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

BY EMAIL

March 3, 2022

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Marconi:

Re: Ontario Energy Board (OEB) Staff Submission
Ottawa River Power Corp.
Cost of Service
OEB File Number: EB-2021-0052

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 1.

Yours truly,

Original Signed By Shuo Zhang Digitally signed by Shuo Zhang Date: 2022.03.03 13:50:01 -05'00'

Shuo Zhang
Senior Advisor – Electricity Distribution: Major Rate Applications & Consolidations

Encl.

cc: All parties in EB-2021-0052

Ontario

ONTARIO ENERGY BOARD

OEB Staff Submission

Ottawa River Power Corp.

Cost of Service Application

EB-2021-0052

March 3, 2022

Introduction

Ottawa River Power Corporation (Ottawa River Power) filed a Cost of Service application with the Ontario Energy Board (OEB) on September 30, 2021, under section 78 of the *Ontario Energy Board Act, 1998* seeking approval for the rates that Ottawa River Power charges for electricity distribution, effective May 1, 2022.

The OEB issued an approved issues list for this proceeding on November 25, 2021. A settlement conference took place on January 10 and 11, 2022. Ottawa River Power filed a settlement proposal representing a complete settlement of all issues on February 25, 2022. The parties to the settlement proposal are Ottawa River Power and the approved intervenors in the proceeding: School Energy Coalition, and Vulnerable Energy Consumers Coalition (the Parties).

If the settlement proposal is approved, a typical residential customer with a monthly consumption of 750 kWh would see their bill decrease by $0.21 per month before taxes, or 0.17%.

This submission is based on the status of the record at the time of the filing of the 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 on whether to approve the settlement proposal.

Settlement Proposal

OEB staff has reviewed the settlement proposal in the context of the objectives of the *Renewed Regulatory Framework*[1] (RRF), 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 Ottawa River Power's planned outcomes in this proceeding, appropriate consideration of the relevant issues and ensures that there are sufficient resources to allow Ottawa River Power to achieve its identified outcomes in the five years of the plan from 2022 to 2026.

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 certain of the issues established by the OEB:

- 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 – Effective Date
- Issue 5.2 – Addition of Previously Approved ICM to Rate Base

Issue 1.1 – Capital

Ottawa River Power proposed a total net capital expenditure of $1.9 million for the 2022 test year. The largest area of capital investment is related to system renewal projects driven by the replacement of a failed transformer at Pembroke substation. Ottawa River Power plans to carry out the replacement in 2022. The estimated cost for the replacement is $750k, which represents approximately 39% of the total proposed net capital expenditures for 2022.

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

The Parties agreed to a reduction of $600k (approximately 32%) to the proposed net capital expenditures. For rate-setting purpose, the reduction reflects including one-fifth of the cost for the replacement of the failed transformer for the 2022 test year. The Parties agreed that the full cost of the project (i.e., $750k) will be eligible for inclusion in rate base in the normal course, and subject to a prudence review, as part of Ottawa River Power's next rebasing application.

Ottawa River Power has also agreed to implement the five recommendations provided in the Reliability Assessment Report. Specifically, Ottawa River Power will:

1. Create a standard outage reporting tool
2. Standardize in reporting
3. Establish corporate reliability targets
4. Increase investigation into power outage causes, particularly unknown events and defective equipment
5. Document improvement in understanding of power outage characteristics, review of major outages and consideration given to design improvements, process, and data collection improvement

OEB staff submits that the agreement reached by the Parties is reasonable. The agreement smooths out the impacts of the full project cost on rate payers for the 2022 test year. OEB staff notes that the settled 2022 capital expenditures are $56k (4.5%) higher than the 2016 OEB-approved amount. Compared to the average actual capital expenditures over 2016-2020, the settled 2022 budget represents an increase of $180k (16%).

OEB staff supports the implementation of the five recommendations to improve system reliability. In OEB staff's view, these recommendations are consistent with the spirit of the OEB's RRF policy, which encourages distributors to continuously improving system reliability and quality.

Issue 1.2 – Operation, Maintenance and Administration (OM&A)

Ottawa River Power proposed total OM&A spending of $3.7 million for the 2022 test year in its original application. This represented an increase of 26% from the 2016 actual OM&A spending, or a compound annual growth rate of 4.0%. The rise in OM&A spending is mainly driven by higher staffing levels and wage and benefits increases.

The Parties agreed to an OM&A envelope reduction of $85k (approximately 2.3%) to Ottawa River Power's proposed OM&A for a revised budget of $3.6 million. The revised OM&A amount included in the settlement proposal would result in an increase of 24%

from 2016 actual OM&A spending, or a compound annual growth rate of 3.6%. Ottawa River Power was in Efficiency Assessment Cohort 2 (the second most efficient cohort) for the 2020-2022 rate years per the Pacific Economics Group's annual benchmarking study.[3] Ottawa River Power forecasts to move to Efficiency Assessment Cohort 1 (the most efficient cohort) during the period of 2022-2026.

OEB staff supports the proposed OM&A budget of $3.6 million. In OEB staff's view, the proposed OM&A budget is reasonable. The Parties have provided a breakdown of the reduction in Table 5 – 2022 Test Year OM&A Expenses of the settlement proposal.

Issue 2.0 – Revenue Requirement

The Parties agreed that the elements of the revenue requirement are reasonable and have been correctly determined in accordance with OEB policies and practices, subject to the adjustments identified in the settlement proposal.

The 2022 test year opening rate base has been updated through the settlement proposal to reflect the most up to date forecast of in-service additions for the 2021 bridge year. The 2021 in-service additions have been updated from $1.06 million to $1.08 million. OEB staff supports this update that reflects the most up to date information.

The Parties agreed to a service revenue requirement of $5.3 million and a base revenue requirement of $4.9 million. This reflects a reduction of $600k in capital expenditures and a reduction of $85k in OM&A. This also reflects updates to the depreciation, cost of capital, working capital allowance and payments in lieu of taxes. Table 6 – 2022 Revenue Requirement Summary of the settlement proposal shows the change in revenue requirement between Ottawa River Power's original application and the settlement proposal.

OEB staff has no concerns with the revenue requirement as presented in Table 6 of the settlement proposal.

<u>PILS Expense – Accelerated Capital Cost Allowance</u>

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

[3] For example, Report to the Ontario Energy Board – "Empirical Research in Support of Incentive Rate-Setting: 2020 Benchmarking Update", prepared by Pacific Economics Group LLC., August 2021.

out starting in 2024, and fully phased out in 2028.

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 AIIP. The OEB established a separate sub-account, 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 rate or rules that were used to determine the tax amount that underpins rates.

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 and that 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.

Ottawa River Power has reflected impacts of AIIP in its test year PILs expense. Ottawa River Power has not proposed to smooth PILs over the rate-setting term. The Parties agreed that the test year PILs has been appropriately calculated.

OEB staff supports Ottawa River Power's calculated PILs expense, which reflects the application of the AIIP in the test year, as this is in accordance with the CCA Letter. In addition, OEB staff does not object to not smoothing CCA impacts expected during the upcoming rate-setting term. The AIIP is to be phased out from 2024 to 2027. Account 1592, Sub-account CCA Changes will continue to be available to Ottawa River Power to capture the impact of differences that result from CCA rule changes, including the impacts of phasing out of the AIIP (which results in an increase in taxes payable over the PILs amounts assumed in rates). Using Account 1592 for this purpose will generally achieve the same intent as a smoothing mechanism.

Issue 3.0 Load Forecast, Cost Allocation and Rate Design

Load Forecast

The Parties agreed to Ottawa River Power's initial proposed load forecast subject to two changes:

1) The variables in the linear regression be modified by adding a binary variable for the impact of the COVID-19 pandemic in the months March 2020 to May 2020
2) Adjusting the customer connection forecast to use the geometric mean growth rate from 2014 to 2019 (excluding the growth from 2020), and then applying that growth rate to the 2020 actual connection count as the base

The COVID-19 variable has a coefficient of -467,837, indicating that monthly wholesale load was 467,837 kWh lower in months impacted by the shutdown in March to May 2020.

OEB staff does not have any concerns with the proposed load forecast of 183,472 MWh, 223,491 kW and 14,741 customers and connections as shown in Tables 12 and 13 of the settlement proposal. This reflects an increase of 594 MWh and 163 kW over the original application. OEB staff submits that the agreed-upon load and customer connection forecasts are appropriate.

Cost Allocation

The Parties agreed to two changes in Ottawa River Power's proposed cost allocation as updated with the interrogatory responses:

1) The load profiles should be derived using an average of 2019 and 2020 load profiles
2) The revenue to cost ratios should be adjusted to reduce the General Service (GS) 50 to 4,999 kW rate class to 120%, the upper boundary of the range. Increases should be made to Residential, Sentinel Lighting, and Unmetered Scattered Load (USL) to bring USL into the range, and offset the reduction to GS 50 to 4,999 kW

Ottawa River Power relied on the load profiles prepared by Hydro One Networks Inc., scaled for consistency with the load forecast.[4] It has committed to update its load profiles at the time of its next cost of service application where possible.[5] OEB staff supports Ottawa River Power's commitment to update load profiles and encourages it to collect smart meter and interval data after the conclusion of this proceeding to ensure that the required data is available at the time of its next cost of service application.

OEB staff has no concerns with the cost allocation proposed by the Parties.

Rate Design

The existing fixed charges for the GS < 50 kW and GS 50 to 4,999 kW rate classes are above the ceiling.[6] Ottawa River Power proposed, and the Parties agreed to maintain the fixed charge for these rate classes at the current levels.

[4] Exhibit 7, page 14.
[5] 7-Staff-50.
[6] The minimum system with peak load carrying capability from the cost allocation model, which is commonly referred to as the ceiling for fixed charges.

OEB staff has no concerns with the proposed rate design.

Retail Transmission Service Rates (RTSRs)

In the settlement proposal, the 2022 uniform transmission rates and host RTSRs were incorporated in the determination of Ottawa River Power's RTSRs. The approach used is consistent with OEB policy.[7]

OEB staff has no concerns with the proposed RTSRs.

Issue 4.0 Accounting

In the settlement proposal, Parties agreed to dispose of Ottawa River Power's Group 1 Deferral and Variance Account (DVA) balances (debit of $88,244), excluding Account 1588 – RSVA Power and Account 1589 – RSVA Global Adjustment as of December 31, 2020. The Parties also agreed to dispose of Ottawa River Power's Group 2 and Lost Revenue Adjustment Mechanism Variance Account balances (credit of $340,288) as of December 31, 2020.[8] The above-noted amounts include forecasted interest to April 30, 2022. Accounts 1588 and 1589 are not proposed for disposition as those accounts were undergoing an inspection. All DVA balances proposed for disposition are to be disposed over a one-year period. OEB staff supports the settlement proposal reached by Parties. OEB staff makes the following submission on particular aspects of DVAs.

Forecasted Group 2 Accounts

The Parties have agreed to disposition of forecasted balances for the below accounts:

- Account 1508 – Other Regulatory Assets, Sub-account Retail Service Charge Incremental Revenue. Forecasted to April 30, 2022
- Account 1508 – Other Regulatory Assets, Sub-account Pole Attachment Revenue Variance. Forecasted to December 31, 2021

OEB staff notes that typically, audited balances are disposed, but there are exceptions to this. For example, in the disposition of retail service charge related variance accounts and the sub-account for Pole Attachment Revenue Variance, the OEB's Filing Requirements indicate that the OEB may consider disposing forecasted amounts up to the effective date of rebased rates.[9]

[7] G-2008-0001, Guideline, Electricity Distribution Retail Transmission Service Rates, June 28, 2012.
[8] Some Group 2 accounts include forecasted balances as noted below
[9] Pages 58 and 71 of the Chapter 2 Filing Requirements for Electricity Distribution Rate Applications – 2021 Edition for 2022 Rate Applications, June 24, 2021

Regarding the Retail Service Charge Incremental Revenue sub-account, Ottawa River Power confirmed that it is able to forecast the balance in the account with reasonable accuracy, and it will discontinue the sub-account effective May 1, 2022.[10] OEB staff's view is that there would be regulatory efficiencies to be gained and less intergenerational inequity by disposing the forecasted balances in these accounts in the current application, rather than waiting for the forecasted balances to be audited and be disposed in Ottawa River Power's next cost of service proceeding (expected for 2027 rates).

Account 1508, Sub-account Pole Attachment Revenue Variance Account

In its pre-filed evidence, Ottawa River Power proposed to dispose of the 2020 Account 1508, Sub-account Pole Attachment Revenue Variance Account credit balance of $125,053, calculated based on the actual revenues Ottawa River Power received. Ottawa River Power noted that it had not updated the pole attachment rates it charged to third parties on a timely basis. In the settlement proposal, the Parties agreed to recalculate the balance in the sub-account to be a credit balance of $252,856, based on the revenues Ottawa River Power should have received in accordance with the applicable OEB decision and orders, and also to include a forecast of the balance up to the end of 2021. In the context of settlement, OEB staff does not object to the updated balance as was agreed upon in the settlement proposal. OEB staff notes that the methodology used to calculate the updated balance represents the amount ratepayers would have received if Ottawa River Power had charged the carriers the appropriate pole attachment charge.

Account 1592, Sub-account CCA Changes

The Parties agreed to Ottawa River Power's revised calculation of the CCA differences (including those pertaining to ICM-funded assets) that are accumulated in Account 1592, Sub-account CCA Changes from 2019 (when Ottawa River Power implemented accelerated CCA) to 2020. The calculated Account 1592 sub-account credit balance of $122,770 as at the 2020 year-end represents the full revenue requirement impact of the application of accelerated CCA on actual capital additions, including interest forecasted to April 30, 2022. The Parties agreed that 100% of the revenue requirement impact is to be refunded to Ottawa River Power's ratepayers. In OEB staff's view, the methodology Ottawa River Power used to calculate the balance in the sub-account (i.e., using actual capital additions each year) is an appropriate option. OEB staff therefore supports the disposition of the sub-account balance.

[10] IRR 9-Staff-60

Account 1555, Sub-account Stranded Meter Costs

In its response to interrogatories, Ottawa River Power proposed to dispose a debit balance of $135,356 in Account 1555 – Smart Meter Capital Recovery Offset Variance Account, Sub-account Stranded Meter Costs. The balance represents a residual amount from a previous disposition of the smart meter account.[11] The Parties have agreed that the account will be withdrawn from disposition. OEB staff has no concerns over the withdrawal and notes that it is to the benefit of ratepayers.

Issue 5.1 – Effective Date

The Parties agreed that an effective date of May 1,2022 is appropriate. Ottawa River Power filed this application on September 30, 2021, one month after the established deadline for May 1 filers.

Ottawa River Power indicated that it could implement new rates effective May 1, 2022 if it receives confirmation of the OEB's acceptance of the settlement proposal on or before May 12, 2022.

OEB staff has no concerns with an effective date of May 1, 2022. In the event that a decision and final rate order cannot be issued in time for May 1, 2022 implementation, OEB staff agrees with the Parties that rates should be made interim as of May 1, 2022 and Ottawa River Power should be permitted to track foregone revenue from the proposed effective date of May 1, 2022 until rates are implemented.

Issue 5.2 – Addition of Previously Approved ICM to Rate Base

In its 2019 incentive rate-setting mechanism proceeding, Ottawa River Power requested and received approval for capital funding, under the OEB's Incremental Capital Module (ICM), in the amount of $1.6 million, to build a new 5 MVA substation in the town of Mississippi Mills.[12] The half-year rule was not applied in determining the approved ICM revenue requirement.[13]

Ottawa River Power completed the construction work and energized this 5 MVA substation in September 2020 instead of in June 2019 as expected when Ottawa River Power filed its ICM application. The actual cost for this ICM project was $2.0 million.

[11] IRR 9-Staff-61
[12] EB-2018-0063, Decision and Rate Order, March 28, 2019.
[13] Page 30 and 31 of the Chapter 3 Filing Requirements for Electricity Distribution Rate Applications – 2021 Edition for 2022 Rate Applications, June 24, 2021.

Ottawa River Power stated that it encountered unforeseen situations during construction, including additional site work required in a geological survey. To manage the actual costs of the project, throughout the construction process, Ottawa River Power ensured that a competitive bidding process was held for each step and aspect of the project.

The Parties agreed that the actual costs proposed for inclusion in rate base are appropriate and will reflect the use of the half-year rule for depreciation in the year the ICM asset was placed into service.

The Parties also agreed to a true-up between the 2020 and 2021 ICM revenue requirements based on actual costs, and the revenues collected from ratepayers during the 2019 to 2021 period. The calculation of the revenue requirements effectively simulates a half-year of revenue requirement for the 2020 rate year and a full year of revenue requirement for the 2021 rate year. Furthermore, the Parties agreed to not reflect the impact of accelerated CCA in the revenue requirement calculation as the related impact has already been reflected in Account 1592 for the 2020 rate year. The revenues collected from ratepayers represent the actual amount recovered from the approved ICM rate riders. The agreed-upon true-up amount is a credit balance of $156,421 to be returned to ratepayers.

OEB staff has no concerns with the proposed approach on this issue. OEB staff notes that the OEB's policy regarding the ICM revenue requirement is to apply the half-year rule only in the final year of the Price Cap IR term.[14] However, in Ottawa River Power's true-up calculation, the half-year rule was effectively applied to the 2020 revenue requirement and not to the 2021 revenue requirement. The true-up considers the actual cost of the ICM project and considers the delay of the in-service date. OEB staff does not take issue with the revenue requirement calculation in the true-up as it accurately represents the revenue requirement for the ICM project as if it was placed in-service in a rebasing year. OEB staff also notes that upon returning the true-up amount to ratepayers, Ottawa River Power would have effectively recovered half a year of depreciation for 2020, which would be aligned with Ottawa River Power's application of the half-year rule for depreciation in the year the ICM asset was placed into service (i.e., 2020).

~All of which is respectfully submitted~

[14] *Ibid.*