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

BY EMAIL

February 6, 2023

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

Dear Ms. Marconi:

Re: Ontario Energy Board (OEB) Staff Submission
Wasaga Distribution Inc. (Wasaga Distribution)
2023 Electricity Distribution Rates
OEB File Number: EB-2022-0066

Please find attached OEB staff's submission in the above-referenced proceeding, pursuant to Procedural Order No. 1.

Yours truly,

Original Signed By

Musab Qureshi
Digitally signed by Musab Qureshi
Date: 2023.02.10 13:13:20 -05'00'

Musab Qureshi
Senior Advisor, Generation & Transmission

Encl.

ONTARIO ENERGY BOARD

STAFF SUBMISSION

Wasaga Distribution Inc. (Wasaga Distribution)

2023 Electricity Distribution Rates

EB-2022-0066

February 6, 2023

Application Summary

Wasaga Distribution Inc. (Wasaga Distribution) filed an updated incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on November 22, 2022, seeking approval for changes to its electricity distribution rates to be effective May 1, 2023.

This document outlines OEB staff's submissions on the following topics based on its review of the evidence submitted by Wasaga Distribution:

1. Price Cap Adjustment and Retail Transmission Service Rates
2. Wholesale Market Service Rate and Rural/Remote Electricity Rate Protection Charge
3. Shared Tax Adjustment
4. Group 1 Deferral and Variance Accounts
5. Lost Revenue Adjustment Mechanism Variance Account
6. Low Voltage Service Rate Adjustment

1. Retail Transmission Service Rates and Price Cap Adjustment

Wasaga Distribution is fully embedded within Hydro One Networks Inc.'s (HONI) distribution system. As part of this application, Wasaga Distribution asks to update to its Retail Transmission Service Rates (RTSRs) to recover the rates charged by HONI.

On November 29, 2022, the OEB issued a Decision and Rate Order for HONI's 2023 distribution rates, effective January 1, 2023. OEB staff has updated Wasaga Distribution's RTSRs in the Rate Generator Model as part of its interrogatories to reflect Hydro One's 2023 host-RTSRs.

In that same Rate Generator Model, OEB staff also updated price cap adjustment for Wasaga Distribution, to reflect the OEB's 2023 inflation factor of 3.70%.[1]

Wasaga Distribution has confirmed the accuracy of both adjustments.

<u>Submission</u>

OEB staff supports Wasaga Distribution's request for updates to 2023 RTSRs and submits that it should be allowed a 3.7% rate adjustment for 2023 rates based on the Price Cap Index adjustment formula.[2]

2. Wholesale Market Service Rate and Rural/Remote Electricity Rate Protection Charge

Every year, the OEB sets the Wholesale Market Service (WMS) rate and the Rural or Remote Electricity Rate Protection (RRRP) charge that every distributor charges its customers. On December 8, 2022, the OEB issued a Decision and Rate Order that set the WMS including the Capacity Based Recovery (CBR) at $0.0045/kWh and the RRRP charge at $0.0007/kWh, effective January 1, 2023[3]. OEB staff updated the Rate Generator Model, as part of its interrogatories, to reflect that decision and rate order.

Wasaga Distribution has confirmed the accuracy of both adjustments.

[1] OEB Letter, 2023 Inflation Parameters, October 20, 2022
[2] The stretch factor assigned to Wasaga Distribution is 0%; EB-2010-0379, Report to the OEB, Empirical Research in Support of Incentive Rate-Setting: 2019 Benchmarking Update.
[3] Decision and Order, EB-2022-0269

Submission

OEB staff supports the updates made to the WMS rate and RRRP charge as a result of the OEB's December 8, 20222 Decision and Order.

3. Shared Tax Adjustment

Wasaga Distribution identified a total decrease of $14,279 in its 2023 tax expense as compared to the approved tax expense in its 2016 cost of service, resulting in a shared amount of $7,140 to be refunded to ratepayers. This is based on the OEB's general policy that the impact of any changes in tax legislation are to be shared 50/50 by the distributor and its ratepayers.[4] Wasaga Distribution proposes that the shared amount be held in Account 1595 until the next rate application.

Wasaga Distribution also noted that the shared tax amounts approved in its 2019, 2020, 2021, and 2022 IRM applications plus carrying charges, totaling a credit amount of $4,910 has been recorded in Account 1595 (2020). [5] Wasaga Distribution proposed that the credit amount of $4,910 and the shared tax credit amount of $7,140 calculated for 2023 be transferred to the Account 1595 (Tax Sharing) sub-account and held in this sub-account until its next rate application.

Submission

OEB staff agrees with Wasaga Distribution's calculated 2023 tax decrease of $14,279, as well as its proposal to share $7,140 with ratepayers.

OEB staff does not agree with Wasaga Distribution's proposal to transfer 2019 to 2022 approved shared tax amounts to a Account 1595 (Tax Sharing) sub-account. The OEB has not established a generic Account 1595 (Tax Sharing) sub-account. Moreover, the OEB already decided where shared tax amounts should be transferred to in Wasaga Distributions' previous IRM applications. In its decisions and rate orders for Wasaga Distribution's 2019, 2020, and 2022 IRMs applications, the OEB directed Wasaga Distribution to transfer the shared tax amounts to the Account 1595 sub-account for that rate year as the tax sharing amounts in each of those years did not produce a rate rider

[4] 2008 Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, EB-2007-0673
[5] EB-2018-0073, EB-2019-0070, EB-2020-0058, EB-2021-0061

to the fourth decimal place in one or more rate classes[6]. OEB staff notes that the above noted treatment is the typical treatment when tax sharing amounts do not produce a rate rider. Therefore, OEB staff is of the view that this treatment should be applied to Wasaga Distribution's shared tax amount for 2021 as well, where the OEB directed that the shared tax amount be transferred to Account 1595 without specifying the specific sub-account.[7]

Wasaga Distribution did not transfer the 2019 to 2022 shared tax amounts to the appropriate Account 1595 sub-accounts as it had been directed to do. Instead of doing so now, OEB staff submits that these shared amounts along with the 2023 shared tax amount should be transferred to Account 1595 (2023) for regulatory efficiency and ease of accounting administration.

OEB staff also notes that Wasaga Distribution indicated that the 2019 to 2022 shared tax amounts plus carrying charges total a credit amount of $4,910. OEB staff calculates the total approved shared tax amounts for 2019 to 2022, excluding carrying charges to be a $5,341 credit.[8] Adding carrying charges to $5,341 would result in an even larger credit amount and would not result in a total credit amount of $4,910 as noted by Wasaga Distribution. OEB staff submits that Wasaga Distribution should review and transfer the correct 2019 to 2022 shared tax amounts of $5,341 plus carrying charges to Account 1595 (2023).

4. Group 1 Deferral and Variance Accounts

In each year of an IRM term, the OEB will review a distributor's Group 1 deferral and variance accounts in order to determine whether those balances should be disposed. OEB policy states that Group 1 account balances should be disposed if they exceed, on a net basis (as a debit or credit), a pre-set disposition threshold of $0.001 per kWh, unless a distributor justifies why balances should not be disposed.[9] If the net balance does not exceed the threshold, a distributor may still request disposition which will be considered by the OEB on a case by case basis.

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[6] Page 5 of EB-2018-0073 Decision and Rate Order, March 28, 2019, Page 5 of EB-2019-0070 Decision and Rate Order April 16, 2020, Page 6 of EB-2021-0061 Decision and Rate Order, March 24, 2022,
[7] EB-2020-0058 Decision and Rate Order, March 25, 2021, p.6
[8] EB-2018-0073: credit of $3,710 for 2019, EB-2019-0070: credit of $503 for 2020, EB-2020-0058: credit of $564 for 2021, EB-2021-0061: credit of $564 for 2022
[9] Report of the OEB – "Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)", EB-2008-0046, July 31, 2009

The 2021 year-end net balance for Wasaga Distribution's Group 1 accounts eligible for disposition, including interest projected to April 30, 2023, is a debit of $577,399 and pertains to variances accumulated during the 2021 calendar year. This amount represents a total debit claim of $0.0040 per kWh, $0.003 per kWh above the pre-set disposition threshold. Wasaga Distribution has requested the disposition of this amount over a one-year period on a final basis.

Submission

OEB staff has reviewed the 2021 DVA balances and the supporting evidence substantiating these balances. OEB staff has not identified any issues with the other Group 1 account balances. Therefore, OEB staff supports the request to dispose of the December 31, 2021 Group 1 DVA balances on a final basis over one year.

5. Lost Revenue Adjustment Mechanism Variance Account

Distributors filing an application for 2023 rates are to seek disposition of all outstanding Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) balances related to program savings related to Conservation First Framework programs or other conservation programs they delivered unless they do not have complete information on eligible program savings.[10]

The OEB's CDM Guidelines[11] indicate that distributors are also eligible for LRAM for persisting impacts of conservation programs until their next rebasing. The OEB provided direction for distributors to seek approval of LRAM-eligible amounts for 2023 onwards on a prospective basis, and a rate rider in the corresponding rate year, to address amounts that would otherwise be recorded in the LRAMVA for all years until their next rebasing application.[12]

Wasaga Distribution is not applying for LRAMVA disposition as part of this proceeding.[13] In response to OEB staff interrogatories, Wasaga Distribution noted that a request for disposition of its LRAMVA balance was not submitted, as the LRAMVA balance is

[10] Chapter 3 Filing Requirements, section 3.2.6.1
[11] Conservation and Demand Management Guidelines for Electricity Distributors (EB-2021-0106), December 20, 2021
[12] Guidance on Prospective Lost Revenue Adjustment Mechanism (LRAM) Amounts – 2023 Rates, June 16, 2022
[13] Wasaga Distribution Inc EB-2022-0066 IRM Manager's Summary Section 9, September 30, 2022

immaterial. Wasaga Distribution also noted that it may consider disposing of its LRAMVA balance as part of its next Cost of Service application.[14]

<u>Submission</u>

As Wasaga Distribution has not indicated that a lack of information on eligible program savings is preventing the disposition of its LRAMVA balance, OEB staff submits that Wasaga Distribution should dispose of any remaining balance as part of the current proceeding. OEB staff request that Wasaga Distribution include its LRAMVA balance in its reply submission. Based on Wasaga Distribution's statement that the its LRAMVA balance is immaterial, OEB staff submits that if Wasaga Distribution does not seek disposition in the current proceeding, its LRAMVA balance should be set to zero and not be considered for disposition in a future proceeding.

6. Low Voltage Service Rate Adjustment

Wasaga Distribution is requesting to adjust its Low Voltage (LV) service rates (LVSRs) billed to customers to minimize its DVA account balances and to smooth customer bill impacts. Wasaga Distribution acknowledged that a LVSR adjustment is usually dealt with in a cost-of-service application. However, Wasaga Distribution requested this adjustment now to mitigate bill impacts anticipated in its 2024 Cost of Service application.

Wasaga Distribution noted that its proposed approach is also consistent with the objective of standardizing accounting procedures to facilitate the disposition of pass-through variance account balances that enables the setting of accurate rates for customers and reduction of rate volatility.[15]

LVSR is based on the LV costs/charges that a distributor has to pay to its host distributor and is typically updated during a Cost of Service application. Wasaga Distribution last updated its LVSR as part of its 2016 Cost of Service application.[16] LV charges relate to the cost of a host distributor to distribute electricity to an embedded distributor. Any variance between the LV charges paid to the host distributor and the amounts collected from customers via LVSR is captured in Account 1550 - LV Variance

[14] Wasaga Distribution EB-2022-0066 IR Responses, January 20, 2023
[15] Manager's Summary p. 19
[16] EB-2015-0107

Account. Account 1550 is one of the Group 1 pass-through accounts, which a distributor typically disposes of annually as part of the IRM process. Wasaga Distribution is embedded in HONI's service area.

Table 1 below shows LV charges payable to HONI, the revenues collected from Wasaga Distribution's customers through LVSRs, and the annual LV variances from 2016 to 2022.[17]

Table 1: Low Voltage Charges, LVSRs Revenues, and Variances

Year	Low Voltage Costs (Payments to Hydro One)	LV Revenues	Variance Cost vs Revenues
2016 Actual	$ 475,395	$ 272,995	$ 202,400
2017 Actual	$ 448,791	$ 289,081	$ 159,710
2018 Actual	$ 420,245	$ 311,282	$ 108,963
2019 Actual	$ 553,135	$ 307,151	$ 245,984
2020 Actual	$ 785,463	$ 322,873	$ 462,590
2021 Actual	$ 844,404	$ 330,344	$ 514,060
2022 Actual	$ 622,962	$ 333,505	$ 289,457

In this application, Wasaga Distribution requested to adjust its LVSR for the 2023 rate year.[18]

To set its LVSR at a more appropriate level, Wasaga Distribution proposed to forecast its 2023 LV costs by multiplying its projected 2023 demand values by HONI's 2023 OEB-approved sub-transmission rates.[19] Wasaga Distribution's projected 2023 demand values were derived by using the 2022 actual demand values and then applying the average year-over-year increase from 2016 to 2022. The average increases vary between customer types, ranging from 1.63% to 6.05%.[20]

This results in a forecasted LV cost for the 2023 rate year of $567,687. This amount is then allocated to its customer classes on the same basis as the Transmission

[17] Table 3 is created by OEB staff, based on information provided as part of VECC Interrogatory Response 3
[18] Manager's Summary p. 20
[19] Decision and Rate Order, EB-2021-0110, Tariff of Rates and Charges
[20] Appendix G, Hydro One Rate Analysis tab

Connection Charges are allocated using 2021 RRR data.[21] Wasaga Distribution used the OEB's RTSR model to complete its final LV service rate calculation.

Submission

OEB staff does not object to Wasaga Distribution's request to update its 2023 LVSR as part of its 2023 IRM application. OEB staff agrees that if Wasaga Distribution is anticipating a significant bill impact to its customers associated with its 2024 Cost of Service application, one way to mitigate that impact would be to reduce the year-over-year impact from 2023 to 2024 associated with LVSRs charged to customers. An update to the 2023 LVSRs would accomplish that.

Furthermore, OEB staff supports Wasaga Distribution's attempt to minimize the balance in Account 1550 (LV Variance Account). OEB staff notes that Account 1550 makes up over 92% of Wasaga Distribution's total Group 1 account variances accumulated during the 2021 calendar year.[22]

OEB staff also notes that HONI's sub-transmission rates are subject to inflationary increases year over year, while Wasaga Distribution's LVSR is only set during a Cost of Service application.

Distributors have proposed, and the OEB has approved, a variety of approaches in setting the appropriate LVSRs, which often recognize some of the unique circumstances different distributors face.[23] The OEB has recently approved the updates of the LVSRs in Milton Hydro's 2022 IRM decision and order.[24] OEB staff notes from Milton Hydro's decision and order[25] as well as the review of LV rates approved during cost of service applications, that the make-up of a fully or partially embedded distributor's LV costs varies between embedded distributors based on the ownership profile of the interconnection assets that are used to serve embedded distributors. Therefore, a one-size-fits-all methodology may not work for all situations.

[21] LV costs are allocated to rate classes in proportion to transmission connection rate revenues. Transmission connection amounts for each customer class is based on the customer class current RTSR connection charge multiplied by loss-adjusted billed kWh.

[22] Variance related to the LV Variance Account is $531,668, while the total Group 1 account variance accumulated during the 2021 calendar year and eligible for disposition is $577,399

[23] EB-2021-0011, Canadian Niagara Power Inc. Exhibit 8, page 17, is a recent example.

[24] EB-2021-0042, Milton Hydro Distribution Inc., December 9, 2021

[25] Ibid, Milton Hydro requested rates effective January 1, 2022. Hydro One Networks Inc. Decision and Order, EB-2021-0032 was issued on December 14, 2021.

A significant difference between Milton Hydro's and Wasaga Distribution's requests is how the LV costs for the relevant rate year are derived. In Milton Hydro's case, it used the most recent actual historical LV cost to determine the LVSR. On the other hand, Wasaga Distribution is proposing to use a projected LV cost estimate based on HONI's OEB-approved 2023 sub-transmission rates and projected 2023 demand values.

OEB staff does not agree with Wasaga Distribution's proposal to use projected 2023 demand values. OEB staff believes Wasaga Distribution's approach may lead to an overcollection of LV revenues due to potential fluctuation in demand. OEB staff notes that the IRM process is meant to be mechanistic and as such does not lend itself to a full prudence review of a load forecast, even for the sole purpose of forecasting the 2023 LVSR.

OEB staff submits that it would be more appropriate for Wasaga Distribution to use its 2022 actual demand values to derive its projected 2023 LV costs. OEB staff notes that Account 1550 will continue to be available to Wasaga Distribution to record any variances that may occur between LV costs and the LV revenues it collects from customers.

~ All of which is respectfully submitted ~