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BY EMAIL

November 2, 2015

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Lakeland Power Distribution Ltd.
2016 IRM Distribution Rate Application
OEB Staff Submission
OEB File No. EB-2015-0086

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

Lakeland Power is reminded that its Reply Submission is due by November 16, 2015, should it choose to file one.

Yours truly,

Original Signed By

Kelli Benincasa
Analyst, Electricity Rates & Accounting

Encl.

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2016 ELECTRICITY DISTRIBUTION RATES

Lakeland Power Distribution Ltd.

EB-2015-0086

November 2, 2015

OEB Staff Submission
Lakeland Power Distribution Ltd.
2016 IRM Rate Application
EB-2015-0086

Introduction

Lakeland Power Distribution Ltd. (Lakeland Power) filed an application with the Ontario Energy Board (the OEB) on August 17, 2015 under section 78 of the *Ontario Energy Board Act*, seeking approval for changes to the rates that Lakeland Power charges for electricity distribution, effective May 1, 2016 and for the former Parry Sound Power Corporation (Parry Sound Power) service territory effective January 1, 2016 (the Application). On July 1, 2014, Lakeland Power and Parry Sound Power merged to form a new distribution company under the Lakeland Power Distribution Ltd. name. Until its next cost of service application, Lakeland Power will be maintaining two sets of rates for the respective service territories. Lakeland Power will harmonize rates during its next cost of service proceeding which is expected in 2016 for 2017 rates. The current 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 Lakeland Power.

Retail Transmission Service Rates

OEB staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by Lakeland Power. Pursuant to the OEB's Guideline G-2008-0001, OEB staff notes that OEB staff 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 #3 Lakeland Power confirmed it wishes to transfer the Parry Sound Power service territory tax sharing amount to Account 1595, due to insignificant rate riders. OEB staff notes that the Shared Tax-Savings portions of the Rate Generator Models for each of the service areas reflect the Revenue Requirement Work Forms from the OEB's cost of service decisions in Lakeland Power (EB-2012-0145) and Parry Sound Power (EB-2010-0140). OEB staff has no concerns with the information as filed for the Lakeland Power service territory and neither is it concerned with the revisions made to the Parry Sound service territory.

LRAMVA

The OEB's *Guidelines for Electricity Distributor Conservation and Demand Management* (the 2012 CDM Guidelines) issued on April 26, 2012, 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 Ontario Power Authority (OPA) 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 OPA 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.

Lakeland Power seeks to recover lost revenues incurred in 2012 due to the delivery of CDM programs. The lost revenues in 2012 are comprised of new lost revenues in 2012 from 2012 CDM programs and persisting lost revenues in 2012 from the delivery of 2011 CDM programs. The proposed LRAMVA disposition is based on the final 2012 CDM report issued by the OPA on August 29, 2012.

OEB Staff supports the requested disposition of Lakeland Power's LRAMVA in the full amount of $19,167. OEB Staff notes the requested LRAMVA amounts are new amounts which have not been requested by Lakeland in a previous application. Further, Lakeland last rebased in 2013, only including new and persisting effects from CDM programs into its load forecast at that time on a prospective basis. Prior to 2013, Lakeland last rebased in 2009. Lakeland did not include any CDM effects in its load forecast in 2009. OEB Staff submits that as Lakeland was under IRM in 2012 it did not have an opportunity to recover lost revenues related to CDM programs in 2012 and that the requested amounts are eligible to be recovered at this time. The requested approval includes carrying charges up to April 30, 2016. In response to OEB staff

Interrogatory #1, Lakeland Power provided corrected LRAMVA claims of $19,167. This update is to reflect a proper weighting of CDM results between its GS<50 kW and GS>50 kW rate classes based on the actual final CDM results. This update results in a $310 difference to its originally requested LRAMVA amount.

<u>Deferral and Variance Account Disposition</u>

Lakeland Power 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 for the legacy service territory. Lakeland Power's total Group 1 Deferral and Variance Account balances amount to a credit of $326,284. The balance of Account 1589 – Global Adjustment is a debit of $345,484, and is applicable only to Non-RPP customers. These balances also include interest calculated to April 30, 2016. Based on the threshold test calculation, the Group 1 Deferral and Variance Account balances equate to a credit of $0.0015 per kWh which exceeds the pre-set disposition threshold, and as such, Lakeland Power requested disposition of these accounts over a one-year period.

OEB staff reviewed Lakeland Power'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 pre-set disposition threshold has been exceeded. Accordingly, OEB staff has no issue with Lakeland Power's request to dispose of its 2014 Deferral and Variance Account balances at this time over the requested one-year period.

Lakeland Power 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 for the Parry Sound Power service territory. Parry Sound's total Group 1 Deferral and Variance Account balances amount to a credit of $180,750 but do not include Account 1588 – RSVA Power or Account 1589 – Global Adjustment. The balance of Account 1588 – RSVA Power and Account 1589 – Global Adjustment is zero. In its manager summary Lakeland Power stated the following: "Not included in the Continuity Schedule is the movement in Account 1588 and 1589 (negated out in columns referencing Other 2014 Adjustments). In the OEB decision in the EB-2014-0091 proceeding, there was no disposition approved pending a comprehensive review of the deferral and variance account balances for the former Parry Sound Power service area. This review is currently underway and for purposes of this application, disposition of those two accounts for the Parry Sound Power service territory are not being requested.” In response to interrogatory #4, Lakeland Power stated it is expected the review will be completed prior to end of 2015.

The Group 1 balances proposed for disposition for the Parry Sound Power service area also include interest calculated to December 31, 2015. Based on the threshold test calculation, the Group 1 Deferral and Variance Account balances equate to a credit of $0.0021 per kWh which exceeds the pre-set disposition threshold, and as such, Lakeland Power requested disposition of these accounts over a one-year period.

OEB staff has reviewed the Group 1 Deferral and Variance Account balances for the Parry Sound service area 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 pre-set disposition threshold has been exceeded.

However, OEB staff notes that the OEB did not dispose of any of the Group 1 balances in the 2015 rate application despite the fact that the only concerns identified were with the commodity variance accounts (1588 and 1589). It is OEB staff’s view that the intent was not to dispose of any Group 1 account, until the review has been completed, which it has not to date.

OEB also staff notes that the Chapter 3 of the *Filing Requirements For Electricity Distribution Rate Applications* states that “in their application, distributors must include Group 1 balances as of December 31, 2014 to determine if the threshold has been exceeded. A continuity schedule, found on sheet 3 of the rate generator, must be completed as part of the application.” Lakeland Power did not include all of the Group 1 balances for the Parry Sound service territory; therefore OEB staff cannot assess the full impact Account 1588 – RSVA Power and Account 1589 – Global Adjustment would have on the rate riders and threshold test. OEB staff is of the view that no disposition takes place at this time.

<u>Rate Mitigation</u>

The OEB’s April 2, 2015 policy on electricity distribution rate design set out that distribution rates for residential customers will transition to a fully fixed rate structure from the current combination of fixed and variable charges over four years. Starting in 2016, the fixed rate will increase gradually, and the usage rate will decline.

The OEB requires distributors to calculate the impact of this change and any other changes in the cost of distribution service to those customers who are at the 10th percentile of overall consumption, as well as the impact of the change in fixed rates to residential customers in general. Any increase of 10% or greater to low-consumption customer bills arising from changes arising from the IRM application, or an increase to the monthly fixed charge of greater than $4 prior to incentive rate-setting adjustments, may result in the requirement for a longer transition period than the four years specified in the OEB policy or another mitigation strategy.

To move its residential rates to a fully fixed charge, Lakeland Power is proposing a four year phase in period with a fixed monthly increase of $3.01 and a five year phase in period for Parry Sound's service territory with a fixed monthly increase of $3.55. A four year phase in period for the Parry Sound service territory would result in an impact of $4.43. Lakeland Power indicates that the impact on its low-volume residential customers is $2.29 and $1.18 for the Parry Sound service territory, below the 10% threshold at which distributors are expected to submit a mitigation plan.

OEB staff supports Lakeland Power's proposal to extend the transition period to five years for Parry Sound's service territory to mitigate rates, noting that it is consistent with the filing requirements for IRM applications, which state that "distributors shall apply to extend the transition period" if the monthly service charge would have to rise by more than $4 per year.

Return on Equity

On October 16, 2015 the OEB issued a letter to Lakeland Power regarding regulatory return on equity. The letter stated, "OEB Audit and Performance Assessment staff concluded that Lakeland Power Distribution Ltd.'s regulatory ROE measured 12.50% in 2014 – 357 basis points above the target ROE that was the basis upon which its rates were established". The regulatory ROE is 57 basis points above the identified OEB threshold at which the OEB has identified it may trigger regulatory review. According to OEB's policy[1], such a review would be prospective only, and could result in modifications, termination or the continuation of the distributor's rate plan.

[1] Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors (EB-2007-0673) and Report of the Board Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach

The letter also indicated the OEB will assess the appropriateness of granting Lakeland Power's request for an incremental adjustment to its base rates for 2016 rate year given the earnings performance measured in 2014. Staff has estimated that this level of overearnings represents a cost to residential customers of roughly $0.20 per month. The value of the base rate increase to Lakeland Power service territory is about $0.88 per customer and $1.39 per customer for the Parry Sound service territory.

OEB staff has taken into consideration the OEB's Report of the Board: Rate-Making Associated with Distributor Consolidation. The report allows distributors to defer rebasing following consolidation and expressly identifies that the "purpose of this policy is to allow the net savings of a consolidation to accrue to a distributor's shareholder(s) for an extended period. The OEB recognized that providing a reasonable opportunity to use savings to at least offset the costs of a MAADs transaction is an important factor in a utility's consideration of the merits of a given consolidation initiative."

OEB staff notes that the merger was approved by the OEB in March 27, 2014. The ability to keep savings for a period of time to offset the costs of the transaction is a key policy of the OEB designed to encourage consolidations. The OEB can still undertake a regularly review for distributors that earn more than 300 basis points over the OEB-approved ROE. In this case, OEB staff note that the year in which Lakeland Power had an ROE of 12.50% was the year of its merger. It is reasonable to expect a utility to curtail certain expenditures while undergoing a merger, and to need time to evaluate and implement its plans going forward. On that basis, OEB staff does not oppose Lakeland Power's annual adjustment to rates as part of its Price Cap IR application. The OEB will continue to monitor the earnings results of Lakeland Power each year and OEB staff could take a different position in the future should the earnings continue to be more than 300 basis points above the approved ROE.

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All of which is respectfully submitted