



EB-2015-0004

Hydro Ottawa Limited

**Application for electricity distribution rates for the
period from January 1, 2016 to December 31, 2020**

**DECISION ON SETTLEMENT PROPOSAL
AND
PROCEDURAL ORDER NO. 11**

November 23, 2015

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.

A settlement conference was held from August 25 to 27, 2015. The following intervenors participated in the settlement conference:

- Consumers Council of Canada
- Energy Probe Research Foundation
- School Energy Coalition
- Vulnerable Energy Consumers Coalition
- Allstream Inc. (Allstream)
- Quebecor Media (Quebecor)
- Rogers Communications Partnership (Rogers)
- TELUS Communications Inc. (TELUS)

On September 18, 2015, Hydro Ottawa filed a settlement proposal of all issues within Hydro Ottawa's Custom IR application, except for the working capital allowance and the pole attachment rate. Allstream, Quebecor, Rogers and TELUS (the Carriers) were not

parties to the settlement proposal and only participated in the pole attachment rate discussion.

The settlement proposal was presented to the OEB at an oral hearing held on September 30, 2015. Following Hydro Ottawa's presentation, the utility answered questions from the OEB about the settlement proposal.

Hydro Ottawa filed an amendment to the settlement proposal on November 5, 2015 to incorporate the proposed working capital allowance for the Custom IR term.

Summary of Findings

The OEB does not approve the settlement proposal as filed. The OEB does not find sufficient evidence to determine prudence of the following:

- The \$73 million cost estimate of the new administration and operations buildings (the New Buildings).
- The need for approximately 9 acres of land in excess of the building requirements at a cost of \$4 million "to expand in future, if necessary".¹

In addition, the OEB cannot accept the provisions of the settlement proposal relating to confidentiality and privilege as proposed. The OEB is aware that this issue has been considered in several other proceedings² and the OEB encourages the parties to consider whether they can agree to wording similar to what the OEB found to be acceptable in the Guelph Hydro and Waterloo North proceedings.³

The OEB accepts the remainder of the settlement proposal including the subsequent amendment of the working capital allowance, finding that the remainder of the settlement proposal reflects the public interest. The OEB's concerns regarding the prudence of the New Buildings and land are further explained below.

Cost of the New Buildings

A Custom IR necessitates a pre-approval of capital expenditures and an assessment of prudence for rate base additions during the five-year term of the plan. Distribution assets such as connections, poles and wires, with a direct customer benefit, are common capital investments for an electricity distributor. The process of budgeting for costs and assessing prudence is standard regulatory practice.

¹ Response to SEC IR#11 Attachment B page 3

² Guelph Hydro (EB-2015-0073), Kingston Hydro(EB-2015- 0083), Waterloo North(EB-2015-0108)

³ Guelph Hydro (EB-2015-0073) Decision and Procedural Order No. 3 at page 5; Waterloo North(EB-2015-0108) Decision and Procedural Order No.3 at page 4

In contrast, the New Buildings are unique and considered to be a “once in a generation” investment with indirect customer benefit. An estimate is being presented in the settlement proposal as a “cap” as design-build proposals have yet to be received and evaluated and a recommended selection made. In the normal course, the prudence of this capital investment and rate base addition would not be determined in the absence of more definitive evidence regarding the outcome of the Request for Proposal process for the design and construction of these buildings.

The comparative information provided by Hydro Ottawa regarding space standards and square footage per employee for offices and workstations was not in the OEB’s view sufficiently tested in this proceeding in order to prove determinative.

The OEB finds that Hydro Ottawa has demonstrated the need for the New Buildings. The current buildings are at the end of their useful lives and at capacity from a staffing perspective. However, regarding the estimated cost of the New Buildings, the OEB finds that Hydro Ottawa has not demonstrated the prudence of the \$73 million cost estimate.

Office Space and Staff Growth Assumptions

The OEB also finds that Hydro Ottawa has not adequately demonstrated the efficiencies to be realized by relocating and aligning staff in the New Buildings, and the ultimate benefit to the ratepayers.

Hydro Ottawa needs to substantiate that efficiencies are expected to be gained by locating staff to one administration building and improving workspace configuration.

The New Buildings are planned and the land was purchased with excess capacity. However, the OEB would expect staffing to decrease as a result of these efficiencies, but that is not explained in the evidence. Hydro Ottawa proposes additional office space in the administration building to accommodate 30% staff growth.⁴ However, Hydro Ottawa has not provided evidence to support this assumption.

Land Area Requirement

The OEB finds that Hydro Ottawa has not demonstrated the prudence of the \$19 million cost for the 41 acres of land.⁵ The land was purchased in 2012 and 2013. The total cost of \$19 million includes 9 acres of excess land valued at \$4 million.⁶ The benefit to customers associated with the \$4 million cost of the excess land has also not been explained.

⁴ Exh B Rate Base Part 2 Distribution System Plan p 341, footnote 4

⁵ Exh B Rate Base Part 2 Distribution System Plan p 339-340

⁶ Response to SEC IR#11 Attachment B page 5

The OEB finds the evidence to be inconclusive, suggesting that the purchased land area included a contingency over and above what is required for the New Buildings, by indicating that the “actual land acquisition provides capacity to expand in future, if necessary.”⁷

The Application and Settlement Proposal

Hydro Ottawa proposed a Y-factor treatment for the New Buildings in its application, as filed on April 29, 2015. Hydro Ottawa proposed to record revenue requirement impact in a Y-factor account as timing of the completion of the New Buildings was uncertain. When the New Buildings were used or useful, the costs would effectively be moved to rate base and a Y-factor application would then be filed for a rate rider. Through settlement, the parties agreed:

- To the Y-factor treatment up to a “cap” of \$73 million. The parties accepted that the \$73 million for New Buildings was an appropriate spending level.
- That the cost for land would remain in construction work in progress until the New Buildings go into service.
- That the value of old facilities would be removed from rate base when the New Buildings go into service or upon the sale of the old facilities.
- That ratepayers would be credited with 100% of the proceeds from the sale of land and old facilities, net of taxes.

OEB Findings

The OEB is prepared to approve Y-factor treatment based on the recovery of up to \$66 million combined for the proposed New Buildings and the land. The timing of the rate riders is still uncertain and will be subject to a subsequent application to implement the rate riders once the New Buildings and land are used or useful, as described in the settlement proposal.

The \$66 million was determined by the OEB as a reasonable amount to enable Hydro Ottawa to proceed with the Request for Proposal process while ensuring that any additional cost of the New Buildings and the land is subject to a prudence review at a future date. It is an estimate, using rounded numbers, based on the operations building budget of \$22 million, 70% of the administration building budget of \$41 million (\$29 million) and land costs of \$15 million.⁸ While Hydro Ottawa has applied for recovery of up to \$92 million for the New Buildings and land in the Custom IR term, the OEB is only prepared at this point to accept up to \$66 million.

⁷ Response to SEC IR#11 Attachment B page 3, note 6

⁸ Response to SEC IR#11 Attachment B page 3 and 5

The OEB expects that Hydro Ottawa will provide the evidence to support its spending above \$66 million for the New Building and land and proposed rate base additions as part of its next rebasing application. The evidence would need to demonstrate prudence of the cost of the New Buildings, land and the associated benefit to customers.

The approved \$66 million demonstrates that the OEB has assessed and approved the need for the New Buildings and land. The approved Y-factor deferral account will provide rate relief and certainty to Hydro Ottawa, prior to its next rebasing application. The OEB accepts the settlement proposal's provisions regarding the proceeds from the sale of the current facilities and associated land.

The settlement proposal that the OEB has been asked to consider contains atypical rate making options. The OEB is prepared to accept these rate making options as it is efficient to do so, provided the OEB retains its ability to assess prudence for rate base additions above \$66 million, based on sufficient evidence.

Alternatively, the parties have the option to sever all aspects of the settlement proposal related to the New Buildings and land and to file a revised settlement proposal.

Subject to notification from the parties, the OEB is prepared to make provision to reconvene the settlement conference so that the parties can consider the settlement proposal and the impact of the OEB's decision on New Buildings and land.

In the event that the parties do not agree to revise the settlement proposal, the matter will proceed to a hearing. The \$66 million referenced in this Decision should in no way be seen as a pre-determination of the final amount the OEB would accept as being prudently incurred in respect of the land and the New Buildings.

THE OEB ORDERS THAT:

1. If Hydro Ottawa and the other parties to the settlement proposal are prepared to modify the settlement proposal in the manner set out by the OEB along with any consequential amendments, the revised settlement proposal shall be filed by **December 7, 2015**. If the parties cannot agree on a revised settlement proposal, the OEB directs Hydro Ottawa to advise the OEB by **December 7, 2015**.

All filings to the OEB must quote the file number, **EB-2015-0004**, be made in searchable / unrestricted PDF format electronically through the OEB's web portal at www.pes.ontarioenergyboard.ca/eservice/. Two paper copies must also be filed at the OEB's address provided below. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the

RESS Document Guideline found at www.ontarioenergyboard.ca/OEB/Industry. If the web portal is not available parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Violet Binette at violet.binette@ontarioenergyboard.ca and OEB counsel, Maureen Helt at maureen.helt@ontarioenergyboard.ca.

ADDRESS

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

E-mail: boardsec@ontarioenergyboard.ca
Tel: 1-888-632-6273 (Toll free)
Fax: 416-440-7656

DATED at Toronto, **November 23, 2015**

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary