



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

DECISION AND ORDER

EB-2017-0050

HYDRO ONE NETWORKS INC.

Application for rates and other charges to be effective May 1, 2018 for the former service areas of Haldimand County Hydro Inc., Norfolk Power Distribution Inc. and Woodstock Hydro Services Inc.

By Delegation, Before: Theodore Antonopoulos

[date]

1 INTRODUCTION AND SUMMARY

Through this Decision and Order, the Ontario Energy Board (OEB) approves certain elements of the distribution rate application filed by Hydro One Networks Inc. (Hydro One Networks) on August 14, 2017, as amended during the course of the proceeding. The application relates to the rates requested by Hydro One Networks for the areas formerly served by Haldimand County Hydro Inc. (Haldimand County Hydro), Norfolk Power Distribution Inc. (Norfolk Power) and Woodstock Hydro Services Inc. (Woodstock Hydro)

The former Haldimand County Hydro served about 21,400 electricity customers within the municipal boundary of Haldimand County. In the EB-2014-0244 proceeding, the OEB approved the acquisition of Haldimand County Hydro by, and the transfer of Haldimand County Hydro's distribution system to, Hydro One Networks. In that proceeding, the OEB accepted Hydro One Networks' proposal to defer the rebasing of the consolidated entity for a five-year period, i.e. until 2020 rates.

The former Norfolk Power served about 19,000 electricity customers in the towns of Simcoe, Port Dover, Delhi, Waterford, the village of Port Rowan, and the Townsend and Woodhouse townships. In the EB-2013-0187 proceeding, the OEB approved the acquisition of Norfolk Power by, and the transfer of Norfolk Power's distribution system to, Hydro One Networks. In that proceeding, the OEB accepted Hydro One Networks' proposal to defer the rebasing of the consolidated entity for a five-year period, i.e. until 2020 rates.

The former Woodstock Hydro served about 16,000 electricity customers within the City of Woodstock. In the EB-2014-0213 proceeding, the OEB approved the acquisition of Woodstock Hydro by, and the transfer of Woodstock Hydro's distribution system to, Hydro One Networks. In that proceeding, the OEB accepted Hydro One Networks' proposal to defer the rebasing of the consolidated entity for a five-year period, i.e. until 2020 rates.

Residential distribution service rates currently include a fixed monthly charge and a variable usage charge. In 2015, the OEB issued a policy to transition these rates to a fully fixed structure over a number of years beginning in 2016. Accordingly, the fixed monthly charge for 2018 has once again been adjusted upward in this Decision by more than the mechanistic adjustment alone. The variable usage rate is commensurately lower. This policy change does not affect the total revenue distributors collect from residential customers.

Hydro One Networks appeared before the OEB with three distinct applications to implement the OEB's new distribution rate design policy for the Residential customer class for these former service areas for 2016.¹ In the OEB's decision on each of those applications, the OEB determined that Hydro One Networks must apply annually to update its rates not only to implement the gradual transition to the new residential distribution rate design structure, but also to implement changes in pass-through charges. Pass-through charges for this proceeding include the update to Regulatory Charges, Retail Transmission Service Rates and the review of Group 1 Deferral and Variance Account balances.

In accordance with the 2016 OEB decision, Hydro One Networks filed the second year of the rate design transition for the three former service areas in 2017.²

This application represents Hydro One Networks' third-year of the distribution rate design change for residential customers for the former service areas to be effective May 1, 2018, in addition to updating Retail Service Transmission Rates and disposing of Group 1 deferral and variance account balances.

2 THE PROCESS

This Decision is being issued by delegated authority, without a hearing, under section 6 of the *Ontario Energy Board Act, 1998* (the OEB Act).

The OEB follows a standardized and streamlined process for IRM applications filed under Price Cap IR. This process also applies to applications solely implementing the mandated rate design transition, and other pass-through charges as well. In each adjustment year, the OEB prepares a Rate Generator Model that includes information from the distributor's past proceedings and annual reporting requirements. A distributor will then review and complete the Rate Generator Model and include it with its application. During the course of the proceeding, the Rate Generator Model will also be updated or corrected, as required.

The Rate Generator Model updates base rates, retail transmission service rates and, if applicable, shared tax saving adjustments. It also calculates rate riders for the disposition of deferral and variance account balances.

¹ EB-2015-0259 for Haldimand County Hydro, EB-2015-0269 for Norfolk Power, and EB-2015-0271 for Woodstock Hydro

² EB-2016-0082

Hydro One Networks filed its application on August 14, 2017, under section 78 of the OEB Act and in accordance with the Filing Requirements. Hydro One Networks supported its application with written evidence and a completed rate model. Questions were asked of, and answers were provided by, Hydro One Networks through emails and phone calls with the OEB. Based on this information, a decision was drafted and provided to Hydro One Networks on March 12, 2018. Hydro One Networks was given the opportunity to provide its comments on the draft for consideration prior to the OEB issuing this Decision.

3 ORGANIZATION OF THE DECISION

In this Decision, the OEB addresses the following issues, and provides reasons for approving or denying Hydro One Networks' proposals relating to each of them:

- Retail Transmission Service Rates
- Group 1 Deferral and Variance Accounts
- Residential Rate Design

In the final section, the OEB addresses the steps to implement the final rates that flow from this Decision.

4 RETAIL TRANSMISSION SERVICE RATES

Distributors charge retail transmission service rates (RTSRs) to their customers to recover the amounts they pay to a transmitter, a host distributor or both for transmission services. All transmitters charge Uniform Transmission Rates (UTRs) approved by the OEB to distributors connected to the transmission system. Host distributors charge host-RTSRs to distributors embedded within the host's distribution system.

The former Haldimand County Hydro and Norfolk Power service areas are partially embedded within Hydro One Networks' distribution system. Hydro One Networks is requesting approval to adjust the RTSRs that it charges its customers in the former service areas to reflect the rates that it pays for transmission services included in Table 4.1 and Table 4.2.

The former Woodstock Hydro service is transmission connected. Hydro One Networks is requesting approval to adjust the RTSRs that it charges its customers in the former

Woodstock Hydro service area to reflect the rates that it pays for transmission services included in Table 4.1.

Table 4.1: UTRs³

Current Approved UTRs (2018)	per kWh
Network Service Rate	\$3.61
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.95
Transformation Connection Service Rate	\$2.34

Table 4.2: Hydro One Networks Inc. Sub-Transmission Host-RTSRs⁴

Current Approved Sub-Transmission Host-RTSRs (2017)	per kWh
Network Service Rate	\$3.19
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.77
Transformation Connection Service Rate	\$1.75

Hydro One Networks settles transmission charges on an overall basis and cannot provide the associated transmission demand details separately by rate zone. Therefore, Hydro One Networks proposes to update the RTSRs by using the latest UTRs and HONI sub-transmission rates while using the IESO billing information and billing quantities as per the most recent distribution rates applications filed with the OEB by the three acquired utilities until all customers are fully transitioned to Hydro One Networks' rate structure.⁵ A proposal similar to this was approved by the OEB in Hydro One Networks' 2017 application for the three acquired utilities.⁶

³ Decision and Rate Order, EB-2017-0359, February 1, 2018

⁴ Decision and Rate Order, EB-2016-0081, December 21, 2016

⁵ Haldimand County Hydro, 2014 RTSR Workform, EB-2013-0134, Norfolk Power, 2013 RTSR Workform, EB-2012-0151, Woodstock Hydro, 2014 RTSR Workform, EB-2013-0182

⁶ EB-2016-0082

Findings

Hydro One Networks' proposed adjustment to its RTSRs for the three former service areas is approved. The RTSRs were adjusted based on the current UTRs and current host-RTSRs. The OEB finds that these 2018 UTRs and 2017 host-RTSRs are to be incorporated into the rate model to adjust the RTSRs that Hydro One Networks will charge its customers accordingly.

The differences resulting from the approval of new 2018 RTSRs will be captured in Accounts 1584 and 1586 for future disposition.

5 GROUP 1 DEFERRAL AND VARIANCE ACCOUNTS

In each year of an IRM term, the OEB will review a distributor's Group 1 deferral and variance accounts in order to determine whether their balance should be disposed.⁷ OEB policy requires that Group 1 accounts be disposed if they exceed (as a debit or credit) a pre-set disposition threshold of \$0.001 per kWh, unless a distributor justifies why balances should not be disposed.⁸ If the balance does not exceed the threshold, a distributor may elect to request disposition.

Hydro One Networks is seeking disposition of Group 1 balances for the three acquired utilities for the following years:

- Haldimand County Hydro – January 1, 2016 to December 31, 2016
- Woodstock Hydro – January 1, 2013 to December 31, 2016
- Norfolk Power – January 1, 2012 to December 31, 2016

As of 2016, each of the former service areas' billing system and wholesale settlement process has been fully integrated with that of Hydro One Networks and therefore Hydro One Networks receives one consolidated invoice from the IESO for settlement of commodity, bulk transmission and wholesale settlement costs across all of its service

⁷ Group 1 accounts track the differences between the costs that a distributor is billed for certain IESO and host distributor services (including the cost of power) and the associated revenues that the distributor receives from its customers for these services. The total net difference between these costs and revenues is disposed to customers through a temporary charge or credit known as a rate rider.

⁸ Report of the OEB - "Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)", EB-2008-0046, July 31, 2009

areas. In addition, certain host and embedded distributor transactions were also eliminated after integration as Hydro One Networks become one consolidated entity⁹.

Because of this, the deferral and variance account balances sought for disposition in the current application include actual transactions attributable to each acquired utility from periods prior to operational integration, as well as, some transactions that are allocated following operational integration. Hydro One Networks developed an approach in order to assign those remaining balances for Group 1 accounts to each service area.

The proposed methodology includes the following:

- i. Using a flag in the billing system, actual billed revenues and estimated billed amounts from each relevant charge (e.g. RTSR – Network rate rider) are tracked separately by Hydro One Networks in the billing system, separated by acquired utility.
- ii. Total IESO invoiced costs are allocated to each acquired utility using a percentage based off of appropriate historical data. For example, account 1588 RSVA – Power costs are assigned based on the proportion of historical wholesale purchased consumption at the stations serving each acquired utility over the last 3 historical years.
- iii. The resulting variance for each account is calculated by subtracting the allocated costs described in (ii) from the actual revenues in (i), above.¹⁰

OEB staff asked numerous questions to Hydro One Networks about certain balances in the Group 1 deferral and variance accounts for the acquired utilities given the proposed allocation methodology. The focus of the questions was, for certain accounts (specifically, the commodity accounts), in which the principal transactions in the year of integration with Hydro One Networks are substantially higher than in prior years. Questions focussed on a potential misallocation of debits and credits between accounts. Hydro One Networks noted that it has conducted a rigorous review and found no misallocation of debits or credits charged to any commodity accounts following the period of integration¹¹. Further, the allocation method is based on the best available information that Hydro One Networks has to determine each acquired utility's variance balances.

Given the large balances specifically in Accounts 1588 - Power and 1589 – Global Adjustment (GA) for Norfolk Power and Account 1588 for Woodstock Hydro, OEB staff

⁹ EB-2017-0050, 2018 Rate Application, Page 16

¹⁰ EB-2017-0050, Application, Pages 16-17

¹¹ EB-2017-0050, Responses to OEB Staff Analysis, Page 1, February 6, 2018

questioned whether Hydro One Networks considered deferring its request for disposition of the Group 1 accounts for each respective acquired utility, to a later date, in order to utilize the necessary time and resources to better assess the reasonability of the account balances.

In its response, Hydro One Networks noted that, given the amount of time that has passed since each of the acquired utilities last disposed of their Group 1 account balances, there is no benefit to ratepayers of accruing additional interest charges as a result of delaying the disposition of balances further. Hydro One Networks believes that the proposed methodology for allocating balances to the acquired utilities is reasonable and that the allocated balances reflect the best information available.¹² Hydro One Networks notes that should the OEB have concerns regarding the proposed allocation methodology, it could consider:

- (a) Approving the disposition of balances as proposed in this application and ordering the disposition of balances on a consolidated basis with the whole of Hydro One Networks, going forward; or
- (b) Approving only the disposition of balances that are directly attributable to each acquired utility in this proceeding and ordering the disposition on a consolidated basis with the whole of Hydro One Networks, going forward.

Findings

The OEB is concerned with certain balances (most notably in Account 1588 – Power for Norfolk Power and Account 1589 – GA for all three acquired utilities), namely resulting from Hydro One Networks' proposed allocation methodology and the resulting impacts to customers of the former Haldimand County Hydro, Woodstock Hydro and Norfolk Power rate zones. The OEB notes that while the proposed allocation methodology conceptually appears reasonable, Hydro One Networks has not sufficiently explained why the principal transactions in the year of integration for the acquired utilities are substantially higher than in prior years, other than noting that the balances are the result of the proposed allocation methodology.

For example, with respect to Norfolk Power which was integrated with Hydro One Networks in August of 2015, the period from January to August 2015 (i.e. the 8-months of pre-integration amounts) shows principal transaction totals of \$1,169,040 and (\$1,052,499) for Accounts 1588 and 1589, respectively. Similarly, the amounts for the period of September to December 2015 (i.e. the 4-months post-integration) shows

¹² EB-2017-0050, Responses to OEB Staff Analysis, Page 3, February 6, 2018

principal transaction totals of \$1,867,847 and (\$1,743,491) for Accounts 1588 and 1589, respectively. The amounts post-integration, in half the length of time, are substantially greater, in absolute terms, than in prior years.

Similarly, with respect to Woodstock Hydro, the absolute dollar value of amounts of principal transactions in the year of integration (August of 2016) with respect to Account 1589 – GA of \$(2,906,470) were substantially higher, when compared to transaction totals for these accounts reported in prior years.

For Haldimand County Hydro, the principle transaction totals in 2016 of \$2,146,081 for distributors of similar size for Account 1589 – GA are greater, in absolute terms, when compared to industry peers.

Further, and as noted above, as Hydro One Networks now settles wholesale costs, including the GA, on an overall basis, Hydro One Networks is unable to complete the GA Analysis Workform for each of the three service areas covered in the application. The workform was implemented in 2018 to assist the OEB in assessing if the annual balance in Account 1589 is reasonable. The workform compares the General Ledger principal balance to an expected principal balance based on monthly GA volumes, revenues and costs. Therefore, the OEB does not have the additional level of comfort in the accuracy of the GA balance for each acquired utility.

For these reasons, the OEB will only approve the disposition of balances directly attributable to each acquired utility up to December 31 of the year prior to their acquisition. For Norfolk Power, this date is December 31, 2014, as Norfolk Power was integrated with Hydro One in August of 2015. For Woodstock Hydro, this would be December 31, 2015, as Woodstock Hydro was integrated in August of 2016. For the former Haldimand County Hydro, the OEB approved the disposition of deferral and variance account balances as at December 31, 2015 in Hydro One Networks' 2017 rate application.¹³ These balances were directly attributable to customers of the former Haldimand County Hydro. Haldimand County Hydro was integrated with Hydro One Networks in September of 2016. For this reason, the OEB will not approve the disposition of any deferral and variance account balances (relating to the 2016 year) for Haldimand County Hydro in this application.

The OEB expects that Hydro One Networks will make further efforts to validate the account balances not disposed in this proceeding as they relate to the allocation methodology and to substantiate their reasonableness. Following this work, it is open to

¹³ EB-2016-0082

the company to propose whether or not it should be disposing of the Group 1 accounts on a consolidated basis going forward.

Hydro One Networks should file revised Rate Generator Models and any supporting calculations/models as applicable for each former service area, reflecting this Decision. In its draft Rate Order, Hydro One Networks should provide a summary of revised bill impacts and any rate mitigation measures, as applicable. Deferral and variance account dispositions are to be calculated over a one-year period from May 1, 2018 to April 30, 2019, including interest to April 30, 2018.

6 RESIDENTIAL RATE DESIGN

All residential distribution rates currently include a fixed monthly charge and a variable usage charge. The OEB's residential rate design policy stipulates that distributors will transition residential customers to a fully fixed monthly distribution service charge over a four-year period, beginning in 2016.¹⁴ The OEB requires that distributors filing IRM applications affecting 2018 rates continue with this transition by once again adjusting their distribution rates to increase the fixed monthly service charge and decrease the variable charge consistent with the policy.

The OEB expects an applicant to apply two tests to evaluate whether mitigation of bill impacts for customers is required during the transition period. Mitigation usually takes the form of a lengthening of the transition period. The first test is to calculate the change in the monthly fixed charge, and to consider mitigation if it exceeds \$4. The second is to calculate the total bill impact of the proposals in the application for low volume residential customers (defined as those residential RPP customers whose consumption is at the 10th percentile for the class). Mitigation may be required if the bill impact related to the application exceeds 10% for these customers.

Haldimand County Hydro

The OEB's decision in EB-2015-0259 approved the implementation of the transition to fixed rates for the former Haldimand County Hydro service area over a five-year period. Hydro One Networks' third step of the implementation of the transition results is an increase to the fixed charge of \$3.73 for the former Haldimand County Hydro service

¹⁴ "Ontario Energy Board Policy: A New Distribution Rate Design for Residential Electricity Customers", EB-2012-0410, April 2, 2015

area. The bill impacts arising from the proposals in this application, including the fixed rate change, are below 10% for low volume residential customers.

Norfolk Power

The OEB's decision in EB-2015-0269 approved the implementation of the transition to fixed rates for the former Norfolk Power service area over a four-year period. Hydro One Networks' third step of the implementation of the transition results is an increase to the fixed charge of \$3.98 for the former Norfolk Power service area. The bill impacts arising from the proposals in this application, including the fixed rate change, are below 10% for low volume residential customers.

Woodstock Hydro

The OEB's decision in EB-2015-0271 approved the implementation of the transition to fixed rates for the former Woodstock Hydro service area over a five-year period. Hydro One Networks' third step of the implementation of the transition results is an increase to the fixed charge of \$3.39 for the former Woodstock Hydro service area. The bill impacts arising from the proposals in this application, including the fixed rate change, are below 10% for low volume residential customers.

Findings

The OEB finds that the proposed 2018 increase to the monthly fixed charge for each of the three former service areas is calculated in accordance with the OEB's residential rate design policy. The results of the monthly fixed charge, and total bill impact for low consumption residential consumers show that no mitigation is required. The OEB approves the increase as proposed by the applicant and calculated in the respective final Rate Generator Models.

7 IMPLEMENTATION AND ORDER

The OEB has made findings in this Decision and Order which change the 2018 Group 1 deferral and variance account balances and resulting rate riders from those proposed by Hydro One Networks.

The OEB expects Hydro One Networks to file a draft Rate Order, including proposed Tariffs of Rates and Charges and all relevant calculations, showing the impact of this

Decision and Order on Hydro One Networks' determination of final rates.

Supporting documentation shall include, but not be limited to, the filing of completed versions of the 2018 Rate Generator Models for the three acquired utilities, as well as any rate mitigation measures if applicable.

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

The Rate Generator Models incorporate the rates set out in the following table.

Table 7.1: Regulatory Charges

Rate	per kWh
Rural or Remote Electricity Rate Protection (RRRP)	\$0.0003
Wholesale Market Service (WMS) billed to Class A and B Customers	\$0.0032
Capacity Based Recovery (CBR) billed to Class B Customers	\$0.0004

Each of these rates is a component of the "Regulatory Charge" on a customer's bill, established annually by the OEB through a separate generic order. The RRRP rate was set by the OEB on June 22, 2017.¹⁵ The WMS and CBR rates were set by the OEB on December 15, 2016.¹⁶

The Smart Metering Entity Charge is a component of the "Distribution Charge" on a customer's bill, established by the OEB through a separate order. The Smart Metering Entity Charge was set at \$0.57 by the OEB on March 1, 2018, effective January 1, 2018 to December 31, 2022.¹⁷ The Rate Generator Model will be adjusted to incorporate this rate as part of the final Rate Order.

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Hydro One Networks Inc. shall file with the OEB a draft Rate Order that includes revised models in Microsoft Excel format and proposed Tariffs of Rates and Charges for each of Haldimand County Hydro Inc., Woodstock Hydro Services Inc., and

¹⁵ Decision and Order, EB-2017-0234, June 22, 2017

¹⁶ Decision and Order, EB-2016-0362, December 15, 2016

¹⁷ Decision and Order, EB-2017-0290, March 1, 2018

Norfolk Power Distribution Inc., reflecting the findings in this Decision by 7 days from the date of issuance of this Decision and Order.

2. OEB staff shall file any comments on the draft Rate Order including the revised models with the OEB and forward to Hydro One Networks Inc. within 7 days of the date of filing of the draft Rate Order.
3. Hydro One Networks Inc. shall file with the OEB responses to any comments on its draft Rate Order including the revised models within 4 days of the date of receipt of OEB staff comments.

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ONTARIO ENERGY BOARD

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