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Ontario

# ONTARIO ENERGY BOARD

## OEB STAFF SUBMISSION ON DRAFT RATE ORDER

## Sioux Lookout Hydro Inc.

## 2018 Cost of Service Electricity Distribution Rate Application

## EB-2017-0073

## September 24, 2018

## Background

Sioux Lookout Hydro Inc. (SLHI) filed a cost of service application with the Ontario Energy Board (OEB) on August 27, 2017 (Updated January 8, 2018) under section 78 of the *Ontario Energy Board Act*, *1998*, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to the rates that SLHI charges for electricity distribution, to be effective May 1, 2018.

SLHI's 2018 rebasing application is being considered under the OEB's proportionate review approach. The proportionate review process is intended to allow for a streamlined hearing of applications where it is appropriate.

OEB staff filed its Report to the Registrar (the Report) on February 14, 2018, which set out OEB staff's recommendations as to the issues that it believed should proceed to a hearing. The OEB issued its Decision on the Scope of Review (the Decision on Scope) on March 29, 2018. In the Decision on Scope, the OEB determined that five issues would proceed to an abridged hearing process.

The OEB issued its Decision and Order on SLHI's application on September 13, 2018 (the Decision). The Decision required SLHI to file a draft rate order no later than September 20, 2018 that reflected the OEB's findings.

SLHI filed its draft rate order on September 20, 2018, which incorporates changes resulting from both the Decision on Scope and the Decision. Specifically, changes to the test year capital budget, one-time regulatory costs, bank and merchant fees, the commodity variance accounts (1588 and 1589), the Pole Attachment Charges[1], and the Smart Metering Entity Charge[2] are included.

## OEB Staff Submission

OEB staff's submissions on the draft rate order filed by SLHI on September 20, 2018 is set out below.

[1] EB-2015-0304, Report of the Ontario Energy Board on Wireline Pole Attachment Charges, March 22, 2018.
[2] EB-2017-0290, Decision and Order, March 1, 2018.

2018 Test Year Revenue Requirement

OEB staff submits that SLHI has properly calculated the 2018 test year revenue requirement in accordance with the Decision on Scope and the Decision. OEB staff submits that the revised base revenue requirement of $2,053,198 should be approved by the OEB. This reflects a reduction of $26,521 to the base revenue requirement relative to the application.

OEB staff notes that the Decision on Scope required a reduction to the one-time regulatory costs from $120,000 to $87,000. This results in a reduction to the Operations, Maintenance and Administration (OM&A) budget of $6,600 in the test year[3]. OEB staff notes that the Decision required a $20,329 reduction to the proposed 2018 capital expenditure budget and a $19,000 reduction to bank and merchant fees (OM&A-related reduction).

OEB staff submits that the impact of these required reductions (reflected in changes to rate base, the cost of capital, OM&A, depreciation and taxes) are properly incorporated in the revenue requirement calculation.

Cost Allocation

SLHI updated the cost allocation model to reflect the OEB's findings and noted that the resulting revenue to cost ratios do not differ materially from the application. As such, SLHI maintained the proposed revenue to cost ratios with the exception of a slight decrease to the residential class (from 95.88% to 95.86%).

OEB staff submits that the cost allocation model was properly updated to reflect the OEB's findings and the OEB should accept the revenue to cost ratios proposed by SLHI.

Base Distribution Rates – Effective May 1, 2018 and Implemented October 1, 2018

The OEB approved base distribution rates for a seven month period commencing October 1, 2018 that are designed to recover the approved test year base revenue requirement (May 1, 2018 to April 30, 2019) of $2,053,198.

[3] Calculated as $120,000 minus $87,000 divided by 5 years.

OEB staff submits that an alternative method for determining the base distribution rates commencing October 1, 2018 should be applied. OEB staff's argument is set out in detail below.

In order to determine the amount remaining to be collected during the October 1, 2018 to April 30, 2019 period, SLHI calculated the revenues collected to September 30, 2018 for each rate class and then deducted this amount from the total approved base revenue requirement. SLHI used three months of actual load information (May 1, 2018 to July 31, 2018) and two months of forecast load information (August 1, 2018 to September 30, 2018) in the calculation of the amount previously collected. This methodology will be referred to as Method 1. The actual load information (three months actuals and two months forecast) is multiplied by the current base rates to determine the amount that was previously collected. Based on this calculation, SLHI will have collected $785,246 by September 30, 2018 and the amount to be collected over the seven month period (October 1, 2018 to April 30, 2019) is $1,267,951[4]. To determine rates in Method 1, SLHI divided the total amounts remaining to be collected through the monthly service charge and volumetric rates by a simple average of the approved load forecast[5] for the seven month collection period. The rates resulting from Method 1 are shown in the table below.

| | **Monthly Service Charge** | **Volumetric Rate** |
|---|---|---|
| **Residential** | $47.54 | $0.0037 |
| **GS < 50 kW** | $49.71 | $0.0110 |
| **GS > 50kW** | $376.38 | $1.3595 |
| **Street Lighting** | -$1.06 | -$2.9605 |

[4] Calculated as the base revenue requirement ($2,053,197) minus the amount previously collected ($785,246).
[5] The customer count is multiplied by 7 (as the approved customer count is a monthly number) and the volumetric load forecast is divided by 12 and then multiplied by 7 (as the approved volumetric forecast is an annual number).

SLHI also provided an alternative calculation that uses five months of forecast load based on the OEB approved load forecast to determine the amount previously collected (Method 2). This methodology results in $811,393 collected by September 30, 2018 and $1,241,804 to be collected over the seven month period (October 1, 2018 to April 30, 2019).

In the draft rate order, SLHI stated that it prefers to use Method 1 as it represents a partial true-up of actual revenues collected to September 30, 2018. Given that SLHI is a winter peaking utility, the summer months yield lower consumption and demand values (and therefore, less revenue). SLHI further stated that using Method 2 would result in the under-collection of the approved test year revenue requirement by approximately $26,000[6].

OEB staff agrees with SLHI that Method 2 will likely result in the under-collection of the approved revenue requirement[7]. However, OEB staff submits that Method 1 will likely result in the over-recovery of the revenue requirement. As noted previously, to determine rates using Method 1, SLHI divided the total amounts remaining to be collected during the seven month recovery period by a simple average of the approved load forecast. The simple average of the volumetric load does not reflect seasonality. As noted by SLHI it is a winter peaking utility, therefore, OEB staff expects that there will be volumetric load that is higher than the simple average monthly load during the October 1, 2018 to April 30, 2019 period (as it includes all of the winter months). By setting rates using volumes that are lower than what can be reasonably expected to occur on an actual basis, an over-recovery of the approved revenue requirement will occur.

OEB staff regrets that it did not raise a third method (Method 3) for calculating the base rates for the October 1, 2018 to April 30, 2019 period in conversations that took place between OEB staff and SLHI after the Decision was issued. The methodology only became apparent to OEB staff after the draft rate order was filed. However, OEB staff submits Method 3 as set out below is the most appropriate manner in which to set rates for the October 1, 2018 to April 30, 2019 period. OEB staff is of the view that Method 3 best ensures that ratepayers pay the correct amount resulting from the Decision during the seven month period beginning October 1, 2018.

[6] Calculated as the difference in the amount remaining to be collected under the two different methods ($1,267,951 minus $1,241,804).
[7] This is due to the drivers of the under-recovery during the May 1, 2018 to September 30, 2018 period and the change in the fixed / variable split in the design of the proposed test year rates.

OEB staff submits that the starting point for the calculation should be the same as Method 1 (subtracting the actual amount collected over the May 1, 2018 to September 30, 2018[8] period from the approved test year base revenue requirement). However, the simple average of the forecast volumetric load should not be used as the billing determinants for the seven month recovery period. Instead, the actual volumetric load (during the May 1, 2018 to September 30, 2018 period) should be subtracted from the approved volumetric load forecast to determine the remaining load expected for the recovery period (and this should be used for the billing determinants in the calculation of volumetric base rates). This will ensure that the seasonality of load is reflected in the calculation.

OEB staff also submits that the transformer ownership allowance included in the calculation of base distribution rates for the October 1, 2018 to April 30, 2019 period should reflect the amount already collected related to that item. Currently, the rates calculated for the GS > 50 kW rate class are recovering the full year amount related to the transformer ownership allowance over the seven month recovery period.

OEB staff has estimated rates resulting from Method 3 (and correcting for the transformer ownership allowance issue) in the table below.

| | **Monthly Service Charge** | **Volumetric Rate** |
|---|---|---|
| **Residential** | $47.54 | $0.0032 |
| **GS < 50 kW** | $49.71 | $0.0104 |
| **GS > 50kW** | $376.38 | $1.1753 |
| **Street Lighting** | -$1.06 | -$2.9848 |

OEB staff also notes that due to the over-recovery of the class revenue requirement for the Street Lighting rate class during the May 1, 2018 to September 30, 2018 period,

[8] OEB staff notes that the actual information reflects 3 months of actuals – May 1, 2018 to July 31, 2018 and a forecast for the August 1, 2018 to September 30, 2018 period.

negative base distribution rates result for this class that will be in place from October 1, 2018 to April 30, 2019. OEB staff notes that this is a unique situation. However, OEB staff believes that it is an appropriate outcome of the Decision.

OEB staff is cognizant that the difference in the rates as determined by Method 1 and Method 3 is not large. However, OEB staff submits that on a principled basis, Method 3 should be used for the reasons discussed previously.

Base Distribution Rates – Effective May 1, 2019

SLHI filed proposed May 1, 2019 base distribution rates upon which any approved price cap adjustment for 2019 will apply. OEB staff has reviewed the starting point May 1, 2019 base distribution rates and submits that the rates are calculated correctly.

Deferral and Variance Accounts

The Decision required the removal of the credit amounts of $252,777 and $78,755 associated with Accounts 1588 and 1589 respectively. SLHI filed an updated Deferral and Variance Account (DVA) continuity schedule and updated the rate riders related the Group 1 DVAs. OEB staff submits that SLHI properly reflected the removal of the balances in Accounts 1588 and 1589 in the draft rate order.

SLHI also proposed to amend the end date of its rate riders to September 30, 2019 for Group 1 accounts, Group 2 Accounts and Account 1568. SLHI proposed to amend the end date of its rate riders to September 30, 2023 for Accounts 1575 and 1576. This ensures that the balances in these accounts are recovered over the same amount of time (one year and five years as applicable) as originally filed. OEB staff submits that this is appropriate given the delay in the implementation of 2018 rates until October 1, 2018.

Tariff Sheets

OEB staff notes that SLHI filed two separate proposed Tariff of Rates and Charges (the Tariff). The first Tariff reflects the rates effective May 1, 2018 and implemented October 1, 2018. The second Tariff reflects the starting point for rates effective May 1, 2019 upon which any price cap adjustment will apply.

OEB staff submits that both Tariffs properly reflect the rates proposed by SLHI. OEB staff also submits that SLHI properly reflected updated generic Pole Attachment Charges and the generic Smart Metering Entity Charge in the Tariffs. OEB staff notes that there are minor formatting issues that will be addressed prior to the issuance of the Rate Order.

However, OEB staff submits that if the OEB finds that the methodology for calculating the rates to be implemented October 1, 2018 should be revised, an updated Tariff will be required.

Bill Impacts

OEB staff notes that there was a minor typographical error in the calculation of the bill impacts for the residential rate class in the draft rate order (with respect to the Smart Metering Entity Charge). This was corrected in the bill impacts shown below. The bill impacts resulting from Method 2 and Method 3 have also been provided.

*Bill Impacts – May 1, 2018 Effective Date and October 1, 2018 Implementation Date*

| | | **Method 1 (SLHI Proposed)** | **Method 2** | **Method 3 (OEB Staff Preferred)** |
|---|---|---|---|---|
| Residential | Sub-Total A (excl. pass-through) | $10.40 (25.96%) | $9.51 (23.75%) | $10.03 (25.02%) |
| | Sub-Total B (distribution) | $12.85 (26.68%) | $11.96 (24.84%) | $12.47 (25.90%) |
| | **Total Bill** | **$13.49 (10.73%)** | **$12.56 (9.99%)** | **$13.09 (10.42%)** |
| Residential (lowest 10th percentile) | Sub-Total A (excl. pass-through) | $10.96 (28.43%) | $10.10 (26.11%) | $10.70 (27.67%) |
| | Sub-Total B (distribution) | $12.58 (28.26%) | $11.72 (26.33% | $12.32 (27.68%) |
| | **Total Bill** | **$13.21 (13.38%)** | **$12.30 (12.46%)** | **$12.93 (13.10%)** |
| Residential (with Distribution Rate Protection) | Sub-Total A (excl. pass-through) | $0.14 (0.39%) | $0.14 (0.39%) | $0.14 (0.39%) |
| | Sub-Total B (distribution) | $2.59 (5.77%) | $2.59 (5.77%) | $2.59 (5.77%) |
| | **Total Bill** | **$2.72 (2.22%)** | **$2.72 (2.22%)** | **$2.72 (2.22%)** |
| Residential (lowest 10th percentile) (with Distribution Rate Protection) | Sub-Total A (excl. pass-through) | $0.17 (0.46%) | $0.17 (0.46%) | $0.17 (0.46%) |
| | Sub-Total B (distribution) | $1.79 (4.20%) | $1.79 (4.20%) | $1.79 (4.20%) |
| | **Total Bill** | **$1.88 (1.94%)** | **$1.88 (1.94%)** | **$1.88 (1.94%)** |
| GS < 50 kW | Sub-Total A (excl. pass-through) | $12.63 (21.07%) | $11.56 (19.28%) | $11.43 (19.07%) |
| | Sub-Total B (distribution) | $18.93 (23.94%) | $17.86 (22.59%) | $17.73 (22.43%) |

| | | | | |
|---|---|---|---|---|
| | **Total Bill** | **$19.86 (7.09%)** | **$18.74 (6.69%)** | **$18.60 (6.64%)** |
| GS > 50 kW | Sub-Total A (excl. pass-through) | -$1.31 (-0.25%) | -$24.80 (-4.75%) | -$19.80 (-3.79%) |
| | Sub-Total B (distribution) | $68.14 (5.19%) | $44.65 (3.40%) | $49.65 (3.78%) |
| | **Total Bill** | **$73.74 (0.67%)** | **$47.20 (0.43%)** | **$52.85 (0.48%)** |
| Street Lighting | Sub-Total A (excl. pass-through) | -$7,295.82 (-109.92%) | -$7,233.41 (-108.98%) | -$7,296.62 (-109.93%) |
| | Sub-Total B (distribution) | -$7,286.95 (-107.33%) | -$7,224.54 (-106.41%) | $7,287.75 (-107.43%) |
| | **Total Bill** | **-$8,234.03 (-88.09%)** | **-$8,163.51 (-87.34%)** | **$-8,234.94 (-88.10%)** |

OEB staff notes that for all rate classes with the exception of the residential rate class there are no rate increases larger than 10% on a total bill basis resulting from the Decision (using any of the three methods).

In accordance with the Distribution Rate Protection program, no residential customer of SLHI will pay base distribution rates in excess of $36.83.[9] Applying the Distribution Rate Protection program in the calculation of the bill impacts results in bill increases for residential customers that are lower than 2.3% on a total bill basis. The remaining bill impacts result from changes to DVA-related rate riders and other non-distribution cost items that are not captured in the Distribution Rate Protection program.

All of which is respectfully submitted.

[9] EB- 2018-0192, Decision and Order, June 21, 2018.