

Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273



BY E-MAIL

April 20, 2018

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

Dear Ms. Walli:

**Re: Essex Powerlines Corporation (Essex Powerlines)
2018 Distribution Rate Application
OEB Staff Submission
OEB File No. EB-2017-0039**

In accordance with Procedural Order No. 1, please find attached OEB staff's submission on the filed settlement proposal for Essex Powerlines' 2018 cost of service application. This document is also being forwarded to Essex Powerlines, the School Energy Coalition, the Vulnerable Energy Consumers Coalition, and Hydro One Networks Inc.

Yours truly,

Original Signed By

Donald Lau
Project Advisor – Rates Major Applications

Encl.

2018 ELECTRICITY DISTRIBUTION RATES
Essex Powerlines Corporation

EB-2017-0039

**OEB STAFF SUBMISSION ON SETTLEMENT
PROPOSAL**

April 20, 2018

INTRODUCTION

Essex Powerlines Corporation (Essex Powerlines) filed a complete application with the Ontario Energy Board (OEB) on August 28, 2018 seeking approval for changes to the rates that Essex Powerlines charges for electricity distribution, to be effective May 1, 2018. The parties to the settlement proposal are Essex Powerlines and the following approved intervenors in the proceeding: School Energy Coalition (SEC), Vulnerable Energy Consumers Coalition (VECC) and Hydro One Networks Inc. (HONI) (the Parties).

A community meeting was held as part of the proceeding on January 18, 2018. The OEB and Essex Powerlines made presentations at the meeting. A summary of the community meeting was posted to the record of the proceeding. Meeting participants had questions regarding Essex Powerlines' voltage conversion initiative, the source that supplies power to Essex Powerlines and the operating structure of Essex Powerlines' holding corporation. The questions were of a general nature but OEB staff took into consideration the comments made during the community meeting in reviewing Essex Powerlines' application.

The OEB issued an approved issues list for this proceeding on March 12, 2018. A settlement conference was held on March 13, 2018 and March 14, 2018 and Essex Powerlines filed a settlement proposal setting out an agreement among all the Parties to the proceeding on April 13, 2018.

The settlement proposal represents a partial settlement. The Parties reached a complete settlement on all issues on the issues list with the exception of Issue 4.2 - Are Essex Powerlines' proposals for deferral and variance accounts, including the balances in the existing accounts and their disposition, requests for new accounts and the continuation of existing accounts, appropriate? More specifically, issue 4.2.1 - Group 1 accounts is the subject of a partial settlement.

The outstanding matter pertains to the recovery of a net amount of \$1.8M from customers related to Group 1 accounts¹ that were disposed of in the 2015 Incentive Rate-setting Mechanism (IRM) proceeding. Recovery of balances related to those accounts commenced on an interim basis on June 1, 2015.

¹ Account 1550, 1580, 1584, 1586, 1588, and 1589

For a typical residential customer with monthly consumption of 750kWh, the total bill impact under the filed settlement proposal, assuming that the interim rates of the unsettled issue are set on a final basis, would be a decrease of \$0.74 before taxes per month or 0.66%. The distribution portion of the total bill increases by \$0.49 per month or 1.82%.

This submission is based on the status of the record as of the filing of Essex Powerlines' settlement proposal and reflects observations which arise from OEB staff's review of the evidence and the settlement proposal. It is intended to assist the OEB in deciding upon Essex Powerlines' application and the settlement proposal.

Settlement Proposal

OEB staff has reviewed the settlement proposal in the context of the objectives of the *Renewed Regulatory Framework* (RRF), other applicable OEB policies, relevant OEB decisions, and the OEB's statutory obligations. OEB staff is satisfied that the Parties considered the issues and outcomes of the RRF in the context of Essex Powerlines' application.

In the settlement proposal, the Parties accepted the application's level of planned capital expenditures, the rationale for planning and the pacing choices. OEB staff notes that Essex Powerlines' total capital expenditure for 2018 is approximately 7% lower than the 2017 total capital expenditure and 3.5% higher than the historical eight year average. Essex Powerlines has focused historical capital expenditure on voltage conversion, removing all of its distribution stations and has successfully become a 27.6kV system, which has led to a decrease in line losses. Moving forward Essex Powerlines intends to focus on end-of-life underground cables to address reliability concerns. Essex Powerlines' customer satisfaction survey² also demonstrated that customers were historically satisfied with the power quality and reliability of the system that resulted from Essex Powerlines' distribution planning. The customer satisfaction survey also showed customers were concerned about costs, which Essex Powerlines has addressed through reduction in capital expenditures. OEB staff agrees with the settlement

² EB-2017-0039 Exhibit 2 – Appendix E – Convergys Top Down Survey, November 2016

proposal in that Essex Powerlines has provided satisfactory evidence in supporting its ability to meet customers' expectations on reliability and cost in the five-year period.

OEB staff further notes that the settlement proposal reflects total Operating, Maintenance and Administration (OM&A) of \$7,244,955 (a reduction of \$465,320 from the application amount of \$7,710,275) for 2018 which is a slight decrease from the 2017 OM&A of \$7,267,369 and 3.8% higher than the 2016 actual OM&A of \$6,981,623. As part of the settlement proposal Essex Powerlines reduced OM&A by \$465,320 and this is mostly from Administration/General and Operations drivers, more specifically the consulting and operations management program. In these two programs Essex Powerlines proposed costs for a 3rd party consultants to maintain compliance with the OEB's Cybersecurity Framework and 3rd party control room as part of a Self-Healing Grid Initiative. In interrogatory 4-Staff-55 and 4-Staff 56, issued on March 2018, Essex Powerlines had stated it has not issued a quote for 3rd party consultants for cybersecurity and 3rd party control room services. Since rates are set on a forward test year and taking into account that both of these programs have not been initiated, OEB staff supports the Parties' position that the revised OM&A budget is appropriate and better reflects a reasonable increase from both bridge year actuals and the last approved OEB amounts. OEB staff submits that the reduction in OM&A is reasonable and addresses customers' concern regarding the affordability of service.³

OEB staff submits that the settlement proposal reflects a reasonable evaluation of the distributor's planned outcomes in this proceeding, and appropriate consideration of the relevant issues; and ensures there are sufficient resources to allow Essex Powerlines to achieve its identified outcomes in the four years that will follow. The explanation and rationale provided by the Parties is adequate to support the settlement proposal and the outcomes arising from the OEB's approval of the issues settled as noted in the settlement proposal would adequately reflect the public interest and would result in just and reasonable rates for customers.

³ EB-2017-0039 Exhibit 2 – Appendix E – Convergys Top Down Survey, November 2016

To assist the OEB with understanding the partially settled issue, OEB staff provides its submissions below.

Issue 4.2 – Are Essex Powerlines’ proposals for deferral and variance accounts, including the balances in the existing accounts and their disposition, requests for new accounts and the continuation of existing accounts, appropriate?

The Parties reached partial settlement on the disposition of Group 1 accounts with the unresolved issue pertaining to the interim recovery of a net amount of \$1.8M from customers identified in the OEB audit.⁴ In Essex Powerlines’ application it had stated that, with the exception of one adjustment, all adjustments to Group 1 accounts were consistent with the OEB audit findings. In OEB staff interrogatory 9-Staff-80b, Essex Powerlines further clarified the specific finding from the OEB audit. The OEB audit found that in the 2015 IRM proceeding, Essex Powerlines applied to recover the net amount of \$1.8M from customers to correct for a previous double refund. Essex Powerlines made adjustments to account balances that were previously approved for disposition on a final basis. The OEB audit was of the view that the adjustments should not be reflected in the Group 1 account balances because Essex Powerlines did not fully comply with the filing requirements⁵ when making adjustments. Essex Powerlines did not agree with the finding on the basis that the filing requirements allow for the request for such adjustments with explanations and supporting documentation. Essex Powerlines stated that it had fully disclosed the nature of the error in response to OEB staff supplemental questions⁶ in the 2015 IRM proceeding.

To resolve the unsettled issue, the Parties suggest that the process to resolve the unsettled issue should include, a) an opportunity for EPLC to provide a written summary of the chronological events regarding the unsettled issue including references to past decisions, and evidentiary records, b) Intervenors

⁴ Audit of Group 1 and Group 2 deferral and variance accounts Essex Powerlines Corporation, March 2017

⁵ Filing Requirements for 2015 Electricity Distribution Rate Applications, Chapter 3, page 9, issued July 25, 2014

⁶ EB-2014-0072 - Essex Powerlines IRR continuity schedules 20150407, response 2i and 3

and OEB Staff should have the opportunity to make information requests of EPLC on the unsettled issue, and c) written submissions should be filed by all parties (i.e. EPLC argument-in-chief, responding submissions by Intervenors and OEB Staff, and reply submissions of EPLC). With the complexities of the issue and the extensive history required to understand the context, OEB staff supports the process proposed by the Parties but notes that it is critical the Essex Powerlines restates the issue with more clarity and a better chronology of events, including those that transpired within Essex Powerlines' day to day operations that led to this point.

All of which is respectfully submitted