

BY EMAIL

February 18, 2020

Christine E. Long
Registrar and Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Dear Ms. Long:

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

In accordance with the Partial Decision and Order issued January 30, 2020, please find attached OEB staff's submission on the Draft Rate Order.

Yours truly,

Original Signed By

Katherine Wang
Advisor
Incentive Rate-setting and Regulatory Accounting

Encl.

ONTARIO ENERGY BOARD

OEB STAFF SUBMISSION ON DRAFT RATE ORDER

2020 ELECTRICITY DISTRIBUTION RATES

Alectra Utilities Corporation

EB-2019-0018

February 18, 2020

INTRODUCTION

On February 10, 2020, Alectra Utilities Corporation (Alectra Utilities) filed a Draft Rate Order (DRO) arising from the Partial Decision and Order (Partial Decision) issued January 30, 2020.

Ontario Energy Board (OEB) staff has reviewed the DRO filed by Alectra Utilities. OEB staff submits that Alectra Utilities' DRO is consistent with the OEB findings in the Partial Decision, with the potential exception of the calculations for depreciation in the capitalization deferral accounts for the Horizon Utilities Rate Zone (RZ) and Guelph RZ, as discussed below.

Capitalization Policy: Calculation of Balances

In the Partial Decision, the OEB found that the Account 1576 approach¹ should be used to record the changes in capitalization policy. In section 2.1.1 of Alectra Utilities' Draft Rate Order, Alectra Utilities stated:

"Alectra Utilities has updated its calculation of the impact of the capitalization policy change based on the Account 1576 approach. The updated calculation also excludes any impact for the Horizon Utilities RZ during the Custom IR term (2015-2019), the PowerStream RZ over the rebasing deferral period and the Guelph RZ for the 2019 rate year."²

Alectra Utilities also provided an updated forecast of the impact of the change over the deferred rebasing period as Table 1, reproduced below:

¹ The term "Account 1576 approach" is explained and discussed in section 4.1 of the Partial Decision.

² Alectra Utilities Draft Rate Order, EB-2019-0018, February 10, 2020, page 5 of 14

Table 1: Net Impact of Capitalization Policy Change (Account 1576 Approach)³

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				6,121	5,863	5,788	4,709	5,965	5,965	5,965			40,376
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													0
Guelph RZ				638	670	670	609	695	695	695	695	695	6,062
Net PP&E Change	36	102	(525)	5,947	6,281	6,027	4,964	6,743	6,743	6,743	695	695	44,450
Enersource RZ	(47)	(89)	(135)	(178)	(229)	(284)	(340)	(408)	(476)	(510)			(2,695)
Horizon Utilities RZ				(580)	(727)	(872)	(989)	(1,139)	(1,288)	(1,362)			(6,957)
Brampton RZ	46	86	144	208	265	331	396	462	528	561			3,026
PowerStream RZ													\$0
Guelph RZ				(31)	(47)	(64)	(79)	(97)	(114)	(132)	(149)	(158)	(871)
Depreciation Impact	(1)	(3)	10	(581)	(738)	(889)	(1,013)	(1,181)	(1,350)	(1,443)	(149)	(158)	(7,496)
Enersource RZ	1,819	1,622	1,670	1,567	1,800	1,920	1,896	2,310	2,242	2,208			19,055
Horizon Utilities RZ				5,540	5,136	4,916	3,720	4,827	4,677	4,603			33,419
Brampton RZ	(1,785)	(1,524)	(2,186)	(2,349)	(2,016)	(2,304)	(2,195)	(2,173)	(2,107)	(2,074)			(20,713)
PowerStream RZ													0
Guelph RZ				607	623	606	530	598	581	563	546	537	5,192
Alectra Utilities Net Impact	35	98	(515)	5,366	5,543	5,138	3,951	5,562	5,393	5,300	546	537	36,954

OEB staff submits that Alectra Utilities has appropriately excluded the impacts on payments in lieu of taxes (PILs) and return on capital, consistent with the OEB's finding that the Account 1576 approach shall be used to calculate the balances in the capitalization deferral accounts. However, OEB staff has identified an issue relating to the recording of depreciation in the Horizon Utilities and Guelph RZs that warrants further consideration.

³ Alectra Utilities Draft Rate Order, EB-2019-0018, February 10, 2020, page 6 of 14

Alectra Utilities' capitalization impact model was filed in response to OEB staff interrogatories⁴, as supporting evidence for how the elements of capitalization policy impacts were derived. The depreciation figures used in the updated calculations from 2020 to 2029 in Table 1 are identical to those in Alectra Utilities' capitalization impact model. OEB staff has relied on the details filed in the capitalization policy impact model to examine the assumptions that Alectra Utilities has incorporated in its calculations under the Account 1576 approach.

As set out in Table 1 above, the Horizon Utilities RZ 2020 depreciation impact of \$580,000 is based on depreciating the opening gross property, plant, and equipment (PP&E) differential (the cumulative difference from 2017 to 2019), as well as the gross PP&E impact in 2020, over the estimated remaining useful lives of the assets (40 years).⁵

The cumulative gross PP&E differences from the period of 2017 to 2019 for the Horizon Utilities RZ have been carried forward to the opening 2020 balance as the preliminary basis for calculating depreciation in 2020 and beyond.

OEB staff submits that this appears to be inconsistent with the Account 1576 approach, given the OEB's findings that "the method for addressing the capitalization policy change for the Horizon RZ would be through the ESM until the end of the Custom IR term".⁶

The historical use of the Account 1576 approach assumes there are no opening balance differentials, as it is presumed to be in effect the same year that an accounting policy change takes place. Effectively, Alectra Utilities' updated table excludes the 2017 to 2019 capitalization impacts for the purposes of gross PP&E differentials in the Horizon Utilities RZ but includes the 2017 to 2019 capitalization impacts for the purposes of calculating depreciation from 2020 to 2026. This gives rise to a misalignment between the two elements of the Account 1576 principal balance. Since 2020 is the first year that differences in capital additions are considered in this account, then it may be more appropriate that only depreciation on those capital addition differences, and any thereafter until rebasing, that can be included as well.

⁵ Opening 2020 balance of gross PP&E difference of \$17,096,641 plus 2020 gross PP&E impacts of \$6,120,749 totals \$23,217,390, divided by 40 years = \$580,435

⁶ Partial Decision and Order, EB-2019-0018, January 30, 2020, page 46

The same issue arises for the depreciation impacts in the Guelph RZ, although the impacts in that rate zone are substantially less than that of the Horizon Utilities RZ. The 2019 capitalization policy impacts in the Guelph RZ have been excluded from the gross PP&E figures, but included in the basis for calculating depreciation from 2020 to 2028.

The total impact on the capitalization deferral accounts from the inclusion of opening balance differences in the calculation of depreciation is approximately \$3.1 million (\$3.0 million in the Horizon Utilities RZ and \$0.1 million in the Guelph RZ).

In the Partial Decision, the OEB stated that it will not amend the approach previously determined in the Decision and Order for Alectra Utilities' 2018 rate application (2018 Decision), which stated that "Alectra Utilities shall retain the deferral account opened for Horizon Utilities RZ, however, the first entries to the account shall begin January 1, 2020."⁷ In OEB staff's view, to maintain greater consistency with this finding, it may be more appropriate that the 2020 gross PP&E impacts be regarded as the initial reference point for calculating depreciation from 2020 to 2026 in the Horizon RZ and from 2020 to 2028 in the Guelph RZ.

OEB staff has prepared a revised table (Table 2), which excludes the 2017 to 2019 capitalization impacts in the Horizon RZ and also excludes the 2019 capitalization impacts in the Guelph RZ from the depreciation figures. Table 2 is provided below.

⁷ Decision and Order, EB-2017-0024, April 6, 2018, page 81

Table 2: Net Impact of Capitalization Policy Change (Account 1576 Approach - Revised)

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				6,121	5,863	5,788	4,709	5,965	5,965	5,965			40,376
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													
Guelph RZ				638	670	670	609	695	695	695	695	695	6,062
Total Gross PP&E Impact	36	102	(525)	5,947	6,281	6,027	4,964	6,743	6,743	6,743	695	695	44,450
Enersource RZ	(47)	(89)	(135)	(178)	(229)	(284)	(340)	(408)	(476)	(510)			(2,695)
Horizon Utilities RZ				(153)	(300)	(444)	(562)	(711)	(860)	(935)			(3,965)
Brampton RZ	46	86	144	208	265	331	396	462	528	561			3,026
PowerStream RZ													
Guelph RZ				(16)	(33)	(49)	(65)	(82)	(99)	(117)	(134)	(143)	(738)
Total Depreciation Impact	(1)	(3)	10	(139)	(296)	(447)	(571)	(739)	(908)	(1,001)	(134)	(143)	(4,372)
Enersource RZ	1,819	1,622	1,670	1,567	1,800	1,920	1,896	2,310	2,242	2,208			19,055
Horizon Utilities RZ				5,968	5,564	5,343	4,147	5,254	5,105	5,030			36,411
Brampton RZ	(1,785)	(1,524)	(2,186)	(2,349)	(2,016)	(2,304)	(2,195)	(2,173)	(2,107)	(2,074)			(20,713)
PowerStream RZ													
Guelph RZ				622	638	620	545	613	596	578	561	552	5,324
Alectra Utilities Net Impact	35	98	(515)	5,808	5,985	5,580	4,393	6,004	5,835	5,742	561	552	40,078

While OEB staff and other parties made submissions in this proceeding on the appropriate mechanisms to capture the impacts of the capitalization policy change during the deferred rebasing period, the underlying calculations were not addressed in detail, as they were largely contingent on several interrelated OEB findings. Specifically, the impacts of utilizing the ESM for the Horizon Utilities RZ during the Custom IR term, or applying an effective date of January 1, 2020 in the Guelph RZ, on the underlying calculations were not addressed by parties in specific detail. While this issue could be deferred until the respective disposition dates of these accounts, the OEB could also choose to address it in this proceeding for greater certainty to all parties moving forward.

- All of which is respectfully submitted -