



ONTARIO ENERGY BOARD

OEB STAFF SUBMISSION ON SETTLEMENT PROPOSAL

**Northern Ontario Wires Inc.
2017 Electricity Distribution Rates**

EB-2016-0096

March 15, 2017

Background

Northern Ontario Wires Inc. (Northern Ontario Wires) filed a cost of service application with the Ontario Energy Board (OEB) on August 26, 2016 under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to the rates that Northern Ontario Wires charges for electricity distribution, to be effective May 1, 2017.

Northern Ontario Wires filed a Settlement Proposal on March 9, 2017 (revised March 13 and 14, 2017), which reflects full settlement on all of the issues in the proceeding. The parties to the Settlement Proposal are Northern Ontario Wires and the following approved intervenors in the proceeding: the Association of Major Power Consumers of Ontario (AMPCO), the School Energy Coalition (SEC), and the Vulnerable Energy Consumers Coalition (VECC) (collectively, the parties).

The following is OEB staff's submission on the Settlement Proposal.

OEB Staff Submission on the Settlement Proposal

OEB staff 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 Settlement Proposal reflects a reasonable evaluation of the distributor's planned outcomes in this proceeding, and reflects appropriate consideration of the relevant issues and provides sufficient resources to allow Northern Ontario Wires to achieve its identified outcomes in the four incentive rate-setting years that will follow.

OEB staff reviewed the models and draft tariff sheets that have been submitted in support of the Settlement Proposal, and submits that they accurately reflect the Settlement Proposal as filed.

OEB staff further submits that, in general, the explanation and rationale provided by the parties is adequate to support the Settlement Proposal, but will provide further specific submissions on the following issues:

- Issue 1: Planning – Distribution System Plan
- Issue 1.2: Operation, Maintenance and Administration Expenditures
- Issue 4.2: Deferral and Variance Accounts

Issue 1: Planning – Distribution System Plan

OEB staff notes that, as part of its application, Northern Ontario Wires requested specific approval of its Distribution System Plan (DSP) set out at Exhibit 2 of its application.¹

The Settlement Proposal states that the intervenors take no position with respect to Northern Ontario Wires' request for OEB approval of its DSP.²

OEB staff submits that the DSP is used, in the context of a forward test year cost of service application, to evaluate the appropriateness of the applicant's test year proposals. The outcomes of the planning, as they relate to the test year, are approved by the OEB but the DSP itself is not an item for which the OEB provides direct approval.

In this proceeding, the parties have fully settled the issues associated with Northern Ontario Wires' test year proposals.³ The OEB does not need to make any finding directly on the DSP and therefore, the fact that parties are taking no position on the approval of the DSP is not an issue.

Issue 1.2: Operation, Maintenance and Administration Expenditures

OEB staff notes that the parties agreed to test year Operation, Maintenance and Administration (OM&A) expenses of \$2,757,906 (a decrease of \$150,000 from the applied for amount). The \$150,000 change consists of a generic reduction of \$141,291 to OM&A expenses and a \$8,709 reduction related to Other Post-Employment Benefits (OPEBs) (cash vs. accrual basis).⁴

¹ Application, August 26, 2017 at Exhibit 1 / Tab 3 / Schedule 9 / p. 9.

² Settlement Proposal, March 9, 2017, p. 12.

³ Ibid at p. 8.

⁴ Ibid at pp. 13-14.

OEB staff submits that the settled 2017 OM&A expenditures are appropriate in order to allow Northern Ontario Wires to maintain system reliability, meet service quality objectives and continue the safe operation of the distribution system. OEB staff submits that while the increase in 2017 OM&A expenditures (compared to 2016) is larger than inflation, it is reasonable in consideration of the challenges faced by Northern Ontario Wires during the 2013-2016 period. In addition, even with the increase to OM&A, Northern Ontario Wires will remain in Cohort 1 (the highest efficiency cohort) as per the PEG Benchmarking Model.⁵

OEB staff notes that the parties have applied the entire difference between the treatment of OPEBs on a cash basis as opposed to the applied for accrual basis (\$8,709) as a reduction to OM&A. Typically, the change in the treatment of OPEBs from an accrual to cash basis results in adjustments to both OM&A and capital.⁶ However, in the case of Northern Ontario Wires, applying the change to both OM&A and capital would result in a \$500 reduction to rate base (which has no impact on rates to 4 decimal places).⁷ Therefore, as changing the treatment of the OPEB reduction to the standard approach (i.e. applied to both capital and OM&A) is not material, OEB staff submits it has no concerns with the proposed simplified treatment of the OPEB reduction.

Issue 4.2: Deferral and Variance Accounts

OEB staff notes that the parties agreed to the establishment of a deferral account to record the impact of including in revenue requirement Northern Ontario Wires' OPEB costs on cash basis rather than on an accrual basis pending the OEB's decision in the EB-2015-0040 proceeding. The OPEB adjustment will be tracked in the requested deferral account as an OM&A expense, which aligns with how the adjustment is being treated in the test year revenue requirement.⁸ OEB staff submits that the proposed deferral account is appropriate in the context of the agreement made by the parties with respect to the OPEB's issue. OEB staff also submits that the draft accounting order for the OPEB account properly reflects the intended use of the account and should be approved as filed.

⁵ Ibid.

⁶ For example, see EB-2015-0073, Decision and Rate Order, November 26, 2015 at Schedule B.

⁷ Settlement Proposal, March 9, 2017, p. 14.

⁸ Ibid.

OEB staff notes that the parties agreed to the disposition of the unaudited balance of \$11,000 in the IFRS Transition Deferral Account and the closure of the account. Typically, only audited balances are approved by the OEB for final disposition. However, given the small balance in the account, OEB staff submits that it is appropriate to dispose of the unaudited balance at this time, and close the account, in order to achieve administrative efficiencies.

All of which is respectfully submitted