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

BY EMAIL

September 20, 2024

Ms. 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 Staff Submission
Festival Hydro Inc.
2024 Cost of Service Application
OEB File Number: EB-2024-0023

In accordance with the OEB's letter dated August 30, 2024, please find attached OEB staff's submission in the above referenced proceeding.

The applicant and intervenors have been copied on this filing.

Yours truly,

Vithooshan Ganesanathan
Digitally signed by Vithooshan Ganesanathan
Date: 2024.09.20 15:06:14 -04'00'

Vithooshan Ganesanathan
Advisor – Electricity Distribution Rates

Encl.

cc: All parties in EB-2024-0023

Ontario

ONTARIO ENERGY BOARD

OEB Staff Submission

Festival Hydro Inc.

Cost of Service Application

EB-2024-0023

September 20, 2024

Introduction

Festival Hydro Inc. (Festival Hydro) filed a Cost of Service application (the Application) with the Ontario Energy Board (OEB) on April 26, 2024, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the rates that Festival Hydro charges for electricity distribution, to be effective January 1, 2025.

The OEB issued an approved issues list for this proceeding on June 6, 2024.[1] A settlement conference was held from August 12 to August 14, 2024, and Festival Hydro filed a Settlement Proposal setting out an agreement among all parties to the proceeding on September 13, 2024. The parties to the Settlement Proposal are Festival Hydro and all approved intervenors: Association of Major Power Consumers in Ontario, Energy Probe, School Energy Coalition, and Vulnerable Energy Consumers Coalition (collectively, the Parties). OEB staff attended the settlement conference; however, it is not a party to the Settlement Proposal.

If the Settlement Proposal is approved, for a typical residential customer with a monthly consumption of 750 kWh, the total bill impact will be an increase of $1.07 per month, or 0.78% before taxes and the Ontario Electricity Rebate.

This submission 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 Festival Hydro's application and the Settlement Proposal.

Overview

OEB staff has reviewed the Settlement Proposal in the context of the objectives of the *Renewed Regulatory Framework*[2], the *Handbook for Utility Rate Applications*[3], applicable OEB policies, relevant OEB decisions, and the OEB's statutory obligations. OEB staff submits that the Settlement Proposal is in the public interest and that the accompanying explanation and rationale are adequate to support the Settlement Proposal. OEB staff further submits that the Settlement Proposal would result in just and reasonable rates.

The OEB-approved Issues List is provided below.

- Issue 1: Capital Spending and Rate Base

[1] OEB-approved Issues List.
[2] Report of the Board – *Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach*, October 18, 2012.
[3] *Handbook for Utility Rate Applications*, October 13, 2016.

- Issue 2: Operating, Maintenance and Administration (OM&A)
- Issue 3: Cost of Capital, PILs, and Revenue Requirement
- Issue 4: Load Forecast
- Issue 5: Cost Allocation, Rate Design, and Other Charges
- Issue 6: Deferral and Variance Accounts
- Issue 7: Other

OEB Staff Submissions on the Issues

The OEB-approved Issues List included seven issues, each of which contains one or more sub-issues. OEB staff's submission provides reasons for OEB staff positions by commenting on its most material aspects, rather than examining each sub-issue individually.

Issue 1: Capital Spending and Rate Base

OEB staff supports the capital expenditures and in-service additions agreed to by Parties in the Settlement Proposal.

As described in the Settlement Proposal, the reduction to in-service additions is on an envelope basis, even though specific adjustments have been identified for the purposes of rate calculations as summarized below.

The Parties agreed to a reduction of $526k in the 2024 Bridge Year in-service additions out of which $426k will be deferred to 2025 due to AMI 2.0 and vehicle replacement projects being behind schedule. OEB staff supports this deferral since Festival Hydro should be able to continue reading the faulty meters manually. The remainder is the $100k reduction in spending on the underground renewal project. OEB staff has no concerns with this reduction as it is consistent with Festival Hydro's historical spending on underground cables and OEB staff notes that the historical reliability levels have not been worsening.

For the 2025 Test Year, the Parties agreed to a reduction of $1.31M in system renewal, system service, and general plant categories. With the $426k deferral from the 2024 Bridge Year to the 2025 Test Year, the net reduction to in-service capital additions is $884k. OEB staff supports these reductions. Most of the reduction, amounting to $990k, is in the system renewal category which is consistent with Festival Hydro's historical spending. Again, this is supported by improving reliability trends as presented in the evidence.[4]

[4] Exhibit 2, DSP, SAIDI & SAIFI Tables, page 28.

Considering the aforementioned deferrals and reductions, net in-service additions for Festival Hydro in the 2024 Bridge Year and the 2025 Test Year will be $6,638,975 and $6,698,597, respectively. The Parties also agreed that the level and pacing of planned capital expenditures as adjusted for the 2024 Bridge Year and the 2025 Test Year in this Settlement Proposal are sufficient for Festival Hydro to continue to meet the performance outcomes.

Furthermore, OEB staff supports the proposed rate base and depreciation amounts which have been calculated in accordance with the agreements reached through the settlement process. The proposed 2025 rate base is $69.4M, a $1.02M (1.4%) reduction from the amount updated through interrogatories[5] and the Settlement Proposal. The adjustments agreed to by the Parties in the following areas contribute to the adjusted rate base: capital additions, depreciation, and allowance for working capital.

Issue 2: OM&A

OEB staff considers the agreement reached by the Parties with respect to 2025 OM&A expenses reasonable. The Parties agreed to an OM&A reduction of $1.25M to Festival Hydro's proposed OM&A for the 2025 Test Year.

With the $1.25M reduction, the new proposed total for 2025 OM&A is $8.2 million. From the 2015 OEB-approved OM&A, this represents an increase of $3.0 million or 58%, which corresponds to a compound annual growth rate of 4.7%. The main drivers of the OM&A increase since 2015 include management employee compensation, contract services and labour and software, support and maintenance costs. In an interrogatory response,[6] Festival Hydro filed compensation benchmark studies for the Chief Executive Officer (CEO) and executive team which stated that the CEO and executive team are currently below the 50th percentile for compensation (P50) within the industry.

OEB staff submits that the proposed $1.25M reduction to 2025 OM&A is reasonable. The reduction results in the compound annual growth rate decreasing from 6.2% to 4.7%. Although this reduced growth rate remains higher than inflation, OEB staff is of the opinion that the reduction is sufficient because the executive compensation studies show that the executive team compensation is below P50.

[5] Interrogatory response for 2-Staff-09.
[6] Interrogatory response for 4-Staff-20.

Issue 3: Cost of Capital, PILs, and Revenue Requirement

3.1 Is the proposed cost of capital (interest on debt, return on equity) and capital structure appropriate?

Festival Hydro proposed to use the OEB deemed capital structure of 4% short term debt, 56% long term debt, and 40% equity. The Parties agreed that Festival Hydro shall update the cost of short term debt and the return on equity once the OEB releases the 2025 “Cost of Capital Parameter Updates”, and Festival Hydro will file an updated Draft Rate Order for approval, along with the updated models, once the 2025 cost of capital parameters are issued.

As part of the agreements reached through the settlement process, Festival Hydro agreed to update, as part of the Draft Rate Order Process, the interest for the January 1, 2025 loan with the lower of: (a) the deemed long-term debt rate issued by the OEB for the 2025 Cost of Capital Parameters; or (b) the quoted rate from the Royal Bank of Canada for a 10 year amortization loan at the time of the Draft Rate Order process. In the interim, Festival Hydro used the OEB’s current 2024 deemed long term debt rate of 4.58% for the January 1, 2025 loan.

OEB staff notes that Festival Hydro confirmed that it will comply with the applicable cost of capital parameters resulting from the OEB’s generic proceeding on Cost of Capital and Other Matters, EB-2024-0063.[7]

OEB staff has no other comments on the cost of capital or capital structure and supports the update through a draft rate order process.

3.2 Is the proposed PILs (or Tax) amount appropriate?

OEB staff has no concerns with the forecast PILs expense of $304k as agreed to by the Parties.[12] OEB staff does not oppose the Parties’ agreement related to the calculation of the PILs amount, including the recognition of accelerated capital cost allowance (CCA) in the 2025 Test Year. Additional details of Account 1592, Sub-account CCA Changes are discussed under Issue 6.1.

3.3 Is the proposed Other Revenue forecast appropriate?

OEB staff has no concerns with the proposed Other Revenue forecast. Through interrogatories, Festival Hydro updated the 2025 Test Year other revenue forecast to $1.20M, an increase of $32k compared to $1.17M included in the Application (Table 3.3A of the Settlement Proposal). This reflected changes in several accounts to reflect

[7] Interrogatory Response for 5-Staff-32.

new service charges, inflation adjustments, prior period corrections, and changes in revenue projections for 2024 and 2025.

3.5 Is the proposed calculation of the Revenue Requirement appropriate?

OEB staff has no concerns with the proposed revenue requirement which has been calculated in accordance with the agreements reached through the settlement process.

The Parties agreed to a service revenue requirement of $16.1M and a base revenue requirement of $14.9M.[8] These values reflect a reduction in the 2025 Test Year capital and OM&A expenditures of $884k and $1.25M, respectively, compared to the Application. The values also reflect changes to revenue offsets, depreciation, cost of capital, working capital allowance, and PILs. The Settlement Proposal shows the change in revenue requirement between the Application, interrogatories, and the Settlement Proposal.[9]

Issue 4: Load Forecast

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

1) The Unmetered Scattered Load (USL) customer connection count forecast was revised to exclude forecasting continued growth related to a reclassification of streetlights into USL.
2) The Large Use energy forecast was revised to subtract the estimated generation from July to December. In addition, the demand was revised to reflect a more recent ratio of energy to demand.

OEB staff submits that the updated load forecast provided in response to interrogatories and clarification questions is reasonable.

OEB staff supports the proposed consumption, demand and customer forecasts of 601 GWh, 948 MW, and 29,766 connections respectively (Table 4.1A of the Settlement Proposal and included Load Forecast model). Relative to the Application, this reflects a decrease of 5 GWh for consumption, 1 MW for demand, and 66 connections.

Issue 5: Cost Allocation, Rate Design, and Other Charges

5.1 Are the proposed cost allocation methodology, allocations, and revenue-to-cost ratios appropriate?

The Parties agreed to three changes to the cost allocation proposed by Festival Hydro.

[8] Settlement Proposal, Table 3.5A, page 33.
[9] Settlement Proposal, Table B, page 7.

1. The demand allocations for the Large Use will use the unadjusted volumes for net metering.
2. The meter reading and meter capital counts will be increased by one each in the Large Use rate class to reflect the two meters used by the large use customer
3. In the GS > 50 class, the meter capital is increased by five for the five customers with distributed generation. The meter reading allocator is increased by two for the customers under gross load billing.

The revenue-to-cost ratios for all rate classes except the GS < 50 and USL rate classes are within the OEB prescribed ranges. The GS < 50 kW revenue-to-cost ratio is 131.25% and the USL is at 126.91%, while the prescribed ranges are both 80% to 120%.[10] The Parties agreed that Festival Hydro would reduce the revenue-to-cost ratio for both to 120% 2025 by making offsetting increases to Residential, Sentinel Lighting, and Street Lighting, increasing all to 96.03%.

OEB staff has no concerns with the cost allocation methodology as agreed to by the Parties, or with the resulting revenue-to-cost ratios.

5.2 Is the proposed rate design, including fixed/variable splits, appropriate?

The Parties agreed that Festival Hydro would increase the fixed charge for the USL rate class to the ceiling,[11] applying a proportionately larger increase to the variable charge. And, that the fixed charges would remain at their current levels for the GS < 50 kW, GS 50 to 4,999 kW, and Large Use rate classes as these classes all have fixed charges that are already above the ceiling.

The Parties also agreed that the tariff sheet for the Large Use rate class be updated to reflect that RTSRs are charged on a gross load basis.

OEB staff has no concerns with the proposed rate design including the fixed/variable splits.

Issue 6: Deferral and Variance Accounts

6.1 Are the proposals for deferral and variance accounts, including the balances in the existing accounts and their disposition, requests for new accounts, requests for discontinuation of accounts, and the continuation of existing accounts, appropriate?

[10] Settlement Proposal, Table 5.1A, page 39.
[11] Defined in the cost allocation model as the minimum system with Peak Load Carrying Capability adjustment.

OEB staff submits that the proposal for disposition of the Group 1 and Group 2 accounts, requests for new accounts, requests for discontinuation of accounts, and the continuation of existing accounts, are appropriate.[12]

The Parties agreed to the disposition of the following DVA balances as of December 31, 2023 and forecasted interest through to December 31, 2024, as discussed further below.

- Group 1 DVAs credit balance of $148,930 including Accounts 1588 and 1589
- Group 2 DVAs credit balance of $799,383[13]

Through settlement, the Parties agreed to the following:

- Disposition of Account 1508 – Pole Attachment Revenue Variance Account with a credit balance of $521,270 including the forecast balance of $8,156 for 2024 and interest until the end of December 31, 2024 and to discontinue the account following the disposition.[14]
- Disposition of Account 1592 – sub-account CCA Changes with a credit balance of $472,622 including interest until the end of December 31, 2024.
- Forego the disposal of Account 1508 sub-account Other Regulatory Asset ULO Implementation Costs, Account 1518 Retail Cost Variance Account – Retail Service Charges (RCVA Retail Service Charges) and Account 1548 Retail Cost Variance Account – Service Transaction Request Charges (RCVA STR) and to discontinue them.

Account 1592 – PILs and Tax Variances, Sub-account CCA Changes

Bill C-97 introduced the Accelerated Investment Incentive Program (AIIP), which provides for a first-year increase in CCA deductions on eligible capital assets acquired after November 20, 2018. The AIIP is expected to be phased out starting in 2024 and fully phased out in 2028. In its July 25, 2019 letter entitled *Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance*, the OEB provided accounting direction on the treatment of the impacts from accelerated CCA resulting from the AIIP.[15] The OEB established a separate sub-account, 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 rate or rules that were used to determine the tax amount that underpins rates. The credit balance of $472,622 in sub-account CCA Changes of Account 1592 represents

[12] Settlement Proposal, page 53.
[13] Settlement Proposal, page 52.
[14] Settlement Proposal, page 48.
[15] OEB letter, [Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance](), July 25, 2019.

the full revenue requirement impact of the application of accelerated CCA as of December 31, 2023, including interest to December 31, 2024.

The Parties agreed that Festival Hydro would dispose of the forecast balance for Account 1592, Sub-account CCA Changes up to December 31, 2024, which shows a credit balance of $71,432 for 2024.[16] The total credit balance for this sub-account based on December 31, 2023 audited results and forecasted results for 2024 including interest to December 31, 2024 is $472,622.

OEB staff notes that, typically, only audited balances are disposed of.[17] However, in the disposition of certain accounts, the OEB may consider disposing forecast amounts up to the effective date of rebased rates.[18]

OEB staff's view is that there are regulatory efficiencies to be gained by disposing the forecast 2024 principal balances in certain accounts including Account 1592 sub-account CCA changes in the current application.[19] OEB staff submits that this approach is preferable to disposing of the 2024 audited balances of these accounts in Festival Hydro's next cost of service proceeding (which is expected for 2030 rates). OEB staff have supported such agreements in the past.[20]

~All of which is respectfully submitted~

[16] Settlement Proposal, page 48.
[17] Section 2.9, Chapter 2 Filing Requirements For Electricity Distribution Rate Applications – 2023 Edition for 2024 Rate Applications, December 15, 2022 indicates that explanations are required if the account balances in the continuity schedule differ from the account balances in the trial balance reported through the Electricity RRR and documented in the distributor's audited financial statements.
[18] Section 2.9, Chapter 2 Filing Requirements For Electricity Distribution Rate Applications - 2023 Edition for 2024 Rate Applications, December 15, 2022.
[19] Account 1508 – Pole Attachment Revenue Variance Account, Account 1592 – sub-account CCA Changes.
[20] OEB Staff Submission, Westario Power Cost of Service, EB-2023-0058.
OEB Staff Submission, Kingston Hydro Cost of Service, EB-2022-0044.
OEB Staff Submission, PUC Distribution Cost of Service, EB-2022-0059.