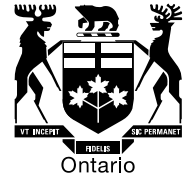


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**BY E-MAIL**

March 3, 2016

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

Dear Ms. Walli:

**Re: Wasaga Distribution Inc.  
2016 Distribution Rate Application  
OEB Staff Submission  
OEB File No. EB-2015-0107**

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

Yours truly,

*Original Signed By*

Georgette Vlahos  
Ontario Energy Board staff – Case Manager EB-2015-0107

Encl.

**2016 ELECTRICITY DISTRIBUTION RATES  
Wasaga Distribution Inc.**

**EB-2015-0107**

**OEB STAFF SUBMISSION ON SETTLEMENT  
PROPOSAL**

**March 3, 2016**

## **INTRODUCTION**

Wasaga Distribution Inc. (Wasaga Distribution) filed a complete application with the Ontario Energy Board (OEB) on September 25, 2015 seeking approval for changes to the rates that Wasaga Distribution charges for electricity distribution, to be effective May 1, 2016. Wasaga Distribution filed a Settlement Proposal setting out an agreement between all the parties to the proceeding on February 25, 2016.

The settlement proposal represents a full settlement on all issues.

This submission is based on the status of the record as of the filing of Wasaga Distribution's settlement proposal and 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 Wasaga Distribution's application and the 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 settlement proposal reflects a reasonable evaluation of the distributor's planned outcomes in this proceeding, appropriate consideration of the relevant issues and ensures there are sufficient resources to allow Wasaga Distribution to achieve its identified outcomes in the four incentive rate-setting years that will follow. OEB staff submits that the outcomes arising from the OEB's approval of the settlement proposal would adequately reflect the public interest and would result in just and reasonable rates for customers.

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

- Distribution System Plan (DSP)
- Long-Term Debt
- Bill Impacts for Low Volume Residential Customers
- Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)

## **Distribution System Plan**

For the purposes of the settlement of all issues in this proceeding, the parties agreed to a reduction in the capital expenditures in the 2016 test year by \$75,000, which will allow for a more appropriate pacing of the capital program during the Distribution System Plan period. OEB staff agrees with parties that the Distribution System Plan filed in this proceeding, combined with the resources made available to Wasaga Distribution in the test year under the terms of the filed settlement proposal, provide a foundation for Wasaga Distribution to pursue continuous improvement in productivity and service quality objectives. It also allows the achievement of operational efficiencies and the reliable and safe operation of its distribution system.

The settlement proposal also notes that since Wasaga Distribution's asset condition information is primarily derived from asset age information, Wasaga Distribution shall undertake a third-party Asset Condition Assessment to be filed in its next cost of service or Custom IR application. OEB staff supports this proposal by the parties as a means for Wasaga Distribution to continue to improve its capital management processes, including ensuring that asset condition assessment methodology and prioritization of projects is performed on a rigorous, analytical basis.

## **Long-Term Debt**

As part of its application, Wasaga Distribution proposed a long-term debt rate for the 2016 test year of 4.54% (updated through interrogatory responses). Wasaga Distribution indicated that this was consistent with the OEB's long term debt rate included as part of the cost of capital parameters published in the OEB's letter of November 20, 2014 entitled *Cost of Capital Parameter Updates for 2016 Cost of Service Applications*.

In the *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities* (Cost of Capital Report), the OEB indicated that the deemed long-term debt rate will act as a proxy or ceiling for affiliated debt for what would be considered to be a market-based rate by the OEB<sup>1</sup>.

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<sup>1</sup> Report of the Board on the Cost of Capital for Ontario's Regulated Utilities, December 11, 2009, Page 53

Wasaga Distribution has one long-term promissory note payable to its shareholder, the Town of Wasaga Beach (Shareholder), which was signed on October 20, 2000. This promissory note specifies that Wasaga Distribution shall pay an annual interest rate equivalent to the Government of Canada's 10 year bond rate as at December 31 of each year. As at December 31, 2000, this rate was 1.95%.

Evidence filed throughout the course of the proceeding shows that although the promissory note between the municipal shareholder and Wasaga Distribution had originally provided a debt rate based on the 10-year Government of Canada bond rate (as indicated above), in 2004, the rate was revised by the municipal shareholder and Wasaga Distribution to the OEB's deemed interest rate, where it has remained each year. Throughout the course of this proceeding, Wasaga Distribution was unable to provide explicit documentation associated with the agreement between Wasaga Distribution's Board of Directors and the shareholder in 2004 to pay a debt rate different than the Government of Canada 10 year bond rate as of December 31 of each year.

For the purposes of settlement, Wasaga Distribution has agreed to adjust its long-term debt rate to 3.78%, resulting in a weighted average cost of capital rate of 5.86% for the 2016 test year. Other elements of the weighted average cost of capital are based on the 2016 cost of capital parameters approved by the OEB.

The Parties explained the basis for the use of the 3.78% rate. Parties noted that the rate is based on the OEB's 4.54% deemed long-term debt rate for 2016 applications, excluding the spread between the OEB's 30-year and 10-year bond rate (0.756%). This rate was agreed on by Parties in lieu of a properly documented Promissory Note between Wasaga Distribution and the municipal shareholder. OEB staff submits that while the difference of 75.6 basis points is not insignificant, OEB staff has no objections to the rate agreed to since it reflects current market conditions for a 10-year bond. OEB staff also notes that excluding the spread between the 30-year and 10-year bond rates aligns the new rate with a 10-year term, and thus is more consistent with the form of the debt as originally implemented by Wasaga Distribution and its shareholder than would be the OEB's default long term (i.e., 30-year) debt rate.

OEB staff notes that the agreed upon rate does not infringe upon OEB policy as it is below the OEB's long-term debt rate ceiling for 2016 cost of service filers.

In addition, Wasaga Distribution agreed that for all new long-term debt issuances, it will investigate all potential sources of that debt and negotiate the lowest possible rate. Furthermore, Wasaga Distribution is required to investigate the feasibility and the cost to replace its current Promissory Note with a debt arrangement at a lower rate to be effective at the time of Wasaga Distribution's next cost of service or Custom IR application. OEB staff notes that while Wasaga Distribution will be required to investigate these financing options as part of the settlement proposal, the OEB has no obligation to set rates based on the results.

Lastly, OEB staff notes that the Cost of Capital Report indicates that the onus is on the distributor that is making an application for rates to document the actual amount and cost of embedded long-term debt. OEB staff submits that although the onus is on the LDC to substantiate the rate it is paying, it should not be a barrier to settlement, particularly when the debt rate is at or below the OEB's deemed debt rate.

### **Bill Impacts for Low Volume Residential Customers**

The OEB's April 2, 2015<sup>2</sup> policy on electricity distribution rate design sets 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 is requiring distributors to calculate and report on the rate impacts of the change so that strategies may be employed to smooth the transition for the customers most impacted, such as those that consume less electricity, if mitigation is required. In support of this, the OEB requires distributors to calculate the impact of this change to residential customers in general; it also requires applicants to calculate the combined impact of the fixed rate increase and any other changes in the cost of distribution service for those customers who are at the 10<sup>th</sup> percentile of overall consumption. Any increase of 10% or greater to

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<sup>2</sup> Board Policy: A New Distribution Rate Design for Residential Electricity Customers, EB-2012-0410, April 2, 2015

these low-consumption customers' bills 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 four years specified in the OEB policy.

OEB staff observes that, as a result of the settlement proposal, adjustments to Wasaga Distribution's rate model to implement the change in fixed rates result in an increase to the fixed charge of \$2.32, which is below the \$4 threshold. Additionally, although lower from when Wasaga Distribution initially filed this application, the bill impact reflected in the settlement agreement for residential customers at Wasaga Distribution's lowest 10<sup>th</sup> percentile of consumption (i.e. 132kWh per month) is approximately 12.41% (i.e. above the 10% threshold). Wasaga Distribution submitted evidence in this proceeding documenting a different usage pattern when compared to other LDCs as a result of the presence of seasonal customers. This unique circumstance of a seasonal cottage population artificially lowers the 10<sup>th</sup> percentile of consumption when compared to other LDCs which do not have seasonal populations.

OEB staff understands that Wasaga Distribution took part in the Rate Design Working Group which was formed to provide feedback and guidance to OEB staff for the implementation of fully fixed distribution charges for residential customers in Ontario. As indicated in the meeting notes for the Rate Design Working Group (available on the OEB's website), Wasaga Distribution has a different usage pattern when compared to other distributors and the presence of seasonal customers means more low volume consumers. The meeting notes also indicate that for distributors across Ontario, typical 10<sup>th</sup> percentile consumption is approximately 40% of average consumption. Based on the notes in that meeting, Wasaga Distribution's average consumption is 650kWh. OEB staff calculates that 40% of this average consumption is approximately 260kWh. Using 260 kWh as a proxy to calculate bill impacts at the 10<sup>th</sup> percentile as opposed to 132kWh would make the bill impact for this subset of customers below 10%, as indicated in the settlement proposal (i.e. approximately 9%). This calculation was provided in the settlement proposal filed by Wasaga Distribution.

In this instance and for these reasons, OEB staff does not take issue for the bill impact being over 10% (at 132kWh) for this subset of customers, given Wasaga

Distribution's unique circumstances. OEB staff notes that a 10% bill impact for a customer using 132kWh per month is approximately \$4.45.

### **Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)**

For CDM programs delivered between 2011 and 2014, the OEB established Account 1568 - LRAMVA to capture the variance between the OEB-approved CDM forecast and the actual results at the customer rate class level. Wasaga Distribution filed for review of the LRAMVA as per the OEB's filing requirements for cost of service applications.

As part of its interrogatory responses, Wasaga Distribution updated its LRAMVA claim based on the IESO's final 2011-2014 CDM results to reflect a recovery of \$26,374.15.

For purposes of settlement, the parties agreed to the LRAMVA calculations (as of December 31, 2014) for January 1, 2011 to December 31, 2014 CDM programs and the resulting deferral disposition balances as presented in the table below.

<b>Rate Class</b>	<b>Unit</b>	<b>Balance (\$)</b>
Residential	kWh	-27
GS<50 kW	kWh	9,492
GS>50 kW	kW	8,991
Unmetered Scattered Load	kWh	-
Street Lights	kWh	-
<b>TOTAL</b>		<b>18,456</b>

It was agreed by parties that for GS>50 programs the kW savings for non-demand response programs would be based on 6 months, consistent with parties understanding of the period used by the IESO when verifying the savings<sup>3</sup>. This resulted in a reduction of \$7,001 for the LRAMVA disposition amount originally filed as part of the interrogatory responses. The updated LRAMVA claim is \$18,456. The portion of this related to demand customers is \$8,991. For the panel's reference, Wasaga Distribution's materiality threshold as defined by the OEB's criteria is \$50,000.

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<sup>3</sup> Settlement Proposal, EB-2015-0107, Pages 37-38



OEB staff notes that LRAMVA balance calculations in several recent applications (both IRM and cost of service) have included an adjustment factor (or multiplier) to verified demand savings in calculating lost revenues for the purpose of disposing of LRAMVA balances. These adjustment factors have varied by distributor and have been applied to both demand reductions resulting from energy efficiency programs and demand response program savings as reported by the IESO.

OEB staff approached the IESO to clarify this issue. In a memorandum to OEB staff dated February 24, 2016, a copy of which is attached to this submission, the IESO clarified its definition of verified demand savings and specifically reported that the IESO's methodology "makes no attempt to verify the impact that a demand response event may have on a customer's demand for the purposes of billing for distribution service, even in months where the demand response program was activated." The IESO's memorandum also indicates that "demand savings from energy efficiency programs are based on the average monthly demand savings for June, July and August. While there may be demand reductions in other months, or persistence into other years, revenue impacts would be dependent on the type of program".

On March 3, 2016, the OEB issued a letter to all licensed distributors indicating that the IESO's clarification suggests that further discussion of this issue on a generic basis is warranted.<sup>4</sup>

The OEB announced in the letter that it is holding a meeting on March 31, 2016 to gather input on the approach to recording demand (kW) savings in the LRAMVA. The OEB expects to provide further policy guidance on the LRAMVA following this meeting.

OEB staff notes that Wasaga Distribution's LRAMVA claim is impacted by both issues, demand response programs and the general multiplier issue that may affect other programs as well. Given the LRAMVA claim in this proceeding, OEB staff submits two options for the OEB's consideration.

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<sup>4</sup> OEB Letter, March 3, 2016

OEB staff acknowledges that the settlement proposal filed in this proceeding has been filed as a “package”, and as indicated in the settlement proposal, none of the parts is severable. OEB staff notes that Wasaga Distribution’s total LRAMVA claim includes an adjustment factor to verified demand savings. As noted previously, the component of the LRAMVA related to demand is only \$8,991, which is well below Wasaga Distribution’s materiality threshold. Furthermore, any new policy guidance would only affect a portion of this demand component, so the impact is even smaller. OEB staff submits therefore that it is reasonable for the OEB to accept the settlement proposal with the LRAMVA as filed. Wasaga Distribution will be informed by any policy outcome of the subject review going forward for future lost revenue claims.

While the parties to the settlement proposal could agree to postpone the disposition of an LRAMVA claim at this time pending the outcome of the OEB’s policy review, in OEB staff’s view this would introduce an unnecessary complexity to this process for an amount that is not material.

All of which is respectfully submitted