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BY E-MAIL

November 12, 2015

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Hydro Ottawa Limited
OEB File No. EB-2015-0004**

Please find attached OEB staff's submission with respect to the pole attachment rate and working capital allowance for Hydro Ottawa Limited's custom incentive rate-setting application.

Yours truly,

Original signed by

Violet Binette
Project Advisor, Applications

Attach

HYDRO OTTAWA LIMITED
2016-2020 ELECTRICITY DISTRIBUTION RATES

EB-2015-0004

Ontario Energy Board
Staff Submission
Pole Attachment Rate and
Working Capital Allowance

November 12, 2015

INTRODUCTION

Hydro Ottawa Limited (Hydro Ottawa) filed a custom incentive rate (custom IR) application with the Ontario Energy Board (OEB) on April 29, 2015 seeking approval for changes to the rates that Hydro Ottawa charges for electricity distribution, to be effective January 1, 2016 and for each following year through to December 31, 2020.

On September 18, 2015, Hydro Ottawa filed a Settlement Proposal of all issues within Hydro Ottawa's custom IR application, except for the specific service charge called "Access to Power Poles" (pole attachment rate) and working capital allowance.

The following is OEB staff's submission on the pole attachment rate and working capital allowance.

POLE ATTACHMENT RATE

A technical conference was held on August 25, 2015 which dealt specifically with the issue of the pole attachment rate.

In Procedural Order No. 9, issued on October 14, 2015, the OEB advised the parties to the proceeding that the OEB plans to undertake a policy review of miscellaneous rates and charges commencing this year, which will include a review of the pole attachment rate methodology and treatment of third party revenues. An oral hearing on Hydro Ottawa's pole attachment rate was held on October 16, 2015. The scope of the hearing excluded matters of methodology. Argument in chief was filed on November 5, 2015.

The OEB has made provision for submissions on the pole attachment rate. As a result of the policy review, the OEB requested that parties also make submissions on whether the OEB should approve the pole attachment rate in this proceeding on an interim rather than final basis.

THE APPLICATION

As part of its 2016-2020 custom IR application, Hydro Ottawa proposed an increase to its pole attachment rate from \$22.35 per pole per year to \$57.00 for 2016, with an adjustment for inflation on an annual basis between 2017 and 2020. Hydro Ottawa stated that the \$22.35 rate "has applied for more than 10 years and no longer reflects the direct and indirect costs associated with maintaining third-party attachments."¹

The 2015 revenue from wireline attachers at the current rate is \$1,013,914, while the

¹ Hydro Ottawa Application, Exh H-7-1, p 5

projected 2016 revenue at the proposed rate is \$2,552,583.²

There are several third parties who pay annual charges to attach to Hydro Ottawa poles. These third parties include street light owners, telecommunications companies and Hydro One Networks Inc. In addition, Hydro Ottawa has a long-standing joint use agreement with Bell Canada, which allows for reciprocal access to each other's poles. In response to an interrogatory,³ Hydro Ottawa confirmed that Bell Canada pays Hydro Ottawa the OEB-approved rate of \$22.35 for its wireline attachments.

The third party telecommunications companies who pay the pole attachment rate to Hydro Ottawa are:

- Allstream Inc. (Allstream)
- Quebecor Media Inc. (Quebecor)
- Rogers Communications Partnership (Rogers)
- TELUS Communications Company (TELUS)

The four parties listed above participated in the proceeding.

BACKGROUND

In 2003, the Canadian Cable Television Association (CCTA) filed an application with the OEB on behalf of its members that operate in Ontario. The application sought uniform terms of access and a province-wide pole attachment rate. The prior period pole attachment rate had been set by the Canadian Radio and Telecommunications Commission (CRTC) at \$15.89 per pole per year.

In the RP-2003-0249 proceeding, the OEB considered what the appropriate methodology should be to set the pole attachment rate. For example, the OEB determined that common costs related to poles should be shared equally. The OEB also set out the costs that would be used to calculate the province-wide pole attachment rate going forward. On March 7, 2005, the OEB issued its decision which set a pole attachment rate of \$22.35 per pole per year. The rate is summarized in Attachment 1.

Pole attachment rates are one of several specific service charges that are approved for a utility by the OEB. The revenue earned from these specific service charges is applied as an offset against the utility's revenue requirement.

² Interrogatory Response IR:H-7-1(Carriers #16) p 2

³ Interrogatory Response IR:H-7-1 Carriers #2(b)

POSITIONS OF PARTIES

In argument in chief, Hydro Ottawa stated that its application for a pole attachment rate based on Hydro Ottawa's own costing is in accordance with the RP-2003-0249 decision. At page 8 of that decision, it states:

This is not to say there should not be relief available for electricity distributors who feel the province-wide rate is not appropriate to their circumstances. Any LDC that believes that the province-wide rate is not appropriate can bring an application to have the rates modified based on its own costing. Absent any application, the province-wide rate will apply as a condition of licence, as of the date of the Order.

Two of the intervenors that represent electricity consumers, School Energy Coalition (SEC) and Vulnerable Energy Consumers Coalition (VECC), participated in this part of the Hydro Ottawa hearing and cross examined at the October 16, 2015 oral hearing.

The four telecommunications companies listed above do not agree with Hydro Ottawa's proposal. Quebecor, Rogers and TELUS (the Carriers) filed the evidence of David McKeown and Kevin Richard. Allstream filed the evidence of Adrian Macdonald to support its position. The evidence of the Carriers sets out a pole attachment rate of \$17.18 per pole per year.

The positions of Hydro Ottawa and the Carriers are summarized in the table in Attachment 2. The table also includes the RP-2003-0249 pole attachment rate for reference.

SCOPE OF SUBMISSIONS

The OEB made provision for submissions on the Hydro Ottawa pole attachment rate, excluding matters related to methodology, and whether the pole attachment rate decided upon in this proceeding should be approved as interim.⁴

In the Decision and Procedural Order No. 9 issued on October 14, 2015, the OEB stated that, "matters related to methodology are ... out of scope including proportional versus equal sharing, the number of attachers per pole and the issue of pole ownership versus tenancy."

Parties at the oral hearing did not dispute that proportional versus equal sharing and the issue of pole ownership versus tenancy were elements of methodology. The parties did argue that the number of attachers per pole was not an element of methodology.

⁴ Hearing Transcript October 16, 2015, p 1

Following argument on the matter, the OEB permitted cross examination on the number of attachers.⁵

Hydro Ottawa's application proposed 2.0 attachers. In the hearing,⁶ Hydro Ottawa indicated that actual number of attachers was less than 2.0.

OEB Staff Submission

OEB staff refers to the RP-2003-0249 decision at page 10:

As stated, the Board believes that a single province-wide rate is in the public interest. As indicated, the Board believes [it is] more realistic to use 2.5 as the number of attachers. The Board agrees with the EDA and CEA that the common costs should be shared equally among all attachers. On these **principles** and the cost data described above, the annual pole charge is \$22.35 per attacher as set out in Appendix 2. [emphasis added]

On the basis of this reference, OEB staff submits that 2.5 attachers as used in the RP-2003-0249 decision is a component of the methodology, rather than simply a data input. In the event the policy review does not consider the number of attachers as a part of methodology and rather a data input, OEB staff submits that 2.5 attachers should be the basis for the rate determination until the completion of the policy review (or other OEB process).

POLE ATTACHMENT RATE OPTIONS

Substantially all distributors⁷ have a pole attachment rate as part of their OEB approved tariff. The OEB will approve a rate in the current Hydro Ottawa proceeding. OEB staff submits that there are several pole attachment rate options that the OEB can consider.

The OEB could consider holding the pole attachment rate at \$22.35. On November 5, 2015, the OEB advised all distributors and parties to proceedings in which pole attachment rate decisions are pending that it is initiating a comprehensive policy review of miscellaneous rates and charges. The OEB plans to prioritize the review of wireline pole attachments. As the OEB has limited the review in the current Hydro Ottawa proceeding by excluding methodology, and as the policy review has been initiated, holding the rate at \$22.35 could be considered appropriate.

⁵ Hearing Transcript October 16, 2015, p 22

⁶ Hearing Transcript October 16, 2015, p 69-71

⁷ Attawapiskat Power, Hydro One Remote Communities, and Kashechewan Power do not have pole attachment rates.

The OEB could also consider an inflation adjustment on the current pole attachment rate. The OEB has limited the review in the current Hydro Ottawa proceeding by excluding methodology. As noted above in the section regarding scope of submissions and number of attachers, there is no clear agreement on what constitutes methodology. If every aspect of the RP-2003-0249 decision is considered methodology, a simple inflation adjustment could be considered to be appropriate. OEB staff has estimated that the 2005 to 2015 inflation adjusted pole attachment rate would be \$26.21.⁸

The remainder of this submission discusses another option should the OEB find that a pole attachment rate other than \$22.35 or \$26.21 is appropriate for Hydro Ottawa to charge, on a final or interim basis. OEB staff submits that a pole attachment rate of \$42.37 may be appropriate. OEB staff has also summarized its derivation of a pole attachment rate of \$42.37 in column 6 of Attachment 2.

Historical versus Forecast Costs

In a cost of service rate application, the determination of the distribution rates is based on forecast data, rather than historical. In Hydro Ottawa's custom IR application, the proposed pole attachment rate was based on historical 2013 data. Through the course of the proceeding, more data were filed, including 2014 data and data at August 18, 2015. At the oral hearing, VECC cross examined Hydro Ottawa about the data and the consistency of the data. SEC cross examined the Carriers about the use of historical data versus forecast data.

OEB Staff Submission

OEB staff notes that the RP-2003-0249 decision was based on historical costs. OEB staff submits that the record is not clear enough to proceed with a pole attachment rate based on a forecast, and that the use of historical data is reasonable in this circumstance.

In the current proceeding, the most complete set of historical data is for the year 2013.

Direct Costs

Direct costs are incremental costs incurred by the distributor that result directly from the presence of the third party equipment. The RP-2003-0249 itemized administration costs and loss in productivity (LIP) costs as direct costs.

⁸ Bank of Canada Inflation Calculator (www.bankofcanada.ca/rates/related/inflation-calculator) from 2005 to 2015

Administration Costs

The RP-2003-0249 decision accepted the \$0.62 of administration cost from the 1999 CRTC decision and increased it for inflation to \$0.69.

In response to Carriers' interrogatory #7, Hydro Ottawa provided a 2013 administration cost of \$141,291 and divided this by the number of poles with attachments (i.e. 35,663) to calculate an administration cost of \$3.96. As the amount was not further divided by the number of attachers, Carrier's counsel cross examined the Hydro Ottawa panel on the matter at the hearing on October 16, 2015.⁹ Hydro Ottawa noted that the RP-2003-0249 decision did not specify that administration costs would be divided by the number of attachers.

OEB Staff Submission

Hydro Ottawa did not further divide the administration cost per pole by the number of attachers because the RP-2003-0249 decision (reproduced at Attachment 1) did not specifically indicate that the \$0.69 was divided between attachers, while the LIP component was clearly divided by the number of attachers.

OEB staff notes the RP-2003-0249 decision relied on the 99-13 CRTC decision which stated:

193. The Commission notes that the CCTA stated that administration costs specifically applicable to the placement of facilities on the MEA members' poles should also be seen as incremental costs appropriately recoverable through monthly pole rates.

194. However, the Commission notes that the MEA did not identify such pole-related administration costs. The MEA has taken a different approach to estimating the administration costs and has not included an incremental cost specific to pole-only related administration costs. Absent any specific evidence as to what would constitute a reasonable incremental cost for pole-related administration costs, the Commission has derived a \$0.62 figure based on the MEA's submission, as discussed further in the following section

OEB staff submits that the RP-2003-0249 selection of \$0.69 as the administration cost was a determination made on a proxy basis. OEB staff submits that it is unreasonable to charge \$3.96/pole to each attacher as Hydro Ottawa will collect more than its administration costs. Assuming 35,663 poles and 2.5 attachers, Hydro Ottawa would

⁹ Hearing Transcript October 16, 2015, p 92-94

collect \$353,063 which significantly exceeds the 2013 administration cost of \$141,291. OEB staff submits that the \$3.96 per pole amount should be further divided by the number of attachers to avoid over-collection. Using 2.5 attachers, this would result in a reduction of Hydro Ottawa's proposed amount from \$3.96 to \$1.58.

Loss in Productivity Costs

LIP costs are additional costs incurred by distributors to maintain the pole that are directly attributable to the presence of third party equipment.

In response to Carriers' interrogatory #13, Hydro Ottawa provided a total 2013 LIP cost of \$310,419. The LIP cost is comprised of pole replacement and field verification costs as summarized in the following:

Table 1

a	Field Verification	\$81,410
b	Returning Crew	\$188,988
c	Pole Replacement (a+b)	\$270,398
d	Wires Down	\$14,720
e	Tree on Wires	\$25,301
f	Field Verification (d+e)	\$40,021
g	TOTAL(c+f)	\$310,419

Hydro Ottawa divided this total by the number of poles with attachments (i.e. 35,663) to calculate a proposed LIP cost of \$8.71. The amount was not divided by the number of attachers. Carrier's counsel cross examined the Hydro Ottawa panel on the matter at the hearing on October 16, 2015.¹⁰

As part of the Carriers' evidence¹¹, Mr. McKeown submitted that pole replacement costs (i.e. \$270,398) have been included in account 1830¹² and therefore are being recovered through distribution rates. As a result, to avoid double recovery, these costs should not be included in the calculation, thereby significantly reducing the LIP amount. At the

¹⁰ Hearing Transcript October 16, 2015, p 92-94

¹¹ Evidence of Mr. McKeown p 11, para 60

¹² OEB approved distribution account, Accounting Procedures Handbook: 1830 Poles, Towers, and Fixtures - This account shall include the cost installed of poles, towers, and appurtenant fixtures used for supporting overhead distribution conductors and service wires.

Technical Conference,¹³ Hydro Ottawa confirmed that the costs of replacing poles, including all crew visits are included in account 1830.

OEB Staff Submission

OEB staff cross examined Hydro Ottawa at the oral hearing on October 16, 2015 about LIP costs. OEB staff sought further clarification on pole replacement costs charged to account 1830. Hydro Ottawa clarified that all the costs related to pole replacement are charged to account 1830 except “the site visit to verify that the attacher has transferred”.¹⁴

At page 106 of the 2006 Electricity Distribution Rate Handbook it states

Specific Service Charges are an integral part of a distributor’s approved schedule of rates for the distribution of electricity. The revenue from these charges is taken into account in calculating a distributor’s total revenue requirement. There should be no duplication in the recovery of costs between the Specific Service Charges and the regular distribution rates. Double recovery is to be avoided.

OEB staff submits therefore that only the field verification cost related to pole replacement should be included in a determination of pole attachment rate to avoid double recovery. The costs in the table above would be reduced by \$188,988, resulting in a total LIP cost of \$121,431, or \$3.40 per pole.

The methodology of the RP-2003-0249 decision is clear that LIP costs are to be divided by the number of attachers. On the basis of 2.5 attachers the LIP cost would be \$1.36.

OEB staff notes that Hydro Ottawa in its argument in chief, “sees merit in dividing the Administration Costs and Loss in Productivity by the number of “charge-paying” attachments instead of the number of poles.”

Indirect Costs

Indirect costs, or common costs, are borne by the distributor and the third parties. The RP-2003-0249 concluded that depreciation, maintenance and carrying costs were representative indirect costs.

¹³ Technical Conference Transcript August 13, 2015 p 72-73

¹⁴ Hearing Transcript October 16, 2015, p 89

Net Embedded Cost

In the RP-2003-0249 decision, the OEB found that CCTA estimates were appropriate. The CCTA proposal assumed “a **typical** pole height of 40 feet with two feet of communications space, 3.25 feet of separation and 11.50 feet of power space.” [emphasis added] The net embedded cost per pole applied in the decision was \$478 per pole.

In response to an interrogatory from the Carriers,¹⁵ Hydro Ottawa outlined the determination of the proposed net embedded cost. As originally filed, the net embedded cost on the basis of financial records for external reporting purposes was \$1,678 per pole. On the basis of net book value of poles, towers and fixtures in account 1830 divided by the number of in-service poles, the net embedded cost is \$1,569 per pole.

As part of the Carriers’ evidence,¹⁶ Mr. McKeown submitted that certain cost elements included in account 1830 are power-specific assets used for supporting overhead distribution conductors and service wires, which are not needed for telecommunications cable attachments. He proposed that 15% of account 1830 is a reasonable proxy for these power-specific assets.

Similarly, Mr. Richard provided evidence regarding the power-specific assets included in account 1830.¹⁷ In cross-examination, Hydro Ottawa counsel challenged the list of items identified by Mr. Richard with respect to the actual Hydro Ottawa situation.¹⁸ Mr. Richard agreed that the list should have been qualified to be a list of power-specific assets that are not specific to telecommunication.

OEB Staff Submission

OEB staff submits that the determination of the indirect costs starts with the establishment of an appropriate net embedded cost of a pole. Hydro Ottawa’s Asset Management Plan indicates that 98.9% of its poles are wood.¹⁹ However, while wood is representative of the most common pole material, no information was filed on the distribution of the various wood pole heights to determine what is typical. And there is no Hydro Ottawa evidence regarding the costs included in account 1830 that relate to power-specific assets. Consequently, there is little to confirm that the net embedded cost of \$1,589 is representative of the 40 foot pole initially adopted as typical in the RP-2003-0249 methodology. OEB staff notes that the RP-2003-0249 decision relied on the 1995 data of Milton Hydro and a pole cost of \$478. For reference, the 2015 escalated

¹⁵ Interrogatory Response IR:H-7-1 Carriers #7

¹⁶ Evidence of Mr. McKeown p 14-15

¹⁷ Evidence of Mr. Richard p 4

¹⁸ Hearing Transcript October 16, 2015, p 120-122

¹⁹ Asset Management Plan, Exh B, Part 3, section 6.1

cost would be \$692.

Furthermore, OEB staff submits that there are power-specific assets included in account 1830 that should be excluded from the determination of the net embedded costs. There is insufficient information to determine the basis for a specific exclusion.

However, despite the absence of more detailed information, OEB staff submits that the net embedded cost per pole provided by Hydro Ottawa of \$1,569 is reasonable for the purposes of this submission. The most complete set of information relating to net embedded costs, depreciation and pole maintenance is that filed by Hydro Ottawa.

Depreciation, Pole Maintenance and Capital Carrying Costs

For the purposes of this submission, OEB staff has applied the depreciation and pole maintenance expenses proposed by Hydro Ottawa. The capital carrying cost has been revised to a pre-tax rate to be consistent with the methodology of the RP-2003-0239 decision. The rate of 8.04% was confirmed at the oral hearing.²⁰

Allocation Factor

As outlined earlier in this submission, OEB staff submits that the number of attachers should be 2.5. As a result, OEB staff submits that the appropriate allocation factor should be 21.9% as indicated in the RP-2003-0249 decision.

Calculated Pole Attachment Rate

OEB staff has calculated a pole attachment rate of \$42.37 on the basis of the submission noted above for consideration by the OEB.²¹

FINAL OR INTERIM POLE ATTACHMENT RATE

Following the RP-2003-0249 Decision, the current rate of \$22.35 per pole per year was established in 2005 as a province-wide rate. Recently, Hydro One Networks Inc. and Toronto Hydro-Electric System Limited requested to increase this rate to more accurately reflect the costs associated with pole attachments. In the Hydro One

²⁰ Hearing Transcript October 16, 2015, p 102

²¹ In the event that the panel wishes to consider an adjustment for power-specific assets, OEB staff notes that a 15% adjustment (as suggested by the Carriers), would reduce the OEB staff's calculated rate to \$36.45.

Networks application, the current rate was approved as interim.²² In the Toronto Hydro application, the rate was accepted by the OEB as part of the Settlement Proposal²³ and is on a final basis. All other distributors, except Attawapiskat Power, Hydro One Remote Communities and Kashechewan Power continue to charge \$22.35.

OEB Staff Submission

As stated above, the OEB has initiated a policy review of miscellaneous rates and charges, and plans to prioritize the review of wireline pole attachments.

OEB staff notes that in the normal course, OEB policy reviews are implemented on a going-forward basis, typically only at the time of rebasing. The June 12, 2015 implementation of changes to streetlighting cost allocation generally followed this approach, but provided specific exceptions for distributors where the topic had arisen as an issue in a recent proceeding.²⁴ In still other policy consultations,²⁵ the OEB established generic deferral or variance accounts to track the impact of the new policy.

If the OEB decides that the Hydro Ottawa pole attachment rate should be set at \$22.35 or the inflation adjusted rate of \$26.21, OEB staff submits that it is appropriate to set the rate on an interim basis since it would not be established on the basis of cost, but rather as a placeholder rate until a different rate is established at a future point, likely through the policy review that the OEB has initiated. There is precedent for doing so in the Hydro One Networks case. At page 3 of the April 17, 2015 EB-2013-0416 Hydro One Networks Decision on Draft Rate Order, it states:

As no finding has yet been made on the requests for leave to file a motion, the OEB will not approve the new specific service charge for pole attachments as final. That charge will be interim at its current level until the EB-2015-0141 matter is resolved. Hydro One is directed to track the lost incremental revenue it would have received through the proposed increase to the Specific Charge for Cable and Telecom Companies Access to the Power Poles, in order that it may it may apply to recover that revenue if applicable.

Nevertheless, the fact remains that Hydro Ottawa applied in this application to increase its pole attachment rate as it submits that the costs for the service exceed the current rate. The RP-2003-0249 decision permits applications for pole attachment rates that differ from the province-wide rate; Hydro Ottawa did so on the basis of its costs. OEB staff also notes that the principles of fairness and rate certainty generally call for rates

²² Hydro One Networks EB-2013-0416 Decision on Draft Rate Order April 17, 2015, p 3

²³ Toronto Hydro EB-2014-0116 Decision on Settlement Proposal July 23, 2015, p 3

²⁴ EB-2012-0383, *New Cost Allocation Policy for Street Lighting Rate Class*, June 12, 2015

²⁵ EB-2009-0397, *Filing Requirements: Distribution System Plans – Filing under Deemed Conditions of Licence*, May 17, 2012

to be made final when it is reasonable to do so, rather than remain open to retrospective adjustments. Accordingly, in OEB staff's view, if the OEB decides that the Hydro Ottawa pole attachment rate should be set at \$42.37, or some rate other than \$22.35 (or its inflation-adjusted equivalent of \$26.21) based on the costs assessed in this proceeding, it is reasonable for the OEB to set this rate on a final basis. It is OEB staff's view that parties to this proceeding have put considerable effort into analyzing the cost data for Hydro Ottawa pole attachment. The OEB may find that a final rate is appropriate as any further analysis and precision would not be warranted. Setting rates on a final basis is generally preferable. However, OEB staff recognizes that any cost based rate in this proceeding would be developed based on the current methodology. The OEB's policy review could lead to changes in that methodology at some point in the future. On that basis there would also be reasonable grounds for the OEB to approve the rate on an interim basis.

CONCLUSION ON POLE ATTACHMENT RATE

Based on a review of the Hydro Ottawa application, the evidence of the intervenors, the technical conference and the oral hearing, OEB staff provides the following options (in order of preference) for the consideration of the OEB.

Option One

Based on OEB staff's analysis, the OEB could declare a \$42.37 pole attachment rate as final. The determination is based on actual utility costs. If rates are established on a final basis, the OEB could also permit Hydro Ottawa the option to include in its mid-term review an opportunity to update its rates on the basis of the outcomes of the OEB's comprehensive policy review. This approach would be consistent with approaches taken in other policy reviews, such as the streetlighting policy, and also with the general OEB practice of implementing changes on a prospective basis only. At the same time, OEB staff acknowledges that while costs filed in evidence support the derivation of this rate, the panel may find that having excluded consideration of changes to methodology in assessing the derivation of a new rate, it may be appropriate to declare the \$42.37 rate as interim.

Option Two

The OEB could declare the current \$22.35 rate as interim, pending the outcome of the generic review.

Option Three

The OEB could apply inflation to the \$22.35 pole attachment rate approved in 2005. The

OEB could declare a \$26.21 pole attachment rate as interim, also pending the outcome of the generic review.

WORKING CAPITAL ALLOWANCE

The application was filed using a working capital allowance of 14.2% each year of the custom IR period. The resulting working capital for 2016 was \$139.3 million. The 14.2% working capital allowance is based on a lead-lag study filed by Hydro Ottawa in its last cost of service application, EB-2011-0054. Hydro Ottawa proposed to update the working capital allowance in the current proceeding in September 2015 once it had a full year of monthly billing data to analyze.

On June 3, 2015, the OEB issued a letter to all distributors regarding working capital. Effective immediately, the default value for working capital allowance for distributors would be changed from 13%, established on April 12, 2012, to 7.5%. The OEB stated that distributors could use a lead-lag study “or equivalent analysis to support a request for a distributor-specific working capital allowance.”

On September 18, 2015, a settlement proposal was filed in the current Hydro Ottawa proceeding. For the purposes of the settlement proposal, Hydro Ottawa used an interim working capital allowance of 7.5% as a placeholder. The settlement proposal indicated that Hydro Ottawa had initiated a lead-lag study and that “the results of this study will be subject to a discovery process to be determined by the OEB”. Procedural Order No. 10 provided the parties until November 5, 2015 to submit a joint proposal on the working capital allowance.

PROPOSAL ON WORKING CAPITAL ALLOWANCE

On November 5, 2015, Hydro Ottawa, on behalf of the parties to the September 18, 2015 settlement proposal, filed an amendment to the settlement proposal that reflected consideration of the lead-lag study dated October 20, 2015 prepared by Navigant Consulting Ltd. (Navigant).

The parties reviewed the Navigant study and considered the OEB’s letter of June 3, 2015. The parties’ proposal is summarized in Table 1 of the amendment to the settlement proposal.

2016-2020 Working Capital Factors

	2016	2017	2018	2019	2020
Navigant WCF (%)	8.04	8.04	8.08	8.13	8.09
Settled WCF (%)	7.89	7.89	7.92	7.55	7.52
Difference (%)	(0.15)	(0.15)	(0.16)	(0.58)	(0.57)

Hydro Ottawa noted in the amendment that it is not making commitments with respect

to the components of working capital, e.g. collection lags. However, “Hydro Ottawa will make efforts across the spectrum of working capital factors to make the improvements to achieve the specific WCF values.”

OEB Staff Submission

OEB staff was not a party to the amended settlement proposal, but provides this submission in accordance with the OEB’s *Practice Direction on Settlement Conferences*.

OEB staff has reviewed the lead-lag study filed by Hydro Ottawa and takes no issue with the methodology used by Navigant to calculate Hydro Ottawa’s working capital.

OEB staff submits that the service lag, billing lag and payment processing lag as calculated by Navigant for use in Hydro Ottawa’s custom IR period are similar to those underpinning the OEB’s analysis set out in the June 3, 2015 letter. The collection lag as calculated by Navigant was 25.98 days. The settled working capital allowances in the table above are based on the following collection lags summarized in Table 2 of the amendment to the settlement proposal.

2016-2020 Collection Lag (days)

	2016	2017	2018	2019	2020
Collection Lag (days)	25.45	25.45	25.45	24.00	24.00

As set out in the OEB’s June 3, 2015 letter, the 7.5% working capital allowance was based on a collection lag of 22 days. The notes to the analysis indicate that eight lead-lag studies were reviewed and that the observed sample of collection lag ranged between 21.8 days to 29.1 days.

OEB staff submits that the collection lags summarized in the amendment to the settlement proposal fall within a reasonable range. OEB staff also submits that continuous improvement is demonstrated in the proposed working capital allowance for the custom IR period, as well as in the collection lag underpinning the proposed working capital allowance.

All of which is respectfully submitted.

Attachment 1

Excerpt from RP-2003-0249

Appendix 2: 2.5 Attachers - Shared Costs Evenly Spread Amongst All Users

	<i>Price Component - Per Pole</i>	<i>\$</i>	<i>Explanation</i>
	DIRECT COST		
A	Administration Costs	\$0.69	CRTC estimate 1999 \$0.62, plus inflation
B	Loss in Productivity	\$1.23	MEA estimate 1991 = \$3.08, plus inflation, and divided between 2.5 pole attachers
C	Total Direct Costs	\$1.92	A + B
	INDIRECT COST		
D	Net Embedded Cost per pole	\$478.00	Milton Hydro 1995 = \$478
E	Depreciation Expense	\$31.11	Milton Hydro 1995 = \$31.11
F	Pole Maintenance Expense	\$7.61	Milton Hydro 1995 = \$6.47, plus inflation
G	Capital Carrying Cost	\$54.59	Pre-tax weighted average cost of capital 11.42% applied to net embedded cost per pole (D)
H	Total Indirect Costs per Pole	\$93.31	E+F+G
I	Allocation Factor	21.9%	Allocation based on 2.5 attachers
J	Indirect Costs Allocated	\$20.43	H x I
K	Annual Pole Rental Charge	\$22.35	C + J

Attachment 2

[illegible]