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BY EMAIL

March 10, 2021

Ms. Christine E. Long
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Long:

**Re: Ontario Energy Board (OEB) Staff Submission
ERTH Power Corporation
Application for 2021 Electricity Distribution Rates
OEB File Number: EB-2020-0019**

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 1.

Yours truly,

Original Signed By

Marc Abramovitz
Incentive Rate Setting & Regulatory Accounting

Encl.

cc: All parties in EB-2020-0019



ONTARIO ENERGY BOARD

OEB Staff Submission

ERTH Power Corporation

2021 IRM Application

EB-2020-0019

March 10, 2021

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Application Summary

ERTH Power Corporation (ERTH Power) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on November 27, 2020 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, 2021.

Consistent with the Filing Requirements,¹ ERTH Power proposed to apply a Price Cap IR adjustment factor to its Main rate zone² and an Annual IR Index adjustment factor to its Goderich rate zone³, to adjust the monthly service charge during the incentive rate-setting years. OEB staff does not object to ERTH Power's proposed price cap and annual index adjustments, as explained in the section titled "Achieved Return on Equity". OEB staff has updated the 2021 IRM Model to reflect the OEB-approved 2021 price cap parameters, consistent with the election filed by ERTH Power.⁴

ERTH Power has requested an update to its Retail Transmission Service Rates (RTSRs) to recover the wholesale transmission rates charged by the Independent Electricity System Operator (IESO) and Hydro One Networks Inc. ERTH Power's updated RTSRs, as filed, have been adjusted to reflect the current OEB-approved 2021 Uniform Transmission Rates (UTRs)⁵ and Hydro One Networks Inc.'s 2021 host-RTSRs.⁶ OEB staff has no concerns with ERTH Power's requested adjustments to its RTSRs.

ERTH Power has also requested a Shared Tax Savings Adjustment for its Goderich rate zone due to legislative tax changes since its last rebasing application for rates effective May 1, 2013. The application identifies a total tax decrease of \$6,503, resulting in a shared credit amount of \$3,252 to be refunded to ratepayers.⁷ This allocated tax sharing amount does not produce a rate rider in one or more rate classes. In such situations, where the Rate Generator Model does not compute rate riders, distributors typically are required to transfer the entire OEB-approved tax sharing amount into the Disposition and Recovery of Regulatory Balances Control Account (Account 1595) for disposition at a later date, which is consistent with ERTH Power's request. OEB staff supports this approach.

Below, OEB staff makes detailed submissions on the following issues:

¹ Filing Requirements for Electricity Distribution Rate Applications - 2020 Edition for 2021 Rate Applications - Chapter 3 Incentive Rate-Setting Applications, May 14, 2020.

² The Main rate zone is comprised of customers from the former Erie Thames Powerlines Corporation.

³ The Goderich rate zone is comprised of customers from the former West Coast Huron Energy Inc.

⁴ EB-2020-0019, letter filed re: 2021 inflation factor, January 21, 2021.

⁵ EB-2020-0251

⁶ EB-2020-0030, Decision and Order, December 17, 2020.

⁷ 2021 IRM Rate Generator Model, filed December 4, 2020.

- Deferral and Variance Account (DVA) Disposition Requests (Group 1 Accounts excluding Accounts 1588 and 1589)
- Account 1588 and Account 1589
- Achieved Return on Equity (ROE)

Deferral and Variance Account (DVA) Disposition Requests (Group 1 Accounts excluding Accounts 1588 and 1589)

Background – Main Rate Zone

ERTH Power is requesting to dispose of a credit of \$147,826 in its Group 1 DVA balances, excluding Accounts 1588 and 1589, as of December 31, 2019, over a one-year period. This includes interest projected to April 30, 2021. The components of this credit balance are shown below:

Table 1: Group 1 DVAs Requested for Disposition – Main Rate Zone

Account Name	Account Number	Principal Balance (\$) A	Interest Balance (\$) B	Total Claim (\$) C=A+B
LV Variance Account	1550	56,911	12,217	69,128
Smart Metering Entity Charge Variance Account	1551	(19,488)	(690)	(20,178)
RSVA - Wholesale Market Service Charge	1580	(68,353)	(8,098)	(76,451)
Variance WMS – Sub-account CBR Class A	1580	0	0	0
Variance WMS – Sub-account CBR Class B	1580	(25,320)	(494)	(25,815)
RSVA - Retail Transmission Network Charge	1584	(41,878)	(4,270)	(46,148)
RSVA - Retail Transmission Connection Charge	1586	(47,254)	(1,108)	(48,362)
Totals for Group 1 DVAs (Excluding 1588 – Power and 1589 – Global Adjustment)		(145,382)	(2,444)	(147,826)

ERTH Power's 2019 Group 1 account balances for the Main rate zone represent a total credit claim of \$0.0003, which does not meet the OEB's pre-set disposition threshold of \$0.001 per kWh. However, ERTH Power is requesting disposition of these balances.

Background – Goderich Rate Zone

ERTH Power is requesting to dispose of a credit of \$87,070 in its Group 1 DVA balances, excluding Accounts 1588 and 1589, as of December 31, 2019, over a one-year period. This includes interest projected to April 30, 2021. The components of this credit balance are shown below:

Table 2: Group 1 DVAs Requested for Disposition – Goderich Rate Zone

Account Name	Account Number	Principal Balance (\$) A	Interest Balance (\$) B	Total Claim (\$) C=A+B
LV Variance Account	1550	0	0	0
Smart Metering Entity Charge Variance Account	1551	(2,850)	(101)	(2,951)
RSVA - Wholesale Market Service Charge	1580	(8,172)	(788)	(8,960)
Variance WMS – Sub-account CBR Class A	1580	0	0	0
Variance WMS – Sub-account CBR Class B	1580	(5,090)	(138)	(5,228)
RSVA - Retail Transmission Network Charge	1584	(46,639)	(2,806)	(49,445)
RSVA - Retail Transmission Connection Charge	1586	(20,147)	(339)	(20,486)
Totals for Group 1 DVAs (Excluding 1588 – Power and 1589 – Global Adjustment)		(82,898)	(4,173)	(87,070)

ERTH Power's 2019 Group 1 account balances for the Goderich rate zone represent a total credit claim of \$0.0006, which does not meet the OEB's pre-set disposition threshold of \$0.001 per kWh. Since the total claim is a credit to customers and the rate riders are material, ERTH Power is requesting disposition of these balances on an interim basis.⁸

Submission

OEB staff has reviewed the evidence supporting ERTH Power's 2019 Group 1 accounts and supports disposition of the balances, excluding Accounts 1588 and 1589, for both the Main and Goderich rate zones. As described in the following section, Accounts 1588 and 1589 are under review by ERTH Power. The outcome of the review may lead to

⁸ EB-2020-0019, Revised IRM Application filed December 16, 2020, Manager's Summary, page 33.

adjustments in the other Group 1 accounts and therefore, OEB staff submits that the 2019 Group 1 DVA balances should be disposed on an interim basis.

Account 1588 and Account 1589

Overview of Submission for Both Rate Zones

In 2018, the OEB suspended approval of Group 1 rate riders on a final basis pending the development of further accounting guidance on commodity pass-through variance accounts.⁹ The OEB issued accounting guidance¹⁰ on the commodity accounts on February 21, 2019 (Accounting Guidance). The OEB indicated that it expects distributors to consider the Accounting Guidance in the context of historical balances that have not yet been disposed on a final basis. Distributors are expected to make any adjustments needed prior to filing for final disposition.

OEB staff supports ERTH Power's request to not dispose of any Account 1588 and Account 1589 balances in this proceeding for both the Main and Goderich rate zones. OEB staff's detailed submissions on the Account 1588 and Account 1589 balances in each of ERTH Power's individual rate zones are discussed below.

Background – Main Rate Zone

The most recent Account 1588 and 1589 balances cleared on a final basis for the Main rate zone were December 31, 2014 balances in Erie Thames Powerlines Corporation's 2016 rates proceeding.¹¹ The most recent Account 1588 and 1589 balances cleared on an interim basis were December 31, 2017 balances in ERTH Power's 2019 rates proceeding.¹²

In ERTH Power's 2020 IRM decision, the OEB stated that it was not satisfied that ERTH Power had sufficiently addressed the issues for Account 1588 regarding its Main rate zone.¹³ The OEB also noted that, given that adjustments to Account 1588 may lead to adjustments in Account 1589, it did not approve disposition of both Accounts 1588 and

⁹ 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.

¹⁰ Accounting Procedures Handbook Update – Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589, February 21, 2019.

¹¹ EB-2015-0067, Erie Thames Powerlines Corporation, Decision and Rate Order, March 17, 2016, page 8.

¹² EB-2018-0030, ERTH Power Corporation – ERTH Power Main Rate Zone, Decision and Rate Order, March 28, 2019, page 9.

¹³ EB-2019-0033, ERTH Power Corporation, Decision and Rate Order, Main Rate Zone, April 16, 2020, page 12.

1589.

In ERTH Power's 2020 IRM decision, the OEB also stated that it expected that ERTH Power address the large 2018 balance for Account 1588 regarding its Main rate zone, in ERTH Power's 2021 rates proceeding. An explanation for this large 2018 balance has not been filed in the current proceeding.

In ERTH Power's 2020 IRM decision, the OEB also expected, at a minimum, that ERTH Power discuss in its 2021 IRM rate application the differences between the Goderich and the Main rate zones' accounting processes for Accounts 1588 and 1589, as well as the RPP settlement process, and how ERTH Power has applied the lessons learned from the Goderich rate zone OEB audit of Account 1588 and Account 1589 balances to the Main rate zone (the 2015 to 2017 Account 1588 and Account 1589 Goderich rate zone balances were inspected by the OEB's Inspection & Enforcement department). To address the OEB's concerns noted in the 2020 IRM decision, ERTH Power stated in the current proceeding that it has applied some lessons learned from the OEB audit. ERTH Power also noted that further lessons learned are difficult to apply as the Goderich rate zone has "none of the complexity of settlement" that is faced by ERTH Power in its Main rate zone.¹⁴

To address the OEB's concerns noted in the 2020 IRM decision, ERTH Power stated in the current proceeding that it is in the process of reviewing its Account 1588 and Account 1589 historical balances for the Main rate zone. ERTH Power indicated that it is not requesting final disposition at this time of its 2015 through 2017 balances previously cleared on an interim basis.¹⁵ ERTH Power also indicated that it is not requesting disposition of its 2018 and 2019 balances, which have not yet been disposed. As a result of ERTH Power noting that its Main rate zone balances are still under review, OEB staff limited its interrogatories in this proceeding mainly to address commodity account matters in the Goderich rate zone.

Submission

Regarding the Main rate zone, OEB staff supports ERTH Power's request to not seek final disposition of its 2015 through 2017 balances previously disposed on an interim basis, as well as its request to not seek disposition of 2018 and 2019 commodity account balances in this proceeding.

¹⁴ Manager's Summary, December 16, 2020, page 16.

¹⁵ Ibid

Based on the OEB's Filing Requirements¹⁶ and the previous OEB decisions for Erie Thames Powerlines and ERTH Power (Main rate zone),¹⁷ OEB staff submits that there are a number of items missing from the current evidentiary record that, in OEB staff's view, ERTH Power should provide before the final disposition of Accounts 1588 and 1589 for the Main rate zone:

1. Confirm that it has considered the Accounting Guidance in the context of historical balances previously disposed on an interim basis, and provide supporting evidence for the nature and quantum of any material adjustments that were required, including any adjustments required to true up with IESO for the 2015-2017 time period.
2. Confirm that it has applied the Accounting Guidance to January 1, 2018 and forward balances, that have yet to be disposed, and provide supporting evidence for the nature and quantum of any material adjustments that were required, including any adjustments required to true up with the IESO for those time periods.
3. Provide evidence explaining why the Main rate zone's 2018 balance for Account 1588 is so high, provided that the balance remains high after making any adjustments to comply with the OEB's Accounting Guidance.

OEB staff submits that the above should be filed for its application for 2022 rates.

Background – Goderich Rate Zone

In the Goderich rate zone, the most recent Account 1588 and 1589 balances cleared on a final basis were as of December 31, 2014, in West Coast Huron Energy's 2016 rates proceeding.¹⁸ The most recent Account 1588 and 1589 balances cleared on an interim basis were December 31, 2018 balances in ERTH Power's 2020 rates proceeding.¹⁹ The 2015 to 2017 Account 1588 and Account 1589 balances were inspected by the OEB's Inspection & Enforcement department.²⁰

¹⁶ Chapter 3 of the Filing Requirements for Electricity Distribution Applications Rate Applications, May 14, 2020, page 13 & 14

¹⁷ EB-2015-0067, Erie Thames Powerlines Corporation, Decision and Rate Order, March 17, 2016, page 8; EB-2017-0038, Erie Thames Powerlines Corporation, Settlement Agreement, October 5, 2018, page 28; EB-2018-0030, ERTH Power Corporation – ERTH Power Main Rate Zone, Decision and Rate Order, March 28, 2019, page 9; EB-2019-0033, ERTH Power Corporation, Decision and Rate Order, Main Rate Zone, April 16, 2020, page 12.

¹⁸ EB-2015-0111, West Coast Huron Energy Inc., Decision and Rate Order, March 17, 2016, page 6

¹⁹ EB-2019-0033, ERTH Power Corporation, Goderich Rate Zone, Decision and Rate Order, April 16, 2020, page 17

²⁰ EB-2019-0033, West Coast Huron Energy_IRR_cvrtr_202001131.pdf, "OEB Inspection of Power and

In response to interrogatories, ERTH Power withdrew its request to dispose of the 2019 Account 1588 and Account 1589 balances for the Goderich rate zone, until a further review can be completed for both the Goderich and Main rate zones, to address certain deficiencies noted.²¹

Submission

Regarding the Goderich rate zone, OEB staff supports ERTH Power's request to not seek interim or final disposition of its 2019 commodity account balances. While the evidence on record does not indicate this as an explicit statement, OEB staff's understanding is that ERTH Power is not requesting final disposition for prior balances cleared on an interim basis in the Goderich rate zone. OEB staff supports keeping these balances interim to allow for any necessary adjustments to these accounts.

Based on the OEB's Filing Requirements²² and the previous OEB decisions for West Coast Huron Energy and ERTH Power (Goderich rate zone),²³ OEB staff submits that there are a number of items missing from the current evidentiary record that, in OEB staff's view, ERTH Power should provide before the final disposition of Accounts 1588 and 1589 for the Goderich rate zone:

1. Confirm that it has considered the Accounting Guidance in the context of historical balances previously disposed on an interim basis for 2018, and provide supporting evidence for the nature and quantum of any material adjustments that were required, including any adjustments required to true up with the IESO for 2018. The 2015 to 2017 balances were also previously disposed on an interim basis. However, the OEB's Inspection & Enforcement Department has already reviewed these amounts. Accordingly, the 2015 to 2017 balances do not need to be addressed.
2. Confirm that it has applied the Accounting Guidance to January 1, 2019 and forward balances and provide supporting evidence for the nature and quantum of any material adjustments that were required, including any adjustments required to true up with the IESO for those time periods.
3. Provide explanations for the deficiencies listed below, including whether these issues have been rectified and what steps were taken to correct any errors.

Global Adjustment Deferral and Variance Accounts", March 29, 2019, page 1

²¹ Staff Question-4 – Goderich Rate Zone

²² Chapter 3 of the Filing Requirements for Electricity Distribution Applications Rate Applications, May 14, 2020, page 13 & 14

²³ EB-2015-0111, West Coast Huron Energy Inc., Decision and Rate Order, March 17, 2016, page 6. EB-2019-0033, ERTH Power Corporation, Goderich Rate Zone, Decision and Rate Order, April 16, 2020, page 17.

- Reporting of revenue in the CIS billing system for certain periods²⁴
- Calculations of unbilled revenue accruals, in order to match period expenses²⁵
- Reporting and Record-Keeping Requirements (RRR) 2.1.5 submissions of Class A data and Class B data²⁶
- Embedded generation, energy storage, and Class A load information in an IESO settlement filing²⁷

4. Provide explanations for the matters listed below.

- Whether the 2019 principal adjustments of an Account 1588 credit of \$114,507 and Account 1589 credit of \$66,752 to reflect a November 2020 IESO refund of \$181,259 (relating to 2019 consumption) were calculated correctly based on the Accounting Guidance.²⁸
- Whether the Principal Adjustments tab of the Global Adjustment (GA) Analysis Workform was completed correctly.²⁹ One aspect was that Charge Type (CT) 148 true-ups have not been presented separately from CT 1142 true-ups.

OEB staff submits that the above should be filed for its application for 2022 rates.

Achieved Return on Equity (ROE)

Background

On December 20, 2018, the OEB issued a Decision and Order (MAADs Decision) approving the amalgamation of West Coast Huron Energy Inc. and ERTH Power Corporation (formerly Erie Thames Powerlines Corporation).³⁰ In the MAADs Decision, the OEB approved a nine-year deferred rebasing period and included an Earning Sharing Mechanism to be implemented during years six through nine of the deferred rebasing period. The MAADs Decision noted that during the nine-year deferred rebasing period, the rate adjustments for customers in ERTH Power's Main rate zone would maintain the Price Cap IR Index until the end of the nine-year rebasing deferral period.

²⁴ Staff Question-4 – Goderich Rate Zone

²⁵ Staff Question-4 – Goderich Rate Zone

²⁶ Staff Question-7 – Goderich Rate Zone

²⁷ Staff Question-8 – Goderich Rate Zone

²⁸ Staff Question-8 – Goderich Rate Zone

²⁹ GA Analysis Workform, February 24, 2021

³⁰ Decision and Order, EB-2018-0082, December 20, 2018 (MAADs Decision)

As well, the former West Coast Huron rate zone (now Goderich rate zone) was to remain on the Annual IR Index option. ERTH Power is requesting an adjustment to its base rates in the current proceeding for each rate zone based on the Price Cap IR and Annual IR Index respectively.

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.³¹ The Handbook to Electricity Distributor and Transmitter Consolidations³² (MAADs Handbook) notes that, with respect to initiating regulatory reviews, the dead band of ± 300 basis points on deemed ROE continues to apply to utilities who have deferred rebasing due to consolidation.³³

ERTH Power's 2019 ROE reported in the OEB's RRR 2.1.5.6 - Regulated ROE was 12.05%, 3.05% (or 305 basis points) greater than the OEB's 2019 deemed ROE of 9.00%. ERTH Power noted that the main reason for the over-earning was the inclusion of \$568,355 in Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) recoveries related to prior years for both of the merged entities (2017 and 2018 for the Main rate zone and 2013 to 2018 for the Goderich rate zone).³⁴ When ERTH Power adjusted its reported ROE for this reason, its adjusted ROE is 10.22%, which is 122 basis points above the approved ROE.³⁵

Submission

After making the LRAMVA adjustment to its 2019 reported ROE, ERTH Power's achieved ROE is within 300 basis points of approved ROE. The question that the OEB must decide is whether the LRAMVA adjustment is appropriate. OEB staff submits that it is.

ERTH Power noted that its 2019 ROE results include a one-time prior period recovery of \$568,355 for LRAMVA collection because of Conservation and Demand Management activities performed by West Coast Huron Energy and Erie Thames Powerlines (refer to Table 3, reproduced by OEB staff, for details by rate zone and year). These LRAMVA amounts significantly impacted the 2019 Achieved ROE calculation for ERTH Power, as it was all recognized in 2019 revenue, but related to prior periods.

³¹ Ibid.

³² Issued January 19, 2016

³³ Ibid., Page 16

³⁴ IRR Staff-11

³⁵ IRR Staff-6

Table 3 – LRAMVA amounts by Rate Zone and Year

Year	Goderich (formerly West Coast Huron) (\$)	ERTH (formerly Erie Thames Powerlines) (\$)	Total (\$)
2013	(8,377)	-	(8,377)
2014	(4,278)	-	(4,278)
2015	3,363	-	3,363
2016	25,053	-	25,053
2017	35,261	399,870	435,131
2018	35,386	54,350	89,736
Carrying Charges	3,923	23,804	27,727
Total	90,331	478,024	568,355

OEB staff notes that the associated LRAMVA amounts were not reflected in the approved revenue requirement for either the former Erie Thames Powerlines or West Coast Huron Energy. Therefore, ERTH Power adjusted its ROE to remove the LRAMVA revenues from regulated net income.³⁶ OEB staff agrees with this adjustment as the \$568,355 is for the recovery of lost revenues relating to years that should not have any impact to 2019 revenues and the calculated achieved 2019 ROE.

OEB staff is not aware of a decision where the OEB has approved an adjustment to ROE to account for the timing of LRAM revenues in establishing a normalized actual ROE calculation for the purpose of a request for an inflationary increase. However, that issue recently arose in Niagara-on-the-Lake Hydro Inc.'s (NOTL) 2021 IRM application.³⁷ In that application, OEB staff supported NOTL's adjustment to its ROE for LRAM revenues pertaining to previous periods for the same reasons as put forth in this submission.³⁸ The OEB panel's decision in NOTL's application is still pending.

OEB staff further notes that the type of adjustment requested here has been accepted in the past by the OEB in determining the actual ROE to be used in calculating the outcomes of any particular year that is subject to an earnings sharing mechanism.³⁹

Accordingly, OEB staff supports ERTH Power's LRAMVA adjustment, submits that its 2019 achieved ROE is within the OEB's dead band, and supports ERTH Power's

³⁶ IRR Staff-14

³⁷ EB-2020-0042, October 10, 2020

³⁸ EB-2020-0042, OEB Staff Submission, February 1, 2021

³⁹ Hydro Ottawa Limited, Decision and Order for Custom IR application for Jan 1, 2021-Dec. 31, 2025, November 19, 2020 (EB-2019-0261)

request for an inflationary increase to its 2021 rates.

~All of which is respectfully submitted~