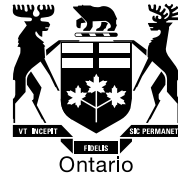


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BY E-MAIL

February 16, 2016

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Milton Hydro Distribution Inc.
2016 Electricity Distribution Rates
OEB Staff Submission
OEB File No. EB-2015-0089**

Please find attached OEB staff's submission on the filed settlement proposal for Milton Hydro Distribution Inc.'s 2016 cost of service rate application. This document is also being forwarded to Milton Hydro Distribution Inc. and to the Vulnerable Energy Consumers Coalition, Energy Probe Research Foundation, and the School Energy Coalition.

Yours truly,

Original Signed

Harold Thiessen
Ontario Energy Board staff – Case Manager EB-2015-0089

Encl.

2016 ELECTRICITY DISTRIBUTION RATES
Milton Hydro Distribution Inc.

EB-2015-0089

OEB STAFF SUBMISSION

February 16, 2016

INTRODUCTION

Milton Hydro Distribution Inc. (Milton Hydro) filed a complete application with the Ontario Energy Board (the OEB) on August 28, 2015 seeking approval for changes to the rates that Milton Hydro charges for electricity distribution, to be effective May 1, 2016. The OEB issued an approved issues list for this proceeding on January 20, 2016. A settlement conference was held on January 25 and 26, 2016 and Milton Hydro filed a Settlement Proposal between all parties to the proceeding on February 9, 2016.

The Settlement Proposal reflects only a partial settlement of the issues in this proceeding. The issues that were not settled are:

- Operations, Maintenance and Administration (OM&A) expense for the test year.
- The value of the capital addition of the new Milton Hydro building at 200 Chisholm Drive, Milton, Ontario.
- Recovery of the 2011 – 2014 Lost Revenue Adjustment Mechanism Variance Account (LRAMVA).

In terms of the issues shown on the approved Issues List, the settlement proposal indicates that:

- Issues 3.1, 3.2, 3.3, 3.4 and 4.1 are completely settled.
- Issues 1.1, 2.1, 2.2 and 4.2 are partially settled.
- Issue 4.2 is not settled.

Parties proposed that the first two unsettled issue areas, OM&A costs and Milton Hydro's new operations and administration facility, should be dealt with by way of an oral hearing. The parties also proposed that the final unsettled issue, the calculation of the demand to be used in the calculation of the LRAMVA, should be dealt with by way of a written hearing as the information needed to address this issue is already publicly available.

This submission reflects observations which arise from OEB staff's review of the evidence and the settlement proposal. It is intended to assist the OEB in deciding upon Milton Hydro's application with respect to the issues laid out in the settlement proposal and in setting just and reasonable rates.

OEB staff notes that there have been a number of updates to the evidence in the course of this proceeding. This submission is based on the status of the record as of the filing of Milton Hydro's settlement proposal.

Settlement Proposal

OEB staff has reviewed the settlement proposal in the context of the objectives of the *Renewed Regulatory Framework for Electricity* (RRFE), other applicable OEB policies, relevant OEB decisions, and the OEB's statutory obligations. OEB staff is of the view that the settled issues in the settlement proposal reflect a reasonable evaluation of Milton Hydro's planned outcomes in this proceeding and appropriate consideration of the settled issues in this case.

OEB staff submits that the outcomes arising from the OEB's approval of the issues settled and partially settled as noted in the settlement proposal adequately reflect the public interest and are likely to support the fixing of just and reasonable rates for customers, both in the test year and ensuring incentive rate-setting years that follow, once reasonable resolutions to the unsettled issues have been established.

Notwithstanding the above, OEB staff makes submission on the following four areas in order to assist the OEB's consideration of settlement proposal:

- Oral vs Written Hearings
- Capital Budget and Distribution System Plan
- Residential Rate Design
- Revenue to Cost Ratio for the Sentinel Lighting Class

Oral vs Written Hearings

The settlement proposal indicates the preference of parties on the form of hearing for the unsettled issues. OEB staff supports the proposal that the OM&A issues and the issues related to the new facilities be addressed in an oral hearing; OEB staff is of the view that additional evidence in these two areas would be of assistance to the OEB. Staff also finds it appropriate that the LRAM VA issue be designated as written hearing only.

Capital Budget and Distribution System Plan

OEB staff notes that the parties agreed to a reduction in the 2016 gross capital additions of 6.6% or \$790,000. OEB staff supports this reduction in capital additions. Staff submits that the reduced level of capital in the test year is appropriate and provides adequate capital resources to allow Milton Hydro to continue to pursue continuous improvement in productivity and service quality objectives, achieve operational efficiencies and maintain reliable and safe operation of its distribution system.

However, OEB staff wishes to make the following observations about Milton Hydro's DSP. While the DSP has demonstrated progress towards incorporating RRFE objectives and does provide justification for its five-year capital expenditure plans and the pacing of expenditures, there are still improvements that could be made in preparing future DSPs.

Specifically, OEB staff would encourage Milton Hydro to ensure that in future DSP filings it continues to work to improve its capital management processes to show the link between the results of their customer engagement activities and planned capital projects (as outlined in Exhibit 1, page 59) and that the asset condition assessment methodology and prioritization of projects is performed on a rigorous, analytical basis.

Residential Rate Design

OEB staff also observes that the increase in the residential class monthly fixed charge is below the \$4.00 threshold and the bill impact for residential customers at Milton Hydro's lowest 10th percentile of consumption, 1.92% is also well below the 10% threshold for typical residential customers.

Given these factors, OEB staff takes no issue with Milton Hydro's proposal as it effectively achieves the outcomes of providing a timely implementation of the OEB's rate design policy, and ensuring that the bill impacts are not excessive for customers most impacted by this change.

Revenue to Cost Ratio for the Sentinel Lighting Class

OEB staff has a concern with the bill impact regarding the Sentinel Lighting class. According to the bill impact tables submitted with the settlement proposal, the total bill for the Sentinel Light class is shown to increase by 144%. In light of the magnitude of this increase, staff submits that the bill impact of the proposed change in the revenue to cost ratio (R:C ratio) from 47% to 97.6% is not reasonable for this class.

OEB staff also notes that the OEB's filing requirements¹ state that a distributor must file a mitigation plan if total bill increases for any customer class exceed 10%. OEB staff therefore submits that in the event that bill impacts for any customer class exceeds 10% after the R:C ratios are finalized, a mitigation plan should be proposed.

Staff suggests that the R:C ratio for this class be reduced to the low end of the OEB's policy range at 80%, or if that is not sufficient to reduce bill impacts to the 10% annual impact threshold, staff suggests that the test year R:C ratio be set at a level that would result in a 10% bill increase. OEB staff further submits that the R:C ratio should increase each year thereafter, either in equal increments until the R:C ratio reaches the bottom of the OEB's policy range, or, if this is not achievable by the end of the applicant's Price Cap IR (PCIR) term, then by an amount that would result in 10% increases to the typical Sentinel Lighting class customer's bill in each year of the PCIR term. Recognizing that the total allocated cost to the Sentinel Light class is \$50,922² this change would likely have a minimal impact on the other General Service classes. The OEB used a

¹ Chapter 2, page 63, dated July 16, 2015

² Milton Hydro Settlement Cost Allocation Model, February 9, 2016, Sheet O1

similar phase-in approach for the streetlighting class in its Decision and Order³ in respect of 2015 rates for Algoma Power.

Staff acknowledges that with two significant issues yet to be determined in this case, the specific revenues to be allocated to reduce class bill impacts are not yet known. However, it appears that some mitigation efforts will be required. OEB staff submits that it would be reasonable for the OEB not to accept this aspect of the settlement. There would be an opportunity for parties to consider the approach to this issue prior the hearing of the unsettled issues.

-end-

³ EB-2014-0055, Decision and Order, January 8, 2015, pp. 9-10