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Ontario

BY EMAIL

December 6, 2013

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Festival Hydro Inc. ("Festival Hydro")
2014 IRM Distribution Rate Application
Board Staff Submission
Board File No. EB-2013-0129

In accordance with Procedural Order No.1, please find attached the Board staff Submission in the above proceeding. The applicant and intervenor have been copied on this filing.

Festival Hydro's reply Submission, if it intends to file one, is due by December 20, 2013.

Yours truly,

Original Signed By

Stephen Vetsis
Analyst, Applications & Regulatory Audit

Encl.

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2014 ELECTRICITY DISTRIBUTION RATES

Festival Hydro Inc.

EB-2013-0129

December 6, 2013

Board Staff Submission
Festival Hydro Inc.
2014 IRM Distribution Rate Application
EB-2013-0129

Introduction

Festival Hydro Inc. ("Festival Hydro") filed an application (the "Application") with the Ontario Energy Board (the "Board") on September 13, 2013, seeking approval for changes to the rates that Festival Hydro charges for electricity distribution, to be effective May 1, 2014. The Application is based on the 2014 Incentive Regulation Mechanism ("IRM").

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

The Application

In the interrogatory phase, Board staff identified certain discrepancies in the data filed by Festival Hydro. In response to Board staff interrogatories, Festival Hydro confirmed that it had input some erroneous data into the Shared Tax Savings Model and requested that Board staff make the necessary corrections. Specifically, Festival Hydro incorrectly entered a monthly service charge of $14.99, instead of $15.01, for the Residential – Hensall service class on sheet 3 of the Shared Tax Savings Model. Board staff has no concerns with Festival Hydro's revised Shared Tax Savings model.

In response to Board staff interrogatory #3, Festival Hydro stated it was using the wrong terminology on its Tariff of Rates and Charges for its per connection monthly fixed charge for streetlights. Festival Hydro noted that while it has historically billed its Street Lighting class a fixed monthly charge based on the number of lights, the Tariff reflects the charge based on the number of connections. Festival Hydro has requested that the Board approve a correction to the Tariff to reflect this practise. Board staff has reviewed the cost allocation model, as well as the evidence relating to the rate design from Festival Hydro's last cost of service application and is satisfied that the fixed charge for Festival Hydro's Street Lighting class was calculated on a per light basis and not per connection, as stated in Festival Hydro's response to Board staff Interrogatory #3.

Board staff submits that Festival Hydro's request is in the nature of a clerical error as the calculation of the fixed charge is correct. As such, Board staff takes no issue with Festival Hydro's proposal to change the wording of the monthly fixed charge to reflect that it is a per light charge.

Board staff also has no concerns with the RTSR Workform model provided with the Application. Pursuant to the Board's Guideline *Electricity Distribution Retail Transmission Rates* G-2008-0001, Board staff notes that the Board will update the applicable data at the time of the Board's Decision on the Application based on the Uniform Transmission Rates in place at that time.

Festival Hydro's total Group 1 Deferral and Variance Account balances amount to a credit of $354,836. The balance in Account 1589 – Global Adjustment Sub-Account is a debit of $898,540, and is applicable only to Non-RPP customers. These balances also include interest calculated to April 30, 2013. Based on the threshold test calculation, the Group 1 Deferral and Variance Account balances equate to a $0.0006 credit per kWh which does not exceed the threshold, and as such, Festival Hydro has not requested disposition of these Accounts.

Board staff has reviewed Festival Hydro's Group 1 Deferral and Variance Account balances and notes that the principal balances as of December 31, 2012 reconcile with the balances reported by Festival Hydro pursuant to the *Reporting and Record-Keeping Requirements*. As the preset disposition threshold has not been exceeded, Board staff has no issue with Festival Hydro's proposal to not dispose of its Group 1 Account balances.

Rate-Harmonization Proposal

In the Application, Festival Hydro requested approval to harmonize rates for the Residential and Residential – Hensall service classes. Festival Hydro stated that its preference was to complete the harmonization of the two service classes in advance of its 2015 cost of service application.

Festival Hydro noted that the Board had approved Revenue-to-Cost ("R/C") ratio adjustments in its last cost of service application to bring all rate classes within the Board's approved ranges by 2013 (EB-2009-0263). Festival Hydro noted that while the intent was to have the same R/C ratios by 2013 for the Residential and Residential – Hensall classes, when the rebalancing was complete in the Board's models, there was a slight difference between the two classes. Festival Hydro proposed to adjust the Residential – Hensall R/C ratio from 106.27% to 106.47% to harmonize rates for the two residential classes.

Festival Hydro provided a completed R/C ratio workform, using the standard methodology but noted that the model did not generate the changes needed to arrive at complete harmonization of the two residential rate classes. Festival Hydro proposed the following adjustments to the Residential – Hensall class:

1. To increase the Residential – Hensall distribution volumetric rate from $0.0163 per kWh to $0.0168 per kWh to agree with the rate for the Residential class.
2. To decrease the Residential - Hensall fixed service charge from $15.08 to $15.06.

Similarly, Festival Hydro proposed to harmonize the Incremental Capital Rate Riders approved in Festival Hydro's 2013 IRM application (EB-2012-0124) by:

1. Increasing the fixed charge for the Residential – Hensall class from $0.92 to $1.00 per month; and
2. Increasing the volumetric charge for the Residential – Hensall class from $0.0010 to $0.0011 per kWh.

In Festival Hydro's last cost of service application, the Board approved adjustments to R/C ratios that would result in both residential classes having an R/C ratio of 106.27% in 2013. In response to Board staff interrogatory #1.a), Festival Hydro indicated:

> In each of the IRM application years from 2011 through to 2014, the net annual rebalancing amount of the Revenue to Cost model has been charged to the Residential class (since the Residential class ratio is in excess of 100% and the bulk of the rebalancing related to Residential Hensall). Using the rebalancing feature in the 2011 to 2014 models has resulted in the Residential class producing a R/C ratio which differs from the projected R/C ratios as reported in Festival's 2010 COS application.

> In order for Festival Hydro to attain its allowable distribution revenues, the 2014 ratio required for Residential and Residential-Hensall has to be 106.47% rather than the 106.27% as originally projected in the 2010 CoS application. The ratios of 106.27% as originally projected in the 2010 CoS application would result in a shortfall in revenue for Festival Hydro.

In response to Board staff interrogatory #1.c), Festival Hydro provided tables showing that the difference in total revenue for both residential classes using Festival Hydro's proposed R/C ratio of 106.47% as compared to the Board approved ratio of 106.27% is $11,172.

Chapter 3 of the *Filing Requirements for Electricity Distribution Rate Applications (the* "Filing Requirements"), lists rate harmonization, "other than pursuant to a prior Board decision," as a specific issue that is not appropriate to be heard in an IRM application. In response to Board staff interrogatory #2, Festival Hydro provided the following rationale for its request to harmonize the Incremental Capital Module ("ICM") rate riders:

> Pursuant to the prior Board's decision with respect to rate harmonization, it is Festival Hydro's view that one of the objectives of the Revenue to Cost adjustments approved as part of Festival's 2010 Rate application was for the purpose of achieving rate harmonization during the intervening IRM years. Given that an ICM rate rider can only arise during the IRM years, if an LDC is not allowed to harmonize ICM rate riders during the IRM period, it means that overall harmonization of rates can never occur during an IRM period when ICM rate riders should arise.
>
> It is Festival's belief that this is the first IRM application before the Board whereby an LDC has an ICM rate rider in place and has requested harmonization of ICM rate riders in order to accomplish overall harmonization, it is Festival's belief that the introduction of ICM rate riders should not prevent overall harmonization from occurring, providing it is achieved on a revenue neutral (or close to neutral) basis. Festival requests the Board approve the proposed ICM rate rider harmonization in order to achieve the overall goal of rate harmonization.

Board staff notes that, based on Festival Hydro's response to Board staff interrogatory

#1.c), the overall revenue amount of the proposed adjustments to base rates for the Residential - Hensall class is immaterial. While there is no specific revenue amount on the record for the proposed adjustments to the ICM rate riders, the revenue adjusments would be less material than those to base rates. However, Board staff submits that Festival Hydro's proposals for R/C ratio adjustments to harmonize base rates and the ICM rate riders for the Residential and Residential – Hensall classes are inappropriate as they are not revenue neutral. The result of Festival Hydro's proposal would be to increase the revenues from the Residential – Hensall class with no offsetting decrease to any other class. In other words, an overall increase in the Board approved revenue requirement. Though the amounts are not material in this case, Board staff does not support this principle. Furthermore, as noted above, adjustments such as this are a specific exclusion in the Filing Requirements for IRM rate applications.

Board staff acknowledges that Festival Hydro appears to have followed the standard methodology in making the R/C ratio adjustments in each of its 2011-2013 IRM applications. However, Board staff notes that full rate harmonization was unlikely in Festival Hydro's IRM term as the residential classes had different fixed/variable splits for base rates which are kept constant when revenues are rebalanced in the R/C ratio adjustment workform. Board staff also notes that the Board's findings in the decision for Festival Hydro's 2010 cost of service application, with respect to cost allocation and rate design, did not specifically mention rate harmonization. The Board merely approved Festival Hydro's proposed R/C adjustments (with a phase in period) and its proposed rate design.

Given that Festival Hydro has stated that it intends to file a cost of service application in 2014 for rates to be effective January 1, 2015, Board staff submits that Festival Hydro should wait until its next cost of service application to complete the rate harmonization process where the necessary adjustments to Festival Hydro's rate design and cost allocation can be more appropriately considered.

All of which is respectfully submitted