OEB Staff Submission
Hydro Ottawa Limited
Settlement Proposal
EB-2015-0004

Introduction

On September 19, 2015 Hydro Ottawa Limited (Hydro Ottawa) filed a settlement proposal with respect to its Custom Incentive Rate-setting (Custom IR) application for an order approving just and reasonable rates and other charges for electricity distribution to be effective January 1, 2016, and each year thereafter until January 1, 2020.

The parties to the settlement proposal are Hydro Ottawa and the following approved intervenors in the proceeding:

Allstream Inc. (Allstream)
Consumers Council of Canada (CCC);
Energy Probe (EP);
Quebecor Media Inc., (Quebecor)
Rogers Communications Partnership, (Rogers)
School Energy Coalition (SEC);
Sustainable Infrastructure Alliance of Ontario (SIA); and
TELUS Communications Company (Telus)
Vulnerable Energy Consumers Coalition (VECC)

Not all intervenors of record participated in the settlement conference. Mr. Sean McGuire withdrew, and Sustainable Infrastructure Alliance of Ontario did not attend. Quebecor, Rogers, and Telus (the Carriers), and Allstream only participated on the issue of an appropriate charge for access to power poles (Issue 4.11), which remains unsettled.

This submission reflects observations which arise from OEB staff's review of the evidence and the settlement proposal, and is intended to assist the OEB in deciding upon Hydro Ottawa's application with respect to the issues laid out in the settlement proposal and in setting just and reasonable rates.

OEB Staff Submission

OEB staff has reviewed the settlement proposal in the context of the objectives of the Renewed Regulatory Framework for Electricity (RRFE), other applicable OEB policies, relevant OEB decisions, and the OEB's statutory obligations. The RRFE is a rate-setting option developed for distributors in the *Report of the Board, Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* issued on October 18, 2012 (the RRFE Report). The parties considered the issues and outcomes of the RRFE in the context of Hydro Ottawa's five year Custom IR term. OEB staff is of the view that the settlement proposal reflects a reasonable evaluation of the distributor's planned outcomes in this proceeding, and appropriate consideration of relevant issues.

OEB staff submits that the OEB's approval of the proposal as filed would adequately reflect the public interest and would result in just and reasonable rates for customers.

As a supplement to OEB staff's overall position, OEB staff offers the following discussion on matters pertinent to the application and to OEB policy.

OEB staff has evaluated the settlement proposal by drawing upon the principles and expectations laid out in the RRFE Report, as an aid to the evaluation of the sufficiency of the settlement proposal from the perspective of the policy intent of the RRFE and the Custom IR filing option.

The OEB expressed its expectation that "the rate-setting process needed to put greater focus on delivering value for money, aligning the interests of customers and distributors, and serving both present and future customers"[1]. The OEB stated that "each rate method will be supported by: the fundamental principles of good asset management; coordinated, longer-term optimized planning; a common set of performance expectations; and benchmarking."[2]

While the RRFE Report stated that the OEB "expects that the specifics of how the costs approved by the OEB will be recovered through rates over the term will be determined in individual rate applications"[3], it nevertheless made certain expectations clear. According to the OEB's report[4], a distributor that applies under this method will:

[1] *Report of the OEB Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach October 18, 2012*, p. 1
[2] Ibid 1, p.10
[3] Ibid 1, p.18
[4] Ibid 1, p. 19

- File robust evidence of its cost and revenue forecasts over a five year horizon,
- File detailed infrastructure investment plans over that same time frame.
- Demonstrate its ability to manage within the rates set, given that actual costs and revenues will vary from forecast.[5]

In addition to these general expectations, the OEB specified the core elements of the approach to rate-setting, including regarding the use of benchmarking, productivity expectations, benefit-sharing and other considerations. A full list of these elements is available at Table 1: Rate-Setting Overview – Elements of Three Methods on page 13 of the RRFE Report and are summarized here:

1. "Going In" Rates
2. Form, Term & Coverage
3. Cost Forecast, Rate Trend and Adjustment Mechanisms
4. The Role of Benchmarking
5. Sharing of Benefits
6. Treatment of Unforeseen Events
7. Deferral and Variance Accounts
8. Performance Reporting and Monitoring
9. Other issues

1. "Going in" Rates

RRFE Expectation: Multi-year application review with a minimum 5 year term

Hydro Ottawa's rates are proposed to be set on a full cost of service review for 2016 and agreed-to adjustments in each of the subsequent years of a five year plan. OEB staff submits that the term and rate horizon under consideration are consistent with the RRFE Report.

The Parties have agreed upon a revenue requirement that is forecast to increase 7.6% in the first year of the plan relative to its last OEB-approved revenue requirement (2012) and an annual average of 3.7% thereafter.

Two issues remain to be resolved before final rates can be established. The Carriers have not agreed to the level of the service charge for attachments to power poles. The resolution of this issue will be decided by the OEB. The uncertainty in the forecast of

[5] Ibid 1 p.19

revenues from these rates currently prevents the calculation of the base revenue requirement to be recovered from electricity customers.

The second issue is the appropriate level of working capital. Hydro Ottawa was directed in its last cost of service proceeding (EB-2011-0054) to file a lead-lag study in its next rebasing application to reflect the move to monthly billing at the end of 2013. Hydro Ottawa commenced monthly billing in 2014 and waited until it had 12 months of billing to undertake a lead-lag study. Hydro Ottawa has indicated that the study will be filed at the end of September; parties expect the study to be tested as part of this proceeding through a process to be determined by the OEB. The working capital allowance assumed for revenue requirement calculations is set at an assumed 7.5% of cost of power plus operating, maintenance and administration (OM&A) expenses.

OEB staff observes that while considerable time remains before rates effective January 1, 2016 are required to be set, and while it is generally preferable to establish rates on a final basis, the nature of these issues are such that the OEB could establish rates on an interim basis or make use of deferral and variance accounts should these two issues remain unresolved by the time the utility begins to bill for 2016 consumption.

2. Form, Term and Coverage

RRFE Expectations: A comprehensive, custom index rate form

The RRFE Report indicates the expectation that a Custom IR application will be "based on a five year forecast of a distributor's revenue requirement and sales volumes"[6] that is comprehensive, i.e. both capital and OM&A. Distributors are expected to commit to performance improvements in not merely one area of their business, but in all aspects of it, including in the capital investments to renew and expand its system.

OEB staff therefore takes the initial position when evaluating any custom IR application that the decoupling of rates from costs that is fundamental to performance-based rate-making therefore should involve not just the form by which OM&A costs are established for a five year period but also the manner in which the revenue requirement recovers the cost of capital investments. At the same time, OEB staff recognizes that the RRFE policy explicitly states that for Custom IR applicants, "the specifics of how the costs

[6] Ibid 1 p. 18

approved by the Board will be recovered through rates over the term will be determined in individual rate applications."[7]

It is within this context that OEB staff evaluates the form of the rate proposal contained in the Hydro Ottawa settlement document.

The parties' proposal includes a forecast of OM&A for 2017 – 2020 indexed from the 2016 budget, and a comprehensive 5-year distribution system plan upon which the distributor's capital spending is based.

As discussed by the parties at section F - Key Components of the settlement proposal starting at page 16, the treatment of OM&A spending incorporates an escalator based on inflation, a deflator that mimics the function of the OEB's productivity and stretch factor, as well as a provision for the growth in OM&A that are the result of customer additions. The composition of the inflation factor is derived from the OEB's inputs, and OEB staff agrees with the parties that the weighting of the components of the inflation factor appropriately reflects its application to OM&A. The net effect of the approach is to index OM&A by 1.91% annually, negligibly higher than the 1.8% that Hydro Ottawa would be eligible for in 2016 under the Price Cap IR framework given its cost performance. The form of rate treatment, in staff's view, is therefore broadly consistent with the core tenets of RRFE policy: a cost envelope that is forecast to decline in real, constant-dollar terms, incenting productivity gains while providing sufficient revenues to serve customers and fund operations.

The approach to capital spending, however, does not necessarily accord so clearly with a performance-based rate form: costs to customers associated with capital investments are proposed to be recovered on a cost-of-service basis, based on a used or useful principle, forecast against a rate base agreed-upon for every year of the plan term. The capital expenditure related component of rates is excluded from an explicit stretch or productivity commitment and is not subject to an index approach that has been informed by the company's investment plan commitments.

Such asymmetry between the treatment of OM&A and capital expenses was not the intent of the Custom IR option. Instead, with the onset of the RRFE, the OEB has advocated comprehensive, total cost incentive rate-setting, on the grounds that it creates stronger and more balanced incentives.[8] As has been argued elsewhere, including during RRFE consultations, an asymmetrical I-X framework applied to OM&A

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[7] RRFE report, p 18
[8] Ibid 1 p.9

but not to capital may distort incentives, promote sub-optimal investments and alter a distributor's response to cost and revenue changes.

However, in staff's view, this inconsistency in form is no barrier to the reasonableness of the rate consequences for Hydro Ottawa's customers that would ensue if the OEB approves the proposed settlement. In staff's view, the parties' proposal regarding capital spending, discussed on pages 12 to 15 of the proposal, provides an efficient framework for funding a capital plan that uses a number of variance accounts to protect Hydro Ottawa's customers from cost and delivery risks while incenting the utility to maintain performance. The use of deferral accounts places greater emphasis on after-the-fact recoveries and reconciliation rather than ex-ante adjustments typically adopted in performance-based incentive rate-making. However, as in the settlement regarding Horizon Utilities[9] that was approved by the OEB, in OEB staff's view, this approach to rate-setting provides a cost-recovery framework that results in acceptable rates and reasonably incents productivity gains while containing risks for customers. The parties' proposal is also implicitly consistent with the RRFE report's statement that the specifics of cost recovery through rates would be assessed in individual applications[10].

Additional commentary on the value and function of specific capital and performance-related deferral and variance accounts, is provided further below, in section 5, Benefits Sharing.

3. Cost Forecast, Rate Trend and Adjustment Mechanisms

RRFE Expectation: Distributor-specific rate trend for the plan term to be determined by the OEB, informed by the distributor's forecasts, the OEB's inflation and productivity analyses.

The OEB's custom IR plan is founded upon the expectation that a distributor will establish rates for five years and will manage within those rates for the duration of the term, given that actual costs will inevitably vary from those forecasts. In OEB staff's view, this approach implies that distributors should endeavour to keep the number of annual adjustments to a minimum.

This settlement proposal, in staff's view, represents a significant step toward that objective. Unlike past multi-year cost of service applications, Hydro Ottawa will fix its rates for the first three years of its rate plan. It will not update its cost of capital annually;

[9] EB-2014-0002
[10] Ibid 4, above.

its working capital allowance, once established, will not be adjusted for changes in the cost of power. Hydro Ottawa will file an application to adjust cost of capital and inflation only in the final two years of its plan.

Similarly, OEB staff is also satisfied that the commitments in Hydro Ottawa's capital plan, coupled with indexed OM&A costs, are likely to provide a manageably smooth rate trend over the term. The settlement proposal reduced Hydro Ottawa's core capital plan by $10M in 2016, helping to avoid a bump in rates in the first test year. In OEB staff's view, core annual capital expenditures are generally smoothly paced. OM&A costs, as mentioned, are indexed smoothly for three years and will be re-indexed based on updated inflation factors prior to the final two years of the plan. These costs are therefore also likely to result in smooth and predictable rates for customers.

OEB staff notes, however, that the bill impacts provided in table 2 omit the costs associated with certain capital projects such as Hydro Ottawa's new facilities and capital contributions to Hydro One, since it is unclear when the projects will be used or useful.

4. Role of Benchmarking

RRFE expectation: To employ benchmarking to assess the reasonableness of the distributor's forecasts

Benchmarking is a core element of the OEB's RRFE. In staff's view, whether by comparison against other utilities, or assessed against a distributor's own year-over-year performance, benchmarking is intended to help to establish whether costs – both overall and project or function-specific, are reasonable. Benchmarking can also incent performance by providing an independent reference point for a distributor's overall efficiency.

While the parties to the settlement proposal do not express a conclusion on the adequacy of Hydro Ottawa's benchmarking to assess the reasonableness of its cost forecasts, their proposal finds a means of connecting the OEB's ongoing benchmarking assessment of all distributors to Hydro Ottawa's rate plan.

The asymmetrical efficiency variance account, described on page 17 of the settlement proposal, would decrease Hydro Ottawa's revenue requirement by a formulaic adjustment in the event its efficiency deteriorated sufficiently to be assigned into a less efficient cohort. There is no increase in revenue requirement should the utility rise into a more efficient cohort. This element was first introduced in the settlement regarding Horizon Utilities' custom IR for 2015-9.

OEB staff is of the view that while the dollar value of the consequence alone may be insufficient to motivate a distributor[11], there is significant merit in continuing to tie an evaluation of Hydro Ottawa's performance to those in the rest of Ontario for the duration of the plan. While not explicitly contemplated in the Custom IR framework, OEB staff anticipates that the OEB's policy regarding the Custom IR option would include the expectation that there continue to be consequences – both reputational and financial – for Hydro Ottawa should its performance deteriorate relative to its peers during the custom rate-setting term in order to provide another means of ensuring a focus on outcomes.

5. Sharing of Benefits

RRFE Expectation: Benefits of efficiency improvements would be shared with customers through productivity gains; means and methods to do so would be evaluated on a case-by-case basis.

In addition to the benefit sharing inherent in the application of a productivity and stretch factor to OM&A costs, the parties have agreed upon two other measures to be included in the rate plan that are designed to align incentives for efficient cost performance and protect ratepayers from poor execution or cost control on the part of the distributor.

<u>Earnings Sharing Mechanism (ESM)</u>

An ESM will share all earnings above the OEB-approved regulated rate of return evenly with ratepayers and the shareholder; any under earnings are borne exclusively by the shareholder. While the absence of a deadband for overearning that would allow a distributor to retain all of the overearnings up to a certain point may dull the incentive for Hydro Ottawa to invest in productivity gains, this arrangement is reasonable and consistent with past cases, such as Enbridge Gas Distribution (EB-2012-0459) and Horizon Utilities (EB-2014-0002).

<u>Capital Investment Variance Account (CIVA)</u>

Hydro Ottawa has a five year capital plan. To recognize the challenges with respect to forecasting timing and costs over five years of capital investments in distribution assets,

[11] The impact calculated in the settlement proposal based on the 2017 revenue requirement and a slippage to cohort 4 from cohort 3 is $274,200.

the parties have proposed an account that would track variances from the plan so that any over-recovery in rates that results from under-spending is returned to customers. The OEB first approved such an account in the Horizon Custom IR. The mechanism for Hydro Ottawa is described on pages 14 and 15 of the settlement proposal.

A unique feature of this asymmetrical CIVA, which is different from the one approved in Horizon, is that the account tracks three distinct forecasts, rather than the single total forecast in the Horizon settlement agreement. The three categories tracked are System Renewal and System Service, System Access, and General Plant. OEB staff submits that this reporting allows for more precise monitoring of Hydro Ottawa's ability to manage its capital expenditures and reflects the different drivers of the three categories. OEB staff submits that this measure effectively achieves two ends: it motivates Hydro Ottawa to deliver on its plan while ensuring that customers' rates will, over time, accurately reflect the assets that are used or useful in providing them service. Given the volume of spending planned and the term of the plan, staff submits that such an account is a useful provision.

6. Unforeseen Events

RRFE Expectation: The OEB's policies, as set out in the Report of the OEB on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, will continue under all three menu options.

The OEB's chief mechanism for managing the consequences of material unforeseen events is the Z-factor, initially described in the *Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* issued on July 14, 2008 (the 3GIRM Report).

Consistent with the RRFE for Custom IR, the Parties agreed that Hydro Ottawa could apply for Z-factor relief for unforeseen events based on the current OEB policy. The settlement proposal recognizes that the current threshold would be $880,000, based on the OEB policy that a Z-factor threshold for a distributor of this size is 0.5% of its annual revenue requirement.

7. Deferral and Variance Accounts

RRFE Expectation: Status quo, plus as needed to track against plan.

With respect to deferral and variance accounts, the settlement proposal makes no changes to the process for deferral and variance accounts as set out in *Report of the*

Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR) issued on July 31, 2009. Group 1 accounts will be evaluated annually, consistent with OEB policy, and disposition will be mandatory if the balances exceed the OEB's threshold. Likewise, existing Group 2 accounts will be reviewed in Hydro Ottawa's 2021 rebasing application.

All new deferral and variance accounts noted below (including the CIVA noted above) are Group 2 accounts and considered for disposition only upon rebasing.

Accounts for the Facilities Plan

Hydro Ottawa is planning to replace three existing operations and administration buildings with two new centres. The consolidation is planned to be carried out during the plan term. OEB staff notes that the parties are satisfied that the budget of $73M for facilities is reasonable based on the business case and supporting evidence filed.

The utility proposes to develop a new eastern campus, to house an administration and operations centre ($56.8), and a new southern operations and warehouse facility ($16M).

OEB staff notes that prior evaluations of utilities' proposals for new administrative facilities, such as in a 2012 Enersource proceeding (EB-2012-0033), the OEB has impressed upon distributors the importance of ensuring that new investments be "planned with ratepayer interests in mind, and therefore with rigorous consideration of efficiency" [12]. The OEB expects that distributors refer to industry standards in order to substantiate the appropriateness of the space being planned[13], and notes that "distributors should reasonably [expect] that the Board would require quantitative evidence to substantiate the prudence of its plans and the resulting costs, especially given the relative magnitude of the expenditure"[14]. In the Enersource proceeding, the OEB panel disallowed 10% of the total capital costs for the facility because the OEB found that the amount of space provided was excessive when compared to others.

Hydro Ottawa has provided information on the total expected cost of the facility and the size of its administration building. It reports in its application that the new building will provide 332 square feet of space per employee at the administration centre, significantly below the International Facility Management Association's average 396 square feet of space per employee, and nearly 100 square feet below the average 425 square feet of

[12] EB-2012-0033. Decision and Order (December 13, 2012), p17
[13] Ibid, p 15
[14] Ibid.

space per employee in the utility sector[15]. It also submits that its space per employee compares favourably with those of other facilities recently developed by other large distributors. Hydro Ottawa also notes that the space design permits 30% growth in FTE count.

Table 1: Select Administration Facilities Investments by Ontario Utilities[16]

	Hydro Ottawa[17]	Powerstream	Enersource
Total Sq. Ft.	155,000	92,000	79,000
# FTEs	511	270	150
Sq ft/FTE	303	341	526

A deferral and variance account has been proposed as a means of ensuring that any spending above the agreed-upon $73M will be subject to a prudence review after the end of this rate term. This cap on expenses, in staff's view, is a reasonable mechanism for ensuring Hydro Ottawa focuses on cost containment in the execution of its transition to new facilities.

Hydro Ottawa and the parties also propose to track the proceeds of the sale of land and buildings made surplus as a result of the new facilities. The settlement proposal commits Hydro Ottawa to share 100% of the after tax net gain or loss from the sale of land and buildings to ratepayers, as indicated in the settlement proposal.

Staff notes that the OEB has found a number of sharing arrangements to be acceptable in the past. The reference case often cited is the Cushion Gas decision, which found that while a utility has an obligation to act in the interest of its customers, it has no obligation to share its assets with them. It was thus entitled to retain the entire proceeds of sale of surplus assets[18].

In OEB staff's view, however, the most relevant cases on this topic are those which deal with the matter of the sale of assets pursuant to a facilities consolidation plan. In these cases, the OEB has accepted a range of levels of sharing; the most analogous to Hydro Ottawa's decision is likely the Toronto Hydro decision in EB-2007-0680, which held that 100% of the proceeds from the sale of a surplus operations facility would accrue to

[15] Ex-B Att B1-(A) p340-1
[16] Ibid.
[17] Ibid.
[18] EB-2005-0211, Decision with Reasons, June 27, 2007, p11

THESL's customers because the facility became surplus as a result of a plan to consolidate several business centres into fewer sites. The sharing was ordered to defray the substantial cost of the facilities plan to the utility's ratepayers[19].

There are three other new deferral accounts in the settlement proposal:

Connection Cost Recovery Agreement Variance Account

The settlement proposal establishes an account for Hydro One Networks Inc. Connection Cost Recovery Agreement (CCRA) payments. In the normal course of business, distributors, from time to time, must pay a series of Connection Cost Recovery Agreement (CCRA) payments to another party, typically Hydro One, if upstream improvements are required on the transmission or host distribution system. Generally, such payments would be treated similar to Construction Work in Progress and interest would apply until the asset goes into service. In Hydro Ottawa's case these payments have been budgeted but will not be placed in rate base because their timing is uncertain. The deferral account will to keep the costs out of rate base until the asset is used or useful but allow interest to be collected on any payment made.

Wireless Attachment Revenues Variance Account

Hydro Ottawa has no revenues forecast from wireless attachments, which would be used as a revenue offset to distribution costs. Wireless attachments are typically antennas attached to the top of the power poles. The settlement proposal includes a deferral account for any revenues that Hydro Ottawa should receive. If any revenues do materialize, they will be credited to the rate payer. OEB staff submits that this is consistent with the treatment of using revenue generated from a distribution asset to offset distribution costs.

Loss on Disposal

This account records the difference between the forecast and actual loss on disposal of fixed assets for the Custom IR term, related to retirement of assets or damage to plant, such as vehicles or meters. Loss on disposal is also an issue in the Toronto Hydro-Electric System Limited's (Toronto Hydro) Custom IR application EB-2014-0116. No

[19] Toronto Hydro-Electric System Limited, EB-2007-0680, May 15, 2008; Guelph Hydro Electric Systems Inc. Decision, EB-2007-0742, July 31, 2008; Waterloo North Hydro Inc. EB-2010-0144 April 27, 2011; Orangeville Hydro Limited EB-2013-0160 April 3, 2014; Innisfil Hydro Distribution Systems LimitedEB-2014-0086 December 4, 2014

decision has been issued in that application. The settlement proposal recognizes the OEB is deliberating on the issue and states that Hydro Ottawa will adopt the treatment that the OEB determines for Toronto Hydro. OEB staff observes that the proposal on this issue will not affect the rates flowing from this application, and affords consistent treatment between Hydro Ottawa and Toronto Hydro.

8. Performance Reporting and Monitoring

RRFE Expectation: A regulatory review may be initiated if a distributor's annual reports show performance outside of the +/- 300 basis points earnings dead band or if performance erodes to unacceptable levels.

The RRFE expects that distributors will measure and report on their performance annually in order that the OEB can continue to evaluate the utility's effectiveness, especially with regard to service quality, reliability and financial performance.

The settlement proposal states that Hydro Ottawa intends to file the OEB's scorecard and RRR reports annually. Hydro Ottawa has also agreed to file additional information with respect to its capital programs as included in Attachment 1 to the settlement proposal. Hydro Ottawa will also report annually on SAIDI and SAIFI by cause code and on Key Performance Indicators listed in the Distribution System Plan Exhibit B, Tab 1 Schedule 2 Table 1.3.1.

The settlement proposal states that Hydro Ottawa and the intervenors will work together to develop meaningful metrics/targets and to define outcome reporting for recommended outcomes which will, at a minimum, include those metrics provided in Attachment 2. Hydro Ottawa will also collaborate with intervenors on any OEB initiative on reviewing and defining new metrics.

While the general principles of the Custom IR suggest that the OEB could impose additional reporting requirements given the length of the term and the extent of capital investment typically expected to be undertaken by Custom IR applicants, OEB staff submit that the parties' suggestion that they collaborate on the definition of metrics is appropriate, especially, when taken in conjunction with the OEB's ability to initiate a review should financial or operational performance erode unacceptably. OEB staff would expect such metrics to be proposed to the OEB in a timely manner and notes than anything proposed by the parties would be incremental to the metrics and reporting requirements set by the OEB.

However, as a further monitoring and reporting measure, OEB staff feels it appropriate to suggest that Hydro Ottawa undertake to improve its asset health monitoring as an aspect of its distribution planning. At the technical conference on August 14, Hydro Ottawa stated that the connection of health index and end of life criteria is still being developed. [20] More refined linking of the asset Health Index to its capital planning would enhance the risk-based approach that Hydro Ottawa uses.

Other Issues

Transition to Internationals Financial Reporting Standards (IFRS)

Hydro Ottawa transitioned to IFRS for regulatory purposes in 2012. However, on January 30, 2014 the International Accounting Standards Board issued interim standard IFRS 14 - Regulatory Deferral Accounts which permitted Hydro Ottawa to continue with CGAAP for its financial reporting purposes. For financial reporting purposes, Hydro Ottawa adopted IFRS on January 1, 2015, with the transition on January 1, 2014. As a result Hydro Ottawa wishes to record a one-time adjustment to align the regulatory statements with the financial statements. The settlement proposal allows Hydro Ottawa to make a onetime increase in its rate base of $502,000 and return the $502,000 over collection that arose from the transition in 2012. OEB staff considers this appropriate since Hydro Ottawa's approved 2012 rates included costs for transition changes due to changes to depreciation and overheads, which Hydro Ottawa was not recognizing in its financial reporting. This difference in recognition gave rise to the discrepancy.

Transition to Fixed Rates for Residential Customers

On April 2, 2015 the OEB released the *OEB Policy, A New Distribution Rate Design for Residential Electricity Customers*, which calls for distributors to transition rates so as to recover costs from the residential class exclusively through fixed charges. The transition would be phased-in over four years, starting in the 2016 rate year, to reduce the impact on those customers whose bills will increase. Recognizing the timing of the policy report, the OEB granted the possibility of exception for distributors rebasing as of January 1, 2016, since they were due to file their applications shortly after the policy paper was released, and prior to implementation details having been finalized. The

[20] Tr Day 2 P. 58 - 62

report observed that "having rebased in 2016, these distributors will likely be able to proceed with the transition in 2017 with fewer complications."[21]

In the settlement proposal, Hydro Ottawa committed to transition to fully fixed rates for residential customers by 2020. OEB staff has determined that the utility has increased the proportion of charges to be recovered through fixed charges in 2016 by 14 percentage points to 52%, up from 38% in 2015, and has proposed to achieve a fully fixed rate for all its residential customers by 2020. The following Table indicates that Hydro Ottawa has increased the residential fixed charges in almost equal steps:

Year	Increase
2017	$3.63
2018	$3.89
2019	$3.99
2020	$3.61

OEB staff submits that this approach is reasonable and broadly consistent with the latitude afforded distributors rebasing for January 2016 rates. It may also provide a good fit for Hydro Ottawa's customers, whose current fixed rates recover a lower portion of their total distribution costs relative to the average. OEB staff further notes that although these increases are not equal steps, they are not significantly different, and achieve a 100% fixed rate in 2020.

[21] *OEB Policy, A New Distribution Rate Design for Residential Electricity Customers* April 2, 2015, Page 26.