



EB-2013-0178

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 Wellington
North Power 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

Wellington North Power Inc. (“Wellington North”) filed an application with the Ontario Energy Board (the “Board”) on September 26, 2013 under section 78 of the Act, seeking approval for changes to the rates that Wellington North 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 Transmission and Distribution Applications* (the “Filing Requirements”) dated July 17, 2013. Wellington North 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 between cost of

service applications. Wellington North was last before the Board with a full cost of service application for the 2012 rate year in the EB-2011-0249 proceeding. In this proceeding, Wellington North also sought approval for an Incremental Capital Module (“ICM”).

The Board conducted a written hearing and Board staff participated in the proceeding. The Vulnerable Energy Consumers Coalition (“VECC”) and Energy Probe (“EP”) applied for and were granted intervenor status and cost eligibility with respect to the proposed ICM. 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; and
- Incremental Capital Module.

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 Wellington North a stretch factor of 0.45%.

As a result, the net price cap index adjustment for Wellington North is 1.25% (i.e. 1.70% - (0% + 0.45 %)). 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 Rate Order reflects the new RRRP charge.

Retail Transmission Service Rates

Electricity distributors are charged for transmission costs at the wholesale level and then pass these charges on 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 Wellington North, 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 |
| <u>Connection Service Rates</u> | |
| 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.

Wellington North’s 2012 actual year-end total balance for Group 1 Accounts including interest projected to April 30, 2014 is a credit of \$253,967. This amount results in a total credit claim of \$0.0026 per kWh, which exceeds the preset disposition threshold. Wellington North proposed to dispose of this credit amount over a two-year period. Wellington North cited concern over its cash-flow as a consequence of the disposition of

credit balances in prior Board Decision and Orders as the reason for the two-year disposition period.

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* and had no issue with Wellington North's proposal to dispose of its Group 1 Account balances. Board staff noted that Wellington North's current credit rate riders are expiring and that the overall balance to be disposed at this time was significantly less than the credit amounts approved in Wellington North's 2012 cost of service application (EB-2011-0249). Board staff submitted that a one-year disposition period is appropriate to minimize the impacts of intergenerational inequity while still allowing the distributor to maintain its cash flows.

In its reply submission, Wellington North stated that its strategy is to use the revenue collected from any incremental capital rate riders, discussed below, to contribute to monthly Infrastructure Ontario loan repayments. Wellington North reiterated its plan to move forward with the replacement of the MS-2 substation. Wellington North submitted that it would accept a one-year disposition period of the Group 1 Account balances "on the condition that the Board approves the incremental capital module ("ICM") funding that has been filed with the application." Otherwise, if the Board orders a one-year disposition period and does not approve the ICM rate riders, Wellington North would be crediting non-RPP customers \$274,009 over 12 months while making Infrastructure Ontario loan payments of \$15,074 per month to fund the building of the new substation.

Wellington North provided the following updated bill impacts for the Residential and GS < 50 kW classes using a one-year disposition period for the Group 1 Account balances.

| Class | 1-year Disposition | | 2-year Disposition | |
|--------------------------|------------------------|-----------------------|------------------------|-----------------------|
| | Total Bill Impact (\$) | Total Bill Impact (%) | Total Bill Impact (\$) | Total Bill Impact (%) |
| Residential (800 kWh) | \$ 5.02 | 4.0% | \$ 4.89 | 3.89% |
| GS < 50 kW (2000 kWh) | - \$2.16 | - 0.69% | - \$2.46 | - 0.79% |

The Board approves the disposition of a credit balance of \$253,967 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.

| Account Name | Account Number | Principal Balance A | Interest Balance B | Total Claim C = A + B |
|---|----------------|------------------------|-----------------------|--------------------------|
| LV Variance Account | 1550 | - \$ 40,216 | - \$ 1,018 | - \$ 41,234 |
| RSVA - Wholesale Market Service Charge | 1580 | - \$ 251,680 | - \$ 9,082 | - \$ 260,762 |
| RSVA - Retail Transmission Network Charge | 1584 | \$ 12,058 | \$ 110 | \$ 12,168 |
| RSVA - Retail Transmission Connection Charge | 1586 | - \$ 60,203 | - \$ 5,753 | - \$ 65,956 |
| RSVA - Power | 1588 | \$ 358,726 | \$ 16,903 | \$ 375,629 |
| RSVA - Global Adjustment | 1589 | - \$ 264,863 | - \$ 9,146 | - \$ 274,009 |
| | | | | |
| Total Group 1 Excluding Global Adjustment – Account 1589 | | \$ 23,457 | - \$ 3,415 | \$ 20,042 |
| Total Group 1 | | - \$ 241,406 | - \$ 12,461 | - \$ 253,967 |

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. Wellington North should ensure these adjustments are included in the reporting period ending June 30, 2014 (Quarter 2).

Incremental Capital Module

Wellington North applied for ICM funding to rebuild its MS-2 Substation, expected to be in service by the end of 2014. Wellington North submitted a non-discretionary capital budget for 2014 of \$1,996,000 which includes \$1,596,000 in estimated costs for the MS-2 substation rebuild. The Application indicated a threshold CAPEX of \$609,572 resulting in \$1,386,427 eligible for an ICM. As Wellington North is not in the last year of its IRM term, Wellington North did not apply the half-year rule. Wellington North proposed a combination of fixed and variable rate riders to be in effect until its next cost

of service rate order. Wellington North is scheduled to file its next cost of service application for 2016 rates.

Wellington North retained Costello Associates Inc. to provide technical information and budgetary estimates for an asset condition assessment of six of its distribution substations. The Costello Associates report (“the Costello Report”) highlighted concerns regarding the age of the substations and recommended a strategy for replacement.

Wellington North stated that given the condition and age of its substations, its priority was to replace the MS-2 substation. Wellington North stated that it considered three options:

- 1) do nothing;
- 2) complete replacement of the substation at a cost of \$1.6M; and
- 3) replace the substation and re-use the existing transformer at a cost of \$1.39M.

Wellington North proposed Option 2 as it resolved all of the issues highlighted in the Costello Report and the current transformer did not have a significant remaining useful life.

Wellington North updated the customer numbers for the GS 50 to 999 kW and GS 1,000 to 4,999 kW classes. As a result, the calculated growth parameter for the threshold CAPEX calculation was revised to 1.15% from 1.44%.

Chapter 3 of the *Filing Requirements for Electricity Distribution Rate Applications* requires that distributors seeking to recover amounts through an ICM must meet three criteria: need, prudence and materiality.

Need and Prudence

The Costello Report highlighted concerns regarding the age (41 years), safety of the perimeter fence, reliability of the main switchgear and accessibility risks to high voltage equipment, among others, for the MS-2 substation. Further, it concluded that “the MS-2 substation has been assigned a rating of "Red," which will improve to "Yellow" once the safety issues are resolved and switchgear deficiencies are corrected.” A rating of “Red” for an asset indicates poor condition and requiring immediate mitigation, within one

year. The rating of “Yellow” is defined as an asset of average condition that would require mitigation between four to eleven years.

The Costello Report also highlighted concerns over the age (49 years), safety and accessibility risk of the MS-4 substation and classified it as “Red”. The Costello Report indicated that the system neutral was attached only to the station ground grid “which is extremely dangerous” and the transformer secondary cables were improperly installed, putting pressure on the transformer radiator.

Parties asked Wellington North why it had decided to prioritize the replacement of the MS-2 substation over the MS-4 substation. Wellington North noted that the Costello Report only considered each substation in isolation and did not consider the substation’s interaction with its distribution system. Wellington North stated that the impact of major equipment failure at the MS-2 substation would be more significant as it provides service to four feeders in the Mount Forest area whereas the MS-4 substation would only result in one feeder having to be backed-up by the MS-2 substation. Wellington North also noted that the MS-4 substation was out of service for several months in 2013 to repair the neutral and address many of the other items identified in the Costello Report and that no reliability or system issues were observed when the load was transferred to another substation.

Energy Probe submitted that Wellington North has provided sufficient evidence and rationale to substantiate the need for the replacement of both the MS-2 and MS-4 substations because of age and condition. Energy Probe stated that the issue is whether the replacement of the MS-2 substation needs to, or should, take place in 2014. Energy Probe submitted that the most prudent option for rate payers, which was not considered by Wellington North, would be to remediate the MS-2 substation to improve the rating from “Red” to “Yellow” and extend the life of the substation by a minimum of four years. Energy Probe submitted that the full replacement of the substation is not required in 2014 and therefore the associated expenditures cannot be considered non-discretionary.

VECC stated that with mitigation it is probable the rating of the MS-2 substation would improve to “Yellow” thereby extending the life expectancy of the substation by a minimum of 4 years. On that basis, VECC submitted that the MS-2 substation does not need to be replaced in its entirety in 2014. For the purposes of the ICM, the project should be considered discretionary. VECC submitted that the most cost effective option

for ratepayers would be to address the issues identified in the Costello Report and improve the rating from “Red” to “Yellow”.

Given the concerns with safety and age of assets identified in the Costello Report, Board staff submitted that the need and prudence criteria have been met for the proposed MS-2 substation rebuild. In considering the size of the affected loads and complexities of the two respective projects, Board staff accepted Wellington North's proposal to prioritize the MS-2 substation rebuild over the MS-4 substation. Board staff noted that the forecasted costs for Wellington North's MS-2 substation replacement are comparable to similar projects approved by the Board for ICM recovery in prior applications.

In reply, Wellington North submitted that Energy Probe and VECC's proposal to perform mitigation work to extend the asset life of the MS-2 substation was a short-term solution with no definite answer on how long the asset's useful life would be extended. Wellington North noted that it anticipates the need to rebuild or replace major components of its other substations over the next two to ten years and that it has demonstrated a pragmatic and realistic approach in balancing what capital projects need to be undertaken in 2014 versus the cost-benefit to customers.

Materiality

Energy Probe noted that the issue of materiality depends on whether or not the proposed expenditures to replace the MS-2 substation are non-discretionary. If the expenditures are discretionary in 2014, then Wellington North's request would either fail the materiality test or result in a substantially lower total incremental capital amount.

VECC supported Energy Probe's submissions. If the Board finds that the replacement of the MS-2 substation is non-discretionary and should be done in 2014, VECC submitted that the materiality criterion had been met.

Board staff submitted that Wellington North's proposed ICM is material as the amounts are significant (i.e. 80% of the total non-discretionary budget for 2014) and are clearly above the materiality threshold.

Board staff, Energy Probe and VECC submitted Wellington North must update its ICM calculation to include the new parameters from the Price Cap IR report. In its reply

submission, Wellington North updated its ICM calculation which resulted in a decrease to \$1,350,024 in the amount eligible for an ICM.

| | Application ICM Calculation | Updated ICM Calculation |
|--|--|------------------------------------|
| Price Escalator (GDP-IPI) | 1.60% | 1.70% |
| Productivity Factor | -0.72% | 0% |
| Stretch Factor | -0.45% | -0.45% |
| Price Cap Index | 0.43% | 1.25% |
| Growth | 1.15% | 1.15% |
| Rate Base | \$7,489,318 | \$7,489,318 |
| Dead Band | 20% | 20% |
| Threshold Test | 150.54% | 166.65% |
| Threshold CAPEX | \$583,551 | \$645,976 |
| Eligible Incremental Capital Amount | \$1,412,449 | \$1,350,024 |
| Total Incremental Capital Amount for ICM Rate Calculation | \$1,356,100 | \$1,350,024 |
| Total Difference in Eligible Incremental Capital | | - \$6,076 |

Board Findings

The Board finds that the need and prudence criteria have been met for Wellington North's proposed replacement of the MS-2 substation. Both VECC and Energy Probe submitted that, with the completion of the mitigation work highlighted in the Costello Report, Wellington North could extend the useful life of the MS-2 substation by approximately four years, but no evidence was supplied justifying why this solution would be more effective. The independent engineering assessment in the Costello Report, submitted by Wellington North, highlighted serious concerns and recommended the MS-2 as a candidate for major rehabilitation work. The Board agrees and has determined that the project is non-discretionary and eligible for ICM funding, due to the identified safety and reliability issues.

The Board notes that the threshold CAPEX calculation of \$645,976, provided by Wellington North, uses a growth variable of 1.44% instead of 1.15%. The Board requests that Wellington North update the calculation of the eligible incremental capital, the threshold CAPEX and resulting ICM rate riders in its draft rate order. The Board accepts Wellington North's proposal to recover the resulting ICM revenue requirement through fixed and variable rate riders to be in effect until the issuance of the rate order arising from its next cost of service application.

IMPLEMENTATION

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

The Board expects Wellington North 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 Wellington North'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, Incremental Capital Workform, Incremental Capital Worksheets and RTSR Adjustment Workform.

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

THE BOARD ORDERS THAT:

1. Wellington North 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 20, 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 Wellington North within 7 days of the date of filing of the draft Rate Order.
3. Wellington North 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 and Energy Probe shall submit their cost claims no later than **7 days** from the date of issuance of the final Rate Order.
2. Wellington North shall file with the Board and forward to VECC and Energy Probe any objections to the claimed costs within **21 days** from the date of issuance of the final Rate Order.
3. VECC and Energy Probe shall file with the Board and forward to Wellington North any responses to any objections for cost claims within **28 days** from the date of issuance of the final Rate Order.
4. Wellington North 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-2013-0178**, 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