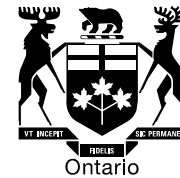


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BY E-MAIL

December 15, 2017

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

Dear Ms. Walli:

**Re: Centre Wellington Hydro Ltd. (Centre Wellington Hydro)
2018 Distribution Rates Application
Ontario Energy Board File Number: EB-2017-0032
Submission on Settlement Proposal**

In accordance with Procedural Order No. 1, please find attached OEB staff's submission on the filed settlement proposal for Centre Wellington Hydro's 2018 distribution rate application.

Centre Wellington Hydro and all intervenors have been copied on this filing.

Yours truly,

Original Signed By

Fiona O'Connell
Project Advisor, Major Applications

Attach.

**2018 ELECTRICITY DISTRIBUTION RATES
CENTRE WELLINGTON HYDRO LTD.
EB-2017-0032**

**OEB STAFF SUBMISSION ON SETTLEMENT
PROPOSAL**

December 15, 2017

INTRODUCTION

Centre Wellington Hydro Ltd. (Centre Wellington Hydro) filed a cost of service application with the Ontario Energy Board (OEB) 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 Centre Wellington Hydro charges for electricity distribution, to be effective January 1, 2018. Centre Wellington Hydro filed a complete application on June 26, 2017.

The parties to the settlement proposal are Centre Wellington Hydro and the following approved intervenors in the proceeding: School Energy Coalition (SEC) and Vulnerable Energy Consumers Coalition (VECC).

A community meeting was held as part of the proceeding on September 21, 2017. The OEB and Centre Wellington Hydro made presentations at the meeting, along with one customer presentation (the Legal Clinic of Guelph and Wellington County). A summary of the community meeting was posted to the record of the proceeding.

Customers voiced concerns over rising electricity costs. For example, customers compared the decrease in natural gas bills to the increase in electricity bills. OEB staff took this concern of rising costs into consideration in reviewing Centre Wellington Hydro's application and settlement proposal. For a typical residential customer with monthly consumption of 750 kWh, the total bill impacts under the filed settlement proposal would be an increase of \$2.14 before taxes per month or an increase of 1.9%. The distribution portion of the total bill is an increase of \$3.63 per month.

The OEB issued an approved issues list for this proceeding on November 16, 2017. A settlement conference was held on November 20 & 21, 2017. Centre Wellington Hydro filed a settlement proposal setting out an agreement between all the parties to the proceeding on December 8, 2017.

The settlement proposal represents a full settlement.

This submission is based on the status of the record as of the filing of Centre Wellington Hydro's settlement proposal and reflects observations which arise

from OEB staff's review of the evidence and the settlement proposal. It is intended to assist the OEB in deciding upon Centre Wellington Hydro's application and the settlement proposal.

Settlement Proposal

OEB staff has reviewed the settlement proposal in the context of the objectives of the *Renewed Regulatory Framework* (RRF), other applicable OEB policies, relevant OEB decisions, and the OEB's statutory obligations. OEB staff submits that the settlement proposal reflects a reasonable evaluation of the distributor's planned outcomes in this proceeding, appropriate consideration of the relevant issues and ensures there are sufficient resources to allow Centre Wellington Hydro to achieve its identified outcomes in the five years that will follow.

OEB staff further submits that the explanations and rationale provided by the parties is adequate to support the settlement proposal and that the outcomes arising from the OEB's approval of the settlement proposal would adequately reflect the public interest and would result in just and reasonable rates for customers.

OEB staff will provide further specific submissions on the following issues, which are a subset of the issues listed in the settlement proposal:

- Summary section of the settlement proposal
- Issue 1.1 Capital
- Issue 1.2 Operations, Maintenance and Administration (OM&A)
- Issue 2.1 Are all elements of the revenue requirement reasonable, and have they been appropriately determined in accordance with OEB policies and practices?
- Issue 2.1.1 Cost of Capital
- Issue 3.1 Are the proposed load and customer forecast, loss factors, Conservation and Demand Management (CDM) adjustments and resulting billing determinants appropriate, and, to the extent applicable, are they an appropriate reflection of the energy and demand requirements of Centre Wellington Hydro's customers?

- Issue 3.3 Are Centre Wellington Hydro's proposals for rate design appropriate?
- Issue 4.2.1 Effective Date
- Issue 5.2 Are the proposals with respect to pole attachment charges and microFIT charges appropriate?
- Issue 5.3 Is Centre Wellington Hydro's water and sewer billing arrangement with its affiliate appropriate?

Summary section of the settlement proposal

In the Summary section of the settlement proposal, parties supported Table 2 - 2018 Bill Impact Summary. This table illustrated the updated bill impacts based on the results of the settlement proposal. The parties acknowledged that the bill impacts for Sentinel Lighting are >10%. However, the parties agreed that no rate mitigation was required, due to the relatively low absolute amount of the increase and rate.

OEB staff supports the settlement proposal and agrees with parties that no rate mitigation impacts for Sentinel Lighting are required, due to the relatively low absolute amount of the increase and rate.

Issue 1.1 Capital

Is the level of planned capital expenditures appropriate and is the rationale for planning and pacing choices appropriate and adequately explained, giving due consideration to:

- Customer feedback and preferences;
- Productivity;
- Compatibility with historical expenditures;
- Compatibility with applicable benchmarks;
- Reliability and service quality;
- Impact on distribution rates;
- Trade-offs with OM&A spending;
- Government-mandated obligations;
- The objectives of Centre Wellington Hydro and its customers;
- The distribution system plan.

In its application and the settlement proposal, Centre Wellington Hydro has proposed capital expenditures equal to capital additions. OEB staff's comments are provided below based on capital additions and rate base.

In its settlement proposal, the parties agreed to 2018 capital additions of \$1 million for 2018 (an increase of \$125k over proposed), a reduction of opening rate base of \$100k to reflect an updated 2017 forecast, and the updating of the continuity schedules to properly reflect the inclusion of smart meters. As a result, the settled 2018 test year rate base is \$17.1 million.

The main drivers of the adjustments noted above relate to project spending moved from 2017 to 2018 in relation to a significant and distinct system renewal project (Wellington Place Hospital Service project). Centre Wellington Hydro made offsetting reductions in planned 2018 spending in other categories, in order to maintain a more evenly paced annual capital budget during the distribution system plan period. Centre Wellington Hydro also noted that the proposed capital expenditures will be consistent with the values as set out in its Business Plan, as presented in its application.

In the context of the settlement proposal, OEB staff does not have concerns with the 2018 capital additions and rate base amounts (including the updating of the continuity schedules to properly reflect the inclusion of smart meters), as set out in the settlement proposal. As Centre Wellington Hydro has presented these amounts to be consistent with its Business Plan values and reallocated certain projects to achieve more adequate pacing and prioritization, OEB staff supports the proposal as outlined in the settlement proposal.

Issue 1.2 OM&A

Is the level of planned OM&A expenditures appropriate and is the rationale for planning choices appropriate and adequately explained, giving due consideration to:

- Customer feedback and preferences;
- Productivity;
- Compatibility with historical expenditures;
- Compatibility with applicable benchmarks;
- Reliability and service quality;
- Impact on distribution rates;
- Trade-offs with capital spending;
- Government-mandated obligations; and
- The objectives of Centre Wellington Hydro and its customers.

In its settlement proposal, parties agreed to a 2018 test year OM&A of \$2,344,300, a reduction of \$60,000 from the proposed. Parties also agreed to a proposal to refund to ratepayers over the course of the next five years, an amount that is equivalent to an additional test year revenue requirement reduction of \$40,000. This refund mechanism is referred to as the “Incremental 2018 Settlement Adjustment Rate Rider”, as is described in more detail in Issue 3.3 below. Centre Wellington Hydro also noted that the proposed reductions will not materially impact the service quality or reliability of its distribution system.

In the context of the settlement proposal, OEB staff does not have concerns with the proposed 2018 test year OM&A of \$2,344,300 and the additional \$40k amount to be refunded through the Incremental 2018 Settlement Adjustment Rate Rider. OEB staffs supports these reductions. The company has indicated that there will be no material impacts to Centre Wellington Hydro’s distribution system service quality or reliability. OEB staff further discusses its reasons for supporting the Incremental 2018 Settlement Adjustment Rate Rider, in Issue 3.3 below.

Issue 2.1 Are all elements of the Revenue Requirement reasonable, and have they been appropriately determined in accordance with OEB policies and practices?

As outlined in Table 1 – 2018 Revenue Requirement in the settlement proposal, parties have agreed to a service revenue requirement of \$3,958,037, a base revenue requirement of \$3,665,637, and a gross revenue deficiency of \$425,866. Centre Wellington Hydro also included an updated Revenue Requirement Work Form (RRWF) to support its requested amounts.

OEB staff notes that Tab 14 – Tracking Sheet of the RRWF, includes an incorrect reference to OM&A. Specifically, the OM&A references of \$2,943,100 in cell K32 and change in OM&A of \$538,300 in cell K33 are incorrect. These OM&A amounts incorrectly include Depreciation of \$579,600 which is also included in cell I32.

OEB staff submits that Centre Wellington Hydro should refile a corrected RRWF.

Issue 2.1.1 Cost of Capital

Although Centre Wellington Hydro’s cost of capital was not a specific issue in the OEB approved issues list, it was included in the settlement proposal and agreed to by the parties.

As part of the settlement proposal, Centre Wellington Hydro updated its 2018 test year cost of capital parameters in accordance with OEB requirements.¹ Specifically, as reflected in Table 6 – 2018 Cost of Capital Calculation in the settlement proposal, parties agreed to the following:

¹ November 23, 2017 OEB letter titled “Cost of Capital Parameter Updates for 2018 Cost of Service and Custom Incentive Rate-setting Applications”

- Updated requested deemed short term debt rate to 2.29%, as per the OEB's updated 2018 cost of capital parameters
- Updated requested deemed return on equity to 9.00%, as per the OEB's updated 2018 cost of capital parameters
- Updated long term debt component, as follows:
 - A portion of the long term debt relates to affiliate debt. This portion has been updated and capped to a rate of 4.16%, which is consistent with the OEB's updated 2018 cost of capital parameters and OEB policy.
 - Another portion of the long term debt relates to third-party debt. This portion has not been updated, as the actual long term debt percentages have been used in the calculations.
 - The combination of the debt rates on the affiliate debt and third-party debt generated a requested long term debt rate of 4.04%.

OEB staff supports these updates to the cost of capital parameters as incorporated into the 2018 test year revenue requirement, as these parameters are consistent with OEB requirements.

Issue 3.1 Are the proposed load and customer forecast, loss factors, CDM adjustments and resulting billing determinants appropriate, and, to the extent applicable, are they an appropriate reflection of the energy and demand requirements of Centre Wellington Hydro's customers?

In the settlement proposal, the parties accepted the evidence of Centre Wellington Hydro and its methodology used for the load forecast, customer forecast, loss factors and CDM adjustments after incorporating the following adjustments:

- the removal of the CDM adjustment related to 2015 CDM
- to incorporate the load related to a specific GS 50-2999 kW customer who became a wholesale market participant in August of 2012, into the determination of the demand forecast for the GS 50-2999 kW class, by adding back the wholesale market participant's load to the retail consumption for the period of August 2012 to December 2016

As outlined in Table 12 of the settlement proposal, parties agreed to 2018 test year billing determinants of 144,456,071 kWh (an increase of 90,611 kWh over the pre-filed evidence) and 203,030 kW (a decrease of 2,442 kW over the pre-filed evidence).

In the context of the settlement proposal, OEB staff submits that the revised 2018 test year billing determinants are appropriate. OEB staff supports the removal of the 2015 CDM savings in the 2018 CDM manual adjustment, as the 2018 test year base load forecast would have already taken this impact into account. OEB staff also supports the increase in customer load related to the specific GS 50-2999 kW customer.

Issue 3.3 Are Centre Wellington Hydro's proposals for rate design appropriate?

Billing Determinants

OEB staff notes that Table 18 – Distribution Rates, has shown that the Unmetered Scattered Load rate class has a billing determinant of kW, instead of kWh. The Sentinel Lighting rate class has a billing determinant of kWh, instead of kW.

OEB staff also notes that the tariff sheet shows the 2018 LRAMVA rate rider for the General Service 3,000 to 4,999 kW rate class with a billing determinant of kWh, whereas in the DVA continuity schedule the determinant is correctly shown as kW. In the Bill Impact Model, this item is correctly applied on a kW basis.

OEB staff is also aware that the Rate Rider for Disposition of Group 2 Deferral/Variance Accounts is incorrectly labelled as (2017) and not (2018). This rate rider expires December 31, 2018.

OEB staff submits that these errors should be corrected by Centre Wellington Hydro in its final rate tariff.

Incremental 2018 Settlement Adjustment Rate Rider

Section 3.3.1 of the settlement proposal outlined an Incremental 2018 Settlement Adjustment Rate Rider. This rate rider was created in order for customers to receive refunds over the four year Price Cap Incentive Regulation (Price Cap IR) term that mimic the effect of an additional 2018 test year revenue requirement reduction of \$40,000, while allowing Centre Wellington Hydro to retain the flexibility to achieve savings to offset that reduction.

The settlement proposal outlined the following terms:

- an escalator was assumed in every year of 1.5%
- the riders for each of Years 2-4 have a sunset date of exactly one year
- the Year 5 rate rider expires upon the effective date of rates approved by the OEB in a rebasing proceeding (i.e. Cost of Service or Custom IR)
- if there is a delayed rebasing for Centre Wellington Hydro with an effective date beyond January 1, 2023, ratepayers will forego the annual inflation increase to the revenue requirement equivalent in Years 6 and beyond

OEB staff notes that the settlement proposal includes Tables 21, 22, 23, and 24 which outline the rate design of the Incremental 2018 Settlement Adjustment Rate Rider. However, OEB staff notes that these tables have incorrect titles labeling some of the columns. Specifically, the column titled “Balance of Group 2 Accounts” in each of these tables should be renamed “Total Amount Proposed to be Refunded in the Year”. In addition, the column titled “Rate Rider for RSVA - Power – Global Adjustment” in each of these tables should be renamed “Rate Rider – Incremental 2018 Settlement Adjustment Rate Rider”.

OEB staff submits that the Incremental 2018 Settlement Adjustment Rate Rider proposed for 2019 through 2022 (and potentially beyond, depending on when Centre Wellington Hydro next rebases), is appropriate. OEB staff is of the view that this approach, versus reducing the 2018 test year revenue requirement by \$40k, is generally neutral with respect to its impact on Centre Wellington Hydro’s customers. This approach also allows Centre Wellington Hydro more flexibility to achieve expected cost savings over the Price Cap IR term. However, OEB staff notes that in future correspondence with the OEB, the incorrect titles labeling some of the columns in Tables 21, 22, 23, and 24 should be corrected.

Issue 4.2.1 Effective Date

In its settlement proposal, the parties agreed that Centre Wellington Hydro's new rates should be made effective January 1, 2018. The parties also stated that in the event there is a delay to the implementation of new rates on January 1, 2018, existing rates should be made interim as of January 1, 2018 and proposed that a deferral account be established to track the forgone revenue that accrues as a result of a late implementation date.

OEB staff notes that in the Interim Rate Order and Procedural Order No. 2 issued by the OEB on December 6, 2017, the current Tariff of Rates and Charges were made interim as of January 1, 2018 and until such time as a final rate order is issued by the OEB. OEB staff also notes that the settlement proposal is silent on the transition to a January 1 rate year. OEB staff has no concerns with this transition and notes the following on the forgone revenue rider that will arise for this application with an effective date of January 1, 2018.

OEB staff notes several examples of previous decisions that established a forgone revenue deferral account:

- December 18, 2014 Great Lakes Power Transmission LP²
- June 8, 2017 B2M LP³

OEB staff also notes that instead of a deferral account being created, a forgone revenue rate rider could be established to recapture the lost revenue arising from a late implementation date. OEB staff notes several examples of previous decisions that established a forgone revenue rate rider:

- February 29, 2012 Parry Sound Power Corporation 2012 IRM⁴
- June 28, 2011 St. Thomas Energy Inc. 2011 CoS⁵
- January 16, 2012 Grimsby Power Inc. 2012 CoS⁶

² EB-2014-0238 GLPT December 18, 2014, page 3

³ EB-2016-0349 June 8, 2017 Decision and Order, page 5

⁴ EB-2011-0193 February 29, 2012 Rate Order, page 2

⁵ EB-2010-0141 June 28, 2011 Decision and Order, page 3

⁶ EB-2011-0273 January 16, 2012 Decision and Order, page 10

OEB staff does not support the use of a deferral account for the purpose of recording forgone revenue. Although there are prior precedents regarding the forgone revenue issue relating both to a deferral account and a rate rider, the use of a deferral account may pose intergenerational inequity issues, as well as being administratively more complex than a rate rider.

If a deferral account is approved by the OEB, OEB staff is of the view that Centre Wellington Hydro should propose a draft accounting order for the proposed forgone revenue deferral account in its draft rate order.

Issue 5.2 Are the proposals with respect to pole attachment charges and microFIT charges appropriate?

Pole Attachment Charges

On November 5, 2015, the OEB established a Pole Attachment Working Group (PAWG)⁷ to provide advice on the technical aspects and related details to be addressed in respect of pole attachments. This review also involves the consideration of the methodology used for determining such charges.

In a response to an interrogatory⁸, Centre Wellington Hydro confirmed that it will wait for the outcome of the consultation and the associated methodology to determine a new pole attachment rate, rather than a new pole attachment rate being decided in this proceeding.

The parties to the settlement proposal agreed with Centre Wellington Hydro's proposal to follow the OEB's policy with respect to updated pole attachment charges.

OEB staff submits that Centre Wellington Hydro's proposal is appropriate given that there is an ongoing policy review of pole attachment charges.⁹ While it is not certain when a new policy will be adopted, the new policy may have an impact on pole attachment charges for all licensed electricity distributors, including Centre

⁷ EB-2015-0304

⁸ 3-Staff-50

⁹ Pole Attachment Working Group (PAWG) EB-2015-0304.

Wellington Hydro. In addition, OEB staff anticipates that any policy outcome will address not only the applicability of the new policy to all rate regulated distributors, but will also address the implementation timing of that new policy.

microFIT charges

Centre Wellington Hydro applied for an adjustment to the microFIT monthly service charge from the province-wide rate of \$5.40 to \$10.00 to more accurately reflect the costs incurred. In the settlement proposal, the parties agreed to this updated rate of \$10.00. As per the *Review of Electricity Distribution Cost Allocation Policy*¹⁰, distributors wishing to seek approval for a distributor-specific microFIT charge may identify additional cost elements that should be included in the determination of the charge. In a letter to distributors, the OEB further reminded electricity distributors that they may request a distributor-specific microFIT charge as part of their cost of service applications.¹¹

OEB staff notes several examples of previous cases that established increased microFIT charges:

- Wasaga Distribution 2016 CoS proceeding – increase to \$10.00.¹²
- St. Thomas Energy Inc. 2015 CoS proceeding – increase to \$10.00.¹³
- Renfrew Hydro Inc. 2017 CoS proceeding – increase to \$10.00¹⁴
- Welland Hydro-Electric System Corp. 2017 CoS proceeding – increase to \$11.00¹⁵
- Hydro Ottawa Limited 2016 Custom IR proceeding – increase to \$18.00 for 2016, 2017 and increase to \$19.00 for 2018, 2019, 2020¹⁶
- Wellington North Power Inc. 2016 CoS proceeding – increase to \$15.69¹⁷

¹⁰ EB-2010-0219

¹¹ OEB's Letter to LDCs, September 20, 2012 (EB-2009-0326, EB-2010-0219).

¹² EB-2015-0107 February 24, 2016 Settlement Proposal p. 40 of 40.

¹³ EB-2014- 0113 rate Order_StThomasCoS_20141218, p. 2.

¹⁴ EB-2016-0166 Renfrew Hydro Inc Settlement Proposal Page 39 of 51 January 20, 2017

¹⁵ EB-2016-0110 Welland Hydro-Electric System Corp. Settlement Proposal Page 35 of 64 April 19, 2017

¹⁶ EB-2015-0004 Hydro Ottawa Limited Settlement Proposal; December 7, 2015 Page 45 of 60

¹⁷ EB-2015-0110 Wellington North Power Inc. Settlement Proposal March 4, 2016 Page 39 of 133

OEB staff supports the adjustment to the microFIT monthly service charge, as it is reasonable for Centre Wellington Hydro to pass on some charges to customers from its third-party vendor¹⁸. OEB staff also submits that the several precedents involving increased microFIT charges (as noted above), support OEB staff's view that this increase to \$10.00 is appropriate.

Issue 5.3 Is Centre Wellington Hydro's water and sewer billing arrangement with its affiliate appropriate?

Although Centre Wellington Hydro's water and sewer billing arrangement was not a specific issue in the OEB approved issues list, it was included in the settlement proposal and agreed to by the parties.

In its response to an interrogatory¹⁹, Centre Wellington Hydro stated that it was unable to locate the original Service Level Agreement (SLA) governing the provision of water and sewer billing services to its affiliate. This missing agreement between Centre Wellington Hydro and the Township of Centre Wellington was executed sometime before 1999. This agreement was updated by a resolution (the Resolution) of the Board of Directors of Centre Wellington Hydro, dated March 20, 2008. The Resolution established:

- revised rates of water and sewer to be charged to the Township of Centre Wellington for the meter reading, billing, collection and customer service tasks related to the monthly water and sewer billing; and
- A commitment to review the rates on an annual basis to ensure that all related billing costs are recovered and that a reasonable rate of return occurs

In the settlement proposal, the parties agreed that Centre Wellington Hydro would prepare an updated SLA between itself and its affiliate. Centre Wellington Hydro agreed to file this document with the OEB on the record of this proceeding, within one year.

¹⁸ Exhibit 3, page 76 & 77 – \$10.00 monthly fee per microFIT meter point is charged by Utilismart

¹⁹ 4-SEC-23

OEB staff has reviewed the OEB's Affiliate Relationships Code (the ARC) for electricity distributors and transmitters, dated March 15, 2010. Section 2.2.1 states the following regarding service level agreements:

2.2.1 Where a utility provides a service, resource, product or use of asset to an affiliate or receives a service, resource, product or use of asset from an affiliate, it shall do so in accordance with a Services Agreement, the terms of which may be reviewed by the Board to ensure compliance with this Code. The Services Agreement shall include:

- a) The type, quantity and quality of service;
- b) Pricing mechanisms;
- c) Cost allocation mechanisms;
- d) Confidentiality arrangements;
- e) The apportionment of risks (including risks related to under or over provision of service); and
- f) A dispute resolution process for any disagreement arising over the terms or implementation of the Services Agreement.

OEB staff notes that the missing agreement has been super-ceded by the Resolution, which also requires Centre Wellington Hydro and its affiliate to revisit its terms on an annual basis. As a result, OEB staff submits that the settlement proposal regarding an updated SLA and the filing of this agreement with the OEB is appropriate. In addition to filing the SLA on the record of this proceeding within one year, OEB staff submits that the SLA should also be filed on the record of Centre Wellington Hydro's next cost of service or Custom IR proceeding. Centre Wellington Hydro should follow the terms of Section 2.2.1 of the ARC when preparing the revised agreement.

All of which is respectfully submitted