



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

DECISION AND ORDER

EB-2020-0026

HALTON HILLS HYDRO INC.

**Application for electricity distribution rates and other charges
beginning May 1, 2021**

BEFORE: Emad Elsayed
Presiding Commissioner

Robert Dodds
Commissioner

March 18, 2021



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1 INTRODUCTION AND SUMMARY

Halton Hills Hydro Inc. (Halton Hills Hydro) filed an application with the Ontario Energy Board (OEB) to change its electricity distribution rates effective May 1, 2021.

The OEB's *Renewed Regulatory Framework for Electricity* (RRF)¹ and *Handbook for Utility Rate Applications* (Rate Handbook)² provide distributors with performance-based rate application options that support the cost-effective planning and efficient operation of a distribution network. This framework provides an appropriate alignment between a sustainable, financially viable electricity sector and the expectations of customers for reliable service at a reasonable price.

Halton Hills Hydro selected the Price Cap Incentive rate-setting (IR) option. With an approved test year (2021), Halton Hills Hydro can apply to have its rates adjusted mechanistically in each of the following four years (2022-2025) based on inflation and the OEB's assessment of Halton Hills Hydro's efficiency.

A settlement conference was part of this proceeding and resulted in a comprehensive settlement on all but one issue. Having considered the settlement proposal and submissions of OEB staff, the OEB approves the settlement proposal as filed. With respect to the unsettled issue, the OEB finds that the opening rate base for the 2021 test year shall reflect two full years of depreciation (2019 and 2020).

Halton Hills Hydro shall provide bill impacts for all customer classes reflecting the OEB's findings in this Decision and Order, as part of the Draft Rate Order.

¹ Report of the Board – Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, October 18, 2012

² Handbook for Utility Rate Applications, October 13, 2016

2 THE PROCESS

Halton Hills Hydro filed its application on August 28, 2020. The OEB issued a Notice of Hearing on September 15, 2020, inviting parties to apply for intervenor status. Distributed Resource Coalition (DRC), Energy Probe Research Foundation (Energy Probe), School Energy Coalition (SEC), Vulnerable Energy Consumers Coalition (VECC) and Hydro One Networks Inc. (Hydro One) were granted intervenor status. DRC, Energy Probe, SEC, and VECC were also granted cost award eligibility. OEB staff also participated in this proceeding.

The OEB received a total of 25 letters of comment. These comments were placed on the record of this proceeding and taken into consideration during the OEB's evaluation of the application.

Procedural Order No. 1 was issued on October 16, 2020. It set out the interrogatory process and provided for a settlement conference.

Parties engaged in a discovery process with respect to the application through written interrogatories and responses. The OEB issued its approved Issues List on December 2, 2020.

A settlement conference was held from December 14 to 16, 2020 and continued through December 18 and 21, 2020. Halton Hills Hydro filed a settlement proposal setting out an agreement among all the parties to the proceeding on all but one issue, on February 18, 2021. The parties to the settlement proposal were Halton Hills Hydro and the approved intervenors³ in the proceeding (the Parties).

Procedural Order No. 6 was issued on February 22, 2021. It established a deadline of March 4, 2021 for written submissions on the settlement proposal and outstanding issue by OEB staff, and on the outstanding issue by other parties. OEB staff filed a submission on the settlement proposal and the unsettled issue. Halton Hills Hydro and intervenors filed submissions on the unsettled issue.

³ Hydro One was also approved as an intervenor in the proceeding. It did not participate in the settlement conference.

3 DECISION

3.1 Partial Settlement Proposal

The settlement proposal addressed all issues of the OEB's approved Issues List for this proceeding and presented a partial settlement with one unsettled issue. The settlement proposal contained further explanation and rationale on the specific issues for the OEB to consider.

Key features of the settlement proposal include:

- Accept the proposed net capital expenditures of \$5.5 million for the 2021 test year
- Decrease the Operations, Maintenance & Administration (OM&A) expenses (excluding the Low-Income Energy Assistance Program and property taxes) by \$580k, from \$7.56 million as proposed, to \$6.98 million, with the reduction being an envelope amount
- Decrease \$192k from rate base (costs related to Account 1606 – Organization) and adjust the opening 2021 test year rate base to reflect Halton Hills Hydro's most up to date forecast of year-end 2020 net capital additions of \$5.2 million
- Adjust the debt rate applicable to the Promissory Note with the Town of Halton Hills to 2.85%, maintain the debt rate applicable to the Interest Rate swap of 4.095% and enter into a second Interest Rate swap at 2.95% on May 25, 2021, all of which will result in a long-term weighted average debt rate of 3.36%
- Adjust the load forecast in the following ways:
 - Increase load forecast (energy) to 478,891,295 kWh ((weather normalized, including impact of Conservation and Demand Management (CDM)) by removing the COVID-19 adjustment factor and reduce the adjustment of the load forecast attributed to a Combined Heat Power project to a half-year of savings. Halton Hills Hydro agrees not to seek Lost Revenue Adjustment Mechanism Variance Account for CDM savings related to this project
 - Increase load forecast (demand) to 608,479 kW (weather normalized, including impact of CDM) for all customer classes except Residential, General Service less than 50 kW and Unmetered Scattered Load
- Adjust revenue-to-cost ratios for rate classes that are outside the OEB's permitted ranges to ratios close to the nearest range limit

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- Establish a new deferral account, 1508 – sub-account, to record amounts related to potential PILs Tax consequence of a Ministry of Finance audit for the period 2021 through 2025 where recovery of the amounts, if any, may be determined in a future proceeding
 - Withdraw the true-up request for Incremental Capital Module (ICM) funding of a new Transformer Station for the revenue requirement shortfall of \$112.6k resulting from additional capital expenditures

OEB staff filed a submission supporting the Parties' agreement on the settled issues as documented in the settlement proposal.

Findings

The OEB accepts the partial settlement proposal as filed. Halton Hills Hydro shall make the necessary minor adjustments to reflect the OEB's decision on the unsettled issue which is discussed in a separate section below. These minor adjustments are not expected to affect the main outcomes of the settlement proposal. However, for the record, Halton Hills Hydro is ordered to file the adjusted Tariff of Rates and Charges and Draft Rate Order by March 25, 2021.

The OEB finds that implementation of the settlement proposal is expected to result in reasonable outcomes for both Halton Hills Hydro and its customers.

The OEB has the following specific comments on some of the highlights of the settlement proposal:

- The OEB finds that the estimated rate and bill impacts in each rate class resulting from the settlement proposal are reasonable
- The effective date of the rates arising from the settlement proposal of May 1, 2021, is appropriate
- The reduction in Halton Hills Hydro's proposed test year OM&A spending is reasonable and is not expected to adversely affect Halton Hills Hydro's ability to maintain a safe and reliable distribution system in the Test Year
- The lower forecast capital spending in the test year compared to previous years was adequately explained and is not expected to negatively impact Halton Hills Hydro's ability to manage its assets
- The OEB is encouraged by Halton Hills Hydro's commitment to ongoing productivity initiatives which enabled it to remain in the top tier among its peers for a number of years

3.2 The Unsettled Issue (Issue 2.1)

In its Decision on the Issues List⁴ the OEB defined Issue 2.1 as follows:

Issue 2.1 Are all elements of the revenue requirement reasonable, and have they been appropriately determined in accordance with OEB policies and practices?

The Parties were unable to agree on the following unsettled element of Issue 2.1:

Is Halton Hills Hydro's approach to applying the half-year rule (in the year the [transformer station] came into service) to the [transformer station] ICM costs included in the 2021 Test Year opening rate base correct or appropriate?⁵

Background

In 2019, Halton Hills Hydro received approval for ICM funding of \$23.48 million for construction of a new transformer station in the Town of Halton Hills with rate riders to start recovery of the amounts on May 1, 2019.⁶ The Transformer Station came into service in November 2019.

The question that arose during the settlement conference concerned the appropriate amount of accumulated depreciation costs for the new Transformer Station being reflected in the 2021 opening rate base. Halton Hills Hydro had included half-year depreciation costs for the 2019 rate year in its opening rate base, in keeping with general rate-setting methodology. OEB staff, VECC, SEC, and Energy Probe submitted that the Transformer Station should have been depreciated on a full-year basis, which would be consistent with the approach in setting the ICM rate rider.

Summary of Submissions

Given the OEB's desire that parties work cooperatively when in agreement, Energy Probe stated that it agreed with the submission by SEC so it would not make a separate submission, and VECC agreed with SEC's comments, so it made only a brief submission. DRC submitted it did not take a position on the unsettled issue.

VECC and SEC submitted that Halton Hills Hydro's proposal for a half-year depreciation of the TS in 2019 should be rejected to ensure ratepayers do not overpay for the TS. SEC submitted that the half year approach proposed by Halton Hills Hydro would over-collect from ratepayers because the ICM rate rider was collected for two years, but for

⁴ Decision on Issues List, December 2, 2020

⁵ Settlement Proposal, February 18, 2021

⁶ Decision and Rate Order, EB-2018-0328, Halton Hills Hydro Inc., April 4, 2019

the purposes of calculating the opening rate base, Halton Hills Hydro proposed to treat the station as if it had been in-service for 1.5 years. The impact to ratepayers as calculated by SEC was an overcollection of \$324,926 by paying for an extra half-year of depreciation expense.

VECC and SEC acknowledged that although the OEB's decision would likely have a relatively small impact on the revenue requirement for Halton Hills Hydro due to the long depreciation life of a station, much larger impacts could occur in future proceedings, for example where an ICM has been approved for a technology project with a short depreciation life.

In its submission, Halton Hills Hydro claimed that the half year "exemption is meant to be operative solely in the IRM term" and believed that its application complied with OEB policy. Halton Hills Hydro submitted that it did not apply the half-year rule because the TS entered into service approximately 12 months before the final year of Halton Hills Hydro's incentive rate-setting mechanism term.

Halton Hills Hydro presented two past cases as examples that demonstrate the half-year rule had been applied differently in an ICM application and subsequent cost of service applications.

OEB staff agreed with Halton Hills Hydro that the half year rule did not apply to the 2019 rate year for the purpose of determining the ICM rate riders as it was not the final year of the 2016-2020 term.

However, OEB staff suggested that Halton Hills Hydro's recording half-year depreciation costs associated with the Transformer Station project in the asset continuity schedule for 2019 was inconsistent with the full-year depreciation costs paid by ratepayers through ICM rate riders. OEB staff submitted that full-year depreciation costs, as paid by ratepayers for the 2019 rate year, should be reflected in the opening rate base figures for accumulated depreciation.

Findings

The OEB finds that the opening rate base for the 2021 test year shall reflect two full years of depreciation (2019 and 2020).

The unsettled issue, which is a sub-issue under the category of Revenue Requirements, states:

Is Halton Hills Hydro's approach to applying the half-year rule (in the year the [transformer station] came into service) to the [transformer station] ICM costs included in the 2021 Test Year opening rate base correct or appropriate?

The issue relates to the 2019 ICM for a new Transformer Station which came into service in November 2019. The specific point of disagreement between Halton Hills Hydro and the intervenors was whether the opening rate base for the 2021 test year should reflect two full years of depreciation (2019 and 2020) or a half year for 2019 and a full year for 2020. Halton Hills Hydro used the latter approach in its application while OEB staff and the intervenors proposed the former approach.

As part of Halton Hills Hydro's 2019 rate application, the OEB approved Halton Hills Hydro's request for an ICM for the Transformer Station construction, scheduled to go in-service in 2019. The ICM rate riders, effective May 1, 2019, were calculated as if the Transformer Station was in-service for the entire 2019 rate year. Therefore, Halton Hills Hydro would have recovered a full year of depreciation expense pertaining to the Transformer Station in the ICM rate riders in the 2019 rate year.

The OEB's finding avoids an inconsistency between the ICM rate rider being based on the Transformer Station being in-service for 2 full years while the opening rate base assumes that it has been in-service for only 1.5 years. This approach ensures no over-recovery of an additional half-year of depreciation from ratepayers and aligns the accumulated depreciation amount used to calculate the 2021 rate base with the depreciation expense already collected from ratepayers through the ICM rate riders in 2019 and 2020.

While the OEB has noted in the past that a half-year rule is applied in the first year that an asset goes in-service for rate-setting purposes, the OEB takes a different approach in the context of calculating an IRM rate rider. The OEB Filing Requirements state that, with the exception of applications that are in the final year of an IRM plan, "the half-year rule should not apply so as not to build a deficiency for subsequent years of the IRM plan term."

4 IMPLEMENTATION

The approved effective date for new rates is May 1, 2021. The OEB does not anticipate any obstacle to having Halton Hills Hydro's rate order issued for May 1, 2021 implementation. However, in the event that the OEB's rate order is not issued in time for Halton Hills Hydro to implement rates for May 1, 2021, the OEB declares Halton Hills Hydro's current (2020) distribution rates and charges interim as of May 1, 2021 until such time as 2021 rates and charges are approved by the OEB.

In accordance with this Decision and Order, Halton Hills Hydro shall implement the OEB's decision on the unsettled issue and file a Draft Rate Order with supporting material.

DRC, Energy Probe, SEC, and VECC are eligible to apply for cost awards in this proceeding. The OEB has made provision in this Decision and Order for intervenors to file its cost claim. The OEB will issue its cost awards decision after the steps outlined in the following Order section are completed.

5 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Halton Hills Hydro shall file with the OEB and forward to intervenors a Draft Rate Order with a proposed Tariff of Rates and Charges by **March 25, 2021**.
2. Intervenors and OEB staff shall file any comments on the Draft Rate Order with the OEB and forward them to Halton Hills Hydro by **April 1, 2021**.
3. Halton Hills Hydro shall file with the OEB and forward to intervenors, responses to any comments on its Draft Rate Order by **April 6, 2021**.
4. Intervenors shall submit its cost claim to the OEB and forward it to Halton Hills Hydro by **April 8, 2021**.
5. Halton Hills Hydro shall file with the OEB and forward to intervenors any objections to the claimed costs by **April 15, 2021**.
6. Intervenors shall file with the OEB and forward to Halton Hills Hydro any responses to any objections for cost claims by **April 22, 2021**.
7. Halton Hills Hydro shall pay the OEB's costs incidental to this proceeding upon receipt of the OEB's invoice.

All materials filed with the OEB must quote the file number, **EB-2020-0026**, be submitted in a searchable/unrestricted PDF format with a digital signature through the OEB's web portal at <https://pes.ontarioenergyboard.ca/eservice>. Filings must clearly state the sender's name, postal address, telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at <https://www.oeb.ca/industry>. If the web portal is not available parties may email their documents to boardsec@oeb.ca.

All communications should be directed to the attention of the Registrar at the address below and be received no later than 4:45 p.m. on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Shuo Zhang at Shuo.Zhang@oeb.ca and OEB Counsel, James Sidlofsky at James.Sidlofsky@oeb.ca.

DATED at Toronto March 18, 2021

ONTARIO ENERGY BOARD

Original Signed By

Christine E. Long
Registrar

SCHEDULE A
SETTLEMENT PROPOSAL
DECISION AND ORDER
HALTON HILLS HYDRO INC.
EB-2020-0026
MARCH 18, 2021