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BY E-MAIL

September 23, 2019

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

Dear Ms. Walli:

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

In accordance with the Decision and Order issued on September 5, 2019,[1] please find attached OEB staff's interrogatories on the options for disposition of the capitalization deferral accounts, as well as related issues, in the above noted proceeding. Alectra Utilities and all intervenors have been copied on this filing.

Alectra Utilities' responses to the interrogatories are due by October 7, 2019.

Yours truly,

Original Signed By

Katherine Wang
Advisor
Incentive Rate-setting and Accounting

Attach.

[1] Decision and Order, EB-2019-0018, September 5, 2019

OEB Staff Interrogatories
2020 Electricity Distribution Rates Application
Alectra Utilities Corporation (Alectra Utilities)
EB-2019-0018
September 23, 2019

<u>Changes in Accounting Policy</u>

G-Staff-1

Ref: Alectra Utilities Corporation 2018 Audited Financial Statements
Ref: Exhibit 2, Tab 1, Schedule 5

Preamble:

In the notes to the December 31, 2018 consolidated financial statements of Alectra Utilities, under note 7 (Future Accounting Changes), Alectra Utilities explains the new lease standard, International Financial Reporting Standard (IFRS) 16, and states the following with respect to the Corporation's initial adoption of standard:

"In January 2016, the IASB [International Accounting Standards Board] issued IFRS 16, which replaces the IAS 17 Leases and related interpretations ("IAS 17"). IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that represents those transactions. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between the operating and finance leases… The Corporation [Alectra Utilities Corporation] will adopt IFRS 16 on January 1, 2019 using the modified retrospective approach. The Corporation has assessed the quantitative impact of adopting IFRS 16 at January 1, 2019 to be an increase of $15 [million] in total assets and total liabilities for the right-of use assets and the lease liabilities."

Questions:

a) Please provide a copy of Alectra Utilities Corporation's 2018 Audited Financial Statements for the record in this proceeding.

b) Please provide any memorandum, presentation, or other internal documentation provided to Alectra Utilities' Board of Directors or executive management team that analyzes or discusses the impacts of adopting IFRS 16.

c) Please confirm that, as a result of adopting IFRS 16 at January 1, 2019, Alectra Utilities increased its assets (rate base for ratemaking purposes) by $15 million to account for the cumulative effect of various operating leases or right-of-use assets, which were previously classified as OM&A for ratemaking purposes. If this is not confirmed, please explain the interaction between OM&A and rate base with respect to the adoption of IFRS 16.

d) Please prepare a table identical to Table 20 in Exhibit 2, Tab 1, Schedule 5, from the years 2019 to 2026 to show what the annual and cumulative revenue requirement impact is resulting from the adoption of IFRS 16 (the revenue requirement impact from a change in accounting policies). Please extend the table by additional rows to also include the Guelph Rate Zone (GRZ). Please also separate the 2019 column into two columns; one for the modified retrospective adoption of IFRS 16 on January 1, 2019, and the other for the current 2019 fiscal year impacts. Please file a copy of this table in excel format.

e) Please provide all supporting schedules and tables that show how the amounts in part d) above were calculated. Please file copies of the supporting schedules and tables in excel format.

f) Please explain how Alectra Utilities intends to address the impact of IFRS 16 in rates.

g) If Alectra Utilities intends to account for the revenue requirement impact of IFRS 16 using deferral accounts, is its preferred approach to use the existing deferral accounts for the Horizon Rate Zone (HRZ), Enersource Rate Zone (ERZ), and Brampton Rate Zone (BRZ) (those already established for the change in capitalization policies resulting from the Alectra Utilities' merger), or would it seek to establish a new set of deferral accounts for each of those three rate zones to separately record the impacts of IFRS 16?

h) Please confirm, and provide rationale for, whether or not Alectra Utilities intends to request that the OEB establish a deferral account for the PowerStream Rate Zone (PRZ) and GRZ for the revenue requirement impact of the adoption of IFRS 16. If Alectra Utilities does not intend to request deferral account establishment for the impacts of IFRS 16, please provide a detailed explanation to distinguish these impacts from the ones the OEB has issued its decision on with respect to changes in capitalization policy.

i) Please provide a draft accounting order related to the establishment of new deferral accounts for each of the five rate zones that Alectra Utilities is seeking to establish (GRZ and PRZ only, if Alectra Utilities intends to use the existing deferral accounts for the HRZ, ERZ, and BRZ to track the revenue requirement impacts of IFRS 16).

G-Staff-2

Ref: Exhibit 2, Tab 1, Schedule 5

Questions:

On January 1, 2019, Alectra Utilities amalgamated with the former Guelph Hydro Electric System Inc. (Guelph Hydro). Please confirm that Alectra Utilities, as required by IFRS 10 *Consolidated Financial Statements* and IFRS 3 *Business Combinations*, updated the accounting policies of the former Guelph Hydro to align with that of the acquirer, Alectra Utilities.

a) Please provide any memorandum, presentation, or other internal documentation provided to Alectra Utilities' Board of Directors or executive management team that analyzes or discusses the impacts of updating Guelph Hydro's accounting policies to align with that of Alectra Utilities'.

b) Please extend the information presented in Exhibit 2, Tab 1, Schedule 5, Table 20 to show the impact of the GRZ's adoption of Alectra Utilities' accounting policies. Please file a copy of the updated Table 20 in excel format.

c) Please confirm that Alectra Utilities intends to request the establishment of a deferral account for the GRZ, following the amalgamation on January 1, 2019, similar to the ones the OEB has established for the HRZ, ERZ, and BRZ. If not, please explain why not, given the OEB's decision in the 2018 Alectra Utilities' rate application.

G-Staff-3

Ref: Exhibit 2, Tab 1, Schedule 5 – Table 20 – Net Impact of Capitalization Policy Change

Questions:

a) Please provide a more detailed breakdown of how Alectra Utilities calculated the capitalization policy impacts of certain revenue requirement components for the fiscal years of 2017 and 2018, found in Exhibit 2, Tab 1, Schedule 5, Table 20.

Specifically, for each of the five rate zones separately (including GRZ), please provide the tables that show the detailed calculations of:

i. PILs Impact: including the incremental return on equity, depreciation added back/deduction, CCA deduction/add back (with supporting CCA schedule), and grossed-up taxes
ii. Return on Capital: including the cumulative effect on rate base, the supporting calculations for depreciation, and the weighting and rates of return on debt and equity.

Please file copies of the above supporting tables in excel format.

G-Staff-4

Ref: Exhibit 2, Tab 1, Schedule 5

Preamble:

Alectra Utilities states the following on page 8 of Exhibit 2, Tab 1, Schedule 5:

> This approach [1576 approach - recording only the capitalization and depreciation impacts on rate base] ignores two key components of the calculation – PILs and Return on Capital, as identified in Table 20, above [Alectra Utilities' approach]. The OEB established Account 1576, Accounting Changes under CGAAP, for distributors to record the financial differences arising as a result of changes to accounting depreciation or capitalization. Account 1576 was intended only as a short-term measure to address the interim deferral of IFRS in 2012 with the expectation of a changeover to IFRS in 2013. This short-term measure was not intended to address special circumstances that arise for post-MAADs distributors. Alectra Utilities proposes a variant to Account 1576 that includes the impact of PILs and Return on Capital. The need for this variation arises as Alectra Utilities is in a rebasing deferral period.

In a June 25, 2013 letter issued to Licensed Electricity Distributors,[2] the OEB stated the following with respect to the rate of return on balances in Accounts 1576 and 1575:

> In several of the proceedings for 2013 cost of service rate applications, an issue was raised about the applicability of applying a rate of return component on the disposition of the balance in Account 1576, as required for Account 1575. The Board acknowledges that this issue has been a concern for parties in these proceedings and may continue to persist in the future since the use of Account

[2] OEB Letter re: Accounting Policy Changes for Accounts 1575 and 1576

1576 will continue in light of the IFRS changeover deferrals. The Board is of the view that a generic policy on this issue provides for greater clarity and efficiency in the application proceedings. Consequently, the Board will require a rate of return component to be applied to the balance of Account 1576 upon its disposition in rates. This policy is effective for the 2014 cost of service rate applications and subsequent rate years.

Questions:

a) Please confirm that all five predecessor companies of Alectra Utilities have previously disposed of balances in Account 1575 and/or Account 1576, which included a rate of return component on the balances. If this is not confirmed, please explain.

b) For each predecessor company of Alectra Utilities, please provide a copy of the Chapter 2 Appendices tab 2-EA, 2-EB, 2-EC, 2-ED or 2-EE (as applicable to each entities' previous rebasing application) that shows the OEB-approved calculated amount of the Account 1575/1576 principal balance(s), and the rate of return component applied to that balance (including the weighted average cost of capital and the associated rate rider disposition periods used).

c) Please reconcile the statement "Alectra Utilities proposes a variant to Account 1576 that includes the impact of PILs and Return on Capital" with the fact that the predecessor entities of Alectra Utilities have included the impacts of return on capital in their previous OEB-approved Account 1575/1576 dispositions.

d) Please confirm that Alectra Utilities' approach calculates the return on capital component on the following basis:

   The return component represents the amount of return that would have been included in a distributor's updated revenue requirement if it were to perform an isolated rebasing of the accounting policy impacts in the year in which they occurred. In the case of increases to rate base, a return component on the incremental rate base should be collected from customers.

   If this is not Alectra Utilities' approach to calculating the return component, please elaborate or explain.

e) Please confirm Alectra Utilities' understanding that the return on capital component included on balances in Accounts 1575 and 1576 is calculated on the following basis:

The return component represents the amount that a distributor will ultimately include in its revenue requirement, as return on rate base, in future rebasing applications. In the case of increases to rate base, ratepayers are refunded for the return component that a distributor will ultimately earn on that rate base difference.

If this is not Alectra Utilities' understanding of the return component calculated for Accounts 1575 and 1576, please elaborate or explain.

f) Accounts 1575 and 1576 were established to address the impact of changes in accounting policy between rebasing years resulting from the adoption of IFRS (1575) or the adoption of capitalization and depreciation policies embedded in IFRS (1576). Alectra Utilities has undergone an accounting policy change between rebasing years resulting from compliance with IFRS. Aside from the distinction stated in the preamble (and the inclusion of PILs impacts), is there any other rationale that Alectra Utilities can provide to support the OEB varying its calculation methodology previously used for the impacts of changes in accounting policy between rebasing years?

g) If the OEB ultimately decided to apply its approach for calculating the return on capital for Account 1575/1576 balances to the rate base impacts of Alectra Utilities' change in accounting policy, what initial interim disposition period does Alectra Utilities request for the associated rate riders? Please provide supporting rationale.

h) Please provide a set of tables that shows what the 2017 and 2018 disposition amounts for BRZ and ERZ would be using the 1575/1576 calculation approach, calculating the difference in rate base as the annual principal entry. For the return component, consistent with calculation of the return component in Chapter 2 Appendices for Accounts 1575/1576, the incremental rate base impact would be multiplied by the weighted average cost of capital, and then multiplied by the number of years of the proposed interim disposition period.

i) Please restate the amounts in Table 20 of Exhibit 2, Tab 1, Schedule 5 (including the GRZ), with the following change made in the calculation methodology:
    i. Rate of return is calculated using the 1575/1576 method, assuming a one-year interim disposition period

G-Staff-5

Ref: Exhibit 2, Tab 1, Schedule 5

Preamble:

Alectra Utilities states the following in Exhibit 2, Tab 1, Schedule 5:

"…the cash flow requirements do not change since the change in recognition of an operating and capital expense is "non-cash"… as a result of the OEB's decision, Alectra Utilities suffers a cash impairment and corresponding cost from the OEB's treatment of an accounting change that is wholly non-cash based."

Furthermore, Alectra Utilities states:

"…rate-making impacts from accounting policy changes are best considered in the broadest context of rate-making policy at the time of a full rebasing with appropriate re-balancing of revenue with consideration of all components of rate-base and the impacts of prior externalities and OEB policy changes. Such an approach will ensure a full and complete re-balancing of rates relative to rate-base and operating costs at that time with the result that customers and shareholders remain indifferent to such considerations within the rebasing deferral period."

In Table 20, Alectra Utilities provides its estimated impact of the capitalization policy change over a 10-year forecast.

a) Given the information provided in Table 20, please confirm that the capitalization policy change is expected to result in a rate base increase of $56.84 million ($64.42 million of capitalized OM&A less $7.58 million of depreciation) by the end of 2026. If this is not confirmed, please explain.

b) Please confirm that when Alectra Utilities submits a rate rebasing application in 2027, if the amount of $56.84 million referred to in part a) is permitted by the OEB for inclusion in rate base, the result would be an increase in future revenue and cash flow, by virtue of collecting this capital-related revenue requirement (depreciation, PILs, return on capital) from ratepayers. If this is not the case, please explain.

c) Please confirm that, in the scenario in part b) of this question (where the net book value of reclassified OM&A is added to rate base at rebasing), absent any deferral account entries, this would result in collecting the same amounts of expenditures twice from customers: once in the form of rates underpinned by an OM&A-related revenue requirement from 2017 to 2026, and then again in the form of capital-related revenue requirement from 2027 until the end of the useful lives of the newly capitalized assets. If this is not the case, please explain in detail.

d) If the amount of $56.84 million referred to in part a) were to be excluded from rate base in 2027 and beyond, does Alectra Utilities agree that this would require maintaining discrete asset continuity schedules for the net book value of the assets that comprise the $56.84 million, for the duration of their useful lives? If Alectra Utilities disagrees that this would be required, please explain in what practical manner Alectra Utilities could alternatively disconnect rate base in perpetuity, beginning in 2027, from the asset continuity schedule used for financial reporting?

e) If the cumulative revenue requirement impacts of accounting policy changes, as shown in Table 20, were recorded in deferral accounts and returned to customers, does Alectra Utilities agree that:

   i. It would be appropriate to include the $56.84 million referred to in part a) in rate base in 2027 and beyond
   ii. There would be no reason, with respect to merger-related capitalization changes, to create a disconnect between rate base and the asset continuity schedule kept for financial reporting purposes
   iii. The issue of amounts being included in rate base in 2027 for expenditures that have previously been collected from customers in prior years would be eliminated

   Please explain Alectra Utilities position if it disagrees with any of the above statements.

f) Does Alectra Utilities agree that deferring the impacts of capitalization policy changes to a rebasing application better aligns utility cash flows with amounts collected from customers? Please explain.

g) Does Alectra Utilities agree that disposing of the impacts of capitalization policy changes to/from customers in the year in which they occur better aligns utility earnings with amounts collected from customers in rates? Please explain.

Horizon Rate Zone Related Issues

HRZ-Staff-1

Ref: Exhibit 3, Tab 1, Schedule 2
Ref: Attachment 11-Table of Allocations Horizon ESM 2018
Ref: Attachment 9-Table of Allocations Horizon ESM 2017

Preamble:

OEB staff has populated the following table using OM&A reported in historical RRR filings of the four predecessor distributors of Alectra Utilities, as well as the pre-filed evidence provided in this proceeding:

	OM&A					Change	
	HRZ	BRZ	ERZ	PRZ	Total	$	%
2012	$ 51,478,365	$ 20,452,864	$ 51,796,786	$ 82,832,264	$ 206,560,278		
2013	$ 55,223,718	$ 23,773,756	$ 53,635,360	$ 81,191,175	$ 213,824,009	$ 7,263,731	3.5%
2014	$ 60,317,757	$ 26,754,051	$ 52,431,185	$ 85,818,364	$ 225,321,357	$ 11,497,348	5.4%
2015	$ 59,096,949	$ 26,975,737	$ 56,630,561	$ 92,481,578	$ 235,184,825	$ 9,863,468	4.4%
2016	$ 59,299,938	$ 30,006,692	$ 60,426,547	$ 86,645,596	$ 236,378,774	$ 1,193,948	0.5%
2017 - Adjusted	$ 66,370,580	$ 33,316,877	$ 63,777,652	$ 100,052,737	$ 263,517,846	$ 27,139,072	11.5%
2018 - Adjusted	$ 68,078,866	$ 32,561,236	$ 63,340,267	$ 97,852,017	$ 261,832,386	$ (1,685,460)	-0.6%
2017 - Table 1	$ 60,972,051	$ 35,147,409	$ 61,911,611	$ 99,858,737	$ 257,889,808		
2017 OM&A Adj	$ 5,398,529	$ (1,830,532)	$ 1,866,041	$ 194,000	$ 5,628,038		
2017 - Adjusted	$ 66,370,580	$ 33,316,877	$ 63,777,652	$ 100,052,737	$ 263,517,846		
2018 - Table 1	$ 62,836,129	$ 34,170,926	$ 61,628,749	$ 97,442,309	$ 256,078,113		
2018 OM&A Adj	$ 5,242,737	$ (1,609,690)	$ 1,711,518	$ 409,708	$ 5,754,273		
2018 - Adjusted	$ 68,078,866	$ 32,561,236	$ 63,340,267	$ 97,852,017	$ 261,832,386		

Years 2012 to 2016 are directly populated from the OM&A figures of the RRR 2.1.5.6 filings of each distributor. Years 2017 and 2018 have been populated from the figures in Attachments 9 and 11, and have been adjusted for the impacts of the changes in capitalization policies following the merger. The capitalization policy impacts have been adjusted for so that OM&A can be assessed year over year on a comparable basis. The capitalization policy impacts are derived from Table 20 of Exhibit 2, Tab 1, Schedule 5.

Questions:

a) Please confirm the factual accuracy of the inputs used in the table above. If Alectra Utilities identifies any discrepancies or errors, please note and explain them and repopulate the table accordingly.

b) The average increase in OM&A from the prior year for Alectra Utilities during 2014 to 2016 was $7,518,255 or 3.4%. Please explain why there was an increase of $27,139,072 or 11.5% between 2016 and 2017.

c) Please provide a detailed breakdown of the drivers for the increase in total OM&A from 2016 to 2017 in both dollars and percentages, reconciling to the $27,139,072 figure where appropriate.

d) Please provide any rationale to explain how the increase between 2016 and 2017 of $27.1 million is not driven by merger-related OM&A costs.

e) Please provide any rationale to explain why Alectra Utilities' allocation methodology results in HRZ's OM&A costs increasing in 2018 from 2017 while every other rate zone's OM&A costs decrease in 2018 from 2017.

HRZ-Staff-2

Ref: Exhibit 3, Tab 1, Schedule 2
Ref: Attachment 11-Table of Allocations Horizon ESM 2018
Ref: Attachment 9-Table of Allocations Horizon ESM 2017

Preamble:

OEB staff has prepared the following table of historical averages of OM&A for each rate zone, based on the table of RRR date from HRZ-Staff-1:

	RRR Averages				
	HRZ	BRZ	ERZ	PRZ	Total
2012-2016 avg	$ 57,083,346	$ 25,592,620	$ 54,984,088	$ 85,793,795	$ 223,453,849
2013-2016 avg	$ 58,484,591	$ 26,877,559	$ 55,780,913	$ 86,534,178	$ 227,677,241
2014-2016 avg	$ 59,571,548	$ 27,912,160	$ 56,496,098	$ 88,315,180	$ 232,294,985
2015-2016 avg	$ 59,198,444	$ 28,491,215	$ 58,528,554	$ 89,563,587	$ 235,781,799
2016	$ 59,299,938	$ 30,006,692	$ 60,426,547	$ 86,645,596	$ 236,378,774

Questions:

a) OEB staff is unable to reconcile the 2014-2016 average OM&A figures calculated with the amounts used by Alectra Utilities in the 2017 and 2018 allocations of OM&A (reproduced below):

	Enersource	Horizon Utilities	Brampton	PowerStream	Total Alectra
2014-2016 RRR Average	$56,300,996	$60,901,688	$28,658,213	$86,722,101	$232,582,998

Please explain the discrepancies between OEB staff's calculated 3-year OM&A averages, based on the table of historical OM&A reported in RRR, versus the amounts used by Alectra Utilities in Tables 32 and 45 of Exhibit 3, Tab 1, Schedule 2.

b) If Alectra Utilities believes that OEB staff has made an error in the historical OM&A table from the RRR filings, and this is causing the RRR averages table to be presented in error as well, please reproduce the RRR averages table above with the corrected figures.

c) Please provide Alectra Utilities' rationale for using 3-year averages rather than 5-year averages.

d) Please provide Alectra Utilities' rationale for using 3-year averages, rather than applying 2016 as a proxy for proportional OM&A, being the most recently available data for each individual distributor.

e) Please revise Attachments 9 and 11 to show what the Earnings Sharing Mechanism (ESM) calculations for 2017 and 2018 would be under the following conditions:
   a. 5-year average OM&A is used in Tables 32 and 45 of Exhibit 3, Tab 1, Schedule 2 rather than 3-year averages for OM&A allocation in 2017 and 2018
   b. 2016 OM&A is used in Tables 32 and 45 of Exhibit 3, Tab 1, Schedule 2 rather than 3-year averages for OM&A allocation in 2017 and 2018

   Please file these revised attachments in excel format with an itemized list of which items were adjusted for this change.

HRZ-Staff-3

Ref: Exhibit 3, Tab 1, Schedule 2
Ref: IRR G-Staff-7 (EB-2018-0016)

Preamble:

Interrogatory G-Staff-7 from EB-2018-0016 asked Alectra Utilities to prepare an illustrative example of what the OM&A allocations in 2017 would be for each rate zone if they were adjusted for growth rates, using customer count as the growth factor. In response, Alectra Utilities provided G-Staff-7_Attach 1_OM&A as a supporting table for that analysis.

A copy of Alectra Utilities attachment is provided below:

G-Staff-7_Attach 1_OM&A

i) Total Metered Connection Count

	2014	2015	2016	Average	Average %
Enersource RZ	201,359	203,466	204,728	203,184	21.2%
Brampton RZ	149,618	154,105	158,630	154,118	16.1%
PowerStream RZ	353,284	358,772	364,505	358,854	37.5%
Horizon Utilities RZ	240,076	241,986	244,114	242,059	25.3%
	944,337	**958,329**	**971,977**	**958,214**	**100%**

ii) Revised OM&A / Customer

	2014-2016 OM&A Average	2014-2016 Customer Avg	2014-2016 Average / Cust
Enersource RZ	$ 54,508,996	203,184	**$ 268**
Brampton RZ	$ 31,008,213	154,118	**$ 201**
PowerStream RZ	$ 86,165,101	358,854	**$ 240**
Horizon Utilities RZ	$ 54,621,688	242,059	**$ 226**
	226,303,998	**958,214**	**$ 935**

iii & iv) Total Customer Count

	2017 Actual Customers	2014-2016 Average / Cust	2017 Allocation of Total OM&A	2017 Prorated Allocation of Total OM&A	Revised %	Months	Prorated	Revised %
Enersource RZ	197,617	268	$ 53,015,427	$ 53,905,946	23.82%	11	$ 49,413,784	24.13%
Brampton RZ	154,638	201	$ 31,112,903	$ 31,635,517	13.98%	10	$ 26,362,931	12.87%
PowerStream RZ	355,105	240	$ 85,265,001	$ 86,697,227	38.31%	11	$ 79,472,458	38.80%
Horizon Utilities RZ	235,635	226	$ 53,172,157	$ 54,065,308	23.89%	11	$ 49,559,866	24.20%
	942,995	**935**	**$ 222,565,488**	**226,303,998**	**100.0%**		**204,809,038**	**100.0%**

v) Allocation to Rate Zones:

LDC/Rate Zone	Alectra 2017	Revised Allocation %	Allocated Amount	Rate Zone Specific	OM&A by Rate Zone
Brampton RZ		12.87%	$ 29,337,594		$ 29,337,594
Enersource RZ		24.13%	$ 54,989,391	$ 1,153,000	$ 56,142,391
Horizon Utilities RZ		24.20%	$ 55,151,956		$ 55,151,956
PowerStream RZ		38.80%	$ 88,439,737	$ 2,403,000	$ 90,842,737
Alectra	$ 227,918,678				
Total	**$ 227,918,678**	**100.00%**	**$ 227,918,678**	**$ 3,556,000**	**$ 231,474,678**

vi) HRZ 2017 OM&A for ESM calculation

		Notes
Horizon Utilities Corporation - 1 month ending Jan 31/17	$ 5,266,751	1
HRZ share of Alectra OM&A - 11 months ending Dec 31/17	$ 55,151,956	2
Total for 2017	$ 60,418,707	

Comparison of Methodologies

Horizon OM&A based on actual 3 year average OM&A	$ 60,972,051
Horizon OM&A based on actual 3 year average OM&A & Growth Rate	$ 60,418,707
Decrease to Horizon OM&A in comparison to filed evidence	$ (553,344)

Questions:

a) Please confirm that the assumptions used in the 2017 growth-rate adjusted OM&A analysis remain valid. If any revisions to the assumptions used by Alectra Utilities is required, please update the analysis accordingly.

b) Please provide an identical analysis for 2018 OM&A by updating parts iii to vi, using the 2018 average connection count and 2018 total OM&A, as well as removing the monthly proration elements since all rate zones are part of Alectra Utilities for a full year. Please file both analyses in excel format.

c) As part of its response to G-Staff-7 from EB-2018-0016, Alectra Utilities asserted that OM&A costs are not driven by increases in customers. Please confirm whether or not Alectra Utilities maintains its position there is no correlation between customer count and OM&A and that OM&A should not be allocated based on growth rates.

HRZ-Staff-4

Ref: Exhibit 3, Tab 1, Schedule 2, Tables 34 and 46

Preamble:

For the 11 months of 2017, Alectra Utilities has identified only $3.6mm out of $231.5mm of total OM&A as directly identifiable to specific rate zones. For 2018, Alectra Utilities has not identified any OM&A costs that are specific to any particular rate zone and has allocated all OM&A of $256mm.

Questions:

a) Please explain why only a small proportion of the OM&A costs can be traced to specific rate zones and why such a large proportion of OM&A costs require an allocation methodology?

b) Does Alectra Utilities track any of the OM&A components by service territory in order to assess Alectra Utilities' cost performance by service territory? If not, why not? If so, why has that data not been utilized to directly attribute a greater proportion of total OM&A from 2017 to 2018 for a more accurate representation of rate zone OM&A costs?

HRZ-Staff-5

Ref: Exhibit 3, Tab 1, Schedule 2
Ref: Attachment 11-Table of Allocations Horizon ESM 2018
Ref: Attachment 9-Table of Allocations Horizon ESM 2017

Questions:

a) Please provide a copy of the following schedules from Alectra Utilities Corporations' 2018 Corporate Tax Return:
    i. Schedule 1 (Net Income (Loss) for Income Tax Purposes)
    ii. Schedule 4 (Corporation Loss Continuity and Application)

iii. Schedule 8 (Capital Cost Allowance (CCA))
iv. Schedule 13 (Continuity of Reserves)

b) Please explain, in detail, how Alectra Utilities determines what elements of Table 3 (additions/deductions for tax) are attributable to the merger and allocated to the Non-Regulated, MIFRS & Merger column.

c) Please provide the supporting tables or calculations to show how the figures are derived for the Merger-related additions/deductions for tax purposes

d) PILs for ratemaking purposes is calculated on a current tax basis (taxes payable), rather than deferred tax basis. Please provide Alectra Utilities' rationale for why loss utilization is not being allocated and applied to the PILs calculation for the purposes of HRZ's ESM calculation.

e) Please provide a more detailed explanation of where the losses from Alectra Utilities Corporation originated from and how Alectra Utilities believes they should be allocated to each rate zone, if they were to be applied to the ESM calculation. Please explain any assumption made in the allocation methodology.

HRZ-Staff-6

Ref: Exhibit 3, Tab 1, Schedule 3 – Horizon Utilities Capital Investment Variance Account
Ref: Attachment 11-Table of Allocations Horizon ESM 2018
Ref: Attachment 9-Table of Allocations Horizon ESM 2017

a) OEB staff is unable to reconcile the amount of $6,818,684 (2018 Share of Alectra GP additions) used in Table 56 with the methodology described by Alectra Utilities (18.3% proportion of rate base for HRZ x $57,294,202 total Alectra GP additions). Please confirm that the actual amount should be $10,600,129, consistent with the information provided in Table 1 of Attachment 11.

b) In Table 52, the total 2017 capital additions for GP is $31,487,162. This reconciles with the sum of the General Plant Capital Additions of $14,313,050 and Merger Capital Net Savings of $17,174,112 presented in Table 1 of Attachment 9. In Table 53, the total capital additions for GP is shown as $57,924,202, which reconciles only to the General Plant additions in Table 1 of Attachment 11. Please confirm whether or not Alectra Utilities intends to include the Merger Capital Net Savings with the total Alectra GP additions for the purposes of calculating the 2017 and 2018 HRZ Capital Investment Variance

Account (CIVA) additions and update either the 2017 or 2018 CIVA additions accordingly.

c) Please provide rationale for why the Merger Capital Net Savings either should or should not be included in the Alectra Utilities total GP additions figure for the purposes of calculating the HRZ CIVA figures.

d) Please present the actual in-service capital additions in Table 51 (or revised Table 51 if any changes are made following the response to parts a and b, above), on the basis of the pre-merger capitalization policy of the HRZ, consistent with the capital forecast used in the Custom IR Application (EB-2014-0002).

e) Is there any supporting rationale that Alectra Utilities can provide, other than the fact that it has prepared the HRZ's ESM under Alectra Utilities' post-merger capitalization policies, for comparing actual capital additions under one measurement basis to forecast capital additions under another?

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Ref: EB-2016-0025, Application, Exhibit B, Tab 6, Schedule 1, Pages 1-2 of 4
Ref: EB-2016-0025; LDC Co_IRR_OEB-Staff-1-ATTACH1_20160727
Ref: Exhibit 3, Tab 1, Schedule 3 – Horizon Utilities Capital Investment Variance Account
Ref: Attachment 11-Table of Allocations Horizon ESM 2018
Ref: Attachment 9-Table of Allocations Horizon ESM 2017

Preamble:

Alectra Utilities provided the following table as part of its forecast synergies in its MAADs application:

Figure 25 – Total Net Synergies

($MMs)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
Gross Synergies											
Operating	7.2	20.1	31.7	40.6	42.5	42.5	42.5	42.5	42.5	42.5	354.6
Capital	23.0	22.6	28.8	23.2	30.0	8.0	8.0	8.0	8.0	8.0	167.6
Total Synergies	30.2	42.7	60.5	63.8	72.5	50.5	50.5	50.5	50.5	50.5	522.2
Transition Costs											
Charged to Operating	20.9	11.1	8.2	2.3	0.5	-	-	-	-	-	43.0
Charged to Capital	33.7	15.2	4.4	-	-	-	-	-	-	-	53.3
Total Transition Costs	54.6	26.3	12.6	2.3	0.5	-	-	-	-	-	96.3
Net Synergies											
Operating	(13.7)	9.0	23.5	38.3	42.0	42.5	42.5	42.5	42.5	42.5	311.6
Capital	(10.7)	7.4	24.4	23.2	30.0	8.0	8.0	8.0	8.0	8.0	114.3
Total Net Synergies	(24.4)	16.4	47.9	61.5	72.0	50.5	50.5	50.5	50.5	50.5	425.9

Alectra Utilities received approval for its MAADs transaction on December 8, 2016.

Questions:

a) Please confirm that the first year of operations for Alectra Utilities was 2017.

b) Please confirm that, if the Total Net Synergies table above was updated at the time Alectra Utilities received OEB approval to merge, the first year would be shown as 2017 and the last year would be 2026, coinciding with Alectra Utilities' deferred rebasing period.

c) Please reconcile the forecast merger-related net operating costs of $13.7 million in year one (2017) with the amount of $2,032,671 used to adjust the 2017 OM&A allocation in HRZ's 2017 ESM calculation. Please include in this reconciliation a detailed breakdown of the elements that make up the forecast and compare that detailed breakdown versus actuals used in the ESM calculation, explaining variances between each item.

d) Please reconcile the forecast merger-related net operating savings of $9.0 million in year two (2018) with the amount of $24,020,161 used to adjust the 2018 OM&A allocation in HRZ's 2018 ESM calculation. Please include in this reconciliation a detailed breakdown of the elements that make up the forecast and compare that detailed breakdown versus actuals used in the ESM calculation, explaining variances between each item.

e) Please reconcile the forecast merger-related net capital costs of $10.7 million in year one (2017) with the reported capital savings amount of $17,174,112 used to adjust the 2017 capital additions allocation in HRZ's 2017 ESM calculation and 2017 CIVA additions. Please include in this reconciliation a detailed breakdown of the elements that make up the forecast and compare that detailed breakdown versus actuals used in the ESM and CIVA calculation, explaining variances between each item.

f) Please reconcile the forecast merger-related net capital savings of $7.4 million in year two (2018) with the amount of $5,233,012 used to adjust the 2018 capital additions allocation in HRZ's 2018 ESM calculation and 2018 CIVA additions. Please include in this reconciliation a detailed breakdown of the elements that make up the forecast and compare that detailed breakdown versus actuals used in the ESM and CIVA calculation, explaining variances between each item.

g) For each of the reconciliations between forecast and reported merger-related capital and operating costs/savings (parts c to f), please use, at a minimum, the following categories and sub-categories, as outlined in Section 5.6 – Opportunities on pages 77-78 of the Business Plan filed by Alectra Utilities to support the MAADs application:

OPEX Savings

- Payroll Cost Savings

- Non-payroll Cost Savings:
    - Reduction of third party costs e.g. consulting, legal etc.
    - Consolidation of contracts and services
    - Volume discounts
    - Software licensing and maintenance
    - Consolidation of systems

- Transition Costs (Operating):
    - Voluntary separation packages
    - IT system migration and integration costs
    - Re-branding and communication tool integration
    - Third-party costs

CAPEX Savings

- Avoided Capital Expenditures:
    - Elimination of IT costs due to converged IT Systems (e.g. programming, maintenance and license fees).

- Purchasing power will result in volume discounts for inventory and third party contractors.
- Rationalization of fleet and equipment across the three Regions.
- Elimination of duplicated programming costs due to regulatory compliance or changes in regulation (e.g. CIS programming for billing changes).
- Reduction of labour costs from the elimination of future hires and best practice adoption of work methods

- Transition Costs (Capital):

  IT systems such as CIS, ERP, GIS/OMS, telephone system, miscellaneous IT systems etc. will be consolidated over the first three years of the merger (please disaggregate the costs for different IT system types, where appropriate).

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Ref: EB-2016-0025 IRR B-EP-1
Ref: Exhibit 3, Tab 1, Schedule 2
Ref: Exhibit 3, Tab 1, Schedule 3

In response to interrogatory B-EP-1 from the Alectra Utilities amalgamation application (EB-2016-0025), the applicants stated the following with respect to maintaining compliance with the Horizon Utilities Corporation's (Horizon Utilities) settlement agreement:

> The Applicants identify that the merger creates complexity in certain areas related to the Capital Investment Variance Account ("CIVA"). For instance, there will be challenges regarding tracking capital expenditures in isolation of capital synergies. Similarly, for the purposes of the Earnings Sharing Mechanism ("ESM"), there will be challenges in tracking earnings in isolation of merger savings.

a) Please describe the challenges and complexities in isolating capital and operating synergies that Alectra Utilities has encountered with respect to its calculation of the HRZ CIVA and ESM calculations for 2017 and 2018.

b) Please describe any other types of challenges (unrelated to identifying and allocating merger costs/savings) that Alectra Utilities has experienced with respect to calculating the HRZ CIVA and ESM figures for 2017 and 2018.

c) Please explain the steps that Alectra Utilities has taken to address the challenges in part a) and b) and how those measures have been reflected in the various components of the CIVA and ESM calculations.

d) Does Alectra Utilities believe that revising the assumptions and methodologies used to identify the achieved capital and operating synergies can have a material impact on the calculations for the HRZ CIVA and ESM? If so, are there any further assessments that can be undertaken (either internally or by third party) to minimize the risk of a material error in either the CIVA or ESM calculations?