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**BY E-MAIL**

January 15, 2018

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27th Floor  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Oshawa PUC Networks Inc. (Oshawa PUC)  
2018-2019 Distribution Rate Application  
OEB Staff Draft Rate Order Submission  
OEB File No. EB-2017-0069**

In accordance with the Decision and Order, please find attached OEB staff's submission on Oshawa PUC's draft rate order. This document is also being provided to Oshawa PUC, the Consumer Council of Canada, the School Energy Coalition, and the Vulnerable Energy Consumers Coalition.

Yours truly,

*Original Signed By*

Donald Lau  
Project Advisor – Rates Major Applications

Encl.

**2018-2019 ELECTRICITY DISTRIBUTION RATES  
OSHAWA PUC NETWORKS INC.**

**EB-2017-0069**

**OEB STAFF DRAFT RATE ORDER SUBMISSION**

**January 15, 2018**

## INTRODUCTION

Oshawa PUC Networks Inc. (Oshawa PUC) filed an application for its mid-term update to its 2015-2019 Custom Incentive Regulation (Custom IR) application<sup>1</sup> with the Ontario Energy Board (OEB) on July 4, 2017 under section 78 of the *Ontario Energy Board Act, 1998* seeking approval for changes to the rates that Oshawa PUC charges for electricity distribution, effective January 1, 2018 and January 1, 2019. The OEB issued the Decision and Order on December 20, 2017<sup>2</sup> and ordered Oshawa PUC to file a draft rate order with a proposed Tariff of Rates and Charges attached that reflects the OEB's findings in the Decision and Order, by January 8, 2018.

Oshawa PUC filed a draft rate order on January 8, 2018 as directed by the OEB and updated its proposed rates, consistent with the changes ordered by the OEB in its Decision and Order. Oshawa PUC addressed each issue in the same structure as the Decision and Order, which included the following sections:

- Load forecast
- Capital expenditures
- Rate base
- Cost of capital
- Working capital allowance
- Loss factor
- Retail transmission service rates
- Deferral and variance accounts

OEB staff has reviewed each section and provides the following submissions.

### **Load Forecast**

The OEB ordered Oshawa PUC to use the same model and methodology approved in the Custom IR decision and to update the growth rate for 2018 and 2019 from 3.0% to 1.9%. Oshawa PUC has updated the load forecast accordingly and OEB staff submits that the update is consistent with the OEB Decision and Order.

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<sup>1</sup> EB-2014-0101 Oshawa PUC Networks Inc. Custom IR application

<sup>2</sup> Decision and Order, EB-2017-0069, December 20, 2017

## **Capital expenditures**

In its mid-term update application, Oshawa PUC proposed updated capital expenditure forecasts for 2018 and 2019 in three areas; regional planning, third party requests for plant relocation, and new customer connections. The original forecasts were approved on an interim basis in the Custom IR application. In the Decision and Order the OEB approved the capital expenditure update for regional planning, specifically the update to the costs of Enfield TS and the construction of its distribution feeders. The OEB also approved the capital expenditures for plant relocations and new customer connections, which remains unchanged from the Custom IR decision, not approving Oshawa PUC's proposed updates.

Oshawa PUC has stated in its draft rate order that no action was required<sup>3</sup> to revise the capital expenditures for third-party plan relocation and new customer connections for 2018 and 2019 to reflect the Decision and Order. OEB staff submits that Oshawa PUC should confirm that the approved capital expenditures for plant relocations and new customer connection have been reflected in the rate base and the revenue requirement underpinning this rate order.

## **Rate base**

The OEB directed Oshawa PUC to use the forecasted 2017 closing fixed asset balance as the 2018 opening fixed asset balance for the rate base calculation and apply the half-year rule for both 2018 and 2019 approved capital expenditures for the rate base calculation. Oshawa PUC has adjusted the 2018 opening rate base to reflect the 2017 closing balance and applied the half-year rule for 2018 and 2019 approved capital expenditures. OEB staff has reviewed the fixed asset continuity schedule and submit that this it is consistent with the OEB Decision and Order.

## **Cost of Capital**

The OEB directed Oshawa PUC to update the cost of capital parameters to the approved 2018 cost of capital parameters<sup>4</sup>. Oshawa PUC updated its return on equity, short-term and long-term interest costs to the 2018 cost of capital parameters. Oshawa PUC also recalculated its long-term debt rate since it is

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<sup>3</sup> Draft rate order, EB-2017-0069, January 8, 2018 (page 7)

<sup>4</sup> Cost of Capital Parameter Updates for 2018 Cost of Service and Custom Incentive Rate-setting Applications, November 23, 2017

based on a combination of the OEB's deemed long-term debt rate and Oshawa PUC's actual debt rate. OEB staff submits that this methodology is consistent with the method approved in the Custom IR decision and the cost of capital parameters have been updated to the 2018 cost of capital parameters.

### **Working Capital Allowance**

Oshawa PUC updated its working capital allowance based on an updated cost of power forecast. The cost of power forecast is affected by the change in the load forecast and the Fair Hydro Plan. The OEB directed Oshawa PUC to update its cost of power based on the most recent Regulated Price Plan Prices and the Global Adjustment Modifier Report<sup>5</sup> (the RPP Report) and to incorporate the effects of the Fair Hydro Plan on eligible customers. Oshawa PUC has updated the cost of power based on the RPP Report and filed the related model. OEB staff reviewed the model and found two errors in the calculation of cost of power. The wholesale market service charge used was \$0.0032 but should be \$0.0036<sup>6</sup>. It does not appear that Oshawa PUC has applied the global adjustment modifier to all customers that qualify under the Ontario Rebate for Electricity Consumers Act (ORECA). For a customer class that has only some customers that qualify for ORECA, OEB staff proposes that Oshawa PUC calculate a weighted global adjustment unit cost to take into consideration the global adjustment modifier. OEB staff submits that after these two changes the working capital allowance is consistent with the OEB Decision and Order.

### **Loss factor**

The OEB directed Oshawa PUC not to update the loss factor for 2018 and 2019 and to continue using the loss factor approved in the Custom IR decision. Oshawa PUC has updated its load forecast and cost of power calculation to reflect the loss factor approved in the Custom IR decision. OEB staff submits that Oshawa PUC has updated the loss factor in accordance with the Decision and Order.

### **Retail Transmission Service Rate (RTSR)**

Oshawa PUC has updated the RTSR model to reflect the 2017 Uniform Transmission Rates in accordance with the Decision and Order. In reviewing the

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<sup>5</sup> RPP price and Global Adjustment Modifier for the period July 1, 2017 to April 30, 2018, April 20, 2017

<sup>6</sup> Decision and Order, EB-2017-0333, December 20, 2017

model, OEB staff notes that the billing determinants for the customer classes GS 50 to 999 kW, GS 50 to 999 kW – interval, and GS 1,000 to 4,999 kW did not match the Reporting and Record Keeping Requirements (RRR) filed with the OEB. The variance is due to wholesale market participant loading and should be updated to match the RRR filing. OEB staff submits that after this correction the RTSR is consistent with the OEB Decision and Order.

**Deferral and Variance Accounts (DVAs)**

Oshawa PUC has updated its deferral and variance account balances in accordance with the OEB’s Decision and Order. In OEB staff’s review of the calculations of the DVA riders, it appears Oshawa PUC has allocated balances in account 1580 Variance WMS – sub-account CBR Class B to all customers but has also identified one Class A customer. The balances in this account should only be allocated to Class B customers, and is normally done through a separate rate rider. Oshawa PUC has confirmed that the Class A customer is in its own rate class. Since the Class A customer can be isolated in its own rate class, allocating the balance to the correct rate classes will avoid the need of a separate rate rider. OEB staff submits that after this correction, the disposition of the DVAs is consistent with the OEB Decision and Order.

All of which is respectfully submitted