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

BY EMAIL

April 17, 2024

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
Westario Power Inc.
2024 Cost of Service Application
OEB File Number: EB-2023-0058

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

Yours truly,

Andrew Frank
Digitally signed by Andrew Frank
Date: 2024.04.17 13:51:04 -04'00'

Andrew Frank
Senior Advisor – Electricity Distribution Rates

Encl.

cc: All parties in EB-2023-0058

ONTARIO ENERGY BOARD

OEB Staff Submission

Westario Power Inc.

Cost of Service Application

EB-2023-0058

April 17, 2024

1. Introduction

This is OEB staff's submission on the settlement proposal filed by Westario Power Inc. (Westario Power) related to its application for January 1, 2024 electricity distribution rates (Application). The settlement proposal represents a complete settlement on all issues on the OEB approved issues list.

The settlement proposal was arrived at during a settlement conference held from March 6, 2024 to March 7, 2024. The parties to the settlement proposal include Westario Power, School Energy Coalition (SEC) and Vulnerable Energy Consumers Coalition (VECC) (collectively, the Parties). Hydro One Networks Inc. was an approved intervenor, but did not attend the settlement conference, and is not party to the settlement proposal. OEB staff attended the settlement conference; however, it is not a party to the settlement proposal.

If the settlement proposal is approved, a typical residential customer with a monthly consumption of 750 kWh would see a monthly distribution charge reduction of $0.12 (0.1%).[1]

[1] Including taxes and the Ontario Electricity Rebate

2. Overview

OEB staff submits that the settlement proposal is in the public interest and the accompanying explanation and rationale is adequate to support the settlement proposal. OEB staff further submits that the settlement proposal would result in just and reasonable rates for the customers of Westario Power.

OEB staff's position was developed in consideration of the objectives of the *Renewed Regulatory Framework*[2] (RRF), the *Handbook for Utility Rate Applications*[3], applicable OEB policies, relevant OEB decisions, and the OEB's statutory obligations.

This submission provides reasons for OEB staff's position by commenting the issues as they appear on the OEB-approved issues list, as shown below.[4]

- Issue 1: Capital Spending and Rate Base
- Issue 2: Operating, Maintenance and Administration (OM&A)
- 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: Other

[2] Report of the Board – *Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach*, October 18, 2012
[3] *Handbook for Utility Rate Applications*, October 13, 2016
[4] EB-2023-0058: OEB approved Issues List

3. OEB Staff Submissions on the Issues

The OEB-approved issues list included seven issues, each of which contains one or more sub-issues. OEB staff's submission is categorized in accordance with the approved issues list.

Issue 1: Capital Spending and Rate Base

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

OEB staff supports the capital expenditures and in-service additions as proposed by the Parties.

Westario Power's application requested a capital expenditures budget for the 2024 Test Year of $6.7M. The Parties agreed to a reduction of $450k (6.7%) in the 2024 Test Year capital expenditure based on uncertainty as to whether all the System Renewal projects will be able to proceed in the forecast timeline. The resulting proposed capital expenditures budget for the 2024 Test Year is $6.3M. Due to a small decrease in Work-In-Progress proposed for the end of 2024, the in-service additions are proposed to be reduced by $447k.[5]

OEB staff agrees with the pacing proposed by the Parties and further submits that the proposed in-service additions budget is sufficient for Westario Power to continue to operate its system reliably.

1.2 Are the proposed rate base and depreciation amounts appropriate?

OEB staff supports the proposed rate base and depreciation amounts which have been calculated in accordance with the agreements reached through the settlement process.

The proposed 2024 rate base is $70.6M, a $207k (0.3%) reduction from the amount included in the Application as updated through Interrogatories.[6] The adjustments agreed to by the Parties in the following areas contribute to the adjusted rate base: capital additions, depreciation, and allowance for working capital.

Issue 2: OM&A

2.1 Are the proposed OM&A expenditures appropriate?

OEB staff considers the agreement reached by the Parties with respect to 2024 OM&A expenses reasonable and appropriate.

Westario Power proposed total OM&A expenses of $7.0M for the 2024 Test Year in the Application, an increase of 20% (or 3.1% compounded annually) compared to the 2018

[5] Settlement Proposal, pp. 11-13
[6] *Ibid*., Table 1.2B, p. 17

OEB-approved OM&A spending of $5.8M. In the Application, Westario Power stated that the OM&A cost increases since 2014 have been driven by inflation, labour costs, management turnover and contractor costs (including vegetation management).[7]

Through settlement, the Parties have agreed to a 2024 OM&A envelope reduction of $185k, resulting in $6.8M in OM&A expenses, excluding property tax (Table 6 of the settlement proposal). The Parties also agreed that $34k of the reduction would be to the budget for locate services, while the remaining reduction would be managed by Westario Power as it sees fit.

The revised 2024 OM&A spending represents an increase of 16% (or 2.6% compounded annually) compared to the 2018 OEB-approved OM&A amount.

In considering Westario Power's cost efficiency performance, OEB staff notes that Westario Power remained in Cohort 3 (the third most efficient group) from 2018 to 2022.[8]

OEB staff submits that the envelope reduction of $185k in OM&A is reasonable. OEB staff further submits that the settled OM&A envelope should ensure that Westario Power has sufficient resources to maintain a safe and reliable distribution system.

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?

In the Application, the total long-term debt for 2024 is forecast at $40.2M, with a weighted long-term debt rate of 3.62% and a weighted average cost of capital of 5.96%.[9] Through settlement, the long-term debt for 2024 was recalculated due to adjustments to the rate base, resulting in a further reduction to $39.5M.[10]

OEB staff notes that the weighted long-term debt rate of 3.62% is lower than the OEB's 2024 deemed long-term debt rate of 4.58% for 2024, and the weighted average cost of capital of 5.96% is lower than the OEB's 2024 deemed weighted average cost of capital of 6.50%.[11]

OEB staff submits that the agreed upon capital structure and the cost of capital are appropriate.

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

OEB staff has no concerns with the forecast PILs expense of $224k as agreed to by the

[7] Exhibit 4, pp. 8-15
[8] Empirical Research in Support of Incentive Rate-Setting: 2022 Benchmarking Update, July 2023
[9] Exhibit 5, p. 3
[10] Settlement Proposal, Revenue Requirement Workform, sheet 7. Cost of Capital
[11] OEB Letter – Cost of Capital Parameters, October 31, 2023

Parties.[12] OEB staff does not oppose the Parties' agreement related to the calculation of the PILs amount, including the recognition of accelerated capital cost allowance (CCA) in the 2024 Test Year. Additional details of Account 1592, Sub-account CCA Changes are discussed under Issue 6.1.

3.3 Is the proposed Other Revenue forecast appropriate?

OEB staff has no issues with the revised 2024 Test Year Other Revenue of $805k, a decrease of $38k compared to $843k in the Application (Table 9 of the settlement proposal).

This adjustment reflects an update based on 2023 actual revenues, and an adjustment to Westario Power's pole leasing 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?

OEB staff agrees with parties that the impacts of any changes in accounting standards, policies, estimates and adjustments have been properly identified and recorded, and the rate-making treatment of these impacts is appropriate.

3.5 Is the proposed calculation of the Revenue Requirement appropriate?

OEB staff supports the proposed revenue requirement which has been calculated in accordance with the agreements reached through the settlement process.

Table 10 of the settlement proposal shows the change in revenue requirement between the Application, interrogatories, and the settlement proposal.

The Parties agreed to a service revenue requirement of $13.4M and a base revenue requirement of $12.6M. These values reflect reductions in the 2024 Test Year capital and OM&A expenditures of $450k and $185k, respectively, comparatively to the Application. The values also reflect changes to revenue offsets, depreciation, cost of capital, working capital allowance, and PILs.

Issue 4: Load Forecast

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

OEB staff submits that the updated load forecast provided in response to interrogatories and clarification questions, and agreed to by the Parties, is reasonable. The test year forecast was revised to use 2024 customer count as determined by the geomean rather

[12] Settlement Proposal, Table 8, p. 22

than linear regression.

OEB staff supports the proposed consumption, demand and customer forecasts of 446 GWh, 469 MW, and 31,144 respectively.[13] Relative to the Application, this reflects an increase of 2 GWh for consumption and 18 MW for demand. The proposed customer forecast increases by 21 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 Westario Power is appropriate.

Westario Power continued to rely on its previous load profiles, initially produced by Hydro One based on 2004 data in support of its 2006 Cost Allocation Information Filing.

The proposed revenue-to-cost ratios for all rate classes are within the OEB prescribed ranges.

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

However, with regard to Westario Power's load profiles, OEB staff submits that Westario Power should be directed by the OEB 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. This is consistent with the commitment made by Westario Power during the discovery phase of this proceeding to update its load profiles for all rate classes for its next cost of service application.[14]

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

OEB staff supports the rate design, including fixed/variable splits as agreed to by the Parties at Table 14 of the Settlement Proposal.

Westario Power proposed to maintain the fixed/variable split for all rate classes except for the GS>50kW rate class as the existing fixed charge is already above the ceiling.[15] Therefore, the fixed charge for GS>50kW would remain at their current level.

In the context of this settlement, OEB staff has no issues with the proposed rate design, including the fixed/variable splits.

5.3 Are the proposed Retail Transmission Service Rates (RTSR) and Low Voltage

[13] Settlement Proposal, Table 11 and 12, p.30-31
[14] EB-2023-0058, Interrogatory Response, 7-Staff-43
[15] The minimum system with peak load carrying capability from the cost allocation model, which is commonly referred to as the ceiling for fixed charges

(LV) Service Rates appropriate?

OEB staff supports the RTSR rates and low voltage rates as agreed to by the Parties. Westario Power updated the RTSR rates to reflect the 2024 OEB-approved rates during the interrogatory process. In the settlement proposal, Westario Power recalculated its 2024 low voltage rates using the most recent low voltage charge from Hydro One.

5.4 Are the proposed loss factors appropriate?

OEB staff supports the proposed loss factors as shown in Table 17 of the settlement proposal.

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

OEB staff has no concerns with Westario Power's proposed Specific Service Charges and Retail Service charges.

5.6 Are rate mitigation proposals required and appropriate?

In considering the bill impacts resulting from the settlement proposal, OEB staff agrees with the Parties that no rate mitigation is required as the total bill impacts for all customer classes fall below the 10% threshold.

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 submits that the proposal for disposition of the Group 1 and Group 2 accounts, requests for new accounts, requests for discontinuation of accounts, and the continuation of existing accounts, are appropriate.[16]

The Parties agreed to the disposition of the following DVA balances as of December 31, 2022 and forecasted interest through to April 30, 2024, over 20 months (from the assumed) implementation date of May 1, 2024 to December 31, 2025, as discussed further below.

- Group 1 DVAs debit balance of $1,388,953 excluding Account 1588 and 1589[17]
- Group 2 DVAs credit balance of $843,434[18]

[16] Settlement Proposal, pp. 45-53
[17] *Ibid.*, Table 18, p.42; Accounts 1588 and 1589 were not requested for disposition as part of this proceeding
[18] *Ibid*.

Through settlement, the Parties agreed to the following:

- Disposition of Account 1508 – Pole Attachment Revenue Variance Account with a credit balance of $420,482 including interest until the end of April 30, 2024 and to discontinue the account following the disposition.[19]
- Retail Cost Variance Accounts will be disposed of on a final basis and the accounts will be discontinued.
- Extension of the disposition period for both the Group 1 and Group 2 accounts so that the related rate riders will expire on December 31, 2025.[20] The Parties agreed to this change in order to avoid more than one change in Westario Power's rates in 2025 (so that the riders will expire at the same time Westario Power's 2026 rates are implemented, rather than in the middle of 2025).

Account 1508 – Other Regulatory Assets, Sub-Account Locates Variance Account

On October 31, 2023, the OEB established a generic deferral and variance account that may be used by licensed, rate-regulated electricity distributors to record the variance between locate costs resulting from Bill 93, the *Getting Ontario Connected Act, 2022* (GOCA) and the approved cost included in base rates.[21] The Decision and Order issued for the GOCA variance account (GOCA Decision) states that "the account is not available for utilities that have reflected Bill 93 in their most recent rebasing applications".

As part of this settlement, the Parties agreed that Westario Power would continue to have the generic GOCA variance account available to it following this rebasing proceeding. OEB staff notes that the annual locates cost of $160k has been embedded in Westario Power's OM&A forecast.[22] This amount is reflective of forecasted 2024 locate costs assuming no impact of the GOCA.

OEB staff does not take issue with the Parties' agreement regarding the continued availability of the GOCA variance account in this proceeding because the agreed upon annual OM&A locates cost assumes no impact. [23]

OEB staff submits that the GOCA variance account should be closed upon disposition of any balances in this account in Westario Power's next rebasing application because, with five years' experience, the utility should be able to forecast, more accurately, the impacts of GOCA and any such variances should be handled like variances in any other operating program.

[19] Settlement Proposal, Table 18, p. 42
[20] *Ibid.*, p. 41
[21] Decision and Order, EB-2023-0143, October 31, 2023
[22] Settlement Proposal, p. 45
[23] According to the Decision and Order (EB-2023-0143), the OEB set an effective date of April 1, 2023 for the establishment of the GOCA variance account.

Account 1592 – PILs and Tax Variances, Sub-account CCA Changes

Bill C-97 introduced the Accelerated Investment Incentive Program (AIIP), which provides for a first-year increase in 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 entitled *Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance*, the OEB provided accounting direction on the treatment of the impacts from accelerated CCA resulting from the AIIP.[24] The OEB established a separate sub-account, Account 1592 – PILs and Tax Variances, Sub-account CCA Changes to track the impact 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 $539,665 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 to April 30, 2024.

In its responses to interrogatories, Westario Power provided a forecast balance for Account 1592, Sub-account CCA Changes up to December 31, 2023,[25] which shows a credit balance of $36,058 for 2023. The total credit balance for this sub-account based on December 31, 2022 audited results and forecasted results for 2023 including interest to April 30, 2024 is $539,665.

OEB staff notes that, typically, only audited balances are disposed of.[26] However, in the disposition of certain accounts, the OEB may consider disposing forecast amounts up to the effective date of rebased rates.[27]

OEB staff's view is that there are regulatory efficiencies to be gained by disposing the forecast 2023 principal balances in certain accounts including Account 1592 sub-account CCA changes in the current application.[28] OEB staff submits that this approach is preferable to disposing of the 2022 audited balances of these accounts in Westario Power's next cost of service proceeding (which is expected for 2029 rates). OEB staff have supported such agreements in the past.[29]

[24] OEB letter, Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance, July 25, 2019
[25] IRR 9-SEC-29
[26] Section 2.9, Chapter 2 Filing Requirements For Electricity Distribution Rate Applications – 2023 Edition for 2024 Rate Applications, December 15, 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
[27] Section 2.9, Chapter 2 Filing Requirements For Electricity Distribution Rate Applications - 2023 Edition for 2024 Rate Applications, December 15, 2022
[28] Account 1508 – Pole Attachment Revenue Variance Account
[29] OEB Staff Submission, Kingston Hydro Cost of Service, EB-2022-0044
OEB Staff Submission, PUC Distribution Cost of Service, EB-2022-0059

Issue 7: Other

7.1 Is the proposed effective date appropriate?

Westario Power's initial rate application is for rates effective January 1, 2024. The Parties propose that the rates be effective on the day they are implemented, with Westario Power foregoing increases in its distribution rates for every month beyond January 1, 2024, that the new rates are not implemented. Westario Power indicates that it is able to implement rates up to 8 days into the following month. For example, if rates were approved at any point between May 9, 2024 to June 8, 2024, it could implement rates effective May 1, 2024. OEB staff has no concerns with the proposal for the effective and implementation date.

7.2 Has the applicant responded appropriately to all relevant OEB directions from previous proceedings?

OEB staff supports the Parties' view that Westario Power has responded appropriately to all previous OEB directions.

~All of which is respectfully submitted~