



EB-2014-0102

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 Distribution Inc. for an order
approving just and reasonable rates and other
charges for electricity distribution to be effective
January 1, 2015.

BEFORE: Marika Hare
Presiding Member

Allison Duff
Member

DECISION AND ORDER

December 4, 2014

Oakville Hydro Electricity Distribution Inc. (“Oakville Hydro”) filed an application with the Ontario Energy Board (the “Board”) on August 13, 2014 under section 78 of the *Ontario Energy Board Act*, seeking approval for changes to the rates that Oakville Hydro charges for electricity distribution, effective January 1, 2015 (the “Application”).

Oakville Hydro last appeared before the Board with a cost of service application for the 2013 rate year in the EB-2013-0159 proceeding. To adjust its 2015 rates, Oakville Hydro selected the Price Cap Incentive Rate-setting option (the “Price Cap IR”) which provides for a mechanistic and formulaic adjustment to distribution rates and charges in the period between cost of service proceedings. The Application met the Board’s filing

requirements¹ for filings by rate-regulated electricity distributors (“distributors”) applying for annual rate adjustments under Price Cap IR.

The Board conducted a written hearing and Board staff participated in the proceeding. The Vulnerable Energy Consumers Coalition (“VECC”) and Energy Probe (“EP”) applied for and were granted intervenor status and cost eligibility with respect to the Z-factor adjustment. No letters of comment were received.

While the entire record in this proceeding has been considered by the Board, this decision will make reference only to such evidence as is necessary to provide context to the Board’s findings. The following issues are addressed in this Decision and Rate Order:

- Price Cap Index Adjustment;
- Rural or Remote Electricity Rate Protection Charge;
- Retail Transmission Service Rates;
- Review and Disposition of Group 1 Deferral and Variance Account Balances; and
- Z-factor.

Price Cap Index Adjustment

The Price Cap IR option is a streamlined regulatory process designed to provide distributors with sufficient revenue to cover cost increases due to inflation while providing an incentive structure to drive productivity improvements.

Under the Price Cap IR option², distribution rates are adjusted by an inflation factor, less the sum of a productivity factor and a stretch factor³. Based on its established method³, the Board has set the inflation factor for 2015 rates at 1.6% and the productivity factor remains zero percent. The Board also determined that the stretch factor can range from 0.0% to 0.6%, assigned based on a distributor’s cost evaluation ranking. The Board assigned Oakville Hydro a stretch factor of 0.45 based on the updated benchmarking study for use for rates effective in 2015⁴.

¹ Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach (October 18, 2012); and Filing Requirements for Electricity Distribution Rate Applications (July 25, 2014)

² Report on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario’s Electricity Distributors (December 4, 2013)

³ As outlined in the Report cited at footnote 2 above.

⁴ Report to the Ontario Energy Board – “Empirical Research in Support of Incentive Rate-Setting: 2013 Benchmarking Update.” Pacific Economics Group LLC. July, 2014.

As a result, the net price cap index adjustment for Oakville Hydro is 1.15% (i.e. 1.6 % - (0% + 0.45 %)). The price cap index adjustment applies to distribution rates (fixed and variable charges) uniformly across all customer classes. The price cap index adjustment does not apply to the components of delivery rates set out in the list below:

- Rate Riders;
- Rate Adders;
- Low Voltage Service Charges;
- Retail Transmission Service Rates;
- Wholesale Market Service Rate;
- Rural or Remote Electricity Rate Protection Charge;
- Standard Supply Service – Administrative Charge;
- Transformation and Primary Metering Allowances;
- Loss Factors;
- Specific Service Charges;
- MicroFit Charge; and
- Retail Service Charges.

Rural or Remote Electricity Rate Protection Charge

As of the date of this Decision and Rate Order, the Board has not issued a decision on the Rural or Remote Electricity Rate Protection (“RRRP”) charge for 2015. In the event that a new charge is established for 2015, the RRRP rate order will supersede this Decision and Rate Order with respect to the RRRP charge currently set at \$0.0013/kWh.

Retail Transmission Service Rates

Electricity distributors are charged for transmission costs at the wholesale level and then pass on these charges to their distribution customers through their Retail Transmission Service Rates (“RTSRs”). Variance accounts 1584 and 1586 are used to capture differences in the rate that a distributor pays for wholesale transmission service relative to the retail rate that the distributor is authorized to charge when billing its customers.

The Board has issued guidelines⁵ which outline the information that the Board requires electricity distributors to file in order to adjust their RTSRs for 2015. The RTSR guideline requires electricity distributors to adjust their RTSRs based on a comparison of historical transmission costs adjusted for the new Uniform Transmission Rates and the revenues generated under existing RTSRs. Similarly, partially embedded distributors, such as Oakville Hydro must adjust their RTSRs to reflect any changes to the applicable RTSRs of their host distributor(s), e.g. Hydro One Networks Inc.

Given the timing of rates decisions, distributors whose rates are set as of January 1 typically derive their RTSRs using the previous year's Uniform Transmission Rates because updated ones are not yet available. As with past years, the Board has not yet adjusted Uniform Transmission Rates and Hydro One sub-transmission class rates for 2015. The Board will therefore approve the RTSRs as adjusted in this Application so that they reflect the current applicable rates. The differences arising from the new 2015 rates, once approved, will be captured in Accounts 1584 and 1586 for future disposition.

Review and Disposition of Group 1 Deferral and Variance Account Balances

The Board's policy on deferral and variance accounts⁶ provides that, during the IRM plan term, the distributor's Group 1 account balances will be reviewed and disposed if the preset disposition threshold of \$0.001 per kWh, whether in the form of a debit or credit, is exceeded. The onus is on the distributor to justify why any account balance in excess of the threshold should not be disposed. If the balances are below this threshold, the distributor may propose to dispose of balances.

Oakville Hydro's 2013 actual year-end total balance for Group 1 accounts including interest projected to December 31, 2014 is a debit of \$245,271. This amount results in a total debit claim of \$0.0002 per kWh, which does not exceed the preset disposition threshold. Oakville Hydro did not seek disposition of balances in its application.

In its submission, Board staff noted that the principal amounts as of December 31, 2013 reconcile with the amounts reported by Oakville Hydro as part of the *Reporting and Record-Keeping Requirements*.

⁵ Guideline G-2008-0001 - Electricity Distribution Retail Transmission Service Rates, revision 4.0 (June 28, 2012)

⁶ Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (July 31, 2009)

The Board finds that no disposition is required at this time.

Z-Factor

Background

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 West Coast Huron Energy Inc., and two external contractors.

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. A Z-factor claim is an option available to an electricity distributor to seek the recovery of costs arising from unforeseen events outside of its control. If a claim is approved, the distributor can establish a new, incremental rate, without having to wait until its next cost of service proceeding.

Oakville Hydro requested the recovery of a Z-factor claim of \$361,509. A Z-factor claim must satisfy three eligibility criteria in order to receive Board Approval. The criteria are set out in the *Board's Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors*⁷ dated July 14, 2008, as follows:

- **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.

⁷ http://www.ontarioenergyboard.ca/oeb/ Documents/EB-2007-0673/Report_of_the_Board_3rd_Generation_20080715.pdf

- 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

Oakville Hydro had an approved revenue requirement of \$35,568,668 from its 2014 cost of service application (EB-2013-0159). The Board-defined materiality threshold for a Z-factor claim is 0.5% for a distributor with a distribution revenue requirement of between \$10 million and \$200 million. Therefore, Oakville Hydro's materiality threshold is \$177,843.

No party took issue with the fact that the Z-factor claim of \$361,509 exceeded the materiality threshold. The Board finds that the materiality test has been met.

Prudence

Oakville Hydro incurred incremental OM&A costs when it retained assistance from London Hydro, West Coast Huron Energy Inc. and third party contractors to help restore power.

Board staff did not take issue with the associated costs, yet noted that some invoices lacked cost verification. Board staff submitted, however, that under the circumstances, Oakville Hydro acted in a prudent, cost-effective manner, given that its priority was to restore power quickly and safely.

VECC submitted that the prudence test has not been met as Oakville Hydro did not know the basis for its invoiced costs from the other electricity distributor. In addition, VECC submitted that any premium amounts paid to the distributors should be disallowed by the Board.

VECC and EP submitted they do not support the inclusion of payment for overtime to non-union employees and management employees as Oakville Hydro does not have a documented policy concerning the payment of overtime for non-unionized employees. VECC and EP submitted the amount \$51,089 should be disallowed by the Board, on the basis that it deviates from Oakville Hydro's normal approach to overtime, especially

when rate payers do not pay for overtime for this employee group during the normal course of business.

VECC and EP also submitted the amount of \$23,032 in Oakville Hydro's labour costs for payments made to union employees at regular rates of pay for work on pre-scheduled vacation days should be disallowed by the Board. VECC and EP stated that it is not appropriate to include this amount as these costs are not incremental costs and are not outside of the base upon which rates were derived.

To address VECC's concerns, Oakville Hydro indicated that it received confirmation from the external electricity distributor regarding the invoices, and verified that the charges were on a cost-recovery basis and did not include premium payments.

Oakville Hydro submitted that the internal labour costs included in its Z-factor claim were prudent. It was both prudent and appropriate to offer paid overtime to non-union and management staff given the timing, severity and duration of the storm. Oakville Hydro noted it could not have restored power to its customers in the short timeframe that it did without the support of all its employees. Oakville Hydro stated there simply were not enough available employees to provide supervision and support to the crews in the field that were working around the clock without incurring management overtime costs.

Oakville Hydro also noted that the Ontario Ice Storm Assistance Program, which is available to Municipalities, does not deem overtime costs paid to non-union and management employees without an overtime clause in their agreement as "ineligible" costs.

Regarding payment for work performed on pre-scheduled vacation days, Oakville Hydro submitted that it incurred labour costs at regular rates during the ice storm and vacation costs at regular rates for the vacation days rescheduled in 2014.

Board Findings

The Board finds the expenses included in Oakville Hydro's claim were prudently incurred except for the rescheduling of vacation time.

The Board accepts Oakville Hydro's reply submission that the external distributor invoices were submitted on a cost-recovery basis and no premium payments were made.

The Board finds the payment of management overtime to be prudent given the unique circumstances related to the December 2013 ice storm. The Board recognizes that emergency situations occur in which electricity is disconnected and efforts are required to restore service to customers. Service disconnects are a risk with an associated expense for an electricity distributor in the normal course of business. However, the December 2013 ice storm resulted in the disconnection of two-thirds of Oakville Hydro's customers for up to 3 days.

Management was required to coordinate the activities of two external contractors and two distributors, effectively and efficiently in order to restore service. The \$51,089 cost of management overtime is 14% of the total Z-factor claim. The Board has considered the opportunity cost in time and money if the restoration efforts had proceeded without management working the same hours as the union employees, contractors and other distributors. The Board finds that the ice storm recovery efforts were not "within the normal course of business".

The Board finds that Oakville Hydro has not demonstrated that the rescheduling of pre-arranged vacation time to the next year represents an incremental cost. The amount of \$23,032 is therefore disallowed.

Oakville Hydro's policy with respect to management overtime is not documented. However, the Board considers approval of the management overtime is an exception based on the unique circumstances. This panel notes that the Decision does not set a precedent in finding the payment of management overtime to be prudent expenses for a Z-factor claim. Each Z-factor application is unique and must be reviewed on its own merits, applying the Board's eligibility criteria.

Causation

Oakville Hydro's total claim of \$361,509 was comprised of the following costs:

Table 1 – Z-Factor Claimed Costs

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
Total Z-Factor Claim	\$361,509

Oakville Hydro also provided its annual Emergency Maintenance amounts budgeted and included in rates, compared to actual expenditures as follows:

Table 2 – Emergency Maintenance in Rates

Year	Amount in Rates	Actual	Difference
2010	\$ 609,000.00	\$ 579,851.00	\$ 29,149.00
2011	\$ 609,000.00	\$ 743,955.00	\$ (134,955.00)
2012	\$ 609,000.00	\$ 955,427.00	\$ (346,427.00)
2013	\$ 609,000.00	\$ 838,988.00	\$ (229,988.00)
2014	\$ 391,867.00	\$ 333,074.00	\$ 58,793.00
Totals	\$ 2,827,867.00	\$ 3,451,295.00	\$ (623,428.00)

Based on the budget and actual costs for Emergency Maintenance Oakville Hydro had spent its 2013 budget before the ice storm occurred in December. Board staff, EP and VECC submitted that Oakville Hydro has demonstrated that the claimed amounts were directly related to the ice storm and outside of the base upon which Oakville Hydro's 2013 rates were set.

Board Findings

The Board finds that the causation criterion has been met. The costs included in the Z-factor claim were directly related to the ice storm event, except for the amount of \$23,032, related to rescheduling of prearranged vacation time. The Board is satisfied

that the remainder of the expenses included in the Z-factor claim were outside of the base upon which Oakville Hydro's rates were derived.

In summary, the Board approves a Z-factor claim of \$338,477. The Board finds that this revised amount satisfies the three eligibility criteria of materiality, prudence and causation.

Cost Allocation and Rate Design

Once the Z-factor cost amount has been determined, the Board must decide on the manner in which the cost will be allocated to customers for recovery. By convention, costs for Z-factor claims are recovered by dedicated rate riders. Oakville Hydro originally proposed recovery through a fixed and variable rate rider for a period of 12 months beginning January 1, 2015 to December 31, 2015.

Oakville Hydro subsequently changed its requested recovery method from fixed and variable rate rider to a fixed rate rider, based on the revenue requirement and 2014 Board approved forecast of average number of customers/connections. VECC and EP supported Oakville Hydro's proposed recovery method.

EP also submitted that the fixed charge should be based on the forecasted number of customer/connections during the term of the rate rider, as there was wide variation in the customer growth rate between rate classes. Classes with higher growth rates would end up paying more than their allocated share of the costs.

In reply submission, Oakville Hydro agreed that the growth rate varied among the classes, yet the amount of over collection forecast was not material. Oakville Hydro submitted that it was appropriate to calculate the monthly fixed charge on the 2014 Board approved forecast.

Board findings

The Board finds it appropriate to allocate the approved \$338,447 claim across all rate classes based on the last Board approved distribution revenue by rate class. This finding is consistent with prior Board decisions⁸.

⁸ EB-2007-0514/0595/0571/0551 and EB-2011-0186

The Board approves Oakville Hydro's calculation of the fixed rate riders to be charged over a 12-month recovery period beginning January 1, 2015 and ending December 31, 2015. The Board does not agree that forecast numbers should be used to calculate the rate riders as proposed by EP. The Board finds it appropriate to calculate the rate riders based on the last Board approved customer numbers for 2014.

IMPLEMENTATION

The Board has made findings in this Decision and Rate Order which change the 2014 distribution rates from those proposed by Oakville Hydro.

The Board expects Oakville Hydro to file a draft Rate Order, including a proposed Tariff of Rates and Charges and all relevant calculations showing the impact of this Decision and Rate Order on Oakville Hydro's determination of the final rates. Supporting documentation shall include, but not be limited to, filing a completed version of the 2014 IRM Rate Generator model and updated Z-factor rate rider calculation.

A Rate Order will be issued after the steps set out below are completed.

THE BOARD ORDERS THAT:

1. Oakville Hydro shall file with the Board, and shall also forward to VECC and EP, a draft Rate Order that includes revised models in Microsoft Excel format and a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision by December 9, 2014.
2. Board staff and VECC and EP shall file any comments on the draft Rate Order including the revised models and proposed rates with the Board and forward to Oakville Hydro within 3 days of the date of filing of the draft Rate Order.
3. Oakville Hydro shall file with the Board and forward to VECC and EP responses to any comments on its draft Rate Order including the revised models and proposed rates within 4 days of the date of receipt of intervenor comments.

COST AWARDS

The Board will issue a separate decision on cost awards once the following steps are completed:

1. Vulnerable Energy Consumers Coalition and Energy Probe shall submit their cost claims no later than **7 days** from the date of issuance of the final Rate Order.
2. Oakville Hydro shall file with the Board and forward to Vulnerable Energy Consumers Coalition and Energy Probe any objections to the claimed costs within **17 days** from the date of issuance of the final Rate Order.
3. Vulnerable Energy Consumers Coalition and Energy Probe shall file with the Board and forward to Oakville Hydro any responses to any objections for cost claims within **24 days** from the date of issuance of the final Rate Order.
4. Oakville Hydro shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

All filings to the Board must quote the file number, EB-2014-0102 and be made electronically through the Board's web portal at www.pes.ontarioenergyboard.ca/eservice/ in searchable / unrestricted PDF format. Two paper copies must also be filed at the Board's address provided below. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.ontarioenergyboard.ca/OEB/Industry. If the web portal is not available parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

DATED at Toronto, December 4, 2014

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary