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BY E-MAIL

April 7, 2017

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Thunder Bay Hydro Electricity Distribution Inc.
2017 Distribution Rate Application
OEB Staff Submission
OEB File No. EB-2016-0105**

In accordance with Procedural Order No. 1, please find attached OEB staff's submission in the above proceeding on the Settlement Proposal filed March 31, 2017. The attached document has been forwarded to Thunder Bay Hydro Electricity Distribution Inc. and to all other registered parties to this proceeding.

Yours truly,

Original Signed By

Martin Davies
Project Advisor, Major Applications

Encl.

2017 ELECTRICITY DISTRIBUTION RATES
Thunder Bay Hydro Electricity Distribution Inc.

EB-2016-0105

**OEB STAFF SUBMISSION ON SETTLEMENT
PROPOSAL**

April 7, 2017

INTRODUCTION

On March 31, 2017, Thunder Bay Hydro Electricity Distribution Inc. (Thunder Bay Hydro) filed a settlement proposal with respect to its 2017 Cost of Service 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 Thunder Bay Hydro and the following approved intervenors in the proceeding: Association of Major Power Consumers in Ontario (AMPCO), School Energy Coalition (SEC) and Vulnerable Energy Consumers Coalition (VECC).

The settlement proposal represents a partial settlement. The Parties have reached a full settlement with respect to many of the issues in this proceeding, with only the following three issues going to hearing:

- Capital (Issues 1.1 and 2.1): The parties did not reach agreement that Thunder Bay Hydro's proposed capital expenditures for the test year are appropriate with accompanying revenue requirement impacts.
- OM&A (Issues 1.2 and 2.1): The parties did not reach agreement that Thunder Bay Hydro's proposed OM&A expenditures for the test year are appropriate with accompanying revenue requirement impacts.
- Cost of Capital (Issue 2.1): The parties did not reach agreement that Thunder Bay Hydro's cost of capital for the test year is appropriate.

The settlement proposal further noted that other issues such as depreciation and working capital remained outstanding only because they are dependent on the three above unsettled issues.

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.

OEB staff submits that the outcomes arising from the OEB's approval of the settlement proposal would adequately reflect the public interest and would contribute to the achievement of just and reasonable rates for customers with one possible exception which is the provision under the settlement proposal in issue 3.3, which is as follows:

For the purposes of settlement, and in consideration of the settlement of the other issues as outlined in this settlement proposal, Thunder Bay Hydro has agreed to withdraw its request to introduce a Large Use rate class and to instead move the single affected customer into the General Service >1,000kW class.

In this submission, OEB staff will discuss why it has concerns with this provision of the settlement proposal, as well as why it believes that the adjustment to other revenues which is reflected in the settlement proposal and the related variance account is appropriate and should be accepted by the OEB. Finally, OEB staff will provide its views as to the extent to which the input from Thunder Bay Hydro's customers at the community meeting on November 23, 2016 is reflected in the settlement proposal. Where OEB staff has not commented further on a settled issue that is because staff is in agreement with the settlement proposed.

Withdrawal of Request to Create Large User Customer Class

OEB staff submits that the settlement proposal provides insufficient information to allow the OEB to accept this provision of it without further information being provided. There are five reasons why OEB staff has concerns with this proposal.

(i) Customer Has Sustained Consumption Justifying Inclusion in Large User Class

In its application as originally filed, Thunder Bay Hydro stated that it proposed to establish a Large Use class for a customer currently in the General Service > 1000 kW class and the rationale for the establishment of the new Large Use class is that this customer had a consecutive twelve month kW reading greater than 5,000 kW.¹ In the bill impacts model filed with the application, the consumption for this customer is shown as 3,061,232 kWh and 6,189 kW, which

¹ Application, E7/p. 5

is well above the 5,000 kW threshold.² OEB staff submits that it is clear from the preceding that the customer in question is at a kW reading that is well above the threshold for the Large User class and given that this customer has had consecutive twelve month kW readings greater than 5,000 kW, this cannot be considered a temporary aberration. As such, additional explanation should be provided as to why in spite of this, the customer in question should be moved to the Large Use class.

(ii) Lack of Customer Consultation on the Proposal

The application as filed contained eight proposed classes, two of which were General Service 1,000 to 4,999 kW and Large Use.³ In the settlement proposal, the Large Use class has been eliminated and the customer which was to be in this class has been moved to what is now characterized as the General Service > 1,000 service classification. OEB staff notes that while it is not explicitly stated in the settlement proposal, the significance of the change in the definition of the General Service > 1,000 kW class between the application and the settlement proposal appears to be that the formerly separate “Large Use” and “General Service 1,000 to 4,999 kW” classes have been merged into one.

OEB staff notes that the implication of this is that there would be the potential for additional impacts for customers in the two former classes beyond only the impacts of moving this customer between classes. This is because any future customers whose consecutive twelve month kW readings are greater than 5,000 kW would also no longer be moved to a separate class.

OEB staff is concerned that as the application proposed moving this customer to the Large Use class, the existing customers in the General Service 1,000 to 4,999 kW affected by the move would not have become aware of this change until the settlement proposal was filed, assuming that they were monitoring the proceeding. It is likely that many remain unaware of this proposed change.

OEB staff is of the view that some additional consultation or engagement process with the customers already in the General Service 1,000 to 4,999kW class, as

² Application, E8/ Attach. 8-E

³ Application, E8/Attach. 8-E

well as the specific customer whose rates would be impacted by a move to the Large Use class, should have been undertaken. There is no reference in the application to any consultations with these customers concerning this matter having taken place.

OEB staff submits that more information as to the consultations that took place with the affected customers should be required before the OEB considers accepting this proposal.

(iii) Small Increases for Two Other Customer Classes

OEB staff notes that customers in both the General Service 50 to 999 kW and Street Lighting classes are stated as experiencing small increases as a result of the incorporation of the Large Use customer into the General Service > 1,000 kW class⁴. In addition, there is also a small increase for General Service > 1,000 kW in the Sub-Total A percentage bill increase with the Large Use customer in this class compared to when the customer is in the Large Use class (13.42% versus 13.32%)⁵ although the total bill decrease is also slightly larger (-1.22% versus -1.08%) This is a further reason why all affected customers should be engaged concerning a proposal of this type and why additional information should be provided as to the consultations which did take place.

(iv) Relevance of Some of the Claimed Benefits

OEB staff notes the questionable nature of some of the benefits of this proposal as outlined in Appendix B of the settlement proposal, which is entitled “Large Use Class versus GS>1,000 kW class,” and stated as demonstrating “several benefits that accrue to Thunder Bay Hydro’s customers as a direct result of (1) not creating the proposed Large User rate class; and instead moving the single customer into the GS>1000kW class.”⁶

The areas in which these benefits are stated as occurring are with respect to: (1) Loss Factor, (2) Load Forecast and (3) Transformer Allowance.

⁴ Settlement Proposal, p. 18

⁵ Settlement Proposal, p.19 Settlement Figure 7A versus p. 21 Settlement Figure 8A

⁶ Settlement Proposal, p.28.

While not commenting specifically on the claimed benefits, OEB staff submits that these are not genuine benefits because the customer in question does not belong in the General Service 1,000 to 4,999 kW class since, as already discussed, this customer's consumption is well above the consumption range for this class and has been for at least 12 months.

The OEB's cost allocation and load forecasting models and loss factor methodology have been designed with different approaches for customers in different classes because customers in each class have different characteristics. If they did not, they would be in the same class.

OEB staff submits that what is being proposed in the settlement proposal, if accepted by the OEB, would represent a precedent that would suggest that customers could argue that they be placed in a particular class, not on the basis of whether or not their consumption and other characteristics would properly place them in that class, but on the basis of where they would pay the lowest rates. OEB staff believes that this is not a precedent that the OEB should establish as the revenue requirement approved by the OEB has to be fully recovered and if some customers pay less, other customers will inevitably have to pay more. OEB staff submits that further explanation should be provided as to why the OEB's acceptance of this proposal would not establish such a precedent.

(v) Magnitude of Comparative Bill Impacts

In the settlement proposal, OEB staff notes that the total bill impact for this customer if it remained in the Large Use class would be -0.31%⁷, which is a small decrease and, as such, does not create any requirement for rate mitigation. This is accompanied by a Sub-Total A distribution component rate increase of about 28%. When the customer is moved into the General Service > 1,000 kW class, the overall bill decrease becomes -1.16% and the Sub-Total A increase drops to 20.5%.⁸ In addition to the concerns already expressed, OEB staff is concerned that the magnitude of the benefit derived by the customer in question is not

⁷ Settlement Proposal, p.22

⁸ Settlement Proposal, p. 20

significant enough to justify accepting the other implications of this proposal and further explanation of this should also be provided.

For all the preceding reasons, OEB staff submits that the settlement proposal provides insufficient information to justify this provision of it. OEB staff submits that before the OEB considers accepting this provision, a more complete explanation of it should be provided including additional information on the customer's consumption history and what the expectations are for its consumption on a forward-looking basis.

Adjustment to Other Revenues

The settlement proposal incorporates in the discussion of the proposed settlement for Issues 2.1 and 4.2 a change from the application as filed which parties have accepted. Thunder Bay Hydro has incorporated \$38,363 of Other Revenue which is stated as representing one-fifth of the forecasted gain on the sale of existing properties listed less the original cost of the properties. The parties have also agreed upon a new variance account to track the impact of the actual versus forecasted gains on the properties and an accounting order related to this is attached as Appendix C of the settlement proposal.

OEB staff has reviewed this change and considers it reasonable. OEB staff has also reviewed the related accounting order and has no concerns with it.

Incorporation of Community Input

On November 23, 2016, OEB staff held a community meeting in Thunder Bay on this application.

OEB staff notes that customers at this meeting expressed a number of concerns about the level of Thunder Bay Hydro's costs. OEB staff further notes that as OM&A, capital expenditures and cost of capital are all unsettled issues and key cost drivers, Thunder Bay Hydro's costs will be the subject of extensive review at the oral hearing scheduled for April 20th and 21st of this year. OEB staff will be mindful of the expressed concerns of Thunder Bay Hydro's customers in its consideration of these costs.

All of which is respectfully submitted