Ontario Energy Board

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BY E-MAIL

March 4, 2016

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

Dear Ms. Walli:

Re: Halton Hills Hydro Inc.
Application for Rates
Ontario Energy Board File Number EB-2015-0074

In accordance with Procedural Order No. 1, please find attached OEB staff's submission on the settlement proposal filed in the above noted proceeding. Halton Hills Hydro Inc. and all intervenors have been copied on this filing.

Yours truly,

Original signed by

Violet Binette
Project Advisor, Applications

Attach

HALTON HILLS HYDRO INC.

2016 ELECTRICITY DISTRIBUTION RATES

EB-2015-0074

Ontario Energy Board

Staff Submission -

Settlement Proposal

March 4, 2016

Introduction

Halton Hills Hydro Inc. (HHHI) filed a complete application with the Ontario Energy Board (OEB) on October 2, 2015 seeking approval for changes to the rates that HHHI charges for electricity distribution to be effective May 1, 2016. On February 29, 2016, HHHI filed a settlement proposal with respect to the 2016 cost of service application.

The parties to the settlement proposal are HHHI and the following approved intervenors in the proceeding:

- Energy Probe Research Foundation
- School Energy Coalition
- Vulnerable Energy Consumers Coalition

The settlement proposal represents a full settlement on all issues.

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 HHHI'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 HHHI'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 appropriate consideration of the resources to allow HHHI 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 lead to the setting of just and reasonable rates for customers.

Notwithstanding the above, OEB staff's submission below provides further discussion for the OEB's consideration on the following issues:

- Distribution System Plan

- Municipal Transformer Station
- Residential Rate Design
- Sentinel Lighting Class Bill Impact
- Lost Revenue Adjustment Mechanism Variance Account

Distribution System Plan (DSP)

The parties agree that the DSP filed in this proceeding, combined with the resources made available to HHHI in the test year under the terms of the settlement proposal, provide sufficient resources to HHHI in the test year and subsequent IRM years to continue to: (a) pursue continuous improvement in productivity; (b) maintain system reliability and service quality objectives; and (c) maintain reliable and safe operation of its distribution system.

The parties have agreed to adjust the 2016 capital plan to reflect a reduction of $500,000 in capital additions. HHHI proposes to achieve this reduction in capital additions, in part, by deferring some of the projects originally planned for the test year.

While HHHI's DSP has demonstrated some progress towards incorporating RRFE objectives and does provide some justification for the five year capital expenditure plans and the pacing of expenditures, OEB staff submits there are improvements that should be made in preparing future DSP's. Specifically, OEB staff submits that HHHI should provide clear links between the asset condition and asset management to the planned capital expenditures.

As noted in the *Filing Requirements For Electricity Distribution Rate Applications - 2015 Edition for 2016 Rate Applications* (Filing Requirements):

> One of the primary goals of the DSP is pacing and prioritizing capital investments in a manner that considers rate impacts. The filing of a DSP can facilitate the achievement of this goal by focusing on the qualitative and quantitative information supporting investment proposals that will allow the OEB to assess how a distributor is seeking to control the costs and related rate impacts of proposed investments.
>
> In addition, it is the OEB's expectation that the asset management plan underpinning the DSP should be directly linked to the proposed budget, in order to provide the OEB with robust evidence that the proposed capital expenditures have been through the necessary optimization and prioritization process.

As part of its DSP, HHHI proposes to implement an accelerated pole replacement program targeting 275-280 distribution poles each year for the next ten years at a capital cost of $2 million per year. Based on the pole condition evidence filed with the DSP, OEB staff estimates that a significant number of poles in fair condition would be replaced.[1]

OEB staff also notes that in 2012, HHHI accelerated pole replacement[2] and that 41 poles were replaced in 2011 while 183 poles were replaced in 2012.[3] For an asset class such as wood poles with a 50-year "Useful Life", approximately 2% of HHHI's 8,780 wood pole portfolio (or approximately 175 poles) would need to be replaced on average each year over the longer term. OEB staff submits that the current level of pole replacement is more in keeping with projected life of these assets as well as the actual asset condition assessments. OEB staff submits that there is no clear link between HHHI's plans with respect to pole replacement at 275-280 poles per year and the asset condition.

On this basis, OEB staff submits that the agreed upon reduction of $500,000 in capital additions is achievable through changes to pole replacement plans and that HHHI will be able to maintain safe and reliable operation of its distribution system. OEB staff notes, however, that HHHI may choose to achieve the reduction in capital additions through deferral of other capital work.

Municipal Transformer Station (MTS)

HHHI is proceeding with the MTS on the basis of the *Northwest Greater Toronto Area Integrated Regional Resource Plan*.[4] As the capital cost for the MTS is significant, HHHI intends to file a separate Incremental Capital Module (ICM) closer to the in service date rather than including the project in the DSP.[5] The capital cost of the MTS project is estimated to be $19 million and HHHI expects the in service date to be 2018.[6]

On September 18, 2014, the OEB issued the Report of the Board - *New Policy Options for the Funding of Capital Investments: The Advanced Capital Module* (EB-2014-0219). The Advanced Capital Module (ACM) reflects an evolution of the ICM.

[1] Exh 2 Appendix A - Distribution System Plan, page 36
[2] Exh 2 Appendix A - Distribution System Plan, Appendix A - Asset Management Plan, page 18
[3] Interrogatory Response 2-Staff-12
[4] Exh 1 Appendix A – Distribution System Plan, Appendix B – IESO NWGTA Region IRRP Report
[5] Exh 2 Appendix A – Distribution System Plan, page 13
[6] Interrogatory Response 2-Staff-8

As noted in the Filing Requirements:

> The ACM expands the ICM concept to incorporate the concept of recovery for qualifying incremental capital investments during the Price Cap IR period with an **opportunity to identify and pre-test such discrete capital projects documented in the DSP** as part of the cost of service application.
>
> As part of a cost of service application, a distributor may propose qualifying ACM capital projects that are expected to be made and come into service during the subsequent Price Cap IR term. These will be discrete projects as documented in the DSP. The distributor must also identify that it is proposing ACM treatment for these future projects, and provide the cost information and materiality threshold calculations to show that these would qualify for ACM treatment based on the **forecasted information at the time of the DSP and cost of service application**. [emphasis added]

In an interrogatory response, HHHI stated that cost estimates and design details were not available at the time of the cost of service application preparation.[7] The RRFE Report and the introduction of the ACM signal the movement to a more disciplined approach to capital planning. OEB staff submits that including the MTS in the five year forecast of capital expenditures would have represented a fuller and more accurate picture of capital expenditures and resources required in the five year period. OEB staff also submits that HHHI would have been assisted by filing an ACM with the best available information at the time of the cost of service application. In the absence of the ACM, HHHI is at risk for MTS project expenditures incurred in every year leading up to 2018. However, OEB staff does note that the OEB retained the ICM for the IR years for projects not included in a DSP filed with the most recent cost of service application, and for projects that were included in the DSP but which did not contain sufficient information at the time of the cost of service application to address need and prudence.[8]

Residential Rate Design

OEB staff observes that the increase in residential class monthly fixed charge related to the new rate design policy is below the $4.00 threshold. OEB staff also observes that

[7] Interrogatory Response 2-Staff-9
[8] Report of the Board - New Policy Options for the Funding of Capital Investments: The Advanced Capital Module (EB-2014-0219), page 13

the total bill impact for residential customers at HHHI's lowest 10th percentile of consumption is well below the 10% threshold at 0.48%.

Given these factors, OEB staff takes no issue with HHHI'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.

Sentinel Lighting Class Total Bill Impact

According to the bill impact tables submitted with the settlement proposal, the total bill for the Sentinel Lighting Class will increase by 16.6%. And according to the cost allocation table filed with the settlement proposal, the revenue to cost ratio for the Sentinel Lighting Class is proposed to be 95.1%. The revenue at proposed rates from the Sentinel Lighting Class is $41,173.

At page 63 of the Filing Requirements, it states that, "A distributor must file a mitigation plan if total bill increases for any customer class exceed 10%." The settlement proposal states,

> HHHI is not proposing any mitigation measures for two reasons: (a) the exceedance is minor (the total bill impact is 16.6% for HHHI's Sentinel Lighting customer class); and (b) there are only six HHHI customers that are Sentinel Lighting-only customers (i.e., most customers that are levied Sentinel Lighting charges are also Residential or General Service distribution customers and the Sentinel Lighting charges make up a very small component of their total bill).

HHHI has reviewed bill impacts and has considered the increases proposed for the Sentinel Lighting Class. OEB staff submits that the explanation provided by HHHI is reasonable and that a mitigation plan is not required in these circumstances.

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. HHHI filed for review of the LRAMVA as per the OEB's filing requirements for cost of service applications.

During the settlement conference process, HHHI updated its LRAMVA claim based on the IESO's final 2011-2014 CDM results to reflect a credit amount of $18,852. The credit amount arises as actual CDM savings were lower than CDM savings assumed in the load forecast.

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. For reference, HHHI's materiality threshold, as defined by the OEB's criteria is $55,000.

Rate Class	Unit	Balance ($)
Residential	kWh	(5,380)
GS<50 kW	kWh	(9,907)
GS>50 kW	kW	(6,172)
GS>1,000 kW	kW	2,607
TOTAL		(18,852)

OEB staff notes that there have been recent queries about the final verified savings for the demand customer classes (e.g. General Service > 50 kW and General Service > 1,000 kW). 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.[9]

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.

[9] OEB Letter, March 3, 2016

The settlement proposal filed in this proceeding has been filed as a "package", and as indicated in the settlement proposal, none of the parts are severable.[10] As noted in the above table, the component of the LRAMVA related to the two demand customer classes is a credit of $3,565, which is well below HHHI'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. HHHI will be informed by any policy outcome of the subject review going forward for future lost revenue claims. Alternatively, 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

[10] Settlement Proposal, February 29, 2016, page 4: The Parties have settled the issues as a package, and none of the parts of this Settlement Proposal are severable. If the Board does not accept this Settlement Proposal in its entirety, then there is no settlement (unless the Parties agree in writing that any part(s) of this Settlement Proposal that the Board does accept may continue as a valid settlement without inclusion of any part(s) that the Board does not accept).

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Memorandum

To: Josh Wasylyk, Ontario Energy Board

Cc: Nik Schruder, IESO

Katherine Sparkes, IESO

From: Phil Bosco, IESO

Date: February 24, 2016

Re: **Application of Demand Savings in Final Verified Conservation Results in LDC LRAM Claims**

This memorandum is in response to inquiries by both the Ontario Energy Board (OEB) and Local Distribution Companies (LDC's) about the application of final verified demands savings from the 2011-2014 Conservation and Demand Management (CDM) Framework in an LDC's Lost Revenue Adjustment Mechanism (LRAM) claim. The intent of the memo is to clarify the definition of demand savings used by the IESO in its reports to LDCs regarding final verified results to enable the OEB to make consistent decisions on LDC LRAM claims.

Verified demand savings, as defined in the EM&V Protocol and Requirements[1], are based on the average demand reduction across the total number of hours in the summer peak period (June, July, August, from 1pm to 7pm).

For an energy efficiency project, the verified demand savings shown in an LDC's 2011-2014 CDM Results Report represent an annualized figure -- the average monthly demand savings in each of June, July and August -- credited to the year of the in-service date. While the IESO has not verified the existence of further demand savings from energy efficiency projects in other months of the year, it may nevertheless be appropriate for LDCs to apply reported demand reductions to other months in recognition of the persistence of energy efficiency measures beyond the peak season. The application to other months should be commensurate with the type of program and whether its effects are measurable year-round (such as lighting) or only at certain times (such as space cooling). Similarly, the verified demand savings for an energy efficiency project persist into future years based on the life of the measure installed.

A different approach is required when estimating the effects of demand response programs. The IESO's evaluation methodology focuses on evaluating the system benefits of CDM activities

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[1] IESO EM&V Protocol and Requirements, http://www.powerauthority.on.ca/sites/default/files/conservation/Conservation-First-EMandV-Protocols-and-Requirements-2015-2020-Apr29-2015.pdf

and the IESO evaluation 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. Consequently, the IESO's results do not support the estimation of lost revenues on demand-billed distribution customers.

The final verified demand savings reflect only these periods defined in the EM&V protocol and only reflect the value that has been attributed against the LDC's 2011-2014 CDM Target.

PB