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

BY EMAIL

January 27, 2023

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
Lakeland Power Distribution Ltd.
Application for 2023 Electricity Distribution Rates
OEB File Number: EB-2022-0047

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

Yours truly,

Vithooshan Ganesanathan
Digitally signed by Vithooshan Ganesanathan
Date: 2023.01.26 14:22:00 -05'00'

Vithooshan Ganesanathan
Advisor, Generation & Transmission

Encl.

ONTARIO ENERGY BOARD

OEB Staff Submission

Lakeland Power Distribution Ltd.

Application for 2023 Electricity Distribution Rates

EB-2022-0047

January 27, 2023

Summary

Lakeland Power Distribution Ltd. (Lakeland Power) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on October 12, 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 May 1, 2023.

Consistent with Chapter 3 of the OEB's *Filing Requirements for Electricity Distribution Rate Applications* (OEB's Filing Requirements),[1] Lakeland Power proposed to apply a Price Cap IR adjustment factor to adjust the monthly service charge during the incentive rate-setting years. OEB staff does not object to Lakeland Power's proposed price cap adjustment as explained in the section titled "Achieved Return on Equity". OEB staff has updated the 2023 IRM Model to reflect the OEB-approved 2023 price cap parameters, consistent with the election filed by Lakeland Power.[2] OEB staff also makes detailed submissions on Lakeland Power's request for a shared tax adjustment and disposition of their Group 1 Deferral and Variance Accounts.

Lakeland Power has requested an update to its Retail Transmission Service Rates (RTSRs) to recover the wholesale transmission rates charged by the Independent Electricity System Operator (IESO) and Hydro One Networks Inc. Lakeland Power's updated RTSRs, as filed, have been adjusted to reflect the current OEB-approved 2023 Uniform Transmission Rates (UTRs)[3] and Hydro One Networks Inc.'s 2023 host-RTSRs.[4] OEB staff has no concerns with Lakeland Power's requested adjustments to its RTSRs.

[1] Filing Requirements for Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications - Chapter 3 Incentive Rate-Setting Applications, May 24, 2022
[2] OEB Letter, 2023 Inflation Parameters, issued October 20, 2022
[3] EB-2022-0250, Decision and Rate Order, December 8, 2022
[4] EB-2021-0110, Decision and Order, November 29. 2022

OEB Staff Submission

Deferral and Variance Account Disposition

Background

The 2021 year-end total balance for Lakeland Power's Group 1 Deferral and Variance Accounts (Group 1 Accounts) that are eligible for disposition, including interest projected to December 31, 2022, is a credit of $465,651 and pertains to variances accumulated during 2021.[5] This amount represents a total claim of $0.0016 per kWh, which exceeds the disposition threshold, and Lakeland Power has requested disposition on a final basis. OEB policy states that Group 1 account balances should be disposed if they exceed, on a net basis (as a debit or credit), a pre-set disposition threshold of $0.001 per kWh.[6] Lakeland Power requested a one-year disposition period.

Lakeland Power's 2017, 2018, and 2019 Group 1 balances were approved on an interim basis in previous proceedings. The 2019 transactions were the first year in which Lakeland Power recorded Group 1 balances on a harmonized basis between the former Parry Sound and legacy Lakeland Power rate zones. The OEB approved the 2017 to 2019 balances on an interim basis pending Lakeland Power's completion of an internal review of its commodity account settlement and reconciliation process for historical balances. In the 2022 IRM decision and order, the OEB approved Lakeland Power's request to dispose the 2020 balance on an interim basis. The OEB accepted Lakeland Power's request for more time to confirm the balance, including assessing the impact of deferred GA charges in 2020.[7] The OEB also stated that it expected that further interim deferrals will not, and should not, be needed given the extent of time that Lakeland Power has had to confirm historical balances.[8]

In the current proceeding, Lakeland Power stated that it has completed its implementation and review of Account 1588 and Account 1589 settlement and reconciliation process for historical balances and has found no systemic issues and identified no material adjustments that would be required to any historical balances previously disposed of.[9] Lakeland Power also confirmed that:

- it has appropriate controls, processes, and systems in place relating to RPP settlement claims
- it has implemented the OEB's February 21, 2019 guidance for Accounts 1588

[5] Rate Generator Model, Tab 3 – Continuity Schedule
[6] Filing Requirements for Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications - Chapter 3 Incentive Rate-Setting Applications, May 24, 2022
[7] EB-2021-0040, Decision and Rate Order, p.8
[8] Ibid.
[9] Manager's Summary, p.27

and 1589 effective, from January 1, 2019 and is adhering to the standardized processes

Lakeland Power confirmed that it is requesting the final disposition of the 2017 to 2020 Group 1 Account balances that were previously approved on an interim basis and that no adjustment has been made to balances previously approved by the OEB on a final basis. The Rate Generator model indicates that there are no variances between the RRR filing and the Group 1 account balances.[10]

Included in the Group 1 Accounts requested for disposition is Account 1595 (2019) for a credit amount of $157,790. The rate riders associated with this sub-account expired on April 30, 2020. According to the OEB's Filing Requirements, distributors only become eligible to seek disposition of the audited Account 1595 balances two years after the expiry of the rate rider.[11] Therefore, Account 1595 (2019) would not yet be eligible for disposition in the current proceeding.[12]

Submission

OEB staff does not take issue with Lakeland Power's disposition request for 2017 to 2021 Group 1 balances on a final basis, subject to Lakeland Power's confirmation that the Account 1595 (2019) balance has not changed since December 31, 2021. Though the associated rate rider expired on April 30, 2020, the balance in the sub-account could potentially change from April 30, 2020 to April 30, 2022, as distributors may make billing corrections as per the Retail Settlement Code.[13] If Lakeland Power confirms that sub-account balance has not changed since December 31, 2021 and therefore, will be the same balance subject to disposition when the sub-account is eligible for disposition in Lakeland Power's 2024 rate proceeding, OEB staff does not take issue with disposing the sub-account in the current proceeding. Therefore, OEB staff invites Lakeland Power to confirm that the Account 1595 (2019) balance has not changed subsequent to December 31, 2021. If Lakeland Power does not confirm this, then OEB staff submits that Account 1595 (2019) should not be disposed as part of this proceeding.

OEB staff notes that Lakeland Power has completed its review of 2017 to 2020 balances and has confirmed it has implemented the OEB's Accounting Guidance Related to Pass-Through Accounts 1588 & 1589, effective January 1, 2021.[14] OEB staff also reviewed the evidence on record and has no concerns on the balances requested

[10] Rate Generator Model, Tab 3 – Continuity Schedule
[11] Chapter 3 Filing Requirements, Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications, May 24, 2022, p.13
[12] Two years after the expiry of rate riders would be April 30, 2022. The audited 2022 balance would be eligible for disposition in the 2024 rate application.
[13] Chapter 3 Filing Requirements, Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications, May 24, 2022, p.13
[14] Accounting Procedures Handbook Update, Accounting Guidance Related to Pass-Through Accounts 1588 & 1589, February 21, 2019

for disposition.

Achieved Return on Equity

Background

Chapter 3 of the OEB's Filing Requirements state that for the Price Cap IR and Annual IR index rate-setting options, a regulatory review may be triggered if a distributor's earnings are outside of a dead band of +/- 300 basis points from the OEB-approved Return on Equity (ROE). The OEB monitors results filed by distributors as part of their RRR and determines if a regulatory review is warranted. In accordance with the OEB's Filing Requirements, a distributor whose earnings are in excess of the dead band is expected to refrain from seeking an adjustment to its base rates through a Price Cap IR or Annual IR Index plan. If a distributor whose earnings are in excess of the dead band nevertheless applies for an increase to its base rates, the OEB expects it to substantiate its reasons for doing so.[15]

For 2021, Lakeland Power's regulatory ROE of 12.06% is 308 basis points above the deemed ROE of 8.98%, putting Lakeland Power's 2021 ROE above the 300 basis point dead band established in the OEB's Filing Requirements.[16] However, in this application, Lakeland Power has requested the price cap adjustment and explained that the 2021 overearning was driven by a $243,035 underspend in OM&A costs relative to the last cost of service[17] attributed to two main reasons: (1) a shift in spending from OM&A to capital expenditures to accommodate a higher number of broadband expansion projects, and (2) a positive swing of $458,246 from 2020 to 2021 year end balances for bad debt.[18]

Broadband Expansion Projects

In the pre-filed evidence, Lakeland Power stated that capital expenditure on broadband expansion work was high in comparison to a normal year. Lakeland Power noted that the broadband projects were deemed critical by the provincial government / funded projects and were driven by the Ontario government's Broadband Act.[19]

In 2021, as a result of the high demand for broadband expansion work, Lakeland Power stated that powerline staff were primarily allocated to capital projects, reducing the number of staff available to complete maintenance projects. Lakeland Power stated that their inability to secure contractors to complete broadband expansion work was a result

[15] Chapter 3 Filing Requirements, Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications, May 24, 2022, p. 22-23
[16] RRR 2.1.5.6 Regulated Return on Equity filing, May 2, 2022
[17] EB-2018-0050, Decision and Rate Order, April 18, 2019
[18] Manager's Summary, p. 29
[19] Ibid.

of labour shortages and a high volume of similar projects being completed across the province.[20] From 2020 to 2021, Lakeland Power stated that maintenance labour costs had been reduced by $107,901, representing a 22% decrease, while capital labour costs had been increased by $230,956, representing a 38% increase.[21]

Bad Debt Expense

Lakeland Power noted that from 2020 to 2021 the Aged Receivables reduced from a bad debt expense amount of $429,780 to a bad debt revenue of $28,467, representing a $458,246 positive swing in end balances. Lakeland Power stated that the large bad debt expense in 2020 was a result of Covid-19 impacts. In their last cost of service application, Lakeland Power was approved for $45,000 in bad debt expense as part of the total annual OM&A expense.[22]

Lakeland Power noted that the 2020 ROE was 6.07%, representing an ROE of 2.91% below the deemed return, and the 2021 ROE was 12.06%, representing an ROE of 3.08% above the deemed return. Lakeland Power calculated the average ROE for 2020 and 2021 to be 9.07%, representing 0.09% above the deemed ROE of 8.98%.

Submission

For the following reasons, OEB staff does not take issue with Lakeland Power's request for the price cap adjustment in the current proceeding:

1) The rationales provided by Lakeland Power to explain the overearning appear to show that the over-earnings for 2021 were caused by isolated events with one being related to the COVID-19 pandemic.
2) The 2021 ROE represents a marginal over-earning of eight basis points outside of the 300 basis-point dead band.

Lakeland Power stated that the 2021 over earning was driven by a decrease of $243,035 in 2021 OM&A expenses relative to their last cost of service application attributed to the following two factors:[23]

1) A shift in spending on labour from OM&A to capital expenditures due to the work related to the Broadband Act. Lakeland Power stated that to keep up with the customer demand, employees were primarily working on capital projects throughout the year resulting in an abnormal reduction of maintenance being performed and deferred to 2022.[24]

2) A swing of $458,246 in bad debt from 2020 to 2021 end balances. In its response to

[20] Manager's Summary, p. 29
[21] IRR OEB Staff-7c
[22] Ibid.
[23] Manager's Summary, p. 29
[24] Ibid.

interrogatories, Lakeland Power stated that:[25]

> Due to Covid in 2020, Lakeland Power had a bad debt expense of $429,780 which was the main contributor to the low ROE achieved in 2020. This expense is an accounting estimate based on Aged Receivables and the timing of customer payments. During 2021 the Aged Receivables reduced from 2020 to 2021 and Lakeland Power recorded an ending bad debt revenue (instead of expense in the normal course of business) of $28,467.

OEB staff notes that the first reason regarding the work related to the Broadband Act may be an isolated event in 2021, given 2021 is the first year that the Broadband Act was issued and hence the influx of capital work related to the broadband project work may impact the spending on the utility's maintenance work for the year. However, this event may not have a consistent impact on 2022 because the maintenance work may be deferred but may not be canceled.

OEB staff further notes that the bad debt revenue of $28,467 in 2021 was abnormal and was caused by the substantial decrease in the provision of the bad debt expense for the estimated aged receivables in 2021 from the expense in 2020. OEB staff notes that as compared to the $45,000 bad debt expense that was embedded in the approved OM&A expense in Lakeland Power's last cost of service application, the bad debt revenue of $28,467 in 2021 has the effect of increasing, rather than decreasing, the regulated net income in 2021.

Lakeland Power did not provide a detailed calculation of how the $243,035 underspend in 2021 OM&A was derived and how it is linked to the two drivers provided. However, OEB staff notes that the decrease in OM&A expense of $243,035 has increased the 2021 ROE% by 1.9% (calculated as $243,035 divided by the 2021 regulated deemed equity of $12,419,617). OEB staff invites Lakeland Power to confirm this calculation in its reply submission.

Furthermore, OEB staff notes that by applying the 2021 regulated deemed equity of $12,419,617 that was reported in the 2021 ROE filing, the 8 basis-point over-earning translates to an amount of $11,177 beyond the 300 basis-point dead band. The $28,467 bad debt revenue alone, if removed, would result in Lakeland Power's 2021 regulated ROE being within the 300 basis-point dead band. Therefore, OEB staff is of the view that the marginal over-earning in 2021 further supports Lakeland Power's request for the base rate adjustment in the current rate proceeding.

Lastly, in an interrogatory response, Lakeland Power forecasted the 2022 ROE to be 7.99% which is below the deemed ROE.[26] Based on this forecast, OEB staff notes that the issue of overearning may be isolated to 2021 earnings and may not persist in

[25] IRR OEB Staff-7c
[26] IRR OEB Staff-8

subsequent years.

Shared Tax

In its pre-filed evidence, Lakeland Power calculated a tax sharing amount of a credit of $13,124 (representing 50% of the total tax sharing amount) in its Rate Generator Model to be refunded to ratepayers because the small business deduction is applied to Lakeland Power's Payment in Lieu of Taxes (PILs) for regulatory purposes. However, Lakeland Power proposed that no amounts be shared with ratepayers. Lakeland Power noted that the small business deduction will apply on a consolidated basis with Lakeland Power and its affiliates. The taxable capital for the consolidated Lakeland Group is in excess of $50 million, and therefore, Lakeland Power will pay PILs expense at a rate of 26.5% on its tax return (i.e., the small business deduction will not apply). Lakeland Power also stated that it believed there may be an error in the tax change calculation in the Rate Generator Model as the small business deduction is calculated based on rate base, which is approximately the net book value of capital assets and not the gross book value.

In its interrogatories, OEB staff noted that the OEB's Filing Requirements state that distributors are to use the stand-alone principle when determining PILs.[27] OEB staff also noted that the 2006 Electricity Distribution Rate Handbook stated that the 2006 rate base should be used as a proxy for 2006 taxable capital for OEB purposes when calculating the 2006 regulatory Ontario Capital Tax and federal Large Corporate Tax.[28]

In response to interrogatories, Lakeland Power rescinded its initial proposal and completed the shared tax rate rider calculation to be compliant with the OEB Filing Requirements.[29]

<u>Submission</u>

OEB staff agrees with Lakeland Power's revised proposal to refund the tax-sharing amount of $13,124. This approach is consistent with the OEB's typical treatment of tax-sharing amounts in the Rate Generator Model.

~All of which is respectfully submitted~

[27] Section 2.6.2 Filing Requirements for Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications, April 18, 2022
[28] 2006 Electricity Distribution Rate Handbook, May 11, 2005, p.64
[29] IRR OEB Staff-5