Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416-481-1967
Facsimile: 416-440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone : 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273

Ontario

BY EMAIL

November 4, 2013

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Hydro One Brampton Networks Inc. ("HOBNI")
2014 IRM Distribution Rate Application
Board Staff Interrogatories
Board File No. EB-2013-0140

In accordance with Procedural Order No.1, please find attached the Board Staff Submission in the above proceeding. This document is being forwarded to HOBNI and to all other registered parties to this proceeding.

HOBNI's Reply Submission, if it intends to file one, is due by November 18, 2013.

Yours truly,

Original Signed By

Marc Abramovitz
Advisor, Applications & Regulatory Audit

Encl.

VT INCEPIT FIDELIS SIC PERMANET
Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2014 ELECTRICITY DISTRIBUTION RATES

Hydro One Brampton Networks Inc.

EB-2013-0140

November 4, 2013

Board Staff Submission
Hydro One Brampton Networks Inc.
2014 IRM4 Rate Application
EB-2013-0140

Introduction

Hydro One Brampton Networks Inc. (“HOBNI”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”) on August 14, 2013, seeking approval for changes to the rates that HOBNI charges for electricity distribution, to be effective January 1, 2014. The Application is based on the 2014 4th Generation Incentive Regulation Mechanism (“IRM4”).

The purpose of this document is to provide the Board with the submissions of Board staff based on its review of the evidence submitted HOBNI.

Board staff has no concerns with the Retail Transmission Service Rates proposed by HOBNI. Pursuant to Guideline G-2008-0001, updated on June 28, 2012, Board staff notes that the Board will update the applicable data at the time of this Decision based on the then-current Uniform Transmission Rates.

Board staff makes detailed submissions on the following:

- Shared Tax-Savings Rate Riders
- Disposition of Deferral and Variance Accounts as per the *Electricity Distributors' Deferral and Variance Account Review Report* (the “EDDVAR Report”); and
- Green Energy Plan Funding

Shared Tax-Savings Rate Riders

Background

HOBNI has completed the 2014 IRM Tax Sharing Model but submits that given HOBNI’s unique circumstances, the model is not correctly calculating the corporate tax rate. The 2014 IRM Tax Sharing Model takes into consideration the Small Business Tax Reduction Threshold of $500,000 when calculating the corporate tax rate. HOBNI noted that it is a wholly owned subsidiary of Hydro One Inc. and it does not claim the full $500,000 small business tax reduction tax credit. For tax purposes, the small business tax credit must be allocated to Hydro One's associated companies. The small business deduction credits allocated to HOBNI is $5,632. Consequently, the tax rate should be 26.5% rather than the 25.84% calculated in the model. This computes a total shared savings of $86,301. When calculating the rate riders, HOBNI notes that three classes' rate riders resulted in less than $(0.0000) when rounded to the fourth decimal place. Therefore, HOBNI has requested that a credit amount of $86,301 be recorded in account 1595 for disposition in a future rate setting.

Submission

Board staff notes that the Tax-Savings Workform reflects the Revenue Requirement Work Form from the Board's cost of service decision in EB-2011-0132. Board staff is in agreement with HOBNI that its incremental tax rate should be 26.5% rather than the 25.84% calculated by the model.

As well, given the insignificant rate riders, Board staff takes no issue with HOBNI's request to transfer the shared tax savings to account 1595 as this is in line with section 3.2.4 of the Filing Requirements for Electricity Distribution Rate Applications, dated July 17, 2013.

Disposition of Deferral and Variance Accounts as per the *Electricity Distributors' Deferral and Variance Account Review Report* (the "EDDVAR Report")

Background

HOBNI completed the Deferral and Variance Account continuity schedule included in the 2014 IRM Rate Generator Model at Tab 5 for its Group 1 Deferral and Variance Accounts. HOBNI's total Group 1 Deferral and Variance Account balances amount to a credit of $8,312,496. This amount includes interest calculated to December 31, 2012. Based on the threshold test calculation, the Group 1 Deferral and Variance Account balances equate to $0.0021 per kWh which exceeds the threshold, and as such, HOBNI requested disposition of these accounts over a two year period.

Submission

Board staff has reviewed HOBNI's Group 1 Deferral and Variance account balances and notes that the principal balances as of December 31, 2012 reconcile with the balances reported as part of the *Reporting and Record-keeping Requirements*. Also, the preset disposition threshold has been exceeded. Accordingly, Board staff has no issue with HOBNI's request to dispose of its 2012 Deferral and Variance Account balances at this time.

Board staff notes that HOBNI requested a disposition period of two years. Board staff notes that HOBNI's request is not consistent with the guidelines outlined in the EDDVAR Report with respect to the standard disposition period for Group 1 accounts (i.e. one year).

Board staff submits that the balances in the subject accounts represent over recoveries on the part of the distributor and in the normal course should be available to be refunded over a relatively short time frame.

Board staff notes that, generally speaking, using a disposition period as long as two years may exacerbate intergenerational inequities. Board staff however recognizes that some volatility in electricity bills may result from adopting a shorter disposition period. In the event the Board approves the increase of the *Green Energy Act* funding adder as requested by HOBNI, HOBNI may wish to confirm the bill impacts for the 2014 rate year reflecting both a one- and two- year disposition period.

Green Energy Plan Funding

Background

In the current application, HOBNI noted that in its 2011 Cost of Service rate application it had requested and received approval for funding related to its *Green Energy Act* ("GEA") initiatives from provincial ratepayers. HOBNI has received funding through the IESO Charge Type 1413 Renewable Generation Connection – Monthly Compensation Amount since January 1, 2011. HOBNI noted that it did not require any further funding and requested that the funding cease effective December 31, 2013.

In the interrogatory phase, Board staff questioned whether or not the socialized investments had been fully recovered. In response, HOBNI provided evidence identifying a $265,652 over-collection. This is mainly due to a lower revenue requirement entitlement due to lower capital additions than what was originally anticipated. In its 2011 Cost of Service application, HOBNI attributed $1,544,590 of total capital additions in 2010 and 2011 that would benefit provincial rate payers. HOBNI is now forecasting only $75,200 in capital additions for the 2014 year.

It appears to Board staff that much of the change is attributed to the re-categorization of the costs reviewed in the last cost of service proceeding. A significant amount was re-categorized from one that originally attracted the IESO provincial benefit treatment to an amount that is not subject to socialization.

To that end, in its application HOBNI also requested that its GEA Initiatives Funding Adder of $0.02/month/metered customer (which recovers the portion allocated to HOBNI's customers only) increase to $0.17/month per metered customer. In its manager's summary, HOBNI requested that the $0.02 adder cease as of December 31, 2013. This amount was approved in its 2011 Cost of Service rate application with a sunset date of December 31, 2014.

In the interrogatory phase, Board staff questioned whether or not the investments had been fully recovered. In response, HOBNI revised its position as further analysis unveiled that based on its calculated revenue requirement forecast associated with its GEA expenditures to the end of December 31, 2014, HOBNI will have under-collected by $306,242. HOBNI originally attributed $482,410 of total capital additions in 2010 and 2011 to work that would benefit HOBNI rate payers. However, HOBNI is now forecasting that these capital additions and forecasted OM&A costs to the end of 2014 will rise by $185,598 to $668,368, mostly due to the re-categorization of costs.

In its response to interrogatories, HOBNI proposed to return the over collection of the Renewable Generation Connection Rate Protection to the IESO in twelve monthly installments of $23,826 over the course of the 2014 year. As well, HOBNI has proposed to recover the under collection of the GEA funding adder from HOBNI rate payers by increasing its funding adder from $0.02/month per metered customer to $0.17.

To support all of the above, HOBNI provided detailed explanations on a project level in response to Board staff interrogatories.

Submission

In Board staff's view, HOBNI has effectively requested a change to its GEA plan, whose costs were reviewed in HOBNI's last cost of service proceeding. In that proceeding, the Board did not approve the costs on a final basis. Rather, it ordered HOBNI to track the costs in variance accounts to be disposed at a later date.

For costs associated with GEA-related investments, the Board's practice to date has been to allow for only temporary funding adder requests in IRM proceedings with a final prudence review in the next cost of service application. Going forward, once a distributor has rebased with a consolidated capital plan, even temporary funding adders will no longer be available in IRM proceedings, or standalone applications, with the exception of establishing the IESO portion for each year, if applicable.

Board staff submits that the IRM application process is intended to be mechanistic in nature and submits that HOBNI's requests could be considered out of scope of the IRM process. Board staff observes that HOBNI filed detailed explanations to interrogatories that introduced new information which requires further exploration as to the nature of the changes to the plan and to assess the reasonableness of HOBNI's proposals.

HOBNI noted that it will be filing a cost of service application in 2015. Given that variance accounts exist for both the provincial benefit and direct benefit portions associated with HOBNI's activities, Board staff submits that little harm will come from not implementing these proposals at this time. Board staff notes that the Board will review them in greater detail at the next cost of service proceeding at which time HOBNI is expected to file a consolidated distribution system plan that would include updated activities in these areas, including the next five year forecast. Moreover, HOBNI may have more costs that attract the provincial benefit treatment going forward, onto which the over-collection could be applied.

That said, if HOBNI considers the impact of raising the funding adder from $0.02 to $0.17 significant enough as to warrant some mitigation in advance of its next cost of service proceeding by implementing it now, then Board staff would not be opposed to such an approach, subject to HOBNI's confirmation of this and of the impacts arising from a one-year DVA disposition period coupled with a denial of the increase to the funding adder in this application.

Finally, Board staff is not aware of any reason why the Board cannot take note of an IRM decision and flow any change through to the Electricity Rate Protection Benefit and Charge proceeding (EB-2013-0009) , the next time a decision in that proceeding is issued. Therefore, in the event that the Board in the current application approves both of HOBNI's GEA-related requests, Board staff does not object to the cessation of the IESO monthly payment at the next opportunity.

All of which is respectfully submitted