November 21, 2016

Ontario Energy Board
2300 Yonge St. 27th Floor
Toronto, ON M4P 1E4

Attention: **John Pickernell**
Board Secretary

Dear John,

RE: **Reply Submission related to Festival Hydro's 2017 IRM Rate Application (EB 2016-0070)**

Enclosed please two copies of the Reply Submission related to Festival Hydro's 2017 IRM Application (EB-2016-0070). A copy of this document has been filed today via RESS.

Please contact me at 519-271-4703 ext. 221 if you have any questions regarding the information attached.

FESTIVAL HYDRO INC.

Kelly McCann, CPA, CA
Accounting Manager

IN THE MATTER OF the *Ontario Energy Board Act, 1998,* S.O. 1998, c. 15 (Schedule B);

AND IN THE MATTER OF an application by Festival Hydro Inc. for an order approving just and reasonable rates and Other charges for electricity distribution to be effective January 1, 2017.

REPLY SUBMISSION OF THE APPLICANT,
FESTIVAL HYDRO INC.

Introduction

Festival Hydro Inc. (Festival Hydro) filed an application with the Ontario Energy Board (OEB) on August 15, 2016 under section 78 of the *Ontario Energy Board Act*, *1998* seeking approval for changes to the rates that Festival Hydro charges for electricity distribution and retail transmission rates, effective January 1, 2017.

This Reply Submission addresses the submissions of Board Staff and the Vulnerable Energy Consumers Coalition ("**VECC**")

Permanent Bypass Rate Rider

Background

As part of Festival Hydro's 2015 Cost of Service (COS) proceeding, EB-2014-0073, the OEB approved the recovery of costs for a permanent bypass of a Hydro One Networks Inc. (HONI) transformer station through a rate rider. The permanent bypass agreement (PBA) rate rider was established to collect $1,230,026 over a 31-month period from May 1, 2015 to December 31, 2017. The OEB approved the PBA rate rider on an interim basis, as the final invoiced amounts were not known at the time of the decision. The OEB ordered that the amount be trued-up as part of Festival Hydro's 2016 IRM proceeding.

By the time of Festival Hydro's 2016 IRM application (EB-2015-0069), the final invoice had still not been received. In Festival Hydro's 2016 IRM proceeding, the OEB approved the continuation of the current PBA rate rider in 2016 on an interim basis. The OEB ordered that a true-up and rate rider adjustment would be made once the final invoice is received.

Festival Hydro noted in its application and in response to OEB staff interrogatory #5(a) that, at the time of filing this application, the final invoice has been received and the amount in question has been finalized with Hydro One Networks Inc. at $932,094. Festival Hydro calculated the remaining amount that needs to be recovered in 2017 is $181,341.

Festival Hydro further calculated its proposed reduced final PBA rate rider by class to recover the remaining permanent bypass cost by the end of 2017.

Rate Rider for Permanent Bypass Agreement (PBA) - June 1, 2015 to December 31, 2017							
(to be collected over a 31 month period)							
(to be trued-up as part of IRM Process)							
Remaining PBA to recover				**181,341**			
Rate Class	2015 COS Approved kWh	2015 COS Approved kW	Allocation	Allocated Balance	Proposed Rate Rider over one year	Unit	Prior Approved Rate Rider
Residential	140,396,363		23.6%	42,880	0.0003	kWh	0.0008
G.S. < 50 kW	64,120,602		10.8%	19,584	0.0003	kWh	0.0008
G.S. 50 kW to 4999 kW	361,168,299	942,723	60.8%	110,309	0.1170	kW	0.3072
Large Use	22,711,894	35,166	3.8%	6,937	0.1973	kW	0.5179
Unmetered Scattered Load	657,094		0.1%	201	0.0003	kWh	0.0008
Sentinel Lights	149,276	353	0.0%	46	0.1291	kW	0.339
Streetlighting	4,532,631	11,925	0.8%	1,384	0.1161	kW	0.3048
Total	**593,736,159**	**990,167**	**100%**	**181,341**			

OEB staff reviewed the evidence and calculations that Festival Hydro provided for the proposed reduced final PBA rate rider and has no concerns with Festival Hydro's request to dispose of the proposed final PBA rate rider effective January 1, 2017 to December 31, 2017.

VECC supports Festival Hydro's true-up and rate rider adjustment based on the final invoiced amount from Hydro One.

Festival Submission

Festival agrees to dispose of the rate rider in 2017 as proposed above and agreed to by OEB staff and VECC above.

Earning Performance in 2015

Background

Section 3.3.5 of Chapter 3 of the Filing Requirements[1] states that, for each of the OEB's three rate-setting options, a regulatory review may be triggered if a distributor's earnings are outside of a dead band of ± 300 basis points from the OEB-approved return on equity. The OEB monitors results filed by distributors as part of their *Reporting and Record-keeping Requirements* (RRR) and determines if a regulatory review is

[1] *Filing Requirements For Electricity Distribution Rate Applications; Chapter 3 Incentive Rate-Setting Applications*, issued July 14, 2016, page 23

warranted. A distributor whose earnings are in excess of the dead band is expected to refrain from seeking an adjustment to its base rates through a Price Cap IR or Annual IR Index plan. If a distributor, whose earnings are in excess of the dead band, nevertheless applies for an increase to its base rates, the OEB expects the utility to substantiate its reasons for doing so.

As indicated in Festival Hydro's 2015 RRR filing 2.1.5.6, Festival Hydro's 2015 ROE reported of 14.24%, was in excess of the 300 basis points dead band by 194 basis points (i.e., 494 basis points over the approved ROE of 9.3%). Therefore, the expectation was that Festival Hydro should substantiate why it was applying for an increase to its base rates.

In its 2017 IRM application, Festival Hydro notes that the disposition of the Incremental Capital Module (ICM) rate rider was the major contributor to the overage. If the ICM revenues are removed, Festival Hydro's ROE for 2015 would be within the 300 basis points dead band. As such, Festival Hydro applied for the Price Cap adjustment to its base rates.

In its responses to OEB staff interrogatory #8 and Vulnerable Energy Consumers Coalition (VECC) interrogatories #2 and #3, Festival Hydro provided the 2015 RRR 2.1.5.6 ROE that was filed with the OEB on June 24, 2016, and recalculated the regulatory ROE using the RRR 2.1.5.6 ROE Excel template. In the interrogatory responses, Festival Hydro noted that the ROE over earnings is directly a result of the disposition of the ICM variance account and additional ICM rate rider recovery for the seven month period June 1 to December 31, 2015. Both of these items were approved in Festival Hydro's 2015 COS proceeding, EB-2014-0073.

Festival Hydro explains that, as noted in its 2015 RRR 2.1.5.6, the overage is due to $1,389,599 in distribution revenue collected from May 1, 2013 to April 30, 2015 approved by the OEB for disposition from the ICM variance account. In addition, $529,558 in distribution revenues related to the new OEB approved ICM rate rider collected from June 1, 2015 to December 31, 2015. These revenues were offset by the ICM carrying charges and ICM depreciation expenses for a net overstatement of distribution income due to the ICM variance account of $1,299,999.

Festival Hydro indicated that it recalculated the 2015 Regulatory ROE by removing the impact of the regulatory accounting implications for the ICM disposition using the RRR 2.1.5.6 ROE Excel Template. Once Festival removed the ICM related amount of $1,299,999, the resulting ROE was reduced to 10.41%, which was below the 300 basis points dead band (comparing to the 9.30% deemed ROE from the last COS decision).

Festival Hydro confirmed in its responses to the interrogatories that the drivers to its 2015 overearnings are not expected to continue in 2016 or 2017 as the ICM rate riders ended as of December 31, 2015, and as such Festival Hydro does not expect overearnings beyond 2015 (as per the 2016 pro-forma ROE provided by Festival Hydro) and feels it's reasonable to request base rates adjustment in its 2017 IRM proceeding.

OEB staff submitted that it is of the view that Festival Hydro's explanations are not entirely clear but OEB staff believed that it understood Festival Hydro's approach to normalizing its ROE and accepts it, subject to an adjustment as noted below.

OEB staff noted that Festival Hydro tracked its ICM revenues in account 1508 (a balance sheet account) along with its approved costs pursuant to the OEB's accounting directions. But, Festival Hydro did not recognize revenues (less ICM carrying charges and ICM depreciation expense) associated with the approved ICM until 2015. Therefore, Festival Hydro needed to remove the impact of ICM distribution revenue collected (less ICM carrying charges and ICM depreciation expense) for the period from May 1, 2013 to December 31, 2014 from the 2015 ROE calculation. It is OEB staff's view that Festival Hydro may be overstating the amount that it removed from the 2015 ROE calculation and should retain revenues associated with the January 1, 2015 to April 30, 2015 period, plus the amounts collected from the new ICM rate rider for the period from June 1, 2015 to December 31, 2015 related to the disposition for the residual balance in the 1508 variance account (less ICM carrying charges and ICM depreciation expense).

OEB staff further noted that the ICM net revenue effects relating to 2015 should not have been deducted when recalculating the 2015 Regulatory ROE and suggested that Festival Hydro may wish to confirm that its regulatory ROE calculation, taking the above adjustment into account, results in a 2015 ROE that is still within the dead band. If so, then OEB staff would not oppose Festival Hydro's request for a price cap adjustment for 2017.

VECC submitted that they did not oppose Festival Hydro's 2017 Price Cap adjustment to its base rates.

Festival Response

Festival is in agreement with OEB staff that Festival, in error, removed the portion of ICM revenue belonging to the period January 1, 2015 to April 30, 2015. Festival has recalculated the 2015 ROE adding back the revenue belonging to the four month period.

Attached is a copy of Appendix F from Festival's 2015 Revised Draft Rate Order from the 2015 Cost of Service application (EB-2014-0073) which shows how the $554,808 rate rider was determined. Of the $554,808 recovery, $410,154 of the revenue in fact belonged to the four-month period (January through to April 2015). Note that the interest expense and the amortization does not need adjustment as these were the amounts recorded in the ICM variance account to the end of December 2014. There were no residual amounts (revenues or expenses) booked in the ICM variance account in 2015.

When we update the 2.1.5.6 ROE excel spreadsheet to add back the January to April 2015 revenue, the revised ROE for 2015 is ct 11.67%, which is still within the 300 basis points dead band, as illustrated in the table below

	Calculation of adjustment original submission	**Revised calculation of adjustment**
ICM revenue – 17-month period Dec 13 to Apr 15	$1,898,157	$1,898,157
Less interest expense disposition (2013 to 2014; no 2015 interest)	(232,377)	(232,377)
Disposition of 2013 & 2014 amortization	(365,781)	(365,781)
Adjustment used in original submission	**$1,299,999**	$1,299,999
Add back revenue belonging to Jan to Apr 2015		410,154
Revised impact amount from 2013 and 2014 entered into cell al		**$889,845**
ROE with 2013-14 ICM disposition removed (original and revised) . Note deemed ROE is 9.30% with upper 300 dead band of 12.30%.	**10.41%**	**11.67%**

Festival submits that the adjusted ROE is within the 300 basis points and as such are in agreement with both OEB Staff and VECC. Festival requests the Board's approval for the maximum adjustment to its base rates as allowed in the 2017 Price Cap IR IRM.

Retail Transmission Service Rates

In reviewing tab 10 of Festival Hydro's 2017 IRM Rate Generator Model, OEB staff noted the demand amount applied for Network Service Rate was higher than the demand amount applied for Line and Transformation Connection Service Rate for GS 50 to 4,999 rate class (non-interval). In an interrogatory, OEB staff asked Festival to explain why the demand used for Network charges was greater than the demand used for Connection charges.

Rate Class	Rate Description	Unit	Rate	Non-Loss Adjusted Metered kWh	Non-Loss Adjusted Metered kW
Residential Service Classification	Retail Transmission Rate - Network Service Rate	$/kWh	0.0071	138,916,796	0
Residential Service Classification	Retail Transmission Rate - Line and Transformation Connection Service Rate	$/kWh	0.0046	138,916,796	0
General Service Less Than 50 kW Service Classification	Retail Transmission Rate - Network Service Rate	$/kWh	0.0062	63,555,664	0
General Service Less Than 50 kW Service Classification	Retail Transmission Rate - Line and Transformation Connection Service Rate	$/kWh	0.0042	63,555,664	0
General Service 50 To 4,999 kW Service Classification	Retail Transmission Rate - Network Service Rate	$/kW	2.6062	39,614,141	122,150
General Service 50 To 4,999 kW Service Classification	Retail Transmission Rate - Line and Transformation Connection Service Rate	$/kW	1.6983	39,614,141	119,552
General Service 50 To 4,999 kW Service Classification	Retail Transmission Rate - Network Service Rate - Interval Metered	$/kW	2.7683	333,722,358	831,054
General Service 50 To 4,999 kW Service Classification	Retail Transmission Rate - Line and Transformation Connection Service Rate - Interval M	$/kW	1.8618	333,722,358	833,652
Large Use Service Classification	Retail Transmission Rate - Network Service Rate - Interval Metered	$/kW	3.0651	24,639,648	39,140
Large Use Service Classification	Retail Transmission Rate - Line and Transformation Connection Service Rate - Interval M	$/kW	2.1291	24,639,648	39,140
Unmetered Scattered Load Service Classification	Retail Transmission Rate - Network Service Rate	$/kWh	0.0062	663,213	0
Unmetered Scattered Load Service Classification	Retail Transmission Rate - Line and Transformation Connection Service Rate	$/kWh	0.0042	663,213	0
Sentinel Lighting Service Classification	Retail Transmission Rate - Network Service Rate	$/kW	1.9756	130,859	364
Sentinel Lighting Service Classification	Retail Transmission Rate - Line and Transformation Connection Service Rate	$/kW	1.3404	130,859	364
Street Lighting Service Classification	Retail Transmission Rate - Network Service Rate	$/kW	1.9656	4,307,271	11,103

In its response to OEB staff interrogatory # 3, Festival Hydro noted that customer Network charges are based on a 7:00 a.m. to 7:00 p.m. peak demand; and customer Connection charges are based on a 24-hour peak demand. While these peaks often are coincidental, there are occasions when the transformation connection peak occurs outside of the 7:00 a.m. to 7:00 p.m. period.

OEB staff agrees with the above statement that Festival Hydro provided. However, with a longer time-range for the peak demand, the Connection peak demand can only be equal to or greater than the Network peak demand. OEB staff thus requests that Festival Hydro provide the correct Network and Connection peak demand amounts for GS 50 to 4,999 rate class (non-interval) with its reply submission.

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.

Festival Response

Festival agrees with OEB staff analysis and requests that OEB staff update the final model so that the connection peak kW demand is equal to the peak kW demand for network charges of 122,150 kW.

<u>Deferral and Variance Account Disposition</u>

Festival Hydro completed the Deferral and Variance Account continuity schedule included in the 2017 IRM Rate Generator Model at Tab 3 for its Group 1 Deferral and Variance Accounts. Festival Hydro's total Group 1 Deferral and Variance Account balances amount to a credit of $848,382. The balance of Account 1589 – Global Adjustment (GA) is a credit of $292,025 and is applicable only to Non-RPP Class B customers. The remaining deferral and variance accounts excluding GA amounted to a credit of $556,357. These balances also include interest calculated to December 31,

2016. Based on the threshold test calculation, the Group 1 Deferral and Variance Account balances equate to a credit of $0.0014 per kWh which exceeds the pre-set disposition threshold. Festival Hydro requested disposition of these accounts over a one-year period.

The GA balances being requested for disposition in this application were incurred for all Group 1 accounts during the year of 2015. During this period, Festival Hydro had four customers transitioned from Class B to Class A as of July 1, 2015 as part of the Industrial Conservation Initiative (ICI). Festival Hydro proposes to dispose a total credit balance of $42,417 related to GA to the four newly-eligible Class A (former Class B) customers for their Class B portion of consumption in 2015. Festival Hydro used tab 6a of the IRM Rate Generator Model to allocate the amount to each of the four customers and proposed to dispose of these amounts via 12 equal monthly payments.

The Group 1 balances to be disposed include the recovery of charges for Capacity Based Recovery (CBR) relating to bringing in contracted Demand Response (DR) providers from the Demand Response 3 (DR3) program into the wholesale energy market. Festival Hydro paid the IESO CBR charges in 2015 and recorded these to a dedicated sub-account. The disposition of this sub-account is impacted by whether or not a distributor has any Class A customers.

In this application, Festival Hydro had Class A customers so it requested that the balance of the sub-account CBR Class B be disposed through a separate rate rider in order to ensure proper allocation between Class A and Class B customers. As Festival Hydro had four customers transitioned from Class B to Class A in 2015, Festival Hydro requested to recover a portion of the CBR Class B costs from these customers (for the period they were Class B customers) through 12 equal monthly charges.

OEB staff reviewed Festival Hydro’s Group 1 Deferral and Variance Account balances and notes that the principal balances and interest as of December 31, 2015 reconcile with the balances reported as part of the RRRs. Also, the pre-set disposition threshold has been exceeded. Accordingly, OEB staff submitted that they had no issue with Festival Hydro’s request to dispose of the Deferral and Variance Accounts.

Festival Response

Festival agrees with the OEB staff submission and will dispose of the deferral and variance accounts as included in the final IRM model.

Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) Balance

Background

In its application, Festival Hydro proposed to dispose of a debit balance in Account 1568 - LRAMVA of $131,949. Festival Hydro's LRAMVA amount consists of lost revenues from new CDM programs in 2015, as well as persisting savings in 2015 from CDM programs delivered between 2011 and 2014, and associated carrying charges. Festival Hydro's LRAMVA balance is net of the 2015 forecasted CDM savings that were embedded into rates as part of its 2015 cost of service application.

In response to OEB Staff interrogatories, Festival Hydro updated its LRAMVA balance in order to make certain minor corrections and to incorporate IESO verified savings adjustments that were not included in Festival Hydro's initial LRAMVA balance. Festival Hydro's updates to the LRAMVA balance results in a decrease of $462 and an updated LRAMVA amount of a debit of $131,487. Festival Hydro's LRAMVA balance is supported by a third party review, which calculated Festival Hydro's LRAMVA balance using information provided by the IESO, including initiative level persistence rates.

OEB staff supported the updated LRAMVA debit balance of $131,487, which consists of lost revenues from new CDM programs in 2015, persisting savings in 2015 from CDM programs delivered between 2011 and 2014, and carrying charges. OEB staff submitted that Festival Hydro has calculated its LRAMVA balance in accordance with the CDM Guidelines (EB-2012-0003) and updated LRAMVA policy (EB-2016-0182).

Festival Response

Festival agrees with OEB staff submission in regards to the correctness of the $131,487 LRAM claim as calculated in accordance with the CDM guidelines and included in its 2017 IRM application.

All of which is respectfully submitted

Appendix A – 2015 COS (EB-2014-0073) draft rate order appendix F

APPENDIX A

Appendix F cont.

Incremental Capital Adjustment cont.

4 month calculation for Jan 1, 2015 to Apr 30, 2015

Ontario Capital Tax				
Incremental Capital CAPEX			$ 14,777,180	AA
Less : Available Capital Exemption (if any)			$ -	AB
Incremental Capital CAPEX subject to OCT			$ 14,777,180	AC = AA - AB
Ontario Capital Tax Rate (F1.1 Z-Factor Tax Changes)	0.000%	AD		
Incremental Ontario Capital Tax			$ -	AE = AC * AD

Incremental Revenue Requirement		2015	4 Months	Prior 13mo	Total 17 Mo
Return on Rate Base - Total - 13 months	Q	$ 908,383	$ 302,794	$ 1,153,389	$ 1,456,183
Amortization Expense - Total - 13 months	S	$ 337,643	$ 112,548	$ 365,781	$ 478,329
Incremental Grossed Up PIL's - 13 months	Z	-$ 15,564	-$ 5,188	-$ 37,942	-$ 43,129
Subtotal - variance arising on True up		$ 1,230,462	$ 410,154	$ 1,481,229	$ 1,891,383
Less ICM Rate rider collected/to be collected to April 30, 2015		-$ 855,081	-$ 285,027	-$ 1,091,548	-$ 1,376,575
Incremental Revenue Requirement		$ 375,381	$ 125,127	$ 389,681	$ 514,808
Summary: ICM True UP claim - 17 months			**$ 125,127**	**$ 389,681**	**$ 514,808**
2013 and 2014 O, M & A Board approved expenses			**$ -**	**$ 40,000**	**$ 40,000**
2015 Net Rate rider claim			**$ 125,127**	**$ 429,681**	**$ 554,808**

M. Appendix F

Incremental Capital Adjustment

4 month calculation for Jan 1, 2015 to Apr 30, 2015

Current Revenue Requirement

Current Revenue Requirement - Total			$ 10,001,218	A

Return on Rate Base

Incremental Capital CAPEX (net of depreciation)			$ 14,777,180	B
Depreciation Expense			$ 337,643	C
Incremental Capital CAPEX to be included in Rate Base			$ 14,777,180	D = B - C
Deemed ShortTerm Debt %	4.0%	E	$ 591,087	G = D * E
Deemed Long Term Debt %	56.0%	F	$ 8,275,221	H = D * F
Short Term Interest	2.16%	I	$ 12,767	K = G * I
Long Term Interest	4.18%	J	$ 345,904	L = H * J
Return on Rate Base - Interest			$ 358,672	M = K + L
Deemed Equity %	40.0%	N	$ 5,910,872	P = D * N
Return on Rate Base -Equity	9.30%	O	$ 549,711	Q = P * O
Return on Rate Base - Total			$ 908,383	R = M + Q

Amortization Expense

Amortization Expense - Incremental		C	$ 337,643	S

Grossed up PIL's

Regulatory Taxable Income		O	$ 549,711	T
Add Back Amortization Expense		S	$ 337,643	U
Deduct CCA			$ 930,521	V
Incremental Taxable Income			-$ 43,167	W = T + U - V
Current Tax Rate (F1.1 Z-Factor Tax Changes)	26.5%	X		
PIL's Before Gross Up			-$ 11,439	Y = W * X
Incremental Grossed Up PIL's			-$ 15,564	Z = Y / (1 - X)