Ontario Energy Board | Commission de l’énergie de l’Ontario

Ontario

EB-2008-0193

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 Lakefront Utilities Inc. for an order or orders approving or fixing just and reasonable distribution rates and other charges, to be effective May 1, 2009.

BEFORE: Paul Vlahos
Presiding Member

Ken Quesnelle
Member

DECISION AND ORDER

Introduction

Lakefront Utilities Inc. (“Lakefront”) is a licensed distributor of electricity providing service to consumers within its licensed service area. Lakefront filed an application with the Ontario Energy Board (the “Board”) for an order or orders approving or fixing just and reasonable rates for the distribution of electricity and other charges, to be effective May 1, 2009.

Lakefront is one of about 80 electricity distributors in Ontario that are regulated by the Board. In 2008, the Board announced the establishment of a new multi-year electricity distribution rate-setting plan, the 3rd Generation Incentive Rate Mechanism (“IRM”) process, that will be used to adjust electricity distribution rates starting in 2009 for those distributors whose 2008 rates were rebased through a cost of service review. As part of the plan, Lakefront is one of the electricity distributors to have its rates adjusted for 2009 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 *Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* on July 14, 2008, its *Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* on September 17, 2008, and its *Addendum to the Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* on January 28, 2009 (together the "Reports"). Among other things, the Reports contained the relevant guidelines for 2009 rate adjustments (the "Guidelines") for distributors applying for distribution rate adjustments pursuant to the IRM process.

Notice of Lakefront's rate application was given through newspaper publication in Lakefront's service area advising of the availability of the rate application and advising how interested parties may intervene in the proceeding or comment on the application. No letters of comment were received. The Vulnerable Energy Consumers Coalition ("VECC") posed interrogatories. Board staff posed interrogatories and also made a submission. The Board proceeded by way of a written hearing.

While the Board has considered the entire record in this rate application, it has made reference only to such evidence as is necessary to provide context to its findings.

Price Cap Index Adjustment

Lakefront's rate application was filed on the basis of the Guidelines. In fixing new distribution rates and charges for Lakefront, the Board has applied the policies described in 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 Lakefront's utility specific stretch factor of 0.4%. Based on the final 2008 data published by Statistics Canada, the Board has established the price escalator to be 2.3%. The resulting price cap index adjustment is therefore 1.18%. The rate model was adjusted to reflect the newly calculated price cap adjustment. This price cap index adjustment applies to distribution rates (fixed and variable charges) uniformly across all customer classes. An adjustment for the transition to a common deemed capital structure of 60% debt and 40% equity was also effected.

The price cap index adjustment does not apply to the following components of distribution rates:

- Rate Riders;
- Retail Transmission Service Rates;
- Wholesale Market Service Rate;
- Rural Rate Protection Charge;
- Standard Supply service – Administrative Charge;
- Transformation and Primary Metering Allowances;
- Retail Service Charges;
- Loss Factors; and
- Smart Meter Funding Adder.

Tax Sharing Rate Rider

The Board determined in its Reports that the impact of tax changes, as applied to the tax level reflected in Board-approved base rates, will be shared equally between ratepayers and distributors. These amounts are to be refunded to customers each year of the IRM plan term, over a 12-month period, through a volumetric rate rider.

A change in the federal income tax rate from 19.5% to 19% effective January 1, 2009, as introduced in the *2007 Economic Statement*, was incorporated into the rate model. The Federal Budget enacted on February 3, 2009 included an increase in the small business income limit from $400,000 to $500,000 effective January 1, 2009, and a change in the capital cost allowance (CCA) applicable to certain computer equipment and related system software (CCA class 50) acquired between January 27, 2009 and February 2011. The Board has considered these fiscal changes and determined that the rate model will be adjusted to reflect the increase in the federal small business income limit for affected distributors. With regard to the change in the CCA, the Board notes that this change would be captured in the revenue requirement calculation as it relates to smart meters when a distributor applies for cost recovery for the applicable investment period. For other computer equipment and related system software in class 50, the Board concludes that this adjustment is not required since it does not appear to be material.

In response to a Board staff interrogatory, Lakefront agreed that the tax sharing amount calculated by the rate model was appropriate. In its reply submission, Lakefront acknowledged the decrease in the federal corporate tax rate from 19.5% to 19% effective January 1, 2009, but suggested that the recent Federal Budget resulted in a further reduction from 19% to 11%. The Board is not aware of any such additional reduction to the federal corporate tax rate. As discussed above, the Board has considered the tax changes resulting from the enactment of the Federal Budget on February 3, 2009, and has reflected them as described earlier. The Board approves the amount of $3,518 to be returned to customers through a one year rate rider, as calculated by the rate model.

Bill 44 – Payments in Lieu of Taxes (PILs)

On December 13, 2007, the Ontario government introduced its *2007 Ontario Economic Outlook and Fiscal Review*. Bill 44, the enabling legislation, received Royal Assent on May 14, 2008, and was promulgated in *The Ontario Gazette* on May 24, 2008. The resulting tax provision changes resulted in a decrease in PILs for Lakefront.

The Board's Decision in EB-2007-0761, Lakefront's 2008 cost of service application ("2008 CoS"), was issued on May 9, 2008, prior to Bill 44 being enacted. Accordingly, Lakefront's revenue requirement was calculated on the tax rates that existed prior to the enactment of Bill 44.

Board staff noted that some 2008 CoS proceedings required more time to process than others. As a result, some applications that were filed with the Board at around the same time as Lakefront filed its 2008 CoS application had their Decisions issued after May 24, 2008, with their resulting electricity distribution rates reflecting the lower tax rates. Board staff submitted that for consistency and fairness across electricity distributors, the difference in PILs Lakefront is collecting in its distribution rates as a result of its 2008 CoS Decision having been issued before May 24, 2008, should be removed as of May 1, 2009. Board staff calculated the revenue requirement reduction to be $28,554. Board staff also submitted that the additional amounts Lakefront collected in the 2008 rate year should remain with Lakefront, as it appropriately reflected the Board Decision (EB-2007-0761) for that rate year.

In its reply submission, Lakefront agreed with Board staff's submission and the calculated amount.

The Board finds Board staff's proposed adjustment appropriate and directs Lakefront to reflect it in its draft 2009 Tariff of Rates and Charges.

Rural or Remote Electricity Rate Protection Adjustment

In accordance with Ontario Regulation 442/01, Rural or Remote Electricity Rate Protection ("RRRP") (made under the *Ontario Energy Board Act, 1998*) the Board issued a Decision on December 17, 2008 setting out the amount to be charged by the Independent Electricity System Operator ("IESO") with respect to the RRRP for each kilowatt-hour of electricity that is withdrawn from the IESO-controlled grid.

In a letter dated December 17, 2008 the Board directed distributors that had a rate application before the Board to file a request with the Board that the RRRP charge in their tariff sheet be revised to 0.13 cent per kilowatt-hour effective May 1, 2009.

Lakefront complied with this directive. The rate model was adjusted to reflect the new RRRP charge.

Smart Meter Funding Adder

On October 22, 2008 the Board issued a Guideline for Smart Meter Funding and Cost Recovery ("Smart Meter Guideline") which sets out the Board's filing requirements in relation to the funding of, and the recovery of costs associated with, smart meter activities conducted by electricity distributors.

As set out in the Smart Meter Guideline, a distributor that plans to implement smart meters in the rate year must include, as part of the application, evidence that the distributor is authorized to conduct smart meter activities in accordance with applicable law.

Lakefront reports that it is authorized to conduct smart meter activities because it has procured smart meters pursuant to and in compliance with the August 14, 2007 Request for Proposal issued by London Hydro Inc.

Lakefront requested the continuation of the standard smart meter funding adder of $1.00 per metered customer per month previously approved by the Board, which is intended to provide funding in the case where a distributor may be in the early stages of planning and may not yet have sufficient cost information to request a utility-specific funding adder. The Board-approved $1.00 per metered customer per month funding adder shall continue. Lakefront's variance accounts for smart meter program implementation costs, previously authorized by the Board, shall also be continued.

The Board notes that the smart meter funding adder of $1.00 per metered customer per month is intended to provide funding for Lakefront's smart metering activities in the 2009 rate year. The Board has not made any finding on the prudence of the proposed smart meter activities, including any costs for smart meters or advanced metering infrastructure whose functionality exceeds the minimum functionality adopted in O. Reg. 425/06, or costs associated with functions for which the Smart Metering Entity has the exclusive authority to carry out pursuant to O. Reg. 393/07. Such costs will be considered at the time that Lakefront applies for the recovery of these costs.

Revenue-to-Cost Ratios

Revenue-to-cost ratios ("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* (the "Cost Allocation Report"), dated November 28, 2007. In its EB-2007-0761 Decision, the Board made findings with regard to Lakefront's Ratios and directed that they be incrementally adjusted over time, starting in 2008 (the "2008 Ratios").

Lakefront proposed to adjust its Ratios as shown in Column 3 of Table 1.

Table 1 – Lakefront's Revenue-to-Cost Ratios (%)

Rate Class	2008 Ratio		Proposed 2009 Ratio	Target Range
	2008 CoS Methodology Column 1	2009 Rate Model Methodology Column 2	Column 3	Column 4
Residential	97.5	97.6	97.6	85 – 115
GS < 50 kW	118.0	118.4	118.4	80 – 120
GS 50 – 2,999 kW	141.0	169.4	164.3	80 – 180
GS 3,000 – 4,999 kW	35.1	35.5	35.5	80 – 180
Street Lighting	25.0	25.5	39.9	70 – 120
Sentinel Lighting	55.0	55.1	70.1	70 – 120
USL	100.0	100.0	100.0	80 – 120

Board staff noted in its submission that, for the purpose of calculating the Ratio adjustments, the rate model allocates the low voltage charges and transformer allowance "costs" across rate classes in a way that may differ from how they were allocated in Lakefront's 2008 CoS application. Column 1 of Table 1 shows the 2008 Ratios calculated under the 2008 CoS methodology while Column 2 shows the 2008 Ratios derived using the methodology incorporated into the 2009 rate model. Board staff submitted that the difference between the Ratio adjustments calculated under the two methodologies is immaterial. Board staff also noted that the rate model will be adjusted next year to enable distributors to reflect how the low voltage charges and transformer allowance "costs" were allocated for the purpose of calculating their Ratios in their 2008 CoS. Accordingly, any differences in the calculation of the Ratios in the 2009 rate model will be reversed in the 2010 rate model next year. The Board sees merit in Board staff's proposed adjustments to the rate model and expects Board staff to consider those adjustments when preparing the rate model for next year.

In its interrogatories, VECC questioned why the rate adjustments to achieve the Ratios proposed by Lakefront were made only on the variable component of the distribution charges. Lakefront replied that it was done for simplicity and suggested that there would not be a material difference whether the adjustment was applied to the variable component only or to both the variable and fixed components. The Board notes that

Lakefront's approach is not inconsistent with the Board's Decision in EB-2007-0761.

Lakefront proposed to increase the Ratios of its Street Lighting and Sentinel Lighting rate classes and allocate the additional revenues collected to the General Service ("GS") 50 – 2,999 kW only. Board staff submitted that in its Decision in EB-2007-0761, the Board directed Lakefront to share the additional revenues collected between the GS < 50 kW and GS 50 – 2,999 kW rate classes.

Lakefront replied that it was appropriate to allocate the additional revenues only to the GS 50 – 2,999 kW rate class, and thereby reduce that Ratio, as that class's Ratio is the furthest from unity. The Board notes that, in its Cost Allocation Report, it observed that limitations in data affect the ability or desirability of moving immediately to Ratios of 100%. The Board's Target Ranges are a compromise until such time as data is refined and experience is gained. The Board notes further that the Ratio of the GS < 50 kW and the Ratio of the GS 50 – 2,999 kW rate classes both fall within their respective Target Range. Accordingly, the Board finds that there is no compelling reason to give priority to adjusting the Ratio of the GS 50 – 2,999 kW rate class over that of the GS < 50 kW rate class. The Board therefore directs that, as directed in EB-2007-0761, the increased revenues collected from the Street Lighting and Sentinel Lighting rate classes be allocated to both the GS < 50 kW and GS 50 – 2,999 rate classes. The Board further directs that the increased revenues shall be allocated using the methodology approved in the Decision and Rate Order dated July 17, 2008 (EB-2007-0761).

Retail Transmission Service Rates

On October 22, 2008 the Board issued a Guideline for *Electricity Distribution Retail Transmission Service Rates* ("RTSR Guideline") which provides electricity distributors with instructions on the evidence needed, and the process to be used, to adjust Retail Transmission Service Rates ("RTSRs") to reflect changes in the Ontario Uniform Transmission Rates ("UTRs").

On August 28, 2008, the Board issued its Decision and Rate Order in proceeding EB-2008-0113, setting new UTRs for Ontario transmitters, effective January 1, 2009. The Board approved an increase of 11.3% to the wholesale transmission network rate, an increase of 18.6% to the wholesale transmission line connection rate, and an increase of 0.6% to the wholesale transformation connection rate. The combined change in the wholesale transformation connection and transmission rates is an increase of about 5%.

Electricity distributors are charged the UTRs at the wholesale level and subsequently pass these charges on to their distribution customers through the RTSRs. There are two RTSRs, whereas there are three UTRs. The two RTSRs are for network and connection. The wholesale line and transformation connection rates are combined into one retail connection service charge. Deferral accounts are also 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., deferral accounts 1584 and 1586).

In the RTSR Guideline the Board directed all electricity distributors to propose an adjustment to their RTSRs to reflect the new UTRs for Ontario transmitters effective January 1, 2009. The objective of resetting the rates was to minimize the prospective balances in deferral accounts 1584 and 1586.

Lakefront proposed to increase its RTSR – Network Service Rates 11.3% and to increase its RTSR – Line and Transformation Connection Service Rates by 5.5%. The Board finds that this approach is reasonable and approves these adjustments.

The Board is providing Lakefront with a rate model (spreadsheet) that, except for the findings on the Ratio adjustments, incorporates the elements of this Decision and Order (EB-2008-0193). The rate model also includes the rate impacts as stipulated in the Board's Decision in EB-2008-0277 issued on March 25, 2009, a proceeding on Lakefront's Motion for review and variance of the Board's Decision and Order in the 2008 CoS rates case (EB-2007-0761).

The Board directs Lakefront to review the rate model and to confirm its completeness and accuracy at the time it files its Draft Rate Order. Lakefront shall file with the Board a Draft Rate Order attaching a proposed Tariff of Rates and Charges that reflects the elements of this Decision and Order (EB-2008-0193), including the findings on the Ratio adjustments, as well as the elements of the Board's Decision in EB-2008-0277. Lakefront shall also provide the rate model that underpins the Tariff of Rates and Charges. The changes made to the rate model shall be clearly identified and explained.

The Board Orders That:

1. Lakefront shall file with the Board a Draft Rate Order attaching the proposed Tariff of Rates and Charges and the supporting rate model (spreadsheet) within seven (7) calendar days of this Decision and Order. The proposed Tariff of Rates and Charges shall be filed in a Word format. The adjusted rate model shall be filed in an Excel format.

DATED at Toronto, March 26, 2009.
ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary