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Ontario

BY E-MAIL

March 29, 2019

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

Dear Ms. Walli:

Re: Lakeland Power Distribution Ltd. (Lakeland Power)
2019 Distribution Rate Application
OEB Staff Submission
OEB File No. EB-2018-0050

In accordance with Procedural Order No. 3, please find attached OEB staff's submission on the settlement proposal for Lakeland Power's 2019 cost of service application. This document is also being forwarded to Lakeland Power, the School Energy Coalition, and the Vulnerable Energy Consumers Coalition.

Yours truly,

Original Signed By

Donald Lau
Project Advisor – Rates Major Applications

Encl.

2019 ELECTRICITY DISTRIBUTION RATES

Lakeland Power Distribution Ltd.

EB-2018-0050

OEB STAFF SUBMISSION ON SETTLEMENT PROPOSAL

March 29, 2019

INTRODUCTION

Lakeland Power Distribution Ltd. (Lakeland Power) filed a complete application with the Ontario Energy Board (OEB) on September 27, 2018 seeking approval for changes to the rates that Lakeland Power charges for electricity distribution, to be effective May 1, 2019. The parties to the settlement proposal were Lakeland Power and the following approved intervenors in the proceeding: School Energy Coalition (SEC) and Vulnerable Energy Consumers Coalition (VECC) collectively called the Parties.

Effective July 1, 2014 the former Lakeland Power Distribution Ltd. (LPDL) and Parry Sound Power (PSP) amalgamated, in accordance with the provisions of the Ontario Business Corporation Act, to continue as one corporation under the name of Lakeland Power Distribution Ltd. Each of the service territories have continued to have a separate Tariff of Rates and Charges since the amalgamation. In this application, Lakeland Power has included a proposal to fully harmonize the rates for both service territories.

Two community meetings were held on November 28, 2018 in Parry Sound and Bracebridge, at which time the OEB and Lakeland Power made presentations. A summary of the community meetings was posted to the record of the proceeding. Meeting participants had questions regarding Lakeland Power's bill presentation, storm preparations, time-of-use rates, the Ontario Electricity Support Program, and other components of the delivery charge. OEB staff took into consideration the comments made during the community meetings in reviewing Lakeland Power's application.

The OEB issued a Decision on Issues List for this proceeding on February 25, 2019. A settlement conference was held on February 27, 2019 and February 28, 2019 and Lakeland Power filed a settlement proposal setting out an agreement among all the Parties to the proceeding on March 22, 2019.

The settlement proposal represents a complete settlement.

For a typical residential customer with a monthly consumption of 750 kWh, the total bill impact under the filed settlement proposal is a decrease of $5.67 per month before taxes or 4.69% for the former PSP service territory and an increase of $0.62 per month before taxes or 0.54% for the former LPDL service territory.

This submission is based on the status of the record as of the filing of Lakeland Power'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 Lakeland Power'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*, 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 that there are sufficient resources to allow Lakeland Power 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 is 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:

- Issue 1.1 Capital
- Issue 1.2 Operating, Maintenance, and Administration (OM&A)
- Issue 2.0 Revenue Requirement
- Issue 3.0 Load Forecast, Cost Allocation, and Rate Design
- Issue 4.0 Accounting
- Issue 5.1 Is the microFIT monthly service charge appropriate?
- Issue 5.3 Is the proposed effective date May 1, 2019 appropriate?

Issue 1.1 - Capital

In its application, Lakeland Power proposed a total net capital expenditure of $2.475 million for the 2019 test year. This is an increase of 18% from the 2018 actual total net capital expenditures. In its Distribution System Plan (DSP), Lakeland Power provided an overview of the assets managed and the capital expenditure plan. The capital expenditures included projects such as connecting new customers, meter upgrades and replacements, voltage conversions, asset replacements, supervisory control and data acquisition system and computer software, and fleet vehicles.

In the settlement proposal, the Parties agreed to a 2019 net capital expenditure of $2.375 million, which is a reduction of $100,000 from the amount requested in Lakeland Power's application. The Parties further agreed that the 2019 opening rate base will reflect the 2018 actual closing rate base. As a result, the settled 2019 test year rate base is $29.675 million as compared to $30.060 million in Lakeland Power's application.

In response to interrogatories, Lakeland Power stated that METSCO Energy Solutions Inc. (METSCO), Lakeland Power's DSP consultant, advised and identified the need for a formalized Asset Condition Assessment Report and Project Prioritization Process.[1] Lakeland Power had a prioritized projects list in the DSP for 2019, which was completed by METSCO, but did not have a prioritized project list going forward. The Parties agreed that prior to Lakeland Power's next cost of service application, it would have a full Asset Condition Assessment in place and implement a Project Prioritization Process.

OEB staff submits that it is appropriate to use the 2018 actual closing rate base for the purpose of the 2019 opening rate base. Lakeland Power's capital plan includes replacing aging assets as identified in its DSP, focusing on the assets in the worst condition. OEB staff notes that during these replacements, Lakeland Power is gradually converting the voltage of its 4kV and 12.5kV system to 27.6kV, which standardizes the voltage in a service area while reducing line losses. OEB staff supports Lakeland Power's capital plan as it is a reasonable long-term plan for its distribution system. OEB staff also notes that over half of

[1] EB-2018-0050 Response to Interrogatories, February 1, 2019 (2-SEC-23)

the capital projects are related to replacement of aging assets and voltage conversion. OEB staff supports the reduction of $100,000 as Lakeland Power should have the ability to manage within the capital envelope agreed upon in the settlement proposal by prioritizing the replacement of aging assets and voltage conversion projects.

OEB staff also notes that Lakeland Power is currently relying on asset age and inspection results as a basis for planning but lacks a formal Asset Condition Assessment. Lakeland Power's project prioritization was also based on engineering estimates provided by METSCO and not a formal Project Prioritization Process. OEB staff supports the development of a full Asset Condition Assessment and a Project Prioritization Process prior to the next cost of service application.

In the context of the settlement proposal, OEB staff does not have concerns with the 2019 capital budget and rate base amounts set out in the settlement proposal.

Issue 1.2 - OM&A

In Lakeland Power's application, it proposed an OM&A expenditure of $5.062 million for the 2019 test year. This is an increase of 2% from the 2018 actual OM&A expenditures. In the settlement proposal, the Parties agreed to a 2019 OM&A expenditure of $5.012 million, which is a reduction of $50,000 from the proposed expenditure and an increase of 0.85% from 2018 actual OM&A expenditures.

OEB staff notes that Lakeland Power is in the Group 2 cohort as per the *Empirical Research in Support of Incentive Rate-Setting: 2017 Benchmarking Update*.[2] OEB staff further notes that Lakeland Power improved from the Group 3 cohort to the Group 2 cohort in 2016. OEB staff submits that the final proposed 2019 OM&A increase is reasonable.

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[2] Report to the Ontario Energy Board – "Empirical Research in Support of Incentive Rate-Setting: 2017 Benchmarking Update", prepared by Pacific Economics Group LLC., August 2018

Issue 2.0 - Revenue Requirement

In its application, Lakeland Power proposed a service revenue requirement of $8.34 million and base revenue requirement of $7.66 million. As outlined in the settlement proposal, Parties have agreed to a service revenue requirement of $8.17 million and base revenue requirement of $7.49 million. The main drivers of the adjustments relate to a decrease in the rate base, cost of capital, and OM&A, along with an increase in other revenues and cost of power.

The rate base decrease is a combination of a decrease in capital additions from the reduction in the capital budget and an increase in working capital due to an increase in cost of power. The increase in cost of power is a result of a higher load forecast.

The decrease in the return on capital is a combination of a reduction in rate base and a decrease in the long-term debt rate. Lakeland Power updated one of its long-term debt rate instruments with the actual cost of borrowing and it was lower than the proxy used in the initial application. OEB staff supports the update to the long-term debt rate.

The increase in other revenues is attributable to increased interest and dividend income. Lakeland Power had originally forecasted no interest and dividend income. OEB staff notes that based on historical balances, it is reasonable that this account should have at least a minimal balance.

In the context of the settlement proposal, OEB staff does not have concerns with the proposed 2019 revenue requirement.

Issue 3.0 - Load Forecast, Cost Allocation, and Rate Design

In the settlement proposal, the Parties agreed that the customer count would reflect the 2018 actual customer count with a growth factor based on the average of the last five years. With respect to the kWh load forecast, the following revisions were made, in addition to the revised customer count:

- The 2017 verified Conservation and Demand Management (CDM) results are used (per VECC-15)
- The dependent variable is purchases plus CDM (per VECC-14)
- The loss factor used to convert to billed load is 7.1%

As outlined in Table 3.1A of the settlement proposal, Parties agreed to 2019 test year billing determinants of 278.1 GWh (an increase of 1.4 GWh over proposed) and 281,833 kW (an increase of 1,150 kW over proposed).

As outlined in Table 3.1C of the settlement proposal, the expected CDM savings for Lost Revenue Adjustment Mechanism Variance Account is 5.08 GWh.

In the context of the settlement proposal, OEB staff submits that the revised 2019 test year billing determinants are appropriate.

Issue 4.0 – Accounting

In Lakeland Power's application, it proposed to harmonize its 2019 distribution rates. Consistent with that request, Lakeland Power had also proposed to recover its December 31, 2017 Deferral and Variance Account (DVA) balances on a harmonized basis. For purposes of the settlement, the Parties have agreed to dispose of the December 31, 2017 DVA account balances on a non-harmonized basis, and that the 2018 balances will also remain separate, to be disposed of in Lakeland Power's next application. OEB staff submits that it has no concerns with the settlement reached on the 2017 balances because these balances were actually accumulated individually by service territory and therefore disposing of them on a non-harmonized basis is consistent with the principle of cost causality.

In regards to 2018 Group 2 DVA balances, the Parties agree that Lakeland Power may dispose of its 2018 Group 2 DVA balances through a special request of the OEB, as part of its 2020 IRM application.[3] OEB staff notes that the OEB does not typically consider the disposition of Group 2 DVA account balances outside of a rebasing proceeding. However, OEB staff understands the rationale behind Lakeland Power's request given that its DVA balances will be accumulated on a harmonized basis effective from January 1, 2019. Therefore, Lakeland Power would like to avoid the complexities that would result if it were to wait until its next cost of service application to dispose of its 2018 Group 2 DVA

[3] Settlement Proposal, March 22, 2019, pp. 37-38

balances (which were accumulated on a non-harmonized basis).[4] OEB staff submits that there is precedent for allowing utilities to dispose of Group 2 DVA balances outside of a rebasing proceeding and therefore has no concerns with the settlement reached on this matter. For example, Whitby Hydro Electric Corporation received OEB approval, through an approved settlement proposal, to dispose of its Group 2 DVA account balances as part of its 2018 IRM proceeding.[5] Furthermore, as part of its 2017 IRM application, Newmarket - Tay Power Distribution received OEB approval to clear its account 1576 balance annually until its next cost of service application.[6]

In regards to Account 1576, the balance in this account relates entirely to the former PSP service territory. The accounting records of the former PSP were damaged or lost during two building floods and therefore Lakeland Power had to make certain estimates and assumptions for the purpose of quantifying a balance for Account 1576.[7] In particular, Lakeland Power had to estimate the annual net capital additions related to the PSP rate zone for the period 2014-2018. In doing so, the utility calculated a historical average of net capital additions by rate zone using actual data from the period 2010-2013. This historical average was then applied to the actual combined annual capital spending of both rate zones for the period 2014-2018. In light of the lack of proper accounting records of the former PSP rate zone, OEB staff submits the methodology used by Lakeland Power to allocate its total annual capital spending for the period 2014-2018 amongst the legacy rate zones would appear to be reasonable since the operations of each rate zone would likely not have changed drastically over the period in question.

Issue 5.1 - Is the microFIT monthly service charge appropriate?

Lakeland Power applied for an adjustment to the microFIT monthly service charge from the province-wide rate of $5.40 to $10.00 to more accurately reflect the costs incurred. Lakeland Power receives services from Utilismart at

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[4] If Lakeland Power were to wait until its next cost of service application to dispose of its 2018 Group 2 DVA balances, it would mean that as part of that proceeding, Lakeland Power would be disposing of its 2018 balances on a non-harmonized basis and then all subsequent years on a harmonized basis.

[5] Combined proceeding EB-2017-0085/EB-2017-0292

[6] EB-2016-0275, Decision and Rate Order, March 30, 2017

[7] EB-2018-0050, Settlement Proposal, March 22, 2019, p. 37

$10/month/MicroFIT metering point for the settlement data of each MicroFIT account.[8] As per the *Review of Electricity Distribution Cost Allocation Policy*[9], distributors wishing to seek approval for a distributor-specific microFIT charge may identify additional cost elements that should be included in the determination of the charge. In a letter to distributors, the OEB further reminded electricity distributors that they may request a distributor-specific microFIT charge as part of their cost of service applications.[10]

OEB staff notes several examples of previous cost of service cases where the OEB established increased microFIT charges including:

- Wasaga Distribution 2016 CoS proceeding – increase to $10.00[11]
- St. Thomas Energy Inc. 2015 CoS proceeding – increase to $10.00[12]
- Renfrew Hydro Inc. 2017 CoS proceeding – increase to $10.00[13]
- Hydro Hawkesbury Inc. 2018 CoS proceeding – increase to $10.00[14]
- Cooperative Hydro Embrun Inc. 2018 CoS proceeding – increase to $10.00[15]
- Centre Wellington Hydro Ltd. 2018 CoS proceeding – increase to $10.00[16]

OEB staff submits that Lakeland Power's request for a microFIT charge of $10.00 is reasonable.

Issue 5.3 - Is the proposed effective date May 1, 2019 appropriate?

In the settlement proposal, the Parties agreed that Lakeland Power's new rates should be made effective May 1, 2019. OEB staff notes that Lakeland Power requested a one month delay in filing its initial application[17], a one week deferral

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[8] EB-2018-0050 Response to Interrogatories, February 1, 2019 (8.0-VECC-40)
[9] EB-2010-0219
[10] OEB's Letter to LDCs, September 20, 2012 (EB-2009-0326, EB-2010-0219)
[11] EB-2015-0107 Decision and Rate Order, March 24, 2016, Schedule B, p. 40
[12] EB-2014-0113 Rate Order, December 18, 2018, p. 2
[13] EB-2016-0166 Decision and Rate Order, February 9, 2017, Schedule A, p. 39
[14] EB-2017-0048 Decision and Order, February 22, 2018, Schedule A, p. 52
[15] EB-2017-0035 Decision and Rate Order, January 25, 2018, Schedule A, p. 51
[16] EB-2017-0032 Decision and Order, January 4, 2018, Schedule A, p. 51
[17] EB-2018-0050 Letter from Lakeland Power Distribution Ltd., August 28, 2018

of the settlement conference[18], and a one week extension to file the settlement proposal.[19] However, given that a complete settlement proposal was filed on March 22, 2019, OEB staff submits that an effective date of May 1, 2019 is appropriate.

All of which is respectfully submitted

[18] EB-2018-0050 Letter from Lakeland Power Distribution Ltd., December 5, 2018

[19] EB-2018-0050 Letter from Lakeland Power Distribution Ltd., March 12, 2019