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

Ontario

BY EMAIL

October 24, 2023

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

Dear Ms. Marconi:

Re: InnPower Corporation (InnPower)
Application for 2024 Distribution Rates
Ontario Energy Board File Number: EB-2023-0033

In accordance with Procedural Order No. 1, please find attached OEB staff's submission on the settlement proposal in the above noted proceeding. InnPower and all intervenors have been copied on this filing.

Yours truly,

Donald Lau Digitally signed by Donald Lau
Date: 2023.10.25
14:47:29 -04'00'

Donald Lau
Manager – Electricity Distribution Rates

Attach.

2300 Yonge Street, 27th floor, P.O. Box 2319, Toronto, ON, M4P 1E4
2300, rue Yonge, 27e étage, C.P. 2319, Toronto (Ontario) M4P 1E4
T 416-481-1967 1-888-632-6273
F 416-440-7656 OEB.ca

ONTARIO ENERGY BOARD

STAFF SUBMISSION ON SETTLEMENT PROPOSAL

2024 ELECTRICITY DISTRIBUTION RATES

InnPower Corporation

EB-2023-0033

October 24, 2023

INTRODUCTION

InnPower Corporation (InnPower) filed a cost of service application with the Ontario Energy Board (OEB) on May 12, 2023 under section 78 of the *Ontario Energy Board Act*, *1998,* seeking approval for changes to the rates that InnPower charges for electricity distribution, to be effective January 1, 2024.

The OEB issued an approved issues list for this proceeding on July 11, 2023. A settlement conference was held from August 21 to 23, 2023 and InnPower filed a settlement proposal setting out an agreement among all the parties to the proceeding on October 13, 2023. The parties to the settlement proposal were InnPower and the approved intervenors in the proceeding: School Energy Coalition, Vulnerable Energy Consumers Coalition, and Hydro One Networks Inc. (the parties). The settlement proposal represents a full settlement of all issues in InnPower's application.

For a typical residential customer with a monthly consumption of 750 kWh, the total bill impact under the filed settlement proposal is an increase of $3.16 per month before taxes or 2.3%.

This submission reflects observations that arise from the OEB staff's review of the evidence and the settlement proposal. It is intended to assist the OEB in deciding upon InnPower's application and the settlement proposal.

Settlement Proposal

OEB staff has reviewed the settlement proposal in the context of the objectives of the *Renewed Regulatory Framework*[1], the *Handbook for Utility Rate Applications*[2], applicable OEB policies, relevant OEB decisions, and the OEB's statutory obligations. OEB staff submits that the settlement proposal reflects a reasonable evaluation of the distributor's planned outcomes in this proceeding, appropriate consideration of the relevant issues, and ensures that there are sufficient resources to allow InnPower to achieve its identified outcomes in the five years of the plan from 2024 to 2028.

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

[1] Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, October 18, 2012
[2] Handbook for Utility Rate Applications, October 13, 2016

of the settlement proposal would reflect the public interest and would result in just and reasonable rates for customers.

Below, OEB staff provides specific submissions on certain of the issues established by the OEB:

- Issue 1 – Capital Spending and Rate Base
- Issue 2 - Operating, Maintenance, and Administration
- Issue 3 – Cost of Capital, PILs, and Revenue Requirement
- Issue 4 - Load Forecast
- Issue 5 - Cost Allocation, Rate Design, and Other Charges
- Issue 6 – Deferral and Variance Accounts
- Issue 7.1 – Is the proposed effective date appropriate?
- Issue 7.2 – Has InnPower responded appropriately to all relevant OEB directions from previous proceedings?

Issue 1 – Capital Spending and Rate Base

1.1 Are the proposed capital expenditures and in-service additions appropriate?

InnPower proposed a total net capital expenditure and in-service addition of $9.1 million for the 2024 test year in the original application. This represents an increase of $4.7 million from the 2017 OEB-approved amount of $4.4 million (107% or 15% annually). When excluding the Barrie Area Transmission Upgrade (BATU) capital contributions of $4.1 million to be paid to Hydro One Networks Inc. in the Test Year, the net Test Year budget lowers to $5.0 million, an increase of 14% or 2% per year compared to the 2017 OEB-approved amount.

As a result of questions raised prior to the settlement conference, InnPower updated their proposed in-service additions to $10.5 million including BATU.

For the purposes of the settlement of all issues in this proceeding, the parties have agreed to a reduction of $400k in capital in-service additions from the 2024 test year to $10.1 million.

OEB staff submits that a reduction of $400k in the 2024 test year is reasonable. InnPower has underspent its historical planned total net capital expenditures between 2017 to 2021 by 19% or $5.7 million. The reduction in the 2024 test year will mitigate the risk of overestimating the 2024 test year capital expenditures. InnPower also started to invest in Software-as-a-Service (SaaS) but has higher IT hardware/software costs in

2024. It is reasonable to expect reductions to capital spending in IT as InnPower moves towards SaaS.

1.2 Are the proposed rate base and depreciation amounts appropriate?

For the purposes of the settlement of all issues in this proceeding, the parties have accepted the proposed 2024 rate base and depreciation amounts.

OEB staff has no issues with the 2024 rate base and depreciation.

Issue 2 - Operating, Maintenance, and Administration

2.1 Are the proposed OM&A expenditures appropriate?

InnPower proposed total OM&A spending of $8.3 million for the 2024 Test Year. This represents an increase of $3.0 million or 56.3% over the 2017 OEB-approved OM&A or a compound annual growth rate of 6.6%. The main drivers of OM&A increases since 2017 include salaries and benefits, IT and cybersecurity, building and office supplies, vegetation management, and distribution meter maintenance. InnPower has added 29.5 new FTEs since 2017 (including 16 between 2023 and 2024) and this increase is driven by customer growth, succession planning, health and safety concerns, and enterprise risk considerations.

The parties agreed to an OM&A reduction of $750k to InnPower’s proposed OM&A for the test year.

OEB staff submits that the reduction in OM&A is reasonable. With the increase in number of FTEs since 2017, the reduction in InnPower’s proposed OM&A will reflect potential economies of scale as InnPower continues to see customer growth. InnPower also has other potential OM&A savings as there are fewer planned consultant costs as compared to historical years and opportunities to pace OM&A programs such as vegetation management. If the settlement proposal is approved, InnPower is forecasting that it will move from Group 3 to Group 2 in the OEB's PEG benchmarking report.

2.2 Is the proposed shared services cost allocation methodology and the quantum appropriate?

The parties agreed to InnPower’s proposed shared services cost allocation methodology and quantum. OEB staff has no concerns with InnPower’s methodology and quantum for shared services.

Issue 3 – Cost of Capital, PILs, and Revenue Requirement

3.1 Is the proposed cost of capital (interest on debt, return on equity) and capital structure appropriate?

InnPower proposed to use the OEB capital structure and the OEB's cost of capital parameters for the short-term debt rate and return-on-equity. For the long-term debt rate, InnPower proposed a debt rate of 3.72%, which is the weighted debt rate of its actual and forecasted long-term debt.

As part of the settlement proposal, InnPower also agreed to update the short-term debt rate and return-on-equity when OEB releases the 2024 cost of capital parameters. The parties also agreed that InnPower's debt rate for debt that will be renewed in 2023 and 2024 will be prorated based on the start date of the new debt rate. The parties further agreed that InnPower would file an updated draft rate order for approval once the 2024 cost of capital parameters are issued.

OEB staff has no issues with the cost of capital or capital structure and supports the update through a draft rate order process.

3.2 Is the proposed PILs (or Tax) amount appropriate?

OEB staff has no concerns with the forecast PILs expense of $184,309 as agreed to by the parties. OEB staff notes that PILs will be updated in the draft rate order process when the 2024 cost of capital parameters are updated. Furthermore, OEB staff is of the view that the calculation of the PILs, including the recognition of accelerated CCA in the 2024 Test Year in the settlement proposal is appropriate. Additional details of Account 1592, Sub-account CCA Changes are discussed under Issue 6.1.

3.3 Is the proposed Other Revenue forecast appropriate?

Through interrogatories and the pre-settlement clarification questions, InnPower updated other revenue from $3.9 million (original application) to $3.6 million (settlement proposal). All parties agreed to the updated test year other revenue.

OEB staff has no concerns with the corrections made to the other revenue.

3.4 Have all impacts of any changes in accounting standards, policies, estimates and adjustments been properly identified and recorded, and is the rate-making treatment of each of these impacts appropriate?

In the settlement proposal, the parties accepted that all impacts of any changes to accounting standards, policies, estimates, and adjustments have been properly identified, recorded, and treated appropriately in the rate-making process. OEB staff does not take issue with this element of the settlement.

3.5 Is the proposed calculation of the Revenue Requirement appropriate?

The parties accepted the proposed Revenue Requirement based on the elements of the settlement proposal. InnPower also agreed to update the cost of power (with 2024 RPP prices) and cost of capital parameters (with 2024 cost of capital parameters) as part of a draft rate order process.

OEB staff supports the update of the cost of power and cost of capital parameters through a draft rate order process.

Issue 4 - Load Forecast

4.1 Is the proposed load forecast methodologies and the resulting load forecasts appropriate?

OEB staff submits that the adjustments included in the settlement proposal are reasonable.

As part of the interrogatory responses,[3] InnPower updated the load forecast to reflect 2022 actual connection and load data. The parties agreed to further increase the forecast for residential customers in 2024 by 100 customers, which resulted in a corresponding increase of 739 MWh in the load forecast.

OEB staff supports the proposed consumption, demand and customer forecasts of 302 GWh, 162 MW, and 26,823 respectively (Table 4.1A of the settlement proposal). Relative to the Application, this reflects an increase of 4 GWh for consumption and 5 MW for demand. The proposed customer forecast increases by 908 compared to the Application.

Issue 5 - Cost Allocation, Rate Design, and Other Charges

5.1 Are the proposed cost allocation methodology, allocations, and revenue-to-cost ratios, appropriate?

The parties agreed that the cost allocation proposed by InnPower is appropriate. InnPower continued to rely on its previous load profiles, initially produced by HONI based on 2004 data in support of its 2006 Cost Allocation Information Filing. The parties

[3] Response to 3-SEC-26.

agreed that InnPower would update its load profiles for its next rebasing application. OEB staff agrees that InnPower should be required to update its load profiles at its next rebasing proceeding and should take any necessary steps now to ensure that it will be able to do so.

The revenue-to-cost ratios for the Street Lighting, Sentinel Lighting, and USL rate classes were all above the prescribed range of 0.8 to 1.2. The parties agreed with InnPower's initial proposal to reduce these to 1.2, and make an offsetting increase to GS 50 to 4,999 kW, the rate class with the lowest revenue-to-cost ratio. As a result, the GS 50 to 4,999 kW is rate class revenue-to-cost is increased from below the target range to within the target range but remains the lowest among all rate classes.

OEB staff has no concerns with the cost allocation methodology as agreed to by the parties, or with the resulting revenue-to-cost ratios.

5.2 Is the proposed rate design, including fixed/variable splits, appropriate?

The parties agreed that InnPower would maintain the fixed charge for the GS < 50 kW and GS 50 to 4,999 kW rate classes where the fixed charge is already above the ceiling as calculated by the cost allocation model, and maintain the fixed/variable split where that results in a fixed charge below the ceiling.

OEB staff supports the proposed rate design, including the fixed/variable splits.

5.3 Are the proposed Retail Transmission Service Rates and Low Voltage rates appropriate?

The parties agreed that InnPower would apply to the OEB prior to the next rebasing application to update its low voltage rates to reduce large balances from accumulating. OEB staff encourages InnPower to do this once every few years, or more frequently.

OEB staff does not have any concerns with the proposed RTSRs or low voltage service rates.

5.4 Are the proposed loss factors appropriate?

The parties agreed that InnPower would use best efforts to complete its line loss study by January 1, 2024, and would investigate and use reasonable efforts to implement cost effective, feasible measures to reduce line losses.

OEB staff notes that the proposed loss factor is increased from 1.0604 to 1.0821.

OEB staff supports the proposed loss factors as shown in the settlement proposal and encourages InnPower to take cost effective measures to reduce line losses.

5.5 Are the Specific Service Charges and Retail Service Charges appropriate?

The parties agreed that InnPower would not charge residential customers for reconnecting service after hours for an emergency disconnection.

OEB staff has no concerns with the proposed Specific Service Charges and Retail Service charges.

5.6 Are rate mitigation proposals required and appropriate?

OEB staff notes that none of the rate classes have a bill impact over 10%, therefore rate mitigation is not required, and not proposed. OEB staff has no concerns.

5.7 Is the new Embedded Distributor rate class appropriate?

OEB staff has no concerns with the proposed new Embedded Distributor rate class. OEB staff notes that the revenue-to-cost ratio from cost allocation for the Embedded Distributor rate class was within the target range. This implies that the existing rates were cost causative and the creation of the rate class did not result in a significant reallocation of revenue responsibility. The new rate class received the overall average rate reduction.

Issue 6 – Deferral and Variance Accounts

6.1 Are the proposals for deferral and variance accounts, including the balances in the existing accounts and their disposition*, requests for new accounts, requests for discontinuation of accounts, and the continuation of existing accounts, appropriate?*

OEB staff supports the settlement proposal reached by the parties relating to deferral and variance accounts (DVAs).

DVAs Balances and Disposition

OEB staff supports the disposition of Group 1 and Group 2 balances, as proposed by InnPower and agreed to by the parties. Disposition of these balances over one year is consistent with OEB policy.[4]

[4] EB-2008-0046, Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR), July 31, 2009, p. 24

In the settlement proposal, the parties agreed to InnPower's proposed disposition of the following DVA balances as of December 31, 2022 and forecasted interest through to December 31, 2023.

- Group 1 DVAs of a total debit balance of $ 3,458,059
- Group 2 DVAs of a total credit balance of $1,261,741

Some of the Group 2 DVA balances also include forecasted principal amounts up to December 31, 2023.[5]

OEB staff noticed that the update in the Account 1592 balance proposed for disposition in the updated DVA Continuity Schedule filed with the settlement proposal, is not reflected in the subtotal for Group 2 balances or the grand total for Group 1 and Group 2 balances in the summary table in the settlement proposal.[6] OEB staff has no concern regarding the calculation error noted in the summary table as it has no impact on the disposition request for the DVA balances or the proposed rate riders. The requested disposition balances for each Group 1 and Group 2 account are correctly stated in the summary table and align with the updated DVA Continuity Schedule. However, the subtotals or the grand totals in the summary table are not adding up correctly. Furthermore, the proposed rate riders[7] included in the settlement proposal are up to date and are aligned with the updated DVA Continuity Schedule. OEB staff recommends InnPower file the revised summary table.

Account 1592 CCA

Bill C-97 introduced the Accelerated Investment Incentive Program (AIIP), which provides for a first-year increase in capital cost allowance (CCA) deductions on eligible capital assets acquired after November 20, 2018. The AIIP is expected to be phased out starting in 2024 and fully phased out in 2028.

In its July 25, 2019 letter titled Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance (CCA Letter), the OEB provided accounting direction on the treatment of the impacts from accelerated CCA resulting from the AIIP. The OEB established a separate sub-account, Account 1592 - PILs and Tax Variances, Sub-account CCA Changes to track the impact

[5] InnPower_2023_DVA_Continuity_Schedule_Settlement_20230331, Tab 2b
[6] EB-2023-0033, Settlement Proposal, Table 6.1A
[7] EB-2023-0033, Settlement Proposal, Table 6.1B

of any differences that result from the CCA change to the tax rate or rules that were used to determine the tax amount that underpins rates.

The credit balance of $1,227,744 in sub-account CCA Changes of Account 1592 represents the full revenue requirement impact of the application of accelerated CCA as of December 31, 2023, including interest up to December 31, 2023.

OEB staff is supportive of InnPower's calculation of the CCA differences that are accumulated in Account 1592, Sub-account CCA Changes, from November 21, 2018 to December 31, 2023, as agreed to by the parties. OEB staff notes that InnPower calculates the CCA differences by comparing the CCA on the actual (or forecast, as applicable) capital additions in the respective period under the legacy rule to the accelerated CCA on the same capital additions in the respective period under the AIIP. OEB staff notes that this calculation method has been used by distributors, accepted by parties, and approved by the OEB in a number of previous cost-of-service proceedings.[8] InnPower has not proposed a smoothing mechanism to address future CCA changes in its incentive rate period. The parties agreed on this approach. As a result, no smoothing proposal related to those future changes has been incorporated in the Test Year PILs calculation.

OEB staff does not take issue with this agreed-upon approach, given the CCA Letter states that "determinations as to the appropriate disposition methodology will be made at the time of each Utility's Cost-based application". Additionally, the phase-out of accelerated CCA under the AIIP begins in the 2024 Test Year which has already been reflected in the rate base.[9]

InnPower has provided forecast balances for Account 1592, Sub-account CCA Changes up to December 31, 2024 in the evidence[10] which shows a debit balance of $31,945 for the year 2024. OEB staff is of the view that there should be no balance accumulated in Account 1592, Sub-account CCA Changes in 2024, given the phase-out of accelerated CCA under the AIIP begins in 2024, thus the change in CCA in 2024 has already been reflected in the rate base. The purpose of the Account 1592, Sub-account CCA Changes is to track the impact of any differences that result from CCA changes to

[8] Milton Hydro Distribution Inc. 2023 Cost of Service Decision and Order, EB-2022-0049, October 13, 2022 and Kinston Hydro Corporation 2023 Cost of Service Decision and Order, EB-2022-0044, November 22, 2022
[9] Exhibit 9, Tab 1, Schedule 4, Table 9-11: Appendix 2-TA Tax Variance, June 22, 2023
[10] IPC 1592_CCA_Changes_Final Settlement

the tax rate or rules that were used to determine the tax amount that underpins rates. OEB staff acknowledges that the 2024 forecast amount is not part of the total claim amount for disposition requested in this application. As InnPower is not using the smoothing mechanism to address future CCA changes, the future CCA changes are expected to be accumulated in Account 1592, Sub-account CCA Changes, and subject to prudence review and disposed of at the next rate rebasing.

6.2 Is InnPower's request to use a deferral account to track the capital contributions made for the Barrie Area Transformer Upgrade project between 2025-2027 appropriate? In the alternative, if the deferral account is not approved, is InnPower's request to use the Advanced Capital Module to recover the capital contributions made for the Barrie Area Transformer Upgrade project between 2025-2027 appropriate?

As part of the previous Leave to Construct application for the BATU project, HONI proposed a loan methodology (Loan Methodology) to record costs associated with the BATU project. Under the Loan Methodology, HONI was to record the net cost (excluding the full capital contribution) of the BATU project in its rate base once in-service, while InnPower was to record its capital contribution payments in its rate base as payments were made to HONI, over a five-year period. The evidence in that proceeding was that the Loan Methodology would save ratepayers $2 million as compared to the standard capital contribution methodology where all capital contributions are paid once a capital asset is in-service.[11] In the Leave to Construct decision, the OEB accepted this proposal, finding that it was appropriate for InnPower to only record in its rate base the capital contribution that it has paid to Hydro One.[12]

Consistent with the Loan Methodology approach, InnPower's original application requested a new deferral account, BATU Installment Deferral Account, to recover the revenue requirement impact of the capital contribution to HONI over the 5-year period to ensure InnPower is held harmless. The BATU Installment Deferral Account, if approved, would capture the revenue requirement impact of the payments to HONI between 2025 to 2027 and the half-year amount in 2024 not recovered in rates due to the half year rule. The BATU Installment Deferral Account would not capture any amounts included in base rates.

[11] EB-2018-0117, Decision and Order, April 23, 2020 (pp.14-16)
[12] ibid

As an alternative approach, InnPower's application also proposed that the capital contribution amounts between 2025 to 2027 could be recovered through the Advanced Capital Module. However, because of the high growth rates for InnPower and high inflation, the ACM materiality threshold formula does not allow for full recovery of the BATU capital contribution each year from 2025 to 2027. InnPower showed that the approximate under recovery by using the ACM to be $9.62 million or 78% of the 2025-2027 BATU capital contributions.

As part of the settlement proposal, the parties have agreed that InnPower recover only 50% of the revenue requirement impact of the BATU capital contributions during the 2025 to 2027 period and the half-year amount in 2024, and dispose of the BATU Installment Deferral Account balance[13] on an interim basis at each IRM proceeding, with final disposition at InnPower's next rebasing. The settlement proposal further stipulates that in the event that the BATU project is either delayed or the actual BATU costs differ from the estimated costs, amounts are to be tracked in the BATU Installment Deferral Account for final disposition at the next rebasing. If the BATU project is delayed, 100% of the revenue requirement impact will be recorded in the BATU Installment Deferral Account. If the BATU project costs are different from estimated, only 50% of the revenue requirement impact will be recorded in the BATU Installment Deferral Account.

OEB staff notes that normally, InnPower would have paid all the capital contribution to HONI once the BATU project is in-service. Such an approach would have required InnPower to make the full capital contribution in 2023, which would then be included rate base for 2024 rates. However, in its decision on the Leave to Construction application for the BATU project, the OEB accepted the five-year capital contribution installment period for InnPower and directed that InnPower only record in its rate base the amounts that it has paid to HONI for the BATU project.[14]

OEB staff submits that it is reasonable for InnPower to recover amounts related to the capital contribution to HONI for the BATU project as agreed to in the settlement proposal. The settlement on this issue allows InnPower to recover more than it would have received under ACM treatment, while at the same point protecting ratepayers in the event the BATU project is delayed or costs change.

[13] IPC Settlement Proposal, October 13, 2023 (pp.155)
[14] EB-2018-0117, Decision and Order, April 23, 2020 (pp.14, 17)

New BATU Installment Deferral Account

OEB staff also supports InnPower's request, as agreed to by the parties, to establish the new BATU Installment Deferral Account to capture the revenue requirement associated with its capital contribution installments paid to HONI for InnPower's proportionate share of the BATU project.

OEB staff notes that InnPower addressed the causation, materiality, and prudence criteria for establishing new accounts in the application.[15] Further, OEB staff has reviewed the draft accounting order attached to the settlement proposal and is of the view that it reflects the intent of the settlement proposal.

As agreed to by the parties, interim dispositions of revenue requirement amounts will align with amounts outlined in Schedule A in the draft accounting order. The final disposition including any true-ups including in-service timing differences, actual cost variances, and the differences between the rate rider revenue collected and the approved amount for disposition[16] will be sought as part of InnPower's next rebasing application. OEB staff is supportive of this approach because it minimizes the accumulation of carrying charges in the BATU Installment Deferral Account, and it also takes into account the in-service date and actual costs variables associated with the BATU project.

OEB staff notes that the second sentence in the "Operation of an Installment Deferral Account" section of the settlement proposal[17], under the first point, states "To complete this calculation, InnPower will rely on the net book value calculated in (3)…". This statement is confusing, and arguably in error, because section (3) is unrelated to the net book value calculation. However, this wording has no impact on the revenue impact amounts, which are clearly outlined in Schedule A within the draft accounting order. Therefore, OEB staff suggests this sentence be deleted and a revised settlement proposal be filed with the OEB to avoid any confusion.

Issue 7.1 – Is the proposed effective date appropriate?

The parties have agreed to an effective date of January 1, 2024. OEB staff submits that an effective date of January 1, 2024 is reasonable.

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[15] EB-2023-0033, Exhibit 2, Tab 5, Schedule 7, June 22, 2023
[16] IPC Settlement Proposal, October 13, 2023 (pp.151)
[17] IPC Settlement Proposal, October 13, 2023 (pp.59)

Issue 7.2 – Has InnPower responded appropriately to all relevant OEB directions from previous proceedings?

The parties agreed that InnPower has responded appropriately to all relevant OEB directions from previous proceedings. OEB staff submits that InnPower has responded to OEB directions from previous proceedings.

All of which is respectfully submitted