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BY EMAIL

November 19, 2018

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Kirsten.Walli@oeb.ca

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Oakville Hydro Electricity Distribution Inc.
Application for Rates
Staff Submission
OEB File Number EB-2018-0059**

In accordance with Procedural Order No.1, OEB staff filed a staff submission on November 16, 2018. Staff has revised its submission and apologies for any inconveniences it may have caused. This document is being forwarded to Oakville Hydro Electricity Distribution Inc.

Oakville Hydro Electricity Distribution Inc. is reminded that its Reply Submission is due on November 23, 2018.

Yours truly,

Original Signed By

Marc Abramovitz
Advisor, Incentive Rate Setting & Accounting

Encl.

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2019 ELECTRICITY DISTRIBUTION RATES

OAKVILLE HYDRO ELECTRICITY DISTRIBUTION
INC.

EB-2018-0059

November 19, 2018

**OEB Staff Submission
Oakville Hydro Electricity Distribution Inc.
2019 IRM Rate Application
EB-2018-0059**

Introduction

Oakville Hydro Electricity Distribution Inc. (Oakville Hydro) filed an application with the Ontario Energy Board (OEB) on September 12, 2018 under section 78 of the *Ontario Energy Board Act, 1998* seeking approval for changes to the rates that Oakville Hydro charges for electricity distribution, effective January 1, 2019.

The purpose of this document is to provide OEB staff's submissions on its review of the evidence submitted by Oakville Hydro. Oakville Hydro is in its final year of transition towards a fully fixed monthly distribution charge. Oakville Hydro has demonstrated that no rate mitigation is required. Consistent with the Chapter 3 Filing Requirements, Oakville Hydro has also applied the Price Cap IR adjustment factor to adjust the monthly service charge and volumetric distribution rate during the incentive rate-setting years. OEB staff has no concern with Oakville Hydro's proposals.

Oakville Hydro has requested an update to its Retail Transmission Service Rates to recover the wholesale transmission rates charged by the IESO and its host distributor, Hydro One. If the OEB approves an update to either the 2019 Uniform Transmission Rates or the 2018 Hydro One RTSR's prior to the Decision and Order for Oakville Hydro's 2019 rates, OEB staff will update Oakville Hydro's rate generator model accordingly.

OEB staff makes detailed submissions on the following:

- Disposition of Group 1 Accounts
- Request for Disposition of Account 1595 (2014)
- Z-Factor – May 2018 Windstorm

Request for Disposition of Group 1 Accounts

Background

OEB policy requires that distributors' audited Group 1 deferral and variance account balances be reviewed and disposed of if the disposition threshold of \$0.001 per kWh is

exceeded.¹ As stated in the OEB's July 20, 2018 letter, Group 1 rate riders would no longer be approved on a final basis pending the development of further guidance.² The OEB noted in the letter that the disposition of Group 1 deferral and variance account balances will be approved on an interim basis, or not be approved at all, as determined on a case by case basis.

In its application as originally filed, Oakville Hydro proposed to dispose of its audited Group 1 balance of \$279,973 or \$0.0002 per kWh, which is below the disposition threshold. It did so based on the large audited balances in Account 1580, Account 1588 and Account 1589 (see table A).

Table A

Application (as originally filed)	Total Claim
Account 1580	(\$3,569,730)
Account 1588	(\$1,004,869)
Account 1589	\$4,599,753

OEB staff reviewed the evidence provided by Oakville Hydro with respect to these account balances. OEB staff notes that in February 2018, Oakville Hydro was notified by the OEB's Audit and Investigations department that it would be conducting an inspection of Oakville Hydro's processes and practices specifically related to global adjustment and Regulated Price Plan settlement with the IESO.

As part of the record in this proceeding, Oakville Hydro filed a copy of the OEB's Audit and Investigation department's Inspection Report that documented various findings made by OEB staff with respect to commodity Accounts 1588 and 1589. An excerpt of that report is found below:

The OEB's Audit & Investigations staff (OEB staff) conducted an inspection of Oakville Hydro Electricity Distribution Inc.'s (Oakville Hydro) processes for the:

- 1) Settlement of Regulated Price Plan (RPP) and embedded generation variances with the IESO; and
- 2) Allocation of global adjustment (GA) charges between Accounts 1588 and 1589.

¹ Report of the OEB – "Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)." EB-2008-0046, July 31, 2009.

² July 20, 2018 Letter on the OEB's Plan to Standardize Processes to Improve Accuracy of Commodity Pass-Through Variance Accounts

OEB staff found that, due to errors in calculating the settlement amounts for embedded generation customers with the IESO as well as incorrectly allocating GA charges, Oakville Hydro has materially misstated the balances reported for Accounts 1588 and 1589. Table 1 details the misstated balances, as at December 31, 2017:

Table 1: Accounts 1588 and 1589

	Balance reported in RRR 2.1.7 as of Dec 31, 2017	Misstatement due to miscalculation of embedded generation settlement	Misstatement due to misallocation of GA charges	Restated balance as of Dec 31, 2017
Account 1588	1,244,550	(967,335)	(1,240,162)	(962,947)
Account 1589	3,266,022		1,240,162	4,506,184

OEB staff noted that there has been no impact to customers for these years as these balances have not yet been approved for disposition. As a result, OEB staff expects Oakville Hydro to make the necessary adjustments to Accounts 1588 and 1589 as of 2017 to ensure accurate account balances are brought forward for disposition in its next rate application.

OEB staff notes that the balances stated in Oakville Hydro’s application, as originally filed, are inclusive of projected interest from January 1, 2018 to December 31, 2018 on the December 31, 2017 balances. For this reason, the balances stated in the Inspection Report differ from Oakville Hydro’s application, as originally filed.

In response to interrogatories from OEB staff, Oakville Hydro also recorded principal adjustments to account for the differences between estimated and actual consumption with respect to GA revenue accruals. This resulted in the following updated balances for accounts 1588 and 1589 being requested for disposition, noted below in Table B:

Table B

Updated Application	Total Claim
Account 1580	(\$3,569,730)
Account 1588	(\$1,004,869)
Account 1589	\$4,235,583

The total Group 1 balance was updated to a credit of \$90,177 or \$0.0001 per kWh, which is still the below the disposition threshold.

OEB staff concludes that the balances in Account 1588 and 1589 are appropriate and consistent with the adjustments that were identified through interrogatories as well as the OEB's Inspection Report discussed above.

In particular, OEB staff notes that the areas of focus in the OEB's Inspection Report are with respect to settlement with the IESO and allocation of commodity costs between RPP and Non-RPP customers, two aspects of Accounts 1588 and 1589 that have a significant impact on the accuracy of those account balances. Given the evidence supplied by Oakville Hydro in this proceeding, OEB staff supports the disposition of the Group 1 account balances.

Request for Disposition of Account 1595 (2015)

Background

In its application, as originally filed, Oakville Hydro requested to dispose of a credit balance of \$44,461 in Account 1595 (2014). OEB staff questioned Oakville Hydro's request stating that the balance in Account 1595 (2014) was previously cleared on a final basis in the 2017 IRM proceeding.³ In response, Oakville Hydro noted that it had inadvertently labeled the account as Account 1595 (2014) and that it was requesting disposition of Account 1595 (2015). The balance in the account is related to the recovery of ice storm damage costs from January 1, 2015 to December 31, 2015. Oakville Hydro was approved a z-factor for recovery of ice storm costs in the amount of \$338,477 in its 2015 IRM decision. This related to a storm in 2013.

Oakville Hydro stated that the balance is below its materiality level and requested direction from OEB staff on the appropriateness of its request for disposition of the balance in this account.

OEB staff submits that to date, the residual balance of Account 1595 (2015) has not been disposed of on a final basis in any of Oakville Hydro's previous rate applications from 2016 IRM through to 2018 IRM. OEB staff submits that the residual balances of all Account 1595 sub-accounts are to be disposed of by distributors as part of Group 1 dispositions and since Oakville Hydro had not previously disposed of the residual balance of Account 1595 (2015) on a final basis, it is appropriate to dispose of the balance of this account in this proceeding. OEB staff also notes that since this account is part of the overall set of Group 1 accounts brought forward for disposition in this 2019

³ EB-2016-0097

IRM proceeding; the OEB does not normally apply a materiality test to each individual account. Therefore, OEB staff supports the disposition of the credit balance of the account.

Z-Factor Claim

On May 4, 2018 a windstorm struck southern and central Ontario bringing down trees and power lines. Approximately 35% of Oakville Hydro’s customers were impacted by the storm. Oakville Hydro was able to restore power to more than 90% of the affected customers within 3 hrs of the first interruption, and by the end of the following day there were less than 100 customers without power. To aid in restoring power, Oakville Hydro obtained assistance from a large power line contracting firm which it has a long standing relationship with.

Oakville Hydro is requesting the recovery of a z-factor claim in the amount of \$195,197, as incremental OM&A costs. This amount was adjusted following the responses to interrogatories. Oakville Hydro had initially sought an amount of \$188,014. Oakville Hydro has not requested the recovery of any carrying charges associated with the z-factor claim, nor any capital costs associated with its claim because they are not material. Oakville Hydro is requesting that the amount be recovered by means of a fixed rider, allocated on the basis of distribution revenue using the last OEB approved fixed-variable split, for a period of 12 months beginning January 1, 2019 and ending December 31, 2019.

A detailed breakdown of the expenses to be recovered is set out in table C below:

Table C

Description	
Incremental Labour Costs	\$45,576
Materials	\$15,153
Third Party Contractors	\$134,469
Z-Factor Amount Requested for Recovery	\$195,198

Based on the *Board’s Report on 3rd Generation Incentive Regulation for Ontario’s Electricity Distributors*⁴ dated July 14, 2008, z-factors are intended to provide for

⁴ http://www.ontarioenergyboard.ca/oeb/ Documents/EB-2007-0673/Report_of_the_Board_3rd_Generation_20080715.pdf

unforeseen events outside of a distributor's management control. The cost to the distributor must be material and its causation clear. In order for amounts to be considered for recovery by way of a z-factor, the amounts must satisfy the following three eligibility criteria:

- Causation – Amounts should be directly related to the z-factor event. The amount must be clearly outside of the base upon which rates were derived.
- Materiality – The amounts must exceed the Board-defined materiality threshold and have a significant influence on the operation of the distributor; otherwise they should be expensed in the normal course and addressed through organizational productivity improvements.
- Prudence – The amounts must have been prudently incurred. This means that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

Causation

In its application or in response to interrogatories from OEB staff, Oakville Hydro has provided the following comments with respect to 'causation':

- Management could not have been able to plan and budget for a storm of this magnitude (Application p.8).
- The total incremental costs incurred by Oakville Hydro to restore power to its customers were as a result of the windstorm (Application p.9).
- The claim does not include capital costs associated with the windstorm as they were immaterial and the utility is not requesting recovery of the revenue requirement associated with these capital costs (Application p.9).
- The claim includes incremental labour costs incurred by Oakville Hydro staff, materials, and third party contractors (Application p.9).
- It has provided a breakdown of incremental labour costs by department (OEB Staff Question #12a).
- It has an Alliance Agreement with a large power line contracting firm and the agreement sets out the rates to be charged for services provided during regular business hours and services provided after hours (OEB Staff Question #14a).
- It has provided a breakdown of contractor costs (OEB Staff Question #10e).
- It has incurred cumulative emergency maintenance costs of \$657,487 in excess of the amount that is in rates from 2014-2018 (OEB Staff Question #11a).

Emergency Maintenance In Rates			
Year	Amount in Rates	Actual	Difference
2014	\$587,800	\$560,021	(\$27,779)
2015	\$587,800	\$951,111	\$363,311
2016	\$587,800	\$856,740	\$268,940
2017	\$587,800	\$492,893	(\$94,907)
2018 YTD	\$489,833	\$637,756	\$147,922
Total	\$2,841,033	\$3,498,521	\$657,487

- The amounts claimed are directly related to the z-factor event and that if the ice storm had not occurred; Oakville would not have incurred any of the costs (OEB Staff Question #8d).

OEB staff notes that the 2015 actual amount noted in the table above does not include the recovery of \$338,477 related to Oakville Hydro’s 2015 approved z-factor claim as the recovered amount relates to a 2013 ice storm.

Based on the budget and actual costs for addressing emergency distribution system problems from 2014 to 2018, OEB staff notes that, since 2014, Oakville Hydro has spent more for emergency maintenance than had been approved in rates. Furthermore, OEB staff notes that Oakville Hydro’s residential class has grown a modest 2% on average since 2014.

Overall, OEB staff submits that Oakville Hydro has demonstrated that the amounts sought for recovery are directly related to the windstorm and outside of the base upon which Oakville Hydro’s 2014 cost of service rates were set.

Materiality

OEB staff notes that the OEB’s materiality threshold for a z-factor claim is 0.5% of distribution revenue requirement for a distributor with a distribution revenue requirement greater than \$10 million and less than or equal to \$200 million.

Oakville Hydro has an approved revenue requirement of \$35,586,668 from its 2014 cost-of-service application and a corresponding materiality threshold of \$177,933⁵. If the OEB was to adjust the 2014 approved revenue requirement for inflation, the amount would be \$187,549 which is still below the revised claim of \$195,198.

Prudence

The OEB's Filing Requirements for Electricity Distribution Rate Applications issued on July 12, 2018, states that applicants are to notify the OEB promptly by letter to the Board Secretary of all z-factor events. Failure to notify the OEB within six months of the event may result in disallowance of the claim. OEB staff notes that the submission date of this application is within the six months of the wind storm event occurring.

In its application or in response to interrogatories from OEB staff, Oakville Hydro has provided the following comments with respect to 'prudence':

- Determined it was appropriate and prudent to offer paid overtime due to the severity of the wind storm to non-union and management employees that did not have overtime clauses in their employment agreement. (OEB Staff Question #12b).
- Explained that it has an Alliance Agreement with a large power line contracting firm that provided the additional support necessary to restore power quickly and safely to residents and businesses within Oakville Hydro's service area. (Application p. 8, 10).
- Stated that its neighbouring utility partners were responding to the impact of the storm on their own distribution systems, when questioned why it had not engaged its partners under its mutual aid agreement. (OEB Staff Question #10b).
- Stated that had it obtained assistance from mutual aid partners in other jurisdictions it would have incurred additional costs relating to lodging and meal costs, (OEB Staff Question #10b).

OEB staff appreciates that in a situation arising from extraordinary events, Oakville Hydro was able to restore power to its customers expeditiously. OEB staff submits that Oakville Hydro acted prudently in promptly securing assistance to restore power and did so in a cost-effective way, given the circumstances.

In summary, based on its review of the evidence, OEB staff submits that the criteria of causation, materiality and prudence were met.

⁵ EB-2013-0159

Allocation and Rate Design

In its application, Oakville Hydro states that, consistent with the OEB's Decision on Oakville Hydro's prior Z-factor claim⁶, Oakville Hydro has allocated the costs associated with the wind storm to all rate classes, on the basis of its last approved distribution revenue. Oakville Hydro also stated it has not allocated any costs to the Embedded Distributor rate class, as this class was not impacted by the wind storm. Oakville Hydro is requesting that the amount be recovered by means of a fixed rider, over a 12 month period. Oakville Hydro is proposing to use the number of customers as of December 31, 2017 as submitted in its RRR filing as the billing determinant to calculate rate riders in order to reduce the likelihood of over-recovering the Z-factor claim.

OEB staff submits that Oakville Hydro's proposal to allocate the costs associated with the wind storm on the basis of distribution revenue and the most recent filed customer numbers as the billing determinant is reasonable.

All of which is respectfully submitted

⁶ EB-2014-0102