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BY E-MAIL

May 2, 2018

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

Dear Ms. Walli:

**Re: Westario Power Inc. (Westario Power)
2018 Distribution Rate Application
OEB Staff Submission on Settlement Proposal
OEB File No.: EB-2017-0084**

In accordance with Procedural Order No. 1, please find attached OEB staff's submission on the filed settlement proposal for Westario Power's 2018 distribution rate application.

Westario Power and all intervenors have been copied on this filing.

Yours truly,

Original Signed By

Andrew Frank
Project Advisor – Major Applications

Attach.

2018 ELECTRICITY DISTRIBUTION RATES

WESTARIO POWER INC.

EB-2017-0084

**OEB STAFF SUBMISSION ON SETTLEMENT
PROPOSAL**

May 2, 2018

INTRODUCTION

Westario Power Inc. (Westario Power) filed a cost of service application with the Ontario Energy Board (OEB) 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 Westario Power charges for electricity distribution, to be effective January 1, 2018. Westario Power filed a complete application on November 22, 2017.

The parties to the settlement proposal are Westario Power and the following approved intervenors in the proceeding: Energy Probe Research Foundation; School Energy Coalition; and Vulnerable Energy Consumers Coalition.

A community meeting was held as part of the proceeding on January 24, 2018. OEB staff and Westario Power made presentations at the meeting. A summary of the community meeting was posted to the record of the proceeding.

Customers voiced concerns over rate impacts and the effective date. For example, customers were interested to know if all customers were being impacted or only residential, and if any other charges such as specific service charges could also be changed. OEB staff took this concern about rising costs into consideration in reviewing Westario Power's application and settlement proposal. For a typical residential customer with monthly consumption of 750 kWh, the total bill impacts under the filed settlement proposal would be an increase of \$3.87 before taxes per month, or an increase of 3.6%. The distribution portion of the total bill would increase by \$1.96 per month.

The OEB issued an approved issues list for this proceeding on March 26, 2018. A settlement conference was held on March 27 & 28, 2018. Westario Power filed a settlement proposal setting out an agreement between all the parties to the proceeding on April 25, 2018.

The settlement proposal represents a complete settlement.

This submission is based on the status of the record as of the filing of Westario Power's settlement proposal and reflects observations which arise from OEB staff's review of the evidence and the settlement proposal. It is intended to assist

the OEB in deciding upon Westario Power's application and the settlement proposal.

Settlement Proposal

OEB staff has reviewed the settlement proposal in the context of the objectives of the *Renewed Regulatory Framework*, the Handbook for Utility Rate Applications, other applicable OEB policies, relevant OEB decisions, and the OEB's statutory obligations. OEB staff submits that the settlement proposal reflects a reasonable evaluation of the distributor's planned outcomes in this proceeding, appropriate consideration of the relevant issues and ensures there are sufficient resources to allow Westario Power to achieve its identified outcomes in the five years that will follow.

OEB staff further submits that the explanations and rationale provided by the parties is adequate to support the settlement proposal and that the outcomes arising from the OEB's approval of the settlement proposal would adequately reflect the public interest and would result in just and reasonable rates for customers.

OEB staff will provide further specific submissions on the following issues, which are a subset of the issues listed in the settlement proposal:

- Summary section of the settlement proposal
- Issue 1.1 – Capital
- Issue 1.2 – Operations, Maintenance and Administration (OM&A)
- Issue 2.1 – Are all elements of the Revenue Requirement reasonable, and have they been appropriately determined in accordance with OEB policies and practices?
- Issue 2.1.1 – Cost of Capital
- Issue 2.1.3 – Working Capital Allowance
- Issue 2.1.6 – Other Revenue
- Issue 3.1 – Are the proposed load and customer forecast, loss factors, CDM adjustments and resulting billing determinants appropriate, and, to the extent applicable, are they an appropriate reflection of the energy and demand requirements of Westario Power's customers?
- Issue 3.3 – Are Westario Power's proposals for rate design appropriate?

- Issue 3.5 – Are the proposed Retail Transmission Service Rates and Low Voltage Service Rates appropriate?
- Issue 4.1 – 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?
- Issue 4.2 – Are the applicant’s proposals for deferral and variance accounts, including the balances in the existing accounts and their disposition, and the continuation of existing accounts appropriate?
- Issue 5.1 – Effective Date
- Issue 5.2 – Is the proposed microFIT rate appropriate?

Summary section of the settlement proposal

In the Summary section of the settlement proposal, the parties included Table 2 - 2018 Bill Impact Summary. This table illustrated the updated bill impacts based on the results of the settlement proposal. The table indicates that no rate classes will experience total bill impacts in excess of 10%.

OEB staff notes that bill impacts have already been mitigated with a two year disposal period of deferral and variance accounts. OEB staff supports the settlement proposal and agrees that no further rate mitigation is required.

Issue 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
- Benchmarking of costs
- Reliability and service quality
- Impact on Distribution rates
- Trade-offs with OM&A spending
- Government-mandated obligations
- The objectives of the Applicant and its customers
- The distribution system plan, and
- The business plan.

In its application, Westario Power has proposed capital expenditures of \$4.89 million. OEB staff's comments are provided below based on capital expenditures and rate base.

In their settlement proposal, the parties agreed to 2018 capital expenditures of \$4.44 million for 2018 (a reduction of \$0.45 million from proposed) and an opening rate base as filed. As a result, the settled 2018 test year rate base is \$50.4 million. The parties also agreed to update the continuity schedules for 2013 to more accurately reflect stranded meters, as set out in the settlement proposal.

The main drivers of the adjustments noted above relate to an increase in the forecast capital contributions based on historical actuals and a reduction in the forecast spending intended to smooth the annual spending over the 2018-2022 period.

In the context of the settlement proposal, OEB staff does not have concerns with the 2018 capital additions and rate base amounts. As Westario Power has presented these amounts to be consistent with its historical actual capital contribution levels and improved project pacing, OEB staff supports the proposal as outlined in the settlement proposal.

Issue 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
- Benchmarking of costs
- Reliability and service quality
- Impact on Distribution rates
- Trade-offs with capital spending
- Government-mandated obligations
- The objectives of the Applicant and its customers
- The distribution system plan, and
- The business plan.

In their settlement proposal, parties agreed to a 2018 test year OM&A of \$5.8 million, a reduction of \$0.15 million from that proposed in the application. The main drivers of the adjustment are forecasted productivity, corrections to the budget, and more appropriate compensation levels.

In the context of the settlement proposal, OEB staff does not have concerns with the proposed 2018 test year OM&A of \$5.8 million. OEB staff supports the reduction.

Issue 2.1 – Are all elements of the Revenue Requirement reasonable, and have they been appropriately determined in accordance with OEB policies and practices?

As outlined in Table 5 – 2018 Revenue Requirement in the settlement proposal, parties have agreed to a service revenue requirement of \$11.13 million, a base revenue requirement of \$10.67 million, and a gross revenue deficiency of \$0.66 million. Westario Power also included an updated Revenue Requirement Work Form to support its requested amounts. This reflects a reduction of \$0.20 million to the service revenue requirement, and a reduction of \$0.25 million to the base revenue requirement.

OEB staff notes that the changes to the revenue requirement are the result of the following factors which are detailed in the settlement proposal:

- A reduction to capital expenditures
- A reduction to OM&A
- An increase to the load forecast
- Updates to the cost of capital
- Updates to the cost of power
- An increase in other revenue

In the context of the settlement proposal, OEB staff does not have concerns with the proposed 2018 revenue requirement of \$11.13 million. OEB staff supports the reduction of \$0.20 million.

Issue 2.1.1 Cost of Capital

As part of the settlement proposal, Westario Power updated its 2018 test year cost of capital parameters in accordance with OEB requirements.¹ Specifically, as reflected in Table 6 – 2018 Cost of Capital Calculation in the settlement proposal, the parties agreed to the updated long term debt component, as follows:

- A portion of the long term debt relates to affiliate debt. This portion has been updated.
- Another portion of the long term debt relates to third-party debt. This portion has been updated to reflect Westario Power's current financing arrangements.
- The combination of the debt rates on the affiliate debt and third-party debt generated a requested long term debt rate of 4.24%.

OEB staff supports these updates to the cost of capital parameters and financing costs as incorporated into the 2018 test year revenue requirement, as these parameters are consistent with OEB requirements. OEB staff also supports the updates to the long term debt component set out above.

Issue 2.1.3 – Working Capital Allowance

As reflected in Table 9 – 2018 Working Capital Allowance Calculation, Westario Power updated its 2018 test year working capital calculation as follows:

- A reduction to the Cost of Power due to the Fair Hydro Plan at the interrogatory response stage
- An increase to the Cost of Power in the settlement proposal to reflect an increased load forecast (detailed below in Issue 3.1)
- A reduction in controllable expenses as a reduction in OM&A (detailed above in Issue 1.2).

OEB staff supports these updates to the working capital allowance calculation, as these updates reflect the expected cost of power in the context of the Fair Hydro Plan and other issues in this settlement proposal.

¹ November 23, 2017 OEB letter titled "Cost of Capital Parameter Updates for 2018 Cost of Service and Custom Incentive Rate-setting Applications"

Issue 2.1.6 – Other Revenue

As part of the settlement proposal, Westario Power updated its 2018 test year other revenue. Specifically, as reflected in Table 12 – 2018 Other Revenue in the settlement proposal, the parties agreed to the following:

- An increase in the forecast other revenues in the amount of \$49,150 in account 4330 in order to match the forecast costs.
- An increase in the forecast net other revenue related to pole attachments by \$6,300 to reflect the increase to the pole attachment rate beginning September 1st 2017.

OEB staff supports these updates to the other revenue as incorporated into the 2018 test year revenue requirement, as these updates better reflect forecasted revenue.

Issue 3.1 – Are the proposed load and customer forecast, loss factors, CDM adjustments and resulting billing determinants appropriate, and, to the extent applicable, are they an appropriate reflection of the energy and demand requirements of Westario Power’s customers?

In the settlement proposal, the parties accepted the evidence of Westario Power and its methodology used for the load forecast, customer forecast, loss factors and CDM adjustments after incorporating the following adjustments:

- The GS < 50 customer count was adjusted to 2593
- The GS > 50 customer count was adjusted to 193
- The employment variable was removed from the load forecast
- The Conservation and Demand Management (CDM) adjustment was adjusted to reflect the fact that Westario Power’s 2017 actual results were embedded in the forecast for 2018.
- The employment variable was removed from the load forecast
- The loss factor was updated

As outlined in Table 13 of the settlement proposal, parties agreed to 2018 test year billing determinants of 428.0 GWh (an increase of 20.4 GWh over proposed) and 465,035 kW (an increase of 17,485 kW over proposed).

In the context of the settlement proposal, OEB staff submits that the revised 2018 test year billing determinants are appropriate. OEB staff supports the removal of the 2016 CDM savings and half of the 2017 CDM savings in the 2018 CDM manual adjustment, as the 2018 test year base load forecast would have already taken this impact into account.

Issue 3.3 – Are Westario Power’s proposals for rate design appropriate?

In the settlement proposal, the parties accepted the evidence of Westario Power, and agreed that the Rate Design has been determined appropriately.

In the context of the settlement proposal, OEB staff submits that the rate design is appropriate.

Issue 3.5 – Are the proposed Retail Transmission Service Rates and Low Voltage Service Rates appropriate?

In the settlement proposal, the parties accepted the evidence of Westario Power, and agreed that the Retail Transmission Service Rates and Low Voltage Service Rates are appropriate.

In the settlement proposal, the parties accepted a significant increase in Low Voltage Service Rates. This was attributed to a significant increase in the low voltage charges from Hydro One beginning in 2016.

OEB staff notes that Westario Power’s Low Voltage charges have not been updated since their last Cost of Service proceeding in 2013.² Many years of increases have resulted in a significant under-recovery in 2017 of \$740,000 at weather normalized load (\$691,000 actual billed). In 2013, Hydro One’s charges to Westario Power were already \$1,020,000; in 2015 the charges increased to \$1,310,000. The proposed 2018 rates are designed to recover 2017 actual Hydro One charges to Westario Power of \$1,259,000.³

² EB-2012-0176

³ Interrogatory Response 8-Staff-85

In the context of the settlement proposal, OEB staff submits that the Retail Transmission Service Rates and Low Voltage Service Rates are appropriate.

Issue 4.1 – 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?

In the settlement proposal, the parties accepted the evidence of Westario Power that all impacts of changes to accounting standards, policies, estimates, and adjustments have been properly identified and recorded in accordance with the OEB's policies and properly reflected in rates. In the context of the settlement proposal, OEB staff agrees with the parties regarding this issue.

Issue 4.2 – Are the applicant's proposals for deferral and variance accounts, including the balances in the existing accounts and their disposition, and the continuation of existing accounts appropriate?

In the settlement proposal, the parties agreed that Accounts 1588 and 1589 should not be cleared until a subsequent process wherein the Board is satisfied that amounts in those accounts are appropriate for clearance. The parties further agreed that it is appropriate for Westario Power to obtain further validation of its commodity account balances through a detailed internal review of Accounts 1588 and 1589, as well as its Independent Electricity System Operator (IESO) Regulated Price Plan (RPP) settlement processes.

The parties agreed that it is appropriate for Westario Power to request clearance of Accounts 1588 and 1589 in its next rate application (2019 IRM), once Westario Power's internal review is complete. The parties agreed that when Westario Power submits its GA Analysis Workform and DVA continuity schedule as part of its next rate application, Westario Power should explain any changes made as a result of the required internal review.

With the exception of Accounts 1588 and 1589, the parties accepted the evidence of Westario Power that all elements of the applied-for deferral and variance accounts are appropriate as updated, including the balances in the existing accounts and their disposition on a harmonized basis commencing June 1, 2018, and the continuation of existing accounts. The parties are proposing a

two year clearance of its deferral and variance account balances from June 1, 2018 to May 31, 2020.

OEB staff notes the following examples of previous cases where electricity distributors were not permitted to dispose of balances in Accounts 1588 and 1589, but were permitted to dispose of balances in other Group 1 deferral and variance accounts:

- West Coast Huron Energy Inc. 2018 IRM proceeding⁴
- Orangeville Hydro Limited 2018 IRM proceeding⁵

In the context of the settlement proposal, OEB staff agrees with the parties that, with the exception of Accounts 1588 and 1589, all elements of the applied-for deferral and variance accounts are appropriate as updated, including the balances in the existing accounts.

OEB staff submits that Westario Power should perform a detailed internal review of Accounts 1588 and 1589, as well as its IESO RPP settlement processes. OEB staff further submits that it is appropriate that Westario Power request clearance of Accounts 1588 and 1589 in its next proceeding pending the completion of the detailed review.

OEB policy⁶ reflects a default disposition period of one year to clear deferral and variance account balances through a rate rider. However, OEB staff submits that Westario Power's proposed two year clearance period of its deferral and variance account balances from June 1, 2018 to May 31, 2020 is appropriate in order to mitigate certain bill impacts.

Issue 5.1 – Effective Date

In its settlement proposal, the parties agreed that Westario Power's new rates should be made effective June 1, 2018.

⁴ EB-2017-0083 West Coast Huron Energy Inc. Decision and Order March 22, 2018 page 10

⁵ EB-2017-0068 Orangeville Hydro Limited Decision and Order March 22, 2018 page 9

⁶ Report of the OEB – Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR). EB-2008-0046, July 31, 2009, page 24

OEB staff notes that in the Decision on Interim Rates and Procedural Order No. 1 issued by the OEB on February 7, 2018, Westario Power's rates were not made interim, and have not been made interim subsequently.

In the context of the settlement proposal, OEB staff supports the June 1, 2018 effective date.

Issue 5.2 – Is the proposed microFIT rate appropriate?

Westario Power applied for an adjustment to the microFIT monthly service charge from the province-wide rate of \$5.40 to \$10.00 to more accurately reflect the costs incurred. In the settlement proposal, the parties agreed to this updated rate of \$10.00. As per the *Review of Electricity Distribution Cost Allocation Policy*⁷, distributors wishing to seek approval for a distributor-specific microFIT charge may identify additional cost elements that should be included in the determination of the charge. In a letter to distributors, the OEB further reminded electricity distributors that they may request a distributor-specific microFIT charge as part of their cost of service applications.⁸

OEB staff notes several examples of previous cases that established increased microFIT charges:

- Wasaga Distribution 2016 CoS proceeding – increase to \$10.00.⁹
- St. Thomas Energy Inc. 2015 CoS proceeding – increase to \$10.00.¹⁰
- Renfrew Hydro Inc. 2017 CoS proceeding – increase to \$10.00¹¹
- Welland Hydro-Electric System Corp. 2017 CoS proceeding – increase to \$11.00¹²

⁷ EB-2010-0219

⁸ OEB's Letter to LDCs, September 20, 2012 (EB-2009-0326, EB-2010-0219).

⁹ EB-2015-0107 February 24, 2016 Settlement Proposal p. 40 of 40.

¹⁰ EB-2014- 0113 rate Order_StThomasCoS_20141218, p. 2.

¹¹ EB-2016-0166 Renfrew Hydro Inc Settlement Proposal Page 39 of 51 January 20, 2017

¹² EB-2016-0110 Welland Hydro-Electric System Corp. Settlement Proposal Page 35 of 64 April 19, 2017

- Hydro Ottawa Limited 2016 Custom IR proceeding – increase to \$18.00 for 2016, 2017 and increase to \$19.00 for 2018, 2019, 2020¹³
- Wellington North Power Inc. 2016 CoS proceeding – increase to \$15.69¹⁴
- Hydro Hawkesbury Inc. 2018 CoS proceeding – increase to \$10.00¹⁵
- Cooperative Hydro Embrun Inc. 2018 CoS proceeding – increase to \$10.00¹⁶
- Centre Wellington Hydro Ltd. 2018 CoS proceeding – increase to \$10.00¹⁷

OEB staff supports the adjustment to the microFIT monthly service charge, as it is reasonable for Westario Power to pass on some charges to customers from its third-party vendor. OEB staff also submits that the several precedents involving increased microFIT charges (as noted above) support OEB staff's view that this increase to \$10.00 is appropriate.

All of which is respectfully submitted

¹³ EB-2015-0004 Hydro Ottawa Limited Settlement Proposal; December 7, 2015 Page 45 of 60

¹⁴ EB-2015-0110 Wellington North Power Inc. Settlement Proposal March 4, 2016 Page 39 of 133

¹⁵ EB-2017-0048 Hydro Hawkesbury Inc. Settlement Proposal February 20, 2018 Page 52 of 59

¹⁶ EB-2017-0037 Cooperative Hydro Embrun Inc. Settlement Proposal December 22, 2017 Page 51 of 57

¹⁷ EB-2017-0032 Centre Wellington Hydro Ltd. Settlement Proposal January 9, 2018 Page 51 of 58