

**2014 ELECTRICITY DISTRIBUTION RATES**  
**Orangeville Hydro Ltd.**

**EB-2013-0160**

**STAFF SUBMISSION**

**March 27, 2014**

## **INTRODUCTION**

On March 26, 2014 Orangeville Hydro Ltd. (“OHL”) filed a settlement proposal with respect to its application for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2014.

The parties to the settlement proposal are OHL and all the Board-approved intervenors in the proceeding: the Vulnerable Energy Consumers’ Coalition (“VECC”), the School Energy Coalition (“SEC”), and Energy Probe Research Foundation (“Energy Probe”).

The settlement proposal represents a complete settlement of all issues.

This submission reflects observations which arise from Board staff’s review of the evidence and the settlement proposal, and is intended to assist the Board in deciding upon OHL’s Application with respect to the issues laid out in the Settlement Proposal and in setting just and reasonable rates.

Board staff notes that there have been a number of updates to the evidence in the course of this proceeding. This submission is based on the status of the record as of OHL’s settlement proposal and draft rate order.

### **Submission**

Board staff has reviewed the settlement proposal in the context of the objectives of the Renewed Regulatory Framework for Electricity, other applicable Board policies, relevant Board decisions, and the Board’s statutory obligations. While the parties considered the issues and OHL’s planning in the limited context of the test year, Board staff is of the view that the settlement proposal reflects a reasonable evaluation of the distributor’s planned outcomes in this proceeding, and appropriate consideration of relevant issues. This is the first year of implementation for the Renewed Regulatory Framework for Electricity, and Board staff took this into consideration in assessing the settlement proposal.

Board staff submits that the Board’s approval of the proposal as filed would adequately reflect the public interest and would result in just and reasonable rates for customers.

Notwithstanding the above, Board staff's submission provides further discussion of the following issue to ensure the Board has background on previous Board decisions relevant to this issue:

1. Treatment of gain or loss on sale of land assets related to the Z-factor claim under issue 9.1.

In its Application, OHL filed a Z-factor claim and applied for the disposition of a balance in Account 1572 of \$275,893 over a one-year period as shown below. OHL stated that a total event cost of \$370,589 was incurred to remediate the site of a dismantled distribution station contaminated with heavy metal and arsenic located at 45 Mill Street. During the remediation process the value of the remediated property was re-assessed at \$100,000, a substantial increase in the initial book value of \$6,400, which stemmed from the acquisition of the land in 1924<sup>1</sup>. OHL transferred an amount of \$270,589 from Account 1805 Land to Account 1572 Extraordinary Event Costs in 2012 for the purpose of seeking recovery in the future, but proposed to retain a land value of \$100,000 in 2012 rate base until a decision was made to sell the land<sup>2</sup>. This in effect offsets the total Z-factor claim of \$370,589 by the land value of \$100,000 resulting in a total claim of \$275, 893 including carrying charges.

#### Z-factor claim<sup>3</sup>

October 1, 2015

Original Book Value Write-Down	Environmental Assessments	Environmental Consultant-Project Manager	Excavation & Disposal, Demolition of Structure	Total Cost	Land Value	Carrying Charges	Cost Claim
6,471	38,250	98,666	227,202	370,589	100,000	5,304	275,893

In the settlement proposal the parties agreed to the disposition of the total claim but to remove the remaining land value of \$100,000 from rate base. The parties further agreed that if and when OHL disposes of this property, any gain or loss on the sale of the land should flow to the benefit or cost to OHL's shareholder and not the ratepayer.

<sup>1</sup> Interrogatory Response 9.1-Energy Probe-51

<sup>2</sup> Interrogatory Response 9.1-VECC-42 (f)

<sup>3</sup> Evidence E9/T3/S1, p. 3

Staff notes that this issue forms part of the overall Settlement Proposal and is a non-severable issue. As additional context for the Panel's consideration, Board staff submits that the proposed removal from rate base and division of the proceeds from any future land sale are within the spirit of similar prior Board findings. Board staff submits that the proposed treatment of the gain or loss from the sale is in the interest of customers because it provides cost certainty for today's customers. The sale price is uncertain in timing, magnitude and probability, and could result in a gain or loss. With this proposal customers would not benefit if there is a gain from the sale, but customers are also not subject to any risk if the sale results in a loss. Board staff submits that this approach properly allocates risks and benefits among ratepayers and OHL's shareholder. Each of these is discussed further below.

As a primary issue, Board staff supports the removal of the asset from rate base. The property, insofar as it no longer hosts any distribution infrastructure, is neither currently used nor useful. Furthermore, OHL noted that there are no future plans for the property at this time<sup>4</sup>.

Regarding the issue of the sale of the property, Board staff submits that the Board established its jurisdiction to order the sharing of proceeds between the shareholder and ratepayers in its Decision and Order EB-2005-0211 on January 30, 2007 regarding an application by Union Gas Ltd to sell a surplus capital asset (the "Cushion Gas case").

The Board has subsequently made findings on the treatment of proceeds from sale of property, finding in some cases that the proceeds should accrue to the shareholder, and other times to ratepayers.

For example, in the Cushion Gas case, the Board allocated 100% of the proceeds of the sale to the shareholder on the basis that the asset was surplus to the assets required to provide services to its customers. The Board found that while the utility had an obligation to act in the interests of its customers, it did not have an obligation to share its assets with them.

By contrast, on a sale issue in Toronto Hydro-Electricity System Limited's ("THESL") 2008 cost of service application (EB-2007-0680), the Board found that "100% of the net after-tax gains from the sale of properties that are planned to be sold in 2008 should go to the rate payer" because the properties were sold as

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<sup>4</sup> Interrogatory Response 9.1-Staff-49(d)

part of a Facilities Consolidation and Renewal Plan. The Board found that if it were not for the Plan, the properties would continue to be used and useful.

Although this Settlement Proposal identifies the subject property as a surplus asset, Board staff submits the land became surplus as a result of OHL's ongoing voltage conversion project, which led to the dismantling of the existing 44/4 kV substation and the Z-factor event<sup>5</sup>. In this manner, the case is analogous to the Facilities and Consolidation Plan in THESL's case, insofar as the assets became surplus as a result of the execution of an efficiency strategy. Accordingly, Board staff submits that it is reasonable that ratepayers enjoy a financial benefit from the distributor's sale of its asset.

Board staff also notes that the proposed amount by which ratepayers will benefit, which is potentially less than the actual sale price, is also reasonable, since it reflects consideration not merely of sale proceeds but of the costs incurred to date. OHL's customers are guaranteed to benefit by avoiding \$100,000 in site remediation costs that, in accordance with the way Z-factor costs are recovered from customers, would otherwise be payable by them, independent of the asset's sale price. Board staff submits that the certainty ratepayers gained by the immediate offset to the Z-factor claim provides equal if not greater value than an interest in the excess proceeds in the event that the land fetches greater than \$100,000 upon sale, the likelihood of which is uncertain. Another compensatory benefit to ratepayers is that the land has been removed from rate base, which allows the distributor to plan and time the sale according to its judgment at no further cost to its customers.

The allocation of risk provides additional basis for Board staff's support of the proposed approach. Board staff submits that given the imperfect information available to ratepayers about the market demand in Orangeville for properties with soil contamination, the risk and responsibility for valuation, timing and sale are best borne by the utility. It owns land in the area, and its shareholder has access to many sources of data and expertise on land valuation beyond the value assessment already in hand.

Finally, Board staff notes that should the Settlement Proposal be accepted by the Board the cost recovery for the Z-factor claim should appropriately be on a final basis; in Board staff's view a variance account would neither be required nor

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<sup>5</sup> Evidence E9/T3/S1, p.1

warranted, since this further cements the core benefit of cost certainty for ratepayers.

All of which is respectfully submitted.