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BY EMAIL

November 3, 2021

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

Dear Ms. Long:

**Re: Ontario Energy Board (OEB) Staff Submission
Algoma Power Inc.
Application for 2022 Rates
OEB File Number: EB-2021-0006**

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.



ONTARIO ENERGY BOARD

OEB STAFF SUBMISSION

Algoma Power Inc.

2022 Rates Application

EB-2021-0006

November 3, 2021

Application Summary

Algoma Power Inc. (Algoma Power) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on August 18, 2021 under section 78 of the *Ontario Energy Board Act, 1998* (OEB Act) seeking approval for changes to its electricity distribution rates, effective January 1, 2022.

The purpose of this document is to provide the OEB with the submissions of OEB staff based on its review of the evidence submitted by Algoma Power.

Consistent with the Chapter 3 Filing Requirements, Algoma Power applied the Price Cap IR adjustment factor to adjust the monthly service charge and distribution volumetric rate during the incentive rate-setting years. OEB staff has no concerns with Algoma Power's proposed price cap adjustment, although OEB staff notes that the 2021 inflation parameters have been applied as a placeholder, pending the OEB's issuance of the 2022 parameters. On August 6, 2021, the OEB issued a notice on its own motion to initiate a proceeding to consider the inflation factor to be used to set rates for electricity transmitters and electricity and natural gas distributors for the year 2022.¹ If the OEB's decision on the 2022 inflation parameters is issued following the close of record for this proceeding, OEB staff intends to update Algoma Power's 2022 IRM Model to reflect the OEB-approved 2022 inflation factor, and resulting price cap adjustment, pursuant to the process that the OEB may lay out for implementation once available.

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

There is an additional adjustment to rates proposed related to the funding provided to eligible customers of Algoma Power for rural or remote electricity rate protection (RRRP).² For 2022, Algoma Power incorporated a proposed level of funding of

¹ EB-2021-0212

² The setting of rates for Algoma Power's Residential R-1 and R-2 classes is subject to subsections 4(3.1) and 4(3.2) of Ontario Regulation 442/01 (Rural or Remote Electricity Rate Protection), and Ontario Regulation 445/07 (Reclassifying Certain Classes of Consumers as Residential-Rate Class Customers: Section 78 of the Act), each made under the *Ontario Energy Board Act, 1998*

\$15,504,781. The RRRP funding amount will be provided to Algoma Power so that the rates to Algoma Power's Residential - R1(i), Residential - R1(ii)³ and Residential - R2 are set lower than they otherwise would have been.

OEB staff makes detailed submissions on the following:

- 2022 Rate Design and RRRP Adjustment
- Group 1 Deferral and Variance Accounts (DVA)
- Advanced Capital Module (ACM)

OEB Staff Submission

2022 Rate Design and RRRP Adjustment

Algoma Power's residential and general service (R1) and industrial (R2) customers (treated as residential customers per Ontario Regulation [O. Reg] 445/07), pay rates below the cost of providing distribution service. Rates for these customers are financially subsidized through the Distribution Rate Protection under O. Reg 198/17; a First Nations Delivery Credit under O. Reg. 197/17; and/or the RRRP fund under O. Reg. 442/01.

In the OEB's Decision and Order to Algoma Power's 2010 cost of service application⁴, the OEB noted that intends to calculate an RRRP adjustment factor annually for Algoma Power, with rates and the RRRP amount for the rate year affected accordingly. Every year the Board will communicate the RRRP adjustment factor to Algoma Power to ensure that it is reflected in Algoma Power's rates application. In accordance with past practice, OEB staff has provided the RRRP factor as part of this current submission.⁵

Since then, the rates for Algoma Power's Residential and General Service less than 50 kW class have then been adjusted to reflect the average annual change in distribution rates for Residential and GS<50 kW customer rate classes across all rate regulated distributors in Ontario.

³ Algoma Power's R1 class was segregated into residential (i) and non-residential (ii) sub-groups in the OEB's EB-2015-0051 proceeding.

⁴ EB-2009-0278

⁵ See Appendix A

To make this adjustment, OEB staff has provided an updated RRRP adjustment factor of 3.28% based on calculating the simple average rate change for all distributor rate zones in 2021 for the Residential and GS<50kW customer rate classes.⁶

In a prior decision, the OEB found that RRRP funding for Algoma Power's R-1 and R-2 rate classes during IRM years would be calculated using the difference between:

- i. The total revenue requirement for the R-1 and R-2 rate classes adjusted by the price cap adjustment; and
- ii. The revenues generated by the base rates for the R-1 and R-2 rate classes adjusted by the RRRP Adjustment.⁷

Algoma Power has applied for rates in this proceeding using this same methodology. OEB staff has updated Algoma Power's rate design model to reflect the RRRP adjustment factor. OEB staff requests that Algoma Power review and confirm the methodology used in its reply submission.

OEB staff notes that the RRRP adjustment factor is higher than in previous years. In April 2020, certain electricity distributors chose not to request an IPI increase. This year's analysis takes into consideration two years' worth of increases for certain LDCs, which results in a higher RRRP adjustment factor.

The updated RRRP funding for 2022 is \$15,301,746, which is calculated by applying a price cap index adjustment of 1.60%⁸ and a RRRP adjustment factor of 3.28% to the method outlined above.

The rates for all other customer classes not eligible for the RRRP are adjusted by the price cap adjustment only.

OEB staff notes that in Algoma Power's 2020 rates proceeding, the OEB approved Algoma Power's proposal to recover the portion of ACM revenue allocated to the RRRP-eligible rate classes through revenue requirement adjustments during the IRM period rather than through ACM rate riders.⁹ OEB staff has reviewed Algoma Power's rate design model and confirms that it has incorporated the required adjustments appropriately. ACM impacts are further discussed later in this submission.

⁶ See Appendix A for RRRP Adjustment Factor Analysis

⁷ Decision and Order, EB-2011-0152, January 20, 2012

⁸ Subject to be revised once the OEB approves the inflation factor for 2022 rates.

⁹ EB-2019-0019, Settlement Proposal, p.61

Group 1 Deferral and Variance Accounts

Algoma Power is requesting to dispose of a net debit balance of \$569,066 in its Group 1 DVAs, as of December 31, 2020, over a one-year period. This includes interest projected to December 31, 2021. The components of this debit balance are shown below.

Table 1: Group 1 DVA Balances

Account Name	Account Number	Principal Balance (\$) A	Interest Balance (\$) B	Total Claim (\$) C=A+B
Smart Metering Entity Charge Variance Account	1551	(4,840)	(34)	(4,874)
RSVA - Wholesale Market Service Charge	1580	(146,904)	(1,245)	(148,149)
Variance WMS – Sub-account CBR Class B	1580	(4,709)	(95)	(4,805)
RSVA - Retail Transmission Network Charge	1584	63,762	972	64,734
RSVA - Retail Transmission Connection Charge	1586	31,493	627	32,120
RSVA - Power	1588	144,514	(616)	143,899
RSVA - Global Adjustment	1589	438,959	3,903	442,862
Disposition and Recovery/Refund of Regulatory Balances (2018)	1595	41,534	1,744	43,278
Totals for Group 1 accounts		563,810	5,256	569,066

Based on the threshold test calculation, Algoma Power's Group 1 DVA balances equate to a debit of \$0.0025 per kWh which exceeds the OEB's disposition threshold of \$0.001 per kWh.

In its application, Algoma Power confirmed that it has followed the accounting guidance related to Accounts 1588 and 1589,¹⁰ as mandated by the OEB in 2019, and that the 2020 balances have been prepared in accordance with this guidance. The OEB approved disposition of Algoma Power's 2019 balances on a final basis as part of its 2021 IRM proceeding.¹¹

OEB staff has reviewed the 2020 balances and the supporting pre-filed evidence substantiating these balances. In OEB staff's opinion, the Group 1 DVA balances are reasonable and, with respect to commodity accounts 1588 and 1589, in alignment with the OEB's 2019 Accounting Guidance.

2022 Advanced Capital Module

In Algoma Power's last cost of service proceeding, two ACMs were approved through a settlement proposal: (i) the Echo River Transformer Station (TS) and (ii) the Sault Ste. Marie facility. In this application, Algoma Power updated the expected in-service date of Echo River TS from 2021 to 2023 and deferred the ACM cost recovery associated with this project to its subsequent IRM application for 2023 rates. OEB staff submits that the proposal to defer further review of this project is reasonable.

For the Sault Ste. Marie facility, the parties to the settlement proposal¹² agreed to a maximum project cost of \$12.69 million and that Algoma Power will populate the OEB's most current ACM/ICM model as required to determine the actual incremental revenue requirement associated with the project. The parties also agreed that "[t]o the extent that Algoma Power exceeds the approved \$12.69M capital budget when completing the project, Algoma Power will have to explain and justify the prudence of the overspend if it seeks to include the full capital expenditure in rate base upon rebasing for rate-setting on a going forward basis."¹³

Algoma Power updated the forecasted project cost to \$14.12 million but noted that the ACM cost recovery commencing for the 2022 rate year is still based on \$12.69 million, as per the settlement proposal. The project is scheduled to go into service in Q3 of 2022. Algoma Power further confirmed through interrogatories that it intends to include the full cost of the Sault Ste. Marie facility in rate base at its next rebasing application

¹⁰ [Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589, February 21, 2019.](#)

¹¹ EB-2020-0003, Decision and Order, Page 11

¹² EB-2019-0019

¹³ EB-2019-0019 Decision and Order, October 17, 2019, Schedule A - Settlement Proposal, p. 59

and that the prudence of the (incremental) project costs will be fully assessed as part of that cost of service application.¹⁴

OEB staff submits that assessing the prudence of the overspending for this project in Algoma Power's next cost of service proceeding is consistent with the settlement proposal.

In addition, a review at the next cost of service will also allow the OEB to consider the actual project costs before it decides on recovery for any incremental remaining net book value amounts to be included in rate base. OEB staff notes that Algoma Power is not seeking any recovery of overspending dollars in the current application and so OEB staff has no concerns with the rate rider proposals as filed. OEB staff also anticipates that Algoma Power will not be seeking recovery of the revenue requirement impact of the difference between \$12.9M and actual project costs for the current IRM period.

Algoma Power also updated its 2022 capital budget in the ACM/ICM model from \$21.5 million to \$38.2 million. This increase is primarily the result of higher than planned new customer connections, removing the Echo River TS spending from its 2022 capital costs, and adding all of the Sault Ste. Marie facility capital spending. OEB staff submits that the updated capital budget is reasonable and notes that while the resultant maximum eligible incremental capital has increased from \$14.28 million to \$26.71 million, the amount eligible for recovery for 2022 continues to be \$12.69 million as per the settlement proposal.

- All of which is respectfully submitted -

¹⁴ EB-2021-0006, Applicant's response to interrogatory 1(a) and 1(b)

Appendix A

RRRP Adjustment Factor

Company Name	% Change in Base Distribution Rates October 1, 2021 vs October 1, 2020		Average of Residential & GS<50
	Residential	GS<50	
Alectra Utilities Corporation-Brampton Rate Zone	1.87%	1.77%	1.82%
Alectra Utilities Corporation-Enersource Rate Zone	1.87%	2.00%	1.93%
Alectra Utilities Corporation-Guelph Rate Zone	1.85%	1.98%	1.91%
Alectra Utilities Corporation-Horizon Utilities Rate Zone	1.88%	1.84%	1.86%
Alectra Utilities Corporation-PowerStream Rate Zone	1.86%	1.98%	1.92%
Algoma Power Inc.	1.74%	0.81%	1.27%
Atikokan Hydro Inc.	1.87%	1.88%	1.88%
Bluewater Power Distribution Corporation	3.22%	3.03%	3.12%
Brantford Power Inc.	1.85%	2.03%	1.94%
Burlington Hydro Inc.	6.09%	4.85%	5.47%
Canadian Niagara Power Inc.	1.71%	1.61%	1.66%
Centre Wellington Hydro Ltd.	1.88%	1.79%	1.84%
Chapleau Public Utilities Corporation	6.29%	1.79%	4.04%
Cooperative Hydro Embrun Inc.	2.16%	2.14%	2.15%
E.L.K. Energy Inc.	1.57%	1.71%	1.64%
Ellexicon Energy Inc.-For The Whitby Rate Zone	1.57%	1.52%	1.54%
Ellexicon Energy Inc.-For The Veridian Rate Zone	3.48%	3.38%	3.43%
Energy Plus Inc.	2.01%	1.87%	1.94%
Entegrus Powerlines Inc.-For Entegrus-Main Rate Zone	3.79%	3.77%	3.78%
Entegrus Powerlines Inc.-For Former St. Thomas Energy Rate Zone	2.01%	1.85%	1.93%
ENWIN Utilities Ltd.	1.87%	1.78%	1.83%
EPCOR Electricity Distribution Ontario Inc.	3.79%	3.94%	3.87%
ERTH Power Corporation - Goderich Rate Zone	2.95%	3.15%	3.05%
ERTH Power Corporation - Main Rate Zone	1.87%	1.95%	1.91%
Espanola Regional Hydro Distribution Corporation	24.45%	20.37%	22.41%
Essex Powerlines Corporation	3.78%	3.84%	3.81%
Festival Hydro Inc.	1.86%	1.84%	1.85%
Fort Frances Power Corporation	3.22%	3.35%	3.29%
Greater Sudbury Hydro Inc.	10.27%	8.72%	9.50%
Grimsby Power Incorporated	2.14%	2.05%	2.09%
Halton Hills Hydro Inc.	28.37%	27.07%	27.72%
Hearst Power Distribution Co. Ltd.	0.00%	0.00%	0.00%
Hydro 2000 Inc.	7.59%	3.88%	5.74%
Hydro Hawkesbury Inc.	0.00%	0.00%	0.00%
Hydro One Networks Inc. - UR (GS<50 = Uge)	-1.25%	-0.70%	-0.98%
Hydro One Networks Inc.-Former Haldimand County Hydro Inc. Service Area	1.71%	1.62%	1.66%
Hydro One Networks Inc.-Former Norfolk Power Distribution Inc. Service Area	1.71%	1.78%	1.74%
Hydro One Networks Inc.-Former Woodstock Hydro Services Inc. Service Area	1.73%	1.88%	1.81%
Hydro Ottawa Limited	5.22%	2.31%	3.76%
InnPower Corporation	1.57%	1.68%	1.62%
Kingston Hydro Corporation	1.85%	1.80%	1.83%
Kitchener-Wilmot Hydro Inc.	2.01%	2.11%	2.06%
Lakefront Utilities Inc.	2.02%	2.11%	2.06%
Lakeland Power Distribution Ltd.	3.78%	3.65%	3.71%
London Hydro Inc.	3.50%	3.51%	3.51%
Milton Hydro Distribution Inc.	2.00%	2.09%	2.05%
Newmarket-Tay Power Distribution Ltd.-For Former Midland Power Utility Rate Zone	1.81%	1.77%	1.79%
Newmarket-Tay Power Distribution Ltd.-For Newmarket-Tay Power Main Rate Zone	3.97%	1.42%	2.69%
Niagara Peninsula Energy Inc.	6.23%	5.96%	6.10%
Niagara-on-the-Lake Hydro Inc.	4.10%	3.43%	3.77%
North Bay Hydro Distribution Limited	1.68%	1.61%	1.64%
Northern Ontario Wires Inc.	2.15%	2.13%	2.14%
Oakville Hydro Electricity Distribution Inc.	1.58%	1.66%	1.62%
Orangeville Hydro Limited	3.34%	3.53%	3.43%
Orillia Power Distribution Corporation	0.00%	0.00%	0.00%
Oshawa PUC Networks Inc.	4.27%	2.76%	3.52%
Ottawa River Power Corporation	1.99%	2.13%	2.06%
Peterborough Distribution Incorporated	0.00%	0.00%	0.00%
PUC Distribution Inc.	4.11%	3.42%	3.76%

Company Name	% Change in Base Distribution Rates October 1, 2021 vs October 1, 2020		Average of Residential & GS<50
	Residential	GS<50	
Renfrew Hydro Inc.	1.87%	1.86%	1.87%
Rideau St. Lawrence Distribution Inc.	0.36%	1.71%	1.04%
Sioux Lookout Hydro Inc.	3.64%	3.69%	3.67%
Synergy North Corporation-Kenora Rate Zone	2.94%	2.98%	2.96%
Synergy North Corporation-Thunder Bay Rate Zone	3.36%	3.28%	3.32%
Tillsonburg Hydro Inc.	1.84%	3.02%	2.43%
Toronto Hydro-Electric System Limited	4.39%	4.39%	4.39%
Wasaga Distribution Inc.	4.10%	3.83%	3.96%
Waterloo North Hydro Inc.	2.08%	1.75%	1.91%
Welland Hydro-Electric System Corp.	3.78%	3.92%	3.85%
Wellington North Power Inc.	10.72%	9.29%	10.00%
Westario Power Inc.	1.67%	1.63%	1.65%
Average			3.28%