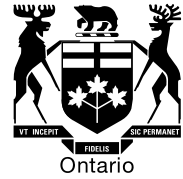


**Ontario Energy
Board**
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

**Commission de l'énergie
de l'Ontario**
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273



BY E-MAIL

October 8, 2015

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

Dear Ms. Walli:

**Re: Waterloo North Hydro Inc.
2016 Distribution Rate Application
OEB Staff Submission
OEB File No. EB-2015-0108**

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 Waterloo North Hydro Inc. and to all other registered parties to this proceeding.

Yours truly,

Original Signed By

Jane Scott
Project Advisor, Electricity Rates & Prices

Encl.

2016 ELECTRICITY DISTRIBUTION RATES
Waterloo North Hydro Inc.

EB-2015-0108

**OEB STAFF SUBMISSION ON SETTLEMENT
PROPOSAL**

October 8, 2015

INTRODUCTION

On October 1, 2015, Waterloo North Hydro Inc. (Waterloo North 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 Waterloo North Hydro and the following approved intervenors in the proceeding:

Energy Probe Research Foundation (EP)
School Energy Coalition (SEC)
University of Waterloo (UoW) represented by E2 Energy Inc.
Vulnerable Energy Consumers Coalition (VECC)

The settlement proposal represents a full settlement on all issues.

Ontario Energy Board (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 Waterloo North 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 Waterloo North 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 parties considered the issues and outcomes of the RRFE in the context of Waterloo North 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 Waterloo North 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)
- Rate Design
- New Deferral and Variance Accounts
 - Other Post-Employment Benefits (OPEBs)
 - Gains/Losses on Disposition of Municipal Stations (MSs)
 - Wireless and Wireline Attachments
- Eligible Investments for Connection of Qualifying Generation Facilities to be funded by the Independent Electricity System Operator (IESO)

Distribution System Plan

The parties agree that the DSP filed in this proceeding, combined with the resources made available to Waterloo North Hydro in the test year under the terms of this settlement proposal, provide a foundation to Waterloo North 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 and notes that Waterloo North Hydro has indicated that it will accommodate the agreed to reductions in capital additions of \$500,000 by deferring some projects and by seeking efficiencies in delivering planned

projects, reflecting one of the RRFE's stated goals of pursuing operational efficiencies.

In addition, OEB staff supports and sees merit in Waterloo North Hydro's commitment to "undertake a review of executive compensation incentive plans with its board of directors to evaluate the potential for more objective measures, and to identify potential opportunities for even better alignment with the Board's RRFE outcomes and the metrics of the DSP"¹. In staff's view, this commitment is in line with RRFE's aims of continuous improvement and a focus on outcomes.

However, OEB staff wishes to make the following observations about Waterloo North Hydro's DSP. While Waterloo North Hydro's DSP has demonstrated progress towards incorporating RRFE objectives and does provide justification for its five-year capital expenditure plans and the pacing of expenditures, there are still improvements that should be made in preparing future DSPs. This need for enhancement of the process has been recognized by Waterloo North Hydro and in some cases, changes have already been initiated. For example, at the Technical Conference held on August 19, 2015, Mr. Haller of Waterloo North Hydro stated:

MR. HALLER: Up until just recently, our asset conditions have been assessed by internal staff, and we have used our judgment based on inspections, test results that we have received, the age of the equipment to provide a condition, and that's provided in the DSP. What we have done just recently, as described in the DSP, is engaged Kinectrics to do an asset condition assessment, and we have started off with wood poles.²

Specifically, OEB staff would encourage Waterloo North Hydro to ensure that in future DSP filings there is a clear link between the results of their customer engagement activities and planned capital projects and that the asset condition

¹Settlement Proposal, Waterloo North Hydro Inc., October 1, 2015, p.12

²Transcript, p. 47, lines 15-22

assessment methodology and prioritization of projects is performed on a more rigorous, analytical basis.

Rate Design

Waterloo North Hydro has four classes, General Service < 50 kW, General Service > 50 kW, Large Use and Street Lighting, in which the current fixed charge for these classes exceeds what is known as the 'ceiling' -- the cost of the minimum-specification distribution system taking into account the amount of demand this system can supply³. The OEB's filing requirements state that distributors whose current fixed charge is higher than the calculated ceiling are not expected to raise the fixed charge further above the ceiling. Distributors are not required to lower it either.⁴

As part of the settlement, the parties propose to maintain the fixed charges at their current levels for all four classes. This is consistent with the policy. OEB staff notes that for the residential class the recovery of distribution costs will transition to fully fixed rates over four years. Again, this is consistent with policy.

New Deferral and Variance Accounts

Other Post-Employment Benefits

In the OEB's Decision with Reasons in the Ontario Power Generation Inc. (OPG) proceeding⁵, 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

³This concept is defined in the OEB's Cost Allocation Review: Board Directions on Cost Allocation Methodology for Electricity Distributors (EB-2005-0317), September 29, 2006

⁴OEB Filing Requirements For Electricity Distribution Rate Applications- 2015 Edition for 2016 Rate Applications -Chapter 2 Cost of Service, July 16, 2015, p.57

⁵EB-2013-0321, Decision with Reasons, November 20, 2014

proposal Waterloo North Hydro agreed to reflect the recovery of OPEBs on a cash, rather than an accrual basis⁶. The impact of this change is to reduce Operating, Maintenance & Administration (OM&A) expenditures by \$176,000 since the entire amount of the OPEB costs were captured in OM&A in Waterloo North Hydro's 2016 Rate Filing. This amount is derived as follows:

OPEBs (accrual basis)	\$391,999
OPEBs (cash basis)	\$215,973
Excess	\$176,026

In addition, Waterloo North Hydro agreed to allocate the OPEBs proportionally between capital and OM&A in the test year. This is in keeping with Waterloo North Hydro's (and other utilities') accounting practice to appropriately allocate the fully burdened costs between capital and OM&A. As a result, of the \$215,973 OPEB costs, as shown above, \$86,000 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/variance 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 basis⁷.

The Settlement Agreement notes that:

If the Board determines that LDCs must only include in rates OPEBs accounted for using a cash basis, WNH 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

⁶ All of the parties recognized 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.

⁷Settlement Proposal, Waterloo North Hydro Inc. EB-2015-0108, October 1, 2015, Page 56

using an accrual accounting methodology, the Parties agree that WNH will be permitted to seek disposition of this account to recover the amounts so recorded in its next Rate Application following the Board's Decision.⁸

OEB staff supports the establishment of this deferral/variance account until such time as the OEB makes a final policy determination on the issue. The difference is material for Waterloo North Hydro and this treatment is consistent with the OEB's treatment of OPG's difference between cash and accrual costs for OPEBs. However, OEB staff notes that this will be a Group 2 account and would normally be reviewed for disposition during a Cost of Service application. Additionally, OEB staff notes that the correct name for this account should be 1508 Other Regulatory Asset – Sub-account OPEB Forecast Cash versus Forecast Accrual Differential Deferral Account. Further, OEB staff understands that the Decision referred to in the settlement proposal is the OEB's establishment of any policy with respect to OPEBs, not the Decision for this proceeding.

Notwithstanding its support, OEB staff would like to highlight aspects in the current proposal which differ from the account approved in the OPG proceeding. In the current case, the forecast cash payments made by Waterloo North Hydro for OPEBs will not be trued-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 Waterloo North 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). 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

⁸Settlement Proposal, Waterloo North Hydro Inc. EB-2015-0108, October 1, 2015, Page 56

accounts to track ongoing impacts arising from actuarial gains and losses. Waterloo North Hydro has not requested such accounts.

A second aspect of the current proposal which differs from the account approved in the OPG proceeding is that the parties have agreed that carrying charges will apply to this account. In the OPG decision, the OEB did not approve the accrual of interest on the deferral account balance given that it tracks non-cash items.⁹

OEB staff supports the approach taken by the parties with respect to the recovery mechanism for OPEBs specifically, however submits that the accrual of interest on this account would be inconsistent with the OPG decision.

Gains/Losses on Disposition of Municipal Stations

Waterloo North Hydro has five 4.16 kV municipal stations that it is planning to retire by 2018 with the completion of the rebuilding of the last of the 4.16 kV distribution system to a higher voltage. A deferral/variance account has been proposed to capture net gains and losses on disposition of various MS properties.

Waterloo North Hydro and the parties propose to track the proceeds of the sale of land and buildings made surplus as a result of these retirements, net of remediation costs and taxes. The settlement proposal commits Waterloo North Hydro to share 75% of the after tax net gain from the sale of land and buildings to ratepayers. In the event of a net loss, no amount will be recovered from ratepayers¹⁰.

OEB staff supports this arrangement as reasonable and 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

⁹EB-2013-0321, Decision with Reasons, November 20, 2014, p. 92

¹⁰Settlement Proposal, Waterloo North Hydro Inc. EB-2015-0108, October 1, 2015, p.55

to share its assets with them. It was thus entitled to retain the entire proceeds of sale of surplus assets¹¹.

In OEB staff's view, however, the more relevant cases on this topic are those which deal with the matter of the sale of assets pursuant to a facilities consolidation plan or the execution of an efficiency strategy, such as a voltage conversion program. In these cases¹², the OEB has accepted a range of levels of sharing. In OEB staff's view, Waterloo North Hydro's proposal is acceptable for three chief reasons: the bulk of any net proceeds will accrue to ratepayers; the persistence of a small share to be retained by Waterloo North provides it an incentive to receive the best price for the land being sold; and the rate payer will be held harmless if there is a loss on the net sale of the properties.

Wireless and Wireline Attachments

In December 2014, the OEB initiated a consultation to consider whether all distributors should be able to charge market rates for wireless attachments.¹³ Wireless attachments are typically antennas attached to the top of the power poles. The consultation came as a result of the Toronto Hydro Wireless Attachment proceeding, in which the OEB determined that Toronto Hydro could charge market rates for all wireless attachment. The OEB concluded the consultation on July 30, 2015 indicating that it intends to initiate a proceeding on its own motion to amend rate-regulated distributor licences to allow for market rates for wireless attachments.

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 Waterloo North Hydro's distribution system at any time during the term of the current incentive regulation mechanism plan. The

¹¹ EB-2005-0211, Decision with Reasons, June 27, 2007, p. 11

¹² 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 Limited EB-2014-0086 December 4, 2014

¹³ EB-2014-0365, Wireless Attachment Consultation, December 11, 2014. Note as part of the Canadian Cable Television Association (CCTA) proceeding (RP-2003-0249), 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.

revenues recorded in this account will be net of all costs associated with administering and facilitating the installation of such wireless attachments.

Waterloo North Hydro has forecasted no revenues from wireless attachments, which would be used as a revenue offset to distribution costs. 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.

Additionally, the parties have agreed that Waterloo North Hydro shall record in this variance account any changes in revenue received due to any change in the currently regulated wireline attachment rate of \$22.35 per attachment per pole per year that has applied generically to all distributors since 2005. OEB staff notes that other utilities have applied to increase the wireline attachment rate; Toronto Hydro's pole attachment rate was recently set at \$42/per pole/per year.¹⁴

OEB staff does not have any concerns with this proposal.

Eligible Investments for Connection of Qualifying Generation Facilities to be funded by the IESO

Waterloo North Hydro had one qualifying project to connect a Generation Facility in 2013. As part of the Settlement Proposal, Waterloo North Hydro has agreed to forego an immaterial amount of revenue (approximately \$30,000) to which it would otherwise have been entitled as part of the policy framework which allows distributors to receive funding from all Ontario electricity customers for connecting renewable generation. Waterloo North Hydro has proposed recording the \$9,766 for 2016 in other revenue and to forego equivalent amounts from 2014 and 2015. OEB staff notes that the Ontario Energy Board Act requires that rate protection be provided to customers¹⁵; however, in OEB staff's view, the amount is so immaterial to a distributor the size of Waterloo North Hydro that any

¹⁴EB-2014-0116 Decision on Settlement Proposal, July 23, 2015

¹⁵*Ontario Energy Board Act, 1998, S.O. 1998, c. 15, (Schedule B); Section 79.1*

impact on customers' rates would be negligible. The use of the current mechanism for rate protection through IESO settlements for the amounts for 2014 and 2015 would therefore require incremental administration effort with no appreciable rate protection for customers. The proposed other revenue treatment provides equivalent rate protection for 2016.

All of which is respectfully submitted