



EB-2014-0081

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 Hydro 2000 Inc.
for an order approving just and reasonable rates and other
charges for electricity distribution to be effective May 1,
2015.

By Delegation, Before: Lynne Anderson

DECISION and RATE ORDER

[Date]

Hydro 2000 Inc. ("Hydro 2000") filed an application with the Ontario Energy Board (the "Board") on August 29, 2014 under section 78 of the *Ontario Energy Board Act*, seeking approval for changes to the rates that Hydro 2000 charges for electricity distribution, effective May 1, 2015 (the "Application").

Hydro 2000 last appeared before the Board with a cost of service application for the 2012 rate year in the EB-2011-0326 proceeding. To adjust its 2015 rates, Hydro 2000 selected the Price Cap Incentive Rate-setting option (the "Price Cap IR") which provides for a mechanistic and formulaic adjustment to distribution rates and charges in the period between cost of service proceedings. The Application met the Board's filing requirements¹ for filings by rate-regulated electricity distributors ("distributors") applying for annual rate adjustments under Price Cap IR.

¹ Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach (October 18, 2012); and Filing Requirements for Electricity Distribution Rate Applications (July 25, 2014)

While the entire record in this proceeding has been considered by me, this decision will make reference only to such information as is necessary to provide context to my conclusions. The following issues are addressed in this Decision and Rate Order:

- Price Cap Index Adjustment;
- Rural or Remote Electricity Rate Protection Charge;
- Retail Transmission Service Rates; and
- Review and Disposition of Group 1 Deferral and Variance Account Balances.

Price Cap Index Adjustment

The Price Cap IR option is a streamlined regulatory process designed to provide distributors with sufficient revenue to cover cost increases due to inflation while providing an incentive structure to drive productivity improvements.

Under the Price Cap IR option², distribution rates are adjusted by an inflation factor, less the sum of a productivity factor and a stretch factor. Based on its established method³, the Board has set the inflation factor for 2015 rates at 1.6% and the productivity factor remains zero percent. The Board also determined that the stretch factor can range from 0.0% to 0.6%, assigned based on a distributor's cost evaluation ranking. The Board assigned Hydro 2000 a stretch factor of 0.3% based on the updated benchmarking study for use for rates effective in 2015⁴.

As a result, the net price cap index adjustment for Hydro 2000 is 1.30% (i.e. 1.6 % - (0% + 0.30%)). 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;

² Report on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors (December 4, 2013)

³ As outlined in the Report cited at footnote 2 above.

⁴ Report to the Ontario Energy Board – "Empirical Research in Support of Incentive Rate-Setting: 2013 Benchmarking Update." Pacific Economics Group LLC. July, 2014.

- 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 has determined that the Rural or Remote Electricity Rate Protection (“RRRP”) benefit and charge for 2015 shall remain \$0.0013 per kWh⁵. The draft Tariff of Rates and Charges flowing from this Decision and Rate Order reflects this 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 their Retail Transmission Service Rates (“RTSRs”). Variance accounts 1584 and 1586 are used to capture differences in the rate that a distributor pays for wholesale transmission service relative to the retail rate that the distributor is authorized to charge when billing its customers.

The Board has issued guidelines⁶ which outline the information that the Board requires electricity distributors to file in order to adjust their RTSRs for 2015. 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”) and the revenues generated under existing RTSRs. Similarly, embedded distributors, such as Hydro 2000, must adjust their RTSRs to reflect any changes to the applicable RTSRs of their host distributor, which is Hydro One Networks Inc.

Given the timing of rates decisions, distributors whose rates are set as of January 1 typically derive their RTSRs using the previous year's Uniform Transmission Rates because updated ones are not yet available. Given the early filing date of Hydro 2000's

⁵ Decision with Reasons and Rate Order, EB-2014-0347

⁶ Guideline G-2008-0001 - Electricity Distribution Retail Transmission Service Rates, revision 4.0 (June 28, 2012)

Application for May 1 rates, the decision on any Hydro One sub-transmission class RTSRs for 2015 is not yet available. I will therefore approve the RTSRs as adjusted in this Application so that they reflect the current applicable rates. Any differences arising from the new 2015 rates, once approved, will be captured in Accounts 1584 and 1586 for future disposition.

Review and Disposition of Group 1 Deferral and Variance Account Balances

The Board's policy on deferral and variance accounts⁷ 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, whether in the form of a 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. If the balances are below this threshold, the distributor may propose to dispose of balances.

Hydro 2000's 2013 actual year-end total balance for Group 1 accounts including interest projected to April 30, 2015 is a credit of \$27,157. This amount results in a total credit claim of \$0.0012 per kWh, which exceeds the preset disposition threshold. Hydro 2000 proposes to dispose of this credit amount over a one-year period.

The balances proposed for disposition are the same as the amounts reported as part of the Board's *Reporting and Record-Keeping Requirements*. I approve the disposition of a credit balance of \$27,157 as of December 31, 2013, including interest projected to April 30, 2015 for Group 1 accounts. These balances are to be disposed over a one-year period from May 1, 2015 to April 30, 2016.

The table below identifies the principal and interest amounts which the Board approves for disposition.

Group 1 Deferral and Variance Account Balances

⁷ Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (July 31, 2009)

Account Name	Account Number	Principal Balance (\$) A	Interest Balance (\$) B	Total Claim (\$) C = A + B
LV Variance Account	1550	72,956	2,686	75,642
Smart Meter Entity Variance Charge	1551	878	81	959
RSVA - Wholesale Market Service Charge	1580	(26,762)	(777)	(27,539)
RSVA - Retail Transmission Network Charge	1584	7,481	311	7,792
RSVA - Retail Transmission Connection Charge	1586	(1,480)	103	(1,377)
RSVA - Power	1588	(104,568)	590	(103,978)
RSVA - Global Adjustment	1589	26,478	(1,100)	25,378
Disposition and Recovery of Regulatory Balances (2011)	1595	(5,017)	983	(4,034)
Total Group 1 Excluding Global Adjustment – Account 1589		(56,512)	3,977	(52,535)
Total Group 1		(30,034)	2,877	(27,157)

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. Such transfer shall be pursuant to the requirements specified in Article 220, Account Descriptions, of the *Accounting Procedures Handbook for Electricity Distributors*, effective January 1, 2012. The date of the transfer must be the same as the effective date for the associated rates, which is, generally, the start of the rate year. Hydro 2000 should ensure these adjustments are included in the reporting period ending June 30, 2015 (Quarter 2).

Rate Model

With this Decision and Rate Order are a rate model, applicable supporting models and a draft Tariff of Rates and Charges (Appendix A). Entries in the rate model(s) were reviewed to ensure that they were in accordance with the 2014 Board-approved Tariff of Rates and Charges. The rate model was adjusted, where applicable, to correct any discrepancies.

THE BOARD ORDERS THAT:

1. The Tariff of Rates and Charges set out in Appendix A of this Decision and Rate Order is approved effective May 1, 2015 for electricity consumed or estimated to have been consumed on and after such date. Hydro 2000 Inc. shall notify its customers of the rate changes no later than the delivery of the first bill reflecting the new rates.

DATED at Toronto, [Date]
ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary

Appendix A

To Decision and Rate Order

Tariff of Rates and Charges

Board File No: EB-2014-0081

DATED: [Date]