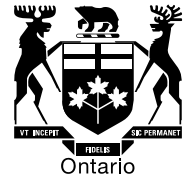


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BY EMAIL

February 2 , 2016

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Kirsten.Walli@ontarioenergyboard.ca

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Brant County Power Inc.
2016 IRM Distribution Rate Application
OEB Staff Submission
OEB File No. EB-2015-0054**

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

Brant County Power Inc. is reminded that its Reply Submission is due by February 16, 2016, 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

Brant County Power Inc.

EB-2015-0054

February 2, 2016

**OEB Staff Submission
Brant County Power Inc.
2016 IRM Rate Application
EB-2015-0054**

Introduction

Brant County Power Inc. (Brant County Power) filed an application with the Ontario Energy Board (OEB) on October 18, 2015 under section 78 of the Ontario Energy Board Act, seeking approval for changes to the rates, effective May 1, 2016.

Cambridge and North Dumfries Hydro Inc. purchased the outstanding shares of Brant County Power effective November 28, 2014. As part of the share purchase agreement Cambridge and North Dumfries Hydro Inc. will not make any incentive regulation mechanism or cost of service applications to the OEB in respect of distribution rates of Brant County Power's service territory. Therefore Brant County Power is not requesting the formulaic rate adjustment tied to inflation as permitted by the OEB. Brant County Power is proposing to address the remaining elements of a typical annual rate application such as adjustments for retail transmission service rates, tax savings and deferral and variance account disposition.

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 Brant County Power.

Retail Transmission Service Rates

OEB staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by Brant County Power. Pursuant to the OEB's Guideline G-2008-0001, OEB staff notes that the OEB has adjusted the Uniform Transmission Rates¹ and Sub-Transmission² rates effective January 1, 2016, staff will update the model accordingly.

¹ 2016 Uniform Electricity Transmission Rate Order, EB-2015-0311

² Sub-Transmission Rate Order EB-2015-0079

Tax-Savings

In response to OEB staff interrogatory #1 Brant County Power confirmed it wishes to transfer the tax sharing amount of \$7,365 to Account 1595, due to insignificant rate riders.

OEB staff notes that the Shared Tax-Savings portions of the Rate Generator Model reflect the Revenue Requirement Work Form from the OEB's cost of service decision (EB-2010-0125). OEB staff has no concerns with the information as filed.

Deferral and Variance Account Disposition

Brant County 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. Brant County Power's total Group 1 Deferral and Variance Account balances amount to a credit of \$630,916. The balance of Account 1589 – Global Adjustment is a debit of \$24,854 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 as at December 31, 2014 equate to a credit of \$0.0022 per kWh which exceeds the pre-set disposition threshold, and as such, Brant County Power requested disposition of these accounts over a one-year period. These balances also include interest calculated up to April 30, 2016.

In its managers summary³ Brant County Power explained that it made a significant adjustment to the Account 1589 – Global Adjustment balance after it closed its books for 2014 and after it filed its RRRs with the OEB. The adjustment was a reduction of \$1,133,153 and is related to transactions made during the 2014 calendar year. This amount represents the annual true up of the Global Adjustment account that is usually included in the books and records within the year. However, in this case the amount was not submitted to the Independent Electricity System Operator (IESO) on time and was not accepted by the IESO until August 2015. Brant County Power stated that it is reasonable to record the amount in the continuity schedule for the current disposition period, thereby reducing the recovery from customers.

³ Managers Summary Page 17

OEB staff takes no issue with Brant County Power making this adjustment as it relates to the 2014 period and reduces the balance owing from customers. Furthermore, in a recent application, Canadian Niagara Power Inc. requested and was allowed to make a similar adjustment to its audited account 1588 - RSVA in its 2016 IRM rate application.⁴

OEB staff notes that the starting point for Brant County Power's continuity schedule for the 2017 IRM application will be Brant County Power's actual account balances for 2015. If the subject credit adjustment was recorded during 2015, this may need to be offset by a debit entry in the OEB's continuity schedule so as to ensure that the credit is not returned to customers twice. Brant County Power may wish to explain in its reply submission how it has recorded the credit adjustment in its general ledger and whether the 2015 accounts will require a further adjustment for regulatory purposes in the next application. OEB staff notes that Brant County Power's 2014 *Reporting and Record-keeping Requirements* Trial Balance does not reflect this adjustment.

OEB staff reviewed Brant County Power's remaining 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 Brant County Power request to dispose of its 2014 Deferral and Variance Account balances at this time over the requested one-year period.

Rate Mitigation

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 from the IRM application, or an increase to the

⁴ Canadian Niagara Power Inc. EB-2015-0058

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, Brant County Power is proposing a four-year phase in period with a fixed monthly increase of \$4.37. A five year phase in period for Brant County Power would result in an impact of \$3.49.

In response to OEB staff interrogatory #2, Brant County Power stated that effective January 1, 2016, Cambridge and North Dumfries Hydro Inc. and Brant County Power have legally amalgamated to become Energy+ Inc. As outlined in the MAADs Application⁵, the amalgamated entity intends to harmonize distribution rates as part of its next cost of service rate rebasing application, expected to be for May 1, 2019 rates. A four year time frame aligns to the final year of phasing in the fixed distribution rates for residential customers based on a rate rebasing in 2019.

Brant County Power also stated that it believes that using a 5 year transition period for its customers, as compared to a 4 year period for Cambridge and North Dumfries Hydro Inc. customers, would create confusion for customers at the time of rebasing in 2019. A five-year transition for the residential variable-to-fixed rate (2016-2020) would create a two-year overlap with the 2019 rate harmonization and add another layer of complexity for former Brant County Power Inc. customers who want to understand their rates. At the time of rate harmonization, Energy+ Inc. would envision that it would need to create a separate residential rate class for former Brant County Power Inc. customers that would result in a different fixed and variable rate compared to other Energy+ Inc. residential customers at the time of rebasing. This would delay the harmonization of rates that has been planned for 2019. From both a customer communications and regulatory perspective, Brant County Power Inc. believes that this could negatively impact customer satisfaction levels.

OEB staff has updated the 2016 rate generator model and the impact on Brant County Power's low-volume residential customers is \$7.71 and 10.66%, slightly above the 10% threshold at which distributors are expected to submit a mitigation plan. OEB staff is of the view that Brant County Power's reasons are sufficient to allow for an exception to the mitigation rule especially in light of the minimal overage on the threshold.

⁵ EB-2014-0217

LRAMVA

The OEB's *Guidelines for Electricity Distributor Conservation and Demand Management* (the "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 Ontario Power Authority (OPA) (now 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. OEB staff has reviewed the final net CDM savings (both energy (kWh) and peak demand (kW)) for all CDM programs delivered by the distributor and has compared these savings totals with the CDM amounts included in the distributor's load forecast at the time of its last cost of service rate application.

Brant County Power has requested approval to dispose of its Account 1568 – LRAMVA balance of \$165,361.86. This amount includes lost revenues for all CDM programs delivered by Brant County Power from 2011 to 2014, including persistence of all savings throughout the same time period associated with these programs.

Brant County Power's last cost of service application⁶ was filed for the 2011 rate year. The OEB accepted a complete settlement proposal. In the load forecasting employed by Brant County Power in that application, the 2011 test year forecast of 282.5 GWh included a CDM adjustment of 1,494,000 kWh for the 2011 test year⁷, based on the 2011-14 CDM target of 9.85 GWh.⁸

⁶ Rate Application EB-2010-0125

⁷ JT1.3, EB-2010-0125

⁸ Brant County Power's 2011 cost of service application was processed during the inception of the 2011-14 CDM program. The consultant contracted by Brant County Power to prepare the load forecast included CDM as an explicit variable in

Issues 3a) and 3b) of the settlement agreement accepted by the OEB indicate that CDM adjustments were reflected in the load forecast for 2011. Since the load forecast has not been adjusted during the subsequent period of 3rd Generation and Price Cap IR rate adjustments, the adjustment in the 2011 load forecast would persist, without any decay, into 2012, 2013 and 2014 (and continue as such until Brant County Power (now Energy +) rebases rates through a cost of service or Custom IR application.

Brant County Power has relied on the 2011-2014 final verified results provided by the IESO when calculating its LRAMVA amount, consisting of \$159,856 principal and \$5,506 interest. Brant County Power commissioned IndEco Strategic Consulting Inc. (IndEco) to prepare a report on the 2011-14 LRAMVA amounts. IndEco's report is filed as Appendix A to the current Application,

IndEco's report states:

Brant County Power has not submitted a claim for lost revenues from 2011–2014 CDM programs. This report determines the variance account balance for the following revenue losses:

- Lost revenues in 2011 related to programs offered in 2011,
- Lost revenues in 2012 related to programs offered in 2011,
- Lost revenues in 2012 related to programs offered in 2012,
- Lost revenues in 2013 related to programs offered in 2011,
- Lost revenues in 2013 related to programs offered in 2012,
- Lost revenues in 2013 related to programs offered in 2013,
- Lost revenues in 2014 related to programs offered in 2011,
- Lost revenues in 2014 related to programs offered in 2012,
- Lost revenues in 2014 related to programs offered in 2013, and
- Lost revenues in 2014 related to programs offered in 2014.

The carrying charges on the above lost revenues through April 2016 are also reported.⁹

theregression model, and it had values in the historical regression range as well as in the forecast bridge and test year period. This was before the current standard approach of a manual CDM adjustment for new CDM programs past the historical period was developed. From a conceptual basis, the two approaches are analogous.

⁹ EB-2015-0054, Appendix A, Brant County Power 2011-2014 LRAMVA, p. 1

As a general observation, this is accurate, as Brant County Power has not requested recovery of lost revenues related to 2011-14 CDM programs, to date. However, the 2011 load forecast included an estimate of 2011 CDM program savings. Brant County Power's 2011 cost of service rates were increased to compensate Brant County Power for expected savings in 2011 of 2011 CDM programs, and so there are in fact no "lost revenues" based on that adjustment. And as the approved rates for 2011 persist in subsequent years, the 2011 CDM adjustment would also persist.

IndEco's report states: "Brant County Power's last cost of service application was filed for the 2011 rate year. The load forecast associated with that application did not account for load losses from 2011 – 2014 CDM programs."¹⁰ OEB staff's review of the record of EB-2010-0125 suggests otherwise as noted above.

In this case, OEB staff submits that Brant County Power's LRAMVA claim should consist of the following:

- Lost revenues in 2011 related to programs offered in 2011, based on the final OPA/IESO reports net of the adjustment for 2011 CDM programs factored into the 2011 load forecast
- Lost revenues in 2012 for persistence related to programs offered in 2011 and new activities in 2012, based on the final OPA/IESO reports net of the adjustment for 2011 CDM programs factored into the 2011 load forecast
- Lost revenues in 2013 for persistence related to programs offered in 2011 and 2012 and new activities in 2013, based on the final OPA/IESO reports net of the adjustment for 2011 CDM programs factored into the 2011 load forecast
- Lost revenues in 2014 for persistence related to programs offered in 2011, 2012 and 2013 and new activities in 2014 based on the final OPA/IESO reports net of the adjustment for 2011 CDM programs factored into the 2011 load forecast
- Carrying charges on the balances using the OEB's prescribed interest rate for deferral and variance accounts.

¹⁰ *Ibid.*, p. 6

OEB staff has a second concern with the LRAMVA claim. OEB staff does not understand the methodology that IndEco has used in its study for Brant County Power, particularly with respect to the “annualizing” of demand (kW). OEB staff sought further information on this in part c) of Interrogatory 4:

Throughout Appendix B of the LRAMVA Report, IndEco notes that “monthly kW values are multiplied by the number of months they are estimated to apply to for determining annual load impacts”. Please provide the monthly multiplier factors for all peak demand savings (kW) results where lost revenue amounts are calculated and any supporting information for these values[.]

The response is as follows:

For most initiatives that have lost revenue related to kW reductions (i.e. Retrofit, Energy Audit, Electricity Retrofit Incentive Program, and High Performance New Construction), the kW reductions primarily involve CDM measures like lighting upgrades. These measures provide kW reductions during normal business operating hours and the demand savings are expected to be maintained throughout the year, including during the customer’s monthly peaks. For these initiatives, a multiplier of 12 was used for lost revenue calculations.

The IESO reports peak demand savings from CDM programs for the purposes of tracking progress towards peak demand reduction targets and the reported kW values can be used for lost revenue calculation purposes. The IESO reports peak demand savings for a specific provincial peak electricity demand period of less than 12 months, but these demand savings are not exclusive to this time period. The measures undertaken as part of CDM programs are mostly for equipment that operates year round during regular business hours and the demand savings achieved by the measures during peak periods are expected to be maintained for each of the 12 months of the year. For example, according to the IESO 2014 Evaluation of Business Initiatives (Available at: <http://www.powerauthority.on.ca/sites/default/files/conservation/2014-Evaluation-Business-Initiatives.pdf>), 67% of the Retrofit program savings come from lighting projects. Lighting projects are expected to produce savings during regular operating hours and thus reduce electricity demand during the peak demand period of the businesses where the measures were installed. A small

portion of projects produce demand reductions during limited months of the year or outside of regular operating hours.

For Brant County Power's Retrofit program, the IESO has reported a total of 1,963,091 kWh of net incremental energy savings and 365 kW of net incremental peak demand savings in 2011 - 2014. Dividing the kWh value by the kW value provides an average of 5,378 hours per year or 15 hours per day for 365 days on average. Some equipment upgraded runs 24 hours a day 365 days per year and other equipment runs 8 hours per day 5 days per week, but on average the equipment is running 15 hours per day, 12 months per year.

For DR 3, the kW values provided by the IESO were multiplied by 3, based on the methodology used in PowerStream's 2015 rate decision, EB-2014-0108, that was approved by the Board.

OEB staff acknowledges that there is some confusion with respect to how kW savings may be measured and reported by the OPA/IESO. Further, it appears that there may have been some methodological changes made by the OPA/IESO over time, as noted by the Nexant study of IESO 2014 Evaluation of Business Initiatives referenced in the response to OEB Staff interrogatory 4 c) above.¹¹ However, the response above does not identify what multipliers were used to specific kW-based initiatives (other than the DR3 program) so it is difficult for OEB staff to assess the sufficiency of the response.. Nevertheless, OEB staff notes that the CDM reports issued by the OPA/IESO have always contained the following under Reporting Glossary:¹²

METHODOLOGY

**Annual: the peak demand or energy savings that occur in a given year
(includes resource savings from new program activity in a given year and
resource savings persisting from previous years).**

Similarly, under Methodology, reported at the end of each such report:¹³

¹¹ Section D.1.5 Gross Verified Peak Demand Savings, at page 144 of the Nexant report, which is referenced and a hyperlink provided in the response to OEB staff IR 4 c) quoted above.

¹² <http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/510853/view/>, Wasaga's 2016 cost of service application, page 360. The OPA reports are formatted the same for all distributors and contain the same boilerplate information in the Glossary and Methodology.

METHODOLOGY

All results are at the end-user level (not including transmission and distribution losses)

Both the Glossary and the Methodology are clear that both energy (kWh) and demand (kW) savings reported by the OPA/IESO are annual numbers (i.e. they are annualized).

OEB staff understands that the 2011-14 CDM targets, that were a condition of each electricity distributors' licence, were based on these definitions when first established in 2010, and were not changed. The OEB and the industry has relied on the numbers as reported by the OPA/IESO in the final annual CDM reports for determining the amounts for the LRAMVA balances and for progress towards meeting the four-year(2011-14) targets.

EQUATIONS	
Prescriptive Measures and Projects	<p>Gross Savings = Activity * Per Unit Assumption</p> <p>Net Savings = Gross Savings * Net-to-Gross Ratio</p> <p>All savings are annualized (i.e. the savings are the same regardless of time of year a project was completed or measure installed)</p>
Engineered and Custom Projects	<p>Gross Savings = Reported Savings * Realization Rate</p> <p>Net Savings = Gross Savings * Net-to-Gross Ratio</p> <p>All savings are annualized (i.e. the savings are the same regardless of time of year a project was completed or measure installed)</p>
Demand Response	<p>Peak Demand: Gross Savings = Net Savings = contracted MW at contributor level * Provincial contracted to ex ante ratio</p> <p>Energy: Gross Savings = Net Savings = provincial ex post energy savings * LDC proportion of total provincial contracted MW</p> <p>All savings are annualized (i.e. the savings are the same regardless of the time of year a participant began offering DR)</p>

In this Application, Brant County Power and its consultant are adjusting the kW savings in some manner. However, the approach is not clear, as Brant County Power did not provide IndEco's calculations as requested in OEB Staff IR # 4 b), claiming that the model was proprietary. A summary was provided for the Residential class, but this does not assist us in understanding the adjustments to demand saving as the Residential class is not demand-billed. In OEB staff's submission, with its approach, Brant County

¹³ *Ibid.*, p. 378

Power is deviating from the OEB's standard policy of relying on the OPA/IESO reported results, and has not provided sufficient basis for why the savings reported are not a reasonable proxy for savings on an annual basis given the definitions noted in the OPA/IESO reports.

OEB staff is of the view that the OEB could require Brant County Power to back out the affected amounts and dispose of the remaining balance in the LRAMVA. However, this may require further efforts on the part of all parties (to file and then review) and may require further submissions.

For all these reasons, OEB staff submits that Brant County Power's requested LRAMVA recovery should be denied at this time, and that Brant County Power should revisit its evidence and propose a revised recovery in its 2017 rate application.

All of which is respectfully submitted