February 29, 2024

VIA RESS

Ms. Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, ON M4P 1E4

Dear Ms. Marconi:

Re: Evaluation of Policy on Utility Consolidation; OEB File: EB-2023-0188

Ontario Energy Board ("OEB") staff engaged with utilities and intervenors to receive initial feedback with respect to consolidation application experiences in 2023. On February 8, 2024, the OEB published an OEB Staff Discussion Paper summarizing proposed updates to the MAADs Handbook and Filing Requirements.

The OEB has invited written comments for submission.

Alectra appreciates the opportunity to provide these comments for the OEB's consideration.

Should you have any questions, please do not hesitate to contact the undersigned.

Yours truly,

Christine E. Long

Christine E. Long
Vice President, Regulatory Affairs & Privacy Officer
Alectra Utilities Corporation

Attach: Comments – Evaluation of Policy on Utility Consolidation

Alectra Comments on Proposed Updates to the Policy on Utility Consolidations

Introduction

In July 2023, the OEB initiated a consultation to review and update the *OEB's Handbook to Electricity Distributor and Transmitter Consolidations* ("MAADs Handbook") and the associated *Filing Requirements for Consolidation Applications* ("Filing Requirements"). On February 8, 2024, an OEB staff Discussion Paper was issued which proposed updates to the MAADs Handbook and Filing Requirements. Some of the proposed updates seek to address recommendations related to consolidations as outlined in the Auditor General of Ontario's Value for Money audit report, *Ontario Energy Board: Electricity Oversight and Consumer Protection* ("AG Audit Report").

As part of this consultation, Alectra offered initial feedback with respect to its consolidation application experiences in mid-2023. Alectra appreciates the opportunity to provide additional comments on the proposed updates to the MAADs Handbook and Filing Requirements for the OEB's consideration.

Alectra's submission provides brief comments pertaining to each of the following topic areas:

- Cost structures
- Rebasing period
- Performance Metrics and Reporting
- Incremental Capital Funding Availability
- Inflation
- Deferral and Variance Account Treatment
- Z-Factor Materiality Threshold Calculation
- Performance Standards for MAADs Applications
- Tax and Financing Issues

Cost Structures

OEB staff has proposed that consolidation applications should include a cost structure comparison in the form of a revenue requirement analysis through the elected deferred rebasing period and the post-consolidation rebasing test year. Such a comparison would provide for an assessment of the proposed consolidation against the "status quo" standalone scenario. Other cost-related analyses can be included in support of the proposed consolidation, as well. Alectra is supportive of this proposal, agrees that the revenue requirement is the most suitable statistic to use for comparison purposes as a default, and concurs with the inclusion of additional analyses as applicable.

In Alectra's view, this approach offers an opportunity for the applicant to document and describe any predecessor utility-specific conditions or factors that may assist with assessing the consolidation application. Furthermore, where expected changes in costs occur as a result of a predecessor utility or the consolidated entity gaining capabilities, it provides an opportunity for the applicant to describe and identify the cost associated with such increased capabilities. This is particularly relevant as the energy sector evolves to include new technologies and innovative approaches that have the potential to enhance value for rate payers. As an example, enabling infrastructure such as an Advanced Metering Infrastructure and Advanced Distribution Management Systems ("ADMS") may be required to accommodate the integration of DERs into distribution system operations and would offer the benefits of enhanced reliability and resilience.

Deferred Rebasing Period

Alectra generally supports OEB staff's proposals with respect to the deferred rebasing period, though seeks to further clarify MAADs Handbook language with respect to the deferred rebasing period.

Alectra agrees that the current policy, which permits consolidating distributors to elect to defer rebasing for up to ten years from the closing of the transaction should be maintained. OEB staff has proposed improvements to MAADS Handbook language to clarify the circumstances when consolidated entities may apply for early rebasing during a deferred rebasing period or apply for an extension to the deferred rebasing period up to a maximum of ten years. OEB staff's proposal notes that where early rebasing is sought, the consolidated entity should provide "sufficient reason" for the request and similarly, where a consolidated entity seeks an extension to the deferred rebasing period, the consolidated entities must file a "supporting, compelling rationale" outlining why the request should be granted. Alectra suggests that consolidation applicants would benefit from greater clarity with respect to the type of circumstances that would be deemed valid and reasonable to make such requests for an early or extended rebasing period. In Alectra's view, some examples could pertain to emerging capital needs, or issues such as cost pressures resulting from electrification and the energy transition.

With respect to multiple consecutive transactions, OEB staff has noted that deferral periods should be reviewed and addressed on a case specific basis. Applicants would be expected to identify the elected number of years for the deferred rebasing period (maximum 10 years) for the most recent utility being consolidated into the previously consolidated entity. Applicants may seek to extend the elected deferred rebasing period of the previously consolidated entity to a maximum of ten years, if initially approved at less than ten years, with justification.

Alectra's merger with Guelph Hydro Electric Services Inc. which took effect in 2019 is a reference case for such a scenario. In Alectra's view, the MAADs Handbook would benefit from additional context on consecutive consolidations and further clarity on consecutive rebasing proposals.

Performance Metrics and Reporting

Monitoring of Post-Consolidation Activities

Consistent with an AG Audit Report recommendation, OEB staff have proposed standardized monitoring of post-consolidation activities through the deferred rebasing period for consolidating entities that elect to defer rebasing for more than five years. A mid-term report detailing progress-to-date on the steps taken towards integration has been proposed, with updates to information included in the first rebasing application for the consolidated entity.

Alectra notes that appropriate avenues for reporting exist through the Reporting and Record-keeping Requirements (“RRR”). These reporting obligations exist to allow for monitoring of utility performance. The performance metrics that matter most to the public and ratepayers are published in the annual Electricity Utility Scorecard, including service quality, reliability, cost performance, and public safety. In Alectra’s view, Commissioners who decide on a consolidation application have the authority to prescribe any specific additional reporting requirements that might be necessary with respect to the unique circumstances of a particular consolidation application.

Should a mid-term monitoring report become a requirement for utility consolidations as proposed, Alectra suggests that further information is required in terms of the procedural steps that would follow its submission, and the potential implications of a mid-term report that outlines unsatisfactory progress toward consolidation. It is unclear whether a hearing would follow the report’s submission, and whether OEB staff and intervenors to the consolidation application would file formal interrogatories or ask clarification questions. As an extreme example, if a mid-term report outlined unsatisfactory progress, it is unclear how the results would be evaluated, or what the consequences or implications arising from such a report might be.

Separate Reporting on Key Performance Measures

The AG Audit Report recommended that consolidated entities should report separately on key performance measures including reliability and service quality metrics.

Alectra does not support the recommendation that consolidated entities would be required to maintain the ability to report on service quality metrics and reliability as separate utilities or rate zones. A requirement to maintain separate reporting could, and is likely to, impact the utility’s ability to harmonize necessary systems and processes to achieve synergy savings. It would be costly to require the consolidated entity to maintain separate legacy systems and processes for tracking data by rate zone. With respect to cost efficiency, having consolidated utilities operate as a single entity as soon as possible is in the best interest of customers.

Alectra holds the view that reporting at rate zone level could be voluntary and optional. Implementing a requirement to maintain separate reporting should be an exception and not the rule. The OEB panel assigned to decide the consolidation application could implement such a requirement where the unique circumstances of a consolidation application might require more granular detail for a particular service quality measure or measures.

In Alectra's experience, there are certain key performance measures that could be reported on at a rate zone level, post-consolidation, and others that could not. For example, reliability performance can be reported at the rate zone level because data is accumulated at the feeder level. This is necessary for the planning and management of the physical distribution system. On the other hand, customer information data tracking is accumulated and managed differently. For example, a measure such as Telephone Accessibility is not identifiable at a rate zone level as Alectra has harmonized all rate zones to utilize a common system in order to produce efficiencies and synergies across the customer base.

Should rate zone-specific reporting be required for any service quality measures post-consolidation, applicants would need that information before preparing a consolidation application to ensure that legacy systems or separate systems are maintained in a manner that enables the required tracking, which will impact the potential achievement of synergies.

<u>Incremental Capital Funding Availability to Consolidated Utilities</u>

Future Incremental Capital Module (ICM) Requests

OEB staff have proposed that as part of a consolidation application, applicants would document any expected future ICM requests during the deferred rebasing period and provide details of expected timing to support a revenue requirement analysis. OEB staff have further recommended that the MAADs Handbook should state that, where a consolidated utility finds during its deferred rebasing period that it has significant capital needs not easily accommodated by an ICM, it should consider rebasing.

Alectra is pleased that the ICM Policy will be the subject of a separate consultation. Access to capital is a significant area of concern for potential consolidation applicants.

Alectra's view is that the ICM should be used as a tool to facilitate incremental capital needs within the constraints and limitations of the ICM policy. No additional constraints or limitations should be applied to a consolidation application.

The OEB provided an update to the ICM policy that applies to electricity distributors in extended rebasing deferral periods arising from utility consolidations in February 2022[1]. In an effort to further incent distributors considering consolidation, the updated policy provided additional flexibility for distributors in years six to ten of a deferred rebasing period to apply for ICM funding if they can demonstrate that a need for funding is urgent and based on new information that has arisen since the utility's most recent rebasing application.

[1] OEB Letter RE Incremental Capital Module Applications, dated February 10, 2022.

In Alectra's view, the ICM should remain as a tool to facilitate urgent incremental capital needs that arise. Setting an expectation that applicants to a consolidation must have a full understanding of capital needs and funding availability through ten years post-consolidation is unrealistic, especially considering the additional, and uncertain, needs that electrification and/or decarbonization efforts will bring. Alectra notes that OEB staff's proposal to require that consolidation applications would identify future ICMs is not aligned with the intent of the ICM policy, particularly the February 2022 update letter which clearly articulates urgent needs can arise during the deferral period based on new information.

Should a requirement to document ICM needs through the end of a ten-year deferred rebasing period be implemented, utilities will incur significant risk. Utilities require tools to address urgent capital needs associated with asset condition, reliability, quality of service and public safety to prevent unfavourable outcomes. Utilities must retain the ability to apply for funding of urgent needs that arise. The OEB possesses the authority to deny any ICM application, in whole or in part, that it does not find to be in the public interest.

Implementing a requirement that utilities document capital needs through a ten-year deferred rebasing period would present a new barrier to consolidation activity.

Alectra suggests that ICM Policy could be made more flexible to allow ICM applications to be made for consolidated LDCs for any and all capital investments when the need arises, including in years 1 through 5 of the deferred rebasing, as needed or necessary.

Furthermore, Alectra does not support OEB staff's suggestion that the MAADs Handbook language should be updated to reflect that a consolidated utility that finds it has significant capital needs that cannot be easily accommodated by an ICM should consider rebasing. The ICM is an important tool to assist the accommodation of new or urgent capital requirements. While capital needs may not be easily accommodated by an ICM, that shouldn't mean that a rebasing application is necessary, warranted, or better in the circumstances. This would set the goal posts too far apar in Alectra's view. A better approach would be to ensure that the ICM policy is available, adaptable, and able to accommodate urgent capital needs.

Inflation

OEB staff seeks input on the inflation rate(s) to be used in calculating the materiality threshold for incremental capital funding and suggests that ICM Policy will be considered more broadly in a separate consultation.

The OEB's materiality threshold formula serves to define the level of capital expenditures that a distributor should be able to manage within current rates. The multi-year ICM materiality threshold formula factors in the cumulative impact of both growth and the price cap index over the years since the utility's last cost of service rebasing application. In light of the continued variability in the inflation rate, the application of the most recent OEB-approved inflation factor as the Input Price Index (IPI) used to calculate the price cap index in the materiality threshold formula creates a result that may not always reflect the historical economic reality intended in the cumulative nature of the price cap index calculation.

In the Supplemental Report, the OEB adopted the multi-year formula to be used for Advanced Capital Module (ACM) and ICM applications.[2] In the Supplemental Report, the equation was updated to reflect the cumulative and multiplicative impact of both growth and the price cap adjustment over time during the Price Cap IR term. In effect, the formula not only applies the OEB-approved Price Capital Index (PCI) from a distributor's most recent Price Cap IR application to the current rate year but assumes that a distributor's rates were adjusted by the most recent PCI (e.g., applying the 2024 PCI of 4.5%) in each year since the distributor last rebased. Although PCI changes from year to year during the IR period, this is not reflected in the current formula.

Two alternative approaches were raised in Alectra Utilities' 2024 ICM application (EB-2023-0004) – the use of a geometric mean and the use of historical actual Input Price Indices which involves compounding of the historical years' actual IPI issued by the OEB. While the OEB did not adopt the proposals made in the application, these are issues that should nevertheless be addressed in review of the ICM policy.

Deferral & Variance Account Treatment

Timing of Disposition – Group 2 Deferral and Variance Accounts (DVAs)

OEB staff have recommended:

- that applicants provide a plan to bring in Group 2 DVAs for disposition if material at a mid-way point of a deferred rebasing period greater than five years, and
- that applicants have the flexibility to bring in Group 2 DVAs for disposition if material during a deferred rebasing period of less than five years.

Alectra supports flexibility with respect to the timing of disposition for deferred rebasing periods of any length. As part of any consolidation application, applicants should have the opportunity to provide a plan to bring in Group 2 DVAs for disposition where materiality thresholds are met. Flexibility in this regard will allow utilities the opportunity to dispose of material balances at an ideal time which best mitigates intergenerational inequities or large bill impacts for customers or provides a measure of relief that may be desirable for a consolidating applicant. Consolidation applicants should not be obligated or precluded from the opportunity to request disposition regardless of the length of a deferred rebasing period. The unique circumstances associated with each consolidation application should be evaluated on a case-by-case basis.

[2] *Report of the OEB New Policy Options for the Funding of Capital Investments: Supplemental Report* (collectively referred to as the ICM Report), dated January 22, 2016, p.14

Tracking of DVAs (Group 1 and Group 2)
OEB staff have proposed that Group 1 accounts should be consolidated as soon as practicable, where possible, and that for Group 2 accounts, utilities should propose whether to consolidate or maintain accounts for separate rate zones.

Alectra disagrees with OEB staff's proposal that Group 1 accounts should be consolidated as soon as practicable, as this has the potential to create inequities across rate zones. In some circumstances it may be technically possible to consolidate accounts before rate harmonization occurs, but in many or most cases this would create inequities. Consider a situation in which a consolidated entity has a refund to issue as a result of balances accruing from one of the two consolidating entities. If the refund is spread across the entire customer base, then the customers of the entity who caused the imbalance (i.e., those to whom the refund rightfully belongs) are disproportionately disadvantaged, while the customer's of the entity who did not cause the imbalance would receive a windfall.

For both Group 1 and Group 2 accounts, Alectra holds the view that the utility should have the opportunity to propose to consolidate or maintain separate reporting based on the unique circumstances for each application.

Z-Factor Materiality Threshold Calculation

OEB staff has proposed a new section in the MAADs Handbook related to Z-Factor materiality thresholds for consolidated utilities. Alectra is generally supportive of OEB staff's proposal to require or permit adjustments to the materiality threshold for applications where the predecessor utilities or consolidated utility has not rebased in more than five years. Specifically, Alectra supports the proposal to adjust the materiality threshold to recognize the impact of IRM rate adjustments and changes in demand.

Alectra notes that OEB staff's proposal indicates that a materiality threshold adjustment would be necessary where the predecessor utilities or consolidated utility's rate zones have not rebased in more than five years and there has been a *significant* change in revenue requirement. Alectra notes that the term "significant" is not defined, and as a matter of clarity it would be preferable to define a mechanistic calculation (e.g., 0.5% of OEB-approved revenue requirement), adjusted to recognize the impact of IRM rate adjustments and changes in demand factors (i.e., customers, kWh, or kW)).

Alectra further supports OEB staff's recommendation that applicants should have the ability to propose that the materiality threshold is not adjusted, with justification, given the unique characteristics of each consolidation application.

Performance Standards for MAADs Applications

OEB staff has proposed that the OEB undertake a review of the section 86 performance standards for timelines of MAADs proceedings and has invited comments on the type of criteria that may allow an application to be processed under shorter versus longer timeframes.

Alectra agrees with the example case of streamlining an application in circumstances where a utility is already operating another utility. Alectra further recommends that applications be considered commensurate with the value of the combined consolidation and the complexity of rate harmonization. The performance standards for MAADs applications should reflect and be consistent with the scope and complexity of what needs to be evaluated within the application.

Summary & Conclusion

Alectra believes that utility consolidations can produce synergies and efficiencies that benefit ratepayers, including opportunities to increase capabilities. A clear and unambiguous MAADs policy is critical to achieve this end.

In Alectra's view, several of OEB staff's proposed updates to the MAADs Handbook and Filing Requirements will improve existing guidance or provide additional clarity to consolidation applicants. In particular Alectra supports:

- a proposed new filing requirement to present a revenue requirement analysis comparing the proposed consolidation and "status quo" options,
- establishment of a Z-factor materiality threshold calculation, and
- proposed clarifying language related to the deferred rebasing period, particularly requests to rebase early or to extend an existing deferred rebasing period.

Alectra notes that further clarity could be provided with respect to the deferred rebasing period that applies to multiple consecutive transactions.

Consistent with comments provided in this submission, Alectra does not support two of the proposals made by OEB staff, as follows:

- implementing a requirement to document future ICM requests in a consolidation application, as ICM requests are borne of urgent capital needs and based on current information, which cannot always easily be predicted several years into the future, and
- formal monitoring of post-consolidation activities, as Alectra believes that more appropriate avenues exist for reporting of relevant metrics or measures.

Alectra thanks the OEB for the opportunity to comment on this important policy file.