



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

PARTIAL DECISION AND ORDER

EB-2018-0016

ALECTRA UTILITIES CORPORATION

**Application for electricity distribution rates beginning January 1,
2019**

BEFORE: Lynne Anderson
Presiding Member

Allison Duff
Member

Michael Janigan
Member

December 20, 2018

TABLE OF CONTENTS

1	INTRODUCTION AND SUMMARY.....	1
2	THE PROCESS	2
3	STRUCTURE OF THE DECISION.....	3
4	DECISION ON ISSUES	4
4.1	HORIZON RATE ZONE – YEAR 5 CUSTOM IR UPDATE	4
4.2	IRM MODEL FILINGS FOR THE BRAMPTON, ENERSOURCE, AND POWERSTREAM RATE ZONES.....	9
4.3	RETAIL TRANSMISSION SERVICE RATES	13
4.4	RESIDENTIAL RATE DESIGN.....	14
4.5	DEFERRAL AND VARIANCE ACCOUNTS	15
4.6	LOST REVENUE ADJUSTMENT MECHANISM VARIANCE ACCOUNT	22
4.7	INTERIM RATES, EFFECTIVE DATE, AND FOREGONE REVENUE.....	25
5	CONFIDENTIALITY REQUEST.....	27
6	IMPLEMENTATION	28
7	ORDER	29

1 INTRODUCTION AND SUMMARY

Alectra Utilities Corporation (Alectra Utilities) filed a complete application with the Ontario Energy Board (OEB) on June 7, 2018 under section 78 of the *Ontario Energy Board Act, 1998 (Act)*, seeking approval for changes to the rates that Alectra Utilities charges for electricity distribution, effective January 1, 2019. Under section 78 of the 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 RZ), PowerStream Inc. (PowerStream RZ), Hydro One Brampton Networks Inc. (Brampton RZ), and Horizon Utilities Corporation (Horizon RZ).

Alectra Utilities provides electricity distribution services to approximately one million customers in the cities of Mississauga, Hamilton, St. Catharines, Brampton, Alliston, Aurora, Barrie, Beeton, Bradford, Markham, Penetanguishene, Richmond Hill, Thornton, Tottenham, Vaughan, as well as Collingwood, Stayner, Creemore and Thornbury.

Alectra Utilities asked the OEB to approve its rates for 2019 using the price-cap incentive rate-setting (Price Cap IR) mechanism for its Brampton, Enersource and PowerStream RZs and an annual adjustment for the Horizon RZ for the fifth year of the 2015 to 2019 custom incentive rate-setting (Custom IR) rate plan five-year term.

Under the Price Cap IR option, the approved rates are adjusted mechanistically each year for four years through a price cap adjustment based on inflation, industry productivity and the OEB's assessment of efficiency.

Under the Custom IR option, utilities with significant operating and capital expenditure needs may apply for a multi-year Custom IR plan where rates are set for all years of the plan term, subject to specific adjustments.

The OEB makes the following findings:

- The OEB approves the annual adjustments proposed by Alectra Utilities for the Horizon Utilities RZ for year five of the five-year term of its Custom IR framework.
- The OEB approves a price-cap adjustment of 1.2% for the Brampton, Enersource and PowerStream RZs.
- The approved rates for the Horizon, Brampton, Enersource, and PowerStream RZs will be effective January 1, 2019. The new rates will be implemented February 1, 2019.

2 THE PROCESS

The OEB's policy for rate setting is set out in the "Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach" (RRFE, now referred to as the RRF) and the "Handbook for Rate Applications" (Rate Handbook). The RRF provides the distributor with performance-based rate application options that support the cost effective planning and efficient operation of a distribution network. The Rate Handbook outlines the key principles and expectations the OEB will apply when reviewing rate applications.

Alectra Utilities filed an application on June 7, 2018 for 2019 rates under the Price-Cap IR of the RRF for the Brampton, Enersource and PowerStream RZs and an annual update for the Horizon RZ arising from the five-year Custom IR framework previously approved by the OEB.¹ The OEB issued a Notice of Application on July 18, 2018, inviting parties to apply for intervenor status. The Association of Major Power Consumers in Ontario (AMPCO), the Building Owners and Managers Association of Greater Toronto (BOMA), the Consumers Council of Canada (CCC), Energy Probe Research Foundation (Energy Probe), the School Energy Coalition (SEC) and the Vulnerable Energy Consumers Coalition (VECC) applied for intervenor status. AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC were granted intervenor status. OEB staff also participated in this proceeding.

The OEB issued Procedural Order No. 1 on August 10, 2018. This order established the timetable for a written interrogatory discovery process.

The OEB issued Procedural Order No. 2 on September 24, 2018. This order established a settlement conference.

A settlement conference was held on October 16, 2018 and October 17, 2018 between Alectra Utilities and the intervenors. No settlement was reached.

The OEB issued Procedural Order No. 3 on November 8, 2018, which among other matters, established procedural steps for written submissions on all issues not eligible for cost awards. OEB staff and SEC filed written submissions on November 23, 2018. Alectra Utilities filed its reply submission on November 30, 2018.

¹ EB-2014-0002

3 STRUCTURE OF THE DECISION

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

- Horizon Rate Zone – Year 5 Custom IR update
- Incentive Rate-setting Mechanism (IRM) Model Filings for the Brampton, Enersource, and PowerStream Rate Zones
- Retail Transmission Service Rates
- Residential Rate Design
- Deferral and Variance Accounts
- Lost Revenue Adjustment Mechanism Variance Account
- Interim Rates, Effective Date, and Foregone Revenue

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

4 DECISION ON ISSUES

4.1 Horizon Rate Zone – Year 5 Custom IR update

Horizon Utilities filed a Custom IR application with the OEB in 2014² requesting approval of distribution rates for the five-year period from 2015 to 2019 with rates effective January 1st of each year. A partial settlement proposal was filed on September 22, 2014, which was accepted by the OEB, and a Decision and Order on the outstanding matters was subsequently issued establishing rates effective January 1, 2015.

The approved settlement proposal set out annual updates for rates to be filed for years two to five of the Custom IR term, for rates effective January 1st. The current application is the annual update for year five of the term.

The OEB-approved settlement proposal indicated that Horizon Utilities' rates would be adjusted annually for a number of items. A number of the potential adjustments to the rates for the Horizon RZ are dealt with in subsequent sections of this Partial Decision and Order because they are relevant to other rate zones. These include:

- Retail Transmission Service Rates (RTSRs)
- Residential Rate Design
- Deferral and Variance Accounts (DVAs)
- Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)

The remaining annual adjustments proposed by Alectra Utilities for the Horizon RZ in 2019 are addressed below.

Cost of Capital

Alectra Utilities stated that the annual filing had been updated for the 2018 cost of capital parameters issued by the OEB on November 29, 2017. Alectra Utilities noted that on November 22, 2018, the OEB issued its cost of capital parameters for 2019. Alectra Utilities stated that it would update these parameters, as applicable, for the

² EB-2014-0002

Horizon RZ when it prepares the draft rate order. OEB staff submitted that this was appropriate. No other parties expressed any concerns in this area.

Findings

As per the approved settlement proposal for the Custom IR framework, the OEB approves an update to the cost of capital for the Horizon RZ. Alectra Utilities is directed to apply the OEB-approved 2019 cost of capital parameters³ in the draft rate order.

Changes in Working Capital Allowance

Alectra Utilities made changes to the proposed working capital allowance for the Horizon RZ as a result of changes to the cost of power. Alectra Utilities updated the cost of power based on the Regulated Price Plan (RPP) Report⁴ up to April 30, 2019. Alectra Utilities then increased the RPP rates and Global Adjustment (GA) by inflation, based on the Ontario Consumer Price Index averaged over the past three years, for the period May 1, 2019 to December 31, 2019. Alectra Utilities also used 2018 Uniform Transmission Rates (UTRs) and 2017 Sub-Transmission Rates (STRs).

OEB staff submitted that the update to the cost of power for working capital is consistent with the approved settlement proposal and the OEB's decision in Alectra Utilities' last application. No other party expressed any concerns on this matter.

Findings

As per the approved settlement proposal for the Custom IR framework, the OEB approves the update to the working capital allowance for the Horizon RZ.

Capital Investment Variance Account

The approved settlement proposal for the Custom IR framework provided for a variance account to refund ratepayers, at the next rebasing, any difference in the revenue requirement should in-service capital additions be lower than the approved forecast. Each year, Alectra Utilities must determine the impact to revenue requirement of the

³ Cost of Capital Parameter Updates for 2019 Cost of Service and Custom Incentive Rate-setting Applications, November 22, 2018

⁴ Regulated Price Plan Price Report and the Global Adjustment Modifier for the Period May 1, 2018 to April 30, 2019, April 19, 2018

variance in its cumulative capital additions for the period from January 1, 2015 to the end of the relative year, as compared to the baseline.

Alectra Utilities reported 2017 capital additions of \$52.4M, which are \$6.8M higher than the forecast capital additions of \$45.6M. Since the cumulative in-service capital additions from 2015 to 2017 were higher than the approved forecast from 2015 to 2017, no entry was proposed by Alectra Utilities for the Capital Investment Variance Account (CIVA). This differential was calculated based on Alectra Utilities' capitalization policy rather than the previous Horizon RZ's capitalization policy in place when the forecast capital additions were approved. Alectra Utilities referenced the OEB's Decision in Alectra Utilities 2018 Electricity Distribution Rates (EDR) Application⁵ as the rationale for presenting capital additions based on Alectra Utilities' capitalization policy.

OEB staff submitted that any determination made by the OEB in prior rate applications with respect to the calculation of earnings sharing should not have any bearing on determining the appropriate calculation of capital additions for the purposes of the CIVA. OEB staff further submitted that for consistency, the 2017 capital additions should be calculated based on the previous Horizon RZ capitalization policy, which was used in the Custom IR application. OEB staff also noted that under either calculation, no entry is made in the CIVA for 2017.

The SEC commented on OEB staff's submission, noting that there is an interaction between the capitalization policy change and the CIVA. SEC submitted that the amount for the 2017 CIVA addition should be deferred until the capitalization policy issues are dealt with, and in particular how they interact with the Earnings Sharing Mechanism (ESM) for the Horizon RZ.

Alectra Utilities stated that it is applying the capitalization policy change consistently, both in its computation of ESM per the OEB's Decision in the Alectra Utilities 2018 EDR Application and in its statement of actual capital additions in 2017. Alectra Utilities stated that the OEB staff's submission implies that the OEB should selectively choose when it will consider and apply the changes in capitalization policy (i.e. consider capitalization changes for the earnings sharing mechanism, but ignore them for the purposes of capital additions). Alectra Utilities also stated that since neither calculation would result in an entry in the CIVA for 2017, there is no reason to defer this matter as submitted by SEC.

⁵ EB-2017-0024

Findings

The OEB finds that there is no entry for the CIVA account for 2017.

The purpose of the CIVA account is to ensure that the capital renewal strategy approved for the Horizon RZ is implemented, or funds are returned to ratepayers. If actual capital additions exceed the forecast capital additions, on a cumulative basis from 2015 to 2019, there would be no entry to the CIVA account, and no funds would be returned to customers.

The change in the capitalization policy increases the in-service capital additions for the same amount of capital work to implement the strategy. The question for the OEB is whether the capital additions for the CIVA account should be based on the capitalization policy in place at the time the Custom IR framework for the Horizon rate zone was approved, or the new post-merger capitalization policy for Alectra Utilities.

Alectra Utilities has filed information showing that whether the old or new capitalization policy is used, actual capital additions for 2017 exceed the forecast capital additions of \$45,626,114.⁶ While there is no 2017 entry to the CIVA account at this time, the cumulative nature of this account means that final determination of the amount to be refunded to customers does not occur until the end of the five-year term (when 2019 results are available). The OEB finds that it is appropriate to defer consideration of the actual 2017 capital additions to be used for the final computation of the CIVA account until the application for 2020 rates. The OEB has previously determined that other issues related to the change in capitalization policy will be heard in the same 2020 rate proceeding.

Efficiency Adjustment

The approved settlement proposal for the Custom IR framework included an efficiency adjustment intended to incent the former Horizon Utilities to maintain or improve its cohort position based on the OEB's stretch factor assignments. The efficiency adjustment was to operate as a proxy stretch factor in the event that Horizon Utilities was to be placed in a less efficient cohort in any year during the Custom IR term. Horizon Utilities was in the Group III cohort in 2015 and remains in Group III for the purpose of calculating 2019 stretch factors.

⁶ EB-2018-0016, Responses to OEB Staff Interrogatories, September 17, 2018 (HRZ-Staff-23)

Alectra Utilities submitted that no efficiency adjustment was appropriate. OEB staff in its submission agreed. No other party expressed any concerns on this matter.

Findings

The OEB agrees that there should be no efficiency adjustment for the 2019 rate year. Horizon Utilities was in Group III of the OEB's efficiency benchmarking and Alectra Utilities remains in Group III as of the OEB's most recent assessment.⁷

Special Studies Deferral Account

The approved settlement proposal for the Custom IR framework included a deferral account to record costs related to the development of a study to determine the appropriateness of the specific service charges for the Horizon RZ. Alectra Utilities confirmed that no studies had commenced and no costs had been recorded related to this matter.

No parties made submissions on this issue.

Findings

The OEB accepts that no study costs have been incurred related to specific service charges and no entry in the deferral account is required in 2019. The OEB has policy consultations underway to review Customer Service Rules and Miscellaneous Rates and Charges. The OEB agrees it is more effective for Alectra Utilities to participate in these consultations rather than undertaking its own study.

Street Lighting Class Revenue-to-Cost Ratio

The OEB approved rate changes in 2016⁸ for the street lighting class resulting from OEB policy changes to the street lighting adjustment factor and the revenue-to-cost ratio.⁹ The OEB directed Horizon Utilities to phase in the revenue-to-cost ratio changes over the Custom IR term.

⁷ *Empirical Research in Support of Incentive Rate-Setting 2017 Benchmarking Update*, August 2018

⁸ EB-2015-0075, Decision and Order, December 10, 2015.

⁹ "Issuance of New Cost Allocation Policy for Street Lighting Rate Class", EB-2012-0383, June 12, 2015.

Alectra Utilities requested approval to reduce the 2019 street lighting class' revenue-to-cost ratio by 6.6% to 100.0%.

OEB staff submitted that the proposed rate design was consistent with the OEB's decision on the 2016 Custom IR Update¹⁰ and the OEB's policies¹¹. No other party commented on this proposed change.

Findings

The OEB approves the proposed change to the revenue-to-cost ratio for the street lighting rate class in 2019, as the change is consistent with the OEB's 2016 Custom IR Update decision.¹²

4.2 IRM Model Filings for the Brampton, Enersource, and PowerStream Rate Zones

The OEB will first address the following issues, and provide reasons for approving Alectra Utilities' proposals relating to each of them:

- Price Cap Adjustment
- Eligible Investments for Connection of Qualifying Generation Facilities

A number of the potential adjustments to the rates for the Brampton, Enersource and PowerStream RZs are dealt with in subsequent sections of this Partial Decision and Order because in addition to being relevant to these three rate zones they are also relevant to the Horizon RZ. These include:

- Retail Transmission Service Rates
- Residential Rate Design
- Deferral and Variance Accounts
- Lost Revenue Adjustment Mechanism Variance Account

¹⁰ EB-2015-0075, Decision and Order, December 10, 2015

¹¹ Issuance of New Cost Allocation Policy for Street Lighting Rate Class, June 12, 2015

¹² EB-2015-0075 Decision and Order, December 10, 2015

Price Cap Adjustment

Alectra Utilities seeks to increase its rates for the Brampton, Enersource, and PowerStream RZs, effective January 1, 2019, 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 formula applicable to Alectra Utilities are set out in Table 4.1, below. Inserting these components into the formula results in a 1.20% increase for the Brampton, Enersource, and PowerStream RZ's rates: **1.20% = 1.50% - (0.00% + 0.30%)**.

Table 4.1: Annual Index IR Adjustment Formula

Components		Amount
Inflation Factor ¹³		1.50%
X-Factor	Productivity ¹⁴	0.00%
	Stretch (0.00% – 0.60%) ¹⁵	0.30%

The inflation factor of 1.50% applies to all Price Cap IR applications for the 2019 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 applications for the 2019 rate year.

¹³ For 2019 Inflation factor see Ontario Energy Board 2019 Electricity Distribution Rate applications - Updates November 23, 2018.

¹⁴ 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.

¹⁵ The stretch factor groupings are based on the Report to the Ontario Energy Board – “Empirical Research in Support of Incentive Rate-Setting: 2017 Benchmarking Update”, prepared by Pacific Economics Group LLC., August 2018.

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 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%.

Findings

The OEB finds that Alectra Utilities' request for a 1.20% rate adjustment for the Brampton, Enersource, and PowerStream RZs 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, 2019.

The adjustment applies to distribution rates (fixed and variable charges) uniformly across all customer classes.¹⁶

The OEB directs Alectra Utilities to update the 2019 inflation factor in the draft rate order reflecting this Partial Decision and Order.

Eligible Investments for Connection of Qualifying Generation Facilities

Brampton RZ

The former Hydro One Brampton Networks Inc. filed a Distribution System Plan (DSP) as part of its 2015 cost of service application.¹⁷ The plan included a request for funding of a Renewable Generation Connection amount to be recovered through the Independent Electricity System Operator (IESO) relating to Renewable Enabling Improvement Investments and Renewable Expansion Investments from 2015 to 2019.

Alectra Utilities is requesting to collect renewable generation funding of \$145,922 in

¹⁶ 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.

¹⁷ EB-2014-0083

2019 from all provincial ratepayers for the Brampton RZ.

Enersource RZ

The former Enersource Hydro Mississauga Inc. filed a basic Green Energy Plan as part of its 2013 cost of service application.¹⁸ The plan provided a forecast of the number of projects and costs related to the connection of FIT and microFIT projects until 2016. As part of this IRM application, Alectra Utilities has provided an update to the number of scheduled projects for the Enersource RZ to include 2017 actual amounts and an estimate for 2018 and 2019.

Alectra Utilities is requesting to collect renewable generation funding of \$153,726 in 2019 from all provincial ratepayers for the Enersource RZ.

PowerStream RZ

The former PowerStream Inc. filed a Distribution System Plan (DSP) as part of its 2016-2020 Custom IR application¹⁹ which included a request for funding of a Renewable Generation Connection amount to be recovered through the IESO relating to Renewable Enabling Improvement Investments and Renewable Expansion Investments from 2016 to 2020.

Alectra Utilities is requesting to collect renewable generation funding of \$260,517 in 2019 from all provincial ratepayers for the PowerStream RZ.

OEB staff submitted that Alectra Utilities' renewable generation funding requests for the three rate zones were correctly calculated. No intervenor opposed Alectra Utilities' request for these cost recoveries.

Findings

The OEB approves the proposed funding of investments for connecting renewables, which were previously approved by the OEB. The approved amounts are \$145,922 for the Brampton RZ, \$153,726 for the Enersource RZ and \$260,517 for the PowerStream RZ.

¹⁸ EB-2012-0033

¹⁹ EB-2015-0003

4.3 Retail Transmission Service Rates

Distributors charge RTSRs to their customers to recover the amounts they pay to a transmitter, a host distributor or both for transmission services. All transmitters charge (through the IESO) Uniform Transmission Rates (UTRs) approved by the OEB to distributors connected to the transmission system. Host distributors charge host-RTSRs to distributors embedded within the host's distribution system.

All four of Alectra Utilities' rates zones are partially embedded within Hydro One Networks Inc.'s distribution system. Alectra Utilities is requesting approval to adjust the RTSRs charged to customers to reflect the rates it pays for transmission services.

OEB staff had no concerns with the data supporting the updated RTSRs proposed by Alectra Utilities for the four rate zones.

The UTRs and host-RTSRs currently charged to Alectra Utilities are included in Tables 4.2 and 4.3.

Table 4.2: UTRs²⁰

Current Approved UTRs (2018)	per kW
Network Service Rate	\$3.61
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.95
Transformation Connection Service Rate	\$2.34

Table 4.3: Hydro One Networks Inc. Sub-Transmission Host RTSRs²¹

Current Approved Sub-Transmission Host RTSRs (2017)	per kW
Network Service Rate	\$3.19
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.77
Transformation Connection Service Rate	\$1.75

²⁰ Decision and Order, EB-2017-0359, February 1, 2018

²¹ Decision and Order, EB-2016-0081, December 21, 2016

Findings

Alectra Utilities' proposed adjustment to its RTSRs is approved. The RTSRs were adjusted based on the current host-RTSRs and the UTRs. The differences resulting from the approval of new 2019 UTRs and RTSRs will be captured in Accounts 1584 and 1586 for future disposition.

4.4 Residential Rate Design

All 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 2016.²² This is the last year of the transition for the Brampton, Enersource, and Horizon RZs and, accordingly, 2019 is the final year in which the Brampton, Enersource, and Horizon RZs' rates will be adjusted upwards by more than the mechanistic adjustment alone. The Brampton, Enersource, and Horizon RZs will have transitioned to a fully fixed structure. PowerStream RZ has one more year for its transition to a fully fixed structure and is required to continue with this transition until the monthly service charge is fully fixed.

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 confirmed that the monthly service charge was not increasing by more than \$4, nor would the customer at the 10th consumption percentile of electricity consumption have a bill impact of 10% or more for the Horizon, Brampton, Enersource and PowerStream RZs.

²² OEB Policy – "A New Distribution Rate Design for Residential Electricity Customers." EB-2012-0410, April 2, 2015

OEB staff submitted that the method used to calculate the fixed rate was in accordance with OEB policy and no mitigation is required. Intervenors did not object to Alectra Utilities' proposals on this matter.

Findings

The OEB finds that the approach to calculate the 2019 monthly fixed charges for the Brampton, Enersource, Horizon, and PowerStream RZs is 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. Alectra Utilities shall adopt this same approach in the updated Rate Generator Models to be filed with the draft rate order resulting from this Decision.

4.5 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 total balance should be disposed.²³ 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 justifies why balances should not be disposed.²⁴ If the balance does not exceed the threshold, a distributor may elect to request disposition. The approved settlement proposal for Horizon Utilities' Custom IR framework accepted the proposal to adopt the same approach for Group 1 accounts during the Horizon Utilities' Custom IR term.

Earlier this year, the OEB suspended its approvals of Group 1 rate riders on a final basis. As stated in its letter to the sector dated July 20, 2018, the OEB will determine whether the riders will be approved on an interim basis or not approved at all (i.e. no disposition of account balances) on a case-by-case basis until further notice.²⁵

Alectra Utilities included in its application a request for the disposition of Group 1 DVAs over a one-year period including carrying charges projected to December 31, 2018, for the Horizon, Brampton, Enersource, and PowerStream RZs.

²³ 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.

²⁴ Report of the OEB – "Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)." EB-2008-0046, July 31, 2009.

²⁵ 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.

Horizon RZ

The 2017 actual year-end total balance for the Horizon RZ's Group 1 accounts including interest projected to December 31, 2018 is a credit of \$8,401,287. This amount represents a total credit claim of \$0.0016 per kWh, which exceeds the disposition threshold. Alectra Utilities proposed the disposition of this credit amount over a one-year period.

Brampton RZ

The 2017 actual year-end total balance for the Brampton RZ's Group 1 accounts including interest projected to December 31, 2018 is a credit of \$2,875,293. This amount represents a total credit claim of \$0.0007 per kWh, which does not exceed the disposition threshold. Alectra Utilities elected to dispose of Group 1 account balances. Alectra Utilities proposed the disposition of this credit amount over a one-year period.

Enersource RZ

The 2017 actual year-end total balance for the Enersource RZ's Group 1 accounts including interest projected to December 31, 2018 is a debit of \$2,918,724. This amount represents a total debit claim of \$0.0004 per kWh, which does not exceed the disposition threshold. Alectra Utilities elected to dispose of Group 1 account balances. Alectra Utilities proposed the disposition of this debit amount over a one-year period.

OEB staff noted that there was a change in the rate generator model provided on October 25, 2018 that showed there were 76 Enersource RZ transition customers instead of the 74 in the initial application. Alectra Utilities confirmed that it did not make revisions to the initial application. Alectra Utilities identified that 74 customers transitioned from Class B to Class A and two customers transitioned from Class A to Class B in 2017.

PowerStream RZ

The 2017 actual year-end total balance for the PowerStream RZ's Group 1 accounts including interest projected to December 31, 2018 is a credit of \$10,435,500. This amount represents a total credit claim of \$0.0013 per kWh, which exceeds the disposition threshold. Alectra Utilities proposed the disposition of this credit amount over a one-year period.

OEB staff submitted that the Group 1 DVA balances for the Horizon, Brampton, Enersource, and PowerStream RZs should be disposed of on an interim basis, in accordance with the OEB letter to the sector dated July 20, 2018. Alectra Utilities submitted that the Group 1 DVA balances should be disposed on a final basis.

Alectra Utilities also noted that the interest rate for Q4 2018 was updated by the OEB on September 14, 2018. Alectra Utilities submitted that it will update the carrying charges in the draft rate order.

Findings

The OEB approves the disposition of a credit principal balance of \$8,247,932 as of December 31, 2017 for Group 1 accounts on an interim basis for the Horizon RZ.

The OEB approves the disposition of a credit principal balance of \$2,848,521 as of December 31, 2017 for Group 1 accounts on an interim basis for the Brampton RZ.

The OEB approves the disposition of a debit principal balance of \$2,832,756 as of December 31, 2017 for Group 1 accounts on an interim basis for the Enersource RZ.

The OEB approves the disposition of a credit principal balance of \$10,410,406 as of December 31, 2017 for Group 1 accounts on an interim basis for the PowerStream RZ.

The OEB accepts Alectra Utilities explanation that the Enersource RZ had 74 customers that transitioned from Class B to Class A in 2017 and two customers that transitioned from Class B to Class A, for a total of 76 transition customers.

Disposition of the balances will be over 11 months from February 1, 2019 to December 31, 2019. Alectra Utilities shall recalculate the interest to January 31, 2019 and file revised rate riders as part of the draft rate order.

Alectra Utilities asked that its Group 1 deferral and variance account balances be disposed on a final basis. Alectra Utilities did not provide reasons why the OEB should deviate from its current policy of disposing of Group 1 accounts on an interim basis for the Brampton, Enersource or PowerStream RZs. For the Horizon RZ, Alectra Utilities submitted that it would be preferable to dispose of Group 1 balances on a final basis to provide rate certainty to ratepayers.

The OEB's policy, per the July 20, 2018 letter, stated that the OEB will not approve Group 1 rate riders on a final basis until the new standardized requirements for regulatory accounting and RPP settlements are finalized. The OEB sees no reason to deviate from its policy.

Tables 4.4, 4.5, 4.6 and 4.7 identify the principal amounts for each of the four RZs which the OEB approves for disposition.

Table 4.4: Horizon RZ Group 1 Deferral and Variance Account Balances

Account Name	Account Number	Principal Balance (\$) A
LV Variance Account	1550	586,395
Smart Meter Entity Variance Charge	1551	(27,964)
RSVA - Wholesale Market Service Charge	1580	(4,605,473)
Variance WMS - Sub-account CBR Class B	1580	(55,326)
RSVA - Retail Transmission Network Charge	1584	(187,535)
RSVA - Retail Transmission Connection Charge	1586	433,459
RSVA – Power	1588	(4,040,810)
RSVA - Global Adjustment	1589	(350,579)
Totals for all Group 1 accounts		(8,247,932)

Table 4.5: Brampton RZ Group 1 Deferral and Variance Account Balances

Account Name	Account Number	Principal Balance (\$) A
LV Variance Account	1550	200,280
Smart Meter Entity Variance Charge	1551	(65,889)
RSVA - Wholesale Market Service Charge	1580	(3,926,630)
Variance WMS - Sub-account CBR Class B	1580	(121,943)
RSVA - Retail Transmission Network Charge	1584	19,930
RSVA - Retail Transmission Connection Charge	1586	(71,372)
RSVA – Power	1588	(627,073)
RSVA - Global Adjustment	1589	1,744,175
Totals for all Group 1 accounts		(2,848,521)

Table 4.6: Enersource RZ Group 1 Deferral and Variance Account Balances

Account Name	Account Number	Principal Balance (\$) A
LV Variance Account	1550	2,379,788
Smart Meter Entity Variance Charge	1551	(26,813)
RSVA - Wholesale Market Service Charge	1580	(7,283,689)
Variance WMS - Sub-account CBR Class B	1580	35,171
RSVA - Retail Transmission Network Charge	1584	1,964,323
RSVA - Retail Transmission Connection Charge	1586	48,373
RSVA – Power	1588	319,684
RSVA - Global Adjustment	1589	5,395,918
Totals for all Group 1 accounts		2,832,756

Table 4.7: PowerStream RZ Group 1 Deferral and Variance Account Balances

Account Name	Account Number	Principal Balance (\$) A
LV Variance Account	1550	1,506,288
Smart Meter Entity Variance Charge	1551	(389,459)
RSVA - Wholesale Market Service Charge	1580	(7,987,408)
Variance WMS - Sub-account CBR Class B	1580	(84,171)
RSVA - Retail Transmission Network Charge	1584	(6,668,761)
RSVA - Retail Transmission Connection Charge	1586	(1,010,067)
RSVA – Power	1588	(223,398)
RSVA - Global Adjustment	1589	4,446,571
Totals for all Group 1 accounts		(10,410,406)

Once the final balances with interest are approved, 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.²⁶ 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, 2019 (Quarter 1).

²⁶ Accounting Procedures Handbook for Electricity Distributors, effective January 1, 2012.

4.6 Lost Revenue Adjustment Mechanism Variance Account

Distributors have an OEB licence requirement to ensure conservation and demand management (CDM) programs are available to their customers. These programs result in reduced total energy consumption. To address the impact of the reduced consumption, OEB Policy established a Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) to capture a distributor's revenue implications resulting from differences between actual load and the last OEB-approved load forecast.²⁷ These differences are recorded by distributors at the rate class level.

A distributor may apply for the disposition of the balance in the LRAMVA on an annual basis, as part of its IRM application, if the balance is deemed significant by the distributor. A request for the inclusion of lost revenues from demand response programs, as part of the LRAMVA, must be addressed through a cost of service application.²⁸

Alectra Utilities requested disposition of the balances in its LRAMVAs resulting from its CDM activities as of December 31, 2016 for each of the Horizon, Brampton, Enersource, and PowerStream RZs.

For each of these four rate zones, Alectra Utilities has stated it determined the LRAMVA balance in accordance with the OEB's 2012 CDM Guidelines and 2015 CDM Guidelines.²⁹ Alectra Utilities completed the OEB's 2018 LRAMVA work form for each of the four rate zones. In accordance with the OEB's 2016 Updated Policy³⁰ on the calculation of peak demand savings, Alectra Utilities has not included peak demand (kW) savings from Demand Response programs for the Horizon, Brampton, Enersource, and PowerStream RZs in its lost revenue calculation.

Horizon RZ

Alectra Utilities' actual savings from CDM activities were above the estimated projections used in the load forecast resulting in an under-collection from customers.

²⁷ Guidelines for Electricity Distributor Conservation and Demand Management, EB-2012-0003, April 26, 2012; and, Requirement Guidelines for Electricity Distributors Conservation and Demand Management, EB-2014-0278, December 19, 2014.

²⁸ Report of the Ontario Energy Board – "Updated Policy for the Lost Revenue Adjustment Mechanism Calculation: Lost Revenues and Peak Demand Savings from Conservation and Demand Management Programs." EB-2016-0182, May 19, 2016

²⁹ Conservation and Demand Management Requirement Guidelines for Electricity Distributors, EB-2014-0278, December 19, 2014

³⁰ Report of the Ontario Energy Board – "Updated Policy for the Lost Revenue Adjustment Mechanism Calculation: Lost Revenues and Peak Demand Savings from Conservation and Demand Management Programs." EB-2016-0182, May 19, 2016

Alectra Utilities' LRAMVA claim, after interrogatories, for the Horizon RZ for 2016 was a debit of \$764,014, including forecasted carrying charges of \$25,812 through to December 31, 2018.

OEB staff submitted that Alectra Utilities has included a larger CDM threshold in its calculation compared to the basis for which 2015 rates were set. Alectra Utilities used an LRAMVA threshold of 38.7 million kWh when the approved threshold was 19.5 million kWh.

Alectra Utilities acknowledged that it incorrectly applied a threshold of 38.7 million kWh for 2016 but submitted the correct threshold was 19.2 million kWh as originally identified in the Custom IR application.³¹ Alectra Utilities also noted that it updated the interest rate for Q4 2018 to reflect the latest prescribed interest rate. The revised LRAMVA claim is a debit of \$908,115 from customers.

Brampton RZ

Alectra Utilities' actual savings from CDM activities were above the estimated projections used in the load forecast resulting in an under-collection from customers. Alectra Utilities' LRAMVA claim, after interrogatories, for the Brampton RZ for 2016 was a debit of \$761,361, including forecasted carrying charges of \$25,735 through to December 31, 2018.

OEB staff found the Brampton RZ LRAMVA balance was calculated consistently with the LRAMVA work form and supported the request by Alectra Utilities.

Alectra Utilities also noted that it updated the interest rate for Q4 2018 to reflect the latest prescribed interest rate. The revised LRAMVA claim is a debit of \$762,247 from customers.

Enersource RZ

Alectra Utilities' actual savings from CDM activities were above the estimated projections used in the load forecast resulting in an under-collection from customers. Alectra Utilities' LRAMVA claim, after interrogatories, for the Enersource RZ for 2016 was a debit of \$2,008,343, including forecasted carrying charges of \$67,852 through to December 31, 2018.

OEB staff found the Enersource RZ LRAMVA balance was calculated consistently with the LRAMVA work form and supported the request by Alectra Utilities but noted that

³¹ EB-2014-0002

Alectra Utilities needed to update a minor inconsistency in the billed demand data for streetlights.

Alectra Utilities acknowledged the inconsistency and stated that it would update the LRAMVA work form. Alectra Utilities also noted that it updated the interest rate for Q4 2018 to reflect the latest prescribed interest rate. The revised LRAMVA claim is a debit of \$2,007,600 from customers.

PowerStream RZ

Alectra Utilities' actual savings from CDM activities were above the estimated projections used in the load forecast resulting in an under-collection from customers. Alectra Utilities' LRAMVA claim, after interrogatories, for the PowerStream RZ for 2016 was a debit of \$2,889,807, including forecasted carrying charges of \$97,905 through to December 31, 2018.

OEB staff found the PowerStream RZ LRAMVA balance was calculated consistently with the LRAMVA work form and supported the request by Alectra Utilities.

Alectra Utilities also noted that it updated the interest rate for Q4 2018 to reflect the latest prescribed interest rate. The revised LRAMVA claim is a debit of \$2,891,761 from customers.

Findings

The OEB approves the disposition of the LRAMVA accounts for the Brampton, Enersource, and PowerStream RZs of \$762,247, \$2,007,600, \$2,891,761 respectively. Alectra Utilities has stated that these calculations are based on the most recent and appropriate final CDM evaluation reports from the IESO. The OEB accepts Alectra Utilities update for a minor inconsistency in the billed demand data for streetlights for the Enersource RZ..

The OEB accepts Alectra Utilities correction of the threshold amount for 2016 to be used in determining the LRAMVA for the Horizon RZ. The OEB approves the use of a revised threshold amount of 19,205,046 kWh and the revised LRAMVA of \$908,115.

The rate riders for the LRAMVA shall recover the approved amounts over 11 months, from February 1, 2019 to December 31, 2019. Alectra Utilities shall file updated LRAMVA work forms for each rate zone to reflect the final approved balances showing the updated interest calculation to January 31, 2019 using the 2018 fourth quarter OEB prescribed interest rate, and the revised rate riders for the 11-month recovery period.

4.7 Interim Rates, Effective Date, and Foregone Revenue

At the oral hearing on December 5, 2018, Alectra Utilities advised the OEB that it was in the midst of an upgrade to its customer information system (CIS) resulting from its recent merger. As a result, it was too late to implement rates for January 1, 2019, regardless of the date of this Decision. Alectra Utilities requested that its rates be effective January 1, 2019 but implemented on February 1, 2019. Alectra Utilities clarified that this request was with respect to the IRM matters for which argument has already transpired.³²

The OEB sought comments from the intervenors at the oral hearing on December 6, 2018. None of the intervenors that were present objected to the request, given the unique situation of the CIS upgrade. CCC, who was not present, provided a comment through SEC that there should be formal submissions on this issue.

Findings

The OEB finds that given the logistical circumstances of an upgrade to Alectra Utilities' CIS, the base rates resulting from this Decision will be effective January 1, 2019 but implemented on February 1, 2019. The OEB is satisfied that this approach is reasonable for the issues and findings included in this Decision.

Intervenors and OEB staff had the opportunity by December 17, 2018 to make written submissions on the effective date for any approved incremental capital modules rate riders, which will be decided in a subsequent OEB decision.

The OEB previously made a determination that the disposition of Group 1 deferral and variance accounts will be over 11 months, from February 1, 2019 to December 31, 2019. For retail service transmission rates, any differences between actual costs and revenue collected from customers is recorded in a variance account for future disposition. Therefore, the new RTSRs will be effective and implemented February 1, 2019. The amounts approved for Eligible Investments for Connection of Qualifying Generation Facilities for the Brampton, Enersource and PowerStream RZs are approved on an annual basis, and will be the subject of a subsequent OEB decision to determine the monthly amounts paid by the IESO to Alectra Utilities.

The rates for each of Alectra Utilities' RZs are made interim effective January 1, 2019.

The OEB will approve rate riders to recover the foregone revenue given the approved effective date and implementation date as part of the draft rate order process. The OEB

³² EB-2018-0016, Oral Hearing Transcript, December 6, 2018, p.5

directs Alectra Utilities to file proposed rate riders for the foregone revenue in its draft rate order.

5 CONFIDENTIALITY REQUEST

At the oral hearing, the OEB provided an oral Decision³³ on a confidentiality request by Alectra Utilities for redacted information in the interrogatory responses to G-Staff-2 Attachments 1 to 4 and CCC-1 Attachment 1. The OEB determined that the redacted information is not relevant to this proceeding.

The OEB's determination that the information is not relevant is based on the nature of the current proceeding. Alectra Utilities' application includes IRM applications for the Brampton, Enersource and PowerStream RZs, and a Custom IR annual update for the Horizon RZ. The OEB is specifically not making a finding on whether this redacted information would be relevant or granted confidential treatment in a future rebasing rate application.

³³ EB-2018-0016, Oral Hearing Transcript, December 5, 2018, p. 2-3

6 IMPLEMENTATION

The OEB directs Alectra Utilities to revise the proposed rates to reflect the findings in this Partial Decision and Order and to file a draft rate order for rates to be implemented February 1, 2019 based on the effective dates determined in this Partial Decision and Order.

The OEB expects Alectra Utilities to file detailed supporting material showing the impact of this Partial Decision and Order on the rates and rate riders, including bill impacts.

7 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Alectra Utilities shall file with the OEB and forward to intervenors a draft rate order with a proposed Tariff of Rates and Charges attached that reflects the OEB's findings in this Partial Decision and Order, no later than **January 7, 2019**. Alectra Utilities shall also include customer rate impacts and detailed information in support of the calculation of final rates in the draft rate order.
2. Intervenors and OEB staff shall file any comments on the draft rate order with the OEB, and forward to Alectra Utilities by **January 11, 2019**. The OEB does not intend to allow for an award of costs for the review of the draft rate order or for the filing of any comments on the draft rate order.
3. Alectra Utilities shall file with the OEB and forward to intervenors, responses to any comments on its draft rate order by **January 15, 2019**.

DATED at Toronto December 20, 2018

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary