

August 26, 2019

BY RESS AND COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
27th Floor, Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli;

RE: EB-2019-0018 Alectra Utilities Corporation (“Alectra Utilities”) – Application for Distribution Rates and Other Charges Effective January 1, 2020 – Applicant Incentive Rate-Setting Mechanism Argument-in-Chief

Alectra Utilities Corporation (“Alectra Utilities”) is the Applicant in the above-referenced proceeding. In accordance with Procedural Order No. 1, issued by the Ontario Energy Board on July 9, 2019, please find enclosed Alectra Utilities’ Argument-in-Chief in respect of the IRM elements of the Application. The Argument-in-Chief has been filed on RESS; a copy has also been served on all parties via email.

Sincerely,

Original signed by

Indy J. Butany-DeSouza, MBA
Vice President, Regulatory Affairs
Alectra Utilities Corporation

cc: Charles Keizer, Torys LLP
Jonathan Myers, Torys LLP

IN THE MATTER OF the *Ontario Energy Board Act*, 1998, being
Schedule B to the *Energy Competition Act*, 1998, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Alectra Utilities
Corporation to the Ontario Energy Board for an Order or Orders
approving or fixing just and reasonable rates and other service
charges for the distribution of electricity as of January 1, 2020.

INCENTIVE RATE-SETTING MECHANISM ARGUMENT-IN-CHIEF

August 26, 2019

1.0 INTRODUCTION

Alectra Utilities Corporation (“Alectra Utilities” or the “Applicant”) filed an Incentive Rate-setting Mechanism (“IRM”) application with the Ontario Energy Board (“OEB” or the “Board”) on May 28, 2019, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to its electricity distribution rates for each of its Horizon Utilities, Brampton, PowerStream, Enersource, and Guelph Hydro rate zones (“RZs”) to be effective January 1, 2020 (the “Application”). The Application was prepared in accordance with the OEB’s *Filing Requirements for Incentive Regulation Rate Applications* (the “Filing Requirements”) and other relevant OEB guidance.

As part of this Application, Alectra Utilities filed its first five-year Distribution System Plan (“DSP”) on an integrated basis for its entire service area. The consolidated DSP was prepared in accordance with the OEB’s *Filing Requirements for Electricity Distribution Rate Applications – Chapter 5 Consolidated Distribution System Plan Filing Requirements*, updated July 12, 2018. Alectra Utilities is requesting approval for capital funding based on a rate-adjustment mechanism that reconciles the capital needs set out in the DSP with the capital-related revenue in rates (the “M-factor”); and the termination of the capitalization policy deferral accounts established in EB-2017-0024, for the Horizon Utilities, Enersource and Brampton RZs.

As specified in Procedural Order (“PO”) #1, the OEB will process the three elements of the application: i.e., IRM; M-factor; and capitalization policy, in different stages. The OEB stated that the elements pertaining to IRM are not eligible for cost awards and would proceed by way of written hearing.

This is Alectra Utilities' Argument in Chief in respect of the IRM elements of the Application. For the reasons that follow, it is Alectra Utilities' submission that the elements relating to IRM should be approved as filed, and as updated during the proceeding.

2.0 OVERVIEW

In April 2016, Enersource Hydro Mississauga Inc. ("Enersource"), Horizon Utilities Corporation ("Horizon Utilities"), and PowerStream Inc. ("PowerStream") (collectively the "predecessor Applicants") filed an application (the "MAADs Application"; EB-2016-0025) pursuant to the Report of the Board: *Rate-making Associated with Distributor Consolidations and the Handbook to Electricity Distributor and Transmitter Consolidation* (the "MAADs Handbook") seeking OEB approval to amalgamate to form Alectra, for Alectra to purchase and amalgamate with Hydro One Brampton Networks Inc. ("Hydro One Brampton") under section 86 of the *Ontario Energy Board Act, 1998* (the "Act"), and for other related relief. In the MAADs Application, the predecessor Applicants selected a 10-year rebasing deferral period. On December 8, 2016, the OEB issued its Decision and Order granting the requested approvals in the MAADs Application, including the 10-year rebasing deferral period.

In March 2018, Alectra Utilities and Guelph Hydro Electric System Inc. ("GHESI") filed an application (the "Alectra/Guelph MAADs Application"; EB-2018-0014) seeking OEB-approval to amalgamate under section 86 of the Act. That application was granted and the amalgamation took effect January 1, 2019.

As identified in previous electricity distribution rate ("EDR") applications¹, Alectra Utilities expects that during the rebasing deferral period, its rates will continue to be set on the basis of the individual RZs corresponding to each of its predecessor utilities. As indicated in the MAADs Handbook and in the report entitled *Rate-making Associated with Distributors Consolidation*, issued July 23, 2007 (the "2007 Report"), as well as the updated report on the same topic issued by the OEB on March 26, 2015 (the "2015 Report"), the Alectra Utilities rate zones would continue on their current rate plan terms until such terms expire. Once expired, all rate zones would migrate to the Price Cap Incentive Rate-setting ("Price Cap IR") option.

All of Alectra Utilities' RZs are now on Price Cap IR for the purpose of setting 2020 electricity distribution rates.

¹ Alectra Utilities' 2018 EDR Application (EB-2017-0024) and 2019 EDR Application (EB-2018-0016)

In this Application, Alectra Utilities seeks the following IRM-related approvals:

1. Electricity distribution rates and charges in the Horizon Utilities, Brampton, PowerStream, Enersource and Guelph Rate Zones (“RZs”) effective January 1, 2020, based on 2019 rates adjusted by the OEB’s Price Cap Index Adjustment Mechanism formula;
2. Clearance of the balances recorded in Alectra Utilities’ Group 1 deferral and variance accounts by means of class-specific rate riders effective January 1, 2020 to December 31, 2020;
3. Recovery/Refund of Renewable Generation Connection Rate Protection (“RGCRP”) funding;
4. Disposition of the balance in Alectra Utilities’ Lost Revenue Adjustment Mechanism Variance Accounts (“LRAMVA”);
5. A Customer Service Rules-related Lost Revenue Variance Account (“CSRLRVA”) to record lost revenue and incremental capital costs resulting from changes to customer service rules, and future policy changes implemented by the OEB;
6. A Conservation and Demand Management Severance Deferral Account (“CDMSDA”) to record severance costs resulting from the termination of the Conservation First Framework and associated CDM activities;
7. Alectra Utilities’ Earnings Sharing Mechanism (“ESM”) proposal for the 2022-2026 period; and
8. Closure of the deferral account established in connection with the Specific Service Charges study, as contemplated in the Settlement Agreement for Horizon Utilities from its Custom IR Application (EB-2014-0002).

With respect to the Price Cap IR adjustments, Alectra Utilities completed the IRM Model for all rate zones, and updated the Application to include the 2020 IRM Rate Generator Model, (“2020 IRM Model”) in response to interrogatory G-Staff-1, filed August 16, 2019. The IRM rate adjustments have been prepared in accordance with the *Chapter 3 of the Board’s Filing Requirements for Electricity Distribution Rate Applications – 2018 Edition for 2019 Rate Applications* (the “Chapter 3

Filing Requirements”), dated July 12, 2018, including the key OEB reference documents listed therein, and the *Addendum to Filing Requirements for Electricity Distribution Rate Applications – 2020 Rate Applications*, dated July 15, 2019. Rate zone-specific relief sought in this Application can be found in Exhibit 3, Tab 1, Schedule 1 for all five rate zones.

3.0 INCENTIVE RATE-SETTING MECHANISM (“IRM”) MODELS AND WORKFORMS

In EB-2010-0379, the Board contracted Pacific Economics Group Research, LLC (“PEG”) to prepare a report to the Board, entitled *Empirical Research in Support of Incentive Rate Setting in Ontario: Report to the Ontario Energy Board* (the “PEG Report”). The PEG Report established the parameters for use in determining the Price Cap Index for the 4th Generation IRM (now Price Cap IR), including a productivity factor of 0.00%, the approach to determine the Industry Specific Inflation Factor, and the initial stretch factor assignments.

Stretch Factor

The OEB issued the updated Stretch Factor assignments for 2020 IRM filers on August 15, 2019. In this Application, Alectra Utilities used a Stretch Factor of 0.3% for the Horizon Utilities, Brampton, PowerStream, Enersource and Guelph Hydro RZs, each in accordance with the most recent PEG Report available at the time of filing the Application, which was issued on August 23, 2018. The Stretch Factor assignments for all Alectra Utilities’ RZs remained unchanged in the August 2019 report.

Inflation Factor

The Industry Specific Inflation Factor for 2020 filers has not yet been updated by the Board. Alectra Utilities has used an inflation factor of 1.2% in the 2020 IRM Models for its five RZs. Alectra Utilities submits that it will update the Application to include the 2020 inflation factor, once available, when it prepares the Draft Rate Order.

Changes to OEB policies on distributor rate design

All of Alectra Utilities’ RZs, with the exception of the PowerStream RZ, transitioned to a fully fixed monthly distribution charge in 2019. Alectra Utilities has incorporated the fourth and final year transition adjustment in its 2020 proposed rates for the PowerStream RZ. It has also conducted the analysis on the 10th consumption percentile of energy consuming customers, and no mitigation

was required. This adjustment is discussed in further detail in Exhibit 3, Tab 1, Schedule 5. Alectra Utilities submits that the rate design for the PowerStream RZ should be approved.

Eligible Investments for Connection of Qualifying Generation Facilities

Alectra Utilities provides a summary of its Renewable Generation Connection Rate Protection (“RGCRP”) amounts by rate zone, below.

- Horizon Utilities RZ

In the 2011 Cost of Service Rate Application (EB-2010-0130), the OEB approved Horizon Utilities request for the funding of Renewable Generation Connection Provincial amounts included in its detailed Distribution System Plan (“DSP”), to be recovered through the IESO relating to Renewable Enabling Improvement Investments and Renewable Expansion Investments.

In a letter dated December 20, 2018, Alectra Utilities requested that the current IESO renewable generation payments of \$707 per month discontinue as of December 31, 2018. Alectra Utilities confirmed in the letter that the Horizon Utilities did incur the expenditures for the renewable generation investments that were approved in Horizon Utilities’ 2011 cost of service rate application. Horizon Utilities included 100% of the net book value of the renewable eligible investments in the rate base of Horizon Utilities’ 2015 Custom IR application. As a result, the recovery of the IESO provincial payments was over recovered.

Alectra Utilities is requesting to refund renewable generation funding of \$9,726 as a one-time payment in 2020 to the IESO.² Further, in response to interrogatory HRZ-Staff-4, Alectra Utilities completed a true-up reconciliation to compare the Green Energy Act (“GEA”) funding collected through rate riders from its customers in the Horizon Utilities RZ in 2012, 2013 and 2014, to the actual amount of revenue requirement associated with the GEA investments. As a result, Alectra Utilities requests approval of a GEA rate rider to refund an amount of \$71,362 to customers in the Horizon Utilities RZ. The proposed rate rider has been incorporated into the updated 2020 IRM Model for the Horizon Utilities RZ filed in response to G-Staff-1 (Attachment 4).

² Refer to Exhibit 3, Tab 1, Schedule 9.

1 • Brampton RZ

2 In Hydro One Brampton's 2015 Cost of Service Rate Application, the OEB approved Hydro One
3 Brampton's request for funding of Renewable Generation Connection Provincial amounts included
4 in its detailed DSP, to be recovered through the IESO in relation to Renewable Enabling
5 Improvement Investments and Renewable Expansion Investments from 2015 to 2019.³ In
6 interrogatory BRZ-Staff-7, OEB staff identified that Alectra Utilities did not include the amortization
7 and Capital Cost Allowance ("CCA") in calculating the 2020 provincial payment amounts for the
8 Brampton RZ. In response to BRZ-Staff-7, Alectra Utilities updated the RGCRP Workform for the
9 Brampton RZ to include amortization and CCA in calculating the provincial payment amount. The
10 updated RGCRP Workform was filed as Attachment 1 to BRZ-Staff-7. Based on the updated
11 calculation, Alectra Utilities is requesting to collect renewable generation connection funding for the
12 Brampton RZ of \$143,160 in 2020 or \$11,930 per month from all provincial ratepayers.

13 • PowerStream RZ

14 In the 2016 Custom IR Rate Application, the OEB approved PowerStream's request for the funding
15 of Renewable Generation Connection Provincial amounts included in its detailed DSP, to be
16 recovered through the IESO in relation to Renewable Enabling Improvement Investments and
17 Renewable Expansion Investments from 2016 to 2020.⁴ Alectra Utilities is requesting to collect
18 renewable generation connection funding for the PowerStream RZ of \$256,894 in 2020 or \$21,408
19 per month from all provincial ratepayers, as provided in response to PRZ-Staff-8.

20 • Enersource RZ

21 Enersource filed a basic Green Energy Plan which was approved by the OEB in Enersource's
22 2013 Cost of Service Application proceeding.⁵ Alectra Utilities is requesting to collect renewable
23 generation connection funding for the Enersource RZ of \$160,560 in 2020, or \$13,380 per month
24 from all provincial ratepayers.⁶

³ EB-2014-0083, Final Rate Order, January 15, 2015, p.2.

⁴ EB-2015-0003, Decision and Rate Order, September 27, 2016, p. 2.

⁵ EB-2012-0033, Decision and Order, December 13, 2012, p.24.

⁶ Refer to Exhibit 3, Tab 1, Schedule 9.

Guelph RZ

In the 2012 Cost of Service Rate Application (EB-2011-0123), the OEB approved Guelph Hydro's request for the funding of Renewable Generation Connection Provincial amounts included in its detailed DSP, to be recovered through the IESO relating to Renewable Enabling Improvement Investments and Renewable Expansion Investments. In a letter dated November 29, 2018, Alectra Utilities requested to discontinue the collection of provincial funding for the eligible investments that were approved in its 2012 cost of service decision. In addition, Guelph Hydro proposed returning to the IESO the provincial payments in the total amount of \$208,512. Guelph Hydro has not incurred any capital costs for these investments since all costs were offset by customers' capital contributions. As a result, Guelph Hydro was not entitled to any RGCRP payments from the IESO for the subject investments. In response to interrogatory GRZ-Staff-6, Alectra Utilities has revised its relief sought, and is requesting to refund renewable generation funding of \$350,884 as a one-time payment in 2020 to the IESO.⁷

4.0 ACCOUNTING

Alectra Utilities' proposals for deferral and variance accounts, including the balances in its existing accounts and their disposition are appropriate for the reasons that follow.

Disposition of Group 1 Deferral and Variance Account Balances

Alectra Utilities' Group 1 Deferral and Variance Accounts balances relate to variances accumulated in 2018. More particularly, for each of its five rate zones, Alectra Utilities' adjusted Group 1 balances, which have been updated in response to interrogatories, are as follows:

- For the Horizon Utilities RZ, Group 1 balances of \$3,828,158, identified in the updated 2020 IRM Model provided in response to Interrogatory G-Staff-1;
- For the Brampton RZ, Group 1 balances of (\$2,229,940), identified in the updated 2020 IRM Model provided in response to Interrogatory G-Staff-1;
- For the PowerStream RZ Group 1 balances of (\$14,438,240), identified in the updated 2020 IRM Model provided in response to Interrogatory G-Staff-1;

⁷ Refer to Interrogatory GRZ-Staff-6.

- For the Enersource RZ Group 1 balances of (\$7,839,594), identified in the updated 2020 IRM Model provided in response to Interrogatory G-Staff-1; and
- For the Guelph RZ Group 1 balances of (\$2,190,014), identified in the updated 2020 IRM Model provided in response to Interrogatory G-Staff-1.

As discussed in the pre-filed evidence, in order to determine the amount for disposition, Alectra Utilities made the following adjustments to the Group 1 balances for each of the rate zones:⁸

- Only residual balances in Account 1595 for which rate riders have expired are included;
- RPP settlement true-up claims for a given fiscal year that have not been included in the audited financial statements have been identified separately as an adjustment to the balance requested for disposition as directed in the OEB's letter dated May 23, 2017 on the "Guidance on the Disposition of Accounts 1588 and 1589". Consequently, the account balances on Tab 3. Continuity Schedule differ from the annual RRR filing;
- Only Class B Capacity Based Recovery ("CBR") amounts are to be disposed of through this rate proceeding as directed by the OEB in its *Accounting Guidance on Capacity Based Recovery* issued July 25, 2016, and Chapter 3 Filing Requirements; and
- Projected carrying charges for each Group 1 Account balance to the proposed rate rider implementation date are included (i.e., the amount for disposition includes 2019 projected carrying charges).

Alectra Utilities requests disposition of the Group 1 balances for the rate zones that meet the OEB's pre-set disposition threshold. Alectra Utilities has applied the appropriate calculations in determining the disposition threshold for each rate zone:

- For the Horizon Utilities RZ, based on the updated adjusted Group 1 balances, to be \$0.0007/kWh, which does not meet the pre-set disposition threshold of \$0.001/kWh, as identified in the updated 2020 IRM Model provided in response to interrogatory G-Staff-1. Alectra Utilities does not request disposition of its Group 1 account balances in the Horizon Utilities RZ;

⁸ Refer to Exhibit 3, Tab 1, Schedule 7

- 1 • For the Brampton RZ, based on the updated adjusted Group 1 balances, to be
2 (\$0.0005)/kWh, which does not meet the pre-set disposition threshold of \$0.001/kWh, as
3 identified in the updated 2020 IRM Model provided in response to interrogatory G-Staff-1.
4 Alectra Utilities does not request disposition of its Group 1 account balances in the
5 Brampton RZ;
- 6 • For the PowerStream RZ, based on the updated adjusted Group 1 balances to be
7 (\$0.0017)/kWh, which meets the pre-set disposition threshold of \$0.001/kWh, as identified
8 in the updated 2020 IRM Model provided in response to interrogatory G-Staff-1. Alectra
9 Utilities requests disposition of its Group 1 account balances in the PowerStream RZ;
- 10 • For the Enersource RZ, based on the updated adjusted Group 1 balances to be
11 (\$0.0011)/kWh, which meets the pre-set disposition threshold of \$0.001/kWh, as identified
12 in the updated 2020 IRM Model provided in response to interrogatory G-Staff-1. Alectra
13 Utilities requests disposition of its Group 1 account balances in the Enersource RZ; and
- 14 • For the Guelph Hydro RZ, based on the updated adjusted Group 1 balances to be
15 (\$0.0013)/kWh, which meets the pre-set disposition threshold of \$0.001/kWh, as identified
16 in the updated 2020 IRM Model provided in response to interrogatory G-Staff-1. Alectra
17 Utilities requests disposition of its Group 1 account balances in the Guelph Hydro RZ.

18 Alectra Utilities has completed Tab 3 - Continuity Schedule of the IRM Model for each of the
19 Alectra Utilities' rate zones.⁹ Alectra Utilities has reconciled the Group 1 balances for the Horizon
20 Utilities, Brampton, PowerStream, Enersource, and Guelph Hydro RZs filed in the 2018 Record
21 Keeping Requirements ("RRR"), section 2.1.7.

22 Alectra Utilities' April 30, 2019 RRR data for RRR 2.1.5.4, Demand and Revenue, was used to
23 complete the IRM Models filed as part of this Application for the Horizon Utilities, Brampton,
24 PowerStream, Enersource, and Guelph Hydro RZs.

25 Alectra Utilities relied upon the Board's prescribed interest rates to calculate carrying charges on
26 the deferral and variance account balances. The prescribed interest rate of 2.45% for Q1 2019 and
27 2.18% for Q2-Q4 2019 were relied upon to calculate forecasted interest for 2019. The Q4 2019
28 OEB prescribed interest rate is not yet available. Alectra Utilities submits that it will update the

⁹ Refer to Interrogatory G-Staff 1.

1 carrying charges calculation to reflect the Q4 2019 OEB prescribed interest rate, once available,
2 when it prepares the Draft Rate Order.

3 Alectra Utilities is seeking a one-year disposition period for the Group 1 balances for each of the
4 PowerStream, Enersource and Guelph Hydro RZs. This approach is consistent with the *Report of*
5 *the Board on Electricity Distributors' Deferral and Variance Account Review Initiative* ("EDDVAR")
6 which states that "the default disposition period used to clear the account balances through a rate
7 rider should be one year".¹⁰

8 On February 21, 2019, the OEB issued a letter to all rate-regulated electricity distributors re:
9 Accounting Guidance related to Accounts 1588 RSVA Power, and 1589 RSVA Global Adjustment.
10 The OEB provided an update to the Accounting Procedures Handbook ("APH") standardizing
11 requirements for regulatory accounting and Regulated Price Plan ("RPP") settlements. Distributors
12 are expected to implement the new guidance no later than August 31, 2019, retroactive to January
13 2019. As provided in response to G-Staff-3, Alectra Utilities has incorporated the updated
14 regulatory accounting and RPP settlement guidance into its processes as of August 1, 2019 for its
15 five rate zones. Alectra Utilities is currently assessing the impact of the updated regulatory
16 accounting and RPP settlement guidance on its Account 1588 and Account 1589 balances for the
17 2018 period and prior years not disposed of on a final basis. Alectra Utilities expects to complete
18 this analysis by August 31, 2019. If there are any material changes as a result of this review,
19 Alectra Utilities proposes that it will file an addendum to its Argument-in-Chief submission by
20 September 5, 2019.

21 *Wholesale Market Participants ("WMPs")*

22 WMPs participate directly in the IESO-administered market and settle commodity and market-
23 related charges directly with the IESO. Alectra Utilities has established separate rate riders to
24 dispose of the balances in the RSVAs for WMPs for the PowerStream, Enersource and Guelph
25 Hydro RZs. The balances in Account 1588 RSVA – Power, Account 1580 RSVA – Wholesale
26 Market Service Charge (including CBR) and Account 1589 RSVA – Global Adjustment have not
27 been allocated to WMPs.

¹⁰ EDDVAR, p. 6.

Global Adjustment and Capacity Based Response Disposition

Alectra Utilities has established separate rate riders for each of the PowerStream, Enersource and Guelph Hydro RZs, that have met the disposition threshold test, in order to dispose of the global adjustment ("GA") and Capacity Based Response ("CBR") account balances. The GA rate riders are applicable to non-RPP Class B customers only and the CBR rate riders are applicable to Class B customers only. Alectra Utilities' CBR Class B balances in the PowerStream and Guelph Hydro RZs result in a volumetric rider that rounds to zero at the fourth decimal place in one or more rate classes. In accordance with the Chapter 3 Filing Requirements, the entire balance in Account 1580 Sub-account CBR Class B, will be added to the Account 1580 WMS control account to be disposed through the general purpose Group 1 rate riders. Alectra Utilities' Class A customers are invoiced the actual GA and, as such, none of the variance in the GA account balance should be attributed to these customers.

As discussed in Exhibit 3, Tab 1, Schedule 7, and as updated in the 2020 IRM model filed in response to Interrogatory G-Staff-1, Alectra Utilities requests disposition of its GA balance of (\$219,615) and CBR balance of (\$2,698) related to its 31 customers that transitioned from Class B to Class A (effective July 1, 2018) through the bill adjustments identified in the IRM Model for the PowerStream RZ. Alectra Utilities requests disposition of its GA balance of (\$78,843) and its CBR balance of (\$968) related to its 12 customers that transitioned from Class A to Class B (effective July 1, 2018) through the bill adjustments identified in the updated 2020 IRM Model for the PowerStream RZ. Alectra Utilities requests approval of these GA and CBR amounts.

As discussed in Exhibit 3, Tab 1, Schedule 7, and as updated in the 2020 IRM model filed in response to Interrogatory G-Staff-1, Alectra Utilities requests disposition of its GA balance of (\$478,532) and its CBR balance of (\$14,223) related to its 27 customers that transitioned from Class B to Class A (effective July 1, 2018) through the bill adjustments identified in the IRM Model for the Enersource RZ. Alectra Utilities requests disposition of its GA balance of (\$48,899) and its CBR balance of (\$1,453) related to its six customers that transitioned from Class A to Class B (effective July 1, 2018) through the bill adjustments identified in the updated 2020 IRM Model for the Enersource RZ. Alectra Utilities requests approval of these GA and CBR amounts.

As originally discussed in Exhibit 3, Tab 1, Schedule 7, the Guelph Hydro RZ did not meet the pre-set disposition threshold test. Therefore, Alectra Utilities did not request disposition of the GA and CBR balances in the Guelph Hydro RZ. In response to Interrogatory GRZ-Staff-5, Alectra Utilities

updated its Group 1 balances in the Guelph Hydro RZ; based on the updated adjusted Group 1 balances, Alectra Utilities now meets the pre-set disposition threshold. As a result, Alectra Utilities requests disposition of its GA balance of (\$119,859) and its CBR balance of (\$370) related to its eight customers that transitioned from Class B to Class A (effective July 1, 2018) through the bill adjustments identified in the IRM Model for the Guelph Hydro RZ. Alectra Utilities requests disposition of its GA balance of (\$27,421) and its CBR balance of (\$85) related to its one customer that transitioned from Class A to Class B (effective July 1, 2018) through the bill adjustments identified in the updated 2020 IRM Model as filed in response to G-Staff-1, for the Guelph Hydro RZ. Alectra Utilities requests approval of these GA and CBR amounts.

For a typical RPP Residential customer consuming 750 kWh per month, the total monthly bill impact of the proposed Group 1 rate riders is as follows:

- For the PowerStream RZ, an increase of \$3.23 /month or 3.0% on the total bill;¹¹
- For the Enersource RZ, an increase of \$0.98/month or 0.9% on the total bill;¹² and
- For the Guelph Hydro RZ, a decrease of (\$0.83)/month or (0.7%) on the total bill¹³.

Disposition of LRAM Variance Account

Alectra Utilities has requested disposition of the balances in its Lost Revenue Adjustment Mechanism Variance Account ("LRAMVA") resulting from its Conservation and Demand Management ("CDM") activities as of December 31, 2017 for each of the Horizon Utilities, Brampton, PowerStream and Enersource RZs. Alectra Utilities' predecessor, Guelph Hydro, requested disposition of its 2017 LRAMVA balance in its 2019 EDR Application (EB-2018-0036). In that proceeding, the Board approved Guelph Hydro's request to recover lost revenues from CDM activities in 2017, in the amount of \$620,646. Therefore, no further relief is being sought in this Application with respect to Guelph Hydro's 2017 LRAMVA balances.

Alectra Utilities updated its LRAMVA balances in the Horizon Utilities, Brampton, PowerStream and Enersource RZs in response to interrogatories HRZ-Staff-8; BRZ-Staff-6; PRZ-Staff-7; and ERZ-Staff-5, respectively. Further, in response to G-Staff-6, Alectra Utilities identified that it has incorporated a true-up of 2017 savings based on the IESO's Participation and Cost Reports.

¹¹ Refer to Interrogatory G-Staff-1, Attachment 5.

¹² Refer to Interrogatory G-Staff-1, Attachment 2.

¹³ Refer to Interrogatory G-Staff-1, Attachment 3.

1 Alectra Utilities engaged SeeLine Group Ltd. to confirm and verify the process and related
2 calculations used for determining 2017 true-up savings. The SeeLine report was filed as G-Staff-
3 6_Attach 3_SeeLine Alectra 2017 True-up Report.

4 Alectra Utilities' most recent application for the recovery of lost revenues due to CDM activities in
5 the Horizon Utilities RZ was filed in its 2019 EDR Application (EB-2018-0016). In that proceeding,
6 the Board approved Alectra Utilities' request to recover lost revenues from CDM activities in 2016.
7 The total amount requested for disposition in this Application is a debit of \$1,319,691 including
8 forecasted carrying charges of \$59,211 through to December 31, 2019.¹⁴ Alectra Utilities' actual
9 savings from CDM activities for 2017 were above the estimated projections used in the load
10 forecast resulting in an under-collection from customers during this period.

11 Alectra Utilities' most recent application for the recovery of lost revenues due to CDM activities in
12 the Brampton RZ was filed in its 2019 EDR Application (EB-2018-0016). In that proceeding, the
13 Board approved Alectra Utilities' request to recover lost revenues from CDM activities in 2016. The
14 total amount requested for disposition in this Application is a debit of \$1,216,190 including
15 forecasted carrying charges of \$54,567 through to December 31, 2019.¹⁵ Alectra Utilities' actual
16 savings from CDM activities for 2017 were above the estimated projections used in the load
17 forecast resulting in an under-collection from customers during this period.

18 Alectra Utilities' most recent application for the recovery of lost revenues due to CDM activities in
19 the PowerStream RZ was filed in its 2019 EDR Application (EB-2018-0016). In that proceeding, the
20 Board approved Alectra Utilities' request to recover lost revenues from CDM activities in 2016. The
21 total amount requested for disposition in this Application is a debit of \$2,989,719 including
22 forecasted carrying charges of \$140,649 through to December 31, 2019.¹⁶ Alectra Utilities' actual
23 savings from CDM activities for 2017 were above the estimated projections used in the load
24 forecast resulting in an under-collection from customers during this period.

25 Alectra Utilities' most recent application for the recovery of lost revenues due to CDM activities in
26 the Enersource RZ was filed in its 2019 EDR Application (EB-2018-0016). In that proceeding, the
27 Board approved Alectra Utilities' request to recover lost revenues from CDM activities for 2016.
28 The total amount requested for disposition in this Application is a debit of \$2,724,213 including

¹⁴ Refer to Interrogatory HRZ-Staff-8, Attachment 1.

¹⁵ Refer to Interrogatory BRZ-Staff-6, Attachment 1.

¹⁶ Refer to Interrogatory PRZ-Staff-7, Attachment 1.

forecasted carrying charges of \$122,228 through to December 31, 2019.¹⁷ Alectra Utilities' actual savings from CDM activities for 2017 were above the estimated projections used in the load forecast resulting in an under-collection from customers during this period.

For each of the rate zones, Alectra Utilities has determined the LRAM amount in accordance with the Board's *Guidelines for Electricity Distributor Conservation and Demand Management* ("2012 CDM Guidelines"), *Conservation and Demand Management Requirement Guidelines for Electricity Distributors* ("2015 CDM Guidelines") and its *Updated Policy for the Lost Revenue Adjustment Mechanism Calculation: Lost Revenues and Peak Demand Savings from Conservation and Demand Management Programs* ("2016 Updated Policy") for the calculation of LRAMVA in respect of peak demand savings. Alectra Utilities has completed the 2020 LRAMVA work form provided by the OEB to calculate the variance between actual CDM savings and forecast CDM savings. In accordance with the OEB's 2016 Updated Policy on the calculation of peak demand savings, Alectra Utilities has not included peak demand (kW) savings from Demand Response programs for the Horizon Utilities, Brampton, PowerStream, and Enersource RZs in its lost revenue calculation.

In accordance with the Chapter 3 Filing Requirements, Alectra Utilities has provided the following information as part of its pre-filed evidence:

- (i) Alectra Utilities has used the most recent input assumptions available at the time of the program evaluation when calculating its lost revenue amount;
- (ii) Alectra Utilities has relied on the most recent and appropriate final CDM evaluation report from the IESO in support of the lost revenue calculation. The IESO's Final Annual Verified Results for 2017 is filed as Attachment 34.
- (iii) The IESO reports results by program. These only partially map onto rate classes. For initiatives that apply to more than one rate class, Alectra Utilities estimated the allocation by rate class, drawing on participant-specific information where available; and
- (iv) Alectra Utilities has provided additional data in Tab 8. Street Lighting of the LRAMVA Model, where applicable, in support of the Street Lighting project savings. Demand savings for the retrofit streetlight project do not appear on the IESO's Final Verified Result Report, as the reduction to peak demand occurs outside the IESO's peak hours.

¹⁷ Refer to Interrogatory ERZ-Staff-5, Attachment 1.

Detailed calculations of the LRAMVA threshold, carrying charges, lost revenue calculations by year for each rate class are presented in Exhibit 3, Tab 1, Schedule 10, of the pre-filed evidence for the Horizon Utilities RZ, Brampton RZ, PowerStream RZ; and Enersource RZ. The detailed calculations have been updated based on Alectra Utilities' response to interrogatories HRZ-Staff-8, BRZ-Staff-6, PRZ-Staff-7 and ERZ-Staff-5.

ESTABLISHMENT OF NEW DEFERRAL AND VARIANCE ACCOUNTS

Alectra Utilities has requested approval for an accounting order to establish two IRM-related deferral accounts, as described in Exhibit 2, Tab 1, Schedule 4. First, is a Customer Service Rules-related Lost Revenue Deferral Account ("CSRLRDA") to address unforeseeable lost revenue due to a number of factors, including the OEB's recent changes to the customer service rules and disconnections/ reconnections charges. Second, is a Conservation Demand Management Severance Deferral Account ("CDMSDA") for the recovery of severance costs to address the termination of the Energy Conservation Agreement ("ECA"), resulting in material and unexpected costs for Alectra Utilities. Alectra Utilities submits that these accounts should be approved.

Customer Service Rules-related Lost Revenue Variance Account

During the rebasing deferral period, the OEB has amended the customer service rules applicable to Alectra Utilities, imposing material financial consequences that are not addressed in the utility's base rates. Specifically, the OEB imposed a disconnection ban for residential customers during the winter months, as well as amendments to customer service rules relating to billing, disconnections, and service charges for non-payment. These changes result in material additional costs for the utility that are not included in base rates and were not contemplated when the OEB approved the utility's creation in the MAADs Application. Alectra Utilities continues to incur ongoing operating costs to provide these services which include: collection activities; reminder notices; out-bound calls; final notices; and management of field activities. These changes also result in significant programming and coding changes in Alectra Utilities' Customer Information System, Customer Care and Billing System.

Based on the foregoing, the Board's eligibility criteria for new deferral accounts are met:

Causation – The forecasted expense must be clearly outside of the base upon which rates were derived. The proposed deferral account is intended to capture the financial impacts of

OEB policy changes during the rebasing deferral period. Consequently, the amounts that would be recorded in the deferral account would clearly be outside of the base upon which Alectra Utilities' rates will be derived.

Materiality – The forecasted amounts must exceed the Board-defined materiality threshold and have a significant influence on the operation of the distributor; otherwise they should be expensed in the normal course and addressed through organizational productivity improvements. The implementation of the above-mentioned OEB policy changes outside of a rebasing has a material impact to Alectra Utilities' revenue requirement, in the amount of approximately \$2.85MM annually, which significantly exceeds Alectra Utilities' materiality threshold of \$1MM, as defined in section 2.0.8 of the OEB's Chapter 2 Filing Requirements. This impact is compounded as Alectra Utilities is in a rebasing deferral period.

Prudence – The revenue impact is a result of OEB policy changes, and it is therefore reasonable for Alectra Utilities to record this financial impact in an OEB-approved deferral account, and to seek recovery in a future proceeding.

A draft accounting order for the proposed deferral account, which includes a description of the mechanics of the account, examples of the general ledger entries and the proposed manner in which to dispose of the account, is provided in Exhibit 2, Tab 1, Schedule 4, Appendix 'C' of the pre-filed evidence.

Conservation and Demand Management Severance Deferral Account

On March 21, 2019, the Minister of Energy, Northern Development and Mines issued a directive to the Independent Electricity System Operator ("IESO") to discontinue the Conservation First Framework and associated CDM activities, taking all reasonable efforts to minimize the associated costs. Pursuant to the Ministerial Directive, the IESO issued a Notice of Termination of the Energy Conservation Agreement ("ECA") to Alectra Utilities and directed it to use commercially reasonable efforts to minimize expenditures associated with the termination of the Conservation First Framework and associated CDM activities.

Following the receipt of the Notice of Termination, Alectra Utilities developed a CDM Wind Down resource plan which was implemented on May 1, 2019. The CDM Wind Down resource plan included steps (i) to wind down Alectra Utilities' CDM business, including terminating employees

involved in the CDM operations, and (ii) to terminate all activities associated with the marketing of conservation programs, solicitation of participants, and the execution of Participant Agreements. Alectra Utilities submitted its CDM Wind Down Estimate to the IESO containing post termination administration costs including employee separation costs required to meet the surviving obligations of the ECA. The IESO has 60 business days to review and approve Alectra Utilities' Wind Down estimate.

These additional severance costs are unexpected and material for Alectra Utilities. In the event that the IESO denies the funding of the severance costs, Alectra Utilities seeks a deferral account for recovery of the severance costs.

Based on the foregoing, the Board's eligibility criteria for new deferral accounts are met:

Causation – As a condition of its electricity distribution licence, Alectra Utilities was required to promote and support the provincial CDM policy and to achieve specific CDM targets through the delivery of CDM programs in its service territory. To meet its obligations, Alectra Utilities created the CDM group within its business and retained specialized employees to achieve its targets. As discussed above, pursuant to the Ministerial Directive, the IESO was directed to terminate the Conservation First Framework and the associated CDM activities. As a result of this directive, Alectra Utilities had to wind down its CDM operations, which included, among other things, terminating employees that were involved in CDM activities and paying those employees associated severance packages.

Materiality – The forecasted amounts must exceed the Board-defined materiality threshold and have a significant influence on the operation of the distributor; otherwise they should be expensed in the normal course and addressed through organizational productivity improvements. The implementation of the above-mentioned OEB policy changes outside of a rebasing has a material impact on Alectra Utilities' in the amount of approximately \$3.2MM, which significantly exceeds Alectra Utilities' materiality threshold of \$1MM, as defined in section 2.0.8 of the OEB's Chapter 2 Filing Requirements.

Prudence – The revenue impact is a result of Provincial energy policy changes, and it is therefore reasonable for Alectra Utilities to record this financial impact in an OEB-approved deferral account, and to seek recovery in a future proceeding.

A draft accounting order for the proposed deferral account, which includes a description of the mechanics of the account, examples of the general ledger entries and the proposed manner in which to dispose of the account, is provided in Exhibit 2, Tab 1, Schedule 4, Appendix 'D' of the pre-filed evidence.

5.0 OTHER MATTERS

Alectra Utilities' ESM Proposal

As part of the MAADs Application that resulted in its formation, Alectra Utilities identified at Exhibit B, Tab 7, Schedule 2, an ESM proposal for years six to ten of the rebasing deferral period that is consistent with the MAADs Handbook. On December 8, 2016, the OEB issued its Decision and Order in respect of the MAADs Application. In the MAADs Decision, the OEB ordered that Alectra Utilities file plans for the ESM by December 31, 2019.

As described in Exhibit 2, Tab 1, Schedule 6, Alectra Utilities ESM proposal is consistent with the MAADs Handbook. Earnings in excess of 300 basis points above the OEB's established ROE for the consolidated entity would be divided on a 50/50 basis between Alectra Utilities and its ratepayers. As a consolidated utility that has not rebased, there is no "approved" ROE for Alectra Utilities against which the earnings sharing could be determined. Instead, there are approved ROE's for each rate zone. In this regard, for the purposes of the ESM calculation, the representative approved ROE for Alectra Utilities would be calculated using the weighted average, weighted by the OEB-approved rate base amounts for each RZ (from the most recent OEB-approved rebasing application for each predecessor company) as at the time of Alectra Utilities' formation in 2017. Further, as provided in response to G-Staff-8, Alectra Utilities intends to use an allocation methodology similar to that employed for the Horizon Utilities RZ ESM calculation. It may make modifications to the applicable allocation methodology in advance of its implementation as part of the Alectra Utilities ESM calculation.

HRZ Service Charge Cost Recovery Study

The Settlement Agreement for Alectra Utilities' predecessor, Horizon Utilities, from its Custom IR Application (EB-2014-0002) provided for the creation of a deferral account (1508 Sub-account "Special Studies") to record costs in connection with the Service Charge Cost Recovery Study (the

1 “Study”). The purpose of the Study is to consider the extent which the service charges are
2 reflective of the costs of providing the services.

3 Beginning in 2015, the OEB initiated a comprehensive policy review of miscellaneous rates and
4 charges applied by electricity distributors for specific activities or services they provide to their
5 customers (EB-2015-0304). The OEB indicated that the review will be conducted through a
6 number of phases and components. The first phase currently includes the review of wireline pole
7 attachment charges. In 2017, the OEB announced the next phase which includes the review of
8 energy retail service charges. To date, the OEB has not concluded its review of miscellaneous rate
9 and charges. As part of its 2018 annual rate filing, Alectra Utilities stated that in light of the ongoing
10 comprehensive policy review by the OEB, it might not be taking on the Study given the OEB's
11 review is in line with the intent of the Study as contemplated by the Settlement Agreement.

12 Alectra Utilities confirms that the Study has not been undertaken and no costs have been recorded
13 in a deferral account created for the purpose of the Study. As such, Alectra Utilities submits that
14 this deferral account should be closed.

15
16 **6.0 CONCLUSION**

17 For the reasons identified above, Alectra Utilities submits that its electricity distribution rates should
18 be approved as filed, or as revised.

All of which is respectfully submitted this 26th day of August 2019.

ALECTRA UTILITIES CORPORATION



Indy J. Butany-DeSouza, MBA
Vice President, Regulatory Affairs