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

BY EMAIL

October 1, 2019

Christine E. Long
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Attention: Ms. Christine E. Long, Registrar

Dear Ms. Long:

Re: EnWin Utilities Ltd. (EnWin Utilities)
Application for 2020 electricity distribution rates
OEB Staff Submission
Ontario Energy Board File Number: EB-2019-0032

In accordance with Procedural Order No. 4, please find attached OEB staff's submission on the settlement proposal in the above proceeding.

Yours truly,

Original Signed By

Tina Li
Project Advisor – Electricity Distribution - Major Rate Applications & Consolidations

Encl.

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ONTARIO ENERGY BOARD

STAFF SUBMISSION ON SETTLEMENT PROPOSAL

2020 ELECTRICITY DISTRIBUTION RATES

ENWIN UTILITIES LTD.

EB-2019-0032

October 1, 2019

Introduction

EnWin Utilities Ltd. (EnWin Utilities) filed a cost of service application with the Ontario Energy Board (OEB) on April 26, 2019 under section 78 of the *Ontario Energy Board Act*, *1998* seeking approval for changes to the rates that EnWin Utilities charges for electricity distribution, to be effective January 1, 2020. Four parties were granted intervenor status: School Energy Coalition, Vulnerable Energy Consumers Coalition, Association of Major Power Consumers in Ontario and Consumers Council of Canada.

The OEB issued an approved issues list for this proceeding on August 20, 2019. A settlement conference was held on August 22, 2019 and August 23, 2019. EnWin Utilities filed a settlement proposal setting out an agreement with the four intervenors on September 24, 2019.

The settlement proposal represents a partial settlement of the issues in EnWin Utilities' application. The parties agreed on all issues except for one specific rate design issue.

If the OEB accepts the partial settlement and EnWin Utilities' proposal on the unsettled issue, the total bill impact for a typical residential customer with a monthly consumption of 750 kWh, would be a decrease of $1.41 per month before taxes or a decrease of 1.3%. OEB staff notes that these bill impacts are subject to updates to the cost of capital parameters, which will be issued by the OEB and in accordance with the OEB's policy on the cost of capital.[1]

This submission is based on the status of the record as of the filing of EnWin Utilities' 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 the settlement proposal.

Summary of OEB Staff Position

OEB staff has reviewed the settlement proposal in the context of the objectives of the *Renewed Regulatory Framework* (RRF),[2] the *Handbook for Utility Rate Applications*,[3] 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 EnWin Utilities' application. OEB staff submits that the

[1] *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities* (EB-2009-0084), December 11, 2009
[2] *Report of the Board Renewed Regulatory Framework on Electricity Distributors: A Performance-Based Approach*, October 18, 2012
[3] October 13, 2016

settlement proposal represents an acceptable outcome from a public interest perspective, and that the accompanying explanation and rationale (including EnWin Utilities' written answers to questions arising in the settlement conference and the other supporting materials filed with the settlement proposal) are adequate to support the settlement proposal.

OEB staff supports the parties' settlement proposal and provides submissions on the following issues:

- 1.1 Capital
- 1.2 Operating, Maintenance and Administration (OM&A)
- 2.1 & 2.2 Revenue Requirement
- 3.0 Load Forecast, Cost Allocation and Rate Design
- 4.0 Accounting
- 5.1 Specific Service Charge
- 5.2 Gross Load Billing for Retail Transmission Rates
- 5.3 Effective Date

Issue 1.1 Capital

As filed in the application, EnWin Utilities proposed total net capital expenditures of $19.95 million for the 2020 test year. After the interrogatory process, EnWin Utilities' both the 2019 and the 2020 opening gross rate base were increased by $2.7 million to reflect the 2018 audited actual figures. As part of the settlement proposal, EnWin Utilities agreed to adjust its 2020 rate base and net capital expenditures to reflect the following changes:

1) to reduce 2019 net capital expenditures by $2.91 million, due to a shift of capital work on one facility of $2.2 million from 2019 to 2020 and a reduction of $0.71 million on other 2019 capital expenditures
2) to reduce 2020 net capital expenditures by $1.61 million, representing a reduction of 2020 net capital expenditures of $3.81 million offset by a $2.2 million increase due to the shift of 2019 capital work on one facility

With the above updates and adjustments, EnWin Utilities' 2020 net capital expenditures are reduced to $18.3 million and 2020 rate base is updated to $344 million.

In its filed Distribution System Plan (DSP), EnWin Utilities proposed to sell the administration facility and renovate the operating facility to accommodate all staff from EnWin Utilities and its affiliated company. This consolidation plan impacts a number of areas in the application: the DSP includes the renovation of one facility (the parties agreed to defer $2.2 million of renovation work from 2019 to 2020), the gain from the sale of one facility is to be recorded in a new deferral account, and the shared service revenue from the affiliate is forecasted in other revenues because the affiliate staff are to be transferred into the same facility as the utility staff. The parties agreed that the new deferral account will record 50% of the gain, which will be refunded to EnWin Utilities' ratepayers. The other 50% of the gain is to be allocated to EnWin Utilities' affiliated water utility for water ratepayers. OEB staff notes that this is consistent with previous OEB decisions, which returned 100% of the gain of the sale of a building related to the regulated business to ratepayers. For example, in Toronto Hydro-Electricity System Limited's 2008 cost of service application[4], the OEB found that "100% of the net after tax gains from the sale of 228 Wilson Avenue, 175 Goddard Street, and 28 Underwriters Road, the properties that are planned to be sold in 2008, should go to the ratepayer".

OEB staff notes that EnWin Utilities has shown a pattern of under-spending (underspent $22 million or 12% cumulatively from 2009 to 2018 as compared to the 2009 OEB-approved capital spending of $19.2 million) since its last cost of service application. However, in the settlement proposal, EnWin Utilities made a commitment to enhance its process by linking the condition of its assets to the pace of its capital investment plan. EnWin Utilities also made a commitment to provide further evidence supporting this effort in its next cost of service or custom incentive rate-setting (IR) application.

For the purposes of the settlement of the issues in this proceeding, the parties have accepted that the level of planned capital expenditures and the rationale for planning and pacing choices are appropriate and adequately explained. The settlement proposal reflects an allocation of the 2020 capital net reduction of $1.61 million into different capital programs (system access, system renewal and general plant). As part of the settlement proposal, the parties acknowledged that EnWin Utilities is at liberty to manage the reductions as it sees fit given the actual operating conditions and needs of the company.[5]

OEB staff notes that the proposed 2020 net capital expenditures is $0.89 million less than the OEB-approved capital expenditures of $19.23 million in EnWin Utilities' 2009 cost of service Decision and Order[6] and approximately $1 million higher than EnWin Utilities' 2009 actual capital expenditures of $17.3 million. Out of the proposed 2020 net capital expenditures of $18.3 million, general plan expenditures account for 37% (47%

[4] EB-2007-0680, Decision, May 15, 2008, page 27
[5] Settlement Proposal, September 24, 2019, page 12
[6] EB-2008-0227, April 9, 2009

of 2009 total approved capital expenditures), system renewal expenditures account for 31% (35% of 2009 total approved capital expenditures), system service expenditures account for 19% (3% of 2009 total approved capital expenditures) and system access net of capital contribution account for 13% (15% of 2009 approved capital expenditures).

OEB staff has no concerns with the 2020 capital budget included in the settlement proposal. OEB staff notes that EnWin Utilities has sought customers' feedback with the DSP. OEB staff submits that EnWin Utilities' DSP is appropriate subject to EnWin Utilities' commitment to improve the linkage between the condition of its assets and the pace of its capital investment plan and supporting this in its next cost of service or customer IR application. OEB staff concurs with the parties that EnWin Utilities should be able to allocate the reduction in its 2020 capital budget within the envelope of the total net capital expenditures without adversely affecting its capital needs.

Issue 1.2 Operating, Maintenance, and Administration (OM&A)

As filed in the application, EnWin Utilities proposed total OM&A spending of $29.35 million for the 2020 test year. OEB staff notes that this is the first rebasing application since EnWin Utilities adopted the International Financial Reporting Standard (IFRS) in 2012. As noted in the application[7], there are two IFRS impacts on OM&A expenses: one is the impact on the burden rates of $2.2 million and the other is the impact on employee future benefits of $0.4 million.

The proposed OM&A budget did not change after the interrogatory process. As part of the settlement proposal, the parties agreed to a reduction of $1.25 million to EnWin Utilities' proposed OM&A spending in the 2020 test year, for a total OM&A amount of $28.1 million. EnWin Utilities stated that it has allocated the $1.25 million reduction to Administrative and General Costs - Administrative & Human Resources Expenses. The parties acknowledge that EnWin Utilities is at liberty to manage the reduction as it sees fit.

The settled OM&A budget of $28.1 million represents a compound annual growth rate of 3.16% compared to 2009 actual OM&A spending, and represents a compound annual growth rate of 2.41% compared to the 2009 OEB-approved budget.[8] OEB staff notes that EnWin Utilities was in the Group 4 cohort as per the *Empirical Research in Support of Incentive Rate-Setting: 2018 Benchmarking Update*[9] from 2013 to 2016 and has

[7] EB-2019-0032, Exhibit 4, page 7
[8] EB-2008-0227, April 9, 2009
[9] *Report to the Ontario Energy Board – "Empirical Research in Support of Incentive Rate-Setting: 2018 Benchmarking Update", prepared by Pacific Economics Group LLC.*, August 2019

improved to Group 3 since 2017. In the 2020 test year, EnWin Utilities stated that it will maintain the Group 3 ranking.

In the context of the settlement proposal, OEB staff does not have concerns with the proposed 2020 test year OM&A expense of $28.1 million.

Issue 2.0 Revenue Requirement

The parties agreed to a service revenue requirement of $55.5 million and a base revenue requirement of $51.3 million. Compared to the service revenue requirement as filed in the application, the service revenue requirement as part of the settlement proposal decreased by $2.78 million. The main drivers of the reduction are a lower 2020 rate base due to a reduction of capital expenditures (refer to Issue 1.1 Capital) and a$1.25 million reduction of OM&A expenditures (refer to Issue 1.2 OM&A) as well as updated Payment in Lieu of Taxes (PILs).

The base revenue requirement decreased by $0.1 million more than the service revenue requirement in 2020, because the parties agreed to increase the other revenues in 2020 by $0.1 million. This is due to the increased shared service revenues from EnWin Utilities' affiliated company for one facility, following the facility consolidation plan. The parties agreed that the other revenue calculations, as updated to reflect the settlement proposal, are reasonable and have been appropriately determined in accordance with OEB policies and practices.

EnWin Utilities stated that it would update the cost of capital parameters when the 2020 parameters are issued. OEB staff submits that this is appropriate and that EnWin Utilities should file a draft rate order once the 2020 cost of capital parameters are issued by the OEB in the fall of 2019.

Issue 3.0 Load Forecast, Cost Allocation, and Rate Design

Load Forecast

The parties agreed to remove one large customer's forecasted load from EnWin Utilities' 2020 load forecast because this customer has announced the closure of its operations in 2020. The parties agreed that EnWin Utilities should establish a new deferral account (refer to Issue 4.2) to record any incremental distribution revenue arising from this large use customer without disclosing the customer's identity. As a result, the draft accounting order for this new deferral account was filed in confidence and a redacted version was filed on the public record.

The agreed-upon load forecast of 2,292 GWh in 2020 represents a 101 GWh (4%) decrease from EnWin Utilities' 2018 weather normalized actual loads. The agreed-upon demand of 3,448,612 kW in 2020 represents a 208,477 kW (6%) decrease from EnWin Utilities' 2018 weather normalized actual demand. The exclusion of a large customer's load in the 2020 test year due to its announced closure is the main reason for the decrease. The agreed-upon customers/connections in 2020 represent a 1% increase as compared to the 2018 actual customers/connections.

In the context of the settlement proposal, OEB staff does not have any concerns with the proposed load forecast of 2,292 GWh, 3,448,612 kW, and 114,132 customers and connections as shown in tables 3.1A and 3.1B of the settlement proposal.

For the purposes of the settlement in this proceeding the parties agreed that the total Conservation and Demand Management (CDM) adjustment of 66.2 GWh proposed by EnWin Utilities is appropriate. EnWin Utilities provided the 2020 expected CDM savings by rate class for the Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) in Table 3.1C. OEB staff submits that the agreed-upon CDM adjustment and CDM savings for purposes of the LRAMVA threshold are appropriate. Following the release of the OEB's addendum to the filing requirements for electricity distributors[10], OEB staff submits that EnWin Utilities appropriately updated its CDM forecast in Appendix 2-I to only include expected savings that are subject to a Conservation First Framework contract. The CDM savings included in the LRAMVA threshold correctly capture the annualized impact of the CDM adjustment.

Cost Allocation

As part of the settlement proposal, the parties agreed to maintain the fixed charge for the GS 50-4,999 kW rate class at the current level, as the charge is already above the OEB's policy ceiling.

Subject to the resolution of the unsettled issue and the adjustments expressly noted in the settlement proposal, the parties agreed that the cost allocation methodology is

[10] Addendum to Filing Requirements for Electricity Distribution Rate Applications, July 15, 2019, page 5

appropriate and results in revenue-to-cost ratios that are within the OEB's permitted ranges.

With respect to revenue to cost ratios, the parties agreed on the ratios set out in Table 3.2A. This reflects a reduction in the street lighting revenue-to-cost ratio from 135.9% to 120%. Offsetting adjustments were made to the Large User - Regular class, which moved from 76.9% to 89.6%, and the Unmetered rate class, which moved from 87.4% to 89.6%.

Section 2.8.1 of the *Filling Requirements for Electricity Distribution Rate Application*s states:

> If a distributor's current fixed charge for any non-residential class is higher than the calculated ceiling, there is no requirement to lower the fixed charge to the ceiling, nor are distributors expected to raise the fixed charge further above the ceiling for any non-residential class.[11]

In the context of the settlement proposal, OEB staff does not have any concerns with the cost allocation or maintaining the fixed charge for the GS 50-4,999 kW rate class at the current level.

Rate Design

As filed in the application, EnWin Utilities requested the following:

- eliminate the Large Use – Ford Annex rate class, and move the one existing customer to the Large Use – 3TS rate class
- eliminate the Intermediate rate class and move the three existing customers to the GS 50 kW to 4,999 kW rate class

Subject to the adjustments expressly noted in the settlement proposal, the parties agreed that the proposal for rate design, including the elimination of the Large Use-Ford Annex rate class, is appropriate. The parties did not agree on the proposed elimination of the intermediate rate class. Table 3.3A, in the settlement proposal, shows the proposed 2020 distribution charges resulting from this settlement, assuming that EnWin Utilities' proposal to eliminate the intermediate rate class is accepted by the OEB.

[11] *Filing Requirements For Electricity Distribution Rate Applications – 2018 Edition for 2019 Rate Applications*, Chapter 2, section 2.2.2.3

OEB staff notes that EnWin Utilities filed a letter of support[12] from Ford on August 19, 2019, which states that Ford supports EnWin Utilities' proposal of eliminating the Large Use – Ford Annex rate class and the movement of the Ford Annex account into the Large Use – 3TS rate class.

In the context of the settlement proposal and subject to the unsettled rate design issue, OEB staff does not have any concerns with the elimination of the Large Use – Ford Annex rate class and moving the affected customer to the Large Use- 3TS rate class.

Issue 4.0 Accounting

4.1 Impacts from the Change of Accounting Standards

OEB staff notes that this application is the first rebasing application under modified IFRS since EnWin Utilities adopted the IFRS in 2012. As a result, all impacts from the change of accounting standards should be identified and accounted for in the application. The parties agreed that the impacts of any changes in accounting standards, policies, estimates and adjustments have been properly identified, and the treatment of each of these impacts is appropriate. In the context of the settlement proposal, OEB staff submits that EnWin Utilities has properly identified the impacts from the change of accounting standards and accounted for the impacts appropriately.

4.2 Deferral and Variance Accounts (DVA) Excluding Account 1575

EnWin Utilities proposed to dispose of its Group 1 (credit of $1,298,902) and Group 2 (credit of $3,652,582) DVA balances as at December 31, 2018 including forecasted interest through December 31, 2019. The parties agreed with EnWin Utilities' proposal for disposal of its Group 1 and Group 2 DVAs, subject to the following adjustments:

- Group 1 – Account 1588 RSVA Power: adjusted by $23,484.44 to reflect embedded generator cost of power as at 2018 year end.
- Group 2 – Account 1508 Subaccount – the Productivity Initiative: the deferral account was approved in EnWin Utilities' 2009 cost of service decision[13] enabling EnWin Utilities to record expenditures of up to $100,000 per year paid to external persons, including both experts and stakeholders, to assist in developing or assessing productivity initiatives. EnWin Utilities requested to dispose of a balance of $977,507 (Principal balance of $900,000 and Interest of $77,507) in

[12] EnWin Utilities Letter Enclosing Customer Letter of Support, August 19, 2019
[13] EB-2008-0227, April 9, 2009

its original application. The parties agreed that the principal balance of this account should be reduced by $310,500, excluding certain costs incurred by EnWin Utilities. No new amounts will be recorded in this account and it will be closed upon final disposition. OEB staff notes that the updated balance for this account is $650,814, reflecting the reduction of $310,500 in principal balance and the associated interest.

- Group 2 – Account 1508 Subaccount – Other Regulatory Assets, Site Consolidation Plan Gains Deferral Account: this is a new account to capture 50% of the actual gain on the sale of EnWin Utilities' administration facility pertaining to its facility consolidation plan. The parties agreed that the other 50% of the actual gain should be allocated to EnWin Utilities' affiliated water utility for water customers' share of the proceeds upon disposition.

- Group 2 – Account 1508 Subaccount – Deferred Lost Customer Distribution Revenue: this is a new account to record any incremental distribution revenue arising from a large use customer whose load forecast is excluded from EnWin Utilities' 2020 load forecast because of the announced closure of the customer in 2020.

OEB staff notes that in EnWin Utilities' 2019 IRM rate decision[14], the 2017 commodity pass-through account balances were approved for disposition on an interim basis. In response to an interrogatory question[15], EnWin Utilities stated that it had incorporated the OEB's Accounting Guidance[16] into its true-up processes for 2018 for Accounts 1588 and 1589 except for the embedded generation settlement process for December 2018. In its response to a clarification question[17], EnWin Utilities quantified the impact of $23,484 for the accrual of December 2018 embedded generation cost of power and updated the Account 1588 balance in the settlement proposal.

OEB staff submits that it is appropriate to dispose of the 2017 and 2018 Group 1 DVA balances including Accounts 1588 and 1589 on a final basis, given that EnWin Utilities confirmed that it has conformed to the OEB's Accounting Guidance.

OEB staff submits that it is appropriate to dispose of the Group 2 DVA balances on a final basis. OEB staff does not have any concerns with the accounting orders filed by EnWin Utilities for the two new Group 2 accounts.

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[14] EB-2018-0029, March 28, 2019
[15] Responses to 9-Staff-117, August 1, 2019
[16] *Accounting Procedures Handbook (APH) Update –Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589,* February 21, 2019
[17] OEB Staff Pre-settlement Clarification Question 19, September 24, 2019

OEB staff does not have any concerns with the discontinuation of the DVAs that are listed in Table 4.2 of the settlement proposal.

4.3 Account 1575 IFRS-CGAAP Transition Deferral Account

As per the APH[18], a distributor should use Account 1575 to record differences arising as a result of accounting policy changes caused by the transition from previous Canadian GAAP to modified IFRS.

This is the first rebasing application since EnWin Utilities adopted IFRS in 2012. As a result, EnWin Utilities has accumulated a large credit balance of $30.98 million in Account 1575 IFRS-CGAAP Transition deferral account reflecting nine years of accounting differences between Canadian Generally Accepted Accounting Principles (GAAP) and modified IFRS from 2011 to 2019. OEB staff notes that EnWin Utilities provided a third-party audit report[19] for the 2018 year end balance that was recorded in Account 1575. In response to a question from OEB staff, EnWin Utilities confirmed that "An update to the forecast can be provided at the draft order stage if the 2019 forecast is expected to change." [20]

In the context of the settlement proposal, OEB staff does not have any concerns with the disposition of the account. OEB submits that EnWin Utilities should also update the return component of Account 1575 once the 2020 cost of capital parameters are issued in the fall of 2019.

Issue 5.1 Are the Specific Service Charges appropriate?

In respect of the Metering Inside the Settlement Timeframe (MIST) meter conversion, in 2016/17 EnWin Utilities investigated two options for meter reading for this metering group:

- Option 1: Public Carrier Cellular Internet Communication
- Option 2: Existing Smart Meter Advanced Metering Infrastructure (AMI) network

For customers adopting Option 1: Public carrier cellular internet communication, EnWin Utilities proposed to implement a new Specific Service Charge, the Cellular Meter Reading Charge of $7.50 per month, based on reasonable recovery of the costs to support the required infrastructure. In responding to OEB staff's question, EnWin

[18] APH, Article 220, page 33
[19] Exhibit 9, Deferral and Variance Accounts, Updated evidence, June 11, 2019
[20] OEB Staff Pre-settlement Clarification Question 20 b), September 24, 2019

Utilities confirmed that the $7.50 per month is derived from the estimation that 85% of the 966 demand customers would choose Option 1. EnWin Utilities also confirmed that the new charge for Option 1 is to be billed to all demand customers who choose Option 1.[21]

The parties agreed that the proposed specific service charges, including the new Cellular Meter Reading Charge, are appropriate.

In the context of the settlement proposal, OEB staff does not have any concerns with the specific service charges including the new charge given that the new charge would be only billed to the customers who choose Option 1.

Issue 5.2 Is the proposed Gross Load Billing for Retail Transmission Rates – Line and Transformation Connection Service Rates appropriate?

EnWin Utilities agreed to update the wording for the proposed Gross Load Billing for Retail Transmission Rates – Line and Transformation Connection Service Rates to match the wording approved by the OEB in its decision and order for Energy+ Inc..[22]

Subject to this update, the parties agreed that EnWin Utilities' proposed Gross Load Billing for Retail Transmission Rates – Line and Transformation Connection Service Rates are appropriate. OEB staff notes that the OEB approved a similar gross load billing approach in two recent decisions[23] and does not oppose the proposal by EnWin Utilities in the context of this settlement proposal.

Issue 5.3 Is the proposed effective date January 1, 2020 appropriate?

In the settlement proposal, the parties agreed that an effective date of January 1, 2020 is appropriate. OEB staff notes that the applicant filed this application by the established deadline, there have not been any significant delays in this proceeding and the settlement proposal was filed on September 24, 2019, thus allowing for sufficient time for a January 1 implementation. OEB staff submits that an effective date of January 1, 2020 is appropriate.

All of which is respectfully submitted

[21] EnWin Utilities' Response to OEB staff interrogatory 8-Staff-116
[22] Energy Plus Inc., EB-2018-0028, August 1, 2019
[23] Niagara-on-the-Lake Hydro, EB-2018-0056, April 23, 2019 and Energy Plus Inc., EB-2018-0028, August 1, 2019