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

BY EMAIL

December 6, 2019

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: Brantford Power Inc. (Brantford Power)
Application for 2020 Electricity Distribution Rates
OEB Staff Submission
Ontario Energy Board File Number: EB-2019-0022

In accordance with Procedural Order No. 2, please find attached OEB staff's submission in the above proceeding.

Brantford Power is reminded that its reply submission is due on December 20, 2019.

Yours truly,

Original Signed By

Jerry Wang
Analyst
Electricity Distribution – Major Rate Applications & Consolidations

Encl.

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2020 ELECTRICITY DISTRIBUTION RATES

Brantford Power Inc.

EB-2019-0022

December 6, 2019

Introduction

Brantford Power Inc. (Brantford Power) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on August 12, 2019 under section 78 of the *Ontario Energy Board Act*, *1998* (OEB Act) seeking approval for changes to its electricity distribution rates to be effective January 1, 2020.

Energy+ Inc. (Energy+) filed an IRM application with the OEB on August 26, 2019 under section 78 of the OEB Act seeking approval for changes to its electricity distribution rates to be effective January 1, 2020.

In Procedural Order No. 1 issued October 4, 2019, the OEB decided that the two applications above would be heard together as a combined hearing due to common elements between the two applications and for regulatory efficiency. The purpose of this document is to provide OEB staff's submissions specific to its review of Brantford Power's application.

Consistent with the Chapter 3 Filing Requirements, Brantford Power applied the Price Cap IR adjustment factor to adjust the monthly service charge and volumetric distribution rate during the incentive rate-setting years. OEB staff has no concerns with Brantford Power's proposed price cap adjustment.

Brantford Power requested an update to its Retail Transmission Service Rates (RTSRs) to recover the wholesale transmission rates charged by the IESO and its host distributor, Energy+ Inc. OEB staff has no concerns with Brantford Power's request.

As a result of the new inflation factor issued by the OEB for 2020[1], OEB staff updated Brantford Power's models (the rate generator model and the ICM model) to reflect the 2% inflation factor. OEB staff submits that Brantford Power should use the updated models included as part of this submission if any further updates are required.

OEB staff makes detailed submissions on the following:

- Group 1 Deferral and Variance Accounts (DVA)
- New Variance Account for Lost Revenues
- Incremental Capital Module (ICM)
- Foregone Revenue

[1] Issued on October 31, 2019

Group 1 Deferral and Variance Accounts

Brantford Power is not requesting disposition of its 2018 Group 1 DVAs as it does not meet the disposition threshold. Brantford Power's 2016 and 2017 Group 1 accounts were approved for interim disposition in its 2019 IRM rate application.[2]

In the current application, Brantford Power indicated it has reviewed its 2016 to 2018 balances in the context of the new accounting guidance[3] and has identified adjustments to the 2017 and 2018 balances.[4] OEB staff agrees that Brantford Power should not dispose its 2018 Group 1 accounts as the disposition threshold is not met.

New Variance Account for Lost Revenues

Brantford Power requested a variance account for lost revenues due to the elimination of the Collection of Account charge, effective July 1, 2019. In the OEB's March 14, 2019 notice to amend a code and a rule,[5] the OEB eliminated the Collection of Account charge effective July 1, 2019. In the same notice, the OEB indicated that a distributor could apply for an account to track the impact of eliminating non-payment related charges with evidence demonstrating that the account would meet the eligibility criteria as set out in the OEB's *Chapter 2 Filing Requirements for Electricity Distribution Rate Applications.*[6]

In its application, Brantford Power discussed the causation and prudence criteria of the account.[7] Regarding materiality, Brantford Power's materiality is $92,070[8] and it indicated lost revenues recorded in the account would be material. Brantford Power proposed that the account record lost revenues equal to the difference between i) its deemed revenue from its approved Collection of Account charge, of $440,889 from its 2017 cost of service rate application[9], and ii) actual revenues (applicable only in 2019 before the elimination of the charge). Therefore, the account would be expected to

[2] EB-2018-0020
[3] Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589, February 21, 2019
[4] Manager's Summary, p. 11
[5] Notice of Amendments to Codes and a Rule, EB-2017-0183, March 14, 2019
[6] Chapter 2 Filing Requirements for Electricity Distribution Rate Applications – 2018 Edition for 2019 Rate Applications, p.67
[7] Manager's Summary, pp. 27-28
[8] Manager's Summary, p. 31 - based on 2017 approved service revenue requirement
[9] EB-2016-0058

record lost revenues of $376,783[10] in 2019 and $440,889[11] annually from 2020 onwards until Brantford Power's next rebasing application.

OEB staff supports the establishment of a new account, however, OEB staff submits that the account should record lost revenues based on the number of notices issued, capped at the approved Collection of Account charge of $440,889. In an interrogatory response,[12] Brantford Power indicated that it considered this approach, but the number of notices issued since its last cost of service rate application was affected by the Winter Disconnection bans.[13] OEB staff submits that even though Brantford Power's criteria in issuing notices may have changed from its last cost of service rate application, this approach would better meet the prudence criteria in establishing an account. The approved Collection of Account charge amount was a forecasted number. In reality, Brantford Power may or may not have ended up receiving that amount of revenues had the charge not been eliminated. OEB staff notes that from 2014 to 2016 (the period where there were no Winter Disconnection bans), Brantford Power has received less revenues than $440,889 (as seen in Table 1 below). In the case where Brantford Power received less revenues than approved, Brantford Power would not have an opportunity to request additional recovery up to the approved amount. Therefore, OEB staff submits that the account should be based on the number of notices issued, capped at the approved amount.

In addition, at $30 per notice, Brantford Power would have to issue approximately 15,000 notices annually to collect $440,889. In an interrogatory response, Brantford Power stated it has not performed an in-depth analysis of the trend in notices issued, but it believes the number of notices issued may be due to the income demographics of its customers. Approximately 7.5% of its residential customers on OESP and LEAP funding, and these funds are typically exhausted by January or February annually.[14] While OEB staff accepts that $440,889 is the amount that underpins current base rates, it does appear to be a high number. Establishing the account based on actual number of notices issued will provide Brantford Power an opportunity to demonstrate prudence when it requests disposition of the account.

[10] IRR B-Staff-29 a)
[11] Deemed revenue from the approved collection of account charge of $440,889 only as there are no revenues from this charge in 2020 onwards
[12] IRR B-Staff-29 c)
[13] The Winter Disconnection ban was a specified period in which the Collection of Account charge was waived.
[14] IRR B-Staff-29 di)

OEB staff notes that the recommended approach above would also likely be material. Brantford Power's actual revenues from 2014 to 2018 were:[15]

Table 1 – Brantford Power's Actual Revenues 2014-2018

2014	2015	2016	2017	2018
$333,900	$440,550	$313,393	$169,765	$160,466

Based on actual revenues from 2014 to 2016 (the period before there were Winter Disconnection bans that required the waiving of the Collection of Account charge), it appears that revenues based on actual number of notices issued in the year would be above Brantford Power's materiality threshold of $92,070.

OEB staff notes that Brantford Power has requested the account effective July 1, 2019. Given that the OEB indicated distributors could apply for an account for the lost revenues, and the requested effective date coincides with the date the charge was eliminated, OEB staff has no concerns with the requested effective date.

Incremental Capital Module

Introduction

Brantford Power requested to recover, through the ICM mechanism, $13.63 million in incremental capital associated with its new administration and operations facility at 150 Savannah Oaks. The resulting annual incremental revenue requirement is $1.26 million. Based on OEB staff's analysis in the sections below, OEB staff submits that Brantford Power's ICM request satisfies the ICM criteria of materiality, need and prudence and should be approved with revisions.

Brantford Power currently operates out of three separate facilities leased from the City of Brantford. In its application, Brantford Power stated that its current arrangement of maintaining three separate facilities causes challenges, inefficiencies and space limitations.[16] Furthermore, Brantford Power noted the availability of the leased spaces was uncertain because the City of Brantford had been re-evaluating its plans for its facilities and reconsidering whether to renew existing leases.[17] The City of Brantford confirmed in a letter sent to Brantford Power on January 11, 2018 that the facilities currently leased by Brantford Power would not be available past 2021 as the existing

[15] IRR B-Staff-29 a)
[16] IRM Attachment A, pp. 8, 14-18
[17] IRM Attachment A, pp. 13-14

leases would not be renewed.[18]

To address the concerns above, Brantford Power began a search for a new facility in 2014. For clarity, OEB staff created the following timeline summarizing Brantford Power's progress on the new facility project to date:

Early 2014	Brantford Power initiates search for a new facility by assessing its needs and creating a list of requirements.
November 2014	Brantford Power receives a Space Needs Assessment Report from AECOM Canada Ltd. (AECOM) detailing its space requirements for any new facility.
February 2015	Brantford Power retains CBRE Group (CBRE) to explore potential options for a new facility including both vacant lands for new builds as well as existing buildings. Brantford Power settles on two potentially viable properties to explore: 150 Savannah Oaks and 79 Garden Avenue.
May 2016	Brantford Power files its 2017 cost of service application in which it requests to include 150 Savannah Oaks into its rate base.
September 2016	Brantford Power withdraws its request to include 150 Savannah Oaks into its rate base during the interrogatory process of its 2017 cost of service application after it became apparent that it would not be able to occupy the new facility before December 31, 2016, as originally planned.
November 2016	Brantford Power starts pursuing an alternative facility option, a new build at 79 Garden Avenue, after not being able to make progress in purchasing 150 Savannah Oaks.
January 2017	Brantford Power purchases the 79 Garden Avenue property.
Mid 2017	Brantford Power engages Energy+ for a possible shared facility arrangement.
June 2017	Brantford Power engages a project manager for its facility project.
September 2017	Brantford Power selects a design consultant to detail requirements for the new facility and develop architectural

[18] IRM Attachment A, p. 13; ICM Appendix B

	drawings.
November 2017	Brantford Power and Energy+ sign a Memorandum of Understanding regarding the new shared facility.
Late 2018	Brantford Power issues a Request for Proposal (RFP) for a builder to construct the new facility at 79 Garden Avenue. The cap on the bid is $27 million for the construction of the facility only. Brantford Power did not receive any bids on its RFP, but received feedback that its cap was too low. Brantford Power reverted to pursuing the 150 Savannah Oaks property after the owner showed renewed interest in selling the property.
February 2019	Brantford Power purchases the 150 Savannah Oaks property.
May 2019	Energy+ confirms its ongoing support of the joint facility project by signing an amended Memorandum of Understanding agreeing to the new facility at 150 Savannah Oaks.

The new facility at 150 Savannah Oaks is expected to have enough space to accommodate Brantford Power and additional tenants. To ensure efficient usage of space, Brantford Power indicated in its application that it will lease portions of the new facility to its affiliates, Energy+, and a potential unidentified “third tenant.” Brantford Power, its affiliates and Energy+ will occupy the second floor of the new facility, while the third tenant will occupy the first floor. The existing facility also has a Technical Demonstration Centre (TDC), which will be converted into space for the warehouse, operations space and mechanic’s bay. Brantford Power indicated that the TDC is not sufficient to serve as a vehicle garage for Brantford Power and Energy+, and it is therefore constructing a new garage as part of this ICM project.

Brantford Power noted that it will be the owner of the new facility, but also that it has only included costs attributable to its use of the new facility in this ICM application. Brantford Power did this by apportioning costs associated with renovation/construction and the purchase price of the building to each occupant of the building. Costs are allocated proportional to the square footage each tenant is expected to occupy. Further, Brantford Power indicated it will enter into a Shared Services Agreement (SSA) with each tenant for any shared spaces or services, and that it has not included any costs or revenues associated with SSAs in its ICM request. Brantford Power expects to finish moving into the new facility by the end of 2020.

Materiality

The *Report of the OEB: New Policy Options for Funding of Capital Investments: The Advanced Capital Module* (ACM Report) states that distributors must meet an OEB-defined materiality threshold and a project-specific materiality threshold.[19]

The ACM Report explains materiality as follows:

> A capital budget will be deemed to be material, and as such reflect eligible projects, if it exceeds the OEB-defined materiality threshold. Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount (as defined in this ACM Report) and must clearly have a significant influence on the operation of the distributor; otherwise they should be dealt with at rebasing.
>
> Minor expenditures in comparison to the overall capital budget should be considered ineligible for ACM or ICM treatment. A certain degree of project expenditure over and above the OEB-defined threshold calculation is expected to be absorbed within the total capital budget.[20]

The OEB-defined materiality threshold is defined in Chapter 3 of the Filing Requirements for Distribution Rate Applications. It represents a distributor's financial capacities underpinned by existing rates, including growth and a 10% dead band. The equation used to calculate the materiality threshold is as follows:

$$Threshold\,Value\,(\%) = \left(1 + \left[\left(\frac{RB}{d}\right) \times \left(g + PCI \times (1+g)\right)\right]\right) \times \left((1+g) \times (1+PCI)\right)^{n-1} + X\%$$

Where: RB = rate base included in base rates ($)
d = depreciation expense included in base rates ($)
g = distribution revenue change from load growth (%)
PCI = price cap index
n = number of years since the cost of service rebasing
X = dead band which is currently set at 10%

In the application as originally filed, Brantford Power used a price cap index of 1.2% as

[19] EB-2014-0219, Report of the OEB: New Policy Options for Funding of Capital Investments: The Advanced Capital Module, September 18, 2014, pp. 16-17
[20] ACM Report, p. 17

a placeholder, since the price cap index for 2020 was not yet available. This was based on an inflation factor of 1.50% less a productivity factor of 0.00% and a stretch factor of 0.30%. Using the formula above, Brantford Power stated it had calculated its materiality threshold to be $5,927,906.[21] OEB staff submits that the inflation factor for 2020 has since been updated to be 2% with the stretch factor remaining at 0.30%.[22] OEB staff calculates Brantford Power's price cap index now to be 1.70%. OEB staff has recalculated Brantford Power's materiality threshold and submits that it be revised to $6,347,953. OEB staff expects that Brantford Power would be able to finance capital expenditures of this amount through its existing rates.

As revised through this proceeding, Brantford Power's forecasted total capital for 2020 is $19,553,670.[23] If the cost of the proposed project is removed, the remaining portion of the 2020 capital budget is $4,525,482, which exceeds the company's forecast set out in its Distribution System Plan supporting its 2017 cost of service application of $3,481,441.[24] OEB staff submits that Brantford Power had not underspent relative to its forecasted spending at the time of its 2017 cost of service application when its base rates were last set.

OEB staff submits that based on the revised materiality threshold above, the maximum eligible incremental capital amount available to Brantford Power through this ICM is $13,205,717. This is based on the total capital spending for 2020 of $19,553,670 less the revised materiality threshold of $6,347,953. OEB staff notes that the total ICM project costs of $15,028,188 exceeds the maximum amount of eligible incremental capital. OEB staff therefore submits that Brantford Power's ICM recovery should be set at the maximum eligible incremental amount of $13,205,717. Brantford Power's requested incremental revenue requirement is $1,261,112. With OEB staff's revisions, the resulting incremental revenue requirement is $1,222,235.

With regard to the project-specific materiality threshold, projects that are minor expenditures in comparison to the overall capital budget of the distributor are not eligible for ICM treatment. OEB staff submits that the incremental capital Brantford Power requested for the new facility makes up the bulk of its 2020 capital budget.[25] OEB staff further notes that the incremental revenue requirement of this project is approximately

[21] IRM Attachment A, p. 10
[22] Inflation factor for 2020 updated on October 31, 2019
[23] IRR B-Staff-20 a), SEC-BPI-10; Interrogatory Responses – Class C Updates, November 26, 2019
[24] EB-2016-0058
[25] ACM/ICM Model, tab 9b; Brantford Power's total cost for the new facility is $15,028,188 out of its total 2020 capital expenditures of $19,553,670.

7.7% of Brantford Power's current revenue requirement.[26] For the reasons above, OEB staff submits this project represents a significant capital expenditure for Brantford Power and therefore satisfies the project-specific materiality threshold.

Need

The OEB describes need in the ACM Report as follows:

> The distributor must pass the Means Test (as defined in the ACM Report). Amounts must be based on discrete projects, and should be directly related to the claimed driver. The amounts must be clearly outside of the base upon which the rates were derived.[27]

Under the Means Test, if a distributor's regulated return on equity (ROE) exceeds 300 basis points above the deemed ROE embedded in the distributor's rates, then the funding for any incremental capital project will not be allowed. Brantford Power provides the following table for its regulated ROE for the past three years:[28]

Table 2 – Brantford Power's ROE for 2016-2018

	2016	2017	2018
Approved ROE	8.98%	8.78%	8.78%
Actual ROE	6.53%	11.38%	7.90%
Variance	-2.45%	2.60%	-0.88%

Brantford Power has not exceeded its deemed rate of return by 300 basis points. OEB staff submits that Brantford Power passes the Means Test.

In its 2017 cost of service application, Brantford Power requested to include the costs of its new facility in its rate base.[29] However, through the course of the interrogatory process, Brantford Power withdrew its request to include the new facility in its rate base and no amounts for the new facility was included in Brantford Power's rate base at that time.[30] OEB staff submits that the acquisition and renovation of the new facility

[26] The incremental revenue requirement of the new facility is $1,222,235 which is approximately 7.1% of Brantford Power's distribution revenue requirement of $17,098,955 as set in its last cost of service application
[27] ACM Report, p. 17
[28] IRM Attachment A, p. 6
[29] EB-2016-0058
[30] EB-2016-0058, IRR 1-Staff-1 b), 2-Staff-7; EB-2016-0058, Settlement Proposal, p. 15

represents a discrete project for Brantford Power and is outside the base upon which rates were derived.

OEB staff notes that Brantford Power's 2017 approved settlement proposal set conditions on Brantford Power's current ICM request. The settlement proposal set out that, in the event Brantford Power underspends on the total in-service additions in either 2016 or 2017, the amount of capital underspent must be added to the ICM materiality threshold at the time Brantford Power makes an ICM request for funding of its new facility.[31] The underspend would contribute on a 1-to-1 basis for 2016, and on a 50% basis for 2017 to reflect the impact of the half-year rule for in-service additions in the test year.[32] In this application, Brantford Power provided its actual in-service additions for 2016 and 2017 and showed that it had not underspent in either 2016 or 2017.[33] OEB staff submits that Brantford Power has correctly followed the terms of the 2017 approved settlement proposal and that no adjustment to the ICM materiality threshold is required.

Prudence

The OEB describes the prudence threshold in the ACM Report as follows:

> The amounts to be incurred must be prudent. This means that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.[34]

The City of Brantford indicated it would not be renewing leases on the three facilities that Brantford Power currently occupies.[35] This made it necessary for Brantford Power to find a new facility to serve as its administration and operations centre. In looking for a new facility, Brantford Power chose to consolidate its staff and operations into one single facility, rather than across multiple locations as is its current arrangement. By having a consolidated facility, Brantford Power indicated that it will have eliminated inefficiencies and challenges associated with maintaining staff and operations across multiple locations. Some benefits listed by Brantford Power include:[36]

- Staff would be located in one location improving communication and eliminating

[31] EB-2016-0058, Settlement Proposal, p. 15
[32] *Ibid*
[33] IRM Attachment A, p. 7, ICM Table 4
[34] ACM Report, p. 17
[35] ICM Appendix B
[36] IRM Attachment A, pp. 14-16

the need for staff to travel between different locations.

- Brantford Power would have sufficient access to meeting rooms. Currently, Brantford Power has exclusive access to only one meeting room, with other rooms available on a first-come, first-served basis.
- Brantford Power would have space to accommodate all-staff meetings and would no longer need to hold these meetings offsite.
- There are issues with the heating and cooling systems in the facilities Brantford Power currently occupies, which incur additional costs to remedy. The new facility is not expected to have these issues.
- Brantford Power would no longer need to rent additional parking spots for its employees due to constraints at its current locations.
- Brantford Power currently experiences constraints with its leased parking garages due to having to share with City of Brantford Transit and GO Transit. The new facility will be right-sized for Brantford Power's needs.

OEB staff notes that the benefits listed above result in a mix of direct savings (e.g. not having to pay rent for parking spaces), and indirect savings (e.g. increased productivity from staff being in one location). While the indirect savings make it difficult to calculate the exact amount of cost savings, OEB staff agrees with Brantford Power that moving to a single consolidated facility will likely improve organizational efficiency and reduce costs.[37] Therefore, OEB staff supports Brantford Power's choice to consolidate its staff and operations into a single location.

During the search for a new facility, Brantford Power contemplated the options of leasing versus owning the new property. Brantford Power decided against leasing because it viewed leases as less certain since pricing and availability of the leased property is subject to the terms of the lease and could change.[38] Brantford Power also believed that owning the new facility would allow it to take advantage of partnerships, efficiencies, and in-housed services.[39] For these reasons, Brantford Power did not pursue any opportunities to lease and focussed specifically on properties to purchase.

OEB staff submits that Brantford Power should have further explored the option of leasing by conducting more concrete cost comparisons between leasing and owning. This would have provided greater certainty that Brantford Power's choice to own the

[37] Brantford Power has provided a rough estimate of potential annual cost savings as a result of moving to a single location. The savings are summarized in IRM Attachment A, p. 17, ICM Table 9. Details of Brantford Power's calculations can be found in the interrogatory response to SEC-BPI-3.
[38] IRM Attachment A, pp. 20-21
[39] *Ibid*

new facility represents the most cost-effective solution. However, OEB staff accepts that owning the new facility could reasonably provide Brantford Power with opportunities for additional efficiencies, which are discussed further below. Additionally, OEB staff notes that the majority of customers consulted in Brantford Power's 2016 customer engagement preferred Brantford Power owning the new facility to leasing.[40]

In selecting the site of the new facility, Brantford Power explored a number of possible options. It initially considered a pool of 17 properties and identified two viable options, one of which being 150 Savannah Oaks.[41] As Brantford Power made further progress in its search for a new facility, it continued to investigate other properties including 20 existing buildings and 19 greenfield and brownfield properties.[42] Ultimately, Brantford Power settled on three possible candidates: 435 Elgin Street, 79 Garden Avenue and 150 Savannah Oaks.[43] Brantford Power noted it did not pursue the 435 Elgin Street property as it did not provide sufficient office or yard space.[44] While having made some progress, Brantford Power decided not to proceed with 79 Garden Avenue when it became apparent that its budgeted costs would need to increase significantly, and instead opted for the less expensive option at 150 Savannah Oaks.[45] While OEB staff believes Brantford Power should have further considered the option of leasing its new facility, in the context of choosing a new facility to purchase, OEB staff submits that Brantford Power exercised due diligence in exploring all the options available.

OEB staff is also of the view that Brantford Power has demonstrated reasonable efforts to reduce the cost of the new facility. OEB staff notes that Brantford Power took steps to review the design and made efforts to reduce scope and costs where possible (e.g. removing items related to LEED certifications).[46] Furthermore, Brantford Power intends to lease out any extra space in its new facility to ensure full and efficient use of available space. The total cost of the new facility, including the purchase price and construction costs, has been allocated proportionally to each tenant based on the square footage each tenant will occupy. This ensures that Brantford Power's customers will only be paying for the portion of the new facility that will be used by Brantford Power.

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[40] IRM Attachment A, p. 29; see also ICM Appendix E, Customer Consultation Report – 2017 Rate Application Review, p.88-89
[41] IRM Attachment A, p. 20
[42] IRM Attachment A, p. 21
[43] IRR B-Staff-12
[44] *Ibid*
[45] Brantford Power issued an RFP with a cap of $27 million for the construction at 79 Garden Avenue. It did not receive any bids on the RFP, getting feedback from firms that the RFP cap was too low, and therefore would need to be increased if Brantford Power wanted to realistically receive bids on the RFP; see OEB staff's timeline above; see also IRM Attachment A, pp. 21-23
[46] IRR B-Staff-13

By having Energy+ as a tenant, Brantford Power also highlighted its expectation for additional savings and synergies achieved through sharing a facility with another electricity distributor. The synergies identified by Brantford Power include:[47]

- Sharing the costs of a shared yard, warehouse and office space.
- Sharing services including an on-site fueling station, mechanic's bay, and shared inventory and purchasing.
- Opportunities to assist one another during emergencies

Brantford Power did not quantify the amount of cost savings to be achieved through the synergies above, but did note that it expects to share three full-time equivalent employees (FTEs) with Energy+.[48] Brantford Power estimated the cost of one FTE to be $100,000 annually. The three FTEs, when shared 50-50 with Energy+, represent an estimated $150,000 in savings to both Brantford Power and Energy+.[49] The costs associated with these FTEs, and any savings, will be reflected in rates when Brantford Power next rebases. Despite the lack of concrete estimates, OEB staff submits it is reasonable to expect cost savings from the arrangement described above due to economies of scale. Brantford Power and Energy+ are both electricity distributors of similar size, and so OEB staff is of the view that it reasonable to expect synergies through a shared facility. OEB staff expects any cost savings to be reflected in capital and Operating Maintenance and Administration (OM&A) costs in Brantford Power's next rebasing application, which would translate to savings for customers. OEB staff suggests that Brantford Power should provide a comprehensive analysis at the time of its next rebasing application on the synergies and savings achieved through its shared facility arrangement with Energy+.

OEB staff notes that the amount of space allocated to Brantford Power at 150 Savannah Oaks is well in excess of its minimum space requirements. Brantford Power's space needs analysis, performed by AECOM, specifies a minimum space requirement of approximately 37,000 square feet.[50] The space allocated to Brantford Power at the 150 Savannah Oaks facility is 71,539 square feet – almost double the minimum requirement.[51]

[47] IRR B-Staff-14
[48] *Ibid*
[49] *Ibid*
[50] IRM Attachment A, p. 20; Interrogatory Attachment E
[51] Brantford IRR Update, November 26, 2019, p. 2; The space allocated to Brantford Power in the original application was 70,747 square feet. This number was subsequently updated to 71,539 square feet as part of a Class C estimate update provided by Brantford Power.

Brantford Power explained that, unlike a custom build where it is able to right size the design of the building, 150 Savannah Oaks is an existing building where it faces limitations in the office space configuration.[52] Further, Brantford Power stated that 150 Savannah Oaks was the only existing property (i.e. not a new build like 79 Garden Avenue) that satisfied its minimum requirements.[53] In response to OEB staff's questions on why Brantford Power did not consider leasing out additional space, Brantford Power explained that the current proposed arrangement of tenants and allocation of space is the most viable, with the first floor tenants being physically separated from other tenants.[54] To section off any further space would require additional investment to separate and isolate the space.

OEB staff agrees with Brantford Power that purchasing an existing building constrains its ability to right size the space available without resorting to additional renovations. OEB staff notes that, despite the extra space, Brantford Power's allocated costs for the new facility remains favorable in benchmarking compared to facility projects undertaken by other electricity distributors. The cost per gross square foot with inflationary impact for 150 Savannah Oaks capital is the second lowest compared against the seven other examples provided by Brantford Power.[55]

In terms of space per employee, OEB staff recognizes that administration and operations facilities generally have a higher gross square feet per employee, compared to facilities that are purely administration, because of the extra square footage required for warehousing and vehicle parking. In the benchmarking Brantford Power provided, there are four administration and operations facilities of other utilities for comparison. OEB staff notes Brantford Power's gross square feet per employee is approximately equal to the average of the four comparators.[56] The two facilities that had lower gross square feet per employee were custom builds, which, as previously discussed, generally provide more leeway to minimize excess space in the design. Overall, OEB

[52] *Ibid*, pp. 27-28
[53] IRR B-Staff-25
[54] *Ibid*
[55] IRM Attachment A, p. 25; Brantford IRR Update, November 26, 2019, p. 2; Brantford Power's cost per gross square foot with inflationary impact is $228.04 as originally filed. Brantford Power subsequently updated its total cost and allocated square footage as part of a Class C estimate update. Using the updated numbers, OEB staff calculates Brantford Power's cost per gross square foot to be $210.07, which is the second lowest compared to seven other facilities. The inflationary impact calculation is to adjust the historical costs of the other facilities for inflation by applying a 2% annual inflation factor.
[56] *Ibid*; Brantford Power's gross square feet per employee is 1,118 as originally filed. Brantford Power subsequently updated its allocated square footage as part of a Class C estimate update. Using the updated numbers, OEB staff calculates Brantford Power's gross square foot per employee to be 1,130. The average of the four comparator administration and operations facilities (Milton Hydro, Waterloo North, Innisfil Hydro, PUC Hydro) is 1,121.

staff submits that, given the explanations provided by Brantford Power, its allocated space and incurred costs are reasonable and in line with similar facilities projects undertaken by other electricity distributors.

Despite some of the shortfalls OEB staff has noted, OEB staff believes Brantford Power has, on the whole, justified the decisions it made in selecting a new facility. For the reasons above, OEB staff submits that the amounts incurred for Brantford Power's new facility project are prudent.

ICM Recovery Methodology

Brantford Power's purchase of the 150 Savannah Oaks property included land and building. Brantford Power indicated that it intends to sell a portion of the land. On the advice of its audit firm KPMG LLP, Brantford Power obtained a third party valuation of the market value of the land and building and used the valuation to allocate the purchase price proportionally between the land for sale, remaining land and building.[57] OEB staff notes that this allocation affects the amount of capital that can be considered for inclusion in rate base, the amount of depreciation, and the amount of Capital Cost Allowance (CCA) deduction used in the calculation of Payment in Lieu of Taxes (PILs). OEB staff does not take issue with the approach Brantford Power has used to allocate the purchase price.

Brantford Power plans to use only a portion of the land and building. The remaining land and building will be occupied by other tenants[58] through leases or shared service agreements. In this ICM application, Brantford Power proposed to recover capital based on the amount of capital it uses. Brantford Power proposed to treat the capital that will be used by other tenants as non-regulated assets and therefore, be excluded from rate base. Any related OM&A or rental income will also be treated as non-regulated transactions. Brantford Power indicated that it intends to continue to use this approach in its next rebasing application.[59]

OEB staff agrees with Brantford Power's approach. An alternative treatment would be to include the entire land and building in rate base and record the related transactions in accordance with International Financial Reporting Standards (IFRS). Under IFRS, the leases would be considered finance leases and a reduction in capital (and a corresponding receivable) would be recorded. The main difference between the IFRS

[57] Manager's Summary, pp. 34-36
[58] Including Energy+, Brantford Power's affiliates, and third party tenants
[59] IRR B-Staff-21

approach and the non-regulated asset approach would be impacts to lease income and depreciation. Under IFRS, lease income would be recognized over the term of the lease and included as revenue offsets for regulatory purposes. However, the revenue requirement impact would be offset by higher depreciation under the IFRS approach due to the higher amount of capital recorded in the general ledger. Brantford Power indicated that it proposed the non-regulated assets approach as it would allow for a more consistent and stable treatment of building costs. Brantford Power would also be taking on the risks associated with lease revenues due to variables such as fluctuations in the rental rates, the ability to rent out the space and the implicit lease rate that is used to calculate lease income.[60] OEB staff agrees with this and is of the view that the non-regulated asset approach would be less complex and more transparent. OEB staff submits that if this approach is approved, Brantford Power would need to ensure a clear separation of its regulated and unregulated assets and transactions in its books of records. If at any point in the future, Brantford Power chooses to reincorporate non-regulated portions of the facility back into rate base to make it available for Brantford Power use, OEB staff submits that Brantford Power should make any such changes explicitly known to the OEB in future proceedings.

Brantford Power has allocated the purchased land and building to itself and each of its tenants based on space utilization. Construction costs specific to a party was allocated to that party. Shared construction costs were allocated based on space utilization of each party.[61] In OEB staff's view, this is a reasonable approach in allocating capital costs.

CCA in ICM Model

In the CCA calculation incorporated in the ICM, Brantford Power has not used the accelerated CCA rules that came into effect for assets acquired after November 20, 2018. Brantford Power indicated that the impact of the change in CCA rules on the ICM will be captured in Account 1592 – PILs and Tax Variances.[62] OEB staff supports this approach as the impacts due to changes in CCA rule on all affected assets will be dealt with on a consistent basis in Account 1592.

In Brantford Power's CCA calculation for the building, Brantford Power used the average CCA for 2020 (which uses the half-year rule) and 2021. This resulted in a higher CCA deduction that reduced the PILs requested for recovery. In OEB staff's

[60] *Ibid*
[61] Manager's Summary, pp. 37-39
[62] IRR B-Staff 24

view, this would more accurately reflect Brantford Power's actual taxes over the 2020 to 2021 period, until Brantford Power is expected to rebase.

Foregone Revenue

Brantford Power requested the OEB approve foregone revenue rate riders in the event that the OEB is unable to issue a final decision on Brantford Power's application before January 1, 2020. This would allow Brantford Power to recover foregone revenue from any ICM rate riders, if approved, from January 1, 2020 to the implementation date of any such rate riders.

The annual revenue requirement of Brantford Power's ICM request, as revised by OEB staff in this submission, is $1,222,235. By dividing by twelve months, OEB staff calculates the foregone revenue of one month's recovery of this revenue requirement to be $101,853. Brantford Power noted in its application that its materiality threshold as per the OEB's Chapter 2 Filing Requirements is $92,070.[63] OEB staff submits that the foregone revenue resulting from Brantford Power's ICM rate riders, if approved, exceeds its materiality threshold and could have a material financial impact on Brantford Power. OEB staff also notes that Brantford Power filed its application in accordance with the OEB's filing deadlines and followed all deadlines set out in the procedural steps of this proceeding. Therefore, if the OEB approves Brantford Power's ICM request but is unable to issue a final decision implementing rates for January 1, 2020, OEB staff submits that foregone revenue rate riders would be appropriate to capture the impact of new rates effective January 1, 2020.

All of which is respectfully submitted

[63] IRM Application, pp. 30-31