Ontario Energy Board

Commission de l'énergie de l'Ontario

Ontario

EB-2011-0167

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 Festival Hydro Inc. for an order or orders approving or fixing just and reasonable distribution rates and other charges, to be effective May 1, 2012.

BEFORE: Karen Taylor
Presiding Member

Paula Conboy
Member

DECISION AND ORDER

Introduction

Festival Hydro Inc. ("Festival"), a licensed distributor of electricity, filed an application with the Ontario Energy Board (the "Board") on October 4, 2011 under section 78 of the *Ontario Energy Board Act*, *1998*, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to the rates that Festival charges for electricity distribution, to be effective May 1, 2012.

Festival is one of 77 electricity distributors in Ontario regulated by the Board. The *Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* (the "IR Report"), issued on July 14, 2008, establishes a three year plan term for 3rd generation incentive regulation mechanism ("IRM") (i.e., rebasing plus three years). In its October 27, 2010 letter regarding the development of a Renewed Regulatory Framework for Electricity ("RRFE"), the Board announced that it was extending the 3rd generation IRM plan until such time as the RRFE policy initiatives have been substantially completed. As part of the plan, Festival is one of the electricity distributors that will have its rates adjusted for 2012 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 IR Report, its *Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* on September 17, 2008 (the "*Supplemental Report*"), and its *Addendum to the Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* on January 28, 2009 (collectively the "Reports"). Among other things, the Reports contain the relevant guidelines for 2012 rate adjustments for distributors applying for distribution rate adjustments pursuant to the IRM process. On June 22, 2011 the Board issued an update to Chapter 3 of the Board's *Filing Requirements for Transmission and Distribution Applications* (the "Filing Requirements"), which outlines the Filing Requirements for IRM applications based on the policies in the Reports.

Notice of Festival's rate application was given through newspaper publication in Festival's service area advising interested parties where the rate application could be viewed and advising how they could intervene in the proceeding or comment on the application. No letters of comment were received. The Notice of Application indicated that intervenors would be eligible for cost awards with respect to Festival's proposed revenue-to-cost ratio adjustments and its request for lost revenue adjustment mechanism ("LRAM") recoveries. The Vulnerable Energy Consumers Coalition ("VECC") applied and was granted intervenor status in this proceeding. The Board granted VECC eligibility for cost awards in regards to Festival's request for LRAM recoveries and any revenue-to-cost ratio matters that go beyond the implementation of previous Board decisions. Board staff also participated in the proceeding. The Board proceeded by way of a written hearing.

While the Board has considered the entire record in this proceeding, it has made reference only to such evidence as is necessary to provide context to its findings. The following issues are addressed in this Decision and Order:

- Price Cap Index Adjustment;
- Rural or Remote Electricity Rate Protection;
- Revenue-to-Cost Ratio Adjustments;

- Shared Tax Savings Adjustments;
- Retail Transmission Service Rates;
- Review and Disposition of Group 1 Deferral and Variance Account Balances;
- Review and Disposition of Account 1521: Special Purpose Charge;
- Review and Disposition of Account 1562: Deferred Payments in Lieu of Taxes;
- Review and Disposition of Lost Revenue Adjustment Mechanism;
- Current Lost Revenue Adjustment Mechanism Rate Rider – Effective until April 30, 2012; and
- Smart Meter Funding Adder.

Price Cap Index Adjustment

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 a stretch factor.

On March 13, 2012, the Board announced a price escalator of 2.0% for those distributors under IRM that have a rate year commencing May 1, 2012.

The stretch factors are assigned to distributors based on the results of two benchmarking evaluations to divide the Ontario industry into three efficiency cohorts. In its letter to Licensed Electricity Distributors dated December 1, 2011 the Board assigned to Festival efficiency cohort 1 and a cohort specific stretch factor of 0.2%.

On that basis, the resulting price cap index adjustment is 1.08%. The price cap index adjustment applies to distribution rates (fixed and variable charges) uniformly across customer classes that are not eligible for Rural or Remote Electricity Rate Protection. The price cap index adjustment will not apply to the following components of delivery rates:

- Rate Riders;
- Rate Adders;
- Low Voltage Service Charges;
- Retail Transmission Service Rates;
- Wholesale Market Service Rate;
- Rural Rate Protection Charge;

- Standard Supply service – Administrative Charge;
- Transformation and Primary Metering Allowances;
- Loss Factors;
- Specific Service Charges;
- MicroFIT Service Charges; and
- Retail Service Charges.

Rural or Remote Electricity Rate Protection

On December 21, 2011, the Board issued a Decision with Reasons and Rate Order (EB-2011-0405) establishing the Rural or Remote Electricity Rate Protection ("RRRP") benefit and charge for 2012. The Board amended the RRRP charge to be collected by the Independent Electricity System Operator from the current $0.0013 per kWh to $0.0011 per kWh effective May 1, 2012. The final Tariff of Rates and Charges attached to this Decision and Order reflects the new RRRP charge.

Revenue-to-Cost Ratio Adjustments

Revenue-to-cost 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*, dated November 28, 2007 and in its updated report *Review of Electricity Distribution Cost Allocation Policy,* dated March 31, 2011.

Pursuant to the Board's Decision in Festival's 2010 cost of service application [EB-2009-0263], it was agreed that for the 2012 rate year, Festival would adjust its street lighting and sentinel lighting rate classes to the minimum target range of 70% and residential Hensall to 99.00%.

In its application, Festival also adjusted the GS>50 kW to 81.39%, which was not in accordance with the Board's decision in EB-2009-0263. In response to Board staff interrogatories, Festival updated the Revenue to Cost Workform to adjust the ratio for GS>50KW down to 81.31% as per the Board's decision in EB-2009-0263.

The table below outlines the proposed revenue-to-cost ratios.

Rate Class	Current 2011 Ratio	Proposed 2012 Ratio	Target Range
Residential	106.66%	107.00%	85 – 115
Residential – Hensall	91.00%	99.00%	85 – 115
General Service Less Than 50 kW	113.13%	112.03%	80 – 120
General Service 50 to 4,999 kW	81.39%	81.31%	85 – 115
Large Use	113.13%	112.03%	80 – 120
Street Lighting	60.60%	70.00%	70 – 120
Sentinel Lighting	60.00%	70.00%	70 – 120
Unmetered Scattered Load	120.00%	120.00%	80 – 120

Both Board staff and VECC submitted that the re-filed revenue-to-cost ratio adjustments were in accordance with the Board's decision in Festival's 2010 cost of service proceeding.

The Board approves the revised revenue to cost ratios, as the revised adjustments are in accordance with the EB-2009-0263 decision.

Shared Tax Savings Adjustments

In its Supplemental Report, the Board determined that a 50/50 sharing of the impact of currently known legislated tax changes, as applied to the tax level reflected in the Board-approved base rates for a distributor, is appropriate.

The calculated annual tax reduction over the IRM plan term will be allocated to customer rate classes on the basis of the Board-approved base-year distribution revenue. These amounts will be refunded to customers each year of the plan term, over a 12-month period, through a volumetric rate rider using annualized consumption by customer class underlying the Board-approved base rates.

Festival's application identified a total tax savings of $239,903 resulting in a shared amount of $119,951 to be refunded to rate payers.

In its submission, Board staff noted that Festival completed the Tax-Savings Workform with the correct rates which reflected the Revenue Requirement Work Form from the Board's decision in EB-2009-0263. Board staff had no concerns with the workform filed.

The Board approves the disposition of a credit balance of $119,951 via a 12 month (i.e. May 1, 2012 to April 30, 2013) rate rider for each class.

Retail Transmission Service Rates

Electricity distributors are charged the Ontario Uniform Transmission Rates ("UTRs") at the wholesale level and subsequently pass these charges on to their distribution customers through the Retail Transmission Service Rates ("RTSRs"). Variance accounts are 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. variance Accounts 1584 and 1586).

On June 22, 2011 the Board issued revision 3.0 of the *Guideline G-2008-0001 - Electricity Distribution Retail Transmission Service Rates* (the "RTSR Guideline"). The RTSR Guideline outlines the information that the Board requires electricity distributors to file to adjust their RTSRs for 2012. The RTSR Guideline requires electricity distributors to adjust their RTSRs based on a comparison of historical transmission costs adjusted for the new UTR levels and the revenues generated under existing RTSRs. The objective of resetting the rates is to minimize the prospective balances in Accounts 1584 and 1586. In order to assist electricity distributors in the calculation of the distributors' specific RTSRs, Board staff provided a filing module.

On December 20, 2011 the Board issued its Rate Order for Hydro One Transmission (EB-2011-0268) which adjusted the UTRs effective January 1, 2012, as shown in the following table:

2012 Uniform Transmission Rates

Network Service Rate	$3.57 per kW
<u>Connection Service Rates</u> Line Connection Service Rate Transformation Connection Service Rate	 $0.80 per kW $1.86 per kW

In its submission, Board staff noted that it had no concerns with the RTSR Workform as filed by Festival.

The Board finds that these 2012 UTRs are to be incorporated into the filing module.

Review and Disposition of Group 1 Deferral and Variance Account Balances

The *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative* (the "EDDVAR Report") provides that, during the IRM plan term, the distributor's Group 1 account balances will be reviewed and disposed if the preset disposition threshold of $0.001 per kWh (debit or credit) is exceeded. The onus is on the distributor to justify why any account balance in excess of the threshold should not be disposed.

Festival's 2010 actual year-end balance for Group 1 Accounts including interest projected to April 30, 2012 is a debit of $57,867. This amount results in a total claim of -$0.00001 per kWh, which does not exceed the preset disposition threshold and as such, Festival did not request disposition of these Accounts.

In its submission, Board staff noted that it had reviewed Festival's Group 1 Account balances and noted that the principal balances as of December 31, 2010 reconcile with the balances reported as part of the *Reporting and Record-keeping Requirements*. Also, the preset disposition threshold has not been exceeded. Accordingly, Board staff took no issue with Festival's request to not dispose of its 2010 Group 1 Account balances at this time.

The Board notes that the preset disposition has not been exceeded and therefore no disposition of Festival's Group 1 Account balances is required at this time.

Review and Disposition of Account 1521: Special Purpose Charge

The Board authorized Account 1521, Special Purpose Charge Assessment ("SPC") Variance Account in accordance with Section 8 of Ontario Regulation 66/10 (Assessments for Ministry of Energy and Infrastructure Conservation and Renewable Energy Program Costs) (the "SPC Regulation"). Accordingly, any difference between (a) the amount remitted to the Minister of Finance for the distributor's SPC assessment and (b) the amounts recovered from customers on account of the assessment were to be recorded in "Sub-account 2010 SPC Assessment Variance" of Account 1521.

In accordance with Section 8 of the SPC Regulation, distributors are required to apply no later than April 15, 2012 for an order authorizing the disposition of any residual balance in sub-account 2010 SPC Assessment Variance. The Filing Requirements state the Board's expectation that requests for disposition of this account balance would be heard as part of the proceedings to set rates for the 2012 year.

Festival requested the disposition of a residual debit balance of $7,216 as at December 31, 2010, plus collections in 2011 and carrying costs until April 30, 2012.

Board staff submitted that despite the usual practice, the Board should authorize the disposition of Account 1521 as of December 31, 2010, plus the amounts recovered from customers in 2011, including interest, because the account balance does not require a prudence review, and electricity distributors are required by regulation to apply for disposition of this account. Board staff submitted that the $7,216 debit balance in Account 1521 should be approved for disposition on a final basis.

The Board approves, on a final basis, Festival's request for the disposition of the principal and interest balances in Account 1521 totaling a debit of $7,216 over a one year period, from May 1, 2012 to April 30, 2013. The Board directs Festival to close Account 1521 as of May 1, 2012.

For accounting and reporting purposes, the balance of Account 1521 shall be transferred to the applicable principal and interest carrying charge sub-accounts of Account 1595 pursuant to the requirements specified in Article 220, Account Descriptions, of the *Accounting Procedures Handbook for Electricity Distributors*. The date of the journal entry to transfer the approved account balances to the sub-accounts of Account 1595 is the date on which disposition of the balances are effective in rates, which generally is the start of the rate year (e.g. May 1), and this entry should be completed on a timely basis to ensure that these adjustments are included in the June 30, 2012 (3rd Quarter) RRR data reported.

Review and Disposition of Account 1562: Deferred Payments in Lieu of Taxes

In 2001, the Board approved a regulatory payments in lieu of tax proxy approach for rate applications coupled with a true-up mechanism filed under the RRR to account for changes in tax legislation and rules and to true-up between certain proxy amounts used to set rates and the actual amount of taxes paid. The variances resulting from the true-up were tracked in Account 1562 for the period 2001 through April 30, 2006.

On November 28, 2008, pursuant to sections 78, 19 (4) and 21 (5) of the *Ontario Energy Board Act, 1998*, the Board commenced a Combined Proceeding (EB-2008-0381) on its own motion to determine the accuracy of the final account balances with respect to Account 1562 Deferred Payments in Lieu of Taxes ("Deferred PILs") (for the period October 1, 2001 to April 30, 2006) for certain electricity distributors that filed 2008 and 2009 distribution rate applications.

The Notice in the Combined Proceeding included a statement of the Board's expectation that the decision resulting from the Combined Proceeding would be used to determine the final account balances with respect to Account 1562 Deferred PILs for the remaining distributors. In its Decision and Order, the Board stated that: "Each remaining distributor will be expected to apply for final disposition of account 1562 with its next general rates application (either IRM or cost of service)."[1]

Festival applied to dispose of a debit balance of $209,208, which included a principal balance of $82,246 and carrying charges to April 30, 2012 of $126,962.

<u>Income Tax Rates</u>

In its submission, Board staff noted that, in its 2002 application, Festival used the income tax rate of 40.62% to calculate the 2001 fourth quarter PILs proxy. The income tax rates chosen for 2001 Q4 did not conform to the Board's decision and order in the Combined Proceeding for a utility that is subject to the maximum tax rates. Board staff submitted that Festival should update its evidence to include the income tax rate of

[1] EB-2008-0381 Account 1562 Deferred PILs Combined Proceeding, Decision and Order, p. 28

40.62% and grossed-up tax rate of 39.50% in its 2001 Q4 SIMPIL model. Board staff estimated that these changes will result in an increase of $43,783 on the final Account 1562 principal debit balance, excluding carrying charges.

In its reply submission, Festival agreed with the Board staff submission with respect to following the regulatory guidance and the Board's decisions in determining the amounts recorded in Account 1562. Festival updated and re-filed its evidence, as part of its reply submission, to include the income tax rate of 40.62% and grossed-up tax rate of 39.50% in its 2001 Q4 SIMPIL model. Festival agreed with the Board staff estimated increase of $43,783 on the final Account 1562 principal debit balance. Festival updated the carrying charges accordingly.

In its reply submission, Festival requested that the Board approve the revised Account 1562 principal and projected interest balance as at April 30, 2012 of a debit of $271,992 consisting of a principal debit amount of $126,029 plus related debit carrying charges of $145,963.

The Board approves the revised Account 1562 principal and projected interest balance as at April 30, 2012 of $271,992 consisting of a principal debit amount of $126,029 plus related debit carrying charges of $145,963. The Account 1562 debit balance is to be recovered over a one year period, May 1, 2012 to April 30, 2013.

For accounting and reporting purposes, the balance of Account 1562 shall be transferred to the applicable principal and interest carrying charge sub-accounts of Account 1595 pursuant to the requirements specified in Article 220, Account Descriptions, of the Accounting Procedures Handbook for Electricity Distributors. The date of the journal entry to transfer the approved account balances to the sub-accounts of Account 1595 is the date on which disposition of the balances are effective in rates, which generally is the start of the rate year (e.g. May 1), and this entry should be completed on a timely basis to ensure that these adjustments are included in the June 30, 2012 (Quarter 3) RRR data reported.

Review and Disposition of Lost Revenue Adjustment Mechanism

The Board's *Guidelines for Electricity Distributor Conservation and Demand Management* (the "CDM Guidelines") issued on March 28, 2008 outline the information that is required when filing an application for LRAM or SSM.

Festival originally sought to recover a total LRAM claim of $191,653 over a two-year period. Festival's LRAM claim included the effect of new 2010 programs as well as persistence of 2006-2009 programs in 2010, and the persistence of 2006-2010 programs for 2011. Festival subsequently updated its LRAM claim to $187,644.21 based on the OPA's 2010 final program results through interrogatories. In its reply submission, Festival once again revised its LRAM claim, requesting $350,020, in order to include 2010 program results and 2010 persistent results in 2010, 2011, 2012 and 2013.

Board staff noted that Festival's rates were last rebased in 2010. Board staff submitted that the intent of the LRAM in the electricity sector is to maintain revenue neutrality for CDM activities implemented by distributors during the IRM term since their rates do not reflect incremental CDM activities beyond the rebasing year. Board staff noted that the expectation in the electricity sector has been that LRAM claims pertaining to the test year (including true-ups to previous rebasing forecasts) would be unnecessary once a distributor rebases and accordingly updates its load forecast. This approach results in having final rates for all elements of the revenue requirement for the test year. Board staff noted that in its 2010 cost of service application, Festival had the opportunity to reflect CDM savings on a forecast basis for all programs planned to be deployed up to and including the test year.

Board staff noted that in response to an interrogatory, Festival noted that in its 2010 cost of service proceeding, it attempted to incorporate the impact of CDM in its load forecast by indicating that in part, CDM played a role in the negative population coefficient it had proposed. Festival further noted that the Board did not accept this proposal and found that Festival failed to provide data to support its comments and failed to demonstrate that it had taken the effort to include these factors and any other local factors in the regression model. The Board noted in its decision (EB-2009-0263) that Festival may wish to undertake further work in this area for its next cost of service application in order to better reflect the impacts of CDM and local economic factors[2].

Board staff submitted that while the Board noted that Festival required improvement in the area of CDM forecasting going forward, the decision in Festival's 2010 cost of service application did not provide any further guidance to Festival nor did it establish expectations that deviated from Board policy, with respect specifically to CDM savings

[2] Board Decision and Order, April 1, 2010 – EB-2009-0263

in 2010. Board staff further noted that to the extent that actual savings from CDM programs were not reflected in the final approved forecast should be absorbed by the applicant.

In its submission, VECC did not agree with Festival that no savings for CDM programs deployed from 2006 to 2010 were included in the load forecast approved in Festival's 2010 COS proceeding. VECC noted that the load forecast model utilized by Festival used 11 years of historical data for the period 1998 to 2008. As a result, VECC submitted that the impact of 2006 to 2008 CDM programs had been included in the forecast.

VECC submitted that as there is no information available to indicate whether the savings implicitly included in the 2010 forecast are more or less than the actual impact of 2006 to 2010 CDM programs in 2010 and lost revenue for Festival's 2006 to 2010 programs should not be accruable in 2010 or 2011.

In its reply submission, Festival stated that disallowing LRAM for unforecasted CDM acts as a major disincentive to participate in CDM initiatives.

Festival provided submissions on the three parts of its LRAM claim: 2005-2008 CDM programs; 2009 CDM programs; and, 2010 CDM programs. Festival requested the approval of the persisting lost revenues for the periods noted above in 2010, 2011, 2012 and 2013.

In response to the submissions regarding Festival's 2010 Board-approved load forecast, Festival noted that it had used a multiple regression approach based on historical input factors to forecast load in its 2010 COS application. Festival noted that this analysis produced a weather normalized load forecast of 576.87 GWh. Festival further noted that the Board did not approve the proposed load forecast, but rather determined that a load forecast of 600 GWh was appropriate.

Festival submitted that because it used a regression analysis based on actual historical load data, a portion of its prior period CDM impacts would have been included in the 2010 Board-approved load forecast.

Festival noted that it did not include the impact of 2009 CDM programs in its proposed 2010 load forecast (576.87 GWh) and does not believe that these amounts could have been factored into the approved load forecast of 600 GWh.

Festival submitted that the persisting lost revenues of 2009 CDM programs in 2010, 2011, 2012 and 2013 should be approved as this recovery will keep it revenue neutral until its next cost of service proceeding scheduled for 2014.

Finally, Festival noted that approval of 2010 lost revenues in 2010 and the persisting lost revenues in 2011, 2012, and 2013 is consistent with Board staff submission on Niagara on the Lake's ("NOTL") 2012 IRM rate application where staff supported the recovery of 2010 lost revenues into 2011 and 2012 to keep NOTL revenue neutral until its next rebasing period.

The Board will not approve the LRAM claim as filed, as it is inconsistent with the CDM Guidelines (EB-2008-0037). The Board concurs with the submissions of VECC and finds that no portion of the LRAM claim is appropriate for recovery. The 2008 CDM Guidelines state that lost revenues are only accruable until new rates (based on a new revenue requirement and load forecast) are set by the Board, as the savings would be assumed to be incorporated in the load forecast. As set out in the Decision and Order on Hydro Ottawa's 2012 COS application (EB-2011-0054), the 2008 CDM Guidelines do not consider a true-up of the effects of CDM activities embedded in a rebasing year. Festival has provided evidence in this proceeding that some CDM effects are reflected in the last, Board-approved load forecast. As such, there is no reasonable basis to vary from the Board's stated policy.

The Board notes that Festival filed a new request based on new information in its reply submission. Festival should be aware for future applications that the filing of new information in a reply submission is not appropriate in the normal course as it has not been tested by the Board or other parties. New information in the final argument phase should be restricted to clarifying information already on the record or existing requests. In any event the new information contained in the reply submission does not alter the Board's decision to disallow the entire LRAM claim for the reasons noted above.

Current Lost Revenue Adjustment Mechanism Rate Rider – Effective until April 30, 2012

Board staff interrogatories noted a discrepancy between Festival's current Tariff of Rates and Charges and the Rate Generator model with respect to the line item labelled

“Rate Rider for Lost Revenue Adjustment Mechanism (LRAM) Recovery/Shared Savings Mechanism (SSM) Recovery”. Board staff noted that a sunset date of April 30, 2014 had been entered for all applicable rate classes in the Rate Generator. However, on Festival’s current Tariff of Rates and Charges, the sunset date for the subject item is April 30, 2012. Board staff asked Festival to reconcile this difference.

In its response, Festival stated that it is requesting that the Board approve a change to the sunset date of the LRAM rate rider from April 30, 2012 to April 30, 2014. In Festival’s 2011 rate application (EB-2011-0083), Festival requested a three year recovery period for its LRAM claim. In the Board’s decision, the Board noted that: “In its original filing, Festival Hydro sought approval to recover an LRAM and SSM claim in the total amount of $430,607 ($357,449 for LRAM and $73,158 for SSM) **over a one year period**[3]” (emphasis added). Ultimately, the Board’s decision approved Festival’s LRAM and SSM amounts as originally filed with a one year recovery period, when in fact Festival requested a three year recovery period.

In its submission, Board staff supported the continuation of the existing LRAM/SSM rate rider to April 30, 2014. Board staff noted that the actual approved quantum was not disputed in the Board’s decision, and as such, the total amount should be allowed to be recovered by Festival.

The Board notes that in the Board’s 2011 Decision and Order, the Board’s intent was to allow Festival to recover the LRAM amount of $357,449 and the SSM amount of $73,158, as there was no dispute surrounding the actual quantum of the total LRAM/SSM claims. If the rider expired after one year then Festival would under recover.

The Board agrees that it is appropriate to allow for full recovery of the amounts and approves the continuation of the existing LRAM/SSM rate rider for an additional two years, from May 1, 2012 to April 30, 2014.

Smart Meter Funding Adder (“SMFA”)

In its application, Festival requested that the Board approve the continuation of its current SMFA of $1.52. Festival stated:

[3] EB-2010-0083, Decision and Order, Page 9

> As Festival Hydro did not receive direction in our 2011 Decision and Order EB-2010-0083 regarding a sunset date for our smart meter rate adder, Festival requests that the Board allow continuation of the existing rate adder of $1.52 approved under EB-2010-0083.[4]

In interrogatories, Board staff questioned Festival about this evidence, quoting from the Board's Decision with respect to Festival's 2011 IRM application:

> Since the deployment of smart meters on a province-wide basis is now nearing completion, the Board expects distributors to file for a final prudence review at the earliest possible opportunity following the availability of audited costs…**In the interim, the Board will approve the requested SMFA of $1.52 per metered customer per month from May 1, 2011 to April 30, 2012. This SMFA adder will be reflected in the Tariff of rates and Charges, and will cease on April 30, 2012 (emphasis added).**[5]

In its response to Board staff interrogatory # 4 (a), Festival reiterated its position that:

> Festival confirms that the rate adder approved in our 2011 IRM was scheduled to cease effective April 30, 2012 – however, as our Decision and Order EB-2010-0083 did not have a sunset clause, Festival interpreted that to mean that a request for that approval of a SMFA for the period May 1, 2012 until such time as a prudence review could be completed on audited smart meter costs was appropriate.

Board staff submitted that Festival's interpretation is incorrect, that the Board's decision is clear and the majority of distributors, in other 2012 rates applications currently before the Board, whether cost of service or IRM, have apparently understood that the SMFA would cease on April 30, 2012.

In response to further Board staff interrogatories, Festival provided further elaboration of its circumstances in support of its proposed SMFA. Board staff accepted, for the most part, Festival's evidence.

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[4] Festival Hydro, Application [EB-2011-0167], page 5
[5] Decision and Order [EB-2010-0083], April 21, 2011, page 5

Board staff accepted Festival's reasoning in support of its proposal (i.e. to extend the continuation of its SMFA) for a final prudence review. Given its TOU extension it has remaining costs to incur for meter deployment and it does not have 90% of total smart meter costs audited.

Board staff submitted that the Board may wish to consider the continuation of the SMFA with a specific sunset date. Board staff noted that establishing a sunset date of October 31, 2012 would be reasonable. By that time, Festival should have completed its smart meter program, including TOU implementation. Its 2011 costs would also be audited, so that total smart meter costs should satisfy the threshold that at least 90% of such costs are audited actuals.

In its reply submission, Festival agreed with Board staff's submission.

The Board will not approve the continuation of the SMFA beyond the current expiry of April 30, 2012. The Board disagrees with Festival that the current SMFA does not have a sunset date and finds that the 2011 IRM decision is clear that the SMFA expires April 30, 2012. The Board is also of the view that the percentage of total smart meter costs audited and TOU implementation date are not the relevant metrics to consider with respect to whether it is appropriate to extend a SMFA. Rather, the relevant metric is the date at which smart meter deployment was or will be substantially completed. In this case, smart meter deployment was 96% complete on December 31, 2010 and was 100% complete by December 31, 2011.

The SMFA was designed to fund the prospective deployment of smart meters with minimum functionality. It was not intended to fund the activities referenced by Festival, which are clearly outside of minimum functionality pursuant to O. Reg. 425/06, the functional specification for an Advanced Metering Infrastructure issued July 5, 2007, the Board's decision in EB-2007-0063[6], and the SMFA and Cost Recovery Guidelines dated October 22, 2008[7]. The Board believes that the current expiry date of the SMFA best aligns the interests of ratepayers and the utility, by balancing potential rate volatility with the need to ensure that monies collected from ratepayers serve the intended purpose.

[6] Smart Meter Initiative Combined Proceeding (EB-2007-0063)
[7] Guideline: Smart Meter Funding and Cost Recovery (G-2008-0002)

Rate Model

With this Decision, the Board is providing Festival with a rate model (spreadsheet) and applicable supporting models and a draft Tariff of Rates and Charges (Appendix A) that reflects the elements of this Decision. The Board also reviewed the entries in the rate model to ensure that they were in accordance with the 2011 Board approved Tariff of Rates and Charges and the rate model was adjusted, where applicable, to correct any discrepancies.

THE BOARD ORDERS THAT:

1. Festival's new distribution rates shall be effective May 1, 2012.

2. Festival shall review the draft Tariff of Rates and Charges set out in Appendix A. Festival shall file with the Board a written confirmation assessing the completeness and accuracy of the draft Tariff of Rates and Charges, or provide a detailed explanation of any inaccuracies or missing information within **7 days** of the date of issuance of this Decision and Order.

3. If the Board does not receive a submission from Festival to the effect that inaccuracies were found or information was missing pursuant to item 2 of this Decision and Order, the draft Tariff of Rates and Charges set out in Appendix A of this order will become final effective May 1, 2012, and will apply to electricity consumed or estimated to have been consumed on and after May 1, 2012. Festival shall notify its customers of the rate changes no later than with the first bill reflecting the new rates.

4. If the Board receives a submission from Festival to the effect that inaccuracies were found or information was missing pursuant to item 2 of this Decision and Order, the Board will consider the submission of Festival and will issue a final Tariff of Rates and Charges.

Cost Awards

The Board will issue a separate decision on cost awards once the following steps are completed:

1. VECC shall submit its cost claims no later than **7 days** from the date of issuance of the final Rate Order.

2. Festival shall file with the Board and forward to VECC any objections to the claimed costs within **21 days** from the date of issuance of the final Rate Order.

3. VECC shall file with the Board and forward to Festival any responses to any objections for cost claims within **28 days** from the date of issuance of the final Rate Order.

4. Festival shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

All filings to the Board must quote file number **EB-2011-0167,** be made through the Board's web portal at, www.errr.ontarioenergyboard.ca and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.ontarioenergyboard.ca. If the web portal is not available parties may email their document to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 2 paper copies.

DATED at Toronto, March 22, 2012
ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary

Appendix A

To Decision and Order

Draft Tariff of Rates and Charges

Board File No: EB-2011-0167

DATED: March 22, 2012

Festival Hydro Inc.
TARIFF OF RATES AND CHARGES
Effective and Implementation Date May 1, 2012

This schedule supersedes and replaces all previously approved schedules of Rates, Charges and Loss Factors

EB-2011-0167

RESIDENTIAL SERVICE CLASSIFICATION

A customer is classed as residential when all the following conditions are met:
(a) the property is zoned strictly residential by the local municipality,
(b) the account is created and maintained in the customer's name,
(c) the building is used for dwelling purposes.
Exceptions may be made for properties zoned for farming use, under the following conditions:
(a) the principal use of the service is for the residence,
(b) the service size is 200 amperes or less, and the service is 120/240 volt single phase.
Further servicing details are available in the distributor's Conditions of Service.

APPLICATION

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FOR ALL SERVICE AREAS EXCEPT HENSALL

MONTHLY RATES AND CHARGES – Delivery Component

Service Charge	$	14.92
Distribution Volumetric Rate	$/kWh	0.0166
Low Voltage Service Rate	$/kWh	0.0002
Rate Rider for Deferral/Variance Account Disposition (2010) – Effective until April 30, 2014	$/kWh	(0.0009)
Rate Rider for Deferral/Variance Account Disposition (2012) – Effective until April 30, 2013	$/kWh	0.0011
Rate Rider for Lost Revenue Adjustment Mechanism (LRAM) Recovery/Shared Savings Mechanism (SSM) Recovery – Effective until April 30, 2014	$/kWh	0.0006
Rate Rider for Tax Change – Effective until April 30, 2013	$/kWh	(0.0005)
Retail Transmission Rate – Network Service Rate	$/kWh	0.0067
Retail Transmission Rate – Line and Transformation Connection Service Rate	$/kWh	0.0050

MONTHLY RATES AND CHARGES – Regulatory Component

Wholesale Market Service Rate	$/kWh	0.0052
Rural Rate Protection Charge	$/kWh	0.0011
Standard Supply Service – Administrative Charge (if applicable)	$	0.25

Festival Hydro Inc.
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FOR HENSALL SERVICE AREA

MONTHLY RATES AND CHARGES – Delivery Component

Service Charge	$	13.82
Distribution Volumetric Rate	$/kWh	0.0149
Low Voltage Service Rate	$/kWh	0.0002
Rate Rider for Deferral/Variance Account Disposition (2010) – Effective until April 30, 2014	$/kWh	(0.0010)
Rate Rider for Deferral/Variance Account Disposition (2012) – Effective until April 30, 2013	$/kWh	0.0007
Rate Rider for Lost Revenue Adjustment Mechanism (LRAM) Recovery/Shared Savings Mechanism (SSM) Recovery – Effective until April 30, 2014	$/kWh	0.0006
Rate Rider for Tax Change – Effective until April 30, 2013	$/kWh	(0.0003)
Retail Transmission Rate – Network Service Rate	$/kWh	0.0067
Retail Transmission Rate – Line and Transformation Connection Service Rate	$/kWh	0.0050

MONTHLY RATES AND CHARGES – Regulatory Component

Wholesale Market Service Rate	$/kWh	0.0052
Rural Rate Protection Charge	$/kWh	0.0011
Standard Supply Service – Administrative Charge (if applicable)	$	0.25

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GENERAL SERVICE LESS THAN 50 kW SERVICE CLASSIFICATION

This classification refers to a non residential account whose peak demand is less than 50 kW in eight of the past twelve months and never reaches 100 kW in any month. For a new customer without prior billing history, the peak demand will be estimated by Festival Hydro Inc. Customers who are classed as General Service but consider themselves to be residential must provide Festival Hydro Inc. with a copy of their tax assessment, which clearly demonstrates the zoning is for residential use only. Further servicing details are available in the distributor's Conditions of Service.

APPLICATION

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MONTHLY RATES AND CHARGES – Delivery Component

Service Charge	$	28.88
Distribution Volumetric Rate	$/kWh	0.0146
Low Voltage Service Rate	$/kWh	0.0002
Rate Rider for Deferral/Variance Account Disposition (2010) – Effective until April 30, 2014	$/kWh	(0.0010)
Rate Rider for Deferral/Variance Account Disposition (2012) – Effective until April 30, 2013	$/kWh	0.0007
Rate Rider for Lost Revenue Adjustment Mechanism (LRAM) Recovery/Shared Savings Mechanism (SSM) Recovery – Effective until April 30, 2014	$/kWh	0.0001
Rate Rider for Tax Change – Effective until April 30, 2013	$/kWh	(0.0003)
Retail Transmission Rate – Network Service Rate	$/kWh	0.0058
Retail Transmission Rate – Line and Transformation Connection Service Rate	$/kWh	0.0045

MONTHLY RATES AND CHARGES – Regulatory Component

Wholesale Market Service Rate	$/kWh	0.0052
Rural Rate Protection Charge	$/kWh	0.0011
Standard Supply Service – Administrative Charge (if applicable)	$	0.25

Festival Hydro Inc.
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GENERAL SERVICE 50 to 4,999 kW SERVICE CLASSIFICATION

This classification refers to a non residential account whose peak demand is equal to or greater than 50 kW in eight of the past twelve months, or with a peak demand above 100 kW in any month, but less than 5,000 kW. For new customers without prior billing history, the peak demand will be estimated by Festival Hydro Inc. Further servicing details are available in the distributor's Conditions of Service.

APPLICATION

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MONTHLY RATES AND CHARGES – Delivery Component

Service Charge	$	223.24
Distribution Volumetric Rate	$/kW	2.2889
Low Voltage Service Rate	$/kW	0.0689
Rate Rider for Deferral/Variance Account Disposition (2010) – Effective until April 30, 2014	$/kW	(0.3508)
Rate Rider for Deferral/Variance Account Disposition (2012) – Effective until April 30, 2013	$/kW	0.0782
Rate Rider for Lost Revenue Adjustment Mechanism (LRAM) Recovery/Shared Savings Mechanism (SSM) Recovery – Effective until April 30, 2014	$/kW	0.0389
Rate Rider for Tax Change – Effective until April 30, 2013	$/kW	(0.0358)
Retail Transmission Rate – Network Service Rate	$/kW	2.4342
Retail Transmission Rate – Line and Transformation Connection Service Rate	$/kW	1.7981
Retail Transmission Rate – Network Service Rate – Interval Metered	$/kW	2.5854
Retail Transmission Rate – Line and Transformation Connection Service Rate – Interval Metered	$/kW	1.9712

MONTHLY RATES AND CHARGES – Regulatory Component

Wholesale Market Service Rate	$/kWh	0.0052
Rural Rate Protection Charge	$/kWh	0.0011
Standard Supply Service – Administrative Charge (if applicable)	$	0.25

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LARGE USE SERVICE CLASSIFICATION

This classification refers to an account whose monthly peak demand is equal to or greater than 5,000 kW for twelve consecutive months, or is forecast to be equal to or greater than 5,000 kW. Further servicing details are available in the distributor's Conditions of Service.

APPLICATION

The application of these rates and charges shall be in accordance with the Licence of the Distributor and any Code or Order of the Board, and amendments thereto as approved by the Board, which may be applicable to the administration of this schedule.

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MONTHLY RATES AND CHARGES – Delivery Component

Service Charge	$	10,676.92
Distribution Volumetric Rate	$/kW	0.9908
Low Voltage Service Rate	$/kW	0.0801
Rate Rider for Deferral/Variance Account Disposition (2010) – Effective until April 30, 2014	$/kW	(0.4507)
Rate Rider for Deferral/Variance Account Disposition (2012) – Effective until April 30, 2013	$/kW	0.0737
Rate Rider for Lost Revenue Adjustment Mechanism (LRAM) Recovery/Shared Savings Mechanism (SSM) Recovery – Effective until April 30, 2014	$/kW	0.1910
Rate Rider for Tax Change – Effective until April 30, 2013	$/kW	(0.0355)
Retail Transmission Rate – Network Service Rate – Interval Metered	$/kW	2.8627
Retail Transmission Rate – Line and Transformation Connection Service Rate – Interval Metered	$/kW	2.2542

MONTHLY RATES AND CHARGES – Regulatory Component

Wholesale Market Service Rate	$/kWh	0.0052
Rural Rate Protection Charge	$/kWh	0.0011
Standard Supply Service – Administrative Charge (if applicable)	$	0.25

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UNMETERED SCATTERED LOAD SERVICE CLASSIFICATION

This classification applies to an account whose average monthly maximum demand is less than, or is forecast to be less than, 50 kW and the consumption is unmetered. Such connections include cable TV power packs, bus shelters, telephone booths, traffic lights, pedestrian Cross-Walk signals/beacons, railway crossings, etc. The level of the consumption will be agreed to by the distributor and the customer, based on detailed manufacturer information/ documentation with regard to electrical consumption of the unmetered load or periodic monitoring of actual consumption. Further servicing details are available in the distributor’s Conditions of Service.

APPLICATION

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MONTHLY RATES AND CHARGES – Delivery Component

Service Charge (per connection)	$	12.79
Distribution Volumetric Rate	$/kWh	0.0126
Low Voltage Service Rate	$/kWh	0.0002
Rate Rider for Deferral/Variance Account Disposition (2010) – Effective until April 30, 2014	$/kWh	(0.0008)
Rate Rider for Deferral/Variance Account Disposition (2012) – Effective until April 20, 2013	$/kWh	0.0014
Rate Rider for Tax Change – Effective until April 30, 2013	$/kWh	(0.0006)
Retail Transmission Rate – Network Service Rate	$/kWh	0.0058
Retail Transmission Rate – Line and Transformation Connection Service Rate	$/kWh	0.0045

MONTHLY RATES AND CHARGES – Regulatory Component

Wholesale Market Service Rate	$/kWh	0.0052
Rural Rate Protection Charge	$/kWh	0.0011
Standard Supply Service – Administrative Charge (if applicable)	$	0.25

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SENTINEL LIGHTING SERVICE CLASSIFICATION

This classification refers to accounts that are an unmetered lighting load supplied to a sentinel light. Further servicing details are available in the distributor's Conditions of Service.

APPLICATION

The application of these rates and charges shall be in accordance with the Licence of the Distributor and any Code or Order of the Board, and amendments thereto as approved by the Board, which may be applicable to the administration of this schedule.

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MONTHLY RATES AND CHARGES – Delivery Component

Service Charge (per connection)	$	2.02
Distribution Volumetric Rate	$/kW	10.614
Low Voltage Service Rate	$/kW	0.0504
Rate Rider for Deferral/Variance Account Disposition (2010) – Effective until April 30, 2014	$/kW	(0.3881)
Rate Rider for Deferral/Variance Account Disposition (2012) – Effective until April 30, 2013	$/kW	0.2723
Rate Rider for Tax Change – Effective until April 30, 2013	$/kW	(0.1362)
Retail Transmission Rate – Network Service Rate	$/kW	1.8451
Retail Transmission Rate – Line and Transformation Connection Service Rate	$/kW	1.4192

MONTHLY RATES AND CHARGES – Regulatory Component

Wholesale Market Service Rate	$/kWh	0.0052
Rural Rate Protection Charge	$/kWh	0.0011
Standard Supply Service – Administrative Charge (if applicable)	$	0.25

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STREET LIGHTING SERVICE CLASSIFICATION

This classification applies to an account for roadway lighting with a Municipality, Regional Municipality, Ministry of Transportation and private roadway lighting, controlled by photo cells. The consumption for these customers will be based on the calculated connected load times the required lighting times established in the approved OEB street lighting load shape template. If connected to the municipal or the Province of Ontario street lighting system, decorative lighting and tree lighting services will be treated as a Street Lighting class of service. Decorative or tree lighting connected to Festival Hydro Inc.'s distribution system will be treated as a General Service Less Than 50 kW class customers. Further servicing details are available in the distributor's Conditions of Service.

APPLICATION

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MONTHLY RATES AND CHARGES – Delivery Component

Service Charge (per connection)	$	1.08
Distribution Volumetric Rate	$/kW	4.9197
Low Voltage Service Rate	$/kW	0.0494
Rate Rider for Deferral/Variance Account Disposition (2010) – Effective until April 30, 2014	$/kW	(0.2751)
Rate Rider for Deferral/Variance Account Disposition (2012) – Effective until April 30, 2013	$/kW	0.2411
Rate Rider for Tax Change – Effective until April 30, 2013	$/kW	(0.1191)
Retail Transmission Rate – Network Service Rate	$/kW	1.8358
Retail Transmission Rate – Line and Transformation Connection Service Rate	$/kW	1.3901

MONTHLY RATES AND CHARGES – Regulatory Component

Wholesale Market Service Rate	$/kWh	0.0052
Rural Rate Protection Charge	$/kWh	0.0011
Standard Supply Service – Administrative Charge (if applicable)	$	0.25

Festival Hydro Inc.
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microFIT GENERATOR SERVICE CLASSIFICATION

This classification applies to an electricity generation facility contracted under the Ontario Power Authority's microFIT program and connected to the distributor's distribution system. Further servicing details are available in the distributor's Conditions of Service.

APPLICATION

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MONTHLY RATES AND CHARGES – Delivery Component

Service Charge	$	5.25

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ALLOWANCES

Transformer Allowance for Ownership - per kW of billing demand/month	$/kW	(0.60)
Primary Metering Allowance for transformer losses – applied to measured demand and energy	%	(1.00)

SPECIFIC SERVICE CHARGES

APPLICATION

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Customer Administration		
Arrears certificate	$	15.00
Income tax letter	$	15.00
Credit reference/credit check (plus credit agency costs)	$	15.00
Returned Cheque (plus bank charges)	$	15.00
Account set up charge/change of occupancy charge (plus credit agency costs if applicable)	$	30.00
Meter dispute charge plus Measurement Canada fees (if meter found correct)	$	30.00
Non-Payment of Account		
Late Payment - per month	%	1.50
Late Payment - per annum	%	19.56
Collection of account charge – no disconnection	$	30.00
Disconnect/Reconnect Charge - At Meter During Regular Hours	$	65.00
Disconnect/Reconnect Charge - At Meter After Hours	$	185.00
Disconnect/Reconnect at pole – during regular hours	$	185.00
Disconnect/Reconnect at pole – after regular hours	$	415.00
Install/Remove load control device – during regular hours	$	65.00
Install/Remove load control device – after regular hours	$	185.00
Service call – customer owned equipment	$	30.00
Service call – after regular hours	$	165.00
Temporary service install & remove – overhead – no transformer	$	500.00
Temporary service install & remove – underground – no transformer	$	300.00
Temporary service install & remove – overhead – with transformer	$	1000.00
Specific Charge for Access to the Power Poles – per pole/year	$	22.35

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RETAIL SERVICE CHARGES (if applicable)

APPLICATION

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Retail Service Charges refer to services provided by a distributor to retailers or customers related to the supply of competitive electricity

One-time charge, per retailer, to establish the service agreement between the distributor and the retailer	$	100.00
Monthly Fixed Charge, per retailer	$	20.00
Monthly Variable Charge, per customer, per retailer	$/cust.	0.50
Distributor-consolidated billing monthly charge, per customer, per retailer	$/cust.	0.30
Retailer-consolidated billing monthly credit, per customer, per retailer	$/cust.	(0.30)
Service Transaction Requests (STR)		
Request fee, per request, applied to the requesting party	$	0.25
Processing fee, per request, applied to the requesting party	$	0.50
Request for customer information as outlined in Section 10.6.3 and Chapter 11 of the Retail Settlement Code directly to retailers and customers, if not delivered electronically through the Electronic Business Transaction (EBT) system, applied to the requesting party		
Up to twice a year	$	no charge
More than twice a year, per request (plus incremental delivery costs)	$	2.00

LOSS FACTORS

If the distributor is not capable of prorating changed loss factors jointly with distribution rates, the revised loss factors will be implemented upon the first subsequent billing for each billing cycle.

Total Loss Factor – Secondary Metered Customer < 5,000 kW	1.0307
Total Loss Factor – Secondary Metered Customer > 5,000 kW	1.0176
Total Loss Factor – Primary Metered Customer < 5,000 kW	1.0204
Total Loss Factor – Primary Metered Customer > 5,000 kW	1.0075