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BY E-MAIL

December 8, 2016

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

Dear Ms. Walli:

**Re: Canadian Niagara Power Inc.
2017 Distribution Rate Application
OEB Staff Submission
OEB File No. EB-2016-0061**

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 Canadian Niagara Power Inc. and to all other registered parties to this proceeding.

Yours truly,

Original Signed By

Martin Davies
Project Advisor, Major Applications

Encl.

2017 ELECTRICITY DISTRIBUTION RATES
Canadian Niagara Power Inc.

EB-2016-0061

**OEB STAFF SUBMISSION ON SETTLEMENT
PROPOSAL**

December 8, 2016

INTRODUCTION

On December 1, 2016, Canadian Niagara Power Inc. (CNPI) filed a settlement proposal with respect to its 2017 Cost of Service application seeking an order approving just and reasonable rates and other charges for electricity distribution to be effective January 1, 2017. The parties to the settlement proposal are CNPI and the following approved intervenors in the proceeding: Energy Probe Research Foundation (Energy Probe), School Energy Coalition (SEC) and Vulnerable Energy Consumers Coalition (VECC).

The settlement proposal represents a partial settlement. The Parties have reached a settlement with respect to many of the issues in this proceeding, with only the following 5 discrete issues going to hearing:

- Issue 1.2 OM&A, no settlement, full issue to hearing.
- Issue 2.1.1 Cost of Capital, partial settlement, the issue of whether and how expected changes in the cost of long-term debt in 2018 should be reflected in rates will go to hearing.
- Issue 4.1 Accounting Standards etc., partial settlement, the discrete issue of the appropriate accounting for Pension and OPEB costs in rates (cash vs. accrual) will go to hearing.
- Issue 4.2 Deferral and Variance Accounts, partial settlement, the issue of whether a variance account related to pension and OPEBs is appropriate will go to hearing, and the issue of whether a variance account should be established for future changes to the cost of long-term debt will go to hearing.
- Issue 4.2.1 Effective Date, no settlement, the issue of whether rates should be effective January 1, 2017 will go to hearing.

The following is Ontario Energy Board (OEB) staff's submission on the settlement proposal as filed.

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.

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 is making a submission on the area of Issue 1.1 Capital in order to assist the OEB's consideration of the settlement proposal.

Capital Budget and Distribution System Plan – Reliability and Service Quality

OEB staff notes that during the community meeting held in Gananoque on September 14, 2016, concern was raised by participants about reliability issues in this service territory.

CNPI was asked through an OEB staff interrogatory¹ to discuss this matter and to explain what specific actions were being taken by CNPI to address the factors that caused the referenced outages. In its response, CNPI outlined the steps it had taken including meetings with Hydro One Networks to discuss the feasibility of obtaining a second source of supply and meetings with affected customers. CNPI also indicated that on September 16, 2016, a meeting was held between representatives from CNPI, Hydro One Networks, the Town of Gananoque and local political leaders to discuss the cost of a second supply feeder. Hydro One agreed to perform preliminary feasibility studies and cost estimates and provide a report to CNPI by November 15, 2016.

CNPI was asked by OEB staff at the Technical Conference² to provide an update on this matter. CNPI stated that it would have a recommendation as to how to proceed by the end of this year. CNPI stated its view would be that the present

¹ EB-2016-0061, Interrogatory 2-Staff-46, September 23, 2016

² EB-2016-0061 TC Transcript, November 2, 2016, pp. 63-69.

application would proceed as it is and if it was determined through the process of assessing the feasibility of the second source of supply, that CNPI needed to incur significant additional costs to deal with this matter, it would subsequently file a separate Incremental Capital Module (ICM) type application to recover such costs.³ The settlement proposal does not specifically address the Gananoque reliability concerns nor CNPI's proposal that it may file an ICM during the incentive rate-setting period.

OEB staff's view is that the ICM is an available adjustment factor that has been established by the OEB as part of the Incentive Regulation framework and subject to the assessment of such a request in accordance with the criteria established by the OEB, OEB staff agrees with CNPI that this mechanism may be explored as a means of developing a solution to the area's reliability constraints.

OEB staff does not oppose the settlement proposal as filed by CNPI. However, OEB staff submits that the OEB should determine in its assessment of the settlement proposal whether the concerns of customers regarding the system reliability in Gananoque have been adequately addressed and may wish to provide direction to CNPI in its Decision on the settlement proposal.

An oral hearing has been tentatively scheduled on the unsettled issues. The panel may find it helpful to get an update from CNPI on its proposals to address reliability concerns at the hearing.

OEB staff also submits that it is unlikely that a Decision in this proceeding will be reached prior to January 1, 2017, the proposed implementation date for revised rates, and the OEB should therefore declare CNPI's rates interim as of January 1, 2017.

All of which is respectfully submitted

³ EB-2016-0061 TC Transcript, November 2, 2016, p. 67, L8 - L25