



BY EMAIL and RESS

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December 7, 2017
Our File No. EB-2017-0024

Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, Ontario
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Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2017-0024 – Alectra Utilities – New DV Accounts

We are counsel for the School Energy Coalition. Pursuant to Procedural Order #3, these are SEC's submissions with respect to the new accounts being established to track impacts of the change in capitalization policy.

SEC has had a chance to review the submissions of OEB Staff in this regard, and we disagree with their submissions in two fundamental ways:

- The stated purpose of the Board's direction was to avoid retroactivity. OEB Staff appears to be starting from the premise that the accounts will exist for ten years. That should not, in our view, be assumed.
- OEB Staff appears to start from the premise that it is only the rebasing year that has to be corrected. In our view, the appropriate principle is that the Applicant should be put in the same position as if their normal accounting (on which rates were based) continued without a change in capitalization policy until new rates are established with the new policy built in. The OEB Staff submission also assumes 11/12ths impact for 2017, which does not appear to be correct.

We will deal with each of these in turn. There is also one collateral impact that, we believe, should be addressed.

Date and Term

The issue on the Issues List is *“What is the appropriate way to account for the change in capitalization policy resulting from the merger for Alectra and its predecessor companies.”* That issue has not yet been determined, and will be one of the subjects dealt with in Final Argument.

In the meantime, however, the capitalization policy has an impact on 2017, and 2017 rates are not interim. To correct for that, and to deal with the entire period until the Board renders its decision in this proceeding (and thus makes a determination with respect to the above issue), three accounts are required to record all impacts of the change in capitalization policy.

In our submission, the term of the accounts should continue until the Board determines otherwise. That may be in the decision in this proceeding, or it may be longer, or it may be shorter. By way of example, the Board may determine to adjust 2018 rates to reflect this accounting change, in which case the accounts would not need to record any impacts after December 31, 2017. On the other hand, the Board may determine to continue to record the impacts until rebasing, with or without interim dispositions. If that is the case, the Board could decide to keep the same accounts, or authorize new more permanent accounts, or have one account for all three rate zones, or any number of other options.

It would appear to us that the Board’s intention was to keep all of its options open. Therefore, the accounts should not be ten year accounts, as OEB Staff proposes. They should be immediate accounts that continue until the Board otherwise determines.

Calculation of Impacts

There are two sub-issues here.

First, OEB Staff appears to propose that impacts are calculated in the rebasing year or, in the case of Horizon RZ, in each year under the Custom IR plan.

SEC believes that the better approach is that, each year that the accounts are applicable, the Applicant should calculate its actual regulatory revenue requirement on an as-spent basis, and on then the basis that the accounting change had not been made. The principle is that rates were set on the basis of one accounting approach. If regulatory revenue requirement in any period is lower using the new accounting rule, the amount of that differential is a benefit to the Applicant directly caused by the accounting change (and vice versa). It has nothing to do with the rebasing year. It has to do with the actual spending by the utility in a given year.

By way of example, assume that in the Enersource RZ the amount actually spent that formerly would have been OM&A, but is now capitalized, is \$5,000,000. That amount, added to capital, produces a certain amount of depreciation, interest and ROE. It also has an impact on PILs that is readily calculable. If those amounts (on that \$5 million of new capital) all add up to \$600,000, then the differential is \$4,400,000, and that is the amount of the entry to the account. It is, to our minds, completely irrelevant what the similar amount (OM&A now capitalized) would have been in the rebasing year. The impact is the difference that actually arises in each year.

Similarly, if next year the OM&A now changed to capital is \$10 million, the amount of the benefit to the Applicant would be higher, and the entry would be higher accordingly. If next year the

OM&A changed to capital is \$2 million, the benefit would be lower, and the entry would be lower.

The effect of this is to put both the utility, and the customers, in the same position as if the accounting policy change had not been made. This is the position that the rates contemplated, so this is the position that should be achieved by any entry to the account. This method tracks the actual impacts of the change in accounting policy.

Second, OEB Staff proposes that only 11/12 of any changes be recorded for 2017. This is simply incorrect. If there is a difference between regulatory revenue requirement with and without the change in 2017, 100% of that difference should be reflected in the account entries. If the accounting change doesn't apply to the month of January, there will be no amount for January, and so that is completely self-correcting. Any impacts that actually do arise, though, should be fully reflected. There should be no impacts that are excluded.

This extends to any prior period adjustments as well. Some accounting changes require that the company adjust opening balances so that prior period figures are on a comparable basis. SEC does not know whether that rule would apply here. However, if it does, then those adjustments, which although applicable to a prior year would actually be made in 2017, should also be reflected in the account in exactly the same way.

Horizon RZ ESM Account

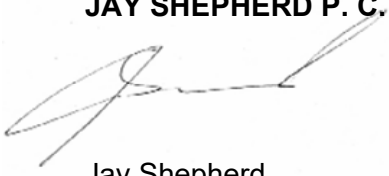
It is not clear whether this side issue should be dealt with now, or in the Board's final Decision in this matter. SEC does believe that it should be flagged, though, and so is raising it now.

Any entry that is made to the new DV account for capitalization policy change in the Horizon RZ should be matched, starting in 2017, by a 50% offsetting entry in the Horizon RZ ESM Account. This reflects the fact that the utility is refunding a portion of their revenues to ratepayers due to the accounting policy change. Without an adjustment to the ESM Account, the true ROE for the year would be overstated, and the ESM payment would be too high. It would appear to us that an offsetting entry of 50% of the DV entry (since earnings-sharing is 50/50) would accomplish that result.

In our submission, the Board should amend the accounting order for the Horizon RZ ESM Account to reflect this additional required entry.

All of which is respectfully submitted.

Yours very truly,
JAY SHEPHERD P. C.



Jay Shepherd

cc: Wayne McNally, SEC (email)
Interested Parties