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BY EMAIL

November 2, 2015

Ontario Energy OEB
P.O. Box 2319
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2300 Yonge Street
Toronto ON M4P 1E4
Kirsten.Walli@ontarioenergyOEB.ca

Attention: Ms. Kirsten Walli, OEB Secretary

Dear Ms. Walli:

Re: Festival Hydro Inc.
2016 IRM Distribution Rate Application
OEB Staff Submission
OEB File No. EB-2015-0069

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

Festival is reminded that its reply submission is due by November 16, 2015.

Yours truly,

Original Signed By

Birgit Armstrong
Advisor, Electricity Rates & Accounting

Encl.

Ontario

ONTARIO ENERGY OEB

STAFF SUBMISSION

2016 ELECTRICITY DISTRIBUTION RATES

Festival Hydro Inc.

EB-2015-0069

November 2, 2015

OEB Staff Submission
Festival Hydro Inc.
2016 IRM Rate Application
EB-2015-0069

Introduction

Festival Hydro Inc. (Festival) filed an application with the Ontario Energy Board (OEB) on August 17, 2015 under section 78 of the *Ontario Energy Board Act*, seeking approval for changes to the rates that Festival charges for electricity distribution, effective May 1, 2016. The Application is based on the 2016 Price Cap IR option.

The purpose of this document is to provide the OEB with the submissions of OEB staff based on its review of the evidence submitted by Festival.

Retail Transmission Service Rates

OEB staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by Festival. Pursuant to the OEB's Guideline G-2008-0001, OEB staff notes that the OEB will update the applicable data at the time of the OEB's Decision on the Application based on the Uniform Transmission Rates in place at that time.

Tax-Savings

In response to OEB staff interrogatory #1, Festival updated the tax sharing section of the rate generator model to include a statutory tax rate of 26.5% instead of its actual tax rate of 24.18%. OEB staff notes that the updated information is consistent with OEB's cost of service decision for Festival EB-2014-0073 and results in a tax sharing amount of $0. As a result of this update Festival has withdrawn its request for a tax sharing rate rider of $3,401. OEB staff has no concerns with the information provided and submits no tax sharing should apply.

LRAMVA

The OEB's Guidelines for Electricity Distributor Conservation and Demand Management (2012 CDM Guidelines) issued on April 26, 2012 (EB-2012-0003), outline the information that is required when filing an application for LRAMVA.

Account 1568 – LRAMVA tracks the revenue impact of the difference between verified results from Independent Electricity System Operator (IESO) contracted province-wide CDM programs undertaken by the distributor and the CDM activities included in a distributor's load forecast at the time of rebasing.

Distributors receive a copy of their annual final verified CDM results from the IESO and file these results with the OEB as part of their CDM Annual Reports on or before September 30th of each year. Distributors are expected to use these results when calculating their lost revenues that are included within Account 1568 – LRAMVA. The LRAMVA is calculated by comparing the final net CDM savings (both energy (kWh) and peak demand (kW)) for all CDM programs delivered by the distributor to the savings totals for CDM amounts included in the distributor's load forecast.

Festival has requested approval to dispose of the balance in Account 1568 – LRAMVA including carrying charges up to April 30, 2015. In response to OEB staff Interrogatory #2, Festival provided a corrected LRAMVA claim of $155,879.

As part of its 2015 COS application, Festival disposed of prior LRAM amounts to the end of 2013. In this application, Festival seeks to recover the lost revenues that have occurred in 2014 due to its implementation of CDM programs. This amount includes the new effects of CDM programs in 2014, as well as the persisting effects in 2014 of previously implemented CDM programs from 2011 to 2013. Festival's LRAM amount is based on the final 2014 CDM Results produced by the IESO.

Festival's last rebased in 2010 and the forecast at that time that remained in place until 2015, did not include a specific CDM adjustment. Therefore, OEB staff agrees that the full amount requested, $155,879, is eligible to be recovered.

Festival retained a third party, Burman Energy Consultants ("Burman"), to verify its LRAM amount. Burman confirmed that Festival's LRAMVA amount for 2014 is equal to $155,879.

OEB Staff supports the requested disposition of Festival's LRAMVA in the full amount of $155,879.

OEB staff makes detailed submissions on the following:

- Allocation and Disposition of Deferral and Variance Accounts as per the *Electricity Distributors' Deferral and Variance Account Review Report* (the "EDDVAR Report"); and
- Permanent Bypass Rate Rider

Allocation and Disposition of Deferral and Variance Accounts as per the *Electricity Distributors' Deferral and Variance Account Review Report* (the "EDDVAR Report")

Background

Festival completed the Deferral and Variance Account continuity schedule included in the 2016 IRM Rate Generator Model at Tab 3 for its Group 1 Deferral and Variance Accounts. Festival's total Group 1 Deferral and Variance Account balances amount to a debit of $1,530,822. The balance of Account 1589 – Global Adjustment (GA) Sub-Account is a debit of $1,442,080, and is applicable only to Non-RPP customers. These balances also include interest calculated to December 31, 2014. Based on the threshold test calculation, the Group 1 Deferral and Variance Account balances equate to $0.0026 per kWh which exceeds the threshold. Festival requested disposition of these Accounts over a one-year period. Festival also requests to dispose of its GA balance of $1,442,080, as of December 31, 2014, to all Class A as well as Class B non-RPP customers.

Submission

OEB staff has reviewed Festival's Group 1 Deferral and Variance Account balances and notes that the principal balances as of December 31, 2014 reconcile with the balances reported as part of the *Reporting and Record-keeping Requirements*. Also, the preset disposition threshold has been exceeded. Accordingly, OEB staff has no issue with Festival's request to dispose of its 2014 Deferral and Variance Account balances at this time.

OEB staff notes that Festival is showing a substantial GA balance, ending December 31, 2014. OEB staff notes that transactions recorded in the GA sub-account during the

2014 rate year are considerably higher than 2013 transactions. In response to OEB staff interrogatory #7, Festival noted that it charges the GA adjustment to customers based on the first estimate ($/MWh) as posted by the Independent Electricity System Operator (IESO). The actual GA is determined and posted approximately 10 business days after month end. Any differential between the estimated GA rate and the actual is tracked in the GA sub-account.

Festival also noted that during 2014, the variances between the billed GA, which in Festival's case is based on the first estimate, and the actual published rate were larger than usual, causing a high balances. OEB staff notes that the IESO's first estimate has tended to be below the actual GA rate in 2013 and 2014. The average differential between the actual rate and the first estimate was 0.68($/MWh)[1] in 2013, but climbed to 3.56($/MWh)[2] in 2014. This is a five-fold increase.

OEB staff is satisfied that the 2014 variance between estimated and actual GA rates, coupled with the fact that 67% of Festival's consumption is attributable to industrial and commercial customers who pay GA separately provides sufficient justification for the large GA account balance. OEB staff takes no issue with the disposition of a debit amount of $1,442,080 to all non-RPP customers.

Festival has also requested to allocate some of the 2014 GA balance to its total of four Class A customers. In previous years, Festival did not serve any Class A customers. The increase in Class A customers is due to the lowering of the eligibility threshold from five to three megawatts of demand starting July 1, 2015. Customers electing to change classes are required to do so for a base period of one year. Four of Festival's customers were eligible and elected to be re-classified as Class A customers.

OEB staff notes that typically, Class A customers are not allocated any GA balances. Class A customers are assessed on their portion of the GA costs based on the percentage that their peak demand contributes to the top five Ontario system peaks through a peak demand factor. This factor determines a Class A customer's allocation for the next billing period and therefore does not require a GA adjustment. By contrast, Class B customers are billed based on an estimated GA rate. Any differential between

[1] http://www.ieso.ca/Pages/Participate/Settlements/Global-Adjustment-Archive.aspx, October 27, 2015
[2] Ibid.

the estimated and actual price and demand is tracked in the GA sub-account and disposed of, once audited.

OEB staff reviewed Festival's request to dispose its GA balance to all non-RPP customers, including customers that transitioned into Class A on July 1, 2015. During the 2014 rate year, when the above-noted GA balance was accumulated, all of Festival's current Class A customers were classified as non-RPP Class B consumers. The requested rate rider would apply prospectively all non-RPP customers, and would include current Class A customers who were part of Class B as of December 31, 2014.

OEB staff supports this approach. Festival's current Class A customers contributed to the GA sub-account balance, requested for disposition, and OEB staff is of the view that it is reasonable that these customers pay to dispose of it.

It is a general principle of cost causality that customer groups that cause any variances should be the ones to pay to dispose them (or, equally, receive credits to do so, as the case may be). In staff's view, the movement from one class to another should not prevent customers from contributing to paying down a debit balance when they can be identified with such minimal effort.

Similar circumstances arose in 2009, when changes to eligibility for the Regulated Price Plan caused larger institutional customers, such as schools and hospitals, to leave the RPP. At that time, the OEB's orders regarding the disposition of GA balances specifically excluded customers who had paid RPP prices in 2008 (which include GA) from being required to pay a GA rate rider established in 2009[3].

In OEB staff's view, the current situation is analogous insofar as a rider is being assigned to customers of record as of a certain date. To require past Class B customers to pay the GA amounts for which they were responsible in 2014, regardless of their current status, would be fair to all customers and enhance the recovery of costs on the basis of cost causality.

Permanent Bypass Rate Rider

Background

As part of Festival's 2015 COS proceeding, EB-2014-0073, the OEB directed Festival to collect an amount of $1,230,026 over a 31 month period, from May 1, 2015 to December 31, 2017 This rate rider allows Festival to recover costs for a permanent

[3] EB-2009-0245, p13

bypass of a Hydro One Network Inc. (HONI) transformer station. The OEB also found that the permanent bypass agreement (PBA) rate rider will be approved on an interim basis, as the final invoiced amounts were not known at the time of the decision. It was the OEB's order that the amount would be trued-up as part of Festival's 2016 IRM proceeding.

In this application, Festival requested to defer the true-up of this amount by one year until its 2017 IRM application given that no final invoice had been received prior to the application being filed. In response to OEB staff interrogatory #6 Festival provided the following reasons and stated that a final invoice is expected before December 31, 2015:

> The final amounts owing to Hydro One for… the Permanent Bypass Agreement (PBA) includes a calculation taking into account the impact of CDM and Distributed Generation (DG) using Hydro One's CDM/DG Load Adjustment for CCRA True up Guidelines. The guidelines were first introduced in January 1, 2015. Early in 2015, Festival met with Hydro One to review the guidelines and subsequently submitted CDM and DG data based on the original guidelines. Hydro One then updated its guidelines effective August 14, 2015 and met with Festival Hydro on August 28, 2015 to go through their updated PBA amount owing and to discuss additional data required for the CDM/DG calculation based on the new guidelines. Being the CDM offset calculation is based on the OPA CDM results, the decision was made to wait until the final 2014 OPA results were available in early September 2015. On October 13, 2015, Festival supplied the final load data for the CDM/DG calculation and the final 2014 OPA results for Hydro One to finalize the calculation. The goal is to have the calculation finalized, agreed to and invoiced by Hydro One sometime before December 31, 2015.

Festival also stated that HONI's revised draft calculation has reduced the expected overall amount owing to $932,094.

Festival Hydro requests to maintain the original value of the permanent bypass agreement at $1,230,026 and to continue with the current rate rider during the 2016 rate year. Festival also requests an adjustment to the PBA rate rider as part of its 2017 IRM application to either collect the remaining amount owing or to return over-collected funds back to customers. Festival noted that by maintaining the existing PBA rate riders it will provide stability of rates to customers as it relates to the collection of the permanent PBA rate rider.

Submission

Festival Hydro noted that by maintaining the existing PBA Festival will have collected approximately $753,887. This amount is below the current estimated total cost of

$932,094. OEB staff submits that during the 2017 rate year it is likely that a residual amount will be outstanding. OEB staff agrees that in the absence of a final, invoiced amount the current rate rider should continue to allow for rate stability. OEB staff also submits that a final true-up should be ordered for the 2017 IRM proceeding even in the absence of a final, invoiced amount in the interest of providing rate certainty on a matter which, by that time, will have persisted for 2 years without resolution for customers. OEB staff also submits that the current rate rider should continue to be an interim rate.

All of which is respectfully submitted