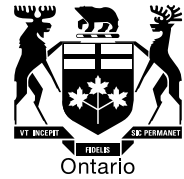


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BY EMAIL

October 29, 2014

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: Oakville Hydro Electricity Distribution Inc.
2015 IRM Distribution Rate Application
Board Staff Submission
Board File No. EB-2014-0102**

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

Oakville Hydro Electricity Distribution Inc.'s Reply Submission, if it intends to file one, is due by November 12, 2014.

Yours truly,

Original Signed By

Kelli Benincasa
Analyst, Electricity Rates and Accounting

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2015 ELECTRICITY DISTRIBUTION RATES

Oakville Hydro Electricity Distribution Inc.

EB-2014-0102

October 29, 2014

Introduction

Oakville Hydro Electricity Distribution Inc. (“Oakville Hydro”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”) on August 13, 2014 seeking approval for changes to the rates that Oakville Hydro charges for electricity distribution, to be effective January 1, 2015. The Application is based on the 2015 Price Cap IR option.

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 Oakville Hydro.

The Application

In the interrogatory phase, Board staff identified certain discrepancies in the data entered in the Application model by Oakville Hydro. In response to Board staff interrogatories, which requested either a confirmation that these discrepancies were errors or an explanation supporting the validity of the original data filed with the Application, Oakville Hydro confirmed that they were errors and provided the corrected data. Board staff will make the necessary corrections to Oakville Hydro’s model at the time of the Board’s Decision on the Application.

Retail Transmission Service Rates

Board staff has no concerns with the Retail Transmission Service Rates proposed by Oakville Hydro. 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.

Deferral and Variance Account Disposition

Oakville Hydro completed the Deferral and Variance Account continuity schedule included in the 2015 IRM Rate Generator Model at Tab 5 for its Group 1 Deferral and Variance Accounts. The total consolidated Group 1 Deferral and Variance Account balances amount to a debit of \$245,271. The balance of the 1589 – Global Adjustment Account is a debit of \$1,351,567, and is applicable to only Non-RPP customers. This amount includes interest calculated to December 31, 2014. Based on the threshold test

calculation, the Group 1 Deferral and Variance Account balances equate to \$0.0002 per kWh which does not exceed the threshold, and as such, Oakville Hydro is not requesting disposition.

Board Staff has reviewed Oakville Hydro's Group 1 Deferral and Variance Account balances and notes the principal balances as of December 31, 2013 reconcile with the balances reported as part of the *Reporting and Record-keeping Requirements*. Accordingly, Board staff has no issue with Oakville Hydro's request not to dispose of its 2013 Deferral and Variance Account balances.

Z-Factor Claim

On December 21st and 22nd, 2013 an ice storm swept across Southern and Eastern Ontario bringing down trees and power lines, resulting in extensive damage to electricity distribution systems across the Province. Oakville Hydro had over two-thirds of its customers without power at the height of the ice storm. To aid in restoring power, Oakville Hydro obtained assistance from two electricity distributors (London Hydro and Goderich Hydro ("West Coast Huron Energy Inc.)) and two external contractors, (K-Line Maintenance and Construction Ltd.)

On March 31, 2014 Oakville Hydro sent a letter to the Board advising of Oakville Hydro's intention to file a Z-factor claim to recover costs associated with the restoration of electricity to its customers.

Through the Application, Oakville Hydro is requesting the recovery of a Z-factor claim in the amount of \$356,237 as incremental OM&A costs, not including carrying charges. This total including carrying charges, is \$361,509. Oakville Hydro is requesting that the amount be recovered by means of a fixed and variable rate rider, allocated on the basis of distribution revenue using the last Board approved fixed-variable split, for a period of 12 months beginning January 1, 2015 and ending December 31, 2015.

A detailed breakdown of the expenses to be recovered is as follows:

Description	
Incremental Labour Costs (excluding Benefits)	\$200,696
Materials	\$11,986
Third Party Contractors	\$86,362
London Hydro and West Coast Huron Energy Inc.	\$45,375
Communication Cost	\$5,809
Meals, Accommodations & Other	\$6,009
Projected carrying charges	\$5,272
Z-Factor Amount Requested for Recovery	\$361,509

Based on the *Board's Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors*¹ dated July 14, 2008, Z-factors are intended to provide for unforeseen events outside of a distributor's management control. The cost to the distributor must be material and its causation clear. In order for amounts to be considered for recovery by way of a Z-factor, the amounts must satisfy the following three eligibility criteria:

- Causation – Amounts should be directly related to the Z-factor event. The amount must be clearly outside of the base upon which rates were derived.
- Materiality – The amounts must exceed the Board-defined materiality threshold and have a significant influence on the operation of the distributor; otherwise they should be expensed in the normal course and addressed through organizational productivity improvements.
- Prudence – The amounts must have been prudently incurred. This means that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

¹ http://www.ontarioenergyboard.ca/oeb/Documents/EB-2007-0673/Report_of_the_Board_3rd_Generation_20080715.pdf

Causation

In its Application and in response to interrogatories from Board staff ("BSI") and the Vulnerable Energy Consumers Coalition ("VECC"), Oakville Hydro has stated:

- Management could not have been able to plan and budget for a storm of this magnitude (Application p.13);
- The majority of the costs (91%) were incurred in 2013 and therefore have been audited (Application p.15 and BSI #2a);
- The claim includes only overtime hours for Oakville Hydro's staff, invoiced costs from London Hydro and West Coast Huron Energy Inc., third party contractors, as well as the costs of meals and accommodations for those distributors providing assistance from out town (Application p.15);
- The costs associated with assistance provided to other electricity distributors is not included in Oakville Hydro's restoration costs (Application p.17);
- Has reviewed the total costs to determine the incremental overtime costs and remove any burdens associated with benefits or vehicles (Application p.18);
- Has provided a breakdown of incremental labour costs by department (BSI #5a);
- Has an Alliance Agreement with K-Line Maintenance and Construction Ltd. and the agreement sets out the rates to be charged for services provided during regular business hours and services provided after hours (BSI #6a);
- Has provided a breakdown of contractor costs (BSI #6c);
- Has provided a breakdown on electricity distributor costs (BSI #7c);
- Has incurred emergency maintenance costs of \$623,428 higher than the amount that is in rates from 2010-2013 cumulatively, excluding the 2013 ice storm (BSI #8e);

Emergency Maintenance in Rates			
Year	Amount in Rates	Actual	Difference
2010	\$609,000	\$579,851	-\$29,149
2011	\$609,000	\$743,955	\$134,955
2012	\$609,000	\$955,427	\$346,427
2013 (excluding ice storm)	\$609,000	\$838,988	\$229,988

- There are no other sources for reimbursement such as shareholder contributions or the Ontario Ice Storm Assistance Program (BSI #9a);

- The amounts claimed are directly related to the Z-factor event and that if the ice storm had not occurred; Oakville would not have incurred any of the costs (VECC#1c).

Based on the budget and actual costs for addressing emergency distribution system problems from 2010 to 2014 provided by Oakville Hydro, Board staff notes that since 2010, Oakville Hydro has consistently spent more for emergency maintenance than had been approved in rates. Furthermore, Board staff notes that Oakville Hydro's regulatory return on equity for 2013, as reported on the scorecard, was 6.03%.

Overall, Board staff submits that Oakville Hydro has demonstrated that the amounts sought for recovery are directly related to the ice storm and outside of the base upon which Oakville Hydro's 2013 rates were set.

Materiality

Board staff notes that the Board's materiality threshold for a Z-factor claim is 0.5% of distribution revenue requirement for a distributor with a distribution revenue requirement greater than \$10 million and less than or equal to \$200 million.

Oakville Hydro has an approved revenue requirement of \$35,568,668 from its 2014 cost-of-service application (EB-2013-0159) and a corresponding materiality threshold of \$177,843.

Board staff submits that Oakville Hydro's \$361,509 total cost claim is material.

Prudence

In its Application and in response to interrogatories, Oakville Hydro has:

- Stated it did not deviate from its normal approach to overtime for union employees and non-union employees that have a clause in their contract (BSI#2c);
- For non-union and management employees that did not have overtime clauses in their employment agreement, Oakville Hydro determined it was appropriate and prudent to offer paid overtime due to the severity of the storm (BSI#2c);
- Explained that it has an Alliance Agreement with K-Line and Construction Ltd., at the time of an emergency they will be available and sets out rates to be charged.

It also have a Construction Services Agreement with its affiliate, EI-Con Construction Inc. the rates to be charged are set out in the agreement (BSI#6a);

- Stated it retained external contractors in a manner consistent with its procurement policy and its Emergency Operations Plan (BSI#6b);
- Stated that Oakville Hydro verified the hours worked by the two electricity distributors in the restoration effort; however, it reported that it is only able to ascertain the basis for invoiced costs for one of the electricity distributors, this distributor indicated on its invoice that they had provided a discounted rate (BSI #7d);
- Stated that it follows a tree trimming policy and contracts tree-trimming services to a third party (VECC#12a);
- Stated that it reviewed the total costs to determine the incremental overtime costs and remove any burdens associated with benefits or vehicles that had been recorded in the project (Application Page#18)

Although Board staff is concerned with the lack of verification of the invoiced costs of one local distribution company, Board staff appreciates that in situations arising from such extraordinary events, a utility faces limited options to provide safe and timely power restoration efforts.

Overall, Board staff submits that Oakville Hydro acted prudently in promptly securing assistance to restore power and did so in a cost-effective way, given the circumstances.

In summary, based on its review of the evidence, Board staff submits that the criteria of causation, materiality and prudence were met. As such, Board staff supports the amount requested for recovery.

Allocation of Costs and Rate Riders

In its application, Oakville Hydro states that consistent with the Board's Decision on Niagara-on-the-Lake Hydro's wind-storm damage Z-factor claim (EB-2011-0186), Oakville Hydro has allocated the costs associated with the ice storm to all rate classes, except the Embedded Distributors rate class, on the basis of distribution revenue using the last Board approved fixed-variable split. Oakville Hydro also stated it has not allocated any costs to the Embedded Distributor rate class, as this class was not impacted by the ice-storm.

Board staff notes in the Milton Hydro Z-Factor decision (EB-2014-0162) a fixed rate rider for cost recovery was approved. Milton Hydro submitted that a variable rate rider was not appropriate as the costs of restoration were not dependent on a customer's energy consumption or demand. Notwithstanding the Board's decision in (EB-2014-0162), Board staff submits that Oakville Hydro's proposal to allocate the costs associated with the ice storm on the basis of distribution revenue and using the last Board approved fixed-variable split is also an appropriate approach and has been approved in the past.

All of which is respectfully submitted