Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL

November 23, 2020

Christine E. Long
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Long:

Re: Waterloo North Hydro Inc. (Waterloo North Hydro)
Application for 2021 Electricity Distribution Rates
Ontario Energy Board File Number: EB-2020-0059

In accordance with Procedural Order No. 2, please find attached OEB staff's submission on the settlement proposal in the above noted proceeding. Waterloo North Hydro and all intervenors have been copied on this filing.

Yours truly,

Original Signed By

Donald Lau
Project Advisor – Electricity Distribution: Major Rate Applications & Consolidations

Attach.

ONTARIO ENERGY BOARD

STAFF SUBMISSION ON SETTLEMENT PROPOSAL

2021 ELECTRICITY DISTRIBUTION RATES

Waterloo North Hydro Inc.

EB-2020-0059

November 23, 2020

INTRODUCTION

Waterloo North Hydro Inc. (Waterloo North Hydro) filed a cost of service application with the Ontario Energy Board (OEB) on June 30, 2020 under section 78 of the *Ontario Energy Board Act*, *1998,* seeking approval for changes to the rates that Waterloo North Hydro charges for electricity distribution, to be effective January 1, 2021.

The OEB issued an approved issues list for this proceeding on October 9, 2020. A settlement conference was held from October 14 and 15, 2020 and Waterloo North Hydro filed a settlement proposal setting out an agreement among all the parties to the proceeding on November 16, 2020. The parties to the settlement proposal were Waterloo North Hydro and the approved intervenors in the proceeding: Energy Probe, School Energy Coalition, Vulnerable Energy Consumers Coalition, Consumers Council of Canada, Environmental Defense, and Hydro One. The settlement proposal represents a full settlement of all issues in Waterloo North Hydro's application.

For a typical residential customer with a monthly consumption of 750 kWh, the total bill impact under the filed settlement proposal is a decrease of $0.21 per month before taxes or 0.14%.

This submission is based on the status of the record at the time of the filing of Waterloo North Hydro's settlement proposal and reflects observations that arise from OEB staff's review of the evidence and the settlement proposal. It is intended to assist the OEB in deciding upon Waterloo North Hydro's application and the settlement proposal.

Settlement Proposal

OEB staff has reviewed the settlement proposal in the context of the objectives of the *Renewed Regulatory Framework*[1], the *Handbook for Utility Rate Applications*[2], 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 that there are sufficient resources to allow Waterloo North Hydro to achieve its identified outcomes in the five years of the plan from 2021 to 2025.

[1] Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, October 18, 2012
[2] Handbook for Utility Rate Applications, October 13, 2016

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

Below, OEB staff provides specific submissions on the following issues in the settlement proposal:

- Issue 1.1 - Capital
- Issue 1.2 - Operating, Maintenance, and Administration
- Issue 2.0 - Revenue Requirement
- Issue 3.0 - Load Forecast, Cost Allocation, and Rate Design
- Issue 4.0 - Accounting
- Issue 5.1 - Specific Service Charges, Retail Service Charges, and Pole Attachment Charge
- Issue 5.2 - Effective Date

Issue 1.1 Capital

Waterloo North Hydro proposed a total net capital expenditure of $17.06 million for the 2021 test year. The largest area of capital investments is related to the renewal of overhead and underground lines and include the replacement of poles, transformers, and underground cables.

For the purposes of the settlement of all issues in this proceeding, the parties have agreed to a reduction of $550,000 in capital expenditures for the test year. Waterloo North Hydro also agreed to consider non-wires alternatives for capacity constraint projects in its distribution planning from 2022 to 2025.

OEB staff submits that the reduction of $550,000 in capital expenditures is reasonable and notes that Waterloo North Hydro can find these potential capital reductions in the grid resiliency program and the Miscellaneous/Other capital program, which is further explained below. OEB staff also submits that the consideration of non-wires alternatives for capacity constraint projects is reasonable.

OEB staff notes that Waterloo North Hydro created a new capital program called grid resiliency, which has a budget of $200,000 in the test year and is intended to move overhead lines in heavily treed areas to underground. However, in Waterloo North Hydro's customer engagement, customers were asked if they were willing to pay more

for Waterloo North Hydro to install underground lines and 56% of customers said they were not willing to pay more.[3] OEB staff submits that there are potential opportunities for capital reductions in the grid resiliency program.

OEB staff further notes that Waterloo North Hydro has a Miscellaneous/Other capital program for each investment category and the 2021 test year forecast is almost double the historical years (historical average $998,812 and Test Year $1,855,904). Waterloo North Hydro explained in interrogatories that this program is a grouping of projects and costs below materiality, which can include engineering design time not yet allocated to a project.[4] Engineering design costs in this capital program are then moved to a capital project once the scope of work for each design is more clear. OEB staff notes that the general expectation in a cost of service application is that engineering designs and scope of work should be sufficiently developed to be categorized in their final capital project/program such that the OEB can review the appropriate final capital cost for each project/program. OEB staff also notes that this amount is double the historical average and accounts for 9% of the capital budget. OEB staff is however satisfied with the overall capital expenditure reduction and recommends that Waterloo North Hydro provide a timelier allocation of non-material costs for its next cost-based application.

Issue 1.2 Operating, Maintenance, and Administration (OM&A)

Waterloo North Hydro proposed a total OM&A spending of $15.81 million for the 2021 test year. This represented an increase of 23.7% from 2016 actual OM&A spending, or an average yearly increase of 4.74%. Waterloo North Hydro attributed this increase to regulatory and legislated requirements, human resources, staff training, cyber security, Key Accounts personnel, and costs related to software maintenance.[5]

The parties agreed to an OM&A reduction of $775,000 to Waterloo North Hydro's proposed OM&A. The revised OM&A amount results in an increase of 18% from the 2016 actual OM&A spending or an average yearly increase of 3.6%. Waterloo North Hydro is also in Cohort 3 as per the *Empirical Research in Support of Incentive Rate-Setting: 2019 Benchmarking Update.*[6]

[3] EB-2020-0059 Exhibit 1- Attachment 1-9B, p.7
[4] EB-2020-0059 Interrogatory Response, September 28, 2020 (2-Staff-19)
[5] EB-2020-0059 Exhibit 4 – 2.4.1 Overview, p. 6
[6] Report to the Ontario Energy Board – "Empirical Research in Support of Incentive Rate-Setting: 2019 Benchmarking Update", prepared by Pacific Economics Group LLC., August 2020

OEB staff submits that the reduction of $775,000 in OM&A is reasonable.

OEB staff notes that between 2016 to 2019 Waterloo North Hydro retired its last five 4.16kV municipal transformer stations. It was estimated that there would be $19,000 annually in OM&A savings per station once the work is completed.[7] OEB staff also notes that Waterloo North Hydro has invested in software such as a Customer Information System, Asset Management software, and Fault Location Isolation and Service Restoration software. These automation tools allowed for the removal of processes that were previously completed manually and improve effectiveness and efficiency. These efficiencies resulting from the new software may assist Waterloo North Hydro in managing its OM&A envelope.

CDM Staffing Costs in OM&A

The revised OM&A budget was agreed to by parties on an envelope basis, without specific approval of $0.3 million for two Full-Time Equivalents (FTEs) in a new Key Accounts Department to offer energy management services and information to customers. Waterloo North Hydro noted that customers would support the cost of CDM services in distribution rates based on its survey results. These energy management services are not part of the Conservation First Framework (CFF), which was cancelled in March 2019, and do not overlap with the CDM activity during the CFF wind-down period. [8] Waterloo North Hydro confirmed that the completion of wind-down CFF activities are funded through the IESO and not by revenue requirement.[9]

The OEB's current policy is that costs attributable to the delivery of CDM programs (i.e. staff labour dedicated to such programs) must not be included in the revenue requirement to be recovered through distribution rates[10] OEB staff submits that it does not oppose the specific duties[11] of these FTEs in the Key Accounts Department, as the proposed work in various initiatives for Strategic Energy Management, Industrial Conservation Initiative and Energy and Water Benchmark Reporting are not specifically related to former CFF programs.

[7] EB-2020-0059 - Exhibit 2 – Appendix B, p. 68
[8] 1-CCC-13; 4-EP-5 a)
[9] 4-EP-19 b); 4-Staff-49 c)
[10] *Chapter 2 Filing Requirements for Electricity Distribution Rate Applications – 2020 Edition for 2021 Rate Applications*, May 14, 2020, section 2.4.6.
[11] 4-EP-19 b)

OEB staff does not oppose the agreed-to OM&A budget in light of the OM&A envelope reduction that was agreed to by parties.

Issue 2.0 Revenue Requirement

The parties have agreed to a service revenue requirement of $39.82 million and a base revenue requirement of $37.53 million. This reflects a reduction of $550,000 in net in-service additions and $775,000 in OM&A. This also reflects updates to the depreciation, cost of capital, other revenue, working capital allowance, and payment in lieu of taxes. The table below shows the change in revenue requirement between Waterloo North Hydro's application and the settlement proposal.

Table 1 – Waterloo North's Revenue Requirement

2021 Test Year								
	Application	Interrogatories	Variance	Clarification Responses	Variance	Settlement	Variance
	(a)	(b)	(c) = (b)-(a)	(d)	(e) = (d)-(b)	(f)	(g) = (f)-(d)
Revenue Requirement							
OM&A (Excluding Property Tax and LEAP)	$ 15,729,057	$ 15,811,401	$ 82,344	$ 15,806,401	-$ 5,000	$ 15,081,215	-$ 725,186
Taxes other than income	$ 471,620	$ 471,620	$ -	$ 471,620	$ -	$ 471,620	$ -
LEAP	$ 48,000	$ 48,000	$ -	$ 48,000	$ -	$ 48,000	$ -
Depreciation and Amortization	$ 11,100,527	$ 11,048,476	-$ 52,051	$ 11,048,476	$ -	10,745,324	-$ 303,152
Total	**$ 27,349,204**	**$ 27,379,497**	**$ 30,293**	**$ 27,374,497**	**-$ 5,000**	**$ 26,346,159**	**-$ 1,028,338**
Regulated Return on Capital	$ 13,310,227	$ 13,268,649	-$ 41,578	$ 13,145,336	-$ 123,313	12,844,967	-$ 300,369
Income Taxes Grossed Up	$ 889,324	$ 782,126	-$ 107,198	$ 754,272	-$ 27,854	631,833	-$ 122,439
Service Revenue Requirement	**$ 41,548,755**	**$ 41,430,272**	**-$ 118,483**	**$ 41,274,105**	**-$ 156,167**	**$ 39,822,959**	**-$ 1,451,146**
Other Revenues	$ 2,250,668	$ 2,262,317	$ 11,649	$ 2,262,317	$ -	2,289,620	$ 27,303
Base Revenue Requirement	**$ 39,298,087**	**$ 39,167,955**	**-$ 130,132**	**$ 39,011,788**	**-$ 156,167**	**$ 37,533,339**	**-$ 1,478,449**
Distribution Revenue at current rates	$ 36,673,723	$ 36,750,904	$ 77,181	$ 36,750,904	$ -	36,750,475	-$ 429
Grossed Up Revenue Deficiency	**$ 2,624,364**	**$ 2,417,051**	**-$ 207,313**	**$ 2,260,884**	**-$ 156,167**	**$ 782,864**	**-$ 1,478,020**

The parties accepted the proposed shared services cost allocation methodology and quantum. OEB staff has no concern with the shared services cost allocation methodology and quantum.

Waterloo North Hydro also agreed to prepare and file a plan to reduce distribution losses as much as reasonably possible through cost-effective measures and to implement as many of these cost-effective measures between 2022 to 2025. All other cost-effective measures to address reducing losses would be incorporated into Waterloo North Hydro's next rate application and distribution system plan. OEB staff submits that it is reasonable to create a plan to reduce distribution losses when it is cost-effective to do so.

Depreciation Expense

Page 35 of Chapter 2 of the Filing Requirements for 2021 Rate Applications (2021 Filing Requirements) states that:

> The OEB's general policy for electricity distribution rate setting has been that capital additions would normally attract six months of depreciation expense when they enter service in the test year. This is commonly referred to as the "half-year" rule. On June 20, 2014, the OEB initiated a consultation *New Policy Options for the Funding of Capital Investments*. *Report of the OEB on New Policy Options for the Funding of Capital Investments: Supplemental Report* the OEB determined that the half-year rule approach would continue to be used.[12]

Waterloo North Hydro originally proposed a full-year of depreciation for the 2021 depreciation expense and stated that this full-year depreciation policy has been applied to all capital for the historical years, the bridge year and the test year.[13] Waterloo North Hydro stated that "The reason that WNH has deviated from the half year rule is due to the fact that WNH would like to align its OEB ratemaking policy to its financial statement policy".[14] The parties agreed that the depreciation expense is to be restated using the half-year rule. OEB staff notes that Waterloo North Hydro has restated the depreciation expense for all historical years, bridge year and test year and the impact of the restatement is a reduction of the test year's depreciation expense of $303,151. OEB staff is of the view that the application of the half-year rule to the depreciation expense is consistent with the OEB's 2021 Filling Requirements and the OEB's policy. OEB staff takes no issue with the depreciation expense in the test year.

PILS - Accelerated Capital Cost Allowance

Bill C-97 introduced the Accelerated Investment Incentive (AII) program, which provides for a first-year increase in capital cost allowance (CCA) deductions on eligible capital assets acquired after November 20, 2018.

[12] Chapter 2 of the Filing Requirements for 2021 Rate Applications, page 35.
[13] Exhibit 4, page 80.
[14] Ibid.

In its July 25, 2019 letter (CCA Letter) titled Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance, the OEB provided accounting direction on the treatment of the impacts from accelerated CCA resulting from the AII program. The OEB established a separate sub-account of Account 1592 - PILs and Tax Variances, Sub-account CCA Changes to track the impact of any differences that result from the CCA change to the tax rates or rules that were used to determine the tax amount that underpins rates. OEB staff notes that Waterloo North Hydro has applied the accelerated CCA in 2019 and in 2020 using the approved capital additions in its last rebasing application but did not elect to apply accelerated CCA in 2018 as shown in Waterloo North Hydro's 2018 tax return and therefore, the credit balance in the Account 1592 sub-account CCA changes represents the full revenue requirement impact of the application of the accelerated CCA as at December 31, 2020. The parties agreed that 100% of the revenue requirement impact is to be refunded to Waterloo North Hydro's ratepayers instead of Waterloo North Hydro's originally proposed disposition method of 50/50 sharing between its shareholder and ratepayers. OEB staff takes no issue with this approach, given the CCA Letter states that "determinations as to the appropriate disposition methodology will be made at the time of each Utility's cost-based application". In addition, OEB staff notes that Hydro Ottawa proposed to clear 100% of the 2018-2020 balances related to the revenue requirement impact to customers due to accelerated CCA as part of its 2021 Custom IR application.[15] OEB staff notes that this approach was accepted by the intervenors in the settlement proposal and the OEB has issued a decision and order approving the settlement proposal.[16]

The CCA Letter also indicated that utilities were to reflect any impacts arising from CCA rule changes in their cost-based applications for 2020 rates and beyond. The OEB may consider a smoothing mechanism to address any timing differences that could lead to volatility in tax deductions over the rate-setting term.

Waterloo North Hydro applied accelerated CCA in its 2021 PILs. In the settlement proposal, the parties agreed that there is no need for a smoothing mechanism to address the impacts of accelerated CCA over the rate-setting term. Instead Waterloo North Hydro will use Account 1592 – PILS and Tax Variances, Sub-account CCA Changes to address future CCA rule changes. OEB staff takes no issue with this approach. Accelerated CCA is to be phased out from 2024 to 2027. Waterloo North

[15] EB-2019-0261, Exhibit 9, Tab 1, Schedule 4, page 6.
[16] Decision and Order, EB-2019-0261, November 19, 2020.

Hydro's continued use of the Account 1592 sub-account will capture the impact of differences that result from CCA rule changes, including the phasing out of accelerated CCA, from the accelerated CCA that underpins rates in the 2021 cost of service rate application. This would generally achieve the same intent as a smoothing mechanism.

Issue 3.0 Load Forecast, Cost Allocation, and Rate Design

Load Forecast

In the context of the settlement proposal, OEB staff does not have any concerns with the proposed load forecast of 1,440 GWh, 2,056,231 kW, and 74,029 customers and connections as shown in tables 3.1A and 3.1B of the settlement proposal. OEB staff submits that the agreed upon load and customer connection forecasts are appropriate.

Waterloo North Hydro included forecast conservation savings in the Persistent CDM Variable in the 2021 load forecast. These forecast savings include the persistence of 2019 and 2020 program savings from the CFF in 2021, and new program savings from CFF wind-down projects that will come into service in June 2021.[17] Waterloo North Hydro did not request a separate CDM manual adjustment to its load forecast. OEB staff submits that the forecast savings included in the Persistent CDM Variable in the 2021 load forecast are reasonable.

The parties agreed that Waterloo North Hydro would not seek Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) for the 2021 test year, or for any savings achieved in the years 2019 or 2020. In the context of the settlement proposal, OEB staff does not have concerns with the agreed upon CDM and LRAMVA treatment.

Cost Allocation

As part of the settlement proposal, the parties accepted Waterloo North Hydro's cost allocation results are appropriate. All revenue-to-cost ratios are within the OEB's target ranges, and no revenue-to-cost ratio adjustments are proposed.

[17] 3-Staff-36, Attachment 3.

Table 2 – Waterloo North's Revenue-to-Cost Ratios

Rate Class	Cost Ratio from Cost Allocation Model - Line 75 Tab O1	Proposed Revenue to Cost Ratios	Board Target Low	Board Target High
	%	%	%	%
Residential	99.91%	99.91%	85	115
GS < 50 kW	99.37%	99.37%	80	120
GS > 50 kW	102.14%	102.14%	80	120
Large User	86.45%	86.45%	85	115
Street Lighting	81.52%	81.52%	80	120
Unmetered Scattered Load	106.71%	106.71%	80	120
Embedded Distributor	108.38%	108.38%	80	120

In the context of the settlement proposal, OEB staff does not have any concerns with the cost allocation.

Rate Design

In the settlement proposal, the parties agreed that for any class except the residential class, the 2020 fixed charge would be maintained in 2021 if the fixed charge is above the minimum system with peak load carrying capability (PLCC) adjustment.

Table 3 – Waterloo North's Fixed Charge

	Existing Fixed Charge	Ceiling[18]	Proposed Fixed Charge
GS < 50 kW	$33.71	$25.82	$33.71
GS > 50 kW	$125.96	$77.28	$125.95
Large Use	$7,359.96	$402.08	$7,359.96
Unmetered Scattered Load	$11.20	$11.18	$11.20

The parties also agreed that for these rate classes, Waterloo North Hydro would apply to recover all Incentive Rate-setting Mechanism (IRM) increases through the variable portion of the applicable charges.

[18] The ceiling is established by the minimum system with PLCC adjustment, and is calculated by the Cost Allocation Model, sheet O2 Fixed Charge|Floor|Ceiling.

OEB staff notes that in an IRM proceeding, both the fixed and variable charges would normally increase by the applicable percentage as determined by the price cap formula. Therefore, the proposal to apply the entire increase to only the variable charge is a deviation from the normal practice. OEB staff notes that parties did not provide rationale for this deviation in policy. However, OEB staffs submits that in the context of the complete settlement, it does not oppose the proposal for fixed charges. OEB staff notes that it may not accept such a deviation in other distributor cases, including Waterloo North Hydro's next cost-based application, without sufficient rationale. OEB staff notes that if the settlement proposal is approved, OEB staff will have the responsibility to ensure that the model allows for this change in Waterloo North Hydro's subsequent IRM applications.

Gross Load Billing

The parties agreed that Waterloo North Hydro will use gross load billing for retail transmission service rates for customers in the General Service > 50 kW and Large Use rate classes. The charges would apply to generators with a capacity of 2MW or higher for renewable generation and 1MW or higher for non-renewable generation.[19] This is consistent with how Waterloo North Hydro is billed by Hydro One and Energy+.[20]

OEB staff notes that Waterloo North Hydro's proposal is consistent with cost causation as customers with load displacement generation incur costs for Waterloo North Hydro from its host distributors. In the absence of the gross load billing proposal, these costs would be borne by other rate payers. OEB staff notes that gross load billing was recently approved in Niagara-on-the-Lake's[21] and Energy+'s[22] cost of service proceedings for 2019 rates. In the Energy+ case, the OEB concluded that:

> The OEB finds that the gross load billing method should be applied to a generator unit rating of 2 MW or higher for renewable generation and 1 MW or higher for nonrenewable generation. This is consistent with how the IESO bills Energy+ for Line Connection and Transformation Connection services.[23]

[19] Settlement Proposal, Appendix A – Draft Tariff of Rates and Charges.
[20] Exhibit 8, page 10.
[21] EB-2018-0056.
[22] EB-2018-0028.
[23] EB-2018-0028, Corrected Decision and Order, June 18, 2019, p.34

OEB staff submits that the gross load billing proposal is appropriate as it is consistent with the principal of cost causation and with recent decisions.

Issue 4.0 Accounting

Disposition of Deferral and Variance Accounts

In its pre-filed evidence, Waterloo North Hydro proposed to dispose of its Group 1 (debit of $650,124) and Group 2 and other (credit of $2,149,897) Deferral and Variance Accounts (DVA) balances as at December 31, 2019 (with some Group 2 DVAs including forecasted balances to December 31, 2020), including forecasted interest to December 31, 2020. Following interrogatories, Waterloo North Hydro revised its proposal for the disposition of the Group 1 DVAs to a credit balance of $2,776,554 and Group 2 and other accounts to a credit balance of $12,256. OEB staff notes that the main reason for this significant change is due to the fact that, as stated by Waterloo North Hydro, the credit balance of $2,626,628 originally recorded in the "new" Power Variance Liability account (part of the Group 2 accounts) should be recorded in Account 1588 RSVA Power (part of the Group 1 accounts).[24]

The parties have agreed that the proposals for Group 1, Group 2 and other DVAs except for Account 1588 and Account 1589 are appropriate, including the proposed disposition of those accounts over the default one-year period. The parties also have agreed that there will be no disposition of Account 1588 and Account 1589 and Waterloo North Hydro should cooperate with OEB staff in an OEB conducted special purpose inspection of these two accounts with respect to the prior period adjustment of approximately $2.6 million arising from the Regulated Price Plan (RPP) submission process and the Global Adjustment (GA) accrual reconciliation process. OEB staff notes that Waterloo North Hydro has proposed final disposition of the DVAs other than these two accounts. OEB staff submits that it is appropriate to dispose of the proposed DVA balances on a final basis except for Account 1588 and Account 1589.

The OEB issued the accounting guidance *Accounting Procedures Handbook Update - Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589* on February 21, 2019. This accounting guidance was to be implemented by August 31, 2019 retroactive to January 1, 2019. Distributors were expected to consider the accounting guidance in the context of historical balances that have yet to be disposed on a final basis. Final disposition can be requested if distributors have completed the

[24] Response to Interrogatory 9-Staff-90.

review of historical balances and are confident that there are no systemic issues with their RPP settlement and related accounting processes.

In its 2020 IRM application, Waterloo North Hydro requested the final disposition of the 2018 balances for Account 1588 and Account 1589 and confirmed that it has not found any systemic issues with its RPP settlement and related accounting processes.[25] Waterloo North Hydro also confirmed that the account balances for 1588 and 1589 have been adjusted to be in accordance with the accounting guidance.[26] The OEB approved final disposition of Account 1588 and Account 1589's 2018 balances in the 2020 IRM application.

In this application, Waterloo North Hydro discloses a prior period adjustment of approximately $2.6 million in 2015 and 2016 related to an error in the previous methodology while calculating the RPP settlements. Waterloo North Hydro proposes refunding an amount of $2,788,012 to the Independent Electricity System Operator (IESO) with respect to a 2015 and 2016 over-claim of the GA costs related to RPP customers, while refunding $2,621,628 to RPP customers by including a credit adjustment in Account 1588.[27] In responding to OEB staff's question regarding how the errors in the RPP settlements would result in both a repayment to the IESO, and a refund to the customers, Waterloo North Hydro stated that its RPP submission process and the GA reconciliation accrual process have resulted in both a repayment to the IESO and a refund to the RPP customers.[28] Furthermore, Waterloo North Hydro confirmed that the GA reconciliation accrual process that had been used in the past is not in conformity with the OEB's accounting guidance issued in February 2019.[29]

OEB staff notes that price variances pertaining to a utility's RPP customers that flow into Account 1588 should ultimately get settled directly with the IESO as opposed to disposing of these variances to utility's ratepayers. The remaining balance remaining in the Account 1588 should be primarily related to differences in technical line losses. As a result, OEB staff is uncertain why the prior period adjustment proposed by Waterloo

[25] EB-2019-0071, Waterloo North Hydro's Response to Staff's Confirmation Questions, November 12, 2019.
[26] EB-2019-0071, Waterloo North Hydro's Response to Staff's Confirmation Questions, November 12, 2019.
[27] Response to 9-Staff-92. While stemming from the same error, the $2,788,012 and $2,621,628 figures are different to account for the 2017 and 2018 settlement adjustments that are already claimed by Waterloo North Hydro and recorded in Account 1588 in 2019.
[28] Response to 9-Staff-92.
[29] Response to 9-Staff-92.

North Hydro pertaining to the error in the RPP settlement process would result in a variance owing to RPP customers and an amount owing to the IESO at the same time. OEB staff notes adjustments in RPP settlement should result in the utility being kept whole with respect to the commodity pass-through costs, which does not appear to be the case under Waterloo North Hydro's original proposal.

OEB staff notes that parties have recommended a special purpose inspection for Accounts 1588 and 1589. OEB staff will consider the best approach to addressing the issues/concerns regarding Accounts 1588 and 1589. OEB staff agrees that Waterloo North Hydro should not apply for the disposition of Accounts 1588 and 1589 until the OEB has determined any next steps on this matter.

Issue 5.1 Are the Specific Service Charges, Retail Service Charges, and Pole Attachment Charge appropriate?

Waterloo North Hydro proposed the following four new specific service charges:

- Owner Requested Disconnection/Reconnection at Meter – During Regular Hours
- Owner Requested Disconnection/Reconnection at Meter – After Regular Hours
- Owner Requested Disconnection/Reconnection at Pole – During Regular Hours
- Owner Requested Disconnection/Reconnection at Pole – After Regular Hours

Waterloo North Hydro also proposed to remove the Credit Check and Notification Charge due to the non-use of accounts.

Waterloo North Hydro has increased the Retail Service Charges and wireline pole attachment charge by inflation (2.2%). Waterloo North Hydro does not have a utility specific wireline pole attachment charge and uses the OEB approved generic charge for pole attachments.

The parties accepted the Waterloo North Hydro's Specific Service Charges, Retail Service Charges, and Pole Attachment Charge. The parties also agreed that the Retail Service Charges and Pole Attachment Charge in the tariff sheet will be updated with 2021 values once they are made available by the OEB.

OEB staff has reviewed Waterloo North Hydro's breakdown of the new specific service charges and notes that the labour hours used to develop the costs are the same as the 2006 Electricity Distribution Rates except for inside staff labour time which has

increased by 0.5 hours. OEB staff submits that the new Specific Service Charges and the removal of charges that are not in use are reasonable.

OEB staff submits that updating the Retail Service Charges and the Pole Attachment Charge by the OEB's 2021 values is appropriate.

Issue 5.2 Is the proposed effective date January 1, 2021 appropriate?

The parties have agreed that an effective date of January 1, 2021 is appropriate. Waterloo North Hydro filed this application on June 30, 2020, approximately two months after the established deadline for January 1 filers. Waterloo North Hydro requested a one-week extension to file the settlement proposal. No other delays occurred during the course of this proceeding.

OEB staff notes that the delay in filing the original application was due to the onset of the COVID pandemic. Waterloo North Hydro requested, and the OEB approved, an extension to June 30, 2020. In its letter granting the extension, the OEB stated that it "…anticipates that the OEB panel hearing the application will take into consideration any COVID-19 related delays in setting the effective date".

Given the timing of the filing of the settlement proposal that still allows the OEB a reasonable amount of time to issue a timely decision for January 1 rates, OEB staff submits that the effective date of January 1, 2021 is reasonable.

All of which is respectfully submitted