Ontario Energy Board | **Commission de l'énergie de l'Ontario**

Ontario

EB-2007-0838

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 Whitby Hydro Electric Corporation for an order or orders approving or fixing just and reasonable distribution rates and other charges, to be effective May 1, 2008.

BEFORE: Paul Vlahos
Presiding Member

Paul Sommerville
Member

DECISION

Introduction

Whitby Hydro Electric Corporation ("Whitby") is a licensed distributor of electricity providing service to consumers within its licensed service area. Whitby 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, 2008.

Whitby is one of over 80 electricity distributors in Ontario that are regulated by the Board. In 2006, the Board announced the establishment of a multi-year electricity distribution rate-setting plan for the years 2007-2010. As part of the plan, Whitby is one of the electricity distributors to have its rates adjusted for 2008 on the basis of the 2nd Generation Incentive Rate Mechanism ("IRM") process.

To streamline the process for the approval of distribution rates and charges for distributors, the Board issued its *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* (the "Report") on

December 20, 2006. Among other things, the Report contained the relevant guidelines for 2008 rate adjustments (the "Guidelines") for distributors applying for rate adjustments pursuant to the IRM process.

Notice of Whitby's rate application was given through newspaper publication in Whitby'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. There were no intervention requests and no comments were received. The Board proceeded by way of a written hearing. Board staff participated actively in the proceeding.

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

Whitby's rate application was filed on the basis of the Guidelines. In fixing new rates and charges for Whitby, the Board has applied the policies described in the Report.

As outlined in the Report, distribution rates under the 2nd Generation IRM are to be adjusted by a price escalator less a productivity factor (X-factor) of 1.0%. Based on the final 2007 data published by Statistics Canada, the Board has established the price escalator to be 2.1%. The resulting price cap index adjustment is therefore 1.1%. 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. In addition, a change in the federal income tax rate effective January 1, 2008 was also incorporated into the rate model and reflected in distribution rates.

The Board also considered the reduction in Ontario capital tax and the increase in capital cost allowance (CCA) applicable to certain buildings and computers acquired after March 2007. The Board has decided that adjustments related to these items are not required, either because the changes are not of general application, or because they do not appear to be material.

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

- the specific service charges;
- the smart meter rate adder (an amount in the fixed components of the rates associated with smart meter cost recovery); and
- any continuing rate riders.

Accordingly the Board is providing Whitby with a rate model (spreadsheet) that reflects the price cap adjustments described above. Whitby is required to review the rate model (spreadsheet) and to confirm its completeness and accuracy with the Board at the time it files its Draft Rate Order. Whitby shall file with the Board a Draft Rate Order attaching the proposed Tariff of Rates and Charges which will reflect the Board's price cap adjustments as verified by Whitby and any other Board findings contained in this decision that would impact 2008 rates. Whitby shall also provide the rate model (spreadsheet) that underpins the Tariff of Rates and Charges. Any changes to the Board's rate model (spreadsheet) shall be clearly identified and explained.

Rate Riders

When the Board approved new rates for distributors for 2006, it also approved the recovery of regulatory asset balances on a final basis. The Board approved rate riders to facilitate the recovery of the approved balances over the two remaining years of the four-year recovery period mandated by the Minister of Energy (i.e. May 1, 2004 to April 30, 2008). The rate rider(s) associated with the recovery of regulatory assets will cease on May 1, 2008 and shall be removed from the Tariff of Rates and Charges, unless a previous Board decision authorized the continuation of such riders beyond April 30, 2008. No such authorization has been previously provided by the Board for Whitby. The final balance in account 1590 cannot be confirmed until after the current recovery period has expired, i.e. after April 30, 2008. Once the residual balance in deferral account 1590 is finalized, the residual balance will be disposed in a future proceeding.

Smart Meter Rate Adder

Whitby requested the continuation of the smart meter rate adder previously approved by the Board in order to provide funding for possible future implementation of smart meter costs and to minimize future rate impacts. The Board-approved rate adder for Whitby of $0.26 per month per metered customer shall continue. Whitby's variance accounts for smart meter program implementation costs, previously authorized by the Board, shall also be continued.

Retail Transmission Service Rates

On October 17, 2007, the Board issued its EB-2007-0759 Rate Order setting new Uniform Transmission Rates for Ontario transmitters, effective November 1, 2007. The Board approved a decrease of 18% to the wholesale transmission network rate, a decrease of 28% to the wholesale transmission line connection rate, and an increase of 7% to the wholesale transformation connection rate. The combined change in the wholesale transmission line connection and transformation connection rates is a reduction to the connection rate of 5%.

On October 29, 2007, the Board issued a letter to all electricity distributors directing them to propose an adjustment to their retail transmission service (RTS) rates to reflect the new Uniform Transmission Rates for Ontario transmitters effective November 1, 2007. The objective of resetting the rates was to minimize the prospective balance in variance accounts 1584 and 1586 and also to mitigate intergenerational inequities.

Whitby proposed to reduce its RTS – Network Service Rates by 23%-27% and its RTS – Line and Transformation Connection Service Rates by 26%-29% depending on the rate class. These adjustments are based on an allocation of the sum of the balances in variance accounts 1584 and 1586 as of September 30, 2007 and the monthly forecast balances up to April 20, 2009 including accumulated interest. Whitby also proposed that effective May 1st, 2009, the RTS rates be reverted to the 2007 level, subject to future rate orders from the Board. In its submission, Board Staff questioned the rationale for proposing to revert the RTS rates to a previous level and why this proposed reversion should be considered in this proceeding. In its reply submission, Whitby withdrew this request on the basis that RTS rates could be addressed as part of their 2009 rebasing application.

In its submission, Board Staff noted that the 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. The disposition of deferral and variance account balances is also generally dealt with in aggregate rather than clearing discrete accounts. Moreover, the disposition is effected by means of rate riders rather than adjustments to base rates.

The Board notes Staff's observations and further notes that, on February 19, 2008, the Board announced an initiative for the review and disposition of commodity account 1588 (RSVA-Power). Also, as part of this initiative, the Board will consider whether to extend this initiative to other accounts that are similar in nature, including RSVA accounts 1584 and 1586. The Board finds it more appropriate to defer this matter to this initiative. Therefore, the Board will not approve the disposition of variance accounts 1584 and 1586 in this proceeding. Since the proposed RTS rates include the effect of disposing of the balances in variance accounts 1584 and 1586, the Board does not accept Whitby's RTS rate adjustments and directs Whitby to reduce its RTS – Network Service Rates by 18% and its RTS – Line and Transformation Connection Service Rates by 5% for all its rate classes. Whitby is required to include these changes in its rate model (spreadsheet) to be filed with the Board.

Implementation

Whitby's new distribution rates are effective May 1, 2008. The Board directs that:

1. Whitby 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) days of the date of this Decision. 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 25, 2008.

Original signed by

Paul Vlahos
Presiding Member

Original signed by

Paul Sommerville
Member