Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL

October 6, 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
Brantford Power Inc.
Application for 2022 Electricity Distribution Rates
OEB File Number: EB-2021-0009

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 2. Brantford Power and all intervenors have been copied on this filing.

Yours truly,

Georgette Vlahos

Digitally signed by Georgette Vlahos
Date: 2021.10.06 11:41:51 -04'00'

Georgette Vlahos
Advisor – Electricity Distribution: Major Rate Applications & Consolidations

Encl.

cc: All parties in EB-2021-0009

ONTARIO ENERGY BOARD

OEB Staff Submission

Brantford Power Inc.

Application for 2022 Electricity Distribution Rates

EB-2021-0009

October 6, 2021

Introduction

Brantford Power Inc. filed a cost of service application with the Ontario Energy Board, seeking approval for changes to the rates that Brantford Power charges for electricity distribution, beginning January 1, 2022.[1]

The OEB issued an approved Issues List for this proceeding on July 12, 2021.[2] A settlement conference was held from August 30 to September 1, 2021 and continued on September 2, 2021. Brantford Power and the following intervenors participated in the settlement conference: Energy Probe Research Foundation, School Energy Coalition and the Vulnerable Energy Consumers Coalition (collectively, the parties). Energy+ Inc. was also an approved intervenor in this proceeding but did not participate in the Settlement Conference.

Brantford Power filed a settlement proposal on September 30, 2021. The settlement proposal represents a full settlement and is proposed by Brantford Power and the parties.

This submission is based on the status of the record at the time of the filing of the settlement proposal and reflects observations that arise from OEB staff's review of the evidence and the settlement proposal. It is intended to assist the OEB in deciding upon Brantford Power's application and the settlement proposal.

[1] Pursuant to section 78 of the *Ontario Energy Board Act*, 1998, S.O. 1998, c. 15, (Schedule B)
[2] EB-2021-0009, Decision on Issues List, July 12, 2021

Settlement Proposal

OEB staff has reviewed the settlement proposal in the context of the objectives of the *Renewed Regulatory Framework*[3], the *Handbook for Utility Rate Applications*[4], applicable OEB policies, relevant OEB decisions, and the OEB's statutory obligations. OEB staff submits that the settlement proposal reflects a reasonable evaluation of the distributor's planned outcomes in this proceeding, appropriate consideration of the relevant issues, and ensures that there are sufficient resources to allow Brantford Power to achieve its identified outcomes in the five years of the plan from 2022 to 2026.

OEB staff further submits that the explanations and rationale provided by the parties support the settlement proposal and that the outcomes arising from the OEB's approval of the settlement proposal would reflect the public interest and would result in just and reasonable rates for customers.

For a typical residential customer with a monthly consumption of 750 kWh, the total bill impact under the filed settlement proposal is an increase of approximately $2.98 per month before taxes and the Ontario Electricity Rebate, or 2.47%.

OEB staff provides specific submissions on certain issues set out in the Issues List.

OEB Staff Submission

Issue 1.0 – Planning

<u>Issue 1.1 – Capital</u>

In its application, Brantford Power proposed total net capital expenditures of $8.14 million (which are equal to the net capital additions) for the 2022 test year. The largest area of capital investment is system access which focuses on new residential and non-residential connections as outlined in Brantford Power's Distribution System Plan (DSP).

For the purposes of the settlement of all issues in this proceeding, the parties have agreed that the opening rate base and capital budget for the test year are appropriate.

OEB staff submits that the agreement reached by the parties is reasonable.

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[3] Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, October 18, 2012
[4] Handbook for Utility Rate Applications, October 13, 2016

Issue 1.2 – Operating, Maintenance, and Administration (OM&A)

Brantford Power proposed total OM&A spending of $13.78 million for the 2022 test year.[5] Brantford Power provided a table summarizing the OM&A cost drivers in the test year relative to the historical and 2021 bridge year. Some examples include IT costs, cybersecurity costs, general & administrative salaries/benefits, 24/7 control room monitoring, HR and payroll etc.[6]

The parties agreed to an OM&A amount of $12.55 million, which equates to an envelope reduction of $1,230,640 to Brantford Power's proposed 2022 OM&A spending. The revised 2022 OM&A amount results in an increase of 25% from 2017 actual OM&A spending or 4% when compared to 2020 actual OM&A spending. The compound annual growth rate from 2017 actuals is 4.6%, or 1.9% when compared to 2020 actuals. OEB staff notes that Brantford Power is in Cohort 3 (the third most efficient group) as per the *Empirical Research in Support of Incentive Rate-Setting: 2020 Benchmarking Update.*[7]

OEB staff submits that the envelope reduction of $1.23 million in OM&A is reasonable. OEB staff further notes that the settled OM&A envelope should ensure Brantford Power has the resources to maintain a safe and reliable distribution system. Brantford Power has applied the OM&A reduction on a proportional basis to each of its OM&A accounts to model the impacts of the adjustment. As noted in the settlement proposal, no specific reductions to Brantford Power's plans have been considered in the OM&A figures provided in Table 1.2A and Table 1.2B of the settlement proposal.

Issue 2.0 – Revenue Requirement

The parties have agreed to a service revenue requirement of $22.36 million and a base revenue requirement of $21.29 million. The table below, replicated from the settlement proposal, shows the change in revenue requirement between Brantford Power's initially filed application and the settlement proposal. OEB staff has no concerns with the revenue requirement calculations.

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[5] This amount excludes property taxes and LEAP funding.
[6] EB-2021-0009, Application, Exhibit 4, Page 13
[7] Report to the Ontario Energy Board – "Empirical Research in Support of Incentive Rate-Setting: 2020 Benchmarking Update", prepared by Pacific Economics Group LLC., August 2021. As noted on page 9, stretch factors are assigned based on a three-year average of actual less predicted costs over the 2018-2020 period. Those within 10% of predicted costs received a stretch factor of 0.30%.

Table 1: Brantford Power Revenue Requirement

2022 Test Year	Original Application	Pre-Settlement Clarification	Change	Settlement Proposal	Change	Total Change
OM&A Expenses (excl. property taxes and LEAP)	$13,780,640	$13,780,640	$0	$12,550,000	($1,230,640)	($1,230,640)
Property Taxes	$261,988	$261,988	$0	$261,988	$0	$0
LEAP	$28,000	$28,000	$0	$27,000	($1,000)	($1,000)
Depreciation Expense	$4,019,354	$3,906,002	($113,351)	$3,906,002	$0	$(113,351)
Return on Rate Base	$5,148,360	$5,170,924	$22,564	$5,163,390	$(7,534)	$15,030
Grossed Up PILs	$608,487	$575,342	$(33,145)	$457,076	($118,266)	($151,411)
Service Revenue Requirement	$23,846,829	$23,722,896	$(123,933)	$22,365,456	($1,357,440)	($1,481,373)
Other Revenues	$1,067,032	$1,067,032	$0	$1,067,032	$0	$0
Base Revenue Requirement	$22,779,797	$22,655,864	($123,933)	$21,298,424	($1,357,440)	($1,481,373)
Distribution Revenue at Current Rates	$18,382,682	$18,554,389	$171,707	$18,785,290	$230,901	$402,607
Revenue Deficiency/Sufficiency	$4,397,115	$4,101,475	($295,640)	$2,513,134	($1,588,341)	($1,883,981)

PILS Expense- Accelerated Capital Cost Allowance

Bill C-97 introduced the Accelerated Investment Incentive program (AIIP), which provides for a first-year increase in capital cost allowance (CCA) deductions on eligible capital assets acquired after November 20, 2018. The AIIP is expected to be phased out starting in 2024, and fully phased out in 2028.

In its July 25, 2019 letter (CCA Letter) titled *Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance*, the OEB provided accounting direction on the treatment of the impacts from accelerated CCA resulting from the AIIP. The OEB established a separate sub-account, Account 1592 - PILs and Tax Variances, Sub-account CCA Changes to track the impact of any differences that result from the CCA change to the tax rate or rules that were used to determine the tax amount that underpins rates.

The parties agreed to Brantford Power's calculation of the CCA differences (including those pertaining to Incremental Capital Module (ICM) funded assets) that are accumulated in Account 1592, Sub-account CCA Changes from November 21, 2018 to December 31, 2021 by comparing the CCA on the actual (or forecast, as applicable) capital additions[8] in the respective period under the legacy rule to the accelerated CCA

[8] Note that for 2021, forecasted actual capital additions are used.

on the same capital additions[9] in the respective period under the AIIP. The calculated 1592 sub-account credit balance of $937,222 represents the full revenue requirement impact of the application of accelerated CCA as at December 31, 2021, including interest forecasted to December 31, 2021. The parties agreed that 100% of the revenue requirement impact is to be refunded to Brantford Power's ratepayers. OEB staff does not object to this approach, given the CCA Letter states that "determinations as to the appropriate disposition methodology will be made at the time of each Utility's cost-based application". In addition, OEB staff notes that a refund of 100% of the sub-account to ratepayers has previously been approved by the OEB in a prior proceeding[10] and accepted by the OEB in settlement proposals of various proceedings.[11]

The CCA Letter also indicated that utilities were to reflect any impacts arising from CCA rule changes in their cost-based applications for 2020 rates and beyond and that the OEB may consider a smoothing mechanism to address any timing differences that could lead to volatility in tax deductions over the rate-setting term. The *Chapter 2 Filing Requirements for Electricity Distributors* further state that the OEB will assess smoothing proposals on a case-by-case basis and if the OEB is satisfied with the smoothing proposals, the recording of impacts from these CCA changes in Account 1592 may not be required during the incentive rate-setting term.[12]

In the current application, Brantford Power proposed a five-year smoothing adjustment to CCA that is reflected in PILs to address the phasing out of AIIP. The parties agreed to a smoothing adjustment of $153,899 that is added to net income before taxes, where the adjustment is calculated as the average of the annual difference between i) CCA using the accelerated CCA equal to three times the legacy CCA and ii) the CCA using the CCA rule anticipated to be in place for the respective year (i.e. reflecting the phase-out of AIIP starting in 2024, equaling two times the legacy CCA rule). The CCA in the adjustment is calculated based on forecasted additions for each year from 2022 to 2026, consistent with Brantford Power's DSP. In OEB staff's view, the agreed-upon smoothing adjustment calculation is one of the appropriate methods to calculate a smoothing adjustment to address the phase out of AIIP. The total five-year difference between i) and ii) noted above, is ultimately forecasting the potential balance that would be recorded in the 1592 sub-account in the 2022 to 2026 period by comparing the CCA rule ultimately embedded in rates to the CCA rule actually in place in each year. Adding

[9] Ibid.
[10] Enbridge Gas Inc. Deferral and Variance Account Disposition and Earnings Sharing Mechanism Decision and Order, May 6, 2021, EB-2020-0134
[11] Hydro Ottawa 2021 Custom IR Decision and Order, EB-2019-0261, November 19, 2020 and Waterloo North Hydro Inc. 2021 Cost of Service Decision and Rate Order, EB-2020-0059, December 10, 2020
[12] Chapter 2 Filing Requirements for Electricity Distribution Rate Applications – 2021 Edition for 2022 Rate Applications, June 24, 2021, Page 38

one fifth of the total (i.e. the average of annual differences) to the net income before taxes is providing Brantford Power with recovery of the forecasted 1592 sub-account through PILs. Therefore, OEB staff agrees with the smoothing adjustment calculation.

The parties also agreed that Brantford Power's continued use of the 1592 sub-account during 2022 to 2026 will be limited to capture the impact of any changes in CCA rules, other than those contemplated in the AIIP (i.e. further CCA rule changes from the phase out of accelerated CCA rules expected to be in place during the IRM period). OEB staff agrees with this approach. In OEB staff's view, the intent of a smoothing adjustment is to address the change in CCA rules resulting from Bill C-97 upfront in the current application, instead of capturing the impact of those change in rules as they occur during the IRM period. Therefore, the 1592 sub-account would no longer be needed for the 2022 to 2026 period, unless there are further changes to CCA rules that were not contemplated in the calculation of the smoothing adjustment.

Issue 3.0 – Load Forecast, Cost Allocation, and Rate Design

Issue 3.1 – Are the proposed load and customer forecast, loss factors, and resulting billing determinants appropriate, and, to the extent applicable, are they an appropriate reflection of the energy and demand requirements of Brantford Power's customers?

The parties agreed to five changes in Brantford Power's load and customer forecast.

1) The growth in residential customer connection count from 2021 to 2022 was increased to 2.3%. This is to be consistent with the growth in 2021 over 2020, and to reflect the higher levels of growth identified in the DSP.
2) An update to the GDP variable so that the predicted values in each month exhibit the forecasted annual growth relative to the same month a year prior. This also results in the total annual value of the explanatory variable reflecting the annual forecasted growth.
3) The trend variable in the regression, which had been identified as being at least partially attributed to CDM[13] was adjusted to increase by 0.6 per month from January 2021 to December 2022. This is to reflect the end of the IESO's Conservation First Framework while still reflecting that other sources of CDM will decrease usage.
4) The energy use for the general service rate classes was adjusted to reflect energy use per customer in 2019, adjusted by the average growth rate from 2010 to 2019, reflecting that 2019, and the 2010-2019 trend are more indicative of expected general service energy use going forward.
5) A correction to the energy use for the street lighting rate class.

[13] EB-2021-0009, Interrogatory Responses, IRR 3-Staff-39, Page 201

In the context of the settlement proposal, OEB staff does not have any concerns with the proposed load forecast of 970 GWh, 1,509 MW and 48,839 customers and connections as shown in Table 3.1A of the settlement proposal. This reflects an increase of 41 GWh, 34 MW and 1,030 customers over the initial proposal. OEB staff submits that the agreed-upon load and customer connection forecasts are reasonable.

Issue 3.2 - Are the proposed cost allocation methodology, allocations, and revenue-to-cost ratios, appropriate?

The parties agreed that the count of customers in the GS < 50kW and GS > 50 kW rate classes using secondary distribution assets is the same as the count of customers using line transformation assets. This reflects an understanding that customers who use their own transformers do not rely on the distributor's secondary distribution assets.

Brantford Power updated its load profiles for the purpose of determining updated coincident peak demand and non-coincident peak demand allocators. The parties accepted the results of the cost allocation using the updated load profiles but remain concerned about the methodology.

OEB staff agree that the updated demand allocators appear reasonable and support their use. OEB staff does not have any concerns with the cost allocation agreed to by the parties.

Issue 3.3 - Are Brantford Power's proposals, including the proposed fixed/variable splits, for rate design appropriate?

The parties agreed that the fixed charges for the GS < 50 kW and GS > 50 kW rate classes be maintained at their current charges of $31.88 and $245.54 respectively, as these already exceed the allocated cost of the Minimum System with Peak Load Carrying Capability adjustment (commonly referred to as the ceiling).

OEB staff has no concerns with the rate design proposal.

Issue 3.6 - Is Brantford Power's request to amend the name and description of its GS 50 to 4,999 kW customer class to GS> 50 kW appropriate?

Parties agreed that the General Service 50 to 4,999 kW rate class would be modified in its description and applicability to be a General Service>50 kW rate class. Historically, the demand levels for these customers have fluctuated and therefore Brantford Power proposed to re-name its industrial class to General Service>50 kW in order to correctly capture all industrial customers.[14]

OEB staff has no concerns with Brantford Power's proposal to amend the General Service 50 to 4,999 kW class name and definition.

Issue 3.7 - Is Brantford Power's proposal to maintain the existing Interim status for the Standby charge appropriate?

As part of the settlement agreement, parties agreed to maintain the existing interim status for the standby charge.

While the Chapter 2 Filing Requirements state that distributors should request approval for its standby rates to be made final[15], OEB staff does not take issue with the agreement reached by parties. OEB staff notes that there is no impact on the test year rates as there are no customers planned for the test year. Further, Brantford Power last applied this charge in 2015 and stated it will be in a better position to determine a rate based on cause causation in a future application.[16,17,18] OEB staff considers it reasonable to maintain the current rate interim at this time.

Issue 4.0 - Accounting

Issue 4.1 - Have all impacts of any changes in accounting standards, policies, estimates and adjustments been properly identified and recorded, and is the rate-making treatment of each of these impacts appropriate?

During the course of the proceeding, it was noted that Brantford Power capitalizes the cost of overhead and underground inspections, and depreciates the capitalized amount over three years, as each section of the city is inspected every three years.[19] Brantford Power views these inspections as major inspections and began capitalizing them in its 2015 audited financial statements.[20] If these inspections were expensed in the 2022 test year instead of capitalized, Brantford Power estimated that this would decrease revenue

[14] EB-2021-0009, Application, Exhibit 9, Page 15
[15] Filing Requirements for Electricity Distribution Rate Applications – 2021 Edition for 2022 Rate Applications – Chapter 2 Cost of Service, June 24, 2021, Page 51
[16] EB-2021-0009, Application, Exhibit 7, Page 14
[17] Brantford Power noted that it has prospective customers interested in connecting new load displacement generation for which the customers may request backup power/standby/reserved capacity. These arrangements are tentative and are in early stages of discussions, and any such arrangements are beyond the 2022 test year.
[18] EB-2021-0009, Brantford_IRR_Redacted_20210810, 7-Staff-95
[19] EB-2021-0009, Interrogatory Responses, IRR SEC-PS-10, Page 65
[20] Ibid.

requirement by approximately $12k.[21]

In the settlement proposal, it is noted that intervenors do not agree that the overhead and underground inspection programs should be capitalized, however the impact on the revenue requirement in this application is immaterial.

OEB staff notes that Article 410 of the Accounting Procedures Handbook states the following: [22]

> A condition of continuing to operate an item of property, plant and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied.

In OEB staff's view, it is arguable whether capitalizing overhead and underground inspections as major inspections is in accordance with Modified International Financial Reporting Standards (MIFRS).[23] However, given the immaterial impact of capitalizing or expensing overhead and underground inspections in this particular application, OEB staff does not take issue with the agreed-upon treatment of the inspections for regulatory purposes in this case.

<u>Issue 4.2 - Are Brantford Power's proposals for deferral and variance accounts, including the balances in the existing accounts and their disposition, requests for discontinuation of accounts, and the continuation of existing accounts, appropriate?</u>

In the settlement proposal, parties agreed to dispose of Brantford Power's Group 1 Deferral and Variance Account (DVA) balances (credit of $167,945) as at December 31, 2020, and Group 2 and Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) balances (debit of $408,838) as at December 31, 2020[24], including forecasted interest to December 31, 2021. All DVA balances are to be disposed over a one-year period.

OEB staff supports the settlement proposal reached by parties and makes the following submission on particular aspects of the DVAs.

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[21] EB-2021-0009, Interrogatory Responses, IRR SEC-PS-10, Page 65
[22] Page 12, Article 410 of Accounting Procedures Handbook effective January 1, 2012
[23] MIFRS represents the accounting standard International Financial Reporting Standards, as modified for regulatory purposes by the OEB.
[24] Some Group 2 accounts include forecasted 2021 balances as noted below

Forecasting Certain Group 2 Balances

Parties have agreed to disposition of forecasted 2021 balances for the below accounts and have agreed to the subsequent closure of those accounts, except for Account 1592, Sub-account CCA Changes:

- Account 1518 - Retail Cost Variance Account – Retail
- Account 1548 - Retail Cost Variance Account – STR
- Account 1508 – Other Regulatory Assets, Sub-account Lost Collection of Account Revenue
- Account 1508 – Other Regulatory Assets, Sub-account OPEB Forecast Cash vs Accrual
- Account 1592 – PILS and Tax Variance, Sub-account CCA Changes Variance

OEB staff notes that, typically, audited balances are disposed, but there are exceptions to this requirement. For example, in the disposition of retail service charge related variance accounts and sub-account for Pole Attachment Revenue Variance, the OEB may consider disposing forecasted amounts up to the effective date of rebased rates.[25] Regarding retail service charge related variance accounts, Brantford Power has confirmed that it is able to forecast the 2021 balance in Accounts 1518 and 1548 with reasonable accuracy.[26] Therefore, OEB staff supports the settlement reached by parties for these two accounts. Regarding the Pole Attachment Revenue Variance sub-account, parties accepted Brantford Power's proposal not to forecast 2021 balance. Brantford Power indicated that the 2021 balance cannot be forecasted with reasonable certainty at this time. However, the sub-account will be discontinued effective January 1, 2022.[27] OEB staff takes no issue with this approach.

Regarding the 1508 sub-account for Lost Collection of Account Revenue and 1508 sub-account for OPEB Forecast Cash vs Accrual, OEB staff notes that due to the nature of these accounts, the 2021 balances are known and will not change. Regarding the 1592 sub-account for CCA changes, OEB staff notes that Brantford Power will have actual data for the majority of the 2021 year to use in its calculation of the forecasted 2021 balance. Furthermore, as noted under the PILs section of Issue 2.0, parties have agreed that the 1592 sub-account will be limited to only capture the impact of any further changes in CCA rules, other than those contemplated in the AIIP. Therefore, absent any new changes to the rules governing CCA during the 2022 to 2026 period, journal entries to the sub-account are not generally expected. OEB staff's view is that there would be regulatory efficiencies to be gained and less intergenerational inequity

[25] Pages 58 and 71 of the Chapter 2 Filing Requirements for Electricity Distribution Rate Applications – 2021 Edition for 2022 Rate Applications, June 24, 2021
[26] EB-2021-0009, Interrogatory Responses, IRR 9-Staff-101, Pages 438-439
[27] EB-2021-0009, Interrogatory Responses, IRR 9-Staff-100, Pages 435-437

by disposing the forecasted 2021 balances in these three accounts in the current application and subsequently closing the accounts (except for the 1592 sub-account), rather than waiting for the 2021 balances to be audited and be disposed in Brantford Power's next cost of service proceeding (expected for 2027 rates).

Account 1509 – Impacts Arising from the COVID-19 Emergency

The OEB issued its *Report on the Regulatory Treatment of Impacts Arising from the COVID-19 Emergency* (COVID-19 Report) on June 17, 2021[28] (i.e., after the filing of Brantford Power's 2022 rebasing application). As part of its interrogatory responses, Brantford Power provided its re-assessed balances in Account 1509 – Impacts Arising from the COVID-19 Emergency in consideration of the rules for the account set out in the COVID-19 Report and proposed disposition.[29] The claim amount is as follows:

Sub-Account	Balance ($)
Sub-account Impacts from Complying with Government/OEB-initiated Customer Relief Programs	12,500
Sub-account Bad Debt	92,646
Sub-account Capital-related Revenue Requirement Impacts	-
Sub-account Other Costs and Savings	109,956
Account Total	**215,102**
Claim Amount (50% of account total)	**107,551**

Parties have agreed not to dispose of Account 1509 in this application and to continue the account after rebasing. OEB staff notes that the COVID-19 Report indicated that ideally, disposition of Account 1509 would be in conjunction with a utilities first cost-based rates proceeding following issuance of the report and that Account 1509 would remain in effect until that rebasing application, when it is reasonable to presume that rates may be reset reflecting the revised operating conditions facing the utility.[30] However, OEB staff does not take issue with the agreed-upon approach, given the timing of the COVID-19 Report issuance and the filing of the application.

Brantford Power stated that it proposed to continue the account because of the ongoing uncertainty related to the pandemic. Brantford Power also noted that it was not possible to forecast COVID-19 impacts and incorporate it into the test year upon rebasing.[31] As noted above, the COVID-19 Report was issued after Brantford Power's application was

[28] EB-2020-0133, June 17, 2021
[29] EB-2021-0009, Interrogatory Responses, IRR 9-Staff-105, Pages 444-451
[30] Pages 38 and 46
[31] EB-2021-0009, Interrogatory Responses, IRR 4-Staff-121, Page 20, IRR 4-Staff-123, Page 22, IRR 9-Staff-143, Pages 47-53

filed. In its interrogatory responses, Brantford Power updated its Account 1509 claim, but did not provide an update to incorporate COVID-19 impacts into the revenue requirement. In OEB staff's view, there has also been insufficient opportunity for discovery on Brantford Power's updated Account 1509 disposition request. Therefore, OEB staff submits that the approach in the settlement proposal for Account 1509 is reasonable in this case.

Issue 5.0 Other

Issue 5.1 - Is the proposed effective date (i.e. January 1, 2022 for 2022 rates appropriate?

The parties have agreed to an effective date of January 1, 2022. Brantford Power filed this application on May 12, 2021, approximately 12 days after the established deadline for January 1 filers. The only other minimal delay in this proceeding is the one-week extension requested to file a complete settlement proposal, which was granted by the OEB.[32]

OEB staff agrees that an effective date of January 1, 2022 is appropriate.

The settlement proposal further notes that should the OEB be unable to issue a final rate order for this application by December 1, 2021, the 2021 rates should be deemed interim as of January 1, 2022 and Brantford Power will calculate foregone revenue rate riders for the lost revenues associated with distribution revenue resulting from the difference between the effective and implementation dates to be included with the Tariff of Rates.[33]

OEB staff submits that if a decision and final rate order cannot be issued in time for January 1, 2022 implementation, Brantford Power should be allowed to recover any forgone revenue between its current rates and new rates effective January 1, 2022.

[32] EB-2021-0009, PO2_Brantford Power CoS_20210922, September 22, 2021
[33] EB-2021-0009, Settlement Proposal, Page 45

Issue 5.2 – Are the amounts proposed for inclusion in rate base for the Incremental Capital Module approved in EB-2019-0022 and the proposed treatment of the associated true-up appropriate?

Brantford Power requested to bring into rate base facility assets for its portion[34] of a new building for which funding had previously been approved through an ICM request. Brantford Power's employees moved into the facility during 2020 once the building was substantially completed. There is some remaining spending expected in 2021, however, Brantford Power stated that these items do not affect the current usefulness of the facility.[35]

In Brantford Power's 2020 IRM application[36], the projected costs for the acquisition and renovations of the facility were $15,028,188. Based on Brantford Power's materiality threshold, the maximum eligible capital amount that was approved by the OEB was $13,206,717. In the 2020 IRM proceeding there was no application of the half-year rule since the ICM application was not for the year immediately prior to rebasing. In its 2020 IRM decision, the OEB approved a March 1, 2020 effective date for the associated ICM rate riders (i.e., 10-months).[37]

In the current application, Brantford Power indicated that the actual cost of the facility is $14,829,117.[38] Brantford Power proposed that the half-year rule be used for depreciation in the first year the ICM assets went into service.[39] Brantford Power's proposed ICM true-up calculation credit of $53,187[40] compared the following:

- for 2020: i) actual revenues collected for 10 months compared to ii) the full-year revenue requirement recalculated based on actuals[41]
- for 2021: i) forecasted revenues for 2021 equaling the approved full-year revenue requirement compared to ii) the full-year revenue requirement recalculated based on actuals.[42]

[34] EB-2021-0009, Application, Exhibit 2, Page 59 and Exhibit 1, Page 140, Brantford Power has kept a portion of its building out of rate base as it is tenanted (or intended to be). The capital costs associated with the facility not used for distribution purposes (net book value of building and used land) have been excluded from the calculation of average net fixed assets. Depreciation expense and PILS have been reduced accordingly in turn. Similarly, Brantford Power has only shown the allocated facility OM&A associated with the regulated/utility portion. Facility asset management OM&A budgets have been allocated among tenants based primarily on use of floor space.
[35] EB-2021-0009, Application, Exhibit 2, Pages 55-56
[36] EB-2019-0022
[37] EB-2019-0022/EB-2019-0031, Decision and Rate Order, January 23, 2020, Pages 15-16
[38] EB-2021-0009, Application, Exhibit 2. Page 56
[39] EB-2021-0009, IRR 2-Staff-16, Page 88
[40] EB-2021-0009, IRR 2-SEC-16, Page 159
[41] EB-2021-0009, Interrogatory Responses, August 10, 2021, IRR 2-Staff-17, Pages 92-93
[42] Ibid.

In the settlement proposal, the parties have agreed on the following for the ICM true-up calculation and the addition of the ICM-funded assets into rate base:

- The ICM true-up for 2020 is to be calculated as proposed by Brantford Power, resulting in a debit amount of $26,377. The ICM true-up for 2021 compares i) forecasted revenues equaling two times the actual June year-to-date 2021 revenues to ii) the full-year revenue requirement recalculated based on actuals, resulting in a credit amount of $97,065. Brantford Power will be returning a credit of $70,688 relating to 2020 and 2021 back to ratepayers.
- A symmetrical treatment between the addition of ICM assets into opening 2022 rate base and the calculation of the ICM rate rider as approved in Brantford Power's 2020 IRM application[43]. This means that ICM assets added to opening 2022 rate base applied a full-year's depreciation (instead of the proposed 6 months of depreciation) in the first year the assets were placed into service, resulting in a lower opening net book value in the 2022 test year than what was originally proposed.

The *Report of the Board: New Policy Options for the Funding of Capital Investments: The Advanced Capital Module* (ACM Report) states[44]:

> If the Board approves the true-up of any variances for ACM/ICM projects at the next cost of service application, the recalculated revenue requirement relating to the actual ACM/ICM capital expenditures should be compared to the rate rider revenues collected in the same period, plus the carrying charges in the respective sub-accounts.

As noted above, Brantford Power's proposed calculation of the 2020 ICM true-up compares 10 months of revenues collected to the full-year approved revenue requirement. In OEB staff's view, the ACM Report does not contemplate this particular scenario whereby rate riders, if approved, are not approved to be effective for a full rate year. Though there is a mismatch in the comparison of 10 months of revenues collected to a full-year approved revenue requirement, OEB staff does not take issue with the true-up, as it is mainly offset by the agreed-upon treatment of the addition of ICM assets to rate base, as noted above.

However, OEB staff is of the view that the agreed-upon ICM true-up calculation is not the appropriate calculation. In OEB staff's view, the ICM true-up should compare 10 months of revenues collected to a pro-rated 10-month approved revenue requirement

[43] OEB staff notes that while the ICM rate riders were calculated based on an approved full-year revenue requirement, rate riders were approved to be effective for 10 months in 2020.
[44] EB-2014-0219, September 18, 2014, Pages 26-27

for 2020. The OEB approved the ICM rate rider to be effective March 1, 2020 with consideration of the Q3 2020 in-service date of the building and Brantford Power staff's Q1 2020 date to move into the building. The OEB stated "[i]f rates are made effective January 1, 2020, the utilities would be provided funding as if the construction was completed and the building was fully in-service in December 31, 2019."[45] In OEB staff's view, the OEB's intention was not to provide a full year of ICM funding to Brantford Power. Truing up 10 months of revenues to the full-year revenue requirement, as settled upon, would effectively provide Brantford Power with a full year of funding, instead of 10 months of funding. This occurs as the rate rider revenues collected over 10 months would be insufficient for 12 months of revenue requirement and hence the missing two months of ICM rate rider revenues would be included conceptually in the true-up. In OEB staff's view, this is contrary to the OEB's decision in Brantford Power's 2020 IRM case noted above.

However, the issue with the ICM true-up calculation is mainly offset by the treatment of the addition of ICM assets into rate base, where a full year's depreciation (instead of 10 months') is applied against the assets in the first year the assets went into service. This results in a lower net book value of ICM assets that are added to the opening 2022 rate base. Therefore, conceptually, total funding over the life of the assets remains the same as in the case where both the true-up and first-year depreciation are based on a 10-month period. The net impact of the settled ICM treatment is only a timing issue, whereby Brantford Power is receiving the two months of additional funding in question now (i.e. when the ICM true-up is disposed to customers in this application) rather than throughout the life of the asset. Therefore, although OEB staff does not agree with the ICM true-up calculation, OEB staff accepts the settlement proposal on the ICM treatment and submits that Brantford Power ratepayers are not harmed by the proposed ICM treatment in the settlement proposal.

The ACM Report notes that, where there is a material difference in the ICM true-up calculation, the OEB may direct that the over/under collection be refunded to/recovered from ratepayers. OEB staff notes that even though the ICM true-up is not a material amount, it is a credit amount to be returned to ratepayers and, for all of the reasons set out, OEB staff does not oppose the disposition of the ICM true-up.

Issue 5.3 - Has Brantford Power responded appropriately to the prior Accounting Orders from the 2017 Cost of Service Application (EB-2016-0058) and the 2020 Incentive Rate-setting Mechanism Application (EB-2019-0022)?

Accounting Order from 2017 Cost of Service Application

In Brantford Power's 2017 cost of service, the parties to the settlement proposal in that

[45] EB-2019-0022 | EB-2019-0031, Decision and Rate Order, January 23, 2020, Page 16

proceeding agreed to establish Account 1508 – Other Regulatory Assets, Sub-Account - OPEBs Forecast Cash versus Forecast Accrual Differential Deferral Account, effective January 1, 2017. Parties agreed that Brantford Power will only seek to dispose of the balance in this account at its next cost of service rate application if the OEB determines that distributors may recover Other Post Employment Benefits (OPEBs) in rates using a forecasted accrual accounting methodology.[46] The OEB identified the default approach to recovering pension and OPEBs in the *Report of the Ontario Energy Board: Regulatory Treatment of Pension and Other Post-Employment Benefits (OPEBs) Costs*, issued September 2017, to be the accrual method.

As part of its interrogatory responses in the current proceeding, Brantford Power updated the DVA Continuity Schedule to include the 2021 transactions for disposition for this account.[47] As part of the settlement proposal in this proceeding, parties have agreed to dispose the 2021 forecasted balance of a debit of $322,570 and close the account effective January 1, 2022. As noted under Issue 4.2, OEB staff supports the settlement reached by the parties.

Accounting Order from 2020 IRM Application

In Brantford Power's 2020 IRM Partial Decision and Order, the OEB approved Brantford Power's request to establish a new variance account related to lost revenues associated with the elimination of the Collection of Account Charge (i.e., Account 1508 - Other Regulatory Assets, Sub-account Lost Revenue for Collection of Account).[48] Effective July 1, 2019, this account records the annual lost revenues equal to Brantford Power's revenue offset from its approved Collection of Account charge of $440,889 from its 2017 cost of service rate application. For 2019, the amount recorded will be net of any revenues collected in 2019, before the charge was eliminated. The account will be disposed at Brantford Power's next rebasing application and discontinued thereafter.[49]

As part of its interrogatory responses in the current proceeding, Brantford Power updated the DVA Continuity Schedule to include the 2021 transactions for disposition for this account.[50] As part of the settlement agreement, parties have agreed to dispose the 2021 forecasted balance of debit of $1,275,263 and close the account effective January 1, 2022. As noted under Issue 4.2, OEB staff supports the settlement reached by parties.

[46] EB-2016-0058, Settlement Proposal, November 3, 2016, Page 41
[47] EB-2021-0009, Interrogatory Response to 9-Staff-102, August 10, 2021
[48] EB-2019-0020, Partial Decision and Interim Rate Order, January 2, 2020, Pages 11-13 and Schedule B
[49] Ibid.
[50] EB-2021-0009, Interrogatory Response to 9-Staff-103, August 10, 2021

In conclusion, OEB staff submits that Brantford Power has responded appropriately to the prior Accounting Orders in EB-2016-0058 and EB-2019-0020.

Issue 5.4 - Is Brantford Power's proposal to remove the description "Approved on an Interim Basis" from the Embedded Distributor rate class due to a clerical error appropriate?

Parties have agreed to remove the description "Approved on an Interim Basis" from the Embedded Distributor rate class and declare as final any amounts previously collected. This wording was erroneously included on Brantford Power's tariff historically due to a clerical error which carried through on Brantford Power's Tariff of Rates and Charges in past applications.[51] OEB staff has no concerns with the agreement reached by the parties.

With respect to the Embedded Distributor rate class, the initial application had described the rate class as applying to distributors who are not Wholesale Market Participants. OEB staff notes however that Brantford Power's Tariff of Rates and Charges correctly described the rate class. As a point of clarification, Brantford Power's historical Tariff of Rates and Charges did not restrict the rate class to non-wholesale market participants. This is solely a clarification that the wording in the application was inconsistent with the Tariff of Rates and Charges.

All of which is respectfully submitted

[51] EB-2021-0009, Application, Exhibit 8, Pages 15-16, May 12, 2021