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

BY EMAIL

November 14, 2019

Ms. Christine E. Long
Registrar and Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4
BoardSec@oeb.ca

Dear: Ms. Long

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

In accordance with Procedural Order No. 4, please find attached OEB staff's submission in the above proceeding.

Yours truly,

Original Signed By

Katherine Wang
Advisor
Incentive Rate Setting & Regulatory Accounting

Encl.

ONTARIO ENERGY BOARD

STAFF SUBMISSION ON CAPITALIZATION POLICY-RELATED MATTERS

2020 ELECTRICITY DISTRIBUTION RATES

Alectra Utilities Corporation

EB-2019-0018

November 14, 2019

INTRODUCTION

Alectra Utilities Corporation (Alectra Utilities) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on May 28, 2019 under section 78 of the *Ontario Energy Board Act, 1998* seeking approval for changes to its electricity distribution rates to be effective January 1, 2020. Alectra Utilities' application also included a proposal for additional capital funding (M-Factor) and a request to reverse the outcome of a prior OEB decision on capitalization policy.

The OEB issued Procedural Order No. 4 (PO 4), which established a timeline for supplementary evidence and submissions from parties in relation to:

1. The different options for calculation, allocation, and disposition of the capitalization policy deferral accounts.

2. The Horizon Utilities rate zone (Horizon RZ) earnings sharing mechanism (ESM).

3. The Horizon RZ capital investment variance account (CIVA).

In accordance with PO 4, this submission sets out OEB staff's review of the record of this proceeding with respect to the capitalization policy stream and is intended to assist the OEB in evaluating the application and in setting just and reasonable rates.

OEB staff makes detailed submissions on the three issues noted above.

STAFF SUBMISSION

Capitalization Policy Deferral Accounts

Background

The application to change its electricity distribution rates effective January 1, 2018 (2018 rate application)[1] was the first rate application filed by Alectra Utilities following the amalgamation of Enersource Hydro Mississauga Inc. (Enersource), Horizon Utilities Corporation (Horizon), PowerStream Inc. (PowerStream), and Hydro One Brampton Networks Inc. (Brampton). As a result of the amalgamation, and as required under International Financial Reporting Standards (IFRS), the capitalization policies of the former Enersource, Horizon, and Brampton changed to conform with the capitalization policy of the identified acquirer, the former PowerStream.

On December 20, 2017, the OEB ordered Alectra Utilities to establish capitalization policy-related deferral accounts for each of the Brampton, Enersource and Horizon rate zones (capitalization deferral accounts). The three deferral accounts were to record the changes to the revenue requirement resulting from the change in Alectra Utilities' capitalization policy. The accounts were effective February 1, 2017.[2]

On June 7, 2018, Alectra Utilities filed an application to change its electricity distribution rates effective January 1, 2019 (2019 rate application).[3] In the 2019 rate application, Alectra Utilities proposed to clear the capitalization deferral account balances to its customers on an annual basis and provided an explanation as to how the balances in these accounts were calculated.[4] During the 2019 rate proceeding, a number of intervenors raised concerns about the completeness of the evidence that had been filed on this issue. In addition, the School Energy Coalition (SEC) raised a couple of different proposals for disposition of these accounts and a different approach to calculating balances in them.[5] In light of these circumstances, in the Decision on Confidentiality and Procedural Order No. 3, the OEB determined that "it will not clear the balances in the capitalization deferral accounts for the Enersource and Brampton rate zones in this 2019 rate proceeding so that additional options can be considered in the 2020 rate proceeding."[6]

In the current proceeding, Alectra Utilities has requested that (i) "the OEB reverse the outcome of its previous decision to create the capitalization deferral accounts for each

[1] Alectra Utilities' 2018 rate application, EB-2017-0024, filed on July 7, 2017.
[2] Decision and Partial Accounting Order, EB-2017-0024, December 20, 2017.
[3] Alectra Utilities' 2019 rate application, EB-2018-0016, filed on June 7, 2018.
[4] Alectra Utilities' 2019 application evidence, EB-2018-0016, Exhibit 2, Tab 2, Schedule 7 and Exhibit 2, Tab 4, Schedule 7.
[5] School Energy Coalition Submission, EB-2018-0016, October 31, 2018, pages 3-4.
[6] Decision on Confidentiality and Procedural Order No. 3, EB-2018-0016, November 8, 2018, page 2.

of the Brampton, Enersource and Horizon Utilities [rate zones]…" and (ii) subject to the OEB's determination of the first issue that "the OEB determine the basis for recording balances in the capitalization deferral accounts and the treatment of the ESM for the Horizon Utilities rate zone, in light of the capitalization policy change."[7]

In its Decision and Order issued on September 5, 2019, the OEB found that Alectra Utilities' request can be characterized as a motion to vary the decision to establish the three capitalization deferral accounts and that the request does not meet the threshold test for such a motion. The OEB also stated the following with respect to implementation of the Decision and Order:

> The OEB's Decision on Confidentiality and Procedural Order No. 3 in the 2019 rate proceeding required Alectra Utilities to present different options for disposition of the three capitalization related deferral accounts for assessment by the OEB, with supporting evidence, including:
>
> - options proposed by parties in the 2019 rate proceeding
> - options involving adjustments to rate base
>
> The OEB agrees with OEB staff that different options can relate to calculation of balances, the distribution of balances amongst customer classes and the billing determinants to be used. The OEB also agrees that options can consider the timing and duration for the disposition, but the OEB does not agree with OEB staff that all options must result in the calculation of rate riders (e.g. a rate base option may use a different approach to disposition)… Given the findings of this Decision and Order, the OEB is providing Alectra Utilities the opportunity to augment any of its evidence on these options for consideration in this proceeding. [8]

On September 16, 2019, Alectra Utilities filed a "submission" on the capitalization policy issues. That submission largely reiterated Alectra Utilities' position established in its pre-filed evidence with respect to the different options for calculating and disposing the amounts in the capitalization deferral accounts. In addition, Alectra Utilities indicated that, as a result of the four legacy utilities migrating to Alectra Utilities' Enterprise Resource Planning (ERP) system in July 2019, the actual capitalization policy impacts could no longer be tracked. Alectra Utilities proposed an allocation methodology to determine the capitalization policy impacts for each rate zone starting with the 2019 fiscal year.

[7] Alectra Utilities' application evidence, EB-2019-0018, Exhibit 2, Tab 1, Schedule 5, page 2.
[8] Decision and Order, EB-2019-0018, September 5, 2019, page 12.

In its pre-filed evidence,[9] Alectra Utilities compared the calculation methodology for the capitalization policy accounts that it originally proposed in the 2019 rate application to two other calculations brought forth by other parties in that proceeding, namely:

- SEC's approach, as calculated in its submission in accordance with Procedural Order No. 2 of that proceeding
- A set of calculations prepared by OEB staff, filed as Exhibit K1.4, in its submission in advance of the oral hearing for that proceeding[10]

Alectra Utilities identified that the only notable difference between its initial method and the one presented by SEC was the way in which Payments In Lieu of Taxes (PILs) were calculated. Alectra Utilities originally calculated PILs based on the taxes payable method, while SEC's calculations were prepared under the traditional revenue requirement method, consistent with the OEB's PILs model in rate applications. Alectra Utilities noted that the calculations prepared by OEB staff calculated PILs under the taxes payable method as well. Accordingly, in this proceeding, Alectra Utilities revised its PILs calculations for the capitalization policy impacts and prepared them under the revenue requirement method.

Alectra Utilities also cited an alternative approach that SEC proposed in its submission in the 2019 rate application, which is similar to the OEB's use of Account 1576.[11] Alectra Utilities stated the following with respect to why it disagrees with using that approach:

> This approach ignores two key components of the calculation – PILs and Return on Capital...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.[12]

[9] Alectra Utilities' application evidence, EB-2019-0018, Exhibit 2, Tab 1, Schedule 5, pages 4-9.
[10] OEB staff notes that Alectra Utilities has referred to these calculations as "OEB staff's approach". The calculations prepared in Exhibit K1.4 were done so in advance of an oral hearing, solely to aid in cross-examination of the allocations that Alectra Utilities proposed in the Horizon rate zone ESM. These calculations in no way represent OEB staff's view of the approach to calculating the amounts to be recorded in the capitalization deferral accounts.
[11] SEC's proposed approach was referred to as using Account 1576. However, this proposed approach only captured the capital additions and depreciation components of Account 1576, and did not include the return on capital component of Account 1576.
[12] Alectra Utilities' application evidence, EB-2019-0018, Exhibit 2, Tab 1, Schedule 5, page 8.

A summary of the net impacts of the capitalization policy changes, as calculated under Alectra Utilities' proposed approach, is provided below:[13]

Capitalization Policy Impact ($000s)	2017_Act	2018_Act	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2017-2028
Enersource RZ	1,866	1,712	1,805	1,745	2,029	2,204	2,236	2,718	2,718	2,718			21,751
Horizon Utilities RZ	5,399	5,243	6,455	6,121	5,863	5,788	4,709	5,965	5,965	5,965			57,473
Brampton RZ	(1,831)	(1,610)	(2,330)	(2,557)	(2,281)	(2,635)	(2,591)	(2,635)	(2,635)	(2,635)			(23,739)
PowerStream RZ	194	410	267	302	300	295	365	340	340	$340			3,154
Guelph RZ			588	638	670	670	609	695	695	695	695	695	6,650
Total OM&A Impact	**5,628**	**5,754**	**6,785**	**6,249**	**6,581**	**6,322**	**5,328**	**7,084**	**7,084**	**7,084**	**695**	**695**	**65,289**
Enersource RZ	(47)	(89)	(135)	(178)	(229)	(284)	(340)	(408)	(476)	(510)			(2,695)
Horizon Utilities RZ	(135)	(266)	(427)	(580)	(727)	(872)	(989)	(1,139)	(1,288)	(1,362)			(7,786)
Brampton RZ	46	86	144	208	265	331	396	462	528	561			3,026
PowerStream RZ	(5)	(15)	(22)	(29)	(37)	(44)	(53)	(62)	(70)	(75)			(412)
Guelph RZ			(15)	(31)	(47)	(64)	(79)	(97)	(114)	(132)	(149)	(158)	(885)
Total Depreciation Impact	**(141)**	**(285)**	**(454)**	**(610)**	**(775)**	**(933)**	**(1,066)**	**(1,243)**	**(1,420)**	**(1,518)**	**(149)**	**(158)**	**(8,752)**
Enersource RZ	(13)	(1)	5	9	6	4	(0)	(11)	(19)	(18)			(39)
Horizon Utilities RZ	(37)	(5)	6	25	28	19	6	(38)	(71)	(85)			(153)
Brampton RZ	14	2	3	(1)	(6)	1	6	16	30	35			99
PowerStream RZ	(1)	(2)	2	2	2	1	0	(1)	(2)	(3)			-2
Guelph RZ			(4)	(1)	1	2	2	0	(2)	(5)	(9)	(11)	(27)
Total PILs Impact	**(38)**	**(6)**	**$10**	**$32**	**$31**	**$26**	**$14**	**(33)**	**(64)**	**(76)**	**(9)**	**(11)**	**(123)**
Enersource RZ	(118)	(227)	(341)	(452)	(581)	(721)	(862)	(1,035)	(1,207)	(1,382)			(6,927)
Horizon Utilities RZ	(291)	(593)	(967)	(1,313)	(1,644)	(1,972)	(2,238)	(2,575)	(2,912)	(3,254)			(17,759)
Brampton RZ	129	242	405	585	745	930	1,112	1,298	1,483	1,670			8,599
PowerStream RZ	(11)	(34)	(49)	(66)	(83)	(99)	(120)	(139)	(158)	(177)			(935)
Guelph RZ			(37)	(78)	(120)	(162)	(201)	(245)	(289)	(333)	(377)	(421)	(2,264)
Total Return on Capital Impact	**(291)**	**(612)**	**(989)**	**(1,323)**	**(1,682)**	**(2,023)**	**(2,308)**	**(2,696)**	**(3,084)**	**(3,476)**	**(377)**	**(421)**	**(19,284)**
Enersource RZ	1,688	1,394	1,334	1,123	1,226	1,203	1,033	1,264	1,016	808			12,090
Horizon Utilities RZ	4,935	4,378	5,067	4,252	3,520	2,963	1,488	2,214	1,694	1,263			31,775
Brampton RZ	(1,642)	(1,280)	(1,778)	(1,765)	(1,277)	(1,373)	(1,077)	(859)	(595)	(369)			(12,014)
PowerStream RZ	177	359	198	209	182	153	192	139	110	86			1,805
Guelph RZ			532	528	504	445	331	353	290	226	160	105	3,475
Total Net Impact	**5,157**	**4,851**	**5,353**	**4,348**	**4,155**	**3,392**	**1,968**	**3,111**	**2,516**	**2,014**	**160**	**105**	**37,130**
Total Net Impact _Excl Guelph	**5,157**	**4,851**	**4,821**	**3,819**	**3,652**	**2,947**	**1,636**	**2,757**	**2,226**	**1,788**	**0**	**0**	**33,656**

[13] Alectra Utilities Capitalization Policy Impact Model Summary, provided in response to OEB staff interrogatory G-Staff-3.

Submission

Calculation of Capitalization Deferral Account Balances

In OEB staff's view, there are two distinct, viable methodologies that can be used with respect to the calculation of balances in the capitalization deferral accounts:

1. The "revenue requirement" approach, which is proposed to be determined as such:

   Determine the annual revenue requirement impact directly attributable to the change in capitalization policies. The elements of revenue requirement impacted by the change in accounting policies include:
   - operations, maintenance and administration costs (OM&A) that has been reclassified as capital
   - depreciation expense
   - income tax or PILs
   - return on capital (debt and equity)

2. The "adjustment to rate base" approach, also known as the "1576" approach,[14] which is traditionally determined as such:

   Determine the amount by which rate base has been inflated (or deflated), as a direct result of the change in capitalization policies. The elements of rate base impacted by the change in capitalization policies include:
   - OM&A that has been reclassified as capital
   - depreciation expense
   - return on capital (debt and equity)

Alectra Utilities has proposed to apply the revenue requirement approach in calculating the capitalization deferral account balances. OEB staff submits that the capitalization deferral accounts should be calculated in accordance with the 1576 approach.

Comparison of ratemaking principles between the two approaches

In order to assess the most appropriate method to capture the impact of the change in capitalization policy, it is important to dissect the nuances between the two approaches

[14] The 1576 approach as explained by OEB staff is not the same methodology that Alectra Utilities relied upon in its pre-filed evidence. The approach referred to by Alectra Utilities in its pre-filed evidence as Account 1576 did not include any return on capital component.

and what problems they are intended to solve. To focus the discussion, OEB staff will only refer to the situation where OM&A has been reclassified as capital.[15]

The revenue requirement approach essentially views the issue through the following lens:

> Since the assumptions about the classification of capital and operating costs previously built into rates have deviated from actuals, there is a need to *correct existing rates*. If current rates are not amended, OM&A costs that have been fully collected from customers will be reclassified and brought forth for collection in future rate recovery in the form of capital. As a result, it is necessary to isolate those differences and reset, or rebase, existing rates to align with the revised policies.
>
> If rate base has increased, then the undepreciated capital costs that have been reclassified from OM&A shall be returned to customers. In addition, if rate base has increased, the utility is now entitled to earn a return on that reclassified capital and shall collect that amount from customers.

The 1576 approach is somewhat similar, but takes the following perspective:

> Since the assumptions about the classification of capital and operating costs previously built into rates have deviated from actuals, there is a need to capture *the impact on future rates*. To prevent double counting, it is necessary to determine how much of the rate base structure will have been altered as a result of the capitalization policy change by the time the utility rebases its rates in a future application.
>
> If rate base has increased, then the undepreciated capital costs that have been reclassified from OM&A shall be returned to customers. In addition, the return on capital, that the utility will ultimately earn by virtue of including these costs in rate base in a future application, shall be returned to customers.

The above describes the theoretical ratemaking principles that would drive either approach. In other simple terms, with respect to solving the problem of double counting, the revenue requirement approach asks: how do current rates need to be realigned to the revised classifications of capital and operating costs? Alternatively, the 1576 approach asks: What is the cumulative net impact on rate base at the time of rebasing resulting from the revised classifications of capital and operating costs?

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[15] The underlying concepts would simply result in amounts being calculated in opposing directions when capital is being reclassified as OM&A, as is the case in the Brampton rate zone.

Comparison of outcomes between the two approaches

The only practical differences between the two approaches relate to PILs and the debt and equity return on capital.

Under the revenue requirement approach, the incremental impact on PILs is included, while it has not been included under the 1576 approach. As shown in Alectra Utilities' summary table, the cumulative PILs impact from 2017 to 2028 across all five rate zones is forecast to be $0.1M. OEB staff has reviewed Alectra Utilities' evidence of the PILs impact and agrees with their calculations. Therefore, PILs is not only immaterial, but also insignificant for the purposes of differentiating the two approaches.

The item that is material, and is rooted in different ratemaking principles, is the return on capital component.

The revenue requirement perspective essentially suggests that, since the utility is rebasing the reclassified capital, it is now entitled to earn a return on that capital, effective the year of the capitalization policy change. The utility is then also entitled to earn a return on the undepreciated capital that is brought forth for disposition in a future rate application.

Alternatively, the concept behind the 1576 approach is, since the utility is only adding capital as a result of a reclassification, it is not entitled to a return on that capital effective the year of the capitalization policy change. Furthermore, the utility is not entitled to earn a return on the undepreciated capital that is brought forth for recovery in a future application.

The ultimate result is, under the revenue requirement method, Alectra Utilities has calculated a return component on its reclassified capital in the forecasted net amount of $19.3M[16] from 2017 to 2028 to be collected from customers. Furthermore, Alectra Utilities would then collect a return on any undepreciated capital that remains in rate base in future applications.

The 1576 approach would not only exclude the amount of $19.3M from the capitalization deferral account calculations, but it would refund to customers the return on undepreciated capital that remains in rate base at the time of rebasing. The amount of the return component to refund to customers would be dependant on Alectra Utilities'

[16] Sum of the return on capital component from Alectra Utilities' capitalization impact model. OEB staff notes that Alectra Utilities is not proposing to collect the return on capital in the Horizon rate zone from 2017 to 2019 as the first entries made in that rate zone commence in 2020. OEB staff also notes that Alectra Utilities also does not propose to collect any amounts in the PowerStream rate zone, as no capitalization deferral account has been established for that rate zone. The figure of $19.3M is based on Alectra Utilities' summary of the cumulative impacts across all rate zones and is being used to illustrate the difference between the two approaches.

weighted average cost of capital at the time of disposition, as well as the duration of disposition. Through interrogatories, OEB staff prepared a set of tables under the 1576 method, using Alectra Utilities' forecast of the capitalized OM&A, the existing cost of capital parameters of each rate zone, and assumed a one-year disposition period, and provided Alectra Utilities the opportunity to comment on their factual accuracy. While Alectra Utilities disagreed with the conceptual presentation of these tables, it did not suggest that the figures used were, in any way, numerically incorrect.[17] The total estimated differential between the revenue requirement approach proposed by Alectra Utilities and the 1576 approach proposed by OEB staff is approximately $22.5M.[18] The differential would further increase if:

1. The actual amount of OM&A that will be reclassified as capital is greater than the current forecast provided by Alectra Utilities

2. The weighted average cost of capital across Alectra Utilities' five rate zones increases between now and the year of disposition (if disposition is deferred)

3. The OEB approves a disposition period longer than one year

The 1576 tables prepared by OEB staff are provided as Appendix A to this submission. Figures 1 to 5 capture the cumulative 10-year impact for all five rate zones.[19] Figures 6 and 7 capture the 2017 to 2018 impacts proposed by OEB staff to be recorded in the capitalization deferral accounts for the Brampton and Enersource rate zones in the current proceeding.

Factors for the OEB to consider in determining the most appropriate method

1. Should a utility earn a return on capital that has been reclassified from OM&A?

OEB staff submits that a utility should not be entitled to earn a return on capital that has been reclassified from OM&A. These are not incremental capital costs, but rather, converted operating expenses. Alectra Utilities has acknowledged that these are non-cash events.[20] These are amounts that required no actual incremental capital outlays.

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[17] Response to OEB staff G-Staff-7, October 31, 2019, Pages 1-6.
[18] The differential of $22.5M is derived from the $19.3M return on capital component, calculated by Alectra Utilities in its proposed method, to be collected from ratepayers, compared to the $3.2M return on capital component, calculated by OEB staff in its proposed 1576 method, to be refunded to ratepayers. OEB staff notes that the differences in return on capital account for substantially all of the difference between the two approaches (the PILs difference is approximately $0.1M).
[19] The impacts for the Horizon and PowerStream rate zones have been presented in a manner that aligns with Alectra Utilities capitalization policy impact model for comparative purposes. OEB staff notes that no entries are to be made in the Horizon rate zone from 2017 to 2019, and therefore, the depreciation figures based on 2020 opening differences in rate base would need to be revised from 2020 to 2026. OEB staff also notes that no entries will be made for the PowerStream rate zone, as no deferral account has been established for that rate zone.
[20] Alectra Utilities' application evidence, EB-2019-0018, Exhibit 2, Tab 1, Schedule 5, page 2 of 9.

These amounts were fully funded through existing rates collected by customers, not through debt or equity financing vehicles, and therefore, in OEB staff's view, these amounts should not attract a rate of return. Furthermore, when each of the legacy utilities had its base rates determined in their respective rebasing applications, their capital expenditures were approved based on certain capitalization policies. The OM&A that has now become capital was not included in the capital expenditure envelope that was approved by the OEB in those proceedings, so it would be inappropriate to subsequently allow a rate of return to apply to these increases to rate base.

2. How has the OEB previously addressed ratemaking matters resulting from changes to accounting policies?

When the OEB mandated that the accounting principles that underpin distribution rates would generally follow those of IFRS and required utilities following the former Canadian GAAP to adopt those policies, it identified that a mechanism was required to eliminate the issue of double counting (or orphaning) of capital and operating expenditures that occur in subsequent rebasing applications. Accounts 1575 and 1576 were established to address the impact of changes in accounting policies between rebasing years resulting from the adoption of IFRS (1575) or the adoption of capitalization and depreciation policies embedded in IFRS (1576).

In a June 25, 2013 letter issued to Licensed Electricity Distributors,[21] the OEB stated that, effective for 2014 cost of service rate applications and subsequent rate years, a rate of return component shall be applied to the balance of Account 1576 upon its disposition in rates, as required for Account 1575.

In conjunction with that letter, the OEB amended the IFRS-related tabs in the Chapter 2 Appendices that accompanied cost of service rate applications for 2014 rates and beyond. The mechanics of these rate application appendices clearly dictate that when changes in accounting policies impact rate base, the return of capital and the return on capital shall move in the same direction.

In essence, the OEB determined that if rate base was inflated because of accounting policy changes, utilities were to refund the total rate base differential, as well as a return component based on that differential, back to customers. They were not entitled to the return that will be calculated on the inflated rate base, and thus, owe it back. Alternatively, when accounting changes lowered rate base, utilities were to collect that capital differential, as well as collect a return component on that differential, from customers. The utility would not be

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

harmed by forfeiting its return on capital simply because rate base decreased due to accounting changes.

Furthermore, OEB staff notes that all five of Alectra Utilities' predecessor entities had disposed of their 1575 or 1576 balances in past proceedings with a rate of return component applied consistent with this methodology.[22]

3. Are there any relevant differences between the issue that the 1576 approach was established to address and the current issue at hand that would give rise to a departure from the 1576 approach?

While accounts 1575 and 1576 were established by the OEB in response to accounting policy changes stemming from the adoption of IFRS, OEB staff submits that they were intended to address the same issue that has been created by Alectra Utilities' amalgamation. In both circumstances, an alteration to the continuity of rate base has occurred due to mandated accounting policy changes. The potential problem of double counting or orphaning of costs that occurred upon adoption of IFRS is no different than the one created by the formation of Alectra Utilities. As noted by the OEB in its Decision and Order for the 2018 rate application: "…both the transition to IFRS and the capitalization policy change from the merger were due to mandated accounting standards established by the Canadian Accounting Standards Board (AcSB), and the OEB should apply consistent regulatory treatment."[23]

OEB staff agrees that Alectra Utilities' proposed method is one option for calculating the effects of changes in accounting policies during a deferred rebasing period. OEB staff also agrees that Alectra Utilities' calculations under the proposed revenue requirement adjustment approach are correct.

However, as indicated by the OEB in its Decision and Order,[24] there may be multiple options in addressing these impacts and it is OEB staff's opinion that the OEB was seeking a fulsome comparison from Alectra Utilities between the various options. OEB staff does not agree with the assumptions that Alectra Utilities relies on with respect to invalidating or discounting the 1576 approach as an appropriate option.

As noted by OEB staff in the background of this submission, in its pre-filed evidence, Alectra Utilities asserts that 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

[22] Response to G-Staff-4 c). October 7, 2019, pages 3 to 4 of 4.
[23] Decision and Order, EB-2017-0024, April 5, 2018, page 12.
[24] Decision and Order, EB-2019-0018, September 5, 2019, page 12.

IFRS in 2013. This short-term measure was not intended to address special circumstances that arise for post-MAADs distributors".[25]

OEB staff submits that the length of a utility's deferred rebasing period has no relevance on the validity of the mechanics of Account 1576. The length of the deferral period will simply influence the magnitude of the impact on rate base. Whether an entity rebases one year or ten years after the accounting policy change, Account 1576 captures the total amount that will be double counted when the inflated rate base is brought forth in a future application.

Alectra Utilities' pre-filed evidence also states that Account 1576 "ignores two key components of the calculation – PILs and Return on Capital"[26] as a reason to propose a variant to that method. OEB staff notes that the Account 1576 does not ignore the return on capital component; it calculates it in a manner that is different in principle from Alectra Utilities' proposed method.

OEB staff has acknowledged that there is an insignificant PILs impact that is traditionally excluded under the Account 1576 method. OEB staff is not opposed to the inclusion of the immaterial PILs impact in the capitalization deferral accounts, however, suggests excluding it for the purposes of maintaining consistency with past precedent of how Account 1576 is calculated.

In response to interrogatories, Alectra Utilities' stated that its "calculation method of return on rate base is consistent with the calculation of the return used for Accounts 1575 and 1576."[27]

In subsequent interrogatories, OEB staff prepared the Account 1576 tables for each of the rate zones and asked Alectra Utilities to confirm their factual accuracy. In response, Alectra Utilities stated that it "does not agree with OEB staff's presentation of the impact of the capitalization policy change… [As the figures] do not accurately present the impact of the return on rate base."[28] Furthermore, Alectra Utilities fundamentally disagreed with the mechanics of Account 1576 by stating:

> It is fundamentally incorrect to refund a return to customers that Alectra Utilities has not received from customers. As provided in response to G-Staff-6, Alectra Utilities is **not** able to add the additional capitalized balances to rate base during the rebasing deferral period and is **not** currently earning a return on this capital. It is therefore, improbable that Alectra Utilities can refund to customers an amount it has never received.[29]

[25] Alectra Utilities' application evidence, EB-2019-0018, Exhibit 2, Tab 1, Schedule 5, page 8 of 9.
[26] Ibid.
[27] Response to G-Staff-4 f).
[28] Response to G-Staff-4 c). October 7, 2019, pages 3 to 4 of 4.
[29] Ibid.

It appears to OEB staff that Alectra Utilities may have misunderstood the fact that under the 1576 approach, the return component refunded to ratepayers does not consider the return on capital that has already been earned; it accounts for the return on capital that will be earned when a utility rebases in a subsequent proceeding.

OEB staff is of the view that Alectra Utilities has not provided a compelling reason for why the OEB's past practice of using the Account 1576 approach to address changes in capitalization policy is not the most appropriate option to calculate the balances in the capitalization deferral accounts.

OEB staff's conclusions

OEB staff submits that the most fair and reasonable outcome is to adopt the same approach that the OEB has applied to the industry as a whole, and to each one of Alectra Utilities' legacy entities when they previously disposed of their 1575 or 1576 account balances as a result of previous accounting policy changes.

The 1576 approach is in line with past precedent, an outcome of extensive stakeholder consultation, and a predictable regulatory outcome, given the near-identical congruence between Alectra Utilities' changes in accounting policies and those that resulted from the adoption of capitalization and depreciation policies underpinning IFRS. Moreover, OEB staff submits that the fundamental ratemaking concept, of disallowing a utility to earn a return on capital that is recognized solely due to changes in accounting policies, should be maintained in this case.

Nature, Timing, and Duration of Disposition

In response to an interrogatory,[30] Alectra Utilities noted that it has further reviewed OEB policy regarding the disposition of balances in Accounts 1575 and 1576 and identified that, for 2013 rate applications, the OEB's practice was to dispose of balances as an adjustment to revenue requirement. Alectra Utilities further cited the OEB's June 25, 2013 letter[31] to Licensed Electricity Distributors, in which the OEB revised its approach to disposition, requiring the use of a rate rider rather than adjustment to revenue requirement, to account for the different rate-setting cycles of distributors. Alectra Utilities proposed a disposition approach, consistent with the guidance in the OEB's 2013 letter, whereby the balances in the capitalization deferral accounts are to be disposed of using rate riders for each rate zone at its next rebasing application.

Alectra Utilities recommended a rate rider duration of one year, noting that the Group 1 Deferral and Variance Accounts disposed of in the 2018 rate application were disposed of on a one-year basis and that the balances disposed of in those accounts are

[30] Response to OEB staff interrogatory G-Staff-3 a).
[31] *Accounting Policy Changes for Accounts 1575 and 1576*, June 25, 2013.

comparable in size to those of Alectra Utilities' forecast for the capitalization deferral accounts.[32]

OEB staff agrees with Alectra Utilities' proposal to dispose of the capitalization account balances using rate riders in each rate zone. In accordance with the OEB's rationale presented in the OEB's 2013 letter, disposing balances via rate riders provides for greater flexibility, as the clearance of the accounts is independent of the length of the subsequent rate-setting term.

With respect to the timing of disposition, the OEB noted in its Decision and Order for the 2018 rate application that:

> The OEB approved disposition of [Accounts 1575 and 1576] in both cost of service and IRM decisions. The OEB finds it appropriate to enable disposition of the Impact of Post-merger Capitalization Policy Changes accounts for the Enersource and Brampton RZs during the Price Cap IR term, consistent with regulatory precedent. While amounts for Alectra Utilities could be held in the accounts approved by the OEB until the next rebasing, and used as an offset to rate base, the deferred rebasing period is 10 years. This is an unreasonably long time to wait for disposition of the accounts.[33]

OEB staff shares the concerns raised by the OEB about delaying disposition and submits that the account balances should be disposed of on an annual basis. OEB staff notes disposing of balances annually, and using one-year rate riders as Alectra Utilities has proposed, would mitigate bill impacts over time. In the event that the OEB approves Alectra Utilities' request to defer disposition until its next rebasing application, OEB staff submits that the duration of the rate riders should not be one year. The net impact of inflated rate base will be paid by customers across the entire subsequent rate-setting term, and beyond. Therefore, OEB staff submits that it would be most appropriate to apply the duration of the rate rider over the entire subsequent rate-setting term. This approach also mitigates the rate shock that may result from disposing of tens of millions of dollars in one year, which is intended to offset multiple years of inflated rates.

Distribution of Balances amongst Customer Classes and Rate Design

OEB staff notes that, in the event that the OEB approves disposition of any of the capitalization policy deferral account balances in this proceeding, Alectra Utilities has not made a proposal on how it would allocate balances in the capitalization policy deferral accounts to the various rate classes and the billing determinants that it would propose to utilize. In the pre-filed evidence of the 2019 rate proceeding, OEB staff notes

[32] Response to OEB staff interrogatory G-Staff-8 a).
[33] Decision and Order, EB-2017-0024, April 5, 2018, page 81.

that Alectra Utilities proposed to allocate balances to customer classes based on their current proportion of overall revenue. Alectra Utilities also proposed a fixed rate rider for the residential customer class, while rate riders for all other rate classes would be based on the current fixed/variable revenue split, using kW and kWh billing determinants where appropriate.[34] OEB staff would support this proposed allocation of balances amongst customer classes as well the rate design and billing determinants to be used, provided that the OEB approves disposition of any eligible balances in this proceeding. Alectra Utilities may choose to confirm, in its reply submission, that the cost allocations and rate design for balances in these accounts would be consistent with its proposal in the 2019 rate proceeding.

Capitalization Deferral Accounts Eligible for Disposition

In this proceeding, OEB staff has provided its Account 1576 calculations for the Brampton and Enersource Rate Zones from 2017 to 2018, as Figures 6 and 7 in Appendix A to this submission, for consideration; if the OEB decides to approve disposition of the 2018 balances of the capitalization deferral accounts. The balances for the OEB to consider for disposition are $3,665,357 to be refunded to the Enersource rate zone customers and $3,546,847 to be collected from the Brampton rate zone customers. In the event that the OEB determines that these amounts should be disposed of in the current proceeding, the OEB may wish to consider directing Alectra Utilities to incorporate these disposition balances into a rate rider calculation model, similar to the one it provided in the 2019 rate application,[35] and provide that model at the Draft Rate Order stage of this proceeding.

Guelph Rate Zone Capitalization Deferral Account

The OEB previously established the capitalization deferral accounts for the Horizon, Brampton, and Enersource rate zones. Following the amalgamation between Alectra Utilities and Guelph Hydro Electric System Inc. (Guelph), the accounting policies of the former Guelph were revised to match those of Alectra Utilities, effective January 1, 2019, in conformance with IFRS. Consistent with the treatment of tracking the capitalization policy impacts in the other applicable rate zones, in response to an interrogatory question,[36] Alectra Utilities confirmed that it “intends to request the establishment of a deferral account for the Guelph RZ to track the impact of the capitalization policy change”.

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[34] Alectra Utilities’ application evidence, EB-2018-0019, Exhibit 2, Tab 2, Schedule 7, page 5 of 5 and Exhibit 2, Tab 4, Schedule 7, pages 4 to 5 of 5.
[35] Alectra Utilities’ application evidence, EB-2018-0016, Attachments 19 and 40.
[36] Response to OEB staff interrogatory G-Staff-2 c).

OEB staff suggests that the OEB direct Alectra Utilities provide a draft accounting order at the Draft Rate Order stage of this proceeding, for the purposes of the OEB's review in approving this deferral account.

<u>2019 to 2028 Capitalization Deferral Account Entries</u>

As part of the timeline established in PO 4, the OEB provided Alectra Utilities the opportunity to augment its existing evidence filed pertaining to the capitalization deferral accounts. Alectra Utilities subsequently filed a submission in that regard.

In that submission,[37] Alectra Utilities explained that, subsequent to filing its original evidence, the four legacy utilities migrated to a consolidated ERP system in 2019 and that the actual future impacts of the capitalization policy could no longer be tracked without the costly maintenance of four separate legacy accounting systems. Accordingly, an estimation and allocation methodology would be required to track these impacts in 2019 and beyond. Alectra Utilities proposed to determine the allocation percentage by rate zone to be applied to 2019 to 2026 distribution system plant actual in-service additions based on a ratio of the actual impact of the capitalization policy change prior to the ERP convergence, to actual in-service distribution system plant additions.

OEB staff submits that an allocation methodology based on best available data prior to the ERP convergence is a reasonable approach to proxy the actual impacts. OEB staff also agrees with Alectra Utilities that running four separate accounting systems simply for this purpose would be a costly and wasteful endeavour, and doing so would inhibit the genuine synergies to be realized from aligning ERP systems. Since the 2019 and subsequent impacts are not in the scope of this proceeding, OEB staff submits that the allocation methodology proposed by Alectra Utilities should be tested on its own merits in Alectra Utilities' 2021 rate application. In that proceeding, parties shall be able to question matters relating, but not limited, to:

- What is the most appropriate available data to use that best represents the actual proportion of capitalization policy impacts for each rate zone in 2019 and beyond?
- What is the actual cost driver that best correlates with the quantum of the capitalization policy impacts (distribution plant additions only, distribution and general plant additions, etc.)?
- On what basis will the Guelph rate zone's capitalization policy impacts be determined, given that the other rate zones have two years of actual post-merger data to use as a proxy, while the Guelph rate zone presumably will not?

[37] Alectra Utilities Capitalization Policy Submission, pp. 3, September 16, 2019.

OEB staff suggests that, for the purposes of regulatory efficiency, that Alectra Utilities considers the questions above and addresses these areas in their pre-filed evidence supporting its 2021 rate application.

<u>Other capitalization policy changes: impact of IFRS 16 – Leases</u>

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 Alectra Utilities adopted IFRS 16 on January 1, 2019, using the modified retrospective approach.

Through responses to interrogatories,[38] Alectra Utilities prepared an analysis to show what the impact would be of capitalizing existing leases over the deferred rebasing period. That analysis indicated that the costs capitalized as a result of adopting IFRS 16 are entirely depreciated over the deferred rebasing term, and therefore, there is no net impact on rate base at the time of rebasing. As a result, Alectra Utilities stated that it will not be requesting a deferral account to capture the impact of the adoption of IFRS 16, on account of it being immaterial.

OEB staff notes that the analysis prepared by Alectra Utilities appears to capture only the impact of the "implementation of IFRS 16" which considered the "operating leases previously recognized on the income statement".[39] It remains unclear to OEB staff if Alectra Utilities' omission of the capitalized leases that are entered into in 2019 and beyond is the result of:

a) Alectra Utilities' misinterpretation that OEB staff was only seeking information on the impacts of implementation of IFRS 16 (the impacts on day one of applying the standard), rather than the cumulative impact including newly capitalized leases, or

b) Alectra Utilities' determination that it does not anticipate entering into any new leases over the deferred rebasing period that will be impacted by the adoption of IFRS 16.

OEB staff suggests that Alectra Utilities confirm the underlying assumptions of its analysis in its reply submission. OEB staff further suggests that the OEB provide the

[38] Response to OEB staff interrogatory G-Staff-1 c) to i); Table 1 – Impact of the Implementation of IFRS 16.
[39] Ibid.

following direction to Alectra Utilities for the OEB's consideration in its 2021 rate proceeding:

Alectra Utilities shall file a revised IFRS 16 impact table in its pre-filed evidence, showing the rate base impacts inclusive of future, newly capitalized leases. If Alectra Utilities ultimately concludes that the IFRS 16 impact table requires no revisions, then it shall provide detailed explanations for how it determined that no future leases will be entered into over the deferred rebasing period that will be impacted by IFRS 16.

In OEB staff's view, Alectra Utilities' has not provided sufficient evidence to demonstrate that the cumulative net impact over the deferred rebasing period from the adoption of IFRS 16 is, in fact, immaterial.

Given the adoption of IFRS 16 took place in 2019, in an effort to avoid any retroactive ratemaking matters, OEB staff submits that the OEB should establish a deferral account for Alectra Utilities to capture the cumulative impacts of IFRS 16 over the deferred rebasing period. OEB staff further submits that the calculation methodology and other matters with respect to balances in this account shall be largely informed by the OEB's findings on capitalization policy deferral accounts within this proceeding.

Horizon RZ Custom IR Application

Horizon Utilities filed a custom incentive rate-setting (Custom IR) application with the OEB in 2014[40] requesting approval of distribution rates for the five-year period from 2015 to 2019 with rates effective January 1st of each year. A partial settlement proposal was filed on September 22, 2014, which was accepted by the OEB, and a Decision and Order on the outstanding matters was subsequently issued establishing rates effective January 1, 2015.

The OEB-approved settlement proposal stated that Horizon Utilities' rates would be adjusted annually for a number of items, including the following two potential types of adjustments:[41]

- An ESM that would return to ratepayers, on an annual basis, fifty percent of any earnings that exceeded Horizon Utilities' regulated rate of return in a given fiscal year
- A CIVA that would refund ratepayers, at the next rebasing, any difference in the revenue requirement should in-service capital additions be lower than the approved forecast

OEB staff provides its submission on these two potential rate adjustments below.

Horizon RZ ESM

Background

As noted above, the approved settlement proposal provided for earnings in excess of the approved return on equity (ROE) to be shared on a 50/50 basis between Horizon Utilities and its customers. A deferral account was created to track earnings in excess of the OEB's annual approved ROE.

In Procedural Order No. 3 (PO 3) of the 2019 rate application, the OEB deferred matters with respect to the capitalization deferral accounts to Alectra Utilities' 2020 rate application.[42] PO 3 also provided for an oral hearing that was convened on December 5 and 6, 2018 to address the York Region Rapid Transit Incremental Capital Module project and the Horizon RZ ESM. Alectra Utilities and the parties reached a settlement agreement on the Horizon RZ ESM. The parties agreed that the allocation of costs between Alectra Utilities' rate zones to determine the Horizon RZ ESM for 2017; and the

[40] EB-2014-0002.
[41] Any other items pertaining to the OEB-approved settlement proposal that are applicable rate adjustments for Alectra Utilities' 2020 rates have been addressed in the IRM stream of this proceeding.
[42] Decision on Confidentiality and Procedural Order No. 3, November 8, 2018, EB-2018-0016, pages 2-3.

interaction between the calculation and the change in capitalization policy, should be deferred to the 2020 rate application proceeding.[43]

In this proceeding, Alectra Utilities is seeking approval for the calculation of the Horizon RZ's 2017 achieved ROE of 10.038%, net income of $20,780,781, excess earnings of $2,604,972 (based on approved ROE of 8.78%) and amount due to ratepayers of $1,302,486 for the purposes of earnings sharing.[44]

Alectra Utilities is also seeking approval for the calculation of the Horizon RZ's 2018 achieved ROE of 8.368%, net income of $17,980,733, excess earnings of nil (based on approved ROE of 9.00%), and amounts due to ratepayers of nil for the purposes of earnings sharing.[45]

The 2017 (and subsequently 2018) reported earnings are the first to be derived from Alectra Utilities' consolidated reporting structure, following the amalgamation in February 2017. As such, it was necessary for Alectra Utilities to apply a formulaic allocation methodology for certain costs that cannot be directly attributed and allocated to each rate zone, including: OM&A, general plant capital additions, and PILs.

In addition, since the consolidated results of Alectra Utilities include merger-related cost and savings, Alectra Utilities has adjusted the Horizon RZ earnings for the purposes of earnings sharing to account for any merger-related activities.

Alectra Utilities is also requesting that the OEB determine the treatment of the Horizon ESM, in light of the capitalization policy change.[46] For 2017 and 2018, Alectra Utilities has not adjusted earnings based on Horizon Utilities capitalization policy in place prior to the merger. To support its treatment of flowing the capitalization policy changes through earnings sharing, Alectra Utilities has cited the OEB's Decision and Order in its 2018 rate application. In that Decision and Order, the OEB stated, "for the remainder of the Custom IR term, the effect on earnings resulting from the change in the capitalization policy will be dealt with through the ESM."[47]

Submission

OEB staff submits that there are three issues to be considered in the calculation of the Horizon RZ ESM:

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[43] Exhibit K-2.1 - Settlement Proposal, December 6, 2018, EB-2018-0016.
[44] Updated from pre-filed evidence; Response to OEB staff interrogatory HRZ-Staff-2 e), Table 12 – ESM calculation summary – 3 Year Average OM&A revised.
[45] Ibid.
[46] Alectra Utilities pre-filed evidence, 2019-0018, Exhibit 2, Tab 1, Schedule 5, page 2
[47] Decision and Order, EB-2017-0024, April 6, 2018, Page 81.

1. What is the appropriate treatment for the change in capitalization policy for the purposes of calculating the Horizon RZ ESM?
2. Have the capital and operating costs and savings attributable to the Alectra Utilities merger been appropriately factored into the ESM calculation?
3. Have the capital and operating costs of Alectra Utilities been appropriately allocated to the Horizon RZ for the purposes of calculating the ESM?

OEB staff addresses these issues below.

Impacts of Capitalization Policy Change

OEB staff supports Alectra Utilities' proposed treatment to flow the impacts of the changes in accounting policy through the ESM. In OEB staff's view, the OEB was explicit in the 2018 rate application Decision and Order as to how the capitalization policy impacts should be dealt with in the Horizon RZ during the duration of the Custom IR term.

Merger-Related Costs and Savings

For the purposes of earnings sharing, Alectra Utilities has increased (decreased) the actual OM&A and capital expenditures for the purposes of earnings sharing to account for what it has calculated as net-merger savings (costs). OEB staff accepts the notion that merger-related activity should be excluded for the purposes of ESM, as those impacts were not contemplated in the cost structure of the Horizon RZ in the approved settlement proposal. Alectra Utilities reported the following net-merger savings (costs):

Nature of Costs	**2017**	**2018**
OM&A	($2,032,671)	$24,020,161
Capital	$17,174,112	$5,233,012

Capital Related Merger Costs and Savings

OEB staff has reviewed supporting documentation that Alectra Utilities provided through interrogatories with respect to the merger-related capital savings and capital transition costs and accepts those figures as reasonable estimates of the merger impacts.

In response to interrogatories,[48] Alectra Utilities was able to demonstrate that the 2017 and 2018 changes in rate base are largely in line with previous year trends after

[48] Response to OEB staff HRZ-Staff-12 b).

adjusting for differences in working capital allowance. Alectra Utilities provided a detailed analysis of the impact that the Ontario Fair Hydro Plan had on its working capital allowance, which accounts for the majority of the difference in annual rate base change compared to prior years. OEB staff is satisfied with the evidence provided with respect to estimating the capital-related merger savings used for the purposes of ESM.

OM&A Related Merger Costs and Savings

OEB staff does not support Alectra Utilities' reported figures of merger-related OM&A savings (costs). OEB staff submits that there is a high probability that Alectra Utilities has overstated its merger-related savings and/or understated its merger-related costs with respect to OM&A for both 2017 and 2018. OEB staff provides its rationale for arriving at this assessment and provides its proposal for an alternative approach in estimating the merger impacts on OM&A below.

The reported OM&A costs net of the merger impacts appear to be overstated

As a part of a historical trend analysis of Alectra Utilities' OM&A, OEB staff prepared a table of the OM&A costs from 2012 to 2016 for each Alectra Utilities' four legacy utilities[49] that were previously reported as part of the OEB's Reporting and Record-Keeping Requirements (RRR). OEB staff also populated the 2017 and 2018 years based on Alectra Utilities' reported OM&A costs for each the four rate zones from its reported ESM calculations. In response to an interrogatory, Alectra Utilities reviewed the data set provided by OEB staff and noted that the table required a revision to account for merger-related transactions costs in 2015 for the PowerStream rate zone in the amount of $4.8M. A revised table was provided by Alectra Utilities and is reproduced below:[50]

[49] The Guelph rate zone is not included in the 2017-2018 results, as that amalgamation took place on January 1, 2019.
[50] Response to OEB staff interrogatory HRZ-Staff-1 a).

Table A: Historical OM&A Figures

Year	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	$ 85,818,363	**$ 225,321,356**	$ 11,497,346	5.4%
2015	$ 59,096,949	$ 26,975,737	$ 56,630,561	$ 87,683,578	**$ 230,386,825**	$ 5,065,469	2.2%
2016	$ 59,299,938	$ 30,006,692	$ 60,426,547	$ 86,645,596	**$ 236,378,773**	$ 5,991,947	2.6%
2017 - Adjusted	$ 66,370,580	$ 33,316,877	$ 63,777,652	$ 100,052,737	**$ 263,517,846**	$ 27,139,073	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 Adjusted	$ 5,398,529	$ (1,830,532)	$ 1,866,041	$ 193,660	**$ 5,627,698**		
2017 - Adjusted	$ 66,370,580	$ 33,316,877	$ 63,777,652	$ 100,052,397	**$ 263,517,506**		
2018 - Table 1	$ 62,836,129	$ 34,170,926	$ 61,628,749	$ 97,442,309	**$ 256,078,113**		
2018 - OM&A Adjusted	$ 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**		

The analysis above is intended to provide a meaningful assessment of how the OM&A costs have increased over the last several years for each rate zone, as well as Alectra Utilities as a whole .The reported results for 2017 and 2018 in the table above have been adjusted to account for the impacts of changes in capitalization policy. This allows the 2017 and 2018 results to be compared to historical amounts based on the same cost recognition principles that were in place prior to the merger. In addition, the 2017 and 2018 figures exclude what Alectra Utilities has reported as the merger-related net costs (savings), so the figures in those years represent normal distribution operating costs that would have been incurred had the entities remained as standalone utilities.

Through interrogatories, OEB staff asked Alectra Utilities to provide a list of the cost drivers that comprise the $27.1M increase from 2016 to 2017 to substantiate the unusually large increase between those years. Alectra Utilities provided the following list that it identified as the primary drivers:

• Increased costs to transition to monthly billing as mandated by the OEB

• One-time legal and environmental 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

• Wage harmonization for management staff.[51]

[51] Response to OEB staff interrogatories HRZ-Staff-1 b) and HRZ-Staff-10 b)

Alectra Utilities further explained that since the legacy utilities previously operated separate ERP systems, the financial mapping of costs before the merger is completely different than the system used by Alectra Utilities in 2017 and beyond. Therefore, "there is no simple way to combine the financial results of the legacy utilities and provide a meaningful variance analysis".[52]

Through supplemental interrogatories, OEB staff asked Alectra Utilities to provide its rationale for why incremental resources resulting from being a much larger organization, as well as wage harmonization for management staff, were being deemed as non-merger related cost drivers. OEB staff also asked Alectra Utilities to quantify the five cost drivers provided above.

In response, Alectra Utilities quantified the transition to monthly billing and one-time provision costs as $4.3M and $3.6M, respectively. However, Alectra Utilities stated that the increased corporate resourcing and wage harmonization were, in fact, merger-related and not actually a cost driver for the 2016 to 2017 increase.[53] Alectra Utilities did not provide any supplemental explanation to support the increase in OM&A and maintained that it is unable to do so due to financial systems differences between the legacy utilities and Alectra Utilities.

OEB staff submits that the reported OM&A costs must be viewed in context. The fact remains that year over year operating costs are reported to have increased by $27.1M (11.5%) while the historical average increase over the previous five years was $7.5M (3.4%).[54] Of the 11.5% increase, 3.4% ($8.0M) is explained by the general increases in costs (including inflation) based on historical trends, 3.3% ($7.9M) is represented by the monthly billing and one-time provision costs,[55] and the drivers of the remaining 4.8% ($11.2M) remain unexplained. OEB staff cannot accept the position that this unaccounted for increase is entirely attributable to general distribution business activities, and not influenced by merger-related activity, without a cogent explanation for what those cost drivers are.

The reported merger-related operating costs and savings are estimates

OEB staff acknowledges the challenges that Alectra Utilities is experiencing with respect to maintaining compliance with the terms of the approved settlement proposal, namely, isolating the impacts of the merger from actual financial results. OEB staff accepts that this is not a simple endeavour. Furthermore, OEB staff believes that Alectra Utilities has made significant efforts to track merger-related costs and savings at

[52] Response to OEB staff interrogatory HRZ-Staff-1 c).
[53] Response to OEB staff interrogatory HRZ-Staff-10 f).
[54] Sum of change in dollars between 2012 and 2016 of $29,818,493 / 4 = $7,454,623. Sum of annual percentage changes between 2012 and 2016 of 13.7% / 4 = 3.4%.
[55] (4.3M + 3.6M) / 2016 OM&A of $236,238,773 = 3.3%

a granular level, not only for internal corporate performance purposes, but also in providing the OEB its best estimates of achieved synergies following consolidation.

However, OEB staff finds it imperative to note that the reported figures of merger-related costs and savings are, by default, estimates. Alectra Utilities argues that “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. The actual merger savings and costs form the basis of the information relied on for the purposes of the ESM”.[56]

OEB staff notes that this position is not entirely accurate.

To calculate the actual merger savings would require comparing the actual costs incurred as a consolidated entity to the actual costs that would have been incurred as individual utilities had a merger not occurred, the latter of which is impossible to determine because that scenario does not exist. Instead, Alectra Utilities calculated its merger savings by comparing its actual costs to “the merger business plan that was put forward at the time of the [merger] application, which was derived from the approved financial plans of each of the legacy organizations.”[57]

OEB staff notes that any forecasting error of costs assumed in the merger business plan is not only impossible to verify, but invariably will be included in the calculation of synergies achieved. The determination of actual synergies, by nature, is dependent on critical assumptions. For example, when asked how Alectra Utilities factors in information that was not available at the time the merger business plan was developed, Alectra Utilities stated “[t]he merger business plan is not revised annually, however, new information that Alectra Utilities did not have is discussed with synergy business units and considered when evaluating and reporting actual costs and synergies.”[58] In OEB staff’s view, this illustrates how dependent the calculation of merger-related savings is on the accuracy of the forecast financial plans of the legacy utilities. Furthermore, differentiating merger-related savings versus efficiency savings is highly subjective, which Alectra Utilities’ confirmed requires casting judgement on whether they would have occurred without the merger.[59]

OEB staff submits that the internal audit function overseeing the synergies reporting does not alleviate the risk of material miscalculation of synergies that OEB staff is concerned with. There is no audit report, internal or third party, which can authenticate what the costs of four separate utilities would have been because that scenario does

[56] Response to OEB staff interrogatory HRZ-Staff-8 a).
[57] Response to OEB staff interrogatory HRZ-Staff-17 a).
[58] Ibid.
[59] Response to OEB staff interrogatory HRZ-Staff-8 c).

not exist. The forecasting error in the merger business plan is not possible to audit because it remains a forecast. In addition, both semi-annual internal audit reports for 2017 noted that labour synergies were greater because “business units realized some positions did not require the backfill they expected”,[60] which raises the possibility that operational efficiencies could be misclassified as merger synergies.

OEB staff’s recommended approach

Alectra Utilities’ current approach to determining the merger-adjusted OM&A costs in 2017 and 2018 for the purposes of ESM is:

> Start with the total actual costs which include merger-related activity, adjust these amounts by the estimated net-merger costs (savings) and deem the resulting differential to be non-merger related.

OEB staff proposes the following alternative approach to determining the OM&A figures for 2017 and 2018 that exclude the merger-related operating costs/savings:

> Escalate the actual 2016 OM&A figures by the actual historical average annual increase over the previous five years to arrive at a reasonable projection for 2017. Subsequently, adjust that figure by specifically quantified anomalies (one-time provisions and monthly billing costs) as identified by Alectra Utilities, and deem the resulting differential to be merger-related. For 2018, the same historical escalation factor is extended from the escalated 2017 OM&A.

Under this approach, the resulting OM&A to be used for the purposes of earnings sharing falls within a reasonable range. In OEB staff’s view, the OEB must decide which approach poses a lower risk of estimation error: estimating the merger-related OM&A synergies based on a forecast business plan and deeming the remaining OM&A to be non-merger related, or estimating the non-merger OM&A costs based on historical trends and deeming the remaining OM&A to be merger-related. For the reasons discussed above, OEB staff submits that it is the latter.

The revised 2017 and 2018 OM&A figures are derived as follows (Table B), using the data from Table A where appropriate, and applying the differential between OEB staff’s calculated figures and those reported in Table A as an adjustment to the net merger savings (costs), as filed by Alectra Utilities:

[60] Response to OEB staff interrogatory HRZ-Staff-19 Attachment 1 (page 13) and Attachment 2 (page 11)

Table B: Derivation of total OM&A Adjustments for 2017 and 2018

		Total OM&A
2012	$	206,560,278
2013	$	213,824,009
2014	$	225,321,356
2015	$	230,386,825
2016	$	236,378,773
Historical Average Change:		3.40%
2017 - Inflated (2016 + 3.4%)	$	244,415,651
Add: One-Time Provisions	$	3,600,000
Add: Monthly Billing Costs	$	4,300,000
2017 OM&A:	$	252,315,651
2017 OM&A, per Table A:	$	263,517,846
Adjustment required to 2017 reported net-merger savings	**$**	**(11,202,195)**
2018 - Inflated (2017 Inflated + 3.4%)	$	252,725,783
2018 OM&A, per Table A:	$	261,832,306
Adjustment required to 2018 reported net-merger savings	**$**	**(9,106,523)**

Based on the above adjustments to the estimated net merger impacts, Table A, as prepared by Alectra Utilities, would be recalculated as follows (Table C):

Table C: Adjusted Historical OM&A Figures

	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	$ 87,683,578	**$ 230,386,825**	$ 5,065,468	2.2%
2016	$ 59,299,938	$ 30,006,692	$ 60,426,547	$ 86,645,596	**$ 236,378,774**	$ 5,991,948	2.6%
2017 - Adjusted	$ 63,065,451	$ 31,286,288	$ 61,347,038	$ 96,616,874	**$ 252,315,651**	$ 15,936,877	6.7%
2018 - Adjusted	$ 64,892,380	$ 30,803,458	$ 61,861,566	$ 95,168,459	**$ 252,725,863**	$ 410,212	0.2%
2017 - Table 1	$ 57,666,922	$ 33,116,820	$ 59,480,997	$ 96,422,874	**$ 246,687,613**		
2017 OM&A Adj	$ 5,398,529	$ (1,830,532)	$ 1,866,041	$ 194,000	**$ 5,628,038**		
2017 - Adjusted	$ 63,065,451	$ 31,286,288	$ 61,347,038	$ 96,616,874	**$ 252,315,651**		
2018 - Table 1	$ 59,649,643	$ 32,413,148	$ 60,150,048	$ 94,758,751	**$ 246,971,590**		
2018 OM&A Adj	$ 5,242,737	$ (1,609,690)	$ 1,711,518	$ 409,708	**$ 5,754,273**		
2018 - Adjusted	$ 64,892,380	$ 30,803,458	$ 61,861,566	$ 95,168,459	**$ 252,725,863**		

Allocation of Costs to the Horizon RZ

For the purposes of allocating certain group costs in 2017 and 2018, Alectra Utilities has proposed the following allocators for cost categories that are not directly attributable to the various rate zones:

- OM&A – Use the average OM&A from 2014 to 2016 for each rate zone, adjusted for merger and capitalization policy impacts, as a proxy for the proportions of OM&A for each rate zone in 2017 and 2018.
- General plant capital additions – Use the 2016 closing net book value of general plant for each rate zone, adjusted for merger impacts, as a proxy for the proportions of general plant capital additions for each rate zone in 2017 and 2018.
- General plant depreciation expense – Use the 2016 general plant depreciation expense, adjusted for merger impacts, as a proxy for the proportions of general plant depreciation expense for each rate zone in 2017 and 2018.
- PILs – Use the same allocators as calculated for OM&A as a proxy for the proportions of certain additions/deductions for income tax purposes attributable to each rate zone in 2017 and 2018.

Having reviewed the evidence, OEB staff agrees with Alectra Utilities' proposed allocations of general plant capital additions and general plant depreciation expense. OEB staff does not, however, agree with the use of a 2014 to 2016 average OM&A figure as the allocator for OM&A and certain allocations within PILs. OEB staff submits that 2016 OM&A (and related PILs impacts) should be used as the allocator.

There are trade-offs with respect to using a single-year number versus a three-year window to represent each rate zone's OM&A proportions. On one hand, using the most recently available data (2016) provides for a better reflection of what the cost structures were immediately leading up to the merger, and would remove the probability of previously eliminated costs filtering into the sample. On the other hand, as Alectra Utilities maintains, using a three-year sample mitigates the one-off anomalies that can occur in a single year representation of costs.

From the historical OM&A table provided in the section above, it is evident that the Horizon RZ has made significant efficiency gains in terms of reducing its OM&A from 2014 to 2016 relative to the other legacy utilities. In fact, it is the only rate zone to report lower OM&A in 2016 than in 2014. Therefore, utilizing 2014 to 2016 average OM&A diminishes the efficiency gains that the Horizon RZ has made over the three years leading up to the merger and effectively overestimates that rate zone's portion of the consolidated OM&A of Alectra Utilities in 2017 and beyond.

OEB staff submits that if 2016 reported OM&A contains costs or savings that are transient and not predictive of future year cost structures, then the appropriate approach is to normalize those amounts, rather than integrate prior year figures as a way to smooth those impacts. Alectra Utilities has confirmed that the effect of merger-related costs have been removed from the 2014 to 2016 period,[61] so the most probable material distortion in any given year has already been accounted for. Furthermore, Alectra Utilities has utilized a single-period for allocations of general plant additions, general plant depreciation, and for merger capital net savings, rather than the average capital additions or depreciation over a three-year period. It would be inconsistent to use multi-year averaging in one cost category allocation, while using a single-year representation in all others.

OEB staff submits that the most reasonable representation of the Horizon RZ's portion of OM&A costs in 2017 and 2018 is to use the 2016 proportions as a proxy.

Summary of Proposed Adjustments to Horizon RZ ESM

OEB staff provides its proposed 2017 and 2018 ESM summary tables for the Horizon RZ, which include the two adjustments discussed above (merger-related costs/savings and OM&A allocation methodology), as Appendices B and C to this submission, respectively.[62]

The following tables summarize the impact of OEB staff's proposed adjustments to Alectra Utilities' Horizon RZ ESM for 2017 and 2018. OEB staff's proposal will result in

[61] Response to OEB staff interrogatory HRZ-Staff-9 c).
[62] The ESM summary tables are derived from ESM models based on 2016 OM&A allocation, filed by Alectra Utilities as Attachment 3 and Attachment 6 in response to OEB staff interrogatory HRZ-Staff-2, and then further adjusting the OM&A merger-related costs/savings by the amounts proposed by OEB staff.

approximately $2.7 million more going back to customers for the combined 2017/2018 period than is proposed by Alectra Utilities:

Horizon RZ 2017 ESM Impact Summary:

	Alectra Utilities, as proposed	Adjusted only for merger-related costs/savings	Adjusted only for OM&A allocations	Adjusted for merger-related costs/savings and OM&A allocations, OEB staff proposed
Achieved ROE	10.038%	11.357%	10.612%	11.894%
Net Income	$20,780,781	$23,495,922	$21,960,866	$24,597,051
Excess Earnings	$2,604,972	$5,331,528	$3,791,812	$6,439,079
Amounts Due to Ratepayers	$1,302,486	$2,665,764	$1,895,906	$3,219,540

Horizon RZ 2018 ESM Impact Summary:

	Alectra Utilities, as proposed	Adjusted only for merger-related costs/savings	Adjusted only for OM&A allocations	Adjusted for merger-related costs/savings and OM&A allocations, OEB staff proposed
Achieved ROE	8.368%	9.127%	8.995%	9.732%
Net Income	$17,980,733	$19,601,439	$19,320,842	$20,893,708
Excess (Under) Earnings	($1,357,838)	$272,369	($9,842)	$1,572,245
Amounts Due to Ratepayers (nil if negative)	($678,919)	$136,185	($4,921)	$786,122

Horizon RZ CIVA

Background

The approved settlement proposal for the Custom IR framework provided for a variance account to refund ratepayers, at the next rebasing, any difference in the revenue requirement should in-service capital additions be lower than the approved forecast. Each year, Alectra Utilities must determine the impact to revenue requirement of the variance in its cumulative capital additions for the period from January 1, 2015 to the end of the relative year, as compared to the baseline.

The 2015 and 2016 capital additions for the purposes of the CIVA were previously approved by the OEB in Horizon Utilities' 2017 rate application[63] and Alectra Utilities' 2018 rate application,[64] respectively. The OEB's consideration of the 2017 capital additions for the CIVA, as presented in Alectra Utilities 2019 rate application,[65] was deferred to this proceeding in order so that all ratemaking matters affected by Alectra Utilities' change in accounting policies to be addressed in the same proceeding.[66] In doing so, the OEB stated the following with respect to the 2017 capital additions:

> The change in the capitalization policy increases the in-service capital additions for the same amount of capital work to implement the strategy. The question for the OEB is whether the capital additions for the CIVA account should be based on the capitalization policy in place at the time the Custom IR framework for the Horizon rate zone was approved, or the new post merger capitalization policy for Alectra Utilities.[67]

In this proceeding, Alectra Utilities has requested approval of the 2017 and 2018 capital additions for the purposes of calculating the entry to the CIVA based on the new post merger capitalization policy.

Alectra Utilities reported 2017 in-service capital additions of $52.4M, which are $6.8M higher than the forecast additions of $45.6M. Alectra Utilities reported 2018 in-service capital additions of $49.4M,[68] which are $2.3M higher than the forecast additions of $47.1M. Consequently, Alectra Utilities calculated the 2015-2018 cumulative in-service capital additions to be $192.7M, which are $20.5M higher than the cumulative forecast in-service capital additions of $172.2M. Since the cumulative in-service capital additions

[63] EB-2016-0077.
[64] EB-2017-0024.
[65] EB-2018-0016.
[66] Partial Decision and Order, December 20, 2018, EB-2018-0016, page 7.
[67] Ibid.
[68] Updated from $44.6M, as originally filed, in response to OEB staff interrogatory HRZ-Staff-6 a).

from 2015 to 2018 were reportedly higher than the approved forecast from 2015 to 2018, no entry was proposed by Alectra Utilities for the CIVA for 2018.

A summary of Alectra Utilities' reported capital additions for the CIVA is provided below:

Capital Additions	Actual	Custom IR Application (EB-2014-0002)	Variance
2015	$ 46,643,216	$ 38,314,524	$ 8,328,692
2016	$ 44,295,265	$ 41,147,533	$ 3,147,732
2017	$ 52,393,539	$ 45,626,114	$ 6,767,425
2018	$ 49,373,848	$ 47,142,504	$ 2,231,344
Cumulative total	**$ 192,705,868**	**$ 172,230,675**	**$ 20,475,193**

This differential was calculated based on Alectra Utilities' post-merger capitalization policies, rather than the previous Horizon RZ's capitalization policies in place when the forecast capital additions were approved. Alectra Utilities referenced the OEB's Decision and Order in Alectra Utilities' 2018 rate application, and argued that presenting capital additions based on Alectra Utilities' post-merger capitalization policy is consistent with the treatment of capitalization policies in the Horizon RZ ESM. Furthermore, Alectra Utilities stated the following to support its treatment of the CIVA:[69]

> As the impact of the capitalization policy change is captured through the ESM for the Horizon Utilities RZ, determining the CIVA using the pre-merger capitalization policy would result in the same impact being refunded to or recovered from customers through both the ESM and the CIVA.

In response to an OEB staff interrogatory,[70] Alectra Utilities provided the impacts on the CIVA from applying the post-merger Alectra Utilities capitalization policies rather than the pre-merger Horizon Utilities capitalization policies. Those details of those impacts are summarized below:

[69] Response to OEB staff interrogatory HRZ-Staff-6 e).
[70] Response to OEB staff interrogatory HRZ-Staff-6 d).

Year	Captital Additions Under Pre-Merger Capitalization Policy	Captital Additions Under Post-Merger Capitalization Policy	Custom IR Application (EB-2014-0002)	Capital Investment Variance Under Pre-Merger Capitalization Policy	Capital Investment Variance Under Post-Merger Capitalization Policy
2015	$ 46,643,216	$ 46,643,216	$ 38,314,524	$ 8,328,692	$ 8,328,692
2016	$ 44,295,265	$ 44,295,265	$ 41,147,533	$ 3,147,732	$ 3,147,732
2017	$ 46,995,010	$ 52,393,539	$ 45,626,114	$ 1,368,896	$ 6,767,425
2018	$ 44,131,111	$ 49,373,848	$ 47,142,504	$ (3,011,393)	$ 2,231,344
Cumulative Total	**$ 182,064,602**	**$ 192,705,868**	**$ 172,230,675**	**$ 9,833,927**	**$ 20,475,193**

Alectra Utilities' 2017 and 2018 reported capital additions have also been adjusted to remove the Horizon RZ's share of Alectra Utilities' merger-related net capital savings. In that regard, Alectra Utilities stated that:

> ….merger capital net savings / (costs) are added / (excluded) in order to be consistent with the Settlement Agreement for Alectra Utilities' predecessor, Horizon Utilities in the 2015 to 2019 Custom Incentive Regulation Application (EB-2014-0002) and take it back to Horizon Utilities on a stand alone basis.[71]

The merger-related net capital savings that have been allocated to the Horizon RZ and included the 2017 and 2018 capital additions are $2.9M and $1.0M, respectively.

Submission

OEB staff agrees with Alectra Utilities that there should be no entry for the CIVA account for 2018, as the cumulative total capital additions from 2015 to 2018 exceed the cumulative forecast for that period.

OEB staff has reviewed the evidence provided by Alectra Utilities to support the 2017 and 2018 capital additions. With respect to the merger-related net capital savings, OEB staff agrees with Alectra Utilities that adjusting the capital additions to account for the net capital savings attributable to the merger restores the Horizon RZ capital expenditures to a comparable basis as the forecast plan that was included in the OEB-approved settlement agreement. Furthermore, consistent with its review of the merger-related capital costs and savings for the Horizon RZ ESM, OEB staff takes no issue with the net capital savings adjustments that Alectra Utilities has calculated with respect to determining capital additions in the CIVA.

OEB staff notes that the key outstanding consideration for the OEB is whether it is appropriate to calculate the capital additions in accordance with the post-merger capitalization policies of Alectra Utilities or the prior capitalization policies of the former

[71] Response to OEB staff interrogatory HRZ-Staff-6 c).

Horizon Utilities.

OEB staff submits that the in-service capital additions for the purposes of the CIVA should be calculated using the pre-merger Horizon Utilities capitalization policies.

OEB staff does not agree that any determination made by the OEB in prior rate applications with respect to the calculation of earnings sharing should have any bearing on determining the appropriate calculation of capital additions for the purposes of the CIVA. The circumstances before the OEB that it considered in determining the effect of accounting policy changes in an ESM calculation are not equivalent to those affecting the CIVA calculation. As the OEB stated in the Alectra Utilities 2019 rate application Partial Decision and Order, the appropriate capitalization policy to use in calculating the CIVA remained a question for the OEB to consider.[72]

OEB staff agrees with Alectra Utilities that adjusting the capital additions for any merger-related capital costs and savings is necessary to be consistent with the settlement agreement in the former Horizon Utilities' Custom IR application and take the Horizon RZ back to a stand-alone basis. However, OEB staff's view is that it would be inconsistent to consider the merger-related net capital savings as necessary adjustments without extending that same rationale to the effects of changes in capitalization policy. Both elements give rise to adjustments required to restore the Horizon RZ capital additions to a basis that is equivalent to the underlying assumptions in the OEB-approved settlement agreement.

Furthermore, OEB staff disagrees with Alectra Utilities' view that determining the CIVA using the pre-merger capitalization policy would result in the same impact being refunded to or recovered from customers through both the ESM and the CIVA. No CIVA entries have yet to be triggered or recorded during the Custom IR term. In the event that a CIVA entry is required as part of Alectra Utilities 2021 Rate Application (for the 2015 to 2019 cumulative variance), the impacts of double-counting (if any) between the CIVA and the ESM can be adjusted for at that time. The relevant matters at hand are simply how the capital additions should be presented in the first place. OEB staff notes that the ESM and CIVA are not mutually exclusive and they were both agreed to by the parties to the settlement agreement to protect ratepayers from different rate-setting variances, despite the fact that certain elements affect the calculations in both accounts.

The forecast capital additions approved in the Custom IR application were presented and contemplated on a specific capitalization policy. To allow Alectra Utilities to report its capital additions on a basis that is materially different from the one used in the

[72] Partial Decision and Order, December 20, 2018, EB-2018-0016, page 7.

Custom IR application, or the one used to report the OEB-approved 2015 and 2016 actual capital additions, would be inconsistent with the principles behind the establishment of the CIVA account in the approved settlement proposal. The parties to the approved settlement proposal reviewed past capital expenditures and agreed to future forecast capital expenditures on a singular capitalization policy. To compare an actual amount to an approved forecast on different measurement and presentation bases would be misaligned with the intent of the settlement.

OEB staff notes that, under either set of accounting policy choices, the cumulative total capital additions from 2015 to 2018 exceed the cumulative forecast for that period.

OEB staff is of the view that given the cumulative nature of this account, the OEB can take one of two approaches in adjudicating this matter. If the OEB elects to, it can decide in this proceeding what the appropriate measurement basis for the CIVA should be, approve the 2017 and 2018 capital additions on that basis, and direct Alectra Utilities to report the 2019 actuals on that same basis.

Alternatively, the OEB may defer approval of the 2017 and 2018 capital additions to the Alectra Utilities 2021 Rate Application, which will include the 2019 totals. In that proceeding, it will be evident to all parties whether the capitalization policies applied for the purposes of the CIVA entries have any bearing on that account on a cumulative basis from 2015-2019. If the 2019 actual in-service capital additions are lower than the 2019 forecast by no more than $9.8M, under the pre-merger capitalization policies, then this issue has no impact on the CIVA, as the cumulative total would exceed the forecast on either basis.

OEB staff suggests, for the purposes of regulatory efficiency, that if the OEB defers approval of the 2017 and 2018 capital additions to Alectra Utilities' subsequent rate application, it direct Alectra Utilities to provide the capital additions from 2015-2019 under both sets of capitalization policies, similar to the table above, in its pre-filed evidence for that proceeding.

- All of which is respectfully submitted -

Appendix A:
Calculation of Balances in Capitalization Policy Deferral Accounts using Account 1576

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)**

WACC	5.80%
# of years of rate rider disposition period	1

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.

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 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)**

WACC	6.51%
# of years of rate rider disposition period	1

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.

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**

WACC	7.21%
# of years of rate rider disposition period	1

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.

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)**

WACC	5.76%
# of years of rate rider disposition period	1

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.

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)**

WACC	6.49%
# of years of rate rider disposition period	1

Notes:

1 Return on rate base associated with Account 1576 balance is calculated as:
the variance account ending balance as of 2028 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.

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)**

WACC	6.51%
# of years of rate rider disposition period	1

Notes:

1 Return on rate base associated with Account 1576 balance is calculated as:
the variance account ending balance as of 2018 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.

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**

WACC	7.21%
# of years of rate rider disposition period	1

Notes:

1 Return on rate base associated with Account 1576 balance is calculated as:
the variance account ending balance as of 2018 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.

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.

Appendix B:
2017 Horizon RZ ESM as proposed by OEB staff

Table 1: 2017 Allocations for Calculation of HRZ Earnings Sharing - (HRZ-Staff 2 e.) Updated to 2016 YEAR OM&A Allocation; Updated by OEB staff for merger-related costs/savings adjustments

	Rate Zone		Rate Zones				
Category	**Actual/Allocation**	**Total Alectra**	**HRZ**	**BRZ**	**ERZ**	**PRZ**	**Explanation / Reference**
Alectra Direct Allocations							
Cost of Power	Actual	$ 2,776,778,326	$510,177,988	$468,678,841	$791,265,940	$1,006,655,557	
Distribution Revenues	Actual	$ 521,314,962	$113,495,042	$ 74,436,566	$ 131,932,386	$ 201,450,968	
Other Revenue	Actual	$ 32,013,512	$5,300,163	$ 4,450,643	$ 6,318,438	$ 15,944,267	
Alectra OM&A - Direct Allocations:							
OM&A	Actual	$ 29,971,130	$ 5,266,751	$ 6,398,891	$ 6,321,238	$ 11,984,250	
Alectra OM&A - Formula Allocations:		100.00%	23.48%	12.87%	25.67%	37.99%	Revised 2016 YEAR OM&A Allocation
Distribution - Operations	Allocation	$ 55,776,105	$ 13,094,002	$ 7,177,162	$ 14,314,942	$ 21,189,999	
Distribution - Maintenance	Allocation	$ 27,671,305	$ 6,496,117	$ 3,560,691	$ 7,101,843	$ 10,512,655	
Billing & Collecting	Allocation	$ 44,060,911	$ 10,343,742	$ 5,669,674	$ 11,308,236	$ 16,739,259	
Community Relations	Allocation	$ 3,053,879	$ 716,929	$ 392,967	$ 783,778	$ 1,160,205	
Administrative & General Expenses	Allocation	$ 96,317,830	$ 22,611,580	$ 12,393,994	$ 24,719,978	$ 36,592,278	
Property Taxes & Donations	Allocation	$ 3,071,318	$ 721,023	$ 395,211	$ 788,254	$ 1,166,830	
Net Merger Costs	Allocation	$ (13,234,866)	$ (3,107,018)	$ (1,703,037)	$ (3,396,729)	$ (5,028,081)	*Updated by OEB staff*
Total OM&A Formula Allocations		***$ 216,716,483***	***$ 50,876,375***	***$ 27,886,662***	***$ 55,620,302***	***$ 82,333,144***	
Total Alectra OM&A		**$ 246,687,613**	**$ 56,143,126**	**$ 34,285,553**	**$ 61,941,540**	**$ 94,317,394**	
Rate Base							
Opening Net Fixed Assets - Direct Allocations	Actual	$ 2,376,442,007	$ 436,391,621	$ 350,797,724	$ 664,020,095	$ 925,232,567	
Capital Additions - Direct Allocations							
Distribution Plant	Actual	$ 300,110,508	$ 51,430,152	$ 35,770,525	$ 56,468,245	$ 156,441,586	
Capital Additions - Formula Allocations							
General Plant	Allocation	$ 14,313,050	$ 2,833,456	$ 714,171	$ 7,426,596	$ 3,338,827	
Merger Capital Net Savings	Allocation	$ 17,174,112	$ 2,891,170	$ 3,941,707	$ 1,199,302	$ 9,141,933	
Depreciation - Direct Allocations							
Distribution Plant	Actual	$ 89,752,970	$ 15,231,321	$ 12,422,030	$ 23,222,853	$ 38,876,766	
Depreciation - Formula Allocations							
General Plant	Allocation	$ 31,244,277	$ 7,020,923	$ 4,749,606	$ 10,005,323	$ 9,468,425	
Asset Retirements - Direct Allocations	Actual	$ 7,807,008	$ 1,629,843	$ 843,961	$ 1,563,803	$ 3,769,401	
Work in Progress		$ 21,287,460	$ 3,158,696	$ 460,295	$ 1,468,007	$ 16,200,462	
Capital Contributions	Actual	$ 61,155,634	$ 4,761,239	$ 11,891,967	$ 3,733,074	$ 40,769,354	
Closing Net Fixed Assets		$ 2,496,792,328	$ 461,744,377	$ 360,856,268	$ 689,121,178	$ 985,070,505	
Average NFA for Rev. Req. Purposes		$ 2,436,617,168	$ 449,067,999	$ 355,826,996	$ 676,570,637	$ 955,151,536	
Working Capital Allowance Rate			12.00%	13.00%	13.50%	7.50%	
Working Capital Allowance		$ 331,099,886	$ 67,958,534	$ 65,385,371	$ 115,183,010	$ 82,572,971	Updated after adjustment to net merger costs
Total Rate Base		$ 2,767,717,054	$ 517,026,533	$ 421,212,367	$ 791,753,646	$ 1,037,724,507	Updated after adjustment to net merger costs
Regulatory Net Income before interest & tax		$ 177,836,606	$ 38,769,992	$ 26,586,060	$ 41,517,305	$ 70,963,249	Updated after adjustment to net merger costs
Regulatory Deemed Debt		$ 71,629,063	$ 10,414,634	$ 14,688,550	$ 23,233,092	$ 23,292,786	Updated Cost of Capital Calculation - See Table 2
Regulatory Net Income before tax		$ 106,207,543	$ 28,355,358	$ 11,897,509	$ 18,284,213	$ 47,670,463	
ESM Adjustments per Settlement Agreement		$ 487,232	$ 487,232	$ -	$ -	$ -	
PILs		$ 13,482,778	$ 4,245,539	$ 1,585,110	$ 724,346	$ 6,927,783	Updated PILs - See Table 3
Regulatory Net Income		$ 93,211,997	$ 24,597,051	$ 10,312,399	$ 17,559,867	$ 40,742,680	
Regulatory Deemed Equity		$ 1,107,086,821	$ 206,810,613	$ 168,484,947	$ 316,701,459	$ 415,089,803	Updated Deemed Equity Calculation
Regulatory ROE		8.42%	11.894%				
Per Annual Filling EB-2016-0077			8.780%				
Return in Excess			$ 6,439,079				
Amount Payable to Ratepayers			$ 3,219,540				

Table 2: Capitalization / Cost of Capital 2017 Actual (12 Months)

		(%)	($)	(%)	($)
	Horizon				
	Actual Rate Base		**$ 517,026,533**		
		(%)	($)	(%)	($)
	Debt				
8	Long-term Debt	56.00%	$289,534,858	3.47%	$10,050,669
9	Short-term Debt	4.00%	$20,681,061	1.76%	$363,987
10	**Total Debt**	60.00%	$310,215,920	3.36%	$10,414,656
	Equity				
11	Common Equity	40.00%	$206,810,613	8.78%	$18,157,972
12	Preferred Shares	0.00%	$ -	0.00%	$ -
13	**Total Equity**	40.00%	$206,810,613	8.78%	$18,157,972
14	**Total**	100.00%	$517,026,533	5.53%	$28,572,628
	PowerStream				
	Actual Rate Base		**$1,037,724,507**		
		(%)	($)	(%)	($)
	Debt				
8	Long-term Debt	56.00%	$581,125,724	3.88%	$22,562,228
9	Short-term Debt	4.00%	$41,508,980	1.76%	$730,558
10	**Total Debt**	60.00%	$622,634,704	3.74%	$23,292,786
	Equity				
11	Common Equity	40.00%	$415,089,803	8.78%	$36,444,885
12	Preferred Shares	0.00%	$ -	0.00%	$ -
13	**Total Equity**	40.00%	$415,089,803	8.78%	$36,444,885
14	**Total**	100.00%	$1,037,724,507	5.76%	$59,737,671

Enersource

	Actual Rate Base		$ 791,753,646		
		(%)	($)	(%)	($)
	Debt				
8	Long-term Debt	56.00%	$443,382,042	5.09%	$22,574,353
9	Short-term Debt	4.00%	$31,670,146	2.08%	$658,739
10	**Total Debt**	60.00%	$475,052,188	4.89%	$23,233,092
	Equity				
11	Common Equity	40.00%	$316,701,459	8.93%	$28,281,440
12	Preferred Shares	0.00%	$ -	0.00%	$ -
13	**Total Equity**	40.00%	$316,701,459	8.93%	$28,281,440
14	**Total**	100.00%	$791,753,646	6.51%	$51,514,533

Brampton

	Actual Rate Base		$ 421,212,367		
		(%)	($)	(%)	($)
	Debt				
8	Long-term Debt	56.00%	$235,878,926	6.07%	$14,324,623
9	Short-term Debt	4.00%	$16,848,495	2.16%	$363,927
10	**Total Debt**	60.00%	$252,727,420	5.81%	$14,688,550
	Equity				
11	Common Equity	40.00%	$168,484,947	9.30%	$15,669,100
12	Preferred Shares	0.00%	$ -	0.00%	$ -
13	**Total Equity**	40.00%	$168,484,947	9.30%	$15,669,100
14	**Total**	100.00%	$421,212,367	7.21%	$30,357,651

ALECTRA

	Actual Rate Base		$2,767,717,054		
		(%)	($)	(%)	($)
	Debt				
8	Long-term Debt	56.00%	$1,549,921,550	4.48%	$69,511,873
9	Short-term Debt	4.00%	$110,708,682	1.91%	$2,117,211
10	**Total Debt**	60.00%	$1,660,630,232	4.31%	$71,629,085
	Equity				
11	Common Equity	40.00%	$1,107,086,821	8.90%	$98,553,397
12	Preferred Shares	0.00%	$ -	0.00%	$ -
13	**Total Equity**	40.00%	$1,107,086,821	8.90%	$98,553,397
14	**Total**	100.00%	$2,767,717,054	6.15%	$170,182,481

Table 3: Reconciliation of additions / (deductions) for tax

	AUC - LDC Provision IFRS	11 months: (February 1 - December 31, 2017) Updated 2016 Year HRZ Portion	ERZ	BRZ	PRZ	Non-Regulated, MIFRS & Merger	Allocation Basis
		23.48%	12.87%	25.67%	37.99%		
Net Income before tax	99,454,037						
Additions:							
Interest and penalities on taxes	75,819				75,819		
Amortization of tangible assets	116,773,494	20,355,959	30,375,678	14,386,972	48,344,970	3,309,915	From ESM depreciation calculation
Derecognition expense	5,635,328	1,564,672	1,737,468	678,504	1,654,684		HRZ specific
Non-deductible club dues and fees	140,792	33,052	18,117	36,134	53,489		OM&A %
Non-deductible meals	235,230	55,223	30,269	60,372	89,367		OM&A %
Non-deductible automobile expenses	15,452	3,627	1,988	3,966	5,870		OM&A %
Amortization	265,786	-				265,786	Not Attributable to HRZ
Non-deductible reserves - closing	80,364,899	30,754,715	7,831,661	5,514,859	26,276,409	9,987,254	HRZ specific
Capital Items Expensed	140,000	140,000					HRZ specific
Debt issuance cost	102,227	-	102,227				Not Attributable to HRZ
Interest on capital lease - building	957,924	-			957,924		Not Attributable to HRZ
12(1)(x) income on capital contributions	61,886,099	4,687,789	4,590,989	11,891,968	40,715,354	Updated by OEB st	HRZ specific
Total Additions	266,593,050	57,595,037	44,688,398	32,572,775	118,173,885	13,562,955	
Deductions:							
Accounting loss (gain) on sale of assets	(518,417)	(368,526)	(47,115)	(9,042)	(93,733)		HRZ specific
Reverse book income on joint venture	(121,856)	-			(121,856)		Not Attributable to HRZ
Removal Costs (Included in deprecation above; deductible for tax)	(94,469)	-		(94,469)			Not Attributable to HRZ
SR&ED and Apprenticeship ITCs	(460,402)	6,285	(466,687)				HRZ specific
CCA	(165,769,927)	(29,755,422)	(42,446,887)	(18,731,641)	(62,239,337)	(12,596,640)	HRZ specific
Capitalized Interest (AFUDC) (income recorded in P&L)	(2,668,430)	(306,323)	(480,683)	(342,153)	(1,539,272)		HRZ specific
Deductible OMERS contributions 20.1(q); capitalized for accounting	(223,631)	-		(223,631)			Not Attributable to HRZ
Less: Amortization of deferred revenue (IFRS)	(6,510,214)	-				(6,510,214)	Not Applicable
Stranded Meter Rate Rider applied against UCC	(2,438,301)	-				(2,438,301)	Not Attributable to HRZ
13(7.4) election	(61,886,099)	(4,687,789)	(4,590,989)	(11,891,968)	(40,715,354)		HRZ specific
Non-deductible - opening	(76,554,199)	(34,443,812)	(7,145,433)	(5,223,726)	(23,963,454)	(5,777,774)	HRZ specific
Cash payment on capital leases	(1,310,752)	-			(1,310,752)		Not Attributable to HRZ
20(1)(e)	(233,437)	-	(44,128)	(8,583)	(180,726)		Not Attributable to HRZ
Regulatory Balance Movement - Energy Accounts	(9,693,160)	-				(9,693,160)	Not Applicable
Accounting accrual for ITCs	(800,000)	(187,808)	(102,942)	(205,320)	(303,929)		OM&A %
Total Deductions	(329,283,295)	(69,743,394)	(55,324,864)	(36,730,532)	(130,468,413)	(37,016,090)	
Total	36,763,792	(12,148,357)	(10,636,467)	(4,157,757)	(12,294,528)		
Donation carryforward utilization	(1,185,131)						
	35,578,661						
Loss utilization	(35,578,661)						
	-						
	26.50%						
Current Tax Expense	- [A]						
One-time adjustments to current tax for prior years	(28,065) [A]						
Deferred Tax Expense	28,506,495 [A]						
Total IFRS Tax Expense	28,478,430 SUM OF [A]						

Appendix C:
2018 Horizon RZ ESM as proposed by OEB staff

Table 1: 2018 Allocations for Calculation of HRZ Earnings Sharing - UPDATED 2016 YEAR OM&A ALLOCATION (HRZ-Staff-2e); Updated by OEB staff for merger-related costs/savings

	Rate Zone		Rate Zones				
Category	**Actual/Allocation**	**Total Alectra**	**HRZ**	**BRZ**	**ERZ**	**PRZ**	**Explanation / Reference**
Alectra Direct Allocations							
Cost of Power	Actual	$ 2,614,964,903	$494,866,319	$443,298,237	$755,915,626	$920,884,722	
Distribution Revenues	Actual	$ 535,447,023	$114,566,462	$ 78,166,703	$ 134,161,789	$ 208,552,069	
Other Revenue	Actual	$ 25,505,673	$4,908,678	$ 3,254,133	$ 4,701,000	$ 12,641,863	
Alectra OM&A - % Allocations:							
Alectra OM&A - Formula Allocations:		100.00%	23.44%	13.71%	25.46%	37.39%	Revised 2016 YEAR OM&A Allocation
Distribution - Operations	Allocation	$ 54,422,774	$ 12,756,419	$ 7,460,834	$ 13,855,574	$ 20,349,947	
Distribution - Maintenance	Allocation	$ 32,782,854	$ 7,684,133	$ 4,494,211	$ 8,346,235	$ 12,258,275	
Billing & Collecting	Allocation	$ 37,049,228	$ 8,684,149	$ 5,079,090	$ 9,432,417	$ 13,853,572	
Community Relations	Allocation	$ 3,024,349	$ 708,892	$ 414,609	$ 769,974	$ 1,130,875	
Administrative & General Expenses	Allocation	$ 101,136,768	$ 23,705,940	$ 13,864,870	$ 25,748,558	$ 37,817,400	
Property Taxes & Donations	Allocation	$ 3,641,979	$ 853,661	$ 499,280	$ 927,217	$ 1,361,821	
Net Merger Costs	Allocation	$ 14,913,638	$ 3,495,680	$ 2,044,515	$ 3,796,885	$ 5,576,558	Updated by OEB Staff
Total OM&A Formula Allocations		***$ 246,971,590***	***$ 57,888,875***	***$ 33,857,410***	***$ 62,876,858***	***$ 92,348,447***	
Total Alectra OM&A		**$ 246,971,590**	**$ 57,888,875**	**$ 33,857,410**	**$ 62,876,858**	**$ 92,348,447**	
Rate Base							
Opening Net Fixed Assets - Direct Allocations	Actual	$ 2,496,792,328	$ 461,744,377	$ 360,856,268	$ 689,121,178	$ 985,070,505	
Capital Additions - Direct Allocations							
Distribution Plant	Actual	$ 304,197,741	$ 43,812,267	$ 36,276,670	$ 89,398,920	$ 134,709,884	
Capital Additions - Formula Allocations							
General Plant	Allocation	$ 57,924,202	$ 10,600,129	$ 8,804,479	$ 16,276,701	$ 22,242,894	
Merger Capital Net Savings	Allocation	$ 5,233,012	$ 957,641	$ 795,418	$ 1,470,476	$ 2,009,477	
Depreciation - Direct Allocations							
Distribution Plant	Actual	$ 92,007,358	$ 16,034,721	$ 14,646,811	$ 25,601,175	$ 35,724,651	
Depreciation - Formula Allocations							
General Plant	Allocation	$ 31,376,300	$ 6,935,435	$ 2,162,773	$ 7,411,051	$ 14,867,040	
Asset Retirements - Direct Allocations	Actual	$ 7,163,199	$ 2,395,404	$ 739,320	$ 1,656,091	$ 2,372,384	
Work in Progress		$ 17,477,371	$ 6,743,683	$ 380,760	$ 6,328,097	$ 4,024,831	
Capital Contributions	Actual	$ 63,392,161	$ 5,996,189	$ 9,416,961	$ 4,662,297	$ 43,316,714	
Closing Net Fixed Assets		$ 2,652,730,894	$ 479,008,982	$ 379,386,210	$ 750,608,564	$ 1,043,727,139	
Average NFA for Rev. Req. Purposes		$ 2,574,761,611	$ 470,376,680	$ 370,121,239	$ 719,864,871	$ 1,014,398,822	
Working Capital Allowance Rate			12.00%	13.00%	13.50%	7.50%	
Working Capital Allowance		$ 314,890,330	$ 66,330,623	$ 62,030,234	$ 110,536,985	$ 75,992,488	Updated Working Capital Calculation
Total Rate Base		$ 2,889,651,942	$ 536,707,303	$ 432,151,473	$ 830,401,856	$ 1,090,391,310	Updated Rate Base
Regulatory Net Income before interest & tax		$ 183,434,250	$ 36,220,705	$ 30,014,522	$ 41,317,613	$ 75,881,410	
Regulatory Deemed Debt		$ 75,290,889	$ 11,378,744	$ 15,070,020	$ 24,367,179	$ 24,474,946	Updated Deemed Debt
Regulatory Net Income before tax		$ 108,143,361	$ 24,841,961	$ 14,944,502	$ 16,950,434	$ 51,406,464	
ESM Adjustments per Settlement Agreement		$ (57,048)	$ (57,048)	$ -	$ -	$ -	
PILs		$ 13,246,712	$ 3,891,205	$ 2,679,630	$ 791,382	$ 5,884,494	Adjusted PILS & Updated 2016 YEAR OM&A
Regulatory Net Income		$ 94,839,601	$ 20,893,708	$ 12,264,872	$ 16,159,052	$ 45,521,970	Updated Regulatory Net Income
Regulatory Deemed Equity		$ 1,155,860,777	$ 214,682,921	$ 172,860,589	$ 332,160,742	$ 436,156,524	Updated Deemed Equity
Regulatory ROE		8.21%	9.732%	7.10%	4.86%	10.44%	
Per Annual Filling EB-2017-0024			9.000%				
Return in Excess / (N/A)			$ 1,572,245				
Amount Payable to Ratepayers / (N/A)			$ 786,122				

Table 2: Capitalization / Cost of Capital 2018 Actual (12 Months)

Horizon

Actual Rate Base **$ 536,707,303**

		(%)	($)	(%)	($)
	Debt				
8	Long-term Debt	56.00%	$300,556,090	3.62%	$10,887,120
9	Short-term Debt	4.00%	$21,468,292	2.29%	$491,624
10	**Total Debt**	60.00%	$322,024,382	3.36%	$11,378,744
	Equity				
11	Common Equity	40.00%	$214,682,921	9.00%	$19,321,463
12	Preferred Shares	0.00%	$ -	0.00%	$ -
13	**Total Equity**	40.00%	$214,682,921	9.00%	$19,321,463
14	**Total**	100.00%	$536,707,303	5.53%	$30,700,207

PowerStream

Actual Rate Base **$1,090,391,310**

		(%)	($)	(%)	($)
	Debt				
8	Long-term Debt	56.00%	$610,619,133	3.88%	$23,707,311
9	Short-term Debt	4.00%	$43,615,652	1.76%	$767,635
10	**Total Debt**	60.00%	$654,234,786	3.74%	$24,474,946
	Equity				
11	Common Equity	40.00%	$436,156,524	8.78%	$38,294,543
12	Preferred Shares	0.00%	$ -	0.00%	$ -
13	**Total Equity**	40.00%	$436,156,524	8.78%	$38,294,543
14	**Total**	100.00%	$1,090,391,310	5.76%	$62,769,489

Enersource

	Actual Rate Base		$ 830,401,856		
		(%)	($)	(%)	($)
	Debt				
8	Long-term Debt	56.00%	$465,025,039	5.09%	$23,676,285
9	Short-term Debt	4.00%	$33,216,074	2.08%	$690,894
10	**Total Debt**	60.00%	$498,241,114	4.89%	$24,367,179
	Equity				
11	Common Equity	40.00%	$332,160,742	8.93%	$29,661,954
12	Preferred Shares	0.00%	$ -	0.00%	$ -
13	**Total Equity**	40.00%	$332,160,742	8.93%	$29,661,954
14	**Total**	100.00%	$830,401,856	6.51%	$54,029,134

Brampton

	Actual Rate Base		$ 432,151,473		
		(%)	($)	(%)	($)
	Debt				
8	Long-term Debt	56.00%	$242,004,825	6.07%	$14,696,641
9	Short-term Debt	4.00%	$17,286,059	2.16%	$373,379
10	**Total Debt**	60.00%	$259,290,884	5.81%	$15,070,020
	Equity				
11	Common Equity	40.00%	$172,860,589	9.30%	$16,076,035
12	Preferred Shares	0.00%	$ -	0.00%	$ -
13	**Total Equity**	40.00%	$172,860,589	9.30%	$16,076,035
14	**Total**	100.00%	$432,151,473	7.21%	$31,146,055

ALECTRA

	Actual Rate Base		$2,889,651,942		
		(%)	($)	(%)	($)
	Debt				
8	Long-term Debt	56.00%	$1,618,205,087	4.51%	$72,967,356
9	Short-term Debt	4.00%	$115,586,078	2.01%	$2,323,533
10	**Total Debt**	60.00%	$1,733,791,165	4.34%	$75,290,889
	Equity				
11	Common Equity	40.00%	$1,155,860,777	8.94%	$103,353,995
12	Preferred Shares	0.00%	$ -	0.00%	$ -
13	**Total Equity**	40.00%	$1,155,860,777	8.94%	$103,353,995
14	**Total**	100.00%	$2,889,651,942	6.18%	$178,644,884

Table 3: Reconciliation of additions / (deductions) for tax

	Provision IFRS		HRZ	ERZ	BRZ	PRZ	Non-Regulated, MIFRS & Merger	Allocation Basis
			12 months: 2018					
			23.44%	13.71%	25.46%	37.39%		
Net Income before tax	148,270,099							
Additions:								
Interest and penalities on taxes	(3,162)		(3,162)					
Amortization of tangible assets	131,754,575		22,970,156	33,012,226	16,809,584	50,591,691	8,370,918	From ESM depreciation calculation
Derecognition expense	7,305,330		2,395,404	1,656,091	739,320	2,372,384	142,131	HRZ specific
Non-deductible club dues and fees	79,909		18,730	10,955	20,344	29,880	-	OM&A %
Non-deductible meals	284,114		66,595	38,949	72,333	106,237	-	OM&A %
Non-deductible automobile expenses	16,867		3,954	2,312	4,294	6,307	-	OM&A %
Amortization							-	Not Attributable to HRZ
Non-deductible reserves - closing	67,037,175		30,660,573	8,263,445	5,705,602	19,860,914	2,546,642	HRZ specific
Capital Items Expensed							-	HRZ specific
Debt issuance cost	85,565			85,565			-	Not Attributable to HRZ
Interest on capital lease - building	1,020,053					1,020,053	-	Not Attributable to HRZ
12(1)(x) income on capital contributions	68,266,584		5,996,189	9,048,363	9,416,961	43,805,071	-	HRZ specific
Non-regulated solar	918,287						918,287	
Capital costs expensed for accounting	268,362						268,362	
Total Additions	277,033,659		62,108,438	52,117,906	32,768,438	117,792,537	12,246,340	
Deductions:								
Accounting loss (gain) on sale of assets	(680,975)		(396,825)	(150,875)	14,588	(147,864)	-	HRZ specific
SR&ED and Apprenticeship ITCs							-	HRZ specific
CCA	(200,441,645)		(33,064,772)	(47,011,284)	(20,887,268)	(69,177,711)	(30,300,610)	HRZ specific
Capitalized Interest (AFUDC) (income recorded in P&L)	(3,776,038)		(316,885)	(406,001)	(458,274)	(2,594,878)	-	HRZ specific
Deductible OMERS contributions 20.1(q); capitalized for accounting	(4,861,883)		(968,231)	(1,174,143)	(532,095)	(2,187,414)	-	HRZ specific
Less: Amortization of deferred revenue (IFRS)	(8,824,272)						(8,824,272)	Not Applicable
13(7.4) election	(68,266,584)		(5,996,189)	(9,048,363)	(9,416,961)	(43,805,071)	-	HRZ specific
Capital gain on disposition of fixed assets	25,299		20,963			4,336	-	HRZ specific
Non-deductible - opening	(80,364,899)		(30,754,715)	(7,831,661)	(5,514,859)	(26,276,409)	(9,987,254)	HRZ specific
Cash payment on capital leases	(1,429,911)					(1,429,911)	-	Not Attributable to HRZ
20(1)(e)	(250,480)			(31,014)	(10,205)	(209,261)	-	Not Attributable to HRZ
Regulatory Balance Movement - Energy Accounts	8,034,409						8,034,409	Not Applicable
Accounting accrual for ITCs	(428,672)		(100,479)	(58,767)	(109,136)	(160,290)	-	OM&A %
Sale of Collus	(3,652,434)					-	(3,652,434)	
Total Deductions	(364,918,086)		(71,577,133)	(65,712,107)	(36,914,211)	(145,984,474)	(44,730,161)	
Total	60,385,672							
Donation carryforward utilization	-							
	60,385,672							
Loss utilization	(17,766,999)							
	42,618,673							
ITC Carryforward Utilization	(1,529,632)							
	41,089,041							
Taxable income multiplied by 38%	16,195,096	38%		Taxable income	Aggregate Inv Inc			
Aggregate investment income	270,353	10.67%		42,618,673	(2,534,557)	40,084,116		
Less: Federal tax abatement	(4,261,867)	10.00%						
Less: General tax reduction	(5,210,935.12)	13%						
Less: Federal invstemetn tax credit	(1,529,632)							
Federal Tax Payable	5,463,014							
Ontario Taxable income	42,618,673							
	11.50%							
	4,901,147							
Ontario ITC Utilization	(335,915)							
Ontario Tax Payable	4,565,232							
Total Current Tax Payable / Expense	10,028,246	[A]						
One-time adjustments to current tax for prior years	(1,938,102)	[A]						
Deferred Tax Expense	30,239,376	[A]						
Total IFRS Tax Expense	38,329,520	SUM OF [A]						