Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2009 ELECTRICITY DISTRIBUTION RATES

Oshawa PUC Networks Inc.

EB-2008-0205

May 4, 2009

INTRODUCTION

Oshawa PUC Networks Inc. ("Oshawa") submitted an application on November 7, 2008, seeking approval for changes to the rates that Oshawa charges for electricity distribution, to be effective May 1, 2009. The application is based on the 3rd Generation Incentive Regulation Mechanism ("3rd Gen. IRM").

The purpose of this document is to provide the Ontario Energy Board (the "Board") with the submissions of Board staff after its review of all the evidence submitted by Oshawa for the incremental capital module ("ICM") application ("Part II" of the application).

RECOVERY OF APPLICATION COSTS

Background

At the oral hearing on April 6, 2009, Oshawa informed the Board that it was now seeking to prospectively recover the estimated $25,000 in "application costs" , otherwise regulatory expenses, associated with Part II of the current proceeding. Oshawa proposed a two-year recovery period, with $12,500 to be prospectively recovered annually as a part of the proposed ICM rate rider. Oshawa also proposed that a variance account be used to track the costs and recoveries through the rate rider, so as to facilitate a true-up of those expenses at its next rate rebasing proceeding.

Discussion and Submission

Board staff notes that the *Accounting Procedures Handbook for Electric Distribution Utilities* indicates that until April 30, 2006, the Sub-Account OEB Cost Assessment of the Account 1508, Other Regulatory Assets, was used to record the difference between Board costs assessments and Board costs assessments previously included in the distributor's rates. However, effective May 1, 2006, Board cost assessments and regulatory expenses have been incorporated in Oshawa's distribution rates.

Board staff notes that while Oshawa's regulatory expenses may be greater this year than the amount incorporated in its distribution rates, the reverse may occur in future years. Distribution rates are set to recover regulatory expenses in an "average year" and, in any given year, actual costs may deviate up or down. Board staff submits that the fact that regulatory expenses are not tracked in a variance account is indicative of the Board's policy that distributors should absorb under or over-recoveries. This Board policy was re-affirmed on page 7 of the Board's Varied Decision in Oshawa's 2008 cost of service application (EB-2007-0710):

> The Board notes that the Company is forecasting an expense of $150,600 for mounting this 2008 rates application but is also seeking a variance account. The Board does not accept the Company's proposal for a variance account. Deferral or variance accounts are reserved for situations where the risks of over or under recovery are greater than what is at risk here. Proliferation of variance accounts for these types of expenses would render the principle of a forward test year meaningless.

The Varied Decision on the above matter continued as followed:

> The Board accepts the proposed expense of $150,600 as reasonable but does not accept expensing the total amount in the test year. In the Board's view, the more appropriate treatment is to amortize these expenses over three years, which is the expected duration of the benefit of this proceeding until the next rebasing. The Board will therefore allow one third of the expense. On the expectation that the 2008 approved revenue requirement will remain in place for three years, the Company will have recovered the full amount by the time it re-bases in 2011. To allow for the time value of money, the Board will allow an expense of $53,000 to be reflected in 2008 rates. The proposed regulatory expense for the test year shall be reduced by $97,600.

Board staff notes that Oshawa is not currently scheduled to re-base in 2011 and, to the extent that Oshawa re-bases in 2012, it will over-recover the application costs of its 2008 cost of service proceeding.

Board staff notes that, in the event that Oshawa's proposal to recover the regulatory expenses resulting from Part II of this proceeding is approved, it may be more convenient to recover them through a separate rate rider instead of including them in the proposed ICM rate rider, should one be approved. Board staff's comment is based on the fact that the ICM rate rider would last for three years whereas the proposed regulatory expenses rate rider would expire in two years.

SAVINGS AND ADDITIONAL REVENUES

Background

Through its ICM, Oshawa applied for a rate rider to recover funds required for non-discretionary capital spending which is not fundable from any other source. Oshawa identified four projects as being incremental: the Concrete Pole replacement, the Long Term Load Transfer Elimination, the Distribution System Reliability Improvement and the Mobile Workforce.

As part of the filing requirements for an ICM application, the Board indicated on page VII of Appendix B of the *Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* issued on September 17, 2008 ("Appendix B"), that an applicant should include:

> Evidence that the incremental revenue requested will not be recovered through other means (e.g., it is not, in full or in part, included in base rates or being funded by the expansion of service to include new customers and other load growth).

Discussion and Submission

Board staff notes that Oshawa has indicated that three of the four projects comprising the ICM application will lead to savings or additional revenues:

- <u>Feeder Replacement</u>
  On Adobe page 39 of its application, Oshawa stated that the distribution feeder 2F4 "would be replaced using current design and construction standards allowing for a significant reduction in the number of outages for the customers connected to it." In answer to Board staff interrogatory number 15, Oshawa also indicated that "there will be savings in the reduced need for emergency response to power outages." However, when cross-examined by the counsel for SEC, Mr. Turney confirmed that although there would be savings, he could not quantify them (Tr.1:95).

- <u>Mobile Workforce</u>
  In answer to Board staff interrogatory number 16 b), Oshawa indicated that the Mobile Workforce project, once fully implemented, would lead to estimated savings of $88,375 per year. During cross-examination by counsel for VECC, Mr. Mahajan

indicated that there were uncertainties as to when those anticipated savings would begin to be realized (Tr.1:65-68).

- <u>Long-Term Load Transfer (“LTLT”) Elimination</u>
  Oshawa confirmed at the Oral Hearing that the proposed elimination of LTLT in 2009 would lead to incremental revenues of around $10,000 per year starting in 2009 (Tr.1:105-107).

None of the savings and additional revenues identified above have been netted from the requested revenue requirement adjustment of $284,954. Board staff submits that this approach is inconsistent with the filing requirement identified at the beginning of this section.

Board staff submits that if the Board approves some or all of the incremental capital investment requested, the revenue requirement to be collected by the rate rider should be reduced:

- By $10,000 per year, if the incremental capital investment for the LTLT elimination is approved; and
- By all or a portion (owing to the evidence that the full benefits will take time to realize) of the revenue requirement associated with the Mobile Workforce project (i.e., up to $32,581 per year), if it is approved.

NON-DISCRETIONARY REQUIREMENT

Background

The Board indicated on page VI of Appendix B that an applicant should provide:

> Justification that amounts being sought are directly related to the claimed cause, which must be clearly non-discretionary and clearly outside of the base upon which current rates were derived.

Discussion and Submission

Board staff submits that Oshawa has provided evidence indicating that there would be benefits from undertaking the four projects included in its ICM application. However, Board staff questions whether Oshawa has convincingly demonstrated that the feeder replacement, the Mobile Workforce project, and the LTLT elimination in 2009 are non-discretionary.

- <u>Feeder Replacement</u>

  When cross-examined by counsel for SEC, Mr. Turney confirmed that the proposed replacement of feeder 2F4 has a risk mitigation ranking lower than all other Reliability/Safety projects that were incorporated into Oshawa's 2009 budget (Tr.1:61-63). It remains unclear from this exchange if the management of Oshawa excluded this project from its 2009 budget as it was the next lowest ranking project on its list, would imply that the project is discretionary. Board staff invites Oshawa to comment on this view.

- <u>Mobile Workforce</u>

  In answer to Board staff interrogatory 17.a), Oshawa states that:

  > This project [i.e. the Mobile Workforce project] will help us prepare our workforce for impending retirements and give us sufficient time to help staff adapt to the coming changes. For these reasons the project is considered non-discretionary.

  Board staff is not convinced that the explanation provided adequately demonstrates that this project is "non-discretionary," as contemplated in Appendix B. Board staff submits that Oshawa's management has the discretion to implement this project in a different time period, or continue with its current system, and the project can therefore be deemed "discretionary." That is not to say that Board staff recommends that this project be postponed or abandoned; only that it has not been established that the project meets the ICM filing requirement set out at the beginning of this section.

  Board staff notes that, although the evidence indicates there may be benefits for this project to proceed at this time, it is not clear from the foregoing that it qualifies for ICM rate relief and, from the previous section that any rate relief should be provided for this project even if it qualified.

- <u>LTLT Elimination</u>

  On November 26, 2008, the Board granted Oshawa a LTLT elimination extension to December 13, 2011, as requested by Oshawa (EB-2008-0149). In answer to Board staff interrogatory 11, Oshawa stated that "OPUCN can provide better quality service through faster response times based on physical proximity to customers. For this reason this expenditure is non-discretionary." Board staff submits that the explanation provided does not demonstrate that completing the LTLT elimination in 2009 is non-discretionary in light of the Board's Decision in EB-2008-0149. Although the project may provide some benefits, this in and of itself does not make it non-discretionary.

All of which is respectfully submitted.