PUBLIC INTEREST ADVOCACY CENTRE
LE CENTRE POUR LA DÉFENSE DE L'INTÉRÊT PUBLIC

Halton Hills Hydro Inc. (HHHI)
2021 Cost of Service Rates
EB-2020-0026

Submission of the
Vulnerable Energy Consumers Coalition
(VECC)

March 4, 2021

Vulnerable Energy Consumers Coalition

Public Interest Advocacy Centre
613-562-4002
piac@piac.ca

Mark C Garner

Digitally signed by Mark C Garner
Date: 2021.03.04 16:05:15 -05'00'

Introduction

1. VECC is a party to the settlement agreement filed by Halton Hill Hydro Inc. ('HHHI or Halton Hills') on February 18, 2021. Energy Probe Foundation, School Energy Coalition ('SEC') and the Distributed Resource Coalition were the other parties ('the Parties') to the settlement. The Parties settled all issues with respect to the Board established issues list with one exception.[1] No agreement was reached on the question:

   Is HHHI's approach to applying the half-year rule (in the year the TS came into service) to the TS ICM costs included in the 2021 Test Year opening rate base correct or appropriate?

2. With respect to this question VECC submits the Board should reject Halton Hill Hydro's proposal. In our view the ICM rate rider funded Municipal Transformer Station (MTS1) should be accounted for on the basis of a full-year's depreciation in 2019.

3. We have had the opportunity to review the submissions of the SEC on this matter and agree with them. Given the Board's desire to see parties work together when in agreement we make only these brief additional comments.

Including ICM projects into Rate Base

4. The matter was explained by the parties in the agreement:[2]

   In EB-2018-0328, the Board approved ICM funding of $23.48 million for HHHI's construction of the new TS. HHHI began recovery of these capital costs via rate riders approved by the Board effective May 1, 2019. The TS came into service in November 2019. In accordance with section 3.3.2.4 of the Filing Requirements for Electricity Distribution Rate Applications ("Filing Requirements"), the Board's half-year rule was not applied in 2019 in respect of the rate riders. For the purposes of calculating HHHI's opening rate base for the 2021 Test Year, HHHI has calculated the rate base value of the TS based on the half-year rule for 2019 and a full year of depreciation for the 2020 bridge year. The view of intervenors is that the opening rate base for the 2021 Test Year should reflect two full years of depreciation (2019 and 2020) to account for the non-application of the half-year rule to the rate rider by virtue of section 3.3.2.4 of the Filing Requirements.

5. The issue arises fundamentally because of the inconsistency between the treatment of ICM capital projects that come into service in the test year of a cost of service application

[1] Board Approved issues list is found in Decision on Issues List, December 2, 2020.
[2] HHHI Settlement Proposal EB-2020-0026, page 18

and the manner in which the ICM rate rider is calculated. HHHI's proposal is to account for the ICM funded asset as if it had been employed like other capital assets added during the IRM period. This is not per se unreasonable since no Board policy exists (that we are aware of) that would distinguish between the accounting of ICM rate rider funded projects and those capital assets added without the benefit of rate rider.

6. From the standpoint of regulatory asset accounting, it might appear as if there is nothing different for an ICM project as compared to the myriad of other capital projects that go into service during their IRM period. However, the ICM rider is not calculated in the same manner as would be case for an equivalent "rate" for that project if it were coming into service in the test year of a cost of service application. Unlike rates derived (in part) during a cost of service application the ICM rate rider calculation does not use the half year rule. Instead, it calculates the rider as if the asset was in-service at the beginning of the year, in this case 2019[3].

7. The difference between the two alternatives (half or full year depreciation) is temporal. Adopting the approach proposed by the SEC and VECC better aligns the actual payments already made by customers through the ICM rate rider and the assets accounting life. As such it better reflects the regulatory principle of minimizing intergenerational inequities. There will also be a slight extension (half a year) of the period over which the depreciation expense is collected. This fact and the shift in depreciation expense over the lifetime of the assets will also cause ratepayers to overcompensate HHHI for the asset.

8. The Board's decision of this matter is likely to have only a small impact on the revenue requirement. However, the matter is one of principle and, given the magnitude of some other ICM proposals, the issue could have much larger impacts for other utilities in future proceedings.

9. In VECC's submission the appropriate method of accounting for an "ICM funded" asset is to maintain consistency with the calculation of the associated rate rider. In this case that would mean a full-year depreciation should apply to 2019.

VECC submits that it has acted responsibly and efficiently during the course of this proceeding and requests that it be allowed to recover 100% of its reasonably incurred costs.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

[3] We presume the difference arises out of a desire to simplifying the calculation of the ICM rate rider – but it is not clear.