CANADIAN NIAGARA POWER INC.
A FORTIS ONTARIO Company

July 08, 2020

Ms. Christine E. Long
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Long:

Re: 2020 Uniform Transmission Rates (EB-2019-0296) and Alternatives for 2020 UTR Implementation Advanced by Hydro One Networks Inc. (EB-2019-0082)

CNPI is providing the following submission in response to the OEB's decision and order in EB-2019-0082, and alternatives proposed by Hydro One Networks Inc ("Hydro One") to defer implementation of 2020 UTRs and/or defer collection of foregone transmission revenue.

Background

In its decision and order in EB-2019-0296, the OEB set 2020 UTRs on an interim basis effective January 1, 2020, based on the most recently approved revenue requirement, or approved interim revenue requirement, for each licensed transmitter. The OEB subsequently issued various decisions and orders approving final revenue requirements for several transmitters, most recently approving Hydro One's 2020-2022 transmission revenue requirement on April 23, 2020 (the "Hydro One Decision").[1]

In the Hydro One Decision, the OEB indicated that it planned to update UTRs to be effective July 1, 2020, and that the UTRs would incorporate Hydro One's foregone transmission revenue from January 1, 2020 to June 30, 2020. The OEB also indicated that it did not expect the COVID-19 pandemic to affect the implementation of its decision and order, but that it would closely monitor the situation.[2]

In its May 28, 2020 Draft Rate Order, Hydro One expressed concern regarding the bill impacts that LDCs and industrial customers would experience during the midst of the pandemic, and identified three alternative scenarios for the OEB's consideration in implementing 2020 UTRs for

[1] EB-2019-0082 Decision and Order, dated April 23, 2020
[2] Decision, p.5

1130 Bertie Street • P.O. Box 1218 • Fort Erie, Ontario L2A 5Y2
Tel: 905-871-0330 • Fax: 905-871-8676 • www.cnpower.com

all transmitters.[3] All three of the alternative scenarios presented by Hydro One involve deferring the collection of foregone transmission revenue, and two of the three scenarios also involve deferring the implementation of 2020 UTRs.

CNPI Submission on Alternative UTR Scenarios

In light of the bill impact concerns raised by Hydro One, CNPI supports any of the three alternative scenarios, provided that: (a) the ability to record and recover foregone transmission revenue is consistent and mechanistic for all transmitters, (b) foregone revenue for non-rebasing transmitters such as CNPI can be recovered through UTRs over the same period as Hydro One's foregone revenue, and (c) the process does not create unnecessary regulatory burden for non-rebasing transmitters.

CNPI notes that there is precedent for such an approach in the OEB's direction to electricity distributors regarding implementation of distribution rates effective May 1, 2020.[4] In its April 16, 2020 letter, the OEB provided distributors that would otherwise implement 2020 rates on May 1, 2020 with an option to postpone implementation of 2020 rates until November 1, 2020. The OEB then provided implementation and accounting guidance related to foregone revenue in a subsequent letter issued April 17, 2020.[5]

CNPI submits that the OEB should take a similar approach to recording and recovering 2020 foregone transmission revenue, by issuing a generic accounting order for all transmitters to record foregone revenue in the appropriate deferral accounts, providing for the recovery of that foregone revenue beginning January 1, 2021 as proposed by Hydro One.[6] In the event that the OEB finds it necessary for each transmitter to apply individually to establish deferral accounts for 2020 foregone revenue, CNPI has included such a request below.

Irrespective of how foregone revenue is recorded, CNPI submits that recovery of the foregone revenue should be consistent and mechanistic for all transmitters. Hydro One suggested that various other transmitters related to Hydro One[7] would identify their foregone revenue associated with whichever UTR implementation date that the OEB selects.[8] Hydro One's DRO reply submission indicates that it would seek to recover foregone revenue of $28.2 million or

[3] EB-2019-0082 Draft Rate Order, dated May 28, 2020, pp. 38-40
[4] OEB letter "Approach to Incentive Rate-setting Decisions for May 1, 2020 Rates", dated April 16, 2020
[5] OEB letter "Initial Implementation Guidance to Incentive Rate-setting Decisions for May 1, 2020 Rates for Postponing Distributors", dated April 17, 2020
[6] While the amount of foregone revenue and/or the duration of the recovery period differs in the three scenarios advanced by Hydro One, the proposed recovery of any foregone revenues starts on January 1, 2020 for all scenarios. In theory, the OEB could accept Hydro One's proposal to maintain interim UTR's until the end of 2020, and decide on the recovery period (i.e. choose between Alternatives 2 and 3) at a later date (e.g. when determining 2021 UTRs).
[7] EB-2019-0082 DRO Reply Submission, dated June 25, 2020 p.35
[8] EB-2019-0082 DRO Reply Submission, dated June 25, 2020 p.35

$57.4 million, over a period of one to two years (i.e. as an addition to the revenue requirement used in setting 2021 UTRs or in setting both 2021 and 2022 UTRs), but is silent as to the period over which any other transmitters should be permitted to recover their foregone revenue.

CNPI submits that if the OEB accepts any of the alternatives advanced by Hydro One for 2020 UTR implementation, the recovery of foregone revenue calculated for every transmitter should be considered in the normal course of setting of UTRs in future years. Specifically, for Alternatives 1 and 2, the OEB should include the amount of 2020 foregone revenue, in addition to the otherwise approved revenue requirement for each transmitter, when determining 2021 UTRs. Similarly, for Alternative 3, approximately half of the amount of 2020 foregone revenue (with interest improvement forecasts) should be included for all transmitters when determining UTRs for 2021 and the balance should be included when determining 2022 UTRs.

CNPI submits that in the absence of a consistent and simple approach for all transmitters to recover foregone revenue over the same period (e.g. 2021 or 2021 and 2022), the OEB should reject the alternatives advanced by Hydro One and 2020 UTRs should be implemented on July 1, 2020, in accordance with the OEB's April 23, 2020 decision.

<u>CNPI 2020 Foregone Revenue Calculation</u>

Using the same approach as shown in Exhibit 2.3.2 on Hydro One's DRO, CNPI has calculated 2020 foregone revenue of $89,195 for July 1, 2020 UTR implementation, and $181,319 if 2020 interim UTRs remain in place for the entirety of 2020. Supporting calculations are provided in Appendix "A".

<u>Interest on Foregone Revenue</u>

CNPI submits that interest should apply to its 2020 foregone revenue, at the OEB-prescribed rate for interest on DVAs, consistent with past OEB practices concerning foregone transmission revenue. The delay in 2020 UTR implementation was not under CNPI's control, nor is it attributable to CNPI in any way.

<u>Treatment of CNPI's 2017 Foregone Revenue</u>

In its decision and accounting order in EB-2017-0322, dated February 8, 2018, the OEB allowed CNPI to establish a deferral account to record 2017 foregone transmission revenue, which was also caused by delayed implementation of UTRs arising from the date of the OEB's decision on Hydro One's application for approval of its 2017 transmission revenue requirement (EB-2016-0160).[9]

[9] EB-2017-0332 Decision and Accounting Order, dated February 8, 2018

If the OEB decides to adopt a mechanistic approach to recovery of 2020 foregone revenue, CNPI encourages the OEB to extend that approach to future UTR proceedings, as well as to any outstanding foregone transmission revenue balances recorded by transmitters but not yet recovered.

As the number of transmitters continues to grow, so does the likelihood that UTRs will need to be declared interim in any given year. The UTR allocators clearly show that Hydro One's revenue requirement makes up over 92% of the Network rate pool, and almost 97% of the Line and Transformation Connection rate pools. The foregone revenue resulting from delayed UTR implementation in any given year for any transmitter other than Hydro One is therefore likely to be immaterial in the context of calculating UTR's.[10] Establishing a mechanistic approach to record and recover foregone revenue would allow non-rebasing transmitters to recover foregone revenue, minimizing intergenerational inequity issues that would arise from deferring recovery until the transmitter's next rebasing. CNPI submits that the OEB could readily incorporate such a mechanistic adjustment in the normal course of setting UTRs during any year in which UTR implementation date is delayed.[11]

Further, CNPI notes that recovery of foregone revenue due to any timing differences between effective and implementation dates is commonplace in cost of service applications for electricity distribution rates. In the case of transmission revenue requirement applications, the timing difference between effective and implementation dates of UTRs can have a material impact on non-rebasing transmitters, particularly if the applicant is Hydro One, whose revenue requirement and load determinant forecast have the largest impact on setting UTRs.

Since the only driver of CNPI's 2017 foregone transmission revenue is the timing of decision on Hydro One's 2017 revenue requirement application (as it is again for 2020), CNPI submits that the OEB should permit CNPI to recover its 2017 foregone transmission revenue over the same period in which its 2020 foregone transmission revenue is incorporated into the determination of UTRs.[12] Assuming the Board accepts the deferral of recovery of foregone 2020 revenue as proposed by Hydro One under one of its 3 alternative approaches this would begin on January 1, 2021 and conclude on either December 31, 2021 or December 31, 2022.

[10] For clarity, these amounts would be material for each individual transmitter, justifying the need for recovery, but adding the amounts to the UTR calculation is unlikely to have a material impact on the resulting UTRs (e.g. each UTR rate is likely to change by $0.01, if at all, and revenue allocators would likely change at the fourth decimal place).
[11] CNPI recognizes that some regulatory process will be required to calculate, review and approved forgone revenue calculations for each transmitter, but this could be done without the need for separate applications from non-rebasing transmitters.
[12] CNPI confirms that it has not recorded foregone transmission revenue for 2018 or 2019 since the UTR effective and implementation dates were aligned for those years.

Using the same approach as applied to 2020 foregone revenue, CNPI previously calculated 2017 foregone revenue of $230,776. Supporting calculations are provided in Appendix “B”.[13]

Application for Deferral Account (if necessary)

In the event that the OEB find it necessary for transmitters to individually apply to establish deferral accounts for 2020 foregone revenue, then CNPI is also hereby applying for an Accounting Order authorizing CNPI to establish a new deferral account, “CNPI 2020 Foregone Transmission Revenue Deferral Account”, to record the differences between revenue earned by Canadian Niagara Power Inc. under the interim 2020 UTRs, and the revenues that would have been received under the final approved 2020 UTR based on the Board approved 2020 load forecast had final 2020 UTR rates been implemented on January 1, 2020.

A draft accounting order is attached as Appendix “C”.

All of which is respectfully submitted,

Greg Beharriell
Manager, Regulatory Affairs
Canadian Niagara Power Inc.
Regulatory.Affairs@FortisOntario.com

[13] As of June 30, 2020, CNPI has recorded $13,595 in interest improvement on this balance. Updated interest calculations and forecasts can be provided pending the OEB’s decision on recovery of this balance.

Appendix "A"

Calculation of CNPI 2020 Foregone Transmission Revenue

2020 UTR Charge Determinant - All Transmitters (MW)

Charge Determinant	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Total
Network	20,177	19,938	19,241	17,746	18,908	21,348	22,348	21,850	20,196	18,170	19,305	20,276	239,503
Line Connection	19,321	19,179	18,376	17,135	18,543	20,362	21,774	21,157	19,725	18,024	18,715	20,075	232,386
Transformation Connection	16,370	16,309	15,658	14,410	15,724	17,314	18,551	17,899	17,009	14,652	15,543	16,847	196,286

2020 Interim UTRs

	$/kw-month	CNPI Allocator
Network	3.92	0.00271
Line Connection	0.97	0.00283
Transformation Connection	2.33	0.00283

1. 2020 Revenue at 2020 Interim Rates and 2020 Load Forecast

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Total
Network	$214,344	$211,805	$204,401	$188,519	$200,863	$226,784	$237,407	$232,117	$214,546	$193,024	$205,081	$215,396	$2,544,288
Line Connection	$53,038	$52,648	$50,444	$47,037	$50,902	$55,896	$59,772	$58,078	$54,147	$49,478	$51,375	$55,108	$637,923
Transformation Connection	$107,942	$107,540	$103,247	$95,018	$103,682	$114,167	$122,323	$118,024	$112,156	$96,614	$102,489	$111,087	$1,294,290
Total	**$375,325**	**$371,994**	**$358,092**	**$330,575**	**$355,448**	**$396,847**	**$419,503**	**$408,219**	**$380,849**	**$339,115**	**$358,944**	**$381,591**	**$4,476,501**

Total January 1, 2020 to June 30, 2020 = $2,188,280 Total January 1, 2020 to December 31, 2020 = $4,476,501

2020 Proposed UTR

	$/kw-month	CNPI Allocator
Network	4.3	0.00271
Line Connection	0.81	0.00284
Transformation Connection	2.39	0.00284

2. 2020 Revenue at 2020 Proposed UTR Rates and 2020 Load Forecast

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Total
Network	$235,123	$232,338	$224,215	$206,794	$220,335	$248,768	$260,421	$254,618	$235,344	$211,735	$224,961	$236,276	$2,790,928
Line Connection	$44,446	$44,119	$42,272	$39,417	$42,656	$46,841	$50,089	$48,670	$45,375	$41,462	$43,052	$46,181	$534,581
Transformation Connection	$111,113	$110,699	$106,280	$97,809	$106,728	$117,521	$125,917	$121,491	$115,450	$99,452	$105,500	$114,351	$1,332,311
Total	**$390,682**	**$387,156**	**$372,768**	**$344,021**	**$369,719**	**$413,129**	**$436,427**	**$424,779**	**$396,170**	**$352,649**	**$373,513**	**$396,807**	**$4,657,820**

Total January 1, 2020 to June 30, 2020 = $2,277,475 Total January 1, 2020 to December 31, 2020 = $4,657,820

2020 Foregone Revenue (2 - 1)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Total
Network	$20,778	$20,532	$19,814	$18,275	$19,471	$21,984	$23,014	$22,501	$20,798	$18,711	$19,880	$20,880	$246,640
Line Connection	-$8,592	-$8,529	-$8,172	-$7,620	-$8,246	-$9,055	-$9,683	-$9,409	-$8,772	-$8,015	-$8,323	-$8,927	-$103,342
Transformation Connection	$3,171	$3,159	$3,033	$2,791	$3,046	$3,354	$3,593	$3,467	$3,295	$2,838	$3,011	$3,263	$38,021
Total	**$15,357**	**$15,162**	**$14,676**	**$13,446**	**$14,271**	**$16,283**	**$16,924**	**$16,560**	**$15,321**	**$13,534**	**$14,568**	**$15,216**	**$181,319**

Total January 1, 2020 to June 30, 2020 = **$89,195** Total January 1, 2020 to December 31, 2020 = **$181,319**

Appendix “B”

Calculation of CNPI 2017
Foregone Transmission Revenue

2017 UTR Charge Determinant - All Transmitters (MW)

Charge Determinant	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Total
Network	21,444	20,912	20,617	18,384	19,717	22,355	23,226	22,306	20,544	18,548	19,871	21,152	249,076
Line Connection	20,436	20,020	19,592	17,637	19,283	21,242	22,488	21,452	19,937	18,295	19,157	20,850	240,389
Transformation Connection	17,372	17,079	16,749	14,880	16,405	18,122	19,222	18,208	17,248	14,921	15,961	17,555	203,722

2016 Approved UTRs

	$/kw-month	CNPI Allocator
Network	3.66	0.00281
Line Connection	0.87	0.00291
Transformation Connection	2.02	0.00291

1. 2017 Revenue at 2016 Approved Rates and 2017 Load Forecast

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Total
Network	$220,543	$215,072	$212,038	$189,072	$202,781	$229,912	$238,870	$229,408	$211,287	$190,759	$204,365	$217,540	$2,561,647
Line Connection	$51,738	$50,685	$49,601	$44,652	$48,819	$53,778	$56,933	$54,310	$50,475	$46,317	$48,500	$52,786	$608,593
Transformation Connection	$102,116	$100,394	$98,454	$87,468	$96,432	$106,525	$112,991	$107,030	$101,387	$87,709	$93,822	$103,192	$1,197,519
Total	**$374,397**	**$366,150**	**$360,093**	**$321,191**	**$348,032**	**$390,215**	**$408,794**	**$390,749**	**$363,149**	**$324,785**	**$346,687**	**$373,518**	**$4,367,759**
									Total to end of October =	$3,647,554			

2017 Proposed UTR

	$/kw-month	CNPI Allocator
Network	3.52	0.00300
Line Connection	0.88	0.00312
Transformation Connection	2.13	0.00312

2. 2017 Revenue at Proposed UTR Rates and 2017 Load Forecast

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Total
Network	$226,449	$220,831	$217,716	$194,135	$208,212	$236,069	$245,267	$235,551	$216,945	$195,867	$209,838	$223,365	$2,630,243
Line Connection	$56,109	$54,967	$53,792	$48,424	$52,943	$58,322	$61,743	$58,899	$54,739	$50,231	$52,597	$57,246	$660,012
Transformation Connection	$115,447	$113,500	$111,307	$98,887	$109,021	$120,432	$127,742	$121,003	$114,623	$99,159	$106,070	$116,664	$1,353,855
Total	**$398,005**	**$389,298**	**$382,814**	**$341,446**	**$370,176**	**$414,822**	**$434,751**	**$415,453**	**$386,307**	**$345,257**	**$368,506**	**$397,274**	**$4,644,110**
									Total to end of October =	$3,878,329			

2017 Foregone Revenue (2 - 1)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Total
Network	$5,906	$5,759	$5,678	$5,063	$5,430	$6,157	$6,396	$6,143	$5,658	$5,108	$5,472	$5,825	$68,596
Line Connection	$4,371	$4,282	$4,191	$3,773	$4,125	$4,544	$4,810	$4,589	$4,265	$3,913	$4,098	$4,460	$51,419
Transformation Connection	$13,331	$13,106	$12,853	$11,419	$12,589	$13,907	$14,751	$13,973	$13,236	$11,450	$12,248	$13,472	$156,336
Total	**$23,608**	**$23,148**	**$22,722**	**$20,254**	**$22,144**	**$24,607**	**$25,958**	**$24,704**	**$23,158**	**$20,472**	**$21,819**	**$23,757**	**$276,351**
									Total to end of October =	$230,776			

Appendix "C"

Draft Accounting Order (if necessary)

Transmission Accounting Order

CNPI 2020 Foregone Transmission Revenue Deferral Account

This account records the differences between revenue earned by Canadian Niagara Power Inc. under the interim 2020 Uniform Transmission Rates (UTR), and the revenues that would have been received under the OEB-approved 2020 UTR based on the OEB-approved 2020 load forecast had final 2020 UTR rates been implemented on January 1, 2020. The account will capture the Foregone Revenue from January 1, 2020 to the date when the OEB-approved 2020 UTR are implemented.

The accounting entries to be recorded are as follows:

USofA #	**Account Description**
Dr: 1508	Other Regulatory Assets – Sub account “2020 Foregone Transmission Revenue Deferral Account”
Cr: 4110	Transmission Services Revenue

To record the Foregone Revenue.

USofA #	**Account Description**
Dr: 1508	Other Regulatory Assets – Sub account “2020 Foregone Transmission Revenue Deferral Account”
Cr: 4405	Interest and Dividend Income

To record interest improvement on the principal balance of the 2020 Foregone Transmission Revenue Deferral Account.