

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, (Schedule B);

AND IN THE MATTER OF an application by Canadian Niagara Power Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective January 1, 2017.

Canadian Niagara Power Inc.

Reply Submission

February 6, 2017

1. This is the Reply Submission of Canadian Niagara Power Inc. (“CNPI”). It has been organized by unsettled issue, being:
 - I. OM&A
 - II. Pensions and OPEBs
 - III. Cost of Long Term Debt
 - IV. Effective Date.

I. OM&A

A. *Reply to Intervenor and Board Staff Submissions*

i. *CNPI's Forecasting*

Board Staff, Energy Probe, VECC and SEC all made submissions with respect to the difference between CNPI's 2013 Board Approved OM&A levels and CNPI's actual 2013 OM&A spending, and suggest that, in light of this difference, the Board should assume that CNPI will under-spend its 2017 forecast as well.

CNPI submits that the difference between 2013 Board Approved and 2013 actual OM&A costs has been explained in detail at Appendix 2-JB, and many of these line items were examined in depth through the interrogatory process. The majority of the difference can be split into three categories:

- a) reductions in staffing;
- b) accounting adjustments; and
- c) miscellaneous.

With respect to reductions in staffing, CNPI submits that as certain positions became vacant, the decision not to backfill these positions was appropriate, and in the long-term best interests of ratepayers. In particular, changes to the CDM program framework coincident with a vacancy in the regulatory department presented a unique opportunity to avoid filling the vacancy, while using a previously full-time CDM resource to manage changes in work activity between the two departments.

The accounting adjustments include a credit of \$351,000 in 2013 actual general and administrative expenses that was inconsistent with 2013 Board Approved amounts as well as actual OM&A amounts in subsequent years. Also included is \$85,000 in relation to a 2013 reversal of a provision for approved IFRS costs. CNPI notes that Energy Probe and SEC adjusted for the \$351,000 vehicle depreciation amount in any comparisons or analysis that includes 2013 actuals, but seemingly (and inconsistently) did not consider the \$85,000 amount. CNPI further notes that VECC's calculation

of a 2013-2017 percentage increase in OM&A costs did not adjust for either amount, nor did any of Board Staff's analysis.

The miscellaneous category includes amounts that were all below CNPI's materiality threshold and were therefore aggregated as a single line item in the Appendix 2-JB analysis. CNPI notes that at the time of filing its 2013 Cost of Service application early in 2012, that apart from any distinct new programs or identified cost savings, it relied on trending and averaging of historical costs up to and including 2011. The total of the difference included in the miscellaneous line item represents approximately 2% of the total 2013 Board Approved amount. Given the passage of time between forecasting and actual costs, and the fact that CNPI was required to make certain assumptions in transitioning from CGAAP to MIFRS over this period, CNPI submits that the remaining 2% variance is entirely reasonable.

SEC takes its 2013 under-spending argument one step further, by suggesting that CNPI collected \$40.7 million from ratepayers for OM&A over the 2013-2016 period, when in fact its actual spending was approximately \$37.6 million.¹ CNPI respectfully submits that rates are set on the basis of a revenue requirement that includes all costs (of which OM&A costs are merely one component), less other revenues. Once rates are set, actual revenue collected through rates fluctuates based on the number of customers, fluctuations in volumetric billing determinants, and IRM adjustments to rates in subsequent years. Likewise, the relative percentage of OM&A costs vs. total costs will fluctuate during the IRM period. Any attempt to break out the portion of rates recovered as specific to OM&A would, in CNPI's view, be arbitrary. CNPI notes that SEC has not provided any basis for its calculation of \$40.7 million recovered for OM&A. In contrast to SEC's argument, the following table provides CNPI's deemed vs. achieved return on equity for the three years for which results are available. All values were taken directly from CNPI's scorecard. This analysis clearly shows that CNPI achieved results well within Board's dead band of 300 basis points, and in fact achieved less than its approved ROE in two of the three years.

¹ SEC Final Argument, Page 11.

CNPI respectfully submits that SEC's argument has no basis in the facts on record in this proceeding and should therefore be given no weight by the Board.

ROE	2013	2014	2015
Deemed (Included in Rates)	8.93%	8.93%	8.93%
Achieved	6.71%	8.31%	10.00%
Difference	-2.22%	-0.62%	1.07%

CNPI's final submission on the issue of forecasting is the seemingly contradictory nature of arguments relating to forecasting error and the achievement of productivity gains. Essentially, it seems, the Intervenor complain that CNPI, in some years, has been able to reduce its actual costs to a level below what it had previously forecast, and therefore its ability to forecast future costs should be called into question. At the same time, the Intervenor are critical of CNPI's ability to achieve productivity gains. CNPI submits that by using the lower 2013 actual OM&A costs (with minimal to no adjustment) as the starting point for the envelope analyses submitted in argument, the Intervenor and Board Staff have implicitly recognized CNPI's achievement of significant productivity gains in 2013.

ii. Productivity

Energy Probe submits that, through manipulation of its envelope analysis model (the "Aiken Model"), CNPI's OM&A costs reflect a negative productivity factor of 2.35% per year over the 2013-2017 period.² CNPI respectfully submits that the methodology for arriving at this result is nothing more than a convenient use of the Aiken Model to calculate productivity in a way that excludes the most significant productivity gains achieved by CNPI in 2013. As CNPI argues above, by accepting the significant cost reductions between 2013 Board Approved and 2013 actual OM&A costs, and then using 2013 actual OM&A (with only an adjustment for the vehicle depreciation credit) as a starting point to calculate productivity, the Aiken Model implicitly accepts

² Energy Probe Submissions, Page 13.

the productivity gains in 2013, while at the same time discounting those same productivity gains in the calculation of a productivity factor. If the Board were to accept this methodology, the logical fallout is that LDCs would be incented to achieve productivity gains only in years other than a Test Year (because achieving them in the Test Year would make their productivity calculations appear worse at the time of the next rebasing). CNPI respectfully submits that this analysis is misleading, creates a perverse incentive, and should be rejected by the Board.

Energy Probe also argues that there are no stretch factor benefits for CNPI's customers over the 2013-2017 period.³ CNPI submits that this is simply not true based on the evidence on the record. In 2013, CNPI achieved savings of \$277,000 in relation to reductions in staffing alone (\$85,000 CDM, \$100,000 Regulatory, and \$92,000 Customer Service). Tab 4 of CNPI's hearing materials⁴ shows that these savings in staffing persisted throughout the 2013-2016 period and continue into the 2017 Test Year at a level of \$265,000, as did an additional savings of \$55,000 relating to the closure of the Port Colborne service centre that were fully realized in 2014. In comparison, applying CNPI's stretch factor of 0.45% to a rounded-up OM&A level of \$10,000,000 would suggest that annual savings of \$45,000 might be achieved on average as a result of stretch-factor incentives. Multiplying these presumed annual stretch factor savings over the four IRM years would suggest persisting savings of only \$180,000. Clearly, CNPI has outperformed the cost savings incented by the stretch factor.

CNPI acknowledges that perhaps Energy Probe's argument centers on the fact that because of new OM&A programs and costs added during the IRM period and in the 2017 Test Year, CNPI's customers will not see the benefit of the savings incented by the stretch factor. CNPI notes while there are clearly productivity gains, Energy Probe argues that there are no net productivity gains from 2013 to 2016, and that the increases in OM&A costs are not supported by inflation and customer growth.⁵ Likewise, SEC argues that "the Applicant does not in its evidence explain how

³ Energy Probe Submissions, Page 6.

⁴ Exhibit No. K1.1.

⁵ Energy Probe Submissions, Page 12.

the customers are benefiting from the increased OM&A spending it is proposing.” CNPI submits that focusing only on net productivity gains (i.e. discounting the historical cost savings achieved simply because new programs are being proposed) to imply that the significant cost savings achieved by CNPI do not benefit its customers is simply untrue. The majority of savings achieved have clearly persisted into the 2017 Test Year, and if not for these savings, CNPI’s 2017 OM&A request would be higher (and the envelope analysis relied on by Energy Probe and others would also suggest that 2017 OM&A should be higher) than the current value.

Board Staff, Energy Probe, VECC and SEC all take positions that CNPI is both a high-cost utility in relation to its historical costs (in large part due to the additional OM&A programs proposed in 2016 and 2017), and is also a high cost utility in relation to its peers. SEC in particular has repeatedly introduced comparisons of CNPI’s rates and benchmarking results to those of other LDC’s in support of its position.⁶ CNPI submits that SEC has failed to present any evidence to suggest that the rates of LDC’s with dramatic variations in business conditions should necessarily be equal as a starting point, nor has evidence been offered to suggest that a simple comparison of rates is an appropriate mechanism for comparison of cost performance among LDC’s. As discussed below, CNPI’s system has unique characteristics that give rise to higher costs. For these reasons, CNPI respectfully submits that the Board should place no weight on SEC’s analysis and should instead analyze the OM&A costs themselves.

iii. The PEG Model

CNPI’s benchmarking performance was discussed at length during the technical conference.⁷ Through this discussion, there was clearly disagreement between CNPI’s position on the purpose of the updated and adjusted PEG Model, and the positions taken by Intervenors. CNPI filed an updated and adjusted version of the PEG Model⁸ to address both corrections to the WACC input and, more substantively, to demonstrate the impact of adjusting the PEG Model for CNPI’s Other

⁶ Technical Conference Exhibit KTC 1.2; Exhibit No. K1.2, Pages 2-5; Attachments to SEC Final Argument.

⁷ Technical Conference Transcript Vol.1, Pages 30-40.

⁸ Exhibit No. K1.1, Tab 8 (subsequently updated in response to undertaking J1.3).

Revenues that CNPI believes are relatively unique compared to other LDCs. As discussed at the hearing, certain costs attributed to CNPI in the PEG model are incurred by CNPI for the benefit of its affiliates, while the offsetting revenues received by CNPI in relation to these costs are not.

After discussing the adjustment for Other Revenues, CNPI was asked whether there was anything unique about its distribution system that would contribute to its results relative to other distributors.⁹ In the ensuing discussion,¹⁰ CNPI detailed the various characteristics of its system that would lead to higher costs (both capital and OM&A), in comparison to other LDCs. In particular, CNPI drew attention to its 34.5 kV system that serves a sub-transmission function supplying multiple distribution stations, and the use of delta-connected lower voltage distribution networks. The use of 34.5 kV is quite rare in Ontario, and to the best of CNPI's knowledge, Algoma Power is the only other LDC with extensive 34.5 kV sub-transmission. With respect to the use of 34.5 kV, CNPI further articulated that any consideration of more extensive use of this voltage level for general distribution rather than sub-transmission functions presents significant challenges in terms of both costs and availability of appropriately rated equipment.¹¹ With respect to the historical use of 4.8 kV delta networks, CNPI explained that the historically slower pace of voltage conversion was a decision deliberately made in consideration of asset age and condition. These same considerations are also the drivers for decisions to ramp up the voltage conversion program in CNPI's current DSP.¹²

Surprisingly, Board Staff in its Submission notes the above discussion, yet suggests a conclusion in response to SEC's cross-examination that CNPI has not dealt with the issue, and argued that the need for network modernization is common to many distributors.¹³ With all due respect, CNPI cannot understand how Board Staff arrived at this conclusion in light of the discussion on the transcript immediately following SEC's question, and summarized above where CNPI specifically

⁹ Hearing Transcript Vol.1, Page 158.

¹⁰ Hearing Transcript Vol.1, Pages 158-164.

¹¹ Hearing Transcript Vol.1, Pages 159-160.

¹² Hearing Transcript Vol.1, Pages 162-163.

¹³ Board Staff Submission, Page 14.

discussed reasons for the timing of its voltage conversion (network modernization) program, and in detail explained how its circumstances are different from those of other LDCs.

Board Staff also invited CNPI to clarify any factors on the record that are unique to it and are driving higher levels of costs. CNPI submits that the discussion summarized and referenced above confirms the uniqueness of the use of 34.5 kV and the use of delta connected lower voltage networks. CNPI further notes that its system characteristics and the associated maintenance requirements are extensively documented in its DSP and its Distribution Asset Management Plan (DAMP). With respect to quantifying specific costs associated with owning and operating multiple substations, CNPI submits that significant capital costs in relation to recent and planned substation rebuilds (the costs of which are included in the PEG model) are provided throughout the DSP. In addition to the significant capital costs, direct O&M costs related to distribution stations are included as distinct line items in Appendix 2-JC of the Application, totalling to approximately \$455,000 in 2017. CNPI notes that these costs do not include property taxes and other indirect costs. CNPI does not have access to granular account level detail for other LDCs to make a comparison of the total cost associated with owning, operating and maintaining distribution substations. CNPI does note however, that the number of distribution substations owned by an LDC will without a doubt affect its total costs, but is not accounted for in the variables in the PEG Model.

CNPI further submits that the Intervenors are reading too much into CNPI's adjustments to the PEG Model to account for Other Revenues. CNPI was questioned multiple times¹⁴ on why it presented the model in its Hearing Materials, and each time CNPI clarified that its intent was to present what it viewed as possible issues with the model, especially with the sudden requirement to file the PEG Model in cost of service applications. CNPI is quite frankly surprised by the level of emphasis put on the actual results of the PEG model, and the change in those results resulting

¹⁴ See for example Hearing Transcript Vol. 1, Page 110.

from the other revenue adjustment. The OEB's Filing Requirements in relation to the PEG Model specifically state that:

*The applicant must provide a forecast of its efficiency assessment using the PEG forecasting model for the test year for the purposes of providing the OEB with a directional indicator of efficiency.*¹⁵

As noted by Board Staff, in its response to 1-Staff-16, CNPI also raises concerns with the issue that since the PEG Model is based on a static data set from 2002-2012, it may not accurately capture industry-wide changes in cost drivers that have emerged since 2012 as a result of substantial changes in the regulatory framework since that time. CNPI's notes that despite argument to the contrary in this proceeding, its concerns in this regard were previously supported by SEC:

*"The model is unlikely to have any staying power. As the underlying data changes, the statistical significance of individual business conditions may also vary substantially. To retain methodological purity, the model may have to be re-done completely, perhaps annually."*¹⁶

CNPI submits that the Filing Requirements clearly provide that the purpose of the PEG Model is to provide the Board with a directional indicator of efficiency. In light of this, and the significant concerns with the absolute results raised by CNPI during the course of this proceeding, CNPI submits that no weight should be given to any arguments relying explicitly on the absolute results of the PEG Model. Rather, CNPI suggests that the trending of results over time produced by the PEG model may be an appropriate alternative to the Aiken Model, as a lens through which the Board can assess CNPI's efficiency performance. The details of this analysis are presented in CNPI's submissions on the appropriate level of 2017 OM&A costs below.

¹⁵ Chapter 2 Filing Requirements, Page 15.

¹⁶ EB-2010-0379, Submissions of the School Energy Coalition, June 27, 2013, Page 23.

iv. New Programs and Materiality

SEC asserts that only “material” amounts that are “sufficiently out of the ordinary” require an adjustment to an established, empirical “target” OM&A:

"SEC is aware that, once an empirical “target” OM&A level is set, it is appropriate to look at the actual spending plans for the year to see if there is anything unusual that requires an adjustment. We have reviewed the OM&A budgets of the Applicant for the test year. In our submission, there are no material amounts that are sufficiently out of the ordinary to require an adjustment. All planned spending is, in our view, within the range that management should normally be expected to manage with seeking further funding from customers."¹⁷

Energy Probe’s Submission more explicitly relies on a materiality threshold of \$100,000 to dismiss consideration of costs, whether or not those costs are prudently incurred:

The cost driver table shows \$100,000 as a new cost for the Emerald Ash Borer (“EAB”) program. However, the actual forecasted cost for this program is \$95,500, as shown in the response to Interrogatory 4-Staff-59, which is immaterial.¹⁸

As for the remaining cost drivers, all of which are "immaterial" because they do not approach the materiality threshold, Energy Probe submits that: they are all related to normal day-today activities of a distributor, such as collections and bad debt, shared services, load dispatching and asset management; none of these activities should be considered outside of the envelope of normal

¹⁷ SEC Final Argument, Page 11.

¹⁸ Energy Probe Submissions, Page 14.

distributor activities and expenses; and these are not new costs - they are simply changes in the level of costs.¹⁹

CNPI respectfully submits that both SEC and Energy Probe are inappropriately treating CNPI's evidence with respect to the cost drivers that explain the requested 2017 OM&A Budget as though CNPI were seeking Z Factor relief for those costs during an IRM period, as opposed to explaining the elements that make up CNPI's proposed 2017 OM&A Budget. On that basis they urge the Board to reject consideration of those cost drivers as part of the approved 2017 OM&A budget, claiming that those items are either below the materiality threshold, or planned spending that the utility should be required to manage. CNPI believes that both SEC and Energy Probe are wrong in their view of how these drivers are to be considered by the Board.

In the test year of a Cost of Service application such as the one that CNPI has presented to the Board in this proceeding, the Board is not being asked to approve distinct programs and program budgets as it would if CNPI were applying for Z Factor relief for a new cost in an IRM year. Rather, the Board is rebasing the utility's rates, which requires a review of all of the constituent elements of the utility's cost structure and determining what an appropriate level of funding would be, including funding for a global OM&A budget.

CNPI's global OM&A budget is necessarily built up upon a suite of program costs. Of those program costs, many of them existed in CNPI's last rebasing application, in essentially the same form, such that the only clearly identifiable cost pressures on those costs would be inflation. This, it appears to CNPI, is the basic assumption that Intervenors have made with respect to CNPI's 2017 OM&A requirements; that they consist only of cost items identical to 2013 that have only been subject to inflationary pressures.

¹⁹ Energy Probe Submissions, Page 16.

That is of course not true. As set out in Exhibit K1.1 Tab 4, there are additional cost drivers unrelated to inflation that make up the changes in CNPI's operating costs in any particular year. By way of example, in 2014 CNPI's OM&A costs increased by \$40,000 (an increase which persists through the test year and beyond) as a result of the ON1Call Initiative, an increase that is not driven in any way by inflationary pressure. At \$40,000, it is clear that this cost would not meet the materiality threshold for Z Factor relief, and arguably is a cost that a utility is expected to manage within an IRM year. However, as a cost that is being prudently incurred by the utility on behalf and for the benefit of its customers, the ON1Call Initiative related costs are clearly an appropriate component of the proposed 2017 Test Year OM&A Budget. Eliminating the consideration of all such prudently incurred costs would have the effect of crippling the utility in terms of OM&A spending. If the explicit views of both SEC and Energy Probe were correct, then the only non-inflationary increases that would ever be recoverable by a regulated utility would be those that qualify for Z Factor relief, a state of affairs that runs counter to the very reason utilities apply for Test Year rates on the basis of a Cost of Service application.

As the Board will be aware the last full year of actuals filed by CNPI in this proceed is for the year 2015; accordingly, while all of the cost drivers that explain the majority of the cost increases beyond inflationary pressure are described in the evidence, CNPI summarizes below the five non-inflationary cost drivers (totalling an incremental cost to CNPI of \$389,000) that have impacted the 2017 proposed OM&A Budget subsequent to 2015. We note that Board Staff, in agreeing that CNPI had justified some of the non-inflationary increases to OM&A, specifically described the Pole Testing Program, the Emerald Ash Borer Program, the ON1Call Initiative and MIST metering programs as having been "justified".

Non-Inflationary Cost Driver #1: Pole Testing

CNPI's pole testing program, initiated in 2016, is intended to identify asset condition in a more formal and objective manner than its current visual inspection process. CNPI notes that Board Staff is the only party to have relied on a professional engineer in the examination of CNPI's evidence related to this program, and that Board Staff is of the view that CNPI has justified the

costs of this program.²⁰ CNPI further notes that VECC is the only other party to have specifically addressed CNPI's pole testing program in argument.²¹ Interestingly, VECC frames its argument in the context of questioning "the necessity of the aggressive pole replacement ramp-up in advance of its complete testing review of the poles."²² CNPI respectfully submits that the ramp-up of pole replacement is an item related to the settled issue of capital spending, and therefore the context in which VECC frames its argument is in direct contradiction of its settlement position in support of CNPI's capital spending.

Notwithstanding CNPI's objection to the context in which VECC frames its argument, CNPI submits that VECC's questioning on the timing of pole testing in relation to pole replacement simply ignores the evidence on record. In its Distribution Asset Management Plan, CNPI discusses how historical rates of pole replacement fall short of sustained replacements levels. These sustained replacement levels have historically been informed by a combination of a pole testing sample completed in 2011 and references such as the Kinectrics Depreciation Study, and assume a useful life of 45-50 years, on average.²³ During the Technical conference, CNPI discussed at length with VECC how the annual levels of pole replacement during the earlier years of its DSP are largely coordinated with replacing poles required to complete its voltage conversion efforts.²⁴ Further to that discussion, CNPI also clarified how the timing of its pole testing program relates to the expected ramp-up of the number of pole replacements unrelated to voltage conversion.²⁵

CNPI emphasizes the benefit to customers of the pole testing program is that the results of the testing will influence an appropriate and sustainable pace of annual pole replacements. In the event that the results support a useful life in excess of CNPI's initial estimates of 45-50 years, the pace of replacement would be reduced accordingly. CNPI believes the position put forward in its Application remains relevant:

²⁰ Board Staff Submission, Page 17.

²¹ VECC Submission, Pages 8-10.

²² VECC Submission, Page 8.

²³ Technical Conference Transcript Vol.1, Page 95.

²⁴ Technical Conference Transcript Vol. 1, Pages 62-63.

²⁵ Technical Conference Transcript Vol. 1, Page 114.

“CNPI believes that the levels of investment proposed in this Application will allow efficient implementation of the capital and maintenance programs that have been identified to resolve high priority issues in the next five years. Further, in developing the plan presented in its DSP, CNPI has considered how the investments in the 2017 to 2021 forecast period will transition into its next DSP. As an example of this consideration, it is expected that the proposed pole testing program, starting in 2016, will provide enhanced asset condition information for all of CNPI’s poles, which comprise a significant portion of its asset base. CNPI anticipates that the results of this program will inform the appropriate investment in annual asset replacement required to achieve the long-term sustainable levels to be included in its next DSP. CNPI also anticipates that the timing of the ramping-up of a pole replacement program to sustainable levels will coincide with ramping-down of its delta to wye conversion program in order to keep rate impacts at manageable levels.”²⁶

Non-Inflationary Cost Driver #2: MIST Metering

CNPI notes that Board Staff supports CNPI’s costs in relation to MIST metering as justified,²⁷ and that no other parties (with the exception of Energy Probe’s materiality argument) addressed CNPI’s costs in relation to MIST metering. CNPI maintains that these costs relate to implementation of Board policy, and are appropriate to include in its revenue requirement.

Non-Inflationary Cost Driver #3: Emerald Ash Borer (“EAB”)

CNPI notes a wide disparity in positions with respect to this program. On one hand, VECC, while noting that CNPI does not unilaterally remove the trees, still argues that the costs should be simply included as part of CNPI’s vegetation management program in an overall envelope analysis. Board Staff on the other hand, takes the view that CNPI’s costs related to the EAB program are justified. Energy Probe argues for a number of reasons that the costs should not be considered incremental,

²⁶ Exhibit 1, Tab 10, Schedule 2, Page 3, Line 4.

²⁷ Board Staff Submission, Page 17.

but concedes that if the Board determines that an allowance should be made, it should be in the range of \$50,000 to \$60,000, and subject to a variance account. Finally, SEC takes no direct position on the costs of this program.

CNPI submits that there is precedent for the inclusion of costs to remove trees near poles and wires where such trees would pose safety and reliability risks. Specifically, this issue was brought before a Board Panel in EB-2013-0147 by Kitchener-Wilmot Hydro Inc. ("KWHI"). In circumstances quite similar to CNPI's Application, KWHI requested OM&A costs of \$100,000 in relation to removing infected ash trees that posed safety and reliability risks, while Intervenors argued for a top-down analysis of overall OM&A costs, without consideration of adjustments for this program. In its decision, the Board found:

*"The Board does not find it necessary to apply a, top-down approach in this case. KWHI has provided a clear and detailed explanation of the cost drivers that make up its proposed revenue requirement. The Board accepts KWHI's supporting rationale for its planned spending and proposed activities in all cases other than the costs associated with the move to monthly billing."*²⁸

CNPI submits that its costs, as presented, allow for a reasonable approach to working collaboratively with its municipal and other stakeholders to remove at-risk trees in a safe and efficient manner. CNPI also refutes arguments put forward regarding the potential overlap between its tree trimming and EAB programs. CNPI has repeatedly stated that it will trim trees as required to manage risk of encroachment into safe limits of its power lines, but that it does not systematically remove trees (of any species) beyond its maintained rights of way. CNPI does however acknowledge the argument put forward by VECC that "the program could very well depend on the municipalities' commitment to continue."²⁹ Due to the fact that the annual costs of

²⁸ EB-2013-0147, Decision and Order, Page 15.

²⁹ VECC Submission, Page 6.

this program could change as a result of third-party commitments, CNPI does not object to a variance account in relation to the \$100,000 proposed budget for EAB costs.

Non-Inflationary Cost Driver #4: Load Dispatching

CNPI notes that no one specifically addressed this program in their submissions (other than a mere mention of the cost driver in Energy Probe's materiality argument). During questioning in the Technical Conference, CNPI expanded on the drivers for these cost being primarily worker safety, with secondary benefits to response time. CNPI also described the potential for marginal avoided outage response costs, though there is currently insufficient history to estimate or quantify the magnitude of these benefits.³⁰

CNPI submits that its SCADA system has become more complex, and additional functionality in relation to OMS and smart meter integration has been added, such that there is a clear requirement to have fully trained operators available on an on-call basis for both worker safety reasons, and for efficiency of response.

Non-Inflationary Cost Driver #5: Asset Management

Energy Probe is the only party to take a position on these costs, arguing that:

“ratepayers would expect that if more time and money are being spent on asset management, the resulting costs of managing those assets should be reduced”³¹

CNPI fully agrees with this assertion, but submits that the costs and savings need to be considered on a total cost basis. CNPI notes that the increase in O&M costs of \$30,000 relates to the ongoing operation of its recently implemented GIS system, which CNPI views as essential to maintaining information on asset location and condition. The ability to track and analyze this information will lead to efficiencies in managing CNPI's capital plan, and will inform the appropriate timing of

³⁰ Technical Conference Transcript Vol. 1, Pages 102-107.

³¹ Energy Probe Submission, Page 16.

asset replacements or refurbishments. Efficiencies are necessarily passed on to ratepayers in terms of the impact efficient capital planning has on rates as a result of a more efficient spending on capital.

v. *The Intervenors' Submissions on OM&A*

In their submissions, the Intervenors make the following suggestions to the Board in relation to CNPI's proposed 2017 OM&A Budget of \$10,574,723:

- a) SEC submits that the Board should reduce the applied for OM&A Budget by \$813,000.³²
- b) VECC submits that the Board should reduce the applied for OM&A Budget by \$813,000.³³
- c) Energy Probe submits that the Board should reduce the applied for OM&A Budget by at least \$588,000 and up to 720,000.³⁴

In making these submissions all three Intervenors make reference to and rely on an Excel spreadsheet prepared by Mr. Aiken on behalf of Energy Probe, appearing at Exhibit K1.2, page 15. (the "Aiken Model" also defined above). Mr. Aiken, on behalf of Energy Probe, explains the various elements of the spreadsheet in the body of the Energy Probe Submission, pages 3-9.

To put these submissions into context, VECC and SEC's proposed \$813,000 reduction and Energy Probe's \$720,000 high-end reduction would both essentially freeze CNPI's OM&A Budget in terms of actual spend for 2016, based on CNPI's estimated 2016 OM&A spend of between \$9.7M and \$9.9M.³⁵ That would mean that the approved 2017 OM&A budget would assume essentially

³² SEC Final Argument, Page 11.

³³ VECC Submission, Page 3; CNPI notes that VECC's submission asserts that "the requested 2017 CNPI request should be reduced by over \$800,000." As VECC refers to the argument of Energy Probe in making this submission, and specifically to Energy Probe's OM&A model, CNPI assumes that by "over \$800,000" VECC was referring to the same model output as SEC refers to, which, when rounded to the nearest \$1,000.00, is \$813,000.

³⁴ Energy Probe Argument page 16-17.

³⁵ Oral Hearing Transcript, Page 76.

no increases for inflationary pressure at all, and no funding for the new program costs identified and described previously in this submission.

It appears to CNPI that the Intervenors have adopted the Aiken Model as their standard approach to cost of service applications, even though the Board has never, it appears to CNPI, vetted the appropriateness of the model and its implications. As a result, the Intervenors do not address the majority of the evidence put forward by CNPI that describes in detail not only the inflationary pressures that CNPI has experienced between 2013 and 2017, but also the non-inflationary pressures. Instead, there appears to be an expectation by the Intervenors that the Board will strictly apply the Aiken Model to establish an “objective” view of an appropriate 2017 OM&A Budget for CNPI, subject only to adjustments that the Intervenors agree are appropriate.

CNPI respectfully submits that acquiescing to such a request would do a disservice to the comprehensive body of evidence that has been placed by CNPI before the Board in compliance with the Board’s Filing Requirements. CNPI has diligently explained in its evidence how its OM&A budget has been developed and varied from year to year, including both cost pressures and cost savings, culminating in an appropriate 2017 OM&A Budget for CNPI based on its operating reality.

To be clear; CNPI does agree that the type of analysis represented by the Aiken Model could be helpful, and that the Aiken Model, properly constructed and utilized, could be a useful lens through which to view a utility’s progression from Test Year to Test Year. However, CNPI respectfully submits that the Aiken Model should first be properly vetted for appropriateness for its intended purpose, and more importantly the Aiken Model should never be used as a substitute for the proper consideration of the evidence of the actual cost pressures faced by a particular utility over the relevant years.

With those comments in mind, CNPI makes the following observations about the composition and use of the Aiken Model in this proceeding:

Observation #1 - VECC and SEC have misused the Aiken Model:

Both VECC and SEC purport to use the Aiken Model, providing thanks to Mr. Aiken for having developed it, but then go on to use it improperly. Both VECC and SEC arrive at a proposed reduction of \$813,000, the most extreme reduction calculation that appears in the Aiken Model, by relying solely on 2013 adjusted actuals escalated to 2017, ignoring all other years as “starting points”. This is specifically contrary to Mr. Aiken’s instructions on the use of the Aiken Model as described by him in his submissions:

*"Energy Probe submits that it would not be reasonable to pick only one starting point to compare and contrast to the 2017 requested OM&A. This is because any individual year can be influenced by decisions made in that year or in a previous year. For example, the cost associated with employees could vary from year to year due to vacancies, timing of hiring, timing of retirements, maternity leaves, sick leaves and so on."*³⁶

Both SEC and VECC appear to have ignored or are unaware of these instructions from Energy Probe in using the Aiken Model, instead picking the single starting point that produced the lowest 2017 OM&A budget. Accordingly, in considering the use of the Aiken Model by the Intervenors, if at all, CNPI submits that both VECC’s and SEC’s conclusions should not be considered as appropriate.

Having said that, CNPI points out that in using multiple starting points as proposed by Mr. Aiken, new cost drivers and savings that occur and persist in earlier years are more heavily weighted than new cost drivers and savings that occur and persist in later years, as a result of the averaging he proposes. For example, the \$100,000 in savings for the unfilled Regulatory Staff vacancy in 2013

³⁶ Energy Probe Submissions, Page 8.

is given full weight in the Aiken model, since it persists from 2013 to 2017. In contrast, the MIST metering costs of \$44,000 are accounted for in the model at 25% of its value, or only \$11,000, since those costs only incur and persist from 2016 forward.

Observation #2 - Missing Adjustments to OM&A:

Mr. Aiken describes in his submission how, in section 1 of the Aiken Model, it is necessary to make adjustments to the OM&A figures:

"Energy Probe submits that what should be included in the envelope are the expenses that reflect the normal operation of the distributor. These are generally all of the OM&A expenses incurred by a distributor, after adjusting for specific items that have been identified. These specific items include the removal of any one-time costs that have been incurred historically, but are not expected to be incurred in the test year, such as costs related to ice storms or severe weather. An adjustment should also be made to both the historical, bridge and test years to reflect any significant changes in the operation of a distributor. These changes include accounting changes and changes in capitalization policy or any significant changes to the way that a distributor operates."³⁷

Mr. Aiken goes on to make one adjustment, adding back \$351,000 to the 2013 actual OM&A figure in recognition of a vehicle depreciation credit that only applied to 2013.

With respect, and in accordance with his own instructions, CNPI would suggest that there are several other adjustments that fit the criteria developed by Mr. Aiken. Exhibit K1.1 Tab 4 details all of the one-time costs and fluctuations in costs that explain the variations from the “normal

³⁷ Energy Probe Argument, Page 4.

operation of the distributor”, only one of which Mr. Aiken has incorporated into the Aiken Model. While a review of these cost drivers shows that some of them persist throughout all the relevant “starting points” (i.e. the \$100,000 savings in Regulatory Staffing) and others are arguably captured as a result of the Aiken Model’s use of multiple years to average out fluctuations in costs (i.e. the CDM Staffing savings and the Collections and Bad Debts savings and eventual cost relative to the 2013 approved Budget) others are clearly one-time costs or savings that should be adjusted for in the same way the Vehicle Depreciation Credit was (i.e. the Approved IFRS Cost is a one-time savings in 2013, and both the Vacant IT position and IT Billable Costs are one-time savings in 2015 only).

Observation #3 - Inappropriately Derived Escalators:

The Aiken Model uses the inflation factors, base productivity, and stretch factors from the Board’s policy for 4th generation IRM.³⁸ CNPI specifically notes that for inflation, Mr. Aiken uses the inflation factor that the Board uses to escalate rates on a forecast basis, and that those rates are based on a mix of labour related inflation and non-labour related inflation.³⁹ In reviewing the development of the blended inflation factor, CNPI noted that the Board assumes a ratio of 30% labour related costs and 70% of non-labour costs when producing the blended rates for the purpose of IRM adjustments.⁴⁰

First, CNPI notes that while it may be necessary to use forecast inflationary rates for setting distribution rates on a forecast basis, for the purpose of reviewing historical years (in this case at least 2014 and 2015) it is clearly more appropriate to use actual inflationary rates where available.

³⁸ EB-2010-0379, Report of the Board, Issued on November 21, 2013 and as corrected on December 4, 2013.

³⁹ Energy Probe Argument, page 6.

⁴⁰ See for example the calculation of the escalator for 2015 rate applications at <http://www.ontarioenergyboard.ca/OEB/Industry/Regulatory+Proceedings/Applications+Before+the+Board/Electricity+Distribution+Rates/2015+Electricity+Distribution+Rate+Applications>

CNPI was able to pull actual 2014 and 2015 inflationary numbers from the PEG Model, along with PEG's 2016 and 2017 forecast numbers, set out in Appendix "A" to this submission.

Second, whether or not it is appropriate to assume a 30/70 split between labour and non-labour costs when forecasting inflation for the purpose of escalating rates, which include all the costs of the distributor, it is not appropriate to assume that split when examining the appropriateness of OM&A increases over time when a distributor's OM&A costs contain a materially different split. Accordingly CNPI has included the actual and forecast split between labour and non-labour costs for the 2013 to 2017 period in Appendix "A" calculated on the basis of the evidence in this proceeding. CNPI notes that the average split between labour and non-labour costs in its OM&A is 54.51% labour and only 45.49% non-labour, significantly increasing the weight of the labour related inflationary pressures on CNPI's OM&A costs compared to the Board's default ratio for the purposes of escalating rates.

Third, while the Board uses the Average Weekly Earnings ("AWE") for all employees for the purpose of forecasting labour related inflation for rate setting purposes, CNPI has provided detailed information and justification for its actual labour escalation rates in its application. CNPI's union employees, which constitute the majority of CNPI's labour costs, are all governed by collective agreements entered into in 2012, prior to the 2013 rebasing year and running through to 2015, with new collective agreements governing 2016 and 2017.⁴¹ The remaining staff, consisting of the Executive, Management, and Non-Union staff, are all compensated in accordance with the Hay Method of position evaluation, the most widely used job measurement system in the world.⁴²

During the course of interrogatories, the oral hearing, and submissions, none of the Intervenors or Board Staff questioned or impugned the appropriateness of CNPI's compensation policies or collective agreements, or the effect those policies had on CNPI's labour costs. In conjunction with

⁴¹ Exhibit 4 Tab 4 Schedule 1 Page 7.

⁴² Exhibit 4 Tab 4 Schedule 1 Page 1.

the fact the CNPI's FTE count from 2013 to 2017 varies by less than 1.5% plus or minus of the average FTE count over the period,⁴³ CNPI respectfully submits that it would be most appropriate to use CNPI's actual labour related cost escalation instead of the AWE for all employees, as CNPI's actual labour related cost escalation directly reflects its collective agreements and labour related policies, both of which CNPI assert are appropriate. Accordingly, CNPI has calculated its actual and forecast labour related escalation figures for the 2014 to 2017 period in Appendix "A". In terms of materiality of the substitution, CNPI's annual average increase in compensation costs is 2.7%.⁴⁴

Summary of Errors in the Aiken Model:

Based on the submissions provided above, CNPI submits that Energy Probe should have at a minimum:

- a) made two additional adjustments to the OMA actuals; first, add back \$85,000 for the one time impact of IFRS Cost Savings in 2013, and second, add back \$68,000 in 2015 for the one-time savings associated with a Vacant IT Position and IT Billable Costs;
- b) substituted the OEB GDP IPI (FDD) escalators used for the price cap mechanism for the PEG GDP IPI (FDD) escalators used in its benchmarking model, most importantly because it provides the actual escalators for 2014 and 2015 and updated figures for 2016 and 2017;
- c) reweighted the escalator between labour and non-labour costs based on its actual and forecast splits between labour and non labour costs as they relate to OM&A; and
- d) substituted CNPI's actual annual labour escalators instead of using the AWE for all employees, as CNPI's actual labour escalators are appropriately underpinned by its various collective agreements and compensation policies.

These adjustments on their own change Energy Probe's "high end" proposed reduction by approximately \$200,000, to \$525,000, and the low end of Energy Probe's proposed reduction to

⁴³ Appendix A shows the average FTE count during the 2013 to 2017 period.

⁴⁴ Exhibit 4 Tab 4 Schedule 1 Appendix B, Page 3.

approximately \$390,000,⁴⁵ all of which is before consideration of the appropriateness of the \$389,000 of new, non inflationary related costs CNPI has and will incur post 2015. Adding those incremental costs to the projected 2017 OM&A Budget reduces Energy Probes range of proposed reductions to between approximately \$165,000 on the high end and \$30,000 on the low end.⁴⁶

For all of these reasons, CNPI submits that the OM&A reductions proposed by the Intervenors that are based primarily on the Aiken Model should be disregarded by the Board. CNPI submits that there is no legitimate reason to use a model such as the one proposed by Mr. Aiken to try and generalize the impacts on and the appropriateness of a utility's OM&A costs over a period of several years, when there exists on the record detailed evidence describing precisely how the utility's costs have varied as a result of inflationary and non-inflationary costs leading up to the proposed test year budget.

⁴⁵ Appendices B and C show the calculation of the High End and Low End positions of Energy Probe after adjusting for additional starting year budget amounts, the actual Labour/Other split in the escalator, and using the PEG Other inflation rate and the CNPI specific labour inflation rate. CNPI notes that of the \$389,000 in new program costs approximately \$116,000 of those costs are captured in the updated model runs because they were part of the 2016 OM&A, but that only 25% or \$29,000 of those costs are actually embedded in the resulting proposed reductions because they only occur in the last of the 4 starting years used by the model.

⁴⁶ As noted above, of the \$389,000 in new costs, approximately \$29,000 of those costs are embedded in the model runs, so adjusting the results for the new program costs means adding back \$360,000 in costs.

B. CNPI's Submission on Appropriate Treatment of OM&A

As noted above, the Intervenor's submissions on an appropriate OM&A reduction range from \$588,000 to \$813,000, largely based on use of the Aiken model, without any consideration of justified new programs.

Board Staff on the other hand acknowledges that many of CNPI's new programs are appropriately justified, but proceeds to recommend an overall disallowance of \$700,000, based on a seemingly arbitrary analysis of 2013 to 2015 and 2015 to 2017 costs. The rationale for excluding any consideration of 2014 costs is unclear, as is the rationale for excluding new program costs that Board Staff identifies as having been justified.⁴⁷

CNPI respectfully submits that neither of the above approaches is appropriate. As discussed above, CNPI submits that the 2017 OM&A costs presented in its application, and adjusted through the interrogatory process, remain the appropriate basis for determination of its 2017 revenue requirement, subject to one further adjustment described below.

CNPI acknowledges that its forecasted costs associated with disconnections for non-payment have been subject of debate during this proceeding. CNPI submits that at the time of developing its 2017 forecasts in early 2016, trending from recent years supported increases to bad debt write-offs, as well as costs associated with collections and disconnects. As this proceeding has evolved, uptake in the OESP has increased, and the Ontario Government has introduced a rebate of 8%, effective January 1, 2017. Further, while details are not yet available, recent government announcements suggest that further relief on electricity costs may be forthcoming. In light of these significant developments, CNPI concedes that its 2017 forecast in relation to bad debts and collections may be too high, and that a reduction of \$150,000 to OM&A would therefore be appropriate. CNPI estimates that approximately \$50,000 of this reduction will result from a

⁴⁷ Board Staff Submission, Page 17.

reduction in bad debts, and the remaining \$100,000 will result from a decrease in collection and disconnect costs. This reduces CNPI's 2017 OM&A request from \$10,574,723 to \$10,424,723, a reduction of \$150,000.

C. *Impact of Proposed OM&A Adjustment on PEG Model Trending*

CNPI submits that consistent with the Filing Requirements, the results of PEG's analysis (both historical and those produced by the PEG Model) can be viewed in the context of trending over time for the purpose of providing the OEB with a directional indicator of efficiency. CNPI submits that PEG results for CNPI are available from 2010 to 2021 from two sources on the record of this proceeding:

- a) 2010-2015 results are available in SEC's Hearing Compendium,⁴⁸ subject to correction of an incorrect value for 2013, as noted by CNPI during SEC's presentation of this evidence.⁴⁹ CNPI notes that the 2013 value provided by SEC appears to have originated from a 2014 PEG analysis of the impact of changes to RRR data. In that analysis however, "It was determined that benchmarking results for years prior to 2014 would not be modified as a result of the new data."⁵⁰ The 2013 value of 13.8% shown in the table below can be traced back to the most recent PEG Report.⁵¹
- b) 2015-2021 results are available in the PEG Benchmarking Forecast Model, the most recent version having been filed as a response to undertaking J1.3.

In the interest of providing further assistance to the Board, CNPI has also included a version of the results of the PEG Model that incorporates the following adjustments:

⁴⁸ Exhibit No. K1.2, Page 3.

⁴⁹ Hearing Transcript Vol. 1, Page 140.

⁵⁰ Empirical Research in Support of Incentive Rate-Setting: 2014 Benchmarking Update, Page 5.

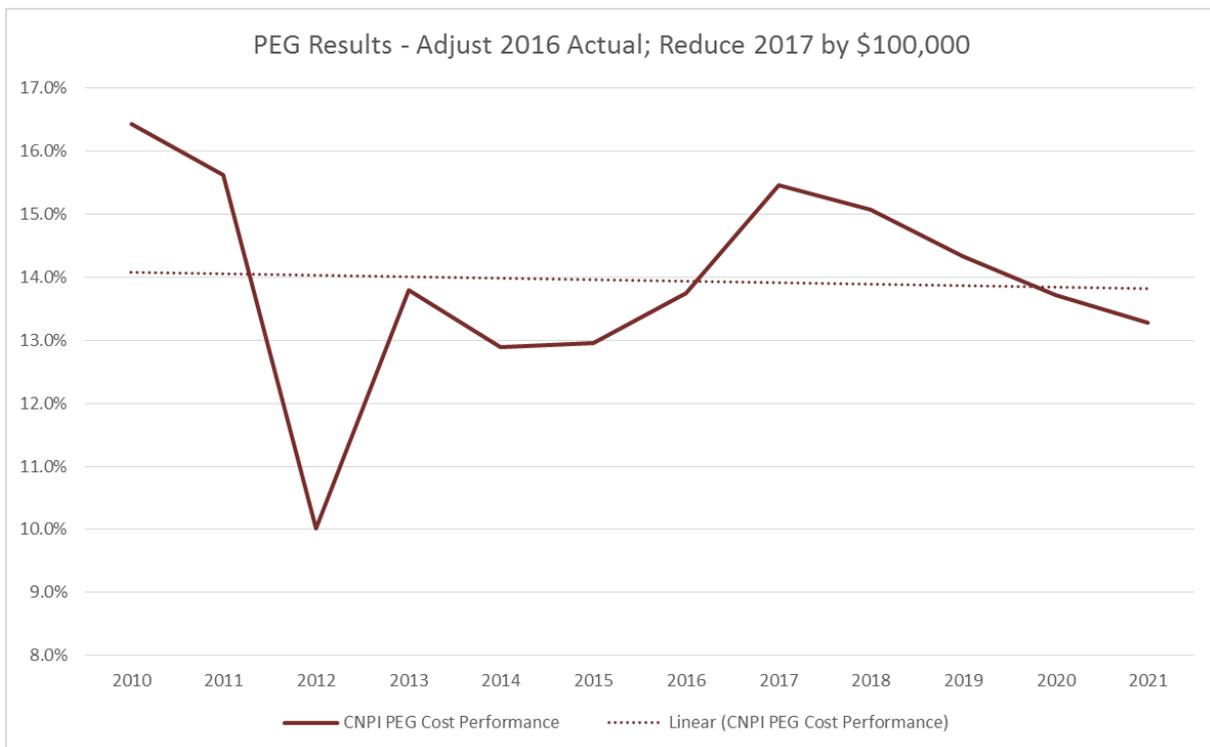
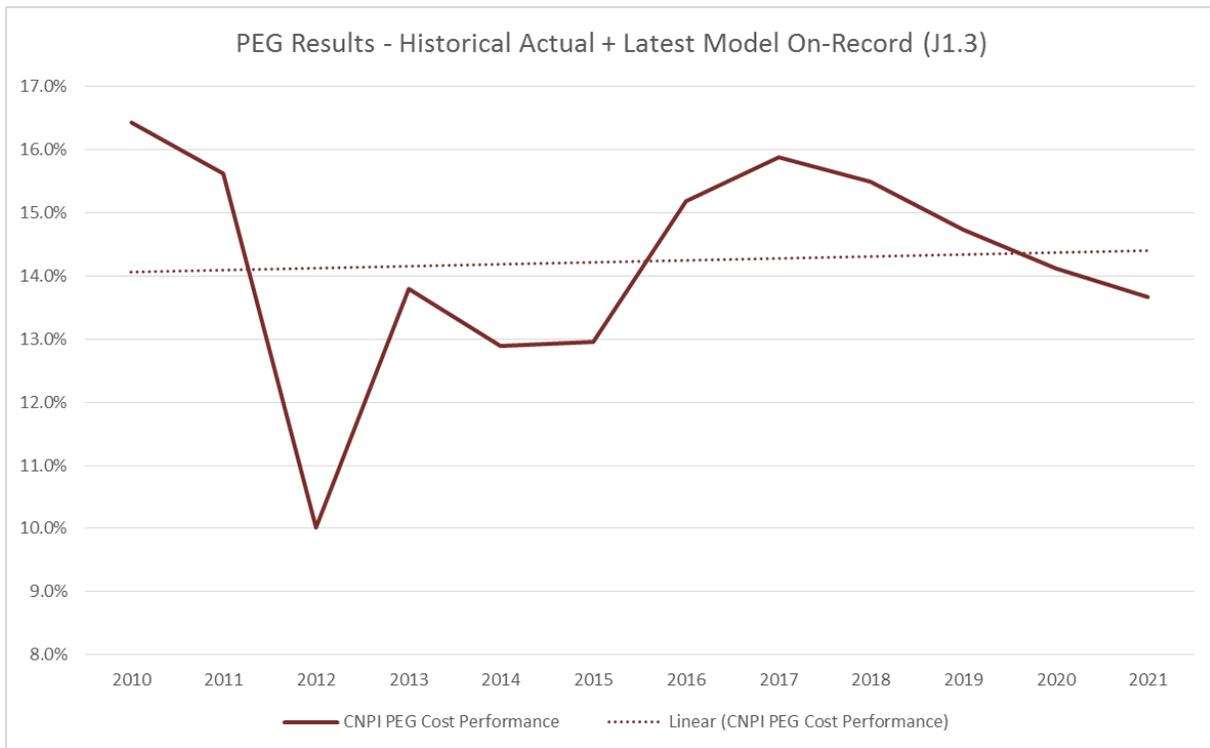
⁵¹ Empirical Research in Support of Incentive Rate-Setting: 2015 Benchmarking Update, Table 3 (A).

- a) an adjustment for 2016 OM&A under spending (where the previous 2016 OM&A input is scaled by the ratio of \$9,813,000/\$10,160,816 (in other words the ratio of 2016 total OM&A assumed by the Intervenor in argument to the 2016 total OM&A previously forecasted by CNPI); and
- b) a reduction in 2017 OM&A of \$100,000. This represents the portion of the 2017 OM&A reduction proposed by CNPI above that is attributable to collection and disconnect costs. The remaining \$50,000 reduction was excluded from the adjustment since labour costs associated with collections and disconnects are included in the PEG model OM&A costs, while the cost of bad debt write-offs are not. This reduced value for 2017 is escalated to each of the following years by the same 2% annual inflationary factor as was previously used.

PEG Benchmarking Results - Canadian Niagara Power												
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Per J1.3	16.4%	15.6%	10.0%	13.8%	12.9%	13.0%	15.2%	15.9%	15.5%	14.7%	14.1%	13.7%
Adjusted	16.4%	15.6%	10.0%	13.8%	12.9%	13.0%	13.8%	15.5%	15.1%	14.3%	13.7%	13.3%

The above results are graphed on the following page. With the cost reductions achieved in 2016, and CNPI’s proposed reduction in 2017 OM&A, the results of the PEG model show productivity improvement over time, even with the inclusion of CNPI’s additional OM&A programs described in above - programs that CNPI emphasizes relate to the RRFE objectives, and provide value to customers.⁵²

⁵²A concise summary of the relation to RRFE and value to customers associated with these programs, complete with references to supporting areas of evidence from this proceeding, is provided at Tab 5 of CNPI’s hearing materials.



D. Conclusion on OM&A

For these reasons, CNPI respectfully requests that the Board approve CNPI's total 2017 OM&A costs in the amount of \$10,424,723. In CNPI's respectful submission the proposed OM&A budget:

- a) represents an appropriate amount in view of the actual inflationary and non-inflationary cost pressures experienced by it since 2013;
- b) recognizes the achievement of significant, persistent cost savings on behalf of ratepayers over the previous cost of service;
- c) provides funding for new program costs that CNPI proposes to incur on behalf of its customers in accordance with the RRF; and
- d) puts CNPI in the position to trend towards increasing efficiency going forward into its next IRM period from 2018 to 2021, even without accounting for the potentially significant adjustments to the PEG model that CNPI has suggested may be appropriate.

II. Pensions and OPEBs

The positions of Board Staff and the Interveners can be summarized as follows:

- Board Staff submitted that CNPI should not be required to switch from an accrual to cash based accounting methodology, but supported a variance account pending the outcome in EB-2015-0040 (the "Generic Proceeding").
- Energy Probe submitted that the Board should order CNPI to continue using the accrual methodology for the purpose of setting rates, but only if the Board approves a variance account pending the outcome of the Generic Proceeding.
- VECC submitted that it supports the submission of Energy Probe on this issue.
- SEC submitted that the Board should order CNPI to switch to the cash methodology for the purpose of setting rates and, regardless of the Board orders cash or accrual, should approve a variance account pending the outcome of the Generic Proceeding.

As such, SEC is the only party to take the position that CNPI should be ordered to switch to the cash methodology for the purpose of setting rates in this proceeding, and all Interveners and Board Staff support the issuance of a variance account. CNPI will address SEC's position on rate treatment first.

Cash vs. Accrual:

According to SEC, one reason why the Board should set CNPI's rates based on the cash methodology is that "most other utilities who have rebased since EB-2015-0040 started are using the cash basis in the interim period with the protection of a cash vs. accrual variance account".⁵³

SEC did not identify the utilities that make up "most other utilities", so CNPI is not sure who SEC is referring to. CNPI does recognize that, since the start of the Generic Proceeding there have been distributors who have switched from accrual to cash in setting their rates, however those

⁵³ SEC Final Argument, Paragraph 5.1.5(a).

distributors did so as part of a settlement agreement.⁵⁴ As such, neither CNPI nor the Board can know whether those distributors made the switch for principled reasons or simply as a concession in return for a cost recovery elsewhere in their applications.

CNPI submits that just because other distributors have conceded to switching from accrual to cash does not mean it is the right thing for CNPI to do. In fact, none of SEC's other reasons to support its position address the appropriateness of cash over accrual for CNPI. Rather, SEC's position is entirely based on the fact that in 2017, the cash methodology will be less expensive for ratepayers. While CNPI makes every effort to minimize costs, it submits that the lowest cost option is not necessarily the appropriate option.

Cash vs. accrual accounting for pensions and OPEBs is a complex matter involving a number of considerations, none of which are on the record in this proceeding and all of which are on the record in the Generic Proceeding. SEC did not address any of those complexities or provide substantive reasons or evidence as to why CNPI should switch to the cash methodology. Instead, SEC has basically argued that other distributors have done so (for settlement purposes) and, for CNPI's 2017 rates, the cash methodology will be cheaper for its customers.

CNPI submits that it is opportunistic of SEC to argue for the cash methodology at this time, the first time in at least 13 years⁵⁵ that CNPI has been in a contribution holiday, as evidenced by the fact that SEC did not take this position in CNPI's last cost of service proceeding when the cash methodology would have resulted in cost to ratepayers of approximately \$500,000.⁵⁶

Further, as set out by CNPI in its Argument-In-Chief, both CNPI and SEC are participants in the Generic Proceeding and have filed written submissions. By asking the Board to switch CNPI to the cash methodology for pensions and OPEBs in this proceeding, SEC is requesting that two

⁵⁴ The distributors referenced at footnote 3 of Board Staff's Submission.

⁵⁵ Hearing Transcript, Page 20, Lines 2-6.

⁵⁶ Hearing Transcript, Page 22, Lines 3-6.

different Board panels adjudicate the same issue. Therefore, it would be redundant and inappropriate for the Board in this proceeding to decide on the issue, especially since the generic proceeding is well underway and is a fulsome consultation involving numerous parties on this complex issue.

For this reasons, CNPI requests the Board to abstain from deciding on this issue in light of the Generic Proceeding or, in the alternative, reject SEC's proposal that CNPI should switch to the cash methodology for the purpose of CNPI's 2017 rates.

Pension and OPEB Variance Account:

The Intervenors and Board Staff have submitted that a variance account should be ordered by the Board. CNPI wrote in its Argument-In-Chief that, in the absence of understanding the specifics of what the variance account would record and the mechanics of the account, it was unable to comment on this issue.

In response to CNPI's Argument-In-Chief, Energy Probe provided the most detailed explanation of how a variance account would work, assuming the Board does not require CNPI to switch to the cash methodology for the purpose of setting 2017 rates:

"The account would record the difference between the forecasted pension and OPEB costs on a cash basis and on an accrual basis on the test year revenue requirement. To be clear, the difference to be recorded in the account is the difference in the accrual forecast and the cash forecast. There would be no true up for actual versus forecast variances since rates are to be set on a forecast basis of all costs."⁵⁷

While this proposed variance account is simple and straightforward, it is completely disconnected to the outcome of the Generic Proceeding, since it is based on a forecast without a true up for

⁵⁷ Energy Probe Submissions, Page 21.

actual versus forecast variances. CNPI's actual costs will be determined by the Board in the Generic Proceeding, and may be more nuanced than simply cash vs. accrual.

For example, the Board in the Generic Proceeding may allow CNPI to transition to the cash methodology, with retrospective catch-up adjustments for prior periods. The potential for this outcome is real, as evidenced by the fact that the Board raised it as an issue May 14, 2015 letter in the Generic Proceeding:

7.
 - a) *Would it be appropriate to establish a deferral or variance account(s) in association with the approaches discussed above in numbers 5) and 6) respectively?*
 - b) *How should the account(s) operate?*
 - c) *Should interest be applied to the account(s), and if so, why?*
 - d) ***How should the transition from the current practice to the new method of recovery be addressed?***
 - i. ***Should the transition be phased-in, applied retrospectively with catch-up adjustments for prior periods, prospectively with no adjustments for prior periods or a combination of any of these methods?***
 - ii. ***Should a generic approach be used or should the transition be addressed on a case-by-case basis? [emphasis added]***

CNPI paid more than \$2.8 million in pension contributions in excess of amounts included in rates from 2009 to 2015.⁵⁸ Energy Probe's proposed variance account would not recognize CNPI's excess contributions.

⁵⁸ Exhibit No. K1.3, Page 2 of 8.

The variance account issues raised by the Board in the Generic Proceeding are applicable to any variance account that the Board may issue in this proceeding. However, these issues have not been sufficiently addressed in this proceeding by the Intervenors or Board Staff.

The Board will make a determination on the application and mechanics of variance accounts in the Generic Proceeding after a fulsome review of all the relevant issues. For this reason, and to avoid potentially creating a variance account for CNPI that is inconsistent with a variance account created in the Generic Proceeding, CNPI submits that the Board should not order CNPI to establish a variance account in this proceeding.

Should the Board order CNPI to establish a variance account in this proceeding, and CNPI submits that it should not, CNPI submits that it should (somehow) allow for a true-up or phase-in in accordance with the outcome of the Generic Proceeding.

III. Cost of Long Term Debt

In its argument in chief CNPI submitted that it would be inappropriate for the Board to consider potential changes to CNPI's cost of long-term debt beyond the 2017 Test Year since it filed its cost of service rate application on a single Test Year basis, not on a Custom IR basis. Therefore, CNPI asserted, any potential reduction in actual cost of capital in future years should not be reflected in 2017 rates.

Board Staff, Energy Probe, VECC and SEC all made submissions that addressed the possible implications of the re-issuance of long-term debt by CNPI in 2018. These submissions can be split into two categories:

- a) submissions that suggested that the impact of the re-issuance of long-term debt by CNPI in 2018 can and should be indirectly considered by the Board when the Board is considering the appropriate 2017 OM&A budget to be approved for the purpose of establishing 2017 rates; and
- b) submissions that ask the Board to provide specific relief in relation to the revenue requirement impact of the re-issuance of long term debt by CNPI in 2018.

These two categories are discussed below.

- a) Submissions that the re-issuance of long-term debt in 2018 should affect the Board's view on CNPI's 2017 OM&A should be rejected

With respect to the first category of submission, Board Staff, Energy Probe, and VECC all advance similar arguments with respect to the re-issuance of long-term debt by CNPI in 2018. While none of Board Staff, Energy Probe, or VECC support specific relief in relation to the impact of the re-issuance of long term debt by CNPI in 2018, all three of Board Staff, Energy Probe and VECC

invite the Board to consider the impacts of any such re-issuance in 2018 when determining the appropriate 2017 OM&A budget, even though there is no correlation between CNPI's OM&A needs in 2017 and its cost of long-term debt in 2018.

Board Staff obliquely notes in its argument with respect to the appropriate OM&A for 2017 that:

*"...the anticipated reduction in Canadian Niagara Power's long-term debt costs in 2018 would provide a potential disincentive to efficiency that would potentially be further enhanced the higher the level of test year OM&A expenses approved by the OEB as a result of the present application."*⁵⁹

CNPI does not understand (and Board Staff does not explain) how additional funding related to the cost of long term debt would somehow provide a disincentive to the achievement efficiencies in OM&A spending. In CNPI's view the incentive to seek out, realize, and maintain OM&A savings remains intact and independent of cost changes in other elements of the revenue requirement.

Board Staff makes reference to the long-term debt costs in its argument with respect to OM&A one additional time when summarizing its justification for its position, asserting that:

*"OEB staff believes that its proposed level of allowed test year OM&A would be more representative of the actual level of increase in Canadian Niagara Power's OM&A in recent years and would provide an additional incentive for Canadian Niagara Power to increase its efficiency. OEB staff further notes in this context that for each one percent drop in the refinancing rate for the debt maturing in 2018 (current rate 7.092%), Canadian Niagara Power will save \$300,000 in interest costs."*⁶⁰

⁵⁹ Board Staff Argument, Page 16.

⁶⁰ Board Staff Argument, Page 17.

With respect to the first sentence of the cited paragraph it seems clear that Board Staff believes that CNPI should have less OM&A than it actually requires approved for the purpose of establishing rates, on the theory that underfunding CNPI's OM&A requirements will "provide an additional incentive" for CNPI to increase its efficiency. However it is not at all clear (and Board Staff does not explain) why there should be, from a regulatory perspective, a relationship between CNPI's legitimate OM&A costs in 2017 and the possible reduction in debt costs in 2018; Board Staff simply notes the possible interest cost savings as a *non sequitor* to its position on CNPI's OM&A costs.

Similarly VECC asserts in its submissions that:

*"...in lieu of a mechanism for specific accounting for the likely result of the renegotiation of the long term debt interest rate, the Board must conclude that any reasonable re-balancing of customer interests with those of the shareholder could be accommodated without impairment to CNPI's operational effectiveness. As well, regulatory efforts to provide incentives for more efficient performance by reflecting those expectations in the ultimate revenue requirement have considerable flexibility to do so, in part due to the likely financial windfall from the 2018 LTD renegotiation."*⁶¹

It appears to CNPI that, ostensibly, VECC is suggesting to the Board that it would be appropriate to reduce the OM&A budget for CNPI in 2017 to the benefit of customers and as an incentive to CNPI for "more efficient performance" in part because the resulting gap between the approved OM&A Budget and the actual, appropriate OM&A Budget could be closed by CNPI in 2018 and the following years using any incremental funding that results from the re-issuance of long-term debt in 2018. The implication is that the Board should feel comfortable making reductions to CNPI's OM&A Budget beyond what it might otherwise feel is justified, because CNPI should have funding outside of rates that it can use to fund the shortfall.

⁶¹ VECC Argument page 12.

CNPI respectfully suggests, however, that VECC's (and Board Staff's) real motivation in trying to establish a link between CNPI's 2017 OM&A Budget and the potential reduction in long-term debt costs in 2018 is to attempt to capture indirectly the cost consequences of the debt re-issuance during the IRM term, despite the fact that the IRM regime that will apply in 2018 specifically decouples CNPI's 2018 rates from its 2018 costs.

As set out by Energy Probe in its argument:

"Energy Probe submits that there should not be any direct reflection in rates of expected changes in the cost of long-term debt in 2018. This would be contrary to the IRM methodology used to set rates based on a cost of service application for the 2017 test year, followed by the application of a price cap mechanism for the four following years.

There will, undoubtedly, be cost increases and decreases from those forecast for 2017 for short term debt and various components of OM&A, not to mention the impacts of higher or lower capital expenditures on depreciation, taxes and return on capital.

*Energy Probe submits that the normalization of any cost over the next 5 years would be typical of a custom application; however a cost of service application for the test year should include only the planned expenses in that year. This is consistent with the OEB Decision and Order dated August 18, 2016 for Grimsby Power Inc. (EB-20-15-0072, page 5)."*⁶²

⁶² Energy Probe Argument, Page 18.

CNPI agrees with Energy Probe's submissions on why reflecting 2018 costs in 2017 rates is inappropriate; CNPI notes, however, that Energy Probe goes on, nevertheless, to ask the Board to do precisely what Energy Probe had just explained it would be inappropriate to do:

"While not supporting any adjustment to the cost of service planned debt costs for the test year, Energy Probe submits that the Board should take into consideration the potential for significant reductions in the cost of long term debt. For example, a reduction of only 1 percentage point on the \$30 million loan would result in an annual reduction of \$300,000. The difference between the current rate and the Board's market rate proxy is more than 3.3 percentage points, meaning the potential annual cost reduction for long term debt would be close to \$1 million per year.

Energy Probe submits that the Board should take this potential reduction in debt costs into consideration when considering the level of OM&A expenses to approve.

By deferring some OM&A expenses out of the test year and into the following years, the total costs, including both OM&A and debt costs, can be levelized, ensuring that ratepayers continue to get the services and quality of service they require while at the same time ensuring there is no automatic windfall for the shareholder as a result of replacing debt that happens to come due in a non-cost of service year.⁶³

CNPI respectfully submits that Energy Probe, while specifically and appropriately conceding that it would be inappropriate to reflect possible 2018 long-term debt costs when determining the 2017 debt costs, is contradicting its own submission when it goes on to ask the Board to reflect possible 2018 long-term debt costs when determining 2017 OM&A costs.

⁶³ Energy Probe Argument, Page 18.

Of the parties (other than CNPI) making submissions in this proceeding only SEC refrains from attempting to link the determination of an appropriate level of OM&A for CNPI in 2017 to the re-issuance of long-term debt in 2018. Accordingly CNPI respectfully submits that SEC has appropriately respected the fact that 2018 long-term debt costs are not an appropriate consideration with respect to the appropriate level of OM&A costs in a 2017 Cost of Service Application, particularly when the 2018 and following rate years will be determined using the Board's IRM regime, decoupling the utilities 2018 to 2021 costs from its 2018 to 2021 rates.

For all these reasons CNPI respectfully submits that the Board's determination of an appropriate level of OM&A for 2017 should not be influenced by the (possible) interest cost savings that CNPI may experience in 2018.

b) *Submissions that the re-issuance of long-term debt in 2018 should be treated as a Z-factor or levelized over the IRM period should be rejected*

Although SEC is the only party (other than CNPI) that appropriately refrains from trying to indirectly link the future re-issuance of long-term debt in 2018 to the appropriateness of the proposed 2017 OM&A budget, SEC is also the only party to suggest that the impact of the re-issuance of debt in 2018 should be directly captured in some manner.

SEC offers two different rationales as to how the Board might justify directly capturing a change in the 2018 cost of long-term debt, despite the fact that CNPI is currently before the Board applying for rates on the basis of a 2017 Cost of Service application.

The first rationale offered by SEC is that the Board could possibly treat the 2018 re-issuance of long term debt as a Z-Factor.

As noted earlier Energy Probe specifically argues that there should be no attempt to directly capture any change in 2018 long term debt costs, as doing so would be:

“...contrary to the IRM methodology used to set rates based on a cost of service application for the 2017 test year, followed by the application of a price cap mechanism for the four following years.”⁶⁴

Similarly, Board Staff wrote:

"OEB staff notes that rates in this application are being set for the 2017 test year and this potential reduction in the long-term debt cost is to occur in 2018. For this reason, OEB staff submits that it is inappropriate to directly recognize in rates any differential between Canadian Niagara Power's cost of long term debt and current market rates for long term debt, or any change in the cost of long-term debt in 2018. As such, OEB staff is also of the view that the related proposal for a variance account to record these amounts is unnecessary.

OEB staff takes this position on the basis that selecting individual items of this kind from outside the test year and seeking adjustments for them is “cherry-picking” and if accepted opens the door to the possibility of additional adjustments of this kind being proposed by either applicants, intervenors or both in future applications related to non-test year anticipated changes. Such changes may either have the effect of decreasing rates, as is likely here, or increasing rates if a distributor was to seek adjustments of this kind for significant cost shifts outside the test year.

OEB staff further notes that the OEB Rate Handbook summarizes the OEB's cost of capital policy in stating that “(t)he general expectation is that the cost of capital parameters will remain unchanged throughout the rate-setting term, typically five years.” Any adjustment made to this application to recognize expected changes in the cost of long-term debt in 2018 is a move away from this expectation and may represent

⁶⁴ Energy Probe Argument, Page 18.

the first step towards a year-by-year examination of cost of capital rates in non-test years for cost of service applications. Such an approach would be contradictory with the approach outlined in the Handbook. In this context, OEB staff also notes that when the OEB revised its cost of capital approach in 2009, which resulted in an increase in the allowed rate of return on equity, distributors were only able to effect the increase by filing a cost of service application, rather than “cherry-picking” this cost for updating.”⁶⁵

Even SEC appears to agree that in reality Z factor treatment for the re-issuance of long-term debt during an IRM period is inappropriate, candidly admitting that if the probable result of the re-issuance of long-term debt in an IRM year were a cost to the utility and the utility sought Z-Factor treatment, SEC would oppose that request:

“To assess whether it is reasonable to consider the large savings on this refinancing a Z factor event, SEC looked at what would happen if the situation were reversed. What if, after fifteen years at a low interest rate, a utility had to refinance during IRM long term debt in a market that has higher interest rates? Would the utility seek rate relief, and would SEC oppose that relief?

Our conclusion was that, in most cases, utilities would not seek recovery, and if they did SEC would oppose that recovery. SEC’s rationale would be that interest rates are a normal course market factor that should be part of management decision making. Most utilities would agree.”⁶⁶

Yet despite having established that the re-issuance of long-term debt in an IRM year does not meet the criteria for a Z-Factor event, SEC goes on, nevertheless, to ask the Board for Z Factor treatment based entirely on the (possible) magnitude of the interest cost savings in 2018. SEC posits a

⁶⁵ Board Staff Argument, Pages 7-8.

⁶⁶ SEC Argument, Page 13.

hypothetical scenario where a utility may be compelled to re-issue all of its debt at the same time and at high rates, and suggests that in that scenario it was not as clear to SEC that it would oppose relief.⁶⁷

Based on the assertion that SEC might support a utility seeking relief for having to re-issue all of its long-term debt at the same time at unusually high rates, SEC concludes that it is its view that “...it is not unreasonable to consider this large decrease in interest costs, when it occurs, as a Z factor event.”⁶⁸

CNPI respectfully submits that SEC’s only rationale for treating the re-issuance of long term debt as a Z Factor, despite the fact that such a change during an IRM does not meet any of the Z Factor criteria or fit within the rationale for allowing Z Factors in first instance, is that it is (potentially) a large savings in costs during the IRM period, and SEC wants to “cherry-pick” those savings to accrue to the benefit of ratepayers.

Both Board Staff and Energy Probe have already set out why it is inappropriate to “cherry-pick” such savings during IRM in their arguments against the relief sought by SEC. To those arguments CNPI would add, as it is clear that the real and only justification for SEC’s position is the (possible) magnitude of the interest cost savings that may occur on the re-issuance of long-term debt, that the Board’s off-ramp provision within the 4th generation IRM Framework does, in fact, contemplate situations where a utility experiences unusual fluctuations in its cost of service, providing a mechanism that is automatically triggered when the net effect of all the changes the utility experiences produces a deviation from the Board approved ROE beyond plus or minus 300 basis points, as set out in the Board’s report on the Renewed Regulatory Framework for Electricity Distributors:

⁶⁷ SEC Argument, Page 13.

⁶⁸ SEC Argument, Page 13.

Each rate-setting method will include a trigger mechanism with an annual return on equity (“ROE”) dead band of ± 300 basis points. When a distributor performs outside of this earnings dead band, a regulatory review may be initiated. The Board will continue to require consistent, meaningful and timely reporting to enable the Board to monitor utility performance and determine if the expected outcomes are being achieved. This approach will, in turn, allow the Board to take corrective action if required, including the possible termination of the distributor’s rate-setting method and requiring the distributor to have its rates rebased.⁶⁹

Accordingly, CNPI respectfully submits, SEC’s concerns have been explicitly considered and accounted for in the Board’s RRFE. While changes in costs during IRM years are not generally the subject of specific review by the Board, changes in costs that qualify for Z Factor treatment in accordance with the Z Factor criteria can be specifically reviewed in isolation, and unusually large variations in net costs that result in earnings that are beyond ± 300 basis points of the allowed ROE will cause a review and possibly corrective action. In this case, the (possibly) large savings in interests costs that may occur in 2018 does not, even SEC concedes, meet the Z Factor requirements; in the event the net effect of any interest cost savings in 2018 or future years triggers the off-ramp provision, then the Board will intervene to consider whether corrective action, including possible early rebasing, is required.

SEC, in conceding that it would be understandable that the Board may not be comfortable extending Z Factor treatment to cover the (possible) interest cost savings that may result from the re-issuance of long-term debt, proposes an “alternate resolution”. This “alternate resolution”, SEC argues, would be to “fashion a rate adjustment that accomplishes the same result as a Custom IR application would have done”.⁷⁰

⁶⁹ Report of the Board “Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach” October 18, 2012, Page 11.

⁷⁰ SEC Argument, Page 14.

In other words, despite the fact that CNPI has elected, as it is entitled to do, to file for rates on a single test year basis and, accordingly, despite the fact that no evidence has been filed or proposals explored as to how it would be appropriate for all the different elements of CNPI's revenue requirement and rates to be handled in the context of a Custom IR plan, SEC is inviting the Board to assume that "if" CNPI had filed a Custom IR Plan, the only difference between that Plan and the one year Cost of Service application that is actually before the Board would be the treatment of the 2018 re-issuance of long-term debt.

This is, CNPI respectfully submits, simply an attempt to treat the re-issuance of long-term debt as a Z Factor, but calling it, instead, a "Custom IR Related Adjustment". Setting aside the nomenclature of a "Z Factor" or a "Custom IR Related Adjustment", the proposed solutions are essentially identical: "cherry pick", as both Board Staff and Energy Probe call it, a single element of CNPI's cost of service during the IRM period and adjust for it in isolation, even though it is a cost that does not qualify for Z Factor treatment, and even though CNPI did not file a Custom IR Application and there is no evidence or proposal for a Custom IR Plan for CNPI before the Board for consideration.

For all these reasons CNPI respectfully submits that the Board should reject SEC's proposals to directly reflect the results of the re-issuance of long-term debt by CNPI in 2018, either as a Z Factor or as Custom IR related Adjustment.

IV. Effective Date

The Intervenors have argued because CNPI's application was incomplete, as indicated by the June 30, 2016 letter from the Board's Registrar (the "Registrar's Letter"), CNPI's rates should not be effective as of January 1, 2017.

We note that VECC qualified its position on this issue by stating:

"In VECC's view, if the missing or incorrect information involved more than incidental omissions and corrections, then the Board might wish to recognize the cause of the delay in its selection of an implementation date. However, VECC also notes that the Board Staff submission filed herein suggests sufficient CNPI compliance to merit a January 1 date."⁷¹

In regard to VECC's qualification, it is apparent from CNPI's July 13, 2016 response to the Registrar's Letter (the "Response") that some of the deficiencies identified in the Registrar's Letter were legitimate. However, there were instances where the identified deficiencies:

- i. were not required of CNPI by the Filing Requirements (i.e. The Filing Requirements require a PILs or tax model "as applicable". CNPI did not file a PILs model since CNPI is not subject to PILs as a private corporation, which has been acknowledged by the Board in other proceedings.);⁷²
- ii. were simple mistakes (i.e. An incorrect reference was provided, but the required information was in the application);⁷³ and

⁷¹ VECC Submission, Page 17.

⁷² The Letter, Item #14.

⁷³ The Letter, Item #6.

- iii. were impractical (i.e. CNPI did not use the cost of power that was updated two weeks before the April 29, 2016 filing deadline because updating all of the affected models would have caused a one month delay in filing the application.)⁷⁴

Further, because this issue involves Board Staff who presumably prepared the Registrar's Letter, CNPI submits that greater weight should be attributed to Board Staff's submission on this issue:

"OEB staff submits that the effective date for rates of January 1, 2017 is appropriate as Canadian Niagara Power has met all deadlines established during the application process in a timely fashion."⁷⁵

CNPI notes that there was an uncharacteristically long delay in issuing the Registrar's Letter. CNPI filed its application on April 29, 2016 and received the Registrar's Letter approximately two months later on June 30, 2016. CNPI believes that this delay is uncharacteristically long because it was approximately six weeks longer than in PowerStream's 2013 cost of service application (EB-2012-0161), approximately five weeks longer than in Halton Hills' 2016 cost of service application (EB-2015-0074), and approximately four weeks longer than in St. Thomas' 2015 cost of service application (EB-2014-0113).

Finally, CNPI submits that the proceeding could have taken less time had the community meetings been held concurrent with the interrogatory phase of the proceeding.

For all of these reasons, CNPI submits that the Board should order an effective date of January 1, 2017.

⁷⁴ The Letter, Item #4.

⁷⁵ OEB Staff Submission, Page 18.

All of which is respectfully submitted.

February 6, 2017

Canadian Niagara Power Inc.



By its Counsel: Andrew Taylor
The Energy Boutique

and



By its Counsel: Michael Buonaguro
Michael Buonaguro, Barrister & Solicitor

APPENDIX A

		2013	2014	2015	2016	2017	
1	Total Labour Costs	8,126,977	8,099,951	8,516,688	8,637,108	9,041,251	Exhibit 4 Tab 4 Schedule 1 Appendix A Page 1
2	Capitalized Labour	2,954,440	2,802,048	3,354,499	3,279,609	3,402,822	Exhibit 4.0-VECC-27
3							
4	Total Labour-OM&A	5,172,537	5,297,903	5,162,189	5,357,499	5,638,429	line 1 minus line 2
5	Total OM&A	9,215,063	9,434,813	9,518,933	9,813,000	10,574,723	UT J1.1
6	Total OM&A-Other	4,042,526	4,136,910	4,356,744	4,455,501	4,936,294	line 5 minus line 4
7							
8	%OM&A-Labour	56.13%	56.15%	54.23%	54.60%	53.32%	line 4/line 5%
9	%OM&A-Other	43.87%	43.85%	45.77%	45.40%	46.68%	line 6/line 5%
10							
11	GDP FD IDD (PEG)	1.59%	2.16%	1.62%	1.57%	1.57%	http://www.ontarioenergyboard.ca/oeb/_Documents/Performance/Enhanced_Benchmarking_Spreadsheet_Model_July2016.xlsx
12	Labour AWE All(PEG)	1.54%	1.96%	2.57%	2.56%	2.56%	
13							
14	BLENDED (PEG ONLY)	1.56%	2.05%	2.14%	2.11%	2.10%	(line 11 x line 9) plus (line 12 x 8)
15							
16	Labour CNPI		-0.33%	5.14%	1.41%	4.68%	Line 23
17	BLENDED Escalator (PEG-Other, CNPI Labour)		0.76%	3.53%	1.49%	3.23%	line 24
18							
19							
20	FTEs	70.5	69.34	69.45	71.11	71.41	UT J1.1
21	Average FTEs			70.362			Average of line 20 numbers
22	Total Compensation	8,126,977	8,099,951	8,516,688	8,637,108	9,041,251	Exhibit 4 Tab 4 Schedule 1 Appendix A
23	Labour CNPI		-0.33%	5.14%	1.41%	4.68%	Percentage increase line 22 year over year
24	Blended (PEG and CNPI)		0.76%	3.53%	1.49%	3.23%	(line 8 x line 16)+(line 9 x line 11)
25							
26							
27							
28							
29							

APPENDIX B

OM&A CALCULATIONS (USING PEG FOR OTHER INFLATION AND ACTUAL CNPI LABOUR INFLATION)

(Includes Property Taxes and LEAP)

	<u>2013 BA</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
SECTION 1	<u>ADJUSTMENTS TO OM&A</u>					
Total OM&A - Exhibit 4 - Table 4.1.1.1 & 1-Staff-17	9,835,961	8,864,063	9,434,813	9,518,933	9,813,000	10,574,723
2013 Vehicle Depreciation, Approved IFRS Cost, 2015 IT Costs	0	436,000	68,000	0	0	0
Adjusted Total	9,835,961	9,300,063	9,502,813	9,518,933	9,813,000	10,574,723
% Increase per Year		-5.45%	2.18%	0.17%	3.09%	7.76%
% Average Annual Compound Increase 2013 to 2017						3.26%
SECTION 2	<u>CUSTOMERS</u>					
Customers -Exhibit 4 - Appendix 2-L	28,438	28,584	28,627	28,670	28,761	28,781
Customer Growth		0.51%	0.15%	0.15%	0.32%	0.07%
% Average Annual Compound Increase 2013 to 2017						0.17%
SECTION 3	<u>ESCALATORS</u>					
Inflation (1)			0.76%	3.53%	1.49%	3.23%
Base Productivity			0.00%	0.00%	0.00%	0.00%
Stretch Factor			0.45%	0.45%	0.45%	0.45%
Sub-Total (lines 20 - 21 - 22)			0.31%	3.08%	1.04%	2.78%
Customer Growth - PEG Customer Elasticity	0.4448		0.07%	0.07%	0.14%	0.03%
Total Escalator (lines 20 - 21 - 22 + 24)			0.38%	3.15%	1.18%	2.81%
SECTION 4	<u>OM&A GROWTH AT ESCALATOR</u>					
Adjusted OM&A Growth - Based on Escalator (line 25) - 2013 BA Start	9,835,961	9,873,113	10,183,914	10,303,859	10,593,459	10,574,723
Test Year Forecast (line 8)						18,736
Adjusted OM&A Growth - Based on Escalator (line 25) - 2013 Start	9,300,063	9,335,191	9,629,058	9,742,469	10,016,290	10,574,723
Test Year Forecast (line 8)						-558,433
Adjusted OM&A Growth - Based on Escalator (line 25) - 2014 Start		9,502,813	9,801,957	9,917,403	10,196,141	10,574,723
Test Year Forecast (line 8)						-378,582
Adjusted OM&A Growth - Based on Escalator (line 25) - 2015 Start			9,518,933	9,631,046	9,901,735	10,574,723
Test Year Forecast (line 8)						-672,988
Adjusted OM&A Growth - Based on Escalator (line 25) - 2016 Start				9,813,000	10,088,803	10,574,723
Test Year Forecast (line 8)						-485,920
Average						-415,437
Average (excluding Bridge)						-397,817
Average (excluding BA)				Adjusted EP Position (High)		-523,981
Average (excluding BA & Bridge)						-536,668
				NEW COSTS		
				POLE TESTING PROGRAM		150,000
				MIST O&M		44,000
				EAB PROGRAM		100,000
				LOAD DISPATCHING		65,000
				ASSET MANAGEMENT		30,000
				(removal of new costs embedded in model)		-29,000
				Adjusted EP Position (High) NET of New Costs		-163,981

