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

EB-2013-0120

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 Entegrus Powerlines Inc. 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

Entegrus Powerlines Inc. ("Entegrus") and Middlesex Power Distribution Corporation ("MPDC") filed an application with the Ontario Energy Board (the "Board") on September 27, 2013 under section 78 of the Act, seeking approval for changes to the rates that Entegrus 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. Entegrus 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.

Entegrus has four separate rate zones on its Tariff of Rates and Charges; the Chatham-Kent; Dutton; Newbury and Strathroy, Mt. Brydges & Parkhill service areas.

In this proceeding, Entegrus seeks an adjustment to rates based on the Board's incentive regulation mechanism, a formulaic and mechanistic approach to setting rates based on inflation and expected efficiency of the distributor. Entegrus is also seeking approval for recovery of revenue losses due to conservation programs through the lost revenue adjustment mechanism ("LRAM") for its Strathroy Mt. Brydges & Parkhill rate zone as well as a lost revenue adjustment mechanism variance account ("LRAMVA") balance disposition for its Chatham-Kent and Strathroy, Mt. Brydges & Parkhill rate zones.

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 its request for LRAM recovery. 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;
- Shared Tax Savings Adjustments;
- Retail Transmission Service Rates;
- Review and Disposition of Group 1 Deferral and Variance Account Balances; and
- Review and Disposition of Lost Revenue Adjustment Mechanism and LRAM Variance Account Balances.

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 Entegrus a stretch factor of 0.15%.

As a result, the net price cap index adjustment for Entegrus 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 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.

Shared Tax Savings Adjustments

In its *Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* the Board determined that a 50/50 sharing of the impact of legislated tax changes between shareholders and ratepayers is appropriate.

The tax reduction will be allocated to customer rate classes on the basis of the last Board approved cost of service distribution revenue.

All four of Entergrus' rate zones have a common corporate tax rate. The 2014 tax rate is expected to be 26.50%. Entegrus provided a shared tax model identifying an overall tax savings of $202,573, of which $101,286 is to be refunded to rate payers.

In response to interrogatories, Entegrus updated its tax sharing model to allocate the overall tax savings amount to each applicable rate zone based on the revenue share for each class generated from current base rates using 2012 Reporting and Record Keeping Requirements billing determinants. This resulted in shared tax savings of $86,678 for customers in the Chatham-Kent rate zone and $14,608 for customers in the Strathroy, Mt. Brydges & Parkhill rate zone. Distribution rates for Dutton and Newbury, as established in the last cost of service applications did not include amounts for taxes. Consequently there is no tax impact from the changes in federal and provincial income tax and capital tax rates for customers in these rate zones.

Board staff did not have any concerns with Entegrus' proposed methodology for calculating the shared tax savings amounts.

The Board approves the disposition of the shared tax savings of $86,678 for customers in the Chatham-Kent rate zone and $14,608 for customers in the Strathroy, Mt. Brydges & Parkhill rate zone over a one year period from May 1, 2014 to April 30, 2015 and the associated rate riders for all customer rate classes in those rate zones.

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 must adjust their RTSRs to reflect any changes to the applicable Sub-Transmission RTSRs of their host distributor(s).

Entegrus is a partially embedded distributor whose host is Hydro One.

The Board issued its Rate Order for Hydro One Transmission (EB-2012-0031) which adjusted the UTRs effective January 1, 2014, as shown in the following table:

2014 Uniform Transmission Rates

Network Service Rate	$3.82 per kW
<u>Connection Service Rates</u>	
Line Connection Service Rate	$0.82 per kW
Transformation Connection Service Rate	$1.98 per kW

The Board also 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 Transformation Connection Service Rate	 $0.65 per kW $1.62 per kW

The Board finds that these 2014 UTRs and 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 Report Initiative* ("EDDVAR") 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.

Entegrus' current Group 1 account balances and proposed disposition vary by rate zone.

Group 1 DVA rate rider

Rate Zone	Total Claim	Total kWh	Meets Threshold	Rate Rider
Chatham-Kent	$(496,723)	720,841,193	No	$(0.0007)
Strathroy, Mt. Brydges & Parkhill	$(253,419)	205,809,205	Yes	$(0.0012)
Dutton	$(15,817)	7,768,111	Yes	$(0.0020)
Newbury	$(32,094)	3,531,930	Yes	$(0.0091)*

* Discussed in detail below

Entegrus did not seek disposition of Group 1 account balances for its Chatham-Kent rate zone as the 2012 total year-end balance did not exceed the preset disposition threshold.

The Board finds that no disposition is required at this time.

Entegrus's 2012 actual year-end total balances for Group 1 Accounts for each of the other three rate zones (Strathroy, Mt. Brydges & Parkhill, Dutton and Newbury) do exceed the threshold for disposition. Entegrus proposes to dispose of the credit amounts for these rate zones as shown in the table below over a one-year period.

The Board approves the disposition of a credit balance of ($15,818) for the Dutton rate zone and a credit balance of ($253,419) for the Strathroy, Mt. Brydges & Parkhill rate zone 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.

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

Group 1 Deferral and Variance Account Balances - Strathroy, Mt. Brydges & Parkhill

Account Name	Account Number	Principal Balance A	Interest Balance B	Total Claim C = A + B
LV Variance Account	1550	$175,791	$8,065	$183,856
RSVA - Wholesale Market Service Charge	1580	($198,713)	($5,591)	($204,304)
RSVA - Retail Transmission Network Charge	1584	($47,360)	($682)	($48,042)
RSVA - Retail Transmission Connection Charge	1586	$8,466	$55	$8,521
RSVA - Power	1588	($60,642)	($631)	($61,274)
RSVA - Global Adjustment	1589	($128,282)	($3,895)	($132,177)
Recovery of Regulatory Asset Balances	1590	$0	$0	$0
Total Group 1 Excluding Global Adjustment – Account 1589		**($122,458)**	**$1,216**	**($121,242)**
Total Group 1		**($250,740)**	**($2,679)**	**($253,419)**

Group 1 Deferral and Variance Account Balances - Dutton

Account Name	Account Number	Principal Balance A	Interest Balance B	Total Claim C = A + B
LV Variance Account	1550	$13,929	$(117)	$13,813
RSVA - Wholesale Market Service Charge	1580	$(15,746)	$(691)	$(16,436)
RSVA - Retail Transmission Network Charge	1584	$(3,753)	$(52)	$(3,805)
RSVA - Retail Transmission Connection Charge	1586	$671	$88	$759
RSVA - Power	1588	$(4,805)	$548	$(4,257)
RSVA - Global Adjustment	1589	$(11,364)	$(1,018)	$(12,382)
Recovery of Regulatory Asset Balances	1590	$6,491	$0	$6,491
Total Group 1 Excluding Global Adjustment – Account 1589		**($3,212)**	**($223)**	**$(3,435)**
Total Group 1		**($14,576)**	**($1,241)**	**$(15,817)**

Entegrus proposes to deviate from the default allocation used in the rate generator model in the Newbury rate zone. Entegrus proposes to allocate the credit balance of ($25,679) in account 1595 between RPP and Non-RPP as follows: RPP ($1,482) or 5.8% and Non-RPP ($24,197) or 94.2%. Newbury's account 1589 residual credit balance of ($24,197) for Non-RPP customers resulted from an over-collection primarily due to volumetric increases within the GS>50 kW rate class. To dispose of this credit balance, Entegrus proposes to allocate 100% of the Non-RPP amounts to its GS>50 kW customer class (comprised of 5 Non-RPP customers). Entegrus provides the following reconciliation between the approved recovery allocation and subsequent over-collection.

Newbury: EB-2010-0275 Non-RPP Share vs. Actual Recoveries of Account 1589 balances

Customer Classes	Board-approved Recovery	Actual Recovery	Residual Balance
Residential	$5,499	$4,015	$1,484
General Service <50 kW	$586	$489	$97
General Service >50 kW	$9,948	$35,724	($25,776)
Street Lighting	$0	$0	$0
Total	**$16,033**	**$40,229**	**($24,197)**

Entegrus submitted that it considers it appropriate and reasonable to allocate the entire over-recovery to the GS>50 kW rate class, based on the principle of cost causality and proposes to allocate 100% as follows:

Newbury: Proposed Non-RPP 1595 Residual Balance Allocation and Rate Rider

Rate Class	Allocation	Allocation of Residual Balance	Non-RPP Unit	2012 Billed Amounts (Non-RPP only)	Rate Rider
Residential	0%	$0	kWh	148,919	$0
General Service< 50 kW	0%	$0	kWh	32,366	$0
General Service> 50 kW	100%	$(24,197)	kW	4,438	$(5.4517)
Street Lighting	0%	$0	kW	163	$0
Total	100%	$(24,197)			

Board staff and VECC took no position on this issue.

The Board established a default cost allocation methodology to facilitate the disposition process. In its EDDVAR report the Board stated that it is not necessary to allocate the residual balance in Accounts 1590 and 1595 on a case-by-case basis since the balances are expected to be immaterial. However, the Board also stated that a distributor should identify in its application any circumstances that may warrant a different approach.

The Board finds that for the Newbury rate zone, the amounts are material and warrant a deviation from the default cost allocation methodology. The Board also finds that the proposed cost allocation generally attempts to follow the principles of cost causality insofar as the residual balances in account 1595 are primarily due to over-collection from Newbury's GS>50kW customer class. Accordingly, the Board approves Entegrus' proposal to allocate the entire Non-RPP credit amount of ($24,197) to Newbury's GS>50kW customer class. The Board finds that the remaining residual credit balance of ($1,482) should be disposed of and allocated to RPP customers as per the original share allocation used in EB-2010-0275.

The Board approves the disposition of a credit balance of ($32,094) for the Newbury rate zone 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.

Group 1 Deferral and Variance Account Balances - Newbury

Account Name	Account Number	Principal Balance A	Interest Balance B	Total Claim C = A + B
LV Variance Account	1550	$ 4,121	$(802)	$3,319
RSVA - Wholesale Market Service Charge	1580	$(4,659)	$(83)	$(4,742)
RSVA - Retail Transmission Network Charge	1584	$(1,110)	$(30)	$(1,140)
RSVA - Retail Transmission Connection Charge	1586	$198	$56	$254
RSVA - Power	1588	$(1,422)	$229	$(1,193)
RSVA - Global Adjustment	1589	$(2,477)	$(437)	$(2,914)
Recovery of Regulatory Asset Balances	1590	$0	$0	$0
Disposition and Recovery of Regulatory Balances (2011)	1595	$ (25,679)	$0	$ (25,679)
Total Group 1 Excluding Global Adjustment – Account 1589		**($28,550)**	**($629)**	**($29,180)**
Total Group 1		**($31,027)**	**($1,066)**	**($32,094)**

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. Entegrus 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 a LRAM. The LRAM is in relation to pre-2011 CDM programs.

In this application Entegrus requests the recovery of an LRAM claim for its Strathroy, Mt. Brydges & Parkhill rate zone in the amount of $38,260. Entegrus' LRAM claim consists of the effect of 2006 to 2010 CDM programs that produced persisting CDM savings in both 2011 and 2012.

Entegrus proposes to recover the LRAM claim over a one-year period and proposes to include this amount in Group 1 DVA rate rider similar to the LRAMVA amounts discussed below.

VECC noted that for the Strathroy, Mt. Brydges & Parkhill rate zone base rates were last set in 2006. VECC noted that none of the lost revenues included in Entegrus' LRAM request were subject to any previous approvals. On that basis VECC submitted that the LRAM amount of $38,260 is eligible for recovery.

Board staff concurred but also submitted that the LRAM amounts in respect to the Srathroy, Mt. Brydges & Parkhill rate zone should be recovered by way of a separate rate rider.

Entegrus agreed with Board staff and VECC and submitted that the Board should authorize the disposition of $38,260 by way of a separate rate rider.

The Board approves the disposition of $38,260 by way of a separate rate rider as proposed, consistent with the Board's policies.

Review and Disposition of LRAM Variance Account Balance

The 2012 CDM Guidelines established LRAMVA to capture, at the customer rate-class level, the difference between actual results from authorized CDM activities and the reduction for forecasted CDM activities included in the distributor's last Board-approved load forecast.

Distributors must apply for the disposition of the balance in the LRAMVA as part of their cost of service applications. Distributors may apply for the disposition of the balance in the LRAMVA on an annual basis, as part of their IRM rate applications, if the balance is deemed significant by the distributor.

Entegrus requests to dispose of its LRAMVA balance for its Chatham-Kent rate zone of a debit of $86,528 and a debit of $13,782 for the Strathroy, Mt. Brydges & Parkhill rate zone consisting of lost revenues in 2011 and 2012 from CDM programs contributing towards Entegrus' 2011-2014 CDM Targets.

LRAMVA Components	**2011 & 2012 LRAMVA Amounts**	**Carrying Charges**	**TOTAL**
Strathroy, Mt. Brydges & Parkhill	$13,519	$263	$13,782
Chatham-Kent	$84,881	$1,647	$86,528
TOTAL	**$98,663**	**$1,910**	**$100,310**

VECC submitted that the Chatham-Kent rate zone was rebased in 2010 and did not have any adjustments made to its Board-approved load forecast to reflect savings associated with its CDM Targets. VECC submitted that the Strathroy, Mt. Brydges & Parkhill's LRAMVA portion of $13,782 is eligible for recovery.

Board staff submitted that 100% of Entegrus Chatham-Kent and Strathroy, Mt. Brydges & Parkhill rate zones for 2011 and 2012 net energy savings are eligible for recovery through the LRAMVA. Board staff also submitted that the disposition of the approved LRAMVA balances in Account 1568, comprising of the accounting variance for 2011-2014 CDM programs, should be recorded in account 1595.

Entegrus concurred with both VECC and Board staff's submission.

The Board finds that disposition of the LRAMVA balances is appropriate for recovery over a one year period from May 1, 2014 to April 30, 2015.

IMPLEMENTATION

The Board directs Entegrus 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 Entegrus' determination of the final rates. Supporting documentation shall include, but not be limited to, filing a completed version of the 2014 IRM Rate Generator models and RTSR models for each four of Entegrus's rate zones; Tax model and a rate rider allocation schedule for account 1595 for the Newbury rate zone; and a separate rate rider calculation for recovery of LRAM amounts for the Strathroy, Mt. Brydges & Parkhill rate zone.

A Rate Order will be issued after the steps set out below are completed.

THE BOARD ORDERS THAT:

1. Entegrus 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 Entegrus within **7 days** of the date of filing of the draft Rate Order.

3. Entegrus 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 7 **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 its cost claim no later than **7 days** from the date of issuance of the final Rate Order.

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

4. Entegrus 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-2013-0120,** 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