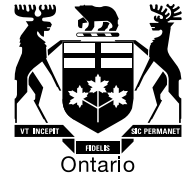


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BY E-MAIL

October 24, 2019

Christine E. Long
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Long:

**Re: EB-2019-0018 Alectra Utilities Corporation (Alectra Utilities)
Application for 2020 Electricity Distribution Rates
OEB Staff Supplementary Interrogatories**

In accordance with Procedural Order No. 4, please find attached OEB Staff supplementary interrogatories on the capitalization policy related elements in the above proceeding. The applicant and intervenors have been copied on this filing.

Alectra Utilities' responses to interrogatories are due by October 31, 2019.

Any questions relating to this letter should be directed to Katherine Wang at katherine.wang@oeb.ca or at 416-440-7619. The Board's toll-free number is 1-888-632-6273.

Yours truly,

Original Signed By

Katherine Wang
Advisor
Incentive Rate Setting & Regulatory Accounting

Encl.

**OEB Staff Supplementary Interrogatories
2020 Electricity Distribution Rates Application
Alectra Utilities Corporation (Alectra Utilities)
EB-2019-0018
October 24, 2019**

G-Staff-6

Ref: IRR G-Staff-4

Preamble:

In G-Staff-4, OEB staff requested that Alectra Utilities compare its proposed method for calculating the return component of changes in capitalization policy to the return component methodology that has historically been applied by the OEB to balances in Account 1575 and 1576. Specifically, OEB staff stated the following in G-Staff-4 f):

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?

In response, Alectra Utilities asserted that its method of calculating the return component of changes in accounting policies is consistent with the Account 1575 and 1576 method, stating:

Alectra Utilities' calculation method of return on rate base is consistent with the calculation of the return used for Accounts 1575 and 1576. For the calculation of the return please see Alectra Utilities' Capitalization Policy Impact Model filed in response to G-Staff-3.

However, in G-Staff-4 c), OEB staff asked Alectra Utilities to confirm that its calculation method results in a collection from ratepayers in cases where accounting policy changes result in increases to rate base, while the Account 1575/1576 method would result in a refund to customers. Alectra Utilities confirmed these circumstances in their response.

Please reconcile the two positions above by directly confirming the following differences between Alectra Utilities' method and the 1575/1576 method for return on capital (if any of the below is not confirmed, please provide a detailed explanation):

- a) The return on capital calculation under Account 1575/1576 results in amounts being returned to ratepayers when there is an increase to rate base, while

Alectra Utilities' method results in a collection from ratepayers for that component. Conversely, the return on capital calculation under Account 1575/1576 results in amounts being collected from ratepayers when there is a decrease to rate base, while Alectra Utilities' method results in a collection from ratepayers for that component.

- b) The 1575/1576 method is non-compounding. Specifically, it takes the cumulative PPE (property, plant, and equipment) difference since the change in accounting policy took place and calculates the return component as: the cumulative PPE difference, multiplied by the weighted average cost of capital, multiplied by the number of years that the associated rate rider will be in effect for.

Alectra Utilities method is compounding. Specifically, it takes the closing PPE difference at the end of each year since the change in accounting policy took place and calculates the return component as the closing PPE difference at the end of that year multiplied by the weighted average cost of capital.

G-Staff-7

Ref: IRR G-Staff-4

Ref: Alectra_IRR_G-Staff-3_Attach 1_Capitalization Policy Impact Model_20191007

Preamble:

In G-Staff-4, parts h) and i), OEB staff asked Alectra Utilities to prepare the disposition amounts for the Enersource (ERZ) and Brampton (BRZ) rate zones using the 1575/1576 method (ERZ and BRZ being the rate zones that are eligible for disposition in this proceeding). OEB staff also asked Alectra Utilities to restate its table that summarizes the total impacts of the change in accounting policy (Table 20 of Exhibit 2, Tab 1, Schedule 5) using the 1575/1576 method for calculating return on capital.

In response, Alectra Utilities asserted that its method is consistent with the 1575/1576 method and directed OEB staff to its Capitalization Policy Impact Model, which is the supporting document for the Alectra Utilities' method.

Similar to G-Staff-6, OEB staff notes key differences in the 1575/1576 method versus Alectra Utilities' method. OEB staff has prepared the accounting policy impacts using the 1575/1576 method for the record in this proceeding and provides them below as Figures 1 to 7. Figures 1 to 5 show the cumulative impact for all five rate zones assuming disposition occurs upon rebasing, while Figures 6 to 7 calculate the amounts

eligible for disposition under this method for the 2017-2018 impacts in the Enersource and Brampton Rate Zones assuming disposition of the accounts in this proceeding.

OEB staff has used tab 2-EC from the Chapter 2 Appendices for 2019 cost of service applications.¹ The changes and assumptions made by OEB staff in these calculations are:

- All references to different reporting bases (IFRS/CGAAP/etc.) have been removed.
 - The years in each table have been updated to coincide with the affected periods for each rate zone.
 - The most recent weighted average cost of capital for each rate zone has been used, as provided in Alectra Utilities' Capitalization Policy Impact Model.
 - The capital additions and depreciation impacts for each rate zone have been populated under the revised accounting policy rows, per Alectra Utilities' Capitalization Policy Impact Model.
 - A 1-year disposition period is assumed.
 - For comparative purposes to Alectra Utilities' Capitalization Policy Impact Model, the Horizon Rate Zone has been populated for 2017-2019 and the Powerstream Rate Zone for 2017-2026 has been included as well.
- a) Please confirm that OEB staff has prepared the capitalization policy impacts, using the 1576 method, with factual accuracy and in accordance with the OEB's current methodology. If Alectra Utilities believes that OEB staff has made an error in applying the 1576 methodology for any of Figures 1 to 7 below, please explain in detail and provide a revised copy of the table(s), stating any changes that were made and why they were made.

¹ Any similar 1575/1576 tabs from the Chapter 2 Appendices since 2014 would produce identical results.

Figure 1
Appendix 2-EC
Account 1576 - Accounting Changes between Rebasing Years
Horizon Rate Zone

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027 Rebasing Year
	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
PP&E Values under former Accounting Policy											
Opening net PP&E	0	0	0	0	0	0	0	0	0	0	
Net Additions - Note 3											
Net Depreciation (amounts should be negative) - Note 3											
Closing net PP&E (1)	0	0	0	0	0	0	0	0	0	0	
PP&E Values under revised Accounting Policy											
Opening net PP&E	0	5,263,566	10,240,272	16,268,230	21,808,545	26,944,785	31,860,631	35,580,540	40,407,103	45,084,537	
Net Additions - Note 3	5,398,529	5,242,737	6,455,375	6,120,749	5,863,256	5,787,550	4,709,348	5,965,129	5,965,129	5,965,129	
Net Depreciation (amounts should be negative) - Note 3	(134,963)	(266,032)	(427,416)	(580,435)	(727,016)	(871,705)	(989,439)	(1,138,567)	(1,287,695)	(1,362,259)	
Closing net PP&E (2)	5,263,566	10,240,272	16,268,230	21,808,545	26,944,785	31,860,631	35,580,540	40,407,103	45,084,537	49,687,407	
Difference in Closing net PP&E, former Accounting Policy vs revised Accounting Policy	(5,263,566)	(10,240,272)	(16,268,230)	(21,808,545)	(26,944,785)	(31,860,631)	(35,580,540)	(40,407,103)	(45,084,537)	(49,687,407)	
Effect on Deferral and Variance Account Rate Riders											
Closing balance in Account 1576											(49,687,407)
Return on Rate Base Associated with Account 1576 balance at WACC - Note 1											(2,881,472)
Amount included in Deferral and Variance Account Rate Rider Calculation											(52,568,880)
Notes:											
1 Return on rate base associated with Account 1576 balance is calculated as: the variance account ending balance as of 2026 x WACC x # of years of rate rider disposition period * Please note that the calculation should be adjusted once WACC is updated and finalized in the rate application.									WACC	5.80%	
2 Account 1576 is cleared by including the total balance in the deferral and variance account rate rider calculation.									# of years of rate rider disposition period	1	
3 Net additions are additions net of disposals; Net depreciation is additions to depreciation net of disposals.											

Figure 2
Appendix 2-EC
Account 1576 - Accounting Changes between Rebasing Years
Enersource Rate Zone

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027 Rebasing Year
	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
PP&E Values under former Accounting Policy											
Opening net PP&E	0	0	0	0	0	0	0	0	0	0	
Net Additions - Note 3											
Net Depreciation (amounts should be negative) - Note 3											
Closing net PP&E (1)	0	0	0	0	0	0	0	0	0	0	
PP&E Values under revised Accounting Policy											
Opening net PP&E	0	1,819,390	3,441,469	5,111,832	6,678,668	8,478,907	10,399,041	12,295,232	14,605,254	16,847,329	
Net Additions - Note 3	1,866,041	1,711,518	1,804,925	1,745,024	2,029,155	2,204,155	2,236,114	2,717,893	2,717,893	2,717,893	
Net Depreciation (amounts should be negative) - Note 3	(46,651)	(89,439)	(134,562)	(178,188)	(228,917)	(284,020)	(339,923)	(407,871)	(475,818)	(509,792)	
Closing net PP&E (2)	1,819,390	3,441,469	5,111,832	6,678,668	8,478,907	10,399,041	12,295,232	14,605,254	16,847,329	19,055,431	
Difference in Closing net PP&E, former Accounting Policy vs revised Accounting Policy	(1,819,390)	(3,441,469)	(5,111,832)	(6,678,668)	(8,478,907)	(10,399,041)	(12,295,232)	(14,605,254)	(16,847,329)	(19,055,431)	
Effect on Deferral and Variance Account Rate Riders											
Closing balance in Account 1576											(19,055,431)
Return on Rate Base Associated with Account 1576 balance at WACC - Note 1											(1,239,670)
Amount included in Deferral and Variance Account Rate Rider Calculation											(20,295,101)
Notes:											
1 Return on rate base associated with Account 1576 balance is calculated as:										WACC	6.51%
the variance account ending balance as of 2026 x WACC x # of years of rate rider disposition period										# of years of rate rider disposition period	1
* Please note that the calculation should be adjusted once WACC is updated and finalized in the rate application.											
2 Account 1576 is cleared by including the total balance in the deferral and variance account rate rider calculation.											
3 Net additions are additions net of disposals; Net depreciation is additions to depreciation net of disposals.											

Figure 3
Appendix 2-EC
Account 1576 - Accounting Changes between Rebasing Years
Brampton Rate Zone

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027 Rebasing Year
	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
PP&E Values under former Accounting Policy											
Opening net PP&E	0	0	0	0	0	0	0	0	0	0	
Net Additions - Note 3											
Net Depreciation (amounts should be negative) - Note 3											
Closing net PP&E (1)	0	0	0	0	0	0	0	0	0	0	
PP&E Values under revised Accounting Policy											
Opening net PP&E	0	(1,784,769)	(3,308,453)	(5,494,280)	(7,843,405)	(9,859,667)	(12,163,296)	(14,358,525)	(16,531,496)	(18,638,600)	
Net Additions - Note 3	(1,830,532)	(1,609,690)	(2,330,085)	(2,557,315)	(2,281,490)	(2,634,725)	(2,591,103)	(2,634,712)	(2,634,712)	(2,634,712)	
Net Depreciation (amounts should be negative) - Note 3	45,763	86,006	144,258	208,191	265,228	331,096	395,873	461,741	527,609	560,543	
Closing net PP&E (2)	(1,784,769)	(3,308,453)	(5,494,280)	(7,843,405)	(9,859,667)	(12,163,296)	(14,358,525)	(16,531,496)	(18,638,600)	(20,712,769)	
Difference in Closing net PP&E, former Accounting Policy vs revised Accounting Policy	1,784,769	3,308,453	5,494,280	7,843,405	9,859,667	12,163,296	14,358,525	16,531,496	18,638,600	20,712,769	
Effect on Deferral and Variance Account Rate Riders											
Closing balance in Account 1576											20,712,769
Return on Rate Base Associated with Account 1576 balance at WACC - Note 1											1,492,479
Amount included in Deferral and Variance Account Rate Rider Calculation											22,205,249
Notes:											
1 Return on rate base associated with Account 1576 balance is calculated as:										WACC	7.21%
the variance account ending balance as of 2026 x WACC x # of years of rate rider disposition period										# of years of rate rider disposition period	1
* Please note that the calculation should be adjusted once WACC is updated and finalized in the rate application.											
2 Account 1576 is cleared by including the total balance in the deferral and variance account rate rider calculation.											
3 Net additions are additions net of disposals; Net depreciation is additions to depreciation net of disposals.											

Figure 4
Appendix 2-EC
Account 1576 - Accounting Changes between Rebasing Years
Powerstream Rate Zone

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027 Rebasing Year
	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
PP&E Values under former Accounting Policy											
Opening net PP&E	0	0	0	0	0	0	0	0	0	0	
Net Additions - Note 3											
Net Depreciation (amounts should be negative) - Note 3											
Closing net PP&E (1)	0	0	0	0	0	0	0	0	0	0	
PP&E Values under revised Accounting Policy											
Opening net PP&E	0	188,819	583,442	828,819	1,101,980	1,365,065	1,616,173	1,927,522	2,206,042	2,476,053	
Net Additions - Note 3	193,660	409,708	267,139	302,487	299,907	295,314	364,670	340,351	340,351	340,351	
Net Depreciation (amounts should be negative) - Note 3	(4,842)	(15,084)	(21,763)	(29,325)	(36,823)	(44,205)	(53,322)	(61,831)	(70,340)	(74,594)	
Closing net PP&E (2)	188,819	583,442	828,819	1,101,980	1,365,065	1,616,173	1,927,522	2,206,042	2,476,053	2,741,810	
Difference in Closing net PP&E, former Accounting Policy vs revised Accounting Policy	(188,819)	(583,442)	(828,819)	(1,101,980)	(1,365,065)	(1,616,173)	(1,927,522)	(2,206,042)	(2,476,053)	(2,741,810)	
Effect on Deferral and Variance Account Rate Riders											
Closing balance in Account 1576											(2,741,810)
Return on Rate Base Associated with Account 1576 balance at WACC - Note 1											(157,797)
Amount included in Deferral and Variance Account Rate Rider Calculation											(2,899,607)
Notes:											
1 Return on rate base associated with Account 1576 balance is calculated as:										WACC	5.76%
the variance account ending balance as of 2026 x WACC x # of years of rate rider disposition period										# of years of rate rider disposition period	1
* Please note that the calculation should be adjusted once WACC is updated and finalized in the rate application.											
2 Account 1576 is cleared by including the total balance in the deferral and variance account rate rider calculation.											
3 Net additions are additions net of disposals; Net depreciation is additions to depreciation net of disposals.											

Figure 5
Appendix 2-EC
Account 1576 - Accounting Changes between Rebasing Years
Guelph Rate Zone

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029 Rebasing Year
	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
PP&E Values under former Accounting Policy											
Opening net PP&E	0	0	0	0	0	0	0	0	0	0	
Net Additions - Note 3											
Net Depreciation (amounts should be negative) - Note 3											
Closing net PP&E (1)	0	0	0	0	0	0	0	0	0	0	
PP&E Values under revised Accounting Policy											
Opening net PP&E	0	573,291	1,180,786	1,803,839	2,409,546	2,939,386	3,537,573	4,118,387	4,681,827	5,227,893	
Net Additions - Note 3	587,990	638,149	670,468	669,869	609,233	694,954	694,954	694,954	694,954	694,954	
Net Depreciation (amounts should be negative) - Note 3	(14,700)	(30,653)	(47,415)	(64,162)	(79,393)	(96,767)	(114,140)	(131,514)	(148,888)	(157,575)	
Closing net PP&E (2)	573,291	1,180,786	1,803,839	2,409,546	2,939,386	3,537,573	4,118,387	4,681,827	5,227,893	5,765,272	
Difference in Closing net PP&E, former Accounting Policy vs revised Accounting Policy	(573,291)	(1,180,786)	(1,803,839)	(2,409,546)	(2,939,386)	(3,537,573)	(4,118,387)	(4,681,827)	(5,227,893)	(5,765,272)	
Effect on Deferral and Variance Account Rate Riders											
Closing balance in Account 1576											(5,765,272)
Return on Rate Base Associated with Account 1576 balance at WACC - Note 1											(374,258)
Amount included in Deferral and Variance Account Rate Rider Calculation											(6,139,530)
Notes:											
1 Return on rate base associated with Account 1576 balance is calculated as:										WACC	6.49%
the variance account ending balance as of 2028 x WACC x # of years of rate rider disposition period										# of years of rate rider disposition period	1
* Please note that the calculation should be adjusted once WACC is updated and finalized in the rate application.											
2 Account 1576 is cleared by including the total balance in the deferral and variance account rate rider calculation.											
3 Net additions are additions net of disposals; Net depreciation is additions to depreciation net of disposals.											

Figure 6
Appendix 2-EC
Account 1576 - Accounting Changes between Rebasing Years
Enersource Rate Zone

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027 Rebasing Year
	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
PP&E Values under former Accounting Policy											
Opening net PP&E	0	0	0	0	0	0	0	0	0	0	
Net Additions - Note 3											
Net Depreciation (amounts should be negative) - Note 3											
Closing net PP&E (1)	0	0	0	0	0	0	0	0	0	0	
PP&E Values under revised Accounting Policy											
Opening net PP&E	0	1,819,390	3,441,469	3,441,469	3,441,469	3,441,469	3,441,469	3,441,469	3,441,469	3,441,469	
Net Additions - Note 3	1,866,041	1,711,518									
Net Depreciation (amounts should be negative) - Note 3	(46,651)	(89,439)									
Closing net PP&E (2)	1,819,390	3,441,469	3,441,469	3,441,469	3,441,469	3,441,469	3,441,469	3,441,469	3,441,469	3,441,469	
Difference in Closing net PP&E, former Accounting Policy vs revised Accounting Policy	(1,819,390)	(3,441,469)	(3,441,469)	(3,441,469)	(3,441,469)	(3,441,469)	(3,441,469)	(3,441,469)	(3,441,469)	(3,441,469)	
Effect on Deferral and Variance Account Rate Riders											
Closing balance in Account 1576											(3,441,469)
Return on Rate Base Associated with Account 1576 balance at WACC - Note 1											(223,888)
Amount included in Deferral and Variance Account Rate Rider Calculation											(3,665,357)
Notes:											
1 Return on rate base associated with Account 1576 balance is calculated as:										WACC	6.51%
the variance account ending balance as of 2018 x WACC x # of years of rate rider disposition period										# of years of rate rider disposition period	1
* Please note that the calculation should be adjusted once WACC is updated and finalized in the rate application.											
2 Account 1576 is cleared by including the total balance in the deferral and variance account rate rider calculation.											
3 Net additions are additions net of disposals; Net depreciation is additions to depreciation net of disposals.											

Figure 7
Appendix 2-EC
Account 1576 - Accounting Changes between Rebasing Years
Brampton Rate Zone

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027 Rebasing Year
	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
PP&E Values under former Accounting Policy											
Opening net PP&E	0	0	0	0	0	0	0	0	0	0	
Net Additions - Note 3											
Net Depreciation (amounts should be negative) - Note 3											
Closing net PP&E (1)	0	0	0	0	0	0	0	0	0	0	
PP&E Values under revised Accounting Policy											
Opening net PP&E	0	(1,784,769)	(3,308,453)	(3,308,453)	(3,308,453)	(3,308,453)	(3,308,453)	(3,308,453)	(3,308,453)	(3,308,453)	
Net Additions - Note 3	(1,830,532)	(1,609,690)									
Net Depreciation (amounts should be negative) - Note 3	45,763	86,006									
Closing net PP&E (2)	(1,784,769)	(3,308,453)	(3,308,453)	(3,308,453)	(3,308,453)	(3,308,453)	(3,308,453)	(3,308,453)	(3,308,453)	(3,308,453)	
Difference in Closing net PP&E, former Accounting Policy vs revised Accounting Policy	1,784,769	3,308,453	3,308,453	3,308,453	3,308,453	3,308,453	3,308,453	3,308,453	3,308,453	3,308,453	
Effect on Deferral and Variance Account Rate Riders											
Closing balance in Account 1576											3,308,453
Return on Rate Base Associated with Account 1576 balance at WACC - Note 1											238,394
Amount included in Deferral and Variance Account Rate Rider Calculation											3,546,847
Notes:											
1 Return on rate base associated with Account 1576 balance is calculated as:										WACC	7.21%
the variance account ending balance as of 2018 x WACC x # of years of rate rider disposition period										# of years of rate rider disposition period	1
* Please note that the calculation should be adjusted once WACC is updated and finalized in the rate application.											
2 Account 1576 is cleared by including the total balance in the deferral and variance account rate rider calculation.											
3 Net additions are additions net of disposals; Net depreciation is additions to depreciation net of disposals.											

G-Staff-8

Ref: IRR G-Staff-4

Preamble:

In G-Staff-4 g), OEB staff asked Alectra Utilities: in the event that the OEB decides to apply the 1575/1576 methodology for the calculation of the capitalization policy impacts, what rate rider disposition period would it select for those balances? In response, Alectra Utilities referred OEB staff to its response to G-Staff-3, pp.7-9.

In the response to G-Staff-3, pp.7-9, OEB staff does not note any discussion of the number years that Alectra Utilities would request for disposition of the balances under the 1575/1576 method. Please provide a direct response to the following questions:

- a) For each of Figures 1 to 5 (capitalization policy impacts for all rate zones using the 1575/1576 approach, assuming disposition upon rebasing)² provided in G-Staff-7, please confirm that the input cell for “# of years of rate rider disposition period” preferred by Alectra Utilities is 1. If this is not confirmed, please indicate the number of the years of the rate rider disposition period that Alectra Utilities would request with supporting rationale.
- b) For each of Figures 6 to 7 (capitalization policy impacts for using the 1575/1576 approach for BRZ and ERZ, assuming disposition in this proceeding for the 2017-2018 impacts) provided in G-Staff-7, please confirm that the input cell for “# of years of rate rider disposition period” preferred by Alectra Utilities is 1. If this is not confirmed, please indicate the number of the years of the rate rider disposition period that Alectra Utilities would request with supporting rationale.

G-Staff-9

Ref: IRR G-Staff-4

Preamble:

In response to G-Staff-4 c), Alectra Utilities stated the following with respect to differentiating its proposed calculation methodology for the capitalization policy impacts

² OEB staff notes that the amounts for HRZ from 2017-2019 in Figure 1 and the amounts for PRZ in Figure 4 are for illustrative purposes at this time and would be adjusted for, or omitted, for the purposes of disposition.

from the methodology that the OEB applied to its legacy utilities under Account 1575/1576 in prior applications:

For Alectra Utilities' predecessors, Enersource, PowerStream, Horizon Utilities and Guelph, the Property, Plant and Equipment ("PP&E") values after the accounting policy change were higher than under previous CGAAP. Therefore, the return on rate base associated with the PP&E balance reflected a refund to customers to ensure that utilities did not collect the same amount of expenditures from customers twice. With respect to the impact of the capitalization policy change, the capital is not currently included in rate base and Alectra Utilities is not earning a return on this capital. Therefore, Alectra Utilities has calculated the return associated with this capital over the rebasing deferral period, which reflects an amount to be recovered from customers.

OEB staff is seeking additional clarity on the distinction that Alectra Utilities has made between its proposed capitalization policy impact methodology and the OEB-approved 1575/1576 disposition methodology that its legacy utilities applied in previous years.

- a) Please confirm that the capitalized PP&E previously accounted for under the 1575/1576 method by the legacy utilities was also not included in their respective rate bases and those entities were not earning a return on that capital.

If this is not confirmed, please explain in detail.

- b) Please confirm that the PP&E values for Alectra Utilities after the capitalization policy change were higher than under previous capitalization policies (with the exception of Brampton RZ). Therefore, the return on rate base associated with the PP&E balance should reflect a refund to customers to ensure that Alectra Utilities does not collect the same amount of expenditures from customers twice.

If this is not confirmed, please explain in detail.

HRZ-Staff-9

Ref: IRR HRZ-Staff-1 a)

Ref: IRR G-Staff-15 Table 1 – Total Net Synergies Actual and Forecast

Preamble:

In response to OEB staff's table of historical OM&A costs populated from the RRR (Recordkeeping and Reporting Requirements) filings submitted by the legacy utilities

from 2012-2016, Alectra Utilities noted that a one-time adjustment was required in the table to account for merger-related costs of \$4,798,000 incurred by the Powerstream RZ in 2015.

In response to G-Staff-15 from the M-factor stream of this application, Alectra Utilities provided a net synergies table, showing transaction costs of \$24.8 million incurred from 2015-2017.

- a) Please confirm that the Powerstream RZ is the only legacy utility that recorded any merger-related costs on its books for the period of 2012-2016.
- b) Please explain whether or not the \$24.8 million in transaction costs from 2015-2017 have been factored into the historical figures of OM&A and capital that Alectra Utilities relied upon for the purposes of allocations in the ESM and CIVA calculations.
- c) Please confirm that Alectra Utilities had previously reviewed the 2014-2016 historical OM&A figures used for the purposes of OM&A allocation and determined that the Powerstream RZ adjustment in 2015 is the only normalizing entry required to account for material one-off costs or anomalies in a given year.

HRZ-Staff-10

Ref: IRR HRZ-Staff-1

Ref: Attachment 11-Table of Allocations Horizon ESM 2018

Ref: Attachment 9-Table of Allocations Horizon ESM 2017

Preamble:

In HRZ-Staff-1, OEB staff prepared a historical OM&A table to show what the OM&A trends for each rate zone and Alectra Utilities as a whole are from 2012-2018.

Alectra Utilities stated the following with respect to explaining the primary drivers of the large reported increase in OM&A costs from 2016 to 2017:

The increase in OM&A costs from 2016 to 2017 was primarily driven by:

- Increased costs to transition to monthly billing as mandated by the OEB;
- One-time provision costs in 2017;

- As a much larger organization than any of the individual legacy utilities, Alectra Utilities increased the resources dedicated to certain functions such as Internal Audit and the Project Management Office;
- Normal inflationary increases for labour and materials; and
- Wage harmonization for management staff.

- a) Please provide the total costs charged to OM&A for each one of the bullet points listed above.
- b) Please explain what the one-time provision costs in 2017 pertain to and what led to the recording of this provision.
- c) Please explain whether or not the one-time provision costs in 2017 would have been recognized had the Alectra Utilities merger not taken place.
- d) Please confirm that the increase in resources for functions such as internal audit and the project management office, as well as the wage harmonization for management staff, are permanent cost increases, as opposed to one-time costs incurred for 2017. If not, please explain.
- e) Please provide additional information on what the wage harmonization for management staff costs entail. Specifically, whose wages are being harmonized and for what purposes.
- f) Please provide detailed rationale for why Alectra Utilities has excluded each of the following items from the merger costs/savings in the Horizon ESM calculations for 2017 and 2018 and why Alectra Utilities has deemed these items not to be merger-related:
 - i. One-time provision costs in 2017.
 - ii. Increases in resources dedicated to certain functions such as Internal Audit and the Project Management Office to accommodate a much larger organization than any of the individual legacy utilities.
 - iii. Wage harmonization for management staff.
- g) If Alectra Utilities has excluded the costs in part f) above in error, please revise the merger-related costs in the 2017 and 2018 ESM calculations and refile Attachments 9 and 11, as well as the updated supporting ESM models accordingly.

HRZ-Staff-11

Ref: IRR HRZ-Staff-1

Preamble:

In order to explain why the Horizon RZ's OM&A costs increased in 2018 from 2017, while every other RZ's OM&A costs decreased in 2018 from 2017, Alectra Utilities provided the following explanation:

There are three reasons which contribute to the Horizon Utilities RZ's OM&A costs increasing in 2018 from 2017 while every other rate zone's OM&A costs decreased in 2018 from 2017. First, the ESM results for 2017 (Attachment 9) includes actuals for one month (ERZ, HRZ, & PRZ) and two months (BRZ) where actual OM&A for HRZ was lower than the other rate zones. Secondly, in the 2017 allocation portion of OM&A, there were specific one time OM&A adjustments directly allocated to the ERZ and PRZ which effectively lowered the allocation of OM&A to HRZ. Finally, the capitalization policy change impact for the HRZ in 2018 was lower, which lowered the percentage OM&A allocation to HRZ in 2018.

- a) Please provide the total OM&A costs for the one month of 2017 for ERZ, HRZ, and PRZ and the two months of 2017 for BRZ for the period before the legacy entities merged.

HRZ-Staff-12

Ref: IRR HRZ-Staff-1 a) "Table 1 – OM&A Allocations Horizon Utilities RZ ESM"

- a) Please prepare a table similar to the one Alectra Utilities prepared in response to HRZ-Staff-1 a), showing what the total rate base for regulatory earnings was under each rate zone from 2012 to 2018. Please ensure that the 2017-2018 capitalization policy adjustments are shown separately for the purposes of adjusting opening and closing rate bases, as well as adjusting working capital allowances. If necessary, please explain any deviations made from the RRR filings submitted from 2012-2016.
- b) As a result of the information presented in part a) of this question, if there are any significant variances in 2017 or 2018 rate bases (either by rate zone or Alectra Utilities as a whole) that are inconsistent from prior year trends, please provide an explanation and dollar amount of the key drivers for these variances.

HRZ-Staff-13

Ref: IRR HRZ-Staff-7 Table 3 – Reconciliation of 2017 actual versus forecast merger-related net capital costs

- a) Please explain, in detail, the purpose of “Adjust for merger capital costs in WIP” in the amount of \$22.0 million.
- b) Why has Alectra Utilities included merger-related costs in WIP as an adjustment to in-service capital additions for the purposes of 2017 ESM? Please explain.
- c) Please explain why 2017 is the only year affected by this adjustment. For example, are there merger costs/savings in the closing 2017 WIP that need to be removed and then added back in 2018 if the associated assets are deemed to be placed in service in 2018? Similarly, has Alectra Utilities included any merger-related costs/savings in the 2018 ESM adjustments that are part of the 2018 closing WIP account that should be adjusted for?

HRZ-Staff-14

Ref: IRR HRZ-Staff-7 Table 1 - Reconciliation of 2017 actual versus forecast merger-related net operating costs

Ref: IRR HRZ-Staff-7 Table 3 – Reconciliation of 2017 actual versus forecast merger-related net capital costs

Preamble:

In both of the tables where Alectra Utilities reconciles the 2017 and 2018 actual versus forecast merger-related net operating costs, a note is made that states:

Net OM&A merger results do not include pre-close synergies and transition costs recognized prior to the Alectra merger on February 1, 2017.

- a) Please explain why pre-close synergies and transition costs recognized prior to the Alectra Merger are not included? For example, if there are costs incurred by the legacy utilities in January 2017, are these merger-related costs not adjusted for in the directly allocated OM&A for 2017? If not, please explain why and quantify these amounts.

HRZ-Staff-15

Ref: IRR HRZ-Staff-7 Table 5 Merger-related capital costs/savings drivers

Ref: IRR G-Staff-15 Table 1 – Total Net Synergies Actual and Forecast – M-factor Stream

Preamble:

OEB staff is unable to reconcile the figures provided in response to G-Staff-15 (Table 1) with the figures in Table 5 provided in response to HRZ-Staff-7. For example, transition costs charged to operating in 2017 are reported to be \$21.8 million in Table 1 of G-Staff-15, while they are reported to be \$18.1 million in HRZ-Staff-7 Table 5.

- a) Please reconcile and explain the differences between the two tables referenced above and update the ESM and CIVA calculations and tables, if necessary.

HRZ-Staff-16

Ref: IRR HRZ-Staff-7 - Table 5 – Merger-related capital costs/savings drivers

Preamble:

OEB staff notes that there are two categories that are the primary drivers between the OPEX savings in 2017 and 2018 forecast in the business plan versus the reported actual results, namely the consolidation of contracts and services and the consolidation of systems. OEB staff is seeking additional clarity on how Alectra Utilities calculated the actual and forecast savings in those categories.

- a) Please provide the supporting documentation for how Alectra Utilities derived the 2017 and 2018 actual and forecast amounts in those two particular rows, preparing a bottom-up itemization of those amounts.
- b) Please provide a detailed explanation for any significant components that constitute the amounts requested in part a) of this question.

HRZ-Staff-17

Ref: IRR HRZ-Staff-8

With respect to merger synergies, OEB staff is of the understanding that, in order to calculate the actual merger costs/savings, Alectra Utilities compares its actual operating

and capital expenditures in 2017 and 2018 to what it estimates it would have spent on operating and capital costs had the merger not taken place (the counter-factual scenario).

- a) Please elaborate on OEB staff's understanding by explaining how Alectra Utilities calculates its counter-factual figures. Are they derived from the business plan that was put forth at the time of the MAADs application? Are they revised at the end of the actual year for new information that Alectra Utilities did not have when they were put together? Please explain in step-by-step detail.
- b) Please confirm that when Alectra Utilities states that it tracks the actual merger savings, these are invariably estimates as well, since in order to calculate the savings attributable to the merger, the actual costs post-merger must be compared to an estimated, or forecast level of expenditures that Alectra Utilities believes would have occurred absent the merger (ie. the counter-factual is an estimate, and thus, the actual merger savings must be an estimate as well). If Alectra Utilities disagrees with this view, please explain.
- c) When Alectra Utilities prepares its estimated actual merger-related costs and savings, how does it differentiate between foregone operating/capital costs (synergies) and normal operating efficiencies that might have been achieved whether the merger took place? For example, for any staffing positions that were vacated and deemed redundant post-merger, did Alectra Utilities undertake any review or exercise to determine if those positions might have remained unfilled simply by virtue of the legacy utility operating more efficiently? Please explain.

HRZ-Staff-18

Ref: IRR HRZ-Staff-8

Ref: IRR HRZ-Staff-1

Preamble:

With respect to providing a detailed variance analysis between 2016 and 2017 OM&A costs, Alectra Utilities stated:

Alectra Utilities is unable to provide a more detailed reconciliation of the changes in OM&A from 2016 to 2017. Each of Alectra Utilities' predecessor utilities operated separate Enterprise Resource Planning ("ERP") systems with different charts of accounts and different ways of charging costs. For example, in some legacy utilities,

software licensing costs were all charged centrally to Information Technology (“IT”) while in others they were decentralized. As a result, there is no simple way to combine the financial results of the legacy utilities and provide meaningful variance analysis. The account structures and treatment of costs were completely different. After the creation of Alectra Utilities, the Finance team worked to create a common mapping structure and align costs in order to report financial results in 2017. However, the process of aligning costs and mapping the four legacy account structures into a common reporting structure took several months to complete in 2017. Since Alectra Utilities was a new entity and was not required to report prior year comparative results for financial reporting purposes, this mapping and cost alignment exercise was not undertaken for 2016 results. Therefore, there is no common account structure or cost alignment in place to allow 2017 and 2016 OM&A to be compared at a detailed level for Alectra Utilities.

- a) Please confirm that, in order to calculate the forecast (and subsequently, the reported actual) merger-related costs and savings, Alectra Utilities relied on the pre-2017 financial mapping for the legacy utilities to project the counter-factual or status quo financial scenario (ie. the costs that all the entities would have incurred individually, had the merger not taken place). If this is not confirmed, please explain on what basis Alectra Utilities estimated the status quo costs (both for the purposes of the MAADs application, and the reporting of actual savings).
- b) How does Alectra Utilities overcome the incomparable basis of financial cost mapping for the purposes of tracking and recording its actual monthly merger savings and costs? Specifically, if the amounts of operating and capital costs recorded in 2017 and 2018 are incomparable to pre-2017 financial mapping structures (which are presumably the basis for the counter-factual scenario of the 2017 and 2018 costs absent a merger), what exercises does Alectra Utility have to undertake so that actual costs post-merger can be fairly compared to the hypothetical status quo?

HRZ-Staff-19

Ref: IRR HRZ-Staff-8

Preamble:

Alectra Utilities stated the following with respect to tracking its merger-related costs and savings:

Alectra Utilities' actual merger savings and costs are tracked and recorded on a monthly basis. This information is reviewed and audited annually by Alectra Utilities' internal audit department.

- a) Please provide a copy of the internal audit reports referred to in the statement above for the 2017 and 2018 fiscal years.