



---

**THE BOARD OF DIRECTORS**

*Chair*, GAIL REGAN  
President, Cara Holdings Ltd.

*President*, PATRICIA ADAMS  
MAX ALLEN  
Producer, IDEAS, CBC Radio  
ANDREW COYNE  
Columnist, National Post  
GLENN FOX  
Professor of Economics, University of Guelph  
IAN GRAY  
President, St. Lawrence Starch Co.  
CLIFFORD ORWIN  
Professor of Political Science, University of Toronto

*Secretary/Treasurer*, ANNETTA TURNER  
ANDREW ROMAN  
Barrister & Solicitor, Miller Thomson  
ANDREW STARK  
Rotman School of Management, University of Toronto  
GEORGE TOMKO  
Resident Expert, PSI Initiative, University of Toronto  
MICHAEL TREBILCOCK  
Chair, Law & Economics, University of Toronto  
MARGARET WENTE  
Columnist, The Globe and Mail

---

May 8, 2015

BY EMAIL & BY COURIER

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge St, Suite 2701  
Toronto ON M4P 1E4

Dear Ms. Walli:

**Board File No. EB-2014-0073  
Festival Hydro Inc. --- 2015 Cost of Service  
Energy Probe – Comments on Draft Rate Order**

Pursuant to the Decision and Order issued April 30, 2015 and corrected on May 5, 2015, please find attached the Comments of Energy Probe Research Foundation (Energy Probe) in respect of the Draft Rate Order filed by the Applicant in the EB-2014-0073 proceeding on May 7, 2015.

Should you require additional information, please do not hesitate to contact me.

Yours truly,

David S. MacIntosh  
Case Manager

cc. Debbie Reece, Festival Hydro (By email)  
Jac Vanderbaan, Festival Hydro (By email)  
Ysni Semsedini, Festival Hydro (By email)  
Kelly McCann, Festival Hydro (By email)  
Randy Aiken, Aiken & Associates (By email)  
Parties of Interest (By email)

---

**Energy Probe Research Foundation** 225 BRUNSWICK AVE., TORONTO, ONTARIO M5S 2M6

Phone: (416) 964-9223 Fax: (416) 964-8239 E-mail: [EnergyProbe@nextcity.com](mailto:EnergyProbe@nextcity.com) Internet: [www.EnergyProbe.org](http://www.EnergyProbe.org)

**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 Festival  
Hydro Inc. for an order approving just and reasonable rates and  
other charges for electricity distribution to be effective May 1,  
2015.

---

**COMMENTS ON DRAFT RATE ORDER OF  
ENERGY PROBE RESEARCH FOUNDATION  
("ENERGY PROBE")**

---

**May 8, 2015**

**FESTIVAL HYDRO INC.  
2015 RATES REBASING CASE  
EB-2014-0073**

**ENERGY PROBE RESEARCH FOUNDATION  
COMMENTS ON DRAFT RATE ORDER**

The following are the comments of Energy Probe Research Foundation ("Energy Probe") on the Draft Rate Order ("DRO") dated May 7, 2015 filed by Festival Hydro Inc. ("Festival"). The comments provided follow the format in Section D. Decisions Related to the Unsettled Issues and Section E. Other Matters Arising from the Decision and F. Implementation of January 1, 2015 Rates and Charges in the DRO. In each case, Energy Probe has reviewed the changes in the DRO from that included in the partial Settlement Proposal that was accepted by the Ontario Energy Board ("Board").

**D. DECISIONS RELATED TO THE UNSETTLED ISSUES**

**1. Rate Base**

**a) The appropriate amount of capital expenditure**

No changes were required related to the capital expenditures as a result of the Board decision. As a result there is no change in the DRO relative to the Settlement Proposal.

**b) The appropriate amount of working capital to include in rate base**

Energy Probe submits that Festival has appropriately reflected the increase in OM&A expenses that were approved by the Board in the calculation of the working capital allowance.

However, Energy Probe notes that the Determination of Rate Base table shown on page 12 of the DRO contains wrong figures in the Settlements Submission column for both controllable expenses and the cost of power. These figures should reflect those included in the RRWF filed as part of the Settlement Proposal of \$5,014,412 and \$68,871,222 respectively.

**c) The inclusion of costs for a bypass agreement as an intangible asset**

**i) Removal from Rate Base**

Energy Probe submits that Festival has **NOT** appropriately reflected the Board decision with respect to the removal of the intangible asset from rate base.

The net book value of the intangible asset at the end of December, 2014 was \$1,200,415 (\$1,230,026 less accumulated depreciation of \$29,611) as explained on page 10 of the DRO.

While Festival has appropriately reflected the removal of depreciation expense in the amount of \$27,334 for this intangible asset as compared to the Settlement Proposal (as illustrated in the Summary of Changes to Rate Base, Cost of Capital, Revenue Requirement table on page 6 of the DRO), Energy Probe submits that Festival has not appropriately removed the net book value from the 2015 rate base.

As shown in the table on the top of page 13 of the DRO, Festival has only removed the gross cost and accumulated depreciation associated with this bypass agreement from the ending balance of 2015. The costs remain in the 2015 opening balance. This is confirmed in Part K to the DRO which is labeled as Appendix D in which the fixed asset continuity schedule for the 2015 test year (Appendix 2-BA) clearly shows the disposal of \$1,230,026 in 2015. However, since Appendix D is not complete, Energy Probe cannot comment on whether or not figures for accumulated depreciation are correct. Energy Probe further notes that the closing balance of costs shown in Appendix D do not match the figures provided in the table at top of the page 13 of the DRO.

It is also not clear to Energy Probe where the 2014 figures shown in the table on page 13 of the DRO come from.

A review of the Summary of Changes to Rate Base, Cost of Capital, Revenue Requirement table on page 6 of the DRO shows that the reduction in the net fixed assets between the Settlement Proposal and the Board decision is \$586,539, which is one half of the \$1,173,080 net change shown in the table on page 13 of the DRO.

In other words, Festival has not removed the intangible asset from opening 2015 test year fixed asset continuity schedule. This results in rate base including an amount of \$586,539 for an expense that the Board has determined is not an asset and should not be included in rate base.

Energy Probe submits that the Board should direct Festival to remove the net book value of \$1,200,415 from the opening balance of 2015 that is used in the calculation of rate base. This will also impact the deemed interest - short term, deemed interest - long term, return on equity and PILS figures shown in the Summary table.

#### ii) Rate Rider

Energy Probe submits that the Board should approve the rate rider and the disposition period proposed by Festival, including the adjustment as part of the 2016 IRM application based on a final invoice from Hydro One. Energy Probe notes that these increased costs will be offset by the reduction in transmission related charges and that the shortening of the recovery period from thirty six months to thirty one will have no material impact on any rate class.

## **2. Operations, Maintenance, and Administration (OM&A)**

Energy Probe submits that Festival has properly reflected the Board decision with respect to OM&A.

### **3. Incremental Capital Module (ICM) True Up**

#### **a) Adjustments to reflect actual capital costs relative to those forecast**

There was no change relative to the Settlement Proposal.

#### **b) Adjustment to depreciation expenses to address the difference from forecasts in Festival's rebasing application and the in-service date of the new asset**

Energy Probe submits that Festival has appropriately reflected the Board's decision in this area.

#### **c) Recovery of additional funding for OM&A costs incurred in 2013 and 2014**

Energy Probe has reviewed the calculation of the rate rider for June 1, 2015 through December 31, 2015, as well as the calculation of the total allocated charge of \$554,808 and believe that this amount and allocation accurately reflects the Board's decision with respect to the 13 month depreciation expense up to the end of 2014, the additional four months of depreciation expense in 2015 and the allowed recovery of \$40,000 in training costs.

## **4. Rate Design**

Energy Probe submits that Festival has appropriately reflected the Board decision.

## **E. OTHER MATTERS ARISING FROM THE DECISION**

Energy Probe submits that Festival has appropriately reflected the impacts related to the transmission connection rates and low voltage rates. Energy Probe further submits that Festival has appropriately updated the cost allocation model and provided the appropriate rate design with respect to the fixed/variable split.

Energy Probe has not performed a detailed analysis of the final rates, in the expectation that Board Staff will be conducting such a review.

## **F. IMPLEMENTATION OF JANUARY 1, 2015 RATES AND CHARGES**

Energy Probe concurs with Festival's understanding that the underlying intent to move the rate year to January 1 applies and that Festival will be filing its upcoming IRM application with an effective date of January 1, 2016.

As part of the deferral and variance account disposition, Festival is requesting that the intervenors agree to the disposition of these accounts, along with the Foregone Revenue Rate Rider and the ICM Rate Rider to be collected/reimbursed over a seven month period commencing May 1, 2015 with an end date of December 31, 2015 (DRO page 23). Energy Probe has assumed that Festival means the 7 month period beginning June 1, 2015 rather than May 1, 2015. Based on that assumption, Energy Probe submits that the Board should accept the proposed disposition of these accounts over the 7 month period ending December 31, 2015, rather than twelve month period agreed to in the Settlement Proposal.

This period will align with the January 1, 2016 rate change and will be easier for customers to understand. Energy Probe also notes that no customer class will face any undue hardship based on the seven month disposition period. Energy Probe further notes that the net impact is a refund of more than \$1.5 million to customers and submits that returning this money to customers over a shorter period is appropriate.

Energy Probe has reviewed the calculation of the Foregone Revenue Rate Rider and the rate riders that carried forward into 2015 as part of the interim rates (incremental capital - monthly fixed charge and volumetric charges, smart meter incremental revenue) and submits that they have all been appropriately calculated.

Energy Probe submits that the Board should approve the seven month disposition period proposed by Festival of June 1, 2015 through December 31, 2015 for the same reasons noted above for the other accounts.