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Ontario

BY EMAIL

January 12, 2015

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Cambridge and North Dumfries Hydro Inc. ("CND")
2015 IRM Distribution Rate Application
Board Staff Submission
Board File No. EB-2014-0060

In accordance with Procedural Order #1, please find attached Board Staff's submission in the above noted proceeding. CND and the intervenors have been copied on this filing.

CND's reply to the submission is due on January 26, 2015.

Yours truly,

Original Signed By

Suresh Advani

Encl.

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2015 ELECTRICITY DISTRIBUTION RATES

Cambridge and North Dumfries Hydro Inc.

EB-2014-0060

January 12, 2015

Board Staff Submission
Cambridge and North Dumfries Hydro Inc.
2015 IRM Distribution Rate Application
EB-2014-0060

Introduction

Cambridge and North Dumfries Hydro Inc. ("CND") filed an application (the "Application") with the Ontario Energy Board (the "Board") on October 15, 2014, seeking approval for changes to the distribution rates that CND charges for electricity distribution, to be effective May 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 CND.

Retail Transmission Service Rates

Board staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by CND. Pursuant to the Board's Guideline 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.

Tax-Savings

Board staff notes that the Shared Tax-Savings portion of the Rate Generator Model reflects the Revenue Requirement Work Form from the Board's cost of service decision in EB-2013-0116. Board staff has no concerns with the information as filed.

Deferral and Variance Account Disposition

CND 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. CND's total Group 1 Deferral and Variance Account balances amount to a credit of $426,573. The balance of Account 1589 – Global Adjustment Sub-Account is a debit of $2,064,248, and is applicable only to Non-RPP customers. These balances also include interest calculated to April 30, 2015. Based on the threshold test calculation, the Group 1 Deferral and Variance Account balances equate to $0.0003 per kWh which is below the disposition threshold of $0.001 per kWh.

CND has acknowledged that the credit balance in the Deferral and Variance Accounts does not meet the threshold for disposition, but has nevertheless requested disposition of these Accounts over a one-year period, in accordance with Section 3.2.3 of the 2015 Filing Requirements. CND submitted that it's request is being made in an effort to mitigate the impact of the LRAM Variance Account recovery and the Z-Factor claim addressed later in this submission.

Board staff has reviewed CND's Group 1 Deferral and Variance Account balances and notes that the principal balances as of December 31, 2013 reconcile with the balances reported as part of the *Reporting and Record-keeping Requirements*.

In response to Board staff interrogatory #4, CND confirmed that it serves two Class A consumers, and further that one of its customers in the GS 1,000-4,999 class is a Wholesale Market Participant ("WMP"). Board staff proposes to modify CND's rate generator model[1] in a manner such that the RSVA account balances for the WMP subset are handled in accordance with Section 3.2.3 of the 2015 Filing Requirements.

Board staff has reviewed the supporting calculations for the proposed rate riders for the disposition of Group 1 Deferral and Variance Accounts, and takes no issue with the calculations and methodology. The Board recently amended its policy permitting distributors to request disposition of balances even if the disposition threshold has not been met. Board staff therefore takes no issue with CND's request to dispose of its 2013 Deferral and Variance Account balances at this time over the requested one year period.

<u>Account 1568 - Lost Revenue Adjustment Mechanism Variance Account ("LRAMVA")</u>

CND has requested approval of an updated LRAMVA amount of $282,030 related to lost revenues in 2013 that are the result of approved conservation programs delivered in 2011, 2012 and 2013. CND last rebased in 2014 and prior to that in 2010. In response to Board staff interrogatory #8, CND updated its LRAMVA amount after receiving the

[1] Board staff interrogatory #4

final, verified program results from the OPA. Board staff submits that CND has appropriately calculated its lost revenues consistent with the Guidelines for Electricity Distributor Conservation and Demand Management (EB-2012-0003). Further, CND has appropriately relied on the final results as produced by the OPA for all programs, including the Demand Response 3 program. Board staff submits that this approach is consistent with that accepted by the Board, most recently in Power Stream Inc.'s 2015 rate application (EB-2014-0108). Board staff supports the recovery of the full updated LRAMVA amount of $282,030 as requested by CND.

Z-factor Event

Background

CND filed an application with the Ontario Energy Board seeking approval for the recovery of certain amounts related to the restoration of electricity service in the City of Cambridge and the Township of North Dumfries due to an ice storm in December 2013.

Board staff has reviewed CND's application and its responses to interrogatories, based on which its submissions are set out below.

On December 21st and 22nd 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. CND had approximately 30,000 customers, almost 60% of its customer base, without power at the height of the ice storm. To aid in restoring power, CND contacted GridSmartCity and the Electricity Distributors Association and obtained the assistance of seven external contractors and two electricity distributors. In addition, CND maintained contact with six electricity distributors for updates and to coordinate activities.

On March 5, 2014 CND sent a letter to the Board notifying the Board of the infrastructure damage caused by the ice storm and CND's intention to file a Z-factor claim.

In this Application, CND requested the recovery of a Z-factor claim in the amount of $497,314 as incremental OM&A costs. This amount includes carrying charges of $9,520 and is net of a recovery of $19,072 from Hydro One Networks ("HON") based on work completed on behalf of HON customers. CND has noted that all of its Z-factor costs are OM&A expenses and has not included capital costs in its claim. CND is requesting that the amount be recovered by means of a fixed rate rider across all customer classes based on CND's customer count on December 31, 2013, for a period of 12 months beginning May 1, 2015 and ending April 30, 2016.

A detailed breakdown of the expenses claimed for recovery is as follows:

Description	
Subcontractors	$316,740
Overtime Labour and Vehicles	$146,756
Materials	$38,171
Miscellaneous Expenses	$5,199
Less: Recovered from Hydro One	($19,072)
Projected carrying charges	$9,520
Z-Factor Amount Requested for Recovery	**$497,314**

Based on the *Board's Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors*[2] 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.

[2] http://www.ontarioenergyboard.ca/oeb/_Documents/EB-2007-0673/Report_of_the_Board_3rd_Generation_20080715.pdf

- 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.

Causation

In its Application and in response to Board staff interrogatories ("BSI"), CND has:

- Stated that the cost of restoration is outside the base upon which its rates were derived in its 2010 cost-of-service rate application (Application p.30, BSI #11b);

- Stated that if the ice storm event had not occurred, CND would not have incurred any of the identified incremental costs (Application p.29);

- Stated that there are no other sources for reimbursement such as insurance or shareholder contributions for reimbursement (Application p.28, BSI #19, #22);

- Stated that CND has recorded a cost recovery of $19,072 for an amount billed to Hydro One Networks based on work completed on behalf of Hydro One customers (Application p.26, BSI #22);

- Presented that up to the time of the December 21st and 22nd ice storm, there were no unspent dollars in CND's 2013 budget for storm costs; further, stated that the Z-factor costs resulting from this ice storm are well above normalized costs included in OM&A, and are outside the base upon which rates were derived in 2010 for 2013 (Application p.30, BSI #21);

- Noted that the vast majority of costs contained within the application have been audited as part of CND's 2013 financial audit (Application p. 26);

- Confirmed that the claim excludes restoration costs related to work performed by CND staff during CND's regular work days (Application p.26, BSI #13);

- Provided a breakdown of the incremental labour costs incurred by CND staff by department and a breakdown of invoiced costs incurred by the seven external contractors and two electricity distributors included in the total claim (Application p.33 & 36, BSI #15); and

- Provided budget and actual costs for addressing storm costs from 2010 to 2013 (Application p.30, BSI #21).

Overall, Board staff submits that CND has demonstrated that the amounts sought for recovery are directly related to the ice storm and outside of the base upon which CND'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.

In its Summary, CND noted an approved revenue requirement of $24,691,476 from its 2010 cost-of-service application (EB-2009-0260) and a corresponding materiality threshold of $123,457.

Board staff submits that CND's $497,314 total cost claim is material.

Prudence

In its Application and in response to Board staff interrogatories, CND has:

- Explained that by reaching out to GridSmartCity and the Electricity Distributors Association, CND obtained the assistance of seven external contractors and two electricity distributors, and maintained contact with a further six electricity distributors for updates and to coordinate activities (Application p.31-32, BSI #15);

- Stated that CND verified the hours worked by external contractors in the restoration effort and also checked how the invoiced costs for labour rates and equipment were determined (BSI #14e, 14f); and

- Demonstrated that it complied with the emergency response strategy contained within its Emergency Preparedness Plan (Application p.5, BSI #20b).

Board staff notes that in response to BSI #14c, CND responded that due to the emergency nature of the ice storm, it deviated from the tendering of contractor services. Although Board staff is generally concerned with such deviations, Board staff appreciates that in situations arising from such extraordinary events, a utility faces limited options in safe and timely power restoration efforts.

Board staff notes that while CND has acknowledged the correlation between the presence of trees in a given area and the impact of the ice storm, it has also acknowledged in its response to BSI #16, that at the time of the ice storm, it did not have a formally documented tree trimming policy and operated under a less formal program. CND reported that it adhered instead to a corporate tree trimming program in the period prior to the onset of the ice storm. Board staff requests CND to explain in its reply submission the difference between “tree trimming policy” and “corporate tree trimming program”.

Board staff further notes that subsequent to the ice storm, CND developed a tree trimming policy. Board staff submits that while the development of a tree trimming policy following the ice storm is a positive step to mitigate storm related damage going forward, the absence of a formal tree trimming policy prior to the ice storm may have exacerbated the damage experienced in the 2013 storm.

Accordingly, Board staff submits that while CND acted cost effectively and prudently in promptly securing assistance to restore power given the circumstances, the absence of a formal tree trimming program may constitute a deficiency in the prudence with which the distributor managed its system.

It is plainly impossible to discern the portion of restoration costs that may have been avoided had CND’s formal tree trimming program been in place. Board staff suggests that, in its reply submission CND discuss whether it feels its approach to tree trimming was prudent.

In summary, based on its review of the evidence, Board staff submits that CND met the criteria of causation and materiality, and generally met the criterion of prudence. Board staff supports the amount requested for recovery subject to CND’s discussion of its tree trimming practices.

Allocation of Costs and Rate Riders

In its Application, CND recommends allocating restoration costs on the basis of customer numbers rather than distribution revenue because the latter method results in more costs allocated to the non-residential classes than is reasonable in CND's specific circumstances. CND submitted that the residential class should be allocated the majority of the costs since the majority of the outages were in the residential and more rural areas where trees are more likely to grow and to be impacted by the ice storm. CND stated that by using customer numbers as the basis of allocation, approximately 89% of the costs are allocated to residential customers.

In response to BSI #18, CND noted the only identified class of customer not affected was the Large Use class, as they were not operating during the timeframe.

CND concluded that while no method will allocate the costs exactly as the costs were incurred, allocating costs on the basis of customer numbers is more in alignment with the restoration efforts and the actual costs that CND incurred to complete the restoration.

Notwithstanding the fact that the majority of the outages were in the residential and more rural areas, Board staff does not agree with CND that residential customers should bear the burden of restoration costs approaching 89%.

In Board staff's opinion, such an allocation is inequitable. Under CND's approach, a larger general service customer would pay the same amount as a residential consumer, despite orders of magnitude of difference in the total cost of electricity paid by these two customers. On this basis, the use of customer count to allocate costs is virtually identical to allocating all costs to residential users.

In Board staff's view, ice storm damage is a general distribution system problem. In the normal course, the Board allocates general distribution system costs between classes on the basis of distribution revenue, which is a simple and established method of allocation.

Board staff notes that in Z-factor applications[3] by Milton Hydro, Halton Hills Hydro and

[3] Milton Hydro (EB-2014-0162); Halton Hill Hydro (EB-2014-0211); Oakville Hydro (EB-2014-0102)

Oakville Hydro, the Board found that it is appropriate to allocate Z-factor costs based on the last Board-approved distribution revenue by rate class. Board staff also notes that the Board made a similar finding in prior Z-factor applications[4]. Board staff therefore submits that for reasons of simplicity, fairness, and consistency with those Board decisions on 2013 storm z-factor applications to date and prior z-factor applications, a fixed rate rider derived by allocating CND's approved recovery amount to all rate classes on the basis of the last approved distribution revenue would result in the best outcome.

Based on Board staff's position on the allocation of costs and derivation of rate riders in proportion to CND's last Board-approved distribution revenue, the total monthly bill impact (calculated by CND in response to BSI #17a) is $0.44 for the Residential customer class and $0.94 for the General Service < 50 kW customer class.

In response to BSI #24, CND proposed using Account 1595 "Disposition and Recovery of Regulatory Balances Control Account" to allow the difference between the approved Z-factor amount and the actual amount collected from the final rate riders to be tracked and ultimately to be refunded to or recovered from customers. Board staff supports this proposal.

All of which is respectfully submitted

[4] EB-2007-0514/0595/0571/0551 and EB-2011-0186