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 13, 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: Cooperative Hydro Embrun Inc.
2014 Distribution Rate Application
Board Staff Submission
Board File No. EB-2013-0122

In accordance with the Procedural Order No. 2, please find attached the Board Staff Submission in the above proceeding. This document is being forwarded to Cooperative Hydro Embrun Inc. and to the Vulnerable Energy Consumers Coalition.

Cooperative Hydro Embrun Inc.'s Reply Submission, if it intends to file one, is due by November 29, 2013.

Yours truly,

Original Signed By

Daniel Kim
Analyst, Applications & Regulatory Audit

Encl.

2014 ELECTRICITY DISTRIBUTION RATES

Cooperative Hydro Embrun Inc.

EB-2013-0122

STAFF SUBMISSION

November 13, 2013

INTRODUCTION

Cooperative Hydro Embrun Inc. ("CHEI" or the "Applicant") is a licensed electricity distributor serving the Town of Embrun, which has a total population of approximately 8,048. CHEI filed its 2014 rebasing application (the "Application") on June 14, 2013. CHEI requested approval of its proposed distribution rates and other charges effective January 1, 2014. The Application was based on a future test year cost of service methodology.

The Vulnerable Energy Consumers' Coalition ("VECC") was granted intervenor status. The proceeding has been conducted through written discovery.

This submission reflects observations and concerns which arise from Board staff's review of the pre-filed evidence and interrogatory responses provided by CHEI and is intended to assist the Board in evaluating CHEI's application and in setting just and reasonable rates.

THE APPLICATION

In its original application, CHEI requested a service revenue requirement of $869,078 (or a base revenue requirement of $838,797[1]). On October 16, 2013, CHEI filed a spreadsheet outlining the proposed changes to its revenue requirement and other components as a result of CHEI's several revisions and responses to interrogatories filed on October 10, 2013. According to this spreadsheet, CHEI revised its service revenue requirement to $869,289 (or a base revenue requirement of $839,008). Board staff has drafted this submission with the understanding that this revised number is the final requested service revenue requirement for 2014 rates. The updated proposed rates are set to recover a revenue deficiency of $56[2]. The following is a breakdown of CHEI's 2014 test year revenue requirement from its October 16, 2013 updated evidence:

Table 1
2014 Test Year Revenue Requirement

[1] Base revenue requirement is the service requirement less revenue offset of $30,281.
[2] Summary of Impact on Revenue Requirement filed by CHEI on October 16, 2013.

	As Filed May 10, 2013	As Updated October 16, 2013[3]
OM&A Expenses	$556,279	$556,279
Amortization/Depreciation	$132,429	$132,429
Income Taxes (Grossed up)	$ 7,943	$ 7,965
Return		
Deemed Interest Expense	$ 68,890	$ 68,966
Return on Deemed Equity	$103,537	$103,650
Service Revenue Requirement	$869,078	$869,289
Revenue Offsets (less)	$ 30,281	$ 30,281
Base Revenue Requirement	$838,797	$839,008

CHEI filed its application on the basis of Modified CGAAP which supports accounting changes for depreciation expense and capitalization policies made mandatory and effective January 1, 2013, for all distributors in the Board issued letter dated July 17, 2012.

LOAD FORECAST

Exhibit 3 of the Application discusses how the load forecast and customer counts are developed.

Customer Forecast

CHEI is seeking Board approval for a test year customer forecast of 2,198 customers/connections. The test year forecast is approximately 11.23% higher (or 222 customers/connections) than the 2012 actual. The forecast is derived by applying the class specific average historic annual growth rate from 2003 to 2008 to the bridge and test years. CHEI also anticipates that a new subdivision will be energized sometime in 2014 to 2015. In anticipation of this new subdivision being energized, CHEI has adjusted its proposed customer count to add 200 new customers in the Residential rate class. The following table summarizes customers/connections forecast for 2014:

Table 2

Customer Count Forecast 2014 Test Year Customer Count Forecast	
Rate Classes	**No. of Customers/Connections**

[3] Summary of Impact on Revenue Requirement filed by CHEI on October 16, 2013

Residential	1,998
GS < 50 kW	168
GS > 50 kW	11
Street Lighting (connections)	425
Unmetered Scattered Load	20
Total	2,622

Source: Exh. 3/Tab 1/Sch. 2/Pg. 5/Table 1

Discussion and Submission

Board staff notes that CHEI's customer forecast shows 4.95% annual average growth from the 2012 Actual Year to 2014 Test Year. This is significantly higher than the 0.41% average annual customer growth experienced during the 2008 to 2012 period. However, in its pre-filed evidence and in response to Board staff interrogatory 3-Staff-24, CHEI has reasonably demonstrated that the increase to its customer count, specifically within the Residential customer class, is a result of the new subdivision being planned within CHEI's service territory. Although Board staff has no concerns with the 2014 customer forecast as proposed by CHEI, Board staff submits that the average number of customers during the year is more consistent with the historical data and forecast of consumption. This will be explained further below under the Monthly Service Charge section.

Load Forecast

CHEI is seeking Board approval for a 2014 load forecast of 30,899,424 kWh or 30.9 GWh. This represents a 3.5% increase from 2012 Actual.

To develop its load forecast, CHEI used a multifactor regression model to determine the relationship between historical load with weather data and employment data for the Ottawa region. CHEI presented the comparison of the results of the model with actual system load for the period from 2003 to 2012. This evidence indicates that the absolute percentage error between the model estimate and actual load ranged from 0.11% to 5.17% over the regression range. The mean absolute percentage error of the annual estimates for the period from 2003 to 2012 is 1.69%.

In order to allocate the weather-normalized system purchases to each class, CHEI used the share of each classes' 2012 actual consumption of the actual system purchases, then applied to the weather-normalized system purchases to calculate the class-specific forecast for Residential, GS < 50 kW and GS > 50 kW. Furthermore, CHEI adjusted the

forecast for Residential and GS < 50 kW classes to include the consumption for the anticipated new subdivision in 2014.

The forecast for non-weather sensitive classes (Street Lighting and Unmetered Scattered Load) are based on a simple average of 2003 to 2012 consumption per connection and the forecasted number of connections for 2014.

CHEI made adjustments to account for CDM totaling 710,140 kWh to the 2014 Test year forecast. The class-specific forecasts (including the downward adjustment for CDM impacts) are summarized in the following table:

Table 3

2014 Test Year Load Forecast (Exhibit 3/ Tab 1/ page 31)	
Rate Classes	**kWh**
Residential	21,296,520
GS < 50 kW	4,950,960
GS > 50 kW	4,187,781
Street Lighting	374,609
Unmetered Scattered Load (USL)	89,554

Discussion and Submission

CHEI is forecasting a 1.75% average annual load growth from the 2012 Actual Year to the 2014 Normalized Test Year. This growth is higher than the 0.6% average annual growth experienced during 2009 to 2012 period. Board staff notes that the reason of the increase is mainly due to the expected new subdivision.

In regards to the CDM adjustment, Board staff notes that the Board recently issued a Decision[4] on CDM adjustment. In the decision, the Board determined that the CDM adjustment to the load forecast should be based on the "net" basis as documented in the OPA report. In response to a VECC interrogatory[5], CHEI confirmed that the resulting value on a "net" basis for the CDM adjustment should be 58,322 kWh. However, it appears that CHEI is using 710,140 kWh, which includes the impacts of 2011 and 2012 CDM programs, for its CDM adjustment. This adjustment including the impacts of 2011

[4] EB-2012-0113, Decision and Order, Centre Wellington Hydro's 2013 Cost of Service rate application.
[5] Interrogatory Response 3.0-VECC-16 (c).

and 2012 CDM programs would duplicate the impact as the regression has already included the value up to 2012. Board staff submits that CHEI should update its CDM adjustment to 58,322 kWh to reflect the "net" basis adjustment and appropriately account for the impacts of 2011 and 2012 CDM programs.

OPERATIONS, MAINTENANCE AND ADMINISTRATION ("OM&A")

Background

For the 2014 test year, CHEI is requesting Board approval of $556,279 in OM&A expenses excluding taxes and amortization expenses. This represents an 8.48% increase over the 2013 Bridge year and a 6.04% increase over 2012 actual. The following table summarizes CHEI's OM&A expenses by year.

Table 4

	2010 Approved	2010 Actual	2011 Actual	2012 Actual	2013 Bridge	2014 Test
Operation	$33,860	$20,827	$20,965	$16,298	$15,550	$20,900
Maintenance	$37,425	$36,633	$39,319	$48,629	$39,800	$40,300
Billing and Collecting	$155,247	$146,429	$163,139	$135,426	$134,057	$170,174
Community Relations	$3,000	$2,182	$1,316	$6,710	$3,100	$4,000
Administrative and General	$267,695	$263,128	$308,264	$317,534	$320,278	$320,905
Total OM&A	$497,227	$469,199	$533,003	$524,597	$512,785	$556,279
Year to year % change			*13.60%*	*-1.58%*	*-2.25%*	*8.48%*
% change as compared to 2010 Approved			*7.20%*	*5.50%*	*3.13%*	*11.88%*

Discussion and Submission

Overall Increase

As shown in Table 5, the proposed 2014 OM&A represents an11.88% increase as compared to 2010 Board Approved OM&A. This represents an annual average increase of approximately 4.56%.

CHEI is a small utility that employs three full-time staff; a general manager and two customer service representatives. As a result, CHEI relies heavily upon consulting services for accounting, regulatory and system upgrade and maintenance matters.

Board staff notes that the bulk of the increase in OM&A for the 2014 Test Year can be attributed to an increase in ongoing costs related to smart meters and Time-Of-Use ("TOU") rates. Specifically, Board staff notes the use of external consultants Util-Assist as well as other customer billing related expenses to assist CHEI and its ratepayer's transition to smart meters and TOU rates. Board staff also recognizes that it may take time for savings to be recognized by CHEI, and the utility sector generally, as utilities become more accustomed to customer and operational data that smart meters and TOU pricing provide.

Board staff appreciates the limited internal resources that CHEI currently has. CHEI has demonstrated the need for external resources to plan, develop, and implement work related to accounting and regulatory matters. Board staff also notes that CHEI's recoverable OM&A cost per customer is forecasted to decrease[6]. Board staff submits that CHEI has improved its ability to meet regulatory requirements with the utilization of external consultants and has reasonably demonstrated its ability to operate reliably by meeting and exceeding the minimum standards for all service quality indicators[7].

RATE BASE

Background

CHEI is requesting approval of $2,882,427 for the 2014 rate base. This amount represents a 19.27% increase from CHEI's 2012 actual and an 18.57% increase from its 2010 approved. Changes in rate base from 2010 to 2014 are shown in following table.

Table 5

	2010 Approved	2010 Actual	2011 Actual	2012 Actual	2013 Bridge	2014 Test (Updated)
Rate Base	$2,431,028	$2,296,417	$2,336,412	$2,416,654	$2,643,479	$2,882,427
% change as compared to prior column		-5.86%	1.74%	3.43%	9.39%	9.04%

[6] Exh. 4/Tab 1/Sch. 5.
[7] Exh. 2/Tab 3/Sch. 1

CHEI adopted depreciation rates based on the Kinectrics report.[8] In accordance with the Board letter[9] issued on April 12, 2012, CHEI has used the 13% allowance approach for the purpose of calculating its working capital allowance.

Capital Expenditures

CHEI is projecting 2014 capital expenditures of $474,595.

In its original Application, CHEI identified a total of $459,595 in non-discretionary capital expenditures. Non-discretionary projects are "must do" projects, the need for which is beyond the control of CHEI. Non-discretionary projects may include for example, a need to connect new load, projects that are required to achieve provincial government objectives that are prescribed in governmental directives or regulations, a need to comply with Board codes, etc.

CHEI also identified $15,000 in discretionary capital expenditures. The need for discretionary projects are determined at the discretion of the CHEI and proposed by CHEI to enhance the distribution system performance. These projects include, for example, projects to reduce distribution system losses, projects to enhance reliability beyond a minimum standard, etc.

In response to Board staff interrogatory 2-Staff-10, CHEI indicated that all costs related to the new subdivision are considered non-discretionary (i.e. $459,595). The only discretionary cost is related to the Harris' Customer Connect, which CHEI indicates is for assisting customers in measuring, monitoring and managing usage patterns, as well as assisting CHEI to meet government regulatory requirements[10].

The majority of the capital expenditures are related to a new subdivision that is planned to be energized within CHEI's service territory in 2014 and 2015. Capital expenditures related to the subdivision include underground cables, transformers, feeders, poles and meters. CHEI included $160,000 in capital contributions received by the developer of the subdivision as an offset to rate base.

[8] Exh. 2/Tab 1/Sch. 5.
[9] Update to Chapter 2 of the Filing Requirements for Transmission and Distribution Applications – Allowance for Working Capital, April 12, 2012.
[10] Interrogatory responses 2-Staff-14.

In response to Board staff interrogatory 2-Staff-20, CHEI estimated that the total connection cost per house will be approximately $1,200. A breakdown of this estimate is provided in Table 6 below. Also in response to VECC interrogatory 2.0-VECC-9, CHEI noted that the Town (of Embrun) and the subdivision developer have reached an agreement and at the time of the interrogatory responses, the Town maintains that the subdivision will be in service by the end of 2014.

Table 6

Item	Cost per house
Meter	$150
Transformer	$500
Underground Cable	$300
Feeders	$250
Total	$1,200

Discussion and Submission

Table 7 lists the percentage change in the capital expenditures from 2010 to the 2014 Test Year.

Table 7

	2010 Actual	2011 Actual	2012 Actual	2013 Bridge	2014 Test Year
Capital Expenditures	$185,053	$58,650	$286,592	$295,900	$474,595
% change as compared to prior year		-68.31%	388.65%	3.25%	60.39%

Board staff observes that the historic capital expenditures of CHEI have fluctuated significantly. However, Board staff also notes that for a small utility a single project could increase the total capital expenditures by a considerable amount. For example, CHEI had smart meter related capital expenditures in 2012 combined with lower capital expenditures in 2011 which resulted in a significant percentage change from year to year. Board staff notes that the average of the historic capital expenditures (2008 - 2012)

is about $165,217. Board staff has no concerns with respect to the proposed capital expenditures for the new subdivision.

CHEI provided the reliability statistics for 2010 to 2012[11]. CHEI exceeded the minimum standards for all service quality indicators. Board staff takes no issue with the evidence provided.

CHEI also filed an Asset Management Plan[12], dated January 2013 which included the overall capital investment required for the next 10 years (2014 – 2024) for asset sustainment. The Asset Management Plan indicated that approximately $564,200 in capital expenditures will be required in 2015 and 2016. CHEI noted that it is a smaller utility with a fairly small service area, which allows CHEI to be well informed on the condition of its assets[13]. As part of its Asset Management Plan, a Utility Load Flow and Evaluation Study ("Stantec Study") was conducted by Stantec Consulting Limited, which determined the acceptability of CHEI's system with current and future load growth and also provided recommendations for CHEI to address future concerns with its system.

Board staff's view is that CHEI, through its Asset Management Plan and Stantec Study, has extensively documented the condition of its assets and the program to address the required capital expenditures in the next 10 years.

Green Energy Plan

Background

CHEI is requesting Board approval for its Green Energy Plan (the "Plan") that was filed pursuant to the Board's *Filing Requirements: Distribution System Plans – Filing under Deemed Condition of Licence, dated May 17, 2012* ("DSP Filing Requirements"). CHEI is not proposing any new capital investments or OM&A expenditures during the term of the Plan and has therefore submitted a "Basic" Plan. CHEI states that since the launch of the Feed-in-Tariff ("FIT") program, it has connected only 6 micro-Fit generators and none under the FIT program. CHEI does not expect to connect any generators under the FIT program during the Plan term.

[11] Exh. 2/Tab 3/Sch. 1.
[12] Exh. 2/Tab 2/Sch. 7.
[13] Exh. 2/Tab 2/Sch. 7.

Given the low uptake of the FIT and micro-FIT programs there are no capital investments or OM&A expenditures proposed in the Plan. However, in keeping with the DSP Filing Requirements, CHEI has provided information on the current state of its distribution system, a description of efforts to enable the connection of renewable generation and of future plans to accommodate new connections. Based on CHEI's assessment, its current system is adequately equipped to accommodate requests for renewable generation connections under the FIT and micro-FIT programs. CHEI further concluded that there are no known barriers within its system that could pose a problem for new connections. Section 3.2.1 of the DSP Filing Requirements state that a distributor must submit its Green Energy Plan to the Ontario Power Authority (the "OPA") for comment prior to filing the plan with the Board. The requirement specifically states: "*Each distributor is required to submit its GEA Plan to the OPA for comment prior to filing. The OPA comment letter* ***must be filed*** *with the GEA Plan, and any response to the letter from the distributor must be included in the application or reflected in the GEA plan as filed*". [Emphasis Added.] CHEI did not submit its Plan to the OPA for review and therefore did not submit the OPA Comment Letter referenced above. Accordingly, CHEI is requesting that the Board exempt it from filing the OPA Comment Letter. As its reason for not submitting its Plan for OPA review, CHEI states:

> Given the small amount of connections in CHEI's service territory, the utility is of the opinion that the small amount of connections do not affect the proper functioning of the distribution system nor require any great planning process.[14]

CHEI did however confirm that as an embedded distributor it will consult Hydro One Networks Inc., the host distributor, prior to connecting any large scale projects.

Submission

In staffs view, CHEI's Plan provides a comprehensive view of the capabilities of its distribution system. The Plan provides an assessment of the current distribution system and constraints within the system. The Plan also provides the number of applications that have been connected under the micro-FIT program and CHEI's five year forecast of connections under the program. Similarly, the Plan also provides an assessment of connections under the FIT program and CHEI has confirmed that it has not received any requests for connections under the FIT program and that none are expected during the term of the Plan.

[14] Board staff interrogatory 2-Staff-22

While CHEI has prepared a reasonable Plan and has covered the areas that are noted in the DSP Filing Requirements, it did not submit its Plan to the OPA for review and did not submit the OPA Comment Letter. CHEI stated that given the low interest in FIT and micro-FIT programs in its service area, it did not feel an OPA review was warranted. Board staff has concerns with CHEI's decision to not submit its Plan for OPA review and makes the following observations for the Board's consideration.

First, the process of submitting a green energy plan for OPA review is not a complex or cumbersome process, as has been implied by CHEI. In staffs view it is a streamlined process that has been in place for some time now and requires that a distributor submit its plan to the OPA 30 days prior to filing it with the Board.

Second, the requirement to submit a green energy plan for OPA review is not driven by the level of interest in FIT or micro-FIT programs rather it is intended to assist the Board in validating certain information that is contained in a plan.

Third, with respect to the purpose of the OPA's review, it entails evaluating a distributors' plan to ensure that assumptions with respect to FIT and micro-FIT connections are consistent with the applications the OPA has received, system constraints have been accurately considered, and that planning and the resultant plan is integrated with other regional plans and the system as a whole. Therefore, in the absence of an OPA review, the Board has no way of confirming whether the assumptions in CHEI's Plan with respect to the above noted areas are reasonable.

Further, Board staff submits that coordinated planning is critical to achieving the goals of the *Green Energy Act* and as stated in the DSP Filing Requirements, the Board has an expectation "that distributors will consult with embedded and host distributors, upstream transmitters and the OPA when preparing their green energy plans". The Board also states that "discussions with the OPA should be a valuable source of information for distributors".[15] Therefore, in the absence of an OPA review there is always the risk that opportunities for integrated planning solutions may have been missed or overlooked in CHEI's Plan.

[15] *Ibid*, p. 10

While CHEI's Plan appears reasonable and Board staff has no reason to doubt the information contained in the Plan, Board staff does not have the ability to verify the information that is typically verified as part of the OPA review. Therefore, for the reasons noted above, Board staff is of the view that the Board should not grant the exemption and should not approve CHEI's Plan. As no investments are proposed in the Plan, there will be no impact on distribution rates of not approving the Plan. Further, even without an approved plan CHEI is not restricted in any way from undertaking investments to facilitate the connection renewable generators as it is required to do pursuant to legislation.

Board staff notes that the Board has now amended the requirements related to the *Green Energy Act* such that stand alone GEA Plans are no longer required. Plans related to the GEA are expected to be integrated into the distributor's overall distribution system plans. This is a further reason that approval of CHEI's GEA Plan is not critical.

COST OF CAPITAL

Background

In Exhibit 5 of its Application, CHEI proposed its test year Cost of Capital. This is summarized in the following table.

Table 8

Cost of Capital Parameter	ERHDC's Proposal
Capital Structure	60.0% debt (composed of 56.0% long-term debt and 4.0% short-term debt) and 40.0% equity
Short-Term Debt	2.07%
Long-Term Debt	4.12%
Return on Equity (ROE)	8.98%
Weighted Average Cost of Capital	5.95%

In its Application, CHEI understood that the Board would most likely update the ROE for 2014 at a later date and CHEI committed to updating its capital structure accordingly[16]. Also, in its evidence and response to interrogatory 5.0-VECC-29, CHEI indicated that it does not hold any debt and has not held any debt or affiliate debt instruments in historical years.

[16] Exh. 5/Tab 1/Sch. 1.

Discussion and Submission

Board staff has no concerns with the approach followed by CHEI to calculate the Cost of Capital.

COST ALLOCATION AND RATE DESIGN

Revenue-to-Cost Ratios

Background

CHEI has applied a Billing Weighting Factor 1.0 for all customer rate classes. CHEI indicated that the time, effort and cost for billing and collection do not vary across customer classes[17]. Board staff notes that these weighting factors (in effect the absence of any weighting) have the effect of allocating over 90% of billing and collecting costs (accounts 5315 and 5320) to the Residential class, whereas in its previous rebasing (EB-2009-0132) CHEI used the default weighting factors permitted at that time and allocated less than 65% of those costs to the Residential class. The energy consumption and related load statistics of the Residential class has also increased slightly, relative to the other customer classes, over the period since the previous rebasing. The result is that the proportion of total distribution cost that is allocated to the Residential class is higher than in the previous cost of service proceeding.

This updated approach to weighting factors has the opposite effect for the two General Service Classes, and even more so for the Unmetered Scattered Load class. With a decreased allocation of billing and collecting cost, together with a slightly lower proportion of CHEI's total throughput, these classes are allocated a lower proportion of total distribution cost.

Board staff defers to CHEI's knowledge of its own situation and does not disagree with CHEI's proposed weighting factors. As required in the Filing Requirements, CHEI has provided an explanation of its weighting factors at Exhibit 7 Tab 1 pp. 5-6.

The inevitable result of a significant shift in cost allocation such as described under the previous heading is that status quo revenue-to-cost ratios will turn out to be different from the ratios that were approved from the previous cost allocation results. In CHEI's case,

[17] Exh. 7/Tab 1/Sch. 1/pp. 5-6.

the revenue-to-cost ratio based on status quo revenue is only 89.36% for the Residential class, and as high as 231% for USL class. CHEI proposes to adopt a revenue-to-cost ratio of 100% for each rate class in 2014. In response to interrogatory 7.0-VECC-37, CHEI noted it is of the opinion that using a 100% revenue-to-cost ratio for each class serves to eliminate cross-subsidization between classes. Because the starting point is quite diverse, in many cases starting from outside the Board's policy range, CHEI is proposing a significant rebalancing of its distribution rates.

Table 9 displays CHEI's current and proposed revenue-to-cost ratios.

Table 9

Customer Class	2010 Board Approved	As per Cost Allocation Model filed Oct 30/13	Proposed 2014	Board Policy Ranges
Residential	103.0	89.4	100.0	85.0 – 115.0
GS < 50 kW	91.0	143.9	100.0	80.0 – 120.0
GS > 50 kW	121.0	159.4	100.0	80.0 – 120.0
Street Lighting	120.0	83.1	100.0	70.0 – 120.0
Unmetered Scattered Load	120.0	231.7	100.0	80.0 – 120.0

The percentage change on the distribution rates of each class is shown in the following table, using CHEI's calculations in Chapter 2 Appendix 2-W (sub-total A, which does not include variance account rate riders and pass-through costs).

Distribution rate changes (% change from current approved distribution rates):

Table 10

Rate Class	Rate Change %
Residential	8.70 %
GS < 50 kW	(30.06) %

GS > 50 kW	(37.34) %
Street Lighting	14.65 %
Unmetered Scattered Load	(49.80) %

Source: Appendix 2-W, Sub-total A, filed October 30, 2013

The total bill impacts are as follows:

Table 11

Rate Class	Rate Change %
Residential	1.58%
GS < 50 kW	(8.53)%
GS > 50 kW	(31.94)%
Street Lighting	3.87%
Unmetered Scattered Load	(23.94)%

Source: Appendix 2-W, filed October 30, 2013

Discussion and Submission

Board staff notes that the wide variation amongst the distribution rate impacts is attenuated by the other components of the customer bill, as shown in the bottom lines of the bill impact calculations[18]. Even with adjustments to the transmission cost that follow from Board staff's submission on Retail Transmission Service Rates ("RTSR") and disposition of CHEI's Deferral and Variance Accounts below, the total bill impacts would not approach the threshold at which the Board should require an rate impact mitigation plan. That being said, Board staff notes that the distribution rate impacts are significant and quite different for the various customer rate classes. Therefore, Board staff suggests that a phase-in approach over the next three years be used to gradually adjust the revenue-to-cost ratios to the middle of the Board's policy ranges i.e. 100%.

[18] Appendix 2-W, filed October 30, 2013, Row 68.

Board staff suggests the following phase-in approach be used for CHEI's proposed revenue-to-cost ratios:

Table 12

Customer Class	As per Cost Allocation Model filed Oct 30/13	2014	2015	2016
Residential	89.4	92.9	96.5	100.0
GS < 50 kW	143.9	129.3	114.7	100.0
GS > 50 kW	159.4	139.6	119.8	100.0
Street Lighting	83.1	88.8	94.4	100.0
Unmetered Scattered Load	231.7	187.8	143.9	100.0

Monthly Service Charges ("MSC")

Background

CHEI has confirmed in response to interrogatory 3.0-VECC-12(f) that the customer numbers provided in Exhibit 3 Tab 1 pp. 5-7 are year-end customer counts. CHEI has used the customer numbers in its cost allocation model and in its revenue reconciliation (Chapter 2 Appendix 2-V). CHEI has provided the rationale that year-end numbers are more suitable than average numbers of customers, and are more consistent with the annual forecast of energy consumption.

Table 13

	Monthly Service Charges	
Rate Classes	**Current**	**Proposed**[19]
Residential	$13.70	$14.00
GS < 50 kW	$20.34	$22.50

[19] Interrogatory Response 8-Staff-35

GS > 50 kW	$245.27	$235.00
Street Lights	$1.60	$2.25
Unmetered Scattered Load	$40.01	$9.75

Discussion and Submission

Board staff notes that in the normal course, an average number of customers during the test year is usually used for load and revenue forecasting, and cost allocation and rate design. In this case, CHEI has consistently used the year end customer count for load and revenue forecasting, and cost allocation and rate design. Board staff observes CHEI is forecasting significant growth (i.e. of 11%) in the residential class during the test year. Based on the Renewed Regulatory Framework for electricity distributors, Board staff also expects that this is the first year of an incentive regulation rate setting method which is for a term of at least five years (under either 4th Generations IR or Annual Index IR). In Board staff's view, CHEI's approach in this particular case is justified because it is a better reflection of its customer and volumetric composition entering into a price cap regime.

Fixed-Variable Proportion Split

Background

CHEI's current and proposed fixed-variable revenue proportions are shown at Exh 8 Tab 1 Schedule 4, Table 'Rate Design'. For three rate classes CHEI has proposed rates such that the proportion of revenue from the volumetric rate would increase (Residential, Street Lighting, USL). For the two General Service classes, the proposed rates would increase the proportion of revenue from the fixed charge. The rationale in both cases is to move toward a 50/50 split[20]. In response to interrogatory 8.0-VECC-38, CHEI noted that "if a utility had a choice, they would select a 100% fixed and 0% variable to ensure revenue reliability". CHEI continued that "if a customer had a choice, they would select 100% variable so that they could have full control over the cost of their hydro bills". CHEI believes a 50/50 split ensures both sides are getting their fair share.

Discussion and Submission

Board staff submits that the rationale of a 50/50 split is arbitrary. The preferred reference point is worksheet O-2 in the Cost Allocation model, in which customer-related costs are presented under three alternative definitions of per-customer cost.

[20] Exh. 8/Tab 1/pp. 9-10.

- In the case of the GS<50 kW class, the highest of the three calculated values (sometimes referred to as the ceiling) is $21.22 per customer. CHEI proposes to increase the fixed charge from $20.34 to $22.50 per month and Board staff suggests the alternative of $21.22 with a correspondingly higher volumetric rate would be more appropriate.

- In the case of the GS>50 kW class, the highest calculated amount is $26.36. CHEI's proposal, in line with its rebalancing proposal, is to decrease the fixed charge from $245.27 to $235.00, while decreasing the volumetric rate by 256% (from $4.54 to $1.98 per kW). Board staff does not suggest that the fixed charge should be reduced to the ceiling, as many distributors have approved fixed charges well above their ceiling especially for larger customers. However, Board staff does submit that it would be preferable to decrease the fixed and variable rates together by a similar percentage, rather than accomplishing the re-balancing almost completely by means of the variable part of the bill. A change of the magnitude proposed by CHEI can have a material impact on certain customers in a class.

Retail Transmission Service Rates ("RTSR")

CHEI filed its RTSR model on May 13, 2013. The current and forecast wholesale cost is calculated using the host distributor's rates that became effective January 1, 2011. The Board has approved new rates effective January 1, 2013 in its Rate Order EB-2012-0136, which should be used in the calculation of current wholesale cost, and would provide a more reasonable basis for forecast wholesale cost.

Table 14

Rate Classes	RTSR Network	RTSR Connection
Residential ($/kWh)	$0.0056	$0.0041
GS < 50 kW ($/kWh)	$0.0052	$0.0037
GS > 50 kW ($/kW)	$2.0890	$1.4334
GS > 50 kW – Interval Metered ($/kW)	$2.3482	$1.9855
Street Lighting ($/kW)	$1.5755	$1.1080
Unmetered Scattered Load ($/kWh)	$0.0052	$0.0037

Sentinel Lights ($/kW)	$1.5835	$1.1312

Discussion and Submission

Board staff submits that CHEI should file an update of its RTSR model and revise its proposed RTSRs accordingly.

Low Voltage ("LV") Charges

CHEI has proposed to increase its LV rates by percentages ranging from 23% to 36%. The proposal is based on evidence that CHEI's current LV rates would yield revenue of approximately $40,000 whereas the forecast LV cost is approximately $56,000, which in the absence of a rate increase would result in a shortfall of 40%. Board staff notes that the evidence at Exh. 8 Tab 5 Sch. 2 is based partly on bridge year and partly on Test year loads, which may affect the calculation of the shortfall somewhat. Regardless of this ambiguity, Board staff suggests that the LV charge should be more nearly equal across the classes and should be close to 40% for all classes. For example, the proposed charge for GS<50kW class is $0.0016 per kWh, increased from $0.0013; Board staff suggests that it would be more appropriate to charge $0.0018 per kWh for this class which would be a 38.5% increase, which is approximately equal to the overall increase that the evidence shows is required.

Loss Factors

Background

The current approved Total Loss Factor is 1.0579, per EB-2012-0117. The CHEI proposed factor is 1.0668, which is the product of the Distribution Loss Factor 1.0271 and the Supply Facilities Loss Factor of 1.03812. For an embedded distributor, the SFLF is the host distributor's Total Loss Factor.

Discussion and Submission

Board staff submits that the proposed component for the Distribution Loss Factor is reasonable. The year-by-year variation in the data is rather large and not well explained, but Board staff submits that it is not necessary to undertake an engineering study of the matter[21]. The outcome is satisfactory on average.

[21] Interrogatory response 8.0-VECC-41.

Board staff is unconvinced by CHEI's response to interrogatory 8-Staff-33 concerning the SFLF. CHEI's response defends the accuracy of the data input SFLF at 1.0443 in recent years (which in turn yields the five-year average of 1.03812). For one thing, if in fact CHEI is now being charged an SFLF of 1.0443, it would be more accurate to use this factor in its Total Loss Factor, rather than the five-year average 1.03812, because it would apply throughout the test year and the subsequent IRM period. More importantly, Board staff is unaware of why the SFLF should not be 1.034, which to Board staff's knowledge has remained unchanged for at least 10 years and was approved most recently in the Board's Rate Order EB-2012-0136. CHEI indicated that it was including power bills that would show that Hydro One Networks is applying the higher factor[22], but Board staff did not find a copy of power bills that were supposed to be attached. Board staff submits that CHEI should obtain an explanation from its host distributor of the SFLF currently being applied. If it is not at the approved amount, CHEI should submit the explanation for the record of this proceeding.

DEFERRAL AND VARIANCE ACCOUNTS

Balances Proposed for Disposition

CHEI proposed to dispose Group 1 and Group 2 Deferral and Variance Account balances as of December 31, 2012, and interest forecast to December 31, 2013.

The allocation factors used by CHEI for the volumetric rate rider calculation are in accordance with the EDDVAR report (EB-2008-0046).[23]

The proposed amounts for disposition are presented below:

Table 15

Account #	Account Description	Disposition Amount
Group 1		
1550	LV Variance Account	$21,533
1580	RSVA – Wholesale Market Service Charge	($23,665)

[22] Interrogatory response 8-Staff-33.

[23] *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)*, EB-2008-0046, July 31, 2009.

1584	RSVA – Retail Transmission Network Charge	($2,643)
1586	RSVA – Retail Transmission Connection Charge	$2,107
1588 - Pwr	RSVA – Power (excluding Global Adjustment)	($21,851)
1588 - GA	RSVA – Power – Sub account -Global Adjustment	($8,305)
1595	Disposition and Recovery/Refund of Regulatory Balances (2010)	($37,178)
Group 2		
1508	Other Regulatory Assets – OEB Cost Assessments	$604
1508	Other Regulatory Assets – Pension Contributions	$685
1592	PILs/Taxes Variances for 2006 and subsequent years	($2,847)
1592	LRAM Variance Account	1,946
	Total Proposed for Disposition	**($69,614)**

The credit balance of $69,614 is proposed to be refunded over a two-year period.

Discussion and Submission

Board staff notes that the balances as of December 31, 2012 are consistent with the balances included in the reporting and record-keeping requirements ("RRR") (except for Account 1508, Account 1576 and Account 1592, which are addressed below). Board staff has no concerns with the proposed disposition period.

Account 1508 OEB Cost Assessments and OMERS Pensions

Background

CHEI is requesting the disposition of the balances in Account 1508, Other Regulatory Assets, sub-account OEB Cost Assessments in the amount of $604 and in Account 1508, Other Regulatory Assets, sub-account Pension Contributions in the amount of $685.

In interrogatory 9-Staff-37, Board staff asked CHEI why the Board should approve these amounts given they are out of period (although the amounts are not material). In response, CHEI stated that it sought and was granted approval by the Board to dispose of $5,251 in its 2010 cost of service application. CHEI says the $565 represents minor transactions which occurred in early 2010 after disposal through 2010 Board Approved rates.[24]

[24] Interrogatory Response 9-Staff-37.

Discussion and Submission

Board staff notes that CHEI did not follow Board Policy with respect to the treatment of the regulatory OEB cost assessments and pension contributions when the Board issued its policy in 2005.[25] Board staff submits that these costs are out of period even though they are not material.

Board staff further notes that in similar situations, the Board has denied the disposition of out of period costs for OEB cost assessments and pension contributions.[26] Board staff submits that the Board may wish to deny the recovery of out of period OEB cost assessments and pension contributions as a matter of principle despite the fact that they are not material.

Account 1556, Smart Meter OM&A Variance

Background

As part of its responses to Board staff and VECC interrogatories, CHEI updated Account 1556 to $165,834, which consists of $101,925 in Meter Data Management Repository ("MDMR") expenses, $1,874 in interest expenses and $62,036 in smart meter depreciation expenses. CHEI noted that these costs were not included in the original Application, however, CHEI's accountants included these costs in the EDDVAR Continuity Schedule but the model did not include the balance of Account 1556 in its rate rider calculation. CHEI is requesting disposition of the balance in Account 1556.

The Board issued its Decision and Order on CHEI's stand-alone smart meter application on July 26, 2012 (EB-2012-0094). In that proceeding, CHEI did not include any smart meter related OM&A costs for disposition. In its response to Board staff interrogatories, CHEI noted that it elected to waive its claim for operating costs in that application and Board staff noted that this meant that ongoing costs would not be recovered until CHEI next rebased its rates through a cost of service application.[27] At the time, VECC took no issue with CHEI's treatment of OM&A costs.

Discussion and Submission

Board staff notes that under "Accounting Matters" in Decision and Order EB-2012-0094, the Board states:

[25] Board Policy as per Accounting Procedures Handbook, December 2005 FAQ #13.
[26] EB-2011-0293, Decision and Order, Atikokan Hydro Inc.'s 2012 Cost of Service application.
[27] EB-2012-0094, Decision and Order, Cooperative Hydro Embrun Inc.'s Smart Meter application, p. 4.

> In granting its approval for the historically incurred costs and the costs projected for 2012, the Board considers CHEI to have completed its smart meter deployment. Going forward, no capital and operating costs for new smart meters and the operations of smart meters shall be tracked in Accounts 1555 and 1556. Instead, costs shall be recorded in regular capital and operating expense accounts (e.g. Account 1860 for meter capital costs) as is the case with other regular distribution assets and costs.
>
> CHEI is authorized to continue to use the established sub-account Stranded Meter Costs of Account 1555 to record and track remaining costs of the stranded conventional meters replaced by smart meters. The balance of this sub-account should be brought forward for disposition in CHEI's next cost of service application.[28]

Board staff notes that on page 4 of the EB-2012-0094 Decision and Order, CHEI was effectively foregoing recovery of those historical operating expenses. Pursuant to the Board's Guideline G-2011-0001,[29] Board staff submits that CHEI's smart meter application was where those costs should have been claimed, not in a subsequent application. Board staff is of the view that CHEI could, and should, have forecasted the OM&A expenses to the end of 2012 so that it could have factored those into the calculation of the Smart Meter Incremental Rate Rider. In not doing so, CHEI was effectively foregoing the historical costs.

Board staff also notes that CHEI is claiming costs for an Account 1556 balance as of December 31, 2012. The Board's EB-2012-0094 Decision and Order was issued July 26, 2012, five months prior to the year-end, and stated that "Going forward, no capital and operating costs for new smart meters and the operations of smart meters shall be tracked in Accounts 1555 and 1556. "[30] Board staff notes that it is not clear from the new evidence provided by CHEI whether any amounts were added after July 26, 2012. However, tracking smart meter OM&A costs in Account 1556 to December 31, 2012 is clearly contrary to the Board's EB-2012-0094 Decision and Order.

[28] EB-2012-0094, Decision and Order, Cooperative Hydro Embrun Inc.'s Smart Meter application.
[29] G-2011-0001, Guideline: Smart Meter Funding and Cost Recovery – Final Disposition, December 15, 2011.
[30] EB-2012-0094, Decision and Order, Cooperative Hydro Embrun Inc.'s Smart Meter application, p. 10.

In addition, the balance in Account 1556 has not been tested in this application.

For all the reasons discussed above, Board staff opposes the recovery of $165,834. Board staff notes that the amount requested for disposition is a material amount for CHEI.

Account 1576, Accounting Changes Under CGAAP

Background

In its Application, CHEI stated that it changed its depreciation expense and capitalization policies effective January 1, 2013.[31] However, CHEI did not include the balance in Account 1576 in its Application.

In its responses to the additional information requested by the Board[32] and 9-Staff-42, CHEI provided a balance of $39,272 in Account 1576 to be refunded to customers through a rate rider over a two-year period. However, in the same response, CHEI stated that disposing of Account 1576 goes against Board policy that balances should be audited before they are disposed of and as such, CHEI is not seeking disposal of Account 1576 in this proceeding and instead proposes to dispose of the balance in a future application.

Discussion and Submission

Board staff notes that the June 25, 2013 Board letter on Accounting Policy Changes 1575 and 1576 as well as the 2014 cost of service filing requirements require licensed electricity distributors to dispose the balance of Account 1576 in their 2014 rate applications. Board staff submits that CHEI should dispose the balance in Account 1576 in its 2014 rate application in accordance with the 2014 cost of service filing requirements.

Account 1592 Lost Revenue Adjustment Mechanism Variance Account ("LRAMVA")

Background

Section 13.4 of the Board's *Guidelines for Electricity Distributor Conservation and Demand Management* (EB-2012-0003) dated April 26, 2012, indicates that:

[31] Exh. 1/Tab 2/Sch. 4.
[32] CHEI's Responses to Board's Request for Additional Information, dated August 22, 2013, Attachment 1.

> At a minimum, distributors must apply for disposition of the balance in the LRAMVA the time of their Cost of Service rate applications. Distributors may apply for the disposition of the balance in the LRAMVA on an annual basis, as part of their Incentive Regulation Mechanism rate applications, if the balance is deemed significant by the applicant. The LRAMVA shall not be included in the pre-set disposition threshold calculation in determining materiality for disposition for Group 1 accounts as per the July 31, 2009 Report of the Board: *Electricity Distributors' Deferral and Variance Account Initiative* (EB-2008-0046).
>
> All requests for disposition of the LRAMVA must be made together with carrying charges, after the completion of the annual independent third party evaluation in accordance with Section 6.1 of the CDM Code.
>
> As noted above, all distributors must apply for disposition of the balance in the LRAMVA; however, if the balance in the LRAMVA is determined by the Board to be an amount recoverable by the distributor, the distributor can choose not to recover the amount.

In its original application, CHEI did not include an LRAMVA amount for disposition. CHEI noted that it may request disposition of its LRAMVA in a future application. In CHEI's revised Application dated June 13, 2014, CHEI requested disposition of its December 31, 2012 un-audited LRAMVA balance, plus forecasted interest to December 30, 2013 in the amount of $1,916. CHEI provided class specific rate riders based on LRAMVA amounts for 2011 program savings in 2011 and 2011 persisting savings in 2012.

In response to 4-Staff-28, CHEI provided an updated LRAMVA rate rider calculation that includes LRAMVA amounts for 2011 program savings in 2011 and excludes any 2011 persisting savings in 2012. The updated LRAMVA amount as calculated by CHEI is $1,045. When asked if CHEI will be updating its application to include a request for approval of its 2012 LRAMVA amounts related to its 2012 OPA Province-Wide CDM Programs, CHEI indicated that it plans to update its LRAMVA in its draft rate order.

Discussion and Submission

Board staff supports the disposition of CHEI's 2011 LRAMVA balance of $1,045 which consists of 2011 CDM savings in 2011 but excludes 2011 persisting savings in 2012.

Board staff notes that CHEI's proposal of updating its LRAMVA amount to include 2012 lost revenues at the time of its draft rate order is inappropriate as Board staff and VECC will not have an opportunity to test the information. Board staff notes that CHEI should have had its 2012 Final OPA Results at the start of September 2013 and could have updated its LRAMVA amount to include 2012 lost revenue in its interrogatory responses. This would have provided Board staff and VECC an opportunity to review the numbers. Board staff suggests that the Board allow CHEI to address its 2012 lost revenues and any future lost revenues in a future rate application.

CHEI has provided all relevant rate riders by customer class and has proposed to recover its LRAMVA amount through a separate rate rider over a one-year period. Board staff has no concerns with CHEI's updated LRAMVA amount and recovery period

- All of which is respectfully submitted -