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

BY EMAIL

May 31, 2019

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: PUC Distribution Inc.
2019 IRM Rate Application
OEB Staff Submission
OEB File No. EB-2018-0219

In accordance with Procedural Order No. 2, please find attached OEB staff's submission in the above proceeding.

PUC Distribution Inc. is reminded that its Reply Submission is due by June 7, 2019.

Yours truly,

Original Signed By

Georgette Vlahos
Advisor, Incentive Rate-setting & Accounting

Encl.

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2019 ELECTRICITY DISTRIBUTION RATES

PUC Distribution Inc.

EB-2018-0219

May 31, 2019

OEB Staff Submission
PUC Distribution Inc.
2019 IRM Rate Application
EB-2018-0219

Background

PUC Distribution Inc. (PUC Distribution) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on January 31, 2019 seeking approval for changes to its electricity distribution rates to be effective May 1, 2019. As part of its 2019 IRM application, PUC Distribution has also applied for an Incremental Capital Module (ICM) to recover costs associated with the implementation of the Sault Smart Grid (SSG). The SSG is split into two phases: phase one is expected to be complete in 2019 and phase two is expected to be complete in 2020, pending OEB approval. PUC Distribution has requested ICM funding in this application for phase one effective May 1, 2019 to recover a revenue requirement in 2019 for $510,533. The total estimated project cost is $34,389,046 with 22% ($7,655,053) for phase one to be in-service in 2019, and 78% ($26,733,992) for phase two to be in-service in 2020.[1]

The OEB completed its preliminary review and commenced processing the application on February 6, 2019.

In accordance with the OEB's Procedural Order No. 1, PUC Distribution filed responses to interrogatories on the IRM portion[2] of the application on May 17, 2019. Procedural Order No. 2 noted that any written submission by OEB staff and intervenors on the IRM portion of the application shall be filed with the OEB and served on all other parties by May 31, 2019.[3]

Accordingly, this submission is that of OEB staff's on the IRM portion of PUC Distribution's application. OEB staff makes submissions on the following matters:

- Fully Fixed Monthly Distribution Charge – Residential Customers
- Price Cap Adjustment
- Retail Transmission Service Rates (RTSRs)
- Deferral and Variance Account (DVA) Disposition

[1] PUC Distribution has applied for and signed an agreement with the Natural Resources Canada (NRCan) Smart Grid Program for a total of $11,807,000 in funding ($2,628,256 for 2019, $9,178,744 for 2020). PUC Distribution has indicated that this NRCan funding is conditional pending approval of the smart grid project from the OEB.
[2] Procedural Order No. 2 bifurcated the application into two parts. One to address the IRM portion and one to address PUC Distribution's incremental capital module (ICM) proposal.
[3] Issued May 3, 2019

- Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) Disposition
- Implementation – Effective Date

Fully Fixed Monthly Distribution Charge – Residential Customers

PUC Distribution is in its second to last year of transitioning towards a fully fixed monthly distribution charge for its Residential customer class in accordance with the OEB's policy, *A New Distribution Rate Design for Residential Electricity Customers*. [4] In PUC Distribution's 2016 IRM application[5], the OEB approved an extension to the standard four-year transition period to a fully fixed service charge for Residential customers to five years. This was for mitigation measures at that time as PUC Distribution calculated the monthly fixed charge increase to be greater than $4 per year. In the current application, PUC Distribution has demonstrated that no further rate mitigation is required. OEB staff has no issue with PUC Distribution's current proposal.

Price Cap Adjustment

In calculating its rates for 2019, PUC Distribution has used its OEB assigned stretch factor of 0.45% based on the updated benchmarking study for use for rates effective in 2019.[6] This is consistent with the annual adjustment mechanism in section 3.2.1 of *Chapter 3 of the Filing Requirements for Electricity Distribution Rate Applications*.[7] Based on a 2019 price escalator of 1.50%, OEB staff has no issue with PUC Distribution's proposal for a total price-cap index adjustment of 1.05%.

Retail Transmission Service Rates (RTSRs)

OEB staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by PUC Distribution. Pursuant to the OEB's Guideline G-2008-0001, OEB staff provided an updated Rate Generator Model as part of its interrogatories to account for the recent changes to the Uniform Transmission Rates (UTRs), effective January 1, 2019.[8] Consistent with prior years, PUC Distribution's customers are not subject to the retail connection transmission service rates due to the fact that PUC Distribution receives power at 115kV and owns the transformer

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[4] EB-2012-0410, Board Policy: A New Distribution Rate Design for Residential Electricity Customers, April 2, 2015
[5] EB-2015-0089
[6] 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
[7] Issued July 12, 2018
[8] Decision and Interim Rate Order, EB-2018-0326, December 20, 2018
Decision and Order, EB-2018-0294, December 20, 2018

equipment to step down to distribution levels.[9] Therefore, PUC Distribution is only subject to Network charges by the IESO.

OEB staff does not take issue with PUC Distribution's proposal.

Deferral and Variance Account (DVA) Disposition

PUC Distribution's 2015 and 2016 Group 1 DVA balances were approved for interim disposition in its 2018 cost of service rate application. In its current application, PUC Distribution completed the DVA continuity schedule included in the 2019 IRM Rate Generator Model at Tab 3 for its 2017 Group 1 DVA balances. The Group 1 DVA balances amount to a credit of $1,659,753 (as amended during the course of this proceeding). The balance in Account 1589 – Global Adjustment (GA) is a debit of $476,919 and is applicable only to Non-RPP, Class B customers. The remaining DVAs excluding GA amount to a credit of $2,136,672. The Group 1 DVA balances requested for disposition are comprised of principal and interest transactions from January 1, 2017 to December 31, 2017. These balances also include projected interest calculated from January 1, 2018 to April 30, 2019.

Based on the threshold test calculation, the Group 1 DVA balances equate to a total claim of $0.0027 per kWh, which exceeds the pre-set disposition threshold of $0.001 per kWh. In its application, PUC Distribution requested disposition of these accounts over a period of one year.

<u>Account 1595</u>

In PUC Distribution's initial application, Accounts 1595 (2013) and (2016) were requested for disposition. The amounts are a debit of $9,424 and a debit of $54,012, respectively. In an interrogatory, OEB staff noted that Account 1595 (2013) was previously approved for disposition on a final basis by the OEB. OEB staff notes that each Account 1595 sub-account is only expected to be disposed once on a final basis. OEB staff questioned why PUC Distribution was proposing to dispose this account again. In its response[10], PUC Distribution removed Account 1595 (2013) from its disposition request and indicated that an adjustment between Accounts 1595 (2013) and (2016) is required to be made to its Reporting and Record-keeping Requirements (RRR) 2.1.7. The claim amount for Account 1595 (2016) was also increased on the DVA Continuity Schedule to a debit of $65,807.

[9] EB-2018-0219, Application, Page 7
[10] Interrogatory responses – Staff 5

It is unclear to OEB staff as to why PUC Distribution increased its claim for the balance of Account 1595 (2016) and how the increase is correlated with the removal of Account 1595 (2013) from the disposition request. If the increase in Account 1595 (2016) is due to residual transactions for Account 1595 (2013) that occurred after PUC Distribution received final disposition of the sub-account in its 2016 rate application, OEB staff submits that this amount should not be included in Account 1595 (2016) nor should it be requested for disposition again. Any residual amount is not expected to be material and should be written off. OEB staff invites PUC Distribution to provide further clarification on Account 1595.

Accounts 1588 and Account 1589

The balance in Account 1588 - Power is a credit of $1,015,475. In its response to an OEB staff interrogatory questioning the large balance[11], PUC Distribution indicated that it follows the Accounting Procedures Handbook, Article 490 and is not aware of any specific reason for the large balance in Account 1588.

The balance in Account 1589 - GA is a debit of $476,919. In the GA Analysis Workform, the Net Change in Principal Balance in the General Ledger was a debit of $468,260. This corresponded to the 2017 principal transactions in the year in the DVA Continuity Schedule. In the GA Analysis Workform, the Net Change in Principal Balance in the General Ledger was reduced by $444,645 for GA pertaining to Class A, but no similar adjustment was made in the DVA Continuity Schedule. In its interrogatory response[12], PUC Distribution confirmed that the debit of $468,260 included GA for Class A customers. In addition, PUC Distribution revised the DVA Continuity Schedule; the 2017 total transactions were changed to a debit of $1,452,628 and principal adjustments are a credit of $964,368. The net transactions in the year after adjustments is still $468,260.

OEB staff notes that typically, Account 1588 is expected to have a minimal balance that is comprised mainly of unaccounted for energy losses. OEB staff is of the view that PUC Distribution's Account 1588 balance is large, given the size of the utility. Even though Account 1588 is in a credit position, OEB staff submits that PUC Distribution has not provided a sufficient explanation for the account balance. The account is a pass-through account and the correct balance should be disposed.

Concerning Account 1589, OEB staff is not clear about the net amount of 2017 transactions in the year (i.e. after removing the GA for Class A customers) that should be disposed to Non-RPP Class B customers. The GA Analysis Workform and PUC Distribution's interrogatory response indicates that the $468,260 of transactions in 2017

[11] Interrogatory responses – Staff 8
[12] Interrogatory responses – Staff 16

includes GA for Class A customers. However, in the revised DVA Continuity Schedule, transactions in 2017 were revised to $1,452,628 and the adjustment to remove the balance pertaining to Class A was revised to $984,368. The sum of the two amounts is still $468,260, which PUC Distribution indicated includes GA for Class A customers. No further explanation was provided for the changes in the DVA Continuity Schedule for the transactions amount and Class A GA balance. If PUC Distribution revised the GA Analysis Workform to reflect the change in the DVA Continuity Schedule, the unresolved difference as a percent of GA Payments to the IESO would increase to 1.5%. This would require further explanation as the GA Analysis Workform requires difference of greater than 1% to be explained.

New accounting guidance[13] for Accounts 1588 and 1589 was issued February 21, 2019, effective January 1, 2019[14]. The new accounting guidance is expected to be considered in the review of historical balances prior to 2019 that have yet to be disposed on a final basis. Any material errors or discrepancies that are identified are expected to be corrected prior to requesting final disposition. Given the timing of the application and issuance of new accounting guidance, PUC Distribution has not had the chance to provide a status update on the review of the new accounting guidance in the context of the 2017 balance currently requested for disposition, as well as the 2015 and 2016 balances that were approved for disposition on an interim basis. As a result of the above and the issues noted above for Accounts 1588 and 1589, OEB staff is of the view that Accounts 1588 and 1589 should not be disposed until PUC Distribution has addressed the above noted concerns and have completed its review of the account balances in accordance with the expectations of the new accounting guidance.

Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) Disposition

In the application as originally filed, PUC Distribution applied to dispose of an LRAMVA debit balance of $383,020. This balance includes lost revenues in 2017 from Conservation and Demand Management (CDM) programs delivered during the 2011 to 2017 period and carrying charges projected to April 30, 2019. PUC Distribution has utilized the most recent final 2017 CDM annual verified results report from the IESO in support of its lost revenue calculation.[15]

PUC Distribution used an LRAMVA threshold of 9,399,060 kWh as established in its 2013 cost of service proceeding[16] as forecast savings to compare against actual

[13] Accounting Procedures Handbook Update – Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589, February 21, 2019
[14] OEB letter: Accounting Guidance related to Accounts 1588 RSVA Power, and 1589 RSVA Global Adjustment, dated February 21, 2019
[15] EB-2018-0219, Application, Page 13
[16] EB-2012-0162

savings in 2017.

In response to OEB staff interrogatories, PUC Distribution filed an update to its LRAMVA Workform to revise the 2016 and 2017 distribution rates used to calculate lost revenues. PUC Distribution agreed to exclude certain rate riders that were not in effect for the 2016 and 2017 rate years.[17] As a result of this change, the LRAMVA balance increased by $1,292 to a debit of $384,312.

PUC Distribution's LRAMVA balance also includes lost revenues from street light upgrades in the City of Sault Ste. Marie. The demand savings from street light upgrades implemented in 2015 and 2016, which have persisted into 2017, are included in the LRAMVA balance. PUC Distribution retained a third party consultant to evaluate its street light savings[18] and provided the detailed calculations in support of total billed demand pre- and post-implementation of the upgrades to LED bulbs.[19] Street light demand savings represent 30% of the total LRAMVA claim.

OEB staff submits that PUC Distribution's revised LRAMVA balance has been calculated in accordance with the OEB's CDM-related guidelines and updated LRAMVA policy. OEB staff believes that PUC Distribution has appropriately updated its LRAMVA balance, removing the impact of rate riders that were not in effect for the 2016 and 2017 rate years.

Based on OEB staff's review of the inputs in Tab 3 of the revised LRAMVA Workform[20], OEB staff noticed a typographical error in the 2016 rate rider for tax change included with the distribution rate for the GS 50-4999 kW customer class in 2016. OEB staff acknowledges that a correction would result in a reduction of $9 claimed in the total LRAMVA balance. As a correction would be immaterial in terms of the impact on rate riders, OEB staff does not take issue with the revised debit balance of $384,312 requested for disposition.

OEB staff further submits that PUC Distribution's calculation of street light demand savings is appropriate. PUC Distribution's 2013 load forecast included a CDM adjustment of 295 kW for the street light class. The forecast CDM amount for the street light class was pro-rated from PUC Distribution's approved CDM adjustment (9,399,060 kWh) based on its weather corrected 2013 load forecast.[21] Actual streetlight savings have been calculated based on the difference in monthly billed demand after each

[17] OEB Staff interrogatories, 18 a) and b)
[18] Application, Appendix 5
[19] OEB Staff interrogatory, 19 g) excel attachment
[20] OEB Staff interrogatory, 18 c) Attachment B
[21] OEB Staff interrogatory, 19 a)

conversion to LED bulbs from January 2015 to December 2017, and were then compared against the forecast level of savings for the street light class embedded in the 2013 load forecast. OEB staff does not take issue with this calculation.

OEB staff supports the total LRAMVA balance of $384,312 as amended by PUC Distribution, and the proposed disposition of this balance over a one-year period.

Implementation – Effective Date

PUC Distribution filed its application on January 31, 2019 requesting rates effective May 1, 2019. As noted in the OEB's letter issued on July 12, 2018[22], which established application filing deadlines for distributors filing IRM applications, PUC Distribution was placed in the second tranche and was expected to file its application on September 24, 2018. Based on the expected filing date versus the actual filing date, PUC Distribution's application was 129 days late.

The OEB's letter notes that each tranche outlined in the letter was determined so that, in the normal course of events, a decision would be issued in time for a January 1 or May 1 implementation date.

The OEB issued an Interim Rate Order in this proceeding on April 10, 2019 noting that:

> The OEB will not be in a position to render a final decision in time to implement new rates on May 1, 2019. The OEB finds it appropriate to declare PUC Distribution's rates to be interim, effective May 1, 2019, until such time as final 2019 rates are established by the OEB.
>
> This determination of interim rates continues to be without prejudice to the OEB's decision on PUC Distribution's application and should not be construed as predictive, in any way whatsoever, of the OEB's final determination of the effective date for rates arising from the application.[23]

At the time of filing, the OEB's performance standards for processing an application based on a standard written hearing indicated that the typical cycle time for the OEB to issue a decision is 185 days.[24] OEB staff calculates that based on a January 31, 2019

[22] Cover Letter for Chapters 1, 2, 3 and 5 Updates, July 12, 2018, https://www.oeb.ca/sites/default/files/CoverLetter-Filing-Requirements-20180712.pdf
[23] EB-2018-0219, Interim Rate Order, April 10, 2019
[24] At the time of filing, the OEB's cycle time standards for rate applications were determined by hearing type (i.e. oral or written). Effective April 1, 2019, the OEB adopted new performance standards for processing rate applications. See https://www.oeb.ca/industry/applications-oeb/performance-standards-processing-applications

filing date, an expected decision date would be August 5, 2019.

While PUC Distribution's application did not address the late filing, OEB staff is cognizant of the fact that preparing this type of application with an ICM request as large (in terms of both supporting documentation provided and quantum in terms of dollars) is not a small undertaking.

Additionally, OEB staff notes that PUC Distribution did not receive its 2018 cost of service decision until September 2018. The effective date approved in that proceeding was October 1, 2018.

In the current proceeding, PUC Distribution's only options included filing late, as they did (since final 2018 rates were not determined until September), or filing the IRM component of the application by November 7, 2018 (the fourth scheduled tranche of IRM applications for 2019), and following that up with a separate application for the ICM. One advantage of filing a single application is that the OEB is in a position to issue one public notice.

The OEB's approach in many cases has been to establish the effective date the first of the month following the issuance of a decision, unless the applicant has not contributed to any delays over the course of a proceeding.

In the current proceeding, PUC Distribution has not missed any deadlines to date nor have they requested extensions for filings (on the IRM portion of the application). In OEB staff's view, given the fact that PUC Distribution's 2018 rates were not effective and available to enter into the 2019 IRM Rate Generator Model until October 2018, and that the OEB decided to bifurcate the ICM component of this proceeding, it is not unreasonable to allow for a May 1 effective date for the IRM component.

OEB staff highlights that this submission provides OEB staff's position on the effective date of the IRM portion of the application. OEB staff's final position of the effective date of the ICM, should the OEB approve the request, will be addressed by OEB staff in any supplemental submission on the ICM.

All of which is respectfully submitted