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

BY EMAIL

February 17, 2022

Nancy Marconi
Acting Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Marconi:

Re: Application under sections 18, 60, 86 (1)(c) and 86(2)(b) of the *Ontario Energy Board Act, 1998* for the relief necessary to effect the amalgamation of Brantford Power Inc. and Energy+ Inc. to continue as LDC Amalco Ontario Energy Board File Number: EB-2021-0280

In accordance with Procedural Order No. 1, please find attached OEB staff's submission in this proceeding. Brantford Power Inc., Energy+ Inc., and all intervenors have been copied on this filing.

Yours truly,

Original Signed By

Donald Lau
Senior Advisor – Electricity Distribution: Major Rate Applications & Consolidations

Attach.

ONTARIO ENERGY BOARD

Application by Brantford Power Inc. and Energy+ Inc. for approval to amalgamate and continue operations as a single electricity distribution company

EB-2021-0280

OEB Staff Submission

February 17, 2022

1 INTRODUCTION

Brantford Power Inc. (Brantford Power) and Energy+ Inc. (Energy+) (collectively the Applicants) filed an application with the Ontario Energy Board (OEB) on November 1, 2021, under sections 86(2)(b), 86(1)(c), 60 and 18 of the *OEB Act, 1998*, S.O. 1998, c. 15, Schedule B, for approval of the following:

- Leave for Amalco Holdco to acquire control of Brantford Energy Corporation (BEC) the parent company of Brantford Power and Cambridge and North Dumfries Energy Plus Inc. (Energy Plus) the parent company of Energy+
- The amalgamation of Brantford Power and Energy+ to form a new electricity distribution company (LDC Amalco)
- The issuance of an electricity distribution licence for LDC Amalco
- The cancellation of the electricity distribution licences of Brantford Power and Energy+ when the electricity distribution licence for LDC Amalco is issued
- The transfer of the current and any future rate orders of Brantford Power and Energy+ to LDC Amalco
- The continued tracking of costs by LDC Amalco to existing deferral and variance accounts of Brantford Power and Energy+
- A deferral account to track certain grossed-up Payment in Lieu of Taxes (PILs) impacts as described in the application and to track any variances in a sub-account in Account 1592 - PILs and Tax Variances, for the Brantford service area only

The Applicants are also requesting a deferred rebasing period for LDC Amalco of ten years from the date of closing of the amalgamation. As well, the applicants are proposing an Earnings Sharing Mechanism with customers for years 6 through 10 of the rebasing deferral period.

The proposed transaction is a non-cash transaction involving the issuance of shares. The municipal owners of Brantford Power and Energy+ will receive the following equity and voting percentage interest in the newly formed Amalco Holdco:

- Brantford: 41.000%
- Cambridge: 54.339%
- North Dumfries: 4.661%

The Application states that the proposed transaction will benefit and protect customers in the context of the OEB's statutory objectives. The benefits can be summarized as follows[1]:

- Stable distribution rates over the 10-year deferral period that are projected to increase at less than the rate of inflation over the 10 years following the merger, with distribution rates that will be lower than what they would have been on a stand-alone basis in the absence of the amalgamation.
- Synergy savings and increased operational efficiencies that will result in a lower ongoing utility cost structure after the 10-year deferred rebasing period.
- Forecasted OM&A savings, net of transaction costs, of approximately $30.5M over the 10-year deferred rebasing period.

2 OEB STAFF SUBMISSIONS

In its review of the application, OEB staff has considered the requirements described in the MAADs Handbook and other applicable OEB policy[2] as described herein.

2.1 "No Harm" Test

The OEB applies the "no harm" test when assessing applications that seek approval for regulated entities to consolidate. As described in the *Handbook to Electricity Distributor and Transmitter Consolidations (*MAADs Handbook),[3] the "no harm" test considers whether the proposed transaction will have an adverse effect on the attainment of the OEB's statutory objectives.[4]

If the proposed transaction has a positive or neutral effect on the attainment of these objectives, the OEB will approve the consolidation.[5]

2.1.1 Impact on Price, Economic Efficiency and Cost Effectiveness

The MAADs Handbook allows for an acquiring or merging utility to elect to defer rebasing for up to a maximum of ten years. The deferral period is to allow the acquiring

[1] Application, pp. 26-46
[2] Handbook for Utility Rate Applications and Accounting Procedures Handbook
[3] OEB *Handbook to Electricity Distributor and Transmitter Consolidations* (MAADs Handbook), issued January 19, 2016, pp. 3-4
[4] *Ontario Energy Board Act, 1998*, Section 1
[5] MAADS Handbook, pp. 3-4

or merging utility an opportunity to recover transaction costs, which are not normally allowed to be recovered directly from customers, through operational and capital efficiencies resulting from the transaction over a reasonable period of time.

The Applicants have requested a 10-year deferred rebasing period and estimated total Operating, Maintenance and Administrative (OM&A) savings, net of transition costs, of approximately $30.5M over that period. The Applicants' Argument in Chief provided a detailed account of future OM&A savings that are forecast to result from merger-related efficiency gains in the following six OM&A categories: human resource savings, general administration, billing, finance and regulatory, information technology and various others.[6] The Applicants state that these OM&A savings are anticipated to create a sustainable reduction to the underlying cost structure of LDC Amalco and will be passed through to customers following the deferred rebasing period.[7] Table 1, extracted from the Applicants' Argument in Chief,[8] shows the forecasted financial impact of the OM&A savings during the 10-year deferred rebasing period as well as during the first year of rate harmonization (year 11).

[6] Argument in Chief, p.6
[7] EB-2021-0280 Application, p.33
[8] Argument in Chief p.6

Table 1: Projected OM&A Savings ($000's)

Synergy Savings Projections	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Human Resource Savings	873	1,399	2,791	2,832	2,874	2,917	2,960	3,004	3,049	3,094	3,156
General Administrative	25	120	251	233	253	272	293	314	336	358	365
Billing	126	128	131	133	136	139	141	144	147	150	153
Finance & Regulatory	389	90	92	94	96	98	100	102	104	106	108
Information Technology	95	97	99	101	103	105	107	109	111	114	116
Various Other	-	66	67	68	68	71	72	74	74	77	79
Total Synergy Savings	1,508	1,900	3,431	3,461	3,530	3,602	3,673	3,747	3,821	3,899	3,977
Integration and Implementation Cost Projections	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Human Resource Costs	769	70	20	-	-	-	-	-	-	-	-
Branding	425	-	-	-	-	-	-	-	-	-	-
Project Management	275	-	-	-	-	-	-	-	-	-	-
Legal and Regulatory Costs	250	-	-	-	-	-	-	-	-	-	-
Various Other	120	150	-	-	-	-	-	-	-	-	-
Total Integration and Implementation Costs	1,839	220	20	-	-	-	-	-	-	-	-
Net (Costs) / Synergies	(331)	1,680	3,411	3,461	3,530	3,602	3,673	3,747	3,821	3,899	3,977

The Applicants stated that they do not expect the amalgamation to result in cost savings related to capital investments.[9]

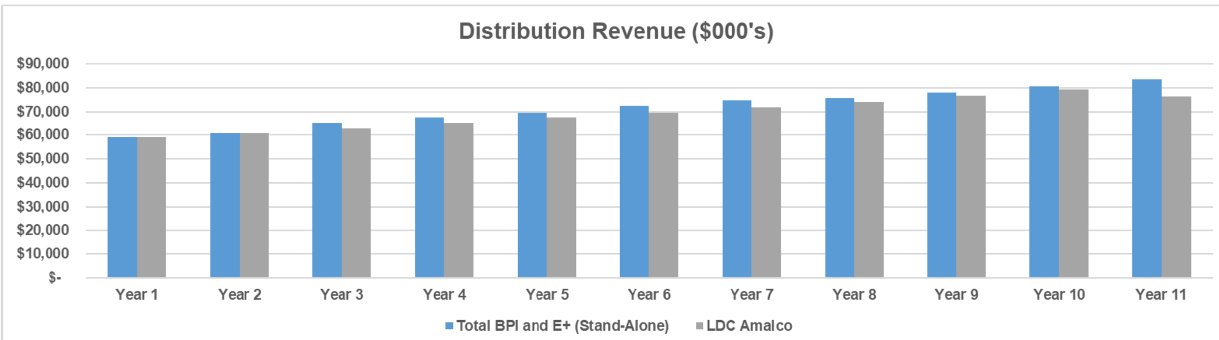
The Applicants submitted that, over the 10-year deferred rebasing period, customers will experience distribution rate increases that are less than inflation (2.2%). More particularly, both Brantford Power and Energy+ will continue to have rates adjusted using the Price Cap Incentive Regulation Mechanism (Price Cap IR) until the end of the 10-year rebasing deferral period.[10] In the absence of the proposed transaction, Brantford Power would have rebased in 2027 and Energy+ would have rebased in 2024 and 2029. By remaining on Price Cap IR, the Applicants stated that the proposed

[9] EB-2021-0280 Technical Conference Transcript, January 24, 2022, p. 82
[10] EB-2021-0280 Application, p. 5

transaction is expected to lower distribution costs to customers throughout the deferral period.[11]

Figure 1, extracted from the Application, compares the total distribution revenue requirements of Brantford Power and Energy+ to LDC Amalco over the 11-year period following completion of the transaction.[12] As shown, the combined effect of remaining on Price Cap IR and the projected year 11 OM&A savings are expected to deliver lower distribution costs to LDC Amalco customers of approximately 2.4% through the rebasing deferral period and 8.3% following the transfer of the merger benefits to customers in year 11, respectively.[13]

Figure 1: Applicants Merged versus Standalone Revenue Requirement



During the deferred rebasing period, the Applicants also intend to use a combined stretch factor when setting the rates for both the Brantford Power and Energy+ service territories, when the Pacific Economics Group Research (PEG) assessment would permit it.[14]

Submission

As part of its review of consolidation proposals, the OEB examines the underlying cost structures of the consolidating utilities. As distribution rates are based on a distributor's current and projected costs, it is important for the OEB to consider the impact of a transaction on the cost structure of consolidating entities both now and in the future, particularly if there appear to be significant differences in the size or demographics of consolidating distributors.[15]

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[11] EB-2021-0280 Application, p. 31
[12] *Ibid*
[13] *Ibid*
[14] EB-2021-0280 Technical Conference Transcript, January 24, 2022, p.75
[15] Handbook to Electricity Distributor and Transmitter Consolidations, January 19, 2016, pp. 6-7

In the application, the Applicants stated that some of the OM&A savings will come from the consolidation of two board of directors into a single board of directors and optimization and reduction of staffing levels retirements, natural attrition, and maintaining vacant positions.[16] The Applicants provided a table that showed that there will be 23 positions eligible for retirement in the next 10 years (none of these are operations staff).[17] The Applicants also stated that there are 9 positions that are vacant.[18] With a total possible reduction of 32 positions, OEB staff accepts the Applicants' assessment of expected OM&A savings and that the amalgamation will generate OM&A savings that will benefit customers through reduced cost structures. The value of these savings, approximately $30.5M during the 10-year deferral period, is expected to more than offset the Applicants' forecasted transaction and transition cost of $2.1M.[19] The Applicants also confirmed that these transitions costs will be excluded from LDC Amalco's revenue requirement and will not be funded by customers.[20]

Based on the evidence on the record, OEB staff is satisfied that the amalgamation will not result in the customers of Brantford Hydro or Energy+ experiencing negative price implications.

OEB staff does not oppose the use of a combined stretch factor for LDC Amalco since the synergies and savings resulting from the merger should be taken into consideration for the PEG assessment[21] and splitting the synergies and savings per rate zone is more burdensome than considering the utility as a whole. The OEB has also accepted this methodology in an application by Alectra Utilities Corporation.[22]

OEB staff anticipates that in their first cost-of-service application following the requested 10-year rebasing deferral period, the Applicants will demonstrate the savings and efficiencies that have resulted from the amalgamation. This anticipated area of inquiry is consistent with the provisions of the OEB's *Handbook for Utility Rate Applications,* which state, amongst other things, that as part of the amalgamated entities first cost of service or Custom IR application following consolidation, that the OEB will scrutinize the

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[16] Application p. 39
[17] Undertaking JT1.10
[18] Technical Conference Transcript, January 24, 2022, p. 74
[19] EB-2021-0280 Application, p. 41
[20] *Ibid*
[21] A statistical cost benchmaking study designed to make inferences on individual distributors' cost efficiency
[22] EB-2019-0018, Partial Decision and Interim Rate Order, December 12, 2019 (p. 6)

savings that have been generated through the amalgamation as well as how savings resulting from productivity gains are reflected in harmonized rates.[23]

2.1.2 Adequacy, Reliability and Quality of Electricity Service

The MAADs Handbook requires utilities to indicate the impact that the proposed transaction will have on customers with respect to reliability and quality of electricity service. The MAADs Handbook also provides that in considering the impact of a proposed transaction on the quality and reliability of electricity service, and whether the “no harm” test has been met, the OEB will be informed by the metrics provided by the distributor in its annual reporting to the OEB and published in its annual scorecard.[24]

The Applicants stated that a key objective of the proposed amalgamation will be to ensure levels of customer service, safety and reliability that either meet or exceed existing levels in each of the Brantford Power and Energy+ service areas.[25] The Applicants also stated that as a larger, amalgamated entity, LDC Amalco will have the capacity to modernize and adapt to future changes in Ontario’s electricity sector and will have more resources to invest in innovation and new technologies that address the needs of customers.[26]

To achieve these objectives, amongst other things, the Applicants state that LDC Amalco will continue to have two dedicated operations centers, one in Cambridge, servicing the Cambridge and North Dumfries service area and one in Brantford servicing the County of Brant and City of Brantford service area. The operations staff that currently respond to outages and power quality issues will continue to serve the communities in which they currently operate. However, as a result of the amalgamation, there will be a much larger number of operations staff able to respond to restoration efforts. The Brantford service area will also benefit from Energy+’s 24/7 System Control Center (SCC) and Outage Management System (OMS).

In the technical conference, OEB staff confirmed that during outages each of the operations centers will generally continue to service their respective areas.[27] Only in the event of a significant outage would assistance be provided by neighbouring crews.

[23] OEB Handbook for Utility Rate Applications, p. 21
[24] MAADs Handbook, page 7
[25] EB-2021-0280 Application, p. 25
[26] EB-2021-0280 Application, p. 24
[27] EB-2021-0280 Technical Conference Transcript, January 24, 2022, pp.77-78

When required, this assistance is possible as a result of the overall service territory of LDC Amalco being substantially contiguous. The contiguous nature of the service territory is also expected to reduce customer confusion as to the utility servicing the County of Brant/City of Brantford area.[28]

In addition, over the next 10 years, LDC Amalco will have potentially 33 employees eligible for retirement, with 10 of them in the operations area.[29] The Applicants stated that some of the OM&A synergies will come from natural attrition, but confirmed that they do not anticipate synergy savings from the operations area.[30] Specifically, the Applicants stated that LDC Amalco will maintain or improve existing response times as overall staffing levels are not expected to change in this area.[31]

In summary, the Applicants stated that they expect that LDC Amalco will maintain and/or improve upon the five-year average reliability indices and the OEB Customer Service Standard metrics for its customers.[32]

Submission

Based on the evidence provided by the Applicants, OEB staff submits that LDC Amalco can reasonably be expected to maintain the service quality and reliability standards currently provided by each of the amalgamating utilities. The basis of OEB staff's position is that there are no anticipated reductions to operations staff and the existing operations centres for each service area will remain unchanged. In addition, customers may see benefits by way of support from neighbouring operations centers during significant outages and the Brantford service area will benefit from Energy+'s SCC and OMS.

OEB staff also reviewed the Applicants' distribution system planning. Brantford's Distribution System Plan (DSP) is in place until 2026 and Energy+'s DSP is in place until 2023. The Applicants confirmed that internally they plan to look at combined planning practices within the first two years of the merger.[33] They also confirmed that they plan on harmonizing their asset condition assessment (ACA) methodologies.[34]

[28] EB-2021-0280 Application, p. 24
[29] EB-2021-0280 Undertaking JT1.10
[30] EB-2021-0280 Technical Conference Transcript, January 24, 2022, p.73
[31] EB-2021-0280 Application, p. 26
[32] EB-2021-0280 Application, p. 26
[33] EB-2021-0280 Technical Conference Transcript, January 24, 2022, p.86
[34] EB-2021-0280 Technical Conference Transcript, January 24, 2022, p.85

OEB staff submits that the Applicants' timeline for harmonizing their planning practices and ACA is reasonable since the DSP is at least in place until the end of 2023. OEB staff further notes that in the OEB's letter to electricity distributors for 2023 Electricity Distribution Rates, the OEB stated that "distributors would be expected to file an updated Distribution System Plan if their ICM application falls in a rate year that is beyond the planning horizon of their previous Distribution System Plan."[35] OEB staff submits that if LDC Amalco intends to file an Incremental Capital Module (ICM) related to capital investment in LDC Amalco's distribution system past the end of 2023, regardless of which service area that ICM is for, it should be required to file a consolidated DSP, with limited exceptions. This is because, from a planning perspective, it is important to understand LDC Amalco's planning as a combined utility when considering the need and prudence of an ICM. Currently, the Applicants do not have a combined planning practice**.**

2.1.3 Impact on Financial Viability

The MAADs Handbook provides that the impact of a proposed transaction on the acquiring utility's financial viability for an acquisition, or on the financial viability of the consolidated entity in the case of a merger will be assessed. The OEB's primary considerations in this regard are:

- The effect of the purchase price, including any premium paid above the historic (book) value of the assets involved
- The financing of incremental costs (transaction and integration costs) to implement the consolidation transaction[36]

Submission

With respect to the purchase price, the Applicants indicated that, with the exception of post-closing adjustments, the proposed transaction is a non-cash transaction and as such, there is no adverse effect on the financial viability of the Applicants. The Applicants confirmed that the cash transactions expected from post-closing adjustments are not expected to be material.[37]

With respect to transaction and integration costs, the total incremental OM&A integration and implementation cost is estimated at $2.1M in years one and two and is

[35] Letter – Applications for 2023 Electricity Distribution Rates, December 1, 2021
[36] MAADs Handbook, p. 8
[37] EB-2021-0280 Technical Conference Transcript, January 24, 2022, p. 100

expected to be financed through anticipated productivity savings from the amalgamation.[38] OEB staff notes that the synergies savings for the same period are estimated at $3.4M, which are anticipated to exceed the costs of the merger.[39] Furthermore, OEB staff notes that LDC Amalco's pro-forma statements in year one show that total comprehensive income is forecasted to be $9.3M.[40]

In addition, currently, both distributors are operating at a debt level below the OEB's deemed debt structure and the pro-forma debt-to-capital ratio for LDC Amalco at the end of 2020 is 54%. Brantford Power will convert its $24.2M promissory note to the City of Brantford into equity and repay $12.1M in secured third-party debt held by Infrastructure Ontario using an existing revolving credit facility. The Applicants note that the conversion of Brantford Power's debt into equity is anticipated to strengthen LDC Amalco's financial viability. LDC Amalco is expected to assume all other existing debt for Brantford Power and Energy+.[41] The Applicants are targeting a long-term A-range rating for LDC Amalco and are also in the process of establishing a $70M line of credit with a financial institution to provide LDC Amalco with short-term liquidity access, if necessary.[42]

Considering the above, in OEB staff's opinion, the amalgamation will not negatively impact the financial viability of the Applicants.

2.2 Other Matters

2.2.1 Distribution Licence

The Application requested that the OEB issue LDC Amalco a distribution licence and that following issuance of the licence, the distribution licences of Brantford Power and Energy+ be cancelled. However, the Applicants did not file a distribution licence as part of its Application. Accordingly, OEB staff requested that the Applicants file an Electricity Distribution Licence Application for LDC Amalco (Licence Application) as part of an undertaking.[43] As noted in a previous MAADs proceeding, the OEB's concerns are with

[38] EB-2021-0280 Undertaking JT1.3 and Excel Undertaking Response Tables, Tab JT1.3
[39] Ibid.
[40] EB-2021-0280 Application, Schedule O
[41] EB-2021-0280 Technical Conference Transcript, January 24, 2022, p. 62
[42] EB-2021-0280 Technical Conference Transcript, January 24, 2022, p. 95
[43] EB-2021-0280 Undertaking JT1.11

the ongoing operation elements of the new licence and a request for leave to amalgamate cannot be granted in the absence of a related licence application.[44]

The Applicants filed the Licence Application on February 2, 2022, which confirmed that LDC Amalco's service area will consist of the current service areas of Brantford Power and Energy+. Importantly, with respect to the ongoing operational elements of the merged entity, OEB staff notes that the Licence Application stated that the proposed transactions[45]:

- Will have no adverse impact on competition, nor will it have an adverse impact on access to distribution services.
- Will have no adverse impact on reliability and quality of supply.
- Will promote economic and energy efficiency in the distributors' service areas.

The Licence Application also indicates that the key individuals in LDC Amalco will include executives from the two amalgamating utilities, who have many years of experience in the electricity sector and, more particularly, with the operations of the amalgamating utilities.

Submission

OEB staff has reviewed the Licence Application and is satisfied that it addresses the ongoing operation elements of LDC Amalco. OEB staff notes that the Licence Application does not contain any requests for licence conditions that would depart from those found in the typical form of Electricity Distribution Licence.

OEB staff agrees that the key individuals indicated in the Licence Application have the appropriate industry experience and qualifications necessary to lead the LDC Amalco. OEB staff agrees that LDC Amalco can reasonably be expected to carry out the obligations of an OEB Electricity Distributor Licensee.

OEB staff supports the Applicants' request for approval of a new distribution licence for LDC Amalco. OEB staff's position is based on how the merger will impact the ongoing operational elements of LDC Amalco, which, as stated in the Licence Application, will not have an adverse impact on competition, access distribution to services, reliability and quality of supply and will promote economic and energy efficiency. OEB staff also supports the Applicants' request that the Licence Application be considered by the OEB concurrently with the request for leave to amalgamate.

[44] EB-2016-0025, Enersource Hydro Mississauga Inc., Horizon Utilities Corporation & Powerstream Inc. MAADs Application, Oral Hearing Transcript Volume 4, p. 65
[45] LDC Amalco Distribution Licence Application, p. 12

In conjunction with its new distribution licence request, the Applicants have also requested that the existing electricity distribution licences of Brantford Power and Energy+ be cancelled when the new electricity distribution licence for LDC Amalco is issued and that the current and future rate orders of Brantford Power and Energy+ be transferred to LDC Amalco. OEB staff supports the Applicants' requests in this regard as they are required to facilitate the proposed amalgamation, and complementary to the Applicants' request for a new distribution licence for LDC Amalco.

2.2.2 Earnings Sharing Mechanism (ESM)

The Applicants propose an Earnings Sharing Mechanism (ESM) with customers for years 6 through 10 of the deferred rebasing period following the amalgamation of Brantford Power and Energy+ and provided a draft accounting order with respect to the ESM.[46] The proposed ESM will share excess earnings beyond 300 basis points of the consolidated entity's deemed return on equity (ROE) on a 50:50 basis with customers annually. The assessment of earnings will commence with the availability of the year six audited financial results and will continue to be reviewed, computed, and shared (if applicable) on an annual basis.[47]

Submission

The MAADs Handbook requires that consolidating utilities that propose to defer beyond a five-year period, implement an ESM for the period beyond five years where excess earning above 300 basis points so the consolidated entity's ROE is shared 50:50 with customers. [48] OEB staff submits that the Applicants' ESM framework proposal as noted above is consistent with this aspect of the OEB policy.

The Applicants proposed that any excess earnings be shared with ratepayers annually. OEB staff notes that there have been past precedents where the ESM is disposed at the end of the deferred rebasing period.[49] OEB staff would not object if the Applicants filed the results of the ESM annually, but have the detailed review and disposition of the

[46] EB-2021-0280 Undertaking JT1.12
[47] Ibid.
[48] MAADs Handbook, pp. 16-17
[49] MAADs for the former Orillia Power Distribution Corporation and Hydro One Networks Inc. (EB-2018-0270) and MAADs for former Peterborough Distribution Inc. and Hydro One Networks Inc. (EB-2018-0242)

ESM in its next cost of service rate proceeding at the end of the deferred rebasing period.

The Applicants propose that the regulatory net income and regulated ROE be computed based on LDC Amalco's annual audited financial results, adjusted for any revenue and expenses that are not otherwise included for regulatory purposes, consistent with the OEB's current established regulated ROE model under the OEB's *Reporting and Record Keeping Requirements* (RRR). The Applicants provided a list of revenues and expenses that would be excluded in the ROE calculation.[50] The Applicants clarified that Lost Revenue Adjustment Mechanism (LRAM) revenues would be adjusted so that it would be reflected in the year in which it relates.[51] OEB staff does not take issue with the adjustments the Applicants have proposed. OEB staff submits that any further adjustments to revenues and expenses should be reviewed at the time of disposition.

In addition, the Applicants propose that LDC Amalco's deemed ROE would be computed based on the approved ROE percentages for each of Brantford Power and Energy+ from their last cost of service (2022 and 2019, respectively), weighted by the deemed equity component of rate base for Brantford Power and Energy+, as reported in their respective 2021 RRR filings. OEB staff considered the Applicant's proposed approach and another approach for how the consolidated deemed ROE for LDC Amalco may be calculated, based on weightings of rate base values for Brantford Power and Energy+ at two different points in time. OEB staff's calculation of the consolidated deemed ROE is provided in the following table.

Table 2 – Deemed ROE Approaches

			Brantford	**Energy+**	**LDC Amalco Deemed ROE**
1	**Cost of Service**	**Approved ROE**	8.66%	8.98%	
		Rate Base	$98,934,296	$173,825,304	
		Weighting	36%	64%	8.86%
2	**2020 RRR Filing***	**Rate Base**	$85,183,259	$176,617,500	
		Weighting	33%	67%	8.88%

*2020 RRR filing is the most recent filing available, and OEB staff has used this as a proxy for 2021 RRR filing that is proposed to be used by the Applicants

[50] EB-2021-0280 Application, p.46
[51] EB-2021-0280 Technical Conference Transcript, January 24, 2022, p. 104

OEB staff notes that the calculated ROEs for LDC Amalco under either approach do not differ significantly. Furthermore, OEB staff is of the view that a calculated deemed ROE based on a rate base weighting from each utility's 2021 RRR filing, as proposed, would also not differ significantly from other comparable approaches. Therefore, OEB staff does not object to the Applicants' proposed consolidated deemed ROE calculation.

OEB staff notes that in the draft accounting order, the Applicants have proposed to record the portion of the ESM to be shared with ratepayers in Account 1508 – Other Regulatory Assets, Sub-account Earnings Sharing Variance Account.

First, OEB staff notes that the ESM account should be labelled as a deferral account. Second, in OEB staff's view, Account 2435 - Accrued Rate-Payer Benefit may be a more appropriate account to use than the proposed 1508 sub-account.[52] Per Article 220 of the Accounting Procedures Handbook, Account 2435 is to record the amounts over the ROE that will be returned to ratepayers as part of the profit-sharing mechanism incorporated in the incentive regulation plan.[53] OEB staff notes that the proposed offsetting entry to the 1508 sub-account is to be recorded in Account 4395 – Rate-Payer Benefit Including Interest. The Accounting Procedures Handbook notes that the corresponding credit to Account 4395 is Account 2435. OEB staff submits that if the Applicants agree with the revisions, they should re-file a revised draft accounting order as a part of their reply submission incorporating these suggestions.

2.2.3 Brantford Service Area PILS

For the period subsequent to 2026 until LDC Amalco rebases, the Applicants request that LDC Amalco be permitted to track in Account 1592 PILs and Tax Variances, Sub-account CCA Changes, the grossed-up PILs impact of the variances between the capital cost allowance (CCA) smoothing approach adopted by Brantford Power in its approved settlement proposal[54] and the effective PILs impact to Brantford Power from the phase-out of accelerated CCA.

In Brantford Power's settlement agreement, parties agreed to a 5-year smoothing method of CCA reflected in PILs.[55] This smoothing method considered the 2022 to 2026 period, including the phase-out of accelerated CCA rules that are expected to occur

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[52] For example, Account 2435 was used for the former Orillia Power Distribution Power Corporation (EB-2018-0270) and Peterborough Distribution Inc. (EB-2018-0242)
[53] Accounting Procedures Handbook, effective January 1, 2012
[54] Brantford Power Settlement Proposal, September 29, 2021, p.20, EB-2021-0009
[55] Ibid.

starting in 2024. OEB staff notes that accelerated CCA is expected to be fully phased out starting in 2028. The Applicants state that the impact of the planned CCA phase-out (and ultimate elimination) beyond 2026 is expected to be significant to the operating results of LDC Amalco. As such, the Applicants have requested to track the impact of this in Account 1592 and propose disposition of the account when it next rebases after the 10-year deferred rebasing period.

Submission

OEB staff submits that if the CCA rules change from the CCA rules embedded in Brantford Power's rates, the impacts of this change should be addressed so that Brantford Power neither benefits nor is disadvantaged from this change. OEB staff is of the view that, whether the Applicants request this or not, the 1592 sub-account would continue to be available to LDC Amalco from 2027 to 2031, as the sub-account is intended to record impacts from differences in CCA rule changes from the rules that underpin rates. However, OEB staff submits that a more preferable mechanism to address the CCA rule changes for the 2027 to 2031 period would be an adjustment to base rates, instead of the use of a variance account.

In OEB staff's view, LDC Amalco may propose a base rate adjustment for 2027 rates (i.e., after the current PILs smoothing period) at the time of its 2027 rate application, to adjust the PILs component in rates for the portion of the deferred rebasing period from 2027 to 2031. OEB staff submits that this approach would be more efficient as LDC Amalco would not have to continue tracking amounts in the 1592 sub-account from 2027 to 2031 and would not have to bring forth the sub-account for review and disposition subsequently. It would also reduce intergenerational inequity as the PILs impact would be reflected in the rate year in which it occurred rather than at the end of the deferred rebasing period. Furthermore, it would reduce the complexities of having to establish a methodology in calculating the balance for the 1592 sub-account. OEB staff notes that this calculation would be complicated by the unique circumstances of the smoothing of PILs embedded in Brantford Power's current rates. On the other hand, if LDC Amalco proposes a base rate adjustment to adjust PILs (and base rates) over the 2027 to 2031 period, OEB staff notes that there are existing precedents that LDC Amalco may leverage.[56]

Notwithstanding the above, if the OEB determines that a base adjustment is not necessary and LDC Amalco should continue to have the 1592 sub-account available to

[56] For example, smoothing proposals from Brantford Power (EB-2021-0009) and Canadian Niagara Power Inc. (EB-2021-0011)

its use in the deferred rebasing period, OEB staff submits that the mechanics of the calculation should be reviewed when the sub-account is brought forth for disposition at its next rebasing application and not in the current proceeding. The Applicants provided an example of the mechanics of calculation of the 1592 sub-account using the current expected CCA phase-out rules for the 2027 to 2031 period.[57] OEB staff submits that there are many unknown factors at this time that could impact considerations on how the 1592 sub-account balance should be calculated. For example, the Applicants proposed that the impact of CCA rule changes for 2027 to 2031 be calculated based on the forecasted 2022 to 2026 DSP additions included in Brantford Power's 2022 cost of service proceeding. OEB staff notes that there are alternative methodologies in calculating the Account 1592 balances. For 1592 sub-account balances that have been disposed to date, the balances have been calculated using either the approved capital additions embedded in a distributor's last rebasing rate application,[58] or actual capital additions.[59]

OEB staff submits that there has not been sufficient opportunity for testing the proposed calculation in this proceeding to determine whether the use of approved or actual capital additions is more appropriate for the Applicants' particular circumstances. In addition, it is not clear to OEB staff whether the Applicants would still record amounts in the 1592 sub-account if the accelerated CCA rules are, for example, extended beyond their currently projected phase-out timelines. OEB staff submits that the OEB would be assisted in making its decision on the appropriate 1592 sub-account balance at the time the balance is brought forth for disposition when all relevant factors are known (i.e., actual CCA rules in place and the actual in-service capital additions from 2027 to 2031).

2.2.4 Group 1 and 2 Deferral and Variance Accounts

The Applicants request that LDC Amalco be granted approval to continue to track costs to the existing regulatory and deferral and variance accounts (DVAs) currently approved for Brantford Power and Energy+. The Applicants stated that all Brantford Power's DVAs will be held separately from that of Energy+'s for the 10-year deferred rebasing period.

In the technical conference, the Applicants stated that they would be open to consolidating Brantford Power and Energy+'s IESO invoices as well as Group 1

[57] EB-2021-0280 Undertaking JT1.6
[58] For example, Waterloo North Hydro Inc. (EB-2020-0059)
[59] For example, Enbridge Gas Inc. (EB-2020-013), Canadian Niagara Power Inc. (EB-2021-0011), Brantford Power (EB-2021-0009), Burlington Hydro Inc. (EB-2020-0007)

accounts at a time earlier than the 10-year period.[60] Existing Group 2 accounts would be maintained separately for the 10-year period to maintain the cost causality of the accounts while Group 2 accounts established post-consolidation would be maintained on a consolidated basis.[61]

Submission

OEB staff supports the consolidation of Group 1 accounts as soon as it is practical for the Applicants to do so, as this would result in increased regulatory efficiencies and synergies. OEB staff submits that the Applicants should provide their plan for consolidating Group 1 balances and discuss any implications in doing so in the rate application immediately prior to the proposed consolidation of the balances.

OEB staff agrees with the Applicants' proposal for maintaining Group 2 accounts. OEB staff notes that typically, the Applicants would be expected to dispose of its Group 2 accounts in its next cost of service rate application, which in this case would be after a 10-year deferred rebasing period. Given the lengthy amount of time in which Brantford Power and Energy+'s Group 2 accounts will accumulate[62], the OEB may wish to consider requiring the Applicants to bring forth their Group 2 accounts for disposition in its 2027 rate application, along with the PILs base rate adjustment as discussed in section 2.2.3 above. OEB staff notes that there have been instances where the OEB has required that Group 2 accounts be brought forth for disposition during the deferred rebasing period.[63]

2.2.5 Accounting Policy Changes

The Applicants noted that Brantford Power and Energy+ both use Modified International Financial Reporting (MIFRS) for regulatory reporting purposes, and LDC Amalco will also use MIFRS. In the technical conference, the Applicants noted that Energy+'s accounting policies will be adopted by LDC Amalco. The Applicants performed a preliminary review of accounting policy differences between Brantford Power and Energy+ and noted no material differences. The Applicants' view is that they would need to explain any differences that do arise at its next rebasing application.

[60] EB-2021-0280 Technical Conference Transcript, January 24, 2022, p. 109
[61] EB-2021-0280 Technical Conference Transcript, January 24, 2022, p. 110
[62] Energy+'s Group 2 balances would be for 13 years of transactions and Brantford Power's Group 2 balances would be for 10 years of transactions.
[63] MAADs for the former Orillia Power Distribution Corporation and Hydro One Networks Inc. (EB-2018-0270) and MAADs for former Peterborough Distribution Inc. and Hydro One Networks Inc. (EB-2018-0242)

Submission

OEB staff submits that a deferral account should be established to track the rate base impact of actual differences arising from the alignment of Brantford Power to Energy+'s current accounting policies. The rate base over the deferred rebasing period is underpinned by the pre-amalgamation accounting policies of each utility. Accounting policy changes made by the Applicants may lead to a disconnect in the continuity of rate base from each utility's last rebasing application to its next rebasing application after consolidating. The Applicants have only performed a preliminary review of the change in accounting policies and will not be able to conclude that the differences are not material until post-consolidation. OEB staff submits that explaining any differences at rebasing, as proposed by LDC Amalco, may not be sufficient. If an account is not established at this time and accounting policy differences result in material amounts to be recovered from or refunded to customers, this may constitute retroactive ratemaking. OEB staff notes that at the time that the account is brought forth for review if the amount in the account is immaterial, the OEB may order that no disposition is required.

In OEB staff's view, the establishment of this account is consistent with the OEB's establishment of deferral accounts relating to accounting policy changes stemming from MAADs proceedings for Synergy North Corporation [64] as well as Alectra Utilities Corporation.[65] For Synergy North Corporation, the OEB ordered the applicants to establish a deferral account to track the annual differences in revenue requirement arising from the former Kenora Hydro Electricity Corporation Ltd.'s transition to the former Thunder Bay Hydro Electricity Distribution's accounting policies. The OEB did not opine on the materiality of the differences created by the accounting policy change in its decision. For Alectra Utilities Corporation, the OEB ordered Alectra Utilities Corporation to adopt the Account 1576 - CGAAP Accounting Changes approach to deferral accounts for the impact of changes in capitalization policies of certain former utilities to conform to the acquirer's capitalization policy.[66]

OEB staff submits that the Applicants should be directed to establish a new deferral account that captures the annual property plant and equipment impacts over the deferred rebasing period that result from a change in accounting policies. The new deferral account should apply the same methodology and mechanics as Account 1576 (including a return component applied to the balance). OEB staff notes that Account

[64] Formed from the former Thunder Bay Hydro and Kenora Hydro in EB-2017-0124/EB-2018-0233

[65] Formed from the former Enersource Hydro Mississauga Inc., PowerStream Inc., Hydro One Brampton Networks Inc., and Horizon Utilities Corporation in EB-2017-0024

[66] EB-2019-0018, Alectra Utilities Corporation, Partial Decision and Order, January 30, 2020, p.20

1576 was established generically for electricity distributors subsequent to a consultation involving industry participants.[67] The account is intended to capture impacts of capitalization and depreciation policy changes from those embedded in rates at last rebasing, made during the incentive rate-setting term. In OEB staff's view, the purpose and principles for Account 1576 would be appropriate for the Applicants' current circumstances. OEB staff submits that a draft accounting order should be filed in this regard as part of the Applicants' reply argument.

All of which is respectfully submitted

[67] EB-2008-0408, Report of the Board: Transition to International Financial Reporting Standards, July 29, 2009 and Addendum to Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment, June 13, 2011