EB-2007-0713

IN THE MATTER OF the *Ontario Energy Board Act 1998*, S.O.1998, c.15, (Schedule B);

AND IN THE MATTER OF an application by Hydro Ottawa Limited for an Order or Orders approving just and reasonable rates and other service charges for the distribution of electricity, effective May 1, 2008.

BEFORE: Paul Vlahos
Presiding Member

Bill Rupert
Member

DECISION

Hydro Ottawa Limited ("Hydro Ottawa" or the "Company") filed an application with the Ontario Energy Board on September 19, 2007 under section 78 of the *Ontario Energy Board Act, 1998* seeking approval for changes to the rates that the Company charges for electricity distribution, to be effective May 1, 2008.

Hydro Ottawa is one of over 80 electricity distributors in Ontario that are regulated by the Board. In 2006, the Board announced the establishment of a multi-year electricity distribution rate-setting plan for the years 2007-2010. On May 4, 2007, as part of the plan, the Board indicated that Hydro Ottawa would be one of the electricity distributors to have its rates rebased in 2008. Accordingly, Hydro Ottawa filed a cost of service application based on 2008 as the forward test year.

The Board assigned file number EB-2007-0713 to the application and issued a Notice of Application and Hearing on October 5, 2007. Consumers Council of Canada (“CCC”), Energy Probe Research Foundation (“Energy Probe”), PowerStream Inc., School Energy Coalition (“SEC”), and Vulnerable Energy Consumers Coalition (“VECC”) requested and were granted intervenor status. Carleton Condominium Corporation was granted observer status.

In addition to requesting new rates effective May 1, 2008, Hydro Ottawa requested that the Board declare its current rates to be interim effective January 1, 2008. On January 10, 2008, the Board issued its Decision on Request for Interim Rates (“Interim Rates Decision”) that denied Hydro Ottawa’s interim rate request.

On January 23, 2008, Hydro Ottawa filed a Settlement Proposal that had been developed and agreed to by the Company and active intervenors (CCC, Energy Probe, SEC, and VECC). Except for three issues, the parties reached full settlement on all issues. The proposal was presented at a settlement hearing on January 24, 2008. The Board accepted the Settlement Proposal as filed, subject to the addition of some clarifying language for one issue and correction of a few clerical errors. The Settlement Proposal as approved by the Board is contained in Appendix A to this decision.

Two of three issues on which the parties were not able to achieve full settlement (Issues 4.2 and 8.4) related to Hydro Ottawa’s request that it be permitted to establish a deferral account for what it describes as the “revenue deficiency” for the four-month period from January 1, 2008 to April 30, 2008. At the January 24, 2008 hearing dealing with the settlement proposal, the Board requested written submissions from the Company, intervenors, and Board staff on those two issues.

The third issue that was not fully settled (Issue 3.4) related to Hydro Ottawa’s proposed change in its accounting policy for capitalization of overhead costs. SEC was the only intervenor to disagree with the Company’s proposal. The Board conducted an oral hearing on this issue on February 4, 2008 followed by written argument.

The Board’s findings with respect to the three issues that were not fully settled are set out below.

The full record is available at the Board’s offices. The Board has chosen to summarize the record to the extent necessary to provide context to its findings.

ISSUE 3.4 – CHANGE IN ACCOUNTING POLICY

The partially settled issue 3.4 is:

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

Hydro Ottawa proposed to change its accounting policy for capitalization of overhead costs. In connection with the policy change, the Company also proposed to simplify the accounting procedures used in the overhead capitalization process. The new policy would result in capitalization of significantly less overhead than the existing policy. This is illustrated by the following table that compares the budgeted amounts of capitalized overhead in 2007 (existing policy) and 2008 (proposed new policy). Indirect costs in the table include IT, human resources, finance, facilities, and corporate and holding company allocations.

BUDGETED INDIRECT COSTS ($ millions)	**2007**	**2008**
Total indirect costs	$ 19.5	$ 19.7
Less: Amount capitalized	10.6	4.1
Amount charged to expense	$ 8.9	$ 15.6

The Company estimated the new policy would result in $6.5 million less overhead being capitalized in 2008. From a revenue requirement perspective, the $6.5 million increase to 2008 OM&A expense would be partially offset by a lower amortization expense, a lower rate base, and a lower provision for proxy PILS taxes.

CCC, Energy Probe, and VECC accepted the new capitalization process in principle and, in addition, they accepted the cost consequences. SEC did not accept the new policy. As a result, Issue 3.4 was only partially settled.

At the February 4, 2008 oral hearing on this issue, Hydro Ottawa presented a panel of witnesses. SEC, which was the only intervenor present at the oral hearing, cross examined the witnesses and filed written argument on February 7, 2008. Hydro Ottawa submitted its reply argument on February 12, 2008. Board staff also made a brief submission stating it had no concerns with the proposed accounting change.

SEC disputed Hydro Ottawa's contention that a change in accounting policy is required. SEC submitted that the various reports from public accounting firms filed by Hydro Ottawa merely support a conclusion that the proposed new policy is more conservative than the existing policy, is in accordance with generally accepted accounting principles ("GAAP"), and is fair and reasonable. SEC contends that none of the reports reached a conclusion that a change in policy is obligatory. SEC also submitted that Hydro Ottawa had not provided sufficient evidence that its existing capitalization policy is out of line with the policies followed by other distributors.

Board Findings

The Board's Accounting Procedures Handbook ("APH") requires that a utility's accounting shall be in accordance with GAAP. The primary source of GAAP in Canada is the CICA Handbook. With respect to capitalization of costs, the relevant requirements of the CICA Handbook are contained in Section 3061, "Property, Plant and Equipment." The Board has not developed any specialized or detailed guidance on capitalization of costs to supplement the CICA Handbook requirements.[1]

Conformance with GAAP, specifically Section 3061 of the CICA Handbook, is therefore a threshold issue.

The Company obtained and filed the opinion of PricewaterhouseCoopers LLP, which states that Hydro Ottawa's revised methodology is in conformance with GAAP. SEC did not take issue with that opinion, nor does the Board.

As there could be several other capitalization policies and practices that may be consistent with GAAP, the issue is whether the Company's specific proposal is reasonable.

The Company chose to adopt a new accounting policy for capitalizing overhead costs on the belief that it is more reflective of industry practices, is in line with the trend towards more conservative policies for the capitalization of costs, and is in accordance with Section 3061 of the CICA Handbook. The issue is not whether a change in policy is obligatory, as SEC argues. The issue is whether the Company's proposal is reasonable. In this regard, the Board observes that the Company's decision was reached from its own research and through advice and assistance from its then auditor

[1] Article 410, "Property, Plant and Equipment," of the Board's APH contains some commentary on capitalization of costs but that material is based on Section 3061 of the CICA Handbook.

Deloitte & Touche, its legal counsel from Fraser Milner Casgrain, and the accounting and consulting firm KPMG. Clearly, this has been an involved initiative by the Company. There is no suggestion in any of these reports that would question the reasonableness of the Company's proposal. The various studies on industry practice filed by the Company, although showing some variations, appear to support a conclusion that the existing policy results in capitalization of excessive costs.

In assessing new proposals, the Board also considers the resultant rate impacts. The evidence indicates that the implementation of the Settlement Agreement (including the change in the capitalization policy) would result in a bill increase of 0.8% for a residential customer using 1,000 kWh per month. The Board considers such bill impacts well within the limits that the Board has historically applied when assessing whether rate increases require mitigation.

For the above reasons, the Board approves the proposed accounting change for purposes of setting Hydro Ottawa's 2008 rates starting May 1, 2008.

In so approving, the Board wishes to comment on the following matters.

First, during the oral hearing, Hydro Ottawa noted that it had already changed its accounting systems to accommodate the proposed policy and that there would be significant amount of work to undo those changes. That fact was not relevant to the Board's consideration of the merits of the proposal. The issue for the Board is to decide whether the proposed accounting policy and the cost consequences of that policy are reasonable, regardless of whether the accounting systems have already been changed.

Second, Hydro Ottawa appears to have read too much into the Board's acceptance of a settlement proposal for the Company's 2006 rates. Hydro Ottawa's witnesses asserted several times during their testimony that the Company's existing overhead capitalization policy had been approved by the Board. For example, Mr. Shannon, Hydro Ottawa's Director of Finance, said:

> Our past capitalization policy was included in our past rate application for 2006 and right up to the current application. So those rates were accepted and the policy was filed with the Ontario Energy Board. Those gave rise to – there was an approval there of our capitalization process in terms of the inclusion in rates.

That 2006 settlement proposal did not contain any references to an overhead capitalization policy. In accepting that settlement proposal, the Board did not need to review and approve the accounting policy in question, or any other accounting policies.

It is inappropriate to conclude that approval of a settlement proposal by the Board means the Board has approved all aspects of an applicant's evidence that might be relevant to the settled issues. The Board's January 24, 2008 oral decision accepting the settlement proposal in the present proceeding stated very clearly how Board approval of a settlement should be interpreted:

> Settlement proposals are a result of a complex relationship of issues. One should not look for precedential value with respect to specific elements of the settlement agreement in this case. It is the overall cost consequences or rate outcome that the Board accepts, not necessarily the results of specific methodologies or proposals that may or may not deviate from Board regulatory instruments that may otherwise apply.

ISSUES 4.2 AND 8.4 – REVENUE DEFICIENCY DEFERRAL ACCOUNT

The unsettled issues are:

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

Hydro Ottawa proposed that the "revenue deficiency" for the first four months of 2008 be recorded in the deferral account it is requesting, and that the Company would later attempt to satisfy the Board that it should be allowed to recover the amount from ratepayers.[2]

Hydro Ottawa's argument-in-chief reiterated many of the arguments it made to the Board in connection with its interim rates request. The Company stated that its forecast revenue deficiency "arises because the Board's rate year is not aligned with the test year that Hydro Ottawa and other electricity distributors must use." It submitted that the consequences for Hydro Ottawa of having new distribution rates being determined based on calendar 2008 test year data, but having those rates go into effect on May 1, 2008, would not be fair or reasonable.

[2] In its application, Hydro Ottawa calculated a revenue deficiency for January 1 to April 30, 2008 of $3.5 million. In its argument on Issues 4.2 and 8.4, the Company noted that the amount would need to be adjusted to reflect the cost consequences of the Settlement Proposal, the finalization of the allowed return on equity, and the Board's decision with respect to Issue 3.4.

CCC, Energy Probe, SEC, and VECC urged the Board to reject Hydro Ottawa's deferral account proposal. They argued that the Board's January 10, 2008 Interim Rates Decision (attached to this decision as Appendix B) conclusively disposed of Hydro Ottawa's revenue deficiency recovery issue. In that decision, the Board found that there is no "revenue deficiency" in the four-month period ending April 30, 2008 that should be collected from ratepayers. CCC and VECC referred specifically to the Board's description, on page 4 of the Interim Rates Decision, of the method by which it set Hydro Ottawa's rates for the period May 1, 2007 to April 30, 2008:

> The Board has described its 2nd Generation IRM, which was used to set Hydro Ottawa's current rates, as a "formulaic rate adjustment method." That rate setting process, by design, did not require any information about forecast costs and revenues for the year May 1, 2007 to April 30, 2008. It is a price (rate) cap form of incentive ratemaking that does not even require the calculation of a traditional revenue requirement. Hydro Ottawa's contention that there will be a revenue deficiency for the four months ended April 30, 2008 is based on factors that were not part of the regulatory construct under which existing rates were approved.

The written arguments of the intervenors repeated most of the arguments they made when the Board was considering Hydro Ottawa's interim rates request. They submitted that were the Board to allow Hydro Ottawa to establish the proposed revenue deficiency deferral account, it would in effect be reversing its Interim Rates Decision.

In its reply argument, Hydro Ottawa noted that its deferral account request is not implicitly a request to change the rate year to match the test year. Rather, Hydro Ottawa is asking for a means to avoid the cost consequences of the mismatch.

Board Findings

In its submissions on Issues 4.2 and 8.4, Hydro Ottawa suggests that the Board's Interim Rate Decision really only dealt with a narrow technical issue concerning the right mechanism for effecting recovery of the "revenue deficiency" from ratepayers. For example, in its argument-in-chief, the Company states:

> The reference to "mechanism" in Issue 8.4 was, at the time of the Board's Procedural Order No. 2 [December 12, 2007], a reference to either of two mechanisms. Hydro Ottawa's preferred mechanism was a combination of interim rates and rate riders and, in the alternative, a deferral account (although the alternative relief is perhaps better described as a variance account). … The Board's "Decision on Request for Interim Rates" dated

> January 10, 2008 eliminated Hydro Ottawa's preferred mechanism … [Paragraphs 10 and 11]

This is also evident in its reply argument. In response to a Board staff submission, Hydro Ottawa states:

> The other response to Board Staff's conclusion is that it completely overlooks the purpose of a deferral (or a variance) account in Hydro Ottawa's circumstances. The Board's decision on interim rates leaves Hydro Ottawa with no means, other than such an account, to recover the revenue deficiency by virtue of the rule against retroactive rate-making. [Paragraph 18]

In the Board's view, the Interim Rates Decision dealt with more than a narrow question of the right mechanism to effect a recovery. At page 4 of the Interim Rates Decision, the Board stated: " … a declaration that existing rates are interim clearly would send a signal that the Board believes there is at least the possibility that it will make new rates effective before May 1, 2008." The decision then pointed out that Hydro Ottawa's proposal to recover the "revenue deficiency" from ratepayers was in conflict with the Board's well-publicized 2nd Generation IRM program. The Board concluded that Hydro Ottawa's attempt to justify making new rates effective before May 1, 2008 was "based on factors that were not part of the regulatory construct under which existing rates were approved."

As Hydro Ottawa itself points out, its proposed deferral account is an alternative means to accomplish the same end as interim rates – that is, leave open the possibility that the Board will order recovery of the "revenue deficiency" from ratepayers. In the Interim Rates Decision, the Board found that it would be inappropriate to recover the January 1 to April 30, 2008 "revenue deficiency" from ratepayers because recovery would be contrary to how the Board set the Company's rates for that period. In light of the Interim Rates Decision, the Board was surprised to have received the Company's request for a deferral account.

The Board denies Hydro Ottawa's request to establish a revenue deficiency deferral account.

IMPLEMENTATION MATTERS

Cost of Capital Update

In mid-2006, the Board initiated a consultative process to examine the cost of capital applicable to the Ontario electricity distribution sector. This process was conducted in conjunction with the development of the 2nd Generation Incentive Regulation plan. The product of these consultations was the Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors (the "Board Report"), issued December 20, 2006. The Board Report considered the extensive consultation record and established, in part, guidelines for setting and updating the cost of capital parameters for distribution rate-setting from 2007 onwards, including the return on common equity ("ROE"), the deemed short-term debt rate, and, as appropriate, the deemed long-term debt rate.

The Board Report established that the approved ROE to be used for rate-setting purposes should be calculated by application of the formula in Appendix B of the Board Report. In setting the ROE for the establishment of 2008 rates, the Board has used the Consensus Forecasts and published Bank of Canada data for January 2008, in accordance with the Board's guidelines. In fixing new rates and charges for Hydro Ottawa the Board has applied the policies described in the Board Report. Based on the final 2007 data published by Consensus Forecasts and the Bank of Canada, the Board has established the ROE to be 8.57%.

The Board Report also established that the short-term debt rate should be updated using the methodology in section 2.2.2 of the Board Report. The Board has set the short-term debt rate at 4.47% using data from Consensus Forecasts and the Bank of Canada for January 2008.

The Board Report also established that the deemed long-term debt rate should be updated using the methodology in Appendix A of the Board Report. The deemed long-term debt rate acts as a proxy for or ceiling on the allowed debt rate for new, affiliated or variable rate debt, and may be applicable for establishing the embedded cost of debt in the test year period depending on the nature of the distributor's debt financing. The Board has set the deemed long-term debt rate at 6.10% based on data from Consensus Forecasts and TSX Inc. for January 2008.

Draft Rate Order

This Decision will result in the approval of rates for the rate year commencing May 1, 2008. The Board has accepted the cost and rate consequences flowing from the acceptance of the settlement proposal. The Board has also accepted the Company's new capitalization policy. These findings are to be appropriately reflected in a Draft Rate Order.

In filing its Draft Rate Order, it is the Board's expectation that the Company will not use a calculation of a revised revenue deficiency to reconcile the new distribution rates with the Board's findings in this Decision. Rather, the Board expects the Company to file detailed supporting material, including all relevant calculations showing the impact of this Decision on the Company's proposed revenue requirement, the allocation of the approved revenue requirement to the classes and the determination of the final rates. The Draft Rate Order shall also include customer rate impacts.

A Rate Order will be issued after the processes set out below are completed.

1. The Company shall file with the Board, and shall also forward to intervenors, a Draft Rate Order attaching a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision, within 14 days of the date of this Decision.

2. Intervenors may file with the Board and forward to the Company responses to the Company's Draft Rate Order within 20 days of the date of this Decision.

3. The Company shall file with the Board and forward to intervenors responses to any comments on its Draft Rate Order within 26 days of the date of this Decision.

A cost awards decision will be issued after the steps set out below are completed.

4. Intervenors eligible for cost awards shall file with the Board and forward to the Company their respective cost claims within 26 days from the date of this Decision.

5. The Company may file with the Board and forward to intervenors eligible for cost awards any objections to the claimed costs within 42 days from the date of this Decision.

6. Intervenors, whose cost claims have been objected to, may file with the Board and forward to the Company any responses to any objections for cost claims within 49 days of the date of this Decision.

The Company shall pay the Board's costs of, and incidental to, this proceeding upon receipt of the Board's invoice.

DATED at Toronto, March 17, 2008.

ONTARIO ENERGY BOARD

Original Signed By

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Paul Vlahos
Presiding Member

Original Signed By

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Bill Rupert
Member

Appendix ‘A’

Settlement Proposal
As approved by the
Ontario Energy Board

Settlement Proposal

Hydro Ottawa Limited

2008 Electricity Distribution Rates

EB-2007-0713

January 23, 2008

Table of Contents

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 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 two exceptions: 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)

- **C*omplete 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)

- **C*omplete 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?**

- **C*omplete 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 OM&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 or as a result of subsequent decisions of the Board, these adjustments would be recorded in the variance and deferral accounts for 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?