



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

BY EMAIL

November 29, 2024

Ms. Nancy Marconi  
Registrar  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4  
[Registrar@oeb.ca](mailto:Registrar@oeb.ca)

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission  
Algoma Power Inc. (Algoma Power)  
Application for 2025 Electricity Distribution Rates  
OEB File Number: EB-2024-0007**

---

Please find attached OEB staff's comments on the draft rate order in the above referenced proceeding, pursuant to the OEB's Partial Decision and Order. Algoma Power Inc. and all intervenors have been copied on this filing.

Yours truly,

Birgit Armstrong  
Senior Advisor – Electricity Distribution Rates

Encl.

cc: All parties in EB-2024-0007



# **ONTARIO ENERGY BOARD**

## **OEB Staff Submission on Draft Rate Order**

**Algoma Power Inc.**

**Application for 2025 Electricity Distribution Rates**

**EB-2024-0007**

**November 29, 2024**

## Introduction

Algoma Power Inc. (Algoma Power) filed a cost of service application with the Ontario Energy Board (OEB), seeking approval for changes to the rates that Algoma Power charges for electricity distribution, beginning January 1, 2025<sup>1</sup> In its Partial Decision and Order,<sup>2</sup> the OEB accepted the settlement proposal and directed Algoma Power to file a draft rate order showing the impact of any required adjustments related to the 2025 interim Cost of Capital parameters and the 2025 Uniform Transmission Rates (UTRs).

Algoma Power filed its draft rate order on November 26, 2024.

Due to the updated cost of capital parameters and uniform transmission rates, the cost of power, working capital allowance, rate base, revenue requirement (including the capital baseline revenue requirement used to track differences in the Land Use Revenue Requirement Variance Account), cost allocation, revenue-to-cost ratios, and distribution rates, required updating.

Based on the draft rate order, the total bill impact for a typical residential customer with a monthly consumption of 750 kWh, would be a decrease of approximately \$2.72 per month (1.87%) before taxes and the Ontario Electricity Rebate.

OEB staff has reviewed the draft rate order and confirms that Algoma Power has implemented the OEB's direction set out in the Partial Decision and Order.

## Cost of Capital

OEB's Partial Decision required Algoma Power to update the placeholder values for the return on equity (ROE) and deemed short-term debt rate with the 2025 cost of capital parameters once issued. Consistent with the agreed-upon approach in the approved Settlement Proposal, the weighted average cost of long-term debt does not require updating as it is based on third-party debt instruments.<sup>3</sup>

On October 31, 2024, the OEB issued the 2025 interim cost of capital parameters.<sup>4</sup>

In its draft rate order, Algoma Power noted that it has updated the deemed interest rate

---

<sup>1</sup> Pursuant to section 78 of the *Ontario Energy Board Act*, 1998, S.O. 1998, c. 15, (Schedule B)

<sup>2</sup> EB-2024-0007, Partial Decision and Order, November 19, 2024

<sup>3</sup> EB-2024-0007, Partial Decision and Order, Settlement Proposal, p. 22. Algoma Power updated the rate of the new \$55 million third-party loan to reflect the actual rate of 5.05%, which results in a weighted Long-Term debt rate of 5.12%.

<sup>4</sup> EB-2024-0063, [OEB Letter and Accounting Orders](#), October 31, 2024

for short term debt to 5.04% (from a placeholder value of 6.23%), and the ROE to 9.25% (from a placeholder value of 9.21%) to reflect the OEB-approved 2025 interim cost of capital parameters.

Algoma Power also updated the PILs calculation to reflect the updates above. Algoma Power noted that the updated PILs and Return on Capital result in an updated service and base revenue requirement. Algoma Power further noted that the base line amount for the Land Use Revenue Requirement Variance Account – Capital has also been updated to reflect the updated cost of capital parameters.

OEB staff submits that Algoma Power's cost of capital for the 2025 Test Year has been appropriately calculated to reflect the 2025 interim cost of capital parameters based on the agreed-upon approach approved in the settlement proposal.

### **Income Tax and Payments in Lieu of Taxes (PILs)**

Algoma Power updated the PILs calculations to reflect the updated short-term debt rate of 5.04% and ROE of 9.25%. These updates result in an increase of \$10,530 for a total grossed up PILs amount of \$972,797.

OEB staff submits that the PILs calculation accurately reflects the updated cost of capital parameters and the OEB-approved Settlement Proposal.

### **Land Use Revenue Requirement Variance Account - Capital**

The OEB-approved settlement proposal makes provisions for Algoma Power to track variances in the revenue requirement related to Algoma Power's land use rights costs in two separate sub-account, one for OM&A costs and one for capital related revenue requirement amounts.

The OEB approved a placeholder value for the baseline capital related revenue requirement amount of \$2,067,985, which was based on the 2024 cost of capital parameters. Algoma Power updated this base line amount with the 2025 interim cost of capital parameters as part of its draft rate order, resulting in an updated baseline amount of \$2,063,854.

OEB staff submits that the updated capital revenue requirement baseline amount accurately reflects the updated cost of capital parameters and the OEB-approved Settlement Proposal.

## Uniform Transmission Rates

As noted in the OEB's Partial Decision, Algoma Power was also required to make all necessary updates following the OEB's issuance of a letter on the 2025 Uniform Transmission Rates (UTRs). On November 1, 2024, the OEB issued a letter Re: 2025 Preliminary Uniform Transmission Rates and Hydro One Sub-Transmission Rates which contains the 2025 preliminary UTRs and Hydro One's Sub-Transmission rates effective January 1, 2025.<sup>5</sup>

Algoma Power updated the Retail Service Transmission Rate (RTSR) model with the preliminary UTRs and HONI Sub-Transmission rates, which resulted in revised RTSRs. Algoma Power noted that these RTSR were used to update Algoma Power's cost of power forecast.

OEB staff notes that API is connected directly to the transmission system of Hydro One Sault Ste. Marie Inc. OEB staff submits that the RTSR adjustments accurately reflect the OEB's updated 2025 preliminary UTRs.

## Cost of Power

The OEB's Partial Decision ordered Algoma Power to update the placeholder value for its cost of power to reflect the 2025 UTRs as part of its draft rate order. OEB staff notes that Algoma Power updated its cost of power calculation for the 2025 Regulatory Price Plan and the 2025 OER of 13.1% prior to filing its settlement proposal.

As part of this draft rate order, Algoma Power updated Appendix 2-ZB, the cost of power forecast, Transmission Network and Connection, to reflect the proposed transmission network and transmission connection rates. Algoma Power noted that the resultant cost of power forecast has been incorporated into the working capital allowance calculation used to establish rate base.

OEB staff notes that the updates result in a power supply expense of \$32,877,475, an increase of \$179,466 in the cost of power which causes an increase in the working capital allowance and rate base of \$13,460.

OEB staff submits that the cost of power adjustment accurately reflects the proposed RTSRs.

---

<sup>5</sup> [OEB letter, 2025 Preliminary Uniform Transmission Rates and Hydro One Sub-Transmission Rates](#), November 1, 2024

## Revenue Requirement and RRRP Funding

As a result of the changes to rate base, deemed short-term debt rates, and ROE, two components of the revenue requirement which are deemed interest expense and return on deemed equity have changed, causing a change in the service revenue requirement and base revenue requirement. Algoma Power provided a revenue requirement breakdown comparison between the settlement proposal (as approved in the Partial Decision and Order issued on November 19, 2024) and the draft rate order shown in Table 1 of the draft rate order.

OEB staff submits that Algoma Power's updated revenue requirement calculation accurately reflects the updated 2025 interim cost of capital parameters and the 2025 UTRs, resulting in a base revenue requirement of \$33,687,290, which is a decrease of \$45,256. Algoma Power has also updated its Rural and Remote Rate Protection (RRRP) funding calculation to reflect the updated revenue requirement.

Algoma Power noted that it used the agreed upon RRRP adjustment factor of 4.75%. This factor is used to escalate existing base rates in order to determine the revenue that will be collected from RRRP eligible classes (R1 and R2). The table below shows the updated class revenue requirements for the R1(i and ii) and R2 classes as well as the revenue Algoma Power expects to collect from these classes. In addition, as per the OEB-approved settlement proposal, Algoma Power made a one-time adjustment to account for a true-up amount related to two advance capital models (ACM) to the RRRP funding calculation which was allocated to the RRRP eligible classes. The resulting RRRP funding amount for 2025 is \$18,545,649, which is a decrease of \$23,004 over the settlement proposal.

### 2025 Adjusted RRRP Funding Requirement

	Allocated Base Revenue
Residential R1(i)	\$ 22,482,502
Residential R1(ii)	
Residential R2	\$ 7,474,952
Total	\$ 29,957,453
Total Revenue Requirement from RRRP Classes	\$ 29,957,453
Less: Revenue From RRRP Reduced Rates	\$ 10,248,676
<b>Proposed 2025 Annual RRRP Funding- 2025 Test Year</b>	<b>\$ 19,708,777</b>
2025 ACM True Up Disposition to RRRP (One time adjustment)	-\$ 1,163,128
<b>Adjusted 2025 RRRP Funding</b>	<b>\$ 18,545,649</b>

OEB staff has reviewed the RRWF and all applicable models. OEB staff submits that the RRRP funding amount is calculated correctly.

**Cost Allocation and Rate Design**

As a result of the changes to the revenue requirement, Algoma Power updated the Cost Allocation Model and the RRWF. Algoma Power states in its draft rate order that the approach to the revenue-to-cost ratios and rate design is consistent with the approach in the settlement proposal.

In addition, Algoma Power noted that it has updated the MicroFit charge applicable in 2025 to be consistent with the OEB's letter dated November 19, 2024.<sup>6</sup>

OEB staff has reviewed the cost allocation model, revenue-to-cost ratios, fixed-variable splits and notes that they are consistent with the Partial Decision and Order and the methodologies used in the OEB-approved settlement proposal.

**Tariff Schedule and Bill Impact Model**

As per the Partial Decision and Order, Algoma Power is required to update the Tariff Schedule and Bill Impact model.

Algoma Power provided an updated Tariff Schedule and Bill Impact model to reflect the above noted changes

In its Decision on the Issues list,<sup>7</sup> the OEB excluded Issue 6.2 related to the disposition of Accounts 1588 and 1589 from settlement. As part of its draft rate order, Algoma Power has therefore excluded these account balances from the disposition of Group 1 balances.

OEB staff submits that Algoma Power updated the model appropriately to reflect the changes in the 2025 distribution rates. However, OEB staff submits that Group 1 deferral and variance rate rider should be made interim until the OEB has issued its decision on Issue 6.2. OEB staff asks that Algoma Power should confirm interim disposition of Group 1 account balances in its reply submission.

~All of which is respectfully submitted~

---

<sup>6</sup> OEB Letter, [Review of Fixed Monthly Charge for microFIT Generator Service Classification](#), issued November 19, 2024

<sup>7</sup> EB-2024-0007, [Decision on Issues List](#), issued August 2, 2024