



**Oakville Hydro Electricity Distribution Inc.**

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

**AND IN THE MATTER OF** an Application by Oakville Hydro Electricity Distribution Inc. to the Ontario Energy Board for an Order or Orders establishing a new variance account.

**Filed: May 12, 2017**

## 1. Introduction

Oakville Hydro is a corporation incorporated pursuant to the *Ontario Business Corporations Act* with its head office in the Town of Oakville. Oakville Hydro carries on the business of distributing electricity within the Town of Oakville.

## 2. Background

On October 1, 2013, Oakville Hydro filed a cost of service application with the Ontario Energy Board (OEB) under Section 78 of the Ontario Energy Board Act, 1998, S.O., seeking approval for changes to the rates that Oakville Hydro charged for electricity distribution effective May 1, 2014. The OEB assigned File Number EB-2013-0159 to the Application.

As part of the Settlement Proposal in this proceeding, Oakville Hydro and the HVAC Coalition (HVAC) agreed to conduct an independent third-party study of the costs allocated between the regulated utility and Oakville Hydro Energy Services Inc. (OHESI) as it relates to OHESI's water heater activities and its unregulated affiliate, Sandpiper Energy Solutions Home Comfort Inc. Oakville Hydro and the HVAC agreed that the study would be filed with Oakville Hydro's 2016 rate application.

On August 21, 2015, Oakville Hydro advised the OEB that, while the parties had made some progress with respect to the study, the study would not be ready for submission with its 2016 rate application, OEB File Number EB-2015-0094. In its Decision and Interim Rate Order in this proceeding, the OEB approved Oakville Hydro's 2016 rates on an interim basis pending the filing of the cost allocation study and any next steps related to it.

Oakville Hydro and the HVAC continued to work jointly with the third-party consultant and, on February 26, 2016, Oakville Hydro filed the final Cost Allocation Report under OEB File Number EB-2015-0094.

On August 18, 2016, Oakville Hydro was advised that OEB staff had commenced a compliance inspection under the *Ontario Energy Board Act, 1998* to assess whether the

allocation of costs covered by the cost allocation study were in compliance with the OEB's Affiliate Relationship Code for Electricity Distributors and Transmitters (ARC). In response to the review, Oakville Hydro provided additional information regarding the allocation of costs to Sandpiper.

In December 2016, Oakville Hydro's parent company, Oakville Enterprises Corporation, sold Sandpiper to an independent third party.

### **3. Cost Allocation Review**

The Cost Allocation Report found that Oakville Hydro had undercharged Sandpiper by approximately \$11,400 for occupancy charges for the 2014 test year. As discussed in the report, this undercharge was as a result of a change in circumstances. Oakville Hydro had expected that Sandpiper would vacate the office space occupied at Oakville Hydro's head office in 2014. Therefore, Oakville Hydro had charged Sandpiper occupancy charges based on the portion of the year that Sandpiper was expected to occupy space at Oakville Hydro's head office.

OEB staff reviewed the cost allocated to Sandpiper, and determined that it was appropriate for Oakville Hydro to record the difference between the occupancy charges that were approved in Oakville Hydro's 2014 cost of service application and the amounts that should have been charged to Sandpiper in a variance account.

### **4. Application**

Oakville Hydro is now seeking approval to establish a variance account to record the difference between the occupancy charges approved in rates and the amounts that have been determined to be appropriate through subsequent reviews, for the period May 1, 2014 to December 31, 2016, the time at which Sandpiper was sold.

The OEB’s Filing Requirements for Electricity Distribution Rate Applications permits distributors to apply for a deferral account with evidence that the account would meet the following eligibility requirements:

- Causation – The forecasted expense must be clearly outside of the base upon which rates were derived;
- Materiality – The forecasted amounts must exceed the OEB-defined materiality threshold and have a significant influence on the operation of the distributor; and
- Prudence – The forecasted quantum must be reasonably incurred.

**Causation**

As discussed previously, Oakville Hydro expected that Sandpiper would only occupy space at its head office for a short period of time in 2014. Therefore, Oakville Hydro’s rates, for the period May 1, 2014 to December 31, 2016, are based on the recovery of \$2,267 from Sandpiper for occupancy charges. Oakville Hydro has determined that it should have recovered a total of \$40,503 over the period May 1, 2014 to December 31, 2016. Therefore, the difference between the amount included in rates and the amount that should have been charged to Sandpiper is clearly outside of the base upon which Oakville Hydro’s rates were derived.

Oakville Hydro is proposing that \$35,704 be recorded in a deferral account to be returned to Oakville Hydro’s customer through a rate rider in a future rate application as detailed in Table 1 – Proposed Deferral Amount.

**Table 1 – Proposed Deferral Amount**

Year	Number of Months	Amount Approved in Rates	Value of Occupancy Services	Amount to be Recorded in a Variance Account
2014	8	\$ 567	\$ 8,163	\$ 5,064
2015	12	850	13,520	12,670
2016	12	850	18,820	17,970
		\$ 2,267	\$ 40,503	\$ 35,704

## **Materiality**

Oakville Hydro acknowledges that this amount does not meet the eligibility requirements with respect to materiality. However, Oakville Hydro submits that it is appropriate to return this amount to its customers.

## **Prudence**

Oakville Hydro has calculated the difference between the amount included in rates and the actual amounts charged to Sandpiper for occupancy services in 2015 and 2016 as detailed in Table 1.

## **5. Conclusion**

Oakville Hydro requests approval to establish a variance account to record the difference between the occupancy charges approved in rates and the amounts determined to be appropriate during subsequent reviews. A draft accounting including a description of the mechanics of the account and an example of the general ledger entry is provided as Appendix 1.

Oakville Hydro also requests that the OEB approve its 2017 distribution rates on a final basis.

## **6. Contact Information**

### **Service Address:**

Oakville Hydro Electricity Distribution Inc.  
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### **Primary License Contact:**

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### **Primary Contact for this Application:**

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## Appendix 1 - Draft Rate Order

### 1. Proposed Deferral Account

#### Account 1508 Other Regulatory Assets – Sub-account Corporate Cost Allocation

Oakville Hydro is proposing to record the difference between the amount approved in rates in Oakville Hydro's 2014 cost of service for occupancy charges to its affiliate, Sandpiper Home Comfort Solution, and the amounts determined to be appropriate during subsequent reviews in a deferral account. Oakville Hydro will submit a request to dispose of the balance to its customers through a rate rider in a future rate application.

### 2. The journal entries to be recorded are as follows:

DR 4080 Distribution Revenue	\$35,704
CR 1508 Other Regulatory Assets, Sub-account Corporate Cost Allocation	\$35,704

To record the difference between the amount approved in rates in Oakville Hydro's 2014 cost of service for occupancy charges to its affiliate, Sandpiper Home Comfort Solution, and the amounts determined to be appropriate during subsequent reviews.