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February 2, 2018

Delivered by Email, RESS & Courier

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2701
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: InnPower Corporation
2017 Rate Application (EB-2016-0085)
Settlement Proposal

Pursuant to Procedural Order No. 7, the Board ordered that any settlement proposal shall be filed with the OEB on or before January 31, 2018. On February 1, 2018, the OEB granted InnPower's request for an extension to February 2, 2018. Please find the enclosed Settlement Proposal which reflects agreement by the School Energy Coalition, the Vulnerable Energy Consumers Coalition, Rogers Communications Canada Inc. and InnPower Corporation on the appropriate pole attachment charge.

If you require any further information, please contact the undersigned.

Yours very truly,

BORDEN LADNER GERVAIS LLP

Original signed by John A.D. Vellone

Per:

John A.D. Vellone

cc: Intervenors of record in EB-2016-0085

EB-2016-0085

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

AND IN THE MATTER OF an application by InnPower Corporation for an order approving just and reasonable rates and other charges for electricity distribution to be effective July 1, 2017.

INNPOWER CORPORATION

SETTLEMENT PROPOSAL
(Wireline Pole Attachment Rate)

FEBRUARY 2, 2018

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APPENDICES

The following Appendices are attached to and form an integral part of this Settlement Proposal:

Appendix "A" – Comparison to the Draft Methodology

Appendix "B" – Updates to the Evidence

Appendix "C" – Other Operating Revenue

Appendix "D" – Excerpt from Pole Attachment Agreement

LIVE EXCEL MODEL

In addition to the Appendices listed above, the following live excel model has been filed together with and form an integral part of this Settlement Proposal:

- InnPower_ Pole_Attachment_Settlement_20180131.xlsx
  (hereinafter referred to as the "**Settlement Model**")

InnPower Corporation
EB-2016-0085
Settlement Proposal
(Wireline Pole Attachment Rate)

Filed with OEB: February 2, 2018

InnPower Corporation ("**InnPower**") filed an amended cost of service application with the Ontario Energy Board (the "**OEB**") on May 11, 2017 under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B) (the "**Act**"), seeking approval for changes to the rates that InnPower charges for electricity distribution and other charges to be effective July 1, 2017 (OEB Docket Number EB-2016-0085) (the "**Application**").

The OEB issued and published a Notice of Hearing on February 22, 2017, pursuant to which the School Energy Coalition ("**SEC**") and the Vulnerable Energy Consumers Coalition ("**VECC**") applied for and were approved as intervenors.

The OEB issued Procedural Order No. 1 on May 16, 2017, and on May 26, 2017, the OEB issued Procedural Order No. 2 which required InnPower to provide notice of the application to three specific customer groups that would be directly impacted by one or more of the proposed changes to specific service charges, including pole attachment rates, microFIT charges and net metering charges as well as providing for further interrogatories and responses.

On September 15, 2017, InnPower submitted an affidavit of publication and service in accordance with Procedural Order No. 2. On September 27, 2017, Rogers Communications Canada Inc. ("**Rogers**") filed an intervention request, which request was approved by the OEB in its Decision on Confidentiality and Intervention Request dated October 2, 2017.

Previously, on August 23, 2017, InnPower had filed a letter with the OEB requesting that InnPower be permitted to withdraw its request to increase rates for two of the customer groups (pole attachment customers and microFIT customers) and confirming that it had no customers in the third group (net metering customers). InnPower indicated that it would prefer to await the outcome of the Pole Attachment Working Group ("**PAWG**") in EB-2015-0304 prior to determining a new pole attachment charge.

On October 10, 2017, the OEB published Procedural Order No. 6 referencing the ongoing work of the PAWG and, in light of which, parties were invited to make submissions on the question of whether or not the OEB should consider a change to InnPower's pole attachment and microFIT rates.

InnPower's request to withdraw a change to its pole attachment charge was contested by SEC,[1] VECC,[2] and Rogers.[3] OEB staff argued that the OEB should not consider changes to the pole attachment charge, stating that "*[g]iven the ongoing policy review, OEB staff is concerned that embarking on a review of InnPower's pole attachment charge could result in duplication of effort and complicate this application in a manner that is disproportionate to any ultimate impact on ratepayers.*"[4]

In Procedural Order No. 7, issued on November 10, 2017, the OEB determined that it would consider a change to the current pole attachment charge of $22.35 but would not consider a change to the microFIT charge of $5.40.

Consistent with Procedural Order No. 7, InnPower filed updated evidence with respect to pole attachment charge on November 28, 2017, and interrogatory responses on December 18, 2017.

In accordance with Procedural Order No. 7, a settlement conference was convened on January 8th and 9th 2018 in accordance with the OEB's *Rules of Practice and Procedure* (the "**Rules**") and the OEB's *Practice Direction on Settlement Conferences* (the "**Practice Direction**").

Marie Rounding acted as facilitator for the settlement conference which lasted for two days.

InnPower and the following intervenors (the "**Intervenors**"), participated in the settlement conference:

SEC;
VECC; and
Rogers.

InnPower and the Intervenors are collectively referred to herein as the "**Parties**".

OEB staff also participated in the settlement conference. The role adopted by OEB staff is set out in page 5 of the Practice Direction. Although OEB staff is not a party to this Settlement Proposal, as noted in the Practice Direction, OEB staff who did participate in the settlement conference are bound by the same confidentiality requirements that apply to the Parties to the proceeding.

This document is called a "Settlement Proposal" because it is a proposal by the Parties to the OEB to settle the issues in this proceeding. It is termed a proposal as between the Parties and the OEB. However, as between the Parties, and subject only to the OEB's approval of this Settlement Proposal, this document is intended to be a legal agreement, creating mutual obligations, and binding and enforceable in accordance with its terms. As set forth later in this Preamble, this agreement is subject to a condition subsequent, that if it is not accepted by the

[1] By letter dated August 24, 2017.
[2] http://www.rds.oeb.ca/HPECMWebDrawer/Record/589278/File/document
[3] http://www.rds.oeb.ca/HPECMWebDrawer/Record/589290/File/document
[4] http://www.rds.oeb.ca/HPECMWebDrawer/Record/589009/File/document

OEB in its entirety, then unless amended by the Parties it is null and void and of no further effect. In entering into this agreement, the Parties understand and agree that, pursuant to the Act, the OEB has exclusive jurisdiction with respect to the interpretation and enforcement of the terms hereof.

The Parties acknowledge that this settlement proceeding is confidential in accordance with the Practice Direction. The Parties understand that confidentiality in that context does not have the same meaning as confidentiality in the OEB's Practice Direction on Confidential Filings, and the rules of that latter document do not apply. Instead, in this settlement conference, and in this Agreement, the Parties have interpreted "confidential" to mean that the documents and other information provided during the course of the settlement proceeding, the discussion of each issue, the offers and counter-offers, and the negotiations leading to the settlement – or not – of each issue during the settlement conference are strictly privileged and without prejudice. None of the foregoing is admissible as evidence in this proceeding, or otherwise, with one exception, the need to resolve a subsequent dispute over the interpretation of any provision of this Settlement Proposal. Further, the Parties shall not disclose those documents or other information to persons who were not attendees at the settlement conference. However, the Parties agree that "attendees" is deemed to include, in this context, persons who were not physically in attendance at the settlement conference but were a) any persons or entities that the Parties engage to assist them with the settlement conference, and b) any persons or entities from whom they seek instructions with respect to the negotiations; in each case provided that any such persons or entities have agreed to be bound by the same confidentiality provisions.

This Settlement Proposal provides a brief description of each of the settled and partially settled issues, as applicable, together with references to the evidence. The Parties agree that references to the "evidence" in this Settlement Proposal shall, unless the context otherwise requires, include (a) additional information included by the Parties in this Settlement Proposal, and (b) the Appendices to this document. The supporting Parties for each settled and partially settled issue, as applicable, agree that the evidence in respect of that settled or partially settled issue, as applicable, is sufficient in the context of the overall settlement to support the proposed settlement, and the sum of the evidence in this proceeding provides an appropriate evidentiary record to support acceptance by the OEB of this Settlement Proposal.

There are Appendices to this Settlement Proposal which provide further support for the proposed settlement. The Parties acknowledge that the Appendices were prepared by InnPower. While the Intervenors have reviewed the Appendices, the Intervenors are relying on the accuracy of the underlying evidence in entering into this Settlement Proposal.

In the tables, figures shall be deemed to be in dollars, unless otherwise characterized (i.e. kW, %, etc.).

Outlined below are the final positions of the Parties following the settlement conference.

SUMMARY

The Parties are pleased to advise the OEB that they have reached a complete agreement with respect to the appropriate pole attachment rate for InnPower.

On December 18, 2017, the same day that InnPower filed its pole attachment interrogatory responses, the OEB released a Draft Report titled "Framework for Determining Wireline Pole Attachment Charges", OEB File No. EB-2015-0304 (the "**Draft Methodology**") along with a supporting expert report from Nordicity. The OEB invited comments from stakeholders on the Draft Methodology. The deadline to file comments has been extended several times. Comments are currently due Feb. 9, 2018.

The Draft Methodology differs in a number of respects from the methodology approved by the OEB in the "**CCTA Decision**",[5] the "**Hydro Ottawa Decision**",[6] and the "**Hydro One Decision**"[7] (collectively referred to herein as the "**CCTA Methodology**").

As a consequence the Parties to the settlement have addressed two key issues:

1. *What is the appropriate methodology to establish the pole attachment rate?*

2. *What is the appropriate pole attachment rate?*

The settlement of these two issues are addressed below.

According to the Practice Direction (p. 3), the Parties must consider whether a Settlement Proposal should include an appropriate adjustment mechanism for any settled issue that may be affected by external factors. The Parties agree that no such adjustments are required for this Settlement Proposal.

The Parties have settled the issues as a package, and none of the parts of this Settlement Proposal are severable. If the OEB does not accept this Settlement Proposal in its entirety, then there is no settlement (unless the Parties agree in writing that any part(s) of this Settlement Proposal that the OEB does accept may continue as a valid settlement without inclusion of any part(s) that the OEB does not accept).

In the event that the OEB directs the Parties to make reasonable efforts to revise the Settlement Proposal, the Parties agree to use reasonable efforts to discuss any potential revisions, but no Party will be obligated to accept any proposed revision. The Parties agree that all of the Parties

[5] Decision and Order dated March 7, 2005 (OEB File No. RP-2003-0249).
[6] Decision and Rate Order on Pole Attachment Charge for Hydro Ottawa, dated February 25, 2016 file number EB-2015-0004 ("**Hydro Ottawa**")
[7] Decision and Rate Order on a Motion to Review and Vary dated August 4, 2016 (OEB File No. EB-2015-0141) (the "**Hydro One Decision**")

who took on a position on a particular issue must agree with any revised Settlement Proposal as it relates to that issue prior to its resubmission to the OEB.

Unless stated otherwise, the settlement of any particular issue in this proceeding and the positions of the Parties in this Settlement Proposal are without prejudice to the rights of Parties to raise the same issue and/or to take any position thereon in any other proceeding, whether or not InnPower is a party to such proceeding. For greater certainty, the adoption or use of any methodology or calculation in this Settlement Proposal reflects the Parties' agreement to adopt such methodologies or calculations soley for the purpose of this Settlement Proposal, and should not be construed as the Parties' general acceptance of any one or more of such methodologies or calculations in current or future proceedings before the Board. Moreover, the Parties take no position in this proceeding on the Draft Methodology and this settlement is without prejudice to the rights of the Parties to take any position in respect of such policy consultation and any future proceeding before the Board.

Where in this Agreement, the Parties "Accept" the evidence of InnPower, or the Parties or any of them "agree" to a revised term or condition, including a revised budget or forecast, then unless the Agreement expressly states to the contrary, the words "for the purpose of settlement of the issues herein" shall be deemed to qualify that acceptance or agreement.

DETAILED SETTLEMENT

1. What is the appropriate methodology to establish the pole attachment rate?

Complete Settlement: The Parties agree InnPower's 2017 pole attachment rate shall be established based on the CCTA Methodology.

Parties in Agreement: All

Parties Opposed: None

Evidence: None

Rationale:

Use of the CCTA Methodology is consistent with the instructions of OEB in Procedural Order No. 7, which states (**emphasis added**):

> "As referenced in InnPower's letter of August 23, 2017, the OEB has initiated a generic policy review of pole attachment charges. This review is considering the methodology to be used for determining pole attachment charges. In Procedural Order No. 6, the OEB indicated that the expected issuance date of a new policy on pole attachment charges is unknown. **Until any new methodology is determined, the OEB is guided by its 2005 Decision.**"

and

> "**InnPower's evidence should be based on the current methodology for determining pole attachment charges as set out in the 2005 Decision**. Consistent with the Hydro Ottawa Decision on pole attachments, the evidence must include InnPower's number of attachers per pole, and distinguish between direct and indirect costs."

No new methodology has yet been determined. The Draft Methodology is a draft that has been published for stakeholder comment only. The final methodology, if any, adopted by the OEB could change from the Draft Methodology based on the comments received and the decisions of the OEB following the consultation.

The use of the Draft Methodology as a basis for settlement could result in the Parties adopting an approach that differs from both the CCTA Methodology and from the final methodology, if any, approved by the OEB following the conclusion of its public consultation process. The Parties' agree that this would not be in the public interest.

However, for the benefit of the OEB panel, InnPower has included in Appendix "A" to this Settlement Proposal a summary of the key differences between the CCTA Methodology used for the purposes of this Settlement Proposal and the methodology proposed in the Draft Methodology.

For the reasons more fully detailed in Appendix "A", the Parties agree that the CCTA Methodology more appropriately reflects the particular costs and facts and circumstances of InnPower for the purposes of calculating an appropriate pole attachment rate.

2. What is the appropriate pole attachment rate?

Complete Settlement: The Parties agree that the appropriate InnPower specific pole attachment rate is $38.82 per pole per year.

In addition, the Parties agree that the forecasted revenue in Account 4210 in the test year should be $269,217 to reflect the incremental revenue associated with this change in the pole attachment rate over a 12 month period.

The calculation of this pole attachment rate is shown in the attached excel Settlement Model.

Rogers and InnPower have agreed, as part of this Settlement Proposal, to meet and discuss an appropriate approach to facilitate InnPower to begin charging for the provision of vegetation management services pursuant to the terms of the existing joint-use agreement going forward. InnPower and Rogers will use commercially reasonable efforts to reach agreement in a timely manner. Disputes will be governed by the terms of the applicable joint-use agreement.

To ensure consistent treatment among all wireline attachers with attachments in the communications space, InnPower agrees to charge other such attachers for vegetation management services on the same basis as it charges Rogers if permitted pursuant to the terms of the applicable joint-use agreement.

Since no revenues are forecasted in rates in 2017 from vegetation management:

> The Parties agree that the OEB should also approve the creation of a new non-interest bearing deferral account, called the "*Vegetation Management Revenues on Joint-Use Poles Deferral Account*", which would be used to record any revenues received by InnPower prior to its next cost of service application for the provision of vegetation management services pursuant to the terms of any joint-use agreement for wireline communications attachments. InnPower would dispose of this account to the benefit of ratepayers as part of its next cost of service application.

The evidence in the Settlement Model reflects updates and factual corrections to the evidence found in "InnPower_APPL_Pole Attachment_20171218.xlsx" filed as part of InnPower's IR responses ("**IR Spreadsheet**").

The updates and corrections that arose during the course of settlement discussions are more fully explained in Appendix "B" to this Settlement Proposal.

Parties in Agreement: All

Parties Opposed: None

Evidence References:

InnPower_APPL_Pole Attachment_20171127.pdf

InnPower_APPL_Pole Attachment_20171127.xlsx

InnPower_IRR_PO7_20171218.pdf

InnPower_APPL_Pole Attachment_20171218.xlsx

InnPower_ Pole_Attachment_Settlement_20180131.xlsx

Appendix "B"

Appendix "C"

Rationale:

- The Parties agree that, given the evidence before them, a pole attachment rate of $38.82 per pole per year is a fair and reasonable allocation of InnPower's actual costs to the wireline pole attachers.

- The pole attachment rate of $38.82 per pole per year is based upon the use of the CCTA Methodology and is consistent with the CCTA Decision, the Hydro Ottawa Decision and the Hydro One Decision.

- The pole attachment rate of $38.82 per pole per year reflects a 73.69% increase over the existing attachment rate of $22.35 per pole per year stipulated in the CCTA Decision.

- This Settlement Proposal is preferable to the approach outlined in the Draft Methodology for a number of reasons, as more fully outlined in Appendix “A” below.

Appendix "A"

Comparison to the Draft Methodology

This appendix compares the CCTA Methodology to the Draft Methodology, and provides rationale to support the approach outlined in this Settlement Proposal, which is based upon the CCTA Methodology.

It is worth noting at the outset that the CCTA Methodology relies on input data that uses 2016 actual amounts. By contrast the Draft Methodology relies upon input data that uses 2017 forecast amounts.

No. of Attachers per Pole

- **Draft Methodology:** The Draft Methodology assumes 1.3 telecom attachers per pole, which is based upon data submitted by London Hydro, Hydro Ottawa, Horizon and Hydro One, collectively representing more than 90% of the pole population in the province. This is significantly lower than the CCTA Decision, which assumed 2.5 attachers per pole.

- **This Settlement Proposal:** The Parties have used InnPower's 2016 actual pole attachment data to arrive at an agreed upon 1.38 attachers per pole.

    - The use of 2016 actuals to determine the number of attachers is consistent with the Hydro Ottawa decision which stated that OEB prefers to use information specific to the utility rather than rely on a projection.[8]

    - Streetlights and Hydro One attachments have been included in the calculation of other attachments, as this is consistent with the methodology used for the Hydro Ottawa Decision.

    - The Parties applied two different methodologies to the actual data available to determine the appropriate number of attachers based on alternative assumptions about how to extrapolate the number of attachments per pole based on the data. These two methodologies are shown in greater detail in the "Attachers per Pole Calculation" tab of the Settlement Model. The difference between these two methodologies is more fully explained in Section A of Appendix "B". The average of these two methodologies, when all other attachments are included in the calculation is 1.37.

    - The agreed to 1.38 approximates the average of the two different methodologies.

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[8] Hydro Ottawa, at p. 7

Vegetation Management

- **Draft Methodology:** In the Draft Methodology, the OEB proposes using an allocation factor of 1/3 of USoA #5135 for vegetation management costs, on the assumption that both LDCs and carriers require and benefit from vegetation management and thus the costs should be shared proportionately in accordance with the useable space on the pole that each entity occupies.

- **This Settlement Proposal:** In calculating the Pole Maintenance Expense, the Parties have agreed to exclude vegetation management costs from Account 5135.

    - The exclusion of vegetation management costs is consistent with the CCTA Methodology, including the Hydro One Decision at pages 8-9.[9]

    - InnPower and Rogers have an existing joint-use agreement which allows InnPower to charge Rogers an amount for vegetation management services (see Appendix "D". InnPower has not historically charged Rogers any amounts for vegetation management under this provision of the joint use-agreement. However, Rogers and InnPower have agreed, as part of this Settlement Proposal, to meet and discuss an appropriate approach to facilitate InnPower to begin charging for the provision of vegetation management services pursuant to the terms of the existing joint-use agreement going forward. InnPower and Rogers will use commercially reasonable efforts to reach agreement in a timely manner. Disputes will be governed by the terms of the applicable joint-use agreement.

    - To ensure consistent treatment among all wireline attachers with attachments in the communications space, InnPower agrees to charge other such attachers for vegetation management services on the same basis as it charges Rogers if permitted pursuant to the terms of the applicable joint-use agreement.

    - InnPower has forecasted no revenues from joint-use attachers for the provision of vegetation management services as part of this EB-2016-0085 application. For this reason, InnPower agreed with the Parties that a key term of this Settlement Proposal would include:

        > A request for OEB approval for the creation of a new non-interest bearing deferral account, called the "Vegetation Management Revenues on Joint-Use Poles Deferral Account", which would be used to record any revenues received by InnPower prior to its next cost of service application for the provision of vegetation management services pursuant to the terms of any joint-use agreement for wireline communications attachments. InnPower

[9] Decision and Rate Order on Motion to Review dated August 4, 2016, EB-2015-0141 ("**Hydro One**") at p. 8-9.

would dispose of this account to the benefit of ratepayers as part of its next cost of service application.

- This approach makes use of the existing joint-use agreement contractual obligations together with a new deferral account to ensure that ratepayers are made whole for the actual vegetation management costs incurred by InnPower that are attributable to wireline attachers. This more accurately reflects actual vegetation management costs to be incurred in the future, which will differ from amounts recorded in Account 5135 in the past.

Allocation of Direct Costs (Administration and LIP Costs)

- **Draft Methodology:** In the Draft Methodology, the OEB proposes using a total Direct Cost of $6.15 per pole per year, which reflects a combination of Administration costs ($2.85 per pole/attacher per year) and Loss in Productivity ($3.30 per pole/attacher per year).
    - The Administration cost was based on inflation adjusted Administration costs from the Toronto Hydro, Hydro Ottawa and Hydro One applications, which ranged from $0.90 - $9.10 per pole per year.
    - The Loss in Productivity amount is consistent with evidence based determinations in both the Hydro One and Hydro Ottawa applications.
- **This Settlement Proposal:** The Parties agree to a total Direct Cost of $10.45 per pole/wireline attacher per year, which best represents InnPower's actual costs in 2016.
    - Administration costs were calculated to be $0.92 per pole/wireline attacher per year.
        - The administration costs include InnPower's actual 2016 costs associated with billing preparation, financial reconciliation and annual statements, as well as GIS system updated and permit processing.
        - The costs are based on actual timesheet data for 2016, InnPower's applicable hourly burdened rates for the relevant resources, InnPower's total number of in service poles in 2016, and the number of pole attachments (determined from invoices), and a number of attachers per pole of 1.38.
        - This administration cost exceeds Hydro Ottawa's administration costs of $0.90 per attacher, and is within the range of administration costs considered by the OEB in the Draft Methodology.

- Loss in Productivity costs were calculated to be $9.53 per pole/wireline attacher per year.

    - The Loss in Productivity calculation reflects the Parties agreement that actual costs for trouble calls of $51,877 in 2016 which are directly attributable to third party attachers should be included as a Direct Cost (rather than an Indirect Cost). The trouble call costs relate to the costs associated with responding to a trouble call with respect to a wire down, or a tree on wire, and the affected wire is a communications attachment, rather than a distribution wire.

    - The Loss in Productivity calculation also includes actual pole replacement costs from 2016 of $10,582.71, which accounts for both labour (timesheets and outage management system statistics) and small vehicle use.

    - The Loss in Productivity calculation differs from the one used in the Draft Methodology because InnPower had available more specific facts associated with the costs of trouble costs that are directly associated with communications attachments.

Allocation Methodology

- **Draft Methodology:** The Draft Methodology proposes using a "hybrid equal sharing" methodology[10] to apportion the indirect costs between the distributor and third party pole attachers. This methodology assumes common space is allocated equally to power and third party attachers, and then the third party attacher portion of the costs is divided by the number of third party attachers, which results in an allocation rate of 32.5% to third party attachers.[11]

- **This Settlement Proposal:** The Parties have agreed to use an "equal sharing" methodology to apportion indirect costs as between InnPower and third party attachers.

    - This methodology is consistent with the CCTA Decision, the Hydro Ottawa Decision and the Hydro One Decision.

    - Using this methodology, the buried depth (6 ft) and clearance space (17.25 ft) is allocated equally between all attachers, including InnPower, the telecommunications space (2 ft) and separation space (3.25 ft) is allocated solely to third party attachers, and the power space (11.5 ft) is allocated solely to Innpower. This results in an allocation rate of 33.93%.

[10] Draft Methodology at p. 30.
[11] Draft Methodology at p. 29.

Indirect Costs

- **Draft Methodology:** The Draft Methodology uses a five year historical average of Net Book Value amounts in Account 1830, a five year historical average of depreciation expense amounts applied to Account 1830, and a weighted average cost of capital figure to determine the appropriate cost of capital. Based on this methodology, the cost of capital according to the Draft Methodology is 8.25% resulting in a capital carrying cost of $75.57 per pole.

- **This Settlement Proposal:** In accordance with the CCTA Methodology the Parties have agreed to calculate indirect costs using the last year of actual historical costs available at the time of this settlement (2016).

  - The use of historical year end values for 2016 is consistent with the Hydro Ottawa decision.[12] In that proceeding, Hydro Ottawa cited the CCTA precedent to support its proposal of the use of 2013 historical costs to determine the pole attachment rate. The OEB concurred, stating "The OEB finds that the use of historical costs with no annual inflation adjustment is consistent with the methodology in the 2005 decision"[13]

  - In determining the net embedded cost per pole, the Parties have agreed to use the 2016 net book value ("**NBV**") of Account 1830. In determining the depreciation expense, the Parties have agreed to use 2016 depreciation expense. Finally to determine the appropriate cost of capital, the parties have agreed to use the 2016 cost of capital (as further described in Section D of Appendix "B").

  - The use of 2016 actuals better represents InnPower's actual indirect costs than the use of a five year historical average methodology. This is because InnPower has experienced some of the highest growth in the number of customers of any distributors in the Province of Ontario with actual growth rates for residential and GS customers of 2.44% in 2014, 2.35% in 2015, 2.26% in 2016, and forecasted growth of 2.35% in 2017. [14] Consequently there has been a significant increase in the number of new poles in Account 1830 and so the application of a five year historical averages for NBV and depreciation expense and cost of capital will not properly reflect InnPower's actual factual circumstances. Rather the use of historical averages will systematically understate these values for a high growth utility like InnPower.

  - Specifically, for InnPower a five year historical average between 2012-2016 results in a NBV in Account 1830 of $7,323,388 and a depreciation expense of

[12] Hydro Ottawa at p. 12.
[13] Hydro Ottawa at p. 9.
[14] InnPower Argument in Chief, dated October 6, 2017 Table 1 at p. 23.

$181,217. This is shown in the Settlement Model at the tab titled "Average NBV for Account 1830". Actual NBV in Account 1830 at the end of 2016 was $9,022,429 and actual depreciation expense in 2016 was $254,232. As a result, the averaging methodology systematically understates InnPower's known NBV by $1,699,041 and depreciation expense by $73,015.

Power Deduction Factor

- **Draft Methodology:** The Draft Methodology uses a power deduction factor of 15%, using a methodology developed by Hydro One.

- **This Settlement Proposal:** The Parties have agreed to that a power reduction factor of 5% is appropriate for InnPower.

  - Hydro One appears to have allocated a fair number of costs associated with power fixtures (brackets, cross arms, braces, extensions, arms, guards, insulator pins, suspension bolts and transformer racks and platforms) into Account 1830, which resulted in a higher power deduction factor to ensure that communications attachers are not required to pay for costs associated with power fixtures.

  - InnPower's accounting practice was to allocate the majority of costs associated with power fixtures to Account 1835 rather than Account 1830. The amounts recorded to Account 1835 have not been included in the calculation of the wireline pole attachment rate because these amounts relate solely and directly to overhead power lines and associated power fixtures.

  - InnPower reviewed its work orders and invoices related to Account 1830, and determined that the total common cost in Account 1830 are $1,022,566.19 and the Power Only Fixture Costs are $44,914.66. This results in an allocation factor of 4.21% based on 2016 actuals. This is shown in the Settlement Model attached to this Settlement Proposal at the tab titled "Power Deduction Factor".

  - The 5% power deduction factor chosen by the Parties is a close approximation of the actual costs incurred that are specific to power specific assets in 2016.

  - This approach represents the best approximation of the power deduction factor for InnPower to account for the inclusion of power specific assets, and is consistent with the Hydro Ottawa Decision.[15]

Inflation

- **Draft Methodology:** The Draft Methodology implements an annual inflationary adjustment mechanism to the single province-wide rate. The adjustment will be based on

[15] Hydro Ottawa at p.13.

the OEB's Input Price Index with no productivity and stretch factor applied. The rationale for the inclusion of inflation is to provide an adjustment factor to minimize the impact of inflation over time, while minimizing the impact that might occur when rates are rebased in the event that a utility specific rate is approved.[16]

- **This Settlement Proposal:** The Parties agreed to not adjust for inflation. The costs utilized to establish this InnPower specific pole attachment rate were based on the most current historical year data.
    - This is consistent with the methodology used in the Hydro Ottawa Decision, which is based on the most current historical year data: "The OEB finds that the use of historical costs with no annual inflation adjustment is consistent with the methodology in the 2005 decision."[17]

[16] Draft Methodology at p. 34
[17] Hydro Ottawa at p. 9.

Appendix "B"

Updates to the Evidence

This appendix explains the updates and corrections agreed to by the Parties as part of this Settlement Proposal to the current evidentiary record in InnPower_APPL_Pole Attachment_20171218.xlsx filed as part of InnPower's IR responses ("**IR Spreadsheet**").

A: Administration Costs Per Pole

The total Administrative cost changed from $0.99 per pole in the IR Spreadsheet to $0.92 in the Settlement Proposal because the parties determined that the number of attachers per pole should be 1.38 as opposed to 1.09.

InnPower had used 1.09 which was extrapolated from a field survey of 1/5 of IPC's service territory.

During the course of the settlement, the Parties utilized two different methodologies to the actual data available to determine the appropriate number of attachers based on alternative assumptions about how to extrapolate the number of attachments per pole based on the data. These two methodologies are shown in greater detail in the "Attachers per Pole Calculation" tab of the Settlement Model.

Both methodologies factor in known data derived from a field audit counting communications attachments on 20% of InnPower's poles, the number of attachments per attacher, the actual number of invoices issued to attachers, and the total number of other attachers including Hydro One and street lights.

The two methodologies calculate a number of attachers per pole of 1.592 and 1.149 respectively. The difference between these two methodologies is attributable to the fact that the field audit only assessed 20% of the total pole population. The different methodologies extrapolate that data across the entire pole population in different ways.

The average of these two methodologies, when all other attachments are included in the calculation is 1.37. The agreed to 1.38 approximates the average of the two different, equally valid, methodologies.

As a direct result of the change from 1.09 to 1.38, the total number of poles with attachers changed from 6,095 in the IR Spreadsheet to 6,558 in this Settlement Proposal.

B. Loss in Productivity

The total LIP costs per pole in the IR Spreadsheet was $4.00 per pole, while in the Settlement Model the total LIP cost per pole was $9.53, with a total LIP cost per pole per attacher was $9.81.

This change arose during the course of discussions in the settlement conference. The Parties identified a concern that costs associated with trouble calls were included in the IR Spreadsheet under both the Loss in Productivity category (for each of Wires Down and Tree on Line) and in the Pole Maintenance Costs under Account 5135.

As part of this settlement, the Parties agreed that Trouble Call should only be accounted for once in the model.

InnPower confirmed that the actual costs for trouble calls in 2016 which are directly attributable to third party attachers was $51,877.

Since these trouble call costs relate to the costs associated with responding to a trouble call with respect to a wire down, or a tree on wire, and the affected wire is a communications attachment, rather than a distribution wire, the Parties agreed that these costs should be included as a Direct Cost as a known and calculable Loss in Productivity.

C. Pole Maintenance Expense

InnPower had forecasted a total Pole Maintenance Expense of $17.79 per pole in the IR Spreadsheet versus $3.03 in the Settlement.

Part of this change is attributable to the Parties' agreement to remove costs relating to Trouble Calls (Account 5135) from the Indirect Costs, because those costs are now already captured as a Direct Cost under Loss in Productivity (as described in item B above).

A second part of this change related to concerns raised by the Intervenors about the relatively low account balance in Account 5120 as it related to Pole Testing Costs. InnPower confirmed as part of the settlement that pole testing is contracted out to a third party, and that historically those costs have not been recorded in Account 5120. InnPower further confirmed that a third party vendor that does pole testing for InnPower, and that the total invoiced costs for pole testing work completed in 2016 was $26,646.

Based on these facts, the Parties agreed that the known pole testing costs in 2016 should be included in the determination of Pole Maintenance Costs.

Finally, in the IR Spreadsheet InnPower had included $39,794 in costs associated with Account 5125. Upon further exploration during the settlement, the Parties agreed that these costs should be removed since the costs related more directly to the maintenance of overhead conductors and devices, and were not appropriate to attribute to third party communications attachers.

D. Capital Carrying Costs

The Cost of Capital in the IR Spreadsheet was 6.9%. This was the 2016 net cost of capital of InnPower from the EB-2013-0139 decision of 6.12%, notionally grossed up for taxes.

Prior to the settlement conference, OEB Staff asked InnPower to explain their gross-up methodology. In completing this explanation, InnPower identified an error. The actual grossed up Cost of Capital should be 6.78%. The tax rate utilized to gross up the cost of capital is 15.5%.

The following table shows the calculation of the pre-tax cost of capital arising from the 2013 Settlement in EB-2013-0139.

The Parties agree that the corrected grossed-up cost of capital of 6.78% is appropriate.

	Cost of Capital	Deemed Capital Structure	Net Cost of Capital	Gross Up Cost of Capital
LT Debt	4.36%	56%	2.44%	2.44%
ST Debt	2.07%	4%	0.08%	0.08%
Equity	8.98%	40%	3.59%	4.25%
			6.12%	6.78%

Tax Rate	15.50%

E. The Allocation Factor

The Allocation Factor in the IR Spreadsheet changed from 39.85% to 33.93% in the Settlement Proposal, as a direct result of the change in the number of attachers per pole from 1.09 to 1.38.

Appendix "C"

Appendix 2-H Other Operating Revenue

Appendix 2-H has been updated to reflect the forecasted other revenue for Account 4210 resulting from the Settlement Proposal of $269,217, assuming the new pole attachment rate is in effect over a 12 month period.

This is a reduction in forecasted other revenue in Account 4210 provided in Appendix 2-H included in the Nov. 27, 2017 evidence filed in response to Procedural Order No. 7,[18] which was calculated based on an assumed pole attachment rate of $64.24.

Appendix 2-H
Other Operating Revenue

USoA #	USoA Description	2013 Actual	2014 Actual	2015 Actual²	Actual Year²	Bridge Year²	Test Year
		2013	2014	2015	2015	2016	2017
	Reporting Basis	CGAAP	CGAAP	CGAAP	MIFRS	MIFRS	MIFRS
4210	Rent from Electric Property	-$ 153,289	-$ 169,620	-$ 161,207	-$ 162,034	-$ 162,034	-$ 269,217
4225	Late Payment Charges	-$ 73,904	-$ 84,703	-$ 96,925	-$ 96,925	-$ 111,252	-$ 111,252
4235	Specific Service Charges	-$ 116,157	-$ 139,676	-$ 156,170	-$ 156,170	-$ 159,223	-$ 170,000
4245	Deferred Revenues - Contributions	$ -	$ -	$ -	-$ 313,330	-$ 376,051	-$ 522,116
4355	Gain on Dispositions	$ -	-$ 4,450	-$ 440,397	-$ 440,397	$ 8,791	$ 183,094
4375	Revenues from Non Utility Operations	-$ 682,460	-$ 801,855	-$ 775,120	-$ 775,120	-$ 1,354,978	-$ 1,087,311
4380	Expenses of Non Utility Operations	$ 627,785	$ 718,395	$ 689,823	$ 689,823	$ 1,250,847	$ 983,861
4390	Misc Non Operating Expense	-$ 11,015	-$ 10,882	-$ 30,116	-$ 30,116	-$ 57,992	-$ 60,000
4405	Interest and Dividend Income	-$ 26,558	-$ 39,974	-$ 27,918	-$ 27,918	-$ 29,388	-$ 30,000
	Total	-$ 435,598	-$ 532,765	-$ 998,029	-$ 1,312,186	-$ 991,280	-$ 1,082,941
Specific Service Charges		-$ 116,157	-$ 139,676	-$ 156,170	-$ 156,170	-$ 159,223	-$ 170,000
Late Payment Charges		-$ 73,904	-$ 84,703	-$ 96,925	-$ 96,925	-$ 111,252	-$ 111,252
Other Operating Revenues (4210 & 4245)		-$ 153,289	-$ 169,620	-$ 161,207	-$ 475,364	-$ 538,084	-$ 791,333
Other Income or Deductions (4355, 4375,4380, 4390, 4405)		-$ 92,248	-$ 138,766	-$ 583,728	-$ 583,728	-$ 182,721	-$ 10,356
Total		-$ 435,598	-$ 532,765	-$ 998,029	-$ 1,312,186	-$ 991,280	-$ 1,082,941

[18] http://www.rds.oeb.ca/HPECMWebDrawer/Record/591988/File/document

Appendix "D"

Excerpt from Pole Attachment Agreement between Innisfil Hydro Distribution Systems Ltd., (now InnPower Corporation) and Rogers Cable Communications Inc.:

ARTICLE 10 – LINE CLEARING

10.1 The Owner and the Licensee agree that vegetation management is required for the ongoing reliable provision of electricity and telecommunication services. The trimming or removing of trees, underbrush or any other items as required to establish clearance for the Licensee's Attachments shall be the sole responsibility of the Licensee. The Licensee, or its contractor as approved by the Owner, shall undertake the trimming or removing of trees, underbrush or any other items as required by the Licensee for the Licensee's purposes in the Communications Space, having regard for all safety, technical and engineering concerns of the Owner. If in the sole but reasonable discretion of the Owner, the vegetation on or around the Licensee's plant is or may be damaging to the Owner's existing plant or electrical distribution system or aesthetics, the Licensee shall correct the situation to the satisfaction of the Owner upon notification by the Owner. Nothing in this clause excuses the Licensee of liability in the event of damage to the Owner's plant because of such vegetation. If the Licensee fails to engage in the requisite trimming or removal within seven (7) days of notification from the Owner, the Owner may undertake such work or arrange for it to be completed, all at the risk and expense of the Licensee, and the Owner shall submit an invoice to the Licensee for the reasonable cost of such work, which invoice shall be paid by the Licensee in accordance with **Article 13**.

10.2 The Licensee and Owner may, by mutual agreement, make arrangements regarding provision of tree trimming or line clearing services. If such arrangements are made between the Licensee and Owner, the Owner shall inform the Licensee of the timing, location, cost, and extent of the tree trimming or line clearing services to be undertaken on their behalf in advance of the commencement of the tree trimming or line clearing services.

10.3 Should any extraordinary services, such as but not limited to tree trimming or line clearing services after storms, be required in order to establish clearances for the Licensee's Attachments for operations, maintenance and safety, the cost of such services shall be the sole responsibility of the Licensee. In the event that such extraordinary services are required, in the sole but reasonable discretion of the Owner, the cost of such extraordinary services undertaken by the Owner shall be charged to the Licensee in accordance with the provisions of **Article 13**.