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BY EMAIL

November 1, 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
Alectra Utilities Corporation (Alectra Utilities)
Application for 2025 Electricity Distribution Rates
OEB File Number: EB-2024-0006**

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

Yours truly,

Oluwole (Wolly) Bibiresanmi
Advisor, Incentive Rate-Setting Mechanism

Encl.

cc: All parties in EB-2024-0006



ONTARIO ENERGY BOARD

OEB Staff Submission

Alectra Utilities Corporation (Alectra Utilities)

Application for 2025 Electricity Distribution Rates

EB-2024-0006

November 1, 2024

Introduction

On August 15, 2024, Alectra Utilities Corporation (Alectra Utilities) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) under section 78 of the *Ontario Energy Board Act, 1998* (OEB Act) seeking approval for changes to its electricity distribution rates to be effective January 1, 2025 for the Enersource, Brampton, PowerStream, Horizon, and Guelph Rate Zones (RZs).

Consistent with Chapter 3 of the Filing Requirements for Electricity Distribution Rate Applications,¹ Alectra Utilities applied the Price Cap IR adjustment factor to adjust the monthly service charge and distribution volumetric rate during the incentive rate-setting years. The annual adjustment follows an OEB-approved formula that includes components for inflation and the OEB's expectations of efficiency and productivity gains. The components in the formula are approved by the OEB annually. The formula prescribes a rate adjustment equal to the inflation factor minus the distributor's X-factor.²

An inflation factor of 3.60% applies to all IRM applications for the 2025 rate year.³ The stretch factor assigned to Alectra Utilities is 0.3%,⁴ resulting in a rate adjustment of 3.30% based on the Price Cap adjustment formula.

OEB staff has no concerns with Alectra Utilities' proposed price cap adjustment.

Alectra Utilities is partially embedded within Hydro One Networks Inc.'s (HONI) distribution system. Alectra Utilities has also sought OEB approval to adjust the Retail Transmission Service Rates (RTSRs) to recover the cost of transmission charged by the Independent Electricity System Operator and its host distributor, HONI.

OEB staff has no concerns with Alectra Utilities' requested adjustments to its RTSRs.

In this document, OEB staff make detailed submissions on the following:

- Earnings Sharing Mechanism (ESM)
- Renewable Generation Connection Rate Protection (RGCRP)

¹ [Filing Requirements for Electricity Distribution Rate Applications - 2024 Edition for 2024 Rate Applications - Chapter 3 Incentive Rate-Setting Applications, June 18, 2024.](#)

² Ibid, p. 6

³ [OEB Letter, 2025 Inflation Parameters, issued June 20, 2024.](#)

⁴ Empirical Research in Support of Incentive Rate-Setting: 2023 Benchmarking Update, Report to the Ontario Energy Board, July 2024 p.23, Table 5.

Earnings Sharing Mechanism (ESM)

Background

An ESM can help ensure customers of the consolidated entity will benefit from the efficiencies and savings the consolidated distributor has achieved.

Per the OEB's report⁵:

The consolidating entities requesting a deferred re-basing period of greater than five years will be required to present the OEB with an ESM plan that would be implemented if the consolidated entity's [Return on Equity] ROE was greater than 300 basis points above the allowed ROE as set out under the incentive regulation policy. The ESM will be based on a 50:50 sharing of excess earnings with consumers.

As a consolidated utility that has not rebased its rates, Alectra Utilities does not have "approved" ROE against which the earnings sharing can be determined. Therefore, Alectra Utilities filed a proposal in its 2020 IRM application⁶ that the representative OEB-approved ROE for Alectra Utilities would be calculated as the weighted average of the OEB-approved rate base amounts for each RZ (from the most recent OEB-approved rebasing application for each predecessor company) for the purpose of the ESM calculation.⁷ The proposal further stated that the regulatory net income for the purpose of earnings sharing would be calculated in the same manner as net income for regulatory purposes under the Reporting and Record-keeping Requirements (RRR) filings, in accordance with the *RRR 2.1.5.6 ROE Complete Filing Guide*, issued March 2016.⁸

In its Partial Decision and Order in the 2020 IRM application⁹, the OEB approved Alectra Utilities' ESM proposal as filed, which is to utilize a weighted average ROE for all applicable RZs in determining the approved ROE for Alectra Utilities.

In the current application, Alectra Utilities' deemed ROE is 8.95%, which is calculated using the weighted average of the OEB approved deemed equity portion of rate base for each RZ. Alectra Utilities' 2023 ROE for the combined five RZs was 7.55%, which is 140 basis points below a calculated deemed ROE of 8.95%.

For the purpose of calculating the ESM in the current application, Alectra Utilities has

⁵ EB-2014-0138, Rate-Making Associated with Distributor Consolidation, p. 23

⁶ EB-2019-0018

⁷ EB-2019-0018, Exhibit 2, Tab 1, Schedule 6, Alectra Utilities ESM, pp. 1-2

⁸ EB-2019-0018, Exhibit 2, Tab 1, Schedule 6, May 28, 2019.

⁹ EB-2019-0018, Partial Decision and Order, December 12, 2019, p. 43

calculated a deemed ROE for Alectra Utilities' four RZs (excluding Guelph) of 8.94%.¹⁰ The weighting factors were derived using 2017 and 2018 ROE data from the respective annual RRR filings for Alectra Utilities and Guelph Hydro Electric Systems Inc. (Guelph Hydro). Since the Alectra Utilities and Guelph Hydro merger was effective January 1, 2019, Alectra Utilities (four RZs) and Guelph Hydro filed separate RRR 2.1.5.6 ROE calculations for 2017 and 2018. Alectra Utilities has applied both 2017 and 2018, weighting factors to the 2023 Consolidated Adjusted Regulated Net Income, Rate Base and Regulated Deemed Equity amounts to derive the 2023 ROE for Alectra Utilities' four RZs. This results in an ROE that is either 145 basis points (using 2017 weighting factors) or 141 basis points (using 2018 weighting factors) below a deemed ROE of 8.94%.

Based on the above facts, Alectra Utilities' position is that the ESM is not triggered for the 2023 rate period.

Submission

OEB staff has reviewed Alectra Utilities' calculations of all five RZ's 2023 ROE and submits that the calculations are consistent with the methodologies used in the previous year's calculations.

In response to interrogatories¹¹, Alectra Utilities explained that the 2017 and 2018 Achieved ROE data used to derive weighting factors corresponds to the RRR 2.1.5.6 ROE submissions filed separately by Alectra Utilities (four RZs) and Guelph Hydro in the respective years. The 2023 Achieved ROE percentage (excluding Guelph) was calculated by applying the 2017 and 2018 weighting factors for the four RZs to the 2023 consolidated financial results. The Guelph ROE was calculated based on the difference between Alectra Consolidated ROE and Alectra Utilities' four RZs.

OEB staff submits that the methodology used above is consistent with the OEB approved Alectra Utilities' ESM proposal filed in the 2020 IRM application.

In response to interrogatories¹², Alectra Utilities also confirmed that the calculation of the deemed equity portion of the rate base was the same as what was approved as part of each legacy utility's last rebasing application.

OEB staff has reviewed the evidence and notes no issue with the calculation of the deemed equity portion of the rate base (\$) for each RZ provided by Alectra Utilities.

In response to interrogatory VECC-1¹³, Alectra Utilities explained the reason to exclude the net OM&A merger savings adjustment in its calculation of achieved ROE in 2023 is

¹⁰ IRR_OEB Staff_Vecc_20241018, 1-staff-3, Summary for Deemed ROE, p. 10

¹¹ Alectra_IRR_OEB Staff_VECC_20241018, 1-Staff-3, pp. 6-10

¹² Alectra_IRR_OEB Staff_VECC_20241018, 1-Staff-6, pp. 18-20

¹³ Alectra_IRR_OEB Staff_VECC_20241018, pp. 21-23

to ensure that the calculated ROE includes the savings Alectra Utilities achieved as a result of the consolidation which is consistent with ESM requirements in the MAADs Policy.

OEB staff agrees that it is appropriate to exclude merger-related costs/savings for the purposes of the ESM which is also consistent with the 2020 IRM application that Alectra Utilities has adjusted its OM&A for the purposes of earnings sharing to adjust for what it has calculated as net merger savings.

In sum, OEB staff notes that Alectra Utilities, as a whole for 2023, did not over-earn based on its reported ROE. OEB staff submits that Alectra Utilities' proposed disposition of nil is reasonable and should be accepted for the purpose of calculating all RZ's 2023 achieved ROE.

Renewable Generation Connection Rate Protection (RGCRP)

Background

Ontario distributors are required to plan their systems based on their expectations of new electricity generation projects connecting to their systems. Based on their plans, distributors can apply to the OEB for funding to recover the cost of assets to enable and connect generators to their distribution systems, including generators using renewable sources of energy such as wind or solar.

The OEB may provide RGCRP compensation amounts to eligible distributors per the OEB Act.¹⁴ The OEB Act prescribes the methodology the OEB uses to determine the amount to be collected for any given year.¹⁵

In its 2021 IRM application¹⁶, Alectra Utilities stated that it did not expect any future RGCRP capital additions for the Brampton, PowerStream, and Enersource RZs in 2022-2026. Therefore, for future regulatory efficiency, OEB staff noted that Alectra Utilities may revise its RGCRP model to extend the payment calculations for 2022-2026 for approval in the proceeding.¹⁷ OEB staff and Alectra Utilities updated the RGCRP models to extend the calculations for the RGCRP payment amounts for the Brampton, PowerStream, and Enersource RZs for each year between 2022 to 2026¹⁸ and the updated calculation was approved in that proceeding¹⁹. In response to OEB staff

¹⁴ Subsection 79.1 (1) of the *Ontario Energy Board Act, 1998*

¹⁵ Ontario Regulation 330/09 (Cost Recovery Re: Section 79.1 of the OEB Act)

¹⁶ EB-2020-0002

¹⁷ EB-2020-0002, IRR ERZ-Staff-30

¹⁸ EB-2020-0002, IRR BRZ-Staff-16, PRZ-Staff-42, ERZ-Staff-30

¹⁹ EB-2020-0002, Decision and Rate Order, dated December 17, 2020, pp. 39-42

interrogatories in the current application, Alectra Utilities confirmed that the 2025 RGCRP funding amounts for the Brampton, PowerStream, and Enersource RZs remain unchanged from what was previously approved by the OEB in the 2021 rate proceeding²⁰. Alectra Utilities is not requesting RGCRP amounts for the Horizon and Guelph RZs.²¹

Submission

OEB staff examines Alectra Utilities' RGCRP funding request for each of the Brampton, PowerStream, and Enersource RZs below.

Brampton RZ

In this application, Alectra Utilities noted that the OEB approved the RGCRP amounts related to the renewable enabling improvement investment and renewable expansion investments from 2015 to 2019 for the former Hydro One Brampton Networks Inc. in its 2015 cost of service application²². The OEB approved the 2024 RGCRP amounts for the Brampton RZ in Alectra Utilities' 2024 IRM application. Alectra Utilities is requesting \$125,149 of RGCRP funding in 2025 or \$10,429 per month for Brampton RZ.

OEB staff has reviewed the Brampton RZ RGCRP model filed by Alectra Utilities and submits that the 2025 RGCRP payment amount of \$125,149 is appropriate. This payment amount is consistent with the calculation for 2025 approved in the 2021 IRM application.

PowerStream RZ

In this application, Alectra Utilities noted that the OEB approved the RGCRP amounts related to the renewable enabling improvement investment and renewable expansion investments from 2016 to 2020 for the former PowerStream Inc. in its 2016 Custom IR application²³. The OEB approved the 2024 RGCRP amounts for the PowerStream RZ in Alectra Utilities' 2024 IRM application. Alectra Utilities is requesting \$234,307 of RGCRP funding in 2025 or \$19,526 per month for PowerStream RZ.

OEB staff has reviewed the PowerStream RZ RGCRP model filed by Alectra Utilities and submits that the 2025 RGCRP payment amount of \$234,307 is appropriate. This payment amount is consistent with the calculation for 2025 approved in the 2021 IRM

²⁰ EB-2024-0006, Alectra_IRR_OEB staff_VECC_20241018, dated October 18, 2024, 1-Staff-5 p. 17

²¹ EB-2019-0018, Partial Decision and Interim Rate Order, dated December 12, 2019, pp.37-40

²² EB-2014-0083

²³ EB-2015-0003

application.

Enersource RZ

In this application, Alectra Utilities noted that the OEB approved the former Enersource Hydro Mississauga Inc.'s basic Green Energy Plan (GEA Plan) in the 2013 Cost of Service rate application²⁴. Alectra Utilities notes that the GEA Plan identified the projects and expenditures associated with the connection of renewable generation to its system and discussed constraints on the ability to connect renewable generation. The OEB approved the 2024 RGCRP amounts for the Enersource RZ in Alectra Utilities' 2024 IRM application. Alectra Utilities is requesting \$130,810 of RGCRP funding in 2025 or \$10,901 per month for the Enersource RZ.

OEB staff has reviewed the Enersource RZ RGCRP model filed by Alectra Utilities and submits that the 2025 RGCRP payment amount of \$130,810 is appropriate. This payment amount is consistent with the calculation for 2025 approved ²⁵ in the 2021 IRM application.

~All of which is respectfully submitted~

²⁴ EB-2012-0033

²⁵ EB-2019-0018, Partial Decision and Interim Rate Order, dated January 30, 2020, p. 3