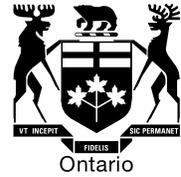


**Ontario Energy
Board**
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

**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

March 22, 2016

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

Dear Ms. Walli:

**Re: Ottawa River Power Corporation
2016 Distribution Rate Application
OEB Staff Submission
OEB File No. EB-2014-0105**

Please find attached OEB staff's submission on the filed settlement proposal for Ottawa River Power Corporation's 2016 cost of service application. This document is also being forwarded to Ottawa River Power Corporation, School Energy Coalition and to the Vulnerable Energy Consumers Coalition.

Yours truly,

Original Signed By

Birgit Armstrong
Advisor

Encl.

2016 ELECTRICITY DISTRIBUTION RATES
Ottawa River Power Corporation

EB-2014-0105

**OEB STAFF SUBMISSION ON SETTLEMENT
PROPOSAL**

March 22, 2016

INTRODUCTION

On March 15, 2016, Ottawa River Power Corporation (Ottawa River Power) 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 Ottawa River Power and the following approved intervenors in the proceeding: School Energy Coalition (SEC) and Vulnerable Energy Consumers Coalition (VECC)

The settlement proposal represents a partial settlement.

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 Ottawa River Power'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 Ottawa River Power'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 Ottawa River Powers' 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.

OEB staff submits that in reaching the partial settlement, the parties considered Ottawa River Power's customer engagement and feedback, industry benchmarks and past reliability and service quality performance.

OEB staff submits that the settlement proposal reflects a reasonable evaluation of the distributor's planned outcomes in this proceeding, and reflects appropriate consideration

of the relevant issues and sufficient resources to allow Ottawa River Power to achieve its identified outcomes in the four incentive rate-setting years that will follow.

Notwithstanding the above, OEB staff provides further specific submissions on the following two issues:

- Distribution System Plan (DSP)
- Operations, Maintenance and Administration
- Bill Impacts for Low Volume Residential Customers

Distribution System Plan

The parties agree that the DSP filed in this proceeding, combined with the resources made available to Ottawa River Power in the test year under the terms of this settlement proposal, provide a proper foundation to Ottawa River Power 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.

Ottawa River Power's forecasted capital additions (excluding contribution and grants) for the 2016 test year increased by 27% over 2010 actuals. The parties agreed to accept Ottawa River Power's capital additions of \$1,245,950 as applied for.

Ottawa River Power operates a distribution system that includes enough redundancy to allow Ottawa River Power a reactive or "run-to-fail" mode of operation for the past few decades.¹ As part of Ottawa River Power's DSP, the distributor has adopted a more proactive approach to its asset management. While a "run-to-fail" approach may have been appropriate in the past, OEB staff supports a more preventative asset management as Ottawa River Power's distribution system is aging. OEB staff submits that Ottawa River Power's current "just-in-time" asset replacement approach is in keeping with the OEB's RRWF objectives of operational efficiency. Customers should benefit from a safe, reliable and cost-effective system as assets will be replaced proactively as the assets approach end-of-life. The controlled and planned approach versus Ottawa River Power's reactive approach to asset management should produce a reliable and cost effective distribution system as system renewal is becoming an issue for the distributor.

¹ Exh. 2/Tab 5/Schedule 2 – Distribution System Plan, p. 5

Asset condition is a key component of distribution system planning. Ottawa River Power assesses the condition of its assets based on inspection, condition testing, asset performance data and root cause failure data and then adjusts the 'Typical-Useful-Life' established by the OEB² to establish 'Adjusted End-of-Life' projections. Ottawa River Power states that these "life expectancy adjustments are currently performed based on the judgement and expertise"³ of their staff. Ottawa River Power further states that it plans to develop a more definitive set of criteria that underpin life expectancy adjustment in the future, as it continues to collect adequate asset condition information to determine the risk of asset failure. While OEB staff supports Ottawa River Power's development of a cost efficient approach towards asset management during its transition towards a 'just-in-time' asset replacement approach, OEB staff is of the view that further development of these criteria is necessary. OEB staff submits that a detailed description of this new asset management approach should form part of Ottawa River Power's next DSP and be filed with its next cost of service applications.

On that basis, OEB staff submits that the agreed upon capital additions of \$1,245,950 is appropriate and will enable Ottawa River Power to maintain a safe and reliable operation of its distribution system.

Operations, Maintenance and Administration

The parties agreed to reduce its Operations, Maintenance and Administration budget (OM&A) budget by \$230,000 to \$3,065,000. The parties also agreed that the budget cuts will be allocated in proportion over the operations, maintenance and general administration categories. The agreed upon OM&A budget represents an increase of 18% over the last OEB-approved OM&A budget, or 3% annually since 2010. Inflation alone for this period has been 11%.

Long-term succession planning is the most significant cost driver beyond inflationary pressures. OEB staff notes that the majority of the increase in the total OM&A budget is allocated to labour resources that are required to maintain and operate the distribution system.. While the total number of full-time employees has remained flat at a 0%

² *Kinectrics Asset Depreciation Study for the Ontario Energy Board*, July 8, 2010,

³ Interrogatory Response, 2-Staff-15(b), p. 15

increase, total compensation has increased by 27% over 2010 as a result of promotions of apprentices into journeymen. OEB staff accepts that Ottawa River Power's approach to succession planning and training is reasonable given its challenges and priorities – in particular its migration towards a more proactive asset management approach and the development of more formal asset condition criteria.

OEB staff is of the view that the overall OM&A increase, when taken together with the DSP and capital expenditures, above reflect a reasonable approach to ensure the reliability and safety of Ottawa River Power's distribution system. OEB staff submits that the agreed upon budget cuts are reasonable and support the parties in their efforts to reach a level of planned OM&A expenditures that is appropriate and cost effective.

Bill Impacts for Low Volume Residential Customers

The OEB's April 2, 2015⁴ policy on electricity distribution rate design sets out that distribution rates for residential customers will transition to a fully fixed rate structure from the current combination of fixed and variable charges over four years. Starting in 2016, the fixed rate will increase gradually, and the usage rate will decline.

The OEB is requiring distributors to calculate and report on the rate impacts of the change so that strategies may be employed to smooth the transition for the customers most impacted, such as those that consume less electricity, if mitigation is required. In support of this, the OEB requires distributors to calculate the impact of this change to residential customers in general; it also requires applicants to calculate the combined impact of the fixed rate increase and any other changes in the cost of distribution service for those customers who are at the 10th percentile of overall consumption. Any increase of 10% or greater to these low-consumption customers' bills or an increase to the monthly fixed charge of greater than \$4 prior to incentive rate-setting adjustments, may result in the requirement for a longer transition period than four years specified in the OEB policy.

As a result of the settlement proposal, adjustments to Ottawa River Power's rate model to implement the change in fixed rates result in an increase to the fixed charge of \$2.28 based on a five year transition period. This amount is below the \$4 threshold, which is consistent with OEB policy⁵. OEB staff notes the bill impact for a typical residential

4 Board Policy: A New Distribution Rate Design for Residential Electricity Customers, EB-2012-0410, April 2, 2015

5 Filing for Electricity Distribution Rate Applications, Chapter 2, July 16, 2015, p 63

customer, consuming 800 kWh per month, is 1.36%. However the bill impact reflected in the settlement proposal for residential customers at Ottawa River Power's lowest 10th percentile of consumption (i.e. 206 kWh per month) is approximately 11.3% (i.e. above the 10% threshold). About 800 customers of Ottawa River consume this amount or less a month. The bill for these customers in 2016, at current time-of-use rates, is \$47.52, rising from \$42.69 in 2015. The difference between a 10% bill impact and the 11.3% proposed is \$0.56 per month – in OEB staff's view a difference that is likely smaller for most customers than the usual monthly variation in the total bills they face. The difficulty of implementing any further mitigation beyond the five year transition period may outweigh the benefit. Therefore, OEB staff submits that additional mitigation is not necessary.

OEB staff notes that parties appear to have taken reasonable steps to mitigate the bill impact for these customers where feasible. The current calculation of the bill impact to these customers is lower than the impact that resulted from Ottawa River Power's initial application. The parties agreed to extend the transition period toward a fixed rate design to five years. In addition, the parties agreed to dispose of Ottawa River Power's smart meter costs over a four year period versus two years as originally proposed. This change reduces the smart meter rate rider for the residential rate class from \$3.33 to \$1.68 monthly, helping to reduce the bill impact for low volume customers.

OEB staff is of the view that Ottawa River Power's settlement proposal and rate mitigation plan has satisfied Chapter 2 of the Filing Requirements for Electricity Rate Applications⁶.

OEB staff submits that Ottawa River Power's rate mitigation plan is a balance between the OEB's regulatory principles which include fairness, minimizing intergenerational inequity and minimizing rate volatility. One of the main tools to mitigate the impact was an elongated recovery of the smart meter deferral account balance. While it can be a risk that the extension of the smart meter recovery period raises intergenerational equity issues, OEB staff sees no significant concern in the case of Ottawa River Power, which has a relatively low growth rate of 1.0085⁷ percent for the residential customer class. OEB staff submits that this trade-off is acceptable in order to minimize rate volatility for low volume consumers, and that additional action to provide a further \$0.56 of monthly relief is not required.

6 Ibid, p. 63

7 Exhibit 3, p. 27 of 71

Finally, OEB staff also notes that the current bill impact calculation is based on the revenue requirement at the conclusion of the settlement process, with one remaining unsettled issue to be determined by the OEB during an oral hearing. Thus, a final bill impact calculations will be not been known until a decision on the unsettled issue has been rendered by the OEB.

In this instance and for those reasons, OEB staff does not take issue with Ottawa River Power bill impact of 11.3% for the low volume residential customer.

All of which is respectfully submitted