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

BY EMAIL

October 30, 2025

Ritchie Murray
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ritchie Murray:

Re: Ontario Energy Board (OEB) Staff Submission
Alectra Utilities Corporation (Alectra Utilities)
2026 Distribution Rates Application
OEB File Number: EB-2025-0055

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

Yours truly,

Urooj Iqbal

Digitally signed by Urooj Iqbal
Date: 2025.10.30 11:08:47 -04'00'

Urooj Iqbal
Advisor, Incentive Rate-setting

Encl.

cc: All parties in EB-2025-0055

ONTARIO ENERGY BOARD

OEB Staff Submission

Alectra Utilities Corporation

2026 Distribution Rates Application

EB-2025-0055

October 30, 2025

Introduction

Alectra Utilities Corporation (Alectra Utilities) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on August 14, 2025, under section 78 of the *Ontario Energy Board Act, 1998*. The application seeks approval for changes to electricity distribution rates, effective January 1, 2026, for the Enersource, Brampton, PowerStream, Horizon Utilities, and Guelph Hydro Rate Zones (RZ).

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 expectation 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. An inflation factor of 3.70% applies to all IRM applications for the 2026 rate year.[2] The stretch factor assigned to Alectra Utilities is 0.30%,[3] resulting in a rate adjustment of 3.40% to all of Alectra Utilities' RZs, based on the Price Cap adjustment formula. OEB staff has no concerns with Alectra Utilities' proposed price cap adjustment.

Alectra Utilities has updated its 2026 Rate Generator Model, for each RZ, to reflect the preliminary Uniform Transmission Rates and proposed Hydro One Networks Inc. Sub-Transmission Rates, as communicated by the OEB on October 9, 2025.[4] [5] Further, OEB staff has updated the time-of-use pricing and Ontario Electricity Rebate in the 2026 Rate Generator Model for each RZ to reflect the values set on October 17, 2025. OEB staff requests Alectra Utilities to review and validate these updates in its reply submission.

Alectra Utilities is seeking approval for the disposition of its Group 1 Deferral and Variance Account (DVA) balances as of December 31, 2024, including projected carrying charges to December 31, 2025. The requested amounts are as follows:

- Enersource RZ debit of $15,309,674
- Brampton RZ: debit of $984,904
- PowerStream RZ: debit of $12,855,345
- Horizon Utilities RZ: debit of $5,514,266

[1] Filing Requirements for Electricity Distribution Rate Applications – Chapter 3 Incentive Rate-setting Applications, June 19, 2025
[2] OEB Letter, 2026 Inflation Parameters, issued June 11, 2025.
[3] Empirical Research in Support of Incentive Rate-Setting: 2024 Benchmarking Update, Report to the Ontario Energy Board, August 2025 p. 22, Table 4.
[4] EB-2025-0232, 2026 Preliminary Uniform Transmission Rates and Hydro One Sub-Transmission Rates, October 9, 2025
[5] Staff-6(a)

- Guelph Hydro RZ: debit of $708,238

OEB staff has reviewed Alectra Utilities' request to dispose of its Group 1 DVA balances and has identified no issues.

Alectra Utilities has requested Renewable Generation Connection Rate Protection (RGCRP) funding for the Brampton, PowerStream, and Enersource RZs, based on the updated RGCRP models included in its 2021 IRM application, which extended the calculation of payment amounts for each year from 2022 to 2026.[6] OEB staff has no concerns regarding Alectra Utilities' RGCRP funding request.

Alectra Utilities has incorporated the 2026 prospective Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) rate riders into the 2026 Rate Generator Model for all its five RZs. This request seeks approval to recover the base LRAM-eligible amount for 2026, as approved in Alectra Utilities' 2024 IRM application.[7] [8] In response to an OEB staff interrogatory,[9] Alectra Utilities confirmed that the expiration date for these rate riders is December 31, 2026, which aligns with the recovery period approved by the OEB in the 2024 IRM application. OEB staff has no concerns regarding Alectra Utilities' request for the recovery of the LRAMVA-related amount.

OEB staff has made detailed submissions pertaining to the following areas:

- Earnings Sharing Mechanism (ESM) Calculation
- Depreciation Study and Proposed DVA for Useful Life Changes
- Direct Labour Capitalization (DLC) Study and proposed DVA
- Rates Retroactivity

[6] EB-2020-0002, BRZ-Staff-16, PRZ-Staff-42, ERZ-Staff-30
[7] EB-2023-0241, Decision and Rate Order, December 14, 2023, pp. 21-22
[8] Staff-3(a)
[9] Staff-3(b)

Earnings Sharing Mechanism (ESM) Calculation

<u>Background</u>

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

According to the OEB's Rate-Making Associated with Distributor Consolidation report:[10]

> The ESM would operate during the term of the extended deferred rebasing period. (i.e. – for any extended periods beyond the initial five-year deferral period). The ESM would be in keeping with the OEB's current incentive rate-making policy under which a Rate-Making Associated with Distributor Consolidation regulatory review may be initiated if a distributor's annual reports show performance outside of the +/- 300 basis points earnings dead band. In the case of a MAADs transaction, if the consolidated entity's actual ROE rose above the 300 basis points over the allowed [Return on Equity], the ESM will be implemented. The ESM for the purpose of the extended period will employ a 50:50 sharing with customers of excess earnings. This sharing provides for the shareholders to continue to recover transaction costs while ensuring customers of the consolidated entity will benefit from the efficiencies and savings the new distributor has achieved.

Alectra Utilities submitted and received approval from the OEB for ESM plans through two separate Merger, Amalgamation, Acquisition and Divestiture (MAADs) applications. The first ESM, covering years six to ten (2022–2026) of the deferred rebasing period, applies to the original consolidation involving the Enersource, Brampton, PowerStream, and Horizon Utilities RZs. A subsequent MAADs application related to the Guelph Hydro RZ consolidation included a separate ESM for years six to ten (2024–2028), which was also approved by the OEB.

As a consolidated utility that has not rebased its rates, Alectra Utilities does not have an "approved" Return on Equity (ROE) against which the earnings sharing can be determined. Therefore, Alectra Utilities filed a proposal in its 2020 IRM application[11] 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 utility) for the purpose of the ESM calculation.[12] 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

[10] EB-2014-0138, Rate-Making Associated with Distributor Consolidation, March 26, 2015, pp. 6-7
[11] EB-2019-0018
[12] EB-2019-0018, Exhibit 2, Tab 1, Schedule 6, pp. 1-2

2016.

In its Partial Decision and Order in the 2020 IRM application,[13] 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.

Alectra Utilities' 2024 RRR were filed on a consolidated basis, rather than by individual RZ. The reported ROE for 2024 was 7.16%, which is 179 basis points below the calculated deemed ROE of 8.95%. This deemed ROE was determined using a weighted average of the OEB-approved equity portions of the rate base from each predecessor utility's (Enersource, Brampton, PowerStream, Horizon Utilities and Guelph Hydro) most recent rebasing application.[14]

Year 8 of Deferred Rebasing Period – Enersource, Brampton, PowerStream and Horizon Utilities RZs' 2024 ESM:

To calculate the 2024 ROE for Enersource, Brampton, PowerStream and Horizon Utilities RZs (excluding the Guelph Hydro RZ), weighting factors were applied to the consolidated ROE data. These factors were derived from 2017 and 2018 RRR filings, when Alectra Utilities and Guelph Hydro reported separately. The deemed ROE for the four RZs was calculated at 8.94%. Applying the weighting factors to 2024 financial data resulted in ROEs that were 184 (using 2017 weighting factors) or 181 (using 2018 weighting factors) basis points below the deemed ROE, meaning the ESM was not triggered.

Year 6 of the Deferred Rebasing Period – Guelph Hydro RZ's 2024 ESM:

In this proceeding, Alectra Utilities has also reported on the ESM for the Guelph Hydro RZ, marking its first year of implementation. To determine the 2024 ROE specific to the Guelph Hydro RZ, Alectra Utilities applied weighting factors to its consolidated ROE data across all five RZs based on historical financials.

For ESM purposes, a deemed ROE of 9.19% was used, consistent with Guelph Hydro's last OEB-approved rebasing application. Applying the 2017 and 2018 weighting factors to Alectra Utilities' 2024 consolidated financial data resulted in ROEs for the Guelph Hydro RZ that were 101 and 157 basis points below the deemed ROE, depending on whether 2017 or 2018 factors were used. As both outcomes fall short of the 300 basis points threshold, the ESM was not triggered.

Submission

OEB staff has reviewed Alectra Utilities' calculations of 2024 ROE and submits that the calculations are consistent with the methodologies used in the previous year's calculations. OEB staff submits that the combined 2024 achieved ROE of 7.16% for

[13] EB-2019-0018, Partial Decision and Order, December 12, 2019, p. 43
[14] Exhibit 2, Tab 1, Schedule 9, pp. 2 and 4

Alectra Utilities' five RZs falls below the deemed ROE of 8.95%, and as a result, the ESM is not triggered.

Additionally, OEB staff submits that the methodology used for the purpose of the ESM calculation for Alectra Utilities' four RZs and Guelph Hydro RZ is consistent with the OEB-approved Alectra Utilities' ESM proposal filed in the 2020 IRM application.

Depreciation Study and Proposed DVA for Useful Life Changes

Background

Alectra Utilities is seeking approval to establish a new DVA to track the impact of updated asset useful lives that will be reflected in a third-party depreciation study prepared for Alectra Utilities' 2027 rebasing application. Alectra Utilities proposes that the new account is to be effective from January 1, 2025 until the effective date of Alectra Utilities' rebasing application decision, unless otherwise directed by the OEB.

Alectra Utilities explains that preliminary study results indicate a net decrease in depreciation expense in 2025 and 2026 and proposes to record the impact using the Account 1576 approach. Alectra Utilities states that its proposal is consistent with the OEB's findings in its 2020 application for the establishment of other DVAs relating to capitalization policy impacts and use the Account 1576 approach to record the impact of the change in useful lives.[15]

Under this approach, the Alectra Utilities would record the cumulative difference between its net property, plant and equipment (PP&E) values under its former depreciation policies and its net PP&E values under the revised depreciation policies.[16]

Alectra Utilities discusses the OEB's eligibility criteria of causation, materiality and prudence[17] as follows:

> *Causation:* Alectra Utilities' existing distribution rates are derived from the predecessor utilities' last rebasing applications, which date back to 2013. The recent third-party depreciation study undertaken by Alectra Utilities will result in a net change to depreciation expense that is outside of the base upon which existing rates were derived by the predecessor utilities.
>
> *Materiality:* preliminary results indicate that the impact of the changes to the financial useful lives of assets will result in a credit balance recorded in the DVA of approximately $17 million in 2025 and $21 million in 2026. This exceeds Alectra Utilities' materiality threshold of $1 million.

[15] Exhibit 2, Tab 1, Schedule 12, p. 1
[16] *Ibid.*
[17] *Filing Requirements for Electricity Distribution Rate Applications – Chapter 2 Cost of Service*, issued May 7, 2025, Section 2.9.2

> *Prudence:* Alectra Utilities has undertaken a third-party depreciation study to determine the appropriate average service lives of its distribution and common assets. The study will detail the changes to the financial useful lives and is the basis for the calculation of the expected decrease to depreciation expense in 2025 and 2026. The OEB will have an opportunity to review the study, and the prudence of any amounts recorded to the account, at the time of proposed disposition in Alectra Utilities' 2027 rebasing application.[18]

Alectra Utilities forecasts a credit of $16.62 million for 2025 and $21.24 million for 2026.[19] In addition, Alectra Utilities states that applying a proposed 2027 weighted average cost of capital (WACC) of 6.1% to the forecasted balances in the deferral account for disposition results in a return on the account of $2.31 million.[20]

Submission

OEB staff does not take issue with Alectra Utilities' proposal to establish Account 1508, Other Regulatory Assets, sub-account Useful Life Changes to track and record the impact from the updated depreciation rates from January 1, 2025 until the effective date of Alectra Utilities' rebasing application decision.

OEB staff submits that Alectra Utilities has satisfied the causation, materiality, and prudence criteria required to establish a new DVA. The preliminary results of Alectra Utilities' third-party useful lives study indicate financial changes that are outside the base upon which current rates were derived. The preliminary results also indicate the impacts are well beyond Alectra Utilities' materiality threshold of $1 million.

To satisfy prudence, the OEB requires that the nature of the amounts and forecast quantum to be recorded in the proposed account must be based on a plan that sets out how the amounts will be reasonably incurred. OEB staff agrees that prudence in establishing this DVA is addressed by a third-party study. However, OEB staff notes that this study has not yet been reviewed by the OEB. This is expected to occur as part of Alectra Utilities' 2027 rebasing application. It is not known at this point whether the OEB will ultimately approve the proposed changes to the useful asset lives (and associated impacts on opening rate base and depreciation).

OEB staff also does not have any initial concerns with Alectra Utilities' proposal to track the impacts using an Account 1576 approach. The OEB established Account 1576 for the capitalization policy and depreciation policy changes anticipating the transition from Canadian Generally Accepted Accounting Principles to Modified International Financial Reporting Standards for utilities.[21] OEB staff's view is that the situations are similar enough to support consistency. However, OEB staff is of the view that the proceeding to

[18] Exhibit 2, Tab 1, Schedule 12, pp. 2-3
[19] Staff-4
[20] *Ibid.*, (c)
[21] Accounting Policy Changes for Accounts 1575 and 1576

determine the appropriate methodology is in Alectra Utilities' 2027 rebasing application, which is currently before the OEB, given that actual impacts can be tested. At that time, Alectra Utilities should explicitly show the proposed balance in the new DVA, explaining the numbers and assumptions used.

Direct Labour Capitalization (DLC) Study and Proposed DVA

Background

Alectra Utilities is seeking approval to establish a new DVA effective January 1, 2025 to track the impact of an updated DLC methodology derived from a time study for employees who do not use timesheets. The DLC methodology is used to allocate directly attributable capital costs to capital projects. The account will be effective from January 1, 2025 until the effective date of Alectra Utilities' rebasing application decision, unless otherwise directed by the OEB.

Alectra Utilities states that the results of the study indicate an increase in labour capitalization (i.e., higher capital costs) and a corresponding decrease to OM&A costs in 2025 and 2026. Alectra Utilities proposes to be consistent with the OEB's findings in its 2020 application for the establishment of other DVAs relating to capitalization policy impacts and use the Account 1576 approach to record the impact of the change as a result of the study.[22]

Alectra Utilities forecasts a credit principal balance of $5.71 million for 2025 and $5.33 million for 2026.[23] Applying a proposed 2027 WACC of 6.1% to the forecasted balances in the deferral account for disposition results in a return on the account of approximately $0.67 million.[24]

Alectra Utilities discusses the OEB's eligibility criteria of causation, materiality and prudence[25] as follows:

> *Causation:* Alectra Utilities' existing distribution rates are derived from the predecessor utility's last rebasing applications, which date back to 2013. The recent third-party depreciation study undertaken by Alectra Utilities will result in a change to the amount of direct labour costs allocated to capital programs.
>
> *Materiality:* results indicate that the impact of the DLC change will result in a credit balance recorded in the DVA of approximately $6 million in 2025 and $5 million in 2026. This exceeds Alectra Utilities' materiality threshold of $1 million.
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> *Prudence:* Alectra Utilities has undertaken a third-party DLC study to evaluate

[22] Exhibit 2, Tab 1, Schedule 12, p. 3
[23] Staff-5
[24] *Ibid*., (a)
[25] *Filing Requirements for Electricity Distribution Rate Applications – Chapter 2 Cost of Service*, issued May 7, 2025, Section 2.9.2

and update its DLC rate methodology. The study will detail the changes to the DLC pool and is the basis for the calculation of the expected impacts in 2025 and 2026. The OEB will have an opportunity to review the study, and the prudence of any amounts recorded to the account at the time of disposition in Alectra Utilities' 2027 rebasing application.[26]

In response to interrogatories, Alectra Utilities has also proposed that, when applying the existing ratio to the 2025 and 2026 distribution system plant capital, the incremental direct labour burden costs resulting from the 2025 updates be excluded from the capital amount. The forecasted incremental direct labour burden costs are $5.7 million for 2025 and $5.3 million for 2026. Alectra Utilities proposes to reduce its 2025 and 2026 distribution system plant capital amounts by $5.7 million and $5.3 million, respectively, to ensure there is no double counting, for the purposes of calculating its existing capital policy impact.[27]

Submission

OEB staff does not take issue with Alectra Utilities' proposal to establish Account 1508, Other Regulatory Assets, sub-account Direct Labour Capitalization, to track and record the impact from the direct labour capitalization study. OEB staff understands that if there is an increase in labour capitalized due to the adoption of the DLC study effective January 1, 2025, this would result in an overcollection of embedded OM&A for 2025 and 2026. Thus, an account to allow the refund of these amounts to customers is appropriate, provided the eligibility criteria are met. While Alectra Utilities did not specifically call this an asymmetrical account, the nature of the impact is generally understood to be a credit to customers.

OEB staff submits that Alectra Utilities has satisfied the causation, materiality, and prudence criteria required to establish a new DVA. The preliminary results of Alectra Utilities' third-party DLC study indicate financial changes that are outside the base upon which current rates were derived. The preliminary results also indicate the impacts are well beyond Alectra Utilities' materiality threshold of $1 million.

To satisfy prudence, the OEB requires that the nature of the amounts and forecast quantum to be recorded in the proposed account must be based on a plan that sets out how the amounts will be reasonably incurred. OEB staff agrees that prudence in establishing this DVA is addressed by a third-party study. However, OEB staff notes that the OEB has not yet reviewed (or approved) the detailed information in that study, which is subject to a further prudence review as part of Alectra Utilities' 2027 rebasing application.

Alectra Utilities references previously approved DVAs in its 2020 proceeding, which were based on the Account 1576 approach. In brief, those DVAs were established to

[26] Exhibit 2, Tab 1, Schedule 12, pp. 2-3
[27] Staff-5(c)

capture the impacts of the Horizon Utilities RZ, Guelph Hydro RZ, Enersource RZ and Brampton RZ adopting the capitalization policy of the acquiring utility, Powerstream.

OEB staff submits that the nature of the DLC DVA is very similar to that of Alectra Utilities' capitalization policy impact deferral accounts and therefore has no concerns with the Account 1576 approach.

Alectra Utilities proposes to reduce its 2025 and 2026 distribution system plant capital to ensure no double counting with the existing capitalization policy impact DVAs. However, OEB staff takes no position on the adjustment Alectra Utilities has described and instead recommends that Alectra Utilities file, at disposition, its demonstration and a clear mapping of any excluded amounts to the DLC DVA, for review at that time.

Rates Retroactivity

Background

In the case of both DVAs, OEB staff questioned Alectra Utilities on its view on whether the DVAs constituted retroactive ratemaking. Alectra Utilities responded that:

> Given the materiality of the impact (refund to customers) and the fact that these changes will be implemented for financial reporting purposes, effective January 1, 2025, Alectra Utilities felt it was prudent to request approval to establish these accounts in its 2026 IRM application to ensure that these balances are tracked and refunded to customers as part of Alectra Utilities' 2027 rebasing application.[28]

Submission

OEB staff is of the view that there is no reason to deny the requested January 1, 2025 effective date in this case. The OEB has on occasion approved similar requests where the effective date of the DVA preceded the order creating the DVA by a relatively short period of months. [29]

OEB staff further submits that an effective date of January 1, 2025 for both does not create any harm to any party. Two of the primary rationales for the rule against retroactive ratemaking are rate certainty and intergenerational inequity. Rate certainty is not an issue here, as Alectra Utilities (which is the party requesting the account) will be refunding monies to rate payers through the DVAs. Rate payers are unlikely to complain about rate uncertainty in respect of a refund. Intergenerational inequity is also not a concern, as the period of "retroactive" recovery is only a few months, and not enough to result in material customer turnover. For these reasons, OEB staff does not take issue with the effective dates of the DVAs as requested by Alectra Utilities.

[28] Staff-4(e)
[29] See, for example, EB-2013-0368 / EB-2013-0369

~All of which is respectfully submitted~