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

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273

Ontario

BY E-MAIL

October 26, 2017

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

Dear Ms. Walli:

Re: InnPower Corporation (InnPower)
Application for Rates
Ontario Energy Board File Number: EB-2016-0085
Corrected OEB Staff Submission

In accordance with the OEB's Procedural Order No. 5, OEB staff's submission was filed on October 24, 2017. Subsequent to the filing of this document, OEB staff became aware of corrections for certain typographical errors. Please find attached a revised submission.

Yours truly,

Original Signed By

Fiona O'Connell
Project Advisor, Major Applications

Encl.

2017 ELECTRICITY DISTRIBUTION RATES

INNPOWER CORPORATION

EB-2016-0085

OEB STAFF SUBMISSION

October 24, 2017

Corrected on October 26, 2017

INTRODUCTION

InnPower Corporation (InnPower) filed an amended cost of service (CoS) application with the Ontario Energy Board (OEB) on May 11, 2017 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 InnPower charges for electricity distribution, to be effective July 1, 2017. The initial CoS application was filed November 28, 2016.

Parties to this proceeding are Rogers Communications Canada Inc., School Energy Coalition (SEC), and Vulnerable Energy Consumers Coalition (VECC).

The OEB approved the issues list for this proceeding in its Decision and Procedural Order No. 4 on September 21, 2017.

In the September 1, 2017 Procedural Order No. 3, the OEB stated that further procedural direction with respect to the pole attachment and microFIT charges would take place in a subsequent procedural order, separate from all of the remaining issues in the proceeding. On October 10, 2017, Procedural Order No. 6 was issued, requesting written submissions from parties on a preliminary question regarding the pole attachment and microFIT charges.

There was no settlement conference for this proceeding. All issues, except for pole attachments and microFIT charges, advanced to an oral hearing that was held October 3, 2017 and October 4, 2017.

InnPower filed several versions of its application relating to its request to increase 2017 electricity distribution rates:

1. A Custom Incentive Rate-setting (Custom IR) application on June 6, 2016. The OEB determined this application to be incomplete. InnPower decided to change its application to a CoS application which was filed on November 28, 2016.

2. An amendment to the CoS application on January 16, 2017 (the Supplemental Filing).

3. A further amendment on May 11, 2017 (the Amended Filing).

4. Certain aspects of the application were updated with the August 3, 4 and 8, 2017 responses to interrogatories.

5. Certain aspects of the application were updated with the undertakings submitted on September 20, 2017 related to the Technical Conference.

6. Certain aspects of the application were updated with the undertakings submitted on October 6 & 11, 2017 related to the Oral Hearing.

InnPower stated that it is a high growth electricity distributor and also outlined other key aspects of its service territory in its application, as follows[1].

- InnPower is a licensed distributor with approximately 16,000 customers servicing the Town of Innisfil and the lands located in South Barrie.

- InnPower's service territory encompasses 292 square kilometres (approximately the size of Mississauga) located north of the Oak Ridge Moraine within the Greater Golden Horseshoe.

- The Town of Innisfil's economy is evolving. Looking forward to the 2031 planning horizon, the Town's employment base is anticipated to continue to diversify with continued economic growth.

- The Town of Innisfil is located within one of the fastest growing City/Regions in North America –the Greater Golden Horseshoe.

- For the Town of Innisfil, from 2016-2031, both population and employment are projected to increase by more than 100%. The following Table 1-1: summarizes these projections:

[1] November 28, 2016 Exhibit 1, pages 5, 6

Table 1-1: Population and Employment Projections

Source	Population	Employment
Innisfil, 2011 Census and 2006 employment estimate	33,080	5,700
Innisfil Official Plan, 2031	56,000	13,100
Simcoe Official Plan, 2031	65,000	13,100
Provincial Growth Plan, 2031	56,000	13,100
Provincial Growth Plan, 2031 plus Friday Harbour and Sleeping Lion	65,240	13,100

InnPower stated that reductions were made to its application by management, after the OEB hosted two community meetings regarding InnPower's 2017 rate application. The community meetings were held in Innisfil, Ontario on March 9, 2017. Approximately 300 customers attended the meetings, and a total of 41 customers filed written comments regarding the application.[2]

The Amended Filing reduced the test year Operating, Maintenance and Administration (OM&A) budget by 3%, excluded the impact of $2.35 million of capital additions from the 2017 Test Year Rate Base related to the cost of the new administrative building, removed the request for Z-factor relief of $276,045, removed the Lost Revenue Adjustment Mechanism (LRAM) rate rider of $26,651, and revised the requested effective date for rates to July 1, 2017.[3]

InnPower has requested a base revenue requirement (net of other revenue), of $10,955,153[4], which represents a revenue deficiency of $3,348,878[5].

OEB staff notes that InnPower has reflected the same base revenue requirement of $10,955,153 in both the October 11, 2017 cross-reference document and the September 20, 2017 revenue requirement workform (RRWF)[6].

The revenue deficiency of 31% is much higher than the average requested revenue deficiencies the OEB has seen in the last four years of CoS applications,

---

2 InnPower_ARGChief_20171006, page 3

3 InnPower_ARGChief_20171006, pages 3, 11, 18

4 InnPower_Cross Reference Document_20171011, cell N34

5 InnPower_Cross Reference Document_20171011, cell O34

6 2017_Rev_Reqt_Work_Form_V7 1 TC_20170920, Tab 9 Rev_Rqt

which is 14%. Similarly, the increase in base revenue requirement from revenue at current rates is 25% which is also a significant increase.

In the September 20, 2017 Tariff and Bill Impact Model, InnPower has included the bill impact for a typical residential customer as 21.2% for distribution and 6.43% for total bill.

Effective Date

Background

OEB staff notes that this proceeding reflects more updates (both in frequency and content) than is usual with most major applications, even if the Custom IR filing is excluded. This number of changes significantly altered the evidence and created numerous inconsistencies and delays in the proceeding.

An example of the delays in the proceeding include InnPower's late filing of its interrogatory responses. InnPower requested four extensions to the deadline for filing responses.

Submission

While it is expected that applicants update their evidence when material changes are required as a result of the testing process, in OEB staff's view, many of the changes could have and should have been foreseen by the applicant. For example, the level of dissatisfaction expressed by customers at the community meeting in relation to the new administrative building was a topic that staff submits should have been canvassed as part of InnPower's customer engagement activities in preparation for its application.

These iterations have caused delays, many of which were within the control of InnPower. As a result, OEB staff is of the view that a July 1, 2017 effective date is not appropriate; rather an effective date of October 1, 2017 should be approved. OEB staff notes that there is an argument to support an effective date of the 1st of the month following the issuance of the decision in this proceeding, which is an approach that the OEB has taken in the past. However, given the significant reduction proposed by OEB staff to OM&A, OEB staff is satisfied that an October 1 effective date is fair.

OEB Staff Submission Summary

OEB staff has made submissions in the following sections on all of the issues that were established by the OEB in its Decision and Procedural Order No. 4. For ease of reference relative to InnPower's argument-in-chief, OEB staff also organized its submission on the basis of the argument-in-chief.

OEB staff provides a brief summary of its main arguments below (the rationale for the arguments are found in the relevant sections of the submission):

1. InnPower's requested increases are not consistent with its philosophy that 'Growth will pay for Growth'.

2. InnPower's revised capital additions for 2017 of $4.4 million are appropriate. These capital additions should be approved using an "envelope" approach. A more up-to-date forecast of capital additions is not required for the 2017 test year.

3. InnPower should be precluded from making a future request to recover the incremental cost of $2.35 million related to the new administration building and the $245k of additional costs related to the new building. The value of the building to be included in rate base should be fixed at $10.9 million and not revisited in any future applications.

4. Regarding its Distribution System Plan (DSP), going forward:

    a. InnPower must ensure that it incorporates adequate pacing and prioritization of its capital investments.

    b. InnPower should investigate initiatives that could reduce costs, such as non-destructive testing of cables.

5. InnPower's requested 2017 test year OM&A of $5.990 million is not reasonable. $5.571 million may be a more suitable number, reflecting a

7% reduction, or $0.419 million to 2017 test year OM&A. Further, OEB staff is of the view that there are grounds to reduce the OM&A envelope by a total of 10%.

6. If InnPower has included an amount of $60k in 2017 test year OM&A, relating to Pension and Benefit Amounts, this amount should be removed from OM&A, as this amount represents an out-of-period balance. InnPower's evidence is not clear regarding the proposed treatment of this $60k amount.

7. InnPower should include the $33k related to leasing revenue as a revenue offset to the 2017 test year revenue requirement, in order to comply with previous OEB direction.

8. OEB staff are satisfied with InnPower's cost of capital, Payment in Lieu of Taxes (PILs), and working capital proposals subject to the updating of these based on the outcomes of this Decision and the updated commodity rates.

9. An appropriate loss factor for the load forecast would be the recent five year historical average. The total loss factor of 1.0604 for secondary metered customers should be used.

10. InnPower should use the forecasted customer count based on a 2/3 actual year for its customer connection forecast.

11. The cost allocation methodology and revenue-to-cost ratios as updated after the technical conference are appropriate.

12. The existing fixed charge for the General Service > 50 KW rate class should be maintained at $151.60. The remainder of InnPower's proposed fixed/variable splits are acceptable.

13. The Retail Transmission Service Rates (RTSR) model as updated is acceptable, and in the draft Rate Order InnPower should update the model with any updates to Uniform Transmission Rates, if available.

14. OEB staff is supportive of InnPower's request for disposition of its December 31, 2015 account balances, excluding Accounts 1588 and 1589.

15. InnPower should confirm in its reply that the remaining net book value of the old and new administrative buildings and related land is appropriate given the amounts recovered to date as part of the Incremental Capital Module (ICM) rider and the effective date of the new base rates that will reflect the new building in rate base for the first time. InnPower should show detailed calculations of this in its draft Rate Order and if any amounts have been over recovered should propose a rider to refund to customers as part of this proceeding.

    InnPower should calculate the amount that will have been incorrectly charged/refunded to customers as a result of not ceasing to charge riders for the two remaining affected accounts, by the implementation date of the rate order for this proceeding and propose for the OEB's approval to recover/return that amount to customers in this proceeding.

16. The "cross-reference document" should be updated to include all adjustments to the 2017 test year revenue requirement. Once the OEB issues its Decision and Order, InnPower should resubmit all of the models, updated as required including an updated RRWF.

Context: The New Senior Management Team At InnPower

Background

In its argument-in-chief, InnPower attempted to put the application into context by explaining the new management team and its philosophy. They stated that this new philosophy is characterized by a willingness to learn from the past, a focus on customer needs and preferences and a 'Growth will pay for Growth' approach.[7] In particular, InnPower stated that the new management team cut seven incremental Full Time Equivalents (FTEs) from the test year budget,

[7] InnPower_ARGChief_20171006, pages 2, 3

consistent with the ‘Growth will pay for Growth’ approach. However, InnPower is still requesting an increase from 2016 actuals in its 2017 test year OM&A.

InnPower is one of the eight named electricity distributors in Ontario whose customers are receiving a reduction to their distribution charges under the Fair Hydro Plan’s Distribution Rate Protection (DRP) program. The DRP provides additional relief to customers served by Local Distribution Companies (LDCs) with the highest rates in the Province. Credit amounts are set using the lowest cost distribution LDC from the group, as set by the OEB.[8]

Submission

OEB staff submits that the ‘Growth will pay for Growth’ philosophy is generally consistent with a philosophy that keeps rate impacts low. However, InnPower’s requested increases are not consistent with this philosophy. A utility with the type of forecasted growth such as InnPower’s should be able to fund much of its anticipated growth from increased load and not rely on increased rates for its current customers, who are already paying among the highest distribution charges in the province, as demonstrated by InnPower’s inclusion in the DRP.

In addition, OEB staff notes that InnPower’s argument that increased OM&A is required to fund the growth in customers is at odds with the stated philosophy described above. Specifically, in explaining why OM&A needed to increase, InnPower stated:

> InnPower’s new management team cannot make any further cuts to OM&A and capital without threatening the ongoing financial viability of the utility. Existing staff are severely strained at current workloads. Growth is continuing with no end in sight with 2000 lots approved and ready for sale (equivalent to 12% growth in customers) and more to come.[9]

---

[8] Ministry of Energy News Release: Enhancing Electricity Support and Conservation Programs, March 2, 2017

[9] InnPower_ARGChief_20171006, page 4

OEB staff notes that there is little evidence as to the specific make-up of the positions eliminated by the reduction in seven FTEs. There is also little evidence as to why or how the need changed for each of these positions.

OEB staff recommends that the OEB focus on the fact that InnPower (despite the reduction in FTEs) has still requested a deficiency that is 31%[10] of revenue requirement which is the highest requested deficiency for a rebasing application since the onset of the RRF, where the average request was a 14% revenue deficiency to revenue requirement ratio.

As OEB staff will explain further below, InnPower is currently tracking its overall 2017 OM&A spending at more or less its 2015 spending levels. Its proposed capital spending is fairly consistent with its 2015 level, excluding the impact of the new building. OEB staff submits that InnPower's proposed OM&A should be set at approximately the 2015 level as well.

1.0 PLANNING

1.1 Capital

Is the level of planned capital expenditures appropriate and is the rationale for planning and pacing choices appropriate and adequately explained, giving due consideration to:

- customer feedback and preferences;
- productivity;
- compatibility with historical expenditures;
- compatibility with applicable benchmarks;
- reliability and service quality;
- impact on distribution rates;
- trade-offs with OM&A spending;

[10] InnPower_Cross Reference Document_20171011

- government-mandated obligations;
- the objectives of InnPower and its customers;
- distribution system plan

Background

InnPower's actual and forecasted capital expenditures (which are the same as in service additions) are shown in the following table.

Table 1 – Net Capital Expenditures/Capital Additions[11]

Actual $k					Forecast $k				
2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
3,818	4,751	5,031	15,263	4,548	4,405	5,176	6,435	5,795	5,768

Included in the above table are the updated capital contributions for 2017 through 2021, to reflect higher capital contribution amounts. As a result, the net capital additions (net of capital contributions) for 2017 through 2021 have decreased. The impact on the 2017 test year rate base is to lower net capital additions for 2017 by $2.284 million[12]. The revised net capital additions for 2017 is $4.4 million.

The remainder of this section will address matters of clarity that support the final proposed capital envelope for the test period.

Five projects in the DSP that were previously categorized as System Service in 2017 should actually have been categorized as System Access projects, as they related directly to new subdivision developments. Capital contributions totaling $2.284 million should have been assessed against these projects.[13]

The revised capital additions for 2017 of $4.4 million is less, but also fairly consistent with what was spent from 2013 through 2016, if the impact of the new building on 2015 capital additions is excluded. The revised capital additions for

[11] 2017_Filing_Requirements_Chapter2_Appendices TC_20170920. Appendix 2-AB
[12] InnPower_transcript_vol1_TC_20170912, page 87
[13] InnPower_ARGChief_20171006, page 4

2017 of $4.4 million are lower than what is expected to be spent from 2018 through 2021.[14]

InnPower stated that it had spent less than the 2013 OEB approved capital expenditures from 2013 to 2016 as some expenditures that were planned for 2013 and 2014 were moved to 2015. Specifically, InnPower stated with respect to the underspending for 2013 and 2014 that the "difference is the amount of the building that was deferred from one year to the next year to the next year, which was ultimately spent in 2015." InnPower further stated that "when you add all those numbers, including 2015 together, it doesn't show as an underspend significantly."[15]

InnPower further acknowledged that its capital additions for 2016 were below projections – "around 15 or 16 percent." InnPower pointed to its evidence[16] where InnPower proposes to fill the gap in capital spending between actual and projections. InnPower also stated that its "capital spending needs to remain high".[17]

InnPower indicated that it is on track to spend more in 2017 than the $4.4 million of capital additions it has included in the 2017 test year rate base.[18] As outlined by InnPower, past experience indicates that more of the capital work is completed in the latter half of the year (through the balance of the summer and fall months).[19]

InnPower has provided a table[20] titled "Table JT1.5A Capital Expenditures YTD to July 30th 2017" which included notes relating to the proposed capital additions that are dependent on forces that may be outside of its control – for example:

- Note 6 – Pending County confirmation to proceed.
- Note 8 - Pending Municipal approvals for intersection reconstruction.
- Note 9 - These projects are deferred due to developer delays

[14] InnPower_ARGChief_20171006, page 5
[15] InnPower_transcript_vol1_TC_20170912, pages 72-74
[16] InnPower_transcript_vol1_TC_20170912, pages 72-74
[17] May 8, 2017 Amended Filing, page 23
[18] Technical Conference Undertaking JT1.5, page 8; InnPower_ARGChief_20171006, pages 6, 7
[19] InnPower_ARGChief_20171006, page 6
[20] Technical Conference Undertaking JT1.5

In the Oral Hearing, InnPower was asked how confident it was that projects are going to be done and whether the projects should be included in its ask (i.e. 2017 net capital additions request). InnPower stated that it performs an analysis of projects and had removed the lowest probability of these projects from the forecast (e.g. Mapleview and McKay which both show zero likelihood of occurring during the rest of the year). InnPower has revised its list of projects and removed the projects that InnPower doesn't think will happen and kept the projects that it thinks will happen. However, InnPower stated that there are still some contingencies that exist.[21]

InnPower also stated that it is pacing its renewal to only do what is absolutely required in the test year and to defer the bulk of any increases in renewal spending until after the System Access work slows down.[22]

InnPower has also included $490k related to a new double bucket truck in its 2017 in service additions. However, it stated[23]:

> The double bucket truck that was previously anticipated to go into service in Q4 of 2017 is now expected to go into service in Q1 of 2018.
>
> InnPower does not agree that the cost of $490,000 should not be included in rate base in the test year. This would amount to a selective reduction to one category of test year capital expenditures without also adjusting for increases in other categories.

Even though some capital investments, such as the double bucket truck, have been moved from 2017 to 2018, InnPower agreed that some capital investments have been moved from 2018 to 2017. As a result of the movement of projects between different years (e.g. some projects being deferred to 2018 from 2017 and some projects being moved backward to 2017 from 2018) , the net impact on 2017 capital additions due to the movement of these projects is not large.[24]

---

[21] InnPower_hearing transcript - Volume 2_20171004, pages 69 & 70
[22] InnPower_ARGChief_20171006, page 6
[23] Response to Technical Conference Undertaking JT.15
[24] InnPower_hearing transcript - Volume 2_20171004, pages 48-49

In its argument-in-chief, InnPower stated that if a more up-to-date forecast of capital expenditures would be preferred in the test year (for example, to reflect the fact that the delivery of the double bucket truck has been delayed), then this should done on a comprehensive basis across the entire capital program to accurately reflect both increases and decreases in capital expenditures.[25]

InnPower has provided its most up-to-date forecast in Undertaking JT1.5, Table JT1.5A, in the column titled "2017 Year End Forecast-Net." InnPower stated that this accurately reflects both reductions in some projects and increases in others. InnPower stated that an update to the 2017 test year capital expenditures would result in the forecasted capital for the test year increasing by more than $600k, driven in large part by a substantial increase in the actual spending on "Base 4" System Access projects, but offset somewhat by decreased spending in other categories.[26]

OEB staff notes that although InnPower has incorporated the $2.284 million increase in capital contributions in 2017 test year rate base as a reduction of capital additions, it has not updated the amount of capital contributions amortized through fixed assets and Other Revenue for the 2017 test year. The current amount of amortization in the 2017 test year is $522,116. A higher amount of amortized capital contributions must be reflected in Appendix 2-BA, Account 1995, Contributions & Grants, and Appendix 2-H Account 4245, Deferred Revenues – Contributions.

As a result of the Oral Hearing, InnPower has increased the amount of capital contributions to be amortized through fixed assets and also increased Other Revenue by an amount of $25,381[27] for the 2017 test year. However, OEB staff notes that this correction has not been reflected as an adjustment to the revenue requirement in the cross-reference document.[28]

---

[25] InnPower_ARGChief_20171006, page 7

[26] InnPower_ARGChief_20171006, page 7

[27] J2.4 Contribution depreciation and Deferred Revenue Update, Tab "Undertaking J2.4", cells (B9-D9) and (B12-D12)

[28] InnPower_Cross Reference Document_20171011

Submission

OEB staff notes that there was some difficulty in understanding InnPower's approach to the 2017 test year capital envelope. However, test year in service additions were clarified to OEB staff's satisfaction subject to the adjustments discussed above and below. In addition, OEB staff is satisfied with InnPower's capital planning overall for purposes of assessing the test year expenditure envelope. OEB staff makes some constructive observations for the outer years in the DSP section below.

OEB staff submits that the revised capital additions for 2017 of $4.4 million are appropriate. This amount is fairly consistent with what has been spent in the past (2013 through 2016). It is lower than the 2013 OEB approved capital additions of $5.4 million. InnPower is committed to spend more in 2018 through 2021 than what is incorporated into the 2017 test year capital additions, as outlined in Table 1 above.

OEB staff is of the view that the $4.4 million of capital additions for the 2017 test year should be approved using an "envelope" approach and that a more up-to-date forecast of capital additions is not required for the 2017 test year. InnPower can choose to spend this envelope to meet its needs, recognizing that there may be changes in the actual 2017 results, reflecting some additional items that were planned but not put into service in 2017. One of these additional items may be the $490k cost of the double bucket truck, which is not expected to go into service until Q1 2018.

However, OEB staff is of the view that there still may be a risk that some capital additions due to be completed in the remainder of 2017 will not be incurred, due to factors beyond InnPower's control. Therefore, OEB staff submits InnPower has correctly accounted for the additional $600k that InnPower has forecasted to spend in 2017 by not including it in rate base.

OEB staff notes that InnPower has forecasted higher net capital additions in the future, versus the proposed 2017 test year net capital additions of $4.4 million (e.g. InnPower is anticipating net capital additions of $6.435 million in 2019.) InnPower did not ask for an Advanced Capital Module (ACM) as part of this application. InnPower will have at its disposal the Incremental Capital Module (ICM) subject to the available incremental capital expenditure calculation.

However, the ICM is generally for projects unplanned at the time of rebasing or where insufficient information is available at the time of rebasing to support a review of need. The ACM is tailored specifically for utilities to leverage the extensive work that they do in terms of their capital planning. It is counter intuitive for a utility that has elevated spending levels planned for the outer years not to take advantage of the ACM opportunity. OEB staff suggests that this may be a sign of a lack of confidence in the planning for the outer years. OEB staff addresses this further below in the DSP section.

OEB staff recommends that the OEB consider emphasizing in its decision on the current application that any ICM that InnPower may seek in the future will require rigorous evidence as to why the project in question was unplanned or why sufficient information was not available at the time of the 2017 rebasing. This will be necessary given the already elevated spending levels for the outer years.

OEB staff also submits that the higher amount of amortized capital contributions of $25,381 are appropriate and should be incorporated into a revised 2017 test year revenue requirement. In particular this amount should be reflected in subsequent versions of the RRWF, Appendix 2-BA, Account 1995, Contributions & Grants, and Appendix 2-H Account 4245, Deferred Revenues – Contributions.

The Administrative Building

Background

In the EB-2014-0086 OEB approved settlement proposal, $10.9 million was approved for the new administrative building (which represented the original request minus $2.35 million). In this application, InnPower originally requested that $13.2 million be included in rate base for the new building,[29] but updated its request to $10.9 million. However, in this proceeding, after again removing the impact of the $2.35 million of net capital additions, InnPower is requesting a total

[29] Amended Filing, May 8, 2017, page 4

amount of $11.1 million for approval, which is $245k[30] in excess of the amount approved in the settlement proposal.

The $2.35 million was removed the second time after the OEB-led community meetings. This amount related to the component of the new building that was not approved in the EB-2014-0086 OEB approved settlement proposal and also represents the cost of the building that was not occupied by InnPower but was to be leased.[31]

In the Oral Hearing the Panel invited submissions from parties to address in argument the interpretation of the reduction of $2.35 million from the capital amount of $13.2 million associated with the new building, as set out in the settlement proposal of November 12, 2014, filed in EB-2014-0086.[32]

InnPower stated in the OEB approved settlement proposal[33] that it would remove amounts from its rate base related to the old building. The settlement proposal stated:

> For the purpose of settlement, the Parties agree that since the new Corporate Headquarters and Operations Centre is replacing existing assets that are currently in in the rate base, the net book value (NBV) of those assets should be removed from rate base effective 2015. The calculated NBV of the land at 2073 Commerce Park Drive is $124,000 and the buildings are $435,000 for a total of $599,000.[34]

In the current proceeding, InnPower stated:[35]

> InnPower will adjust the Fixed Asset continuity to reflect the assets determined in the EB-2014-0086 of $10.9 million versus submitted Fixed Asset continuity schedules of $13.2 million for 2015, 2016 and 2017. This amendment reduces the Rate Base calculation in 2017 by $2,000,503.

---

[30] Oral Hearing Undertaking J2.3 response

[31] InnPower_hearing transcript_Volume 1 Public Redacted_20171003, page 79 and Oral Hearing Undertaking J2.3 response

[32] InnPower_hearing transcript - Volume 2_20171004, page 83

[33] EB-2014-0086 OEB approved settlement proposal

[34] EB-2014-0086, Settlement Proposal, November 12, 2014, page 10

[35] Amended Filing, page 4

Submission

OEB staff submits that the impact of the $2.35 million net capital additions that has been removed from 2017 test year Rate Base is consistent with the OEB approved settlement proposal. InnPower had the opportunity in both the 2015 proceeding and this proceeding to demonstrate the prudence of this $2.35 million. However, InnPower removed the amount from its request in both the 2015 and 2017 proceedings. InnPower is of the view that this incremental amount (net of depreciation) can be dealt with in a future application.[36]

OEB staff notes that in the 2015 proceeding no concessions[37] were made by InnPower to reduce the cost of the building to be incorporated into rate base. Nevertheless, InnPower has had two opportunities to support its request for the incremental amounts and has decided to withdraw both.

OEB staff is of the view that the issue regarding the cost of the new administration building should not perpetuate into the future. As demonstrated below from the Oral Hearing transcript, InnPower stated that there was no concern from its Board of Directors or the Town of Innisfil to indicate that there are funding constraints with respect to its capital over the next five years. As a result, OEB staff submits that InnPower should be precluded from bringing a request in the future to recover the impact of the remaining $2.35 million capital additions from rate base. The Oral Hearing transcript stated:

> Continued Questions by the Board:
> Mr. Malcolm, the capital expenditure plan that you right now have between 2017 and '21, you've presented that to your board of directors and the town of Innisfil?
> MR. MALCOLM: That's correct.
> MS. DUFF: Given the dollar amounts involved and the capital that is going the be required, was there any concern

[36] InnPower_hearing transcript_Volume 1 Public Redacted_20171003, page 133

[37] As per page 56 & 57 of the EB-2014-0086 August 13, 2014 application, InnPower forecasted the cost to be $13,246,704. This cost related to "the design and build of the new Corporate Headquarters and Operations Facility." No reductions to this cost were made in the Settlement Agreement, other than removing that incremental capital reduction of $2,350,000 related to the leasing area.

> regarding constraints, regarding funding that capital over the next five years?
>
> MR. MALCOLM: Not from the board of directors or the town. They recognize, as the town of Innisfil is growing as well, they are seeing the same capital improvements in their programs as well, and they recognize that as development proceeds that it will take additional dollars to move that forward.
>
> What we addressed was the capital contributions and the use of the economic evaluation model that is available to us, and that we will be moving forward with that.[38]

OEB staff submits that the additional costs related to the new building of $244,506 that were not approved in the settlement agreement should also not be included as part of the 2017 test year rate base. OEB staff notes that the extra $244,506 of costs were not clearly articulated in InnPower's evidence. It was only when InnPower was specifically asked to confirm whether it had costs related to the new building included in 2017 test year rate base beyond the $10.9 million, that this information was highlighted to parties.[39]

On another matter, InnPower stated that it "has modified the 2015 – 2017 Fixed Asset Continuity Schedules reflecting the EB-2014-0086 Decision and Rate Order".[40] However, InnPower has not clearly shown where in its current evidence the specific amounts related to the old building were removed from rate base. InnPower should confirm in its reply submission that the specific amounts related to the old building (2073 Commerce Park Drive) were removed from rate base and indicate where in the evidence this reduction is reflected. This removal of costs should have been in accordance with the 2015 OEB approved settlement proposal.

[38] InnPower_hearing transcript - Volume 2_20171004, page 74
[39] Undertaking J2.3, October 6, 2017
[40] Amended Filing, page 16

Distribution System Plan

Background

It is OEB policy that pacing and prioritization of capital investments to promote predictability in rates and affordability for customers must be a primary goal in a distributor's capital plan.[41]

Further, the OEB expects utilities to mitigate bill impacts through the pacing and prioritizing of investments and activities.[42]

InnPower stated the following[43]:

> As InnPower Corporation's capital spending needs to remain high to support our growth, it is more essential than ever to execute effective prioritization to meet the needs of growing our distribution system, maintaining acceptable reliability and power quality levels and demonstrate rate competiveness. As a result, InnPower will need to rely on effective cost management and increasing efficiencies.
>
> Throughout the historical timeframe for capital projects and expenditures, InnPower Corporation has focused on three key areas to improve our capital output to achieve the forecast:
>
> - Resources (internal and external);
> - Tools and training, and
> - Processes.

OEB staff notes that InnPower stated above that "effective prioritization" was essential to meet the needs of its growing distribution system. However, InnPower also confirmed that the weighting and prioritization of projects is only applicable to the 2017 projects and not projects after 2017. InnPower stated that

---

[41] October 18, 2012 *Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach,* page 37
[42] October 13, 2016 *Handbook for Utility Rate Applications*, page v
[43] Amended Filing, page 23

the pacing and prioritization of projects is really focused on 2017 and not after 2017.[44]

In the Oral Hearing, InnPower stated that the prioritizing and pacing of capital investments have not been completed past 2017 because the projects beyond 2017 have not been scoped in detail. InnPower further stated that "it's not a requirement of the DSP to do detail project narratives for projects beyond the test year."[45] However, InnPower has committed to providing business cases for each of the projects in the future.[46] InnPower will evaluate the projects to determine the need for each of the projects and the consequences of not doing those projects.[47]

InnPower stated that it plans to take an overall look at the whole capital program. The distributor will try to ensure that a consistent capital base is being maintained throughout the next five to ten years. InnPower indicated that priorities will change as developments come on stream.[48]

For example, when questioned about how InnPower determined the condition of its cables, it stated that:

> It is entirely age-determined. The methods for testing usually involve having a failure in testing the failed cables or taking statistics around the failures, and none of those events have happened yet on the population of underground cables for InnPower.

InnPower went on to say that;

> So InnPower is aware of what's going on in the industry and is paying attention to testing techniques, but has not specifically studied non-destructive testing of their cables. [49]

---

[44] InnPower_transcript_vol2_TC20170913, pages 77-78
[45] InnPower_hearing transcript - Volume 2_20171004, page 66
[46] InnPower_hearing transcript - Volume 2_20171004, page 67
[47] InnPower_hearing transcript - Volume 2_20171004, page 68
[48] InnPower_hearing transcript - Volume 2_20171004, page 67
[49] InnPower_transcript_vol1_TC_20170912, page 27

Submission

OEB staff notes that InnPower has not utilized pacing and prioritization in planning its capital investments. Although Table 1 above shows that 2017 test year capital additions are expected to be lower than 2018 through 2021 capital additions, OEB staff submits that going forward InnPower must ensure that it incorporates adequate pacing and prioritization.

InnPower may wish to further elaborate in its reply submission regarding InnPower's statement that "it's not a requirement of the DSP to do detail project narratives for projects beyond the test year."[50] Even if this were the case, it is a counter intuitive statement from a utility that attempted a Custom IR filing and one that has an elevated capital plan in place for the near future as part of its cost of service application. Detailed business cases are not required unless a utility is planning for an ACM, but a detailed narrative of the purpose and scope of a project is consistent with what most distributors provide. InnPower has only provided a general description of its projects expected to be incurred over the forecast period.[51]

OEB staff also submits that InnPower should investigate initiatives that could reduce costs, such as non-destructive testing of cables.

1.2 OM&A

Is the level of planned OM&A expenditures appropriate and is the rationale for planning choices appropriate and adequately explained, giving due consideration to:

- customer feedback and preferences;
- productivity;
- compatibility with historical expenditures;
- compatibility with applicable benchmarks;
- reliability and service quality;

---

[50] InnPower_hearing transcript - Volume 2_20171004, page 66

[51] November 28, 2016, Exhibit 2, Appendix B, DSP, section "4.1.4 List of Material Capital Expenditures (5.4.1d)" – page 95-101 of DSP

- ➢ impact on distribution rates;
- ➢ trade-offs with capital spending;
- ➢ government-mandated obligations; and
- ➢ the objectives of InnPower and its customers.

InnPower has several FTE vacancies that have persisted from prior years and have continued through 2017. The compensation amounts related to these FTEs have been included in the OM&A portion of the 2017 test year revenue requirement.

OEB staff also notes that InnPower has made adjustments to its 2017 proposed FTEs.[52] For example, it removed ½ of the InnPower's CEO FTE and reflected this in the revised numbers. The remaining ½ balance of the CEO FTE was allocated to InnServices Utilities Inc. (InnServices).

InnPower stated that it currently has three vacant FTEs – two management positions and one non-management position. The approximate compensation related to these positions that has been included in the 2017 test year OM&A is $250,000.[53]

InnPower outlined that as a result of the FTE vacancies:[54]

- The amount of overtime incurred by staff has increased approximately by 59% between 2016 and 2017;
- Currently one staff member is on stress leave, and there were six recent stress-leave occurrences;
- A 5% staff turnover was generated in 2013, which was completely related to retirements. In 2017, a 19% turnover was generated, with only 2% of that related to retirements.
- There is a need to use more subcontract work.
- Overwork lowers productivity, and high turnover is experienced and new staff training costs.

---

[52] Oral Hearing Exhibit K1.4

[53] InnPower_hearing transcript_Volume 1 Public Redacted_20171003, pages 103, 104

[54] InnPower_hearing transcript_Volume 1 Public Redacted_20171003, pages 13,14

- As more growth is anticipated, InnPower has to be mindful of the capacity and limits of their current employees. InnPower cannot cut further in this circumstance, and all vacancies need to be filled.

InnPower also stated that it is planning to do a reorganization of its organizational structure, in particular to better align the engineering and the operations groups. It also may replace the one operations manager that is currently vacant with two supervisors, incurring an additional cost of $50,000.[55]

InnPower's historical OM&A and final request for 2017 OM&A is shown in the table below:

Table 2 – OM&A Expenses[56]

2013 BA	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast
$4,890k	$4,995k	$5,225k	$5,558k	$5,689k	$5,990k
Annual %		5%	6%	2%	5%
Increase from 2013 to 2017					20%
Compounded Annual Growth Rate					4.6%

In the response to Undertaking JT1.20, InnPower has provided actual Total Labour and Non-Labour costs of $3,244,450 expensed from January 1, 2017 to July 31, 2017. The extrapolated amount of the OM&A costs for 2017 are approximately $5,561,944 as shown below. However, the amount of 2017 test year OM&A is $5,990,356, which is $428,442 higher than the extrapolated number for 2017, as shown in Table 3 below.

[55] InnPower_hearing transcript_Volume 1 Public Redacted_20171003 , pages 142, 143

[56] 2017_Filing_Requirements_Chapter2_Appendices TC_20170920, Appendix 2-JA

Table 3 - Cross - Check of 2017 Test Year OM&A versus Actual Expenditures

YTD July 31, 2017 Labour, as per Undertaking JT1.20	1,914,451	E
YTD July 31, 2017 Non-Labour, as per Undertaking JT1.20	1,329,999	F
YTD July 31, 2017 Total, as per Undertaking JT1.20	3,244,450	G = E + F
Extrapolated Total Costs for 2017	5,561,914	H = G * 12/7
Total 2017 Test Year OM&A, as per Appendix 2-JA	5,990,356	I
Difference - overstatement of 2017 Test Year OM&A	428,442	J = I - H

Submission

OEB staff's submission on the OM&A envelope will focus on the vacant FTEs in the proposed 2017 test year budget and on the overall reasonableness of the spending envelope compared to prior years and to year to date, given the timing of the close of the evidentiary record to this proceeding.

The extrapolated 2017 test year OM&A of $5,561,914 was discussed in the Oral Hearing. InnPower was of the view that seven months of actual spending to July 31, 2017 could not be extrapolated to generate an annual number. InnPower stated that it is "on target" to spend its proposed OM&A by the end of 2017, as more spending will be incurred in the last five months of 2017 compared to the first seven months of 2017.[57]

In the response to an Undertaking, InnPower asserted that 2016 actual OM&A should be normalized to remove the impact of $250,000[58] from maintenance costs relating to an ice storm that occurred in March /April of 2016. InnPower compared the normalized 2016 actual OM&A to July 31, 2016 of $3,278,387 to the 2017 actual OM&A to July 31, 2017 of $3,244,450. InnPower is of the view that the difference between the 2016 and 2017 OM&A amounts is 1%.[59]

OEB staff is of the view that the normalized 2016 OM&A of $5,439k, as described below, is a more appropriate comparator to the proposed 2017 test year OM&A.

InnPower was also asked why it was seeking an increase of OM&A of approximately 4% per year since the last time it rebased, when inflation is approximately 1.9%. As outlined in the quote below, InnPower stated that it has a history of being behind on the maintenance of its system. InnPower stated that the increase is required in order to maintain the system, reliability, and its level of customer service.[60] Specifically the following was stated in the Oral Hearing, regarding the maintenance of InnPower's system:[61]

> MS. COWLES: I think throughout the evidence, we have provided a number of reasons why our OM&A is higher than the Board-approved inflationary rate.
>
> We've got a history of being behind on maintenance of the system and with the growth, we have to -- we have got all these factors that are contributing to our increased OM&A. That increase is required in order for us to maintain our system for system access and system service, to maintain our reliability and to maintain the customer service that we are providing.

---

[57] InnPower_hearing transcript_Volume 1 Public Redacted_20171003, pages 100, 101
[58] Undertaking J1.5, October 6, 2017
[59] *Ibid*
[60] InnPower_hearing transcript_Volume 1 Public Redacted_20171003, pages 139, 140
[61] InnPower_hearing transcript_Volume 1 Public Redacted_20171003, pages 139, 140

OEB staff submits that maintenance expense is part of the day-to-day operations of a utility and should not be a driving factor to explain increases of OM&A. This statement is particularly relevant when the goal is to catch-up on maintenance programs because the utility has had difficulty spending in prior years at the appropriate levels. This is one of the basic tenants of the OEB's Renewed Regulatory Framework (RRF); that a utility is expected to pace and prioritize its spending so as to avoid spikes in spending, especially in the test year.

InnPower asserted that the actual growth rates for residential and GS customers were 2.44% in 2014, 2.35% in 2015, 2.26% in 2016, and forecasted growth of 2.35% in 2017. InnPower believed that this growth has, in turn, driven an increase in OM&A costs beyond what might otherwise be predicted if one were to start with 2013 actual expenditures and adjust it to reflect merely inflationary increases. InnPower is of the view that historical incremental OM&A expenditures in Appendix 2-JA are very much in-line with growth plus inflation, with only one exception - 2015 - the year that InnPower moved into its new building.[62]

OEB staff notes that InnPower has incorrectly characterized that increases in OM&A are reflective of a sum of the percentage growth of customers and inflation rate. For example, InnPower has forecasted an increase of 5.30% of OM&A from the 2017 test year versus the 2016 bridge year. Subtracting the 2.35% anticipated 2017 incremental growth of customers, results in a net increase of 2.95%. However, with inflation at 1.90%[63], there is an unexplained overstatement of 1.05% of OM&A for the 2017 test year.

OEB staff has also performed a calculation below in "Table F - OEB Staff Recalculation of Amounts included in OM&A as per J1.5", further showing that the requested OM&A for 2017 of $5,990k is not appropriate. 2016 actual OM&A should be normalized to remove the impact of $250,000[64] from maintenance

---

[62] InnPower_ARGChief_20171006, page 8

[63] 2017 EDR Webpage October 27, 2016 Reference:

Consistent with the policy determinations set out in the Report of the Board on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors (EB-2010-0379) (Issued November 21, 2013 and updated December 4, 2013), the OEB has calculated the value of **the inflation factor for incentive rate setting under the Price Cap IR and Annual Index plans, for rate changes effective in 2017, to be 1.9%.** The derivation of this is shown in the following table. The OEB will adjust the price escalator in each applicable electricity distributor's 2017 Incentive Regulation Mechanism model such that this inflationary adjustment is reflected in distribution rate changes resulting from Price Cap IR and Annual Index applications effective in 2017

[64] Undertaking J1.5, October 6, 2017

costs relating to an ice storm that occurred in March /April of 2016. When comparing the normalized 2016 actual OM&A to an extrapolated 2017 OM&A, the difference is approximately $123k, or 2.3%. With inflation at approximately 1.9%, this leaves a difference of only 0.4%. This demonstrates that the company has not back loaded its OM&A spending in the past and that to July 31, 2017, the company is on pace to spend at approximately the 2015 level ($5,558k).

Table F - OEB Staff Recalculation of Amounts included in OM&A as per J1.5					
		July 31/16 YTD	July 31/17 YTD		
OM&A to July 31		3,528,387	3,244,450		A
less 2016 Ice Storm Maint costs		250,000	NA		B
Net OM&A to July 31		3,278,387	3,244,450		C = A - B
		2016 Actual	2017 Test		
Total OM&A - full year		5,688,814	5,990,356		D
2016 Normalized OM&A (2016 Actual less Ice Storm Maint Costs)		5,438,814			F = D - B
2017 Extrapolated Total OM&A			5,561,914		G = C * 12 / 7
Difference between 2017 Extrapolated Total OM&A and 2016 Normalized Actual OM&A				123,100	H = G - F
% Difference				2.3%	I = H / F

OEB staff submits that InnPower should not capture the full impact of the three vacant FTEs positions in the 2017 test year revenue requirement. This impact is approximately $250,000 and is a significant driver of the proposed increase in the 2017 test year OM&A. At the oral hearing, InnPower was asked whether additional options had been considered to fulfil its operational needs, rather than hiring additional FTEs. InnPower stated that the FTEs are not additional employees, but are existing vacancies, that are “supervisory” and integral.[65] OEB staff submits that this is not a satisfactory response given that the company has planned on these vacancies for some time and has yet to fill them.

InnPower had the opportunity to provide the impact of the removal of the vacant FTEs when questioned about this issue. That is, the cost of the vacant FTEs may be offset by overtime incurred by the current FTEs. InnPower could have

[65] InnPower_hearing transcript_Volume 1 Public Redacted_20171003, page 141

provided a dollar estimate of the amount of overtime incurred by staff in 2016 and YTD 2017, further to the 59% overtime percentage noted above. The OEB may have been in a better position to judge whether the increase in OM&A for 2017 versus 2016 is valid due to vacant FTEs, and whether the $250,000 estimate above, if included, should be reduced for overtime costs.

It is OEB staff's position the 2017 test year OM&A of $5,990,356 is simply not reasonable and is one of the key drivers of the unusually high deficiency sought in this application. $5.571 million may be a more suitable number, reflecting a 7% reduction, or $0.419 million, to 2017 test year OM&A. A 7% cut represents approximately the difference between the requested 2017 Test Year OM&A of $5.990 million and the extrapolated 2017 OM&A of $5.561 million.

OEB staff believes that there is sufficient cause to further reduce InnPower's OM&A to 10% below the proposed (or at approximately $5.4 million) for the following reasons:

- As noted above, a large number of InnPower customers attended the community meetings to voice their concerns about high rates. Customers noted InnPower's corporate governance as an area of significant concern. Customers also considered the new building and sculpture to be a tangible symbol of what they see as InnPower's lack of regard for cost control.[66] A 31% deficiency request does not appear to be in touch with customers' views of how the utility is performing.

- InnPower has not demonstrated that a spending envelope of $5.4 million would put the utility at risk. OEB staff has re-run the September 20, 2017 RRWF, including a 2017 test year OM&A of $5,391,320 (but not other changes). The resulting revenue deficiency would be 24%, which is still above average.

- InnPower's "Growth will pay for Growth" approach should provide that future load growth will fund growth, rather than being funded through increased OM&A costs.

[66] InnPower Community_Meeting_Summary_20170502, page 5

Pension and Benefit Amounts Included in OM&A

Background

In its argument-in-chief, InnPower stated:

> The transition from MIFRS to IFRS did require a one-time adjustment to Employee Pension and Benefits of $60,050, which is properly reflected in OM&A forecast.

Submission

OEB staff notes that the evidence on file does not show this amount as part of OM&A for the 2017 test year. In response to an OEB staff interrogatory, [67] $60,050 regarding a one-time IFRS adjustment to employee pensions/benefits is shown as a debit amount in 2015 and as a credit amount in 2016. OEB staff submits that this amount is related to 2015 and in the absence of this amount being in an OEB approved deferral account, the Other Pension and Employment Benefits (OPEB) transition amounts relating to prior years are out of period, and are not recoverable due to the rate retroactivity principle. In Enersource's 2013 rate application (EB-2012-0033), the OEB decided that Pension & OPEB transition amounts relating to prior years were out of period. OEB staff submits that InnPower, in its reply submission, should confirm that this out-of-period amount is not included in InnPower's 2017 test year OM&A.

2.0 Revenue Requirement

Are all elements of the revenue requirement reasonable, and have they been appropriately determined in accordance with OEB policies and practices?

Has the revenue requirement been accurately determined based on these elements?

Background

InnPower has reduced its Other Revenues to remove $100,000 for the leasing area of its new building. However, as per the EB-2014-0086 approved

[67] IRR 4-Staff-49, Appendix 2 JB

settlement proposal, InnPower agreed to include in the revenue offsets amounts from leasing revenues in its next cost of service application. The approved settlement proposal[68] stated the following:

> IHDSL does agree to include revenue off-sets from leasing revenues in its next Cost of Service or Custom IR application.

By not including leasing revenues in revenue offsets, InnPower is not complying with the EB-2014-0086 OEB approved settlement proposal.

InnPower indicated that two additional approaches related to the treatment of leasing revenue may be appropriate[69]:

1. Include the full costs of the building in rate base and record as a revenue offset any amounts of leasing revenues for the full costs of the building.

2. Include in rates a subset of the cost of the building, and exclude from rates any costs associated with the portions of the building that are not being claimed from customers and at the same time, exclude revenue offsets.

InnPower stated[70] that it would like the OEB to decide that the approach it has taken is equivalent to the result that was sought in the settlement proposal.

InnPower stated[71] that “the shareholder, rather than the ratepayer, is taking 100% of the risks associated with the ability to successfully lease out the leasing space and recover the costs associated with the leasing space. The ratepayers are fully protected in this arrangement. InnPower submits that its proposal is both consistent with the terms of the Settlement, and is in the public interest.”

InnPower further stated that “both the spirit and intent of the Settlement to ensure ratepayers are protected from costs associated with the difference between InnPower’s needs over time and the total area available in the new building.”

---

[68] EB-2014-0086 OEB Approved Settlement Agreement, page 12
[69] InnPower_transcript_vol1_TC_20170912, page 124
[70] InnPower_transcript_vol1_TC_20170912, page 125
[71] InnPower_ARGChief_20171006, page 16

> InnPower stated at the Oral Hearing that “What we are seeing because of the late signing of the lease in September of 2017, our revenues from that building will be $33,000.”[72]

Submission

OEB staff has addressed the capital and OM&A components of the revenue requirements above and has no comments on the Cost of Capital nor Payments in Lieu of Taxes.

OEB staff submits that by not including leasing revenues in revenue offsets InnPower is not complying with the EB-2014-0086 OEB approved settlement agreement. OEB staff submits that InnPower should include the $33k related to leasing revenue as a revenue offset to the 2017 test year revenue requirement, in order to comply with previous OEB direction.

A portion of the fixed assets allowed for rate-making purposes (i.e. $10.9 million) will relate to the part of the building that is currently leased. As a result, OEB staff submits that it is appropriate to include the $33,000 of leasing revenue as a 2017 Test Year Other Revenue Offset, representing the portion of the building included in the revised fixed assets that is currently leased.

3.0 Load Forecast, Cost Allocation and Rate Design

Are the proposed load and customer forecast, loss factors, CDM adjustments and resulting billing determinants appropriate, and, to the extent applicable, are an appropriate reflection of the energy and demand requirements of InnPower’s customers?
Is the proposed cost allocation methodology, and are the allocations and revenue-to-cost ratios, appropriate?
Are InnPower’s proposals for rate design appropriates?
Are the proposed Retail Transmission Service Rates and Low Voltage service rates appropriate?

---

[72] InnPower_hearing transcript_Volume 1 Public Redacted_20171003, page 8

In its argument-in-chief, InnPower states that its proposed load and customer forecast, loss factor, cost allocation methodology, rate design, and retail transmission service rates are appropriate.[73] OEB staff agrees that the cost allocation methodology and retail transmission service rates are appropriate. As detailed below, OEB staff does not agree with the loss factor used in the load forecast and aspects of the proposed rate design.

Loss Factor

Background

InnPower stated that the historic average loss factor used in InnPower's energy load forecast is an integral part of setting the total envelope for energy consumed by rate classes.

> InnPower Corporation's weather normalized load forecast is developed in a three-step process. First, a total system weather normalized purchased energy forecast is developed based on multivariate regression model that incorporates historical load, weather, and other variables that impact electricity usage. Second, the weather normalized purchased energy forecast is adjusted by a historical loss factor to produce a weather normalized billed energy forecast. Finally, the forecast of billed energy by rate class is developed based on a forecast of customer/connections numbers and the 2016 usage per customer/connection. For the rate classes that have weather sensitive load their forecasted billed energy is adjusted to ensure that the total billed energy forecast by rate class is equivalent to the total weather normalized billed energy forecast that has been determined from the regression analysis.[74]

InnPower's load forecast for 2017 relies on applying a total loss factor of 1.0731[75] – as calculated in the load forecast model, using a ten year average of 2007-2016. InnPower states that the use of the entire methodology, including this loss factor is regularly used:

---

[73] InnPower Argument-in-Chief, p.17, paragraphs 52-54
[74] Exhibit JT2.4 Updated Load Forecast Evidence, p.6
[75] Exhibit JT2.4 Updated Load Forecast Evidence, p.11, Table 3-8

> The load forecast model used by InnPower was prepared by Mr. Bacon, a consultant to InnPower, and is based on a systematic methodology that has been utilized by the OEB in numerous previous decisions.[76]

Appendix 2-R performs a calculation of a five-year average of 2011-2015, and is the required methodology for filing loss factors. The filing requirements stipulate that distributors must file "A completed Appendix 2-R showing the energy delivered to the distributor with and without losses."[77] InnPower accepts the loss factor computed in Appendix 2-R as the appropriate loss factor to be used in other areas of the rate application.[78] The Tariff and Bill Impacts have been derived with the loss factor from Appendix 2-R.[79]

If InnPower were to adopt the lower loss factor from Appendix 2-R in the test year for purposes of its load forecast, it would lead to total forecasted energy billed of 242.6 GWh[80] instead of 239.7 GWh[81]

Submission

While there has been volatility in InnPower's loss factors from year to year[82], the first four years of 2007-2010 generally had higher losses than the following six years of 2011-2016.[83] Therefore, there is a trend of improving loss factors. From 2007 to 2016, billed energy has increased from 219.6 GWh to 242.0 GWh,[84] an increase of 22.4 GWh. As the loss factors have been generally improving, the required purchases have not needed to increase at the same rate, and have increased by 18.2 GWh from 241.2 GWh to 259.4 GWh.[85] To fully reflect the differing growth in energy purchases and energy billed in arriving at a

---

[76] InnPower Argument-in-Chief, p.17, paragraph 52
[77] Filing Requirements for Electricity Distribution Rate Applications, July 14 2016, Chapter 2, s 2.8.8, p. 59
[78] EB-2016-0085, Oral Hearing Transcript Vol. 1 p. 158 lines 4-15
[79] Tariff Schedule and Bill Impact Model TC (Excel model), tab 5
[80] Exhibit J1.9 2017 Load Forecast, Tab: Summary, Cell: L10
[81] Exhibit JT2.4 Updated Load Forecast Evidence, pp.4-5, Table 3-3
[82] EB-2016-0085, Technical Conference Transcript Vol. 2 p. 95 lines 4-15
[83] InnPower 2017 Load Forecast TC (Excel model), tab Rate Class Energy Model, column F, rows 8-17
[84] Exhibit JT2.4 Updated Load Forecast Evidence, p.3, Table 3-2
[85] Exhibit JT2.4 Updated Load Forecast Evidence, p.10, Table 3-7

forecast for energy billed, a ten-year trend, not a ten-year average of losses would be required.

OEB staff submits that in this instance, given the material changes in the loss factor over time, an appropriate loss factor for the load forecast would be the recent five year historical average. In the interest of consistency with the remainder of the rate application, and in the interest of consistent application of accepted methodology, OEB staff submits that the total loss factor of 1.0604[86] for secondary metered customers at less than 5000 kW calculated in Appendix 2-R be used in calculating the forecast for billed energy.

OEB staff notes that the distribution loss factor is 4.1%. OEB staff notes that this is under the 5% threshold for a mitigation plan and has no concerns at this time with the level of distribution level losses.

Customer Count

Background

The forecasted residential customer count has been a topic of debate in this application. The load forecast filed with the IR responses included a forecast of 15,459 residential customers, an increase of 257 customers over 2016[87]. This was based on a geometric mean growth rate.[88] VECC was concerned that a geometric mean was not appropriate given the situation of “unprecedented growth”[89] in Innisfil. OEB staff was concerned that this did not reconcile to the Schedules of All Future New Residential Subdivisions/Developments filed in Exhibit 2 where 829 new residential customer connections[90] were forecasted. In the technical conference, InnPower agreed to provide customer and connection additions to August 31 2017.[91] In preparing an update to the evidence following the technical conference, InnPower adjusted the customer count to be based on actual additions to August 31, 2017, assuming that in the last four

---

[86] Chapter 2 Appendix 2-R

[87] Responses to Interrogatories, Exhibit 3, p.102, Table 3-4

[88] EB-2016-0085, Technical Conference Transcript Vol. 1 p. 77 lines 21-28

[89] EB-2016-0085, Technical Conference Transcript Vol. 2 p. 3 line 4

[90] Responses to Interrogatories 2.0-Staff-34 part b)

[91] EB-2016-0085, Technical Conference Transcript Vol. 1 p. 78 lines 25-28 and p. 79 lines 1-6

months of the year, customers and connections would be added at the same rate as in the first eight months of the year. This resulted in a forecast of 15,555 residential customers, an increase of 353 customers over 2016[92].

The following table indicates the number of connections forecasted for 2017 by each methodology:

Rate Class	2016 Actual	IRR 2017 Forecast (geometric mean)[93]	JT2.4 2017 Forecast (2/3 actual year)[94]
Residential	15,202	15,459	15,555
General Service < 50	1,016	1,042	1,034
General Service > 50	76	76	88
Sentinel Light	166	164	161
Street Lighting	2,863	2,918	2,995
Unmetered Scattered Load	75	74	74
Total	19,398	19,733	19,906

Submission

OEB staff agrees that the customer connection forecast as updated subsequent to the technical conference based on a 2/3 actual year is the best source of information available to InnPower at the time of the update, and results in an acceptable customer connection forecast.

---

[92] Exhibit JT2.4 Updated Load Forecast Evidence, p.13, Table 3-11

[93] Responses to Interrogatories, Exhibit 3, page102, Table 3-4

[94] Exhibit JT2.4 Updated Load Forecast Evidence, page 13, Table 3-11

Cost Allocation

Submission

OEB staff agrees that the cost allocation methodology and revenue-to-cost ratios as updated after the technical conference are appropriate.

Rate Design

Background

InnPower proposes a fixed charge of $200.72[95] for the General Service > 50 kW rate class. This represents an increase of $49.12 over the existing fixed charge of $151.60, which is already above the minimum system with peak load carrying capability (PLCC) adjustment of $106.42. OEB staff notes that where the existing fixed charge is already above the ceiling, it may not be increased.[96]

> If a distributor's current fixed charge for any non-residential class is higher than the calculated ceiling, there is no requirement to lower the fixed charge to the ceiling, nor are distributors expected to raise the fixed charge further above the ceiling for any nonresidential class.[97]

Submission

OEB staff submits that the existing fixed charge should be maintained at $151.60. The remainder of InnPower's proposed fixed/variable splits are acceptable.

Retail Transmission Service Rates

Submission

OEB staff submits that the RTSR model as updated is acceptable, and in the draft Rate Order InnPower should update the model with any updates to Uniform Transmission Rates, if available.

---

[95] Rev Reqt Work Form V7 1 TC, Tab 13

[96] Application of Cost Allocation for Electricity Distributors, November 28 2007, pp.12-13.

[97] Filing Requirements for Electricity Distribution Rate Applications, July 14 2016, Chapter 2, s 2.8.1, p. 56

4.0 Accounting

Have all impacts of any changes in accounting standards, policies, estimates and adjustments been properly identified and recorded, and is the rate-making treatment of each of these impacts appropriate?
Are InnPower's proposals for deferral and variance accounts, including the balances in the existing accounts and their disposition, requests for new accounts and the continuation of existing accounts, appropriate?

Deferral and Variance Account Balances

Background

Innpower is seeking OEB approval for the disposition of its December 31, 2015 balances for the following Deferral and Variance accounts (DVAs):

		Amounts from Sheet 2
LV Variance Account	1550	307,729
Smart Metering Entity Charge Variance Account	1551	(5,532)
RSVA - Wholesale Market Service Charge	1580	(535,257)
RSVA - Retail Transmission Network Charge	1584	94,572
RSVA - Retail Transmission Connection Charge	1586	188,124
RSVA - Power (excluding Global Adjustment)	1588	0
RSVA - Global Adjustment	1589	0
Disposition and Recovery/Refund of Regulatory Balances (2009)	1595	(352)
Disposition and Recovery/Refund of Regulatory Balances (2010)	1595	0
Disposition and Recovery/Refund of Regulatory Balances (2011)	1595	0
Disposition and Recovery/Refund of Regulatory Balances (2012)	1595	6,711
Disposition and Recovery/Refund of Regulatory Balances (2013)	1595	104
Disposition and Recovery/Refund of Regulatory Balances (2014)	1595	(13,803)
Disposition and Recovery/Refund of Regulatory Balances (2015)	1595	203,730
Total of Group 1 Accounts (excluding 1589)		**246,026**
Other Regulatory Assets - Sub-Account - Deferred IFRS Transition Cost	1508	11,929
Other Regulatory Assets - Sub-Account - Incremental Capital Charges	1508	0
Other Regulatory Assets - Sub-Account - Financial Assistance Payment and Recovery Variance - Ontario Clean Energy Benefit Act	1508	0
Other Regulatory Assets - Sub-Account - Other	1508	2,565
Retail Cost Variance Account - Retail	1518	61,171
Misc. Deferred Debits	1525	0
Retail Cost Variance Account - STR	1548	26,247
Board-Approved CDM Variance Account	1567	0
Extra-Ordinary Event Costs	1572	0
Deferred Rate Impact Amounts	1574	0
RSVA - One-time	1582	(0)
Other Deferred Credits	2425	0
Total of Group 2 Accounts		**101,912**

Total Group 1 and Group 2 DVA Balances $347,938

In addition to the above balances, InnPower, had also requested disposition of its December 31, 2015 balances in Accounts 1588 and 1589 as follows:

RSVA - Power (excluding Global Adjustment)	1588	(672,680)
RSVA - Global Adjustment	1589	367,434

OEB staff identified that Account 1588 RSVA Power and Account 1589 RSVA Global Adjustment (GA) may be misstated. One of the reasons for the misstatement is that the adjustment that was made by InnPower in Account 1588 of $148,378 appeared to be incorrect as the +/- sign was reversed. During cross examination at the oral hearing, OEB staff asked for an undertaking[98] to clarify figures in the worksheet and DVA Continuity Schedule. In the undertaking response, InnPower stated that the $148,378 was incorrectly shown as a credit, but should have been shown as a debit.

In addition, in the GA Analysis Workform submitted by InnPower there was an unexplained variance of 3.8% in Account 1589. This is significantly above the 1% threshold established by the OEB. At the oral hearing OEB staff questioned the reason for such a large difference and asked for an undertaking to review the analysis and explain. In the undertaking response, InnPower confirmed that it does not update the pro-ration of the Global Adjustment charges between RPP vs non-RPP customer groups which affects both Accounts 1588 and 1589. InnPower expected that this was the cause of the large difference in the GA Analysis Workform. OEB staff notes that given that InnPower has never pro-rated GA based on actual pro-ration between RPP and non-RPP, in all likelihood, the GA costs in the past were not properly allocated and paid by the correct class of customers.

In addition, in response to the Undertaking J1.8 InnPower indicated that it would perform a reconciliation and true up of the allocation of the Global Adjustment charges and then make an adjustment between Accounts 1588 and 1589 for the resulting differences. In this Undertaking and in the Argument in Chief, InnPower withdrew its request to dispose of Accounts 1588 and 1589 balances. InnPower stated that it would request disposition of Accounts 1588 and 1589 at its next Incentive Rate-setting Mechanism (IRM) rate application.

In the Undertaking response and argument-in-chief InnPower also amended its request to dispose of all other Group 1 and Group 2 accounts. InnPower further submitted that its remaining proposals for disposition of deferral and variance

[98] Undertaking J1.8

accounts, requests for new accounts and the continuation of existing accounts is appropriate.

Submission

OEB staff notes that there is a slight difference between the amounts used in InnPower's rate rider calculations and the balances in the DVA Continuity Schedule. Specifically, the rate rider calculation for Deferral and Variance account balances excluding GA (i.e. for balances in Accounts 1550, 1551, 1584, 1586, 1595) is based on the total account balances of $786,245. However, the total for balances in these accounts per the DVA Continuity Schedule is $781,283. OEB staff submits that InnPower, in its Reply submission, should clarify and rectify the discrepancy.

Subject to the clarification above, OEB staff is supportive of InnPower's request for disposition of its December 31, 2015 account balances, excluding Accounts 1588 and 1589.

OEB staff supports InnPower's request to withdraw its request for disposition of Accounts 1588 and 1589. OEB staff is also supportive of InnPower's plan to perform a reconciliation and analysis of the allocation of Global Adjustment charges and make an adjustment to Accounts 1588 and 1589 before they are proposed for disposition at InnPower's next IRM proceeding.

OEB staff further submits that when InnPower proposes disposition of the balances in Accounts 1588 and 1589 at the next rate proceeding, InnPower should provide a report of its analysis and adjustments made to Accounts 1588 and 1589. The report should include corrections made for each month, as well as for the full year, an explanation for each correction, the GA charged by the Independent Electricity System Operator (IESO), the original RPP/non-RPP ratios used for allocating GA into Accounts 4705 and 4707, and the actual RPP/non-RPP ratios used for allocating GA into Accounts 4705 and 4707.

OEB staff also submits that InnPower update its GA Analysis Workform for 2015 and submit it with its next IRM application. If the updated unreconciled difference is greater than the materiality threshold of 1%, a Special Purpose Audit of

InnPower's commodity Accounts 1588 and 1589 should be conducted before Innpower requests disposition of Accounts 1588 and 1589 on a final basis.

OEB staff notes that InnPower did not propose any new DVAs[99]. Given that InnPower, in its argument-in-chief submitted that its "requests for new accounts………is appropriate", OEB staff submits that InnPower should, in its Reply submission confirm that no new account was proposed in this proceeding.

5.0 Other

Are the proposed specific service charges appropriate?
What is the appropriate effective date for 2017 rates?

Recognizing that the determination of Pole Attachments and MicroFIT charges is still outstanding, OEB staff has no issues with the other proposed changes to specific service charges.

Incorrect application of riders

Background

InnPower had the following rate riders approved in its EB-2014-0086 application relating to 2015 rates, with sunset dates of December 31, 2016:

- Rate Rider for Recovery of Incremental Capital - effective until December 31, 2016 – fixed charge
- Rate Rider for Recovery of Incremental Capital - effective until December 31, 2016 – volumetric charge
- Rate Rider for Disposition of Capital Gains - effective until December 31, 2016

InnPower had the following rate riders approved in its EB-2015-0081 application relating to 2016 rates, with sunset dates of December 31, 2016:

- Rate Rider for Disposition of Deferral/Variance Accounts (2016) - effective until December 31, 2016

[99] IRR to 1-Staff-4

- Rate Rider for Disposition of Global Adjustment Account (2016) - effective until December 31, 2016 Applicable only for Non-RPP Customers

InnPower's 2017 rates were made interim effective January 1, 2017. As a result, InnPower has continued to charge customers rate riders that were approved in prior proceedings, even though there was a sunset date for these rate riders. As a result, InnPower's customers may be charged/ refunded incorrect amounts.

For example, InnPower has continued to collect the ICM rate rider, which in the distributor's view, is consistent with the terms of the interim rate order. InnPower stated that the determination of whether or not InnPower over-collected on depreciation under the ICM rate rider will in large part depend on the OEB's decision on the effective date for this proceeding.

In response to a request in the Oral Hearing, InnPower provided evidence[100] for the over-recovery or over-refunds relating to some of these rates riders. For example, as at August 31, 2017:

- Capital gains rate rider – over-refunded to rate-payers $77,610
- ICM rate rider – over-recovered from rate-payers $647,340
- 2016 DVA Rate Rider – over-recovered from rate-payers $209,922

In the Oral Hearing, a discussion was held regarding a pending reconciliation of the capital amount included in the ICM to the amount included in the current application for rate base. When the ICM was approved, InnPower calculated a rate rider to recover the associated revenue requirement. Part of that rate rider included deprecation. InnPower indicated that no reconciliation has been done to ensure that the depreciation is not being double counted and included again in rates charged to customers. This reconciliation will likely result in an amount to be refunded to customers, as the rate rider has been extended for several months past the sunset date of December 31, 2016.[101]

InnPower is of the view that any final reconciliation would be better done as part of the first IRM application following the OEB's decision on this proceeding.[102]

---

[100] Oral Hearing Undertaking J2.6 response

[101] InnPower_hearing transcript - Volume 2_20171004, page 79 & 80

[102] InnPower_ARGChief_20171006, page 18

Submission

OEB staff observes that the December 31, 2016 sunset date means that riders expire at 11:59 pm on December 31. The OEB's interim order is effective January 1, 2017, meaning that only the rates still valid as of 12:00 am on January 1st form part of the interim rate order. It is the OEB's practice not to re-issue tariff schedules when declaring interim rates. Utilities are expected to understand the impact of interim rates and when there is uncertainty, are expected to contact the OEB or OEB staff.

That said, in OEB staff's view, InnPower has the right to the recovery of the revenue requirement impacts of the approved ICM project. The rate rider approved at the time of the ICM approval was intended to bridge the utility to the effective date of the next rebasing rate order. While InnPower should have ceased charging customers because of the existence of a sunset date, it should not be penalized further for filing a late application (with several subsequent revisions that further delayed this proceeding). Had InnPower followed the OEB's order with respect to the sunset date, it would have tracked the unrecovered revenue requirement amounts in the established variance account. The only further substantive review would be for any over spending claimed or for any under spending shown.

InnPower should confirm in its reply that the remaining net book value of the old and new administrative buildings and related land is appropriate given the amounts recovered to date as part of the ICM rider and the effective date of the new base rates that will reflect the new building in rate base for the first time. InnPower should show detailed calculations of this in its draft rate order and if any amounts have been over recovered should propose a rider to refund to customers as part of this proceeding.

For the remaining accounts, InnPower should calculate the amount that will have been incorrectly charged/ refunded to customers by the implementation date of the rate order for this proceeding and propose to recover/ return that amount to customers in this proceeding. In OEB staff's view, there is no reason, aside from impacts to the utility, that this cannot be implemented now. InnPower may wish to comment on the impact on its cash flow if the amounts over-collected are credits to be refunded over one year commencing with the implementation date of this proceeding. If InnPower is uncertain of the amounts for the remaining accounts, and would prefer them to be audited, the implementation for the refunds may be done at a future IRM proceeding.

Cross-Reference Document and Updates to Models

Background

Upon completion of the Oral Hearing, the OEB requested a “cross-reference document”. Specifically the OEB stated[103]:

> The cross-reference document should be in a format similar to “Tab 14. TrackingSheet” of the Revenue Requirement Work Form filed by InnPower on September 20, 2017. This document should include specific evidence references that provide the background for each number in the final, proposed 2017 revenue requirement calculation. The articulated references should include the applicable evidence date, title and page number as necessary.

OEB staff notes that the submitted cross-reference document[104] does not include all necessary adjustments to the 2017 test year revenue requirement. For example, the following have been excluded from this document:

- The amortization of the $2.284 million incremental capital contributions[105] to be incorporated into 2017 test year rate base and other revenue

- The reduced cost of power values[106] to be incorporated into 2017 test year working capital.

- The increased amounts of 2017 test year Other Revenue[107] offsets relating to revenue earned from providing financial services to InnServices Utilities Inc.

---

[103] PO5_InnPower_20171005, page 2
[104] InnPower_Cross Reference Document_20171011
[105] Oral Hearing Undertaking J2.4 response
[106] Oral Hearing Undertaking J1.7 response
[107] Oral Hearing Undertaking J1.6 response

InnPower did not re-submit its models after the Oral Hearing. InnPower stated that it plans to make changes to the models following the OEB's Decision and Order, unless otherwise directed.[108]

Submission

OEB staff submits that the "cross-reference document" should be updated to include all adjustments to the 2017 test year revenue requirement.

Once the OEB issues its Decision and Order, OEB staff is of the view that InnPower should resubmit all of the models, updated as required.

All of which is respectfully submitted

[108] InnPower_ARGChief_20171006, page 4