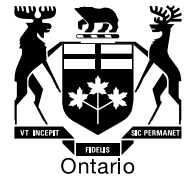


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BY E-MAIL

October 10, 2019

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

Dear Ms. Long:

**Re: Oakville Hydro Electricity Distribution Inc. (Oakville Hydro)
EB-2019-0059 Application for 2020 Rates**

In accordance with Procedural Order No. 2, please find attached Ontario Energy Board staff's submission on the preliminary question of whether it is appropriate for Oakville Hydro to apply for Incremental Capital Model funding as part of its 2020 application.

Oakville Hydro and all intervenors have been copied on this filing.

Yours truly,

Original Signed By

Marc Abramovitz
Rates Advisor, Incentive Rate Setting & Regulatory Accounting

Encl.

2020 ELECTRICITY DISTRIBUTION RATES
Oakville Hydro Electricity Distribution Inc.

EB-2019-0059

OEB STAFF SUBMISSION

October 10, 2019

Introduction

Oakville Hydro Electricity Distribution Inc. (Oakville Hydro) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on August 12, 2019, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to its electricity distribution rates to be effective January 1, 2020. In its application, Oakville Hydro is seeking approval for a rate rider to recover amounts related to four capital investments through the OEB's incremental capital module (ICM).

Procedural Order No. 1, dated September 17, 2019, approved the following intervenors:

- The Association of Major Power Consumers in Ontario
- Consumers Council of Canada
- Energy Probe Research Foundation
- School Energy Coalition
- Vulnerable Energy Consumers Coalition

It also set out a schedule for written interrogatories and submissions in this proceeding.

On September 22, 2019, the intervenors filed a notice of motion seeking an order:¹

- i. Bifurcating this proceeding between consideration of the ICM funding request, and consideration of all other aspects of the application
- ii. For submissions from all parties on whether it is appropriate for Oakville Hydro, in its second rebasing deferral year, and without prior disclosure to the OEB of its intention to seek ICM funding, to apply for ICM funding in this IRM application

In Procedural Order No. 2, dated September 27, 2019, the OEB determined that it will process the standard IRM elements of the application separate from the request for ICM funding. The OEB further decided that it wanted to receive submissions from parties and OEB staff on the preliminary question of whether it is appropriate for Oakville Hydro to apply for ICM funding in this circumstance.²

The purpose of this document is to provide OEB staff's submission on whether or not Oakville Hydro's ICM funding request should be heard by the OEB.

¹ EB-2019-0059, SEC Notice of Motion, September 23, 2019

² EB-2019-0059, Procedural Order No. 2, September 27, 2019, p. 1

Background

On October 1, 2013 Oakville Hydro filed a Cost of Service (CoS) application for May 1, 2014 rates.³ As part of its application, Oakville Hydro filed a five year Distribution Systems Plan (DSP) for the years 2014 to 2018. On May 1, 2014, the OEB issued its final rate order for Oakville Hydro's 2014 rates. As of May 1, 2014, Oakville Hydro has been on a five year plan (first year rebasing followed by four years of Price Cap Incentive Rate-setting (Price Cap IR)). The Price Cap IR provides for a mechanistic and formulaic adjustment to distribution rates and charges in the period between CoS proceedings. In the 2014 proceeding, the OEB also approved Oakville Hydro's transition to a January 1 rate year. Oakville Hydro's next scheduled CoS filing was for 2019 rates.

On December 7, 2017, the OEB issued a letter that set out a list of distributors who were scheduled to file a CoS application for the 2019 rate year.⁴ In the letter, the OEB noted that any distributor that wished to defer its application beyond the 2019 rate year was to advise the OEB and explain why it was seeking to defer its rebasing. As well, the OEB noted that it will consider, among other relevant factors, the distributor's scorecard performance results. A similar letter was issued by the OEB on November 27, 2018 for scheduled CoS filers for the 2020 rate year.⁵

On January 8, 2018, Oakville Hydro submitted a letter requesting to defer its 2019 CoS application on the basis of financial and non-financial performance.⁶ The OEB accepted Oakville Hydro's request and deferred its CoS filing to the 2020 rate year.⁷

On January 16, 2019, Oakville Hydro requested to defer its 2020 CoS application on the basis of financial and non-financial performance as reported in its 2017 scorecard.⁸ Again, the OEB approved Oakville Hydro's request to defer its 2020 CoS application to the 2021 rate year.⁹

In its 2020 IRM application, Oakville Hydro has requested ICM funding for four system access projects that are to be completed before December 31, 2019. Of the four projects, three are related to road widening and one replacement and relocation of a feeder at the Bronte Transformer Station (Bronte TS). Oakville Hydro is seeking

³ EB-2013-0159, Oakville Hydro Electricity Distribution Inc.'s 2014 Cost of Service Distribution Rate Application, October 1, 2013

⁴ <http://www.rds.oeb.ca/HPECMWebDrawer/Record/593160/File/document>

⁵ <http://www.rds.oeb.ca/HPECMWebDrawer/Record/627327/File/document>

⁶ <http://www.rds.oeb.ca/HPECMWebDrawer/Record/595855/File/document>

⁷ <http://www.rds.oeb.ca/HPECMWebDrawer/Record/616684/File/document>

⁸ <http://www.rds.oeb.ca/HPECMWebDrawer/Record/633241/File/document>

⁹ <http://www.rds.oeb.ca/HPECMWebDrawer/Record/641565/File/document>

approval for the recovery of the incremental revenue requirement associated with the capital projects it proposes for ICM treatment.

OEB Staff Submission

OEB staff submits that, for the reasons set out below, the OEB should consider the merits of Oakville Hydro's request for incremental capital funding in this application.

No Indication of Plans for an ICM

One of the concerns raised in the intervenors' notice of motion is that when Oakville Hydro made its second deferral request "it did not disclose in seeking Board approval that it would be seeking additional funding, over and above those rates."¹⁰

The OEB's *Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module*¹¹ (Report of the Board), states:

The ACM and ICM are only available to electricity distributors opting for Price Cap IR....The ACM/ICM approach is not available to distributors filing under the Annual IR plan.

OEB staff submits that Oakville Hydro has applied for ICM funding as part of an IRM year during a Price Cap IR term, which is in accordance with the Report of the Board referred to above.

Based on the quantum and nature of the capital projects for which Oakville Hydro is seeking ICM funding, OEB staff submits that Oakville Hydro should have been aware of the requirement for these capital projects and the associated capital budget in 2019 at the time that Oakville Hydro filed its 2020 deferral request. The Bronte TS feeder project was identified in the Burlington to Nanticoke Regional Infrastructure Plan¹², dated February 7, 2017, prepared by Hydro One Networks Inc. and filed along with the current application. There is no indication in the application as to when the road widening projects were brought to the attention of Oakville Hydro or when Oakville Hydro decided that that it would need additional funding for these projects during its IRM term, however Oakville Hydro has indicated they will be in-service before the end of 2019.

¹⁰ EB-2019-0059, SEC Notice of Motion, September 23, 2019, p.2

¹¹ EB-2014-0219, September 18, 2014, Page 18

¹² EB-2019-0059, Manager's Summary, Appendix 7 – Integrated Station Component Replacement – Bronte TS

OEB staff agrees with the intervenors that it would have been helpful for Oakville Hydro to have disclosed their plans for the 2020 IRM year. However, as it is not an explicit requirement for an applicant to disclose information related to potential incremental capital funding requests during an IRM year, when requesting a deferral of a rebasing application the applicant is expected to explain why it is seeking to defer its rebasing application.

The OEB further notes that Oakville Hydro's ICM request during a deferred rebasing period is not unprecedented. On August 14, 2018, the OEB approved Burlington Hydro Inc.'s (Burlington Hydro) 2019 CoS deferral request¹³, including the deferral of filing a DSP and, on September 24, 2018, Burlington Hydro submitted a 2019 IRM application with an ICM funding request.¹⁴ Burlington Hydro's deferral request letter did not indicate that it intended to file an ICM request as part of an extended IRM term. The OEB heard Burlington Hydro's IRM and ICM application and in fact approved two out of the three projects in the ICM request.

No Distribution System Plan Filed

A second concern raised in the intervenors' notice of motion is that Oakville Hydro's last DSP was filed as part of its 2014 rate application for the years 2014-2018 and therefore there was no DSP that covered 2019 and 2020.

All distributors are required to file a DSP when filing a CoS application under a Price Cap IR. A distributor that has requested deferral of its rebasing application and received OEB approval may be notified in the approval letter as to the requirement for and timing of a DSP filing. The OEB may also require a DSP to be filed in relation to a leave to construct, an ICM or a Z-factor application.¹⁵

OEB staff notes that the approvals received by Oakville Hydro to defer its CoS application in both years did not require the filing of a DSP during the IRM term. In the second approval letter the OEB reinforced the following:

If Oakville Hydro subsequently seeks a further deferral the OEB will consider whether the Annual Incentive Rate-setting Index method that was developed for distributors intending longer periods without rebasing should

¹³ <http://www.rds.oeb.ca/HPECMWebDrawer/Record/616615/File/document>

¹⁴ EB-2018-0021, Burlington Hydro Inc.'s 2019 IRM Application, September 24, 2018

¹⁵ Filing Requirements for Electricity Distribution Rate Applications, Chapter 5 – Consolidated Distribution System Plan, Section 5.1.3, Page 7

be applied. The OEB will also consider whether the filing of a distribution system plan would be required at that time.¹⁶

OEB staff also notes that Burlington Hydro, which was referenced above, did not file nor was it instructed to file a DSP in conjunction with its ICM application.

The OEB's *Filing Requirements For Electricity Distribution Rate Applications - 2017 Edition for 2018 Rate Applications - Chapter 3 Incentive Rate-Setting Applications* (Filing Requirements) notes that "[t]he requested amount for an ICM claim must be incremental to a distributor's capital requirements within the context of its financial capacities underpinned by existing rates".¹⁷ During the deferral period, Oakville Hydro's rates are underpinned by the capital included in the DSP filed as part of its 2014 CoS application. That capital spending has been reviewed and rates approved based on the prudence test. While OEB staff agrees with the intervenors that it would have been helpful for the OEB to know in advance the nature of any extended IRM term, OEB staff submits that there is nothing inappropriate in reviewing the merits of the requested incremental capital funding in the context of the capital underpinning Oakville Hydro's current base rates, including the extent of incremental capital funding, if any.

OEB staff notes that all the projects in Oakville Hydro's ICM request are system access projects initiated by external third parties (i.e. road authorities and Hydro One Networks Inc.). Projects of this nature can arise at any time and tend not to be at the discretion of a utility. Therefore, even if Oakville Hydro had prepared and filed a 2019-2023 DSP, it may not have been as informative as may be suggested by the intervenors' motion.

Financial Circumstances

The Filing Requirements also state: "[t]he ICM is not available for incremental funding if a distributor's regulated return exceeds 300 basis points above the deemed return on equity (ROE) embedded in the distributor's rates."¹⁸ As shown in the following table Oakville Hydro has not exceeded its deemed ROE by more than 300 basis points in any of the last five years.¹⁹

¹⁶ <http://www.rds.oeb.ca/HPECMWebDrawer/Record/616684/File/document>

¹⁷ Filing Requirements For Electricity Distribution Rate Applications - 2017 Edition for 2018 Rate Applications - Chapter 3 Incentive Rate-Setting Applications, July 20, 2017, p.19

¹⁸ *ibid*

¹⁹ Oakville Hydro's 2018 Scorecard

	2014	2015	2016	2017	2018
Deemed ROE %	9.36	9.36	9.36	9.36	9.36
Achieved ROE %	9.94	9.35	10.71	9.69	10.65
Difference %	+0.58	-0.01	+1.35	+0.33	+1.29

In summary, the OEB has stated the conditions under which a distributor cannot apply for incremental capital funding; namely during an Annual IR application or if a distributor's ROE exceeds its deemed ROE by greater than 300 basis points.²⁰ OEB staff submits that under the circumstances, the OEB should proceed to hear Oakville Hydro's request for incremental capital funding.

All of which is respectfully submitted

²⁰ The OEB's Handbook for Utility Rate Applications, October 13, 2016, p.27 also states that ICMs are not available for utilities setting rates under Custom IR.