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BY EMAIL

July 31, 2018

Ontario Energy Board
P.O. Box 2319
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2300 Yonge Street
Toronto ON M4P 1E4
Kirsten.Walli@oeb.ca

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Erie Thames Powerlines Corporation
2018 Cost of Service Distribution Rate Application
OEB Staff Reply Submission on the Issues List
OEB File No. EB-2017-0038**

In accordance with Procedural Order No. 1, please find attached the OEB staff reply submission in the above proceeding. This document is being forwarded to Erie Thames Powerlines Corporation and intervenors in this proceeding.

Yours truly,

Original Signed By

Fiona O'Connell
Project Advisor, Major Applications
Encl.

ONTARIO ENERGY BOARD

OEB STAFF REPLY SUBMISSION

2018 ELECTRICITY DISTRIBUTION RATES

Erie Thames Powerlines Corporation

EB-2017-0038

July 31, 2018

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1 SUMMARY

Erie Thames Powerlines Corporation (ETPL) filed a cost of service application with the Ontario Energy Board (OEB) on September 15, 2017 under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the rates that ETPL charges for electricity distribution, to be effective May 1, 2018.

ETPL's 2018 rebasing application is being considered under the OEB's proportionate review approach. The proportionate review process is intended to allow for a streamlined hearing of applications where it is appropriate.

In June 2018, the OEB issued its Decision on Scope of Review (Scoping Decision), which set out the issues that are to proceed to a full hearing and issues that are to proceed to an abridged hearing. Ten issues, with additional sub-issues, were included in the issues list attached as Schedule A to the Scoping Decision (Issues List).

In the Scoping Decision, the OEB determined that the following six issues would proceed to a full hearing process, including an opportunity for discovery:

1. Rate Base
2. Distribution System Plan (DSP) and Capital Expenditures
3. Operating Costs
4. Cost of Long-Term Debt, but not other areas of Cost of Capital
5. Cost Allocation: Revenue-to-cost ratios and standby rate proposal
6. Deferral and Variance Accounts, except the Lost Revenue Adjustment Mechanism Variance Account

The OEB also determined that the following four issues would proceed to an abridged hearing process that provides for written submissions:

7. Load Forecast and Other Revenue
8. Revenue Sufficiency/Deficiency
9. Cost Allocation: Other than areas noted for full hearing above
10. Rate Design: restricted to Bill Impacts for the Sentinel Lighting class, and any rate design effects that may result from the hearing of other issues

The Scoping Decision further stated that the OEB may permit further refinement of the issues on the Issues List.¹ The Scoping Decision identified two issues in particular

¹ EB-2017-0038 Decision on Scope of Review, June 8, 2018, page 3

where the OEB may permit parties to seek to have additional sub-issues added: *Issue 2: the DSP and Capital Expenditures* and *Issue 3: Operating Costs*.²

Procedural Order No. 1, issued on July 19, 2018, set out steps for intervenors and ETPL to make submissions on the Issues List regarding additional sub-issues that they believed should be included under Issue 2 or Issue 3. Procedural Order No. 1 also allowed for parties and OEB staff to have the opportunity to make reply submissions.

The Vulnerable Energy Consumers Coalition (VECC), an intervenor in this proceeding, made its submission on July 25, 2018 regarding six sections of the Issues List. No other party filed a submission.

VECC stated that it has offered comments in areas additional to Issue #2 and Issue #3, as it believed that the identification of these sub-issues would be useful.

The following is a summary of OEB staff's reply submission regarding the Issues List:

1. OEB staff supports VECC's suggestions to add the following new sub-issues:
 - Issues List #2 DSP and Capital Expenditures, VECC sub-issue #V2-1
 - Issues List #3 Operating Costs, VECC sub-issue #V3-1 and #V3-2
 - Issue List #4 Cost of Long-Term Debt, VECC sub-issue #V4-2
2. OEB staff does not support VECC's suggestions to add the following sub-issues:
 - Issues List #1 Rate Base, VECC sub-issue #V1-1
 - Issues List #2 DSP and Capital Expenditures, VECC sub-issue #V2-2
 - Issue List #4 Cost of Long-Term Debt, VECC sub-issue #V4-1 and #V4-3
 - Issues List #7 Cost Allocation, VECC sub-issue #V7-1
 - Issues List #9 Deferral and Variance Accounts, VECC sub-issue #V9-1

² EB-2017-0038 Decision on Scope of Review, June 8, 2018, pages 12-13, and 14

2 VECC'S PROPOSED ADDITIONS TO THE ISSUES LIST

2.1 Issues List #1 Rate Base

Background

VECC proposed the following additional sub-issue #V1-1:

1. Were the additions to rate base since the last rebasing of 2012 prudent?

OEB staff notes that the Issues List has included a general issue regarding rate base as follows.

Issues List Rate Base #1 General Issue:

- Is the rate base element of the revenue requirement reasonable, and has it been appropriately determined in accordance with OEB policies and practices?

Submission

OEB staff submits that the proposed additional VECC sub-issue #V1-1 is not required, as it is subsumed under the general rate base issue above.

2.2 Issues List #2 DSP and Capital Expenditures

Background

VECC proposed the following two additional sub-issues #V2-1 and #V2-2:

1. Is the proposed increase in system renewal capital spending for the 2018 to 2022 period prudent in light of the lower average spending in this category over the previous 5 year period?
2. Does the proposed DSP properly pace capital investments?

OEB staff notes that the Issues List has included a general issue regarding the DSP and capital expenditures as follows.

Issues List DSP and Capital Expenditures #2 General Issue:

- Are ETPL's proposed capital expenditures appropriate and have the trade-offs with the proposed level of Operating Costs been given adequate consideration?

Submission

OEB staff submits that VECC sub-issue #V2-1 should be added, as it identifies a specific sub-issue under the more general issue that could benefit from further discovery.

OEB staff submits that the proposed additional VECC sub-issue #V2-2 is not required, as this sub-issue is subsumed under the general DSP and capital expenditures issue above.

2.3 Issues List #3 Operating Costs

Background

VECC proposed the following additional sub-issues #V3-1 and #V3-2:

1. Did the underspending in operating costs for the period 2012, 2013 and 2015 from that approved by the Board in 2012 result in any deferred costs that are proposed to be recovered in 2018 onward?
2. Is the increase in compensation both the increase in costs and the reduction in non-management positions and increase in management positions reasonable?

Submission

OEB staff submits that VECC sub-issues #V3-1 and #V3-2 should be included, as these sub-issues could benefit from further discovery.

OEB staff recommends that sub-issue #V3-1 be modified as shown below in red, to take into account that ETPL underspent operating costs for the period 2012, 2013 and 2014.

1. Did the underspending in operating costs for the period 2012, 2013 and 2014 from that approved by the Board in 2012 result in any deferred costs that are proposed to be recovered in 2018 onward?

2.4 Issues List #4 Cost of Long-Term Debt

Background

VECC proposed the following additional sub-issues #V4-1, #V4-2, and #V4-3:

1. Is the variance between ETPL's actual and notional capital structure reasonable?
2. Does ETPL's policy of borrowing 100% of its long-term debt at above market rates pose any risk to the regulated utility that might have consequences on ratepayers?
3. Has ETPL undertaken sufficient due diligence with respect to services provided by affiliated companies to ensure that ratepayers are paying market based prices for these services?

OEB staff notes that VECC has grouped VECC sub-issue #V4-3 above under Issue #4 Cost of Long-Term Debt, but this sub-issue more properly belongs under Issue #3 Operating Costs. OEB staff also notes that VECC sub-issue #V4-3 above is covered by an existing Issues List sub-issue regarding Operating Costs (Issues List sub-issue 3g), as follows.

Issues List Sub-Issue #3g:

- Are the portions of affiliate costs allocated to ETPL appropriate and, if so, why?

Submission

OEB staff submits that VECC sub-issue #V4-1 should not be included, as the actual capital structure is not used to generate the OEB-approved capital structure.

OEB staff submits that VECC sub-issue #V4-2 should be included, as it raises a sub-issue that is related to Issues List sub-issue 4a and could benefit from further discovery.

OEB staff submits that VECC sub-issue #V4-3 should not be included, as it is covered by Issues List sub-issue 3g). Moreover, OEB staff submits that if its inclusion is approved by the OEB, VECC sub-issue #V4-3 more properly belongs under Issue #3 Operating Costs, instead of Issue #4 Cost of Long-Term Debt.

2.5 Issues List #7 Cost Allocation

Background

VECC proposed the following additional sub-issue #V7-1:

1. Are the proposed changes from the approved 2012 cost allocation, and which underlie the revised revenue-to-cost-ratios reasonable?

OEB staff notes that the Issues List includes the following sub-issue regarding Cost Allocation.

Issues List Sub-Issue #7a:

- Are ETPL's proposed revenue-to-cost ratios appropriate, particularly given the shifts in the revenue-to-cost ratios produced in the cost allocation model from the previously approved ratios in 2012 to the status quo ratios, which are used to derive the proposed ratios in this application?

Submission

OEB staff submits that VECC sub-issue #V7-1 should not be included, as it is covered by Issues List sub-issue 7a).

2.6 Issues List #9 Deferral and Variance Accounts

Background

VECC proposed the following additional sub-issue #V9-1:

1. Are the balances proposed for disposition in accounts 1508 (IFRS Transition), 1568 (LRAM), 1575 and 1576 (IFRS Transition) reasonable?

OEB staff notes that VECC sub-issue #V9-1 above is covered by an Issues List sub-issue regarding Deferral and Variance Accounts (Issues List sub-issue 9b), as follows.

Issues List Sub-Issue #9b:

- Are ETPL's proposals for disposition of Group Two accounts appropriate including the claim for IFRS transition costs and the calculation of the Account 1576 balance?

Submission

OEB staff submits that VECC sub-issue #V9-1 should not be included, as it is covered by Issues List sub-issue 9b), with one exception, Account 1568, Lost Revenue Adjustment Mechanism Variance Account (LRAMVA). Account 1568 LRAMVA is not a Group Two account so it would not be covered by Issues List sub-issue 9b). However, OEB staff submits that the Scoping Decision determined that there is no need for any further discovery of the Account 1568 LRAMVA balance, so there is no need for inclusion in the Issues List.

All of which is respectfully submitted