



Update on Tillsonburg Hydro Inc. (THI) Distribution System Expansion Costs and Charges

January 31, 2019

Background

THI is regulated by the Ontario Energy Board (OEB). The OEB uses many codes, regulations and directions to communicate the various regulations that Local Distribution Companies (LDC) follow. THI as a licensed LDC is obligated to follow the codes, regulations and directions published.

The rules and guidelines for Distribution System Expansion is managed through the Distribution System Code (DSC) – dated March 15, 2018. Along with the published DSC the OEB is currently in the process of updating the DSC.

Feedback was received from the Development Community through the discussion at the December 5th Development Community meeting, at the December 11th Development Committee meeting and correspondence received from interested parties addressed to the THI Board. The THI Board considered stakeholder input as well as OEB rules and risks. The following resolution was passed:

Board Resolution Passed - January 2019

AND THAT the Board confirm that THI use the EEM process capturing total capital costs (developer and THI) and ongoing costs defined as Operating, Maintenance, Administration, Depreciation and Interest costs as outlined in the Distribution System Code effective January 1, 2019;

AND THAT the expansion deposit collection be deferred until it is mandated by the regulator.

Discussion

At the December 5th meeting, Hydro Operations Staff indicated that they would reach out to the regulator (OEB) to validate the costs included and the process in which THI calculates the incremental costs per customer. This value is what changes the allocation of the capital costs between the developer and THI. OEB Staff responded with the following on December 10, 2018:

“As stated in the DSC Appendix B, any incremental attributable costs directly associated with the addition of new customers to the system would be included in the operating and maintenance expenditures.

Based on the limited information you have provided, Operations / Maintenance, Billing / Collecting, Administration, Amortization and Interest (OMADI) can be used as incremental attributable costs in the economic evaluation as long as those costs are not included anywhere else in the evaluation (i.e. no double counting).

The average cost per customer based on a distributor’s current costs is considered appropriate to be used to estimate the incremental cost per every new customer that is part of the expansion.”

THI believes that they are following the Distribution System Code (DSC), the intent of the DSC and OEB staff interpretations of the regulations. Not following this direction would put THI’s future revenue streams and regulatory compliance at risk. As a result, the THI Board passed the resolution above and will continue to use the average full cost per customer (including OM&A costs, plus depreciation and interest) in allocating the capital cost of future developments. The expansion deposit will not be collected until mandated by the regulator and at such time the THI Board will review the proper level of the deposits to be levied against future developments.

If you have any questions or concerns, please don’t hesitate to contact me directly.

Sincerely,

Ian McKenzie
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