



# **ONTARIO ENERGY BOARD**

## **STAFF SUBMISSION ON SETTLEMENT PROPOSAL FILED ON FEBRUARY 22, 2018**

**Hydro One Remote Communities Inc. 2018  
Cost of Service Application  
EB-2017-0051**

**March 1, 2018**

## Background

Hydro One Remotes Communities Inc. (Remotes) is an integrated generation and distribution company licensed to generate and distribute electricity within 21 isolated communities in northern Ontario. Remotes is 100% debt financed and is operated as a break-even company with no return on equity. Remotes is wholly-owned by Hydro One Inc.

Remotes operates 19 isolated distribution systems to serve the 21 communities. Within each system, Remotes is responsible for transformation, voltage regulation, delivery and metering of power.

Remotes serves approximately 3,600 customers. Most customers within Remotes pay rates below the cost of service. The rates for Remotes' residential and general service customers are financially supported through a cross-subsidy from government customers within Remotes, through Indigenous and Northern Affairs Canada (INAC) capital contributions and the Rural or Remote Electricity Rate Protection (RRRP) fund. A significant portion of the revenue requirement of Remotes is funded through the RRRP<sup>1</sup>.

Remotes filed a cost of service application dated August 28, 2017 with the Ontario Energy Board (OEB) pursuant to section 78 of the *Ontario Energy Board Act, 1998*, for an order or orders approving its 2018 revenue requirement and customer rates for the distribution and generation of electricity, effective May 1, 2018.

Remotes last filed a cost of service application<sup>2</sup> in 2012 for 2013 rates. From 2014 to April 30, 2018, Remotes was under the OEB's 4<sup>th</sup> Generation Incentive Regulation Mechanism (IRM) for electricity distributors. The IRM framework adjusts rates on an annual basis using a mechanistic formula tied to inflation, a productivity factor and a stretch factor.

The OEB issued a Notice of Hearing on November 16, 2017. Energy Probe Research Foundation (Energy Probe), Opiikapawiiin Services LP (OSLP) and Vulnerable Energy Consumers Coalition (VECC) were approved for intervenor status and cost eligibility. OSLP provides management and advisory services related to indigenous engagement, indigenous participation, and project development. OSLP is owned by First Nation LP, a limited partnership of 22 First Nation communities.

---

<sup>1</sup> Of the requested revenue requirement of \$56.7 million, \$38.08 million (67%) will be funded through the RRRP if approved.

<sup>2</sup> EB-2012-0137

In its application, Remotes requested approval of the following:

1. A revenue requirement of \$56.7 million which was an increase of \$4.4 million over what the OEB approved for 2013 rates
2. An annual RRRP-funded revenue requirement of \$38.08 million
3. Approval to recover \$962,000 as part of the 2016 audited balance in the RRRP variance account. The amount Remotes proposed to recover comprised the 2016 audited balance of \$1.66 million less a 2017 adjustment for income taxes of \$682,000.
4. Approval to continue using the RRRP variance account to record the differences between its costs and revenues
5. An approval for a 1.8% increase in customer rates for all customer classes
6. Approval for specific-service charges – Remotes did not propose to change any of the existing specific service charges

The OEB in Procedural Order No. 1 issued on December 14, 2017, made provision for filing of interrogatories, responses to interrogatories, submission of a proposed issues list and scheduled a settlement conference with the objective of reaching a settlement among the applicant and the intervenors (the parties) on the issues. OEB staff submitted a proposed Issues List to the OEB that was agreed to by all the parties on February 2, 2018. On February 5, 2018, the OEB in Decision and Procedural Order No. 3 accepted the Issues List submitted by OEB staff and scheduled a presentation day on March 19, 2018 for Remotes to present any settlement proposal and a summary of the unsettled issues in the proceeding.

A settlement conference was held on February 6 and 7, 2018 at the OEB. The settlement conference was attended by Remotes personnel, OEB staff, Energy Probe and VECC. OSLP did not participate in settlement discussions but did provide input and suggestions to Remotes via e-mail prior to the settlement conference. The parties reached a settlement on all issues in the proceeding with the exception of Issues 5.4 that relates to Remotes' proposed plan for First Nation relations<sup>3</sup>. While Energy Probe and VECC were in support of Remotes' proposed approach on Issue 5.4, OSLP opposed it. OSLP is of the view that the steps taken by Remotes to deal with the requests of OSLP is insufficient and accordingly it is opposed to settlement on the issue.

---

<sup>3</sup> Issue 5.4: Is the plan for First Nation relations appropriate and adequately explained?

Remotes filed the settlement proposal on February 22, 2018.

### **Remotes Settlement Proposal**

OEB staff has reviewed the settlement proposal filed by Remotes in the context of applicable OEB policies and the OEB's statutory obligations. OEB staff supports the reductions agreed to in the settlement proposal and is of the view that the proposal adequately protects the public interest.

OEB staff is also of the view that the accompanying explanations and rationale, although not detailed, is adequate to support the settlement proposal. The overall financial impact of the settlement proposal is a reduction of \$3.383 million to the total revenue requirement, from the initial ask of \$56.689 million to \$53.306 million. OEB staff further notes that these reductions do not impact the proposed rate increase. As discussed earlier, Remotes customers do not pay rates that reflect the costs to serve them. A majority of the revenue requirement needs are met through the RRRP fund. The reductions agreed to in the settlement agreement will impact the RRRP. Accordingly, the requirement from the RRRP will decrease from the initial requested amount of \$38.08 million to \$34.697 million.

OEB staff offers the following additional commentaries on the application and the settlement proposal.

### **OEB Staff Comments**

The focus of the settlement proposal was on a few specific items and these are the areas that are further explained or elaborated below.

### **Capital Expenditures**

Overall, Remotes proposed capital expenditures, net of contributed capital, of \$3,236,000 for 2018. This includes \$522,000 of net distribution related capital expenditures, \$2,141,000 of net generation capital expenditures and \$565,000 in general plant investments. Remotes is notably different from other Ontario electric utilities in the sense that a large portion of its capital expenditures is funded by INAC. Remotes is responsible for funding the ongoing operation and maintenance of the system and INAC is responsible for funding capital related to system expansions and capital upgrades. In other words, capital expenditures related to maintaining the system including replacement of generators is funded by Remotes while expenditures related to load growth is paid for by INAC.

The parties agreed to reduce the proposed capital expenditures by 10% or \$323,500. A review of Remotes' past capital expenditures (2013, 2014 and 2015) reveal that Remotes was unable to meet its planned capital expenditures and its net capital expenses were significantly lower than planned<sup>4</sup>. In an interrogatory response, Remotes noted that the timing for INAC funding is not certain and Remotes is required to adjust its planned work program to accommodate INAC funded projects<sup>5</sup>. In the past, Remotes delayed some of its capital spending in order to accommodate growth/INAC funded projects. If INAC funding is not spent within a specified time, the allocated amounts have to be returned to the federal government.

OEB staff has no concerns with the agreed reduction as it does not impact any growth programs and the amounts have been agreed to in light of historic spending and past patterns.

### **Operations, Maintenance and Administration Costs**

The settlement proposal does not describe an agreement on Operations, Maintenance and Administration Costs (OM&A) that was reached on an envelope basis. While some costs in the proposal are referred to on an envelope basis, certain items have been discussed on an individual basis such as diesel fuel costs, regulatory costs, Conservation and Demand Management (CDM) budget costs, bad debt expenses and pension costs.

The agreements on distribution minor maintenance, forestry, generation maintenance and generation operations were reached on an envelope basis. The total funding requested for these categories of OM&A was \$17.985 million in 2018.

<b>Expense Categories (in \$K)</b>	<b>2017 Budget</b>	<b>2017 Actual</b>	<b>2018</b>
Generatiion Maintenance	11,392	9,245	11,640
Generation Operations	4,819	4,241	4,919
Distribution Minor Maintenance	928	800	969
Forestry	448	134	457
<b>TOTAL</b>	<b>17,587</b>	<b>14,420</b>	<b>17,985</b>

<sup>4</sup> Net capital expenditures (net of removals and capital contributions) range from -5 to -62% from 2013 to 2017

<sup>5</sup> Response to OEB Staff Interrogatory # 26

The parties agreed to a total reduction of \$1.5 million resulting in a total funding of \$16.485 million. This reduction has been agreed on the basis of comparing 2017 actual to the 2017 budgeted amount. As can be seen from the table above, Remotes' actual spending for 2017 was significantly lower than budgeted. OEB staff has no concerns with the agreed reductions for 2018 as the amount is still higher than 2017 actuals and is sufficient to meet the OM&A needs of the applicant.

### Fuel Costs

In its application, Remotes requested \$27.6 million for diesel fuel in 2018. Cost of diesel fuel is the largest component of generation OM&A and constitutes approximately 63% of the total generation OM&A budget for 2018. The cost of delivery accounts for about 44% of the delivered price of fuel.

In response to an interrogatory<sup>6</sup>, Remotes provided an updated fuel forecast for 2018 which was lower than initially proposed. The parties agreed to settle fuel costs on the updated cost of \$25.9 million. In the settlement proposal and in response to an interrogatory, Remotes noted that a road to Weagamow has been completed and it now has stable access to the community<sup>7</sup>. This will lead to a reduction in fuel delivery costs and Remotes has noted that the agreed amount is sufficient to meet its diesel fuel costs for 2018.

### Conservation and Demand Management

For 2018, Remotes requested a CDM budget of \$112,000. However, Remotes has not had much success with CDM programs. Over the years, a number of programs have been discontinued due to poor intake or due to difficulty in engaging Band Councils as partners. While the OEB-approved CDM budget was \$565,000 in 2013, the actual CDM spending in 2016 was \$14,000 and \$57,000 in 2017<sup>8</sup>. The parties agreed to reduce the CDM budget by \$51,000 resulting in a budget of \$61,000 for 2018. OEB staff does not oppose the reductions considering Remotes' experience in this area.

---

<sup>6</sup> Response to Energy Probe IR#8

<sup>7</sup> Response to OEB Staff IR#31

<sup>8</sup> Response to OEB Staff IR#8

### Regulatory Costs

Remotes had included \$90,000 in regulatory costs for the 2018 test year. However, Remotes is not expected to incur \$90,000 in regulatory costs for each year post the test year, considering that it will operate under an IRM framework for four years. The parties agreed that the \$90,000 in regulatory costs would be recovered over a five year period resulting in \$18,000 recovered during the test year. OEB staff agrees with this approach.

### Bad Debt Expenses

Over the last few years, Remotes has been successful in recovering past due amounts. Since January 2013, outstanding First Nation account receivables have been reduced from \$4.4 million to \$2.6 million in December 2016. In fact, Remotes has recovered higher amounts than the provision for bad debts in 2014, 2015 and 2016. For 2017, Remotes had made a bad debt provision of \$35,000 but the actual bad debt was negative \$64,348<sup>9</sup> which indicates that it exceeded its recoveries during 2017. Remotes included a bad debt expense of \$60,000 for 2018, but considering the success in reducing past bad debts, the parties agreed to a budgeted amount of \$0 for 2018. OEB staff believes that considering the over-collection in previous years and the fact that the current account receivables stand at \$2.6 million, an allocation of \$0 for bad debt appears to be a reasonable approach.

### Pension Costs

In the settlement proposal, Remotes provided a discussion of pension costs and explained how the costs will be treated going forward. The actuarial valuation provided by Remotes in response to an OEB staff interrogatory<sup>10</sup> indicates that Remotes will not be required to make a pension contribution as the fund is in a surplus position at the end of 2016. Remotes as part of the settlement proposal, agreed to track the pension costs against the current forecast amount and adjust them accordingly through the RRRP. Remotes will true up the costs with the actual contributions that it is required to make. When Remotes will next request clearance of the RRRP variance account, it has agreed to provide evidence on any pension costs it credited or debited from the account. In other words, the agreement aims to track pension costs and adjust the forecasted amount against actual contributions. The intent is to ensure that Remotes

---

<sup>9</sup> Response to OEB Staff IR# 41

<sup>10</sup> OEB Staff IR# 47

recovers pension costs that reflect actual contributions made by the company. OEB staff supports this approach.

### Customer Engagement

Remotes engages customers in a variety of ways, one of which is through the Customer Advisory Board (CAB). CAB members are residential and commercial customers from within Remotes' service territory who offer advice on a variety of Remotes' business activities. The CAB offers advice on service policies and procedures, and ways to improve services within the communities. OSLP requested Remotes to increase customer support within the communities. The parties agreed that Remotes would add two more members to the CAB. Since the addition does not impact the agreement reached on OM&A costs or increases the OM&A costs for 2018, OEB staff is not concerned with the proposed approach of Remotes.

### **RRRP Variance Account**

In its application, Remotes requested disposition of the RRRP variance account effective May 1, 2018. As can be noted from the settlement proposal, the parties agreed to keep the period ending December 31, 2016 for the RRRP variance account open until the outcome of the Hydro One Networks Inc. motion<sup>11</sup> to review a tax issue. Remotes will make the appropriate adjustments to the RRRP variance account based on the outstanding motion decision. OEB staff agrees that this is an appropriate approach.

### **Cost of Capital**

Parties agreed that the applicable cost of capital parameters will be updated as per the OEB's Cost of Capital Parameter Updates for 2018 Cost of Service and Custom Incentive Rate-Setting Application issued on November 23, 2017.

### **First Nation Relations**

Prior to the settlement conference, OSLP provided input and suggestions to Remotes via e-mail on various First Nation issues. The settlement proposal appears not to have

---

<sup>11</sup> EB-2016-0160



accepted all the suggestions of OSLP and accordingly OSLP is opposed to the proposed settlement on this specific issue.

One suggestion that Remotes did agree to was to maintain a sufficient budget to allow for translation of relevant materials to First Nation languages. Remotes will cover the costs of this program from its overall approved OM&A budget. Accordingly, this initiative will not increase OM&A costs and is not impacted by the reductions to the OM&A budget agreed to in the settlement proposal. Energy Probe and VECC supported the issue. OEB staff has no concerns with this proposed initiative of Remotes.

This issue remains unsettled overall and will proceed to hearing. Notwithstanding the various suggestions made by OSLP, OEB staff is of the view that the overall scope of the issue is sufficiently narrow and if the Hearing Panel agrees, the issue can be addressed through oral arguments on the Presentation Day scheduled for March 19, 2018. Accordingly, OEB staff advises OSLP to be present on the Presentation Day to ensure that it can present its position on the issue and respond to any questions from the Hearing Panel.

– All of which is respectfully submitted –