

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

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

CAPITALIZATION POLICY SUBMISSION

September 16, 2019

1.0 INTRODUCTION

Alectra Utilities Corporation (“Alectra Utilities” or the “Applicant”) filed an Incentive Rate-setting Mechanism (“IRM”) application with the Ontario Energy Board (“OEB” or the “Board”) on May 28, 2019, under section 78 of the *Ontario Energy Board Act*, 1998, seeking approval for changes to its electricity distribution rates for each of its Horizon Utilities, Brampton, PowerStream, Enersource, and Guelph Hydro rate zones (“RZs”) to be effective January 1, 2020 (the “Application”). In its application, Alectra Utilities has requested that the capitalization-related deferral accounts for the Enersource, Brampton, and Horizon rate zones be closed without clearing their balances, or that their balances be disposed to Alectra Utilities.

In Procedural Order (“PO”) No. 1, the Board expressed its preliminary view that these requests constitute a motion to vary pursuant to Rule 40.02 of the OEB's Rules of Practice and Procedure. However, before making a final determination on the nature of the request, the OEB has asked for submissions on “[whether] Alectra Utilities’ request to reverse the outcome of the OEB's decision to create the capitalization related deferral accounts for the Enersource, Brampton and Horizon rate zones, constitutes a motion to vary pursuant to Rule 40.02.”¹ Alectra Utilities filed its submission on the preliminary questions regarding capitalization policy on July 19, 2019. OEB Staff, Power Workers Union (“PWU”), Building Owners and Managers Association of Greater Toronto (“BOMA”), Vulnerable Energy Consumers Coalition (“VECC”), School Energy Coalition (“SEC”) and Energy Probe Research Foundation (“Energy Probe”) filed their submissions on July 29, 2019. Alectra

¹ EB-2019-0018, Procedural Order No. 1, July 9, 2019, p.6.

Utilities filed its reply submission on August 9, 2019, and the OEB issued its Decision and Order on September 5, 2019.

In its Decision, the OEB found that Alectra Utilities' request to reverse the outcome of the OEB's previous decision to create the capitalization policy deferral accounts can be characterized as a motion to vary that decision; and found that Alectra Utilities' request does not meet the threshold test for such a motion.²

In its Decision, the OEB reiterated that its Decision on Confidentiality and PO No. 3 in the 2019 Application (EB-2018-0016), required Alectra Utilities to present different options for disposition of the capitalization related deferral accounts, including, options proposed by parties in the 2018 proceeding; and options involving adjustments to rate base. Further, in its current Decision, the OEB clarifies that different options can also relate to: the calculation of the balances; the distribution of the balances amongst customer classes; the billing determinants to be used; and the timing and duration for the disposition. The OEB has provided Alectra Utilities with the opportunity to file additional evidence on the different options for disposition of the capitalization deferral accounts by September 16, 2019. This is Alectra Utilities' submission in respect of the different options for disposition of the capitalization policy deferral accounts.

2.0 OPTIONS FOR CALCULATION

As provided in Exhibit 2, Tab 1, Schedule 5, p.5, Table 19, Alectra Utilities provided a comparison of the calculation of the impact of the capitalization policy change, based on submissions by SEC and OEB Staff during the 2019 EDR Application proceeding. SEC filed its calculation on October 31, 2018, as directed in PO No. 2. OEB Staff submitted a calculation on the impact of the capitalization policy change on regulatory net earnings, as part of its assessment of the ESM for the Horizon Utilities RZ. OEB Staff's submission was filed as Exhibit K1.4 (Note 3: Effects of Changes in Accounting Policy), on December 5, 2018. In order to illustrate the various approaches, Alectra Utilities has summarized the impact based on 2017 actuals, as provided in Table 19 of the evidence. At the time of the filing, Alectra Utilities identified that it considered different options to the calculation of the impact of the capitalization policy change and updated its calculation of the PILs impact. The main difference between Alectra Utilities' approach in EB-2018-0016 and SEC's approach was the treatment for PILs. Alectra Utilities initially calculated PILs on an actual taxes payable basis, and has updated its calculation to determine the PILs impact on a revenue

² EB-2019-0018, Decision and Order, September 5, 2019, p.1.

1 requirement basis, consistent with the OEB's PILs model. OEB Staff has calculated PILs on an
2 actual taxes payable basis. Alectra Utilities also provided a forecast of the net impact of the
3 capitalization policy change over the deferred rebasing period based on Alectra Utilities' and SEC
4 calculation approach.

5 Subsequent to its filing on May 28, 2019, Alectra Utilities' Brampton, Horizon Utilities,
6 PowerStream and Enersource rate zones, have migrated to Alectra Utilities' Enterprise Resource
7 Planning ("ERP") system in July 2019. Legacy ERP systems and processes were relied upon to
8 determine the impact of the capitalization policy change in 2017 and 2018. As these legacy
9 systems are no longer in place, and due to the complexities and costs required to maintain four
10 additional sets of general ledgers, Alectra Utilities can no longer determine the impact based on
11 legacy systems. Alectra Utilities proposes to rely on the actual impacts derived prior to the ERP
12 convergence to determine the actual impacts of the capitalization policy change in 2019, and the
13 remainder of the rebasing deferral period. The forecast impacts (2019 to 2026) presented in Table
14 20 of Exhibit 2, Tab 1, Schedule 5, p.7, was also based on the preliminary impacts identified in
15 Alectra Utilities' Capitalization Policy Memo, filed in response to undertaking JT.2.32 in the 2018
16 EDR Application (EB-2017-0024).

17 Alectra Utilities proposes to determine the allocation percentage by rate zone to be applied to 2019
18 to 2026 distribution system plant actual in-service additions based on a ratio of the actual impact of
19 the capitalization policy change prior to the ERP convergence, to actual in-service distribution
20 system plant additions.

21 **3.0 OPTIONS FOR DISPOSITION**

22 As provided in Exhibit 2, Tab 1, Schedule 5, Alectra Utilities also considered various treatments for
23 the disposition of the capitalization policy balances in the deferral account, including options
24 involving adjustments to rate base. As identified at p. 9, consistent with the OEB's policy for
25 Accounts 1575 and 1576, Alectra Utilities proposes that disposition of these accounts be applied
26 through adjustments to rate base in Alectra Utilities' next rebasing application. Please refer to
27 Exhibit 2, Tab 1, Schedule 5, pp. 8-9 for complete discussion on this item.

28 **4.0 IMPACT OF THE CAPITALIZATION POLICY CHANGE FOR THE HORIZON UTILITIES** 29 **RATE ZONE**

30 Alectra Utilities reported on its Earnings Sharing Mechanism ("ESM") results for 2017 and 2018 for
31 the Horizon Utilities RZ, as provided in Exhibit 3, Tab 1, Schedule 2. In the OEB's Decision in

1 Alectra Utilities' 2018 EDR Application (EB-2017-0024), issued on April 5, 2018 (revised April 6,
2 2018), the OEB stated that: "*The approved settlement proposal did not specify how a material
3 change in accounting practice would be treated, just that it would be noted. The approved
4 settlement proposal was a "package deal" which the OEB approved. The approved settlement
5 proposal did not include mandated accounting changes as a reopener, and therefore the OEB will
6 not approve one now. For the remainder of the Custom IR term, the effect on earnings resulting
7 from the change in the capitalization policy will be dealt with through the ESM.*" As directed in the
8 above-mentioned Decision, Alectra Utilities has flowed the impact of the capitalization policy
9 change through the ESM the Horizon Utilities RZ for 2017 and 2018. Further, in Alectra Utilities'
10 2021 EDR Application, Alectra Utilities will report on the ESM results for the Horizon Utilities RZ for
11 2019; Alectra Utilities will flow the impact the capitalization policy change through the ESM for
12 2019. This will be the fifth and final year of the ESM for the Horizon Utilities. As a result, and
13 consistent with the OEB's Decision in EB-2017-0024, the first entry to the capitalization deferral
14 accounts for the Horizon Utilities RZ will begin January 1, 2020.

15 Alectra Utilities also reported on the capital additions for 2017 and 2018 for the Horizon Utilities
16 RZ, as provided in Exhibit 3, Tab 1, Schedule 3. In the 2019 EDR Application Decision (EB-2018-
17 0016), the OEB stated that: "*The change in the capitalization policy increases the in-service capital
18 additions for the same amount of capital work to implement the strategy. The question for the OEB
19 is whether the capital additions for the CIVA account should be based on the capitalization policy in
20 place at the time the Custom IR framework for the Horizon rate zone was approved, or the new
21 post-merger capitalization policy for Alectra Utilities.*" Further, consistent with its Decision on the
22 impact of the capitalization policy change on the ESM for Horizon Utilities, the OEB stated: "*The
23 OEB finds that it is appropriate to defer consideration of the actual 2017 capital additions to be
24 used for the final computation of the CIVA account until the application for 2020 rates. The OEB
25 has previously determined that other issues related to the change in capitalization policy will be
26 heard in the same 2020 rate proceeding.*" The capital additions presented for 2017 and 2018 are
27 inclusive of the capitalization policy change that was a result of the consolidation that formed
28 Alectra Utilities. Alectra Utilities is applying the impact of the capitalization policy change
29 consistently, both in its computation of the Horizon Utilities RZ ESM per the OEB's decision in the
30 2018 EDR Application (EB-2017-0024), and in its statement of capital additions in 2017 and 2018.

1 **5.0 CONCLUSION**

Alectra Utilities' evidence, as it relates to the capitalization policy change is provided in Exhibit 2, Tab 1, Schedule 5 (Capitalization Policy), Exhibit 3, Tab 1, Schedule 2 (Horizon Utilities RZ ESM), and Exhibit 3, Tab 1, Schedule 3 (Horizon Utilities RZ CIVA). Alectra Utilities has proposed an allocation methodology to calculate the impact of the capitalization policy change in 2019 to 2026 as a result of the ERP implementation. All other evidence provided on this topic is as filed in the evidence.

All of which is respectfully submitted this 16th day of September 2019.

ALECTRA UTILITIES CORPORATION

A handwritten signature in black ink, appearing to read "Indy J. Butany-DeSouza", written over a horizontal line.

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