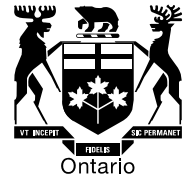


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BY EMAIL

December 16, 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: Kingston Hydro Corporation (Kingston Hydro)
Application for Rates
OEB Staff Submission
OEB File Number EB-2016-0087**

In accordance with Procedural Order No.1, please find attached the OEB Staff Submission in the above proceedings. This document is being forwarded to Kingston Hydro Corporation and to all other registered parties to this proceeding.

Kingston Hydro is reminded that its Reply Submission is due by December 21, 2016, should it choose to file one.

Yours truly,

Original Signed By

Donald Lau
Project Advisor
Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2017 Electricity Distribution Rates Custom Incentive
Rate-setting Application, Year Two Update

Kingston Hydro Corporation

EB-2016-0087

December 16, 2016

**OEB Staff Submission
Kingston Hydro Corporation
2017 Electricity Distribution Rates Custom Incentive Rate-setting Application,
Year Two Update
EB-2016-0087**

Introduction

On August 15, 2016, Kingston Hydro Corporation (Kingston Hydro) filed an application for its annual update to its 2016-2020 Custom Incentive Rate-setting (Custom IR) application (EB-2015-0083) seeking an order approving just and reasonable rates and other charges for electricity distribution to be effective January 1, 2017.

The Ontario Energy Board (OEB) issued a Notice of Hearing (Notice) on August 31, 2016. The Consumers Council of Canada (CCC), Energy Probe Research Foundation (EP), the School Energy Coalition (SEC), and the Vulnerable Energy Consumers Coalition (VECC) applied for intervenor status and cost eligibility in relation to Kingston Hydro's requested rate increase. Subsequent to that Notice, it was concluded that the application in question consisted of adjustments that were both mechanistic and contemplated as part of the OEB's original decision on Kingston Hydro's Custom IR application. Given, however, that in this particular circumstance a Notice was issued; intervenor status was granted to each of EP, CCC, SEC and VECC.

Kingston Hydro's 2016-2020 Custom IR application resulted in a full settlement, which was approved by the OEB. The approved settlement proposal set rates for 2016 through 2020 on a final basis. However, the provision was included to dispose of certain generic variance account balances related to pass-through costs, and the annual updates required by the settlement proposal. Key components of the Custom IR include:

- Rates for 2016 through 2020 are set on a final basis
- An asymmetrical capital variance account to capture the difference between amounts added to rate base to the forecasted amount
- An asymmetrical Earnings Sharing Mechanism (ESM) to split earnings differences (in excess of the approved ROE of 9.19% with no deadband) with ratepayers on a 50/50 basis

- An efficiency adjustment mechanism taking into account changes in Kingston Hydro's efficiency cohort¹
- Kingston Hydro will update its Low Voltage (LV) rates and Retail Transmission Service Rates (RTSRs) annually and file that update with the OEB for approval
- Disposition of RTSRs and Low Voltage variance accounts annually
- Other Deferral and Variance accounts (DVA) to be disposed as per the approved settlement proposal²
- Adjusting working capital allowance for the change in cost of power and pass through charges, provided the minimum cumulative revenue requirement threshold of \$65,000 is met

¹ As set out in the OEB's *Empirical Research in support of Incentive Rate-Setting: 2014 Benchmarking Update*

² Kingston Hydro Corporation, EB-2015-0083 Decision and Order Schedule B Table 7, November 26, 2015

Working Capital Allowance Adjustment

As per the approved settlement proposal, adjustments can be made to the Working Capital Allowance in any year of the Custom IR period if the forecast change in the Cost of Power and pass through charges exceed the cumulative revenue requirement threshold of \$65,000. Kingston Hydro has filed that the threshold has not been met and does not intend to file for an adjustment.

OEB staff submits that this is consistent with the approved settlement proposal.

Retail Transmission Service Rates

As per the approved settlement proposal, Kingston Hydro is eligible to file for annual adjustments to the RTSRs. Kingston Hydro has used the 2017 RTSR adjustment work form and the most recent reported 2015 2.1.5 Performance Based Regulation Reporting and Record Keeping Requirements billing determinants, non-loss adjusted to determine class-specific allocation. Kingston Hydro proposes, across all rate classes, a 3.3% increase and 5.3% increase to the RTSR network and connection charges, respectively.

OEB staff submits that this is consistent with the approved settlement proposal and the *Guideline Electricity Distribution Retail Transmission Service Rates*³.

Low Voltage Charges

As per the approved settlement, Kingston Hydro is eligible to file for annual adjustments to the LV Rates. Kingston Hydro used 2017 forecasted LV volumes and the current 2016 HONI LV applicable rates to calculate the forecast LV costs. The LV costs are then allocated to each customer class based on the projected 2017 Retail Transmission-Connection rate revenues.

OEB staff submits that the LV cost forecast is consistent with the Custom IR application and the cost allocation is consistent with methods previously approved by the OEB.

Disposition of Group 1 Deferral and Variance Accounts

Kingston Hydro is proposing to dispose of Group 1 DVA balances, which were last disposed in Kingston's 2016 Custom IR rate proceeding. Kingston Hydro's 2015 actual year-end total balance for Group 1 accounts including interest projected to December 31, 2016 is a debit balance of \$2,030,680 (Global Adjustment (GA) debit of \$3,456,281,

³ G-2008-0001 Guideline Electricity Distribution Retail Transmission Service Rates, June 22, 2011

and credit of \$1,425,601 for Group 1 accounts excluding GA). Kingston Hydro also confirmed that there were no Class B customers that became Class A customers in 2015.

Kingston Hydro has followed the OEB's accounting guidance issued July 25, 2016 for the disposition of Variance WMS - Sub-account CBR Class B. The allocation of the disposition is only to Non-Wholesale Market Participants (non-WMP) Class B customers and is calculated outside the DVA model.

Kingston Hydro used OEB's 2017 DVA Work form to calculate the class specific rate riders and proposes four one year rate riders for disposition. The four separate rate riders are proposed as follows:

- Rate Rider for Deferral / Variance Accounts Balances 1550, 1551, 1584, 1586, 1595
- Rate Rider for Deferral / Variance Accounts Balances - Non-WMP 1580 and 1588
- Rate Rider for RSVA - Power - Global Adjustment Balance of Account 1589
- Rate Rider for Deferral / Variance Accounts Balances 1580 sub-account CBR Class B

OEB staff submits that the DVA balances to be disposed of are correct and the rate riders were calculated correctly to recover the Group 1 DVAs.

Earnings Sharing Mechanism

The approved Custom IR framework provided for Kingston Hydro to share with ratepayers any earnings that exceed its regulatory ROE of 9.19% on a 50/50 basis between Kingston Hydro and its ratepayers with no deadband. The regulatory net income will be calculated, for the purpose of earnings sharing, in the same manner as net income for regulatory purposes under the Reporting and Record Keeping Requirements filings. As the 2016 net income is not yet final, Kingston Hydro has not reported anything for the purpose of the Earning Sharing Mechanism

Capital Variance Account

The approved Custom IR framework provided for Kingston Hydro to credit to rate payers variances in the cumulative revenue requirement arising from variances in capital forecasts. If Kingston Hydro adds to its rate base less than its forecast

cumulative amount, the corresponding reduction in revenue requirement will be credited to the variance account. As the 2016 capital additions are not yet final, Kingston Hydro has not reported anything for the purpose of the Capital Variance Account

Efficiency Adjustment Mechanism

As per the approved settlement proposal, the efficiency adjustment applies if Kingston Hydro is placed in a lower efficiency cohort as compared to its 2014 cohort, in any year. Kingston Hydro 2014 cohort was group 3 and has not changed for 2016. As a result, no efficiency adjustment is made to the revenue requirement for 2017 rate year.

All of which is respectfully submitted