



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

BY EMAIL

October 29, 2020

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

Dear Ms. Long:

**Re: Kitchener-Wilmot Hydro Inc.
Application for 2021 Electricity Distribution Rates
OEB Staff Submission
Ontario Energy Board File Number: EB-2020-0035**

In accordance with Procedural Order No. 1, please find attached OEB staff's submission in the above proceeding.

Kitchener-Wilmot Hydro Inc. is reminded that its reply submission is due on November 12, 2020.

Yours truly,

Original Signed By

Marc Abramovitz
Case Manager



ONTARIO ENERGY BOARD

STAFF SUBMISSION

Kitchener-Wilmot Hydro Inc.

2021 Electricity Distribution Rates

EB-2020-0035

October 29, 2020

Introduction

Kitchener-Wilmot Hydro Inc. (Kitchener-Wilmot Hydro) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) as updated on October 15, 2020 under section 78 of the *Ontario Energy Board Act*, 1998 (OEB Act) seeking approval for changes to its electricity distribution rates to be effective January 1, 2021.

The purpose of this document is to provide the OEB with the submissions of OEB staff based on its review of the evidence submitted by Kitchener-Wilmot Hydro.

Consistent with the Chapter 3 Filing Requirements,¹ Kitchener-Wilmot Hydro applied the Price Cap IR adjustment factor to adjust the monthly service charge during the incentive rate-setting years. OEB staff has no concerns with Kitchener-Wilmot Hydro's proposed price cap adjustment. OEB staff will update the 2021 IRM Model to reflect the 2021 price cap parameters pursuant to the process that the OEB may lay out for implementation once available.

Kitchener-Wilmot Hydro has requested an update to its Retail Transmission Service Rates (RTSRs) to recover the wholesale transmission rates charged by the Independent Electricity System Operator (IESO)². Kitchener-Wilmot Hydro's updated RTSRs, as filed, have been adjusted to reflect the current OEB-approved interim 2020 Uniform Transmission Rates (UTRs).³ OEB staff has no concerns with Kitchener-Wilmot Hydro's requested adjustments to its RTSRs.

OEB staff makes detailed submissions on the following:

- Group 1 Deferral and Variance Accounts (DVA)
- Lost Revenues Adjustment Mechanism Variance Account (LRAMVA)
- Renewable Generation Connection Rate Protection (RGCRP)

¹ Filing Requirements For Electricity Distribution Rate Applications - 2020 Edition for 2021 Rate Applications - Chapter 3 Incentive Rate-Setting Applications, May 14, 2020

² Manager's Summary, Page 7-8

³ If the OEB approves an update to the 2020 OEB-approved interim UTRs, or issues new 2021 UTRs prior to the Decision and Order for Kitchener-Wilmot Hydro's 2021 rates, OEB staff will update Kitchener-Wilmot Hydro's rate generator model accordingly.

Request for Disposition of Group 1 AccountsBackground

Kitchener-Wilmot Hydro is requesting to dispose of a debit amount of \$269,941 for its Group 1 DVA balances as of December 31, 2019, over a one-year period. This includes interest projected to December 31, 2020. The components of this debit balance are shown below.

Table 1: Group 1 DVA Balances

Account Name	Account Number	Principal Balance (\$)	Interest Balance (\$)	Total Claim (\$)
		A	B	C=A+B
LV Variance Account	1550	0	0	0
Smart Metering Entity Charge	1551	(25,315)	(558)	(25,873)
RSVA - Wholesale Market Service Charge	1580	(453,356)	(1,821)	(455,177)
Variance WMS – Sub-account CBR Class A	1580	0	0	0
Variance WMS – Sub-account CBR Class B	1580	(168,235)	(5,180)	(173,414)
RSVA - Retail Transmission Network Charge	1584	329,956	5,426	335,382
RSVA - Retail Transmission Connection Charge	1586	(95,731)	(2,669)	(98,400)
RSVA - Power	1588	40,927	(56,506)	(15,578)
RSVA - Global Adjustment	1589	608,540	94,462	703,002
Totals for all Group 1 DVAs excluding RSVA – Global Adjustment		(371,753)	(61,308)	(433,061)
Totals for all Group 1 DVAs		236,787	33,154	269,941

Based on the threshold test calculation, Kitchener-Wilmot Hydro's Group 1 DVA balances equate to a debit of \$0.0002 per kWh. Although the \$0.0002 per kWh is below the OEB's disposition threshold of \$0.001 per kWh, Kitchener-Wilmot Hydro has requested disposition of its Group 1 DVAs for the following reasons:

-
- Different customer classes face different impacts resulting from disposition. For example, Regulated Price Plan (RPP) customers will be receiving a credit resulting in a reduction to the proposed bill impacts.
 - It allows Kitchener-Wilmot Hydro to recover or repay its costs on a timely basis.
 - It avoids intergenerational inequity.
 - It will make reconciliations easier for Kitchener-Wilmot Hydro to perform as the balances only accumulate over one year and not several years.⁴

In its application, Kitchener-Wilmot Hydro confirmed that it has fully implemented the accounting guidance related to Accounts 1588 and 1589⁵, as mandated by the OEB in 2019. The OEB approved disposition of Kitchener-Wilmot Hydro's 2018 balances on a final basis as part of its 2020 cost of service rate application.⁶

Submission

OEB staff supports Kitchener-Wilmot Hydro's request to dispose of its Group 1 DVAs on a final basis. OEB staff has reviewed the 2019 balances and the supporting pre-filed evidence substantiating these balances. In OEB staff's opinion, the Group 1 DVA balances are reasonable and, with respect to commodity accounts 1588 and 1589, in alignment with the OEB's 2019 Accounting Guidance.

OEB staff also acknowledges that the Group 1 DVA balances are largely offsetting between different customer classes, and so the totals on a net basis would result in different impacts directionally to different groups of customers. OEB staff agrees with Kitchener-Wilmot Hydro that there are secondary benefits to disposing of these amounts, including ease of future reconciliations and the mitigation of intergenerational inequity. OEB staff does not object to Kitchener-Wilmot Hydro's proposal to dispose of its Group 1 DVAs, despite being below the OEB threshold, for the reasons noted above.

⁴ Response to OEB Staff Interrogatory #1

⁵ [Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589, February 21, 2019.](#)

⁶ EB-2019-0049, Decision and Order, Page 30 of Settlement Proposal

Request for Disposition of Account 1568 LRAMVA

Background

Kitchener-Wilmot Hydro is requesting to dispose of a debit balance of \$1,727,840 in Account 1568. This balance is comprised of:

- incremental Conservation and Demand Management (CDM) activities in 2017 and 2018
- persisting savings from 2013 to 2016 CDM programs realized in 2017
- persisting savings from 2013 to 2017 CDM programs realized in 2018
- projected carrying charges up to December 31, 2020.

Actual savings were compared to the LRAMVA threshold established in Kitchener-Wilmot Hydro's 2014 cost-based rate application.⁷ Kitchener-Wilmot Hydro filed the 2019 Participation & Cost (P&C) Report and the 2017 Final Verified Results Report in support of its LRAMVA application. The disposition of the LRAMVA balance is requested over a 12-month period.

The LRAMVA balance also includes lost revenues from demand savings attributable to street lighting upgrades in the City of Kitchener, Township of Wilmot and the Region of Waterloo. The street lighting upgrades were undertaken as part of the municipalities' participation in the SaveOnEnergy program in 2017 and are supported by the utility's billed demand data. The lost revenue claim from street lighting upgrades are \$146,218 (or 8.5%) of the total LRAMVA balance of \$1,727,840.

The OEB's *Chapter 3 Filing Requirements*, section 3.2.6.1, specifies that the energy savings associated with street lighting upgrades should be removed from the applicable IESO programs to avoid double-counting, since the street lighting lost revenue claim is based on demand savings.⁸ In addition, distributors are required to provide a monthly breakdown of billed demand data over the street lighting upgrade period and detailed calculations to support the demand savings claim.⁹

⁷ EB-2013-0147, Settlement Proposal, Settlement Table #3e), page 23 of 46

⁸ *Chapter 3 Filing Requirements for Electricity Distribution Rate Applications – 2020 Edition for 2021 Rate Applications*, May 14, 2020, section 3.2.6.1, pp. 24-25.

⁹ Ibid

During the course of this proceeding, OEB staff requested clarification on various components of the street lighting savings calculation, including the methodology to estimate street lighting savings and the data used to confirm the monthly installations of LED bulbs.

In response to OEB staff interrogatories¹⁰, Kitchener-Wilmot Hydro filed an updated LRAMVA workform to provide the supporting calculations and the detailed documentation of monthly LED installations by municipality. Kitchener-Wilmot Hydro stated that it has captured incremental savings based on replacement installations only.

Submission

OEB staff submits that Kitchener-Wilmot Hydro's LRAMVA balance has been calculated in accordance with the OEB's CDM-related guidelines and updated LRAMVA policy. Actual conservation savings claimed in 2017 and 2018 are consistent with the savings in the IESO reports. Forecast conservation savings that were used to compare against actual savings in the LRAMVA calculation are consistent with the LRAMVA threshold approved in its last COS proceeding.

Kitchener-Wilmot Hydro's updated LRAMVA workform included detailed calculations of the energy savings from street lighting upgrades for 2017 and its persistence into 2018. OEB staff reviewed the calculations and submits that the energy savings component from street lighting upgrades are appropriately calculated and removed from the applicable IESO program's reported savings.

In the updated LRAMVA workform, Kitchener-Wilmot Hydro also provided additional information on the monthly installation of LED bulbs for each municipality, including details on the types and number of bulbs replaced, the wattage removed, and the wattage installed on a monthly basis. As monthly street lighting savings are based on replacement installations, OEB staff submits that the methodology appropriately captures incremental lost revenues due to the municipalities' participation in the IESO CDM program.

OEB staff supports the LRAMVA balance requested for disposition, as noted in Table 2 below:

¹⁰ See "Att 2 2021 LRAMVA workform" filed in response to Staff 6 b) ii

Table 2 LRAMVA Balances for Disposition

Account Name	Account Number	Actual CDM Savings (\$) A	Forecasted CDM Savings (\$) B	Carrying Charges (\$) C	Total Claim (\$) D=(A-B)+C
LRAMVA	1568	\$2,061,829	\$420,768	\$86,780	\$1,727,840

Renewable Generation Connection Rate Protection

Background

Subsection 79.1 (1) of the *Ontario Energy Board Act, 1998 (OEB Act)* states that the OEB may provide Renewable Generation Connection Rate Protection (RGCRP) compensation amounts to eligible distributors. Ontario Regulation 330/09 (the Regulation) prescribes the methodology that the OEB uses to determine the amount that the utility may collect from the IESO for any given year.

Distributors are required to plan for new electricity generation projects expected to connect to their systems. Based on their plans, distributors may apply to the OEB for funding to recover the cost of assets to enable and to connect generators to their distribution systems, including generators using renewable sources of energy such as wind or solar. The OEB then takes steps to ensure that all Ontario customers, not just the ratepayers of the individual distributor, contribute to the costs of investments to connect renewable generators in accordance with applicable legislation.

The OEB determines the eligibility of the connection investment made by a distributor in its distribution rate decision and issues an order to the IESO to collect and disburse specific amounts based on the approved entitlement. Since May 1, 2010, the OEB has issued such decisions pursuant to the Regulation. The latest Decision and Order, determining 2020 Renewable Generation Connection Rate Protection (RGCRP) compensation amounts, was issued on January 30, 2020, providing eight distributors with funding, effective January 1, 2020.¹¹

¹¹ EB-2019-0279

As part of its 2014 rate proceeding, Kitchener-Wilmot Hydro requested approval of provincial funding related to Renewable Enabling Improvement (REI) projects that were undertaken during the 2010 to 2012 period.¹² In response to interrogatories as part of its 2014 rate proceeding, Kitchener-Wilmot Hydro filed updated appendices 2-FA (Proposed REG¹³ Investments) and 2-FB (Calculation of REG Improvements). The models indicated start-up operating, maintenance and administrative (OM&A) costs of \$37,405 and capital costs of \$116,347 in relation to two REI projects.¹⁴ In its Decision with Reasons and Order, the OEB approved a rate protection amount of \$25,656 effective January 1, 2014 based on the updated appendices filed during the interrogatory phase.¹⁵

OEB staff notes that, in its 2014 rate application, Kitchener-Wilmot Hydro forecasted an additional expenditure of \$175,000 in capital costs (\$15,000 in 2015 and \$80,000 in each of 2016 and 2017) and \$125,000 in OM&A costs (\$25,000 per year from 2013 to 2017) related to REI projects. Kitchener-Wilmot Hydro stated that:

....it will defer these costs when incurred through accounts 1531 and 1532 as per Board direction. Kitchener-Wilmot Hydro would then apply to the OEB for recovery through the Direct Benefit Calculation and any residual would be cleared through Kitchener-Wilmot Hydro's 2018 cost of service application.¹⁶

Furthermore, Kitchener-Wilmot Hydro noted that the \$125,000 in OM&A was related to temporary labour and overtime costs.¹⁷ However, these forecasted amounts (capital and OM&A costs) were not entered into appendix 2-FA and, as a result, were excluded from future RGCRP compensation amounts.

For the years 2015 to 2019, Kitchener-Wilmot Hydro received RGCRP compensation amounts related only to the depreciation expense of the two REI assets approved in its 2014 application.

¹² EB-2013-0147

¹³ Renewable Energy Generation (REG)

¹⁴ EB-2013-0147, Excel File KWHI_IRR_Filing_Requirements_Chapter2_Appendices_for 2014_xlsm_20131015 filed on October 15, 2013

¹⁵ EB-2014-0222

¹⁶ EB-2013-0147, Exhibit 2, Tab 2, Schedule 7, Page 3

¹⁷ EB-2013-0147, Exhibit 2, Tab 7, Schedule 1

Table 3 summarizes the amounts of RGCRP received by Kitchener-Wilmot Hydro from 2014-2019.

Table 3

Year	RGCRP Compensation Amounts
2014	\$25,656
2015	\$1,200
2016	\$6,091
2017	\$8,225
2018	\$9,112
2019	\$9,112
Total	\$59,396

In April 2019, Kitchener-Wilmot Hydro filed a cost of service application for rates effective January 1, 2020 and included appendices 2-FA and 2-FB. In appendix 2-FA, Kitchener-Wilmot Hydro provided the following amounts, which were described as incremental start-up OM&A expenses, for the historical period 2014 to 2018:

Table 4: Incremental OM&A Start-Up Costs¹⁸

	2014	2015	2016	2017	2018	Total
Incremental OM&A Expense (including Interest)	\$39,516	\$7,464	\$8,637	\$46,121	\$4,609	\$102,388

Kitchener-Wilmot Hydro recorded the direct benefit portion (6%) of the \$102,388 in account 1532 and had the account disposed of as part of the settlement proposal. Kitchener-Wilmot Hydro stated in its 2020 rate proceeding that:

Kitchener-Wilmot Hydro has recorded its incremental costs in this account beginning in 2011. Kitchener-Wilmot Hydro has an audited balance in account 1532 as of December 31, 2018 of \$102,388. All costs included in the account are fully incremental. Kitchener-Wilmot Hydro is requesting the direct benefit portion

¹⁸ EB-2019-0049, [KWHI Appl 2019-Filing-Requirements-Chapter2-Appendices-20190430.xls](#), Appendix 2-FA

be collected from ratepayers. The remaining balance will be received from the IESO as a provincial benefit.¹⁹

OEB staff notes that in appendices 2-FA and 2-FB, no dollar amounts were entered for the years 2020 to 2024. As a result, there was no updated revenue requirement calculation for Kitchener-Wilmot Hydro's two REI projects that were approved in its 2014 cost of service application. OEB staff notes no questions were raised during the application process related to renewable generation and the application was fully settled.

On October 17, 2019, the OEB issued a Decision and Order accepting a settlement proposal between Kitchener-Wilmot Hydro and intervenors. The settlement proposal did not discuss Kitchener-Wilmot Hydro's request to recover the incremental OM&A expense incurred over the previous five years for the REI projects.

On December 13, 2019, Kitchener-Wilmot Hydro filed a letter requesting the RGCRP amount of \$106,499 for 2020 (see Table 5 below for details). Kitchener-Wilmot Hydro confirmed that it had not moved the renewable generation assets approved in the 2014 cost of service application to rate base and is therefore requesting rate protection for the OM&A related to these assets.²⁰

Kitchener-Wilmot Hydro provided updated appendix 2-FA from the 2020 cost of service application to capture the incremental OM&A claim for the years 2014 to 2018 and the operating costs for the previously- approved renewable generation assets in the 2014 cost of service application.

Table 5

2014 to 2018 Incremental OM&A (A)	\$102,388
Provincial Benefit Portion (94% of (A)) (B)	\$96,245
+ Ongoing Depreciation of Capital Costs Assets (C)	\$5,113
+ Cost of Capital (D)	\$4,823
+ Differential between 2019 RGCRP received and ask (E)	\$318
Total (B+C+D+E)	\$106,499

¹⁹ EB-2019-0049, Exhibit 9, Page 25

²⁰ EB-2019-0279, Letter Dated December 13, 2019

In the OEB's 2020 Electricity Rate Protection Benefit and Charge Decision²¹, the OEB approved an amount of \$106,500 for Kitchener-Wilmot Hydro on an interim basis and stated that:

In its letter, Kitchener-Wilmot Hydro provided information regarding prior period OM&A and an updated payment for the capital portion to account for changes to the revenue requirement due to the passage of time. The OEB approves the requested payment for 2020 on an interim basis. Kitchener-Wilmot Hydro should provide evidence supporting the requested payments for the years 2020 to 2024 in its application for 2021 distribution rates with the view to finalizing these payments given that some information was provided only with Kitchener-Wilmot Hydro's most recent letter.

Submission

In this application, Kitchener-Wilmot Hydro seeks approval of the 2020 RGCRP funding on a final basis and the ongoing depreciation of the capital costs incurred from 2010-2013. In addition, Kitchener-Wilmot Hydro is requesting the depreciation expense for the renewable generation assets for the years 2020 to 2024.

In response to OEB staff interrogatories,²² Kitchener-Wilmot Hydro confirmed that in its application for 2014 rates, it had requested and received approval for \$37,405 of start-up OM&A costs. In 2020, it had received interim approval for an additional \$39,516, which was incremental start-up OM&A costs related to the 2014 year. Furthermore, Kitchener-Wilmot Hydro noted that it did not request incremental OM&A for the years 2015 to 2018 in its 2014 application, as the original request included only actual costs incurred and that budgeted start-up costs for 2015-2017 were inadvertently missed.²³ However, Kitchener-Wilmot Hydro noted that its Green Energy Plan²⁴ filed in its 2014 application outlined forecasted spending of \$25,000 for asset installation in the years 2015 -2017.

OEB staff notes that eligible investment costs entitled to receive the provincial benefit must meet the requirements as set out in Ontario Regulation 330/90 and section 79.1(5) of the *OEB Act*. As stated in the Report of the Board:²⁵

²¹ EB-2019-0279, January 30, 2020

²² Response to OEB Staff Interrogatory #3a

²³ Response to OEB Staff Interrogatory #3b and #3c

²⁴ EB-2013-0147, Exhibit 2, Tab 7

²⁵ EB-2009-0349, Report of the Board - Framework for Determining the Direct Benefits Accruing to Customers of a Distributor under Ontario Regulation 330/09, June 10, 2010

“Eligible investment” costs, as set out in O. Reg. 330/09 and section 79.1 (5) of the Act, are not limited to only the initial capital investment costs but also includes the *up-front* OM&A costs necessary for the purpose of “enabling the connection of a qualifying generation facility”. However, given that section 79.1 focuses solely on the initial investment, *ongoing* OM&A costs that are incurred by the distributor after the investment has been made will not be eligible for provincial recovery.

OEB staff notes that the start-up OM&A costs to date are approximately \$140,000 (\$37,405+\$102,388), which is greater than the cost of the assets reported in Kitchener-Wilmot Hydro’s 2014 rate application of \$116,347. In response to OEB staff interrogatories in this proceeding²⁶, Kitchener-Wilmot Hydro has largely established why it believes it is eligible for the incremental OM&A funding in principle.

In OEB staff’s view, Kitchener-Wilmot Hydro has failed to provide all of the information required by the OEB in order to accept such a request. In particular, it is OEB staff’s submission that the above request not be accepted by the OEB in the absence of the following information on the record of the proceeding.

- The nature of these costs in greater detail, including the activities these employees were undertaking for the initial establishment (or start-up) of the associated assets.
- What dates the associated capital investments for these start-up costs have gone into service and how that reconciles with their respective start-up costs.
- Whether the utility has continued to invest in new renewable assets during the 2014 to 2018 period, and if so:
 - When did (or will) these assets go into service?
 - What is the capital expenditure history, by year, related to those assets?
- An expanded version of Appendices 2FA-FB, which show the capital costs as well, rather than solely the incremental start-up OM&A being claimed
- A cogent explanation for why the reported cumulative OM&A start-up costs (as described by the applicant) of \$140,000 are larger than the costs of the associated assets themselves (\$116,347).

OEB staff would consent to Kitchener-Wilmot Hydro filing such new evidence in its reply submission, but respectfully reserves the right to test any such evidence through a subsequent interrogatory process. In this regard, if Kitchener-Wilmot Hydro files the new evidence in its reply submission, and OEB staff feels that a further round of

²⁶ Responses to Staff-2, Staff-3, Staff-4

interrogatories is warranted, OEB staff will notify the OEB by written submission within 3 days of the filing of the reply submission.

OEB staff submits that, in the event that Kitchener-Wilmot Hydro can substantiate through its reply submission that the amounts sought for funding are incremental OM&A directly related to start-up costs for renewable energy generation assets, and not ongoing in nature, then the OEB should finalize the amounts approved on interim basis for 2020 to 2024. Absent that necessary evidence, OEB staff submits that the amounts approved on an interim basis should remain interim and Kitchener-Wilmot Hydro shall prepare a more complete application for its incremental claims as part of its 2022 IRM proceeding.

All of which is respectfully submitted