because the ITM is still under development, it was not a significant factor in OEB staff's final recommendations. Using the ITM as part of OEB staff's review for this pilot was an opportunity to begin to evaluate the relevance and value of the model.

Findings

In its review of the application, the OEB considered all of ETPL's proposals, including but not limited to those identified by OEB staff as potentially requiring OEB review. The OEB has not identified any issues that require a hearing beyond those identified by OEB staff in the Report. The reasons in this Decision are therefore restricted to the consideration of those issues that OEB staff recommended proceed to hearing.

With respect to ETPL's customer engagement activities, ETPL's application indicates that in early 2017, ETPL hosted three Town Hall meetings (one in each service region), to provide customers an opportunity to meet senior management and ask questions about various aspects of the business. ETPL's evidence is that a total of 65 customers attended the three meetings. At these meetings, ETPL staff gave presentations about the upcoming cost of service application, to help customers better understand the rate application process and the expected minimal impact. ETPL's evidence is that the intent was also to provide customers with a better understanding of the industry, their bills, and their options, including conservation and programs to help offset electricity costs.

ETPL further stated that it presented customers with options and plans for capital and OM&A spending for the 2018-2022 period, the impact on rates of these options, and a review of historical reliability statistics. Based on this information ETPL then presented to the customers the rate impact they proposed to include in the application. At the time of these presentations ETPL estimated a 1% increase in rates for a typical residential customer in 2018. ETPL asked customers in attendance to complete a questionnaire after the presentation in which 91% of those that responded felt that both capital and OM&A spending were appropriate, as ETPL had proposed them.

ETPL also cited other customer engagement efforts, including a meeting with the Norwich BIA and customer surveys issued in 2014 and 2016 to help ETPL in planning future activities. The latest survey showed ETPL customers were 89% satisfied with

ETPL's performance on a variety of measures. In particular, customers indicated that ETPL could improve how it communicates planned outages and educates customers about payment options and a general understanding of their bills.

The Report indicated that OEB staff "...was not convinced that the customer engagement activities undertaken by ETPL in advance of filing its rates application were ideal" and that the spending proposals in the application were not supported by significant engagement of customers.

With the exception of the standby rate proposal, which is further discussed below, the OEB is satisfied that the level of customer engagement undertaken by ETPL was sufficient under the circumstances. The determinations in this Decision with respect to issues that should proceed to a hearing, other than the finding with respect to the standby rate proposal, are not based on a finding that customer engagement was insufficient.

For the reasons set out below, the OEB finds that the following six issues should proceed to a full hearing process. The specific hearing process will be determined in future procedural orders. For these issues, the OEB will offer cost awards for parties granted intervenor status and cost eligibility for participation in the hearing.

- 1) Rate Base
- 2) DSP and Capital Expenditures
- 3) Operating Costs
- 4) Cost of Long-Term Debt, but not other areas of Cost of Capital
- 5) Cost Allocation: Revenue-to-cost ratios and standby rate proposal
- 6) Deferral and Variance Accounts, except LRAMVA

For the reasons set out below, the OEB finds that the following four issues should proceed to an abridged hearing process, which will provide an opportunity for written submissions. The OEB will offer cost awards for cost eligible intervenors for written submissions on these issues.

- 7) Load Forecast and Other Revenue
- 8) Revenue Sufficiency/Deficiency
- 9) Cost Allocation: Other than areas noted for full hearing above
- 10) Rate Design: restricted to Bill Impacts for the Sentinel Lighting class, and any rate design effects that may result from the hearing of other issues

Rate Base

The OEB finds that this issue will proceed to a full hearing.

The OEB finds that there are a number of discrepancies between ETPL's application and the related appendices related to rate base, including discrepancies that could impact the opening rate base in the test year. In addition, further discovery is required in relation to impacts to net book value by the removal of fully amortized assets, the allocation of material burden since 2013 and ETPL's accounting treatment of customer contributions.

The OEB has also identified other areas of the application, such as the DSP and proposed OM&A costs that will be the subject of a full hearing, the outcome of which may result in changes to rate base.

Distribution System Plan and Capital Expenditures

The OEB finds that this issue will proceed to a full hearing.

While the proposed capital expenditure budget seems reasonable relative to historical levels, there are sufficient areas of concern to require a hearing. The OEB shares OEB staff's concerns related to the time that has passed since the last detailed review of capital expenditures, the nine year period that may elapse before the next review should ETPL's current merger request be approved⁷, the age of the asset management plan on which ETPL's DSP is based and the potential need for manual adjustments of these asset management plans.

ETPL's service reliability and service quality indicators do not show any major issues. This raises a question of whether or not the overall approach taken by ETPL to investment decisions is appropriate. The appropriateness of specific proposed investment programs, in particular pole replacement, is also an area of the evidence that warrants further discovery as does the question of linkages between capital expenditures and proposed OM&A expenditures.

OEB staff has recommended a number of specific issues that it says should be the minimum areas to be examined by way of a hearing. OEB staff's issues will form the basis of an issues list for the hearing (attached as Schedule A), however, the OEB may

⁷ ETPL filed an application to merge with West Coast Huron Energy Inc. on March 14, 2018 (EB-2018-0082)

permit parties to seek to have other issues within this area added to the issues list before an issues list is determined to be final.

Load Forecast and Other Revenue

The OEB finds that the issues of load forecast and other revenue will proceed to an abridged hearing limited to written submissions. The evidentiary record for these issues is sufficient and no further discovery is necessary, however, submissions may be helpful on the appropriateness of the requests and the interrelationship between these issues and those that the OEB is reviewing through a full hearing.

The customer connection and weather normalized load forecast developed by ETPL is based on an acceptable methodology. Overall, ETPL's 2018 forecast shows a drop in load relative to the 2016 normalized level of 2.4 percent on a kWh basis and 4.1% on a kW basis.

While the 2012 actual for Other Revenue was \$0.29 million lower than the OEB approved 2012 level (a 33 percent differential), the 2018 level does not appear to be similarly overstated as the preceding five-year average is \$0.478 million which is only \$0.018 million lower than the proposed 2018 test year level.

Operating Costs

The OEB finds that the issue of ETPL's operating costs will proceed to a full hearing.

ETPL is proposing OM&A of \$6.5 million for 2018, which would represent an increase of \$796,174 (or 14 percent) over the 2012 OEB-approved OM&A. The increase over the 2012 actual is 33 percent as the OEB-approved OM&A was \$805,455 or 17 percent higher than the actual 2012 level.

ETPL provided a summary analysis of the drivers for OM&A in its application⁸. ETPL set out a number of reasons for its proposed increase in OM&A expenses in the test year (as compared to the previous rebasing). The recurring OM&A expense increases include:

- Increase in operating costs for capitalization policy change
- Impacts of inflation
- Increases in labour and benefit costs

⁸ E4/T2/S3, Table 4-8.

A key driver of the test year cost increase is higher cyber security and risk costs. ETPL states that these costs are associated with meeting the requirements of the OEB's cyber security and risk policy that comes into force in 2018.

The proposed OM&A cost per customer in the test year would increase by approximately \$70 or 27 percent per customer since the 2012 rebasing using 2012 actuals.

Given the magnitude of the proposed increase since the 2012 cost-of-service application, the significant variance between the 2012 OEB approved level and the 2012 actual, and the impacts on both OM&A and employee levels of ETPL's affiliate transactions, further discovery of ETPL's operating costs is necessary.

OEB staff recommended a number of specific issues that it says should be the minimum areas to be examined by way of a hearing, but has also indicated that these may not be the only issues in this area that would require a hearing. OEB staff's issues will form the basis of an issues list for the hearing (attached as Schedule A), however, the OEB may permit parties to seek to have other issues within this area added to the issues list before an issues list is determined to be final.

Cost of Capital

The OEB finds that the two following cost of capital issues, both of which relate to the cost of long-term debt, will proceed to a full hearing:

1. Is ETPL's use of the OEB's deemed long term debt rate of 4.16 percent appropriate for the 2017 and 2018 promissory notes due to ERTH Corporation, an affiliate of ETPL, which have rates of 2.5 percent?
2. Has ETPL calculated interest expense appropriately for promissory notes shown as issued on the last days of 2015, 2017 and 2018 respectively?

The OEB notes that the cost of capital amount may also change depending on the OEB's findings on certain other issues that may have an impact on rate base that are subject to a full hearing.

ETPL used the appropriate (then) current OEB-approved deemed capital structure, deemed short and long-term debt rates and ROE at the time of filing the application in September 2017. ETPL updated these rates in the revised version of the application filed on March 1, 2018.

OEB staff indicated that ETPL calculated the cost of capital for 2018 in accordance with OEB requirements with one exception, the cost of long-term debt. OEB staff expressed concerns related to the interest rates used for ETPL's affiliated debt.

These concerns relate to the 2017 and 2018 promissory notes due to EARTH Corporation, an affiliate of ETPL, which have a rate of 2.5%, which is lower than the deemed OEB rate of 4.16%. ETPL is seeking to recover the deemed rate of 3.72%, but OEB policy is that the deemed rate is a ceiling, meaning that the 2.5% rate would be the appropriate rate to be recovered.

OEB staff also expressed concern that the evidence appears to show⁹ that a full year of interest is being recovered on promissory notes issued on the last day of 2015, 2017 and 2018 respectively.

Cost Allocation

The OEB finds that the following two cost allocation issues will proceed to a full hearing:

1. Are ETPL's proposed revenue-to-cost ratios appropriate, particularly given the shifts in the revenue-to-cost ratios produced in the cost allocation model from the previously approved ratios in 2012 to the status quo ratios, which are used to derive the proposed ratios in this application?
2. Is ETPL's proposal for a final standby rate appropriate?

The allocated costs may also change if the OEB makes findings changing the cost allocation proposals in the application.

Other than these issues, the evidentiary record is sufficient on cost allocation such that the remainder of the area of cost allocation will proceed to written submissions without further discovery. Written submissions on the remaining areas of cost allocation will allow parties to address potential changes that may result from the review of those cost allocation issues that are subject to a full hearing.

The 2018 cost allocation study indicates that the ratios for all classes except the residential, GS > 50 kW and Large Use rate classes are outside the OEB's policy range. Therefore, ETPL proposed to bring the ratios for all of the classes that are outside the range within the range. The result is that the residential, GS > 50kW, Large Use and

⁹ E5/T3/p. 3, Table 5-3

Sentinel Lighting (which was below the OEB policy range) classes are being revised upwards.

To determine the proposed ratios, ETPL stated that it had used common industry methodology by first moving all rate classes outside the OEB approved range to the upper or lower limit of the range. In particular, the General Service > 50 to 999 kW, General Service > 1,000 to 4,999 kW, Unmetered Scattered Load, Street Lighting and Embedded Distributor classes were moved down to the upper end of the range, while Sentinel Lighting was moved to the midpoint of the range. The Residential, General Service < 50 kW and Large classes were also moved up within the policy range to achieve revenue neutrality.

The OEB shares staff's concern that while the movements in the ratios from the current (status quo) ratios to the proposed ratios appear to be reasonable given the need to move these ratios to within the OEB policy ranges, the changes from the previously OEB-approved ratios to the current (status quo) ratios are significant. ETPL has not adequately explained these changes and the proposed revenue-to-cost ratios will therefore proceed to a full hearing.

In addition to the cost allocation issue, ETPL has asked to create a standby rate class in order to ensure that it is kept whole with respect to its transmission network and connection fees that will be charged to ETPL by Hydro One for all embedded generation (gross load billing). ETPL has not previously had a standby rate class in its tariff sheet.

It is not clear from the evidence whether ETPL has engaged with potentially affected customers with respect to this proposed rate and the proposed standby rate will proceed to a full hearing.

Rate Design

The OEB finds that the evidentiary record in relation to ETPL's proposed rate design for the 2018 test year is sufficient and that no further discovery in this area is necessary. Written submissions will be permitted only to address any concerns related to bill impacts for the sentinel lighting class and to address the impacts of any issues that are the subject of a full hearing may have on rate design.

All classes have bill increases of less than 10 percent on a total bill basis, except for the Sentinel Lighting class, which is just over 10 percent. The Unmetered Scattered Load and Embedded Distributor classes have decreases that are significantly larger than 10

percent. ETPL did not propose any mitigation on the basis that the bill impacts of its proposed 2018 distribution rates are reasonable.

The only bill impact that is above the 10 percent mitigation threshold in the revised application is the 10.5 percent total bill increase for the Sentinel Lighting class. This impact arose from OEB staff's discussions with ETPL about its concern that its revenue to cost ratios were in some cases inconsistent with OEB policy. ETPL's efforts to bring its ratios within the policy ranges resulted in this impact, which is only slightly above the threshold.

The rates resulting from the rate design process may change if the OEB changes any costs ETPL proposes to include in its revenue requirement or changes the allocation of the revenue requirement.

Deferral and Variance Accounts

The OEB finds that the following three issues in this area will be subject to a full hearing:

1. Are ETPL's proposals for the disposition of Group One accounts appropriate, including the allocation of the Global Adjustment between Regulated Price Plan (RPP) and non-RPP customers and general consistency in the continuity schedules?
2. Are ETPL's proposals for disposition of Group Two accounts appropriate including the claim for IFRS transition costs and the calculation of the Account 1576 balance?
3. Is ETPL's request for a new variance account related to Other Post-employment Benefits (OPEBs) appropriate given that the OEB has previously established an account for such variances?

ETPL proposed to dispose of an amount of \$1,085,237 owing from customers related to Group 1 and 2 accounts and the LRAMVA. This balance includes interest up to and including April 30, 2018.

OEB staff's analysis raised a concern related to the allocation between RPP and non-RPP customers in account 1589, Global Adjustment. There are also concerns with numbers on the continuity schedule in the revised application that require further discovery.

For the Group Two accounts, there is merit to further exploration of the claimed amount of \$305,723 and the alignment of the calculation of certain balances with the Accounting Procedures Handbook and other OEB policies.

There is also merit in further exploring whether ETPL's request for the new account 1522 is necessary as the OEB has previously approved a generic variance account to deal with OPEBs-related variances¹⁰.

¹⁰ Ontario Energy Board *Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs*, May 18, 2017.

5 CONCLUSION

For all of the reasons set out above, the OEB finds that the ten issues set out in the issues list attached as Schedule A (including the sub-issues as discussed herein) will proceed to a hearing. The scope of the hearing for each of the issues is set out in this Decision.

The OEB will issue a Notice of Hearing in due course and a Procedural Order establishing the steps for each of the issues once the intervention period closes.

Dated at Toronto, June 8, 2018

ONTARIO ENERGY BOARD

Original signed by

Kristi Sebalj
Registrar

SCHEDULE A
DECISION ON SCOPE OF REVIEW
ERIE THAMES POWERLINES CORPORATION
EB-2017-0038
JUNE 8, 2018
ISSUES LIST

Schedule A
Issues List
Erie Thames Powerlines Corporation
EB-2017-0038

1) Rate Base

Is the rate base element of the revenue requirement reasonable, and has it been appropriately determined in accordance with OEB policies and practices?

This issue includes:

- a) Has ETPL adequately addressed any discrepancies that could affect opening rate base?
- b) Has ETPL adequately addressed any impacts to ETPL's proposed net book value from the removal of fully amortized assets?
- c) Has ETPL adequately addressed its allocation of material burden since 2013?
- d) Is ETPL's accounting treatment of customer contributions correct?

2) Distribution System Plan (DSP) and Capital Expenditures

Are ETPL's proposed capital expenditures appropriate and have the trade-offs with the proposed level of Operating Costs been given adequate consideration?

This issue includes:

- a) Is the extent of ETPL's contribution to and need for Hydro One related projects tentatively scheduled beyond 2019 in Norwich, Mitchell and Beachville adequately justified?
- b) Has ETPL provided adequate support for its conclusion that a number of capital investments will result in increased efficiency?

- c) Has ETPL adequately explained and justified the reasons for and the impact of the two-year lag for Asset Condition Assessment (ACA) and Asset Management Plan (AMP) information, which is current as of January 2015 on the DSP?
- d) As ETPL is having to manually lower the recommended renewal spending levels, is this an indication that the ACA and AMP may not be properly timed or misapplied?
- e) Has ETPL provided sufficient information as to the means which it uses to assess data accuracy?
- f) Has ETPL provided an adequate explanation for the worsening scorecard trend for the measure “Average Number of Hours that Power to a Customer is Interrupted?”
- g) Has ETPL provided an adequate explanation as to why its per km costs are in the highest quartile of LDC per km costs?
- h) Has ETPL adequately justified the appropriateness of its approach to investment decisions?
- i) Has ETPL provided appropriate justification for its proposed pole replacement program?
- j) Has ETPL provided an appropriate estimation of the value of lost useful life of assets in its voltage conversion programs as these projects are primarily completed in conjunction with system renewal type projects?
- k) Has ETPL provided sufficient evidence as to the meaning of and appropriate use of heat maps, which are used by ETPL to prioritize capital expenditures?
- l) Given that ETPL’s historic investment levels have resulted in acceptable reliability performance, does ETPL need to provide further support for the proposal to gradually increase capital investment levels? In third party assessments of the investment process, was the acceptable level of reliability

given adequate consideration? If not should the assessment methodology used be adjusted to account for it?

3) Operating Costs

Are ETPL's operating costs appropriate?

This issue includes:

- a) Does the differential between ETPL's 2012 OEB approved level of OM&A of \$5,660,594 and actual OM&A costs of \$4,855,139, or \$805,455, or 17 percent, raise concerns about the accuracy of ETPL's current forecast?
- b) Is ETPL's conclusion that it is clearly performing well when compared to its expected cost calculation justified?
- c) Is ETPL's inclusion of \$140,000 in operating costs for cyber and privacy risk mitigation appropriate and is the classification of these costs as regulatory in nature appropriate?
- d) Are the merger savings stated as arising from ETPL's previous mergers with West Perth and Clinton Power accurately quantified and reflected in the current application?
- e) Are ETPL's stated FTE levels and compensation costs appropriate and/or comparable to those of other utilities given that some employees who work for ETPL are located in its affiliated companies?
- f) Are the accounting changes which have shifted costs away from O&M and into Administration appropriate?
- g) Are the portions of affiliate costs allocated to ETPL appropriate and, if so, why?
- h) Are ETPL's purchases of non-affiliate services resulting in appropriate costs and are the divisions of service acquisitions between affiliates and non-affiliates appropriate?

i) Is ETPL's proposal to establish a five-year useful life for smart metering assets appropriate as this is not within the Kinectrics range?

4) Cost of Long-Term Debt

a) Is ETPL's use of the OEB's deemed long term debt rate of 4.16 percent appropriate for the 2017 and 2018 promissory notes due to EARTH Corporation, an affiliate of ETPL, which have rates of 2.5 percent?

b) Has ETPL calculated interest expense appropriately for promissory notes shown as issued on the last days of 2015, 2017 and 2018 respectively?

5) Load Forecast and Other Revenue (*written submissions only*)

a) Is ETPL's proposed Load Forecast appropriate, including the interrelationship with, and impacts of, other issues?

b) Is ETPL's proposed Other Revenue appropriate, including the interrelationship with, and impacts of, other issues?

6) Revenue Sufficiency/Deficiency (*written submissions only*)

a) Has ETPL's proposed Revenue Sufficiency/Deficiency been accurately determined, given the impacts from the hearing of other issues?

7) Cost Allocation

a) Are ETPL's proposed revenue-to-cost ratios appropriate, particularly given the shifts in the revenue-to-cost ratios produced in the cost allocation model from the previously approved ratios in 2012 to the status quo ratios, which are used to derive the proposed ratios in this application?

b) Is ETPL's proposal for a final standby rate appropriate?

c) Are any changes to ETPL's proposed cost allocation needed as a result of the hearing of other issues? (*written submissions only*)

8) Rate Design (*written submissions only*)

- a) Are ETPL's proposed bill impacts related to the Sentinel Lighting rate class appropriate?
- b) Are any changes to ETPL's proposed rate design needed as a result of the hearing of other issues?

9) Deferral and Variance Accounts

- a) Are ETPL's proposals for the disposition of Group One accounts appropriate, including the allocation of the Global Adjustment between Regulated Price Plan (RPP) and non-RPP customers and general consistency in the continuity schedules?
- b) Are ETPL's proposals for disposition of Group Two accounts appropriate including the claim for IFRS transition costs and the calculation of the Account 1576 balance?
- c) Is ETPL's request for a new variance account related to Other Post-employment Benefits (OPEBs) appropriate given that the OEB has previously established an account for such variances?