

BOMA-1

Reference: Exhibit 2, Tab 1, Schedule 5, p7

If PowerStream's capitalization practice is the one to which the three other rate zones, Brampton, Enersource, and Horizon, are being normalized, why do PowerStream's numbers reflect any impact over the ten year period (Table shows a total of \$3.718 million increase in revenue requirement over that period). Please discuss, separately, the rationale for changes to PowerStream's OM&A, depreciation, PILs, and return.

Response:

1 Although Alectra Utilities' predecessor PowerStream's capitalization policy did not change post-
2 merger, as part of Alectra Utilities' accounting policy review process, a difference was identified
3 for the PowerStream Rate Zone due to a reclassification of costs between burden pools.
4 Alectra Utilities reclassified tools and the related depreciation from the Benefit pool to the
5 Material burden pool. As the benefit rate was lower than the material burden rate, the impact of
6 this reclassification of tools related costs is an increase in capitalized costs and a corresponding
7 decrease in OM&A expenditures. As this results in a similar impact to capital and OM&A as the
8 change in capitalization policy for the other rate zones, Alectra Utilities calculated the net
9 financial impact of this change for the PowerStream RZ in the same manner. Alectra Utilities'
10 capitalization policy model is provided in response to G-Staff-3.

BOMA-2

Reference: Exhibit 2, Tab 1, Schedule 5, p5

Please provide a copy of the Board staffs calculation on the impact of the capitalization policy change on regulatory net earnings, as part of its assessment of the ESM for Horizon (Exhibit KI.4, Note 3 -Effects of Changes in Accounting Policy) on December 5, 2018. Please provide an annotated version of the Tables explaining the significance of each line item for one of the years to assist with understanding how the Board staffs calculation differs from Alectra's revised calculation and SEC's calculation.

Response:

- 1 As part of its compendium, filed on December 5, 2018 in Alectra Utilities' 2019 EDR Application
- 2 (EB-2018-0016), OEB Staff submitted a calculation of 'Adjusted Regulatory Earnings and ROE
- 3 Calculation'. A copy of OEB Staff's PDF file is provided as Attachment 1. OEB Staff's calculation
- 4 was in relation to the calculation of the Earnings Sharing Mechanism for the Horizon Utilities RZ,
- 5 and the effect of the accounting change on the ESM calculation. Alectra Utilities identified that
- 6 Note 3 in OEB Staff's submission included a calculation of the 'Effects of Changes in
- 7 Accounting Policy'. Note 3, which is included in OEB Staff's calculation provided as Attachment
- 8 1 to this response, is reproduced below.

1 Table 1 – ‘Note 3’ from OEB Staff’s Adjusted Regulatory Earnings and ROE Calculation

Note 3: Effects of Changes in Accounting Policy				
	HRZ	BRZ	ERZ	PRZ
Add back (deduct) OM&A	\$ (5,398,529)	\$ 1,830,532	\$ (1,866,041)	\$ (194,000)
Deduct (add back) Depreciation	\$ 67,482	\$ (22,882)	\$ 23,968	\$ 2,000
Impact on Net Earnings Before Interest and Tax	\$ (5,331,047)	\$ 1,807,650	\$ (1,842,073)	\$ (192,000)
Changes in Deemed Interest Amounts				
Change in Rate Base (per below, B1+B2)	\$ (2,017,700)	\$ 665,856	\$ (669,121)	\$ (81,450)
Deemed Short-term Debt Weight (4%)	\$ (80,708)	\$ 26,634	\$ (26,765)	\$ (3,258)
Deemed Short-term Debt Rate	1.76%	2.16%	2.08%	1.76%
Change in Short-term Interest	\$ (1,420)	\$ 575	\$ (557)	\$ (57)
Deemed Long-term Debt Weight (56%)	\$ (1,129,912)	\$ 372,879	\$ (374,708)	\$ (45,612)
Deemed Long-term Debt Rate	3.47%	6.07%	5.09%	3.88%
Change in Long-term Interest	\$ (39,208)	\$ 22,634	\$ (19,073)	\$ (1,770)
Impact on Earnings from Deemed Interest Change	\$ (40,628)	\$ 23,209	\$ (19,629)	\$ (1,827)
Capital Cost Allowance (CCA) difference (Class 47):				
Additions (Capitalized OM&A)	\$ 5,398,529	\$ (1,830,532)	\$ 1,866,041	\$ 194,000
50% Net Additions	\$ 2,699,265	\$ (915,266)	\$ 933,021	\$ 97,000
Reduced UCC	\$ 2,699,265	\$ (915,266)	\$ 933,021	\$ 97,000
CCA Claim (8%)*	\$ 215,941	\$ (73,221)	\$ 74,642	\$ 7,760
Adjustments to Current PILs:				
Increased (Reduced) net income before tax (A1)	\$ (5,331,047)	\$ 1,807,650	\$ (1,842,073)	\$ (192,000)
Adjustments to Arrive at Taxable Income:				
Add back incremental CCA Claim (per above*)	\$ 215,941	\$ (73,221)	\$ 74,642	\$ 7,760
Deduct Incremental Amortization that was added	\$ (67,482)	\$ 22,882	\$ (23,968)	\$ (2,000)
Net Adjustments to Taxable Income	\$ 148,459	\$ (50,339)	\$ 50,674	\$ 5,760
Adjusted Taxable Income	\$ (5,182,588)	\$ 1,757,311	\$ (1,791,399)	\$ (186,240)
Tax Rate	26.5%	26.5%	26.5%	26.5%
Reduced Income Taxes/Current PILs	\$ (1,373,386)	\$ 465,687	\$ (474,721)	\$ (49,354)
Impact on Earnings from Change in PILs	\$ 1,373,386	\$ (465,687)	\$ 474,721	\$ 49,354
Effects of Accounting Changes on Regulatory Net Earnings	\$ (3,998,290)	\$ 1,365,172	\$ (1,386,982)	\$ (144,473)
Adjustments to Rate Base				
	HRZ	BRZ	ERZ	PRZ
Adjustments to Average Net Fixed Assets:				
Remove capitalized OM&A	\$ (5,398,529)	\$ 1,830,532	\$ (1,866,041)	\$ (194,000)
Add depreciation difference	\$ 67,482	\$ (22,882)	\$ 23,968	\$ 2,000
Total Adjustment to Closing Net Fixed Assets	\$ (5,331,047)	\$ 1,807,650	\$ (1,842,073)	\$ (192,000)
Change in Average Net Fixed Assets (divide by 2)	\$ (2,665,524)	\$ 903,825	\$ (921,037)	\$ (96,000)
Adjustments to Working Capital Allowance:				
Adjustments to Working Capital Base controllable expenses:				
Add capitalized OM&A	\$ 5,398,529	\$ (1,830,532)	\$ 1,866,041	\$ 194,000
Working Capital Rate	12%	13%	13.5%	7.5%
Adjustment to Working Capital Allowance	\$ 647,823	\$ (237,969)	\$ 251,916	\$ 14,550
Effects of Accounting Changes on Rate Base	\$ (2,017,700)	\$ 665,856	\$ (669,121)	\$ (81,450)
Effects of Accounting Changes on Deemed Equity (40%)	\$ (807,080)	\$ 266,342	\$ (267,648)	\$ (32,580)

Alectra Utilities provided a comparison of the net impact of the capitalization policy change in 2017 based on the various approaches to the calculation, as identified by SEC and OEB Staff. This comparison was provided in Table 19 of Exhibit 2, Tab 1, Schedule 5. Table 19 is also reproduced, below.

Table 2 – Capitalization Policy Impact (2017) – Calculation Methodologies

Capitalization Policy Impact Reporting Period: 2017	Alectra Approach EB-2018-0016	SEC Approach EB-2018-0016 ¹	OEB Staff Approach EB-2018-0016	Alectra REVISED EB-2019-0018	Comments
Brampton RZ	\$1,211,711	\$1,671,303	\$1,365,172	\$1,671,303	Recovery from customers
Enersource RZ	(\$1,247,499)	(\$1,716,775)	(\$1,386,982)	(\$1,716,767)	Refund to customers
PowerStream RZ	(\$131,217)	(\$180,076)	(\$144,473)	(\$180,076)	Refund to customers
Horizon Utilities RZ	(\$3,663,090)	(\$5,022,498)	(\$3,998,290)	(\$5,022,498)	Flows through the ESM
Total Net Impact	(\$3,830,095)	(\$5,248,046)	(\$4,164,573)	(\$5,248,037)	

As identified at p. 6, 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 requirement basis, consistent with the OEB's PILs model. OEB staff has calculated PILs on an actual taxes payable basis as identified in Note 3, above ('Adjustments to Current PILs'). The difference in the total net impact between the two approaches is \$1.1MM; the primary driver of this difference is the PILs calculation. OEB Staff's impact on earnings from PILs in 2017 (Line 'Impact on Earnings from Change in PILs' in Note 3) is provided as \$1.4MM, compared to Alectra Utilities' PILs calculation of \$0.01MM.

Alectra Utilities' capitalization policy model is provided in response to G-Staff-3.

BOMA-2

ATTACHMENT 1 – OEB ADJUSTED REGULATORY EARNINGS AND ROE CALCULATION

	A	B	C	D	E	F	G	H	I	J	K				
1															
2	Table 1: Earnings and ROE excluding Accounting Changes														
3															
4	Entity (Rate Zone)					Reported Results									
5						HRZ		BRZ		ERZ		PRZ		Alectra Utilities	
6	Source					Note 1		Note 2		Note 2		Note 2		Note 1	
7															
8															
9	Regulatory Net Income before ESM DVA Entry					\$ 21,180,442	\$ 9,522,997	\$ 17,671,118	\$ 34,680,001	\$ 83,054,556					
10	Deemed Equity					\$ 207,057,276	\$ 168,520,438	\$ 316,681,764	\$ 415,262,107	\$ 1,107,528,050					
11	ROE %					10.23%	5.65%	5.58%	8.35%	7.50%					
12															
13						Effects of Accounting Changes									
14						HRZ		BRZ		ERZ		PRZ		Alectra Utilities	
15	Source					Note 3		Note 3		Note 3		Note 3		Note 3	
16															
17	Regulatory Net Income					\$ (3,998,290)	\$ 1,365,172	\$ (1,386,982)	\$ (144,473)	\$ (4,066,720)					
18	Deemed Equity					\$ (807,080)	\$ 266,342	\$ (267,648)	\$ (32,580)	\$ (1,100,095)					
19	ROE %					-1.90%	0.80%	-0.43%	-0.03%	-0.36%					
20															
21						Earnings and ROE excluding Accounting Changes									
22						HRZ		BRZ		ERZ		PRZ		Alectra Utilities	
23															
24	Regulatory Net Income before ESM DVA Entry					\$ 17,182,152	\$ 10,888,169	\$ 16,284,136	\$ 34,535,527	\$ 78,987,836					
25	Deemed Equity					\$ 206,250,196	\$ 168,786,781	\$ 316,414,116	\$ 415,229,527	\$ 1,106,427,955					
26	ROE %					8.33%	6.45%	5.15%	8.32%	7.14%					

	A	B	C	D	E	F	G	H	I	J	K
27											
28	Table 2: Historical Regulatory Earnings and ROE										
29											
30											
31											
32	2015	Ref:	1	1	1	1	1	1	1	1	
33	Regulatory Net Income (no ESM DVA Entry)		\$ 19,088,000	\$ 12,321,570	\$ 21,311,944	\$ 26,082,878	\$ 78,804,392				
34	Deemed Equity		\$ 190,520,112	\$ 160,817,281	\$ 282,498,352	\$ 392,218,673	\$ 1,026,054,418				
35	ROE%		10.00%	7.66%	7.54%	6.65%	7.68%				
36											
37	2016	Ref:	2	2	2	2	2	2	2	2	
38	Regulatory Net Income before ESM DVA Entry		\$ 20,434,786	\$ 12,310,771	\$ 19,075,259	\$ 33,600,801	\$ 85,421,618				
39	Deemed Equity		\$ 202,586,220	\$ 168,697,788	\$ 311,076,269	\$ 425,865,000	\$ 1,108,225,277				
40	ROE%		10.09%	7.30%	6.13%	7.89%	7.71%				
41											
42	2017	Ref:	3	3	3	3	3	3	3	3	
43	Regulatory Net Income before ESM DVA Entry		\$ 17,182,152	\$ 10,888,169	\$ 16,284,136	\$ 34,535,527	\$ 78,889,985				
44	Deemed Equity		\$ 206,250,196	\$ 168,786,781	\$ 316,414,116	\$ 415,229,527	\$ 1,106,680,620				
45	ROE%		8.33%	6.45%	5.15%	8.32%	7.13%				
46											
47	Change from 2016 to 2017										
48	Regulatory Net Income before ESM DVA Entry		\$ (3,252,634)	\$ (1,422,603)	\$ (2,791,123)	\$ 934,726	\$ (6,531,633)				
49	Deemed Equity		\$ 3,663,976	\$ 88,992	\$ 5,337,847	\$ (10,635,473)	\$ (1,544,657)				
50	ROE%		-1.76%	-0.85%	-0.98%	0.43%	-0.58%				
51											
52	References:	1	RRR Filings 2015								
53		2	RRR Filings 2016 for BRZ/ERZ/PRZ; EB-2017-0024 Exhibit 2 Tab 1 Schedule 6 for HRZ								
54		3	Table 1: Earnings and ROE Excluding Accounting Changes								

	A	B	C	D	E	F	G	H	I	J	K
55											
56	Note 1: Reconciliation to RRR 2.1.5.4 Filings										
57											
58						Alectra	Horizon RZ		Ref.		
59											
60	Net Income for ESM, after HRZ-Staff-17 Adj.					\$ 81,987,281	\$ 20,113,167		Note 2; IRR HRZ-Staff-17		
61											
62	Deduct non-allowable Donations (non-LEAP)					\$ (3,897)	\$ (3,897)		Exhibit 2 Tab 1 Schedule 6 Table 20-21		
63	Adjustment for DVA interest (income) expense					\$ (43,834)	\$ (43,834)		Exhibit 2 Tab 1 Schedule 6 Table 20-21		
64	Add back ROE on Stranded Meters					\$ 84,000	\$ 84,000		Exhibit 2 Tab 1 Schedule 6 Table 20-21		
65	Add back 1/5th of Application costs					\$ 495,385	\$ 495,385		Exhibit 2 Tab 1 Schedule 6 Table 20-21		
66	Add Tax on non-allowable Donations (non-LEAP) (26.5%)					\$ 1,033	\$ 1,033		Exhibit 2 Tab 1 Schedule 6 Table 20-21		
67	Add Tax on DVA Interest (income) expense (26.5%)					\$ 11,616	\$ 11,616		Exhibit 2 Tab 1 Schedule 6 Table 20-21		
68	Add Tax on Stranded Meter Rate Rider					\$ 676,509	\$ 676,509		Exhibit 2 Tab 1 Schedule 6 Table 20-21		
69	Deduct tax on ROE on Stranded Meters (26.5%)					\$ (22,260)	\$ (22,260)		Exhibit 2 Tab 1 Schedule 6 Table 20-21		
70	Deduct tax on 1/5th of Application Costs (26.5%)					\$ (131,277)	\$ (131,277)		Exhibit 2 Tab 1 Schedule 6 Table 20-21		
71											
72	Reg. Net Income per 2.1.5.6 before ESM DVA Entry					\$ 83,054,556	\$ 21,180,442		Figures to be used in Table 1 above		
73											
74	ESM DVA entry accrued in 2017					\$ (985,377)	\$ (985,377)		Exhibit 2 Tab 1 Schedule 6 Table 20-21		
75	2016 ESM DVA adjustment (booked in 2017)					\$ (33,508)	\$ (33,508)		Exhibit 2 Tab 1 Schedule 6 Table 20-21		
76	Tax on ESM DVA entry and adjustment (26.5%)					\$ 270,005	\$ 270,005		Exhibit 2 Tab 1 Schedule 6 Table 20-21		
77											
78	Regulatory Net Income per 2.1.5.6 after ESM Entry					\$ 82,035,671	\$ 20,161,557				
79											
80	Deemed Equity					\$ 1,107,528,050	\$ 207,057,276		Alectra Rep. Sub Table 1; IRR HRZ-Staff-17		

	A	B	C	D	E	F	G	H	I	J	K
81											
82	Note 2: Updated reported results per Adjustments in HRZ-Staff-17 and HRZ-Staff-21										
83											
84	Adjustments to Regulatory Net Income and Deemed Equity:	Reported Results									
85		HRZ	BRZ	ERZ	PRZ	Alectra Utilities					
86	Originally Proposed:										
87	Regulatory Net Income (per Alectra Reply Sub. Table 1)	\$ 19,807,963	\$ 9,437,793	\$ 17,585,874	\$ 35,153,362	\$ 81,984,990					
88	Deemed Equity (per Alectra Reply Sub. Table 1)	\$ 207,042,402	\$ 168,529,763	\$ 316,699,842	\$ 415,256,043	\$ 1,107,528,050					
89	ROE %	9.567%	5.600%	5.553%	8.465%	7.403%					
90											
91	Adjustments per below:										
92	Regulatory Net Income	\$ 305,204	\$ 85,204	\$ 85,244	\$ (473,361)	\$ 2,291					
93	Deemed Equity	\$ 14,874	\$ (9,325)	\$ (18,078)	\$ 6,064	\$ (6,464)					
94											
95		Adjusted Earnings and ROE per HRZ-Staff-17									
96											
97	Regulatory Net Income	\$ 20,113,167	\$ 9,522,997	\$ 17,671,118	\$ 34,680,001	\$ 81,987,281					
98	Deemed Equity	\$ 207,057,276	\$ 168,520,438	\$ 316,681,764	\$ 415,262,107	\$ 1,107,521,586					
99	ROE%	9.714%	5.651%	5.580%	8.351%	7.403%					
100											
101	Change in Regulatory Net Income										
102											
103	Ex 2 Tab 1 Sch 6 Table 26 - Revised per HRZ-Staff-17										
104		HRZ	BRZ	ERZ	PRZ	Alectra Utilities					
105	2014-2016 RRR Average	\$ 60,901,688	\$ 28,658,213	\$ 56,300,996	\$ 86,722,101	\$ 232,582,998					
106	Impact of Alectra Utilities Overhead Capitalization	\$ (5,398,529)	\$ 1,830,532	\$ (1,866,041)	\$ (194,000)	\$ (5,628,038)					
107											
108	Annualized Adjustment to Overhead Capitalization	\$ (5,889,304)	\$ 2,196,638	\$ (2,035,681)	\$ (211,636)	\$ (5,939,983)					
109											
110	Revised OM&A	\$ 55,012,384	\$ 30,854,851	\$ 54,265,315	\$ 86,510,465	\$ 226,643,015					
111	% of total	24.27%	13.61%	23.94%	38.17%	100.00%					
112	Prorate for 2017 part year:										
113	Months	11	10	11	11						
114	Prorated	\$ 50,428,018	\$ 25,712,376	\$ 49,743,205	\$ 79,301,259	\$ 205,184,859					
115	% of total	24.58%	12.53%	24.24%	38.65%	100.00%					
116											
117	% Used in Original Filing	24.44%	12.61%	24.39%	38.56%	100.00%					
118	\$ Used in Original Filing	\$ 55,705,300	\$ 28,748,518	\$ 55,590,373	\$ 87,874,487	\$ 227,918,678					
119	Change in OM&A (%)	0.14%	-0.08%	-0.15%	0.09%						
120	Change in OM&A (\$)	\$ 311,955	\$ (179,321)	\$ (334,774)	\$ 202,140	\$ -					

	A	B	C	D	E	F	G	H	I	J	K
121											
122	Change in Deemed Interest:										
123											
124	Change in Rate Base (per below)					\$ 37,435	\$ (23,312)	\$ (45,194)	\$ 15,161	\$ (15,911)	
125											
126	Deemed Short-term Debt Weight (4%)					\$ 1,497	\$ (932)	\$ (1,808)	\$ 606	\$ (636)	
127	Deemed Short-term Debt Rate					1.76%	2.16%	2.08%	1.76%		
128	Change in Short-term Interest					\$ 26	\$ (20)	\$ (38)	\$ 11	\$ (21)	
129											
130	Deemed Long-term Debt Weight (56%)					\$ 20,963	\$ (13,055)	\$ (25,309)	\$ 8,490	\$ (8,910)	
131	Deemed Long-term Debt Rate					3.47%	6.07%	5.09%	3.88%		
132	Change in Long-term Interest					\$ 727	\$ (792)	\$ (1,288)	\$ 329	\$ (1,024)	
133											
134	Change in Deemed Interest					\$ 754	\$ (813)	\$ (1,326)	\$ 340	\$ (1,045)	
135											
136	Change in Current PILs from OM&A and Interest (26.5%)					\$ (82,868)	\$ 47,735	\$ 89,066	\$ (53,657)	\$ 277	
137											
138	Change in Current PILs from HRZ-Staff-21*					\$ (533,522)	\$ 47,194	\$ 161,790	\$ 324,538	\$ -	
139											
140	*HRZ-Staff-21 Reallocations to other RZ based on GP Dep. %										
141	*RZ Allocations prior to HRZ-Staff-21 not provided										
142											
143	Rounding Difference					\$ (1,523)	\$ -	\$ -	\$ -	\$ (1,523)	
144											
145	Total Change in Regulatory Net Income					\$ 305,204	\$ 85,204	\$ 85,244	\$ (473,361)	\$ 2,291	
146											
147	Change in Deemed Equity										
148											
149	Change in OM&A (Working Capital Base) (per above)					\$ 311,955	\$ (179,321)	\$ (334,774)	\$ 202,140	\$ -	
150	Working Capital Allowance Rate					12.0%	13.0%	13.5%	7.5%		
151	Change in Working Capital Allowance/Rate Base					\$ 37,435	\$ (23,312)	\$ (45,194)	\$ 15,161	\$ (15,911)	
152											
153	Rounding Difference					\$ (100)	\$ -	\$ -	\$ -	\$ (100)	
154											
155	Change in Deemed Equity (40%)					\$ 14,874	\$ (9,325)	\$ (18,078)	\$ 6,064	\$ (6,464)	

	A	B	C	D	E	F	G	H	I	J	K	
156												
157	Note 3: Effects of Changes in Accounting Policy											
158												
159	Effects of Accounting Changes on Regulatory Net Earnings (Ref: BRZ per App. Ex 2 Tab 2 Sch 7; ERZ per App. Ex 2 Tab 4 Sch 7; HRZ per HRZ-Staff-22, PRZ per G-Staff-5)											
160												
161												
162	Add back (deduct) OM&A	\$	(5,398,529)	\$	1,830,532	\$	(1,866,041)	\$	(194,000)	\$	(5,628,038)	
163	Deduct (add back) Depreciation	\$	67,482	\$	(22,882)	\$	23,968	\$	2,000	\$	70,568	
164												
165	Impact on Net Earnings Before Interest and Tax	\$	(5,331,047)	\$	1,807,650	\$	(1,842,073)	\$	(192,000)	\$	(5,557,470)	A1
166												
167	Changes in Deemed Interest Amounts											
168												
169	Change in Rate Base (per below, B1+B2)	\$	(2,017,700)	\$	665,856	\$	(669,121)	\$	(81,450)	\$	(2,750,239)	
170												
171	Deemed Short-term Debt Weight (4%)	\$	(80,708)	\$	26,634	\$	(26,765)	\$	(3,258)	\$	(3,389)	
172	Deemed Short-term Debt Rate		1.76%		2.16%		2.08%		1.76%			
173	Change in Short-term Interest	\$	(1,420)	\$	575	\$	(557)	\$	(57)	\$	(39)	
174												
175	Deemed Long-term Debt Weight (56%)	\$	(1,129,912)	\$	372,879	\$	(374,708)	\$	(45,612)	\$	(47,440)	
176	Deemed Long-term Debt Rate		3.47%		6.07%		5.09%		3.88%			
177	Change in Long-term Interest	\$	(39,208)	\$	22,634	\$	(19,073)	\$	(1,770)	\$	1,791	
178												
179	Impact on Earnings from Deemed Interest Change	\$	(40,628)	\$	23,209	\$	(19,629)	\$	(1,827)	\$	1,753	A2
180												

	A	B	C	D	E	F	G	H	I	J	K
181	Capital Cost Allowance (CCA) difference (Class 47):										
182											
183	Additions (Capitalized OM&A)					\$ 5,398,529	\$ (1,830,532)	\$ 1,866,041	\$ 194,000	\$ 229,509	
184	50% Net Additions					\$ 2,699,265	\$ (915,266)	\$ 933,021	\$ 97,000	\$ 114,755	
185	Reduced UCC					\$ 2,699,265	\$ (915,266)	\$ 933,021	\$ 97,000	\$ 114,755	
186											
187	CCA Claim (8%)*					\$ 215,941	\$ (73,221)	\$ 74,642	\$ 7,760	\$ 9,180	
188											
189	Adjustments to Current PILs:										
190											
191	Increased (Reduced) net income before tax (A1)					\$ (5,331,047)	\$ 1,807,650	\$ (1,842,073)	\$ (192,000)	\$ (5,557,470)	
192											
193	Adjustments to Arrive at Taxable Income:										
194	Add back incremental CCA Claim (per above*)					\$ 215,941	\$ (73,221)	\$ 74,642	\$ 7,760	\$ 9,180	
195	Deduct Incremental Amortization that was added					\$ (67,482)	\$ 22,882	\$ (23,968)	\$ (2,000)	\$ (70,568)	
196	Net Adjustments to Taxable Income					\$ 148,459	\$ (50,339)	\$ 50,674	\$ 5,760	\$ (61,388)	
197											
198	Adjusted Taxable Income					\$ (5,182,588)	\$ 1,757,311	\$ (1,791,399)	\$ (186,240)	\$ (5,618,858)	
199											
200	Tax Rate					26.5%	26.5%	26.5%	26.5%	26.5%	
201											
202	Reduced Income Taxes/Current PILs					\$ (1,373,386)	\$ 465,687	\$ (474,721)	\$ (49,354)	\$ (1,488,997)	
203											
204	Impact on Earnings from Change in PILs					\$ 1,373,386	\$ (465,687)	\$ 474,721	\$ 49,354	\$ 1,488,997	A3
205											
206	Effects of Accounting Changes on Regulatory Net Earnings					\$ (3,998,290)	\$ 1,365,172	\$ (1,386,982)	\$ (144,473)	\$ (4,066,720)	(A1+A2+A3)

	A	B	C	D	E	F	G	H	I	J	K
207											
208	Adjustments to Rate Base					HRZ	BRZ	ERZ	PRZ	Alectra	
209											
210	Adjustments to Average Net Fixed Assets:										
211											
212	Remove capitalized OM&A					\$ (5,398,529)	\$ 1,830,532	\$ (1,866,041)	\$ (194,000)	\$ (5,628,038)	
213	Add depreciation difference					\$ 67,482	\$ (22,882)	\$ 23,968	\$ 2,000	\$ 70,568	
214											
215	Total Adjustment to Closing Net Fixed Assets					\$ (5,331,047)	\$ 1,807,650	\$ (1,842,073)	\$ (192,000)	\$ (5,557,470)	
216											
217	Change in Average Net Fixed Assets (divide by 2)					\$ (2,665,524)	\$ 903,825	\$ (921,037)	\$ (96,000)	\$ (2,778,735)	B1
218											
219	Adjustments to Working Capital Allowance:										
220											
221	Adjustments to Working Capital Base controllable expenses:										
222	Add capitalized OM&A					\$ 5,398,529	\$ (1,830,532)	\$ 1,866,041	\$ 194,000	\$ 5,628,038	
223	Working Capital Rate					12%	13%	13.5%	7.5%		
224	Adjustment to Working Capital Allowance					\$ 647,823	\$ (237,969)	\$ 251,916	\$ 14,550	\$ 28,496	B2
225											
226	Effects of Accounting Changes on Rate Base					\$ (2,017,700)	\$ 665,856	\$ (669,121)	\$ (81,450)	\$ (2,750,239)	(B1+B2)
227											
228	Effects of Accounting Changes on Deemed Equity (40%)					\$ (807,080)	\$ 266,342	\$ (267,648)	\$ (32,580)	\$ (1,100,095)	(B1+B2)*0.4
229											
230	Input Rates and Source of Data					HRZ ¹	BRZ ²	ERZ ³	PRZ ⁴		
231											
232	Short Term Debt Rate					1.76%	2.16%	2.08%	1.76%		
233	Long Term Debt Rate					3.47%	6.07%	5.09%	3.88%		
234	Working Capital Allowance Rate					12.00%	13.00%	13.50%	7.50%		
235											
236	Source of Data:					3 (EB-2016-0077) Horizon_4.1 Revenue Requirement Work Form 2017_V7.02_Jan19_2017; Tab 4 Rate Base and Tab 7 Cost of Capital					
237						1 (EB-2014-0083) HOBNI 2015_Rev_Reqt_Work_Form_V4_xlsm_20141223; Tab 4 Rate Base and Tab 7 Cost of Capital					
238						2 (EB-2012-0033) Enersource_DRO_reply_2013_RRWF_V3_20130111; Tab 4 Rate Base and Tab 7 Cost of Capital					
239						4 (EB-2015-0003) C_PowerStream_RRWF 2017_20161102; Tab 4 Rate Base and Tab 7 Cost of Capital					

BOMA-3

Reference: Exhibit 2, Tab 1, Schedule 5, pp5-6

- a) Please provide the calculation underlying the results for columns in Table 19.**
- b) Please confirm that the difference between SEC's Approach and Alectra's Revised Approach (shown as the same), and the Board staffs Approach of approximately \$1 million, is due solely to the difference in the manner in which PILs were calculated. Please show the details of the PILs calculation by each of Board staff and Alectra/SEC.**
- c) In Alectra's view, are Alectra and SEC now agreed on the results shown on Table 19? Please explain.**
- d) With respect to PILs, please explain why Alectra prefers the revenue requirement approach to the actual PILs costs paid approach.**
- e) Do the actual PILs paid, in 2017 and 2018, differ from the PILs forecast to be paid in those two years? Please explain fully.**

Response:

- 1 a) Please see Alectra Utilities' response to G-Staff-3.
- 2
- 3 b) Please see Alectra Utilities' response to BOMA-2 and G-Staff-3 where the PILs calculations
- 4 are provided.
- 5
- 6 c) SEC filed its approach to the treatment of the capitalization policy change in Alectra Utilities'
- 7 2019 proceeding (EB-2018-0016), on October 31, 2018. In reviewing SEC's calculation,
- 8 Alectra Utilities identified that the calculation of PILs differed between the two calculations;
- 9 Alectra Utilities has updated the calculation of PILs in its Capitalization Policy Impact Model,
- 10 filed in response to G-Staff-3. SEC's and Alectra Utilities' approach differs with respect to
- 11 the components of the calculation to be included in the capitalization policy deferral
- 12 accounts. SEC has only considered 1) the impact on rate base due to higher or lower
- 13 capitalized OM&A and 2) the impact on rate base due to higher or lower depreciation. As
- 14 identified in Exhibit 2, Tab 1, Schedule 5, pp. 8-9, this approach ignores two key

1 components of the calculation, PILs and Return, which must be considered to determine the
2 full impact of the change in capitalization policy. This complete approach is outlined in
3 Alectra Utilities' Capitalization Policy Impact Model.

4
5 d) As identified in response to G-Staff-3, the revised PILs calculation is consistent with the
6 calculation of PILs when determining revenue requirement.

7
8 e) In Alectra Utilities' previous approach to the calculation, the PILs calculation was primarily
9 based on the impact of OM&A on pre-tax net income. The PILs calculation in Alectra
10 Utilities' Capitalization Policy Impact Model is based on regulatory taxable income, with an
11 add back for depreciation and a deduction for CCA. The tax rate of 26.5% is then applied to
12 the incremental taxable income to determine PILs before Gross Up. The final step in the
13 PILs calculation is the determination of incremental Grossed Up PILs. This calculation is
14 fully detailed in Tab 4 of the Capitalization Policy Impact Model.

BOMA-4

Reference: General

- a) Please illustrate and explain the calculation of the impact of the change in capitalization policy on projected rates over the balance of the deferred rebasing period using each of the "adjustment to rate base" approach, and the "revenue requirement" approach.
- b) Do these two approaches achieve the same result?
- c) The evidence speaks of a cash approach and a revenue requirement approach to determining impacts of the change in capitalization policy. Do those two approaches square with calculations using forecasts and the actual cash impact of the change?

Response:

- 1 a) and b) Please see Alectra Utilities' response to BOMA 3 c) and Exhibit 2, Tab 1, Schedule 5,
2 pp 8-9.
3
- 4 b) Alectra Utilities is proposing a comprehensive approach to determining the impact of the
5 capitalization policy change which includes the following components:
- 6 • The actual impact on OM&A expenditures in each year following the change in
7 capitalization policy until rebasing;
 - 8 • The actual impact on depreciation expense over the life of the underlying assets as a
9 result of the increase/decrease in capitalization costs;
 - 10 • The impact on income tax or PILs; and
 - 11 • The annual return on the cumulative impact from the annual change in capitalization
12
- 13 This reflects a revenue requirement approach to the determining the balances to be recorded in
14 the capitalization policy deferral account, as shown in Alectra Utilities' Capitalization Policy
15 Impact Model.

BOMA-5

Reference: General

BOMA is not clear on the basis on which Alectra proposes to calculate the impacts of the change in capitalization policy on rates for the period 2019-2026, the deferred rebasing period, or for the term of the proposed plan (which is 2020-2024).

- a) For each of the "adjustments to rate base" approach and the "revenue requirement" approach, please explain the impacts on ratepayers and shareholders.**
- b) Please provide a numerical example showing each step of the calculation of the two ways of determining the impacts.**
- c) Please explain fully the two approaches, and the differences between them.**

Response:

- 1 a) to c) Please see Alectra Utilities' responses to BOMA-3, BOMA-4 and G-Staff-3.