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

BY EMAIL

October 27, 2022
Ms. Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca
Dear Ms. Marconi:

Re: Ontario Energy Board (OEB) Staff Submission
InnPower Corporation
Application for 2023 Rates
OEB File Number: EB-2022-0043

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

Yours truly,

Original Signed By

Kelli Benincasa
Incentive Rate Setting and Regulatory Accounting
Encl.
cc: All parties in EB-2022-0043

ONTARIO ENERGY BOARD

OEB Staff Submission

InnPower Corporation

2023 Rates Application

EB-2022-0043

October 27, 2022

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Application Summary

InnPower Corporation (InnPower) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on August 3, 2022, under section 78 of the *Ontario Energy Board Act*, *1998* (OEB Act) seeking approval for changes to its electricity distribution rates to be effective January 1, 2023.

Consistent with Chapter 3 of the Filing Requirements,[1] InnPower applied the Price Cap Incentive Rate-setting adjustment factor to adjust the monthly service charge during the incentive rate-setting years. InnPower's application is based on the a value of 3.40% for the 2023 annual adjustment. The annual adjustment follows an OEB-approved formula that includes components for inflation and the OEB's expectations of efficiency and productivity gains. The components in the formula are approved by the OEB annually. The formula prescribes a rate adjustment equal to the inflation factor minus the distributor's X-factor.[2]

InnPower 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). OEB staff notes that in the event the Uniform Transmission Rates (UTRs) change effective January 1, 2023, OEB staff will update InnPower's 2023 IRM Model to reflect the impacts of any changes in the UTRs before the issuance of a decision and order.

OEB staff makes detailed submissions on the following:

- Rate Mitigation for the Sentinel Rate Class
- Deferral and Variance Accounts Group 1 and Group 2
- Lost Revenue Adjustment Mechanism Variance Account

[1] Filing Requirements for Electricity Distribution Rate Applications – 2022 Edition for 2023 Rate Applications – Chapter 3 Incentive Rate-Setting Applications, May 24, 2022
[2] Ibid, pages 5 - 6

OEB Staff Submission

Rate Mitigation for Sentinel Rate Class

Background

InnPower is requesting the disposition of the Deferral and Variance Accounts (DVA) over two years for the Sentinel Rate Class.
The original IRM application had a bill impact of 13.8% for the Sentinel Rate Class, with rate mitigation the bill impacts are currently 12.1%.

Submission

OEB staff supports the disposition of the DVA accounts for the Sentinel Rate Class over two years to mitigate rates for Sentinel Rate Class. The IRM rate generator has been updated by OEB staff.

Deferral and Variance Accounts Group 1 and Group 2

Group 1 Deferral and Variance Accounts

Background

InnPower requested the disposition of its December 31, 2021 Group 1 Deferral and Variance Account (DVA) in the debit amount of $3,225,994 on a final basis over 12 months. This includes interest projected to December 31, 2022. The Group 1 account balances exceed the OEB's $0.001/kWh threshold for disposition. The OEB most recently approved the disposition of InnPower's Group 1 account balances on a final basis, as of December 31, 2020, as part of its 2022 rates proceeding.

InnPower's disposition request includes an Account 1584 – RSVA Retail Transmission Network Charge debit balance of $650,424, an Account 1586 – RSVA Retail Transmission Connection Charge debit balance of $602,005, an Account 1588 – RSVA Power debit balance of $627,647 and an Account 1589 – RSVA Global Adjustment debit balance of $76,569.

The transactions recorded in 2021 for the Account 1584 and Account 1586 have increased significantly compared to the transactions recorded in 2020 for these two accounts, which were $341,505 and $319,070 respectively. In its response to interrogatories, InnPower stated that the main driver that, is a significant increase in units billed by Hydro One from 2020 to 2021 as InnPower is billed by Hydro One on peaks per transmission station versus actual system peaks[3].

The Account 1588 balance as a percentage of Account 4705 - Cost of Power is 2.0%, which is higher than the 1% reasonability threshold. In response to OEB staff interrogatories, with respect to the large activity in the account in 2021, InnPower explained that this is due to the previously approved understated loss factor of 1.0604 being insufficient to collect the funds needed to recover system losses. This resulted in an accumulation of unrecovered costs in Account 1588 for the period 2017 to 2021[4]. InnPower has provided an updated Appendix 2-R, where the wholesale and retail consumptions, and the supply facilities loss factor has been updated to reflect actuals, to support the correct calculation of the amended loss factor of 1.0710.

In the Principal Adjustment tab of the GA Analysis Workform of the current application, InnPower provided the principal adjustments included in its 2020 Accounts 1589 and 1588 balances approved for disposition in its 2022 rate application, as shown in Tables 1 and 2 below. However, InnPower did not include the reversal of these adjustments in

[3] IR response to Staff-3(a)
[4] IR response to Staff-2(a)

the current year's principal adjustments in the DVA continuity schedules for Accounts 1588 and 1589.

Table 1 – Account 1589 Principal Adjustments Approved in 2020 Balance

Account 1589 – RSVA Global Adjustment			
Adjustment Description		Amount	To be reversed in the current application?
1	CT 148 true-up of GA Charges based on actual Non-RPP volumes	25,527	No
2	Unbilled to actual revenue differences	(394)	No
3	Unaccounted for energy loss	301,238	No
4	Impact of GA deferral	26,939	No
	Total	**353,310**	

Table 2 – Account 1588 Principal Adjustments Approved in 2020 Balance

Account 1588 – RSVA Power			
Adjustment Description		Amount	To be Reversed in the current Application?
1	CT 148 true-up of GA Charges based on actual RPP volumes	(25,527)	No
2	CT 1142/142 true-up based on actuals	(128,534)	No
3	Unbilled to actual revenue differences	338,289	No
4	Unaccounted for energy loss	(301,238)	No
5	Impact of GA deferral	(26,939)	No
	Total	**(143,949)**	

InnPower explained that the prior year's principal adjustments are not included in the DVA continuity schedule because they have been accounted for in the disposition amounts recorded during 2022. Including them as a reversal in the current year's balance would duplicate these amounts.[5]

Furthermore, in its interrogatory responses, InnPower stated that the OEB should clarify that the prior year adjustments should be removed from the "Transactions" column and instead included in the "Principal Adjustment" column. InnPower further stated that if the principal adjustments were reversed, the transaction amount will not match what was posted to the general ledger for the corresponding year.[6]

Submission

[5] Manager's Summary, p.14
[6] IR response to Staff-4(a)

OEB staff does not take issue with the disposition of Group 1 DVAs. However, OEB staff notes that the DVA continuity schedule should be revised for Accounts 1588 and 1589 for presentation purposes. OEB staff makes the below submissions on certain Group 1 accounts.

Account 1584 and Account 1586

OEB staff has reviewed the 2021 DVA balance for Account 1584 and Account 1586, and the supporting evidence supporting the balances. OEB staff finds InnPower's explanations to be reasonable and does not take issue with the proposed disposition for Accounts 1584 and 1586.

Account 1588

Based on the supporting evidence provided regarding the understated loss factor for the significant increase in activities in Account 1588, OEB staff finds InnPower's explanations for the large balance to be reasonable. The understated loss factor was addressed in InnPower's 2022 IRM decision and order, where the OEB accepted InnPower's explanation. InnPower is expected to "provide a thorough explanation of the oversights that occurred when preparing its evidence for its 2017 cost of service application, and to provide a detailed accountability of the evidence that it intends to use to support an update of its loss factor" in its next cost of service proceeding[7]. OEB staff is of the view that InnPower should follow OEB's direction to bring the updated loss factor in its next cost of service application.

Account 1589 and Account 1588 Principal Adjustments

OEB staff has prepared the following reconciliation for the closing balances as of Dec 31, 2020 of Accounts 1588 and 1589 between the DVA continuity schedule filed in this application and the DVA continuity schedule filed in InnPower's 2022 IRM application:

Table 3 – December 31, 2020 Balances

	Account 1589 - Closing Principal Balance as of Dec 31, 2020	**Account 1588 - Closing Principal Balance as of Dec 31, 2020**
Per the DVA Continuity Schedule of 2023 IRM Application	(583,067)	2,546,147
Per the DVA Continuity Schedule of 2022 IRM Application	(229,756)	2,402,199
Difference	**(353,311)**	**143,948**

[7] EB-2021-0036, Decision and Rate Order, 6-Findings

OEB staff notes that the above differences to the December 31, 2020 balances between the two DVA continuity Schedules appear to represent the reversal of the 2020 principal adjustments that were included in the 2020 final disposed amounts for Accounts 1588 and 1589. Rather than including the reversal of these principal adjustments and presenting them as part of the Principal Adjustments cells in the current DVA continuity schedule for Accounts 1588 and 1589, InnPower appears to have included them by changing the 2020 year-end closing balances (i.e., 2021 opening balances) for these two accounts. OEB staff notes that this practice is not in accordance with the general accounting practice because any adjustments or the reversal of the adjustments should be reflected as a principal adjustment rather than changing the closing/opening balance of an account. The closing/opening balance should not be revised so that the year-over-year continuity of the balances is transparent.

In response to interrogatories, InnPower stated that the OEB should clarify that the prior year adjustments should be removed from the “Transactions” column and instead included in the “Principal Adjustment” column. OEB staff is of the view that the reversal of prior year principal adjustments was not included in InnPower’s “Transactions” column, nor included in the “Principal Adjustment” column for Accounts 1588 and 1589. As stated above, OEB staff is of the view that the reversal of prior year principal adjustments was included in the opening 2021 balances. OEB staff invites InnPower to confirm this observation in its reply submission. Nevertheless, where the principal adjustments are included in the current year’s DVA continuity schedule does not change the total claim amounts for Accounts 1588 and 1589. OEB staff further notes that InnPower has included the reversal of the prior-year principal adjustments in the GA reasonability test of Account 1589 on Tab “GA 2021” of the GA Analysis Workform in the current application and the results show that the 2021 Account 1589 balance after the adjustments are reasonable.

In conclusion, OEB staff does not take issue with the final disposition of Accounts 1588 and 1589 balances in this application but submits that InnPower should make revisions to the DVA continuity schedule to include the reversal principal adjustments in the Principal Adjustment column instead of the opening 2021 balances. Going forward, InnPower should not change the closing balances for any DVA in the DVA continuity schedule.

Group 2 Deferral and Variance Accounts

Background

In a letter dated February 10, 2022[8], the OEB requested InnPower to seek disposition of

[8] EB-2022-0043

a credit amount of $67,453 in a Group 2 Account with its application for 2023 rates, which is normally disposed of during a Cost of Service application. The credit amount is a net impact from two new variance accounts created in the Decision and Order for InnPower's last Cost of Service proceeding[9], Account 1508 – Other Regulatory Assets, Sub-account differences in Revenue from Affiliate Services Account 1508 – Other Regulatory Assets, Sub-account differences in Expenses from Affiliate Services.

InnPower Corporation requested disposition of its December 31, 2021 Group 2 Deferral and Variance Account 1508 in the credit amount of $72,199 on a final basis over 12 months. The disposition balance includes interest projected to December 31, 2022.

Submission

OEB staff has reviewed the 2021 DVA balances and the supporting evidence substantiating these balances. OEB staff supports InnPower's request to dispose of its December 31, 2021 Group 2 DVAs on a final basis.

Lost Revenue Adjustment Mechanism

Background

Distributors filing an application for 2023 rates are required to seek disposition of all outstanding Lost Revenue Adjustment Variance Account (LRAMVA) balances related to program savings related to Conservation First Framework programs or other conservation programs they delivered unless they do not have complete information on eligible program savings.[10] InnPower is not requesting the disposition of any LRAMVA balances related to these activities, and confirmed it will not seek the disposition of any balances in a future proceeding. However, InnPower did not confirm that the LRAMVA balance is either zero or a debit.

Submission

OEB staff is of the view that InnPower is to confirm in its reply submission that the LRAMVA balance is either zero or a debit, not a credit that would need to be refunded to customers. If confirmed, OEB staff submits that no further entries to the LRAMVA be permitted at this time, but that the LRAMVA not be discontinued, in the event that InnPower requests the use of the LRAMVA for a CDM activity in a future application, which the OEB can consider on a case-by-case basis. OEB staff is recommending this approach for all distributors who have disposed of all outstanding LRAMVA balances as part of their 2023 rate applications.

[9] EB-2016-0085
[10] Chapter 3 Filing Requirements, section 3.2.6.1

~All of which is respectfully submitted~