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

BY EMAIL

December 15, 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
EPCOR Distribution Ontario Inc.
Cost of Service
OEB File Number: EB-2022-0028

Please find attached OEB staff's submission in the above referenced proceeding pursuant to Procedural Order No. 4. EPCOR Distribution Ontario Inc. and all intervenors have been copied on this filing.

Yours truly,

Katherine Wang

Digitally signed by Katherine Wang
Date: 2022.12.15 15:56:45 -05'00'

Katherine Wang
Advisor – Operations Decision Support: Incentive Rate-Setting & Regulatory Accounting

Encl.

cc: All parties in EB-2022-0028

ONTARIO ENERGY BOARD

OEB Staff Submission

EPCOR Distribution Ontario Inc.

Cost of Service Application

EB-2022-0028

December 15, 2022

Introduction

EPCOR Electricity Distribution Ontario Inc. (EPCOR) filed a cost of service application with the Ontario Energy Board (OEB) on May 27, 2022, under section 78 of the *Ontario Energy Board Act, 1998* seeking approval for the rates that EPCOR charges for electricity distribution, effective October 1, 2023.

The OEB issued an approved issues list for this proceeding on July 28, 2022. A settlement conference took place on November 7-9, 2022. EPCOR filed a Settlement Proposal setting out an agreement among all the parties to the settlement on December 9, 2022. EPCOR, School Energy Coalition (SEC), Vulnerable Energy Consumers Coalition (VECC) and Environmental Defence (ED) participated in the settlement conference. The Small Business Utility Alliance (SBUA) and ED, both intervenors in this proceeding, took no position on the issues that were settled or partially settled. However, neither SBUA nor ED oppose the position reached by the remaining parties and both will focus their attention on issues still outstanding. EPCOR and the intervenors are collectively referred to as the “Parties”.

The Settlement Proposal represents a partial settlement. Full settlement was reached on the following issues.

- Issue 3.2 – Cost Allocation
- Issue 3.4 – Retail Transmission Service Rates and Low Voltage
- Issue 3.5 – Specific Service Charges, Retail Service Charges, and Pole Attachment Charge

Partial settlement was reached on the following issues.

- Issue 3.3 – Rate Design, including Fixed/Variable Splits
- Issue 4.2 – Deferral and Variance Accounts

No settlement was reached on the remaining issues.

- Issue 1.1 – Capital
- Issue 1.2 – Operating, Maintenance and Administration
- Issue 2.0 – Revenue Requirement (Issues 2.1 and 2.2)
- Issue 3.1 – Load Forecast
- Issue 4.1 – Impacts of Changes in Accounting Standards, Policies, Estimates and Adjustments
- Issue 5.1 – Effective Date

If the Settlement Proposal is approved as filed at the time of this submission, and the unsettled issues are disposed of on the basis set out in EPCOR's application, as revised over the course of this proceeding, then the total bill impact, for a typical residential customer with a monthly consumption of 750 kWh, would be an increase of $8.50 per month before taxes and the Ontario Energy Rebate, or 7.15%. The bill impacts to customers will change pending the resolution of the remaining unsettled issues.

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 considering and making its determination on the Settlement Proposal.

Settlement Proposal

With respect to the settled issues, OEB staff submits that the Settlement Proposal reflects a reasonable evaluation of the distributor's planned outcomes in this proceeding and appropriate consideration of the relevant issues.

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.

OEB staff provides submissions on the following issues in the Settlement Proposal:

- Issue 3.1 – Load Forecast and Loss Factor
- Issue 3.2 – Cost Allocation
- Issue 3.3 – Rate Design, including Fixed/Variable Splits
- Issue 3.4 – Retail Transmission Service Rates and Low Voltage
- Issue 3.5 – Specific Service Charges, Retail Service Charges, and Pole Attachment Charge
- Issue 4.2 – Deferral and Variance Accounts
- Unsettled Issues

3.0 – Load Forecast, Cost Allocation and Rate Design

Issue 3.1 – Load Forecast and Loss Factors

The Parties agreed that the loss factors calculated for the purpose of setting rates are appropriate. The proposed secondary loss factor of 6.02% reflects a decrease from the current approved loss factor of 7.10%. The loss factor includes a supply facility loss factor of 3.19% and losses of 2.75% in EPCOR's system. OEB staff has no concerns with the proposed loss factors.

The parties did not reach an agreement on any components of the load forecast including customer connections, energy use or load.

Issue 3.2 - Cost Allocation

The Parties agreed to the cost allocation proposed by EPCOR as updated through the interrogatories.

EPCOR 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 agrees 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 - Rate Design, including Fixed/Variable Splits

The Parties agreed to the proposal for rate design including the fixed/variable splits. OEB staff does not have any concerns with the proposed rate design including fixed/variable splits. OEB staff notes that the Parties' agreement on the appropriateness of EPCOR's proposals for rate design, including the proposed fixed/variable splits, is subject to updates required to implement the OEB's decision on the unsettled or partially settled issues and the potential need for rate mitigation.

Issue 3.4 - Retail Transmission Service Rates (RTSRs) and Low Voltage (LV)

The Parties agreed to the RTSRs as updated through the interrogatories. EPCOR initially applied to base LV Rates on 2021 actual expenses, but as part of the Settlement Proposal, the Parties agreed that the forecasted expense would be based on 2022 rates and 2021 volumes. In its initial application, EPCOR had proposed to use the 2021 actual LV expense as the forecast for 2023.[1] Appendix E to the Settlement Proposal has included the modified the approach to use the 2022 rates and 2021 volumes to estimate the LV expense. OEB staff has no concerns with the proposed RTSRs or LV rates.

Issue 3.5 - Specific Service Charges, Retail Service Charges, and Pole Attachment Charge

The Parties agreed that EPCOR's Specific Service Charges are appropriate. The Pole Attachment Charge and Retail Service Charges were updated for the current charges as part of the Settlement Proposal. OEB staff has no concerns with the proposed charges.

4.0 – Accounting

Issue 4.2 – Deferral and Variance Accounts

Disposition of Deferral and Variance Accounts

In the Settlement Proposal, Parties agreed that EPCOR would dispose of the following Deferral and Variance Account (DVA) balances:[2]

- Group 1 DVAs as of December 31, 2021 for a debit amount of $1,371,364, excluding forecasted interest
- Group 2 DVAs excluding Account 1508, Sub-account OEB Cost Assessment Variance as of December 31, 2021 for a debit of $556,249, excluding forecasted interest
- LRAMVA as of December 31, 2021 for a debit amount of $190,265, excluding forecasted interest

Some of the Group 2 DVAs also include forecasted principal amounts for the period of January 1, 2022 to December 31, 2022.[3]

The Parties did not settle on:

- the appropriate disposition period for the DVAs and their applicable interest calculation, which is contingent on the OEB's approved effective dates for new rates
- the continuation or discontinuation of the DVAs

[1] Exhibit 8, pages 15-16
[2] Settlement Proposal 2023 DVA Continuity Schedule
[3] Ibid

- the proposed disposition of Account 1508, Sub-account OEB Cost Assessment Variance
- the proposed establishment of the Non-Utility Billing Variance Account and Recovery of Income Taxes Deferral Account

OEB staff supports the settlement reached by Parties in this regard. OEB staff makes the following submission on certain Group 2 DVAs.

Forecasted Balances

Parties have agreed to the disposition of forecasted 2022 balances for certain Group 2 DVAs.[4] OEB staff notes that, typically, audited balances are disposed of,[5] but there are exceptions to this requirement. For example, in the disposition of retail service charge-related variance accounts and the Account 1508 sub-account for pole attachment charges, the OEB may consider disposing forecasted amounts up to the effective date of rebased rates.[6] OEB staff's view is that there are regulatory efficiencies to be gained and less intergenerational inequity by disposing of the forecasted 2022 principal balances in certain accounts in the current application. OEB staff supports this approach rather than disposing of the 2022 audited balances of these accounts in EPCOR's next cost of service proceeding (which is expected for 2028 rates).

1508 Sub-accounts

In its interrogatory responses, EPCOR agreed to withdraw the disposition of Account 1508, Sub-account Customer Choice Initiative Costs, Account 1508, Sub-account Energy East Consultation Costs, and Account 1508, Sub-account Late Payment Penalty Variance as the balances in these accounts were not material.[7] OEB staff supports this approach as it is in line with the OEB's guidance for these sub-accounts.[8]

Account 1508, Sub-account Icon F&G Meter Disposal

[4] These accounts include Account 1508, Sub-account Pole Attachment Variance Account, Account 1508, Sub-account Retail Service Charge Incremental Revenue, Account 1532 - Renewable Generation Connection OM&A Deferral Account, Account 1557 – Meter Cost Deferral Account (MIST Meters)
[5] Page 57 Chapter 2 Filing Requirements For Electricity Distribution Rate Applications – 2022 Edition for 2023 Rate Applications, April 18, 2022 indicates that explanations are required if the account balances in the continuity schedule differ from the account balances in the trial balance reported through the Electricity RRR and documented in the distributor's audited financial statements
[6] Filing Requirements For Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications, Chapter 2 Cost of Service, April 18, 2022, p. 51 & 63
[7] IRR 9-Staff-74
[8] Accounting Order for the Establishment of a Deferral Account to Record Impacts Arising from Implementing the Customer Choice Initiative Ontario Energy Board File No. EB-2020-0152, September 16, 2020, March 2015 Accounting Procedures Handbook Guidance #4, July 2012 Accounting Procedures Handbook Frequently Asked Questions #8

Parties agreed to the proposed disposition of the principal and interest in Account 1508, Sub-account Icon F&G Meter Disposal. In the OEB's rate order for Collus PowerStream Corp.'s 2013 cost of service proceeding, the OEB found that interest should be recorded for the sub-account. However, the OEB stated that it was premature to determine whether the stranded F&G meter assets ultimately will attract interest.[9] The OEB stated that on the disposition of the sub-account, the OEB will also consider the disposition of accumulated interest. OEB staff notes that Parties agreed to dispose of interest of $12,175 as of December 31, 2022. In OEB staff's view, this is not a material amount and therefore, OEB staff does not object to the disposition of interest in the context of this settlement. However, OEB staff's support for this approach in this case should not be considered an indication of its support for this approach beyond the current proceeding.

Account 1509 – Impacts Arising from the COVID-19 Emergency

Regarding Account 1509 – Impacts Arising from the COVID-19 Emergency, the Parties agreed that EPCOR would withdraw the proposed disposition of Account 1509, Sub-account for Impacts from Complying with Government/OEB-initiated Customer Relief Programs and include the disposition of Account 1509, Sub-account Forgone Revenues from Postponing Rate Implementation. OEB staff supports this treatment as it is in accordance with the OEB's guidance for the account.[10]

Account 1557 - Meter Cost Deferral Account (MIST Meters)

The Parties agreed to dispose of Account 1557 – Meter Cost Deferral Account (MIST Meters) for a debit principal amount of $250,901. The amount represents the gross incremental capital expenditure of $148,005 and operating costs of $102,896 associated with MIST meters.[11] Parties also agreed to exclude MIST meters from its rate base as it requested to dispose of the gross incremental costs of $250,901 in Account 1557, instead of the 2017 to 2022 revenue requirement impact of $165,376 for the MIST meter costs, a difference of $85,525.[12]

OEB staff notes that the typical regulatory treatment would be to recover the revenue requirement impact of the incremental capital costs in the account, and include the net book value of the asset as at December 31, 2022 in the opening rate base. The asset will be recovered over time through the recovery of depreciation for the asset, and the

[9] EB-2012-0116 Rate Order, October 24, 2013
[10] Report of the OEB: Regulatory Treatment of Impacts Arising from the COVID-19 Emergency (EB-2020-0133), June 17, 2021 (COVID-19 Report), Guidance for Electricity Distributors with Forgone Revenues Due to Postponed Rate Implementation from COVID-19, August 6, 2020
[11] IRR 9-Staff-77
[12] Ibid

asset will attract a return at the weighted average cost of capital of the utility going forward. In contrast, the agreed-upon treatment of EPCOR's MIST meters recovers the full capital cost of the asset upon disposition of Account 1557. However, EPCOR will forgo the return on the asset going forward as it is excluded from the rate base. OEB staff estimates the total return foregone would be approximately $90,415.[13] OEB staff notes that EPCOR's higher immediate recovery of $85,525 from including the gross incremental capital cost rather than the revenue requirement impact of the capital cost in Account 1557 in this proceeding would be offset by the forgone return on the net book value of the capital asset. In light of the Parties' settlement of this matter, OEB staff will not take issue with the agreed upon treatment of MIST meters. However, OEB staff's support for this approach in this case should not be considered an indication of its support for this approach beyond the current proceeding.

Lost Revenue Adjustment Mechanism Variance Account

EPCOR is proposing to dispose of its Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) balance of $190K, excluding forecasted interest. The balance is comprised of persistence of 2011- 2020 Conservation & Demand Management (CDM) program activity into 2021 and 2022. In the Settlement Proposal, the Parties agreed to dispose of the LRAMVA balance proposed by EPCOR. But like the proposal for disposition of Group 1 and the updated Group 2 deferral and variance accounts including balances in the existing accounts, the Parties did not agree to a disposition period or applicable interest. If disposition is approved, EPCOR would have a zero balance in the LRAMVA.

OEB staff has no concerns with the LRAMVA balance proposed for disposition. The LRAMVA will not be discontinued. In the event that EPCOR requests the use of LRAMVA for a CDM activity in a future application, OEB staff anticipates that the OEB will consider the request at that time.

Unsettled Issues

The Parties have not been able to come to a complete agreement on the following issues:

- Issue 1.1 – Capital
- Issue 1.2 – Operating, Maintenance and Administration
- Issue 2.0 – Revenue Requirement (Issues 2.1 and 2.2)
- Issue 3.1 – Load Forecast

[13] 2022 Net book value of $134,948 (per IRR 9-Staff-77) multiplied by deemed weighted average cost of capital of 6.67% for 2023 for approximately a 10-year remaining useful life

- Issue 3.3 – Rate Design, including Fixed/Variable Splits
- Issue 4.1 – Impacts of Changes in Accounting Standards, Policies, Estimates and Adjustments
- Issue 4.2 – Deferral and Variance Accounts
- Issue 5.1 – Effective Date

As indicated in the Settlement Proposal, due to the complexity, importance and interrelated nature of the issues that were not completely settled, the Parties agreed that the unsettled and partially settled issues would be most efficiently disposed of by way of an oral hearing.

OEB staff takes no issue with the proposal of the Parties.

~All of which is respectfully submitted~