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BY EMAIL

January 23, 2020

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: Atikokan Hydro Inc. (Atikokan Hydro)
Application for 2020 Electricity Distribution Rates
OEB Staff Submission
Ontario Energy Board File Number: EB-2019-0020**

In accordance with Procedural Order No. 1, please find attached OEB staff's submission in the above proceeding.

Atikokan Hydro is reminded that its reply submission is due on February 17, 2020.

Yours truly,

Original Signed By

Birgit Armstrong
Project Advisor
Electricity Distribution – Incentive Rate Setting & Regulatory Accounting

Encl.

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2020 ELECTRICITY DISTRIBUTION RATES

Atikokan Hydro Inc.

EB-2019-0020

January 23, 2020

Introduction

Atikokan Hydro Inc. (Atikokan Hydro) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on October 15, 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 May 1, 2020.

The purpose of this document is to provide the OEB with the submissions of OEB staff based on its review of the evidence submitted by Atikokan Hydro.

Retail Transmission Service Rates (RTSRs)

Pursuant to the OEB's Guideline G-2008-0001¹, OEB staff will update the Rate Generator Model at the decision stage of this proceeding to account for the changes to the Uniform Transmission Rates (UTRs) and Sub-Transmission Rates, effective January 1, 2020.² Consistent with prior years, Atikokan Hydro is transmission connected and is requesting approval to adjust the RTSRs that it charges its customers to reflect the rates that it pays for transmission services.³ OEB staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by Atikokan Hydro.

OEB staff makes detailed submissions on the following:

- Earning Performance in 2018
- Group 1 Deferral and Variance Accounts (DVA)

Earning Performance in 2018

Background

Section 3.3.5 of Chapter 3 of the Filing Requirements (Filing Requirements) states that, for each of the OEB's three rate-setting options, a regulatory review may be triggered if a distributor's earnings are outside of a dead band of +/- 300 basis points from the OEB-

¹ G-2008-0001, Guideline – Electricity Distribution Retail Transmission Service Rates, Revised June 28, 2012

² EB-2019-0296, Decision and Interim Rate Order, December 19, 2019; EB-2019-0043, Decision and Order, December 17, 2019

³ EB-2018-0018, Decision and Rate Order

approved return on equity (ROE). The OEB monitors results filed by distributors as part of their Reporting and Record-keeping Requirements (RRR) and determines if a regulatory review is warranted. In accordance with the Filing Requirements, a distributor whose earnings are in excess of the dead band is expected to refrain from seeking an adjustment to its base rates through a Price Cap IR or Annual IR Index plan. If a distributor, whose earnings are in excess of the dead band, nevertheless applies for an increase to its base rates, the OEB expects the distributor to substantiate its reasons for doing so.

As indicated in its 2018 RRR filing 2.1.5.6, Atikokan Hydro achieved a 2018 ROE of 11.86% versus its OEB-approved ROE of 8.78%. This represents overearnings of 308 basis points, which is 8 basis points above the +/- 300 basis points deadband.

Atikokan Hydro did not address this issue in its 2020 application.

In its response to OEB staff's interrogatory #1, Atikokan Hydro agreed that the 2018 RRR 2.1.5.6 ROE form shows Atikokan Hydro over-earning by 308 basis points and provided the two main contributors as follows:

1. Exceeded OEB-approved distribution revenues by \$47,045

Table 1

| | | Distribution Revenue by Rate Class | | | |
|---|--------------------|--|------------------|------------------------------|---------------------|
| Distribution Revenue | | Residential | GS <50 | GS>50- Regular | Street Light |
| 2017 Board Approved Per 2017 CoS | \$1,402,256 | \$777,839 | \$232,626 | \$268,512 | \$122,913 |
| Per 2018 RRR 2.1.5.6 | \$1,449,301 | \$778,621 | \$236,801 | \$311,390 | \$122,489 |
| | \$47,045 | \$782 | \$4,175 | \$42,878 | -\$424 |
| | Variance | | | | |
| | | Residential GS <50 GS>50 Street Light | | | |
| | | Variance by Rate Class | | | |

Atikokan Hydro stated that distribution revenues, specifically the volumetric distribution revenues for the GS>50 customer class was the main driver for overearning in 2018. Atikokan explained that while overall actual consumption was slightly down in 2018 over the OEB-approved 2017 forecast, the actual demand by the GS>50 customer class exceeded the 2017 forecast by 13,187 kW (i.e. OEB approved 42,599 kW vs. actual demand of 55,786 kW). This translated to excess volumetric revenues for the GS>50 customer class by \$42,878.

Atikokan Hydro anticipates lower distribution revenues in 2019. Atikokan Hydro noted that it lost one GS>50 customer in late 2018, which will impact its 2019 revenue.

2. Exceeded OEB-approved Other Revenues by \$10,507

Table 2

| <u>Other Revenue</u> | 2017 Board Approved Decision | 2018 Actual per RRR 2.1.5.6 | Difference |
|------------------------------|------------------------------|-----------------------------|------------------------|
| Specific Service Charges: | \$5,885 | \$5,435 | (\$450) |
| Late Payment Charges: | \$7,543 | \$7,948 | \$405 |
| Other Distribution Revenues: | \$4,875 | \$4,871 | (\$4) |
| Other Income and Expenses: | \$77,467 | \$92,909 | \$15,442 |
| | <u>\$95,770</u> | <u>\$111,163</u> | <u>\$15,393</u> |

Atikokan Hydro noted that its other revenues exceeded the 2017 OEB-approved other revenues by \$15,393. Atikokan Hydro explained that this was mainly due to unforeseen revenue from the IESO's mid-term incentive target funds for meeting its mid-term CDM target.⁴ This one-time occurrence caused a \$10,507 variance. Atikokan Hydro noted that given its size, unforeseen other revenue amounts, such as the IESO incentive payment, will cause volatility.⁵ Atikokan Hydro stated that without this example of a one-time revenue amount, it would have been within the deadband.

Atikokan Hydro anticipates that the 2019 total distribution revenues, as well as other revenues, will be lower than in 2018. Atikokan Hydro asks that the OEB grant the Price Cap index adjustment as it anticipates it to be within the allowable deadband in 2019.

Submission

Currently, Atikokan Hydro's RRR data 2.1.5.6 shows that it over-earned slightly by 3.08% above the deemed ROE. OEB staff notes that when filing its RRR data, Atikokan Hydro did not exclude one-time CDM related revenue of \$10,507 related to the IESO incentive target fund for meeting its mid-term CDM target. The \$10,507 should have been excluded from Atikokan Hydro's regulatory ROE calculation for the 2018 rate year in accordance with the OEB's regulated ROE calculation.⁶

⁴ EB-2019-0020, Interrogatory Response #1b, p. 2

⁵ RRR 2.1.5.6 ROE Complete Filing Guide for Electricity Distributors' Reporting and Record Keeping Requirements, March 2016, p. 2

⁶ RRR filing form 2.1.5.6, submitted April 30, 2019

The RRR 2.1.5.6 ROE Filing Guide states:

Non-rate regulated items are revenues and/or expenses not related to the provision of electricity distribution services and, therefore, are excluded from the calculation of regulated net income. Examples of the non-rate regulated revenues and expenses include those associated with...conservation demand management (CDM) programs or other initiatives outside the regulated distribution rate framework.⁷

As such, when filing form 2.1.5.6, the amount of \$10,507 should have been included in Appendix 1 as a negative amount (cell al) with a description of the revenue item. OEB staff notes that CDM target incentive funding from the IESO was an infrequent transaction for Atikokan Hydro that was outside its normal business activities. OEB staff submits that Atikokan Hydro should re-file its RRR data and remove this one-time CDM related funding revenue to normalize its 2018 net earnings.

OEB staff provides a revised ROE calculation adjusting for this one-time CDM-related revenue amount. Based on that calculation Atikokan Hydro's ROE falls within the 300 basis points as shown in table 3 below.

Table 3

| | |
|---|------------------|
| Regulated Income as per 2.1.5.6 | \$166,970 |
| Remove: One-time IESO incentive payment | \$10,507 |
| Adjusted Regulated Income | \$156,462 |
| | |
| Regulated Deemed Equity as per 2.1.5.6 | \$1,408,241 |
| | |
| Achieved ROE | 11.11% |
| Deemed ROE | 8.78% |
| Difference | 2.33% |

Therefore, OEB staff is of the view that Atikokan Hydro did not over-earn in 2018 and supports Atikokan Hydro's request for a Price Cap Adjustment.

⁷ RRR 2.1.5.6 ROE Complete Filing Guide for Electricity Distributors' Reporting and Record Keeping Requirements, March 2016, p. 7

Group 1 Deferral and Variance Account (DVA) Disposition

Background

Atikokan Hydro is seeking interim disposition of its audited December 31, 2018 Group 1 DVA balances including Global Adjustment, over a one-year disposition period.

The December 31, 2018 Group 1 DVA balances are as follows:

Table 4

| Account Description | Account Number | Principal Balance | Interest Balance | Total Balance |
|---|-----------------------|--------------------------|-------------------------|----------------------|
| Smart Metering Entity Charge Variance Account | 1551 | (\$1,055) | | (\$1,055) |
| RSVA - Wholesale Market Service Charge | 1580 | (\$9,470) | (\$670) | (\$10,140) |
| RSVA - Retail Transmission Network Charge | 1584 | \$23,380 | \$1,273 | \$24,653 |
| RSVA - Retail Transmission Connection Charge | 1586 | \$27,313 | \$1,008 | \$28,321 |
| RSVA - Power | 1588 | (\$34,653) | (\$3,399) | (\$38,052) |
| RSVA - Global Adjustment | 1589 | (\$42,357) | (\$1,838) | (\$44,195) |
| Disposition and Recovery/Refund of Regulatory Balances (2017) | 1595 | \$20,862 | \$1,262 | \$22,124 |
| TOTAL | | (\$15,980) | (\$2,364) | (\$18,344) |

OEB policy requires that Group 1 accounts be disposed of if they exceed a pre-set disposition threshold of \$0.001 per kWh (debit or credit). Atikokan Hydro is proposing disposition of a credit balance of \$18,344 as at December 31, 2018. This results in a total claim per kWh of (\$0.0006), which does not meet the threshold test. However, as per Section 3.2.5 of the 2019 Filing Requirements for Electricity Distribution Rate Applications; a distributor may elect to request disposition irrespective of whether the threshold test is met. As a result, Atikokan Hydro is still electing to dispose of the Group 1 account balances including Global Adjustment as it believes this will lessen future impacts to both the utility and its customers.⁸

⁸ Manager's Summary, p. 11

Submission

OEB staff submits that it has no concerns with the December 31, 2018 Group 1 DVA balances as presented in Table 4 above, including the proposed disposition period of one-year.

OEB staff further submits that disposition of these balances is appropriate irrespective of the fact that the OEB's disposition threshold is not satisfied because the disposition results in a refund to Atikokan Hydro's customers.

Atikokan Hydro has proposed to dispose of its December 31, 2018 DVA balances on an interim basis as part of the current application.⁹ OEB staff supports interim disposition for the following reasons.

In 2018, the OEB suspended its approvals of Group 1 rate riders on a final basis pending the development of further accounting guidance on commodity pass-through variance accounts.¹⁰ The OEB has since issued the related accounting guidance¹¹ on the commodity accounts on February 21, 2019. In that letter, the OEB indicated that it expects distributors to consider this new accounting guidance in the context of historical balances that have not yet been disposed of on a final basis, and to make the necessary adjustments to those balances prior to requesting final disposition.

Atikokan Hydro has confirmed that it has yet to implement the OEB's February 21, 2019 accounting guidance¹² including a review of this guidance in the context of both its 2017 DVA balances (which have been previously approved by the OEB on an interim basis) and its current 2018 DVA balances. Atikokan Hydro has indicated that it intends to implement the new accounting guidance retroactive to January 1, 2019 and assess the historical 2017 and 2018 commodity pass through account balances in the context of the new accounting guidance by the end of the first quarter of 2020.¹³ As such, OEB staff submits that Atikokan Hydro's request for interim disposition of its 2018 balances is appropriate and consistent with the requirements of the OEB's February 21, 2019 accounting guidance.

All of which is respectfully submitted

⁹ Response to interrogatory OEB Staff-6

¹⁰ OEB letter to all rate-regulated licensed electricity distributors – "Re: OEB's Plan to Standardize Processes to Improve Accuracy of Commodity Pass-Through Variance Accounts." July 20, 2018.

¹¹ Accounting Procedures Handbook Update – Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589, February 21, 2019.

¹² Manager's Summary, p. 21

¹³ IBID and the Response to Staff-6