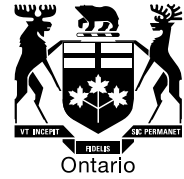


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**BY E-MAIL**

April 26, 2017

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

Dear Ms. Walli:

**Re: Welland Hydro-Electric System Corp. (Welland Hydro)  
2017 Distribution Rate Application  
OEB Staff Submission  
OEB File No. EB-2016-0110**

In accordance with Procedural Order No. 1, please find attached OEB staff's submission on the filed settlement proposal for Welland Hydro's 2017 cost of service application. This document is also being forwarded to Welland Hydro and to the School Energy Coalition, the Vulnerable Energy Consumers Coalition, and Energy Probe Research Foundation.

Yours truly,

*Original Signed By*

Georgette Vlahos  
Ontario Energy Board staff – Case Manager EB-2016-0110

Encl.

**2017 ELECTRICITY DISTRIBUTION RATES  
Welland Hydro-Electric System Corp.**

**EB-2016-0110**

**OEB STAFF SUBMISSION ON SETTLEMENT  
PROPOSAL**

**April 26, 2017**

## **INTRODUCTION**

Welland Hydro-Electric System Corp. (Welland Hydro) filed a complete application with the Ontario Energy Board (OEB) on December 15, 2016 seeking approval for changes to the rates that Welland Hydro charges for electricity distribution, to be effective May 1, 2017.

A community meeting was held as part of the proceeding on January 31, 2017. The OEB and Welland Hydro made presentations at the meeting, and there was one customer presentation at the meeting as well. A summary of the community meeting was posted to the record of the proceeding. One letter of comment was received after the community meeting, and it is also posted to the record of the proceeding. The comments during the community meeting focused on the OEB's role in Cap and Trade, general concerns regarding affordability and rising electricity rates, as well as provincial energy policy. Specifically with respect to Welland Hydro, customers voiced concerns about the requested rate increase citing increasingly unaffordable hydro bills. OEB staff took comments regarding affordability into consideration in reviewing Welland Hydro's application to ensure total bill impacts at the conclusion of the proceeding would not have a major impact on customers. For a typical residential customer with monthly consumption of 750 kWh, the total bill impacts under the filed Settlement Proposal would be an increase by about \$0.23 per month - a percentage increase of about 0.15%. Overall, there were many positive comments regarding the customer service that Welland Hydro provides.

The OEB issued an approved issues list for this proceeding on March 28, 2017. A settlement conference was held on April 3 and 4, 2017 and Welland Hydro filed a settlement proposal setting out an agreement between all the parties to the proceeding on April 19, 2017. The parties to the settlement proposal are Welland Hydro, and the following approved intervenors in the proceeding: the School Energy Coalition (SEC), the Vulnerable Energy Consumers Coalition (VECC), and Energy Probe Research Foundation (EP) (Parties).

The settlement proposal represents a full settlement.

This submission is based on the status of the record as of the filing of Welland Hydro's settlement proposal and reflects observations which arise from OEB

staff's review of the evidence and the settlement proposal. It is intended to assist the OEB in deciding upon Welland Hydro's application and the settlement proposal.

### **Settlement Proposal**

OEB staff has reviewed the settlement proposal in the context of the objectives of the *Renewed Regulatory Framework for Electricity* (RRFE), other applicable OEB policies, relevant OEB decisions, and the OEB's statutory obligations. The Parties considered the issues and outcomes of the RRFE in the context of Welland Hydro's application.

OEB staff submits that the settlement proposal reflects a reasonable evaluation of the distributor's planned outcomes in this proceeding, appropriate consideration of the relevant issues and ensures there are sufficient resources to allow Welland Hydro to achieve its identified outcomes in the four incentive rate-setting years that will follow. OEB staff further submits that the explanation and rationale provided by the Parties is adequate to support the settlement proposal and that the outcomes arising from the OEB's approval of the issues settled as noted in the settlement proposal would adequately reflect the public interest and would result in just and reasonable rates for customers.

OEB staff finds it necessary to make submissions on the following three areas in order to assist the OEB's consideration of the settlement proposal:

- Capital Budget and Distribution System Plan (DSP)
- Actuarial Gains and Losses Variance Account
- Retail Cost Variance Accounts (RCVA) – Accounts 1518 and 1548

### **Capital Budget and Distribution System Plan (DSP)**

OEB staff notes that the Parties have agreed to reduce Welland Hydro's proposed 2017 capital expenditures of \$2,208,986 by \$100,000 to \$2,108,986.

The settlement proposal also stipulates that Welland Hydro, as part of its next cost of service rebasing application, will carry out a full asset condition assessment of its system and will prepare a new DSP that is informed by that

asset condition assessment. That new DSP will also expressly consider rate sustainability for Welland Hydro's customers in light of economic growth and demographic forecasts for the Welland Hydro service territory.

OEB staff agrees with Parties that the level of capital in the test year is appropriate for the projects planned by Welland Hydro in the test year, and when compared to historical actuals. OEB staff agrees with Parties that the level of capital in the test year provides adequate capital resources to allow Welland Hydro to continue to pursue continuous improvement in productivity and service quality objectives, achieve operational efficiencies and maintain reliable and safe operation of its distribution system.

Currently, Welland Hydro does not have a formal asset condition assessment process at this time. Results of system inspections and assessments were combined with historical performance and age assessments to provide the tools to make prudent decisions on prioritization for the replacement of assets.<sup>1</sup> OEB staff supports the proposal by the Parties for a full asset condition assessment of Welland Hydro's system as a means for Welland Hydro to continue to improve its capital management processes. The filing of a more detailed asset condition assessment by Welland Hydro as part of its next rebasing application will help inform pacing and prioritization decisions in the future.

OEB staff would also encourage Welland Hydro to ensure that in future DSP filings it continues to work to improve its capital management processes to further show the link between the results of their customer engagement activities and planned capital projects.

### **Actuarial Gains and Losses Variance Account**

Under MIFRS, Welland Hydro records actuarial gains and losses for Other Post-Employment Benefits (OPEBs) immediately in Other Comprehensive Income and never amortize any of it into net income. As a result, these gains and losses will never be recovered in rates or refunded to ratepayers as they never form part of net income. Many utilities under MIFRS may not be affected by this issue as they participate in the OMERS pension plan, where the expense equals the

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<sup>1</sup> EB-2016-0110, Interrogatory Responses, Page 94

employer's contributions made to the plan. Furthermore, for those utilities with OPEB plans, actuarial gains and losses may not be significant. However, OEB staff notes that in recent years, Welland Hydro has experienced swings in actuarial gains and losses that is significant for Welland Hydro's size and is above its materiality threshold. A deferral account to track the actuarial gains and losses, however, would allow for potential recovery or refund of amounts should the gains and losses not offset each other and accumulate to a material balance in the future. OEB staff also notes that several other utilities have been approved similar accounts. Therefore, OEB staff supports the establishment of the Account 1508 - Other Regulatory Assets, Sub-account OPEB Actuarial Gains or Losses Deferral Account.

### **Retail Cost Variance Accounts (RCVA) – Accounts 1518 and 1548**

As part of its evidence, Welland Hydro indicated that the balances in Accounts 1518 - RCVA Retail and Account, and 1548 - RCVA STR are nil. In addition, Welland Hydro has not followed Article 490 of the Accounting Procedures Handbook (APH) for Accounts 1518 and 1548 as it believes the variance between retail revenues collected and incremental costs incurred to service retail customers are not material.<sup>2</sup>

In response to OEB staff interrogatories, Welland Hydro confirmed that it is seeking the OEB's approval not to track variances in these accounts going forward on the basis that there are no additional labour costs relating to billing retail customers and separating maintenance costs for the CIS is not practical. However, there are some minor variable costs associated with retailer accounts provided by an EBT service provider which, as noted above, are not material<sup>3</sup>.

OEB staff notes that Accounts 1518 and 1548 are generic accounts that have been established for use by all electricity distributors. As such, Welland Hydro's request to stop tracking and recording amounts in these accounts is inconsistent with the requirements as set out by the APH. However, OEB staff notes that the amounts in the accounts would not likely be material. OEB staff also notes that should the OEB accept Welland Hydro's proposal not to track amounts in Accounts 1518 and 1548, ratepayers will not be harmed as the associated

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<sup>2</sup> EB-2016-0110, Exhibit 9, Section 2.9.4, Page 16

<sup>3</sup> EB-2016-0110, Responses to Interrogatories (9-Staff-67), Page 214

revenues and costs have been incorporated into Welland Hydro's revenue requirement.

OEB staff notes that the OEB has previously approved such a request in its decision on Toronto Hydro-Electric System Limited's Custom IR application in EB-2014-0116.

All of which is respectfully submitted