

EB-2015-0003

PowerStream Inc.

**Application for electricity distribution rates for the period from January 1, 2016 to
December 30, 2020**

**COMMENTS ON DRAFT RATE ORDER OF
ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")**

August 25, 2016

**POWERSTREAM INC.
2016 – 201 CUSTOM IR RATES CASE**

EB-2015-0003

**SUBMISSION OF ENERGY PROBE RESEARCH FOUNDATION
ON DRAFT RATE ORDER**

A- INTRODUCTION

On August 4, 2016, the Ontario Energy Board (“Board”) issued its Decision and Order (“D&O”) in which it ordered PowerStream Inc. (“PowerStream”) to file a Draft Rate Order (“DRO”) reflecting the Board's findings.

The Board addressed a number of issues in its decision and Energy Probe has reviewed each of these impacts.

PowerStream filed the DRO on August 15, 2016. This is the Submission of Energy Probe Research Foundation (“Energy Probe”) related to the DRO. Energy Probe also notes that it has had the opportunity to review the DRO comments filed by Board Staff (“Staff”) and the School Energy Coalition (“SEC”).

B - SUBMISSIONS

a) 2016 Rates

Staff has raised a concern with the methodology used by PowerStream to calculate rates for 2016. PowerStream calculated 2016 rates by increasing 2015 rates by 1.80%. This is not consistent with the D&O.

In particular, at page 3 of the D&O, the Board states that “*the OEB will approve 2016 rates based on an estimate of the revenues that PowerStream would normally have received through an IRM adjustment from 2015 to 2016 rates*” with a footnote that states that “*IRM refers to a percentage increase that incorporates an inflation adjustment less a productivity incentive*” (emphasis added). Energy Probe submits that this is a clear indication that the Board did not approve the methodology used by PowerStream to calculate the 2016 rates, since it specifically refers to ‘an estimate of revenues’.

The Board is more specific in the D&O under the first bullet shown under item 1 on page 34. The Board states that with respect to 2016 rates “*PowerStream will calculate these rates on the basis of a 1.8% increase to the 2015 revenue requirement, with no new Incremental Capital Module*” (emphasis added). This again clearly illustrates that 2016 rates were based on the 2015 revenue requirement, not a simple adjustment to 2015 rates. Indeed, if it was the simple adjustment to 2015 rates, there would not have been a need to specifically exclude the incremental capital module referenced above.

Finally, the Board provides its’ most detailed description of how the 2016 rates are to be set in Section 3.1 of the D&O on page 12:

*“As indicated above, the OEB is approving 2016 rates based on an estimate of the revenues that PowerStream would normally have received through an IRM adjustment from 2015 to 2016 rates. **Using this approach, the OEB approves an amount for PowerStream’s 2016 revenue requirement that incorporates an increase of 1.8% over PowerStream’s approved 2015 revenue requirement.** This increase has been arrived at taking into account an inflation factor of 2.1%, a productivity factor of 0% and a stretch factor of 0.3%.”* (emphasis added).

The D&O clearly states that the Board has approved the setting of 2016 rates based on an increase of 1.8% over the approved 2015 revenue requirement. The need for the calculation of a 2016 revenue requirement is reinforced on page 34 of the D&O which indicates that PowerStream was to provide a completed version of the OEB Revenue Requirement Work Form (“RRWF”) excel spreadsheet. As the Board is well aware, this spreadsheet is not required for an IRM price cap adjustment, but is required when a revenue requirement is calculated.

Energy Probe submits that is very clear that the Board did not approve a simple 1.8% increase to 2015 rates as the methodology to set 2016 rates. To do so would imply that the Board and/or Staff do not understand the difference between the methodology outlined clearly in the D&O and the simple methodology used under a true IRM model.

The Board was very specific with reference to the 2015 revenue requirement excluding the incremental capital module as the starting point to calculate the 2016 revenue requirement. This 2016 revenue requirement, would of course, have to be allocated to the various rate classes and rates would have to be determined based on the 2016 forecast. With respect to the both the cost allocation and load forecast for 2016, Energy Probes notes that the Board has approved both of these based on the statement at the bottom of page 3 of the D&O that “*For any issues not specifically addressed in this Decision, the OEB accepts PowerStream’s position.*”

In its submission, Staff asks PowerStream to discuss the potential impacts of the different methodologies. Energy Probe submits that this is not necessary and that the methodology described by the Board should be used. Given the growth in customers in 2016, the 1.8% increase in the revenue requirement – which was what the Board approved – will be split over a larger number of customers, result in an average rate increase of less than 1.8%.

b) Working Capital Allowance in 2017

As noted above, the Board has implicitly approved PowerStream's position related to any issues not specifically addressed in its Decision. At page 13 of the D&O, under Section 3.3.1 the Board noted "*PowerStream has also stated that it agrees with Energy Probe's proposal that the OM&A used to calculate the working capital allowance should exclude any depreciation.*"

Energy Probe has reviewed the RRWF for the 2017 test year provided in Appendix D to the DRO and notes that PowerStream has appropriately reflected the reduction in the OM&A approved by the Board in the calculation of the working capital allowance. However, there is no reduction in the OM&A associated with the removal of the fully allocated depreciation expense (a non-cash flow expense) that PowerStream agreed should be removed. This is further highlighted in Table 4 of the DRO where the distribution expenses have been adjusted by \$5.6 million in the calculation of the working capital allowance component of rate base. The removal of the fully allocated depreciation expense has not been reflected.

Energy Probe submits that the PowerStream should remove the fully allocated depreciation expense that is included in the OM&A used to calculate the working capital allowance as agreed to them and approved by the Board. As shown in the response to technical conference question #14, this fully allocated depreciation expense included in OM&A in 2017 is more than \$850,000.

Energy Probe notes that the D&O on page 13, the Board states that Energy Probe submitted that "*in calculating working capital the amount of property taxes should be removed from OM&A*". Energy Probe made no such submission. Apparently the Board confused property taxes included in OM&A with fully allocated depreciation included in OM&A. In any event, the Board indicated that property taxes should be included in the OM&A and implicitly agreed with both Energy Probe and PowerStream that fully allocated depreciation expense should not be included in OM&A for the purposes of calculating the working capital allowance.

c) Change 2017 Net Fixed Assets

As shown in Table 4 in the DRO, PowerStream has reflect three changes to net fixed asset component of rate base: a capital spending reduction of \$15.8 million, an increase in closing work-in-progress (“WIP”) of \$4.7 million and a reduction in accumulated amortization of \$0.3 million.

Energy Probe submits that PowerStream has appropriately reflected the reduction of \$15.8 million in capital spending, but has not appropriately reflected the reduction in closing WIP of \$4.7 million from the evidence filed by PowerStream.

In the DRO, PowerStream states that *“WIP in the Application is forecast based on a historical analysis of the relationship between the amount of capital work done in a year and the amount of WIP at year end. A reduction of capital work of \$15.8 million results in a forecast of year end WIP of \$40.0 million, a reduction of \$4.7 million.”* (pages 7-8)

Energy Probe submits that PowerStream should provide a reference to the evidentiary record in this proceeding where this forecast methodology was illustrated. Otherwise, the Board should reject this as new and untested evidence.

Moreover, the Board did not provide for any change in the WIP forecast as part of the D&O. Therefore, this was an issue that was not specifically addressed in the Decision and there should not be any change from that in the updated evidence.

Energy Probe has reviewed the change in the accumulated depreciation expense and believes that the reduction of \$0.3 million is appropriate.

d) 2017 Depreciation Expense

Energy Probe notes that there appears to be a number of depreciation figures utilized in the DRO and the associated schedules.

In particular, the depreciation expense shown in Schedule D (RRWF) is \$51,203,551, which differs from the two figures shown in Schedule M (continuity schedule) of \$52.502 million before removal of fully allocated depreciation and \$50.013 after removal of the fully allocated depreciation. None of these figures match the depreciation added back in for PILS purposes in Schedule E (PILS) of \$53,803,000.

Energy Probe submits that PowerStream should provide a reconciliation of these figures beyond the reconciliation already included in the continuity schedule for the difference related to the fully allocated depreciation expense.

e) 2016 Capital Expenditures

Energy Probe agrees with the comments of SEC related to the level of capital spending in 2016. As the Board is aware, capital spending in the bridge year actually has a larger impact on rate base and the revenue requirement in the test year than does spending in the test year. Energy Probe submits that it is not plausible that the Board would have either simply overlooked the 2016 capital expenditures – which were higher than that which the Board reduced in the 2017 test year – or that the Board was unaware of the impact of the 2016 capital expenditures on the 2017 revenue requirement and therefore did not review them.

f) Renewable Generation Connection Rate Protection (RGCRP)

Energy Probe has reviewed the DRO with respect to the RGCRP and submits that the DRO with respect to this issue is correct and that the Board erred in its calculation of the 2016 amount by forgetting to include the 2014 and 2015 RGC investments.

g) PILS

Energy Probe has reviewed the SEC comments with respect to PILS and agrees with them. In addition, Energy Probe has reviewed the CCA schedule for 2017 and it appears that PowerStream has simply reduced the additions to the CCA classes by 12% across all classes. The 12% is the same reduction ordered by the Board in capital expenditures.

However, this results in additions in the 2017 CCA schedule of only \$132.011 million (CCA schedule in Schedule E), whereas the additions shown in the fixed asset continuity schedule (Schedule M) are \$133.324 million. In other words, it appears that PowerStream has not included more than \$1.2 million in CCA additions that it should have.

h) Foregone Revenue and Rate Riders

Energy Probe has reviewed the calculation of the foregone revenue in 2016 and the calculation of the rate riders to be applied over the last 3 months of 2016 to recover this foregone revenue.

Energy Probe believes that the foregone revenues have been calculated correctly based on rates used. However, as noted earlier in this submission, the calculation of the rates for 2016 has not been done based on the Board decision.

With respect to the rate riders, Energy Probe submits that the methodology used for the variable rate riders is appropriate. PowerStream calculated the foregone revenue based on the variable rate differences applied to the 2016 volume forecasts for January through September. This foregone variable rate revenue for each class (excluding residential) is then divided it by the remaining forecasted consumption in the months of October through December.

However, Energy Probe submits that the fixed rate rider calculation is not appropriate. The foregone revenue is calculated as the difference between the fixed charges and the average number of customers (or connections) in the January through October 2016 period. The residential foregone revenue is the sum of the fixed and variable foregone revenue since the proposal is to recover all of the foregone revenue from the residential class only through the fixed charge. Energy Probe submits that this calculation is appropriate.

The calculation of the fixed charge rate rider, however, is not consistent with either the approach taken for the variable rate rider or the calculation of the foregone revenue using the average number of customers in January through September.

PowerStream has calculated the monthly fixed charge rate riders by dividing the foregone revenue by 3 (for the number of months that the foregone revenue will be collected over) and then by the average number of customers (or connections) for 2016. Energy Probe submits that the proper way to calculate the rate rider is to use the average number of customers (or connections) over the October to December period. This is equivalent to using the forecasted volumes in the same period to calculate the variable rate rider.

Using the 2016 average, which is lower than the October to December average, results in over collection of the foregone revenue since the rate rider would be higher because it is calculated based on a lower number of customers. This is neither appropriate nor accurate.

Energy Probe submits that the fixed charge rate rider should be calculated using the average number of customers (or connections) from the 2016 forecast. This will make the calculation consistent with that of the variable rate rider and will accurately reflect the 2016 forecast of customers and connections.

i) Account 1557 Meter Cost Deferral Account

Energy Probe submits that PowerStream has not reflected the impact of the Board decision related to account 1557. In the D&O, the Board found (page 29) that:

“PowerStream is to record the cost of meters stranded by the new DSC requirement in account 1557 along with the actual costs of the replacement meters, using relevant sub accounts to record these two components.

The OEB makes this finding because it considers that the treatment of these meters should be similar to the treatment that was adopted by the OEB for smart meter cost recovery. The OEB expects that at such time as PowerStream’s program for installation of the new meters is substantially complete, PowerStream will file a true-up application. This would be done in PowerStream’s first cost of service application following the substantial completion of the program. At that time, the OEB will consider the prudence of the expenditures.”

Specifically, PowerStream has not removed these assets from rate base or the 2017 revenue requirement, which would include the impacts related to return on capital, depreciation and PILS.

Energy Probe submits that the Board decision is clear as to whether or not the costs of the stranded meters and the cost of the replacement meters should continue to be included in rate base, as they are under the PowerStream proposal which was rejected by the Board. The very fact that that these assets are to be included in account 1557 would seem to imply that they cannot be included in both that account and in account 1860 (Meters) since that would be a clear double counting of the assets on the books of PowerStream. These assets would be included in regulatory assets (1557) and in rate base (1860).

Moreover, the Board indicated in the decision that the costs for these meters would be treated similar to that of smart meter cost recovery. In that case, the stranded meters were removed from rate base and the cost of the replacement smart meters were not included in rate base until the next rebasing took place after substantial completion of the program. At that time, rate riders were established to recover the cost of the stranded meters and the costs associated with the replacement smart meters. These costs included depreciation, so PowerStream is not at risk of failing to recover the remaining net book value of these assets. The Board decision in this case seems to contemplate the same approach.

Energy Probe submits that the Board should direct PowerStream to remove the meters in question from rate base to avoid the double counting of these assets and to be consistent with the Board decision on this issue.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

August 25, 2016

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