



# **ONTARIO ENERGY BOARD**

## **STAFF SUBMISSION**

2008 ELECTRICITY DISTRIBUTION RATES

Whitby Hydro Electric Corporation

EB-2007-0838

**January 24, 2008**

## **INTRODUCTION**

Whitby Hydro Electric Corporation (WHEC) submitted an application on October 29, 2007, seeking approval for changes to the rates that WHEC charges for electricity distribution, to be effective May 1, 2008. The application is based on the 2008 Incentive Regulation Mechanism. On November 16, 2007, WHEC filed an addendum proposing adjustments to 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 WHEC.

## **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.

WHEC proposes to reduce its RTR — Network Service Rate by approximately 23%-27% and its RTR — Line and Transformation Connection Service Rate by about 26%-29% for all customer rate classes. WHEC proposes that these adjustments to RTR be dealt with through a rate rider for the period May 1, 2008 to April 30, 2009. Effective May 1, 2009, WHEC proposes that the RTR be reverted to the 2007 level, subject to future rate orders from the Board.

### **Discussion and Submission**

WHEC proposes that RTR — Network Service Rate and RTR — Line and Transformation Connection Service Rate be adjusted to clear the April 30, 2009 forecast variance account balances in accounts 1584 and 1586 respectively.

To derive the proposed adjustment to its RTR, WHEC added to the account balances in variance accounts 1584 and 1586 as of September 30, 2007 the monthly forecast balances up to April 30, 2009. This forecast took into consideration wholesale transmission rates payable to the IESO and Hydro One, RTR revenue under existing rates, carrying cost impacts, and adjustments to readings and consumption to reflect expected customer growth and conservation efforts. The forecast balances in variance accounts 1584 and 1586 at April 30, 2009 were subsequently allocated by rate class in proportion to the average of historical and forecast revenue from January 1, 2005 to April 30, 2009. The allocated balance by rate class was then divided by the demand forecast for the 2008 rate year to derive the proposed adjustments to the existing RTR — Network Service Rate and the RTR — Line and Transformation Connection Service Rate.

WHEC is also proposing that effective May 1, 2009, RTR be reverted to the 2007 level, subject to future rate orders from the Board. Board staff invites WHEC to further clarify the rationale for this proposal. Staff are uncertain as to the reasons why the rates should revert back to a previous level and why such a reversion should be considered in this proceeding.

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 forecasted carrying charges on those balances up to the start of the new rate year. The disposition of deferral and variance account balances is also generally dealt with in aggregate rather than clearing discrete accounts. Moreover, the Board typically deals with the clearance of deferral and variance accounts through rate riders that are not incorporated into the rate itself.

Parties are asked to comment on whether the Board should consider whether the disposition of deferral and variance account balances should be dealt with in aggregate since some accounts may contain debit balances while others have credit balances. Disposing of all deferral and variance accounts at the same time would minimize

fluctuations in amounts refunded to or collected from customers through deferral and variance account disposition.

Given that one of the intents of the Incentive Regulation Mechanism was to provide a streamlined process for setting rates, parties are asked to comment on whether the Board should consider waiting for the review of the disposition of all deferral and variance accounts until such time as WHEC applies for its distribution rates to be rebased, which is scheduled to occur in 2009.

All of which is respectfully submitted.