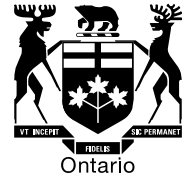


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BY EMAIL

February 11, 2019

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4
BoardSec@oeb.ca

Dear Ms. Walli:

**Re: Orangeville Hydro Limited (Orangeville Hydro)
Application for Rates
Staff Submission
OEB File Number EB-2018-0060**

In accordance with Procedural Order No.1, please find attached OEB staff's submission in the above proceeding. This document is being forwarded to Orangeville Hydro.

Orangeville Hydro is reminded that its Reply Submission is due on February 19, 2019.

Yours truly,

Original Signed By

Jerry Wang
Analyst, Incentive Rate Setting & Accounting

Encl.

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2019 ELECTRICITY DISTRIBUTION RATES

ORANGEVILLE HYDRO LIMITED

EB-2018-0060

February 11, 2019

**OEB Staff Submission
Orangeville Hydro Limited
2019 IRM Rate Application
EB-2018-0060**

Introduction

Orangeville Hydro Limited (Orangeville Hydro) filed an application with the Ontario Energy Board (OEB) on September 17, 2018 under section 78 of the *Ontario Energy Board Act, 1998*. The application seeks approval for changes to the rates that Orangeville Hydro charges for electricity distribution, effective May 1, 2019. The purpose of this document is to provide OEB staff's submissions on its review of the application.

Orangeville Hydro is proposing to eliminate the volumetric distribution charge for residential customers to complete its transition to a fully fixed monthly distribution charge. Orangeville Hydro has demonstrated that total bill impacts for residential customers do not exceed 10% and therefore no rate mitigation is required. Consistent with the Chapter 3 Filing Requirements, Orangeville Hydro has also applied the Price Cap IR adjustment factor to adjust the monthly service charge and volumetric distribution rate during the incentive rate-setting years. OEB staff will update Orangeville Hydro's rate generator model to reflect the 2019 inflation factor of 1.5%.

Orangeville Hydro requested an update to its Retail Transmission Service Rates to recover the wholesale transmission rates charged by its host distributor, Hydro One, and the IESO. The OEB approved an update to the 2019 Uniform Transmission Rates in December 2018, and OEB staff will update Orangeville Hydro's 2019 IRM Rate Generator Model accordingly.¹

Orangeville Hydro requested OEB approval to continue charging the following:

- Rate Riders and Adders for which the sunset date has not yet been reached
- Specific Service Charges and Loss Factors
- Smart Metering Entity Charge
- MicroFit monthly charge

¹ Decision and Interim Rate Order, EB-2018-0326, December 20, 2018.

OEB staff submits that the items in the list above have already been approved by the OEB in previous decisions and, therefore, do not require further approval in this proceeding.

OEB staff has included an updated 2019 IRM Rate Generator Model with this submission. OEB staff requests that Orangeville Hydro use this Rate Generator Model if it makes any further updates as part of its reply submission. With the exception of the matters listed below, OEB staff has no concerns with Orangeville Hydro's application.

OEB staff makes detailed submissions on the following:

- Recovery of July and August 2017 Class A Customer Related Global Adjustment (GA) Amounts from Class B Customers
- Group 1 Deferral and Variance Accounts
- Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)

Recovery of July and August 2017 Class A Customer Related GA Amounts from Class B Customers

Orangeville Hydro proposes to recover, through Account 1589, a debit amount of \$385,933 due to what it submits was an administrative error regarding Class A customers. Orangeville Hydro states that it is unable to reconcile this issue directly with the IESO and is therefore requesting the OEB approve the recovery of this amount from Orangeville Hydro's Class B customers.

Background

Orangeville Hydro stated that, in 2017, it had five customers opt-in as Class A customers by the IESO's July 1 deadline. Orangeville Hydro further stated in a response to an interrogatory² that it was Orangeville Hydro's responsibility to inform the IESO via email by July 1 of any customers that had opted-in to Class A. This email notification was not completed and the IESO was not provided with appropriate information regarding Class A customers until September 2017.

Orangeville Hydro stated that, for the purposes of GA billing, the IESO billed Orangeville Hydro the consumption of the five customers as if they were Class B until the issue was rectified in September. Hence, for the months of July and August, Orangeville Hydro billed the five customers at Class A GA rates and was in turn billed by the IESO at

² Staff IR-11, part a

Class B GA rates for those five customers. The difference in billing resulted in a debit amount of \$385,933.43 for Orangeville Hydro.

Orangeville Hydro subsequently contacted the IESO for clarification and an adjustment to consider the five customers as Class A for the months of July and August. In a response to an interrogatory, Orangeville Hydro stated that it received the following response from the IESO:³

...the IESO has thoroughly reviewed the matter regarding the Class A retroactivity due to the administrative error during the 2017 Class A opt-in notices and we will not be making retroactive adjustments on the basis of the reported licensed distributor administrative errors for prior periods.

OEB staff submission

OEB staff appreciates that the amount of \$385,933 is significant to Orangeville Hydro and notes that 2017 was Orangeville Hydro's first year with Class A customers. OEB staff also acknowledges Orangeville Hydro's response to an interrogatory⁴ that the non-recovery of the amount would result in Orangeville Hydro's regulated Return on Equity (ROE) to drop from 10.6% to 6.98%. OEB Staff notes that Orangeville Hydro's deemed ROE is 9.36% and a drop in its ROE to 6.98% is not greater than the 300 basis points dead band.

OEB staff notes that the \$385,933 relates to a commodity pass-through account that should be revenue neutral for the distributor and not impact Orangeville Hydro's financial position. However, it is a requirement that the distributor comply with all applicable IESO Market Rules, as is set out in its Electricity Distribution Licence.

OEB staff submits that it is not appropriate for this matter to be dealt with by way of a rate application at this time given the impact on Orangeville customers. The issue is a matter of compliance with applicable regulatory requirements and should be addressed through the OEB's compliance process.

³ Staff IR-11, part a

⁴ Staff IR-11, part e

Disposition of Group 1 Deferral and Variance Account Balances

In each year of an IRM term, the OEB will review a distributor's Group 1 deferral and variance accounts in order to determine whether their total balance should be disposed.

OEB policy requires that Group 1 accounts be disposed if they exceed (as a debit or credit) a pre-set disposition threshold of \$0.0010 per kWh, unless a distributor justifies why balances should not be disposed.⁵ If the balance does not exceed the threshold, a distributor may elect to request disposition.

The 2017 actual year-end total balance for Orangeville Hydro's Group 1 accounts including interest projected to April 30, 2019 is a debit balance of \$238,066. This amount includes the under recovery from transitioning Class A customers discussed in the earlier section of this submission. The total Group 1 amount represents a total debit claim of \$0.0010 per kWh, which meets the disposition threshold. Orangeville Hydro is proposing to dispose this debit amount over a one-year period, beginning in the 2019 rate year. The total disposition includes a credit amount of \$1,107,444 and a debit amount of \$1,324,560 in accounts 1588 and 1589 respectively.

In regards to Orangeville Hydro's Account 1588 balance, this account accumulates the variance between the energy amount billed to customers, including accruals, and the energy charge to a distributor using the monthly settlement invoice received from the IESO, including accruals. OEB staff notes that any variance accumulated within this account should get settled directly with the IESO on a monthly basis and therefore it is OEB staff's expectation that any remaining amounts in this account would be relatively small and close to zero (primarily comprised of the difference between amounts billed at the approved total loss factor versus actual system losses for the year). Based on this expectation, OEB staff submits that Orangeville Hydro's balance in account 1588 of a credit of \$1,107,444 appears to be unusually large. In its response to interrogatories⁶, Orangeville Hydro indicated that the large amount is due to adjustments made to the account, specifically the true-up for RPP and Non-RPP allocation based on actual consumption for 2016 and 2017.

As part of the response to OEB staff interrogatories, Orangeville Hydro provided an updated IRM model. OEB staff notes that further adjustments were made to the Account 1589 and Account 1588 balances but insufficient explanation was provided.

⁵ Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR), EB-2008-0046, July 31, 2009

⁶ Staff IR-10, part a

OEB staff submission

OEB staff notes that Orangeville Hydro has unresolved differences of over 1% in both the 2016 and 2017 years in the GA Workform. Orangeville Hydro submitted an updated Workform as part of its interrogatory responses but was still unable to reconcile the unexplained differences in the Workform (4.5% in 2016 and 5.9% in 2017).

OEB staff notes that Orangeville Hydro has reported various true-up adjustment amounts for Account 1588 and Account 1589 during the course of this proceeding and the explanations for these adjustments and large balances for these two accounts are not sufficient. OEB staff notes that there remain large unexplained differences in the GA workform.

OEB staff is concerned that various true-up adjustments that Orangeville Hydro provided may not be accurate and is of the opinion that it is not appropriate to dispose of Account 1588 and Account 1589 at this time. OEB staff submits that Orangeville Hydro would benefit from additional time to review the balances in accounts 1588 and 1589, including the processes and procedures that are in place to accumulate transactions to those accounts. Further, in previous cases, the OEB has deferred the disposition of all Group 1 accounts when it had concerns with disposing of accounts 1588 and 1589. OEB staff recommends that the OEB take this approach for Orangeville Hydro as well. OEB staff does note that the total Group 1 balance, excluding Account 1588 and Account 1589, is a debit amount of \$20,949 which is not material in any event.

LRAMVA

Background

In its application as originally filed, Orangeville Hydro applied to dispose of an LRAMVA debit balance of \$144,109. This balance included lost revenues in 2013-2017 from Conservation and Demand Management (CDM) programs delivered during the period from 2011 to 2017 and carrying charges. Orangeville Hydro used an LRAMVA threshold of 5,006,667 kWh established in its 2014 cost of service (COS) proceeding⁷ as the basis of forecast savings over the 2013-2017 period to compare against actual savings achieved over the 2013-2017 period.

⁷EB-2013-0160

During the course of the proceeding, Orangeville Hydro filed an update to its LRAMVA workform with a revision to its 2013 forecasted savings. In response to OEB staff interrogatories, Orangeville Hydro adjusted the LRAMVA threshold used to estimate 2013 forecast savings from 5,006,667 kWh (established at its 2014 COS) to 787,775 kWh (established at its 2010 COS⁸). As a result of this change, it increased the LRAMVA principal balance by \$36,047 from \$140,862 to \$176,910.

Orangeville Hydro also updated its projected carrying charges with the OEB's most recently approved prescribed interest rate and included carrying charges to June 30, 2019 in its updated LRAMVA balance. This has resulted in a revised LRAMVA balance of \$185,790 based on its updated LRAMVA workform submitted as part of its interrogatory responses.

OEB staff submission

OEB staff submits that Orangeville Hydro's revised LRAMVA balance (excluding the carrying charges) has been calculated in accordance with the OEB's CDM-related guidelines and updated LRAMVA policy. OEB staff is of the view that Orangeville Hydro has appropriately revised its LRAMVA balance by applying 787,775 kWh as the level of forecast savings in 2013 approved in its 2010 COS.

With respect to the projected interest on the LRAMVA, OEB staff notes that Orangeville Hydro's updated LRAMVA workform included interest to June 30, 2019. OEB staff submits that projected interest should only be recoverable up to April 30, 2019 to align with the start of the disposition period for the balance in the LRAMVA. With this correction, OEB staff has determined that the LRAMVA debit balance inclusive of carrying charges should be \$185,068.

As part of Orangeville Hydro's reply submission, OEB staff requests that Orangeville Hydro confirm the revised LRAMVA balance with interest calculated up to April 30, 2019 and re-submit a final version of its LRAMVA workform.

All of which is respectfully submitted

⁸ EB-2009-0272