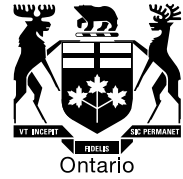


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BY E-MAIL

October 1, 2015

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

Dear Ms. Walli:

**Re: Guelph Hydro Electric Systems Inc.
2016 Distribution Rate Application
OEB Staff Submission
OEB File No. EB-2015-0073**

In accordance with Procedural Order No. 1, please find attached OEB staff's submission in the above proceeding. The attached document has been forwarded to Guelph Hydro Electric Systems Inc. and to all other registered parties to this proceeding.

Yours truly,

Original Signed By

Georgette Vlahos
Analyst, Electricity Rates & Accounting

Encl.

2016 ELECTRICITY DISTRIBUTION RATES
Guelph Hydro Electric Systems Inc.

EB-2015-0073

**OEB STAFF SUBMISSION ON SETTLEMENT
PROPOSAL**

October 1, 2015

INTRODUCTION

On September 24, 2015, Guelph Hydro Electric Systems Inc. (Guelph Hydro) filed a settlement proposal with respect to its 2016 Cost of Service application seeking an order approving just and reasonable rates and other charges for electricity distribution to be effective January 1, 2016. The parties to the settlement proposal are Guelph Hydro and the following approved intervenors in the proceeding:

Energy Probe Research Foundation (EP)
School Energy Coalition (SEC)
Vulnerable Energy Consumers Coalition (VECC)

The settlement proposal represents a full settlement on all issues.

OEB staff notes that there have been a number of updates to the evidence in the course of this proceeding. This submission is based on the status of the record as of the filing of Guelph Hydro's settlement proposal and reflects observations which arise from OEB staff's review of the evidence and the settlement proposal. It is intended to assist the OEB in deciding upon Guelph Hydro's application and the settlement proposal.

Settlement Proposal

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 *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 Guelph Hydro's application.

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

The settlement proposal reflects a reasonable evaluation of the distributor's planned outcomes in this proceeding, and has given appropriate consideration of the relevant issues and sufficient resources to allow Guelph Hydro to achieve its identified outcomes in the four incentive rate-setting years that will follow.

Notwithstanding the above, OEB staff's submission below provides further discussion for the OEB's consideration on the following issues:

- Distribution System Plan (DSP)
- Zigbee Chip
- New Deferral and Variance Accounts
 - Other Post-Employment Benefits (OPEBs)
 - Depreciation/Capitalization Policy Changes
 - Wireless Attachment
- Specific Service Charges – Bond Connection
- Control Room Services Arrangement

Distribution System Plan

The Parties agree that the DSP filed in this proceeding, combined with the resources made available to Guelph Hydro in the test year under the terms of this Settlement Proposal, provide a foundation to Guelph Hydro in the test year to continue to: (a) pursue continuous improvement in productivity; (b) maintain system reliability and service quality objectives; and (c) maintain reliable and safe operation of its distribution system.

OEB staff agrees. The asset management process used by Guelph Hydro is sound and represents an appropriate underpinning for the capital plan. OEB staff is of the view that the Guelph Hydro DSP provides an appropriate basis for its capital expenditures and related OM&A expenses. Guelph Hydro has described its material projects for 2016 clearly and has followed applicable OEB guidelines in its descriptions and its described planning assumptions appear to be reasonable. Guelph Hydro demonstrated substantial progress towards incorporating RRFE objectives in its approach to its five-year plans.

Zigbee Chip

Background

As part of its 2012 cost of service proceeding (EB-2011-0123), Guelph Hydro included a “beyond-minimum-functionality” feature known as a Zigbee chip in its residential and small commercial customer smart meter program deployment. The Zigbee chip, through the customer’s smart meter, enables Guelph Hydro to communicate with in-home devices such as displays, thermostats and Zigbee-equipped smart appliances. There are several uses that can be enabled with this wireless technology including, but not limited to, real time price signaling and home area automation.

In its Decision and Rate Order resulting from Guelph Hydro’s 2012 cost of service proceeding, the OEB did not approve the recovery of the cost of the Zigbee Chip in distribution rates¹. Instead, the OEB directed Guelph Hydro to record the amounts associated with the Zigbee technology in a sub-account of Account 1555, to be called “Sub-account – Zigbee Chip Initiative”.

The OEB stated that if, at a future point in time, Guelph Hydro determined that there was the potential for the Zigbee Chip to provide any ratepayer benefit, Guelph Hydro had the option of requesting a prudence review to seek the recovery of its Zigbee Chip investment on the basis that it had acted prudently in making this investment².

Current Application

Guelph Hydro’s initial application did not include a business case or comparable support to allow for the prudence review referred to in the prior proceeding. Guelph Hydro did not provide substantive support in response to interrogatories. As a result of questions during the technical conference, Guelph Hydro provided a business case for the Zigbee chip in response to undertaking JT1.37.

Guelph Hydro noted that by implementing the Zigbee chip, Guelph Hydro can now support the interconnectivity necessary to facilitate: enhanced customer

¹ The OEB also acknowledged that the cost of the Zigbee chip, at approximately \$12 per meter is about 6.4% of Guelph Hydro’s smart meter costs and that Guelph Hydro’s average all-in cost per meter of \$190.28, inclusive of the Zigbee chip, is comparable to the cost per meter of other similar utilities.

² Transcript, Technical Conference, August 10, 2015, p. 201/l. 10 to p. 209/l. 28

engagement, enhanced and targeted CDM programs and the implementation of future smart grid technologies³. Guelph Hydro noted that the Zigbee Chip has been used as a provision of the IESO's *peaksaverPLUS*® Residential Demand Response (RDR) CDM program. Customers receive an In-Home Display (IHD) which is wirelessly connected through the Zigbee chip to provide real-time consumption. OEB staff notes however that the 2011 to 2013 Verified OPA Final Report provided by Guelph Hydro in its application did not provide specific uptake data for its most recent complete year with respect to this program. Guelph Hydro's 2013 Annual CDM Report notes that the RDR program was set to be fully launched in 2014. The 2014 Report was not filed on the record of this proceeding as it was unavailable at the time.

Guelph Hydro believes that the Zigbee network has the potential to support smart refrigerators, smart plugs, smart gateways, Home Automation and advanced energy monitoring systems that could connect residential renewable energy generation, energy storage, and electric vehicle charging stations.

For purposes of settlement, the Parties agreed that the recovery of Zigbee Chip costs is appropriate. Parties noted that Guelph Hydro filed a business plan sufficient to support the cost recovery, and have demonstrated that the Zigbee Chips are now used and useful.

The Minister's Directive in relation to the establishment, implementation and promotion of a smart grid (Smart Grid Directive) requires the OEB to provide regulated entities with the OEB's guidance and expectations in relation to the establishment and implementation of a smart grid within the parameters of three objectives set out in the Minister's Directive: customer control, power system flexibility, and adaptive infrastructure⁴. In the OEB's *Supplemental Report on Smart Grid* (Smart Grid Report), the OEB sets out high level expectations with respect to smart grid activities that electricity distributors should consider⁵.

³ Undertaking Responses, Guelph Hydro, Appendix JT1.37: Guelph Hydro Business Case for Smart Meter ZigBee® Chip, Page 4

⁴ Order in Counsel 1515/2010, approved November 23, 2010 (Smart Grid Directive)

⁵ EB-2011-0004, *OEB Report: Supplemental Report on Smart Grid*, February 11, 2013 (OEB Smart Grid Report)

OEB staff acknowledges that while Guelph Hydro has not fully demonstrated active participation or uptake of this initiative despite the three years since its inception, the Zigbee chip addresses at least one of the key objectives of the Smart Grid Report. The Minister's Directive sets out customer control objectives as follows:

For the purpose of providing the customer with increased information and tools to promote conservation of electricity, which will 'expand opportunities to provide demand response, price information and load control to electricity customers', in accordance with subsection 2(1.3)(b) of the Electricity Act⁶.

To achieve the objectives set out for customer control as defined in the Minister's Directive, distributors need to identify services that will provide customers with the ability to take action in regard to their energy use. OEB staff notes that the key function of the chip is to enable enhanced services including the provision of "real-time" electricity price and consumption information to energy consumers which would permit customers to better understand and manage their energy use, when paired with devices such as an IHD.

The OEB Smart Grid Report lists several criteria for the customer control objective⁷. OEB staff has considered the following:

- Has Guelph Hydro undertaken activities to understand their customers' preferences and whether the Zigbee chip addresses those preferences? (e.g., data access and visibility, participating in distributed generation, and load management)
- Has Guelph Hydro provided information and education to their customers regarding the potential benefits of the chip?
- Does the Zigbee chip facilitate customer access to consumption data in an electronic format?
- Does the chip facilitate "real-time" data access and "behind the meter" services and applications for the purpose of providing customers with the ability to make decisions affecting their electricity costs?

⁶ OEB Smart Grid Report, Page 13

⁷ OEB Smart Grid Report, Pages 10-13

OEB staff notes that Guelph Hydro's customer engagement plan filed with the current application did not appear to address the Zigbee chip, including no information that Guelph Hydro had undertaken to understand customer preferences and to educate their customers on the benefits of the technology.

However, OEB staff notes that the Zigbee chip does by its very nature facilitate customer access to consumption data in an electronic format and also facilitates access to "real time" data for the purpose of providing customers with the ability to make decisions affecting their electricity costs. Therefore, inherently, the Zigbee Chip addresses customers preferences for data access and visibility and load management.

As noted previously, participants enrolled in the Residential Demand Response CDM Program receive an IHD which is wirelessly connected through the customer's smart meter Zigbee chip to provide real-time electricity consumption, Time-of-Use pricing, as well as Critical Peak pricing information. This tool provides the potential for customers to better educate themselves on their electricity use, the approximate cost to operate various devices inside the home, while reinforcing the principles of Time-of-Use Rates.

For purposes of the Settlement Proposal, OEB staff does not oppose the Parties' proposal that Guelph Hydro has adequately made its case for the Zigbee chip and therefore to promote the implementation of a smart grid OEB staff accepts the disposition of the Zigbee Chip amounts.

New Deferral and Variance Accounts

OPEBs

As noted in the OEB's Decision with Reasons in the Ontario Power Generation Inc. (OPG) proceeding EB-2013-0321, the OEB approved the cash method for OPEBs costs and established a new deferral account to track the differential between the accrued and cash valuations for pensions and OPEBs. Recognizing that the OEB intends to address the method for accounting of OPEBs in rates as part of a generic policy process, as part of the settlement agreement Guelph Hydro agreed to reflect the recovery of OPEBs on a cash, rather than an accrual

basis⁸. The impact of this change is to reduce OM&A expenditures by \$443,000 since the entire amount of the OPEB costs were captured in OM&A in Guelph Hydro's original 2016 Rate Filing. This amount is derived as follows:

OPEBs (accrual basis)	\$675,000
OPEBs (cash basis)	\$232,000
Excess	\$443,000

In addition, Guelph Hydro agreed to allocate the OPEBs proportionally between capital and OM&A in the test year, in keeping with accounting practice to appropriately allocate fully burdened costs between capital and OM&A. As a result, of the \$232,000 OPEB costs, as seen above, \$81,000 has been reclassified out of OM&A and reallocated to the 2016 Capital Additions in order to properly reflect the allocation of these costs between capital and OM&A.

The Parties agreed to the establishment of a new deferral account for the purpose of recording the difference in revenue requirement each year, starting in 2016, between both the capitalized and OM&A components of OPEBs accounted for using a forecasted cash basis (as to be reflected in rates if this settlement is accepted by the OEB) and both capitalized and OM&A components of OPEBs accounted for using a forecasted accrual basis⁹. Carrying charges will not apply to this deferral account.

The Settlement Agreement notes that:

If the OEB determines that LDCs must only include in rates OPEBs accounted for using a forecasted cash basis, Guelph Hydro will seek to discontinue this account without seeking disposition of the amounts recorded in this account. If the Board determines that LDCs may recover OPEBs in rates using a forecasted accrual accounting methodology, the Parties agree that Guelph Hydro will be permitted to seek disposition of

⁸ All of the Parties recognize that the OEB intends to hold a generic policy discussion on this matter, and that nothing in this settlement is intended to limit the positions any of the Parties may take in that more general policy discussion.

⁹ Settlement Proposal, Guelph Hydro Electric Systems Inc. EB-2014-0097, Sept. 25, 2015, Page 31

this account to recover the amounts so recorded in its next cost of service rate application¹⁰.

OEB staff supports the establishment of this deferral account until such time as the OEB makes a final policy determination on the issue. The difference is material for Guelph Hydro and this treatment is consistent with the OEB's treatment of OPG's difference between cash and accrual costs for OPEBs.

Notwithstanding its support, OEB staff highlights one aspect in the current proposal which differs from the account approved in the OPG proceeding. In the current case, the forecast cash payments made by Guelph Hydro for OPEBs will not be true-up to actual cash payments, and actual accrual costing for the subject test year. In the case of OPG, the account tracks both pensions and OPEBs, not just OPEBs as in the case of Guelph Hydro. The OEB decided to true-up both forecasted cash, and forecasted accrual due to OPG's ability to make special payments in relation to pensions.

In the current case, the proposed approach is to treat the amount in rates for OPEBs similar to any other revenue requirement item (i.e. no true-up except for the policy decision on using the accrual method, yet to be decided).

In addition, for clarity, OEB staff notes that the OEB has established OPEB accounts for certain LDCs to track one time impacts arising out of the transition to IFRS, and other OPEB accounts to track ongoing impacts arising from actuarial gains and losses. Guelph Hydro has not requested such accounts.

OEB staff supports the approach taken by the parties with respect to the recovery mechanism for OPEBs specifically.

Depreciation/Capitalization Policy Changes

In response to interrogatory 2-Energy Probe-11, Guelph Hydro disclosed that as a result of a Kinectrics review, it changed depreciation rates during its IRM term due to changes in estimates for PP&E useful lives. The reduction in depreciation amounted to \$363,000 in 2014 and \$393,000 in 2015. Guelph Hydro confirmed

¹⁰ *Ibid*, Page 65

that this results in 2016 rate base being approximately \$750,000 higher than if depreciation rates had not been changed¹¹.

Background

Issues arising following the transition to IFRS by distributors were discussed in the *Addendum to the Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment* (EB-2008-0408) (OEB IFRS Report). OEB staff, assisted by the Working Group, identified the IRM related issues that required consideration. Issue number six stated:

Should the Board grant a generic variance account, for utilities that have rebased under modified IFRS, to mitigate volatility in certain expenses that may arise from the application of IFRS rules? In particular, differences in depreciation or amortization expense caused by changes in estimated useful life of in-service PP&E or intangible assets included in rate base, gains and losses arising from early retirement of in-service assets and differences in pension and post-employment benefit expenses should be considered¹².

Following submissions by parties of the Working Group, the OEB stated:

The Board is not persuaded that a generic account is necessary. The Board is not aware of any reliable data at this time to satisfy the Board that the adoption of IFRS accounting changes will apply to all utilities in a similar or consistent manner, or that the adoption that will cause material impacts for all utilities due to ongoing increase in volatility. In addition, the Board believes that it will be difficult to distinguish the differences arising from IFRS accounting policy changes from other differences, and this difficulty will increase with increasing time post-transition.

The Board notes that the deferral account provided for in Issue 2 will give utilities relief during the IRM period immediately following the transition to IFRS for rate base related items. At the first cost of service application

¹¹ Technical Conference Transcript, Guelph Hydro, August 10, 2016, Page 66

¹² *Addendum to the Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment* (EB-2008-0408), June 13, 2011 (OEB IFRS Report), Page 24

after the transition, a utility will be expected to provide a forecast of asset useful lives, and gains and losses from retirements, as part of its application. This forecast will be reviewed by the Board and the likelihood of large variances from the forecast can be assessed. Utilities can apply to the Board for a utility-specific variance account if they can demonstrate the probability of significant ongoing volatility¹³.

As part of the Settlement Proposal, the Parties agreed that the opening balance of Account 1576 – Accounting Changes under CGAAP should be credited by the appropriate amount and returned to customers. The balance in Account 1576 would reflect, as noted above, the difference in net PP&E at the end of 2015 resulting from a decrease in depreciation expense for 2014 and 2015 due to changes in estimates for PP&E useful lives.

Account 1576		
Accounting Changes for Depreciation Expense		
	2014	2015
	Actual	Forecast
PP&E Values using original Useful Lives (UL)		
Opening Net PP&E, note 1	\$ 120,582,538	\$ 125,377,375
Net Additions, note 2	10,895,415	12,278,431
Net Depreciation, note 2	6,100,577	6,374,912
Closing Net PP&E	\$ 125,377,375	\$ 131,280,893
PP&E Values using 2014 updated Useful Lives (UL)		
Opening Net PP&E, note 1	\$ 120,582,538	\$ 125,740,621
Net Additions, note 2	10,895,415	12,278,431
Net Depreciation, note 2	5,737,331	5,981,825
Closing Net PP&E	\$ 125,740,621	\$ 132,037,227
Difference in Closing PP&E, Original UL v. Updated UL	(\$ 363,246)	(\$ 756,333)
Effect on Deferral and Variance Account Rate Riders		
Closing balance in Account 1576		(\$ 756,333)
Return on Rate Base Associated with Account 1576 balance at WACC, note 3		(\$ 50,063)
Amount included in Deferral and Variance Account Rate Rider Calculation		(\$ 806,396)

The Settlement Proposal also indicated that under IFRS, Guelph Hydro has an ongoing responsibility to review and update annually its PP&E useful lives, which could result in accounting changes and depreciation expenses. Guelph Hydro has also indicated that it may be reviewing its capitalization of overhead costs during the IRM term. This is because Guelph Hydro was the first LDC to convert

¹³ *Ibid*, Page 25

to IFRS in 2010-2011, at which time many of the accounting rules related to rate-regulated entities had not been fully developed. Therefore, the Parties agree to capture rate base impacts of capitalization and depreciation changes until the next rebasing application¹⁴.

OEB staff submits that the reasoning provided by the OEB in the OEB IFRS Report was at a time of uncertainty in the transition to IFRS. In this specific case, Guelph Hydro has provided evidence which identifies material impacts due to depreciation/capitalization policy changes. OEB staff agrees with the Parties' proposal and supports the position that these amounts should be returned to customers given that depreciation in rates was higher than actual depreciation rates at the time. OEB staff also supports Parties' proposal to continue to track rate base impacts of further capitalization and depreciation changes until the next rebasing application as Guelph Hydro has indicated that future changes may be made.

Because there is currently no account to capture changes of this nature, Parties agreed to use Account 1576, pending OEB approval. OEB staff notes that Account 1576 Accounting Changes Under CGAAP was established for distributors to record the financial differences arising as a result of the election to make accounting changes to depreciation expense and capitalization policies under Canadian GAAP in 2012 or to make these accounting changes in 2013 as mandated by the OEB¹⁵. Guelph Hydro transitioned to IFRS in 2012 and was already on IFRS when these differences arose. Therefore Account 1576 may not technically be the most appropriate account. The alternative is for Guelph Hydro to create a sub-account within Account 1508 Other Regulatory Assets¹⁶. If the OEB opts for the alternative, a draft Accounting Order will need to be provided as part of the draft Rate Order process, which will be required at a minimum for the update to the cost of capital parameters.

¹⁴ 1-SEC-1 part (f); Exhibit 2/Tab2/Schedule 3/Section 2.5.2.3. Capitalization Policy, page 3; Transcript pages 28-31 and 67-68

¹⁵ Ontario Energy Board, Accounting Procedures Handbook Frequently Asked Questions, July 2012, Page 26

¹⁶ In the Settlement Proposal filed in the 2016 Hydro Ottawa proceeding (EB-2015-0004) on September 18, 2015, Parties in that proceeding agreed to a \$502K IFRS increase to rate base as at January 1, 2014 used for financial accounting purposes, to be adopted for regulatory purposes so as to allow for one set of records. Opening 2016 rate base will be increased, but a corresponding amount (\$502K) will be returned to ratepayers over a one year period (2016) recorded to deferral account 1508.

Wireless Attachment

The OEB has initiated a consultation (EB-2014-0365) regarding a proposal to amend distributor licences to allow market rates to be charged for wireless pole attachments¹⁷. This comes as a result of the Toronto Hydro Wireless Attachment proceeding (EB-2013-0234), wherein the OEB determined that Toronto Hydro could charge market rates for all wireless attachments¹⁸. Wireless attachments are typically antennas attached to the top of the power poles. The Settlement Proposal includes the establishment of a new variance account for the purpose of recording any net incremental revenues received from new wireless attachments to Guelph Hydro's distribution system at any time during the term of the current IRM plan.

The revenues recorded in this account will be net of all costs associated with administering and facilitating the installation of such wireless attachments. If the amounts in this account exceed Guelph Hydro's materiality threshold, Guelph Hydro will seek disposition of this account at the time of its next rebasing application. If the amounts in this account do not exceed Guelph Hydro's materiality threshold, Guelph Hydro will seek to discontinue this account without seeking disposition of the amounts recorded in this account.

OEB staff does not have any concerns with this proposal given the OEB's decision to allow market rates for wireless connections.

Specific Service Charges – Bond Connection

As part of its application, Guelph Hydro requested approval for two new Specific Service Charges: Bond Connection - Underground and Bond Connection - Overhead. Bond Connection refers to charges applicable to joint use parties requesting to bond or connect equipment to Guelph Hydro's system neutral¹⁹.

¹⁷ OEB Letter: Wireless Attachment Consultation (EB-2014-0365, July 30, 2015,

¹⁸ As part of the Canadian Cable Television Association (CCTA) proceeding (EB-2003-0049), the OEB approved a charge of \$22.35 per pole attachment per year. In the CANDAS proceeding (EB-2011-0120), the OEB confirmed that this rate applies to both wireline and wireless attachments. This charge applies to all electricity distributors with the exception of Toronto Hydro.

¹⁹ EB-2015-0073, Exhibit 8, Tab 6, Schedule 1, Page 1, April 24, 2015

Guelph Hydro is proposing to charge \$100 for an underground bond connection and \$105 for an overhead bond connection. Guelph Hydro projects two underground and six overhead bond connection requests in 2016 with a revenue forecast of \$830.00. The forecasted revenue will be applied as an offset to Guelph Hydro's 2016 Test Year Revenue Requirement.

Guelph Hydro was asked as part of the discovery process how it currently recovers the Bond Connection costs and to indicate the authority under which Guelph Hydro currently levies these charges²⁰. Guelph Hydro noted that it currently charges a fixed rate of \$73 for an overhead bond connection and \$26 for an underground bond connection. It was also noted by Guelph Hydro that it:

Currently does not have the basis/authority to levy these charges, and that is why the utility is seeking to remedy this in EB-2015-0073. Clearly, Guelph Hydro needs to recover its costs when customers request the utility to provide these services, and while the overall level of activity for these services is expected to remain low, Guelph Hydro recognized the need to apply Board-approved rates and charges for these services²¹.

As part of the Settlement Agreement, Parties accepted the new charges noting that they are based on Guelph Hydro's actual cost reflected in its work orders to complete the overhead and underground Bond Connections, and that they were calculated in accordance with the OEB's 2006 Electricity Distribution Rate Handbook²².

OEB staff submits that it has reviewed how these charges have been constructed and has no concerns with the nature of the changes and their proposed levels as they follow OEB-approved methodology.

While OEB staff supports the Settlement Proposal's acceptance of these two new charges, OEB staff notes that section 11.1 of Guelph Hydro's electricity distribution licence states that "(t)he Licensee shall not charge for connection to the distribution system, the distribution of electricity or the retailing of electricity to

²⁰ Interrogatory 8-VECC-58 and Technical Conference Question from VECC 8-VECC-76

²¹ Technical Conference Responses, 8-VECC-76, August 7, 2015, Page 21

²² Settlement Proposal, Guelph Hydro, Sept. 24, 2015, Page 32

meet its obligation under section 29 of the Electricity Act except in accordance with a Rate Order of the Board.”

The matter of charging for these services without a valid rate order in previous periods is a matter that will be dealt with in a separate process, and in OEB staff's view does not affect the reasonableness of the Settlement Proposal to charge these rates going forward.

Control Room Services Arrangement

Guelph Hydro indicated that it has signed a three-year contract with Milton Hydro to provide to Milton Hydro control room services, 16 hours/day over five business days per week. This shared service started in late 2014. As a result, Guelph Hydro is now the control authority for Milton Hydro as well as for Guelph Hydro's operations staff. Guelph Hydro plans to move to 24/7 control room coverage and also plans to expand this service to Milton Hydro.

Estimated incremental revenues for Guelph Hydro as a result of this agreement are \$50,000 in 2015 for providing day shift control room services and on-call services, and \$100,000 in 2016 and onwards. Initial direct costs are being paid for by Milton Hydro. These revenues are recorded as part of Other Revenues by Guelph Hydro which offsets its service Revenue Requirement by an incremental \$100,000. OEB staff notes that Guelph Hydro's materiality threshold is \$172,000.

OEB staff also notes that Section 71 (1) of the *Ontario Energy Board Act (OEB Act)*, 1998, S.O. 1998, c. 15, Sched. B states:

Subject to subsection 70 (9) and subsection (2) of this section, a transmitter or distributor shall not, except through one or more affiliates, carry on any business activity other than transmitting or distributing electricity. 2004, c. 23, Sched. B, s. 12.

In addition, Schedule A of Guelph Hydro's licence (ED-2002-0565) specifies the area in which it is authorized to distribute and sell electricity in accordance with paragraph 8.1²³ of its license. The City of Milton is not listed in this Schedule.

OEB staff notes that the Control Room Services Arrangement is not specifically discussed in the Settlement Proposal but submits that for purposes of setting rates in this proceeding, the costs and revenues flowing from the settlement proposal appear to be reasonable. This activity benefits Guelph Hydro's customers as the base Revenue Requirement is lower than it otherwise would have been in the absence of this activity.

That being said, in the event the OEB approves the Settlement Proposal, the OEB may wish to note in its decision that while it is accepting the rate consequences of this arrangement, the OEB would not be bound by this arrangement going forward, pending any prospective generic outcome or decision by the OEB of whether outsourcing control room services between distributors is a valid activity under the OEB Act and distribution licenses.

All of which is respectfully submitted

²³ Section 8.1 notes that "The Licensee shall fulfill its obligation under section 29 of the Electricity Act to sell electricity in accordance with the requirements established in the Standard Supply Service Code, the Retail Settlement Code and the Licensee's Rate Order as approved by the Board."