

Settlement Proposal

Hydro Ottawa Limited
2008 Electricity Distribution Rates
EB-2007-0713

January 23, 2008

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I. INTRODUCTION

This Settlement Proposal is filed with the Ontario Energy Board ("the "Board") in connection with the application of Hydro Ottawa Limited ("Hydro Ottawa"), including the supporting evidence, for an order or orders approving or fixing just and reasonable rates effective May 1, 2008 for distribution service and, in particular, the specific relief that Hydro Ottawa requested as described in Exhibit A1-4-1.

II. SETTLEMENT CONFERENCE

A Settlement Conference was held in one of the Board's hearing rooms on January 9, 10, and 11, 2008 and was continued, in conference calls, on January 17 and 18, 2008 in accordance with Rule 31 of Board's *Rules of Practice and Procedure* and the Board's *Settlement Conference Guidelines*. This Settlement Proposal arises from the Settlement Conference.

Hydro Ottawa, the following intervenors, and the Board's technical staff ("Board Staff") participated in the Settlement Conference:

- Consumers Council of Canada ("CCC"),
- Energy Probe Research Foundation ("Energy Probe"),
- School Energy Coalition ("SEC"), and
- Vulnerable Energy Consumers Coalition ("VECC").

PowerStream Inc. is also an intervenor. PowerStream Inc. did not, however, participate in any part of the Settlement Conference.

III. ISSUES

The Settlement Proposal deals with all of the issues listed in Appendix "A" to the Board's Procedural Order No. 2 dated December 12, 2007 (the "Issues List") even when there is no settlement of an issue. A copy of the Issues List is provided in Schedule A hereto (pp. 25-28) for ease of reference.

IV. SETTLEMENT CATEGORIES

Each issue dealt with in this Settlement Proposal falls within one of the following four categories:

1. **complete settlement** – an issue in respect of which Hydro Ottawa and the other parties agree with the settlement;
2. **incomplete settlement** – an issue in respect of which Hydro Ottawa and the other parties were only able to agree on some, but not all, aspects of the issue;
3. **partial settlement** – an issue in respect of which Hydro Ottawa and some, but not all, of the other parties agree with the settlement; and
4. **no settlement** – an issue in respect of which Hydro Ottawa and the other parties are unable to reach an agreement to settle the issue.

The following table presents the outcome of the Settlement Conference:

Table 1: Outcome of Settlement Conference

Complete Settlement	Incomplete Settlement	Partial Settlement	No Settlement
28 issues: 1.1, 1.2, 1.3, 1.4, 1.5, 1.6, 2.1, 2.2, 2.3, 3.1, 3.2, 3.3, 3.5, 3.6, 3.7, 4.1, 5.1, 6.1, 6.2, 6.3, 7.1, 8.1, 8.2, 8.3, 8.5, 8.6, 8.7, 9.1	one issue: 4.2	one issue: 3.4	one issue: 8.4

Issue 9.2 is not included in Table 1 because the Board disposed of this issue in its Decision on Request for Interim Rates dated January 10, 2008: "[t]he Board denies Hydro Ottawa's request that its existing distribution rates be declared interim effective January 1, 2008" (p. 5). The parties accordingly did not discuss this issue at the Settlement Conference.

V. PARAMETERS OF SETTLEMENT PROPOSAL

The Settlement Proposal has been prepared in accordance with Rule 32 of the Board's *Rules of Practice and Procedure* and the Board's *Settlement Conference Guidelines* by Hydro Ottawa in consultation with CCC, Energy Probe, SEC, and VECC. They discussed every issue and negotiated each agreement to settle an issue. They are collectively, then, the "parties" to this Settlement Proposal. Board Staff also participated in the discussion of each issue during the Settlement Conference, as contemplated by the Board's *Settlement Conference Guidelines* (p. 5), but Board Staff is not a party to

this Settlement Proposal. The parties nevertheless consulted with Board Staff during the preparation of this Settlement Proposal.

The Settlement Proposal describes the agreements reached on the settled issues, including the rationale for each of them, and delineates the scope of any dispute over the incompletely settled issue, the partially settled issue, and the unsettled issue. All of the parties agree with each complete settlement unless otherwise indicated. The Settlement Proposal provides a direct link between each settled issue and the supporting evidence in the record to date plus, as indicated in the settlement of Issue 3.4, the PwC Opinion accounting opinion of PricewaterhouseCoopers LLP on the change in Hydro Ottawa's capitalization policy dated January 8, 2008 (the "PwC Opinion") that Hydro Ottawa previously distributed to the participants in the Settlement Conference.

The evidence on each settled issue is identified individually by reference to its exhibit number in an abbreviated format; for example, Exhibit A1, Tab 8, Schedule 1 is referred to as Exhibit A1-8-1. Hydro Ottawa's response to an interrogatory is described by citing Board Staff or the name of the party, as the case may be, and the number of the interrogatory (e.g., Board Staff Interrogatory #1). The identification and listing of the evidence that relates to each issue is provided to assist the Board.

The parties who agree with the settlement of each issue are of the view that the evidence provided is sufficient to support the Settlement Proposal in relation to each such issue. They are also of the view that the quality and detail of this evidence, together with the corresponding rationale, will allow the Board to make findings on each settlement.

According to the Settlement Guidelines (p. 3), the parties must consider whether a settlement proposal should include an appropriate adjustment mechanism for any settled issue that may be affected by external factors. Hydro Ottawa and the other parties consider that no settled issue, except for Issue 5.1, requires an adjustment mechanism. The settlement of Issue 5.1 includes the adjustment mechanism.

The issues listed in the "Complete Settlement" column of Table 1 (p. 4 above) have been settled by parties as a package (the "Settlement Package") and none of the parts of this Settlement Package is severable. If the Board does not accept the Settlement Package, in its entirety, then there is no Settlement Proposal (unless the parties agree that any part(s) of the Settlement Package that the Board does accept may continue as part of a valid settlement proposal). None of the parties can withdraw from the Settlement Proposal except in accordance with Rule 32.05 of the Board's *Rules of Practice and Procedure*. Finally, unless stated otherwise, the settlement of any particular issue in this proceeding is without prejudice to the rights of the parties to raise the same issue in any future proceeding before the Board whether or not Hydro Ottawa is the applicant or one of the applicants.

The documents and other information provided, the discussion of each issue, the offers and counter-offers, and the negotiations leading to the settlement – or not – of each issue during the Settlement Conference are strictly confidential and without prejudice. None of the foregoing is admissible as evidence in this proceeding, or otherwise, with the following two exceptions:

- ~~the accounting opinion of PricewaterhouseCoopers on the change in Hydro Ottawa's capitalization policy dated January 8, 2008 (the "PwC Opinion") that Hydro Ottawa previously distributed to the participants in the Settlement Conference; and~~
- the PwC Opinion and the need to resolve a subsequent dispute over the interpretation of any provision of this Settlement Proposal.

VI. OVERVIEW OF SETTLEMENT PROPOSAL

Hydro Ottawa and the other parties to the Settlement Proposal aimed for, and achieved, a comprehensive settlement such that there are complete settlements of 28 of the 31 issues remaining on the Board's Issues List. The incompletely settled issue (4.2) and the unsettled issue (8.4) are now, in effect, two parts of a single issue: the use of a deferral account (Issue 4.2) as a mechanism to recover the revenue deficiency arising in the first four months of the Test Year (Issue 8.4). Hydro Ottawa and the other parties to the Settlement Proposal agreed that these two issues should be addressed by means of argument alone; they prefer written argument.

Hydro Ottawa and the other parties also agreed that the partially settled issue (3.4) should be addressed in an oral hearing of Hydro Ottawa's evidence on this issue. Hydro Ottawa is concurrently filing, as additional evidence on Issue 3.4, the PwC Opinion.

Table 2 on the next page presents the causes of the revenue deficiency for the Test Year:

Table 2: Causes of Revenue Deficiency

Cause	Application \$000	Settlement \$000	Change \$000
Increase in Amortization Expense	(\$9,638)	(\$6,706)	(\$2,932)
Increase in Revenue Offsets	3,491	3,491	0
Increase in OM&A Expenses	(15,151)	(12,911)	(2,240)
Increase in Return on Capital	(4,606)	(2,209)	(2,397)
Change in Payment in Lieu of Taxes	(1,186)	1,049	(2,235)
Moving Low Voltage Charges to Cost of Power	556	556	0
Load Growth	1,340	1,563	(223)
Total Deficiency	(\$25,195)	(\$15,166)	(\$10,029)
Smart Meter Rate Adder	0	(4,017)	4,017
Net Change		(\$19,183)	(\$6,012)

The impact of the "settlement case" on the total electricity bill for a Residential customer using 1,000 kWh/month is 0.8%; however, this impact could vary depending on the Board's decision on Issue 3.4 below. The impact of the "application case" was 1.6%.

Hydro Ottawa has identified the following as the main drivers of the revenue deficiency in Table 2:

- The capitalization process (see issue 3.4 below) is one main driver. The settlements of Issues 1.1, 1.3, 2.2, 3.1, 3.2, and 3.3 (if approved by the Board) would mitigate the bill impact of this driver.
- The Smart Meter program (see Issue 6.1 and 6.2 below) is the other main driver. Hydro Ottawa's Smart Meter installation program was more than 60% complete by year-end 2007. Hydro Ottawa is accordingly well ahead of most other distributors on a percentage basis. The settlement of Issues 6.1 and 6.2 ensures that Smart Meter spending and the resultant bill impacts are both transparent through 2010.

VII. ISSUE-BY-ISSUE SETTLEMENTS

1. Rate Base (Exhibit B)

1.1 Is the proposed Rate Base for Test Year 2008 appropriate? (B1)

- **Complete Settlement:** Hydro Ottawa's forecast of its Rate Base for the Test Year was \$581,765k; however, the forecast is now subject to the adjustment of the Working Capital Allowance pursuant to the settlement of Issue 1.3, the adjustment for Smart Meters pursuant to the settlement of Issue 6.1, and the adjustment for the accelerated amortization period for stranded meters pursuant to the settlement of Issue 3.3. The resultant forecast of Rate Base for the Test Year is \$545,806k subject to further adjustment, however, depending on the Board's decision on Issue 3.4 below. The other parties have accepted Hydro Ottawa's forecast, including any such adjustment, as appropriate in the context of the Settlement Package.
- **Evidence:** The evidence on this issue includes the following:

Exhibits B1-1-1, B2-1-1, B3-1-1
SEC Interrogatory #19
VECC Interrogatory # 37

1.2 Is the proposed Capital Expenditures forecast for Test Year 2008 appropriate? (B3)

- **Complete Settlement:** Hydro Ottawa's forecast of its Capital Expenditures for the Test Year was \$81,796k or \$66,451k net of contributed capital; however, the forecast is now subject to the adjustment for Smart Meters pursuant to the settlement of Issue 6.1. The resultant forecast of Capital Expenditures for the Test Year is \$72,112k, or \$56,767k net of contributed capital, plus Capital Expenditures for Smart Meters that would be recovered through a rate adder; see Issues 6.1 and 6.2 below. These Capital Expenditures are subject to further adjustment, however, depending on the Board's decision on Issue 3.4 below. The parties have accepted Hydro Ottawa's forecast, as so adjusted and as may be further adjusted, as appropriate in the context of the Settlement Package.
- **Evidence:** The evidence on this issue includes the following:

Exhibits B1-1-1, B1-2-2, B3-2-2, B3-4-1, B3-4-2, B3-5-1, B3-5-2
Board Staff Interrogatories #1,5-7,9,10,12
SEC Interrogatories #4, 10, 19, 40
CCC Interrogatory #7

VECC Interrogatories #15-18, 30, 34, 41b, 46

1.3 Is the Working Capital Allowance for Test Year 2008 appropriate? (B3)

- **Complete Settlement:** Hydro Ottawa's forecast of its Working Capital Allowance for the Test Year was \$92,733k . Hydro Ottawa did not use a lead-lag study but, rather, it used "the 15% of specific O&M accounts formula approach" for the Test Year; see page 15 of the Board's *Filing Requirements for Transmission and Distribution Applications* dated November 14, 2006. Hydro Ottawa proposed to adjust its forecast to reflect the following:
 - (a) the decrease of the wholesale transmission rates of Hydro One Networks Inc. ("HONI");
 - (b) the commodity rate forecast contained in the *Ontario Wholesale Electricity Market Price Forecast* dated October 12, 2007 and prepared by Navigant Consulting Inc. for the period from November 1, 2007 through April 30, 2009;
 - (c) 12.5% of the "specific O&M accounts," rather than 15%, based on the results of a lead-lag study conducted by Toronto Hydro-Electric System Limited ("THESL") for its 2008 test year; and
 - (d) the settlement of Issues 3.1, 6.1, and 6.2 below.

The resultant forecast of the Working Capital Allowance is \$75,704k. The other parties have accepted Hydro Ottawa's forecast, as so adjusted, as appropriate in the context of the Settlement Package.

- **Evidence:** The evidence on this issue includes the following:

Exhibit B3-6-1
Board Staff Interrogatory #57g
SEC Interrogatory #46
VECC Interrogatory #31

1.4 Is the proposed Capital Expenditures forecast for 2009 and 2010 appropriate? (B4)

- **Complete Settlement:** Hydro Ottawa prepared a forecast of its Capital Expenditures for 2009 and for 2010, and developed a capital adjustment factor with a deferral account alternative, because of its concern that the Board's 3rd Generation Incentive Regulation Mechanism ("3GIRM"), which is now being developed, would exclude a capital investment factor as did the Board's 2nd

Generation Incentive Regulation Mechanism. The other parties do not accept Hydro's capital adjustment factor and, therefore, the related forecasts of Capital Expenditures.

Hydro Ottawa proposed to postpone the Board's consideration of this issue and Issues 1.5 and 1.6, together with the related part of Issue 4.2, until the Board issues its Report on the 3GIRM. The Board would do so by adjourning the proceeding *sine die* when issuing its final order approving Hydro Ottawa's 2008 rates. Hydro Ottawa will await the outcome of the 3GIRM process and, in the event that Hydro Ottawa is not satisfied with the 3GIRM in this regard, the Board would resume this proceeding at the request of Hydro Ottawa to consider this issue and Issues 1.5, 1.6, and 4.2 (in pertinent part) below. The other parties have accepted Hydro Ottawa's proposal as appropriate in the context of the Settlement Package.

- **Evidence:** The evidence on this issue includes the following:

Exhibits B4-1-1, B4-2-1, B4-3-1, B4-3-2
Board Staff Interrogatories #9, 46-54, 58
SEC Interrogatories #4-9
CCC Interrogatories #7, 15-17
VECC Interrogatories #6, 32-35

1.5 Is the proposal to establish an adjustment mechanism for Capital Expenditures beyond the 2008 test year appropriate?

- **Complete Settlement:** See Issue 1.4 above.
- **Evidence:** See Issue 1.4. above.

1.6 Is the proposed Capital Adjustment Factor for 2009 and 2010 appropriate? (B4)

- **Complete Settlement:** See Issue 1.4 above.
- **Evidence:** See Issue 1.4 above.

2. Operating Revenue (Exhibit C)

2.1 Is the proposed forecast of 2008 Test Year Throughput Revenue appropriate? (C1)

- **Complete Settlement:** Hydro Ottawa's forecast Throughput Revenue for the Test Year was \$149,110k; however, the forecast is now subject to adjustment to reflect the Settlement Package. The resultant forecast of Throughput Revenue is \$139,305k plus the revenue derived from the rate adder for Smart Meters; see Issues 6.1 and 6.2 below. This forecast is subject to further adjustment, however, depending on the Board's decision on Issue 3.4 below. The other parties have accepted Hydro Ottawa's forecast, as so adjusted and as may be further adjusted, as appropriate in the context of the Settlement Package.
- **Evidence:** The evidence on this issue includes the following:

Exhibit C1-1-1
Board Staff Interrogatories #13-15

2.2 Are the proposed customers/connections and load forecasts (both kWh and kW) for Test Year 2008 appropriate, including the impact of CDM and weather normalization? (C1)

- **Complete Settlement:** Hydro Ottawa's load forecast for the Test Year reflected forecast of "savings" arising from conservation and demand management ("CDM") programs. This forecast of CDM savings was based on forecasts published by the Ontario Power Authority (the "OPA").

Hydro Ottawa proposed to adjust its load forecast by reducing its CDM savings by one-third, from 64,000 MWh to 42,667 MWh and from 11 MW to 7.3 MW, in consideration of the "natural conservation" that may be inherent in the OPA's forecast of CDM savings. The resultant load forecast for the Test Year is presented in Table 3 on the next page. The other parties have accepted Hydro Ottawa's load forecast, as so adjusted, as appropriate in the context of the Settlement Package.

Table 3: Revised Load Forecast

	Revised 2008 Forecast including CDM adjustment
Sales(kWh)	
Residential	2,261,678,461
General Service <50 kW	774,937,986
General Service 50-1500 kW	3,120,930,871
General Service 1500-5000 kW	837,604,031
Large User	649,903,952
Streetlighting	40,114,500
Sentinel Lights	92,512
Unmetered Scatterd Loads	20,244,150
Total	7,705,506,464
Sales (kW)	
General Service 50-1500 kW	7,373,411
General Service 1500-5000 kW	1,757,833
Large User	1,167,396
Streetlighting	107,223
Sentinel Lights	257
Total	10,406,120
Standby Charge (kW)	
General Service 50-1500 kW	15,000
General Service 1500-5000 kW	144,960
Large User	4,800
Total	164,760

Evidence: The evidence on this issue includes the following:

Exhibits A2-2-2, C1-2-1, C1-2-2
Board Staff Interrogatories #13-23
SEC Interrogatories #26, 27
CCC Interrogatory #18
VECC Interrogatories #33, 36

2.3 Is the proposed forecast of Test Year 2008 revenues from other regulated rates and charges appropriate? (C2)

- **Complete Settlement:** Hydro Ottawa's forecast of revenues from other regulated charges for the Test Year was \$7,586k. The other parties accept the forecast as appropriate in the context of the Settlement Package.
- **Evidence:** The evidence on this issue includes the following:

Exhibits C2-1-1, C2-1-4
Board Staff Interrogatory #38
SEC Interrogatory #29
CCC Interrogatory #19
VECC Interrogatory #37b

3. Operating Costs (Exhibit D)

3.1 Is the overall Test Year 2008 OM&A forecast (including compensation) appropriate, for the following categories:

- **Operations and Maintenance**
- **Billing and Collection Costs**
- **Administrative and General Costs**
- **Insurance, Bad Debt, Advertising and Charitable Donation Costs**
- **Other Distribution Costs**
- **Smart Meter Expenses?**
- **Complete Settlement:** Hydro Ottawa's forecast of net OM&A for the Test Year, including Smart Meters, was \$59,328k. The other parties were concerned about this level of net OM&A compared to the levels in 2006 (actual) and 2007 (estimate).

The parties accordingly decided to discuss the forecast on an "envelope" basis. Hydro Ottawa proposed a reduction of \$1.5M in the net OM&A envelope. Hydro Ottawa has not determined precisely how the reduction will be implemented; however, there are no major programs or activities that would be eliminated. Hydro Ottawa will instead make reductions in a number of different areas so that there will be reductions in all of the major groupings of OM&A

accounts in general and, in particular, Operations, Maintenance, Billing and Collections, Community Relations, and Administration.

The resultant forecast of net OM&A for the Test Year is \$57,828k but this amount is reduced by another \$740k, to \$57,088k, because \$740k will be recovered in the rate adder for Smart Meters; see Issues 6.1 and 6.2 below. This forecast of net ~~OMA~~OMAOM&A is subject to further adjustment, however, depending on the Board's decision on Issue 3.4 below. The other parties accept this forecast, as so adjusted and as may be further adjusted, as appropriate in the context of the Settlement Package.

- **Evidence:** The evidence on this issue includes the following:

Exhibits D1-1-1, D1-1-4, D1-2-1, D1-5-1, D1-5-2
Board Staff Interrogatories #36-38
SEC Interrogatories #30-32, 34-36, 42
VECC Interrogatories #25, 39, 40, 42, 44, 45

3.2 Is the Test Year 2008 forecast of PILs (Capital Taxes and Income Taxes) appropriate? (D2)

- **Complete Settlement:** Hydro Ottawa's forecast of PILs for the Test Year was \$13,675k; however, it did not reflect the recent revisions of the federal income tax rate, the provincial capital tax, and the federal capital cost allowance (CCA) rates. Hydro Ottawa will adjust its PILs forecast accordingly; this adjustment is consistent with the Board's procedure "to effect income tax rate changes as part of the 2008 Incentive Regulation Mechanism (2008 IRM) application process:" see the Board's letter dated November 21, 2007 to "All Licensed Electricity Distributors" and to "All Participants in Proceedings EB-2006-0087, EB 2006-0088 and EB-2006-0089." Hydro Ottawa will also adjust its forecast to reflect the completely settled issues. The resultant forecast of PILs for the Test Year is \$11,440k subject to further adjustment, however, depending on the Board's decision on Issue 3.4. The other parties accept this forecast, including any such further adjustment, as appropriate in the context of the Settlement Package.
- **Evidence:** The evidence on this issue includes the following:

Exhibits D2-1-1, D2-2-1
Board Staff Interrogatories #62-65
SEC Interrogatory #43

3.3 Is the proposed level of the Amortization expense for 2008 appropriate?

- **Complete Settlement:** Hydro Ottawa's forecast of Amortization expense for the Test Year was \$43,754k. The other parties have accepted Hydro Ottawa's amortization rates, calculation methodology, and specific levels of amortization costs for the Test Year with the exception of the amortization period (four years) and thus the amortization rates and costs for stranded meters.

O. Reg. 426/06 allows Hydro Ottawa to recover the cost of stranded meters over a period to be determined by the Board. Hydro Ottawa applied to recover these costs over a period of four years. The other parties were concerned about the resultant bill impacts in the Test Year, and subsequently, although they recognize that a longer period would also have bill impacts arising from a slower decline in Rate Base.

Hydro Ottawa has proposed an amortization period of six years in response to their concerns. The resultant forecast of \$40,822k reflects not only the six-year period, but also the recovery of the Amortization expense for Smart Meters through a rate adder; see Issues 6.1 and 6.2 below. This forecast is subject to further adjustment, however, depending on the Board's decision on Issue 3.4 below. The other parties have accepted this forecast, including any such further adjustment, as appropriate in the context of the Settlement Package.

- **Evidence:** The evidence on this issue includes the following:

Exhibit D1-7-1, D3-2-2
Board Staff Interrogatories #44, 55
VECC Interrogatory #47

3.4 Is the capitalization process (policy and procedure) appropriate? (B1)

- **Partial Settlement:** Hydro Ottawa applied for the Board's approval of its new capitalization process (policy and procedure) effective January 1, 2008. Hydro Ottawa's current estimate of the resultant increase of OM&A is \$6.5M. CCC, Energy Probe, and VECC have accepted Hydro Ottawa's new capitalization process in principle and, in addition, they have accepted the \$6.5M increase as appropriate in the context of the Settlement Package. SEC has not accepted Hydro Ottawa's new capitalization process in principle.
- **Evidence:** The evidence on this issue includes the following:

Exhibits A2-2-2, B1-3-1, B3-2-2, D1-1-1, D1-1-4
PwC Opinion
Board Staff Interrogatories #28, 29
SEC Interrogatories #17,18, 32
VECC Interrogatories #23-26, 28, 29, 38, 41, 42

3.5 Are the proposed Distribution Loss Factors appropriate? (D1)

- **Complete Settlement:** The other parties have accepted Hydro Ottawa's Distribution Loss Factors as appropriate in the context of the Settlement Package.
- **Evidence:** The evidence on this issue includes the following:

Exhibits D1-8-1, D1-8-2, D1-8-3
Board Staff Interrogatories #40-42

3.6 Is the recovery of amounts relating to Lost Revenue Adjustment Mechanism and Shared Savings Mechanism appropriate? (D3)

- **Complete Settlement:** The other parties have accepted Hydro Ottawa's LRAM/SSM claims, including carrying charges, and the calculation of the related rate riders as appropriate in the context of the Settlement Package.
- **Evidence:** The evidence on this issue includes the following:

Exhibit D3-2-1 updated
CCC Interrogatory #8

3.7 Is the proposed allocation of Holding Company costs appropriate? (D1)

- **Complete Settlement:** Hydro Ottawa's forecast of total Holding Company costs to be allocated to the utility in the Test Year was 39% (\$2,140k); this percentage was the same as Hydro Ottawa's estimate for 2007. The other parties have accepted this forecast as appropriate in the context of the Settlement Package.
- **Evidence:** The evidence on this issue includes the following:

Exhibits D1-1-1, D1-1-4, D1-2-1, D1-6-1
Board Staff Interrogatory #34
SEC Interrogatory #36
CCC Interrogatory #3
VEC Interrogatories #10, 24

4. Deferral and Variance Accounts (Exhibit E)

4.1 Is the proposed clearance of various deferral and variance account balances appropriate?

- **Complete Settlement:** The other parties have agreed that Hydro Ottawa's proposed clearance of the various deferral and variance account balances is appropriate in the context of the Settlement Package for the following reasons:
 - (a) The audited balances for these accounts as at December 31, 2006 was (\$1.0M) but by October 31, 2007 this credit had accumulated to (\$7.1M). An additional \$6.1M would be paid back to customers in a timely manner by clearing the balances as at October 31, 2007.
 - (b) Interest accrues when there are delays in clearing account balances.
 - (c) If any adjustments were required as part of Hydro Ottawa's year-end audit in 2007, 2007 or as a result of subsequent decisions of the Board, these adjustments would be recorded in the variance and deferral accounts for December 2007, the appropriate month. Accumulated amounts in these accounts, including any adjustments, would be part of the next application to clear these accounts.
 - (d) The amounts accumulated to October 31, 2007 are actual balances although unaudited. The Board has approved recovery of forecast amounts, which are even less certain, for the same accounts as part of the 2006 rate process (e.g., EB-2005-0378 in which HONI received approval to recover forecast balances to April 30, 2006).
 - (e) The clearance of the commodity portion of Account 1588 (RSVA power) is consistent with the Board's Decision with Reasons dated December 9, 2004 in the following proceedings: RP-2004-0064, RP-2004-0069, RP-2004-0100, RP-2004-0117, and RP-2004-0118 (the "Regulatory Assets Decision").

Hydro Ottawa and the other parties have also agreed that the accounting methodology for the amounts cleared to customers should be the same as for the recovery of regulatory assets in accordance with the Regulatory Assets Decision. Specifically, both the amount approved by the Board and the actual amount cleared to customers will be recorded in Account 1590. At the end of the 12-month period, "as there will be a residual (positive or negative) balance in the Regulatory Asset Recovery Account (1590), the balance shall be disposed of to rate classes in proportion to the recovery shares that were established when rate riders were implemented" (para. 9.0.19 at p. 88).

- **Evidence:** The evidence on this issue includes the following:

Exhibit E1-1-1 updated
Board Staff Interrogatories #56-62, 74
VECC Interrogatories #1, 49, 50

4.2 Are the proposed new variance and deferral accounts for the test year appropriate?

- **Incomplete Settlement:** Hydro Ottawa applied for four new deferral accounts for the Test Year: one for the revenue deficiency that arises from the four-month variance between the Test Year and the rate year, two for revenue-requirement impact of its capital additions in 2009 and in 2010, respectively, and one for environmental costs. The other parties have only agreed to the establishment of the deferral account for environmental costs.

Hydro Ottawa applied for a deferral account for the revenue deficiency as an alternative to its application for the Board's approval of interim rates effective January 1, 2008 and a rate rider as the means of recovering the revenue deficiency. The other parties did not agree that there would be any revenue deficiency and, even if there is one, they did not agree that Hydro Ottawa should recover it. Their individual positions in this regard are partially set out in their respective submissions on interim rates in accordance with ordering paragraph 2 of the Board's Procedural Order No. 2 dated December 12, 2007.

Hydro Ottawa applied for two deferral accounts – one for 2009 and another for 2010 – as an alternative to its application for the Board's approval of (a) its forecasts of Capital Expenditures in 2009 and in 2010, respectively, and (b) the related capital adjustment factor to recover revenue-requirement impact of the corresponding capital additions. The Board's consideration of the latter has been postponed; see Issues 1.4, 1.5, and 1.6 above. Hydro Ottawa and the other parties have agreed to likewise postpone the Board's consideration of the two capital-related deferral accounts.

- **Evidence:** The evidence on this issue includes the following:

Exhibit A1-5-1, E1-2-1
Board Staff Interrogatory #59
VECC Interrogatories #2, 6

5. Cost of Capital (Exhibit F)

5.1 Is the proposed Test Year weighted average cost of capital appropriate?

- **Complete Settlement:** The other parties have agreed with Hydro Ottawa's proposed capital structure, cost of debt (both long-term and short-term), and cost of equity or ROE (i.e., the rate of return on common equity). They have also agreed with Hydro Ottawa's proposal to update the ROE using January 2008 values in accordance with Appendix B of the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* dated December 20, 2006. Hydro Ottawa and the other parties have accordingly agreed that the weighted average cost of the capital for the Test Year, as so updated, would be appropriate in the context of the Settlement Package.
- **Evidence:** The evidence on this issue includes the following:

Exhibits F1-1-1, F1-1-2, F1-1-3, F1-1-4
Board Staff Interrogatory #12
SEC Interrogatory #
CCC Interrogatory #10
VECC Interrogatories #12, 51

6. Smart Meters (Exhibit D3)

6.1 Has Hydro Ottawa correctly applied the Board's Decision in EB-2007-0063 (Smart Meter Combined Proceeding)?

- **Complete Settlement:** Hydro Ottawa applied to include not only its Board-approved amounts of Smart Meter spending to April 30, 2007 in Rate Base for the Test Year, but also its forecast of Smart Meter spending from May 1, 2007 to December 31, 2008.

Hydro Ottawa's Smart Meter spending, therefore, would be recovered in rates rather than, as in previous years, in a rate adder. The other parties were concerned, however, that Hydro Ottawa's proposal would not make its Smart Meter spending as transparent as they would like to make it on an ongoing basis. Hydro Ottawa and the other parties have accordingly agreed on a compromise; namely, Hydro Ottawa would recover actual Smart Meter spending to April 30, 2007 by including it in Rate Base and would recover subsequent Smart Meter spending in a rate adder (calculated at \$1.15 per month for all metered customers).

This rate adder would collect \$4,017k from metered customers to recover the return on Rate Base, the Amortization expense, OM&A expense, and PILs related to Smart Meter spending. This amount is accordingly excluded from the revenue requirement for the Test Year. Any differences between the revenue requirement calculated from the actual Smart Meter spending and the amounts collected through this rate adder would be recorded in a variance account and cleared through future distribution rate adjustments consistent with the approach approved for THESL in the combined Smart Meter proceeding (EB-2007-0063).

Hydro Ottawa has also agreed to provide an annual report of its Smart Meter spending for 2008, 2009, and 2010. The report for each year will be filed with the Board and served on the other parties by April 30th of the subsequent year.

- **Evidence:** The evidence on this issue includes the following:

Exhibit D3-1-1
Board Staff Interrogatories #25, 39, 43, 45, 56
CCC Interrogatory #11
VECC Interrogatories #15, 27,47,48

6.2 Is the proposed elimination of the Smart Meter Rate Adder appropriate?

- **Complete Settlement:** See Issue 6.1 above.
- **Evidence:** See Issue 6.1 above.

6.3 Is it appropriate to record the IESO MDM/R costs in the Smart Meter OM&A Variance Account (1556)?

- **Complete Settlement:** Hydro Ottawa applied to record its IESO MDM/R costs in Account 1556. Hydro Ottawa did so as a means of seeking confirmation from the Board that it would recover its prudently incurred costs in connection with the MDM/R process. The other parties have agreed that Hydro Ottawa should recover such costs through Account 1556 or otherwise if the Board does not approve Hydro Ottawa's use of Account 1556 for this purpose.
- **Evidence:** The evidence on this issue includes the following:

Exhibit D3-1-1

7. Cost Allocation (Exhibit H)

7.1 Are the revenue to cost ratios in the cost allocation for Test Year 2008 appropriate?

- **Complete Settlement:** The Application, for obvious reasons, does not reflect the following Report of the Board: *Application of Cost Allocation for Electricity Distributors* dated November 28, 2007 (the "Cost Allocation Report"). The Board established ranges for the revenue-to-cost ratios for each rate class in the Cost Allocation Report. The parties agreed that it was appropriate for the transformer ownership credits to be allocated only to those customer classes that receive the credits. Furthermore, the Settlement Package would result in each class falling within its range with the exception of Sentinel Lights. The Sentinel Light class is *de minimus*: 95 lights that have been grandfathered and that will not be replaced when they fail.

There are two adjustments that are required to bring the revenue-to-cost ratios within the Board's ranges. One is a decrease in the revenue requirement for the Large Use and the Unmetered Scattered Load classes and the other, an increase in the revenue requirement for the Residential and Street Lighting classes

The following table presents the initial and the revised revenue-to-cost ratios as well as the ranges in the Cost Allocation Report:

Table 4: Revenue-to-Cost Ratios

Class	Initial Revenue to Cost %	Revised Revenue to Cost %	Cost Allocation Report
Residential	93%	94%	85%-115%
GS < 50 kW	112%	112%	80%-120%
GS > 50 < 1500 kW	100%	100%	80%-180%
GS > 1500 kW	151%	151%	80%-180%
Large Use	125%	114%	80%-115%
Street Lighting	56%	71%	70%-120%
Sentinel Lighting	34%	34%	70%-120%
UMSL	132%	119%	80%-120%
Backup Standby	100%	100%	80%-115%

- **Evidence:** The evidence on this issue includes the following:

Exhibits H1-1-1, H1-2-1
Board Staff Interrogatories #67, 68, 70
SEC Interrogatory #44
VECC Interrogatory #53

8. Rate Design (Exhibit I)

8.1 Is the full schedule of rates as proposed appropriate?

- **Complete Settlement:** Hydro Ottawa and the other parties have agreed that Hydro Ottawa's rate schedule will be appropriate when it is revised to reflect the Settlement Package, including this issue, and the Board's decisions on Issues 3.4 and 4.2 above and Issue 8.4 below.

The Cost Allocation Report set criteria with respect to fixed service charges. Hydro Ottawa's fixed service charges for the GS > 50 < 1500, GS > 1500 < 5000, and Large Use classes will be kept at their current base level with the current Smart Meter adder removed and the proposed new Smart Meter adder included.

For the GS < 50 class, the Board's criteria would have resulted in a small increase to the fixed service charge; however, Hydro Ottawa has agreed to make a further increase because the fixed service charge for this class is unusually low by current standards. Hydro Ottawa accordingly proposed to increase this fixed charge, to the mid-point of the range determined in Hydro Ottawa's cost allocation model, and the other parties have accepted the proposal as appropriate under the circumstances.

- **Evidence:** The evidence on this issue includes the following:

Exhibit I1-6-1 updated
Board Staff Interrogatory #67
VECC Interrogatory #4

8.2 Is the derivation of the proposed base distribution rates appropriate?

- **Complete Settlement:** See Issue 8.1 above.
- **Evidence:** See Issue 8.1 above.

8.3 Is the derivation of the proposed rate riders appropriate?

- **Complete Settlement:** The other parties have accepted Hydro Ottawa's calculation of the proposed rate riders related to the clearance of the various deferral and variance account balances; see Issue 4.1 above. They have likewise accepted the proposed rate riders related to LRAM/SSM; see Issue 3.6 above. The proposed calendar year rate rider is no longer feasible; see Issue 8.4 below.
- **Evidence:** The evidence on this issue includes the following:

Exhibit E1-1-1 updated
Board Staff Interrogatories #56-62, 74
VECC Interrogatories #1, 49, 50

8.4 Is it appropriate that Hydro Ottawa implement a mechanism to recover revenues not recovered in the January to April 2008 "Deficiency Period"?

- **No Settlement:** Hydro Ottawa applied to recover a revenue deficiency of \$3.5M that would arise in the first four months of the Test Year. Hydro Ottawa proposed to do so by means of an interim rates mechanism and, in the alternative, a deferral account mechanism. Hydro Ottawa's rationale for either mechanism is the same.

A deferral account is now the only mechanism available to Hydro Ottawa. The other parties do not agree that Hydro Ottawa should have a deferral account for this purpose; see Issue 4.2 above.

- **Evidence:** The evidence on this issue includes the following:

Exhibit I1-3-2
Board Staff Interrogatory #57
CCC Interrogatories #1, 4
VECC Interrogatories #1, 4, 5, 54

8.5 Are the proposed interim standby rates for 2008 appropriate?

- **Complete Settlement:** The other parties have accepted Hydro Ottawa's proposed interim standby rates for 2008, subject to adjustment in accordance with the Settlement Package and the Board's decision on Issue 3.4 above, as appropriate in the context of the Settlement Package.
- **Evidence:** The evidence on this issue includes the following:

Exhibit I1-3-1

8.6 Are the proposed changes to Retail Transmission rates appropriate?

- **Complete Settlement:** The other parties have accepted Hydro Ottawa's proposed Retail Transmission rates as appropriate in the context of the Settlement Package.
- **Evidence:** The evidence on this issue includes the following:

Exhibit I1-5-1 updated
Board Staff Interrogatories #72-74
VECC Interrogatory #55

8.7 Are the proposed new LV rates appropriate?

- **Complete Settlement:** The other parties have accepted Hydro Ottawa's proposed new LV rates as appropriate in the context of the Settlement Package.
- **Evidence:** The evidence on this issue includes the following:

Exhibit I1-4-1
Board Staff Interrogatory #71
VECC Interrogatories #3, 55

9. Other Issues

9.1 Is the proposed implementation of 2008 rates appropriate?

- **Complete Settlement:** The other parties have accepted Hydro Ottawa's implementation of 2008 rates effective May 1, 2008.
- **Evidence:** The evidence on this issue includes the following:

Exhibit A1-2-1

Schedule A to Settlement Proposal

Hydro Ottawa Limited

2008 Electricity Distribution Rates

EB-2007-0713

Issues List from Procedural Order No. 2

1. Rate Base (Exhibit B)

- 1.1 Is the proposed Rate Base for Test Year 2008 appropriate? (B1)
- 1.2 Is the proposed Capital Expenditures forecast for Test Year 2008 appropriate?
(B3)
- 1.3 Is the Working Capital Allowance for Test Year 2008 appropriate? (B3)
- 1.4 Is the proposed Capital Expenditures forecast for 2009 and 2010 appropriate? (B4)
- 1.5 Is the proposal to establish an adjustment mechanism for Capital Expenditures beyond the 2008 test year appropriate?
- 1.6 Is the proposed Capital Adjustment Factor for 2009 and 2010 appropriate? (B4)

2. Operating Revenue (Exhibit C)

- 2.1 Is the proposed forecast of 2008 Test Year Throughput Revenue appropriate? (C1)
- 2.2 Are the proposed customers/connections and load forecasts (both kWh and kW) for Test Year 2008 appropriate, including the impact of CDM and weather normalization? (C1)
- 2.3 Is the proposed forecast of Test Year 2008 revenues from other regulated rates and charges appropriate? (C2)

3. Operating Costs (Exhibit D)

- 3.1 Is the overall Test Year 2008 OM&A forecast (including compensation) appropriate, for the following categories:
 - Operations and Maintenance
 - Billing and Collection Costs
 - Administrative and General Costs
 - Insurance, Bad Debt, Advertising and Charitable Donation Costs
 - Other Distribution Costs
 - Smart Meter Expenses?

- 3.2 Is the Test Year 2008 forecast of PILs (Capital Taxes and Income Taxes) appropriate? (D2)
- 3.3 Is the proposed level of the Amortization expense for 2008 appropriate?
- 3.4 Is the capitalization process (policy and procedure) appropriate? (B1)
- 3.5 Are the proposed Distribution Loss Factors appropriate? (D1)
- 3.6 Is the recovery of amounts relating to Lost Revenue Adjustment Mechanism and Shared Savings Mechanism appropriate? (D3)
- 3.7 Is the proposed allocation of Holding Company costs appropriate? (D1)
- 4. Deferral and Variance Accounts (Exhibit E)**
 - 4.1 Is the proposed clearance of various deferral and variance account balances appropriate?
 - 4.2 Are the proposed new variance and deferral accounts for the test year appropriate?
- 5. Cost of Capital (Exhibit F)**
 - 5.1 Is the proposed Test Year weighted average cost of capital appropriate?
- 6. Smart Meters (Exhibit D3)**
 - 6.1 Has Hydro Ottawa correctly applied the Board's Decision in EB-2007-0063 (Smart Meter Combined Proceeding)?
 - 6.2 Is the proposed elimination of the Smart Meter Rate Adder appropriate?
 - 6.3 Is it appropriate to record the IESO MDM/R costs in the Smart Meter OM&A Variance Account (1556)?
- 7. Cost Allocation (Exhibit H)**
 - 7.1 Are the revenue to cost ratios in the cost allocation for Test Year 2008 appropriate?

8. Rate Design (Exhibit I)

- 8.1 Is the full schedule of rates as proposed appropriate?
- 8.2 Is the derivation of the proposed base distribution rates appropriate?
- 8.3 Is the derivation of the proposed rate riders appropriate?
- 8.4 Is it appropriate that Hydro Ottawa implement a mechanism to recover revenues not recovered in the January to April 2008 "Deficiency Period"?
- 8.5 Are the proposed interim standby rates for 2008 appropriate?
- 8.6 Are the proposed changes to Retail Transmission rates appropriate?
- 8.7 Are the proposed new LV rates appropriate?

9. Other Issues

- 9.1 Is the proposed implementation of 2008 rates appropriate?
- 9.2 Is the proposal to declare Hydro Ottawa's existing rates interim as of January 1, 2008 to recognize the "Deficiency Period", appropriate?

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