

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, 3 Schedule B, as amended (the “OEB Act”);

AND IN THE MATTER OF an Application by Milton Hydro Distribution Inc. under Section 78 of the OEB Act to the Ontario Energy Board for an Order or Orders approving or fixing just and reasonable rates and other service charges for the distribution of electricity as of May 1, 2016.

MILTON HYDRO DISTRIBUTION INC. (“Milton Hydro”)

**APPLICATION FOR APPROVAL OF 2016 ELECTRICITY
DISTRIBUTION RATES**

EB-2015-0089

ADDENDUM TO THE SETTLEMENT PROPOSAL

Filed: April 7, 2016

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ADDENDUM TO THE SETTLEMENT PROPOSAL

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Milton Hydro Distribution Inc.

EB-2015-0089

Addendum to the Settlement Proposal

Filed with the Ontario Energy Board: April 7, 2016

1 Milton Hydro Distribution Inc. (the “Applicant” or “Milton Hydro”) filed a cost of service application
2 with the Ontario Energy Board (the “OEB”) on August 28, 2015 under section 78 of the
3 *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B) (the “Act”), seeking
4 approval for changes to the rates that Milton Hydro charges for electricity distribution, to be
5 effective May 1, 2016 (OEB File Number EB-2015-0089) (the “Application”).

6 The OEB issued a Notice to Customers of Milton Hydro Distribution Inc. dated September 24,
7 2015. In Procedural Order No. 1, dated November 9, 2015, the OEB set out dates for a
8 Presentation Day to the OEB, OEB staff and intervenors; written interrogatories; Milton Hydro’s
9 responses to interrogatories; Settlement Conference dates; and outlined the timetable of the
10 various other elements in the proceeding. In addition to PO #1, the OEB set a Community Event
11 in which customers may attend and learn about Milton Hydro’s Application.

12 In accordance with Procedural Order No. 1, Milton Hydro filed its Settlement Proposal on
13 February 9, 2016 addressing those issues settled during the Settlement Conference.

14 On February 16, 2016 OEB staff filed their submission on the Settlement Proposal. In that
15 submission OEB Staff expressed concerns over the total bill increase for the Sentinel Light
16 customer class of 144.19% as a result of the proposed change in the revenue to cost ratios.
17 The total bill impact, as set out in Milton Hydro’s Bill Impact spreadsheet filed with the
18 Settlement Proposal exceeds the maximum 10% total bill after which a rate mitigation plan is
19 required.

20 The Settlement Proposal filed February 9, 2016, states:

21 “The Parties have settled the issues as a package, and none of the parts of this Settlement
22 Proposal are severable. If the OEB does not accept this Settlement Proposal in its
23 entirety, then there is no settlement (unless the Parties agree in writing that any part(s) of
24 this Settlement Proposal that the OEB does accept may continue as a valid settlement
25 without inclusion of any part(s) that the OEB does not accept).

26 In the event that the OEB directs the Parties to make reasonable efforts to revise the
27 Settlement Proposal, the Parties agree to use reasonable efforts to discuss any

1 potential revisions, but no Party will be obligated to accept any proposed revision. The
2 Parties agree that all of the Parties who took on a position on a particular issue must
3 agree with any revised Settlement Proposal as it relates to that issue prior to its
4 resubmission to the OEB.”

5 In this Addendum to the Settlement Proposal Milton Hydro is proposing that the total bill impact
6 to the Sentinel Light customer class be mitigated over three years, being 2016, 2017 and 2018
7 as discussed below.

8

1 **SUMMARY**

2 On February 9, 2016 Milton Hydro filed its Settlement Proposal. In reaching the settlement the
3 Parties were guided by the OEB's *Filing Requirements for Transmission and Distribution*
4 *Applications* for 2016 rates and the approved Issues List. That Settlement Proposal reflected a
5 partial settlement of the issues in this proceeding.

6 As part of the Settlement Proposal, Milton Hydro filed its Cost Allocation Model and proposed
7 revenue to cost ratios for all customer classes. In their February 16, 2016 submission on the
8 Settlement Proposal, OEB staff identified a concern with respect to the proposed total bill impact
9 on the Sentinel Light customer class. At page 4 of their submission, OEB staff state:

10 "OEB staff has a concern with the bill impact regarding the Sentinel Lighting class.
11 According to the bill impact tables submitted with the settlement proposal, the total bill for
12 the Sentinel Light class is shown to increase by 144%. In light of the magnitude of this
13 increase, staff submits that the bill impact of the proposed change in the revenue to cost
14 ratio (R:C ratio) from 47% to 97.6% is not reasonable for this class.

15 OEB staff also notes that the OEB's filing requirements¹ state that a distributor must file a
16 mitigation plan if total bill increases for any customer class exceed 10%. OEB staff
17 therefore submits that in the event that bill impacts for any customer class exceeds 10%
18 after the R:C ratios are finalized, a mitigation plan should be proposed.

19 Staff suggests that the R:C ratio for this class be reduced to the low end of the OEB's
20 policy range at 80%, or if that is not sufficient to reduce bill impacts to the 10% annual
21 impact threshold, staff suggests that the test year R:C ratio be set at a level that would
22 result in a 10% bill increase. OEB staff further submits that the R:C ratio should increase
23 each year thereafter, either in equal increments until the R:C ratio reaches the bottom of
24 the OEB's policy range, or, if this is not achievable by the end of the applicant's Price Cap
25 IR (PCIR) term, then by an amount that would result in 10% increases to the typical
26 Sentinel Lighting class customer's bill in each year of the PCIR term. Recognizing that the
27 total allocated cost to the Sentinel Light class is \$50,922² this change would likely have a
28 minimal impact on the other General Service classes. The OEB used a similar phase-in
29 approach for the streetlighting class in its Decision and Order in respect of 2015 rates for
30 Algoma Power."

31 The purpose of this Addendum to Milton Hydro's Settlement Proposal is to address OEB staff's
32 Sentinel Light total bill impact concern by way of the following two adjustments:

- 33 • Changing the Sentinel Light class kW demand to better reflect the actual load used by
34 Sentinel Lights; and
- 35 • Implementing a three year mitigation plan.

1 **Sentinel Light class kW demand:**

2 Milton Hydro has historically used a demand of 1 kW for Sentinel Lights as representative of the
3 load used for the purposes of calculating the bill impact. The actual average Sentinel Light kW
4 demand is 0.139 kW calculated as annual kW demand billed divided by the number of Sentinel
5 Lights divided by 12 months. Based on Milton Hydro's load forecast this calculation is as
6 follows: 404 kW / 242 Sentinel Lights / 12 months which equals 0.139 kW. Milton Hydro
7 recalculated the bill impacts for Sentinel Lights based on the average kW load per light per
8 month. This calculation reduced the total bill impact from the 144.2% as filed in the Settlement
9 Proposal to 82.2%, which still exceeds the OEB required 10% maximum as discussed above.

10 **Three year mitigation plan:**

11 Milton Hydro proposes to set the revenue to cost ratio at 60% for the 2016 Test Year and then
12 increase the revenue to cost ratio by 10% in each of the following two incentive regulation years
13 to bring the revenue to cost ratio to the bottom of the OEB-approved range of 80% until the next
14 rebasing year.

15 Implementing a revenue to cost ratio of 60% results in a total bill impact for the Sentinel Light
16 class of \$3.64 per month or 27.05%.

17 Milton Hydro submits that a total bill impact of 27.05% is appropriate given the low revenue to
18 cost ratio for this customer class and the fact that the three year mitigation plan will only result in
19 the Sentinel Light class reaching the bottom of the OEB approved range.

20 The impact of the three year mitigation plan, discussed above, on the distribution rates and
21 therefore the total bill for the Residential, the General Service >50-999 kW and the Street Light
22 customer classes is minimal as set out in the following Table 1. The Sentinel Light total bill is
23 reduced by \$7.42.

24

1 **Table 1 – Total Bill Impact of Change to Sentinel Light Revenue to Cost Ratio to 60%**

Rate Class	kWh	kW	# Connections	2015 Bill \$	2016 Bill Per Settlement Proposal	Impact of Sentinel Light at 60% R/C	\$ Difference due to Change in S/L R/C	Total Bill Impact %
Residential	800			\$ 147.45	\$ 147.72	\$ 147.75	\$0.03	
GS <50 kW	2,000			\$ 361.30	\$ 358.58	\$ 358.58	\$0.00	
GS > 50 - 999 kW	50,000	150		\$ 7,590.42	\$ 7,999.79	\$ 8,000.59	\$0.79	
GS > 1,000-4,999 kW	1,265,000	1,800		\$ 171,802.63	\$ 177,276.65	\$ 177,276.65	\$0.00	
Large Use	3,770,000	7,000		\$ 520,033.40	\$ 505,767.94	\$ 505,767.94	\$0.00	
Unmetered	405			\$ 78.38	\$ 77.99	\$ 77.99	\$0.00	
Sentinel (kW adjusted)	50	0.139		\$ 13.47	\$ 24.53	\$ 17.11	(\$7.42)	27.05%
Streetlighting	469,398	1,317		\$ 76,384.34	\$ 84,094.01	\$ 84,115.39	\$21.38	

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4 Similarly, the increase in the Sentinel Light revenue to cost ratio in the subsequent two years
5 will result in a minimal reduction in the distribution rates and therefore the total bill for the
6 Residential, the General Service >50-999 kW and the Street Light customer classes.

7 The matters that are the subject of partial settlement are not in dispute, however, the Parties
8 have settled the issues as a package, and none of the parts of this Settlement Proposal are
9 severable. The Parties agree that all of the Parties who took on a position on a particular issue
10 must agree with any revised Settlement Proposal as it relates to that issue prior to its
11 resubmission to the OEB.

12 Based on the foregoing, and the evidence and rationale provided below, the Parties agree that
13 this Addendum to the Settlement Proposal is appropriate and recommend its acceptance by the
14 OEB. The Parties have agreed on the following revised version of the response to Issue 3.2:

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1 **3 Load Forecast, Cost Allocation and Rate Design**

2 **3.2** *Are the proposed cost allocation methodology, allocations, and revenue-to-cost ratios*
3 *appropriate?*

4 **Complete Settlement:** The Parties accept the evidence of Milton Hydro, subject to the
5 adjustments identified below, that the cost allocation methodology, allocations and
6 revenue-to-cost ratios are appropriate.

7 a) Milton Hydro agrees to balance its revenue requirement across customer classes
8 by moving the revenue to cost ratios to the edge of the OEB range, if outside of the
9 range, and then beginning with the lowest revenue to cost ratios, as determined by
10 the cost allocation model, with the exception of the Sentinel Light class as
11 discussed above, and increasing these revenue to cost ratios until the revenue
12 requirement is balanced, according to the OEB's methodology. As discussed in the
13 Addendum to the Settlement Proposal, the Parties agree that Milton Hydro will set
14 the Sentinel Light revenue to cost ratio to 60% for 2016 and then increase the
15 Sentinel Light revenue to cost ratio by 10% in each of the following two incentive
16 regulation years to bring the revenue to cost ratio to the bottom of the OEB-
17 approved range of 80% until the next rebasing year. The offset to the additional
18 revenue increase from the Sentinel Light class will be applied to each of the
19 Residential, General Service 50-999 kW and Street Light classes to maintain the
20 revenue to cost ratio balance between these customer classes. The following
21 Table 2 sets out the results of the Cost Allocation model and Milton Hydro's
22 proposed revenue to cost ratios. Both results are based on the revenue
23 requirement with the current assumptions accepted by the Parties and it is
24 acknowledged that Milton Hydro's revenue requirement may be subject to change
25 based on the OEB's determination on the unsettled issues.

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Table 2 – Proposed Revenue to Cost Ratios – Sentinel Lights at 60%

Rate Class	Revenue Cost Ratios from 2016 Cost Allocation Model	Revenue to Cost Ratios per Settlement Proposal	Proposed Revenue to Cost Ratio - Sentinel Lights at an R/C Ratio of 60%
Residential	96.4%	97.6%	97.7%
GS < 50 kW	109.9%	109.9%	109.9%
GS >50 to 999 kW	87.0%	97.6%	97.7%
GS >1000 to 4999 kW	169.7%	120.0%	120.0%
Large Use	167.2%	115.0%	115.0%
Sentinel Lights	47.0%	97.6%	60.0%
Street Lighting	84.7%	97.6%	97.7%
Unmetered	103.4%	103.4%	103.4%

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Evidence:

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Application:

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- EXHIBIT 1, pages 51 – 53;
- EXHIBIT 7: Cost Allocation in its entirety

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Interrogatory Responses:

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- 7-Energy Probe-38 to 7-Energy Probe-42;

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- 7.0-Staff-71, 7.0-Staff-72

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- 7.0-VECC-36, 7.0-VECC-37

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Clarifying Questions:

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- None

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Appendices to this Settlement Proposal:

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- None

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Supporting Parties: All