



EB-2011-0193

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 (Schedule B);

AND IN THE MATTER OF an application by Parry Sound Power Corporation for an order or orders approving or fixing just and reasonable distribution rates and other charges, to be effective January 1, 2012.

BEFORE: Karen Taylor
Presiding Member

Paula Conboy
Member

DECISION AND ORDER

Introduction

Parry Sound Power Corporation (“Parry Sound Power”), a licensed distributor of electricity, filed an application with the Ontario Energy Board (the “Board”) on September 29, 2011 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 Parry Sound Power charges for electricity distribution, to be effective January 1, 2012.

Parry Sound Power proposed to defer the disposition of Account 1562 to its next rate application. In its Decision in the EB-2008-0381 Combined PILs proceeding, the Board indicated that each remaining distributor will be expected to apply for final disposition of Account 1562 with its next general rates application, either IRM or cost of service.

In a letter dated October 12, 2011, the Board stated its expectation that Parry Sound Power be in a position to discharge its regulatory obligations, including filing for the disposition of Account 1562 as directed by the Board in the Combined PILs proceeding. However, given that Parry Sound Power is applying for rates effective January 1, 2012, the Board recognized the time constraints for the filing and review of Account 1562 within this 2012 IRM application. The Board decided to process Parry Sound Power's 2012 IRM application but stated its expectation that Parry Sound file an application addressing the disposition of Account 1562 in a stand-alone application to be filed no later than April 1, 2012.

Parry Sound Power is one of 77 electricity distributors in Ontario regulated by the Board. The *Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* (the "IR Report"), issued on July 14, 2008, establishes a three year plan term for 3rd generation incentive regulation mechanism ("IRM") (i.e., rebasing plus three years). In its October 27, 2010 letter regarding the development of a Renewed Regulatory Framework for Electricity ("RRFE"), the Board announced that it was extending the 3rd generation IRM plan until such time as the RRFE policy initiatives have been substantially completed. As part of the plan, Parry Sound Power is one of the electricity distributors that will have its rates adjusted for 2012 on the basis of the IRM process, which provides for a mechanistic and formulaic adjustment to distribution rates and charges between cost of service applications.

To streamline the process for the approval of distribution rates and charges for distributors, the Board issued its IR Report, its *Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* on September 17, 2008 ("Supplemental Report"), and its *Addendum to the Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* on January 28, 2009 (collectively the "Reports"). Among other things, the Reports contain the relevant guidelines for 2012 rate adjustments for distributors applying for distribution rate adjustments pursuant to the IRM process. On June 22, 2011, the Board issued an update to the Chapter 3 of the Board's *Filing Requirements for Transmission and Distribution Applications* (the "Filing Requirements"), which outlines the Filing Requirements for IRM applications based on the policies in the Reports.

Notice of Parry Sound Power's rate application was given through newspaper publication in Parry Sound Power's service area advising interested parties where the rate application could be viewed and advising how they could intervene in the

proceeding or comment on the application. No letters of comment were received. The Notice of Application indicated that intervenors would be eligible for cost awards with respect to Parry Sound Power's proposed revenue-to-cost ratio adjustments. The Vulnerable Energy Consumers Coalition ("VECC") applied and was granted intervenor status in this proceeding. The Board granted VECC eligibility for cost awards in regards to Parry Sound Power's revenue-to-cost ratio matters that go beyond the implementation of previous Board decisions. Board staff also participated in the proceeding. The Board proceeded by way of a written hearing.

In the original application, Parry Sound Power did not include any evidence related to a lost revenue adjustment mechanism ("LRAM") claim. On December 8, 2011, after the record was closed, Parry Sound Power filed new evidence supporting a 2010 LRAM claim in this proceeding.

On December 13, 2011, in its Decision, Interim Rate Order and Procedural Order No. 1, the Board decided to make provision to re-open the public record and allow Parry Sound Power's 2010 LRAM evidence to be heard as part of this application. The Board also determined that VECC is eligible to apply for an award of costs under its *Practice Direction on Cost Awards* in relation to Parry Sound Power's proposed 2010 LRAM claim. The Board also declared Parry Sound Power's currently approved distribution rates interim as of January 1, 2012.

While the Board has considered the entire record in this proceeding, it has made reference only to such evidence as is necessary to provide context to its findings. The following issues are addressed in this Decision and Order:

- Price Cap Index Adjustment;
- Rural or Remote Electricity Rate Protection;
- Retail Transmission Service Rates;
- Revenue-to-Cost Ratio Adjustments;
- Shared Tax Savings;
- Review and Disposition of Group 1 Deferral and Variance Account Balances;
- Review and Disposition of Account 1521: Special Purpose Charge; and
- Review and Disposition of Lost Revenue Adjustment Mechanism.

Price Cap Index Adjustment

Parry Sound Power's rate application was filed on the basis of the Filing Requirements. In fixing new distribution rates and charges for Parry Sound Power, the Board has applied the policies described in the Filing Requirements and the Reports.

As outlined in the Reports, distribution rates under the 3rd Generation IRM are to be adjusted by a price escalator, less a productivity factor (X-factor) of 0.72% and a stretch factor. The Board established Parry Sound Power's utility specific stretch factor of 0.4% in its letter to Licensed Electricity Distributors of December 1, 2011. Chapter 3 of the Filing Requirements states that for those distributors whose rate year has been aligned with their fiscal year, the annual percentage change in the GDP-IPI for the period 2010 Q3 to 2011 Q2 to 2009 Q3 to 2010 Q2 will be used in the final rate application model.

On November 10, 2011, the Board announced a price escalator of 1.7% for those distributors under the 3rd Generation IRM that have a rate year commencing January 1, 2012. The resulting price cap index adjustment is therefore 0.58 %. The final rate model will be adjusted to reflect this price cap index adjustment. The price cap index adjustment applies to distribution rates (fixed and variable charges) uniformly across all customer rate classes.

The price cap index adjustment will not apply to the following components of delivery rates:

- Rate Riders;
- Rate Adders;
- Low Voltage Service Charges;
- Retail Transmission Service Rates;
- Wholesale Market Service Rate;
- Rural or Remote Rate Protection Charge;
- Standard Supply service – Administrative Charge;
- Transformation and Primary Metering Allowances;
- Loss Factors;
- Specific Service Charges;
- MicroFIT Service Charges; and
- Retail Service Charges.

Rural or Remote Electricity Rate Protection

On December 21, 2011, the Board issued a Decision with Reasons and Rate Order (EB-2011-0405) establishing the Rural or Remote Electricity Rate Protection (“RRRP”) benefit and charge for 2012. The Board amended the RRRP charge to be collected by the Independent Electricity System Operator from the current \$0.0013 per kWh to \$0.0011 per kWh effective May 1, 2012. The Tariff of Rates and Charges should reflect the new RRRP charge.

Retail Transmission Service Rates

Electricity distributors are charged the Ontario Uniform Transmission Rates (“UTRs”) at the wholesale level and subsequently pass these charges on to their distribution customers through the Retail Transmission Service Rates (“RTSRs”). Variance accounts are used to capture timing differences and differences in the rate that a distributor pays for wholesale transmission service compared to the retail rate that the distributor is authorized to charge when billing its customers (i.e. variance accounts 1584 and 1586).

On June 22, 2011 the Board issued revision 3.0 of the *Guideline G-2008-0001 - Electricity Distribution Retail Transmission Service Rates* (the “RTSR Guideline”). The RTSR Guideline outlines the information that the Board requires electricity distributors to file to adjust their RTSRs for 2012. The RTSR Guideline requires electricity distributors to adjust their RTSRs based on a comparison of historical transmission costs adjusted for the new UTR levels and the revenues generated under existing RTSRs. The objective of resetting the rates is to minimize the prospective balances in Accounts 1584 and 1586. In order to assist electricity distributors in the calculation of the distributors’ specific RTSRs, Board staff provided a filing module.

On December 20, 2011 the Board issued its Rate Order for Hydro One Transmission (EB-2011-0268) which adjusted the UTRs effective January 1, 2012, as shown in the following table.

Uniform Transmission Rates	Jan 1, 2012
Network Service Rate	\$3.57
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.80
Transformation Connection Service Rate	\$1.86

The Board finds that these 2012 UTRs are to be incorporated into the filing module accompanying Parry Sound Power's application.

Parry Sound Power proposed to use a loss factor of 1.0586 based on the 2010 calendar year rather using the loss factor of 1.0809 approved by the Board in its 2011 cost of service application. In response to Board staff interrogatory #3b, Parry Sound Power noted that since the billing determinants used in the filing module were from 2010, it seemed reasonable that the loss factor also be for 2010.

Board staff submitted that the purpose of the filing module is to attempt to align a distributor's wholesale electricity costs with the charges recovered from customers. Board staff further submitted that the most recent Board approved loss factor should be used since it should be a better predictor of the wholesale costs and therefore a better proxy to re-calibrate RTSRs.

In its Reply Submission, Parry Sound Power agreed to use the most recent Board approved loss factor to re-calibrate the RTSRs.

Based on the filing module provided by Board staff, the Board will approve the RTSRs calculated by using UTRs effective January 1, 2012 and the last Board approved loss factor of 1.0809.

Revenue-to-Cost Ratio Adjustments

Revenue-to-cost ratios measure the relationship between the revenues expected from a class of customers and the level of costs allocated to that class. The Board has established target ratio ranges (the "Target Ranges") for Ontario electricity distributors in its report *Application of Cost Allocation for Electricity Distributors*, dated November 28, 2007 and in its updated report *Review of Electricity Distribution Cost Allocation Policy*, dated March 31, 2011.

The Board's decision in Parry Sound Power's 2011 cost of service rate application (EB-2010-0140) prescribed a phase-in period to adjust the revenue-to-cost ratio for the Street Lighting rate class to 35% in 2011, 52% in 2012 and 70% in 2013. The additional revenues from these adjustments would be used to reduce the revenue-to-cost ratio of the General Service 50 to 4,999 kW rate class.

In Parry Sound Power's original filing, the transformer ownership allowance was input as a negative value, which resulted in a higher volumetric distribution rate for the General Service 50 to 4,999 kW rate class, instead of a lower value. In response to Board staff interrogatory #6 and VECC interrogatory #1, Parry Sound Power changed the transformer ownership allowance from a negative to a positive value.

Both Board staff and VECC submitted that the revised revenue-to-cost ratio adjustments are in accordance with the Board's EB-2010-0140 decision.

The Board agrees that the amended revenue-to-cost ratios are consistent with the EB-2010-0140 decision and order.

Shared Tax Savings

In its September 17, 2008 *Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* ("Supplemental Report"), the Board determined that a 50/50 sharing of the impact of currently known legislated tax changes, as applied to the tax level reflected in the Board-approved base rates for a distributor, is appropriate.

The calculated annual tax reduction over the IRM plan term will be allocated to customer rate classes on the basis of the Board-approved base-year distribution revenue. These amounts will be refunded to customer each year of the plan term, over a 12-monthly period, through a volumetric rate rider using annualized consumption by customer class underlying the Board-approved base rates.

Parry Sound Power's application originally included a tax sharing credit of \$568. In response to Board staff interrogatories #2, Parry Sound Power corrected the regulatory taxable income used to calculate the savings, and updated this amount to a credit of

\$481. Parry Sound Power requested that the Board authorize this amount to be recorded in Account 1595 for disposition in a future application given that the amount is not material.

The Board agrees with Parry Sound Power's request and directs Parry Sound Power to record the tax sharing refund of \$481 in variance Account 1595 by June 30, 2012 for disposition at a future date.

Review and Disposition of Group 1 Deferral and Variance Accounts

The *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Report* (the "EDDVAR Report") provides that, during the IRM plan term, the distributor's Group 1 account balances will be reviewed and disposed if the preset disposition threshold of \$0.001 per kWh (debit or credit) is exceeded. The onus is on the distributor to justify why any account balance in excess of the threshold should not be disposed of.

Parry Sound Power's Group 1 balances as at December 31, 2010, with carrying charges projected to December 31, 2011 is a debit of \$120,600. Parry Sound Power proposed to dispose of the balances over a one-year period.

In its submission, Board staff noted that the principal amounts to be disposed of as of December 31, 2010 reconcile with the amounts reported as part of the Reporting and Record-keeping Requirements. Board staff therefore submitted that the amounts should be disposed of on a final basis. Board staff further submitted that the Parry Sound Power's proposal for a one-year disposition period is in accordance with the EDDVAR Report.

The Board approves the disposition, on a final basis, of the principal balance of Group 1 account balances as of December 31, 2010, plus carrying charges to December 31, 2011. This amounts to a debit of \$120,600. The Board also approves Parry Sound Power's request to dispose of its Group 1 Deferral and Variance Account balances over a one-year period.

Review and Disposition of Account 1521: Special Purpose Charge

The Board authorized Account 1521, Special Purpose Charge Assessment (“SPC”) Variance Account in accordance with Section 8 of *Ontario Regulation 66/10 (Assessments for Ministry of Energy and Infrastructure Conservation and Renewable Energy Program Costs)* (the “SPC Regulation”). Accordingly, any difference between (a) the amount remitted to the Minister of Finance for the distributor’s SPC assessment; and (b) the amounts recovered from customers on account of the assessment were to be recorded in “Sub-account 2010 SPC Assessment Variance” of Account 1521.

In accordance with Section 8 of the SPC Regulation, distributors were required to apply no later than April 15, 2012 for an order authorizing the disposition of any residual balance in sub-account 2010 SPC Assessment Variance. Chapter 3 of the Filing Requirements states the Board’s expectation that requests for disposition of this account balance would be heard as part of the proceedings to set rates for the 2012 year.

In its Manager’s Summary, Parry Sound Power indicated a receivable balance of \$18,669 in Account 1521 as of December 31, 2010 and stated that the full recovery of the SPC assessment had not been completed as of that date. Therefore, Parry Sound Power did not request the disposition of this account in this application.

In response to Board staff interrogatory #10, Parry Sound Power provided a table depicting the principal balance of Account 1521 as of December 31, 2010, the amount recovered from customers in 2011, plus projected carrying charges as of December 31, 2011. This total balance is a debit of \$575. Parry Sound Power requested that the Board approve to record the \$575 in Account 1595 for disposition in a future rate application.

Board staff submitted that despite the usual practice, the Board should authorize the disposition of Account 1521 as of December 31, 2010, including carrying charges, plus the amount recovered from customers in 2011, including carrying charges, because the account balance does not require a prudence review, and electricity distributors are required by regulation to apply for disposition of this account.

In its Reply Submission, Parry Sound Power agreed with Board staff that Account 1521 should be disposed of as of December 31, 2010, plus the amount recovered from customers in 2011, including carrying charges as of December 31, 2011 for a total debit balance of \$575.

The Board approves, on a final basis, the disposition of Account 1521 as of December 30, 2010 including carrying charges plus the amounts recovered in 2011, plus carrying charges to December 31, 2011, for a total of \$575. Consistent with the Board's findings on the disposition of Group 1 account balances, the Board approves a disposition period of one year. The Board directs that Account 1521 be closed effective January 1, 2012.

Review and Disposition of Lost Revenue Adjustment Mechanism

As mentioned in the introduction of this Decision and Order, Parry Sound Power did not request any LRAM recoveries in its original Application.

However, on December 8, 2011, Parry Sound Power filed evidence supporting its 2010 LRAM claim of \$50,034 to be recovered over a one-year period. The 2010 LRAM amount includes persisting lost revenues in 2010 from Conservation and Demand Management ("CDM") programs implemented from 2005 to 2009 and lost revenues from 2010 CDM programs. Parry Sound Power also requested approval of 2011 LRAM amount which is comprised of persistence of 2005 to 2010 CDM programs in 2011.

Board staff submitted that it does not support the recovery of the requested persisting lost revenues from 2005 to 2010 CDM programs in 2011 as these amounts should have been built into Parry Sound Power's last Board approved load forecast. VECC also submitted that energy savings from the impact of Third Tranche CDM programs implemented from 2005 to 2008 and OPA CDM programs implemented from 2006 to 2010 are not accruable in 2011 as savings should have been incorporated in the last load forecast at the time of rebasing.

Board staff and VECC both supported the lost revenues requested by Parry Sound Power in 2010 from the impact of Third Tranche CDM programs implemented from 2005 to 2008 and OPA CDM programs implemented from 2006 to 2010 since these lost revenues occurred during an IRM year and Parry Sound Power did not seek prior recovery of these amounts. Board staff and VECC submitted that the associated LRAM

claim of \$23,410.75 should be approved by the Board. Board staff requested that Parry Sound Power provide the associated rate riders in its reply submission.

In its reply submission, Parry Sound Power agreed that the LRAM amount pertaining to 2010 is \$23,410.75. Parry Sound Power also submitted that since its 2011 rates did not become effective until June 1, 2011, an additional amount for the January to June 1, 2011 of \$11,093.12 should be approved for recovery. Parry Sound Power also provided the rate riders associated with the total revised claim of \$34,503.87.

The Board will approve an LRAM recovery of \$23,410.75, which represents lost revenues in 2010 from 2010 programs and persistence from 2005 to 2009 CDM programs in 2010, as Parry Sound Power was under an IRM regime for this time. The Board will also approve a one-year disposition period.

The Board does not approve the LRAM claim for an additional \$11,093.12 as evidence was only introduced in Parry Sound Power's reply submission and therefore was not tested in this proceeding.

IMPLEMENTATION

The Board has determined that the new rates will be effective January 1, 2012 with an implementation date of March 1, 2012. The Board notes that Parry Sound Power should true up for the difference between the Board's final rates and interim rates for the months of January and February 2012 and directs Parry Sound Power to calculate the rate riders, using a 10 month term, to be applied over the March 1 to December 31, 2012 period. The Board also directs that the rate riders for the disposition of Group 1 account balances, Account 1521, and LRAM rate riders approved in this Decision and Order reflect a March 1, 2012 implementation date.

The Board has made findings in this Decision which change the 2012 distribution rates from those proposed by Parry Sound Power. The Board expects Parry Sound Power to file detailed supporting material, including all relevant calculations, in a Microsoft Excel format, showing the impact of this Decision on Parry Sound Power's determination of the final rates. Supporting documentation shall include, but not be limited to, filing a completed version of the 2012 IRM Rate Generator model including the revised LRAM rate riders, and the rate riders to true up the difference between final rates and interim rates for the months of January and February 2012 for the period of January 1, 2012 to

the implementation date of March 1, 2012 over a 10 month period. Parry Sound Power is directed to calculate class specific rate riders that will recover from customers the two month stub period amount over a period of 10 months, from March 1, 2012 to December 31, 2012. Detailed calculations of these rate riders shall be submitted in its draft Rate Order.

The current interim rates shall remain in effect until the Board issues the Rate Order.

THE BOARD ORDERS THAT:

1. Parry Sound Power shall file with the Board, and shall also forward to VECC, revised models and supporting documentation in Microsoft Excel format, and a draft Tariff of Rates and Charges reflecting the Board's findings in this Decision within **7 days** of the date of the issuance of this Decision.
2. Board staff and VECC shall file any comments on the draft Rate Order with the revised models and proposed Tariff of Rates and Charges with the Board and forward to Parry Sound Power within **7 days** of the date of filing of the draft Rate Order.
3. Parry Sound Power shall file with the Board and forward to Board staff and VECC responses to any comments on its draft Rate Order within **7 days** of the date of receipt of Board staff and VECC comments.

Cost Awards

The Board will issue a separate decision on cost awards once the following steps are completed:

1. VECC shall submit its cost claims no later than **7 days** from the date of issuance of the final Rate Order.
2. Parry Sound Power shall file with the Board and forward to VECC any objections to the claimed costs within **21 days** from the date of issuance of the final Rate Order.
3. VECC shall file with the Board and forward to Parry Sound Power any responses to any objections for cost claims within **28 days** from the date of issuance of the final Rate Order.

4. Parry Sound Power shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

All filings to the Board must quote file number **EB-2011-0193**, be made through the Board's web portal at, www.errr.ontarioenergyboard.ca and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.ontarioenergyboard.ca. If the web portal is not available parties may email their document to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file two paper copies.

DATED at Toronto, February 6, 2012

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary