



**EB-2013-0152**

**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 Milton Hydro  
Distribution Inc. for an order approving just and  
reasonable rates and other charges for electricity  
distribution to be effective May 1, 2014.

**BEFORE:** Marika Hare  
Presiding Member

Allison Duff  
Member

## **DECISION and ORDER**

**March 13, 2014**

Milton Hydro Distribution Inc. ("Milton Hydro") filed an application with the Ontario Energy Board (the "Board") on October 4, 2013 under section 78 of the Act, seeking approval for changes to the rates that Milton Hydro charges for electricity distribution, effective May 1, 2014 (the "Application").

The Application met the Board's requirements as detailed in the *Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* (the "RRFE Report") dated October 18, 2012 and the *Filing Requirements for Electricity Distribution Rate Applications* (the "Filing Requirements") dated July 17, 2013. Milton Hydro selected the Price Cap Incentive Rate-Setting ("Price Cap IR") option to adjust its 2014 rates. The Price Cap IR methodology provides for a mechanistic and formulaic adjustment to distribution rates and charges in the period between cost of service applications. Milton Hydro last appeared before the Board with

a full cost of service application for the 2011 rate year in the EB-2010-0137 proceeding. In this proceeding, Milton Hydro also seeks approval for a multi-year adjustment of its minimum distribution charge for seasonal GS>50 customers.

The Board conducted a written hearing and Board staff participated in the proceeding. Milton Hydro received an intervenor request from Ms. Brigitta Tarsoly, which was subsequently withdrawn. No letters of comment were received.

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 Charge;
- Shared Tax Savings Adjustments;
- Retail Transmission Service Rates;
- Review and Disposition of Group 1 Deferral and Variance Account Balances; and
- Proposed Minimum Distribution Charge.

### **Price Cap Index Adjustment**

The Board issued the *Report on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors* (the "Price Cap IR Report") which provides the 2014 rate adjustment parameters for distribution companies selecting either the Price Cap IR or Annual IR Index option.

Distribution rates under the Price Cap IR option are adjusted by an inflation factor, less a productivity factor and a stretch factor. The inflation factor for 2014 rates is 1.7%. Based on the total cost benchmarking model developed by Pacific Economics Group Research, LLC, the Board determined that the appropriate value for the productivity factor is zero percent. The Board also determined that the stretch factor can range from 0.0% to 0.6% for distributors selecting the Price Cap IR option, assigned based on a distributor's cost evaluation ranking. In the Price Cap IR Report, the Board assigned Milton Hydro a stretch factor of 0.3%.

As a result, the net price cap index adjustment for Milton Hydro is 1.40% (i.e. 1.7% - (0% + 0.3%)). The price cap index adjustment applies to distribution rates (fixed and

variable charges) uniformly across all customer classes. The price cap index adjustment does not apply to the components of delivery rates set out in the list below.

- 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 Charge; and
- Retail Service Charges.

### **Rural or Remote Electricity Rate Protection Charge**

The Board issued a Decision and Rate Order (EB-2013-0396) establishing the Rural or Remote Electricity Rate Protection (“RRRP”) benefit and charge for 2014. The Board determined that the RRRP charge to be paid by all rate-regulated distributors and collected by the Independent Electricity System Operator (“IESO”) shall be increased to \$0.0013 per kWh effective May 1, 2014, from the current \$0.0012 per kWh. The draft Tariff of Rates and Charges flowing from this Decision and Order reflects the new RRRP charge.

### **Shared Tax Savings Adjustments**

In its *Supplemental Report of the Board on 3<sup>rd</sup> Generation Incentive Regulation for Ontario’s Electricity Distributors*, the Board determined that a 50/50 sharing of the impact of legislated tax changes between shareholders and ratepayers is appropriate.

The tax reduction will be allocated to customer rate classes on the basis of the last Board-approved cost of service distribution revenue.

The Application originally included a tax sharing credit of \$50,261. In response to Board staff interrogatory #3, Milton Hydro corrected the regulatory taxable income used to

calculate the savings, and updated this amount to a credit of \$52,389.

The Board approves the disposition of the shared tax savings of \$26,195 over a one-year period from May 1, 2014 to April 30, 2015 and the associated rate riders for all customer rate classes.

### **Retail Transmission Service Rates**

Electricity distributors are charged for transmission costs at the wholesale level and then pass on these charges to their distribution customers through the Retail Transmission Service Rates (“RTSRs”). Variance accounts are used to capture 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).

The Board issued revision 3.0 of the *Guideline G-2008-0001 - Electricity Distribution Retail Transmission Service Rates* (the “RTSR Guideline”) which outlines the information that requires electricity distributors to file to adjust their RTSRs for 2014. The RTSR Guideline requires electricity distributors to adjust their RTSRs based on a comparison of historical transmission costs adjusted for the new Uniform Transmission Rates (“UTR”) levels and the revenues generated under existing RTSRs. Similarly, embedded distributors must adjust their RTSRs to reflect any changes to the applicable Sub-Transmission RTSRs of their host distributor(s), e.g. Hydro One Networks Inc.

Milton Hydro is a partially embedded distributor.

The Board issued its Rate Order for Hydro One Transmission (EB-2012-0031) which adjusted the UTRs effective January 1, 2014, as shown in the following table:

#### **2014 Uniform Transmission Rates**

Network Service Rate	\$3.82 per kW
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.82 per kW
Transformation Connection Service Rate	\$1.98 per kW

The Board also approved new rates for Hydro One’s Sub-Transmission class, including the applicable RTSRs effective January 1, 2014 (EB-2013-0141), as shown in the

following table.

**2014 Sub-Transmission RTSRs**

Network Service Rate	\$3.23 per kW
Connection Service Rates	
Line Connection Service Rate	\$0.65 per kW
Transformation Connection Service Rate	\$1.62 per kW

The Board finds that these 2014 UTRs and any Sub-Transmission class RTSRs applicable to Milton Hydro's distribution system are to be incorporated into the filing module.

The Board is aware that in a parallel proceeding<sup>1</sup> another host distributor is applying for an embedded distributor rate, the approval of which would result in charges to Milton Hydro. The Board finds that in the event of such a decision by the Board in the parallel proceeding, Milton Hydro shall record these charges in the applicable deferral accounts as of the date on which any applicable rate order became effective.

**Review and Disposition of Group 1 Deferral and Variance Account Balances**

The *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative* 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.

Milton Hydro's 2012 actual year-end total balance for Group 1 accounts including interest projected to April 30, 2014 is a credit of (\$323,529). This amount results in a total credit claim of \$0.0004 per kWh, which does not exceed the preset disposition threshold. Milton Hydro did not seek disposition of balances in its application.

As per the Board's policy, no disposition is required at this time.

<sup>1</sup> Oakville Hydro Electricity Distribution Inc. 2014 Cost of Service Application (EB-2013-0159)

## Minimum Distribution Charge

As part of Milton Hydro's 2011 Cost of Service Application, the Board approved a Minimum Distribution Charge that is charged to two seasonal GS>50 kW customers during their off-season. The rate is applied to the amount of maximum demand (kW) in the previous eleven months. Milton Hydro noted that this charge was not adjusted for the IRM price cap adjustment (0.88% and 0.48%) for the 2012 and 2013 rate year and has not been reflected in the Board's Rate Generator model. Therefore, as part of this Application, Milton Hydro is requesting a compounded price cap adjustment to incorporate the 2012, 2013 and the updated 2014 rate increases as follows:

<b>Minimum Distribution Charge per kW of maximum billing demand in the previous 11 months</b>			
	% IRM Inc.		
2011 Approved Cost of Service Rate		\$/kW	0.5713
2012 IRM increase	0.88%		0.0050
2013 IRM increase	0.48%		0.0027
2012 & 2013 IRM increase			0.0077
Updated Minimum Distribution Charge			0.5790
2014 IRM increase - Report of the Board	1.40%		0.0081
<b>2014 Proposed Minimum Distribution Charge</b>		<b>\$/kW</b>	<b>0.5871</b>

The overall impact for one customer would be \$105.84 ( $\$0.0077 \times 2,291\text{kW} \times 6 \text{ months}$ ) and \$1.50 ( $0.0077 \times 64.33 \text{ kW} \times 3 \text{ months}$ ) for the other customer over the 2014 rate year.

Board staff submitted that it is ultimately the distributor's responsibility to ensure that any models filed in support of an application reflect all of its charges. Board staff further submitted the Board should only adjust 2014 distribution rates by the 2014 price cap

adjustment, and that the Board should not amend this year's price cap adjustment to account for those increases which Milton Hydro neglected to apply for in the past two years.

Board staff also noted that the impact of the 2012 and 2013 price cap adjustment on the revenue requirement for the 2014 rate year is immaterial and the impact to consumers is not significant.

However, Board staff noted that the aggregate price cap adjustment, shown in the table above, is requested to be applied on a going forward basis and therefore does not raise any issue of retroactive payments by customers. Board staff stated that if the Board sees merit in aligning Milton's Minimum Distribution Charge with its kW variable distribution charge, the Board could approve a higher price cap adjustment for those classes so that charges will be the same again.

In response, Milton Hydro concurred with Board staff on immateriality and impact on its two customers, as well as the alignment between the Minimum Distribution Charge with the other GS>50 kW variable distribution charges. Furthermore, Milton Hydro submitted that it had not caught the missing Minimum Distribution Charge in the 2012 and 2013 rate years and subsequently did not advise Board staff to adapt the Rate Generator model, which was Milton Hydro's responsibility. Nevertheless, Milton Hydro submitted that the proposed Minimum Distribution Charge is not unreasonable and requested Board approval for Minimum Distribution Charge of \$0.5871, effective May 1, 2014.

The Board approves Milton Hydro's proposal to amend the Minimum Distribution Charge in 2014 effective May 1, 2014. Milton Hydro's rates for 2012 and 2013 were issued on a final basis. The revenue associated with the planned increases to the Minimum Distribution Charge in 2012 and 2013 is foregone. However, the rate for 2014 will be adjusted on a compounded basis, consistent with the Board's intentions in the EB-2010-0137 Decision. The Board notes that the rate adjustment requested by Milton Hydro in its application is based on the sum of the individual rate adjustments for the 2012 and 2013 rate years. The Board orders Milton Hydro to provide a draft rate order that includes a Minimum Distribution Charge for 2014 that has been calculated through annually compounded adjustments of 2011 approved base rates.

## IMPLEMENTATION

The Board has made findings in this Decision and Order which change the 2014 distribution rates from those proposed by Milton Hydro.

The Board expects Milton Hydro to file a draft Rate Order, including a proposed Tariff of Rates and Charges and all relevant calculations showing the impact of this Decision and Rate Order on Milton Hydro's determination of the final rates. Supporting documentation shall include, but not be limited to, filing a completed version of the 2014 IRM Rate Generator model, RTSR model including all applicable RTSRs, Tax sharing model and a calculation showing the Minimum Distribution Charge for Milton Hydro's seasonal customers on a compounded basis.

A Rate Order will be issued after the steps set out below are completed.

### THE BOARD ORDERS THAT:

1. Milton Hydro shall file with the Board, and shall also forward to intervenors, a draft Rate Order that includes revised models in Microsoft Excel format and a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision by **March 20, 2014**.
2. Board staff shall file any comments on the draft Rate Order including the revised models and proposed rates with the Board and forward to Milton Hydro within **7 days** of the date of filing of the draft Rate Order.
3. Milton Hydro shall file with the Board responses to any comments on its draft Rate Order including the revised models and proposed rates within **4 days** of the date of receipt of comments.

All filings to the Board must quote file number **EB-2013-0152**, be made through the Board's web portal at <https://www.pes.ontarioenergyboard.ca/eservice/> 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](http://www.ontarioenergyboard.ca). If the web portal is not available parties may email their document to [BoardSec@ontarioenergyboard.ca](mailto:BoardSec@ontarioenergyboard.ca). 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 2 paper copies.

**DATED** at Toronto, March 13, 2014

**ONTARIO ENERGY BOARD**

*Original signed by*

Kirsten Walli  
Board Secretary