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Ontario

BY E-MAIL

September 20, 2018

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

Dear Ms. Walli:

Re: PUC Distribution Inc. (PUC Distribution)
2018 Distribution Rate Application
OEB Staff Submission on Settlement Proposal
OEB File No.: EB-2017-0071

In accordance with Procedural Order No. 1, please find attached OEB staff's submission on the filed settlement proposal for PUC Distribution's 2018 distribution rate application.

PUC Distribution and all intervenors have been copied on this filing.

Yours truly,

Original Signed By

Andrew Frank
Project Advisor – Major Applications

Attach.

2018 ELECTRICITY DISTRIBUTION RATES

PUC DISTRIBUTION INC.

EB-2017-0071

OEB STAFF SUBMISSION ON SETTLEMENT PROPOSAL

September 20, 2018

INTRODUCTION

PUC Distribution Inc. (PUC Distribution) filed a cost of service application with the Ontario Energy Board (OEB) under section 78 of the *Ontario Energy Board Act*, *1998*, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to the rates that PUC Distribution charges for electricity distribution, to be effective May 1, 2018. PUC Distribution filed a complete application on April 2, 2018.[1]

The parties to the settlement proposal are PUC Distribution and the following approved intervenors in the proceeding: Consumers Council of Canada; School Energy Coalition; and Vulnerable Energy Consumers Coalition.

A community meeting was held as part of the proceeding on June 19, 2018. OEB staff and PUC Distribution made presentations at the meeting. A summary of the community meeting was posted to the record of the proceeding.

Customers voiced concerns over rate increases and expressed confusion over bill impacts. For example, customers were confused regarding the underlying assumptions made in the bill impact calculations, and how the bill impact relates to the actual rate increase requested by PUC Distribution. Customers were also concerned regarding the impact of an increase on customers already struggling to pay their bills. OEB staff took this concern about rising costs into consideration in reviewing PUC Distribution's application and settlement proposal. For a typical residential customer with monthly consumption of 750 kWh, the total bill impacts under the filed settlement proposal would be an increase of $2.39 before taxes per month, or an increase of 2.45%. The distribution portion of the total bill would increase by $5.07 per month.

OEB staff filed a proposed issues list for this proceeding on August 17, 2018. A settlement conference was held on August 21, 22 & 23, 2018. PUC Distribution filed a settlement proposal setting out an agreement between all the parties to the proceeding on September 14, 2018.

[1] The OEB's system logged the filing after the close of business on March 29, 2018 and therefore the OEB's acknowledgement letter stated that the application was received on April 2, 2018, the next business day.

The settlement proposal represents a complete settlement. This submission is based on the status of the record as of the filing of PUC Distribution's 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 PUC Distribution's 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*[2], the Handbook for Utility Rate Applications[3], other applicable OEB policies, relevant OEB decisions, and the OEB's statutory obligations. OEB staff submits that the settlement proposal reflects a reasonable evaluation of the distributor's planned outcomes in this proceeding, appropriate consideration of the relevant issues and ensures there are sufficient resources to allow PUC Distribution to achieve its identified outcomes in the five years that will follow.

OEB staff further submits that the explanations and rationale provided by the parties are adequate to support the settlement proposal and that the outcomes arising from the OEB's approval of the settlement proposal would adequately reflect the public interest and would result in just and reasonable rates for customers.

OEB staff will provide further specific submissions on the following issues, which are a subset of the issues listed in the settlement proposal:

- 2.1 – Capital
- 2.2 – Operations, Maintenance and Administration (OM&A)
- 3.1 – Are all elements of the Revenue Requirement reasonable, and have they been appropriately determined in accordance with OEB policies and practices?
- 4.1 – Are the proposed load and customer forecast, loss factors, Conservation and Demand Management (CDM) adjustments and resulting

[2] Report of the Board on the Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, October 18, 2012,
[3] Handbook for Utility Rate Applications, October 13, 2016

billing determinants appropriate, and, to the extent applicable, are they an appropriate reflection of the energy and demand requirements of PUC Distribution's customers?
- 4.3 – Are PUC Distribution's proposals for rate design appropriate?
- 4.4 – Has the applicant appropriately applied the OEB's policy on residential rate design?
- 5.1 – Have all impacts of any changes in accounting standards, policies, estimates and adjustments been properly identified and recorded, and is the rate-making treatment of each of these impacts appropriate?
- 5.2 – Are the applicant's proposals for deferral and variance accounts, including the balances in the existing accounts and their disposition, and the continuation of existing accounts appropriate?
- 6.1 – Effective Date

2.1 – Capital

Is the level of planned capital expenditures appropriate and is the rationale for planning and pacing choices appropriate and adequately explained, giving due consideration to:

- Customer feedback and preferences
- Productivity
- Benchmarking of costs
- Reliability and service quality
- Impact on Distribution rates
- Trade-offs with OM&A spending
- Government-mandated obligations
- The objectives of the Applicant and its customers
- The distribution system plan, and
- The business plan

In its application, as updated through the interrogatory phase, PUC Distribution proposed capital additions of $5.81 million. OEB staff's comments are provided below based on capital additions and rate base.

In the settlement proposal, the parties agreed to 2018 capital additions of $5.39 million for 2018 (a reduction of $0.42 million from proposed) and an opening rate base as filed. As a result, the settled 2018 test year rate base is $99.7 million.

The main driver of the adjustment noted above relates to the removal of 2018 spending on a substation which is not scheduled to enter service in 2018.

In the context of the settlement proposal, OEB staff does not have concerns with the 2018 capital additions and rate base amounts. As PUC Distribution has presented these amounts to be sufficient to enable the reliable operation of its system, and consistent with its plans for the in service addition of the substation in 2019, OEB staff supports the proposal as outlined in the settlement proposal.

2.2 – OM&A

Is the level of planned OM&A expenditures appropriate and is the rationale for planning choices appropriate and adequately explained, giving due consideration to:

- Customer feedback and preferences
- Productivity
- Benchmarking of costs
- Reliability and service quality
- Impact on Distribution rates
- Trade-offs with capital spending
- Government-mandated obligations
- The objectives of the Applicant and its customers
- The distribution system plan, and
- The business plan

In the settlement proposal, parties agreed to a 2018 test year OM&A of $11.5 million, a reduction of $0.5 million from that proposed in the application as updated through the interrogatory process.

The parties agreed that the reduction included a reduction of $10,926 as a result of a reduction to transfer pricing as a result of the correction detailed in section 3.1 below.

The 2013 approved building costs were $362,736.[4] PUC Distribution indicated that its 2013 approved OM&A budget was sufficient to safely and reliably operate the distribution system[5], including maintaining the building. In the updated application, PUC Distribution proposed 2018 building costs of $735,193,[6] an increase of $372,736 over the 2013 approved level. OEB staff views the increase from 2013 approved to 2018 proposed in the updated application as material and is an area which potentially could be reduced as part of the $0.5 million reduction. Therefore, while the settlement proposal does not identify concerns with any specific OM&A programs, OEB staff is of the view that the proposal is supported by the evidence provided during the course of this proceeding.

The proposed 2018 test year OM&A of $11.5 million represents an increase of $1.5 million over the 2013 approved OM&A of $10.0 million[7], or 2.8% per year for five years.

In the context of the settlement proposal, OEB staff does not have concerns with the proposed 2018 test year OM&A of $11.5 million.

3.1 – Are all elements of the Revenue Requirement reasonable, and have they been appropriately determined in accordance with OEB policies and practices?

As outlined in Table 1 – Revenue Requirement Summary in the settlement proposal, parties have agreed to a service revenue requirement of $21.89 million, a base revenue requirement of $19.19 million, and a gross revenue deficiency of $3.35 million. PUC Distribution also included an updated Revenue Requirement Work Form to support its requested amounts. These amounts reflect a reduction of $0.27 million to the service revenue requirement, and a reduction of $0.16 million to the base revenue requirement.

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[4] Interrogatory Response 4-Staff-58 b)

[5] EB-2012-0162, Proposed Settlement, June 14, 2013

[6] Interrogatory Response 4-Staff-58 a)

[7] Exhibit 4, page 7, Table 4-1.

OEB staff notes that the changes to the revenue requirement are the result of the following factors which are detailed in the settlement proposal:

- A reduction to capital additions
- A reduction to OM&A
- A change to the handling of the tax loss carry forward
- A revision to the other revenue to reflect a change to transfer pricing
- A revision to the load forecast

In the context of the settlement proposal, OEB staff does not have concerns with the 2018 service revenue requirement of $21.89 million included in the settlement proposal.

Other Revenue

As part of the settlement proposal, PUC Distribution updated its 2018 test year other revenue. Specifically, when calculating transfer pricing between PUC Distribution and its affiliates, in respect of building-related charges, it had grossed up the entire cost of capital for Payments in Lieu of taxes (PILs), resulting in the transfer price reflecting a 7.98% cost of capital. The parties agreed that only the return on equity portion should be grossed up for PILs, resulting in the transfer price reflecting a 7.16% cost of capital, as outlined in Table 4 of the settlement proposal.

The difference between the 7.98% cost of capital used in the application, and the 7.16% cost of capital agreed upon results in a reduction to other revenues of $101,515, as outlined in Table 5 of the settlement proposal.

In the context of the settlement proposal, OEB staff does not have concerns with the other revenue as incorporated into the 2018 test year revenue requirement.

Taxes

Parties have agreed that PUC Distribution would update its PILs calculation to eliminate the impact of its tax loss carry-forwards on its base distribution rates. In its initial application, PUC Distribution had completed the PILs model using the default methodology which results in the application of the tax loss carry-forward over five years. Instead as a result of the settlement proposal, PUC Distribution will implement a new standalone rate rider to credit customers the full benefit of grossed-up tax loss carry forward amounts of $3,493,253 over 19 months, ending April 30, 2020.

OEB staff agrees with the parties that the timing of the rate rider will better match the period of time over which PUC Distribution will receive tax reductions from those same loss carry-forwards, while ensuring that PUC Distribution recovers an appropriate amount of PILs in rates once the loss carry-forward reductions are projected to be no longer available to PUC Distribution.

In the context of the settlement proposal, OEB staff does not have concerns with the PILs as incorporated into the 2018 test year revenue requirement.

4.1 – Are the proposed load and customer forecast, loss factors, CDM adjustments and resulting billing determinants appropriate, and, to the extent applicable, are they an appropriate reflection of the energy and demand requirements of PUC Distribution's customers?

In the settlement proposal, the parties agreed that PUC Distribution would use the methodology set out in response to interrogatory VECC-47c, where the purchased power regression model is estimated using actual data for 2017 CDM historical data, and includes a trend variable.

As outlined in Table 7 of the settlement proposal, parties agreed to 2018 test year billing determinants of 628.9 GWh (a decrease of 0.2 GWh over proposed) and 622,366 kW (a decrease of 1,566 kW over proposed).

As outlined in Table 8 of the settlement proposal, the expected CDM savings for Lost Revenue Adjustment Mechanism Variance Account is 13.0 GWh (an increase of 5.7 GWh over proposed).

In the context of the settlement proposal, OEB staff submits that the revised 2018 test year billing determinants are appropriate.

4.3 – Are PUC Distribution's proposals for rate design appropriate?

In the settlement proposal, the parties agreed that PUC Distribution would set the fixed charges for the General Service 50 to 4,999 kW and Unmetered Scattered Load (USL) rate classes, which are above the ceiling, at current levels. The ceiling charge is the cost per customer per month of the minimum system with peak load carrying capability adjustment, as calculated on sheet O2 of the cost allocation model. The difference will be made up through a corresponding increase in volumetric charges.

As outlined in Table 10 of the settlement proposal, this results in a fixed rate of $114.46 for General Service 50 to 4,999 kW and $12.69 for USL, and a variable rate of $6.7259 per kW for General Service 50 to 4,999 kW and $0.0383 per kWh for USL.

In the settlement proposal, the parties included Table 2 - 2018 Bill Impact Summary. This table illustrated the updated bill impacts based on the results of the settlement proposal. The table indicates that no rate classes will experience total bill impacts in excess of 10%.

OEB staff notes that the proposed disposal of deferral and variance accounts as well as two new proposed rate riders have the effect of mitigating the proposed rate increase. OEB staff supports the settlement proposal and agrees that no further rate mitigation is required.

OEB staff supports the proposed changes to rate design as appropriate.

4.4 – Has the applicant appropriately applied the OEB's policy on residential rate design?

In the settlement proposal, the parties accepted the evidence of PUC Distribution, and agreed that the residential rate design was appropriate.

OEB staff notes that PUC Distribution is continuing its five year transition to a fully fixed residential rate that commenced with its 2016 rates. The residential fixed charge is proposed to increase by $3.48 as a result of implementing the residential rate design policy. Further, the total bill impact for a customer at the 10th percentile of consumption, using 308 kWh / month, is 9.27%.

OEB staff submits that the residential rate design is appropriate.

5.1 – Have all impacts of any changes in accounting standards, policies, estimates and adjustments been properly identified and recorded, and is the rate-making treatment of each of these impacts appropriate?

In the settlement proposal, the parties accepted the evidence of PUC Distribution that all impacts of changes to accounting standards, policies, estimates, and adjustments have been properly identified and recorded in accordance with the OEB's policies and properly reflected in rates.

In the context of the settlement proposal, OEB staff agrees with the parties regarding this issue.

5.2 – Are the applicant's proposals for deferral and variance accounts, including the balances in the existing accounts and their disposition, and the continuation of existing accounts appropriate?

In the settlement proposal, with the addition of two rate riders, the parties accepted the evidence of PUC Distribution that all elements of the applied-for deferral and variance accounts are appropriate, including the balances in the existing accounts and their disposition on a harmonized basis commencing October 1, 2018, and the continuation of existing accounts. The two additional rate riders are the PILs rate rider discussed in section 3.1, and an Embedded Generation Adjustment rate rider described below. The parties are proposing a 19 month clearance of its deferral and variance account balances from October 1, 2018 to April 30, 2020 in order to align the termination of the rate riders with the end of the 2019 rate year.

The parties have agreed that PUC Distribution will create an Embedded Generation Adjustment (EGA) rate rider for account 1580 RSVA Wholesale Market Service Charge Account. This rate rider is designed to address the systematic over collection of the Wholesale Market Service Rate (WMS) and Rural or Remote Electricity Rate Protection charge (RRRP) from its customers relative to its obligations to the Independent Electricity System Operator (IESO). The over collection is driven, in part, by embedded generation for which PUC Distribution is not required to pay WMS or RRRP to the IESO. The parties agreed that a rate rider would be used to refund the amount of the WMS and RRRP charges times the forecasted energy from embedded generation. Any remaining under or over collection would continue to be booked to account 1580.

In the context of the settlement proposal, OEB staff agrees with the parties that all elements of the applied-for deferral and variance accounts are appropriate, including the balances in the existing accounts.

OEB staff does not oppose the intent of the EGA proposal. OEB staff agrees that it is desirable to minimize balances in variance accounts where it is possible to do so. In the case of PUC Distribution, the amount of embedded generation was leading to a systematic over collection of the WMS and RRRP charges. OEB staff does not oppose the use of a rate rider in this instance given the predictable nature of the over collection of WMS and RRRP.

OEB policy[8] reflects a default disposition period of one year to clear deferral and variance account balances through a rate rider. However, OEB staff submits that a 19 month clearance period of PUC Distribution's deferral and variance account balances from October 1, 2018 to April 30, 2020 is appropriate in order to align the termination of the tariff with the end of a rate year.

6.1 – Effective Date

In the settlement proposal, the parties agreed that PUC Distribution's new rates should be made effective October 1, 2018.

OEB staff notes that in the Decision on Interim Rates issued by the OEB on May 1, 2018, PUC Distribution's rates were not made interim, and have not been made interim subsequently. In its letter filed September 14, 2018 regarding responses to Pre-ADR VECC Clarification Questions, PUC Distribution has requested that rates be declared interim as of October 1, 2018.

[8] Report of the OEB – Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR). EB-2008-0046, July 31, 2009, page 24

In the context of the settlement proposal, OEB staff supports the October 1, 2018 effective date and the request for interim rates, if necessary to bring effect to this settlement proposal.

All of which is respectfully submitted