Ontario Energy Board

Commission de l'énergie de l'Ontario

Ontario

EB-2014-0091

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 Lakeland Power Distribution Ltd. for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2015.

AND IN THE MATTER OF an application by Lakeland Power Distribution Ltd. for an order approving just and reasonable rates and other charges for electricity distribution for the former Parry Sound Power Corporation service area to be effective January 1, 2015.

By Delegation, Before: Lynne Anderson

DECISION and RATE ORDER

[Date]

Lakeland Power Distribution Ltd. ("LPDL") filed an application with the Ontario Energy Board (the "Board") on August 15, 2014 under section 78 of the *Ontario Energy Board Act*, seeking approval for changes to the rates that LPDL charges for electricity distribution, effective May 1, 2015 and for the former Parry Sound Power Corporation ("PSPC") service area effective January 1, 2015 (the "Application"). On July 1, 2014, LPDL and PSPC merged to form a new distribution company under the LPDL name. Until its next cost of service application, LPDL will be maintaining two sets of rates for the respective service areas. LPDL will harmonize rates during its next cost of service proceeding.

LPDL and PSPC last appeared before the Board with cost of service applications in 2013 (EB-2012-0145) and 2011 (EB-2010-0140) respectively. To adjust its 2015 rates, LPDL 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 requirements[1] for filings by rate-regulated electricity distributors ("distributors") applying for annual rate adjustments under Price Cap IR.

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

- Price Cap Index Adjustment;
- Rural or Remote Electricity Rate Protection Charge;
- Shared Tax Savings Adjustments;
- 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 option[2], distribution rates are adjusted by an inflation factor, less the sum of a productivity factor and a stretch factor. Based on its established method[3], 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 LPDL and PSPC stretch factors of 0.15% and 0.30% respectively, based on the updated benchmarking study for use for rates effective in 2015[4].

[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)
[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.

As a result, the net price cap index adjustment for LPDL and PSPC is 1.45% (i.e. 1.6 % - (0% + 0.15 %)) and 1.3% (i.e. 1.6 % - (0% + 0.3%)), respectively. 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 has determined that the Rural or Remote Electricity Rate Protection ("RRRP") benefit and charge for 2015 shall remain $0.0013 per kWh[5]. The draft Tariff of Rates and Charges flowing from this Decision and Rate Order reflects this RRRP charge.

Shared Tax Savings Adjustments
Parry Sound Service Area

The Board has determined that a 50/50 sharing of the impact of legislated tax changes between shareholders and ratepayers is appropriate[6].

The tax reduction will be allocated to customer rate classes on the basis of the Board-approved distribution revenue from PSPC's last cost of service proceeding.

[5] Decision with Reasons and Rate Order, EB-2014-0347
[6] Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors (September 17, 2008)

The Application identified a total tax change of $962 resulting in a shared amount of $481 to be collected from rate payers.

LPDL requested the Board authorize the recording of this amount in variance Account 1595 for disposition in a future application given the associated rate riders are negligible. I agree with LPDL's request. Accordingly, I direct LPDL to record the tax sharing debit amount of $481 in variance Account 1595 by March 31, 2015 for disposition at a future date.

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 guidelines[7] 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 LPDL, must adjust their RTSRs to reflect any changes to the applicable RTSRs of their host distributor, which in this case 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 UTRs because updated ones are not yet available. Given the early filing date of LPDL's 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 for both the LPDL and former PSPC service area. Any differences arising from the new 2015 rates, once approved, will be captured in Accounts 1584 and 1586 for future disposition.

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

Review and Disposition of Group 1 Deferral and Variance Account Balances

The Board's policy on deferral and variance accounts[8] 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.

PSPC's 2013 actual year-end total balance for Group 1 accounts including interest projected to December 31, 2014 is a credit of $121,728. LPDL's 2013 actual year-end total balance for Group 1 accounts including interest projected to April 30, 2015 is a debit of $155,850. LPDL proposed to dispose of the balances for PSPC's service area but not for LPDL's service area based on separate threshold calculations for each service area.

In prior Board decisions in which a distributor has multiple service areas, the threshold calculation was determined based on the combined service areas[9]. On a combined basis the total balance would be a debit balance of $34,122 resulting in a debit claim of $0.0001 per kWh, which does not exceed the preset disposition threshold. Disposition of balances is therefore not required but LPDL could propose disposition nevertheless. While I note that the balances proposed for disposition are the same as the amounts reported as part of the Board's *Reporting and Record-Keeping* Requirements, I am concerned about certain balances for the PSPC service area.

The table below identifies the principal and interest amounts for Group 1 accounts for PSPC's service area.

[8] Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (July 31, 2009)
[9] Decision and Order, EB-2012-0170

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	68,266	2,843	71,109
Smart Meter Entity Variance Charge	1551	2,524	62	2,587
RSVA - Wholesale Market Service Charge	1580	(227,056)	(8,039)	(235,095)
RSVA - Retail Transmission Network Charge	1584	21,385	(340)	21,045
RSVA - Retail Transmission Connection Charge	1586	(13,770)	(1,198)	(14,968)
RSVA - Power	1588	2,097,995	115,584	2,213,579
RSVA - Global Adjustment	1589	(2,090,091)	(117,363)	(2,207,453)
Recovery of Regulatory Asset Balances	1590	0	1	1
Disposition and Recovery of Regulatory Balances (2010)	1595	74,498	(102,182)	(27,683)
Disposition and Recovery of Regulatory Balances (2012)	1595	46,922	8,229	55,151
Total Group 1 Excluding Global Adjustment – Account 1589		**2,070,765**	**14,961**	**2,085,725**
Total Group 1		**(19,326)**	**(102,402)**	**(121,728)**

I note that while the net balance for the PSPC service area is a credit of only $121,728, this includes a debit balance of $2.2M in the RSVA – Power account offset by a credit balance of $2.2M in the RSVA – Global Adjustment account. The RSVA – Global Adjustment account is only applicable to non-regulated price plan (RPP) customers. These are extremely high balances for a service area the size of PSPC (each account balance being approximately 26 times the threshold calculation). While I recognize that the 2013 deferral and variance account balances are audited, balances of this magnitude put into question whether amounts have been properly allocated between the accounts. Issues of rate retroactivity may arise if any problems with the balances are discovered after account balances have been disposed on a final basis.

For this reason, I will not approve disposition of any balances at this time until LPDL completes a comprehensive review of its deferral and variance account balances. This would best be completed as part of its year-end audit. LPDL is to provide the results of its review in its next rate application, describing the rationale as to why the balances in accounts 1588 and 1589 are of such magnitude or what adjustments have been made to the balances.

Rate Model

With this Decision and Rate Order, the Board is providing LPDL with rate models, applicable supporting models and a draft Tariff of Rates and Charges for the Lakeland and Parry Sound service areas (Appendix A). The Board also reviewed the entries in the rate model(s) 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 on a final basis, effective January 1, 2015 for electricity consumed or estimated to have been consumed on and after such date for the former Parry Sound Power Corporation service area.

2. The Tariff of Rates and Charges set out in Appendix A of this Decision and Rate Order is approved on a final basis and effective May 1, 2015 for the former Lakeland Power Distribution Limited service area.

3. Lakeland Power Distribution Limited 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-2014-0091

DATED: [Date]