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

Ontario

BY EMAIL

June 17, 2022

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Marconi:

Re: E.L.K. Energy Inc. (E.L.K. Energy)
Application for 2022 Electricity Distribution Rates
Ontario Energy Board File Number: EB-2021-0016

In accordance with Procedural Order No. 1 and the letter issued by the OEB on June 3, 2022, please find attached OEB staff's submission on the settlement proposal in the above noted proceeding. E.L.K. Energy and all intervenors have been copied on this filing.

Yours truly,

Original Signed By

Donald Lau
Project Advisor – Electricity Distribution: Major Rate Applications & Consolidations

Attach.

ONTARIO ENERGY BOARD

STAFF SUBMISSION ON SETTLEMENT PROPOSAL

2022 ELECTRICITY DISTRIBUTION RATES

E.L.K. Energy Inc.

EB-2021-0016

June 17, 2022

INTRODUCTION

E.L.K. Energy Inc. (E.L.K. Energy) filed a cost of service application with the Ontario Energy Board (OEB) on February 4, 2022, under section 78 of the *Ontario Energy Board Act*, *1998,* seeking approval for changes to the rates that E.L.K. Energy charges for electricity distribution, to be effective May 1, 2022.

The OEB issued an approved issues list for this proceeding on April 6, 2022. A settlement conference was held from May 11 to 13, 2022 and E.L.K. Energy filed a settlement proposal setting out an agreement among all the parties to the proceeding on June 10, 2022. The parties to the settlement proposal were E.L.K. Energy and the approved intervenors in the proceeding: School Energy Coalition, Vulnerable Energy Consumers Coalition, and Hydro One Networks Inc. (the Parties). The settlement proposal represents a full settlement of all issues in E.L.K. Energy's application.

For a typical residential customer with monthly consumption of 750 kWh, the total bill impact under the filed settlement proposal is a decrease of $2.96 per month before taxes or 2.48%.

This submission is based on the status of the record at the time of the filing of E.L.K. Energy's settlement proposal and reflects observations that arise from OEB staff's review of the evidence and the settlement proposal. It is intended to assist the OEB in deciding upon E.L.K. Energy's application and the settlement proposal.

Settlement Proposal

OEB staff has reviewed the settlement proposal in the context of the objectives of the *Renewed Regulatory Framework*[1], the *Handbook for Utility Rate Applications*[2], applicable OEB policies, relevant OEB decisions, and the OEB's statutory obligations. OEB staff submits that the settlement proposal reflects a reasonable evaluation of the distributor's planned outcomes in this proceeding, appropriate consideration of the relevant issues, and ensures that there are sufficient resources to allow E.L.K. Energy to achieve its identified outcomes in the five years of the plan from 2022 to 2026.

[1] Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, October 18, 2012
[2] Handbook for Utility Rate Applications, October 13, 2016

OEB staff further submits that the explanations and rationale provided by the Parties support the settlement proposal and that the outcomes arising from the OEB's approval of the settlement proposal would reflect the public interest and would result in just and reasonable rates for customers.

Below, OEB staff provides specific submissions on certain of the issues established by the OEB:

- Issue 1.1 - Capital
- Issue 1.2 - Operating, Maintenance, and Administration
- Issue 2.0 - Revenue Requirement
- Issue 3.0 - Load Forecast, Cost Allocation, and Rate Design
- Issue 4.0 - Accounting
- Issue 5.1 - Are the Specific Service Charges, Retail Service Charges, and Pole Attachment Charge appropriate?
- Issue 5.2 – Is the proposed effective date for 2022 rates appropriate?
- Issue 5.3 - Has E.L.K. Energy responded appropriately to the prior commitments from its 2017 Cost of Service settlement proposal?[3]

Issue 1.1 Capital

E.L.K. Energy proposed a net capital expenditure of $1.16M for the 2022 test year in its original application. The capital investments included connecting new subdivisions, road relocations, pole replacements, transformer replacements, deploying fault indicators, and the replacement of a bucket truck. Before the settlement conference, E.L.K. Energy updated the 2022 net capital expenditures to reflect the delayed delivery of the bucket truck from 2022 to 2023.

For the purposes of the settlement of all issues in this proceeding, the Parties have agreed that the 2022 net capital expenditure of $0.809M is appropriate.

OEB staff submits that E.L.K. Energy's 2022 net capital expenditures are reasonable.

In addition, the Parties agreed that E.L.K. Energy should undertake the following system planning and operations activities:

- Address the data gaps identified in the Kinetrics Asset Condition Assessment (ACA) and include the data in an asset registry

[3] EB-2016-0066

- Create a formal asset inspection procedure and file it with the OEB
- Track outages at a sub-code level for defective equipment and tree contacts
- Install, at a minimum, the fault indicators planned to be installed in the DSP and to report information on momentary outages and how to reduce them in their next rebasing application.

In E.L.K. Energy's last cost of service application, concerns were raised about the lack of information E.L.K. Energy had about its assets and E.L.K. Energy agreed to undertake an independent third-party ACA. E.L.K. Energy engaged Kinectrics to undertake an ACA and EDM International Inc. to do a pole testing review. OEB staff notes that in the Kinectrics ACA, all the asset health indexes are based on the cumulative survival probability of the asset group at a given age. The Kinectrics ACA also identified high-priority data gaps which can affect how accurately the health index score reflects the condition of the asset.[4]

OEB staff supports addressing the data gaps identified in the Kinectrics ACA and creating a formal asset inspection procedure and submits that this will continue to improve the information E.L.K. Energy has on its assets.

E.L.K. Energy has seen decreasing levels of reliability as SAIDI and SAIFI continue to increase.[5] OEB staff supports tracking defective equipment and tree contacts by subcodes as this could help E.L.K. Energy improve its capital investment strategy on assets as E.L.K. Energy continues to improve on its ACA.

E.L.K. Energy has also seen many momentary outages on the distribution system and does not know if it is originating from E.L.K. Energy's side or the supply side of the distribution system.[6] OEB staff supports the installation of fault indicators to have better information on momentary outages so that they can be addressed in the next rebasing application.

Reliability Commitment Account

E.L.K. Energy agreed to create a Reliability Commitment Account (RCA) for E.L.K. Energy's annual SAIDI and SAIFI targets. The RCA receives a credit of $25k for each

[4] E.L.K. Energy Inc. 2020 Asset Condition Assessment, October 21, 2020, p.9
[5] EB-2021-0016 Exhibit 2 – Table 2-22 Historical Reliability Performance Metrics – LOS and MED Adjusted
[6] EB-2021-0016 Interrogatory Responses, May 2, 2022 (2-Staff-18)

missed reliability target for each year beginning 2024 until the next rebasing. The target in 2024 will be a reduction of 4% from the average SAIDI and SAIFI for 2019 to 2021. For each subsequent year, the target will be a reduction of 4% from the previous year. At disposition of the RCA, E.L.K. Energy will have the opportunity to justify whether any balance in the account should not be disposed to the favor of ratepayers.

OEB staff supports the creation of the RCA as this would incent E.L.K. Energy to continually improve on its declining reliability. OEB staff notes that a similar account was approved in Hydro Ottawa Limited's Custom IR application.[7]

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

E.L.K. Energy proposed a total OM&A expense of $3.53M for the 2022 test year in its original application. E.L.K. Energy attributes most of the increase to OM&A to incremental employees and maintenance of overhead/underground lines.

The Parties agreed to an OM&A expense of $3.29M for the 2022 test year. The Parties also agreed that if E.L.K. Energy does not spend at least the proposed Operations and Maintenance (O&M) amount in the test year that it would credit to the customer the difference between the actual O&M expense and the proposed O&M amount. E.L.K. Energy also agreed that it will spend a minimum of $80k per year on reactive and proactive tree trimming as part of the agreed to OM&A envelope.

OEB staff notes that a large driver of the OM&A increase is attributed to the maintenance of overhead/underground lines which contributes to the overall reliability of the distribution system and is mostly an O&M expense. The proposed OM&A expense is reasonable to continue maintaining the overall reliability of E.L.K. Energy. In addition, having an O&M variance account would ensure customers are compensated if the appropriate amount is not spent on the maintenance of the distribution system. OEB staff submits that the O&M variance account is reasonable.

E.L.K. Energy noted that the main cause of momentary outages on its distribution system has been trees or animals.[8] E.L.K. Energy's average vegetation management costs between 2016 to 2021 were $74k. OEB staff submits that the commitment to spend a minimum of $80k per year is reasonable as momentary outages are partially caused by tree contact.

[7] EB-2019-0261 Decision and Order, November 19, 2020
[8] EB-2021-0016 Interrogatory Responses, May 2, 2022 (2-Staff-18)

Issue 2.0 Revenue Requirement

The Parties agreed to a service revenue requirement of $4.25M and a base revenue requirement of $3.6M. This reflects a reduction of $243k in OM&A and $15k in return on rate base as well as an increase of $172k in other revenues as compared to the original application. This also reflects updates to the cost of capital and working capital allowance. The table below shows the change in revenue requirement between E.L.K. Energy's application and the settlement proposal. OEB staff has no concerns with the revenue requirement calculations.

Table 1– E.L.K. Energy's Revenue Requirement

	Original Application	Settlement Proposal	Variance
OM&A Expenses	$3,531,441	$3,288,539	-$242,902
Amortization/Depreciation	$255,733	$255,733	$0
Property Taxes	$20,000	$20,000	$0
Income Taxes (Grossed Up)	-	-	-
Regulated Return on Rate Base	$704,223	$689,359	-$14,864
Service Revenue Requirement	$4,511,397	$4,253,631	-$257,766
Revenue Offsets	$486,747	$658,594	$171,847
Base Revenue Requirement	$4,024,650	$3,595,037	-$429,613
Gross Revenue Deficiency/(Sufficiency)	$300,665	-$186,378	-$487,043

Cost of Capital

The Parties settled on a long-term debt rate of 2.76%, which is calculated based on E.L.K. Energy's existing and forecasted long-term debt, on a prorated basis. E.L.K. Energy's current long-term debt with CIBC is 1.07% and expires in June 2022. E.L.K. Energy's forecasted long-term debt with CIBC is 4.61% and begins in July 2022.

OEB staff submits that the calculated cost of capital is reasonable.

PILS Expense – Accelerated Capital Cost Allowance

Bill C-97 introduced the Accelerated Investment Incentive Program (AIIP), which provides for a first-year increase in capital cost allowance (CCA) deductions on eligible capital assets acquired after November 20, 2018.

In its July 25, 2019, letter (CCA Letter), the OEB provided accounting direction on the treatment of the impacts from accelerated CCA resulting from the AIIP. The OEB established a separate sub-account of Account 1592 - PILs and Tax Variances, Sub-account CCA Changes to track the impact of any differences that result from the CCA change to the tax rates or rules that were used to determine the tax amount that underpins rates.

The CCA Letter also indicated that utilities were to reflect any impacts arising from CCA rule changes in their cost-based applications for 2020 rates and beyond and that the OEB may consider a smoothing mechanism to address any timing differences that could lead to volatility in tax deductions over the rate-setting term.

In the pre-filed evidence, E.L.K. Energy forecasted a PILs expense of $0 in its test year and indicated it has a loss carry-forward. The loss carry-forward amount will be reduced by future profitability and taxable income. In the settlement proposal, the Parties accept that the PILs calculation of $0 for 2022 has been appropriately determined in accordance with OEB policies and practices. The Parties agree that Sub-account 1592 – PILs and Tax Variances – CCA Changes remains available and shall be used by E.L.K. Energy to record the impact of the AIIP that is taken during the rate period.

OEB staff supports the agreement reached by the Parties on the PILs expense and submits that the PILs expense in the test year is appropriate.

Issue 3.0 Load Forecast, Cost Allocation, and Rate Design

Load Forecast

The Parties agreed to the proposed load forecast subject to two changes:

1. The Parties agreed that weather normal values for Heating Degree Days and Cooling Degree Days would be based on a ten-year historic average.
2. The 2022 residential customer forecast would be increased by 85 to account for an increase in subdivision developments above the trends embedded in the original forecast.

OEB staff does not have any concerns with the proposed load forecast of 244,797 MWh, 346,988 kW, and 15,591 customers and connections as shown in Table 3.1A of the settlement proposal. Relative to the initial application, this reflects an increase of

4,716 MWh, 4,956 kW, and 85 customers. OEB staff submits that the agreed-upon load and customer connection forecasts are appropriate.

Cost Allocation

The Parties agreed that E.L.K. Energy would update its load profiles in its next rebasing application. The Parties also agreed that E.L.K. Energy would review its billing and collecting weighting factors in its next rebasing application.

It was agreed that the revenue-to-cost ratio for the Embedded Distributor rate class would be reduced to 120%, the ceiling for that rate class. Offsetting increases are proposed for General Service < 50 kW, Sentinel Lighting, and Unmetered Scattered Load (all increasing to 85.20%).

OEB staff has no concern with the cost allocation agreed to by the Parties.

Loss Factor

The Parties agree to a loss factor of 4.17%, which is calculated based on a 5-year average of 2016 to 2021, excluding 2020. The average historical distribution loss factor was 0.73% but for 2020 it was 5.5% and for 2021 it was 0.6%. To reflect the historical loss factor more accurately, excluding 2020 is reasonable. OEB staff has no concerns with the proposed loss factor.

Rate Design

If the fixed-variable split was maintained in all rate classes, the fixed charge in the GS < 50 kW rate class would increase from below the ceiling[9] to higher than the ceiling. Therefore, the Parties agreed that the fixed charge for this rate class would increase to the ceiling, and a proportionately larger increase would be applied to the variable charge.

In the Embedded Distributor rate class, the Parties agreed that the distribution charge would be based on a 100% fixed charge. In addition, E.L.K. Energy would start billing its embedded distributor on the basis of kW, rather than kVA. The only embedded distributor is Hydro One, a party to the proposed settlement.

[9] The minimum system with peak load carrying capability from the cost allocation model, which is commonly referred to as the ceiling for fixed charges.

In all other rate classes, it is proposed that the fixed-variable split be maintained at its current level.

OEB staff has no concern with the proposed rate design.

Retail Transmission Service Rates and Low Voltage Service Rates

E.L.K. Energy is fully embedded in Hydro One's service territory. The Parties agreed that E.L.K. Energy and Hydro One would switch to a net load billing arrangement where Hydro One calculates E.L.K. Energy's Sub-Transmission delivery charges based on E.L.K. Energy's load net of Hydro One's load. E.L.K. Energy would in turn not charge Low Voltage service rates, or Retail Transmission Service Rates (RTSRs) to Hydro One.

OEB staff notes that the proposed change is not expected to materially impact other rate classes.

OEB staff has no concern with the proposed approach with respect to the embedded distributor and has no concern with respect to the proposed RTSRs or Low Voltage Rates.

Issue 4.0 Accounting

The Parties agreed that all impacts of any changes in accounting standards, policies, estimates and adjustments have been properly identified and recorded, and the rate-making treatment of each of these impacts is appropriate.

OEB staff supports the settlement proposal reached by the Parties.

Disposition of Deferral and Variance Accounts

Group 1 DVAs

In its pre-filed evidence, E.L.K. Energy proposed to dispose of its Group 1 Deferral and Variance Account (DVA) balances (credit of $568,180) as of December 31, 2020.This balance includes Accounts 1588 and 1589 principal balances as of December 31, 2015, plus interest to 2022. E.L.K. Energy also proposed to dispose Group 2 and other DVA balances (debit of $94,278) as of December 31, 2020, plus interest forecasted up to April 30, 2022, on a final basis.

E.L.K. Energy last disposed of Group 1 account balances excluding Accounts 1588, 1589 and 1595 on a final basis in its 2016 IRM Rate Application.[10] The Group 1 account balances, excluding Accounts 1588, 1589 and 1595, were disposed of on an interim basis in each of 2019, 2020 and 2021 IRM Rate Applications.[11]

OEB staff explored the possibility of E.L.K. Energy disposing of the balances of Accounts 1588 and 1589 for the years 2016-2021. In responses to an OEB staff interrogatory[12], E.L.K. Energy indicated that most of the years from 2016 to 2020 have large balances which need to be further investigated and revised prior to seeking disposition. In addition, E.L.K. Energy stated that it is currently undertaking an external audit for 1588 and 1589 account balances for the period previously mentioned.

In its response to an OEB staff interrogatory[13], E.L.K. Energy updated the DVA Continuity Schedule to include balances previously approved for disposition that were initially omitted in the pre-filed DVA Continuity Schedule. After the adjustments were captured in the DVA Continuity Schedule, the total Group 1 DVA balance to be disposed of is a credit of $1,043,256 including Accounts 1588 and 1589 balances as of December 31, 2015, with interests to 2022.

In the settlement proposal, the Parties agreed that E.L.K. Energy will make its best efforts to complete the external audit and seek disposition of the balances in Accounts 1588 and 1589 as part of its 2023 IRM application. If, however, E.L.K. Energy is not able to seek disposition in its 2023 IRM application, it shall, (a) provide reasons for not doing so, and (b) seek disposition no later than its 2024 IRM application.

OEB staff supports the settlement proposal reached by Parties regarding Group 1 DVA balances. OEB staff also supports the course of action regarding Accounts 1588 and 1589 that is agreed upon by the Parties.

Group 2 DVAs

The Parties have agreed to use the existing Account 1592, Sub-account CCA Charges, instead of the proposed new sub-account, to record future impacts resulting from the phase-out of the Accelerated Investment Incentive program (AIIP), which is currently

[10] EB-2015-0064
[11] EB-2018-0027. EB-2019-0029, and EB-2020-0014
[12] EB-2021-0016, Interrogatories 9-Staff-69.
[13] EB-2021-0016, Interrogatories 9-Staff-73.

anticipated to begin after 2023. The parties agree that it is reasonable to record both the introduction of CCA change and the phase-out of CCA change in this account and that it is consistent with guidance in the OEB's letter dated July 25, 2019, referenced in the PILs expenses section above.

During the settlement, E.L.K. Energy provided amounts attributable to the Pole Attachment Revenue Variance Account (1508). The Parties agreed that E.L.K. Energy will credit customers a balance of $139,392, plus $2,395 interest, reflecting the appropriate balance in this account up to the end of April 2022.

The Parties agreed to the disposition of E.L.K. Energy's Group 2 DVAs, including Account 1576, Accounting Changes Under CGAAP Balance + Return Component balance of $17,985.

OEB staff does not take issue with the settlement proposal reached by the Parties regarding Group 2 DVA balances.

Disposition Period

In its pre-filed evidence, E.L.K. Energy proposed all DVA balances be disposed of over a two-year period to mitigate large rate increases after the negative rate riders expire. The Parties agreed to a disposition period of one year for all Group 1 and Group 2 DVAs.[14]

OEB staff notes that the final total bill impact reflecting the settlement proposal is a decrease for all rate classes. OEB staff also notes that the default disposition period is one year per the Report of the Board in Electricity Distributors' Deferral and Variance Account Review Initiative.[15] Therefore, OEB staff supports the disposition period of one year for Group 1 and Group 2 DVAs.

Issue 5.1 Are the Specific Service Charges, Retail Service Charges, and Pole Attachment Charge appropriate?

E.L.K. Energy is not requesting to change its specific service charges, retail service charges, or pole attachment charge. E.L.K. Energy is using the latest OEB-approved charges for retail service charges and pole attachment charge. OEB staff has no

[14] Settlement Proposal, page 40.
[15] July 31, 2009

concerns with the specific service charges, retail service charges, and pole attachment charge.

Issue 5.2 Is the proposed effective date for 2022 rates appropriate?
The Parties have agreed that E.L.K. Energy's new rates should be effective on May 1, 2022. E.L.K. Energy filed its application on February 4, 2022, which is approximately 5 months later than the expected filing date of August 31, 2021.

OEB staff notes that because of the settlement proposal E.L.K. Energy has a revenue sufficiency of $186k. OEB staff submits that it is reasonable for a May 1, 2022 effective date as customers should not be harmed through E.L.K. Energy filing their application late.

E.L.K. Energy also filed the calculation of forgone revenue. OEB staff has reviewed the foregone revenue model and agrees that the foregone revenue and riders are calculated correctly.

Issue 5.3 – Has E.L.K. Energy responded appropriately to the prior commitments from its 2017 Cost of Service settlement proposal?
The Parties stated that E.L.K. Energy has filed documents in response to the E.L.K. Energy's 2017 Cost of Service Settlement Proposal.[16] To address the concern that E.L.K. Energy had a lack of information about its assets, one of the commitments in the 2017 Cost of Service Settlement Proposal was to undertake an independent third-party ACA. E.L.K. Energy consulted EDM International to do pole testing and Kinectrics to undertake an ACA for the other distribution assets. OEB staff notes that the Kinectrics ACA is deriving its asset condition from the age of the asset, which still leaves the result predominantly based on age. However, with E.L.K. Energy's commitment to addressing the data gaps identified in the Kinectrics ACA, OEB staff believes that E.L.K. Energy has improved its ACA but continues to address the concern regarding the lack of information it has on its assets. OEB staff also notes that EDM International pole testing has been used in the ACA and is a step in the right direction toward an improved ACA.

All of which is respectfully submitted

[16] EB-2016-0066