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September 17, 2013

**Our File Number: 72738**

Ms. Kirsten Walli  
Secretary  
Ontario Energy Board  
Suite 2700, 2300 Yonge Street  
P.O. Box 2319  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: EB-2013-0141**

In accordance with the Board's Procedural Order No. 2, a settlement conference was held on September 4, 2013. In that Procedural Order, the Board asked that any settlement proposal be filed by September 20. I am pleased to enclose the settlement proposal for review and consideration by the Board.

Should you require anything further, please do not hesitate to contact me.

Yours very truly,



Anita M. Varjacic

/nb  
Encl.

EB-2013-0141

# **SETTLEMENT AGREEMENT**

Hydro One Networks Inc.  
2014 Distribution Rates

September 17, 2013

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**Hydro One Networks Inc.  
2014 Distribution Rates  
EB-2013-0141**

**SETTLEMENT AGREEMENT**

**PREAMBLE:**

This Settlement Agreement is filed with the Ontario Energy Board (“the Board”) in connection with the application by Hydro One Networks Inc. (“Hydro One”) for an Order or Orders approving the revenue requirement and customer rates for the distribution of electricity to be implemented January 1, 2014.

Further to the Board’s Procedural Order No. 2 dated and issued August 22, 2013, a Settlement Conference was held on September 4, 2013 in accordance with the *Ontario Energy Board Rules of Practice and Procedure* (“Rules”) and the Board’s Settlement Conference Guidelines (“Guidelines”).

Hydro One and the following intervenors (“the parties”) participated in the settlement conference:

Canadian Manufacturers & Exporters (“CME”)  
Consumers Council of Canada (“CCC”)  
Federation of Ontario Cottagers’ Associations (“FOCA”)  
Ontario Federation of Agriculture (“OFA”)  
Ontario Sustainable Energy Association (“OSEA”)  
Power Workers’ Union (“PWU”)  
School Energy Coalition (“SEC”)  
Vulnerable Energy Consumers Coalition (“VECC”)

Ontario Energy Board Staff also participated in the settlement conference, but are not a party to this Settlement Agreement. Board Staff are, however, still subject to the Rules and Guidelines with respect to confidentiality and privilege in the same way as the parties.

The settlement conference only addressed Hydro One’s request for the establishment of a Smart Grid rate rider. The Board, in its Procedural Order No. 1 issued on June 27, 2013, stated that it will only consider cost claims that relate to the proposed Smart Grid expenditures and plans in this proceeding. Thus, the parties focused solely on the issue related to the proposed Smart Grid rate rider during the settlement conference. The issue

was settled as discussed below. Thus, if the Settlement Agreement is accepted by the Board, the parties will not adduce any evidence or argument during the oral hearing as the Applicant and those intervenors who take any position on the issue agree to the proposed settlement.

A party who is noted as taking no position on the issue may or may not have participated in the discussion on that issue and takes no position on the settlement reached or on the sufficiency of the evidence filed to date.

The Settlement Agreement provides a brief description of the settled issue, together with references to the evidence filed relating to that issue. For the Board's ease of reference, the Settlement Agreement also provides reference for the evidence filed to date in support of the other requests put forward by Hydro One in this rate application.

The supporting parties to the settled issue agree that the evidence in respect of that settled issue supports the proposed settlement. In addition, the supporting parties agree that the evidence filed in support of the settled issue contains sufficient detail, rationale and quality of information to allow the Board to make findings in keeping with the settlement reached.

The Board's Settlement Conference Guidelines (p.3) require the parties to consider whether a Settlement Agreement should include an adjustment mechanism for any settled issue that may be affected by external factors. Hydro One and the other parties who participated in the Settlement Conference consider that the settled issue does not require such an adjustment mechanism.

None of the parties can withdraw from the Settlement Agreement except in accordance with Rule 32 of the Ontario Energy Board's *Rules of Practice and Procedure*. Finally, unless stated otherwise, the settlement of any issue in this proceeding and the positions of the parties in this Proposal are without prejudice to the rights of parties to raise the same issue and/or to take any position thereon in any other proceedings, unless explicitly stated otherwise.

The parties agree that all positions, negotiations and discussions of any kind whatsoever that took place during the Settlement Conference and all documents exchanged during the conference that were prepared to facilitate settlement discussions are strictly confidential and without prejudice, and inadmissible unless relevant to the resolution of any ambiguity that subsequently arises with respect to the interpretation of any provision of this Settlement Agreement.

## **OVERVIEW:**

Hydro One filed a rate application seeking adjustments to rates and charges in accordance with the 3<sup>rd</sup> Generation Incentive Rate Mechanism (“IRM3”) for distribution rates effective January 1, 2014. Of the requested approvals, the settlement conference focused solely on Hydro One’s request for the establishment of a Smart Grid rate rider. The parties were able to reach agreement on this issue. The parties agreed that the other requests for rate adjustments to Board approved 2013 distribution rates were matters to be addressed between Hydro One and the Board.

## **SMART GRID RATE RIDER**

Hydro One proposed the establishment of a Smart Grid rate rider to recover the revenue requirement of \$29.3M in 2014 for OM&A and in-service capital costs of Smart Grid.

For the purposes of settlement and without prejudice to matters pertaining to the appropriateness of Hydro One’s Smart Grid expenditures in 2015-2019, the parties agree that the Hydro One’s forecast expenditures of \$15.8M for smart grid OM&A and \$29.0M for smart grid capital in 2014 are reasonable. In addition, the parties agree that the proposal to establish a smart grid rate rider for recovery of \$29.3M of revenue requirement is reasonable. The acceptance of these sums as reasonable is subject to the following conditions:

- (a) Variance Account Protection – Hydro One will continue to track OM&A and capital smart grid expenditures in accounts 1534 and 1535. Hydro One will also continue to track variances in smart grid revenues and expenditures in account 1536. The expenditures recorded in account 1536 for 2014 will not be subject to a prudence review in a subsequent proceeding.
- (b) Cost Allocation – The issue of appropriate cost allocation methodology for smart grid related costs will be raised as an issue in Hydro One’s Application for distribution rates for 2015-2019 unless the Board directs that this issue be considered and determined in another forum or proceeding. Hydro One will raise the issue by filing evidence and rationale for its proposed allocation of smart grid expenditures.
- (c) Presentation and Reporting of Smart Grid Expenditures in the Future – The parties acknowledge that page 48 in the Report of the Board dated October 18, 2012,

entitled “Renewed Regulatory Framework for Electricity Distributors: A Performance Based Approach” indicates that, under the integrated approach to planning, no distinction is to be made for regulatory purposes between “smart grid” investments and more traditional investments undertaken by distributors and transmitters. The parties also acknowledge that Hydro One intends to adhere to this approach in its next custom cost of service application for distribution rates for 2015-2019. In that application, Hydro One will also present evidence that will identify smart grid projects in order to assist the parties and the Board in evaluating the reasonableness of Hydro One’s smart grid program.

In that custom cost of service application for 2015-2019, Hydro One will present its proposal to the Board on how best to report upon the progress and results of its smart grid program as part of the custom cost of service rate application annual reporting.

**Evidence:** The evidence in relation to this issue includes the following:

|               |  |
|---------------|--|
| A-2-1         | Application  |
| A-3-1         | Summary of Application                                       |
| C-1-1         | Smart Grid Rate Rider  |
| C-1-1 App. A  | Phase 1 Release 2 Business Case Summary                      |
| D1-1-1        | Rate Rider Calculations                                      |
| D1-1-1 Att. 1 | Calculation of Smart Grid Variable Rate Riders by Rate Class |
| I-1-1         | OEB Interrogatory #1   |
| I-1-2         | OEB Interrogatory #2   |
| I-1-3         | OEB Interrogatory #3   |
| I-1-4         | OEB Interrogatory #4   |
| I-1-5         | OEB Interrogatory #5   |
| I-1-6         | OEB Interrogatory #6   |
| I-1-7         | OEB Interrogatory #7   |
| I-1-8         | OEB Interrogatory #8   |
| I-1-9         | OEB Interrogatory #9   |
| I-1-10        | OEB Interrogatory #10  |
| I-1-11        | OEB Interrogatory #11  |
| I-1-12        | OEB Interrogatory #12  |
| I-2-1         | OSEA Interrogatory #1  |
| I-2-2         | OSEA Interrogatory #2  |
| I-2-3         | OSEA Interrogatory #3  |
| I-2-4         | OSEA Interrogatory #4  |
| I-2-5         | OSEA Interrogatory #5  |
| I-2-6         | OSEA Interrogatory #6  |
| I-2-7         | OSEA Interrogatory #7  |
| I-2-8         | OSEA Interrogatory #8  |
| I-2-9         | OSEA Interrogatory #9  |

|        |                         |
|--------|-------------------------|
| I-2-10 | OSEA Interrogatory #10  |
| I-2-11 | OSEA Interrogatory #11  |
| I-2-12 | OSEA Interrogatory #12  |
| I-2-13 | OSEA Interrogatory #13  |
| I-3-2  | PWU Interrogatory #2    |
| I-3-3  | PWU Interrogatory #3    |
| I-4-1  | CME Interrogatory #1    |
| I-4-2  | CME Interrogatory #2    |
| I-4-3  | CME Interrogatory #3    |
| I-4-4  | CME Interrogatory #4    |
| I-5-1  | CCC Interrogatory #1    |
| I-5-2  | CCC Interrogatory #2    |
| I-5-3  | CCC Interrogatory #3    |
| I-5-4  | CCC Interrogatory #4    |
| I-5-5  | CCC Interrogatory #5    |
| I-6-1  | SEC Interrogatory #1    |
| I-6-2  | SEC Interrogatory #2    |
| I-6-3  | SEC Interrogatory #3    |
| I-6-4  | SEC Interrogatory #4    |
| I-6-5  | SEC Interrogatory #5    |
| I-7-1  | VECC Interrogatory #1   |
| I-7-2  | VECC Interrogatory #2   |
| I-7-3  | VECC Interrogatory #3   |
| I-7-4  | VECC Interrogatory #4   |
| I-7-5  | VECC Interrogatory #5   |
| I-7-6  | VECC Interrogatory #6   |
| I-7-7  | VECC Interrogatory #7   |
| I-7-8  | VECC Interrogatory #8   |
| I-7-9  | VECC Interrogatory #9   |
| I-8-1  | OFA Interrogatory #1    |
| I-9-1  | FOCA Interrogatory #1   |
| I-9-2  | FOCA Interrogatory #2   |
| I-9-3  | FOCA Interrogatory #3   |
| I-9-4  | FOCA Interrogatory #4   |
| I-9-5  | FOCA Interrogatory #5   |
| JT1.1  | Undertaking Response #1 |

**Supporting Parties:** CME, CCC, FOCA, OFA, OSEA, PWU, SEC, VECC

**Parties taking no position:**



## **OTHER ISSUES TO BE ADDRESSED BY THE BOARD**

1. Hydro One's rate adjustment based on the Board's 2013 IRM3 Rate Generator Model which calculated a Price Cap Index increase of .48%, based on a Price Escalator of 1.6% minus a Productivity Factor of .72% minus a Stretch Factor of 0.40%, subject to a Board update for the 2014 IRM3 Rate Generator Model.

**Evidence:** The evidence in relation to this issue includes the following:

|               |   |
|---------------|---|
| A-2-1         | Application                                     |
| A-3-1         | Summary of Application                          |
| B-1-1         | Development of Distribution Rates for 2014      |
| D1-1-1 App. A | 2013 IRM 3 Tax Savings Workform                 |
| D1-2-1        | Customer Bill Impact Summary                    |
| D2-1-1        | 2014 OEB 3GIRM Filing Module Output Sheets      |
| D2-2-2        | Proposed Rate Schedules                         |
| D2-3-1        | Customer Impacts – At Average Consumption Level |
| D2-3-2        | Customer Impacts – At Low Consumption Level     |
| D2-3-3        | Customer Impacts – At High Consumption Level    |
| I-4-5         | CME Interrogatory #5                            |

2. The continuation of a rate rider to refund \$1.1M to customers associated with the 50%/50% sharing of the decrease in income tax rate.

**Evidence:** The evidence in relation to this issue includes the following:

|               |  |
|---------------|--|
| A-2-1         | Application  |
| A-3-1         | Summary of Application   |
| D1-1-1        | Rate Rider Calculations  |
| D1-1-1 App. A | 2013 IRM 3 Tax Savings Workform                                      |
| D1-1-1 Att. 2 | Calculation of Shared Tax Savings Variable Rate Riders by Rate Class |
| I-1-13        | OEB Interrogatory #13  |

3. The continuation of the Incremental Capital Module rate rider approved in the 2013 rate application (EB-2012-0136) until the next rebasing calculation.

**Evidence:** The evidence in relation to this issue includes the following:

|       |                        |
|-------|------------------------|
| A-3-1 | Summary of Application |
|-------|------------------------|

4. Adjustment to the RTSR to reflect the Board approved Uniform Transmission Rates effective January 1, 2013.

**Evidence:** The evidence in relation to this issue includes the following:

|       |                                   |
|-------|-----------------------------------|
| A-2-1 | Application                       |
| A-3-1 | Summary of Application            |
| C-2-1 | Retail Transmission Service Rates |