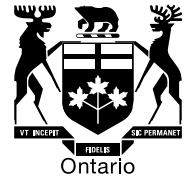


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BY EMAIL

December 21, 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: Oakville Hydro Electricity Distribution Inc.
2016 IRM Distribution Rate Application
OEB Staff Submission
OEB File No. EB-2015-0094**

In accordance with Procedural Order No.1, please find attached the OEB staff submission in the above proceeding. This document is being forwarded to Oakville Hydro Electricity Distribution Inc. and to all other registered parties to this proceeding.

Oakville Hydro Electricity Distribution Inc. is reminded that its reply submission is due by January 5, 2016, should it choose to file one.

Yours truly,

Original Signed By

Katherine Wang
Analyst, Electricity Rates & Prices

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2016 ELECTRICITY DISTRIBUTION RATES

Oakville Hydro Electricity Distribution Inc.

EB-2015-0094

December 21, 2015

**OEB Staff Submission
Oakville Hydro Electricity Distribution Inc.
2016 IRM Rate Application
EB-2015-0094**

Introduction

Oakville Hydro Electricity Distribution Inc. (Oakville Hydro) filed an amended application with the Ontario Energy Board (the OEB) on November 16, 2015 under section 78 of the *Ontario Energy Board Act*, seeking approval for changes to the rates that Oakville Hydro charges for electricity distribution, effective January 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 Oakville Hydro.

OEB staff makes submissions on the following:

- OEB-ordered Cost Allocation Study
- Policy Changes and Rate Mitigation
- Deferral and Variance Account Disposition
- Retail Transmission Service Rates

OEB-ordered Cost Allocation Study

Oakville Hydro's 2016 IRM application was to have included a study of the allocation of its corporate costs. The requirement stems from a commitment made in the Settlement Proposal in Oakville Hydro's 2014 Cost of Service (CoS) proceeding (EB-2013-0159). In it, Oakville Hydro and other parties agreed to a corporate cost allocation study by an independent consultant. The study will examine all direct and indirect cost allocation between the regulated utility and its affiliate, Oakville Hydro Energy Services Inc. (OHESI). The expected outcome of the study is a determination of the reasonableness of Oakville Hydro's cost allocation methodology regarding OHESI's activities in relation to water heaters and Oakville Hydro's unregulated HVAC business.¹ The parties agreed that the study would be filed with Oakville Hydro's 2016 rate application. The parties

¹ owned and operated by Sandpiper Energy Solution Home Comfort Inc. (Sandpiper)

acknowledged that it would be up to the OEB to determine how it wishes to proceed at that time. The parties also reserved the right to take a position in relation to any of the recommendations made by the independent consultant.

Oakville Hydro did not file the required cost allocation study in its 2016 IRM rate application; the applicant explained this was because the final version of the study had not been completed by the time the application was filed, on August 17, 2015. In its letter to the OEB dated October 26, 2015, Oakville Hydro provided the timeline for the study and an update on the work that Oakville Hydro and HVACC had undertaken with respect to the study. In its response to OEB staff interrogatory, Oakville Hydro indicated that a first draft of the report was delivered to Oakville Hydro and HVACC on November 24, 2015. Oakville Hydro notes that HVACC and Oakville Hydro have 30 days to review the draft report. Oakville Hydro expects to file the cost allocation study shortly thereafter.

No study is as yet on the record, and in OEB staff's view, it is plainly unclear whether any such study is forthcoming on a schedule that would support timely decision on the core aspects of Oakville Hydro's application for a mechanistic rate adjustment consistent with its Price Cap IR plan.

In OEB staff's view, this leaves two issues to be determined: whether the absence of a study is an impediment to deciding other aspects of the application, and how to balance the interests of customers in having a timely decision on their rates for the upcoming year with the commitment made in the settlement proposal to engage in a joint study as part of the application.

The OEB's acceptance of the settlement proposal means that the OEB requires Oakville Hydro to file the completed study. The settlement is a legal agreement, creating mutual obligations, and is enforceable in accordance with its terms. Because the study was a commitment made in the settlement, Oakville Hydro must file the joint study as part of this application.

However, the requirement to file the study does not entail that its contents should have any bearing on the OEB's decision on the remainder of the elements of Oakville Hydro's application. The settlement states clearly that it is up to the OEB to determine what to do with the study. In OEB staff's view, the requirements of the settlement have been

met once a joint study has been filed. There is no requirement for the results of the study to be considered in determining the rates that Oakville Hydro should charge for 2016. Oakville Hydro is in the IR term of its rate plan, and the OEB has clearly stated in its filing requirements that the IRM process is intended to be mechanistic in nature. Section 3.4 of Chapter 3 of the filing requirements for electricity distribution incentive-based rate applications states that it is not appropriate to seek relief on issues which are specific to only one distributor or more complicated relative to the issues typical of an IRM application, or potentially contentious. There is no doubt, in OEB staff's view, that the issue of the appropriateness of the allocation of corporate costs to Oakville Hydro's affiliates contains each of these attributes: it is applicant-specific, clearly more complex than typical IRM issues, and, as the record of correspondence shows, certainly contentious for the parties involved.

Finally, should the OEB be concerned by omitting consideration of this issue in its decision on 2016 rates, OEB staff also submits that the issue may not even be material. OEB staff's review of evidence from Oakville Hydro's cost of service proceeding has indicated that the cost of water heater billing services assigned to an unregulated affiliate total approximately \$46,000 annually. Given Oakville Hydro's \$184,000 materiality threshold, any correction would be material only in the event that current costs are at least four times less than they should be. OEB staff acknowledges that the evidence available at the time of the rebasing application was not sufficient to convince parties of its accuracy, and concedes that this uncertainty appears to have been the driver behind the commitment for the study at the time. This may not be the only allocation pertinent to the issue HVACC and Oakville Hydro aim to resolve. Nevertheless, it is clear that only significant adjustments to the current allocation for this service would make a material difference to distribution customers.

Accordingly, in OEB staff's view, there is no barrier to the OEB making a determination on all the other aspects of the IRM application without the study on the record. Furthermore, OEB staff believes that the interests of customers suggest that the OEB should make its decisions on rates as promptly as possible. OEB staff therefore proposes that the OEB should render a decision on the IRM application based on the record at the time of Oakville Hydro's reply, scheduled for January 5, 2016, whether or not a final joint study has been filed. OEB staff recommends that the OEB order Oakville Hydro to provide a final version of the cost allocation study by March 31, 2016, which, in staff's view, provides sufficient time to complete the study jointly with HVACC. OEB staff

further recommends that the OEB set Oakville Hydro's rates, as decided in the 2016 application, as interim until the study has been filed. This provides flexibility should there be aspects of the study that the OEB feels necessary to consider even during the IR term. Rates could be established on a final basis after the joint study was filed.

Finally, OEB staff submits that if no study can feasibly be filed by March 31, 2016, that Oakville Hydro may, as an alternative, pursue to negotiate with parties and file an amended settlement proposal, which removes the obligation to file a study as part of the 2016 application. In OEB staff's view, the proposal would also need to be furnished by March 31, 2016.

Policy Changes and Rate Mitigation

The OEB's April 2, 2015 policy² 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 in 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.

Adjustments to Oakville Hydro's rate model to implement the change in fixed rates over four years results in an increase to the fixed charge prior to IRM adjustments of \$3.33. In response to OEB staff interrogatories, Oakville Hydro confirmed that for a typical Residential customer at the 10th percentile, bill impacts are below 10%.

OEB staff submits that Oakville's proposed transition toward fully fixed rates is consistent with OEB policy and does not require proposal of any mitigation plan.

Deferral and Variance Account Disposition

² Board Policy: A New Distribution Rate Design for Residential Electricity Customers (EB-2012-0410), April 2, 2015

Oakville Hydro 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. Oakville Hydro's total Group 1 Deferral and Variance Account balances amount to a debit of \$1,272,527. The balance of Account 1589 – Global Adjustment (GA) is a debit of \$4,089,720, and is applicable only to Non-RPP customers.

These balances 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 debit of \$0.0008 per kWh, which does not exceed the pre-set disposition threshold, and as such, Oakville Hydro did not seek disposition of these accounts in its application.

OEB staff has reviewed Oakville Hydro'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 not been exceeded. Accordingly, OEB staff takes no issue with Oakville Hydro's request not to dispose of its 2014 Deferral and Variance Account balances at this time.

OEB staff nevertheless believes it useful to make two observations. The first is in respect of the balances in Account 1589 – GA. OEB staff notes that it is relatively high and there was a substantial increase – essentially double – in the transaction amount in this account from year 2013 to 2014. Nevertheless, having reviewed Oakville Hydro's responses to interrogatories, including confirming that Oakville Hydro uses the IESO's first estimate of GA for billing purposes, OEB staff is satisfied that Oakville Hydro's GA variance account balances are reasonable. OEB staff notes that the change in Oakville Hydro's transaction balances on a per unit basis from 2013 to 2014 has risen less than the average difference between the IESO's first estimate of the global adjustment and the actual GA charge.

The second observation pertains to the two Oakville Hydro customers which elected to become Class A customers as of July 1, 2015. Oakville Hydro indicated in its response to OEB staff interrogatory #1(h) that it would allocate a portion of the 2014 balance to those current Class A customers if Oakville Hydro were to dispose of its GA balances as of December 31, 2014. OEB staff agrees with this approach, and notes that similar

decisions on 2016 IRM decisions have made similar findings³. OEB staff acknowledges that this issue is moot for the purposes of this application, since Oakville Hydro is not requesting disposition of Account 1589 during the 2016 rate year. Nevertheless OEB staff observes, for the convenience of the preparation and review of future applications, that Oakville Hydro may find benefit in planning now to apply that similar principle when it comes time to dispose of its 2015 GA balances since its two new Class A customers migrated into Class A mid-year, and allocation and settlement of balances attributable to them for amounts prior to July 1, 2015 may require additional preparation.

Retail Transmission Service Rates

OEB staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by Oakville Hydro. 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.

All of which is respectfully submitted

³ Decision and Rate Order, EB-2015-0069, p.6, among others.