

**2015 ELECTRICITY DISTRIBUTION RATES**

**Festival Hydro Inc.**

**EB-2014-0073**

**STAFF SUBMISSION**

**May 14, 2015**

## INTRODUCTION

Pursuant to the Decision and Order, Festival Hydro Inc. (Festival) filed its draft Rate Order on May 7, 2015. The Decision and Order made provisions for comments by Board staff and intervenors within 6 days of the date of filing of the draft Rate Order.

OEB staff has reviewed the Tariff of Rates and Charges, Excel models and calculations provided in Festival's draft Rate Order. OEB staff also reviewed the supporting documentation of the partial settlement proposal between the intervenors<sup>1</sup> and Festival. The partial settlement proposal was approved by the Board on November 13, 2015. OEB staff believes that Festival has correctly reflected the Board's decision and the settlement agreement with exceptions noted below.

### **1) Rate Base – Inclusion of bypass agreement as an intangible asset.**

#### a. Removal from rate base

OEB staff agrees with Energy Probe's submission that while the removal of the depreciation expenses in the amount of \$27,334 for this intangible asset is correct, the removal of the gross book value of \$1,230,026 from the closing balance rather than the opening balance in 2015 is incorrect. OEB staff also agrees with Energy Probe that Appendix D is incomplete and submits that Festival should provide a complete copy in its responses.

In its findings, the OEB stated that "payment under the bypass agreement should be treated as an expense rather than an intangible asset". The OEB further found that the payment under the bypass agreement "is to be removed from the intangible assets and expensed in 2015", and recovered by means of a rate rider.

In OEB staff's view, Festival has incorrectly interpreted the steps required to reflect the spirit of the panel's decision.

Festival proposed the removal of the intangible asset from the closing balance of the 2015 rate base but included the full value in its opening (January 1, 2015) rate base. If the OEB approves the method Festival proposes, OEB staff submits

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<sup>1</sup> Energy Probe Research Foundation (Energy Probe), the Vulnerable Energy Consumers Coalition (VECC) and the School Energy Coalition (SEC) and the Association of Major Power Consumers in Ontario (AMPCO)

that Festival would earn a return on the asset, since the return would be calculated based on the value of rate base at the mid-point in the test year. OEB staff submits this is contrary to the decision to expense the bypass cost rather than treat it as an intangible asset. Furthermore, the approach proposed by Festival would constitute an over recovery of bypass costs, since Festival would receive revenues from both the rate-base treatment and the full expensed value of the bypass agreement through the rate rider.

In OEB staff's view, to reflect the finding of the Board accurately, no element of the intangible asset should be included in rate base, and the entire value must be treated as an expense.

For rate-setting purposes, OEB staff therefore submits that Festival should remove the gross book value \$1,230,026 and associated accumulated depreciation from the 2015 opening balance and closing balance of account 1609.

OEB staff submits that Festival should re-calculate its rate base and base revenue requirement. Festival should also recalculate distribution rates to recover the updated revenue requirement, as well as the resulting bill impacts.

#### b. Rate Rider

As noted above, Festival will recover the full, total cost of the bypass agreement through a rate rider. Festival Hydro proposed a recovery period over 31 months to align the sunset date of the rate rider (December 31, 2017) with the end of its rate year. OEB staff supports this proposal because it will support rate stability and predictability during the rate year. OEB staff submits that the shortening of the recovery period will have no material impact on any rate class.

However, as Festival noted in its draft rate order, the final amounts owing to Hydro One Networks Inc. are still unknown. In its draft rate order Festival submitted a rate rider calculation based on an amount of \$1,433,710, its latest estimate from Hydro One Networks Inc. OEB staff notes that the estimated amount on the record in this proceeding was \$1,230,026. While the decision reflects the expectation that the compensation amount is not final, OEB staff submits that in the absence of a final, known amount, a rate rider should be based on the original forecast of \$1,230,026, which has been tested on the record of the proceeding.

To accommodate the recovery of the final amount once it is known, Festival has proposed to update the amount in its 2016 IRM application. OEB staff submits that during its next rate application Festival should provide a revised rate rider calculation. This calculation should be based on the final amount invoiced amount by Hydro One Networks Inc., taking into account any amounts recovered through the 2015 rate year. OEB staff submits that the rate rider related to the recovery of the costs for the bypass agreement should be approved on an interim basis given the uncertainty of the final amounts to be recovered.

## **2) Cost Allocation**

OEB staff takes no issue with the updates to the revenue-to-cost ratios to reflect the impacts of the OEB's decision as shown in the table on page 19. However, OEB staff notes that the table on page 19 and the updated cost allocation model show a revenue-to-cost ratio for the Large Use customer class of 107.9. The table on top of page 20 shows 112.03 as the final 2015 revenue-to-cost ratio for this class. OEB staff requests Festival to confirm the correct value that was used in the calculation of rates for the Large Use customer class.

## **3) Rate Design**

On page 21 of the draft Rate Order, Festival is requesting a transformer ownership allowance of \$392,290. OEB staff is unable to verify the correct amount.

Appendix G shows the transformer ownership allowance of \$393,290 in the table of the revenue reconciliation. Below the table in the calculation of the total revenue to be collected through rates, Festival is showing a deduction for the transformer ownership allowance of \$392,291. While OEB staff notes that Festival correctly updated the Board-approved load data on Sheet I6.1, OEB staff is unclear whether the load data in cells G27 and H27 (on GS > 50 kW and Large Use demand subject to the Transformer Ownership Allowance credit) were updated to reflect the approved load forecast. Please confirm that these values were updated and that the correct transformer ownership allowance has been incorporated into rates.

## **4) Implementation of January 1, 2015 Rates and Charges**

In its application, Festival requested an effective date of January 1, 2015 following a letter dated January 4, 2013 seeking approval for an alignment of its

rate year with the fiscal year (i.e. January 1). OEB staff notes that while the settlement agreement does not explicitly address this issue, it was not identified as an unsettled issue. It is OEB staff's understanding that the parties agreed to Festival's proposal to move its rate year to January 1. OEB staff invites Festival to provide comments in its reply submission.

OEB staff supports the disposition of Festival's deferral and variance accounts over a seven-month period but would like to confirm that this seven month period is commencing on June 1, 2015, not May 1, 2015, as stated on page 23. OEB staff submits that the alignment of the deferral and variance account rate riders with Festival's rate year is appropriate and provides a benefit to Festival's customers.

- All of which is respectfully submitted -