



# **ONTARIO ENERGY BOARD**

## **STAFF SUBMISSION**

2008 ELECTRICITY DISTRIBUTION RATES

PowerStream Inc.

EB-2007-0850

**January 24, 2008**

## **INTRODUCTION**

On October 31, 2007, PowerStream Inc. ("PowerStream") submitted an application based on the 2008 Incentive Regulation Mechanism seeking approval for changes to the rates that PowerStream charges for electricity distribution, to be effective May 1, 2008. PowerStream's application also requested approval for an updated Smart Meter adder, and new Regulatory Assets rate riders. The application was subsequently amended on November 21, 2007, to include a proposal to adjust its retail transmission service rates.

The purpose of this document is to provide the Ontario Energy Board (the "Board") with the submissions of Board staff after its review of the evidence submitted by PowerStream.

## **SMART METER**

### **Background**

PowerStream is one of the licensed distributors authorized by Ontario Regulation 427/06 to conduct discretionary metering activities. In its EB-2007-0573 Decision and Order dated April 12, 2007, the Board approved PowerStream's request for a smart meter rate adder of \$0.73 per metered customer per month effective May 1, 2007. PowerStream is now applying to change this rate adder to \$1.41 per metered customer per month effective May 1, 2008.

### **Discussion and Submission**

PowerStream's current \$0.73 rate adder was based on planned capital expenditures and operating expenses for 2007. The proposed \$1.41 is based on a return on and of capital for the 2007 installations, and on planned capital expenditures and operating

expenses for 2008, including an estimate of \$500,000 for IESO/MDMR fees. Board staff notes that the fees associated with IESO/MDMR have not been approved yet. In response to a Board staff interrogatory, PowerStream calculated that its proposed smart meter adder would be \$1.21 per metered customer per month if the estimated \$500,000 associated with the estimated 2008 IESO/MDMR fees was excluded from the calculation. Board staff notes that any differences between the actual IESO/MDMR fees and those estimated by PowerStream for the purpose of the calculation of its proposed smart meter rate adder will be captured through the smart meter variance accounts already in place. Parties are asked to comment on whether the inclusion in rates of the \$500,000 for IESO/MDMR fees and the establishment of the associated variance account are premature given that no submission to approve the MDMR fees has been filed.

Following the combined proceeding on the review of costs incurred by the thirteen authorized electricity distributors to conduct discretionary metering activities (EB-2007-0063), Board staff prepared a Microsoft Excel model to compute a revised smart meter adder. PowerStream used this Microsoft Excel model as the basis for its calculation of the proposed smart meter rate adder.

In its Decision with Reasons dated August 8, 2007 (EB-2007-0063), the Board approved \$74,000 of capital expenditures made by PowerStream up to December 31, 2006. The Board also stated that:

“Utilities that are not requesting rate increases may, however, wish to draw down funds previously collected through the smart metering rate adders. They are authorized to do so in order to meet costs approved in this Decision, and will file draft orders with the Board to that effect.”

PowerStream did not request to draw down funds previously collected through the smart meter rate adder by the approved \$74,000.

Board staff notes that PowerStream did not explicitly request any additional amounts beyond those approved in EB-2007-0063 to be approved as part of this rate case, and it is Board staff's understanding that it was not PowerStream's intention to request any such approval. The change in the smart meter adder relates solely to funding of PowerStream's smart metering program, which will be subject to a prudence review. In response to a Board staff interrogatory, PowerStream has confirmed that the costs associated with the new smart meter adder of \$1.41 relate only to meeting the minimum functionality set out in Ontario Regulation 425 / 06.

## **REGULATORY ASSET RECOVERY**

### **Background**

PowerStream is requesting approval of a one-year Regulatory Asset Recovery rate rider to dispose of the following variance account balances:

- The forecast outstanding balance in account 1590 as of April 30, 2008;
- The balances accumulated in the Regulatory Asset accounts as at December 31, 2006, plus interest up to April 30, 2008; and
- The estimated over collection of transmission charges from November 1, 2007, and April 30, 2008 (a credit of \$4,144,970) as a result of changes to Uniform Transmission Rates.

The aggregate amount proposed for disposition is a credit of \$1,363,666. A single rate rider for each rate class is being proposed due to the merging into a single entity of the previous rate zones.

### **Discussion and Submission**

With regard to the proposed disposition of the forecast outstanding balance in account 1590 and the estimated over collection of transmission charges, Board Staff notes that

usual practice for disposing of variance and deferral accounts in the electricity sector is to use the most up-to-date audited balances, as supported by audited financial statements, plus forecast carrying charges on those balances up to the start of the new rate year.

Parties are asked to comment on whether the Board should consider the disposition of forecast variance account balances.

Also, given that one of the intents of the Incentive Regulation Mechanism was to provide a streamlined process for setting rates, parties are also asked to comment on whether the Board should consider waiting for the review of the disposition deferral and variance accounts until such time that PowerStream applies for its distribution rates to be rebased, which is scheduled to occur in 2009. Board staff notes that In the Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors, the Board stated that

“As noted previously, there are limited adjustments available to distributors. If these adjustments are insufficient for specific cost pressures (e.g., additional capital investment) or the distributor is in the tranche to be rebased, then the Board would expect these distributors to file a comprehensive cost of service application and not to rely on the simplified filing requirements for the incentive mechanism.”

Effective November 1, 2007, all of PowerStream's rates were harmonized, except for the Regulatory Asset Recovery rate riders. Under PowerStream's proposal, outstanding balances of its four service areas would be aggregated to derive one common Regulatory Asset Recovery rate rider. Board staff notes that this seems to be in contradiction with the Board's Decision and Order EB-2007-0074, where the Board directed PowerStream to “maintain the Regulatory Asset accounts separately by operating area until the rate riders associated with the Regulatory Assets account are removed.” Parties are asked to provide comments on this particular aspect of PowerStream's proposal.

PowerStream is applying for the disposition of amounts accumulated in the Regulatory Asset Accounts up to December 31, 2006. The balances provided are in accordance with those received as part of PowerStream's RRR filing, except for 2425 Other Deferred Credits. PowerStream's RRR filing shows a credit of \$8,779,912 as at December 31, 2006, in account 2425 whereas PowerStream's current application shows a credit of \$2,663,760 at the same date. It is not clear why those figures are inconsistent. PowerStream is invited to provide clarification on this discrepancy.

PowerStream is applying for disposition of 1588 RSVA Power. This account is reviewed quarterly for disposition by the Board as part of the Bill 23 process. The Board may wish to consider the impact of ordering disposition of this account outside of the Bill 23 process.

Based on PowerStream's application, it appears that PowerStream has maintained the approved December 31, 2002, Regulatory Asset account balances in those accounts instead of moving these amounts into account 1590. Board staff invites PowerStream to comment on this issue.

## **RETAIL TRANSMISSION SERVICE RATES ADJUSTMENT**

### **Background**

In its letter dated October 29, 2007, the Board directed each distributor to propose an adjustment to their retail transmission rates (RTR) and disposition of the associated variance account balances in its 2008 Cost of Service or Incentive Rate Mechanism application, as applicable.

PowerStream proposes to reduce its RTR — Network Service Rate by 17.8% and its RTR — Line and Transformation Connection Service Rate by 19.3% for all its rate classes.

## **Discussion and Submission**

To derive their proposed RTR adjustments, PowerStream determined their annual wholesale transmission network and connection costs based on the Board rate order dated October 17, 2007 (EB-2007-0759) and readings for the July 2006 to June 2007 period. PowerStream indicated that this period was chosen to reflect “the most recent expansion of PowerStream owned transformer station capacity that went into operation July 1, 2006.” These adjusted wholesale transmission network and connection costs were subsequently compared to revenue generated through existing retail transmission rates for the July 2006 to June 2007 period to determine cost/revenue ratios for network and connection. The calculated cost/revenue ratios for network and connection were then applied to existing retail network and connection rates to derive the proposed adjustments to retail network and connection rates.

While PowerStream is partly embedded within the Hydro One Networks Inc. (“Hydro One”), PowerStream assumed for the purpose of the derivation of the RTR adjustments that Hydro One, as a host distributor, will be charging rates equivalent to the new wholesale transmission rates. With this regard, PowerStream stated that “Any further adjustment to RTS rates will be considered for PowerStream’s next rate application.”

All of which is respectfully submitted.