EB-2014-0102

Ontario Energy Board

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Oakville Hydro Electricity Distribution Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective January 1, 2015.

ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")

ARGUMENT

October 29, 2014

OAKVILLE HYDRO ELECTRICITY DISTRIBUTION INC.
2015 RATES APPLICATION

EB-2014-0102

ARGUMENT OF ENERGY PROBE RESEARCH FOUNDATION

A- INTRODUCTION

This is the Argument of the Energy Probe Research Foundation ("Energy Probe") related to the issues raised by the Z factor ice storm claim in the 2015 rates application of Oakville Hydro Electricity Distribution Inc. ("Oakville").

Energy Probe takes no issue with the claim of Z factor eligibility. Energy Probe submits that Oakville has adequately substantiated the claim.

In particular, Energy Probe submits that the amounts claimed by Oakville (subject to the submissions below) are directly related to the Z factor event and are incremental to the base upon which rates were derived.

The amounts (again subject to the submissions below) were prudently incurred and are in excess of the Board-defined materiality threshold for Oakville of $177,843 (Application, page 15).

However, Energy Probe does take issue with the amount claimed and the allocation to and recovery from customers of the amount to be recovered.

Submissions on these issues are provided below.

B - SUBMISSIONS

a) Amount of the Z Factor Claim

i) Other Non-Union and Management

Oakville is claiming a Z factor amount of $361,509 which includes incremental OM&A costs and carrying charges of $5,272 (2-Board Staff-3). Just under $31,000 of these costs have not been audited, because they were incurred in 2014 (2-Board Staff-2).

Energy Probe has no issues with the recovery of the unaudited amounts, given that they represent less than 10% of the overall claim.

However, Energy Probe submits that the claim for overtime hours worked by Other Non Non-Union and Management should be disallowed. This amount, $51,089, is shown in the response to 2-Board Staff-5c in Table 3.

The same interrogatory response indicates that Oakville did not deviate from its normal approach to overtime for union employees and non-union employees that have an overtime clause in their contract. Energy Probe has no issues with these costs, which are shown to be $86,677 and $49,899, respectively, in Table 3 in the interrogatory response.

However, Oakville did pay $51,089 in overtime payments to non-union employees that do not have specific overtime clauses in their employment contracts. As explained in the interrogatory response, this was a deviation from Oakville's normal approach to who qualifies for overtime payments.

In addition, Oakville gave these employees the option of payment of overtime or to take lieu time in 2014. The cost of $51,089 reflects only the costs of those employees that selected the option to receive the overtime payment.

In the response to 2-Board Staff-5b, Oakville states that it does not have a formal policy for payment of overtime for non-union employees other than a number of non-union employees that have an overtime clause as part of their employment contract.

Energy Probe submits that in the absence of a written policy or employment contracts with respect to the payment of overtime to non-union or management personnel it is not appropriate to require ratepayers to pay for such overtime. Energy Probe submits there is no reason that Oakville ratepayers should pay for this component of non-union and management overtime when they do not pay for other overtime that takes place during the normal course of business. This is a departure from Oakville's operating practices and should not be recoverable from ratepayers.

ii) Regular Time Payments

In addition, Energy Probe notes that Oakville has included costs of $23,032 categorized as Regulator Time Payments in its Z-factor claim of labour costs (2-Board Staff-5a). This is the difference in the Total Z-factor Labour Costs of $177,665 shown in Table 2 and the Grand Total claim of $200,696.

The rationale for this payment was that theses union employees were paid at their regular rates of pay throughout the affected period and were employees that were required to work on their pre-scheduled vacation days. The evidence further indicates that the majority of these employees were unable to take their vacation days in 2013 and, as a result, their vacation days have been deferred and carried forward to 2014.

Energy Probe submits that these costs are not incremental and are not outside of the base costs on which rates were derived. Rather, this seems to be a shift in costs to 2013 from 2014 in exchange for deferring vacations days from 2013 to 2014.

b) Allocation and Recovery

i) Allocation

Energy Probe has reviewed the allocation of costs provided in the response to 2-Energy Probe-3 that shows the allocation of costs if the costs were allocated based on the allocation of the accounts to which Oakville allocates these costs rather than based on distribution revenues. Oakville has indicated that the appropriate way for allocating the costs associated with the ice storm would be accounts 5135 and 5410 (2-Energy Probe-3a). Energy Probe submits that this would be a more appropriate and accurate allocation of costs.

However, based on the response to part (b) of the same interrogatory, Energy Probe submits that the allocation methodology used by Oakville is adequate in the current circumstances. The rate riders are not materially different from the allocation of costs based on distribution revenues (Table 11) even though the costs recovered from the residential and GS < 50 kW class would be somewhat lower.

ii) Recovery

Energy Probe submits that the recovery of the Z factor amount through the use of a fixed rate rider is appropriate. Costs should be recovered based on a customer basis, rather than a consumption basis. This is because the costs proposed for recovery in this application are customer driven and not consumption driven.

In the original application, Oakville proposed to recover the costs through both fixed rate and variable rate riders (Application, Tables 7 & 8). However, as indicated in the response to 2-Energy Probe-5b, it appears that Oakville agrees that recovery of the costs through the fixed rate rider only is appropriate.

Energy Probe submits that the Board should direct Oakville to base the monthly fixed rate rider on the forecast number of customers/connections over the duration of the term of the rate rider (January 1, 2015 through December 31, 2015) rather than number of customers/connections proposed by Oakville.

Oakville's proposal includes the use of the forecasted average number of customers/connections for the 2014 Test Year as approved in Oakville's 2014 Cost o Service Application, EB-2013-0159.

As shown in the response to 2-Energy Probe-4 in Table 12, Oakville has forecast the average number of customers that it will have over the recovery period.

A comparison of the above two customer forecasts shows a wide variation in customer growth, ranging from virtually no growth in some rate classes to more than 3.9% in others.

Oakville agrees that its proposal would result in over recovery of the balance in the Z factor account (2-Energy Probe-4e). While Oakville indicates that this over collection will be tracked and refunded to customers in the future (2-Energy Probe-4f).

Oakville has further indicated that it could track the revenue received from the rate rider and refund any over collection to ratepayers by rate class in a subsequent proceeding. However, Oakville also indicated that the estimated amount to be returned to ratepayers is not material and the potential benefits may be outweighed by the administrative burdens required to track any over collection by rate class (2-Energy Probe-4g).

Energy Probe submits that this would mean that the rate classes that grow faster than average in 2015 would end up paying more than their allocated share of the costs because they are growing in terms of the number of customers while the other rate classes would pay less than their allocated costs, and there would be no true up to reflect this by rate class.

Energy Probe submits that it is better policy to set the rate rider based on readily available information (customer forecasts) rather than to set a rider that will, by definition, over collect from some customers with no true up by rate class.

In summary, Energy Probe submits that the fixed rate rider should be set based on the forecasted average number of customers/connections in each rate class over the term of the rate rider rather than the forecasted number of customers/connections for the previous year.

c) Timing of the Recovery

Energy Probe supports the timing of the recovery as proposed by Oakville, being January 1, 2015 through December 31, 2015.

C - COSTS

Energy Probe requests that it be awarded 100% of its reasonably incurred costs. Energy Probe focused exclusively on the quantum, allocation and recovery of the Z factor claim.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

October 29, 2014

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