

2017 ELECTRICITY DISTRIBUTION RATES
London Hydro Inc.

EB-2016-0091

**OEB STAFF SUBMISSION ON SETTLEMENT
PROPOSAL**

February 15, 2017

INTRODUCTION

On February 9, 2017, London Hydro Inc. (London Hydro) filed a Settlement Proposal with respect to its 2017 Cost of Service distribution rate application seeking an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2017. The parties to the Settlement Proposal are London Hydro and the following approved intervenors in the proceeding: Energy Probe Research Foundation (Energy Probe), School Energy Coalition (SEC), Consumers Council of Canada (CCC) and Vulnerable Energy Consumers Coalition (VECC) (collectively, the parties).

The Settlement Proposal represents a full settlement.

The following is Ontario Energy Board (OEB) staff's submission on the Settlement Proposal as filed.

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.

With the exception of one issue, OEB staff submits that the Settlement Proposal reflects a reasonable evaluation of the distributor's planned outcomes in this proceeding, and reflects appropriate consideration of the relevant issues and provides sufficient resources to allow London Hydro to achieve its identified outcomes in the four incentive rate-setting years that will follow.

OEB staff has reviewed the models and draft tariff sheets that have been submitted in support of the Settlement Proposal, and submits that they accurately reflect the Settlement Proposal as filed.

OEB staff further submits that, in general, the explanation and rationale provided by the parties is adequate to support the Settlement Proposal, but will provide further specific submissions on the following issues:

- Issue 3.2 Cost Allocation Methodology and Revenue to Cost Ratios
- Issue 3.3.1 Residential Rate Design and the next step to fully fixed rates
- Issue 3.5 Dissolution of MicroFIT class
- Issue 3.6 Change to Charge Determinant for Net-metered customers
- Issue 3.7 New Service Charges (Cellular Meter Reading Charge)
- Issue 4.2 Proposed Deferral and Variance Accounts

Issue 3.2 Cost Allocation Methodology and Revenue to Cost Ratios

The Settlement Proposal includes (page 33) a change to the original application as filed by London Hydro, where the utility proposed to use updated load profiles as part of the 2017 cost allocation model. The proposed change is that the parties agreed to use the 2013 load profiles (based on the 2004 informational filing) rather than using more current information, due to the fact that London Hydro has only has 1 year of data from smart meters underpinning the new load profiles. As a result of reverting to the 2013 load profiles, the resulting status quo R/C ratios are such that the parties have agreed to move all R/C ratios to within the OEB's acceptable ranges.

Although at page 50 of the distribution filing requirements¹ indicate that distributors should make best efforts to update all class load profiles using the most recent available data, particularly from smart and/or interval meters, it also provides for the case of a distributor that is not able to update its load profiles. In this instance, the requirements indicate that an explanation should be provided and the distributor should confirm that it intends to put plans in place to update its load profiles the next time a cost allocation model is filed.

In this Settlement Proposal, parties agreed to use the 2013 load profiles with the explanation that London Hydro only has one year of updated data from smart meters underpinning the new load profiles.

Staff is of the view that it is reasonable for the parties to this agreement to require updated load profiles for a period greater than one year.

Issue 3.3.1 Residential Rate Design

¹ Filing Requirements For Electricity Distribution Rate Applications - 2016 Edition for 2017 Rate Applications - Chapter 2, Cost of Service, July 14, 2016

On page 37 of the Settlement Proposal, the parties indicated that London Hydro's original proposal to move to a fully fixed monthly charge by 2019 is in accordance with OEB policies. However, as part of the settlement, the parties noted that, as part of London Hydro's customer engagement (particularly the Community Day) it received strong negative feedback from customers regarding this change. Customer engagement about this rate design change was not included in the formal surveys or focus groups used by London Hydro, so the information on customer opposition is currently anecdotal rather than statistical. The parties agreed that London Hydro should be provided the opportunity to pursue further customer engagement regarding residential rate design, in order to collect the views of residential customers regarding the change to a fully fixed monthly charge and provide to the OEB a report on the results of consultation. Therefore, as part of this Settlement Proposal, the parties have agreed that it would be appropriate for London Hydro to suspend the continued implementation until its next rate filing.

Staff submits that the proposal to suspend the implementation of the OEB policy to move to a fully fixed monthly charge for the residential class in 2017 is not appropriate. Staff points out that the policy is clearly set out in the Rate Design Policy Report: issued April 2, 2015². Staff also points out that extensive consultation took place when the report was prepared, as shown on page 3 of the Report. The average residential customer sees no bill increase as a result of the transition and the OEB established a transition period of four years for most distributors, including London Hydro, in order to phase in any significant bill impact to customers with low consumption.

In addition, as stated at page 1 of the Report, this change will enable residential customers to leverage new technologies, manage costs through conservation, and better understand the value of distribution services. The change is a fairer way to recover the costs of providing distribution service and also provides greater revenue stability for distributors, which will position them for technological change in the sector, remove any disincentive to promote conservation, and help with their investment planning.

Staff notes that other distributors in Ontario are implementing this policy and that there is no compelling reason to interrupt the transition to fully fixed rates in 2017 for London Hydro.

² A New Distribution Rate Design for Residential Electricity Customers, (EB-2012-0410) (Rate Design Policy)

Staff submits that the OEB should reject the Settlement Proposal if the parties do not agree to amend this part of the agreement.

Issue 3.5 Dissolution of MicroFIT class

Issue 3.6 Change to Charge Determinant for Net-metered customers

In its original application, London Hydro proposed to dissolve the current microFIT class and re-assignment of microFIT/FIT customers to the GS<50 kW and GS>50 kW rate classes. London Hydro also proposed to apply volumetric distribution rates based on gross absolute volumetric values to net metered customers.

In the Settlement Proposal, (pages 40 and 41) parties agreed that London Hydro would withdraw these proposals as these issues were more suited to a generic review rather than being addressed in a single rate application.

Given that the company is withdrawing these proposals, staff has no concerns with the settlement of these issues.

Issue 3.7 New Service Charges (Cellular Meter Reading Charge)

In the Settlement Proposal (page 42), the parties indicated support for the London Hydro plan to implement a new Cellular Meter Reading Charge of \$30 to be applied to customers (over 50kW) adopting Public Carrier Cellular Internet Communication. As described in the evidence, this involves an external cellular modem connected to a meter, or a cellular modem under the meter cover with connectivity for customer service. The interval meter data would be transmitted to London Hydro using a private APN cellular network. London Hydro would interrogate the meter regularly traversing the internet and carrier's network securely with IPSEC protocol.

Staff notes that there is a generic process that will be considering miscellaneous rates and charges (EB-2015-0304) currently underway. However, staff acknowledges that this consultation is currently focusing on Pole Attachment Charges with other charges, concentrating on residential class charges, to be considered in the future.

As this proposed charge will likely not be addressed within in a reasonable time frame in the generic process, staff submits that it is appropriate for this change to be implemented.

Issue 4.2 Proposed Deferral and Variance Accounts

On page 44 of the Settlement Proposal, the parties settled on the establishment of two Deferral and Variance Accounts:

- An account to capture actuarial adjustments to pension amounts as a result of the transition to IFRS for the 2017 rate year and beyond, with the proviso that the amounts that were tracked in the account prior to 2017 (amounting to approximately \$1,500,000) will not be captured in the account and will not be recoverable from ratepayers; and
- An account to record the impact of including in revenue requirement London Hydro's OPEB costs on cash basis rather than on an accrual basis pending the OEB's decision in the EB-2015-0040 proceeding.

Staff notes that London Hydro provided a draft accounting order for the second account, OPEBs costs (Attachment 5), but not the first. Staff submits that London Hydro should be required to provide a draft accounting order for the IFRS related account, in particular noting that only material amounts are to be subject to disposition.

In addition, staff notes that for the OPEBs cost account that London Hydro has proposed that carrying charges apply. OEB staff submits that for accounts such as this, carrying charges have typically not been approved in other cases and should also not apply to this account as it is a non-cash item. Staff also points out that journal entries have not be provided for the OPEBs account and should also be included in the draft accounting order.

All of which is respectfully submitted