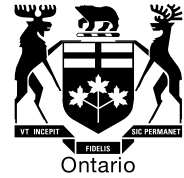


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BY E-MAIL

November 23, 2018

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Alectra Utilities Corporation (Alectra Utilities)
Application for 2019 Electricity Distribution Rates
Ontario Energy Board (OEB) Staff Submission
OEB File No. EB-2018-0016**

In accordance with Procedural Order No. 3, please find attached OEB staff's submission on the issues that are not eligible for cost awards for Alectra Utilities' 2019 rates application. This document is also being served on all parties in this proceeding.

Yours truly,

Original Signed By

Donald Lau
Project Advisor – Rates Major Applications

Encl.

2019 ELECTRICITY DISTRIBUTION RATES
Alectra Utilities Corporation

EB-2018-0016

OEB STAFF SUBMISSION

November 23, 2018

INTRODUCTION

Alectra Utilities Corporation (Alectra Utilities) filed an application with the Ontario Energy Board (OEB) on June 7, 2018 under section 78 of the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, Schedule B, seeking approval for changes to the rates that Alectra Utilities charges for electricity distribution, to be effective January 1, 2019 (the Application).

On November 8, 2018, the OEB issued Procedural Order No. 3 (PO3) which set out steps for submissions on issues that are not eligible for cost awards in Alectra Utilities' application. OEB staff has included submissions on the issues not eligible for cost awards for the Horizon rate zone (Horizon RZ) Custom Incentive Regulation (Custom IR) update and the PowerStream, Enersource, and Brampton rate zones' (RZ) Incentive Rate-setting Mechanism (IRM) applications.

This submission sets out OEB staff's review of the record of this proceeding and is intended to assist the OEB in evaluating the application and in setting just and reasonable rates.

Horizon Rate Zone

As part of this proceeding, Alectra Utilities filed its year five update to the approved 2015-2019 Horizon RZ Custom IR framework. The scope of the update is defined in the approved settlement proposal¹ and includes annual adjustments. Specifically, Alectra Utilities has applied for OEB approval of the following matters:

- Approval of annual adjustments as agreed upon in the approved settlement proposal
- Approval of the calculation of its 2017 capital additions for the purpose of calculating the 2017 entry to the Capital Investment Variance Account (CIVA)
- Approval for the continued implementation of the New Distribution Rate Design for residential customers

¹ EB-2014-0002 Settlement Proposal, September 22, 2014

- Approval to reduce the 2019 Street Lighting Class revenue-to-cost ratio (RCR) by 6.66% to 100.00% from the 2018 RCR of 106.66%
- Approval for clearance of the balances in Group 1 deferral and variance accounts (DVAs) by means of class-specific rate riders effective January 1, 2019 to December 31, 2019
- Approval for clearance of the balance in the 1589 Retail Settlement Variance Account (RSVA) - Global Adjustment (GA) attributed to new Class A and new Class B customers as of July 1, 2017, by means of customer-specific bill adjustments for each new Class A customer and new Class B customer
- Approval for clearance of the balance in the 1580 Account RSVA – Sub Account Capacity Based Recovery (CBR) Class B attributed to new Class A and new Class B customers as of July 1, 2017, by means of customer-specific bill adjustments for each new Class A and new Class B customer
- An adjustment to Retail Transmission Service Rates (RTSRs) effective January 1, 2019
- Disposition of Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) amounts related to Conservation and Demand Management (CDM) activities over a one-year period

Annual Adjustments

Changes in the Cost of Capital

When this Application was filed on June 7, 2018, the 2019 approved cost of capital parameters were not yet issued by the OEB. As a result, the filing included the 2018 cost of capital parameters and Alectra Utilities has stated that it intends to update the Application with the 2019 cost of capital parameters. OEB staff submits that the use of any approved 2019 cost of capital parameters is consistent with the approved settlement proposal.²

Changes to Working Capital

Alectra Utilities has updated its working capital for the Horizon RZ from that included in Horizon's Custom IR application, by adjusting the cost of power as detailed below:

² EB-2014-0002 Settlement Proposal, September 22, 2014, p.15

- RTSRs were updated to incorporate 2017 demand for Horizon RZ and 2018 Uniform Transmission Rates (UTRs) and 2017 Hydro One Sub-transmission Rates (STRs)
- The Smart Metering Entity (SME) Charge has been updated to incorporate the 2017 Horizon RZ residential and GS<50 kW customer count and the SME charge was also updated from \$0.79/month to \$0.57/month
- The ratio of Regulated Price Plan (RPP) vs. non-RPP volumes has been updated for 2017 actuals
- The Rural or Remote Electricity Rate Protection (RRRP) Charge has been updated to \$0.0003/kWh as set by the OEB³
- The charge of \$0.0011/kWh for the Ontario Electricity Support Program has been removed from the Wholesale Market Service Charge

Alectra Utilities updated the cost of power and GA based on the RPP Report⁴ up to April 30, 2019. Alectra Utilities then increased the RPP rates and GA by inflation, based on the Ontario Consumer Price Index averaged over the past three years, for the period May 1, 2019 to December 31, 2019.

Since 2019 UTRs and STRs were not available at the time of the filing, Alectra used 2018 UTRs and 2017 STRs as a proxy rate to calculate 2019 RTSRs.

OEB staff submits that the update to the cost of power for working capital is consistent with the approved settlement proposal and the OEB's decision in Alectra Utilities' last application that approved an inflationary adjustment to RPP prices for calculating the cost of power based on the Ontario Consumer Price Index.⁵

Retail Transmission Service Rates

Distributors charge RTSRs to their customers to recover the amounts they pay to a transmitter, a host distributor or both for transmission services. All transmitters charge UTRs approved by the OEB to distributors connected to the transmission

³ Decision and Order, EB-2017-0333, December 20, 2017

⁴ Regulated Price Plan Price Report and the Global Adjustment Modifier for the Period May 1, 2018 to April 30, 2019, April 19, 2018

⁵ EB-2014-0024 Decision and Order, April 6, 2018

system. Host distributors charge RTSRs to distributors embedded within the host's distribution system.

The most current UTR and STR rates are as follows:

Hydro One Networks Inc. UTRs⁶

Current Applicable UTRs (2018)	per kWh
Network Service Rate	\$3.61
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.95
Transformation Connection Service Rate	\$2.34

Hydro One Networks Inc. Sub-Transmission RTSRs⁷

Current Applicable Sub-Transmission RTSRs (2018)	per kWh
Network Service Rate	\$3.19
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.77
Transformation Connection Service Rate	\$1.75

OEB staff has no concerns with the data supporting the updated RTSRs proposed by Alectra Utilities for the Horizon RZ.

Capital Investment Variance Account (CIVA)

The approved settlement proposal provided for a variance account to refund ratepayers, at the next rebasing, any difference in the revenue requirement should in-service capital additions be lower than the approved forecast. Each year, Alectra Utilities will determine the impact to revenue requirement of the variance in its cumulative capital additions for the period from January 1, 2015 to the end of the relative year, as compared to the baseline.

⁶ Decision and Order, EB-2017-0359, February 1, 2018

⁷ Decision and Order, EB-2016-0081, December 21, 2016

Alectra Utilities reported 2017 capital additions of \$52.4M, which are \$6.8M higher than the forecasted capital additions of \$45.6M. Since the cumulative in-service capital additions from 2015 to 2017 were higher than the approved forecast from 2015 to 2017, no entry was proposed to be made to the CIVA.

Alectra Utilities has reported its 2015 to 2017 capital additions compared to the approved capital additions. The summary can be found in the table below:

Capital Additions	Actual	Custom IR Application (EB-2014-0002)	Variance	EDR Application
2015	\$ 46,643,216	\$ 38,314,524	\$ 8,328,692	EB-2016-0077
2016	\$ 44,295,265	\$ 41,147,533	\$ 3,147,732	EB-2017-0024
2017	\$ 52,393,539	\$ 45,626,114	\$ 6,767,425	EB-2018-0016
Cumulative total	\$ 143,332,020	\$ 125,088,171	\$ 18,243,849	

Alectra Utilities presented the capital additions based on Alectra Utilities' overhead capitalization policy, rather than the Horizon RZ accounting policy in place at the time that the forecasted capital additions were approved in the Custom IR application. In response to an interrogatory⁸ submitted by OEB staff, Alectra Utilities provided the adjusted 2017 capital additions, presented under the same accounting policy as the one used in the Custom IR application. These adjustments are found in the table below:

Capital Additions	Actual	Custom IR Application (EB-2014-0002)	Variance	EDR Application
2015	\$ 46,643,216	\$ 38,314,524	\$ 8,328,692	EB-2016-0077
2016	\$ 44,295,265	\$ 41,147,533	\$ 3,147,732	EB-2017-0024
2017 inclusive of Capitalization Policy	\$ 52,393,539	\$ 45,626,114	\$ 6,767,425	EB-2018-0016
Adjustment for Capitalization Policy	(\$ 4,677,439)	\$ 0		
2017 Adjusted	\$ 47,716,100	\$ 45,626,114	\$ 2,089,986	EB-2018-0016
Cumulative total	\$ 138,654,581	\$ 125,088,171	\$ 13,566,410	

OEB staff notes that in response to another interrogatory posed by OEB staff⁹, Alectra Utilities stated that the total amount of capitalized expenditures that would have been classified as OM&A under the previous Horizon RZ accounting policy is \$5,398,529. Those amounts are disclosed in the table below:

⁸ Responses to Board Staff Interrogatory: HRZ-Staff-23

⁹ Responses to Board Staff Interrogatory: HRZ-Staff-22

OM&A Impact	2017 Actual
Direct Labour Costs	\$2,098,365
Benefit Costs	\$0
Material Handling Costs	\$1,810,241
Fleet Costs	\$1,489,924
Total Impact	\$5,398,529

OEB staff submits that the adjustment needed to present capital additions in 2017 on the same basis as the Horizon RZ accounting policy in place when the Custom IR application was approved is \$5,398,529. OEB staff has no evidence on the record to suggest that the adjustment to 2017 capital additions should be any different than the total amount presented above.

Therefore, OEB staff submits that the adjusted 2017 capital additions, calculated under the prior Horizon RZ accounting policy should equal the \$52,393,539 actual amount, less the \$5,398,529 capitalization policy impact, for an adjusted amount of \$46,995,010. OEB staff has prepared the following revised table as a cumulative representation of the Horizon RZ capital additions from 2015 to 2017 for the purposes of the entry to the CIVA:

Capital Additions	Actual	Custom IR Application (EB-2014-0002)	Variance	EDR Application
2015	\$ 46,643,216	\$ 38,314,524	\$ 8,328,692	EB-2016-0077
2016	\$ 44,295,265	\$ 41,147,533	\$ 3,147,732	EB-2017-0024
2017	\$ 46,995,010	\$ 45,626,114	\$ 1,368,896	EB-2018-0016
Cumulative Total	\$ 137,933,491	\$ 125,088,171	\$ 12,845,320	

OEB staff submits that the OEB should approve the 2017 Horizon RZ capital additions in the amount of \$46,995,010 for the purposes of calculating the 2017 entry to the CIVA. OEB staff notes that the cumulative actual Horizon RZ capital additions from 2015 to 2017 still exceed the corresponding amounts approved in the Custom IR application, and that no amount should be recorded in the CIVA for 2017.

In response to an OEB staff interrogatory¹⁰, Alectra Utilities referred to the 2018 OEB Decision and Order¹¹ and stated:

Alectra Utilities was directed to flow the impact of the post-amalgamation capitalization policy through the ESM [earnings sharing mechanism]. Similarly and consistently, for the purpose of calculating the CIVA, it is appropriate to base capital additions on the post-amalgamation capitalization policy.

OEB staff disagrees with the premise that any determination made by the OEB in prior rate applications with respect to the calculation of earnings sharing should have any bearing on determining the appropriate calculation of capital additions for the purposes of the CIVA. The circumstances before the OEB that it considered in determining the effect of accounting policy changes in an ESM calculation are not equivalent to those affecting the CIVA calculation. Leveraging an accounting policy change to overstate capital additions in 2017 and beyond has the potential effect to leave ratepayers with less than, or none of, their entitled amounts to be returned had the Alectra Utilities amalgamation not taken place and the former Horizon Utilities remained as a standalone entity.

The forecasted capital additions approved in the Custom IR application were presented and contemplated on a specific capitalization policy. To allow Alectra Utilities to report its capital additions on a basis that is materially different from the one used in the Custom IR application, or the one used to report the OEB-approved 2015 and 2016 actual capital additions, would be inconsistent with the principles behind the establishment of the CIVA account in the approved settlement proposal. The parties to the approved settlement proposal reviewed past capital expenditures and agreed to future forecasted capital expenditures on a singular capitalization policy. To compare an actual amount to an approved forecast on different measurement and presentation bases would be misaligned with the spirit of the settlement.

¹⁰ Responses to Board Staff Interrogatory: HRZ-Staff-23

¹¹ EB-2017-0024

OEB staff submits that OEB staff's approach to the updated 2017 calculation for the purposes of entry to the CIVA (including for future years) is consistent with the approved settlement proposal.

Efficiency Adjustment

The approved settlement proposal included an Efficiency Adjustment that is based on the OEB's *Empirical Research in Support of Incentive Rate-Setting: Benchmarking Update report* (PEG Report).¹² The Efficiency Adjustment is applied in the event that Alectra Utilities is placed in a less efficient cohort in any year relative to the first year. The difference between the cohort's stretch factor is then applied to the given rate year's revenue requirement to provide a dollar adjustment. The Efficiency Adjustment does not work in Alectra Utilities favour if it moves to a more efficient cohort. Alectra Utilities' Horizon RZ was in Group III at the time of the approved settlement proposal and Alectra Utilities itself is in Group III in the latest PEG Report.¹³ OEB staff agrees with Alectra Utilities that since there is no change to Alectra Utilities' cohort, no Efficiency Adjustment is required.

Special Studies Deferral Account

The approved settlement proposal included a deferral account to record costs related to the development of a Specific Service Charge study to determine the appropriateness of Alectra Utilities' Horizon RZ Specific Service Charges. Alectra Utilities confirmed that at this time no studies have commenced and therefore no costs have been recorded to date.

Residential Rate Design

The OEB's April 2, 2015 policy¹⁴ on electricity distribution rate design sets out that distribution rates for residential customers will transition to a fully fixed rate structure from the current combination of fixed and variable charges over four years. Under the policy, any increase of 10% or greater to low-consumption customer bills arising from changes in an application, or an increase to the

¹² *Empirical Research in Support of Incentive Rate-Setting 2013 Benchmarking Update for determination of Stretch Factor Assignments for 2015*, August 14, 2014

¹³ *Empirical Research in Support of Incentive Rate-Setting 2016 Benchmarking Update*, August 2018

¹⁴ Ontario Energy Board Policy: A New Distribution Rate Design for Residential Electricity Customers (EB-2012-0410), April 2, 2015

monthly fixed charge of greater than \$4 prior to incentive rate-setting adjustments, may result in the requirement for a longer transition period than the four years specified in the OEB policy or another mitigation strategy.

Alectra Utilities has incorporated for the Horizon RZ the fourth and final year adjustment for 2019. The 2019 fixed rate is \$26.69, an increase of \$2.47 from the previous year and a 3.18% total bill impact for low volume customers. This is the last year of Horizon RZ's transition period and, accordingly, 2019 is final year in which the rates will be adjusted upwards by more than the mechanistic adjustment alone. Horizon RZs has transitioned to a fully fixed structure.

OEB staff submits that the method used to calculate the fixed rate is in accordance with the OEB policy and no mitigation is required.

Street Lighting Class Revenue-to-Cost Ratio (RCR)

Alectra Utilities stated that it had appropriately adjusted the RCR for the Horizon RZ to reflect the OEB's Decision and Order in Horizon's 2016 Annual Filing (2016 Custom IR update).¹⁵

As directed by the OEB in the 2016 Custom IR update, Alectra Utilities has reduced the 2019 RCR for the street lighting class by 6.66% to 100%. The reduction in revenue from the street lighting class is compensated by an increase to all rate classes with a RCR below 100%, with the exclusion of the standby rate class, by way of equal percentages. The updated RCRs can be found in the table below:

Rate Class	2019 Proposed Revenues	2019 Proposed Costs	Revenue vs. Cost \$	RCR
Residential	\$76,897,204	\$76,071,031	\$826,174	101.09%
GS < 50kW	\$16,654,742	\$16,881,529	(\$226,788)	98.66%
GS > 50 to 4999kW	\$23,526,071	\$24,094,758	(\$568,687)	97.64%
Standby	\$913,005	\$1,236,036	(\$323,031)	73.87%
LU (1)	\$2,711,609	\$2,434,211	\$277,398	111.40%
LU (2)	\$1,092,272	\$1,134,641	(\$42,369)	96.27%
Sentinel Lights	\$44,288	\$48,255	(\$3,967)	91.78%
Street Lighting	\$1,835,973	\$1,835,973	\$0	100.00%
Unmetered and Scattered Load	\$480,848	\$419,578	\$61,269	114.60%
Total	\$124,156,012	\$124,156,012	\$0	

¹⁵ EB-2015-0075 Decision and Order, December 10, 2015

OEB staff submits that the proposed rate design is consistent with the OEB's decision on the 2016 Custom IR update and the OEB's Policies.¹⁶

Deferral and Variance Accounts

Alectra Utilities completed the DVA continuity schedule for the Horizon RZ for its Group 1 DVAs. Alectra Utilities requests to dispose a credit of \$8,401,287 in its Group 1 DVA balances applicable to the Horizon RZ over a one-year period.

These balances include interest calculated to December 31, 2018. Based on the threshold test calculation, the Group 1 DVA balances equate to a credit of \$0.0016 per kWh, which meets the pre-set disposition threshold of \$0.001 per kWh. OEB staff has reviewed Alectra Utilities' Group 1 DVA balances for the Horizon RZ. In addition, OEB staff has reviewed the variances between the balances reported as part of the *Reporting and Record-keeping Requirements* and the 2017 principal balances being requested for disposition and is satisfied with the evidence provided to substantiate those variances.

The balance of Account 1589 – GA is a credit of \$321,216, and is applicable only to non-RPP customers. Alectra Utilities has also established separate rate riders for the Horizon RZ to dispose of its GA and CBR account balances. These rate riders are applicable for non-RPP Class B customers only. Alectra Utilities' Class A customers in the Horizon RZ are invoiced the actual GA and CBR costs and, as such, none of the GA or CBR account balances are attributed to these customers.

There were 36 Horizon RZ customers who qualified as Class A customers effective July 1, 2017 under the Independent Electricity System Operator's (IESO) expansion of the Industrial Conservation Initiative (ICI). These customers paid GA and CBR as Class B customers up to and including June 30, 2017, and paid GA and CBR as Class A customers from July 1, 2017 up to and including December 31, 2017. As such, these customers should be allocated only the portion of the GA and CBR account balances which accrued prior to their classification as Class A customers (i.e. from January 1, 2017 to June 30, 2017).

¹⁶ Issuance of New Cost Allocation Policy for Street Lighting Rate Class, June 12, 2015

There was one Horizon RZ customer who ceased to qualify as a Class A customer effective July 1, 2017 under the IESO's expansion of the ICI. This customer paid GA and CBR as a Class A customer up to and including June 30, 2017, and paid GA and CBR as a Class B customer from July 1, 2017 up to and including December 31, 2017. As such, this customer should be allocated only the portion of the GA and CBR account balances which accrued after their classification as a Class B customer (i.e. from July 1, 2017 to December 31, 2017).

Alectra Utilities notes that it will settle these GA and CBR amounts through twelve equal customer-specific adjustments to bills. OEB staff submits that Alectra Utilities has properly allocated recovery of the GA and CBR amounts for the Horizon RZ to the appropriate customers. OEB staff supports this treatment, since it ensures that, under the general principle of cost causality, customer groups that cause variances are responsible for paying (or receiving credits) for their disposal. The movement from one class to another should not prevent identifiable customers from paying down/receiving a debit/credit balance.

OEB staff submits that the Group 1 DVA balances for the Horizon RZ should be disposed of on an interim basis, in accordance with the OEB letter to the sector dated July 20, 2018.¹⁷

Lost Revenue Adjustment Mechanism Variance Account Disposition

For the Horizon RZ, Alectra Utilities originally applied to dispose of a debit balance of \$649,803 in lost revenues for 2016, inclusive of persisting savings from 2015 to 2016, and carrying charges. In response to an OEB staff interrogatory, the LRAMVA was revised to \$764,014 to include additional savings adjustments in 2016 from the 2017 verified results report¹⁸ and additional street lighting savings from light bulb upgrades. For the Horizon RZ, a large majority of the LRAMVA claim is based on the IESO verified results report. A portion of the LRAMVA is attributable to demand savings from street lighting upgrades that were not included in the IESO's verified results report. Street lighting savings represent 17% of the total LRAMVA claim. This is an increase from the previous

¹⁷ OEB letter to all rate-regulated licensed electricity distributors – "Re: OEB's Plan to Standardize Processes to Improve Accuracy of Commodity Pass-Through Variance Accounts." July 20, 2018

¹⁸ HRZ-Staff-36

year's total LRAMVA claim where streetlights accounted for only 5% of the total claim.¹⁹ The increase is due to a greater number of streetlight upgrades that were not accounted for as part of the Horizon RZ load forecast.

Actual savings were 53.6 million kWh from IESO programs in 2016 and 80.5 million kWh of savings were persisting from 2015 in 2016.²⁰ Actual savings were compared to a proposed LRAMVA threshold of 38.7 million kWh.²¹ As part of Horizon RZ's 2015 cost of service application, the OEB approved an LRAMVA threshold of 19.5 million kWh. For the Horizon RZ, Alectra Utilities explained that the threshold of 38.7 million kWh was the sum of 2015 and 2016 incremental CDM savings and it aligned with the IESO's approach in reporting CDM savings.²²

Demand Savings from Street lighting Upgrades

For the Horizon RZ, demand savings for streetlight upgrades were originally claimed for the City of Hamilton. In response to OEB staff interrogatories, demand savings from St. Catharines were added to the LRAMVA.²³ As permitted by the OEB's Chapter 2 Filing Requirements, Horizon RZ claimed lost revenues from upgrading the efficiency level of streetlight bulbs that was undertaken through the IESO's SaveOnEnergy Retrofit CDM program.

Since demand savings from street lighting upgrades are not verified by the IESO, distributors must provide the supporting evidence used to substantiate lost revenues from streetlight upgrades. To calculate demand savings from the street lighting upgrades, Alectra Utilities confirmed that actual billed data from its Customer Information System (CIS) was used. Therefore, no conversion factor was required to convert energy savings to demand savings. Alectra Utilities similarly used actual billed data from its CIS to determine demand savings in the Enersource RZ. Alectra Utilities confirmed that it received reports from the

¹⁹ EB-2017-0024

²⁰ HRZ-Staff-36_Attach 1_LRAMVA Workform HRZ, Tab 5

²¹ HRZ-Staff-32a) and HRZ-Staff-36_Attach 1_LRAMVA Workform HRZ, Tab 2

²² Clarification to 3a) re: HRZ-Staff-32b)

²³ HRZ-Staff-35a)

municipalities to validate the number of light bulbs replaced in the Horizon RZ and Enersource RZ.²⁴

Alectra Utilities further stated that the change in billed demand pre- and post-energy efficiency upgrades for streetlight bulbs was calculated for the City of Hamilton and St. Catharines.²⁵ As no CDM adjustment was included in 2015²⁶, the pre-CDM streetlight load applicable to each municipality was the baseline demand. Net savings was calculated using customer-specific net-to-gross ratios, which were consistent with IESO program assumptions to account for free riders.

OEB staff submits that the Horizon RZ LRAMVA balance has generally been calculated in accordance with the CDM Guidelines²⁷. The one inconsistency with the CDM Guidelines was the CDM threshold applied by Alectra Utilities.

In Horizon RZ's 2015 application, a CDM threshold of 19.5 million kWh was approved. Therefore, 19.5 million kWh were reduced from the 2015 load forecast.²⁸ This was the basis for which 2015 rates were set. By using a LRAMVA threshold of 38.7 million kWh, Alectra Utilities has included a larger CDM threshold in its calculation. This reduces the overall lost revenues the distributor can seek to recover.

As distributors do not generally seek approval of updated load forecasts throughout the incentive mechanism rate-setting years, the LRAMVA threshold should not change. Therefore, the same LRAMVA threshold of 19.5 million kWh embedded in the load forecast in 2015 should be applied in the LRAMVA calculation.

Since the use of a larger CDM threshold benefits ratepayers, OEB staff does not object to Alectra Utilities using a higher LRAMVA threshold based on the forecasted savings from 2015 and 2016.

²⁴ Responses to supplemental OEB Staff Interrogatories, October 24, 2018

²⁵ Clarification to 1a) re: HRZ-Staff-35 and ERZ-Staff-96, Table 4

²⁶ Clarification to 1a) re: HRZ-Staff-35 and ERZ-Staff-96, Table 5

²⁷ EB-2012-0003, Section 13

²⁸ EB-2017-0024, Responses to Interrogatories to HRZ-Staff-11 b)

OEB staff submits that Alectra Utilities' approach to calculate LRAMVA for streetlights in the Horizon RZ is reasonable. Actual savings were calculated from total load (without CDM) and actual billed demand (with CDM). As there were no forecast streetlight savings in 2015, Alectra Utilities is seeking to recover the full amount of streetlight savings through the LRAMVA.

OEB staff submits that Alectra Utilities' load reduction calculation related to the Horizon RZ's street lighting upgrades is reasonable. OEB staff supports the Horizon RZ LRAMVA amount of \$754,041.

IRM Model Filings – Brampton, Enersource, and Powerstream

As part of this proceeding, Alectra Utilities filed its Price Cap IR application for the Brampton, Enersource, and PowerStream RZs. Specifically, the following components are considered in this submission:

- Price Cap Adjustment
- Residential Rate Design
- Retail Transmission Service Rates
- Renewable Generation Connection Rate Protection
- Group 1 Deferral and Variance Accounts
- Lost Revenue Adjustment Mechanism

Price Cap Incentive Rate-setting

Alectra Utilities seeks to increase its rates in the Brampton, Enersource, and PowerStream RZs, effective January 1, 2019, based on a mechanistic rate adjustment using the OEB approved inflation minus X-factor formula applicable to Price Cap IR applications.

The components of the Price Cap IR formula applicable to the three RZs are set out in the table below:

Components		
Inflation Factor		1.50%
X-Factor	Productivity	0.00%
	Stretch	0.30%

The inflation factor for the 2019 rate year that applies to all Price Cap IR applications is 1.5%.²⁹

The X-factor is the sum of the productivity factor and the stretch factor. It is a productivity offset that will vary among different groupings of distributors. Subtracting the X-factor from inflation ensures that rates decline in real, constant-dollar terms, providing distributors with a tangible incentive to improve efficiency or else experience declining net income.

The productivity component of the X-factor is based on industry conditions over a historical study period and applies to all Price Cap IR applications for the 2019 rate year.

The stretch factor component of the X-factor is distributor specific. The OEB has established five stretch factor groupings, each within a range from 0.00% to 0.60%. The stretch factor assigned to any particular distributor is based on the distributor's total cost performance as benchmarked against other distributors in Ontario. The most efficient distributor would be assigned the lowest stretch factor of 0.00%. Conversely, a higher stretch factor would be applied to a less efficient distributor (in accordance with its cost performance relative to expected levels) to reflect the incremental productivity gains that the distributor is expected to achieve. The stretch factor assigned to Alectra Utilities is 0.30%.³⁰

Inserting these components into the formula results in the following increase in the three RZ's rates: **1.50% - (0.00% + 0.30%) = 1.2%**.

²⁹ https://www.oeb.ca/sites/default/files/2019_IPI_input_price_index.png

³⁰ Empirical Research in Support of Incentive Rate-Setting: 2017 Benchmarking Update, August 2018

Residential Rate Design

The OEB's April 2, 2015 policy³¹ on electricity distribution rate design set out that distribution rates for residential customers will transition to a fully fixed rate structure from the current combination of fixed and variable charges over four years. Under the policy, any increase of 10% or greater to low-consumption customer bills arising from changes in the IRM application, or an increase to the monthly fixed charge of greater than \$4 prior to incentive rate-setting adjustments, may result in the requirement for a longer transition period than the four years specified in the OEB policy or another mitigation strategy.

Adjustments to the Brampton RZ's rate model to implement the change in fixed rates over four years results in an increase to the fixed charge prior to IRM adjustments of \$3.09. The bill impacts for low-volume consumers for the Brampton RZ do not exceed the 10% threshold.

Adjustments to the Enersource RZ's rate model to implement the change in fixed rates over four years results in an increase to the fixed charge prior to IRM adjustments of \$2.35. The bill impacts for low-volume consumers for the Enersource RZ do not exceed the 10% threshold.

Adjustments to the PowerStream RZ's rate model to implement the change in fixed rates over four years results in an increase to the fixed charge prior to IRM adjustments of \$2.98. The bill impacts for low-volume consumers for the PowerStream RZ do not exceed the 10% threshold.

OEB staff submits that the Brampton, Enersource, and PowerStream RZs' proposed transition toward fully fixed rates is consistent with the OEB's 2015 policy and does not require proposal of any mitigation plan. This is the last year of Brampton and Enersource RZs' transition period and, accordingly, 2019 is the final year in which the rates will be adjusted upwards by more than the mechanistic adjustment alone. Brampton and Enersource RZs have transitioned to a fully fixed structure. PowerStream RZ has one more year for its transition to a fully fixed structure as it began its transition in 2017.

³¹ Ontario Energy Board Policy: A New Distribution Rate Design for Residential Electricity Customers (EB-2012-0410), April 2, 2015

Retail Transmission Service Rates

Distributors charge RTSRs to their customers to recover the amounts they pay to a transmitter, a host distributor or both for transmission services. All transmitters charge UTRs approved by the OEB to distributors connected to the transmission system. Host distributors charge RTSRs to distributors embedded within the host's distribution system.

The most current UTR and STR rates are as follows:

Hydro One Networks Inc. UTRs³²

Current Applicable UTRs (2018)	per kWh
Network Service Rate	\$3.61
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.95
Transformation Connection Service Rate	\$2.34

Hydro One Networks Inc. Sub-Transmission RTSRs³³

Current Applicable Sub-Transmission RTSRs (2018)	per kWh
Network Service Rate	\$3.19
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.77
Transformation Connection Service Rate	\$1.75

OEB staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by Alectra Utilities for the Brampton, Enersource, and PowerStream RZs.

³² Decision and Order, EB-2017-0359, February 1, 2018

³³ Decision and Order, EB-2016-0081, December 21, 2016

Eligible Investments for Connection of Qualifying Generation Facilities to be funded by the IESO

Brampton RZ:

The former Hydro One Brampton Networks Inc. filed a Distribution System Plan (DSP) as part of its 2015 cost of service application.³⁴ The plan included a request for funding of a Renewable Generation Connection amount to be recovered through the IESO relating to Renewable Enabling Improvement Investments and Renewable Expansion Investments from 2015 to 2019. The proposed recoveries from 2015 to 2019 were provided in Hydro One Brampton's cost of service application and approved by the OEB. Alectra Utilities is requesting to collect renewable generation funding of \$145,922 in 2019 from all provincial ratepayers for the Brampton RZ. OEB staff submits that the renewable generation funding request is calculated correctly and consistent with the proposed recovery approved by the OEB in Hydro One Brampton's cost of service application.

Enersource RZ:

The former Enersource Hydro Mississauga Inc. filed a basic Green Energy Plan as part of its 2013 cost of service application.³⁵ The plan provided a forecast of the number of projects and costs related to the connection of FIT and microFIT projects until 2016. As part of this IRM application, Alectra Utilities has provided an update to the number of scheduled projects for the Enersource RZ to include 2017 actual amounts and an estimate for 2018 and 2019. OEB staff submits that Alectra Utilities has correctly calculated the direct benefit to the Enersource RZ's customers related to these investments and therefore the amount to be collected from all provincial ratepayers, i.e. \$153,726.

PowerStream RZ:

The former PowerStream Inc. filed a DSP as part of its 2016-2020 Custom IR application³⁶ which included a request for funding of a Renewable Generation Connection amount to be recovered through the IESO relating to Renewable Enabling Improvement Investments and Renewable Expansion Investments from 2016 to 2020. Alectra Utilities is requesting to collect renewable generation

³⁴ EB-2014-0083

³⁵ EB-2012-0033

³⁶ EB-2015-0003

funding of \$260,517 in 2019 from all provincial ratepayers for the PowerStream RZ. OEB staff submits that the renewable generation funding request is correctly calculated and therefore the amount to be collected from all provincial ratepayers is \$260,517.

Review and Disposition of Group 1 Deferral and Variance Accounts

Brampton RZ:

Alectra Utilities completed the DVA continuity schedule for the Brampton RZ included in the 2019 IRM Rate Generator Model at tab 3 for its Group 1 DVAs. Alectra Utilities requests to dispose of a credit of \$2,875,293 in its Group 1 DVA balances applicable to the Brampton RZ over a one-year period.

These balances include interest calculated to December 31, 2018. Based on the threshold test calculation, the Group 1 DVA balances equate to a credit of \$0.0007 per kWh, which does not meet the pre-set disposition threshold. As per section 3.2.5 of the 2019 Filing Requirements, Alectra Utilities has requested to dispose of this balance. OEB staff has reviewed Alectra Utilities' Group 1 DVA balances for the Brampton RZ. In addition, OEB staff has reviewed the variances between the balances reported as part of the *Reporting and Record-keeping Requirements* and the 2017 principal balances being requested for disposition and is satisfied with the evidence provided to substantiate those variances.

The balance of Account 1589 – GA is a debit of \$1,802,822, and is applicable only to non-RPP customers. Alectra Utilities has also established separate rate riders for the Brampton RZ to dispose of its GA and CBR account balances. These rate riders are applicable for non-RPP Class B customers only. Alectra Utilities' Class A customers in the Brampton RZ are invoiced the actual GA and CBR costs and, as such, none of the GA or CBR account balances are attributed to these customers.

There were 72 Brampton RZ customers who qualified as Class A customers effective July 1, 2017 under the IESO's expansion of the ICI. These customers paid GA and CBR as Class B customers up to and including June 30, 2017, and paid GA and CBR as Class A customers from July 1, 2017 up to and including December 31, 2017. As such, these customers should be allocated only the portion of the GA and CBR account balances which accrued prior to their classification as Class A customers (i.e. from January 1, 2017 to June 30, 2017).

Alectra Utilities notes that it will settle these GA and CBR amounts through twelve equal customer-specific adjustments to bills. OEB staff submits that Alectra Utilities has properly allocated recovery and refund of the GA and CBR amounts, respectively, for the Brampton RZ to the appropriate customers. OEB staff supports this treatment, since it ensures that, under the general principle of cost causality, customer groups that cause variances are responsible for paying (or receiving credits) for their disposal. The movement from one class to another should not prevent identifiable customers from paying down/receiving a debit/credit balance.

OEB staff submits that the Group 1 DVA balances for the Brampton RZ should be disposed of on an interim basis, in accordance with the OEB letter to the sector dated July 20, 2018.³⁷

Enersource RZ:

Alectra Utilities completed the DVA continuity schedule for the Enersource RZ included in the 2019 IRM Rate Generator Model at tab 3 for its Group 1 DVAs. Alectra Utilities requests to dispose of a debit of \$2,918,724 in its Group 1 DVA balances applicable to the Enersource RZ over a one-year period.

These balances include projected interest calculated to December 31, 2018. Based on the threshold test calculation, the Group 1 DVA balances equate to a debit of \$0.0004 per kWh, which does not meet the pre-set disposition threshold. As per section 3.2.5 of the 2019 Filing Requirements, Alectra Utilities has requested to dispose of this balance. OEB staff has reviewed Alectra Utilities' Group 1 DVA balances for the Enersource RZ. In addition, OEB staff has reviewed the variances between the balances reported as part of the *Reporting and Record-keeping Requirements* and the 2017 principal balances being requested for disposition and is satisfied with the evidence provided to substantiate those variances.

The balance of Account 1589 – GA is a debit of \$5,542,717, and is applicable only to non-RPP customers. Alectra Utilities has also established separate rate riders for the Enersource RZ to dispose of its GA and CBR account balances.

³⁷ OEB letter to all rate-regulated licensed electricity distributors – “Re: OEB’s Plan to Standardize Processes to Improve Accuracy of Commodity Pass-Through Variance Accounts.” July 20, 2018

These rate riders are applicable for non-RPP Class B customers only. Alectra Utilities' Class A customers in the Enersource RZ are invoiced the actual GA and CBR costs and, as such, none of the GA or CBR account balances are attributed to these customers.

OEB staff notes that Alectra Utilities' initial application and Rate Generator Model filed indicated that it had 74 Enersource RZ customers who qualified as Class A customers effective July 1, 2017 under the IESO's expansion of the ICI. These customers paid GA and CBR as Class B customers up to and including June 30, 2017, and paid GA and CBR as Class A customers from July 1, 2017 to December 31, 2017. As such, these customers should be allocated only the portion of the GA and CBR account balances which accrued prior to their classification as Class A customers (i.e. from January 1, 2017 to June 30, 2017).³⁸

OEB staff notes however, that the revised Rate Generator Model provided on October 25, 2018 shows 76 Enersource RZ transition customers. In its reply, Alectra Utilities should confirm the correct number and explain why two additional customers were identified after the initial filing.

There were also two Alectra Utilities customers, in the Enersource RZ that ceased to qualify as Class A customers effective July 1, 2017, under the IESO's expansion of ICI. These customers paid GA and CBR costs as Class A customers up to and including June 30, 2017, and paid GA and CBR costs as Class B customers from July 1, 2017 up to and including December 31, 2017. These customers should be allocated only the portion of the GA and CBR account balances which accrued after their reclassification to Class B customers (i.e. from July 1, 2017 to December 31, 2017).

Alectra Utilities notes that it will settle these GA and CBR amounts through twelve equal customer-specific adjustments to bills. OEB staff submits that Alectra Utilities has properly allocated recovery of the GA amount for the Enersource RZ to the appropriate customers. OEB staff supports this treatment, since it ensures that, under the general principle of cost causality, customer groups that cause variances are responsible for paying (or receiving credits) for

³⁸ EB-2018-0016, Application, Exhibit 2, Tab 4, Schedule 5, Page 5

their disposal. The movement from one class to another should not prevent identifiable customers from paying down/receiving a debit/credit balance.

OEB staff submits that the Group 1 DVA balances for the Enersource RZ should be disposed of on an interim basis, in accordance with the OEB letter to the sector dated July 20, 2018.³⁹

PowerStream RZ:

Alectra Utilities completed the DVA continuity schedule for the PowerStream RZ included in the 2019 IRM Rate Generator Model at tab 3 for its Group 1 DVAs. Alectra Utilities requests to dispose of a credit of \$10,435,500 in its Group 1 DVA balances applicable to the PowerStream RZ over a one-year period.

These balances include interest calculated to December 31, 2018. Based on the threshold test calculation, the Group 1 DVA balances equate to a credit of \$0.0013 per kWh, which meets the pre-set disposition threshold. OEB staff has reviewed Alectra Utilities' Group 1 DVA balances for the PowerStream RZ. In addition, OEB staff has reviewed the variances between the balances reported as part of the *Reporting and Record-keeping Requirements* and the 2017 principal balances being requested for disposition and is satisfied with the evidence provided to substantiate those variances.

The balance of Account 1589 – GA is a debit of \$4,553,645, and is applicable only to non-RPP customers. Alectra Utilities has also established separate rate riders for the PowerStream RZ to dispose of its GA and CBR account balances. These rate riders are applicable for non-RPP Class B customers only. Alectra Utilities' Class A customers in the PowerStream RZ are invoiced the actual GA and CBR costs and, as such, none of the GA or CBR account balances are attributed to these customers.

There were 101 PowerStream RZ customers who qualified as Class A customers effective July 1, 2017 under the IESO's expansion of the ICI. These customers were all Class B interval metered customers. PowerStream RZ bills its Class B interval metered customers based on the actual GA cost per kWh for the month

³⁹ OEB letter to all rate-regulated licensed electricity distributors – "Re: OEB's Plan to Standardize Processes to Improve Accuracy of Commodity Pass-Through Variance Accounts." July 20, 2018

and therefore, these customers did not contribute to the GA variance and are not allocated any of the GA account balance. These customers also paid CBR costs as Class B customers from January 1, 2017 up to and including June 30, 2017, and paid CBR costs as Class A customers from July 1, 2017 to December 31, 2017. As such, these customers should be allocated only the portion of the CBR account balances which accrued prior to their classification as Class A customers (i.e. from January 1, 2017 to June 30, 2017).

Alectra Utilities notes that it will settle these CBR amounts through twelve equal customer-specific adjustments to bills. OEB staff submits that Alectra Utilities has properly allocated recovery of the CBR amount for the PowerStream RZ to the appropriate customers. OEB staff supports this treatment, since it ensures that, under the general principle of cost causality, customer groups that cause variances are responsible for paying (or receiving credits) for their disposal. The movement from one class to another should not prevent identifiable customers from paying down/receiving a debit/credit balance.

OEB staff submits that the Group 1 DVA balances for the PowerStream RZ should be disposed of on an interim basis, in accordance with the OEB letter to the sector dated July 20, 2018.⁴⁰

Lost Revenue Adjustment Mechanism Variance Account Disposition

Since filing its original evidence, Alectra Utilities has revised its requested recovery for LRAMVA. The original and revised LRAMVA balances are summarized below:

- Enersource RZ - LRAMVA: increase from \$1,773,859 to \$2,008,343
- PowerStream RZ - LRAMVA: increase from \$2,535,878 to \$2,889,807
- Brampton RZ - LRAMVA: increase from \$722,462 to \$761,361

OEB staff submits that the revised LRAMVA balances for Alectra Utilities' rate zones are appropriate for the reasons discussed below. As a result, OEB staff requests that the updated LRAMVA balances be reflected in the rate generator models.

⁴⁰ OEB letter to all rate-regulated licensed electricity distributors – “Re: OEB’s Plan to Standardize Processes to Improve Accuracy of Commodity Pass-Through Variance Accounts.” July 20, 2018

Enersource RZ

For the Enersource RZ, Alectra Utilities originally applied to dispose of a debit balance of \$1,773,859 in lost revenues for 2016, inclusive of persisting savings from 2011 to 2015 in 2016, and carrying charges. In response to OEB staff interrogatories⁴¹, the LRAMVA was revised to a debit of \$2,008,343 to include minor changes to the distribution rates and additional savings adjustments in 2016 from the 2017 IESO verified results report. The LRAMVA amount related to street lighting savings was a credit owing to ratepayers of \$156,751, inclusive of carrying charges. Street lighting savings were calculated by Alectra Utilities as demand savings from street lighting upgrades were not included in the IESO's verified results report.

Actual CDM savings of 118.01 million kWh from IESO programs in 2016 and 271.3 million kWh persistence from 2011 to 2015 in 2016⁴² were compared to the LRAMVA threshold of 119.1 million kWh established in Enersource's 2013 Cost of Service proceeding.⁴³

Demand Savings from Street Lighting Upgrades

Alectra Utilities provided actual billed demand of 45,481 kW from 2016. Alectra Utilities subsequently revised its actual billed demand to 45,735 kW in the Enersource RZ⁴⁴.

Based on the follow-up clarification, Alectra Utilities confirmed that it compared actual billed demand of 45,735 kW (after CDM activity) to total demand of 110,890 kW (pre-CDM activity, established in 2013) to determine actual gross savings of 65,155 kW due to CDM.⁴⁵ Then, it applied a free ridership assumption to calculate net savings of 47,283 kW. Actual net savings were compared to forecasted net savings of 61,001 kW (embedded in the 2013 load forecast). Alectra calculated a credit amount of \$151,455 owing to streetlight customers.⁴⁶

⁴¹ ERZ-Staff-97b)

⁴² ERZ-Staff-97_Attach 1_LRAMVA Workform ERZ, Tabs 4 and 5

⁴³ EB-2012-0033 and ERZ-Staff-97_Attach 1_LRAMVA Workform ERZ, Tab 2

⁴⁴ Responses to Supplementary Interrogatories, October 24, 2018

⁴⁵ Responses to Supplementary Interrogatories, November 16, 2018

⁴⁶ *ibid*

OEB staff supports the Enersource RZ LRAMVA balance requested by Alectra Utilities. The LRAMVA amount has been calculated consistently with the LRAMVA workform.

OEB staff notes that there is a very minor inconsistency in the billed demand data for streetlights. Specifically, as noted above, Alectra Utilities has shown a value of 45,481 kW when it appears the correct value should be 45,735 kW for actual billed demand. Alectra Utilities has not updated the LRAMVA workform. OEB staff acknowledges that this results in an immaterial impact on the LRAMVA balance.

PowerStream RZ

Alectra Utilities – PowerStream RZ originally applied for a debit balance of \$2,535,878 in lost revenues in 2016, persisting savings from 2011 to 2015 CDM programs in 2016, and carrying charges. In response to OEB staff interrogatories⁴⁷, the LRAMVA was revised to \$2,889,807 to include minor changes to distribution rates and additional savings adjustments in 2016 from the 2017 verified results report.

Actual CDM savings of 136.6 million kWh from IESO programs in 2016 and 313.2 million kWh persistence from 2011 to 2015 in 2016⁴⁸ were compared to the LRAMVA threshold of 137 million kWh established in PowerStream's 2013 Cost of Service proceeding.⁴⁹

Demand Savings from Street Lighting Upgrades

Street lighting savings were included as part of Alectra Utilities – PowerStream RZ's LRAMVA claim and represented 6% of the LRAMVA. In response to OEB staff interrogatories, Alectra Utilities confirmed that lost revenues from street lighting upgrades were based on reports received from the municipality.⁵⁰ Alectra Utilities confirmed that the reports included monthly data on existing streetlights,

⁴⁷ PRZ-Staff-69b)

⁴⁸ PRZ-Staff-69_Attach 1_LRAMVA Work Form PRZ, Tabs 4 and 5

⁴⁹ EB-2012-0161 and EB-2017-0024, Responses to Interrogatories to PRZ-Staff-13a)

⁵⁰ PRZ-Staff-68a ii)

the load that was removed, replacement LED streetlights installed, and the new load.

OEB staff has confirmed that the information above was reflected in PowerStream RZ's calculation for streetlight savings to determine actual savings. Actual savings are compared to forecasted savings of 2,868 kW for streetlights. An under-recovery of \$166,808 was calculated as amounts owing from streetlight customers in the PowerStream RZ.

OEB staff supports the revised LRAMVA balance of \$2,889,807 as filed. The PowerStream RZ LRAMVA balance has been calculated consistently with the LRAMVA workform.

Brampton RZ

For the Brampton RZ, Alectra Utilities originally applied for a debit balance of \$722,462 in lost revenues in 2016, persisting savings from 2013 to 2015 CDM programs in 2016, and carrying charges. In response to OEB staff interrogatories⁵¹, the LRAMVA was revised to \$761,361 to include additional savings adjustments in 2016 from the 2017 IESO verified results report. There was no LRAMVA amounts related to street lighting upgrades in the Brampton RZ.

Actual CDM savings of 45.3 million kWh from IESO programs in 2016 and 117.8 million kWh persistence from 2013 to 2015 in 2016⁵² were compared to the LRAMVA threshold of 53.7 million kWh established in the 2015 Cost of Service proceeding for what is now the Brampton RZ.⁵³

OEB staff supports the revised LRAMVA balance of \$761,361 as filed. This amount was calculated based on final CDM results verified by the IESO. Alectra Utilities' Brampton RZ LRAMVA balance was calculated consistently with LRAMVA workform.

All of which is respectfully submitted

⁵¹ BRZ-Staff-46a)

⁵² BRZ-Staff-46_Attach 1_LRAMVA workform BRZ, Tabs 4 and 5

⁵³ EB-2014-0083, Settlement Table 12