

## **DISPOSITION OF INTERIM LICENCE DEFERRAL ACCOUNT**

API is requesting disposition of the Interim Distribution Licence Deferral Account, on an interim basis. This section assists the OEB in considering the context in which the deferral account was established, the nature of the costs and revenues recorded in the account, and the method by which API is proposing to establish rate riders in support of its request for disposition.

### **A. Description of the Deferral Account**

On April 4, 2017, as part of the Interim Licence Order, the OEB directed API to “Record revenues collected from customers within the service area of Dubreuil Lumber Inc. and the costs of operation and maintenance of the system in a deferral account under the Uniform System of Accounts”.<sup>1</sup>

The costs recorded in the account relate to the day-to-day operation of the DLI system (e.g. outage response, locates, meter reading), administration (customer service, billing, collections), and one-time activities (transfer of control, condition assessments, audits, capital investments). In addition, API has continued to generate invoices in respect of the account associated with the 44 kV supply to the Township, and has recorded these amounts as costs in the deferral account. Amounts billed to individual customers on behalf of DLI (using DLI’s historical rate-setting practices) are recorded as offsetting revenue.

API most recently reported to the OEB that the account balance as at March 31, 2018 was \$474,771.<sup>2</sup> The following table summarizes the actual account balance to June 30, 2018, as well as forecasts to December 31, 2019.

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<sup>1</sup> EB-2017-0153, Order, p. 3.

<sup>2</sup> EB-2018-0136, Deferral Account Report, p. 2.

Nature of Costs	Description	2017 Actual	2018 YTD (Jan-Jun)	2018 Forecast (Jul-Dec)	2018 Forecast	2019 Forecast
OM&A, Cost of Power, Billed Revenue	Outage and Emergency Response (Includes Locates)	51,999	40,214	40,214	80,428	80,428
	Meter Reading	54,552	18,351	18,351	36,702	36,702
	Customer Service and Community Relations	16,498	529	5,000	5,529	5,000
	Billing & Collections	22,770	4,367	4,367	8,734	8,734
	Supervisory and Administrative Support	7,014	2,126	2,126	4,252	4,252
	Cyclical Maintenance	-	-	6,500	6,500	10,000
	Cost of Power and Billed Revenue Tracking	8,062	-	28,435	-	56,870
	Sub-Total OM&A, Cost of Power, Billed Revenue	160,895	37,151	48,123	85,274	18,292
Capital	Distribution Line Capital (Including Bypass Project)	149,108	14,138	110,000	124,138	252,000
	Metering Replacements	-	-	118,140	118,140	-
	Substation and Underground Capital	-	-	33,859	33,859	250,000
	Sub-Total Capital	149,108	14,138	261,999	276,137	502,000
One-Time	Transfer of Control and Process Development	51,086	3,664	5,000	8,664	-
	Condition Assessments, Audits, and Reporting	63,065	53,196	10,000	63,196	-
	Safety, Environmental and Regulatory Compliance	19,466	14,447	-	14,447	-
	Substation #1 Decommissioning	-	-	67,453	67,453	-
	Substation #2 Transformer Contingency	-	-	15,000	15,000	-
	Oil Sampling for PCB Testing	-	-	-	-	80,000
	Sub-Total One-Time Costs	133,617	71,307	97,453	168,761	80,000
<b>Total</b>		<b>443,619</b>	<b>122,596</b>	<b>407,576</b>	<b>530,172</b>	<b>600,292</b>

## B. Disposition of Deferral Account Balance

### Costs Included in Disposition Request

Upon closing of the Proposed Transaction, API proposes to recover the following costs through a monthly fixed rate rider that would apply to all Acquired Customers:

- 50% of the 2017 total of OM&A, Cost of Power and Billed Revenue
- 100% of the 2018-2019 total of OM&A, Cost of Power and Billed Revenue
- Amortization expense and return on capital for the 2017-2019 period
- Tax impacts associated with the above costs
- The net impact of the simple interest calculated on cumulative OM&A and amortization expense offset by the simple interest calculated on revenues from the resulting rate rider

API's rationale for excluding the One-Time costs identified above from the rate rider calculations is that these costs are a direct result of the OEB's interim order and therefore have broader public interest considerations. While DLI customers will receive some amount of long-term benefit as a result of this spending, much of these costs are either related to compliance with the interim order and other regulatory requirements, or they relate to integration costs that were necessary by virtue

of API being designated as the interim operator. The rationale for excluding 50% of the 2017 total of OM&A, Cost of Power and Billed Revenue is similar – while many of these costs can't readily be split out as “One-Time” costs in API's work order system, they were significantly higher in 2017 as API transitioned to ramp-up compliance in many areas such as meter reading accuracy, locates, and customer service rules. API proposes to transfer these amounts to the Transaction and Integration Costs Deferral Account, and to dispose of those costs as part of its next rebasing application, as described in Exhibit F, Tab 3, Schedule 2.

#### Description of Disposition Mechanism and Rate Rider Calculation

API considers that the disposition request is analogous to the way in which the OEB provided for recovery of smart metering costs. The need to undertake the investment was outside of API's control (as a result of the Interim Licence Order), it occurred between rebasing years, and it involves material costs. Further, the nature of the costs that API is seeking to include in the calculation of the proposed rate rider are similar to the costs historically included in the calculation of rate riders relating to smart metering implementation. As a result, API has worked with OEB staff to modify the OEB's smart meter cost recovery model to facilitate the appropriate calculation of the proposed rate riders. For clarity, API will refer to the modified model as the API-DLI Rate Rider Model.

The general steps that API undertook in populating the API-DLI Rate Rider Model are as follows:

- The OM&A, Cost of Power and Billed Revenue totals proposed for inclusion in the model were entered in the “OM&A Expenses” row of Tab 2;
- The capital totals proposed for inclusion in the model were divided into 3 categories, based on differences in depreciation rates and CCA categories, and entered in the “Capital Costs” section of Tab 2;
- The depreciation and CCA rates on Tab 3 were updated to reflect the above categorization;
- Other parameters on Tab 3 were updated to match the Board-approved parameters from API's last cost of service application;

- API proposes that the net book value of the 2017-2019 capital investments be included in its rate base as part of its future rebasing application for a 2020 test year – as a result, certain formulas on Tabs 5, 6 and 7 were removed from 2020 onward to prevent double-counting of these amounts;
- A new Tab 8 was created in respect of interest calculations to allow calculation of interest on both the cumulative OM&A and amortization expense, as well as offsetting interest on the revenue received from the proposed rate riders;
- Iterative calculations were enabled to address the circular reference created by the above interest calculations (the amount of the calculated rate rider affects the interest calculation, which in turn affects the calculation of the rate rider); and
- A 6-year disposition period was chosen on Tab 9.

The resulting rate rider over the requested 6-year disposition period is calculated at \$11.16 per customer per month. This results in reasonable bill impacts for all customers<sup>3</sup>, and aligns the expiry of the rate rider (December 31, 2024) with the end of API's next IRM period.

API requests that the OEB approve the disposition requested above on an interim basis, and approve the calculated rate rider of \$11.16 per customer per month, applicable to all of the Acquired Customers.

API further proposes to continue to record the actual costs and revenues associated with the DLI distribution system and the Acquired Customers (including revenues from the resulting rate rider) in the deferral account until December 31, 2019. API would then request final disposition of the account balance as part of its 2021 IRM application (filed in 2020 using 2019 audited balances), which may result in a change to the rate rider for the 2021 to 2024 period.

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<sup>3</sup> See Exhibit F, Tab 2, Schedule 1

### **TRANSACTION AND INTEGRATION COSTS DEFERRAL ACCOUNT**

The Handbook describes OEB rate-setting policies that allow a deferred rebasing period following consolidations, during which efficiencies resulting from the consolidation are able to offset transaction costs. The intent of this policy, as stated in the Handbook, is to incent consolidation in the electricity sector. As described in detail in Exhibit F, Tab 1, Schedule 1, the Proposed Transaction does not involve two distributors which could otherwise continue to operate independently. Rather the Proposed Transaction involves the acquisition by API of DLI's electricity distribution assets and associated customers. It does not include employees, fleet, operating facilities, inventory, or any type of IT infrastructure or business systems, where opportunities to achieve savings through efficiencies would normally exist. Further, DLI's historical rate setting methodology fails to adequately recover its costs, further complicating any concept of recovering transaction costs through a deferred rebasing period.

While the Proposed Transaction does not present an opportunity to recover transaction and integration costs through a deferred rebasing period, it nevertheless represents the most efficient and cost-effective means to meet the future needs of DLI's customers, and to assist the OEB in meeting its statutory objectives in relation to those customers. API was involuntarily subjected to a number of obligations under the Interim Licence Order, has incurred a number of one-time costs as a result of those obligations and has been responsive to the OEB's efforts to encourage a permanent solution for the DLI distribution system. If the transaction and integration costs were not incurred and the Proposed Transaction not completed, the duplication of costs that would be incurred to achieve legislative and regulatory compliance by API as interim operator on behalf of DLI would exceed the proposed transaction costs. API therefore requests that the OEB approve the establishment of a new Transaction and Integration Costs Deferral Account.

API requests that the Transaction and Integration Costs Deferral Account be given an effective date of April 4, 2017, which coincides with the OEB's Decision and Order requiring API to take possession and control of the DLI distribution system. This would enable API to capture all of its transaction and integration costs in the account so as to enable the future recovery of these

amounts. As noted by the OEB, in its October 3, 2017 Decision and Order extending the term of API's interim licence in EB-2017-0303, API indicated as early as in its April 26, 2017 notice of transition that it was engaged in commercial discussions with DLI. The OEB also stated that it "is of the view that it is in the public interest to have a viable and committed owner and operator of the distribution system for the Township of Dubreuilville (and that it) looks forward to further updates from both Algoma Power and DLI regarding the progress towards achieving a long term solution." The transaction and integration costs incurred since April 4, 2017 are distinct from the amounts API has been permitted to record in the Interim Distribution Licence Deferral Account, which is described in Exhibit F, Tab 3, Schedule 1. API started incurring integration costs as a result of the circumstances of being appointed as the interim operator, and started incurring transaction costs after being encouraged by the OEB to find a long-term solution and recognizing that there were no other long-term solutions that appeared viable. It is therefore appropriate for the OEB to allow an effective date of April 4, 2017 for the proposed Transaction and Integration Costs Deferral Account.

#### Nature of Costs to be Recorded in Transaction and Integration Costs Deferral Account

API proposes to record all costs associated with the preparation of the Asset Purchase Agreement and this Application, as well as all costs related to the OEB's hearing process (including, but not limited to legal fees and intervenor cost awards), and costs related to the closing of the Proposed Transaction. These costs are included in the "Transaction Costs" line in the summary below.

<b>Description</b>	<b>2017 Actual</b>	<b>2018 Forecast</b>	<b>2019 Forecast</b>	<b>Total</b>
Transaction Costs	-	83,674	85,000	168,674
Transfer of One-Time Costs from Deferral Account	133,617	71,307	97,453	302,377
Transfer of 50% of 2017 OM&A from Deferral Account	80,447			80,447
Total Transaction and Integration Costs	214,064	154,981	182,453	551,499

In addition to the Transaction Costs identified in the table above, API proposes to transfer a portion of the costs recorded/forecasted in the Interim Licence Deferral Account into the Transaction and

Integration Costs Deferral Account. The rationale for the transfer of these costs is include in Exhibit F, Tab 3, Schedule 1.

Future Disposition of Account Balance

In consideration of the one-time nature of the above costs, API proposes to dispose of the account balance by including the total cost (\$551,499 plus interest) as a one-time cost in its next rebasing application. Specifically, 20% of the total cost (or \$110,300, plus 20% of the accumulated interest) would be added to API's 2020 test year revenue requirement, such that the total amount is recovered during the test year and subsequent IRM period.

A draft accounting order is attached as **Appendix 'A'**.

**Appendix 'A'**  
**Draft Accounting Order**



## **DRAFT ACCOUNTING ORDER**

### **TRANSACTION AND INTEGRATION COSTS DEFERRAL ACCOUNT**

Algoma Power Inc. shall establish a new “Transaction and Integration Costs Deferral Account, for the purpose of recording costs incurred in relation to the acquisition of the distribution system assets of Dubreuil Lumber Inc., as well as certain one-time costs and operating costs, as determined by the Board in its Decision and Order in the matter of EB-2018-0271.

The account shall be established as **Account 1508, Other Regulatory Assets – Sub-Account “Transaction and Integration Costs Deferral Account”**, effective April 4, 2017.

The amounts recorded in the above accounts shall be brought forward for disposition in a future proceeding.

The following outlines proposed accounting entries for this account:

<b>USofA #</b>	<b>Account Description</b>
Credit: 1508	Other Regulatory Assets – Sub-Account: “Interim Licence Deferral Account”
Debit: 1508	Other Regulatory Assets – Sub-Account: “Transaction and Integration Costs Deferral Account”

To transfer certain one-time and operating costs from the Interim Licence Deferral Account to the Transaction and Integration Costs Deferral Account, in accordance with the Board’s Decision and Order in EB-2018-0271.

<b>USofA #</b>	<b>Account Description</b>
Debit: 1508	Other Regulatory Assets – Sub-Account: “Transaction and Integration Costs Deferral Account”
Credit: 2205	Accounts Payable

To record all costs associated with the preparation of the Asset Purchase Agreement and this Application, as well as all costs related to the OEB’s hearing process, and costs related to the closing of the Proposed Transaction.

<b>USofA #</b>	<b>Account Description</b>
Debit: 1508	Other Regulatory Assets – Sub-Account: “Transaction and Integration Costs Deferral Account”
Credit: 4405	Interest and Dividend Income

To record interest improvement on the principal balance of the “Transaction and Integration Costs Deferral Account”.