

On November 19, 2020, the Ontario Energy Board (OEB) issued a [Decision and Order](#) regarding Hydro Ottawa's [application](#) for approval of its electricity distribution rates to be effective January 1, 2021 to December 31, 2025. The bill impacts resulting from this Decision and Order will be available after the OEB approves a new Rate Order for Hydro Ottawa (see "Next Steps" below).

## Background

Hydro Ottawa filed a five-year Custom Incentive Rate-setting application with the OEB on February 11, 2020.

The 2021 revenue requirement is determined using a cost of service approach. For the remaining years of the term, Hydro Ottawa proposed to set its capital expenditures based on its forecast investment plans supported by its distribution system plan (DSP), and to adjust its Operations, Maintenance and Administration (OM&A) by applying an escalation factor to the previous year's amount.

The OEB issued its [Decision on the Issues List and Procedural Order No. 3](#) on June 22, 2020, and made provision for a technical conference (held July 15-17 and July 21) and a settlement conference (held August 10-14 and August 17). Nearly all hearings for major rate applications include settlement conferences, with many reaching full settlement on all issues. In this case, Hydro Ottawa and the intervenors in the hearing (Parties) came to agreement on all but one issue relating to rate design for larger commercial customers.

The settlement proposal that was filed with the OEB for approval includes three ratepayer protection and accountability mechanisms, included in the table below.

The Parties agreed that Hydro Ottawa's proposals for rate design, as modified in the settlement proposal, were appropriate, except for one unsettled element which related 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 Parties agreed that this matter should proceed to a written hearing.

In its October 2, 2020 [Decision on Settlement Proposal and Procedural Order No.8](#) (PO No.8), the OEB accepted the settlement proposal as filed; advised that further written reasons for accepting the settlement proposal would be provided at a later date; and set dates for OEB staff and Parties' written submissions on the unsettled issue.

The November 19, 2020 Decision and Order sets out the OEB's reasons for accepting the settlement proposal, as well as the OEB's decision on the unsettled issue of rate design for larger commercial customers.

## The OEB's Decision on the Settlement Proposal

As stated in PO No.8, the OEB accepted the settlement proposal as filed. In its November 19, 2020 Decision and Order, the OEB set out its conclusion that the implementation of the settlement proposal should result in reasonable outcomes for both Hydro Ottawa and its customers, and more specifically stated that:

- The estimated rate and bill impacts in each rate class resulting from the settlement proposal would be reasonable.
- The January 1, 2021 effective date of the rates arising from the settlement proposal is appropriate.
- Reductions in Hydro Ottawa's proposed capital additions and OM&A spending, combined with increased ratepayer protection features in the settlement proposal, are reasonable.

- It is encouraged by Hydro Ottawa’s commitment to complete upgrades to its asset condition and prioritization processes as well as to pursue further actions to reduce distribution line losses through cost effective measures over the 2021-2025 plan term.

<b>KEY FEATURES OF THE SETTLEMENT PROPOSAL</b>
<ul style="list-style-type: none"> <li>• <b>Revenue Requirement</b> A reduction of \$5.4 million to Hydro Ottawa’s proposed 2021 base revenue requirement of \$203.9 million.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Operations, Maintenance and Administration</b> A reduction of \$3.3 million in 2021 OM&amp;A, which results in a 2021 base year amount of \$90.6 million.  Application of an adjusted “Custom Price Escalation Factor” to Hydro Ottawa’s proposed 2022-2025 OM&amp;A, which results in a reduction of approximately \$20 million to the revenue requirement proposed by Hydro Ottawa for those years.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>2021-2025 Capital Expenditures</b> A reduction of \$10 million in capital additions over the term of the 2021-2025 rate plan, which results in capital additions of \$555.1 million over the term.  Application of a “Capital Stretch Factor” to the capital-related revenue requirement, which results in a reduction of approximately \$8.6 million to the revenue requirement proposed by Hydro Ottawa for those years.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Performance Outcomes Accountability Mechanism (POAM)</b> The POAM is new and unique. This mechanism contains five performance metrics which are linked to specific outcomes identified in Hydro Ottawa’s DSP. The failure of Hydro Ottawa to achieve the target for a metric in a certain year will result in the utility being required to return to ratepayers a certain amount up to \$200k. The maximum amount Hydro Ottawa would return to ratepayers on an annual basis would be \$1.0 million.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Earnings Sharing Mechanism (ESM)</b> Hydro Ottawa is required to share any over-earnings with ratepayers. Any net over-earnings at the end of the plan term will be shared 50:50 between shareholders and ratepayers</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Capital Variance Account</b> A mechanism to return to ratepayers any underspending on Hydro Ottawa’s planned capital investments</li> </ul>

### **The OEB's Decision on the Unsettled Issue (Issue 7.3)**

The one issue where the Parties did not reach a settlement was rate design for larger commercial customers, specifically those in the General Service (GS) > 50 to 1,499 kW, GS 1,500 to 4,999 kW, and Large Use rate classes. Distribution costs are recovered from those customers through a combination of fixed monthly charges and variable charges that are based on electricity demand. An OEB cost allocation model calculates the fixed/variable split.

Hydro Ottawa proposed to keep the 2021 fixed charges at the 2020 levels and maintain the fixed/variable split for 2022-2025 generally at the 2021 level (without a reduction to fixed charges over the five-year plan term). Other Parties had different positions on this issue.

The OEB found 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 plan term. In years where maintaining the current fixed/variable 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 that lower value.

### **Next Steps**

The OEB has directed Hydro Ottawa to prepare a Draft Rate Order, and to provide bill impact information for all customer classes reflecting the OEB's findings in its Decision and Order as part of the Draft Rate Order. Parties will have an opportunity to comment on the Draft Rate Order, following which the OEB will make its decision on it.

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*This Backgrounder was prepared by OEB staff to inform Ontario's energy consumers about the OEB's decision, and is not for use in legal or regulatory proceedings. It is not part of the OEB's reasons for decision; those may be found in the Decision and Order, which is the official OEB document.*

*Ce document peut être fourni en français sur demande.*