



**Ontario Energy Board
Commission de l'énergie de l'Ontario**

DECISION AND ORDER

EB-2017-0202

**OAKVILLE HYDRO ELECTRICITY
DISTRIBUTION INC.**

**Application for an accounting order approving the establishment
of a variance account**

BY DELEGATION, BEFORE: Theodore Antonopoulos

October 26, 2017

INTRODUCTION AND SUMMARY

This Decision and Order deals with the application filed by Oakville Hydro Electricity Distribution Inc. (Oakville Hydro) on May 12, 2017 for (i) an accounting order to establish a variance account to record the difference between occupancy charges for rental revenues Oakville Hydro charged its affiliate approved in the utility's 2014 rates and amounts determined to be appropriate in subsequent reviews, and (ii) the approval of Oakville Hydro's 2016 and 2017 distribution rates on a final basis. This Decision and Order also addresses the settlement of cost awards relating to the utility's EB-2015-0094 proceeding for Oakville Hydro's 2016 rates.

For the reasons set out below, Oakville Hydro's application is approved.

PROCESS

The OEB has considered the application without holding a hearing pursuant to section 6(4) of the *Ontario Energy Board Act, 1998* (OEB Act).

BACKGROUND

2014 Cost of Service Proceeding (EB-2013-0159)

In Oakville Hydro's 2014 rate application, the OEB approved a settlement agreement which provided that an independent third-party would conduct a study of the cost allocation between Oakville Hydro and Oakville Hydro Energy Services Inc., and between Oakville Hydro and its unregulated affiliate, Sandpiper Energy Solutions Home Comfort Inc. (Sandpiper) (the Study). The purpose of the Study would be to conclude on the reasonability of the transfer price calculation and a dollar impact of any recommended methodology, if applicable. The settlement agreement stipulated that Oakville Hydro would file the Study with its 2016 IRM application and that the OEB would then determine how to proceed.

2016 IRM Proceeding (EB-2015-0094)

Oakville Hydro did not file the Study with its 2016 IRM application. As a result, the OEB approved Oakville Hydro's 2016 rates on an interim basis effective January 1, 2016. During this proceeding, the OEB indicated it would consider cost awards in relation to the Study referenced in the previous settlement agreement. In light of the fact that the cost allocation issue had yet to be resolved, the issuance of cost awards to the intervenors of record relating to proceeding EB-2015-0094 was deferred.

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

2017 IRM Proceeding (EB-2016-0097)

The OEB issued its Decision and Order on Oakville Hydro's 2017 IRM application on January 5, 2017. Page 13 of that decision provides a succinct summary of the events that have led up to the filing of the current application:

In the Decision and Rate Order issued on January 14, 2016, the OEB approved Oakville Hydro's 2016 rates (effective and implemented as of January 1, 2016) on an interim basis. The rates were set as interim as Oakville Hydro had not yet filed the cost allocation study. Oakville Hydro filed the cost allocation study with the OEB on February 26, 2016. It is publicly available, with certain personal information redacted, on the record of the 2016 IRM proceeding.

The OEB is undertaking a review of the cost allocations practices between Oakville Hydro and its affiliates. The OEB notes that an IRM rate application is intended to be mechanistic, and cost allocation issues are normally not considered unless pursuant to a prior OEB decision. The decision as to whether this matter will be considered in an IRM rate application will not be made until the OEB has concluded its review. For this reason, rates will continue to be approved on an interim basis.

THE APPLICATION

Request for A Variance Account in Current Proceeding

In the current application, Oakville Hydro indicates that on August 18, 2016, OEB staff advised that it had commenced a compliance inspection of the allocation of costs covered by the Study to assess its compliance with the Affiliate Relationships Code for Electricity Distributors and Transmitters.

Oakville Hydro indicates that the Study found that Oakville Hydro undercharged Sandpiper by \$11,400 for occupancy charges in 2014. Oakville Hydro also notes that OEB staff's review as part of the compliance inspection concluded that it was appropriate for Oakville Hydro to record the difference between occupancy charges approved in its 2014 cost of service application and the amounts that should have been charged to Sandpiper in a variance account to be returned to ratepayers. Oakville Hydro has applied to record this variance for the period May 1, 2014 to

December 31, 2016, the time at which Sandpiper was sold to an independent third party.

In this application, Oakville Hydro discusses the eligibility tests for the establishment of a deferral and variance account in accordance with the OEB's *Filing Requirements for Electricity Distribution Rate Applications*. Oakville Hydro states that the difference in the occupancy charges included in its 2014 rates and amounts that should have been charged to Sandpiper is clearly outside the base upon which its rates were derived. The total difference calculated between May 1, 2014 and December 31, 2016 (when Sandpiper was sold to a third party), to be included in the proposed account is \$38,236¹. Oakville Hydro acknowledges that this amount does not meet the materiality test but submits that the amount is appropriate to be returned to customers. With respect to prudence, Oakville Hydro has provided the calculation of the \$38,236 proposed to be included in the account.

Oakville Hydro has also filed a draft accounting order for the requested variance account.

FINDINGS

The OEB approves the requested variance account given that a detailed inspection of Oakville Hydro's cost allocation practices has been completed.

The OEB notes that the time frame that Oakville Hydro proposes for tracking of the variance precedes the establishment of interim rates. And even with these additional amounts, the proposed balance to be recorded in the variance account would not pass Oakville Hydro's materiality threshold of \$184,402. However, Oakville Hydro's approved settlement agreement for 2014 rates considered the potential impact from the results of the Study. The settlement agreement indicated that Oakville Hydro's shared services and corporate cost allocation were appropriate, subject to the potential revision of corporate cost allocation as a result of the Study. Oakville Hydro's 2016 and 2017 rates were declared interim pending the results of the Study. As a result, the intention was to consider the impact of the Study in the determination of final distribution rates. In addition, the amount proposed to be disposed is a credit to ratepayers.

¹ As updated in response to OEB staff's questions

Therefore, the OEB will approve the establishment of the variance account to record the difference between the occupancy charges included in Oakville Hydro's 2014 rates and the amount that should have been charged to its affiliate, effective May 1, 2014. The OEB notes that there is precedence² for the OEB to go back into a final period when the impact of doing so is to implement a credit to ratepayers.

The OEB will not establish a sunset date for the variance account, but only credit entries may be made in the account until such time as the account is subject to disposition in Oakville Hydro's next rebasing application. Carrying charges will apply to the variance account. The accounting treatment is set out in Schedule A.

Given the foregoing, the OEB also declares Oakville Hydro's 2016 and 2017 rates final. Any changes to the quantum at the time of disposition may still be implemented given the establishment of the account. Oakville Hydro is to serve a copy of this Decision and Order to the intervenors of record in EB-2015-0094 so that the matter of cost awards may also be disposed.

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Oakville Hydro Electricity Distribution Inc. shall establish the variance account as set out in Schedule A, effective May 1, 2014.
2. Intervenors eligible for cost awards in OEB proceeding EB-2015-0094 shall file with the OEB and forward to Oakville Hydro Electricity Distribution Inc. their respective cost claims by November 2, 2017.
3. Oakville Hydro Electricity Distribution Inc. shall file with the OEB and forward to intervenors any objections to the claimed costs by November 9, 2017.
4. Intervenors shall file with the OEB and forward to Oakville Hydro Electricity Distribution Inc. any responses to any objections for costs claimed by November 16, 2017.

² North Bay Hydro Distribution Limited (EB-2009-0113), Enbridge Gas Distribution Inc. (EB-2014-0043), Thunder Bay Hydro Electricity Distribution Inc. (EB-2014-0114)

5. Oakville Hydro Electricity Distribution Inc. shall pay the OEB's costs incidental to EB-2015-0094 and to this proceeding upon receipt of the OEB's invoice.

DATED at Toronto, October 26, 2017

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary

Schedule A
Accounting Order
Oakville Hydro Electricity Distribution Inc.
Board Order No: EB-2017-0202
Dated: October 26, 2017

Accounting Order

Account 1508 Other Regulatory Assets, Sub-account Corporate Cost Allocation

Oakville Hydro shall establish Account 1508 Other Regulatory Assets, Sub-account Corporate Cost Allocation, effective May 1, 2014. The variance sub-account will record the difference in occupancy charges to its affiliate, Sandpiper Energy Solutions Home Comfort Inc., between the amount approved in Oakville Hydro's 2014 rates and the amount determined to be appropriate as a result of the cost allocation study for the period starting from May 1, 2014.

Only credit entries may be recorded in the sub-account. Carrying charges at the OEB prescribed rate will apply to the sub-account.

Sample journal entries are provided below.

Dr. 4080 Distribution Services Revenues

Cr. 1508 Other Regulatory Assets, Sub-account Corporate Cost Allocation

To record the difference in occupancy charges approved in 2014 rates and that determined to be appropriate as a result of the cost allocation study.

Dr. 6035 Other Interest Expense

Cr. 1508 Other Regulatory Assets, Sub-account Corporate Cost Allocation
Carrying Charges

To record the carrying charges on the monthly opening balance in Account 1508 Other Regulatory Assets, Sub-account Corporate Cost Allocation.