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Ontario

BY EMAIL

February 14, 2019

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Ottawa River Power Corporation
2019 IRM Rate Application
OEB Staff Submission
OEB File No. EB-2018-0063

In accordance with Procedural Order No. 2, please find attached OEB staff's submission in the above proceeding.

Ottawa River Power is reminded that its Reply Submission is due on February 28, 2019.

Yours truly,

Original Signed By

Judy But
Analyst, Application Policy & Climate Change

Encl.

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2019 ELECTRICITY DISTRIBUTION RATES

Ottawa River Power Corporation

EB-2018-0063

February 14, 2019

OEB Staff Submission
Ottawa River Power Corporation
2019 IRM Rate Application
EB-2018-0063

Background

Ottawa River Power Corporation (Ottawa River Power) filed an application with the Ontario Energy Board (OEB) on September 25, 2018 under section 78 of the *Ontario Energy Board Act*, *1998.*

In accordance with the OEB's Procedural Orders No. 1 and 2, Ottawa River Power filed responses to interrogatories on December 21, 2018, and supplementary interrogatories on January 31, 2019.

Through the application, Ottawa River Power seeks OEB approval for changes to the rates that Ottawa River Power charges for electricity distribution, effective May 1, 2019, including the following specific items:

- A price cap adjustment to increase the monthly service charge and volumetric distribution rate during the incentive rate-setting years.
- An update to its Retail Transmission Service Rates (RTSRs) to recover the wholesale transmission rates charged by the IESO.
- Incremental capital funding to build a new 5 MVA substation in the Almonte Ward in the Town of Mississippi Mills.
- Disposition of Group 1 deferral and variance account balances.

Price Cap Adjustment

Ottawa River Power applied the Price Cap adjustment factor to increase the monthly service charge and volumetric distribution rate in this incentive rate-setting application. OEB staff submits that this update is consistent with the annual adjustment mechanism in section 3.2.1 of the Chapter 3 Filing Requirements for Electricity Distribution Rate Applications.

OEB staff has reset the Price Cap adjustment to 1.20% in the IRM rate generator model based on an update to the inflation factor.[1]

Ottawa River Power is also in its final year of transition towards a fully fixed, monthly distribution charge and has demonstrated that no rate mitigation is required.

Retail Transmission Service Rates (RTSRs)

Ottawa River Power requests an update to its RTSRs, in order to recover the wholesale transmission rates charged by the IESO. OEB staff submits that this request is appropriate. OEB staff has, accordingly, updated the rate generator model to account for the recent changes to the Uniform Transmission Rates (UTRs) and regulatory charges, effective January 1, 2019.[2]

An updated rate generator model is attached as part of this submission.

Incremental Capital Module (ICM) Request

The ICM is a mechanism available to electricity distributors whose rates are established under the Price Cap IR regime as described in section 3.3.2 of the Filing Requirements. The ICM is intended to address the treatment of a distributor's capital investment needs that arise during the rate-setting plan which are incremental to a materiality threshold.

In the application, as originally filed, Ottawa River Power proposed to recover $1,785,850 through the ICM in order to construct a new substation in Almonte, MS-4. Throughout the course of the proceeding, however, the applicant clarified that land costs related to the siting of this new substation, which were incurred in 2018, are not actually being sought as part of the ICM relief. Thus, the request for incremental capital funding in 2019 relates only to the cost of building the substation, which is $1,698,850.

If the project is approved by the OEB, it will increase the utility's rate base from $11.8 million to $13.5 million (about 15%)[3], and revenue requirement from $4.4 million to $4.5 million (about 3%)[4].

[1] Issued November 23, 2018
[2] Decision and Interim Rate Order, EB-2018-0326, December 20, 2018
Decision and Order, EB-2018-0294, December 20, 2018
[3] 14.4% = $1,698,850/$11,802,286
[4] 3% = $129,085/$4,347,469

Currently, there is 13 MVA of installed capacity from three substations in Almonte:

- MS-1 (5 MVA substation) was reconstructed in 2009 and in-service in 2010 and station loading in the summer and winter ranges between 40% and 50%[5]
- MS-2 (5 MVA substation) was constructed in 1975 and expected to reach capacity in 2019[6]
- MS-3 (3 MVA substation) was constructed in 1965 and is expected to reach capacity in 2020.[7] The transformer is also 53 years old

The MS-4 substation, proposed to be built as a 5 MVA substation, is planned to be located in Almonte North as this particular area is less than 100 feet away from Hydro One's 44 kV line.[8] MS-4 is expected to be in-service by June 2019. Once MS-4 is built, Ottawa River Power anticipates relieving pressure off of MS-2 and allowing MS-3 to be refurbished in the near future. Due primarily to the age of the MS-2 and MS-3 substations, Ottawa River Power plans on replacing the MS-3 substation in 2021 at its next cost of service application, and will provide details on the MS-2 refurbishment date at that time. [9] [10]

The cost breakdown of the MS-4 substation is set out in the following table:

Table 1: MS-4 Substation Component Costs

Component	Cost ($)
Engineering and Design	180,000
Equipment	798,000
Civic construction	388,000
Electrical	115,500
Miscellaneous	55,000
Contingency	162,350
Total Project Cost	**1,698,850**

Ottawa River Power believes the MS-4 project is a necessary and prudent expenditure to meet system and reliability needs.

[5] Application, p. 22
[6] VECC-8
[7] VECC-8
[8] Staff-18 b)
[9] VECC-3 c)
[10] Staff-31 b)

OEB staff updated the price cap adjustment to 1.20% in both the ICM model and IRM rate generator model as discussed earlier. The resulting bill impacts with, and without, the ICM project are shown below:

Bill Impact - with ICM riders for new substation	Units	Sub-Total A Impact		Total Bill Impact	
		$	%	$	%
RESIDENTIAL SERVICE CLASSIFICATION - RPP	kWh	$ 0.72	2.8%	$ 2.29	2.1%
GENERAL SERVICE LESS THAN 50 KW SERVICE CLASSIFICATION - RPP	kWh	$ 2.01	3.8%	$ 6.21	2.3%
GENERAL SERVICE 50 to 4,999 kW SERVICE CLASSIFICATION - Non-RPP (Other)	kW	$ 20.00	4.6%	$ 2,102.31	1.8%
SENTINEL LIGHTING SERVICE CLASSIFICATION - Non-RPP (Other)	kW	$ 0.25	2.7%	$ 1.53	5.5%
STREET LIGHTING SERVICE CLASSIFICATION - Non-RPP (Other)	kW	$ 84.54	1.2%	$ 384.37	2.5%
UNMETERED SCATTERED LOAD SERVICE CLASSIFICATION - RPP	kWh	$ 0.72	1.4%	$ 15.42	2.1%
RESIDENTIAL SERVICE CLASSIFICATION - Non-RPP (Retailer)	kWh	$ 0.72	2.8%	$ 4.24	3.0%
RESIDENTIAL SERVICE CLASSIFICATION - RPP	kWh	$ 2.25	10.0%	$ 2.95	5.4%

Bill Impact - without ICM riders for new substation	Units	Sub-Total A Impact		Total Bill Impact	
		$	%	$	%
RESIDENTIAL SERVICE CLASSIFICATION - RPP	kWh	$ 0.04	0.2%	$ 1.59	1.5%
GENERAL SERVICE LESS THAN 50 KW SERVICE CLASSIFICATION - RPP	kWh	$ 0.67	1.3%	$ 4.81	1.8%
GENERAL SERVICE 50 to 4,999 kW SERVICE CLASSIFICATION - Non-RPP (Other)	kW	$ 5.24	1.2%	$ 2,085.63	1.8%
SENTINEL LIGHTING SERVICE CLASSIFICATION - Non-RPP (Other)	kW	$ 0.11	1.2%	$ 1.37	4.9%
STREET LIGHTING SERVICE CLASSIFICATION - Non-RPP (Other)	kW	$ 84.43	1.2%	$ 384.24	2.5%
UNMETERED SCATTERED LOAD SERVICE CLASSIFICATION - RPP	kWh	$ 0.36	0.7%	$ 15.01	2.0%
RESIDENTIAL SERVICE CLASSIFICATION - Non-RPP (Retailer)	kWh	$ 0.04	0.2%	$ 3.49	2.5%
RESIDENTIAL SERVICE CLASSIFICATION - RPP	kWh	$ 1.58	7.0%	$ 2.24	4.1%

Requirements for ICM Funding

Based on the evidence presented, OEB staff submits that the construction of MS-4 in Almonte is in the public interest as the materiality, need and prudence requirements have been met. In arriving at this position, OEB staff was guided by the following tests established in section 4.1.5 of the *Report of the Board – New Policy Options for the Funding of Capital Investments: The Advanced Capital Module* (ACM Report)[11] to review ICM projects:

> The ICM is available for discretionary and non-discretionary projects, capital projects not included in the distributor's previously filed Distribution System Plan (DSP), and is not limited to extraordinary or unanticipated investments.
>
> To qualify for incremental capital funding, distributors must meet the following three requirements:

[11] Report of the Board – New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, EB-2014-0219, September 18, 2014

Materiality

The ACM Report states that distributors must meet an OEB-defined materiality threshold and a project-specific materiality threshold.

The ACM Report explains materiality as follows:[12]

> A capital budget will be deemed to be material, and as such reflect eligible projects, if it exceeds the OEB-defined materiality threshold. Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount (as defined in this ACM Report) and must clearly have a significant influence on the operation of the distributor; otherwise they should be dealt with at rebasing.
>
> Minor expenditures in comparison to the overall capital budget should be considered ineligible for ACM or ICM treatment. A certain degree of project expenditure over and above the OEB-defined threshold calculation is expected to be absorbed within the total capital budget.

The OEB-defined materiality threshold is defined in Chapter 3 of the Filing Requirements for Distribution Rate Applications. It represents a distributor's financial capacities underpinned by existing rates, including growth and a 10% dead band. The equation used to calculate the materiality threshold is as follows:

$$Threshold\ Value\ (\%) = \left(1 + \left[\left(\frac{RB}{d}\right) \times \left(g + PCI \times (1+g)\right)\right]\right) \times \left((1+g) \times (1+PCI)\right)^{n-1} + X\%$$

Where:
RB = rate base included in base rates ($)
d = depreciation expense included in base rates ($)
g = distribution revenue change from load growth (%)
PCI = price cap index
n = number of years since the Cost of Service rebasing
X = dead band which is currently set at 10%

A certain degree of project expenditure over and above the OEB-defined materiality threshold is expected to be absorbed within the total capital budget. The OEB expects a distributor to manage its costs within a pre-defined capital expenditure level before being eligible to apply for incremental

[12] Ibid

funding. Minor expenditures in comparison to the overall capital budget should be considered ineligible for ICM treatment.

Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount. The OEB considers a project-specific materiality threshold. Specific projects must have a significant influence on the operation of the distributor. Otherwise, they should be dealt with at rebasing.

Need

The OEB describes the need threshold as follows:[13]

> The distributor must pass the Means Test (as defined in the ACM Report) Amounts must be based on discrete projects, and should be directly related to the claimed driver. The amounts must be clearly outside of the base upon which the rates were derived.

Prudence

The OEB describes the prudence threshold in the ACM Report as follows:[14]

> The amounts to be incurred must be prudent. This means that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

The following discussion captures OEB staff's analysis of the ICM project based on the requirements for ICM funding.

Materiality

Ottawa River Power has confirmed a total capital budget of $2,700,000 for 2019. As the OEB-defined materiality threshold is $1,096,591,[15] the available ICM amount is $1,603,409 resulting from the difference in the 2019 capital budget and the OEB-

[13] Report of the Board – New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, EB-2014-0219, September 18, 2014
[14] Ibid
[15] OEB-defined materiality threshold is the product of depreciation expense included in rates and the materiality threshold percentage ($1,096,591 = $879,985 x 125%). The materiality threshold is based on an updated price cap index of 1.20% (inflation rate of 1.5% minus a stretch factor of 0.3%)

defined materiality threshold.[16] OEB staff submits that the requested ICM amount of $1,698,850 exceeds the OEB-defined materiality threshold.

Ottawa River Power states that this project is 1.4 times the approved 2016 capital budget.[17] By adopting the approach determined in the Toronto Hydro decision[18] to set a project-specific materiality threshold, OEB staff submits that the ICM project is material as the requested ICM project cost is more than 60% of the 2019 capital budget.

Ottawa River Power requested $1,698,850 as part of its ICM. As the maximum available amount for an ICM is calculated to be $1,603,409, OEB staff submits that the utility is eligible for ICM funding up to the allowable maximum of $1,603,409. Based on the allowable maximum amount, Ottawa River Power is eligible to collect an incremental revenue requirement of $129,085 as determined in the ICM model.

Need

OEB staff submits that the regulatory need of this project has been established. Ottawa River Power's ICM project passes the Means Test. Based on an achieved return on equity of 11.82% and a deemed regulatory return of 9.19%, there is a regulated return of 2.63% in 2017.[19] This is within 300 basis points of deemed return on equity.

Ottawa River Power confirms that the ICM amount is incremental to the distributor's capital requirements. Based on the last DSP[20] submitted in its 2016 cost of service proceeding, it indicated that a new substation could be built in Almonte after 2020.[21] Following changes at the executive level of the organization after 2016, the company undertook an in-depth review of its stations. Based on an updated 2017 Substation Condition Assessment Study completed by Costellos Utility Consultants (Costellos), it was recommended that a new substation was required for new growth in Almonte.[22] With the need to address new capacity and aging infrastructure identified by this updated Condition Assessment Study, the utility filed an ICM application a year earlier than planned. OEB staff is of the view that this ICM project to construct the MS-4 substation is discrete, and is not part of the utility's typical capital programs.

[16] $1,603,409 = $2,700,000 - $1,096,591
[17] VECC-17 b)
[18] Partial Decision and Order, EB-2012-0064, April 2, 2013. In the Toronto Hydro decision, project materiality threshold was established by comparing the proposed ICM project relative to the total capital budget.
[19] Staff-35
[20] Decision and Order, EB-2014-0105, May 12, 2016
[21] Application, p. 19
[22] Appendix D, Substation Condition Assessment Report prepared by Costellos Utility Consultants, September 2017, p. 1

Further, in the 2017 Condition Assessment Study, a number of safety and reliability issues were identified in their review, specifically:

- MS-2 and MS-3 were operating past their typical useful lives at 43 and 53 years.
- The equipment at these stations (notably switchgear, transformers, and protection and control equipment) were also operating past their typical useful life.

Based on this condition assessment, Costellos recommended that one new station was required for growth.[23]

Prudence

OEB staff submits that the construction of MS-4 substation is a prudent expenditure to address system and reliability needs in Almonte. OEB staff's assessment on the need of the substation was based on a review on the adequacy of existing capacity, projected load forecast, and the practicality of potential alternatives.

Capacity from Existing Substations

Typical utility planning in Ontario is to design distribution systems to be tolerant of a single major failure without prolonged customer outages.[24] Most distributors in Ontario plan to have enough capacity at all times, even when the chances of station loss at the time of the coincidental peak are small.

In the evidence filed in this proceeding, Ottawa River Power has confirmed that it would not have enough capacity at all times to meet coincidental peak demand in Almonte, if one of the 5 MVA substations were to fail. In response to OEB staff interrogatories, Ottawa River Power presented a graph showing that there were a substantive number of times during the last two years when the coincidental peaks exceeded 8 MVA in 2017 and 2018.[25] In particular, the winter peak was 8.7 MVA in 2017 and 9.1 MVA in 2018, and these peaks lasted for a duration of 15 minutes.[26] As there is only 8 MVA[27] of remaining station capacity to meet peak load during a contingency scenario, OEB staff believes that the utility has presented a case for capacity shortfall. OEB staff

[23] Appendix D, Substation Condition Assessment Report prepared by Costellos Utility Consultants, September 2017, pp. 1 and 9
[24] Staff-21 e)
[25] Staff-28 b) and c)
[26] Winter peak is noted as Ottawa River Power is winter-peaking.
[27] 8 MVA = 5 MVA (MS-2) + 3 MVA (MS-3)

understands that it is best practice to have enough capacity at all times to meet demand even in the event of the loss of one station. OEB staff submits that the need for a new substation is justified from a capacity planning perspective.

Once MS-4 is built in 2019, total installed capacity will increase to 18 MVA in Almonte. During a contingency scenario, there will be 13 MVA from three substations to meet forecasted coincidental peak of 9.4 MVA to 10.3 MVA from 2019 to 2022.[28]

Forecast of Peak Demand

Ottawa River Power has forecasted 3% growth in coincidental winter and summer peak from 2019 to 2022 based on an annualized 3% customer growth rate over the past 18 years from 1,837 residential customers in 2000 to 2,810 residential customers in 2018.[29] Ottawa River Power notes that the driver of residential load growth is due to its proximity to Ottawa, where there is unprecedented growth from housing starts and numerous subdivisions under construction or planned in Almonte.[30] Historical data on aggregated meter data prior to 2017 was not available.[31]

OEB staff is of the view that, although the load growth projections were not developed from actual historical load, the growth rate for residential customers over the last 18 years is the best available information from local authorities and developers.[32] As a result, OEB staff believes that the 3% forecasted growth in coincidental summer and winter peak from 2019 to 2022 appears to be reasonable.

OEB staff recommends that, in the future, Ottawa River Power should document the actual summer and winter peak load by installing SCADA monitoring technology at its substations. OEB staff understands that only MS-1 has been connected to the SCADA system since 2017, and that the utility plans on installing SCADA for its remaining substations as part of its capital planning in its next cost of service application.[33] OEB staff believes that increasing access to better data would enhance the reliability of future load forecasts used to make investment planning decisions.

Assessment of Alternatives

Prior to Ottawa River Power's decision to construct a new MS-4 substation, the utility considered two alternatives.[34] First, its existing stations could be expanded, and

[28] 13 MVA = 5 MVA (MS-2) + 3 MVA (MS-3)+ 5 MVA (MS-4)
[29] Staff-25 c)
[30] Staff-21 e)
[31] Staff-28 a)
[32] Staff-28 a)
[33] Staff-20 vi
[34] Staff-37 a)

second, a spare transformer could be purchased. Based on the utility's review, it did not believe that these two alternatives were a practical solution to address the issue of capacity shortfall.

In terms of its first option of expanding its existing stations, Ottawa River Power believed that MS-3 was operating past its useful life and would eventually be replaced once MS-4 was built. As a result, the utility did not upgrade the transformer in MS-3 from 3 MVA to 5 MVA.[35] The cost of replacing the existing transformer would be approximately $400,000, but it was understood from the 2017 Condition Assessment Study that the rest of the MS-3 switchgear was past its useful life and no spare parts were available as the switchgear manufacturer was out of business.[36]

In terms of its second option of installing a spare transformer, it would cost approximately $275,000.[37] However, Ottawa River Power noted that this solution could take several days to install to accommodate the unique arrangements at the Almonte substations. As a result, this could lengthen the outage time when installing the spare transformer. In any case, if the switchgear equipment fails, installing a spare transformer would not be useful.

OEB staff asked the utility to explain further why other lower-cost alternatives were not considered. Ottawa River Power explained that it faced technical issues with its existing substations, in particular:

- None of the transformers in Almonte had emergency ratings to serve as back-up in the event there was a capacity shortfall. [38]

- The original design of the transformers in Almonte did not include the provision for fans for two of the three existing substations, which are typically included in large power transformers used in Ontario.[39]

- The switchgear manufacturer is out of business, and therefore, there are no spare parts available for MS-3.[40]

[35] Upgrading the transformer from 3 MVA to 5 MVA was recommended in a Municipal Substation Planning Report prepared by Barkley Technologies Inc. (August 2016), see Appendix 2 in response to VECC-4, p. 43.
[36] Staff-37 b)
[37] Staff-37 a)
[38] Staff-29 c)
[39] Staff-30 b)
[40] Staff-37 b)

OEB staff notes that good utility practice is to maintain reliability by having a plan in place to serve load during a contingency by whatever means that are economically feasible. Having a spare station is usually the most expensive way of maintaining system reliability. Notwithstanding the above, OEB staff submits the investment is prudently justified, as there is currently an identified capacity shortfall without a new substation. Even if the provision for emergency ratings were considered which could increase installed capacity by 10% above normal ratings, it would not be enough to meet the existing coincidental peak. With a 3% projected growth rate in peak load in particular beginning in 2019, it would not be unreasonable to add new capacity. Further, with a 5 MVA substation, the replacement cost is only marginally higher as compared to a 3 MVA substation, but the utility will be secured with more spare capacity to meet the 3% growth in forecasted coincidental peak from 2019 to 2022.

Based on this utility's specific circumstances, OEB staff is of the view that the proposed new build is an appropriate, long-term solution to address the capacity shortfall issue which has persisted for over two years.

In terms of the cost of constructing MS-4, OEB staff believes that the project cost of $1,785,850 (inclusive of land costs) is reasonable. Based on prior cases of building a 5 MVA substation, OEB staff submits that this cost is consistent with what was approved for Espanola Regional Hydro Distribution[41] and Wellington North Power[42] in 2014. Ottawa River Power's $1.78 million cost estimate is the same as that approved for Espanola Regional Hydro Distribution and is 10% higher than the cost approved for Wellington North Power.

In Ottawa River Power's responses to OEB staff interrogatories, the utility stated that the cost of constructing a new substation typically ranges between $1.45 million to $2.75 million depending on the station design.[43] Ottawa River Power elected to build a basic design that has current protection, control, SCADA and smart grid technology which is said to be consistent in the design for approximately 25 other LDC substations over the past 5 to 7 years.[44] OEB staff also understands that the utility is building MS-4 with a similar station design at its Pembroke MS-2 substation to save costs.[45]

Due to the urgency of the utility's situation, Ottawa River Power has begun the process of building MS-4 to meet an in-service date in June 2019. In response to OEB staff interrogatories, it appears that $0.5 million or 30% of total project cost has been spent

[41] EB-2013-0127
[42] EB-2013-0178
[43] Staff 20 b)
[44] Staff 20 b)
[45] Staff-23 a)

on land, project management, engineering and geotechnical investigation, as well as purchasing equipment for the transformer and switchgear. [46]

In the event the project is not approved by the OEB, Ottawa River Power states that it will independently finance the project and apply for funding in its next cost of service application for the capital cost of the station and its carrying costs.[47] OEB staff does not understand this statement and recommends that Ottawa River Power clarify this position in its reply submission. It is OEB staff's view that if the OEB disallows this project as an ICM, then the revenue requirement impacts for the period June 2019 to April 30, 2020 would not be recoverable by the company in the event that the OEB approves the project in the 2021 cost of service case.

Deferral and Variance Account Disposition

Ottawa River Power completed the deferral and variance account (DVA) continuity schedule included in the 2019 IRM Rate Generator Model at Tab 3 for its Group 1 DVA balances. The Group 1 DVA balances amount to a debit of $657,260 (as amended during the course of this proceeding). The balance in Account 1589 – Global Adjustment (GA) is a debit of $134,647 and is applicable only to Non-RPP Class B customers. The remaining DVAs excluding GA amounted to a debit of $522,613. The Group 1 DVA balances requested for disposition are comprised of principal and interest transactions from January 1, 2015 to December 31, 2017. These balances also include projected interest calculated from January 1, 2018 to April 30, 2019.

Based on the threshold test calculation, the Group 1 DVA balances equate to a total claim of $0.0046 per kWh, which exceeds the pre-set disposition threshold of $0.001 per kWh. In its application, as originally filed, Ottawa River Power requested disposition of these accounts over a period of one year. OEB staff has reviewed the applicant's Group 1 DVA balances and notes that the utility has provided the required explanations needed to reconcile the variances between the amounts requested for disposition as of December 31, 2017 and those reported as part of the *Reporting and Record-keeping Requirements*.

In Ottawa River Power's 2018 IRM rate proceeding, the OEB stated the following findings in its Decision and Rate Order[48] with respect to Group 1 DVA balances:

[46] It appears that about $0.5 million has been spent, inclusive of land costs, out of $1,785,850 in total costs incurred. In response to VECC-6, $519,658 was expended on land, project management/engineering and geotechnical investigation. In response to Staff-38, the transformer and switchgear have been ordered.
[47] Staff-38 b)
[48] EB-2017-0070

> To ensure the accuracy of the balances, Ottawa River is directed to undertake a review of all of its Group 1 balances prior to applying for disposition. The OEB expects Ottawa River Power to perform a more detailed analysis on its Group 1 account balances to provide the OEB with a clearer understanding of how the balances in the accounts were determined. The evidence should clearly indicate how Ottawa River Power derived its preliminary RPP settlement figures, and any subsequent RPP settlement true-up adjustments, to ensure adherence to the rules and guidelines outlined in the Accounting Procedures Handbook. The methodology and data used to appropriately allocate commodity costs between different classes of ratepayers, namely RPP and non-RPP consumers, should also be clearly documented.

The evidence supplied in this current proceeding by Ottawa River Power included a detailed and extensive analysis of all of its Group 1 DVA balances being sought for disposition. In particular, the applicant provided evidence to demonstrate how the balances in the Group 1 DVA balances were derived, as well as a series of analyses to support the reasonability of the balances being requested for disposition. Furthermore, the evidence provided also allowed OEB staff to understand Ottawa River Power's preliminary RPP settlement processes and any associated subsequent true-up adjustments that were submitted to its host distributor.

In response to OEB staff interrogatories regarding Ottawa River Power's Group 1 DVA balances, Ottawa River Power identified a series of adjustments required to the December 31, 2017 closing balances in Accounts 1588 and 1589. Account 1588 was adjusted by a credit entry of $144,925 to account for timing differences in RPP settlement true-up adjustments, which were settled with Ottawa River Power's host distributor subsequent to 2017. Account 1589 was adjusted by a credit entry of $18,156, which was also related to timing differences with respect to various aspects of settlement true-ups with Ottawa River Power's host distributor.

OEB staff submits that the adjustments noted above align with the OEB's expectation that RPP settlement true-ups are to be reflected in the appropriate fiscal years in which they pertain to. This is consistent with the communication that the OEB issued in 2017 regarding the impact of RPP settlement true-ups on distributors' commodity account balances.[49]

OEB staff supports Ottawa River Power's request to dispose of its December 31, 2017 Group 1 DVA balances, including the impact of the adjustments made to the DVA continuity schedule for Accounts 1588 and 1589. As per the OEB's current approach to disposition of DVAs, this disposition should be on an interim basis.

[49] Guidance on the Disposition of Accounts 1588 and 1589, letter dated May 17, 2017

All of which is respectfully submitted