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BY E-MAIL

March 11, 2016

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

Dear Ms. Walli:

Re: Wellington North Power Inc.
2016 Distribution Rate Application
OEB Staff Submission
OEB File No. EB-2015-0110

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 Wellington North Power 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

Wellington North Power Inc.

EB-2015-0110

OEB STAFF SUBMISSION ON SETTLEMENT PROPOSAL

March 11, 2016

INTRODUCTION

On November 2, 2015, Wellington North Power Inc. (Wellington North) 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 May 1, 2016. The parties to the settlement proposal are Wellington North and the following approved intervenors in the proceeding:

- Energy Probe Research Foundation
- Vulnerable Energy Consumers Coalition

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 Wellington North’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 Wellington North’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 Wellington North’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.

Staff submits that 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 Wellington North 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)
- Second Line Feeder to Mount Forest and Variance Account (Sections 1.1.1 and 4.2.4)
- Pole-line Replacement (Section 1.1.1)
- Advanced Capital Module (ACM) (Section 1.1.2)
- Smart Meters Typical Useful Life (Section 2.1.4)
- MicroFIT Monthly Service Charge (Section 2.1.7)
- Residential Rate Design (Section 3.3.2)
- Bill Impacts/Adjustment of Fixed/Variable Splits (Section 3.3.1)
- Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) (Section 4.2.1)
- New Deferral and Variance Accounts
    - Other Post-Employment Benefits (OPEBs) (Section 1.2.2)

Distribution System Plan (DSP)

The parties state that the DSP filed in this proceeding, combined with the resources made available to Wellington North in the test year under the terms of this Settlement Proposal, provides a foundation to Wellington North in the test year to continue to: (a) maintain system reliability and service quality objectives; and (b) maintain reliable and safe operation of its distribution system. In addition, the parties state that the applicant has adequately demonstrated it is using reasonable efforts to pursue operational effectiveness initiatives.

However, OEB staff wishes to make the following observation about Wellington North's DSP. While Wellington North'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. For example, it is not evident whether the Wellington North asset replacement process involves a written, quantitative process e.g. weighting and scoring. OEB staff would encourage Wellington North to ensure that in future DSP filings there is a clear link between the results of its customer engagement activities and planned capital projects and that the asset condition assessment methodology and prioritization of projects is performed on a more rigorous, analytical basis.

Second Line Feeder to Mount Forest (Section 1.1.1)

In the settlement proposal, the parties agree to Wellington North's proposed capital expenditures in 2016, with an adjustment of ($139,700) for a total of $1,593,911. Included in this amount is $1,027,767 for the construction of a second line feeder to Mount Forest, consisting of a capital contribution to Hydro One Networks Inc. (HONI) and related Wellingon North costs. The parties agree that the need for the second line was justified on the basis of current demand limitations and as an alternative supply for a line that has experienced long outages due to its restricted access. OEB staff concurs.

As part of the settlement proposal related to the capital funding associated with the building of the second line feeder to Mount Forest, the parties agreed to establish a symmetrical variance account to capture any variance in revenue requirement related to the either the timing of the projects (it is scheduled to be in-service in 2016) or the final costs. This project represents a significant investment for Wellington North, accounting for 65% of its 2016 capital budget. However, the utility does not have control over the timing of the work.

OEB staff submits that existing OEB rate-setting policies can accommodate uncertain project timing through its Advanced Capital Module. Nevertheless, OEB staff accepts that the proposal from the parties is reasonable. OEB staff notes that while it is not normal practise to true-up revenue requirement from forecasted capital expenditures to actuals, in this case there are extenuating cirumstances. The magnitude of the expenditure and the lack of control of the timing could result in the difference in revenue requirement being material. OEB staff notes that Wellington North's 2016 rates assume an in-service date of 2016 and are based on half-year treatment of this project's cost of $1,027,767. Should the actual in-service date be in 2017, then the impact of the difference in revenue requirement in 2016 will be recorded in the variance account. Should the actual in-service date be after 2017 or the project is cancelled, then Wellington North will calculate any revenue requirement associated with the project embedded in rates during the Price Cap IR term for inclusion in the variance account. The account will only serve to reconcile differences in timing and cost of the project relative to forecast; it does not exist to provide the full-year revenue requirement treatment to the project once it has been in service for two years. This adjustment will only be made upon rebasing.

Pole-line Replacement (Section 1.1.1)

As part of the the settlement package, the parties have agreed to add $40,000 for a capital pole-line replacement project in 2016. The parties' proposal reports that this change to the application is to assist with diverting approximately $10,000 of labour costs to capital projects instead of labour expense accounts. OEB staff submits that under normal circumstances this would not be a supportable way of reducing expenses, however in this case for Wellington North, as part of the total settlement package, OEB staff does not object to the approach. OEB staff notes that the project is less than the materiality threshold of $50,000; that there remains scope for the utility to increase modestly its pole replacement activities from current levels while maintaining reasonable pacing; and that any intergenerational consequences of the capitalization of an amount that would otherwise be expensed are minimal.

Advanced Capital Module (ACM) (Section 1.1.2)

Wellington North is the first electricity distributor to make an application for an Advanced Capital Module (ACM). As noted in the *Filing Requirements For*

Electricity Distribution Rate Applications – 2015 Edition for 2016 Rate Applications (Filing Requirements):

> The ACM expands the ICM concept to incorporate the concept of recovery for qualifying incremental capital investments during the Price Cap IR period with an opportunity to identify and pre-test such discrete capital projects documented in the DSP as part of the cost of service application.
>
> As part of a cost of service application, a distributor may propose qualifying ACM capital projects that are expected to be made and come into service during the subsequent Price Cap IR term. These will be discrete projects as documented in the DSP. The distributor must also identify that it is proposing ACM treatment for these future projects, and provide the cost information and materiality threshold calculations to show that these would qualify for ACM treatment based on the forecasted information at the time of the DSP and cost of service application.

Wellington North applied for approval to replace a municipal substation (MS) in 2018 and the parties reached a full settlement on the issue as per Wellington North's application. The project meets the requirements for an ACM and the need for the rebuilding of MS3 has been justified, based on a third party condition assessment report. OEB staff submits that Wellington North has properly calculated the Maximum Eligible Incremental Capital as per the OEB's revised policy[1]. The settlement proposal acknowledges that Wellington North will file "updated information on the forecasted costs and will demonstrate that the capital project still qualifies for incremental capital funding in its 2017 rate application seeking approval for 2018 distribution rates".[2] OEB staff notes that if costs are 30% (or more) above what was documented in the DSP, the distributor has the option of seeking approval for the incremental costs but would typically treat the project as a new ICM and re-file the business cases and other relevant material in the applicable IR year.[3]

1 EB-204-0219, Report of the OEB: New Policy Options for the Funding of Capital Investments: Supplemental Report, January 22, 2106

2 Settlement Proposal, Wellington North Hydro Inc. EB-2015-0110, March 4, 2016, Page 18

3 EB-2014-0219, Report of the Board, New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014, p. 12

Smart Meters Typical Useful Life (Section 2.1.4)

In its application Wellington North had proposed that the typical useful life (TUL) for its Smart Meters be reduced from 15 years to 10 years. This was based on a high failure rate of Smart Meters observed in the first three years after installation. As part of the settlement, the parties have agreed that the TUL for Wellington North's Smart Meters will remain at 15 years. The proposed TUL of 10 years was based on Measurement Canada's meter seal date, which is not necessarily representative of the expected life of the meter. OEB staff notes that while there may be justification for a change in the TUL of Smart Meters, any change to the appropriate life would require analysis more detailed than that which has been presented in this application. In addition, OEB staff would encourage Wellington North to investigate the cause of the failures of its Smart Meters with the supplier and ensure that all means of redress have been explored.

MicroFIT Monthly Service Charge (Section 2.1.7)

In its application, Wellington North proposed increasing its MicroFIT Monthly Service Charge from the default provincial-wide value of $5.40[4] to $10.00. The rationale for this increase was that Wellington North incurs a $10.00 monthly fee per microFIT meter point from its settlement provider and therefore this should be passed on to the microFIT customers. Wellington North pointed out that the OEB had approved this increase for other distributors that used the same provider; namely St Thomas Energy Inc.[5] In its response to interrogatory 3-VECC-21, Wellington North indicated the actual total fixed cost to serve these customers was $15.69 and this was the amount the parties agreed to in the settlement proposal. OEB staff notes that distributors are permitted to apply for a utility specific microFIT service charge if the default value is not reflective of their actual costs[6] and therefore recommends acceptance of the revised charge. Wellington

4 OEB letter, Update to Fixed Monthly Charge for microFIT Generator Service, EB-2009-0326, September 20, 2012

5 EB-2014-0113, Rate Order, December 18, 2014

6 OEB letter, Update to Fixed Monthly Charge for microFIT Generator Service, EB-2009-0326, September 20, 2012

North has 19 microFIT customers and this increase in the microFIT Monthly Service Charge will result in an increase in other revenue of $1,297.

Residential Rate Design (Section 3.3.2)

OEB staff observes that the increase in residential class monthly fixed charge related to the new rate design policy is below the $4.00 threshold. OEB staff also observes that the total bill impact for residential customers at Wellington North's lowest 10th percentile of consumption is below the 10% threshold at 6.63%.

Given these factors, OEB staff takes no issue with Wellington North's proposal as it effectively achieves the outcomes of providing a timely implementation of the OEB's rate design policy, and ensuring that the bill impacts are not excessive for customers most impacted by this change.

Bill Impacts and Adjustment of Fixed/Variable Splits (Section 3.3.1)

In its application, Wellington North proposed adjusting the fixed/variable split from the current percentages for all six of its rate classes, primarily to ensure that the fixed charge fell within the minimum and maximum boundaries as determined by the cost allocation model, but also taking into consideration the impact on customers[7] . As part of the settlement, the parties propose to maintain the current fixed/variable split for the General Service < 50 kW, the Unmetered Scattered Load (UMSL), the Sentinel Lights and the Street Lighting class. As shown in Table 2 of the settlement proposal, the resulting total bill impact for all classes, except the UMSL, is below 10%. The bill impact for the UMSL class is 16.47%, however mitigation has not been proposed. As noted in the Filing Requirements: "A distributor must file a mitigation plan if total bill increases for any customer class exceed 10%."

The settlement proposal states:

> [T]he applicant is not proposing rate mitigation on the basis that:

7 EB-2015-0110, Exhibit 8, Tab 1, Schedule 3, p. 6

- The total bill impact is greater than 10% due to the small monthly usage associated with this rate class (an average monthly usage of 252 kWh)…
- There is only one (1) customer connection in the Unmetered Scattered Load rate class…

OEB staff further notes that the difference in total revenues assigned to the class based on the settlement proposal and the class revenue required to limit monthly bill impacts to 10% is approximately $50 for one year.

OEB staff submits that given the amounts involved, the explanation provided by Wellington North is reasonable.

Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) (Section 4.2.1)

For Conservation and Demand Management (CDM) programs delivered between 2011 and 2014, the OEB established Account 1568 - LRAMVA to capture the variance between the OEB-approved CDM forecast and the actual results at the customer rate class level. Wellington North filed for review of the LRAMVA as per the OEB's filing requirements for cost of service applications.

For purposes of settlement, the parties agreed to the LRAMVA calculations (as of December 31, 2014) for January 1, 2011 to December 31, 2014 CDM programs and the resulting deferral disposition balances as presented in the table below.

LRAMVA Balances

Rate Class	Unit	Balance ($)
Residential	kWh	3,804
GS<50 kW	kWh	7,454
GS>50-999 kW	kW	17
GS 1,000-4,999 kW	kW	941
Unmetered Scattered Load	kWh	(1)
Sentinel Lights	kW	(66)
Street Lights	kW	(388)
TOTAL		11,761

The LRAMVA claim is $11,761; the portion of which is related to demand-billed customers is a net value of $505. For the Panel's reference, Wellington North's materiality threshold as defined by the OEB's criteria is $50,000.

OEB staff notes that LRAMVA balance calculations in several recent applications (both IRM and cost of service) have included an adjustment factor (or multiplier) to verified demand savings in calculating lost revenues for the purpose of disposing of LRAMVA balances. These adjustment factors have varied by distributor and have been applied to both demand reductions resulting from energy efficiency programs and demand response program savings as reported by the IESO.

OEB staff approached the IESO to clarify this issue. In a memorandum to OEB staff dated February 24, 2016, a copy of which is attached to this submission, the IESO clarified its definition of verified demand savings and specifically reported that the IESO's methodology "makes no attempt to verify the impact that a demand response event may have on a customer's demand for the purposes of billing for distribution service, even in months where the demand response program was activated." The IESO's memorandum also indicates that "demand savings from energy efficiency programs are based on the average monthly demand savings for June, July and August. While there may be demand reductions in other months, or persistence into other years, revenue impacts would be dependent on the type of program".

On March 3, 2016, the OEB issued a letter to all licensed distributors indicating that the IESO's clarification suggests that further discussion of this issue on a generic basis is warranted.[8]

The OEB announced in the letter that it is holding a meeting on March 31, 2016 to gather input on the approach to recording demand (kW) savings in the LRAMVA. The OEB expects to provide further policy guidance on the LRAMVA following this meeting.

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[8] OEB Letter, Application of Demand Savings in Final Verified Conservation Results in LDC Lost Revenue Adjustment Mechanism (LRAM) Claims, March 3, 2016

OEB staff notes that Wellington North's LRAMVA claim is impacted by only the general multiplier issue that affects demand savings, and as noted above, the total portion of the LRAMVA related to demand billed customers is only $505.

OEB staff acknowledges that the settlement proposal filed in this proceeding has been filed as a "package"[9], and as indicated in the settlement proposal, none of the parts is severable. OEB staff notes that Wellington North's total LRAMVA claim includes an adjustment factor to verified demand savings. As noted previously, the component of the LRAMVA related to demand is only $505, which is well below Wellington North's materiality threshold. Furthermore, any new policy guidance would only affect a portion of this demand component, so the impact is even smaller. OEB staff submits therefore that it is reasonable for the OEB to accept the settlement proposal with the LRAMVA as filed. Wellington North will be informed by any policy outcome of the subject review going forward for future lost revenue claims.

While the parties to the settlement proposal could agree to postpone the disposition of an LRAMVA claim at this time pending the outcome of the OEB's policy review, in OEB staff's view this would introduce an unnecessary complexity to this process for an amount that is not material.

New Deferral and Variance Accounts

Other Post-Employment Benefits (OPEBs) (Section 1.2.2)

In the OEB's Decision with Reasons in the Ontario Power Generation Inc. (OPG) proceeding[10], 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.

[9] Settlement Proposal, Wellington North Hydro Inc. EB-2015-0110, March 4, 2016, Page 9
[10] EB-2013-0321, Decision with Reasons, November 20, 2014

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 proposal Wellington North agreed to reflect the recovery in rates of OPEBs on a cash, rather than an accrual basis. The impact of this change is to increase Operating, Maintenance & Administration (OM&A) expenditures by $12,000. This amount is derived as follows:

Description	Cash Basis	Accrual Basis	Adjustment
OPEBs	$12,568	$568	$12,000

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 the capitalized and OM&A components of OPEBs accounted for using a forecasted cash basis versus a forecasted accrual basis. If the OEB determines that LDCs must only include in rates OPEBs accounted for using a cash basis, Wellington North will seek to discontinue this account without seeking disposition of the amounts recorded in this account. If the OEB determines that LDCs may recover OPEBs in rates using an accrual accounting methodology, the Parties agree that Wellington North will be permitted to seek disposition of this account to recover the amounts so recorded in its next Rate Application following the OEB's Decision.[11]

OEB staff notes that currently the amounts related to OPEBs have not been material for Wellington North on an annual basis, however on a cumulative basis over the last six years, the amount is approaching Wellington North's materiality level of $50,000 and Wellington North indicates that in the future the amounts could be material.

OEB staff the supports the establishment of this deferral/variance account until such time as the OEB makes a final policy determination on the issue. Although the difference in 2016 is not currently material for Wellington North, it may be in

[11] Settlement Proposal, Wellington North Hydro Inc. EB-2015-0110, March 4, 2016, Page 64

future years. OEB staff further notes that this treatment is consistent with the OEB's decisions for other utilities.[12]

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

All of which is respectfully submitted

[12] For example: EB-2015-0108, Waterloo North Hydro Inc.