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

BY EMAIL

September 13, 2019

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Alectra Utilities Corporation (Alectra Utilities)
Application for 2020 Electricity Distribution Rates
OEB Staff Submission
Ontario Energy Board File Number: EB-2019-0018

In accordance with Procedural Order No. 1, please find attached OEB staff's submission in the above proceeding.

Yours truly,

Original Signed By

Katherine Wang
Advisor
Incentive Rate-setting and Accounting

Encl.

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2020 ELECTRICITY DISTRIBUTION RATES

Alectra Utilities Corporation

EB-2019-0018

September 13, 2019

INTRODUCTION

Alectra Utilities Corporation (Alectra Utilities) filed its Price Cap Incentive Rate-setting application with the Ontario Energy Board (OEB) on May 28, 2019 under section 78 of the *Ontario Energy Board Act*, *1998*, seeking approval for changes to the rates that Alectra Utilities charges for electricity distribution, to be effective January 1, 2020.

In Procedural Order (PO) No. 1, dated July 9, 2019, the OEB determined that this application would be processed in three streams, namely the Incentive Rate-setting Mechanism (IRM), M-factor and capitalization policy. PO No. 1 set out dates for submissions on the IRM elements of the application.

Alectra Utilities filed its Argument-in-Chief on the IRM elements of the application on September 5, 2019.This submission sets out OEB staff's review of the record on the IRM elements of this proceeding and is intended to assist the OEB in evaluating the application and in setting just and reasonable rates.

OEB staff makes detailed submissions on the following:

- Review and Disposition of Group 1 Deferral and Variance Accounts
- Retail Transmission Service Rates
- Lost Revenue Adjustment Mechanism Variance Account Disposition
- Request for a Customer Service Rules-related Lost Revenue Variance Account
- Request for a Conservation Demand Management Severance Deferral Account
- Renewable Generation Connection Rate Protection
- Earnings Sharing Mechanism
- Request to Close the Deferral Account for Service Charge Cost Recovery Study – Horizon Rate Zone

STAFF SUBMISSION

Review and Disposition of Group 1 Deferral and Variance Accounts (DVAs)

Horizon Rate Zone (RZ):

Alectra Utilities completed the DVA continuity schedule for the Horizon RZ included in the 2020 IRM Rate Generator Model at tab 3 for its Group 1 DVAs and calculated a total amount eligible for disposition as a debit of $3,828,158. These balances include interest calculated to December 31, 2019.

Based on the threshold test calculation, the Group 1 DVA balances equate to a debit of $0.0007 per kWh, which does not meet the pre-set disposition threshold of $0.001 per kWh. Alectra Utilities is not requesting disposition of the Group 1 DVA balances for the Horizon RZ in this application. 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 *Electricity Reporting and Record Keeping Requirements*[1] and the balances being reported in the DVA continuity schedule and is satisfied with the evidence provided to substantiate those variances.

OEB staff supports Alectra Utilities' request to defer disposition of the Group 1 DVA balances for the Horizon RZ to a future proceeding.

<u>Brampton RZ:</u>

Alectra Utilities completed the DVA continuity schedule for the Brampton RZ included in the 2020 IRM Rate Generator Model at tab 3 for its Group 1 DVAs and calculated a total amount eligible for disposition as a credit of $2,229,940. These balances include interest calculated to December 31, 2019.

Based on the threshold test calculation, the Group 1 DVA balances equate to a credit of $0.0005 per kWh, which does not meet the pre-set disposition threshold of $0.001 per kWh. Alectra Utilities is not requesting disposition of the Group 1 DVA balances for the Brampton RZ in this application. 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 balances being reported in the DVA continuity schedule and is satisfied with the evidence provided to substantiate those variances.

OEB staff supports Alectra Utilities' request to defer disposition of the Group 1 DVA balances for the Brampton RZ to a future proceeding.

<u>PowerStream RZ:</u>

Alectra Utilities completed the DVA continuity schedule for the PowerStream RZ included in the 2020 IRM Rate Generator Model at tab 3 for its Group 1 DVAs. Alectra Utilities requests to dispose of a credit of $14,438,240 in its Group 1 DVA balances applicable to the PowerStream RZ over a one-year period. These balances include interest calculated to December 31, 2019.

Based on the threshold test calculation, the Group 1 DVA balances equate to a credit of $0.0017 per kWh, which exceeds the pre-set disposition threshold of $0.001 per kWh. 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 balances being

[1] Electricity Reporting and Record Keeping Requirements, Version dated November 29, 2018, 2.1.7

requested for disposition and is satisfied with the evidence provided to substantiate those variances.

The balance of Account 1589 – Global Adjustment (GA) is a credit of $8,490,185. Alectra Utilities has established separate rate riders for the PowerStream RZ to dispose of its GA account balance. These rate riders are only applicable to non-RPP Class B customers.

The OEB's *Chapter 3 Filing Requirements for Incentive Rate-setting Applications*[2] (Chapter 3 Filing Requirements) state that when the allocated Account 1580 sub-account Capacity-Based Recovery (CBR) Class B amount results in a volumetric rate rider that rounds to zero at the fourth decimal place in one or more rate classes, the entire sub-account CBR Class B amount will be added to Account 1580 WMS control account to be disposed through the general purpose Group 1 DVA rate riders. The Account 1580 sub account CBR Class B credit balance of $229,043 does not produce a rate rider in one or more rate class in the PowerStream RZ, and accordingly, the entire CBR Class B balance is added to Account 1580 WMS control account in calculating the DVA rate riders in the IRM Rate Generator Model.

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 31 PowerStream RZ customers who qualified as Class A customers effective July 1, 2018 under the Independent Electricity System Operator's (IESO) expansion of the Industrial Conservation Initiative (ICI). These customers paid GA costs as Class B customers from January 1, 2018 up to and including June 30, 2018, and paid GA costs as Class A customers from July 1, 2018 up to and including December 31, 2018. As such, these customers should be allocated only the portion of the GA account balance which accrued prior to their classification as Class A customers (i.e. from January 1, 2018 to June 30, 2018).

There were also 12 PowerStream RZ customers that ceased to qualify as Class A customers effective July 1, 2018, under the IESO's expansion of the ICI. These customers paid GA costs as Class A customers from January 1, 2018 up to and including June 30, 2018, and paid GA costs as Class B customers from July 1, 2018 up to and including December 31, 2018. These customers should be allocated only the portion of the GA account balance which accrued after their reclassification to Class B customers (i.e. from July 1, 2018 to December 31, 2018).

[2] Filing Requirements For Electricity Distribution Rate Applications - Chapter 3 Incentive Rate-Setting Applications, July 12, 2018

Alectra Utilities notes that it will settle the GA amounts attributable to Class A/B transition customers in the PowerStream RZ through twelve equal customer-specific adjustments to bills. OEB staff submits that Alectra Utilities has properly allocated recovery of the GA balances 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.

For the reasons outlined in the section of this submission titled “Final Disposition of Group 1 DVAs”, OEB staff submits that the Group 1 DVA balances for the PowerStream RZ should be disposed of on a final basis.

Enersource RZ:

Alectra Utilities completed the DVA continuity schedule for the Enersource RZ included in the 2020 IRM Rate Generator Model at tab 3 for its Group 1 DVAs. Alectra Utilities requests to dispose of a credit of $7,839,594[3] 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, 2019.

Based on the threshold test calculation, the Group 1 DVA balances equate to a credit of $0.0011 per kWh, which exceeds the pre-set disposition threshold of $0.001 per kWh. 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 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 $9,498,967[4] and the balance of Account 1580 sub-account CBR Class B is a credit of $528,470. Alectra Utilities has established separate rate riders for the Enersource RZ to dispose of its GA and CBR account balances. The GA rate riders are only applicable to non-RPP Class B customers and the CBR rate riders are only applicable to Class B customers.

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.

[3] Updated, in response to interrogatories ERZ-Staff-2 and ERZ-Staff-3, from a credit amount of $7,615,246, as originally filed in Exhibit 3, Tab 1, Schedule 7.
[4] Updated, in response to interrogatories ERZ-Staff-2 and ERZ-Staff-3, from a credit amount of $9,274,619, as originally filed in Exhibit 3, Tab 1, Schedule 7.

There were 27 Enersource RZ customers who qualified as Class A customers effective July 1, 2018 under the IESO's expansion of the ICI. These customers paid GA and CBR costs as Class B customers from January 1, 2018 up to and including June 30, 2018, and paid GA and CBR costs as Class A customers from July 1, 2018 up to and including December 31, 2018. 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, 2018 to June 30, 2018).

There were also six Enersource RZ customers that ceased to qualify as Class A customers effective July 1, 2018, under the IESO's expansion of the ICI. These customers paid GA and CBR costs as Class A customers from January 1, 2018 up to and including June 30, 2018, and paid GA costs as Class B customers from July 1, 2018 up to and including December 31, 2018. 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, 2018 to December 31, 2018).

Alectra Utilities notes that it will settle the GA and CBR amounts attributable to Class A/B transition customers in the Enersource RZ through twelve equal customer-specific adjustments to bills. OEB staff submits that Alectra Utilities has properly allocated recovery of the GA and CBR balances 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.

For the reasons outlined in the section of this submission titled "Final Disposition of Group 1 DVAs", OEB staff submits that the Group 1 DVA balances for the Enersource RZ should be disposed of on a final basis.

<u>Guelph RZ:</u>

Alectra Utilities completed the DVA continuity schedule for the Guelph RZ included in the 2020 IRM Rate Generator Model at tab 3 for its Group 1 DVAs and calculated a total amount eligible for disposition as a credit of $438,399.[5] These balances include projected interest calculated to December 31, 2019.

Based on the threshold test calculation, the Group 1 DVA balances equate to a credit of $0.0003 per kWh, which does not meet the pre-set disposition threshold of $0.001 per kWh. Alectra Utilities is not requesting disposition of the Group 1 DVA balances for the

[5] Updated in response to interrogatory GRZ-Staff-4 from a credit amount of $1,226,282, as originally filed in Exhibit 3, Tab 1, Schedule 7; subsequently updated to a credit amount of $438,399 as part of an Addendum to Alectra Utilities' Argument in Chief, filed on September 5, 2019

Guelph RZ in this application. OEB staff has reviewed Alectra Utilities' Group 1 DVA balances for the Guelph RZ. In addition, OEB staff has reviewed the variances between the balances reported as part of the *Reporting and Record-keeping Requirements* and the balances being reported in the DVA continuity schedule and is satisfied with the evidence provided to substantiate those variances.

OEB staff supports Alectra Utilities' request to defer disposition of the Group 1 DVA balances for the Guelph RZ to a future proceeding.

Final Disposition of Group 1 DVAs

On July 20, 2018, the OEB issued a letter to all rate-regulated licensed electricity distributors, advising them that the OEB is undertaking an initiative to standardize the accounting processes used by distributors relating to RPP wholesale settlements. This letter also stated that, effective immediately, the OEB will not be approving Group 1 rate riders on a final basis pending the development of this further guidance.

On February 21, 2019, the OEB issued its Accounting Procedures Handbook Update - Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589, outlining its standardized requirements for regulatory accounting and RPP settlements that all distributors are expected to follow (Accounting Guidance). The Accounting Guidance is effective January 1, 2019, and was to be implemented by August 31, 2019.

In the OEB's *Addendum to Filing Requirements for Electricity Distribution Rate Applications – 2020 Rates* (the 2020 Filing Requirements Addendum), under Section 3.2.5.3, the OEB stated that, for 2020 rate applications, distributors are to provide a status update on the implementation of the new Accounting Guidance, a review of historical balances, results of the review, and any adjustments made to account balances. The 2020 Filing Requirements Addendum also states the following expectations for final disposition requests of commodity pass-through account balances:

- Any historical balances that were previously approved on an interim basis, or not approved at all, including the 2018 balances, have been reviewed in the context of the Accounting Guidance and are confident that there are no systemic issues with their RPP settlement and related accounting processes affecting those balances.
- Any historical balances that were previously not approved by the OEB due to concerns noted have been assessed in the context of the updated Accounting Guidance. Any necessary revisions or adjustments made are documented, discussed in detail, quantified, and provided to the OEB for review prior to request for final disposition.

In response to an interrogatory,[6] Alectra Utilities explained that it has incorporated the OEB's Accounting Guidance into its settlement processes and retroactively adjusted its accounts from January 1, 2019. Alectra Utilities also provided a detailed explanation of the process changes that were required to conform to the new Accounting Guidance, and a quantification of the adjustments that were made in 2019. With respect to applying the Accounting Guidance to historical balances that have not been previously approved on a final basis, Alectra Utilities stated that it expected to complete this analysis by August 31, 2019.

On September 5, 2019, Alectra Utilities filed an addendum to its Argument-in-Chief, explaining the results of its review of historical balances of commodity pass-through accounts that were disposed of on an interim basis (2017) or have yet to be disposed of (2018). Alectra Utilities assessed whether any retrospective adjustments from 2017 to 2018 constituted a material impact to any of Alectra Utilities' rate zones. Alectra Utilities determined that only the Guelph RZ required its prior years' balances to be adjusted, based on materiality, and made adjustments to the Guelph RZ's commodity account balances which are reflected in an updated 2020 IRM Rate Generator Model filed as part of Alectra Utilities' addendum.

After reviewing the addendum to Alectra Utilities' Argument-in-Chief and the evidence already on the record in this proceeding, OEB staff is satisfied with the results of Alectra Utilities' review of historic balances. Accordingly, OEB staff submits that the Group 1 DVA balances for the PowerStream and Enersource RZs should be disposed of on a final basis, in accordance with the 2020 Filing Requirements Addendum.

Retail Transmission Service Rates (RTSRs)

In the OEB staff interrogatory G-Staff-1, OEB staff noted that the 2019 Hydro One Networks Inc.'s Sub-transmission rates and the final 2019 Uniform Transmission Rates (UTRs) had been incorporated into the OEB's 2020 IRM Rate Generator Model. Alectra Utilities was asked to update the RTSRs calculations by completing the OEB's 2020 IRM Rate Generator Models for its five rate zones.

In response to OEB staff interrogatory G-Staff-1, Alectra Utilities updated the RTSRs calculations by completing the OEB's 2020 IRM Rate Generator Model for its five rate zones. In Tab 20 Bill Impacts of the OEB's 2020 IRM Rate Generator Model, if the bill impact of the RTSR–Network Service Rate (the Network Charge) or the RTSR–Line and Transformation Connection Service Rate (the Connection Charge) exceeds 4%

[6] Interrogatory Response to G-Staff-3, August 16, 2019

increase, the Rate Generator Model will show an instruction in red text asking the applicant to discuss the reasoning for the change in RTSRs.

In review of the updated Rate Generator Models that Alectra Utilities filed for its five rate zones, OEB staff notes that the proposed 2020 Network Charges for all five rate zones are red flagged with significant increases from last year. For the Enersource RZ, the proposed Connection Charges also increased significantly. However, Alectra Utilities did not provide any explanations or reasons for the increase in RTSRs as required in the IRM Rate Generator Models. The table below summarizes the impacts for the individual RTSRs for the five rate zones of Alectra Utilities.

Impacts of RTSRs for PowerStream, Guelph, Brampton, Horizon and Enersource RZs

	PowerStream RZ		Guelph RZ		Brampton RZ		Horizon RZ		Enersource RZ	
Rate Class	**Network**	**Connection**	**Network**	**Connection**	**Network**	**Connection**	**Network**	**Connection**	**Network**	**Connection**
Residential Service Classification	8.22%	2.50%	4.41%	-1.61%	8.33%	1.59%	9.72%	3.03%	7.89%	8.22%
General Service Less Than 50 kW Service Classification	7.69%	2.86%	4.84%	-1.82%	7.81%	1.89%	9.52%	3.39%	8.45%	9.23%
General Service 50 To 499 kW Service Classification	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	8.20%	8.52%
General Service 500 To 4,999 kW Service Classification	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	8.20%	8.52%
General Service 500 To 699 kW Service Classification	N/A	N/A	N/A	N/A	8.43%	2.11%	N/A	N/A	N/A	N/A
General Service 700 To 4,999 kW Service Classification	N/A	N/A	N/A	N/A	8.43%	2.11%	N/A	N/A	N/A	N/A
General Service 500 To 999 kW Service Classification	N/A	N/A	5.03%	-1.76%	N/A	N/A	N/A	N/A	N/A	N/A
General Service 1,000 To 4,999 kW Service Classification	N/A	N/A	5.04%	-1.76%	N/A	N/A	N/A	N/A	N/A	N/A
General Service 50 To 4,999 kW Service Classification	7.63%	2.97%	N/A	N/A	N/A	N/A	10.11%	3.69%	N/A	N/A
Large Use Service Classification	7.63%	2.97%	5.04%	-1.76%	8.43%	2.11%	10.11%	3.69%	8.20%	8.52%
Large Use With Dedicated Assets Service Classification	N/A	N/A	N/A	N/A	N/A	N/A	10.11%	3.69%	N/A	N/A
Unmetered Scattered Load Service Classification	8.06%	2.70%	4.84%	-1.82%	7.81%	1.89%	9.38%	3.33%	8.45%	9.23%
Sentinel Lighting Service Classification	7.63%	2.97%	5.03%	-1.77%	N/A	N/A	10.10%	3.70%	N/A	N/A
Street Lighting Service Classification	7.63%	2.97%	5.03%	-1.76%	8.43%	2.11%	10.11%	3.69%	8.20%	8.52%
Standby Power Service Classification	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Embedded Distributor Service Classfication	N/A	N/A	N/A	N/A	8.43%	2.11%	N/A	N/A	N/A	N/A
Distributed Generation [DGEN] Service Classification	N/A	N/A	N/A	N/A	7.81%	1.89%	N/A	N/A	N/A	N/A
Energy From Waste Service Classification	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Therefore, OEB staff submits that in its reply submission, Alectra Utilities should explain the reasons for the highlighted RTSR rate increases.

Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) Disposition

Background

Alectra Utilities originally applied to recover a debit balance of $7,257,929[7] comprised of LRAMVA balances in its Brampton, Enersource, Horizon and PowerStream RZs as of December 31, 2017. Alectra Utilities did not include the Guelph RZ in its LRAMVA, as Guelph Hydro's 2017 lost revenue amounts were disposed of in its 2019 IRM application.[8] Alectra Utilities' LRAMVA balances sought for disposition are inclusive of projected interest as of December 31, 2019.

[7] Alectra Utilities' 2020 rate application, EB-2019-0018, Exhibit 3, Tab 1, Schedule 10, page 2 of 15
[8] Alectra Utilities' 2020 rate application, EB-2019-0018, Exhibit 3, Tab 1, Schedule 10, page 1 of 15

In response to OEB staff interrogatories, Alectra Utilities updated its LRAMVA debit balance to $8,249,813 to account for changes in the following areas:

(1) inclusion of 2017 unverified savings adjustments in all rate zones based on the IESO's 2019 Participation and Cost Report
(2) reduction in demand savings recovered for street lighting upgrades in three of its rate zones
(3) revision to the LRAMVA threshold used in the PowerStream RZ balance to include forecasted demand savings for the street light class

The original and revised LRAMVA balances by rate zone are as follows:

Rate Zone LRAMVA	Original Balance	Revised Balance
Brampton RZ	$ 1,095,288	$ 1,216,190
Enersource RZ	$ 2,389,285	$ 2,724,213
Horizon RZ	$ 1,312,925	$ 1,319,691
PowerStream RZ	$ 2,460,286	$ 2,989,719
Total	**$ 7,257,784**	**$ 8,249,813**

Brampton RZ

The revised LRAMVA balance of $1,216,190 includes lost revenue from incremental Conservation and Demand Management (CDM) activity in 2017, and persisting savings in 2017 from programs delivered between 2013 and 2016. Actual savings were compared to a LRAMVA threshold of 53,726,380 kWh. Hydro One Brampton Networks Inc.'s (Hydro One Brampton) most recently approved load forecast was established in the 2015 cost of service proceeding.[9]

Enersource RZ

The revised LRAMVA balance of $2,724,213 includes lost revenue from incremental CDM activity in 2017, and persisting savings in 2017 from programs delivered between 2011 and 2016. Actual savings were compared to a LRAMVA threshold of 119,146,362 kWh. Enersource Hydro Mississauga Inc.'s (Enersource Hydro) most recently approved load forecast was established in the 2013 cost of service proceeding.[10]

Horizon RZ

The revised LRAMVA balance of $1,319,691 includes lost revenue from incremental CDM activity in 2017, and persisting savings in 2017 from programs delivered between 2015 and 2016. Actual savings were compared to a LRAMVA threshold of 19,129,390

[9] Decision and Order, EB-2014-0083, Settlement Proposal, Settlement Table 12
[10] Decision and Order, EB-2012-0033, December 13, 2012, page 28

kWh. Horizon Utilities Corporation's (Horizon Utilities) most recently approved load forecast was established in the 2015 Custom IR proceeding.[11]

PowerStream RZ

The revised LRAMVA balance of $2,989,719 includes lost revenue from incremental CDM activity in 2017, and persisting savings in 2017 from programs delivered between 2015 and 2016. Actual savings were compared to a LRAMVA threshold of 157,709,956 kWh. PowerStream's most recently approved load forecast was established in the 2017 Custom IR proceeding.[12]

Submission

OEB staff submits that the revised LRAMVA balances for Alectra Utilities' Enersource, Brampton, and PowerStream RZs are calculated in accordance with the OEB's CDM policy and LRAMVA guidelines. OEB staff does not take issue with the updated LRAMVA debit balance of $6,930,122 for these rate zones.

For the Horizon RZ's revised debit balance of $1,319,691, OEB staff has provided a detailed submission on the following issues:

- Accuracy of the LRAMVA threshold
- Lost revenues from street light savings

Horizon RZ's LRAMVA Threshold

Alectra Utilities used a LRAMVA threshold of 19,129,390 kWh for the Horizon RZ in this application. OEB staff acknowledges that it supported,[13] and the OEB approved,[14] Horizon RZ's LRAMVA balance using a threshold of 19,129,390 kWh in the 2019 rates proceeding.

As part of this proceeding, OEB staff asked for information on the unadjusted and adjusted load forecast, before and after CDM, in HRZ-staff-6 a). However, Alectra Utilities did not provide the requested information. Rather, Alectra Utilities stated as the load forecast was adjusted for incremental CDM savings, the CDM threshold for the purpose of the LRAMVA calculation is 19,129,390 kWh in 2017.[15]

To ensure that the correct LRAMVA threshold is applied in 2017, OEB staff undertook further review and analysis of the record in Horizon Utilities' 2015 Custom IR proceeding. Following OEB staff's review, it appears that the Horizon RZ's 2017 load

[11] Decision and Order, EB-2014-0002, December 11, 2014
[12] Decision and Rate Order, EB-2015-0003, September 27, 2016
[13] OEB Staff Submission, EB-2018-0016, November 23, 2018, page 14
[14] Partial Decision and Order, EB-2018-0016, December 20, 2018, page 23
[15] Interrogatory Responses to HRZ-Staff-6 b) and c)

forecast was manually adjusted for 70,790,885 kWh of forecasted CDM activity. OEB staff was able to reconcile this CDM adjustment to the total load reduction on the 2017 load forecast found in the Settlement Agreement.

OEB staff submits that Horizon RZ's LRAMVA threshold should be 70,790,885 kWh in 2017, instead of 19,129,390 kWh as proposed by Alectra Utilities. The proposed 19,129,390 kWh threshold appears to be an incremental change in CDM savings in 2017, and not a cumulative savings reduction to the 2017 load forecast. To be consistent with OEB policy, the LRAMVA balance should be calculated as the difference between actual CDM savings and the manual adjustment to the distributor's load forecast to account for anticipated CDM activity in that year (i.e. the level embedded into rates).[16]

The OEB approved the Settlement Agreement for Horizon Utilities' 2015 Custom IR application. In response to OEB staff interrogatories in this proceeding, Alectra Utilities states that the Settlement Agreement included load, customer, connection and device forecasts from 2015 to 2019 in Tables 28 to 32. Alectra Utilities further states that the load forecast included a CDM adjustment for each year of the Custom IR plan, as identified in Table 3-6 of the 2015 Custom IR application.[17] For ease of reference, Table 3-6 is re-produced in Staff Table 1 below with 19,129,390 kWh (boxed in blue):

Staff Table 1 – Estimated CDM Savings by Customer Class (kWh)

Year	Residential	GS < 50 kW	GS > 50 kW	Total
2014	12,575,666	4,393,315	11,173,019	28,142,000
2015	3,350,520	928,649	15,255,036	19,534,205
2016	3,103,523	846,487	15,255,036	19,205,046
2017	3,027,867	846,487	15,255,036	19,129,390
2018	3,027,867	846,487	15,255,036	19,129,390
2019	3,027,867	846,487	15,255,036	19,129,390

Source: EB-2014-0002, Exhibit 3, Tab 1, Schedule 2, Table 3-6, page 10 of 33

In response to OEB staff interrogatories in this proceeding, Alectra Utilities states that the CDM threshold in 2017, as provided in the Settlement Agreement, is 19,129,390 kWh.[18] However, OEB staff notes that the Settlement Agreement did not explicitly identify the LRAMVA threshold or the CDM adjustment.

OEB staff compiled excerpts from Horizon Utilities' 2015 Custom IR proceeding to confirm the CDM adjustments to the load forecast. These are documented below.

[16] Guidelines for Electricity Distributor Conservation and Demand Management, EB-2012-0003, April 26, 2012, page 12
[17] Interrogatory Response to HRZ-Staff-6 b)
[18] Interrogatory Response to HRZ-Staff-6 f)

In the 2015 Custom IR proceeding, Horizon Utilities' response to 3.0-VECC-18 d) showed the total CDM assumptions that Horizon Utilities used for the 2015-2019 load forecasts. In 2017, it shows that the forecast CDM savings in 2017 is equal to the sum of forecasted CDM activity from 2014 to 2017. The response to 3.0-VECC-18 is re-produced in Staff Table 2 with 70,790,885 kWh (boxed in green):

Staff Table 2 – Total Forecast CDM Savings in 2017 Test Year (kWh)

	Forecast Year - Total CDM Savings Assumed					
CDM Program Year	2014 Bridge Year	2015 Test Year	2016 Test Year	2017 Test Year	2018 Test Year	2019 Test Year
2014 Bridge Year	7,035,500	28,142,000	28,142,000	28,142,000	28,142,000	28,142,000
2015 Test Year		3,710,968	19,534,205	19,534,205	19,534,205	19,534,205
2016 Test Year			3,968,422	19,205,046	19,205,046	19,205,046
2017 Test Year				3,909,634	19,129,390	19,129,390
2018 Test Year					3,909,634	19,129,390
2019 Test Year						3,909,634
Total	7,035,500	31,852,968	51,644,627	70,790,885	89,920,275	109,049,665

Source: EB-2014-0002, Interrogatory response to 3.0-VECC-18 d) Table 1

The responses to 3.0-VECC-19, 20 and 21 are re-produced in Staff Tables 3, 4 and 5, which shows (in green) the CDM adjustment for the residential, GS<50 kW and GS>50 kW rate classes respectively.

Staff Table 3 – Net Load and CDM Savings in Residential Class (kWh)

Residential	Unadjusted for CDM (kWh)	Adjusted for CDM (kWh)	CDM Adjustment	Table 3-6	Table 3-7
2014 Bridge Year	1,633,183,207	1,630,039,291	3,143,917	12,575,666	12,575,666
2015 Test Year	1,630,604,915	1,617,715,605	12,889,310	3,350,520	15,926,186
2016 Test Year	1,632,113,317	1,615,569,770	16,543,548	3,103,523	19,029,709
2017 Test Year	1,627,702,719	1,608,117,860	19,584,859	3,027,867	22,057,576
2018 Test Year	1,627,604,338	1,604,991,612	22,612,726	3,027,867	25,085,443
2019 Test Year	1,626,379,723	1,600,739,130	25,640,593	3,027,867	28,113,310

Source: EB-2014-0002, Interrogatory response to 3.0-VECC-19 b) Table 1

Staff Table 4 – Net Load and CDM Savings in GS<50 kW Class (kWh)

GS < 50 kW	Unadjusted for CDM (kWh)	Adjusted for CDM (kWh)	CDM Adjustment	Table 3-6	Table 3-7
2014 Bridge Year	590,199,426	589,101,097	1,098,329	4,393,315	4,393,315
2015 Test Year	590,445,253	586,002,830	4,442,422	928,649	5,321,964
2016 Test Year	591,143,528	585,648,636	5,494,892	846,487	6,168,451
2017 Test Year	589,487,741	583,142,939	6,344,802	846,487	7,014,938
2018 Test Year	588,749,906	581,558,617	7,191,289	846,487	7,861,425
2019 Test Year	587,936,814	579,899,038	8,037,776	846,487	8,707,912

Source: EB-2014-0002, Interrogatory response to 3.0-VECC-20 b) Table 1

Staff Table 5 – Net Load and CDM Savings in GS>50 kW Class (kWh)

GS > 50 kW	Unadjusted for CDM (kWh)	Adjusted for CDM (kWh)	CDM Adjustment	Table 3-6	Table 3-7
2014 Bridge Year	1,865,094,324	1,862,301,069	2,793,255	11,173,019	11,173,019
2015 Test Year	1,872,385,651	1,857,864,416	14,521,236	15,255,036	26,428,055
2016 Test Year	1,882,436,649	1,852,830,462	29,606,188	15,255,036	41,683,091
2017 Test Year	1,886,034,069	1,841,172,846	44,861,224	15,255,036	56,938,127
2018 Test Year	1,892,041,498	1,831,925,238	60,116,260	15,255,036	72,193,163
2019 Test Year	1,897,968,467	1,822,597,172	75,371,296	15,255,036	87,448,199

Source: EB-2014-0002, Interrogatory response to 3.0-VECC-21 b) Table 1

There are three conclusions from these tables.

First, Alectra Utilities' 19,129,390 kWh proposed threshold can be reconciled against the sum of the incremental CDM adjustments by rate class under column "Table 3-6" in Staff Tables 3, 4 and 5 (in blue boxes):

(i) 3,027,867 kWh for residential class
(ii) 846,487 kWh for GS<50 kW class
(iii) 15,255,036 kWh for GS>50 kW class

19,129,390 kWh (total incremental change in 2017)

As stated by Horizon Utilities in the 2015 Custom IR proceeding in response to Vulnerable Energy Consumers Coalition's (VECC) interrogatories, Table 3-6 provides the estimated CDM savings for 2015 to 2019 based on historical program achievements, and the incremental impact of known CDM programs implemented in each of these years.[19]

Second, the 70,790,885 kWh CDM adjustment can be reconciled against the difference in 2017 load (unadjusted and adjusted for CDM) by rate class in Staff Tables 3, 4 and 5 (in green boxes):

(i) 19,584,859 kWh for residential class
(ii) 6,344,802 kWh for GS<50 kW class
(iii) 44,861,224 kWh for GS>50 kW class

70,790,885 kWh (total CDM adjustment from 2014-2017 forecast savings)

Third, the adjusted load forecasts by rate class in 2017 (from Staff Tables 3, 4 and 5) match the rate class load forecast included in Horizon Utilities' Settlement Proposal under the "Application" column (in orange boxes). Even though the CDM adjustment of 70,790,885 kWh cannot be reconciled against the final load approved as the billing

[19] EB-2014-0002, Interrogatory Response to 3.0-VECC-18 a)

determinants for setting rates, OEB staff understands that the difference between the final, approved load forecast (“Settlement Agreement” column) and initial load (“Application” column) is not attributable to further CDM adjustments, but rather for statistical modelling changes.[20] An excerpt of Settlement Table 30 is re-produced in Staff Table 6 below.

Staff Table 6 – Horizon Utilities, Settlement Table 30, 2017 Load Forecast (kWh)

Customer Class	Application	Interrogatory / Technical Conference Updates	Settlement Agreement
Residential			
Customers	224,093	224,093	224,093
kWh	1,608,117,860	1,601,729,710	1,639,722,296
GS < 50 kW			
Customers	18,565	18,565	18,565
kWh	583,142,939	580,981,669	592,034,180
GS > 50 kW			
Customers	2,258	2,258	2,258
kWh	1,841,172,846	1,831,308,912	1,850,271,866
kW	5,068,149	5,040,934	5,093,344

Source: EB-2014-0002, Settlement Proposal, Settlement Table 30, p. 51 of 63

In Staff Tables 3, 4 and 5 above under the column “Table 3-7”, it appears that Alectra Utilities has included an estimated annual cumulative CDM savings amount in each year.[21] This would be a valuable reference to use in trying to determine the CDM adjustment to the approved load forecast. However, OEB staff cannot reconcile the rate class CDM adjustments in column “Table 3-7” of Staff Tables 3, 4 and 5 with the evidence supporting the Settlement Agreement of Horizon Utilities’ 2015 Custom IR application.

Rather, it appears that Horizon Utilities confirmed that the values shown under the “CDM adjustment” column of Staff Tables 3, 4 and 5 were applied to its approved annual load forecasts included in its 2015 Custom IR Settlement Agreement.[22]

Based on the evidence in Horizon Utilities’ 2015 Custom IR proceeding, OEB staff submits that the LRAMVA threshold for the Horizon RZ should be revised to 70,790,885 kWh unless Alectra Utilities can demonstrate that 2017 load was adjusted by total CDM savings of 19,129,390 kWh.

Although Alectra Utilities believes that it is appropriate to use an incremental CDM adjustment of 19,129,390 kWh as the LRAMVA threshold, OEB staff believes that this

[20] Section 3.10 of Horizon Utilities’ Settlement Proposal, pages 47-48 of 63
[21] Exhibit 3, Tab 1, Schedule 2, Table 3-7, page 11 of 33
[22] EB-2014-0002, Interrogatory Responses to 3.0-VECC-19, 20 and 21 b)

does not represent the total CDM adjustment made to the load forecast, which is required by the CDM Guidelines for the calculation of lost revenue impacts.

OEB staff further submits that the analysis supporting the LRAMVA threshold of 70,790,885 kWh in the Horizon RZ is congruent to the manner in which Alectra Utilities has derived the LRAMVA threshold for the PowerStream RZ (also under the Custom IR rate framework). As PowerStream's LRAMVA threshold of 157,709,956 kWh reflects total CDM savings embedded in its 2017 load forecast,[23] OEB staff believes that the same approach should be used for the Horizon RZ.

If Alectra Utilities agrees to use 70,790,885 kWh as the LRAMVA threshold in the Horizon RZ, OEB staff requests that the LRAMVA balance also be updated to include the persistence of 2014 actual savings in 2017. As is currently filed, actual savings from 2015 and 2016 CDM programs persisting into 2017 are included in Horizon RZ's LRAMVA balance. Since the 70,790,855 kWh proposed threshold includes forecasted savings persistence from 2014 into 2017, OEB staff believes that actual savings persistence from 2014 into 2017 need to be included to determine a variance between forecast and actual savings from 2014 programs.

Street Light Demand Savings

Upon further review of Horizon RZ's calculation of lost revenues from street lighting upgrades, it appears that actual savings of 18,182 kW from its two street lighting projects were not compared against forecast savings of 109,426 kW identified in its last LRAMVA filing (specifically 80,726 kW for the City of Hamilton and 28,700 kW in St. Catharine's).[24]

By OEB staff's calculations, making such a correction would result in a credit balance of more than $350,000 being returned to the street light class, as opposed to a debit balance of $102,882 being collected as is currently filed. OEB staff notes that forecast savings for the street light class were not included in Tabs 1, 2, 5 or 8 in the Horizon RZ's LRAMVA workform.

Alectra Utilities should address the above noted issues in its reply submission and confirm the updated LRAMVA balance requested for disposition. OEB staff estimates that if the three adjustments are made, the balance will be reduced from $1,319,691 to approximately $650,000.

[23] EB-2015-0003, Section B, Tab 2, Schedule 7, page 7 of 15 (Interrogatory Responses to II-VECC-5 b and c); EB-2015-0003, Section B, Tab 3, Schedule 7, page 20 of 27 (Interrogatory Response to III-VECC-25 a)
[24] EB-2018-0016, "DRO_Attach 9_LRAMVA Workform- HRZ", Tab 10 Street lighting

Request for a Customer Service Rules-related Lost Revenue Variance Account (CSRLRVA)

Background

On February 23, 2017, the OEB issued a decision and order amending the licenses of all electricity distributors to ban the disconnection of residential customers due to non-payment of account charges until April 30, 2017.[25] Shortly thereafter, the OEB established a disconnection ban for residential customers on a go-forward basis from November 15 to April 30.[26]

On December 18, 2018, the OEB issued a Notice of Proposal to Amend Codes and a Rule as part of the OEB's Review of the Customer Service Rules (the December 2018 Notice of Proposal) and proposed to eliminate the OEB-approved Collection of Account charge that was previously applied by most distributors.[27] In the December 2018 Notice of Proposal, the OEB indicated that it would consider applications from distributors for a deferral account to track lost revenues from the eliminated charge, with evidence demonstrating that such an account would meet the eligibility requirements set out in the OEB's *Chapter 2 Filing Requirements for Electricity Distribution Rate Applications* (Chapter 2 Filing Requirements).

On March 14, 2019, the OEB issued the Notice of Amendments to Codes and a Rule with a Rate Order to effect the amendments to the non-payment of account service charges for electricity and natural gas distributors (the March 2019 Notice of Amendments).[28] Among other things, the March 2019 Notice of Amendments prohibited distributors from applying the Collection of Account charge effective July 1, 2019.[29] The March 2019 Notice of Amendments reiterated that the OEB did not find it prudent to establish a generic deferral account for all distributors to recover the lost revenues associated with the eliminated charges (including the Collection of Account charge). The March 2019 Notice of Amendment further indicated that the OEB would consider applications from distributors for a deferral account to track the impact of eliminating the two charges relating to non-payment of accounts, with evidence demonstrating that such an account would meet the eligibility requirements set out in the Chapter 2 Filing Requirements.

[25] Decision and Order, EB-2017-0101, February 23, 2017
[26] Decision and Order, EB-2017-0318, November 2, 2017
[27] Notice of Proposal to Amend Codes and a Rule, EB-2017-0183, December 18, 2018, page 41
[28] Notice of Amendments to Codes and a Rule, EB-2017-0183, March 14, 2019
[29] Rate Order, EB-2017-0183, March 14, 2019

Section 2.9.4 of the Chapter 2 Filing Requirements states that the following criteria must be met where an applicant seeks an accounting order to establish a new deferral/variance account:

- Materiality. The forecasted amounts must exceed the OEB-defined materiality threshold and have a significant influence on the operation of the distributor, otherwise they must be expensed in the normal course and addressed through organizational productivity improvements.
- Causation. The forecasted expense must be clearly outside of the base upon which rates were derived.
- Prudence. The nature of the costs and forecasted quantum must be based on a plan that sets out how the costs will be reasonably incurred, although the final determination of prudence will be made at the time of disposition. In terms of the quantum, this means that the applicant must provide evidence demonstrating as to why the option selected represents a cost-effective option (not necessarily least initial cost) for ratepayers.[30]

In the current application, Alectra Utilities requests approval for an accounting order to establish a new variance account to record lost revenue and incremental capital costs resulting from not only the elimination of the Collection of Account charge but also other changes to the customer service rules, as well as future policy changes implemented by the OEB. Alectra Utilities states that it "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."[31] The changes to the customer service rules that Alectra Utilities identifies as having an adverse financial impact on its operations include the winter disconnection ban and the subsequent elimination of the Collection of Account charge, as discussed above, as well as:

- extending the mandatory minimum payment period before a late payment charge can be applied from 16 to 20 calendar days
- prohibiting distributors from applying late payment charges to amounts covered by OEB-prescribed arrears payment agreements (APA)
- requiring distributors to waive the disconnect/reconnect charge for eligible low-income customers

[30] *Chapter 2 Filing Requirements for Electricity Distribution Rate Applications – 2018 Edition for 2019 Rate Applications*, July 12, 2018, section 2.9.4. Note that the *Addendum to Filing Requirements for Electricity Distribution Rate Applications – 2020 Rate Applications* did not affect section 2.9.4.
[31] Alectra Utilities' 2020 rate application, EB-2019-0018, Exhibit 2, Tab 1, Schedule 4, page 8

Alectra Utilities provided the following table[32] to categorize the estimated financial impacts of the various changes to the customer service rules:

Table 18 – Impact of Customer Service Rule Changes

Customer Service Rule	OEB Decision	Estimated Impact
Minimum Payment Period	The Minimum Payment Period before a late payment penalty can be applied should be at least 20 calendar days from the date the bill is issued to the customer.	Alectra Utilities estimates that the combined revenue impact of changes to the Minimum Payment Period and Arrears Payment Arrangements (described below) to be approximately $0.3MM per year.
Arrears Payment Agreements	Distributors should not apply late payment charges on the amount covered by the Arrears Payment Agreements for all residential customers.	As provided above, Alectra Utilities estimates the impact to be approximately $0.3MM per year.
Collection of Account Charge	Customer should not be charged the Collection of Account Charge.	Alectra Utilities estimates the combined revenue impact of the removal of the collection of account charge and winter disconnection ban to be approximately $2.5MM per year.
Winter Disconnection Ban	Distributors are prohibited from disconnecting customer for non-payment from November 15 to April 30 each year.	As provided above, Alectra Utilities estimates the impact to be approximately $2.5MM per year.
Disconnect/Reconnect Charge	Distributors are required to waive the Disconnect/Reconnect charge for eligible low-income customers.	Alectra Utilities estimates the revenue impact to be approximately $0.02MM per year.

32 Alectra Utilities' 2020 rate application, EB-2019-0018, Exhibit 2, Tab 1, Schedule 4, page 10

In addition to the above costs, Alectra Utilities also estimates one-time capital programming costs of $1.0 million, and that it will also monitor the impact of these rule changes on its bad debts in order to assess the potential impact.[33]

In its responses to OEB staff interrogatories, Alectra Utilities has proposed an effective date of February 23, 2017 for the account. Alectra Utilities also proposed to record the impact of changes to the Minimum Payment Period and Arrears Payment Arrangements effective March 1, 2020, which is the effective date for the implementation of these policy changes.[34]

Submission

OEB staff submits that there are two primary questions related to Alectra Utilities' request for the CSRLRVA that require consideration:

1. Are all of the identified types of costs/foregone revenues eligible for inclusion in the deferral account that the OEB referred to in the December 2018 Notice of Proposal and the March 2019 Notice of Amendment?

2. Do the costs/foregone revenues that are eligible for inclusion in the deferral account constitute a material financial impact on an annual basis?

OEB staff will address these two questions as follows:

<u>Types of costs/foregone revenue eligible for deferral/variance account inclusion</u>

<u>Capital Programming Costs</u>

OEB staff submits that the $1.0 million capital programming costs should not be eligible for tracking in the proposed variance account. In the December 2018 Notice of Proposal, the OEB stated the following with respect to the implementation costs associated with customer service rule changes:

> The OEB acknowledges that at least some Utilities will need to incur costs in order to bring their current practices into line with the proposed requirements and that in some cases the cost might be material. The OEB however believes that the benefits of the proposed amendments, as discussed above, outweigh the costs. Further, the OEB believes that some of the incremental costs are likely to be offset by the expected decrease in the costs associated with dealing with customer complaints relating to the customer service issues addressed in this Notice. Utilities are also expected to explore other opportunities for cost savings such as expansion of e-billing, enhanced and timely communication with

[33] Alectra Utilities' 2020 rate application, EB-2019-0018, Exhibit 2, Tab 1, Schedule 4, page 9
[34] Interrogatory Response to G-Staff-4 c)

> customers, and improved collection processes. **The OEB does not find it reasonable to allow electricity and gas distributors to record implementation costs for potential future recovery.** [emphasis added]

This view, which the OEB reiterated in the March 2019 Notice of Amendments, is based on the expectation that distributors will see benefits from the amendments (such as decreased costs associated with customer complaints) that will, at least partially, offset the capital programming costs.

Late Payment Charges

With respect to Alectra Utilities' estimated impacts of $0.3 million from the amendments to the late payment charges (through extension of the minimum payment period and restriction of the charge on amounts covered by OEB-prescribed APAs), Alectra Utilities explained that it has derived this estimate as 5% of existing late payment charge revenue.[35]

OEB staff has two concerns with the inclusion of foregone revenue from late payment charges in a deferral/variance account:

First, Alectra Utilities did not discuss the associated distributor benefits from the amendments to customer service rules with respect to late payment charges. In the December 2018 Notice of Proposal, the OEB stated its expectation that these changes will mutually benefit consumers and distributors:

> The OEB believes that the proposed amendments to the Rules and associated service charges are in the interest of both customers and Utilities, in that they are expected to facilitate more affordable payments by customers and decrease the likelihood of arrears reaching an unmanageable level. The proposal to eliminate the Collection of Account charge, for example, will assist customers in managing their arrears and paying their bills. Similarly, waiving late payment charges on amounts covered by APAs will likely reduce customer arrears as it encourages customers to enter into an APA as soon as possible to avoid further late payment charges. Furthermore, extending the minimum payment period, the disconnection notice period and issuing an account overdue notice prior to the issuance of the disconnection notice will increase the likelihood of customer payments and decrease the number of disconnections for non-payment.[36]

Alectra Utilities has only considered the revenue component from the changes in rules to late payment charges. OEB staff is of the view that there should be cost savings from these changes, including lower account write-offs, less time allocating resources to

[35] Interrogatory Response to G-Staff-4 a)
[36] Notice of Proposal to Amend Codes and a Rule, EB-2017-0183, December 18, 2018, pages 41-42

consumer complaints, and other similar benefits. When considering the benefits that are expected to flow to Alectra Utilities from changes in the late payment charge rules, it is not unreasonable to assume that the adverse financial impact from the changes to late payment charges will be negligible, if any.

Secondly, OEB staff submits that it would be inappropriate to treat the utility-specific deferral/variance account that the OEB referred in the March 2019 Notice of Amendments as a mechanism to capture the financial impacts of changes to any customer service rules. In the March 2019 Notice of Amendments, the OEB stated the following:

> A distributor can apply for a deferral account to track the impact of eliminating **the two charges relating to nonpayment of accounts** with evidence demonstrating that such an account would meet the eligibility requirements set out in the OEB's *Filing Requirements for Electricity Distribution Rate Applications*.[37] [emphasis added]

The two charges referred to above are the Collection of Account charge and the charge for installing or removing a load control device. In the March 2019 Notice of Amendments, the OEB did not address changes to the application of the late payment charge as an item that should warrant deferral account consideration.

For the reasons set out above, OEB staff submits that the financial impacts related to the changes to late payment charges should not be considered for inclusion in Alectra Utilities' proposed variance account. In fact, in the March 2019 Notice of Amendments, the OEB clearly addressed the electricity distributors' comments relating to the impact of extending the minimum payment period by stating that "it is inappropriate to adjust for one aspect of a distributor's rate base without consideration of other cost elements".[38]

Disconnect/Reconnect Charge

Alectra Utilities has proposed to include the lost revenue as a result of the requirement to waive the disconnect/reconnect charge for eligible low-income consumers. The annual lost revenue is forecast to be $20,000. OEB staff believes that such a negligible impact on lost revenues can be more than offset from the improvement in customer defaults and arrears recoveries. Furthermore, OEB staff also does not support the inclusion of this charge on the basis that it does not fall within the expressed parameters of the two charges related to non-payment of accounts, as discussed above.

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[37] Notice of Proposal to Amend Codes and a Rule, EB-2017-0183, December 18, 2018, page 20
[38] Notice of Amendments to Codes and a Rule, EB-2017-0183, March 14, 2019, page 5

Collection of Account Charge

As stated in the March 2019 Notice of Amendments, a distributor can apply for a deferral account to track the impact of eliminating the two charges relating to non-payment of accounts with evidence demonstrating that the account would meet the eligibility requirements. OEB staff is of the view that the revenue loss as a result of the elimination of the Collection of Account charge passes the tests for causation and prudence for each rate zone, but does not pass the materiality test for three of the five rate zones if the test is applied on a legacy service area basis. In aggregate, the estimated lost revenue does pass the single utility materiality threshold. This will be discussed further below.

OEB staff does not support certain elements of Alectra Utilities' estimated impacts related to the Collection of Account charge.

In its responses to OEB staff interrogatories, Alectra Utilities provided the following statement with respect to the estimated financial impact of $2.5 million regarding the elimination of the Collection of Account charge:

> This [Winter Disconnection Ban] resulted in a reduction in Collection of Account charge revenues in 2017 and 2018 and was forecasted to reduce revenue by approximately $0.96MM per year. The elimination of the Collection of Account charge effective July 1, 2019, was forecasted to reduce revenue by an additional $0.85MM, for a total of $1.81MM.[39]

Furthermore, Alectra Utilities stated:

> Alectra Utilities anticipates that its Credit Losses will increase over time as a result of customer behavior changes due to these OEB policy changes. The implementation of the Disconnection Ban, and subsequent elimination of the Collection of Account charge will have a significant impact on customer collection activities. Alectra Utilities has forecasted an increase in credit losses of $0.7MM for 2019 as compared to its 2017 baseline as a result of these policy changes. The combined impact to Collection of Account charge revenues is $2.5MM.[40]

Alectra Utilities has assumed that the elimination of the Collection of Account charge will lead to an increase in bad debts and credit losses. OEB staff does not agree with this assumption. For the reasons discussed earlier, the OEB has maintained the view that these policy changes will help consumers manage their arrears. Alectra Utilities appears to assert that customers will be more lax in their payments, to the point of eventual default, when the Collection of Account charge is no longer applied to their delinquent

[39] Interrogatory Response to G-Staff-4 a)
[40] Interrogatory Response to G-Staff-4 a)

accounts. This view is inconsistent with the OEB's expectations of the mutual benefits between utilities and consumers that the customer service rule changes are intended to yield. Alectra Utilities did not provide evidence to support its position that the elimination of the Collection of Account charge will lead to increased bad debts and credit losses. As a result, OEB staff submits that only lost revenues directly associated with no longer charging the Collection of Account charge should be eligible for recording in a deferral account.

Are the foregone revenues related to the Collection of Account charge material?

OEB staff notes that Alectra Utilities estimated the annual lost revenue to be $1.81 million. OEB staff posed an interrogatory[41] to Alectra Utilities, requesting information pertaining to each of the legacy rate zones. In response, Alectra Utilities provided the following table:[42]

	$000s	PRZ	HRZ	BRZ	ERZ	GRZ	Total
A	OEB-Approved Revenue Offsets per last rebasing application	12,718	5,954	4,127	4,830	2,307	29,936
B	Charges related to nonpayment of accounts included in Revenue Offsets in last rebasing application	1,565	300	622	168	233	2,888
C	Costs related to nonpayment of accounts included in OM&A in last rebasing application	1,565	300	622	168	233	2,888
D	Net revenue offsets related to nonpayment of accounts in last rebasing application (B-C):	-	-	-	-	-	-
E	Estimated revenue impact included in Table 18 from nonpayment of accounts	1,348	290	632	242	-	2,511
F	Estimated cost savings from avoiding activities pertaining to nonpayment of accounts	-	-	-	-	-	-
G	Net estimated financial impact pertaining to nonpayment of accounts: (E - F)	1,348	290	632	242	-	2,511
H	OEB-Approved Distribution Revenue Requirement (Alectra Utilities)						535,411
I	Materiality (for Alectra Utilities) (0.5% x H), or $1MM for distributors with a distribution revenue requirement of more than $200 million						1,000

[41] G-Staff-4 d)
[42] PRZ refers to PowerStream, HRZ refers to Horizon, BRZ refers to Brampton, ERZ refers to Enersource, and GRZ refers to Guelph.

Alectra Utilities did not provide the information requested in rows H and I in the table above, stating that “Materiality is assessed at the Alectra wide level, and is $1MM for a distributor with distribution revenue greater than $200MM”. Alectra Utilities has requested a new Alectra Utilities wide account rather than at a rate zone level.

OEB staff observes that in the MAADs Handbook, the OEB modified the approach to the Incremental Capital Module (ICM) materiality threshold for the period post consolidation, leading up to the first rebasing of the consolidated entity. The modification specified that the ICM calculation will be specific to each legacy service area, as opposed to a consolidated, or aggregated calculation.[43] If the OEB was to take the same approach to the testing of materiality when considering the establishment of a new deferral or variance account, then three of the five rate zones would not pass the materiality test, as is shown further below.

OEB staff submits that it would not be an unreasonable outcome that until Alectra Utilities has harmonized its rates, service revenue requirements, revenue offsets, and rate base, that materiality be assessed on a rate zone area basis.

Alectra Utilities’ request is underpinned by the notion that the individual rate zones’ financial impacts and the materiality threshold should be aggregated. Alectra Utilities has compared the aggregated financial impacts to a materiality threshold of $1 million, the level set for a distributor with distribution revenue greater than $200 million. Alectra Utilities does not have an OEB-approved revenue requirement, as it has never been before the OEB in a cost-based rate application. Alectra Utilities has individual rate zone revenue requirements (that collectively aggregate to more than $200 million) and individual rates for those legacy rate zones, for the duration of its rebasing deferral period.

OEB staff submits that one reasonable methodology in assessing whether the proposed CSRLRVA account meets the eligibility test of materiality is to compare the amount of revenue from that charge that is embedded in each legacy distributors’ rates (and no longer collectible) to the OEB’s pre-defined calculation of materiality for those respective (former) distributors. The purpose of comparing financial impacts to revenue requirement, as laid out in section 2.9.4 of the Filing Requirements, is partially to gauge whether the cost structures of a distributor materially differ from the assumptions underpinning rates. It is necessary to contextualize how much the lost revenues are in relation to approved revenue requirements to fairly assess whether the impacts are indeed material.

Alectra Utilities did not separate the $1.81 million related to the lost revenue from the elimination of the Collection of Account charge into the various rate zones. For

[43] Handbook to Electricity Distributor and Transmitter Consolidations, January 19, 2016, page 17

illustrative purposes, OEB staff has assumed that the impact by rate zone is in the same proportions as what Alectra Utilities has indicated is attributable to each rate zone (including the $0.7 million in credit losses). Alectra Utilities also stated that the Guelph RZ was not originally included in the forecast, for which the estimated impact is in the amount of $0.3 million.[44] OEB staff assumes the same proportions between actual lost revenue and forecast credit losses applies to the Guelph RZ, and derives the actual impact of lost revenues to be forecast at $0.22 million,[45] for an updated total of $2.03 million.

A summary of those proportions is provided below, along with the apportionment of the $2.03 million amongst rate zones based on those percentages (amounts in $000s). OEB staff also populated the approved revenue requirement for each rate zone and the materiality thresholds.

$000s	**PRZ**	**HRZ**	**BRZ**	**ERZ**	**GRZ**	**Total**
Estimated revenue impact from non-payment of accounts	1,348	290	632	242	300	2,811
Proportion (%)	48.0%	10.3%	22.5%	8.6%	10.7%	100%
Rate Zone share of forecast $2.03 million in lost revenues	974	209	457	175	217	2,030
OEB-approved distribution revenue requirement[46]	199,501	118,259	68,018	117,995	29,528	N/A
Materiality (0.5% x revenue requirement)	998	591	340	590	148	N/A
Threshold Met?	N	N	Y	N	Y	

[44] Interrogatory Response to G-Staff-4 d), Notes to Table
[45] (1.81 in lost revenue / 2.5 in total impact including credit losses = 72.4% of total; 72.4% x 300 = 217)
[46] PRZ: EB-2015-0073; HRZ: EB-2018-0016 Custom IR Update; BRZ: EB-2014-0083; ERZ: EB-2012-0033; GRZ: 2015-0073

In three of five of Alectra Utilities' rate zones, the estimated amount of lost revenue would be assessed as immaterial. OEB staff views this as essential context in Alectra Utilities' assertion that the impact of the elimination of the Collection of Account charge has a material impact on its financial operations.

In OEB staff's view, it would not be unreasonable to question that the financial impact resulting from the elimination of the Collection of Account charge has a significant influence on the operations of Alectra Utilities, given that, had the legacy distributors of Alectra Utilities submitted individual applications for deferral accounts, only two of them would have met the materiality threshold defined in section 2.9.4 of the OEB's Chapter 2 Filing Requirements.

Furthermore, this analysis entails no offsetting savings from the elimination of the Collection of Account charge. When asked to provide the estimated cost savings, Alectra Utilities stated that "Alectra Utilities is unable to isolate the costs related to non-payment of accounts in OM&A. The Collection of Account revenue charge is intended to cover the cost of this activity, and therefore rows B and C contain the same values."[47]

OEB staff understands why Alectra Utilities would take the aggregated approach, and notes that even with the rate zone specific approach, the largest component of the lost revenue estimate is for the PRZ which is just below the PRZ materiality threshold.

Therefore, OEB staff does not oppose the establishment of the account for all rate zones, but recommends that the approach to materiality be determined once the balances are brought forward for disposition.

If the OEB does, in fact, approve the establishment of this account, OEB staff is of the view that several critical variations should be made to Alectra Utilities' request:

1. The effective date should be July 1, 2019, the date that the Collection of Account charge is no longer applicable.

2. Only the lost revenues associated with administering the Collection of Account charge should be permitted to be recovered (exclude any attributed credit loss increases).

3. The lost revenues should be capped at what the amounts embedded in the revenue offsets of each rate zone's distribution rates.

[47] Interrogatory Response to G-Staff-4 d)

4. Alectra Utilities should make every effort to improve the efficiency of its collection of account activities, and record any savings achieved as an offset in the deferral account.

Request for a Conservation Demand Management Severance Deferral Account (CDMSDA)

Background

On March 21, 2019, the Minister of Energy, Northern Development and Mines issued a directive to the IESO to discontinue the Conservation First Framework (CFF) and associated CDM activities. 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 CFF 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.[48] Alectra Utilities CDM Wind Down Estimate costs included total separation costs of $3.266 million for 39 CDM employees. This amount represents the severance payments for CDM staff, some of whom have been employed by Alectra Utilities prior to the start of the CFF, that are no longer employed by Alectra Utilities due to the discontinuance of the CFF.[49]

Alectra Utilities has requested the OEB approve the establishment of a deferral account (Conservation Demand Management Severance Deferral Account or CDMSDA) to allow it to recover any severance costs related to CDM employees that are not approved by the IESO. Alectra Utilities indicated the pre-CFF employee severance costs were unexpected and material.

In response to OEB staff's inquiry into the status of the IESO's approval of Alectra Utilities' funding request for CDM severance costs, Alectra Utilities stated:

[48] Alectra Utilities' 2020 rate application, EB-2019-0018, Exhibit 2, Tab 1, Schedule 4, page 12
[49] Interrogatory Response to G-Staff-5 e)

> The IESO has stated that separation costs for CDM staff's period of employment prior to 2015 are not eligible expenses. Separation costs applicable to the period prior to 2015 are estimated at $1.540MM. By deduction, separation costs deemed eligible by the IESO are $1.726MM.[50]

Furthermore, with respect to effective dates and completion timelines of its CDM severance payments, Alectra Utilities stated:

> Alectra Utilities' proposed effective date for this variance account is March 22, 2019, which is the effective date of the Wind Down. Alectra Utilities anticipates that the final CFF termination payments from the IESO will be completed by June 30, 2021.[51]

Alectra Utilities maintained its request for a deferral account to record the ineligible severance costs that the IESO has deemed unrelated to the CFF. OEB staff observes that Alectra Utilities is the only distributor that has requested the establishment of a CDMSDA to record severance costs related to CDM employees for service rendered prior to 2015.

Submission

As noted above, where an applicant seeks to establish a new deferral/variance account, the following eligibility criteria must be met: materiality, causation and prudence.[52] OEB staff addresses each of the criteria below.

As noted in the section on the request for CSRLRVA, the OEB could assess the materiality threshold e at the rate zone level as Alectra Utilities does not have an OEB-approved revenue requirement. However, the record does not contain a breakdown of severance costs by rate zone related to CDM employees for service rendered prior to 2015. As a result, OEB staff recommends that the account be established for all rate zones, but the approach to materiality can be determined at the time of disposition, at which time Alectra Utilities should also provide rate zone specific balances.

Alectra Utilities should confirm in its reply submission that the severance costs related to CDM employees for services rendered prior to 2015 are incremental to any provision for severance costs embedded into distribution rates, and preferably at the rate zone level.

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[50] Interrogatory Response to G-Staff-5 e)
[51] Interrogatory Response to G-Staff-5 h)
[52] *Chapter 2 Filing Requirements for Electricity Distribution Rate Applications – 2018 Edition for 2019 Rate Applications*, July 12, 2018, section 2.9.4. Note that the *Addendum to Filing Requirements for Electricity Distribution Rate Applications – 2020 Rate Applications* did not affect section 2.9.4.

OEB staff submits that the proposed CDMSDA passes the test for causation. Since January 1, 2011, CDM costs have been almost solely funded through the GA. Prior to 2011, funding for CDM programs came from either the former Ontario Power Authority, now the IESO, through the GA or through distribution rates as approved by the OEB. Therefore, Alectra Utilities has not incorporated any of the costs associated with CDM activities as part of its operations upon which rates have been derived.

OEB staff submits that Alectra Utilities has taken reasonable steps to ensure that the costs associated with the CFF Wind Down are minimized, consistent with the principles of the IESO's CFF Wind Down Cost Guideline. The IESO's Wind Down Cost Guideline provides distributors with guidance on eligible post termination administrative costs, and process and timelines for cost estimate submissions to be made with the IESO. Alectra Utilities has followed the IESO's Wind Down Cost Guidelines.[53]

CDM activities and the related costs have been driven by Ministerial directives for the better part of the last decade. There have been multiple Directives issued to the OEB, former OPA, and IESO, all of which have resulted in requirements for electricity distributors to develop CDM plans, establish staffing levels and internal expertise, and deliver conservation and energy efficiency programs to customers across the province.

Provided that further information is presented by Alectra Utilities that confirms that the amounts are incremental to the base upon which rates were derived, OEB staff supports the establishment of the requested CDMSDA. OEB staff also submits that at the time of disposition, Alectra Utilities will need to demonstrate that the amounts are reasonable, that they are entirely incremental, and that the expenses were adequately mitigated. Alectra Utilities may also address the approach to materiality discussed above.

Renewable Generation Connection Rate Protection (RGCRP)

Horizon RZ

Background

In the 2011 cost of service rate application,[54] the OEB approved Horizon Utilities' request for the funding of RGCRP 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.

[53] The IESO's Wind Down Cost Guideline is available online at http://www.ieso.ca/sector-participants/conservation-delivery-and-tools/ldc-toolkit
[54] EB-2010-0130

In a letter dated December 20, 2018, Alectra Utilities requested that the current IESO renewable generation payments of $707 per month (approved in Horizon Utilities' 2011 cost of service decision) cease as of December 31, 2018. Alectra Utilities confirmed in the letter that Horizon rate zone 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 despite the fact that the investments were still subject to RGCRP treatment. As a result, the recovery of the IESO provincial payments was collected twice. In the current application, Alectra Utilities notes that Horizon Utilities recorded the over recovery in Account 1532, Renewable Generation Connection Funding Adder Deferral Account.[55]

In the Decision and Order for 2019 Renewable Generation Connection Rate Protection Compensation Amounts (the 2019 RGCRP Decision),[56] the OEB approved the discontinuation of provincial funding for Guelph Hydro Electric Systems Inc. (Guelph Hydro) and for Alectra Utilities' Horizon rate zone. Furthermore the OEB stated:

> The OEB approves the discontinuation of provincial funding for eligible investments for both Guelph Hydro and Alectra (Horizon rate zone). Based on the additional information provided by Guelph and Alectra, both distributors appeared to have deviated from the accounting guidance provided by the OEB for the accounting treatment of RGCRP revenues. The OEB will, however, defer its consideration of the return of previous payments received by Guelph Hydro and by Alectra for the Horizon rate zone, to Alectra's application for 2020 distribution rates, including the appropriateness of the methods used by Guelph Hydro and Alectra for returning payments to their own customers that were initially recovered from provincial ratepayers.[57]

As part of the pre-filed evidence in this proceeding, Alectra Utilities requested to refund renewable generation funding for the Horizon rate zone, in the amount of $9,726, as a one-time payment in 2020 to the IESO.[58]

Submission

In response to OEB staff interrogatories, Alectra Utilities provided evidence to reconcile the actual amounts collected from the Horizon RZ customers between 2012 and 2015 and the revenue requirement associated with the actual Renewable Generation Connection investments that were made. Alectra Utilities calculated this variance in the

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[55] Alectra Utilities' 2020 rate application, EB-2019-0018, Exhibit 3, Tab 1, Schedule 9, page 1
[56] Decision and Order, EB-2018-0295, January 24, 2019
[57] EB-2018-0295
[58] Alectra Utilities' 2020 rate application, EB-2019-0018, Exhibit 3, Tab 1, Schedule 9

amount of $71,362 and proposed to return this amount to Horizon RZ customers as a fixed rate rider over a twelve-month period.[59]

In addition, Alectra Utilities confirmed that the RGCRP amount that has been erroneously funded twice from 2015 to 2018 (once through the Horizon RZ's rate base, and once through monthly payments from the IESO) has been recorded in Account 1533 (not Account 1532 as noted in the original application) in the amount of $33,921. OEB staff expects that this over recovery amount will be returned to the Horizon RZ customers in a future application.

OEB staff agrees with Alectra Utilities' reconciliation of amounts collected from the Horizon RZ customers between 2012 and 2015 and the revenue requirement associated with the actual Renewable Generation Connection investments that were made, as well as the proposal to return that variance to the Horizon RZ customers. OEB staff supports a fixed rate rider over a twelve-month period for those amounts. OEB staff also submits that Alectra Utilities' proposed one-time payment for the Horizon RZ, in the amount of $9,726, to the IESO in 2020 has been appropriately calculated.

Brampton RZ

In this application, Alectra Utilities notes that the OEB approved the RGCRP amounts related to the renewable enabling improvement investment and renewable expansion investments from 2015 to 2019, for former Hydro One Brampton, in the 2015 cost of service application.[60] Alectra Utilities requests to collect renewable generation funding of $83,483 in 2020 or $6,957 per month from all provincial ratepayers.

In review of the application, OEB staff noted that Alectra Utilities did not include the amortization and CCA in calculating the 2020 provincial payment amounts for both renewable generation connection and renewable generation expansion investments for the Brampton RZ. In response to an OEB staff interrogatory,[61] Alectra Utilities updated Appendix 2-FB and Appendix 2-FC in the RGCRP Workform to include the amortization and CCA in calculating the 2020 provincial payment amounts for both renewable generation connection and renewable generation expansion investments. Based on the updated calculation, Alectra Utilities now requests to collect renewable generation funding of $143,160 in 2020 or $11,930 per month from all provincial ratepayers for the Brampton RZ.

OEB staff has reviewed the updated RGCRP Workform that Alectra Utilities filed with the responses to OEB staff interrogatories for the Brampton RZ. OEB staff agrees with the updated calculations of the 2020 RGCRP funding amount. OEB staff submits that

[59] Interrogatory Response to HRZ-Staff-4 c)
[60] EB-2014-0083
[61] Interrogatory Response to BRZ-Staff-7

Alectra Utilities' request to collect the RGCRP funding of $143,160 in 2020 or $11,930 per month from all provincial ratepayers for the Brampton RZ is appropriate.

PowerStream RZ

In this application, Alectra Utilities notes that the OEB approved the RGCRP amounts related to the renewable enabling improvement investment and renewable expansion investments from 2016 to 2020 for the former PowerStream Inc. in its 2016 Custom IR application.[62] Alectra Utilities requests to collect renewable generation funding of $256,894[63] in 2020 or $21,401 per month from all provincial ratepayers for the PowerStream RZ.

OEB staff has reviewed the calculations Alectra Utilities provided in the application for the 2020 provincial RGCRP amount for the PowerStream RZ. OEB staff submits that Alectra Utilities' request to collect the RGCRP funding of $256,894 in 2020 or $21,408 per month from all provincial ratepayers for the PowerStream RZ is appropriate.

Enersource RZ

Background

In the 2016 cost of service rate application,[64] the OEB approved the former Enersource Hydro's basic Green Energy Plan (the GEA Plan). In this application, Alectra Utilities notes that the GEA Plan identified the projects and expenditures associated with the connection of renewable generation to its system and discussed constraints on the ability to connect renewable generation. Alectra Utilities requests to collect of renewable generation funding for the Enersource RZ of $160,560 or $13,380 per month from all provincial ratepayers, as calculated in Attachment 28 (the RGCRP Workform for the Enersource RZ) of the application. Alectra Utilities notes in its application that the RGCRP Workform for the Enersource RZ includes actuals up to 2018, and estimates for 2019 and 2020 RGCRP funding amounts.[65]

In reviewing of the RGCRP Workform for the Enersource RZ, OEB staff notes that the proposed $160,560 provincial RGCRP amount is calculated as:

2020 forecasted RGCRP amount + the true-up variance for 2010-2019

OEB staff also notes that in the calculation of proposed 2020 provincial payment (in amount of $160,560), Alectra Utilities included a revenue requirement of $63,157 (with

[62] EB-2015-0003
[63] In its response to OEB staff interrogatory PRZ-Staff-8, Alectra Utilities noted the amount of "$256,814" on page 2 of Exhibit 3, Tab 1, Schedule 9 was a typo. The correct amount should be $256,894.
[64] EB-2012-0033
[65] Exhibit 3, Tab 1, Schedule 9, page 3

the provincial portion being $28,791) pertaining to the true-up variance from prior years. It appears that the $63,157 includes the true-up variance from 2010 to 2017 which was part of the amount that was approved for Alectra Utilities' 2019 GRCRP amount for the Enersource RZ.

In response to an OEB staff interrogatory, Alectra Utilities confirmed that the $63,157 includes the true-up variance from 2010 to 2017 which was included in Alectra Utilities' 2019 request for the RGCRP amount of the Enersource RZ. Alectra Utilities noted that it "calculates a true up for prior years to narrow the gap between what has been collected as the approved RGCRP amounts from previous years, with the revenue requirement associated with the actual capital and operating costs that are eligible for rate protection."[66]

Submission

OEB staff is of the view that Alectra Utilities did not explain why it included in the current 2020 provincial funding request the true-up variance from 2010 to 2017 that has already been requested and approved in the 2019 RGCRP claim. OEB staff does not support Alectra Utilities' request to collect of renewable generation funding for the Enersource RZ of $160,560 or $13,380 per month from all provincial ratepayers. OEB staff submits that Alectra Utilities should update the calculations for the 2020 provincial payment to exclude the 2010 to 2017 true-up variance.

<u>Guelph RZ</u>

Background

In the 2012 cost of service rate application,[67] the OEB approved the former Guelph Hydro's request for the funding of RGCRP amounts included in its detailed DSP, to be recovered through the IESO relating to renewable enabling improvement investments and renewable expansion investments.

The 2019 RGCRP Decision[68] stated:

> In a letter dated November 29, 2018, Guelph Hydro made a request 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 received in 2015, 2017 and 2018. Guelph Hydro stated that it had received a total of $350,844 from 2013 to 2018 regarding the provincial funding

[66] Interrogatory Response to ERZ-Staff-6
[67] EB-2011-0123
[68] Decision and Order, EB-2018-0295, January 24, 2019

> for the eligible investments that were approved in its 2012 cost of service decision. Guelph Hydro stated that it had 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.
>
> Guelph Hydro proposed returning only three of the six years' payments received because it had returned the other years' payments to its own customers: 2013 and 2014 payments were included in Account 1533 Renewable Generation Connection Funding Adder and refunded to Guelph Hydro's customers through the disposition of the account in its 2016 cost of service decision;[69] and the 2016 payment was included in Account 1580 RSVA – Wholesale Market Services and refunded to Guelph Hydro's customers through the disposition of the account in its 2018 IRM decision.[70]

In the 2019 RGCRP Decision, the OEB approved the discontinuation of provincial funding for Guelph Hydro and for Alectra Utilities' Horizon rate zone. Furthermore the OEB stated:

> The OEB approves the discontinuation of provincial funding for eligible investments for both Guelph Hydro and Alectra (Horizon rate zone). Based on the additional information provided by Guelph and Alectra, both distributors appeared to have deviated from the accounting guidance provided by the OEB for the accounting treatment of RGCRP revenues. The OEB will, however, defer its consideration of the return of previous payments received by Guelph Hydro and by Alectra for the Horizon rate zone, to Alectra's application for 2020 distribution rates, including the appropriateness of the methods used by Guelph Hydro and Alectra for returning payments to their own customers that were initially recovered from provincial ratepayers.[71]

As part of the pre-filed evidence in this proceeding, Alectra Utilities maintained its request to refund only three of the six years' payments received for the Guelph RZ's renewable generation funding, in the amount of $208,512, as a one-time payment in 2020 to the IESO.[72]

Submission

In response to OEB staff interrogatories, Alectra Utilities amended its request to only return three of the six years' payments received, and instead proposed to return the full

[69] EB-2015-0073
[70] EB-2017-0044
[71] EB-2018-0295
[72] Alectra Utilities' 2020 rate application, EB-2019-0018, Exhibit 3, Tab 1, Schedule 9

amount of $350,844 to the IESO as a one-time payment in 2020. Specifically, Alectra Utilities stated that “Alectra Utilities proposes to refund renewable generation funding in the full amount of $350,844 as a one-time payment to the IESO, which includes $142,332 previously refunded to Guelph Hydro customers.”[73]

OEB staff supports Alectra Utilities’ proposal to return the full amount of $350,844 to the IESO pertaining to the Guelph RZ. The approach originally proposed by Alectra Utilities would have resulted in the IESO being refunded less than what it was entitled to. OEB staff did not agree with the concept that amounts previously returned to the Guelph RZ’s ratepayers in error should be allowed offset amounts owed to the IESO. The parties impacted are different and the IESO should be kept whole in this regard. Furthermore, since the amounts included in the Guelph RZ’s deferral account in the past have been disposed of on a final basis, there is no recourse for Alectra Utilities to adjust for those past errors in current balances, as that would constitute retroactive ratemaking.

OEB staff submits that Alectra Utilities’ updated proposal to refund $350,844 as a one-time payment to the IESO in 2020 is appropriate.

Earnings Sharing Mechanism (ESM)

Background

The OEB requires consolidating entities that propose to defer rebasing beyond five years to implement an ESM for the period beyond five years, whereby excess earnings are shared with consumers on a 50:50 basis for all earnings that are more than 300 basis points above the consolidated entity’s annual Return on Equity (ROE).

As part of the mergers, acquisitions, amalgamation, and divestitures (MAADs) decision approving the amalgamation of Alectra Utilities,[74] the OEB ordered that Alectra Utilities file plans for an ESM by December 31, 2019.

Alectra Utilities has filed its ESM proposal in this proceeding.[75]

Submission

OEB staff has assessed Alectra Utilities proposed ESM. The notable characteristics of the ESM that Alectra Utilities has identified include:

1. Determining a weighted average ROE for the purposes of earnings sharing

[73] Interrogatory Response to GRZ-Staff-6 c)
[74] Decision and Order, EB-2016-0025, December 8, 2016
[75] Alectra Utilities’ 2020 rate application, EB-2019-0018, Exhibit 2, Tab 1, Schedule 6

2. Excluding revenues and expenses that are not normally included in regulatory earnings

3. Allocating the revenues and costs to the applicable rate zones in the ESM in a manner consistent with its approach to the legacy Horizon rate zone ESM that it is utilizing in this current application.[76]

OEB staff agrees with Alectra Utilities' approach in using a weighted average ROE. OEB staff also supports the concept of adjusting regulatory earnings for items that are typically excluded in reported regulatory earnings.

With respect to allocation methodologies, OEB staff is of the view that any determinations made in the Horizon rate zone legacy ESM in this proceeding need not necessarily apply to the Alectra Utilities' ESM. OEB staff believes that the appropriate allocation methodologies used in the Alectra Utilities' ESM should be assessed on their own merits at the time that the ESM amounts are proposed for disposition when eligible. Likewise, with respect to any adjustments to regulatory earnings for the purposes of Alectra Utilities' ESM, OEB staff is of the view that it is premature to provide any detailed submission on the appropriateness of various hypothetical adjustments. These adjustments should be assessed in detail at the time that Alectra Utilities submits its ESM disposition requests.

OEB staff supports Alectra Utilities proposed ESM framework as filed.

Request to Close the Deferral Account for Service Charge Cost Recovery Study – Horizon RZ

Background

In the settlement agreement[77] for the 2015 rate application of Alectra Utilities' predecessor, Horizon Utilities Corporation (Horizon Utilities), the parties in the proceeding agreed that Horizon Utilities would retain an external consultant to conduct a study on determining the appropriate level of service charges and impacts (the Study). The purpose of the Study was to consider the extent which the service charges are reflective of the costs of providing the services. The settlement agreement provided for the creation of a deferral account (Account 1508 Sub-account Special Studies) to record costs in relation to the Study.[78]

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[76] Interrogatory Response to G-Staff-8 b)
[77] Settlement Proposal, EB-2014-0002, September 22, 2014
[78] Settlement Proposal, EB-2014-0002, September 22, 2014, page 56

In November 2015, the OEB initiated a comprehensive policy review of miscellaneous rates and charges applied by electricity distributors for specific activities or services they provided to their customers.[79] The OEB noted that this review would be conducted through a number of phases and components.[80] The first phase included the review of wireline pole attachment charges. The second phase included the review of electricity distributor Retail Service Charges. To date, the OEB has not completed the comprehensive policy review of miscellaneous rates and charges.

In this application, Alectra Utilities notes that it stated in its 2018 rate application that given the OEB's policy review, Alectra Utilities might not be taking on the Study. Alectra Utilities also "confirms that the Study has not been undertaken and no costs have been recorded in a deferral account created for the purpose of the Study. As such, Alectra Utilities submits that this deferral account should be closed."[81]

Submission

OEB staff does not oppose Alectra Utilities' request to close this account.

Alectra Utilities' Reply Submission

OEB staff observes that Alecra Utilities provided an accounting addendum following its Argument-in-Chief. In addition, OEB staff notes that it has asked that Alectra Utilities provide additional information in its reply submission on certain other matters. The provision of additional information subsequent to the filing of an applicant's Argument-in-Chief is not typical in IRM applications, nor is it procedurally ideal, as parties may not have ample time to review the additional evidence or utilize the discovery process, if necessary. However, OEB staff also notes that this is not a typical IRM application and acknowledges Alectra Utilities efforts to complete its review of the impacts of the Accounting Guidance as well as the remaining elements of the application. If the OEB is of the view that any additional information that is provided in reply requires further testing, that it could defer its decision on the particular matter to phase 2 of this proceeding.

All of which is respectfully submitted

[79] EB-2015-0304
[80] OEB's Letter to All Rate Regulated Electricity Distributors, EB-2015-0304, November 5, 2015
[81] Alectra Utilities' 2020 Rate Application, EB-2019-0018, Exhibit 3, Tab 1, Schedule 1, page 6