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

EB-2013-0127

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 Espanola Regional Hydro Distribution Corporation for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2014.

BEFORE: Marika Hare
Presiding Member

Allison Duff
Member

DECISION and ORDER

March 13, 2014

Espanola Regional Hydro Distribution Corporation ("Espanola") filed an application with the Ontario Energy Board (the "Board") on October 18, 2013 under section 78 of the Act, seeking approval for changes to the rates that Espanola charges for electricity distribution, effective May 1, 2014 (the "Application").

The Application met the Board's requirements as detailed in the *Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* (the "RRFE Report") dated October 18, 2012 and the *Filing Requirements for Electricity Distribution Rate Applications* (the "Filing Requirements") dated July 17, 2013. Espanola selected the Price Cap Incentive Rate-Setting ("Price Cap IR") option to adjust its 2014 rates. The Price Cap IR methodology provides for a mechanistic and formulaic adjustment to distribution rates and charges in the period between cost of service applications.

Espanola last appeared before the Board with a full cost of service application for the 2012 rate year in the EB-2011-0139 proceeding. In this proceeding, Espanola seeks new rates and approval for additional revenue to recover the cost of a new municipal substation through an incremental capital module ("ICM") and lost revenue due to conservation programs through the lost revenue adjustment mechanism ("LRAM").

The Board conducted a written hearing and Board staff participated in the proceeding. The Vulnerable Energy Consumers Coalition ("VECC") applied for and was granted intervenor status and cost eligibility with respect to the proposed ICM and the requested LRAM. No letters of comment were received.

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 Charge;
- Retail Transmission Service Rates;
- Review and Disposition of Group 1 Deferral and Variance Account Balances;
- Incremental Capital Module; and
- Review and Disposition of Lost Revenue Adjustment Mechanism.

Price Cap Index Adjustment

The Board issued the *Report on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors* (the "Price Cap IR Report") which provides the 2014 rate adjustment parameters for distribution companies selecting either the Price Cap IR or Annual IR Index option.

Distribution rates under the Price Cap IR option are adjusted by an inflation factor, less a productivity factor and a stretch factor. The inflation factor for 2014 rates is 1.7%. Based on the total cost benchmarking model developed by Pacific Economics Group Research, LLC, the Board determined that the appropriate value for the productivity factor is zero percent. The Board also determined that the stretch factor can range from 0.0% to 0.6% for distributors selecting the Price Cap IR option, assigned based on a distributor's cost evaluation ranking. In the Price Cap IR Report, the Board assigned Espanola a stretch factor of 0.15%. As a result, the net price cap index adjustment for

Espanola is 1.55% (i.e. 1.7% - (0% + 0.15 %)). The price cap index adjustment applies to distribution rates (fixed and variable charges) uniformly across all customer classes. The price cap index adjustment does not apply to the components of delivery rates set out in the list below.

- Rate Riders;
- Rate Adders;
- Low Voltage Service Charges;
- Retail Transmission Service Rates;
- Wholesale Market Service Rate;
- Rural or Remote Electricity Rate Protection Charge;
- Standard Supply Service – Administrative Charge;
- Transformation and Primary Metering Allowances;
- Loss Factors;
- Specific Service Charges;
- MicroFit Charge; and
- Retail Service Charges.

Rural or Remote Electricity Rate Protection Charge

The Board issued a Decision and Rate Order (EB-2013-0396) establishing the Rural or Remote Electricity Rate Protection ("RRRP") benefit and charge for 2014. The Board determined that the RRRP charge to be paid by all rate-regulated distributors and collected by the Independent Electricity System Operator ("IESO") shall be increased to $0.0013 per kWh effective May 1, 2014, from the current $0.0012 per kWh. The draft Tariff of Rates and Charges flowing from this Decision and Order reflects the new RRRP charge.

Retail Transmission Service Rates

Electricity distributors are charged for transmission costs at the wholesale level and then pass on these charges to their distribution customers through the Retail Transmission Service Rates ("RTSRs"). Variance accounts are used to capture 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).

The Board issued revision 3.0 of the *Guideline G-2008-0001 - Electricity Distribution Retail Transmission Service Rates* (the "RTSR Guideline") which outlines the information that the Board requires electricity distributors to file to adjust their RTSRs for 2014. The RTSR Guideline requires electricity distributors to adjust their RTSRs based on a comparison of historical transmission costs adjusted for the new Uniform Transmission Rates ("UTR") levels and the revenues generated under existing RTSRs. Similarly, embedded distributors, such as Espanola, must adjust their RTSRs to reflect any changes to the applicable Sub-Transmission RTSRs of their host distributor, which in this case is Hydro One Networks Inc.

The Board approved new rates for Hydro One's Sub-Transmission class, including the applicable RTSRs, effective January 1, 2014 (EB-2013-0141), as shown in the following table.

2014 Sub-Transmission RTSRs

Network Service Rate	$3.23 per kW
Connection Service Rates	
Line Connection Service Rate	$0.65 per kW
Transformation Connection Service Rate	$1.62 per kW

The Board finds that these 2014 Sub-Transmission class RTSRs 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* 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.

Espanola's 2012 actual year-end total balance for Group 1 accounts including interest projected to April 30, 2014 is a credit of $145,045. This amount results in a total credit claim of $0.0023 per kWh, which exceeds the preset disposition threshold. Espanola proposed to dispose of this credit amount over a two-year period, to be consistent with the 2012 disposition rate rider in effect until April 30, 2016 and to mitigate rate impacts.

In its submission, Board staff noted that the principal amounts as of December 31, 2012 reconcile with the amounts reported as part of the *Reporting and Record-keeping Requirements*. Board staff took no issue with the requested two-year disposition period.

The Board approves the disposition of a credit balance of $145,045 as of December 31, 2012, including interest as of April 30, 2014 for Group 1 accounts. These balances are to be disposed over a one-year period from May 1, 2014 to April 30, 2015, consistent with Board policy as described in the *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative*. The Board sees no reason to extend the repayment period of the credit balance to customers.

The table below identifies the principal and interest amounts approved for disposition for Group 1 accounts.

Group 1 Deferral and Variance Account Balances

Account Name	Account Number	Principal Balance A	Interest Balance B	Total Claim C = A + B
LV Variance Account	1550	$139,321	$4,060	$143,381
RSVA - Wholesale Market Service Charge	1580	($57,396)	($4,530)	($61,926)
RSVA - Retail Transmission Network Charge	1584	($52,784)	($2,523)	($55,307)
RSVA - Retail Transmission Connection Charge	1586	($27,585)	($1,616)	($29,201)
RSVA - Power	1588	($275,834)	($17,368)	($293,202)
RSVA - Global Adjustment	1589	$146,300	$5,008	$151,308
Disposition and Recovery of Regulatory Balances (2010)	1595	$19,197	($18,231)	$966
Disposition and Recovery of Regulatory Balances (2011)	1595	($1,044)	($20)	($1,064)
Total Group 1 Excluding Global Adjustment – Account 1589		**($256,125)**	**($40,228)**	**($296,353)**
Total Group 1		**($109,825)**	**($35,220)**	**($145,045)**

The balance of each Group 1 account approved for disposition 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 transfer must be the same as the effective date for the associated rates, generally, the start of the rate year. Espanola should ensure these adjustments are included in the reporting period ending June 30, 2014 (Quarter 2).

Review and Disposition of Lost Revenue Adjustment Mechanism

The Board's *Guidelines for Electricity Distributor Conservation and Demand Management* outline the information that is required when filing an application for an LRAM.

Espanola requested the recovery of an LRAM claim of $7,544. Espanola's LRAM claim consists of persisting effects of 2006 to 2010 programs in 2011 and the first four months of 2012, until April 30, 2012. Espanola proposed to recover the LRAM claim over a one-year period.

VECC submitted that Espanola is eligible for its proposed LRAM recovery of $7,544 related to the pre-2010 programs in 2011 until April 30, 2012 as these savings occurred prior to the updated load forecast established in Espanola's 2012 Cost of Service application.

Board staff supported recovery of an LRAM amount on the basis that there was no CDM component in the updated load forecast approved by the Board as part of Espanola's last rebasing application.

In accordance with the Board's policies on CDM and LRAM the Board approves the recovery of $7,544 over a one-year period, from May 1, 2014 to April 30, 2015.

Incremental Capital Module ("ICM")

The Request

Espanola proposed to begin recovery of $2,062,500, through an ICM, associated with the construction of a new municipal substation plus a required 44kV line. Espanola proposed to allocate the resulting revenue requirement of $168,193 associated with the incremental capital expenditures through a combined fixed and variable rate rider with a sunset date of April 30, 2017.

Eligibility Criteria

The *Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* (the "Report") requires that incremental capital expenditures satisfy the eligibility criteria of materiality, need and prudence in order to be considered for recovery prior to rebasing. To qualify for an ICM, applicants must demonstrate that amounts exceed the Board-defined materiality threshold and clearly have a significant influence on the operation of the distributor, must be clearly non-discretionary and the amounts must be outside of the base upon which rates were derived. In addition, the decision to incur the amounts must represent the most cost-effective option for ratepayers.

(i) Materiality

Espanola requested $2,062,500 in incremental capital expenditures. This represents 85% of Espanola's non-discretionary 2014 capital-budget of $2,415,863.

Board staff noted that Espanola filed its ICM workform with a default price cap index of 0.58%. Board staff submitted that based on the Report of the Board (EB-2010-0379) *Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors* the updated price cap index for Espanola should be 1.55%. Board staff calculated a revised materiality threshold of $335,084 and submitted that the eligible amount for incremental capital funding is $2,080,779.

Based on the ICM threshold test and a non-discretionary budget of $2,415,863 for the 2014 test year, both Board staff and VECC submitted that the total requested amount of $2,062,500 is eligible for ICM treatment.

Espanola agreed and provided in its reply submission an updated ICM workform with the revised price cap index of 1.55% and confirmed a materiality threshold of $335,084 using the formula established by the Board

(ii) Project Need and Prudence

Espanola indicated that both the municipal substation ($1.78M) and the required 44kV line ($275K) are scheduled to be in-service by the fall of 2014.

The new substation and 44kV line are being constructed to provide additional capacity and contingency for Espanola's three other substations, currently at a total capacity of 13,000 kVA (MS-1 & MS-2 at 5,000kVA each and MS-3 at 3,000 kVA). Espanola stated that a Condition Assessment Study performed in 2008 indicated that all three of the existing substations are approaching the end of their useful lives and recommended that the substations be de-energized and maintained every three to four years.

While Espanola is a winter peaking utility, Espanola stated that its steadily rising summer demand is significant and higher than capacity when one of the two 5000 kVA substations is out of service. Any serious failure at either MS-1 or MS-2 during summer or winter peak conditions would result in a shortfall of station capacity.

In October 2013, Espanola retained the services of Costello & Associates to provide advice on the technical details of the new substation. A Municipal Substation Report ("2013 Report") was prepared. The 2013 Report concluded that Espanola should design and construct a new municipal substation to provide additional capacity for system growth as well as to provide the necessary system security for an unplanned station failure at one of the existing substations, consistent with current Ontario distributor planning practices.

Espanola's Application provided an evaluation of alternatives as part of the 2013 Report and its reply submission provided the associated cost estimates. The alternative options are as follows:

1. Expand the existing station – $800K
   Stations MS-1 and MS-2 at 5000kVA are at maximum design capacity for 4 kV, while MS-3, rated 3000kVA, could increase its capacity to 5000kVA.
2. Purchase Spare Transformer – $275K
   Espanola could purchase and store a spare transformer to be used as an emergency replacement in the event of failure of one of the existing station transformers.
3. New Substation – $1.45M to $2.75M
   Acquire land and build a new 5000kVA substation in the south-west area of Espanola, as well as a 44kV supply line. Three possible scenarios for doing so are set out below:
   a) Install a new substation with the same design as the existing station ($1.45M)

   b) Construct a substation building, housing indoor metalclad switchgear, stand-alone protection and control rack and a SCADA/P&C/Communication rack ($2.75M).
   c) Install Outdoor 44kV Padmounted Switchgear, Underground Construction Padmounted Reclosers and isolating Switches, Underground 4.16KV Risers x 3 ($1.78M).
4. Do Nothing – Highly variable. Costs associated with not proceeding with the project would vary with the range of possible consequences, including any repercussions of equipment failure.

Based on the recommendation in the 2013 Report, Espanola chose Option 3c.

In its submission Board staff took no issue with the need or design of the substation but requested that Espanola provide a cost estimate for some of the options not considered feasible by Espanola. Board staff also requested confirmation of the in-service date of Option 3c).

VECC agreed that based on the evidence provided, the option to expand or rebuild one or more of the existing stations was not feasible. VECC noted that the option to purchase a spare transformer had the potential for unplanned outages and rolling blackouts, which was inconsistent with the project objective for immediate backup capacity. VECC submitted that the risk of an unplanned outage and the resulting impact on customers, made this option undesirable.

VECC also submitted that although a new substation is not the least cost for ratepayers initially, it represents the most cost-effective option. In VECC's view, constructing a new substation based on old technology is inconsistent with current Ontario utility practices. VECC took no issue with Espanola's ICM request as it met the Board's eligibility criteria of materiality, need and prudence.

In its reply, Espanola submitted that Options 1 and 2 were not feasible alternatives and Option 4, the 'do nothing alternative', could result in prolonged power outages. Espanola noted that rotation blackouts and long-duration outages would persist until a replacement transformer or other major components could be sourced, purchased, delivered and installed.

Espanola confirmed that the new substation includes modern protection, control and SCADA functionality and is planned to be in service in 2014.

On the matters of materiality, need and prudence, the Board finds that Espanola has demonstrated the need for the proposed substation and associated line and has established that the cost is material. The Board finds that the total requested amount of $2,062,500 is eligible for ICM treatment as it is less than the maximum allowable capital under an ICM envelope for 2014 rates. The Board finds that of the alternative options considered, Espanola has proposed the most cost-effective solution in the long-term.

Incremental Revenue Requirement

Espanola did not apply the half-year rule as per the Board's filing requirements.

Espanola proposed to allocate the revenue requirement of $168,193 associated with the capital expenditure eligible for cost recovery on the basis of combined fixed and variable rate riders. Espanola originally requested a sunset date of April 30, 2017. Subsequently, Espanola confirmed that it is scheduled to file a cost of service application for the 2016 rate year and agreed to forgo a defined sunset date. Furthermore, Espanola agreed to establish a rate rider that would be in effect until the next cost of service-based rate order.

Espanola stated that a failure to approve the incremental capital rate riders would have short-term financial implications. Absent a rate rider to supplement its revenues, Espanola stated that construction might need to be halted until 2016 when it would be eligible to re-base its rates. Espanola also stated that without the ICM rate rider, it would have difficulty meeting the obligations of an Infrastructure Ontario loan which was secured for this project.

In its submission Board staff did not take issue with respect to the need for the project nor additional funding to recover associated revenues.

Board staff noted that in the Guelph Hydro (EB-2010-0130), Oakville Hydro (EB-2010-0104) and Centre Wellington (EB-2011-0160) proceedings the Board approved the recovery of the incremental annual revenue requirement by means of a variable rate rider only. Board staff submitted that a variable rate rider is administratively more straightforward than the additional complexities of a rider with fixed and variable components. The stability of energy consumption levels by Espanola would present little risk to recovering the ICM revenue amounts.

VECC agreed with an ICM rate rider which should be effective until Espanola's next cost of service rate order.

In its reply submission Espanola agreed to a variable ICM rate rider that would be effective until its next cost of service rate order.

The Board approves combined fixed and variable rate rider to recover a revenue requirement of $168,193 associated with the new municipal substation. For this case, the Board finds that recovery through combined rate riders is consistent with the treatment of the revenue requirement associated with Espanola's overall distribution system. These rate riders will be in effect until Espanola's next cost of service rate order. The approved ICM treatment of the new municipal substation is based on a 2014 in-service date.

IMPLEMENTATION

The Board has made findings in this Decision and Rate Order which change the 2014 distribution rates from those proposed by Espanola.

The Board expects Espanola to file a draft Rate Order, including a proposed Tariff of Rates and Charges and all relevant calculations showing the impact of this Decision and Rate Order on Espanola's determination of the final rates. Supporting documentation shall include, but not be limited to, filing a completed version of the 2014 IRM Rate Generator model, updated ICM workform and rate rider calculations. A Rate Order will be issued after the steps set out below are completed.

THE BOARD ORDERS THAT:

1. Espanola shall file with the Board, and shall also forward to intervenors, a draft Rate Order that includes revised models in Microsoft Excel format and a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision by **March 27, 2014**.

2. Board staff and intervenors shall file any comments on the draft Rate Order including the revised models and proposed rates with the Board and forward to Espanola within 7 days of the date of filing of the draft Rate Order.

3. Espanola shall file with the Board and forward to intervenors responses to any comments on its draft Rate Order including the revised models and proposed rates within 4 days of the date of receipt of intervenor comments.

COST AWARDS

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

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

2. Espanola 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 Espanola any responses to any objections for cost claims within **28 days** from the date of issuance of the final Rate Order.

4. Espanola 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-2013-0127,** be made through the Board's web portal at https://www.pes.ontarioenergyboard.ca/eservice/ 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 BoardSec@ontarioenergyboard.ca. 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 13, 2014

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary