

BY EMAIL

November 21, 2019

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

Dear Ms. Long:

**Re: Algoma Power Inc. (Algoma Power)
Application for 2020 electricity distribution rates
Ontario Energy Board (OEB) File Number: EB-2019-0019**

In accordance with the OEB's Decision and Order of October 17, 2019, please find attached OEB staff's submission on Algoma Power's draft Rate Order in the above proceeding. Algoma Power and all intervenors have been copied on this filing.

Yours truly,

Original Signed By

Birgit Armstrong
Project Advisor – Incentive Rate Setting & Regulatory Accounting

Encl.

ONTARIO ENERGY BOARD

OEB STAFF SUBMISSION ON DRAFT RATE ORDER

2020 ELECTRICITY DISTRIBUTION RATES

Algoma Power Inc.

EB-2019-0019

November 21, 2019

INTRODUCTION

Algoma Power Inc. (Algoma Power) filed a cost of service application with the Ontario Energy Board (OEB) on May 31, 2019 under section 78 of the *Ontario Energy Board Act, 1998* seeking approval for changes to the rates that Algoma Power charges for electricity distribution, to be effective January 1, 2020.

A settlement conference was held on August 28 – 29, 2019 and a settlement proposal was filed on September 24, 2019. The OEB accepted the settlement proposal in its Decision and Order, dated October 17, 2019,¹ subject to adjustments to reflect changes to cost of power, cost of capital and inflation factors. The OEB ordered Algoma Power to file a draft rate order (DRO), which it filed on November 7, 2019.

As part of the approved settlement proposal, Algoma Power agreed to update its rate base calculation by adjusting its working capital allowance based on an updated cost of power calculation, and to update its cost of capital parameters. These updates required that the revenue requirement, cost allocation, revenue-to-cost ratios, and fixed-to-variable splits be updated. Algoma Power also agreed to update the 2020 pole attachment charge and the 2020 retail service charges for the 2020 inflation factor once available.

Cost of Power

Algoma Power's cost of power decreased by \$1,597,605 – from \$25,013,674 to \$23,416,069. This causes a decrease of \$119,820 in the working capital allowance and consequently in rate base.

Algoma Power reflected the commodity prices outlined in the *Regulated Price Plan Report: November 1, 2019 – October 31, 2019*² in its revised cost of power calculation. Algoma Power also incorporated the replacement of the Provincial Rebate of 8% with the Ontario Electricity Rebate of 31.8%, and the elimination of the Global Adjustment Modifier, in accordance with the OEB's guidance issued on October 25, 2019.³

OEB staff submits that the adjustments accurately reflect the updated Regulated Price Plan prices as well as the Ontario Electricity Rebate and are consistent with the OEB's Decision and Order.

¹ EB-2019-0019 Decision and Order, October 17, 2019

² Issued October 22, 2019

³Letter of the OEB: Implementing the new changes to the rebate under the *Ontario Rebate for Electricity Consumers Act, 2016*, issued October 25, 2019

Cost of Capital

Algoma Power also agreed to update the cost of capital parameters once the 2020 parameters were issued by the OEB. On October 31, 2019, the OEB issued the 2020 cost of capital parameters,⁴ and Algoma Power's DRO is based on updated return on equity, long-term debt rate, and short-term debt rate. The changes to the cost of capital and rate base reduced the base revenue requirement by \$433,051 from \$25,454,574 to \$25,021,522. OEB staff submits that the updated base revenue requirement, reflecting the changes to the cost of capital parameters, is consistent with the Decision and Order in this proceeding.

Cost Allocation and Rate Design

The changes in Algoma Power's 2020 revenue requirement result in minor variations in the revenue to cost ratios as calculated by the cost allocation model. Consequently, the revenue-to-cost ratios were updated to ensure that Algoma Power's ratios, as shown in table 1 below, remain within the OEB's policy ranges.

Table 1

| Rate Class | Settlement | | | DRO | | |
|-----------------|----------------------|--------------------|----------|----------------------|--------------------|----------|
| | Calculated R/C Ratio | Proposed R/C Ratio | Variance | Calculated R/C Ratio | Proposed R/C Ratio | Variance |
| Residential R1 | 1.05 | 1.05 | 0.00 | 1.05 | 1.05 | 0.00 |
| Residential R2 | 0.93 | 0.93 | 0.00 | 0.94 | 0.94 | 0.00 |
| Seasonal | 0.85 | 0.86 | 0.01 | 0.85 | 0.85 | 0.00 |
| Street Lighting | 1.32 | 1.20 | -0.12 | 1.31 | 1.20 | -0.11 |

The fixed-to-variable splits for all rate classes were kept the same. Distribution rates for the Seasonal and Street Lighting class have decreased as a result of the lower revenue requirement.

Distribution rates for Algoma Power's Residential R1 and Residential R2 customer classes are subject to the Rural and Remote Electricity Rate Protection (RRRP) fund, under O. Reg 442/01 and are adjusted annually based on an RRRP Adjustment Factor. Therefore, distribution rates for these customer classes are not affected by the change in revenue requirement. The change in revenue requirement for those classes is reflected in the required 2020 RRRP funding, which was updated from \$14,342,179 to \$13,961,476, a decrease of \$380,703.

⁴ Letter of the OEB: 2020 Cost of Capital Parameters, issued October 31, 2019

OEB staff has reviewed the cost allocation model, revenue-to-cost ratios, fixed-to-variable splits and submits that they are consistent with the Decision and Order and the methodologies used in the OEB-approved settlement proposal. OEB staff notes that as a result of this DRO, Algoma Power's gross revenue deficiency of \$282,638 (as per the approved settlement proposal) becomes a sufficiency of \$150,413.

OEB staff further submits that the updated base revenue requirement resulting from the changes to the cost of capital and cost of power is consistent with the Decision and Order in this proceeding.

Retail Service Charges and Pole Attachment Charge

OEB staff notes that Algoma Power has updated the Retail Service Charges and Pole Attachment Charge in the Tariff of Rates and Charges by increasing the 2019 charge by the OEB's 2020 inflation rate. OEB staff submits that Algoma Power has updated the charges appropriately, based on the OEB's reports and the 2020 inflation price index, issued October 31, 2019.⁵

All of which is respectfully submitted

⁵ <https://www.oeb.ca/industry/applications-oeb/electricity-distribution-rates/2020-electricity-distribution-rate#updates>