

PARTIAL DECISION AND INTERIM RATE ORDER

EB-2019-0018

Alectra Utilities Corporation

**Application for rates and other charges to be effective
January 1, 2020**

**BEFORE: Emad Elsayed
Presiding Member**

**Lynne Anderson
Member**

**Michael Janigan
Member**

December 12, 2019

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1. INTRODUCTION AND SUMMARY

Alectra Utilities Corporation (Alectra Utilities) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on May 28, 2019 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, 2020. Under section 78 of the OEB Act, a distributor must apply to the OEB to change the rates it charges its customers. This application covers each of the former rate zones of Enersource Hydro Mississauga Inc. (Enersource), PowerStream Inc. (PowerStream), Hydro One Brampton Networks Inc. (Brampton), Horizon Utilities Corporation (Horizon Utilities), and Guelph Hydro Electric System Inc. (Guelph).

Alectra Utilities serves approximately one million mostly residential and commercial electricity customers in its five rate zones. These five rate zones cover 17 communities which include the Cities of Hamilton and St. Catharines in the Horizon Utilities rate zone, the City of Brampton in the Brampton rate zone, the Cities of Barrie, Markham, Vaughan and the Towns of Aurora, Richmond Hill, Alliston, Beeton, Bradford West Gwillimbury, Penetanguishene, Thornton, and Tottenham, in the PowerStream rate zone, the City of Mississauga in the Enersource rate zone, and the City of Guelph and the Village of Rockwood in the Guelph rate zone.

In Procedural Order No. 1, the OEB determined that it would process Alectra Utilities' application in three streams, namely the IRM, M-Factor, and capitalization policy. This Decision relates to the IRM elements of the application.

A distributor may choose one of three rate-setting methodologies approved by the OEB. Each of these is explained in the [Handbook for Utility Rate Applications](#).

Alectra Utilities' application is based on a Price Cap Incentive Rate-setting option (Price Cap IR). The Price Cap IR option involves a rebasing rate application followed by annual mechanistic price cap adjustments, based on inflation and the OEB's assessment of the distributor's efficiency. Alectra Utilities was granted a 10-year deferred rebasing period for 2017 to 2026 following its merger. The Price Cap IR option is applicable to each rate zone during the deferred rebasing period once its current rate plan ends.

In this Partial Decision and Interim Rate Order, the OEB makes a number of findings, which include the following:

- The OEB approves a Price Cap adjustment of 1.70% for the Enersource, PowerStream, Brampton, Horizon Utilities and Guelph rate zones.

- The OEB approves the establishment of a deferral account for the Collection of Account charge-related lost revenues.
- The OEB denies Alectra Utilities' request for a conservation demand management severance deferral account.
- The OEB approves Alectra Utilities' Earnings Sharing Mechanism proposal.
- The approved rates for the Enersource, PowerStream, Brampton, Horizon Utilities and Guelph rate zones will be effective and implemented on January 1, 2020, on an interim basis.

The monthly total bill impact for each of the five rate zones, as a result of the OEB's findings in this Partial Decision and Interim Rate Order (excluding the proposed rates and/or rate riders from the other two streams of this application), is listed below.

- For the Horizon Utilities rate zone, there will be a monthly total bill increase before taxes of \$2.73 for a residential customer consuming 750 kWh, effective January 1, 2020.
- For the Brampton rate zone, there will be a monthly total bill increase before taxes of \$2.03 for a residential customer consuming 750 kWh, effective January 1, 2020.
- For the PowerStream rate zone, there will be a monthly total bill increase before taxes of \$1.87 for a residential customer consuming 750 kWh, effective January 1, 2020.
- For the Enersource rate zone, there will be a monthly total bill increase before taxes of \$1.35 for a residential customer consuming 750 kWh, effective January 1, 2020.
- For the Guelph rate zone, there will be a monthly total bill decrease before taxes of \$0.40 for a residential customer consuming 750 kWh, effective January 1, 2020.

2. THE PROCESS

The OEB follows a standardized and streamlined process for hearing IRM applications filed under Price Cap IR. In each adjustment year of a Price Cap IR term, the OEB prepares a Rate Generator Model that includes, as a placeholder, information from the distributor's past proceedings and annual reporting requirements.¹ A distributor will then review and complete the Rate Generator Model, and include it with its application.

Alectra Utilities filed the IRM portion of its application in accordance with the Chapter 3 of the OEB's [Filing Requirements for Incentive Rate-Setting Applications](#) (Filing Requirements) [and Addendum to Filing Requirements for Electricity Distribution Rate Applications](#). Notice of Alectra Utilities' application was issued on June 18, 2019. Association of Major Power Consumers in Ontario (AMPCO), Building Owners and Managers Association (BOMA), Consumers Council of Canada (CCC), Distributed Resource Coalition (DRC), Enbridge Gas Inc. (Enbridge), Energy Probe Research Foundation (Energy Probe), Power Workers' Union (PWU), School Energy Coalition (SEC), Max Aicher (North America) Ltd. and Max Aicher (North America) Bloom Mill (collectively, MANA) and Vulnerable Energy Consumers Coalition (VECC) requested intervenor status. AMPCO, BOMA, CCC, DRC, Energy Probe, SEC, MANA and VECC requested cost eligibility. The OEB approved AMPCO, BOMA, CCC, DRC, Energy Probe, PWU, SEC, MANA and VECC as intervenors. Enbridge's request for intervenor status was denied. The OEB approved cost eligibility, only in relation to the M-Factor and capitalization policy elements, for AMPCO, BOMA, CCC, DRC, Energy Probe, SEC, MANA and VECC.

The application was supported by pre-filed written evidence and completed Rate Generator Models. During the course of the proceeding, the applicant responded to interrogatories and, where required, updated and clarified the evidence. Final submissions on the IRM part of this proceeding were filed by OEB staff, SEC and Alectra Utilities.

¹ The Rate Generator Model is a Microsoft Excel workbook that is used to update base rates, retail transmission service rates and, if applicable, shared tax saving adjustments. It also calculates rate riders for the disposition of deferral and variance account balances. During the course of an IRM proceeding, the Rate Generator Model may be updated in order to make any necessary corrections, or to incorporate new rate-setting parameters as they become available.

3. ORGANIZATION OF THE DECISION

In this Partial Decision and Interim Rate Order, the OEB addresses the following issues, and provides reasons for approving or denying Alectra Utilities' proposals relating to each of them:

- Price Cap Adjustment
- Retail Transmission Service Rates
- Group 1 Deferral and Variance Accounts
- Lost Revenue Adjustment Mechanism Variance Account Balance
- Residential Rate Design – PowerStream Rate Zone
- Request for a Customer Service Rules-related Lost Revenue Variance Account
- Request for a Conservation Demand Management Severance Deferral Account
- Renewable Generation Connection Rate Protection
- Earnings Sharing Mechanism
- Request to Close the Deferral Account for Service Cost Recovery Study – Horizon Utilities Rate Zone

In the final section, the OEB addresses the steps to implement the interim rates that flow from this Partial Decision and Interim Rate Order.

This Partial Decision and Interim Rate Order does not address rates and charges approved by the OEB in previous proceedings, which are not part of the scope of an IRM proceeding (such as specific service charges² and loss factors). No further approvals are required to continue to include these items on a distributor's Tariff of Rates and Charges.

² Specific service charges have been amended by the OEB through: the Report of the OEB – “Wireline Pole Attachment Charges”, EB-2015-0304, Issued March 22, 2018; and, the Decision and Order on Energy Retail Service Charges EB-2015-0304, Issued on February 14, 2019. Certain Service Charges are subject to annual inflationary adjustments to be determined by the OEB through a generic order. The Decision and Order EB-2019-0280 issued November 28, 2019 for energy retailer service charges, and the cover letter dated November 28, 2019 “Inflation Adjustment for Energy Retailer Service Charges (EB-2019-0280) and Wireline Pole Attachment Charge (EB-2015-0304) for Electricity Distributors”, established the adjustments effective January 1, 2020.

4. PRICE CAP ADJUSTMENT

Alectra Utilities seeks to increase its rates for each of the five rate zones, effective January 1, 2020, based on a mechanistic rate adjustment using the OEB-approved *inflation minus X-factor* formula applicable to Price Cap IR applications.

The components of the Price Cap IR adjustment formula applicable to Alectra Utilities are set out in Table 4.1, below. Inserting these components into the formula results in a 1.70% increase to Alectra Utilities' rates: $1.70\% = 2.00\% - (0.00\% + 0.30\%)$.

Table 4.1: Price Cap IR Adjustment Formula

Components		Amount
Inflation Factor ³		2.00%
X-Factor	Productivity ⁴	0.00%
	Stretch (0.00% – 0.60%) ⁵	0.30%

The inflation factor of 2.00% applies to all Price Cap IR applications for the 2020 rate year.

The X-factor is the sum of the productivity factor and the stretch factor. It is a productivity offset that will vary among different groupings of distributors. Subtracting the X-factor from inflation ensures that rates decline in real, constant-dollar terms, providing distributors with a tangible incentive to improve efficiency or else experience declining net income.

The productivity component of the X-factor is based on industry conditions over a historical study period and applies to all Price Cap IR and Annual IR Index applications for the 2020 rate year.

The stretch factor component of the X-factor is distributor specific. The OEB has established five stretch factor groupings, each within a range from 0.00% to 0.60%. The stretch factor assigned to any particular distributor is based on the distributor's total cost

³ For the 2020 Inflation Factor, see Ontario Energy Board 2020 Electricity Distribution Rate Applications webpage – October 31, 2019

⁴ Report of the OEB – “Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario’s Electricity Distributors” EB-2010-0379, Issued November 21, 2013, corrected December 4, 2013.

⁵ The stretch factor groupings are based on the Report to the Ontario Energy Board – “Empirical Research in Support of Incentive Rate-Setting: 2018 Benchmarking Update”, prepared by Pacific Economics Group LLC., August 15, 2019.

performance as benchmarked against other distributors in Ontario. The most efficient distributor would be assigned the lowest stretch factor of 0.00%. Conversely, a higher stretch factor would be applied to a less efficient distributor (in accordance with its cost performance relative to expected levels) to reflect the incremental productivity gains that the distributor is expected to achieve. The stretch factor assigned to Alectra Utilities is 0.30%.⁶

Findings

The OEB finds that Alectra Utilities' request for a 1.70% rate adjustment is in accordance with the annually updated parameters set by the OEB. The adjustment is approved, and Alectra Utilities' new rates shall be effective January 1, 2020.

The adjustment applies to distribution rates (fixed and variable) for all five rate zones uniformly across all customer classes.⁷

⁶ The stretch factor assigned to Guelph Hydro Electric Systems Inc. for 2018 is 0.30%.

⁷ Price Cap IR and Annual IR Index adjustments do not apply to the following rates and charges: rate riders, rate adders, low voltage service charges, retail transmission service rates, wholesale market service rate, smart metering entity charge, rural or remote electricity rate protection charge, standard supply service – administrative charge, transformation and primary metering allowances, loss factors, specific service charges, microFIT charge, and retail service charges.

5. RETAIL TRANSMISSION SERVICE RATES

Distributors charge retail transmission service rates (RTSRs) to their customers in order to recover the amounts they pay to a transmitter, a host distributor, or both, for transmission services. All transmitters charge Uniform Transmission Rates (UTRs) to distributors connected to the transmission system. Host distributors charge host-RTSRs to distributors embedded within the host's distribution system. Each of these rates are OEB-approved.

All five of Alectra Utilities' rate zones are partially embedded within Hydro One Networks Inc.'s (Hydro One Networks) distribution system. Alectra Utilities is requesting approval to adjust the RTSRs that it charges its customers to reflect the currently approved rates that it pays for transmission services included in Table 5.1 and Table 5.2.

Table 5.1: UTRs⁸

UTRs (2019)	per kW
Network Service Rate	\$3.83
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.96
Transformation Connection Service Rate	\$2.30

Table 5.2: Hydro One Networks Inc. Sub-Transmission Host-RTSRs⁹

Sub-Transmission Host RTSRs (2019)	per kW
Network Service Rate	\$3.29
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.79
Transformation Connection Service Rate	\$1.98

In response to OEB staff interrogatory G-Staff-1, Alectra Utilities updated the RTSR calculations by completing the OEB's 2020 IRM Rate Generation Model for its five rate zones. In review of the updated Rate Generator Models, OEB staff noted that the proposed 2020 RTSR-Network Service Rate (Network Charge) for all five rate zones

⁸ EB-2019-0164, Decision and Order, July 25, 2019

⁹ EB-2017-0049, Decision and Order, June 11, 2019

were red flagged with significant increases from last year. For the Enersource rate zone, the proposed RTSR-Line and Transformation Connection Service Rate (Connection Charge) also increased significantly. However, Alectra Utilities did not provide any explanation for the increase in RTSRs as required in the Rate Generator Models. OEB staff submitted that Alectra Utilities, in its reply submission, should explain the reasons for the significant increases in its proposed RTSRs.

In its reply submission, Alectra Utilities stated that the primary drivers for the increase in the proposed 2020 Network Charges is the increase in the UTRs and the increase in the units billed by the Independent Electricity System Operator (IESO) and Hydro One Networks due to higher peak demand in 2018 over 2017. Alectra Utilities provided the following two tables¹⁰ as a comparison of the UTRs and Hydro One Networks' Sub-transmission Rates to calculate the RTSRs in its 2019 and 2020 rate applications.

UTRs	2019 EDR	2020 EDR	Change
Network Service Rate	\$3.61	\$3.83	6.1%
Line Connection Service Rate	\$0.95	\$0.96	1.1%
Transformation Connection Service Rate	\$2.34	\$2.30	-1.7%

STRs	2019 EDR	2020 EDR	Change
Network Service Rate	\$3.1942	\$3.2915	3.0%
Line Connection Service Rate	\$0.7710	\$0.7877	2.2%
Transformation Connection Service Rate	\$1.7493	\$1.9755	12.9%

Alectra Utilities also provided a comparison¹¹ of its average peak demand as filed in the *Electricity Reporting and Record-Keeping Requirements 2.1.5*:

RRR 2.1.5 Utility Characteristics	2017 RRR	2018 RRR	Change
Average Peak Load with embedded generation (kW)	3,891,771	4,103,127	5.40%
Average Peak Load without embedded generation (kW)	3,920,236	4,121,124	5.10%

Regarding the increase in the proposed Connection Charges for the Enersource rate zone, in its reply submission, Alectra Utilities identified that the "Units Billed" values within the "Hydro One" table in Tab 12 of the Rate Generator Model for the Enersource rate zone were overstated for Line Connection and understated for Transformation Connection. Alectra Utilities therefore updated the "Units Billed" in Tab 12 and filed an

¹⁰ Alectra Utilities' Reply Submission, September 23, 2019, page 18, Table 5 – UTRs and STRs

¹¹ Alectra Utilities' Reply Submission, September 23, 2019, page 18, Table 6 – Alectra Utilities' Average Peak Load kW

updated Rate Generator Model for the Enersource rate zone with its reply submission. Alectra Utilities provided the following revised increase in the Connection Charges for the Enersource rate zone:¹²

ERZ - Increase in Connection Charges		
Rate Classes	Original	Revised
Residential	8.22%	1.37%
General Service < 50 kW	9.23%	1.54%
General Service 50 to 499 kW	8.52%	1.80%
General Service 500 to 4,999 kW	8.52%	1.81%
Large Use	8.52%	1.80%
Unmetered Scattered Load	9.23%	1.54%
Street Lighting	8.52%	1.81%

Findings

The OEB accepts the explanations and revised calculations provided by Alectra Utilities, and the proposed adjustment to its RTSRs is approved. The RTSRs were adjusted to reflect the OEB-approved UTRs and host-RTSRs.

The differences resulting from the approval of new 2020 UTRs will be captured in Accounts RSVA – Retail Transmission Network Charge 1584 and Retail Transmission Connection Charge 1586.

¹² Alectra Utilities' Reply Submission, September 23, 2019, page 19, Table 7 – RTSR Network Bill Impact ERZ (Note Alectra Utilities inadvertently named the table "RTSR Network Bill Impact ERZ". The table reflects the increases in the Connection Charges for the Enersource rate zone. A correction was made to the title of the table.)

6. GROUP 1 DEFERRAL AND VARIANCE ACCOUNTS

In each year of an IRM term, the OEB will review a distributor's Group 1 deferral and variance accounts in order to determine whether their balances should be disposed.¹³ OEB policy requires that Group 1 accounts be disposed if they exceed (as a debit or credit) a pre-set disposition threshold of \$0.001 per kWh, unless a distributor can justify why balances should not be disposed.¹⁴ If the balance does not exceed the threshold, a distributor may elect to request disposition.

In 2018, the OEB suspended its approvals of Group 1 rate riders on a final basis pending the development of further accounting guidance on commodity pass-through variance accounts.¹⁵ The OEB then issued accounting guidance¹⁶ on the commodity accounts on February 21, 2019. In this letter, the OEB indicated that it expects distributors to consider the accounting guidance in the context of historical balances that have not yet been disposed on a final basis. Distributors are expected to make any adjustments needed prior to filing for final disposition.

Horizon Utilities Rate Zone

The 2018 actual year-end total balance for the Horizon Utilities rate zone's Group 1 accounts including interest projected to December 31, 2019 is a debit of \$3,828,158. This amount represents a total debit claim of \$0.0007 per kWh, which does not exceed the disposition threshold, and the utility has not requested disposition.

Findings

The OEB finds that the account balances as submitted are reasonable for the purposes of determining the threshold calculation. No disposition is required at this time, as the disposition threshold has not been exceeded and Alectra Utilities has not requested disposition for the Horizon Utilities rate zone.

¹³ Group 1 accounts track the differences between the costs that a distributor is billed for certain IESO and host distributor services (including the cost of power) and the associated revenues that the distributor receives from its customers for these services. The total net difference between these costs and revenues is disposed to customers through a temporary charge or credit known as a rate rider.

¹⁴ Report of the OEB – "Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)." EB-2008-0046, July 31, 2009.

¹⁵ OEB letter to all rate-regulated licensed electricity distributors – "Re: OEB's Plan to Standardize Processes to Improve Accuracy of Commodity Pass-Through Variance Accounts." July 20, 2018.

¹⁶ Accounting Procedures Handbook Update – Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589, February 21, 2019

Brampton Rate Zone

The 2018 actual year-end total balance for the Brampton Rate Zone's Group 1 accounts including interest projected to December 31, 2019 is a credit of \$2,229,940. This amount represents a total credit claim of \$0.0005 per kWh, which does not exceed the disposition threshold, and the utility has not requested disposition.

Findings

The OEB finds that the account balances as submitted are reasonable for the purposes of determining the threshold calculation. No disposition is required at this time, as the disposition threshold has not been exceeded and Alectra Utilities has not requested disposition for the Brampton rate zone.

Enersource Rate Zone

The 2018 actual year-end total balance for the Enersource rate zone's Group 1 accounts including interest projected to December 31, 2019 is a credit of \$7,839,594. This amount represents a total credit claim of \$0.0011 per kWh, which exceeds the disposition threshold. Alectra Utilities has requested disposition of its Group 1 account balances for the Enersource rate zone.

a) Global Adjustment Variance Account

One of the components of the commodity costs billed by the IESO, which is included in Group 1 accounts, is the Global Adjustment (GA).¹⁷

Different customer groups pay the GA in different ways:

- For Regulated Price Plan (RPP) customers, the GA is incorporated into the standard commodity rates customers pay. Therefore, there is no separate variance account for the GA.
- "Class A" customers are allocated GA costs based on the percentage their demand contributes to the top five Ontario system peaks. As distributors settle with Class A customers based on actual GA costs, there is no resulting variance.

¹⁷ The GA is established monthly by the IESO to reflect the difference between the wholesale market price for electricity and regulated rates for:

- Ontario Power Generation's nuclear and hydroelectric generating stations
- payments for building or refurbishing infrastructure such as gas-fired and renewable facilities and other nuclear
- contracted rates paid to a number of generators across the province
- the cost of delivering conservation programs.

- “Class B” non-RPP customers are billed GA based on the electricity they consume in a month at the IESO published GA price. Distributors track any difference between the billed amounts and actual costs for these customers in the GA Variance Account for disposal, once audited.

Under the general principle of cost causality, customer groups that cause variances which are recorded in Group 1 accounts should be responsible for paying (or receiving credits) for their disposal. A customer’s movement from one group to another should not prevent that customer from paying/receiving a debit/credit balance.

Alectra Utilities has proposed the refund of its credit GA variance account balance of \$9,498,967 for the Enersource rate zone as at December 31, 2018, including interest to December 31, 2019, in accordance with the following table.

Table 6.1: Enersource Rate Zone - Refund of GA Variance

Proposed Amounts	Proposed Method for Refund
\$8,971,537 refunded to customers who were Class B for the entire period from January 2018 to December 2018	per kWh rate rider
\$478,532 to customers formerly in Class B during the period January 2018 to June 2018 who were reclassified to Class A	12 equal installments ¹⁸
\$48,899 to customers formerly in Class A during the period January 2018 to June 2018 who were reclassified to Class B	12 equal installments ¹⁹

b) Capacity Based Recovery Class B Sub-account

The balance of the Group 1 accounts includes the Capacity Based Recovery (CBR) sub-account for Class B customers of a credit amount of \$528,470, relating to the IESO’s wholesale energy market for the CBR program. Alectra Utilities had Class A customers in the Enersource rate zone in 2018, so it applied to have the balance of this account disposed through a separate kWh rate rider for Class B customers in order to ensure proper allocation between Class A and Class B customers.

As some customers were reclassified between Class A and Class B during the period from January 2018 to December 2018, Alectra Utilities requested refund of a portion of the Enersource rate zone’s CBR Class B costs by way of 12 equal installments.²⁰

¹⁸ 2020 IRM Rate Generator Model, Tab 6.1a “GA Allocation”

¹⁹ Ibid.

²⁰ 2020 IRM Rate Generator Model Tab 6.2a “CBR B_Allocation”

c) Group 1 Accounts

For the Enersource rate zone, the Group 1 accounts excluding the global adjustment account being sought for disposition include the following flow through variance accounts: Low Voltage Charges, Smart Meter Entity Charges, Wholesale Market Service Charges, Retail Transmission Service Charges, Commodity Power Charges, and Account 1595 residual balances. These Group 1 accounts have a total debit balance of \$1,659,373, which results in a charge to customers. This balance combined with the balance for the global adjustment account results in the total credit balance for Group 1 accounts of \$7,839,594.

The balances proposed for disposition reconcile with the amounts reported as part of the OEB's *Electricity Reporting and Record-Keeping Requirements*.²¹ Alectra Utilities has further submitted that its proposal for a one-year disposition period is in accordance with the OEB's policy.²²

In its 2019 rate application, Alectra Utilities received approval to dispose of 2017 Group 1 balances on an interim basis for the Enersource rate zone. Alectra Utilities has reviewed the 2017 balances and the 2018 balances, for the Enersource rate zone, in the context of the new accounting guidance and stated that it is confident that there are no systemic issues in its RPP settlement and related accounting processes. In addition, as part of its Argument-in-Chief Addendum,²³ Alectra Utilities provided a detailed analysis of the differences between the OEB's updated accounting guidance and the Enersource rate zones' prior methods, the areas affected by the changes, a quantification of the impacts on the various accounts, and proposed adjustments where differences were calculated to be material. As a result, Alectra Utilities has requested final disposition of its 2017 and 2018 balances for the Enersource rate zone.

Findings

The OEB approves the disposition of a credit balance of \$7,839,594 as of December 31, 2018, including interest projected to December 31, 2019 for Group 1 accounts on a final basis.

The following table identifies the principal and interest amounts, which the OEB approves for disposition.

²¹ Electricity Reporting and Record Keeping Requirements, Version dated May 3, 2016

²² Report of the OEB – "Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)", EB-2008-0046, July 31, 2009

²³ Argument-in-Chief Addendum, EB-2019-0018, September 5, 2019

Table 6.2: Enersource Rate Zone - Group 1 Deferral and Variance Account Balances

Account Name	Account Number	Principal Balance (\$) A	Interest Balance (\$) B	Total Claim (\$) C=A+B
LV Variance Account	1550	1,802,979	67,838	1,870,817
Smart Meter Entity Variance Charge	1551	(143,033)	(5,405)	(148,438)
RSVA - Wholesale Market Service Charge	1580	336,041	(27,965)	308,076
Variance WMS - Sub-account CBR Class B	1580	(509,498)	(18,972)	(528,470)
RSVA - Retail Transmission Network Charge	1584	193,878	(19,078)	174,799
RSVA - Retail Transmission Connection Charge	1586	4,539,133	162,633	4,701,766
RSVA - Power	1588	(4,524,419)	(126,392)	(4,650,811)
RSVA - Global Adjustment	1589	(9,207,614)	(291,353)	(9,498,967)
Disposition and Recovery of Regulatory Balances (2017)	1595	(28,398)	(39,967)	(68,364)
Totals for all Group 1 accounts		(7,540,932)	(298,662)	(7,839,594)

The balance of each of the Group 1 accounts approved for disposition shall be transferred to the applicable principal and interest carrying charge sub-accounts of Account 1595. Such transfer shall be pursuant to the requirements specified in Article 220, Account Descriptions, of the *Accounting Procedures Handbook for Electricity Distributors*.²⁴ The date of the transfer must be the same as the effective date for the associated rates, which is, generally, the start of the rate year. Alectra Utilities shall ensure these adjustments are included in the reporting period ending March 31, 2020 (Quarter 1).

The OEB approves these balances to be disposed through final rate riders and payments as calculated in the Rate Generator Model. The final rate riders and

²⁴ Accounting Procedures Handbook for Electricity Distributors, effective January 1, 2012

payments will be in effect over a one-year period from January 1, 2020 to December 31, 2020.²⁵

PowerStream Rate Zone

The 2018 actual year-end total balance for the PowerStream rate zone's Group 1 accounts including interest projected to December 31, 2019 is a credit of \$14,438,240. This amount represents a total credit claim of \$0.0017 per kWh, which exceeds the disposition threshold. Alectra Utilities has requested disposition of its Group 1 account balances for the PowerStream rate zone.

a) Global Adjustment Variance Account

Alectra Utilities has proposed the refund of its GA variance account credit balance of \$8,490,185 for the PowerStream rate zone as at December 31, 2018, including interest to December 31, 2019, in accordance with the following table.

Table 6.3: PowerStream Rate Zone - Recovery of GA Variance

Proposed Amounts	Proposed Method for Refund
\$8,191,727 refunded to customers who were Class B for the entire period from January 2018 to December 2018	per kWh rate rider
\$219,615 to customers formerly in Class B during the period January 2018 to June 2018 who were reclassified to Class A	12 equal installments ²⁶
\$78,843 to customers formerly in Class A during the period January 2018 to June 2018 who were reclassified to Class B	12 equal installments ²⁷

b) Capacity Based Recovery Class B Sub-account

The balance of the Group 1 accounts includes the CBR sub-account for Class B customers of a credit amount of \$229,043, relating to the IESO's wholesale energy market for the CBR program. Alectra Utilities had Class A customers in the PowerStream rate zone in 2018 but the CBR Class B rate riders calculated rounded to zero at the fourth decimal place in one or more of the rate classes. In this event, the

²⁵ 2020 IRM Rate Generator Model Tab 6.1 GA, Tab 6.1a GA Allocation, Tab 6.2 CBR B, Tab 6.2a CBR B_Allocation and Tab 7 Calculation of Def-Var RR

²⁶ 2020 IRM Rate Generator Model, Tab 6.1a "GA Allocation"

²⁷ Ibid.

entire Account 1580 sub-account CBR Class B is added to the Account 1580 – Wholesale Market Service Charge control account to be disposed through the general purpose Group 1 Deferral and Variance Account.

c) *Group 1 Accounts*

For the PowerStream rate zone, the Group 1 accounts excluding the global adjustment account being sought for disposition including the CBR amount and include the following flow through variance accounts: Low Voltage Charges, Smart Meter Entity Charges, Wholesale Market Service Charges, Retail Transmission Service Charges and Commodity Power Charges. These Group 1 accounts have a total credit balance of \$5,948,055, which results in a refund to customers. This balance combined with the balance for the global adjustment account results in the total credit balance for Group 1 accounts of \$14,438,240.

The balances proposed for disposition reconcile with the amounts reported as part of the OEB's *Electricity Reporting and Record-Keeping Requirements*.²⁸ Alectra Utilities has further submitted that its proposal for a one-year disposition period is in accordance with the OEB's policy.²⁹

In its 2019 rate application, Alectra Utilities received approval to dispose of 2017 Group 1 balances on an interim basis for the PowerStream rate zone. Alectra Utilities has reviewed the 2017 balances and the 2018 balances, for the PowerStream rate zone, in the context of the new accounting guidance and stated that it is confident that there are no systemic issues in its RPP settlement and related accounting processes. In addition, as part of its Argument in Chief Addendum,³⁰ Alectra Utilities provided a detailed analysis of the differences between the OEB's updated accounting guidance and the Powerstream rate zone's prior methods, the areas affected by the changes, a quantification of the impacts on the various accounts, and proposed adjustments where differences were calculated to be material. As a result, Alectra Utilities has requested final disposition of its 2017 and 2018 balances for the PowerStream rate zone.

Findings

The OEB approves the disposition of a credit balance of \$14,438,240 as of December 31, 2018, including interest projected to December 31, 2019 for Group 1 accounts on a final basis.

²⁸ Electricity Reporting and Record Keeping Requirements, Version dated May 3, 2016

²⁹ Report of the OEB – “Electricity Distributors’ Deferral and Variance Account Review Initiative (EDDVAR)”, EB-2008-0046, July 31, 2009

³⁰ Argument-in-Chief Addendum, EB-2019-0018, September 5, 2019

The following table identifies the principal and interest amounts, which the OEB approves for disposition.

Table 6.4: PowerStream Rate Zone - Group 1 Deferral and Variance Account Balances

Account Name	Account Number	Principal Balance (\$) A	Interest Balance (\$) B	Total Claim (\$) C=A+B
LV Variance Account	1550	525,877	44,081	569,958
Smart Meter Entity Variance Charge	1551	(298,025)	(11,841)	(309,866)
RSVA - Wholesale Market Service Charge	1580	(1,688,121)	(198,931)	(1,877,052)
Variance WMS - Sub-account CBR Class B	1580	(234,782)	5,739	(229,043)
RSVA - Retail Transmission Network Charge	1584	(1,879,570)	(109,706)	(1,989,276)
RSVA - Retail Transmission Connection Charge	1586	799,487	46,970	846,457
RSVA - Power	1588	(2,797,595)	(151,638)	(2,949,233)
RSVA - Global Adjustment	1589	(8,308,419)	(181,765)	(8,490,185)
Totals for all Group 1 accounts		(13,881,149)	(557,091)	(14,438,240)

The balance of each of the Group 1 accounts approved for disposition shall be transferred to the applicable principal and interest carrying charge sub-accounts of Account 1595. Such transfer shall be pursuant to the requirements specified in Article 220, Account Descriptions, of the *Accounting Procedures Handbook for Electricity Distributors*.³¹ The date of the transfer must be the same as the effective date for the associated rates, which is, generally, the start of the rate year. Alectra Utilities shall ensure these adjustments are included in the reporting period ending March 31, 2020 (Quarter 1).

The OEB approves these balances to be disposed through final rate riders and payments as calculated in the Rate Generator Model. The final rate riders and

³¹ Accounting Procedures Handbook for Electricity Distributors, effective January 1, 2012

payments will be in effect over a one-year period from January 1, 2020 to December 31, 2020.³²

Guelph Rate Zone

The 2018 actual year-end total balance for the Guelph rate zone's Group 1 accounts including interest projected to December 31, 2019 is a credit of \$438,399. This amount represents a total credit claim of \$0.0003 per kWh, which does not exceed the disposition threshold, and the utility has not requested disposition.

Findings

The OEB finds that the account balances, as amended during the course of this proceeding, are reasonable for the purposes of determining the threshold calculation. No disposition is required at this time, as the disposition threshold has not been exceeded and Alectra Utilities did not request disposition for the Guelph rate zone.

³² 2020 IRM Rate Generator Model Tab 6.1 GA, Tab 6.1a GA Allocation, Tab 6.2 CBR B, Tab 6.2a CBR B_Allocation and Tab 7 Calculation of Def-Var RR

7. LOST REVENUE ADJUSTMENT MECHANISM VARIANCE ACCOUNT BALANCE

Alectra Utilities has applied to dispose of a Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) aggregate debit balance of \$7,257,929 resulting from Conservation and Demand Management (CDM) activities as of December 31, 2017 for its Horizon Utilities, Brampton, PowerStream and Enersource rate zones. No relief was sought for the Guelph rate zone as Guelph Hydro's 2017 LRAMVA balance was approved for disposition in its 2019 rates proceeding.

In response to OEB staff interrogatories, Alectra Utilities revised the LRAMVA balances to incorporate various changes for the affected rate zones. The changes included the addition of 2017 unverified savings adjustments based on the IESO's 2019 Participation and Cost Report. The changes resulted in a net increase of \$991,884 and a revised LRAMVA debit balance of \$8,249,813.

The original and revised LRAMVA balances, as presented in each of the rate zone specific workforms, are as follows:

Table 7.1: Original and Revised LRAMVA balances by Rate Zone

Rate Zone LRAMVA	Original Balance	Revised Balance
Brampton RZ	\$ 1,095,288	\$ 1,216,190
Enersource RZ	\$ 2,389,285	\$ 2,724,213
Horizon RZ	\$ 1,312,925	\$ 1,319,691
PowerStream RZ	\$ 2,460,286	\$ 2,989,719
Total	\$ 7,257,784	\$ 8,249,813

OEB staff submitted that the revised LRAMVA balances for the Brampton, Enersource, and PowerStream rate zones (totaling a debit balance of \$6,930,122) were calculated in accordance with the OEB's CDM policy and LRAMVA guidelines.³³

The Brampton rate zone's LRAMVA balance of \$1,216,190 consists of lost revenues in 2017 from CDM programs delivered during the period from 2013 and 2017, and carrying charges up to December 31, 2019. Actual savings were compared to a LRAMVA

³³ Guidelines for Electricity Distributor Conservation and Demand Management, EB-2012-0003, April 26, 2012, page 12; Addendum to Filing Requirements for Electricity Distribution Rate Applications (2020 Rate Applications) issued July 15, 2019, section 3.2.6

threshold of 53,726,380 kWh established in Brampton's 2015 cost of service proceeding.³⁴

The Enersource rate zone's LRAMVA balance of \$2,724,213 consists of lost revenues in 2017 from CDM programs delivered during the period from 2011 and 2017, and carrying charges up to December 31, 2019. Actual savings were compared to a LRAMVA threshold of 119,146,362 kWh established in Enersource's 2013 cost of service proceeding.³⁵

The PowerStream rate zone's LRAMVA balance of \$2,989,719 consists of lost revenues in 2017 from CDM programs delivered during the period from 2015 and 2017, and carrying charges up to December 31, 2019. Actual savings were compared to a LRAMVA threshold of 157,709,956 kWh established in PowerStream's 2017 load forecast in the 2016-2020 Custom IR proceeding.³⁶

OEB staff, however, took issue with the calculation of the LRAMVA threshold and street light demand savings in the Horizon Utilities rate zone. Horizon Utilities rate zone's LRAMVA revised debit balance of \$1,319,691 consisted of lost revenues in 2017 from CDM programs delivered during the period from 2015 and 2017, and was calculated using a LRAMVA threshold of 19,129,390 kWh. Actual street light savings of 18,182 kW (a debit of \$107,715 of the total) was included in the overall claim.

LRAMVA Threshold – Horizon Utilities Rate Zone

OEB staff submitted that Alectra Utilities should have used an LRAMVA threshold of 70,790,885 kWh instead of 19,129,390 kWh as proposed by Alectra Utilities. OEB staff reviewed the evidence from Horizon Utilities' 2015 Custom IR proceeding and identified that the approved 2017 load forecast had a manual CDM adjustment of 70,790,885 kWh. Since the 70,790,885 kWh LRAMVA threshold included forecast persistence of 2014 CDM activity into 2017, OEB staff also submitted that Alectra Utilities should update its LRAMVA calculation to include actual persistence from 2014 into 2017 to determine the variance between forecast and actual savings from 2014 programs.

In its reply submission, Alectra Utilities agreed to use an LRAMVA threshold of 70,790,885 kWh to accurately reflect total CDM savings embedded in Horizon Utilities' load forecast. Alectra Utilities also agreed that savings persistence from 2014 into 2017 should be included. The net result of updating the LRAMVA threshold and including actual persistence from 2014 in 2017 was a reduction of \$230,607. The updated Horizon Utilities rate zone LRAMVA balance is \$1,089,084.

³⁴ EB-2014-0083, Decision and Order, December 11, 2014 – Settlement Proposal, Table 12

³⁵ EB-2012-0033, Decision and Order, December 13, 2012

³⁶ EB-2015-0003, Decision and Rate Order, September 27, 2016

Alectra Utilities submitted that after 2019, the Horizon Utilities rate zone LRAMVA threshold value will remain unchanged for the remainder of the rebasing deferral period.

Street Light Savings

For the Horizon Utilities rate zone street light savings calculation, OEB staff submitted that a comparison between actual savings of 18,182 kW and forecast savings of 109,426 kW identified in its last LRAMVA filing was not made.

In reply, Alectra Utilities clarified that forecast demand savings of 109,426 kW was identified as the pre-conversion project billed demand in the 2019 rates proceeding. Alectra Utilities further stated that Horizon Utilities did not include a CDM adjustment to its load forecast for the street light class. Therefore, no adjustments were made to its street light savings calculation.

Findings

The OEB accepts the revised LRAMVA threshold for use in the Horizon rate zone, and the clarifications provided by Alectra Utilities to support the proposed calculation of street light demand savings. The OEB accepts Alectra Utilities submission that it did not include a CDM adjustment to the load forecast for the street light class.

The OEB finds that Alectra Utilities' revised LRAMVA balance has been calculated in accordance with the OEB's CDM-related guidelines and updated LRAMVA policy. The OEB approves the disposition of Alectra Utilities revised LRAMVA debit balance of \$8,019,206, as set out in Table 7.2 below.

Table 7.2 LRAMVA Balances for Disposition

Account Name	Account Number	Actual CDM Savings (\$) A	Forecasted CDM Savings (\$) B	Carrying Charges (\$) C	Total Claim (\$) D=(A-B)+C
Brampton RZ LRAMVA	1568	\$1,585,007	\$423,384	\$54,567	\$1,216,190
Enersource RZ LRAMVA	1568	\$4,228,535	\$1,626,550	\$122,228	\$2,724,213
Horizon RZ LRAMVA	1568	\$1,588,386	\$548,166	\$48,864	\$ 1,089,084
PowerStream RZ LRAMVA	1568	\$5,120,697	\$2,271,628	\$140,649	\$2,989,719
Total LRAMVA Balance	1568	\$12,522,625	\$4,869,728	\$366,309	\$8,019,206

8. RESIDENTIAL RATE DESIGN – POWERSTREAM RATE ZONE

Some residential distribution rates currently include a fixed monthly charge and a variable usage charge. The OEB's residential rate design policy stipulates that distributors will transition residential customers to a fully fixed monthly distribution service charge over a four-year period, beginning in 2016.³⁷ One of Alectra Utilities' predecessors, PowerStream, incorporated the first year transition adjustment in its rates for 2017. Therefore, 2020 is the fourth, and final year of the PowerStream rate zone's transition to fully fixed rates for residential customers. All other rate zones completed the transition in 2019.

The OEB expects an applicant to apply two tests to evaluate whether mitigation of bill impacts for customers is required during the transition period. Mitigation usually takes the form of a lengthening of the transition period. The first test is to calculate the change in the monthly fixed charge, and to consider mitigation if it exceeds \$4. The second is to calculate the total bill impact of the proposals in the application for low volume residential customers (defined as those residential RPP customers whose consumption is at the 10th percentile for the class). Mitigation may be required if the bill impact related to the application exceeds 10% for these customers.

Alectra Utilities submitted that the implementation of the transition results in an increase to the fixed charge for the PowerStream rate zone prior to the price cap adjustment of \$3.04. The bill impacts arising from the proposals in this application, including the fixed rate change, are below 10% for low volume residential customers.

Findings

The OEB finds that the proposed 2020 increase to the monthly fixed charge for the PowerStream rate zone is calculated in accordance with the OEB's residential rate design policy. The results of the monthly fixed charge, and total bill impact for low consumption residential consumers demonstrate that no mitigation is required. The OEB approves the increase as proposed by the applicant and calculated in the final Rate Generator Model. With this adjustment, the PowerStream rate zone has now completed its transition to a fully fixed rate structure for residential customers.

³⁷ OEB Policy – “A New Distribution Rate Design for Residential Electricity Customers.” EB-2012-0410, April 2, 2015

9. REQUEST FOR A CUSTOMER SERVICE RULES-RELATED LOST REVENUE VARIANCE ACCOUNT

On November 2, 2017, the OEB issued a Decision and Order³⁸ to permanently prohibit disconnecting consumers for reason of non-payment during the winter period (from November 15 to April 30).

On December 18, 2018, the OEB issued a Notice of Proposal to Amend Codes and a Rule as part of the OEB's Review of the Customer Service Rules (the December 2018 Notice of Proposal) and proposed to eliminate the OEB-approved Collection of Account charge that was previously applied by most distributors.³⁹ In the December 2018 Notice of Proposal, the OEB indicated that it would consider applications from distributors for a deferral account to track lost revenues from the eliminated charge, with evidence demonstrating that such an account would meet the eligibility requirements set out in the OEB's *Chapter 2 Filing Requirements for Electricity Distribution Rate Applications* (Chapter 2 Filing Requirements).

On March 14, 2019, the OEB issued the Notice of Amendments to Codes and a Rule with a Rate Order to effect the amendments to the non-payment of account service charges for electricity and natural gas distributors (the March 2019 Notice of Amendments).⁴⁰ Among other things, the March 2019 Notice of Amendments prohibited distributors from applying the Collection of Account charge effective July 1, 2019.⁴¹ The March 2019 Notice of Amendments noted that the OEB did not find it prudent to establish a generic deferral account for all distributors to recover the lost revenues associated with the eliminated charges. The March 2019 Notice of Amendments indicated that the OEB would consider applications from distributors for a deferral account to track the impact of eliminating the two charges relating to non-payment of accounts, with evidence demonstrating that such an account would meet the eligibility requirements set out in the Chapter 2 Filing Requirements.

Section 2.9.4 of the Chapter 2 Filing Requirements states that the following criteria must be met where an applicant seeks an accounting order to establish a new deferral/variance account:

- **Materiality.** The forecasted amounts must exceed the OEB-defined materiality threshold and have a significant influence on the operation of the distributor; otherwise, they must be expensed in the normal course and addressed through organizational productivity improvements.

³⁸ EB-2017-0318, Decision and Order, November 2, 2017

³⁹ Notice of Proposal to Amend Codes and a Rule, EB-2017-0183, December 18, 2018, page 41

⁴⁰ Notice of Amendments to Codes and a Rule, EB-2017-0183, March 14, 2019

⁴¹ EB-2017-0183, Rate Order, March 14, 2019

- Causation. The forecasted expense must be clearly outside of the base upon which rates were derived.
- Prudence. The nature of the costs and forecasted quantum must be based on a plan that sets out how the costs will be reasonably incurred, although the final determination of prudence will be made at the time of disposition. In terms of the quantum, this means that the applicant must provide evidence demonstrating as to why the option selected represents a cost-effective option (not necessarily least initial cost) for ratepayers.⁴²

In this application, Alectra Utilities has requested approval to establish a Customer Service Rule-related Lost Revenue Variance Account (CSRLRVA) to record lost revenue and incremental capital costs resulting from changes to customer service rules, and future policy changes implemented by the OEB. Alectra Utilities stated in its application that it continues to incur ongoing operating costs to provide these services which include collection activities, reminder notices, out-bound calls, final notices and management of field activities. The following table summarizes Alectra Utilities' estimated impact as a result of a number of amendments to the customer service rules, as provided in its application and amended in its response to OEB staff interrogatory G-Staff-4.

⁴² Chapter 2 Filing Requirements for Electricity Distribution Rate Applications – 2018 Edition for 2019 Rate Applications, July 12, 2018, section 2.9.4. Note that the Addendum to Filing Requirements for Electricity Distribution Rate Applications – 2020 Rate Applications did not affect section 2.9.4.

Table 9.1: Alectra Utilities' Estimated Impact of Customer Service Rule Changes

Customer Service Rule	OEB Decision	Estimated Impact	Note
Collection of Account Charge and Winter Disconnection Ban	Customer should not be charged the Collection of Account Charge. Distributors are prohibited from disconnecting customer for non-payment from November 15 to April 30 each year.	\$2.5 million	Winter Disconnection Ban (reduction in Collection of Account charge revenues): \$0.96 million Elimination of the Collection of Account charge: \$0.85 million Credit losses: \$0.7 million
Minimum Payment Period	The Minimum Payment Period before a late payment penalty can be applied should be at least 20 calendar days from the date the bill is issued to the customer.	\$0.3 million	
Arrears Payment Agreements (APA)	Distributors should not apply late payment charges on the amount covered by the Arrears Payment Agreements for all residential customers.	\$0.03 million	
Disconnect/Reconnect Charge	Distributors are required to waive the Disconnect/Reconnect charge for eligible low-income customers.	\$0.02 million	
One-time Capital Programming Costs	Programming and coding requirement changes required to Alectra Utilities' Customer Information System (CIS) and Customer Care and Billing System (CC&B)	\$1 million	One-time costs

In addition to the above costs, Alectra Utilities noted it will also monitor the impact of these rule changes on its bad debts in order to assess the potential impact.

In its response to OEB staff interrogatory G-Staff-4, Alectra Utilities provided information on the charges or costs pertaining to the Collection of Account charge for each rate zone. Alectra Utilities noted that materiality was assessed at the Alectra Utilities wide level, and is one million dollars for a distributor with distribution revenue greater than

\$200 million. Alectra Utilities also noted that it did not include an estimate for the Guelph rate zone at the time of filing. Alectra Utilities estimated an impact of approximately \$0.3 million for the Guelph rate zone.

In its response to OEB staff interrogatory G-Staff-4, Alectra Utilities proposed an effective date of February 23, 2017 for the variance account. Alectra Utilities also proposed to record the impact of changes to the Minimum Payment Period and APA effective March 1, 2020, which is the effective date for the implementation of these policy changes.

In its submission, OEB staff addressed two primary questions related to Alectra Utilities' request for the CSRLRVA:

1. Are all of the identified types of costs/foregone revenues eligible for inclusion in the deferral account that the OEB referred to in the December 2018 Notice of Proposal and the March 2019 Notice of Amendments?
2. Do the costs/foregone revenues that are eligible for inclusion in the deferral account constitute a material financial impact on an annual basis?

OEB staff submitted that the one million dollars in capital programming costs should not be eligible for tracking in the proposed account. OEB staff noted that the December 2018 Notice of Proposal stated that "[t]he OEB does not find it reasonable to allow electricity and gas distributors to record implementation costs for potential future recovery."⁴³ OEB staff further noted that, in the December 2018 Notice of Proposal and the March 2019 Notice of Amendments, the OEB stated its expectation that distributors will see benefits from the amendments (such as decreased costs associated with customer complaints) that will, at least partially, offset the capital programming costs.

OEB staff referred to the March 2019 Notice of Amendments where the OEB stated that a distributor can apply for a deferral account to track the impact of eliminating the two charges relating to nonpayment of accounts (Collection of Account charge and the charge for installing or removing a load control device) with evidence demonstrating that such an account would meet the eligibility requirements set out in the Chapter 2 Filing Requirements. OEB staff submitted that it would be inappropriate to treat the utility-specific deferral account that the OEB referred to in the March 2019 Notice of Amendments as a mechanism to capture the impacts of changes to any customer service rules. OEB staff also noted that Alectra Utilities only considered the revenue component from the changes in rules to late payment charges (i.e. the extension of the minimum payment period and restriction of the charge on amounts covered by the APA). OEB staff expressed that there should be cost savings from these changes, including lower account write-offs, less time allocating resources to consumer

⁴³ Notice of Proposal to Amend Codes and a Rule, EB-2017-0183, December 18, 2018, page 42

complaints, and other similar benefits. Therefore, OEB staff submitted that the financial impacts related to the changes to late payment charges should not be considered for inclusion in the proposed account.

For similar reasons discussed above, OEB staff submitted that the impacts related to the changes to the disconnect/reconnect charge should not be eligible for tracking in the proposed account. OEB staff also noted that the estimated lost revenue of \$20,000 related to the disconnect/reconnect charge is negligible, and can be more than offset from the improvement in customer defaults and arrears recoveries.

OEB staff took the view that the revenue loss as a result of the elimination of the Collection of Account charge passes the tests for causation and prudence for each rate zone, but does not pass the materiality test for three of the five rate zones if the test is applied on a legacy service area basis. In aggregate, the estimated lost revenue does pass the single utility materiality threshold.

In its response to OEB staff interrogatory G-Staff-4, Alectra Utilities assumed that the elimination of the Collection of Account charge will lead to an increase in bad debts and credit losses (amount forecasted to be \$0.7 million). OEB staff did not agree with this assumption, as it is inconsistent with the OEB's expectations of the mutual benefits between utilities and consumers that the customer service rule changes are intended to yield.

OEB staff observed that in the Handbook to Electricity Distributor and Transmitter Consolidations (MAADs Handbook), the OEB modified the approach to the Incremental Capital Module (ICM) materiality threshold for the period post consolidation, leading up to the first rebasing of the consolidated entity. The modification specified that the ICM calculation will be specific to each legacy service area, as opposed to a consolidated or aggregated calculation.⁴⁴ OEB staff submitted that if the OEB was to take the same approach to the testing of materiality when considering the establishment of a new deferral/variance account, then three of the five rate zones would not pass the materiality test. OEB staff submitted that one reasonable methodology in assessing whether the proposed CSRLRVA meets the materiality test is to compare the amount of revenue from that charge that is embedded in each legacy distributor's rates (and no longer collectible) to the OEB's pre-defined calculation of materiality for the predecessor distributors. As noted in its responses to OEB staff interrogatories, Alectra Utilities forecasted the total revenue reduction related to the Collection of Account charge is \$1.81 million excluding the credit losses. Based on the information that Alectra Utilities provided in the interrogatory responses, OEB staff calculated the updated total revenue

⁴⁴ Handbook to Electricity Distributor and Transmitter Consolidations, January 19, 2016, page 17

reduction related to the Collection of Account charge, with the Guelph rate zone's portion and net of the credit losses, to be \$2.03 million.

OEB staff did not oppose the establishment of the account for all rate zones, but recommended that the approach to materiality be determined once the balances are brought forward for disposition. If the OEB does approve the establishment of this account, OEB staff took the view that the following critical variations should be made:

1. The effective date should be July 1, 2019, the date that the Collection of Account charge is no longer applicable.
2. Only the lost revenues associated with administering the Collection of Account charge should be permitted to be recovered (exclude any attributed credit loss increases).
3. The lost revenues should be capped at the amounts that are embedded in the revenue offsets of each rate zone's distribution rates.
4. Alectra Utilities should make every effort to improve the efficiency of its collection of account activities, and record any savings achieved as an offset in the deferral account.

SEC supported OEB staff's submission on this issue.

In its reply submission, Alectra Utilities argued that the CSRLRVA should be approved as filed. Alectra Utilities noted that the annual impact of the customer service rule changes is material relative to Alectra Utilities' materiality threshold of one million dollars; the cumulative financial consequence over the remainder of the rebasing deferral period is approximately \$20 million. Alectra Utilities submitted that all financial impacts relating to OEB policy changes must be considered, especially as these changes are mandated prior to a rebasing application.

Alectra Utilities stated that it has not experienced a decrease in overall call volumes, collections calls or complaints. Alectra Utilities noted that it will continue to monitor whether these customer service rule changes result in a decrease in collection activities-related costs.

With respect to OEB staff's submission that the materiality should be assessed at the rate zone level and not at the Alectra Utilities level, Alectra Utilities referred to the OEB's decision in Alectra Utilities' 2018 rate application where the OEB applied a second materiality test to Alectra Utilities' ICM request. Alectra Utilities noted that the second test is whether a specific project is significant in comparison to the overall capital budget for Alectra Utilities, and not individual rate zones.⁴⁵ Alectra Utilities further noted that, in the same Decision, the OEB required Alectra Utilities to file a consolidated Distribution

⁴⁵ EB-2017-0024, Decision and Order, April 6, 2018, page 23

System Plan (DSP) as a filing requirement with any ICM application for rate changes for 2020 and beyond.⁴⁶ Alectra Utilities submitted that both aspects of the 2018 Decision support Alectra Utilities' assessment of materiality at the Alectra Utilities level and not the individual rate zones.

Findings

The OEB is establishing a deferral account for the Collection of Account charge-related lost revenues. Only the lost revenues associated with administering the Collection of Account charge should be recovered in this deferral account. This is consistent with the OEB's March 2019 Notice of Amendments. The OEB is not persuaded to depart from its established policy which does not allow recovery of additional costs based on the potential for cost savings.

The March 2019 Notice stated that a distributor could apply for an account with evidence demonstrating that the account would meet the eligibility criteria as set out in the OEB's Chapter 2 Filing Requirements. The OEB finds that this new deferral account for the lost revenue related to the Collection of Account charge meets the eligibility criteria of causation, prudence and materiality.

In terms of causation, the OEB agrees that the amounts to be recorded in this deferral account are outside of the base upon which Alectra Utilities' rates were derived. The revenue forecast for the Collection of Account charge would have been a revenue offset to the revenue requirement for each predecessor distributor used in determining the distribution rates.

For purposes of establishing the account, the OEB agrees with Alectra Utilities that materiality should be assessed at the consolidated distributor level. The test for materiality is whether the amount to be recorded is material to the operation of the distributor. The OEB concludes that this means Alectra Utilities, not individual rate zones that are no longer separate operations. The OEB notes that Alectra Utilities has forecasted the lost revenues related to the elimination of Collection of Account charge to be over one million dollars on an annual basis, which is the materiality threshold for establishing a deferral/variance account for a distributor with distribution revenue greater than \$200 million.

The lost revenues that will be recorded in this deferral account should be capped at the aggregated revenue forecast for the Collection of Account charges from the last rebasing application for each predecessor distributor as this is the amount that was

⁴⁶ EB-2017-0024, Decision and Order, April 6, 2018, page 29

used in establishing of the distribution rates. Alectra Utilities should make every effort to continue to improve the efficiency of its collection of account activities.

The effective date of this deferral account is July 1, 2019, as it corresponds with the effective date of the elimination of Collection of Account charge.

OEB approves the Accounting Order attached to this Partial Decision and Interim Rate Order as Schedule B.

10. REQUEST FOR A CONSERVATION DEMAND MANAGEMENT SEVERANCE DEFERRAL ACCOUNT

On March 21, 2019, the Minister of Energy, Northern Development and Mines issued a directive to the IESO to discontinue the Conservation First Framework (CFF) and associated CDM activities. Pursuant to that Directive, the IESO issued a Notice of Termination of the Energy Conservation Agreement (ECA) to Alectra Utilities and directed it to use commercially reasonable efforts to minimize expenditures associated with the termination of the CFF and associated CDM activities.

Following the receipt of the Notice of Termination, Alectra Utilities developed a CDM Wind Down resource plan, which was implemented on May 1, 2019. The CDM Wind Down resource plan included steps (i) to wind down Alectra Utilities' CDM business, including terminating employees involved in the CDM operations, and (ii) to terminate all activities associated with the marketing of conservation programs, solicitation of participants, and the execution of Participant Agreements. Alectra Utilities submitted its CDM Wind Down Estimate to the IESO containing post termination administration costs including employee separation costs required to meet the surviving obligations of the ECA.⁴⁷

Alectra Utilities stated in its application that these additional severance costs are unexpected and have a material impact in the amount of approximately \$3.2 million, which exceeds Alectra Utilities' materiality threshold of \$1 million. Alectra Utilities has requested approval for a Conservation Demand Management Severance Deferral Account (CDMSDA) for recovery of the severance costs, in the event that the IESO denies the funding of the severance costs. Alectra Utilities stated that the proposed CDMSDA satisfied the OEB's eligibility criteria for establishing a new deferral/variance account: materiality, causation and prudence.

In its response to OEB staff interrogatories,⁴⁸ Alectra Utilities updated the status of the IESO's review and approval of the utilities' Wind Down Estimate. Alectra Utilities stated:

On July 4, 2019, the IESO provided Alectra Utilities with partial approval of its Wind Down Cost Estimate... The total estimated employee separation cost of \$3.266MM is for 39 CDM employees, or an average cost of \$0.084MM, per employee. The IESO has stated that separation costs for CDM staff's period of employment prior to 2015 are not eligible expenses. Separation costs applicable

⁴⁷ Alectra Utilities' 2020 rate application, EB-2019-0018, Exhibit 2, Tab 1, Schedule 4, page 12

⁴⁸ Interrogatory Response to G-Staff-5

to the period prior to 2015 are estimated at \$1.540MM. By deduction, separation costs deemed eligible by IESO are \$1.726MM.⁴⁹

Alectra Utilities maintained its request for the CDMSDA to record the ineligible severance costs that are not approved by the IESO. Alectra Utilities' proposed effective date for this deferral account is March 22, 2019, which is the effective date of the Wind Down. Alectra Utilities anticipates that the final CFF termination payments from the IESO will be completed by June 30, 2021.⁵⁰

In its submission, OEB staff addressed the eligibility criteria for establishing a new deferral/variance account. OEB staff submitted that the proposed CDMSDA passes the test for causation. OEB staff further submitted that Alectra Utilities has taken reasonable steps to ensure that the costs associated with the CFF Wind Down are minimized, consistent with the principles of the IESO's CFF Wind Down Cost Guideline. With respect to the materiality assessment, OEB staff submitted that the OEB could assess the materiality threshold at the rate zone level, as Alectra Utilities does not have an OEB-approved revenue requirement but that the record did not contain a breakdown of CDM severance costs by rate zone for periods prior to 2015. As a result, OEB staff recommended that the CDMSDA be established for all rate zones, but the approach to materiality could be determined at the time of disposition, at which time Alectra Utilities should also provide rate zone specific balances.

OEB staff submitted that, if future information is presented by Alectra Utilities that confirms that the amounts are incremental to the base upon which rates were derived, OEB staff supported the establishment of the requested CDMSDA. OEB staff also submitted that at the time of disposition, Alectra Utilities will need to demonstrate that the amounts are reasonable, that they are entirely incremental, and that the expenses were adequately mitigated.

SEC submitted that customers should not be responsible in rates for the Wind Down costs of Alectra Utilities' CDM activities. SEC provided three reasons for its position:

1. This program is funded by IESO, and IESO has made provision for IESO to reimburse the utility for wind-down costs... To the extent that Alectra has costs that are not reimbursed by IESO, in our view that can only be because the entity with statutory responsibility to fund the program has determined that the costs are not reasonable.
2. The OEB has had no say in the expenditures for this program, or the commitments made by the Applicant related to CDM. Customers have had no input into those past commitments, or in managing the risks of stranded costs

⁴⁹ Interrogatory Response to G-Staff-5 a) and e)

⁵⁰ Interrogatory Response to G-Staff-5 h)

- or assets. All of these aspects of the program were managed by IESO and the Applicant...
3. The profits generated by Alectra on CDM programs were at all times for account of the shareholders, not the customers... The shareholders of Alectra got the profits from the program, and must accept the risks at the same time...⁵¹

In its reply submission, Alectra Utilities maintained that the CDMSDA should be approved as requested. Alectra Utilities stated that it had entered into the ECA in good faith, with clear expectations on what it was to deliver and how costs would be recovered, and the cancellation of the CFF was entirely unanticipated. Alectra Utilities argued that it should be allowed to recover unexpected materials costs through the proposed CDMSDA.

With respect to OEB staff's submission, Alectra Utilities said that providing information on severances by rate zone would reveal personal information and violate privacy laws. Alectra Utilities refused to reveal this information by rate zone and submitted that the OEB should assess materiality at the Alectra Utilities level and costs not be recorded at rate zone level.⁵²

Alectra Utilities further stated that none of the CDM programs was funded through base rates, and the CDM severance costs were not provided for in distribution rates for any of the rate zones. Alectra Utilities confirmed that these costs are incremental to the base upon which rates were set.

Findings

The OEB denies Alectra Utilities' request to establish a CDMSDA. These costs arise from CDM activities that are not rate regulated by the OEB and consequently were not approved by the OEB for the 2011-2020 term. As a result, the OEB finds that ratepayers should not be required to pay for these costs which have not been subject to OEB approval, and which the OEB has determined should be kept separate from the distribution revenue requirement.

The funding mechanism for CDM program activities was established through contractual agreements entered into between distributors and the IESO. Since January 1, 2011, these costs have generally been funded through the global adjustment charge, and not through distribution rates.⁵³

⁵¹ Submission filed by SEC on September 15, 2019, page 2

⁵² Alectra Utilities' Reply Submission filed on September 23, 2019, page 33-34

⁵³ OEB Staff Submission, EB-2019-0018, September 13, 2019, page 29

The OEB prescribes accounting for electricity distributors through the Accounting Procedures Handbook (APH). The APH considers revenues and costs related to conservation to be non rate-regulated and requires them to be recorded in accounts that are “non-utility in character” (Accounts 4375 and 4380). Non rate-regulated revenues and expenses are accounted for separately from regulated revenues and expenses to ensure that there is no cross-subsidization between regulated and non-regulated utility lines of business.⁵⁴ Furthermore, a distributor’s regulated return on equity is reported to the OEB with adjustments to remove amounts related to conservation activities.

The OEB’s Chapter 2 Filing Requirements state that costs directly attributable to CDM programs (e.g., staff labour dedicated to such programs) are not to be included in the revenue requirement to be recovered through distribution rates.⁵⁵ Similarly, the OEB’s Handbook to Utility Rate Applications notes that, outside of CDM funding for the purpose of deferring capital investments for specific distribution infrastructure, distributors must enter into contractual agreements with the IESO and that funding for IESO-related activities is not included in distribution rates.⁵⁶

The OEB agrees with SEC that risks and rewards associated with the non-regulated CDM activities accrue to the distributor’s shareholders. It is reasonable to conclude that the profit-oriented nature of CDM activities undertaken by Alectra Utilities included a risk component, and those risks shall remain the responsibility of the shareholders.

As a result, the OEB does not find it appropriate for Alectra Utilities’ ratepayers to bear the impact of any variance between the costs that Alectra Utilities is seeking from the IESO and the amounts that the IESO ultimately agrees to provide.

⁵⁴ Accounting Procedures Handbook Article 330

⁵⁵ Filing Requirements for Electricity Distribution Rate Applications – 2018 Edition for 2019 Rate Applications, Chapter 2, Cost of Service, July 12, 2018, page 37

⁵⁶ Handbook for Utility Rate Applications, Appendix 3 – Rate Setting Policies, Electricity Conservation and Demand Management (CDM) Costs, October 13, 2016; see also Requirement Guidelines for Electricity Distributors Conservation and Demand Management, August 11, 2016, page 4

11. RENEWABLE GENERATION CONNECTION RATE PROTECTION

Horizon Utilities Rate Zone

In Horizon Utilities' 2011 cost of service rate application,⁵⁷ the OEB approved a request for the funding for Renewable Generation Connection Rate Protection (RGCRP) amounts to be recovered through the IESO relating to renewable enabling improvement investments and renewable expansion investments.

In a letter dated December 20, 2018, Alectra Utilities requested that the current IESO provincial RGCRP payments of \$707 per month cease as of December 31, 2018.⁵⁸ Alectra Utilities confirmed in the letter that the Horizon Utilities rate zone did incur the expenditures for the renewable generation investments. However, Horizon Utilities included 100% of the renewable eligible investments in the rate base of its 2015 Custom IR application despite the fact that the investments were still subject to the RGCRP treatment. As a result, the recovery of the IESO provincial payments was collected twice. Alectra Utilities confirmed, in its responses to OEB staff interrogatories,⁵⁹ that it recorded the over recovery of \$33,921 in Account 1533, Renewable Generation Connection Funding Adder Deferral Account.⁶⁰ Alectra Utilities is not seeking disposition of this balance as part of this proceeding.

In this application, Alectra Utilities has requested to refund renewable generation funding for the Horizon Utilities rate zone, in the amount of \$9,726, as a one-time payment in 2020 to the IESO.

In response to OEB staff interrogatories, Alectra Utilities provided evidence to reconcile the actual amounts collected from the Horizon Utilities rate zone customers between 2012 and 2015 and the revenue requirement associated with the actual RGCRP investments that were made. Alectra Utilities calculated this variance in the amount of \$71,362 and proposed to return this amount to Horizon Utilities rate zone customers as a fixed rate rider over a twelve-month period.⁶¹

OEB staff agreed with Alectra Utilities' proposed fixed rate rider to refund the variance of \$71,362 to customers over a twelve-month period. OEB staff also submitted that Alectra Utilities' proposed one-time payment to the IESO in the amount of \$9,726 has been appropriately calculated.

⁵⁷ EB-2010-0130

⁵⁸ EB-2018-0295

⁵⁹ Alectra Utilities' response to OEB staff interrogatory HRZ-Staff-5

⁶⁰ Alectra Utilities' 2020 rate application, EB-2019-0018, Exhibit 3, Tab 1, Schedule 9, page 1

⁶¹ Interrogatory Response to HRZ-Staff-4 c)

Alectra Utilities submitted that the one-time refund to the IESO of \$9,726 and the GEA (Green Energy Act) rate rider to refund customers an amount of \$71,362 over a twelve-month period be approved.

Findings

The OEB approves Alectra Utilities' request for the one-time refund to the IESO of \$9,726 and the GEA rate rider to refund customers an amount of \$71,362 over a twelve-month period. The OEB will consider the balance in Account 1533 in a future proceeding.

Brampton Rate Zone

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 Brampton in the 2015 cost of service application.⁶² Alectra Utilities has requested to collect renewable generation funding of \$83,483 in 2020 or \$6,957 per month from all provincial ratepayers.

In response to interrogatory BRZ-Staff-7, Alectra Utilities updated the RGCRP workform for the Brampton rate zone to include amortization and Capital Cost Allowance (CCA). Based on the updated calculation, Alectra Utilities has now requested to collect the RGCRP funding of \$143,160 in 2020 or \$11,930 per month from all provincial ratepayers.

OEB staff submitted that Alectra Utilities' updated request to collect the RGCRP funding of \$143,160 in 2020 or \$11,930 per month from all provincial ratepayers is appropriate.

Alectra Utilities submitted that the 2020 funding amount be approved.

Findings

The OEB approves Alectra Utilities' request to collect the RGCRP funding of \$143,160 in 2020 or \$11,930 per month from all provincial ratepayers for the Brampton rate zone.

PowerStream Rate Zone

In this application, Alectra Utilities noted that the OEB approved the RGCRP amounts related to the renewable enabling improvement investment and renewable expansion

⁶² EB-2014-0083

investments from 2016 to 2020 for PowerStream in its 2016 Custom IR application.⁶³ Alectra Utilities requested renewable generation funding of \$256,894⁶⁴ in 2020 or \$21,401 per month from all provincial ratepayers for the PowerStream rate zone.

OEB staff submitted that Alectra Utilities' request to collect the RGCRP funding of \$256,894 in 2020 or \$21,408 per month from all provincial ratepayers is appropriate.

Findings

The OEB approves Alectra Utilities' request to collect the RGCRP funding of \$256,894 in 2020 or \$21,408 per month from all provincial ratepayers for the PowerStream rate zone.

Enersource Rate Zone

Enersource filed a basic Green Energy Plan which was approved by the OEB in its 2013 cost of service proceeding.⁶⁵ In this application, Alectra Utilities has requested to collect renewable generation connection funding for the Enersource rate zone of \$160,560 in 2020, or \$13,380 per month from all provincial ratepayers. Alectra Utilities noted in its application that the RGCRP workform for the Enersource rate zone includes actuals up to 2018, and estimates for 2019 and 2020 RGCRP funding amounts.⁶⁶

In reviewing of the RGCRP workform for the Enersource rate zone,⁶⁷ OEB staff noted that the proposed \$160,560 provincial RGCRP (with prior years' true-up variance of \$28,791) included the true-up variance from 2010 to 2017 which was part of Alectra Utilities' 2019 RGCRP amount for the Enersource rate zone. In its response to OEB staff interrogatory ERZ-Staff-6, Alectra Utilities confirmed that its current proposed RGCRP claim includes the 2010 to 2017 true-up variance which was included in Alectra Utilities' 2019 request for the RGCRP.

OEB staff did not support Alectra Utilities' request to collect renewable generation funding for the Enersource rate zone of \$160,560 or \$13,380 per month from all provincial ratepayers. In OEB staff's view, Alectra Utilities did not explain why it included in the current provincial funding request the true-up variance for 2010 to 2017 that has already been approved in the 2019 RGCRP claim.

⁶³ EB-2015-0003

⁶⁴ In its response to OEB staff interrogatory PRZ-Staff-8, Alectra Utilities noted the amount of "\$256,814" on page 2 of Exhibit 3, Tab 1, Schedule 9 was a typo. The correct amount should be \$256,894.

⁶⁵ EB-2012-0033

⁶⁶ Exhibit 3, Tab 1, Schedule 9, page 3

⁶⁷ Exhibit 5, Attachment 28 – Renewable Generation Connection Rate Protection Enersource Rate Zone

In its reply submission, Alectra Utilities advised that the proposed RGCRP funding of \$160,560 is comprised of the 2020 forecast RGCRP in the amount of \$131,769 and a true-up variance of \$28,791. Alectra Utilities noted that its pre-filed RGCRP calculation reconciles the actual provincial funding collected from the IESO to the revenue requirement associated with actual and forecast renewable generation connection investments. Alectra Utilities provided the following table to show the funding received from the IESO for 2010 to 2019.

Application Yr.	Case No.	Funding Received
2013 COS	EB-2012-0033	\$64,270
2014 IRM	EB-2013-0124	\$68,640
2015 IRM	EB-2014-0068	\$82,972
2016 IRM	EB-2015-0065	\$105,010
2017 IRM	EB-2016-0002	\$122,314
2018 IRM	EB-2017-0024	\$133,384
2019 IRM	EB-2018-0016	\$153,726
	Total	\$730,316

Alectra Utilities compared the funding received to date to the funding required based on 2010 to 2018 actuals, and a forecast for 2019 and 2020 as provided in the table below.

Year	RGCRP Funding
2010 Actual	\$923
2011 Actual	\$6,362
2012 Actual	\$22,751
2013 Actual	\$44,310
2014 Actual	\$64,717
2015 Actual	\$83,858
2016 Actual	\$104,108
2017 Actual	\$124,141
2018 Actual	\$148,247
2019 Forecast	\$159,690
2020 Forecast	\$131,769
Total	\$890,876

In the following table, Alectra Utilities summarized data in the first two tables and reconciled its calculation of the \$160,560 proposed provincial funding for 2020.

Total Funding Required	\$890,876
Total Funding Received	\$730,316
2020 RGCRP Request	\$160,560

Alectra Utilities further clarified that the 2019 RGCRP claim included actuals for the 2010 to 2017 period, and a forecast for 2018 and 2019. In the 2020 RGCRP claim, Alectra Utilities provided actuals for 2018 and an updated forecast for 2019. Therefore, Alectra Utilities stated that the true-up variance of \$28,791 that was included in the current claim only relates to 2018 and 2019. Alectra Utilities provided the following tables for the reconciliation of the true-up variance.

2019 RGCRP Claim	Provincial Amount
2018 Forecast	\$138,621
2019 Forecast	\$140,524
Total	\$279,145

2020 RGCRP Claim	Provincial Amount
2018 Actual	\$148,247
2019 Updated Forecast	\$159,690
	\$307,936

True-Up Variance	\$28,791
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Alectra Utilities submitted that its RGCRP calculation for the Enersource rate zone is accurate and requested that the 2020 funding in the amount of \$160,560 be approved.

OEB staff filed a letter on November 14, 2019 relating to this request. In the letter, OEB staff provided a summary of its understanding of the RGCRP amount that Alectra Utilities requested for the Enersource rate zone and the associated calculations. OEB staff noted that, based on the further explanation provided in Alectra Utilities' reply submission, it no longer opposed the request for the 2020 provincial RGCRP funding for the Enersource rate zone in the amount of \$160,560.⁶⁸

Findings

The OEB approves Alectra Utilities' request to collect the RGCRP funding of \$160,560 in 2020 or \$13,380 per month from all provincial ratepayers for the Enersource rate zone.

Guelph Rate Zone

In the 2012 cost of service rate application,⁶⁹ the OEB approved Guelph's request for the funding of the RGCRP amounts, to be recovered through the IESO relating to renewable enabling improvement investments and renewable expansion investments.

⁶⁸ OEB staff's letter, EB-2019-0018, November 14, 2019

⁶⁹ EB-2011-0123

In a letter dated November 29, 2018, Guelph Hydro stated that it was not entitled to any RGCRP payments from the IESO for the subject investments, because it had not incurred any capital costs for these investments since all costs were offset by customers' capital contributions. Guelph Hydro stated that it had received a total of \$350,844 from 2013 to 2018 regarding the provincial funding for the eligible investments that were approved in its 2012 cost of service decision. Guelph Hydro noted that it had returned the 2013, 2014 and 2016 payments to its own customers through the dispositions of Account 1533 and Account 1580 in previous rate proceedings.⁷⁰

In the 2019 RGCRP Decision, the OEB approved the discontinuation of provincial funding for Guelph, and deferred its consideration of the return of previous payments received by Guelph to Alectra Utilities' current application.

In this application, Alectra Utilities originally requested to refund only three of the six years' (2015, 2017 and 2018) payments received for the Guelph rate zone's renewable generation funding, in the amount of \$208,512, as a one-time payment in 2020 to the IESO.

In response to OEB staff interrogatories, Alectra Utilities amended its request and now proposes to return the full amount of \$350,844 to the IESO as a one-time payment in 2020. Specifically, Alectra Utilities stated that it proposed to refund renewable generation funding in the full amount of \$350,844 as a one-time payment to the IESO, which includes the portion related to 2013, 2014 and 2016 IESO payments that was previously refunded to Guelph Hydro customers.⁷¹

OEB staff submitted that it supports Alectra Utilities' revised proposal to return the full amount of \$350,844 to the IESO pertaining to the Guelph rate zone.

Alectra Utilities submitted that the one-time refund to the IESO of \$350,844 be approved.

Findings

The OEB approves Alectra Utilities' request to refund the RGCRP funding of \$350,844 as a one-time payment in 2020 to the IESO for the Guelph rate zone.

⁷⁰ Guelph Hydro's 2016 cost of service application, EB-2015-0073 and 2018 IRM application, EB-2017-0044

⁷¹ Interrogatory Response to GRZ-Staff-6 c)

12. EARNINGS SHARING MECHANISM

In 2015, the OEB issued its *Report of the Board: Rate-making Associated with Distributor Consolidation* (MAADs Policy).⁷² The MAADs Policy introduced an extended deferred rebasing period for consolidating entities and included a requirement for an earnings sharing mechanism (ESM). This ESM would have a 50:50 sharing between the utility and customers for any of the consolidated entity's earnings that were more than 300 basis points above the allowed return on equity (ROE) for any extended periods beyond the initial five-year deferral period.⁷³

In 2016, the OEB issued its *Handbook to Electricity Distributor and Transmitter Consolidations* (MAADs Handbook) that confirmed that “no evidence is required in support of an ESM that follows the form set out in the [MAADs Policy].”⁷⁴

In the Decision and Order approving the formation of Alectra Utilities (the MAADs Decision),⁷⁵ the OEB ordered Alectra Utilities to file plans for an ESM by December 31, 2019. In this application, Alectra Utilities filed a proposal for an ESM in which earnings in excess of 300 basis points above the OEB's established ROE for the consolidated entity would be divided on a 50/50 basis between Alectra Utilities and its ratepayers.⁷⁶

As part of its application, Alectra Utilities filed a proposal in which it proposes to use the weighted average ROE for the ESM calculation.⁷⁷ Alectra Utilities noted in its application that there is no “approved” ROE for Alectra Utilities against which the ESM could be determined. In this regard, Alectra Utilities applied the weighted average OEB-approved ROE for each predecessor utility (weighted by the OEB-approved rate base amounts from the most recent rebasing application for each predecessor utility) as at the time of Alectra Utilities' formation in 2017. The recorded excess earnings will be shared with customers of the Enersource, Horizon Utilities, PowerStream and Brampton rate zones only.

In its response to OEB staff interrogatory G-Staff-8, Alectra Utilities noted it intends to use an allocation methodology similar to that employed for the Horizon Utilities rate zone ESM calculation. It may make modifications to the applicable allocation methodology in advance of its implementation as part of the Alectra Utilities' ESM calculation.

⁷² EB-2014-0138

⁷³ MAADs Policy, page 7

⁷⁴ [Handbook to Electricity Distributor and Transmitter Consolidations, issued January 19, 2016](#), page 16

⁷⁵ EB-2016-0025, Decision and Order, December 8, 2016

⁷⁶ Alectra Utilities' 2020 rate application, EB-2019-0018, Exhibit 2 Tab 1, Schedule 6

⁷⁷ Alectra Utilities' 2020 rate application, EB-2019-0018, Exhibit 2, Tab 1, Schedule 6

OEB staff agreed with Alectra Utilities' approach in using a weighted average ROE. OEB staff also supported the concept of adjusting regulatory earnings for items that are typically excluded from reported regulatory earnings.⁷⁸

With respect to allocation methodologies, OEB staff submitted that any determinations made in the Horizon Utilities rate zone legacy ESM in this proceeding need not necessarily apply to the Alectra Utilities' ESM. OEB staff argued that the appropriate allocation methodologies used in the Alectra Utilities' ESM should be assessed on their own merits at the time that the ESM amounts are proposed for disposition. Likewise, with respect to any adjustments to regulatory earnings for the purposes of Alectra Utilities' ESM, OEB staff argued that it is premature to provide any detailed submission on the appropriateness of various hypothetical adjustments. These adjustments should be assessed in detail at the time that Alectra Utilities submits its ESM disposition requests.

OEB staff supported Alectra Utilities proposed ESM framework as filed.

SEC submitted that there should be separate earnings sharing for each of the rate zones and disagreed with the 300 basis point deadband proposed by Alectra Utilities. SEC argued that the concept of a weighted average ROE is inherently unfair. SEC further noted that the rate base amounts of each predecessor are not comparable as the predecessor companies have different years of approved rate base. SEC therefore submitted that there should be an asymmetrical ESM calculated for each rate zone based on the approved ROE currently baked into rates for that rate zone, with a deadband of 100 basis points. SEC agreed with OEB staff that it is premature to determine the appropriate method of cost allocation between the rate zones. SEC further submitted that in the next annual rate application, Alectra Utilities should be required to file a proposal for the allocation of all costs (including rate base) between the rate zones.

In its reply submission, Alectra Utilities stated the proposed methodology of using the weighted average ROE in the ESM calculations is the same methodology that it applies in reporting its annual regulated ROE as part of the OEB's *Electricity Reporting and Record-Keeping Requirements*.⁷⁹

With respect to SEC's proposal of an asymmetrical ESM for each rate zone with a deadband of 100 basis points relative to the ROE in rates for each individual rate zone, Alectra Utilities submitted that SEC's submissions should be rejected for the following reasons:

⁷⁸ Reported in the *Electricity Reporting and Record-Keeping Requirements* 2.1.5.6

⁷⁹ *Electricity Reporting and Record Keeping Requirements*, Version dated May 3, 2016

- The SEC proposal for a 100 basis deadband and the calculation of the ESM on a zonal basis is an attempt to vary the MAADs Decision and impose a new ESM that is directly contrary to both the MAADs Decision and the MAADs policy.
- There is no evidentiary basis for SEC's assertions of unfairness related to the weighted average of approved ROEs as a basis for the ESM.⁸⁰

Alectra Utilities referred to the MAADs Policy,⁸¹ the MAADs Handbook and the MAADs Decision to support its submissions on why it believes the SEC submissions should be rejected.

Alectra Utilities also submitted that the OEB should reject SEC's submission with respect to requiring Alectra Utilities to file a proposal for the allocation of all costs between rate zones in its next annual rate application. Alectra Utilities is of the view that this submission of SEC is irrelevant to the ESM matter in the current application and an effort to revisit the MAADs Decision.

Findings

The OEB approves Alectra Utilities' ESM proposal as filed. The ESM proposal is consistent with the OEB's MAADs policy and the OEB is not persuaded to deviate from established policy.

The ESM shall consider the earnings of Alectra Utilities in years six to ten of the deferred rebasing period as a consolidated entity. This view is consistent with the MAADs Policy, which continuously refers to consolidated earnings as the measurement basis in an ESM. The OEB accepts Alectra Utilities' proposal to utilize a weighted average ROE for all applicable rate zones in determining the approved ROE for Alectra Utilities.

The methodology in calculating an approved ROE for a newly consolidated entity, or any allocations that would be required between rate zones in determining deemed and achieved returns, are factors that are not discussed in either the MAADs Policy, MAADs Handbook, or in the approval of the Alectra Utilities amalgamation.

The OEB will defer these matters for consideration in Alectra Utilities' first rate application following the completion of its 2022 fiscal year (the first year that the ESM is in effect for). The OEB expects Alectra Utilities to address these issues in its pre-filed evidence related to the ESM at that time.

⁸⁰ Alectra Utilities' Reply Submission, September 23, 2019, page 36

⁸¹ Report of the Board: Rate-making Associated with Distributor Consolidation, EB-2014-0138, March 26, 2015

13. REQUEST TO CLOSE THE DEFERRAL ACCOUNT FOR SERVICE COST RECOVERY STUDY – HORIZON UTILITIES RATE ZONE

In the settlement agreement⁸² for Horizon Utilities' 2015 rate application, the parties in that proceeding agreed that Horizon Utilities would retain an external consultant to conduct a study on determining the appropriate level of service charges and impacts (the Study). The purpose of the Study was to consider the extent to which the service charges are reflective of the costs of providing the services. The settlement agreement provided for the creation of a deferral account (Account 1508 Sub-account Special Studies) to record costs in relation to the Study.⁸³

In November 2015, the OEB initiated a comprehensive policy review of miscellaneous rates and charges applied by electricity distributors for specific activities or services they provided to their customers.⁸⁴

In this application, Alectra Utilities confirmed that, given the OEB's policy review, the Study has not been undertaken and no costs have been recorded in a deferral account created for the purpose of the Study. As such, Alectra Utilities submitted that this deferral account should be closed.

OEB staff submitted it does not oppose Alectra Utilities' request to close this account.

SEC agreed that this account should be closed.

Findings

The OEB approves Alectra Utilities' request to close the deferral account for the Study.

⁸² EB-2014-0002, Settlement Proposal, September 22, 2014

⁸³ EB-2014-0002, Settlement Proposal, September 22, 2014, page 56

⁸⁴ EB-2015-0304

14. IMPLEMENTATION AND ORDER

This Partial Decision and Interim Rate Order is accompanied by five Rate Generator Models, applicable supporting models, and Tariff of Rates and Charges (Schedule A).

Model entries were reviewed in order to ensure that they are in accordance with Alectra Utilities' predecessors' last cost of service decisions, and to ensure that the 2019 OEB-approved Tariff of Rates and Charges, as well as the cost, revenue and consumption results from 2018, are as reported by Alectra Utilities to the OEB.

The Rate Generator Models were adjusted, where applicable, to correct any discrepancies. The Rate Generator Models incorporate the rates set out in the following table.

Table 14.1: Regulatory Charges

Rate	per kWh
Rural or Remote Electricity Rate Protection (RRRP)	\$0.0005
Wholesale Market Service (WMS) billed to Class A and B Customers	\$0.0030
Capacity Based Recovery (CBR) billed to Class B Customers	\$0.0004

Each of these rates is a component of the "Regulatory Charge" on a customer's bill, established annually by the OEB through a separate, generic order. The RRRP, WMS and CBR rates were set by the OEB on December 20, 2018.⁸⁵

The Smart Metering Entity Charge is a component of the "Distribution Charge" on a customer's bill, established by the OEB through a separate order. The Smart Metering Entity Charge was set by the OEB on March 1, 2018.⁸⁶

The rates set out in Schedule A only reflect the findings in this Partial Decision and Interim Rate Order (the proposed rates and/or rate riders resulted from the other two streams of this application are not included). These 2020 rates are interim pending the OEB's determination of the application's remaining issues.

SEC filed its submission with respect to four issues in the IRM elements of this application on September 15, 2019. SEC noted in its submission that it is mindful of the OEB's determination in Procedure Order No. 1 that the IRM issues are not eligible for

⁸⁵ EB-2018-0294, Decision and Order, December 20, 2018.

⁸⁶ EB-2017-0290, Decision and Order, March 1, 2018.

cost awards. However, SEC stated that some of the IRM issues are not mechanistic in nature and requested that the OEB revisit its determination with respect to cost eligibility for these issues, and allow SEC to recover its reasonably incurred costs for reviewing submissions of others, and preparing its own submissions.

The OEB will consider SEC's request for costs at the end of this proceeding, when it considers cost claims on the other issues. When filing its cost claim, SEC should identify which portions of its claim relate to the IRM part of the application.

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. The Tariff of Rates and Charges set out in Schedule A of this Rate Order is approved on an interim basis effective January 1, 2020. Alectra Utilities Corporation shall notify its customers of the rate changes no later than the delivery of the first bill reflecting the new final and interim rates.
2. The Tariff of Rates and Charges set out in Schedule A, shall be deemed *draft* until Alectra Utilities Corporation has had an opportunity to comment on it.
3. Alectra Utilities Corporation, OEB staff and intervenors may review the Tariff of Rates and Charges set out in Schedule A and may file with the OEB, as applicable, a written confirmation of its completeness and accuracy, or provide a detailed explanation of any inaccuracies or missing information, by **December 17, 2019**.
4. This Partial Decision and Interim Rate Order will be considered final if Alectra Utilities Corporation, OEB staff and intervenors, if applicable, do not provide a submission to the OEB that inaccuracies were found or information was missing pursuant to order provision 3.
5. If the OEB receives a submission from Alectra Utilities Corporation, OEB staff or intervenors to the effect that inaccuracies were found or information was missing pursuant to order provision 3, the OEB will consider the submission and issue a final Partial Decision and Interim Rate Order.

All materials filed with the OEB must quote the file number, **EB-2019-0018**, be made in a searchable/unrestricted PDF format and sent electronically through the OEB's web portal at <https://pes.ontarioenergyboard.ca/eservice>. Two paper copies must also be filed at the OEB's address provided below. Filings must clearly state the sender's name, postal address and telephone number, fax number and email address. Parties must use the document naming conventions and document submission standards outlined in the

RESS Document Guideline found at <https://www.oeb.ca/industry>. If the web portal is not available parties may email their documents to the address below. Those who do not have computer access are required to file seven paper copies.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

ADDRESS

Ontario Energy Board
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DATED at Toronto, December 12, 2019

ONTARIO ENERGY BOARD

Original Signed By

Christine E. Long
Registrar and Board Secretary

Schedule A

To Partial Decision and Interim Rate Order

Tariff of Rates and Charges

OEB File Number: EB-2019-0018

DATED: December 12, 2019

Schedule B

To Partial Decision and Interim Rate Order

Accounting Order

OEB File Number: EB-2019-0018

DATED: December 12, 2019

Draft Accounting Order

Lost Revenue - Collection of Account Charge

Alectra Utilities will establish a new deferral account, effective July 1, 2019, to record the lost revenue impacts associated with the elimination of the Collection of Account charge. Only lost revenues directly attributable to the elimination of the Collection of the Account charge will be included in this account

This account will accrue interest based on the OEB-prescribed interest rates.

Disposition of the balances recorded in this Group 2 deferral and variance account is subject to review at an appropriate future rate proceeding, and is expected to be achieved through a rate rider.

The deferral account is expected to cease when Alectra Utilities next rebases, as there will be no lost revenues thereafter once its rates are reset without the provision for other revenues from the Collection of Account charge.

Accounting Entries:

Alectra Utilities will record the lesser of the following two amounts in the new deferral account:

- i. The Collection of Account charge revenue that would have been recorded had the charge not been eliminated.
- ii. The aggregated amount of Collection of Account charge revenue that was included in each rate zone's most recent rebasing application.⁸⁷

The sample journal entries are provided below:

Dr. 1508, Other Regulatory Assets, Sub-account Lost Revenue – Collection of Account Charge

Cr. 4235 Miscellaneous Service Revenues

To record lost revenue associated with the elimination of the Collection of Account Charge

Dr. 1508, Other Regulatory Assets, Sub-account Lost Revenue – Collection of Account Charge Carrying Charges

Cr. 4405, Interest and Dividend Income

⁸⁷ For 2019, the aggregated amounts included in the rebasing applications will be prorated in half, as the Collection of Account charge was eliminated halfway through the year.

To record the carrying charges on the monthly opening balance in Account 1508 Other Regulatory Assets, Sub-account Lost Revenue – Collection of Account Charge