



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

**BY EMAIL**

December 14, 2020

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

Dear Ms. Long:

**Re: Hydro Ottawa Limited (Hydro Ottawa)  
Application for Rates  
Ontario Energy Board (OEB) File Number: EB-2019-0261  
OEB Staff Submission on Draft Rate Order**

In accordance with the Decision and Order dated November 19, 2020, please find attached OEB staff's submission on the Draft Rate Order in the above noted proceeding.

Yours truly,

Shuo Zhang

Project Advisor – Electricity Distribution: Major Rate Applications & Consolidations

Attach.

**2021-2025 CUSTOM INCENTIVE RATE-SETTING  
APPLICATION**

**HYDRO OTTAWA LIMITED**

**EB-2019-0261**

**OEB STAFF SUBMISSION ON DRAFT RATE  
ORDER**

**DECEMBER 14, 2020**

## Introduction

Hydro Ottawa Limited (Hydro Ottawa) filed a complete custom incentive rate-setting (Custom IR) application with the Ontario Energy Board (OEB) on February 11, 2020 under section 78 of the *Ontario Energy Board Act, 1998* (OEB Act), S.O. 1998, c.15, (Schedule B), seeking approval for changes to the rates that Hydro Ottawa charges for electricity distribution, beginning January 1, 2021, and for each following year through to December 31, 2025 (Application).

The OEB issued its Decision and Order with respect to Hydro Ottawa's Application on November 19, 2020. On December 3, 2020, Hydro Ottawa filed a draft rate order (DRO) pursuant to the Decision and Order.

OEB staff's comments on the DRO follow.

### ***2021 Inflation and Cost of Capital Parameters***

Hydro Ottawa used the OEB's 2020 inflation factor of 2.0% in the settlement proposal. The OEB allowed distributors the discretion of electing the calculated 2021 inflation factor of 2.2% or a lower value.<sup>1</sup> By a letter dated November 18, 2020,<sup>2</sup> Hydro Ottawa specified its election of the inflation factor of 2.2% for the 2021 rate year. OEB staff notes that compared to the settlement proposal, the application of the 2.2% inflation factor leads to the following changes to the revenue requirements over the Custom IR term:

- Increase in operations, maintenance and administration (OM&A) expenses (including property taxes) over the period of 2022-2025 resulting from a higher Custom Price Escalation Factor
- Increase in 2021 other revenue resulting from higher revenues due to specific service charges

With respect to cost of capital parameters, Hydro Ottawa has applied the OEB's 2021 short-term debt rate (1.75%) and return on equity (8.34%) for all five years. OEB staff takes no issue with the updated short-term debt rate and return on equity.

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<sup>1</sup> OEB Letter Re: 2021 Inflation Parameters, dated November 9, 2020.

<sup>2</sup> Hydro Ottawa Limited Letter Re: 2021 Inflation Parameters, dated November 18, 2020.

Regarding long-term debt, OEB staff notes that Hydro Ottawa has used the rates for its existing debt. For the new debt to be obtained through its parent corporation, Section F part (h) of the settlement proposal states that:

*The Parties agree that Hydro Ottawa will use an updated forecast debt rate for its planned mid-year \$80.0M debt issuance in 2021. It will be based on the methodology documented on pages 6-8 of UPDATED Exhibit 5-1-1: Cost of Capital and Capital Structure, but will use the average of the 3-month ahead and 12-month ahead forecasts for the 10-Year Government of Canada bond yield from the September 2020 publication of the Consensus Forecasts used by the OEB in its Fall 2020 Cost of Capital Parameters update for rates that are effective in 2021. More specifically, and for greater certainty, Hydro Ottawa will add its historic 10-Year bond credit spreads to the aforementioned 10-Year Government of Canada bond yield forecast, to calculate the interest rate for its forecast 10-Year bond issuance. In addition, Hydro Ottawa will add its historic 30-Year bond credit spreads to the aforementioned 10-Year Government of Canada bond yield forecast, plus the average spread between 10-Year and 30-Year Government of Canada bond yields for the month of September 2020 to calculate the interest rate for its forecast 30-year bond issuance.<sup>3</sup>*

OEB staff notes that Hydro Ottawa has updated the rates to 2.03% for the forecasted Promissory Note with an issuance date of July 1, 2021 and maturity of 10 years, and to 2.96% for the forecasted Promissory Note with an issuance date of July 1, 2021 and maturity of 30-years.<sup>4</sup> The latter rate is slightly higher than the deemed long-term debt rate of 2.85% as issued by the OEB in its letter for the 2021 Cost of Capital parameters.<sup>5</sup> OEB staff considers that the difference could be due to the methodology employed by Hydro Ottawa as agreed to in the settlement proposal. However, Hydro Ottawa has not provided the calculations of the updated rates for the 2021 Promissory Notes. OEB staff submits that Hydro Ottawa should be required to file these calculations

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<sup>3</sup> Settlement Proposal, September 18, 2020, pp. 25-26, Schedule A to Decision and Order, November 19, 2020

<sup>4</sup> HOL\_DRO\_Chapter2\_Appendices.xlsm, Tab "Appendix 2-OB" for 2021 test year, updated and filed with the DRO, December 3, 2020

<sup>5</sup> OEB, Letter on 2021 Cost of Capital Parameters (EB-2009-0084), November 9, 2020

to allow the OEB, OEB staff and other parties to verify the accuracy of these forecasted rates.

Compared to the settlement proposal, the application of the updated cost of capital parameters leads to lower return on rate base, lower payments in lieu of taxes, and lower reductions associated with the capital stretch factor over the Custom IR term. OEB staff submits that these updates are reasonable and consistent with OEB staff's expectations subject to the verification of the accuracy of the long-term debt calculations.

### ***The Unsettled Issue (Issue 7.3)***

The unsettled issue relates to the proposed fixed/variable rate design for three commercial customer classes: General Service (GS) > 50 to 1,499 kW, GS 1,500 to 4,999 kW, and Large Use.

The OEB found that:<sup>6</sup>

*For the GS > 50 to 1,499 kW, GS 1,500 to 4,999 kW, and Large Use classes, the OEB finds that fixed charges should be set by comparing the fixed charge resulting from Hydro Ottawa's standard rate design approach with the previous year's level for the five year rate term. In years where maintaining the current fixed/variable revenue split results in a higher fixed charge than the previous year, Hydro Ottawa shall maintain the fixed charge at the previous year's level. In years where maintaining the current fixed/variable revenue split results in a lower fixed charge than the previous year, Hydro Ottawa shall maintain the fixed charge at the lower value.*

Hydro Ottawa provided updated fixed charges for the three commercial customer classes. The implementation of the OEB's decision results in:

- Fixed charge remains at the current level (2020) for the GS > 50 to 1,499 kW class over the Custom IR term
- Fixed charge remains at the current level (2020) for the GS 1,500 to 4,999 kW class over the period of 2021-2023 and decreases in 2024 and 2025

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<sup>6</sup> Decision and Order, November 19, 2020, page 23.

- Fixed charge remains at the current level (2020) for the Large Use class over the period of 2021-2022 and decreases in 2023, 2024, and 2025

OEB staff takes no issue with the rate design approach for these three commercial customer classes as it is in accordance with the OEB's decision.

## **2021 Tariff of Rates and Charges**

### Retail Service Charges and Specific Charge for Access to the Power Poles

Regarding energy retailer service charges (RSCs) and the pole attachment charge, the OEB accepted the approach set out in the settlement proposal, whereby these charges would be updated in accordance with applicable OEB decisions.

The OEB established the inflationary adjustment to RSCs in its decision dated December 3, 2020.<sup>7</sup> OEB staff confirms that Hydro Ottawa has incorporated the inflationary adjustment to RSCs in its DRO.

In its decision dated December 10, 2020, the OEB suspended the inflationary increase for the pole attachment charge for the 2021 rate year.<sup>8</sup> The OEB determined to maintain the current charge of \$44.50 on an interim basis effective January 1, 2021.

By a letter dated December 11, 2020, Hydro Ottawa updated the pole attachment charge in its DRO in accordance with the OEB's decision. OEB staff confirms that Hydro Ottawa has properly implemented the OEB's decision on the pole attachment charge in its 2021 Tariff of Rates and Charges.

### Expiry Date for Rate Riders

The expiry date for rate riders associated with Group 1 and Group 2 accounts is shown as "effective until December 31, 2021" in the draft Tariff of Rates and Charges. OEB

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<sup>7</sup> The Decision and Rate Order EB-2020-0285, issued December 3, 2020, established the adjustment for energy retailer service charges, effective January 1, 2021.

<sup>8</sup> The Decision and Interim Order EB-2020-0288, issued December 10, 2020, established the wireline pole attachment charge, effective January 1, 2021.

staff submits that the expiry date should be revised to December 31, 2022 to be consistent with the approved disposition period of two years.

*All of which is respectfully submitted*