



# **ONTARIO ENERGY BOARD**

## **STAFF SUBMISSION**

2009 ELECTRICITY DISTRIBUTION RATES

Espanola Regional Hydro Distribution Corporation

EB-2008-0173

**February 2, 2009**

## **INTRODUCTION**

Espanola Regional Hydro Distribution Corporation (“Espanola”) submitted an application on November 11, 2008, seeking approval for changes to the rates that Espanola charges for electricity distribution, to be effective May 1, 2009. The application is based on the 2009 3<sup>rd</sup> Generation Incentive Regulation Mechanism (“2009 3<sup>rd</sup> Gen. IRM”).

The purpose of this document is to provide the Ontario Energy Board (the “Board”) with the submissions of Board staff based on its review of all the evidence submitted by Espanola.

## **RETAIL TRANSMISSION SERVICE RATES (RTSR)**

### **Background**

Espanola proposes to increase its RTSR – Line and Transformation Connection Service Rates by 19.2%. In response to Board Staff interrogatory number 5, Espanola provided the following methodology to calculate this percentage change:

- “ - Line Connection Service Rate has increased from \$0.59 to \$0.70 per kW per month, an 18.6% increase;
- Transformation Connection Service Rate has increased from \$1.61 to \$1.62 per kW per month, a 0.6% increase.

Therefore, based on above ERDHC applied for (...) a 19.2% increase to Line and Transformation Connection Service Rate (18.6% + 0.6% increase = 19.2%) to have the RTSR’s change in the same manner the uniform transmission rates have changed.”

### **Submission**

Board staff submits that the methodology used by Espanola to calculate its proposed RTSR – Line and Transformation Connection Service Rates increase over-estimates the adjustment required.

The answer to question 12 of the *2009 Electricity Distribution Rates Frequently Asked Questions for LDCs subject to 2nd and 3rd Generation Incentive Regulation* dated October 28, 2008 (the “IRM Q&As”) describes a methodology to calculate the RTSR adjustments that was used last year by some distributors. The two steps below summarize this approach, where UTR stands for Uniform Transmission Rate:

1. Percent change in RTSR – Line and Transformation Connection Service Rate =  
$$\frac{(\text{New UTR Line Connection} + \text{new UTR Transformation Connection})}{(\text{old UTR Line Connection} + \text{old UTR Transformation Connection})} - 1$$
2. Round the result obtained in 1 to the nearest percent

Board staff submits that the RTSR – Line and Transformation Connection Service Rate adjustment calculated under this methodology is a 5% increase. While distributors are free to use alternative methodologies to calculate their proposed RTSR adjustments, the Board may wish to consider whether the proposed 19.2% increase is appropriate given the result Board staff obtained using the methodology described in the IRM Q&As.

## **REVENUE-TO-COST RATIO ADJUSTMENTS**

### **Background**

Espanola’s 2008 Cost of Service Decision dated June 3, 2008 (EB-2007-0901) identified three rate classes requiring revenue-to-cost ratio (“Ratio”) adjustments in 2008 and beyond. The Board directed Espanola to adjust the Ratios of the Street Lighting and Sentinel Lighting rate classes by 50% toward the bottom of the Board’s target ranges and the remaining 50% to be moved by equal increments in years 2009 and 2010. The General Service > 50 kW rate class was adjusted to achieve a 78% Ratio in 2008, with the move to a 100% Ratio to be done in 2009.

Espanola elected not to use the Board’s Ratio adjustment methodology as found in the 3<sup>rd</sup> Gen. IRM Supplemental Filing Module. Espanola’s response to Board Staff interrogatory number 3 detailed the methodology used in order to calculate its proposed 2009 Ratio adjustments.

## **Submission**

Board staff has reviewed the calculations and supporting details and determined that the proposed Ratio adjustments are reasonable.

Board staff notes that Espanola allocated the \$12,958 transformer allowance “to all rate classes in 2009” for the purpose of calculating its proposed 2009 Ratio adjustments, whereas it had excluded this “cost” for the purpose of calculating its 2008 Ratio adjustments. Board staff invites the applicant to provide an explanation as to how and why the allocation of the transformer allowance “cost” across all rate classes was performed in 2009.

All of which is respectfully submitted.