



**Ontario Energy
Board**

**Commission de l'énergie
de l'Ontario**



EB-2015-0058

IN THE MATTER OF AN APPLICATION BY

Canadian Niagara Power Inc.

FOR APPROVAL OF DISTRIBUTION RATES FOR 2016

DECISION AND ORDER

[date]

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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 Canadian
Niagara Power Inc. for an order approving just and
reasonable rates and other charges for electricity
distribution to be effective January 1, 2016.

By Delegation, Before: Lynne Anderson

DECISION AND ORDER

[date]

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1.0 Introduction and Summary

Canadian Niagara Power Inc. (Canadian Niagara Power) serves about 35,000 mostly residential and commercial electricity customers in Fort Erie, Port Colborne and Gananoque. As a licenced and rate-regulated distributor in Ontario, the company must receive the Ontario Energy Board's approval for the rates it charges to distribute electricity to its customers.

Canadian Niagara Power filed an application with the OEB on August 14, 2015, to seek approval for changes to its distribution rates to be effective January 1, 2016. The OEB has established three different rate-setting methods for distributors. Canadian Niagara Power selected the Price Cap Incentive rate-setting (Price Cap IR) plan option to adjust its distribution rates. The Price Cap IR method has a five year term. In the first year, rates are set through a cost of service rebasing application. Canadian Niagara Power last appeared before the OEB with a cost of service application for 2013 in the EB-2012-0112 proceeding. In the other four years, there is a mechanistic adjustment to rates based on inflation and the OEB's assessment of a distributor's efficiency.

This is the OEB's Decision with respect to Canadian Niagara Power's application. The following issues are addressed in this Decision and Order.

- Price Cap Index Adjustment
- Regulatory Charges
- Revenue to Cost Ratio Adjustments
- Retail Transmission Service Rates
- Review and Disposition of Group 1 Deferral and Variance Accounts
- Residential Rate Design Implementation and Order

In accordance with the OEB-approved parameters for inflation and productivity for 2016, Canadian Niagara Power applied for a rate increase of 1.65%. The 1.65% applies to distribution rates (fixed and variable charges) uniformly across all customer classes; it does not apply to the rates and charges listed in Appendix B.

Canadian Niagara Power also applied to change the composition of its distribution service rates. Currently, residential distribution rates include a fixed monthly charge and a variable usage charge. However, the OEB issued a new policy to change residential rates to a fully fixed rate structure, transitioning over a four-year period beginning in 2016¹. Accordingly, the proposed fixed monthly charge for 2016 has been adjusted in this Decision to be higher than it was in 2015 and the variable-usage rate is

¹ Board Policy: A New Distribution Rate Design for Residential Electricity Customers, EB-2012-0410, April 2, 2015

commensurately lower. The amount of revenue the distributor is expected to collect from residential customer will not be affected, only the proportion of revenue collected through variable and fixed charges.

My decision in this case requires the applicant to provide further information before final rates can be calculated. As a consequence, the impact to customers' bills is not yet known.

2.0 The Process

The OEB follows a standard, streamlined process for incentive rate-setting (IR) applications under a Price Cap IR plan.

Usually, the OEB prepares a rate model that includes information from past proceedings and annual reporting requirements. A distributor then reviews and updates the model to include with its application. In Canadian Niagara Power's case the OEB's rate model cannot be used.

In Canadian Niagara Power's 2013 cost of service proceeding (EB-2012-0112), the OEB accepted a settlement agreement proposed by the parties involved (the 2013 Settlement Agreement). Canadian Niagara Power created its own rate adjustment model to calculate its proposed 2016 rates in order to make the adjustments resulting from the 2013 proceeding and to incorporate the price cap index adjustment. OEB staff confirmed the accuracy of Canadian Niagara Power's calculations.

I find that the rate adjustment model filed by Canadian Niagara Power in this proceeding is appropriate as the basis for establishing rates in 2016. The rate adjustment model incorporates the requirements of the price cap index adjustment of 1.65% and the terms accepted by the OEB from the 2013 proceeding. Canadian Niagara Power used the same approach for its 2015 rate application and the OEB panel hearing that case determined that this was appropriate.

In this case, Canadian Niagara Power provided written evidence and a completed rate model to support its application on August 14, 2015. Questions were asked and answers were provided by Canadian Niagara Power through emails and phone calls. Based on this information, a decision was drafted and provided to Canadian Niagara Power on November 23, 2015. Canadian Niagara Power was given the opportunity to provide its comments on the draft for consideration prior to finalizing the Decision.

3.0 Organization of the Decision

The OEB has organized this Decision into sections, reflecting the issues that the OEB has considered in making its findings². Each section covers the OEB's reasons for approving or denying the proposals included in the application and affecting 2016 rates. The last section addresses the steps to be taken by Canadian Niagara Power and OEB staff in order to implement the final rates that flow from this Decision.

4.0 Price Cap Incentive Rate-setting

The Price Cap IR adjustment follows an OEB-approved formula that includes components for inflation and the OEB's expectations of efficiency and productivity gains³. The components in the formula are also approved by the OEB annually.

The formula is an *inflation minus X-factor* rate adjustment, which is intended to incent innovation and efficiency. Based on its established formula⁴, the OEB has set the inflation factor for 2016 rates at 2.1%.

The X-factors for individual distributors have two parts: a productivity element based on historical analysis of industry cost performance and a stretch factor that represents a distributor's efficiency relative to its expected costs. Subtracting the X-factor from inflation ensures that rates decline in real, constant-dollar terms, providing distributors an incentive to improve efficiency or else face the prospect of declining net income.

Based on industry conditions over the historical study period, the productivity factor has been set at zero percent. A stretch factor is assigned based on the distributor's total cost performance as benchmarked relative to other distributors in Ontario. For Price Cap IR applications, a range of stretch factors has been set from 0.0% to 0.6%⁵. The most efficient distributor, based on the cost evaluation ranking, would be assigned the lowest stretch factor of 0.0%. Higher stretch factors are applied to distributors whose cost performance falls below that of comparable distributors to encourage them to pursue greater efficiencies.

² See list of issues in the Introduction, p.1

³ Report on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors (December 4, 2013)

⁴ As outlined in the Report cited at footnote 3 above.

⁵ Report to the Ontario Energy Board – "Empirical Research in Support of Incentive Rate-Setting: 2014 Benchmarking Update." Pacific Economics Group LLC. July, 2015.

Findings

In this case, the OEB assigned Canadian Niagara Power a stretch factor of 0.45% based on the updated benchmarking study for use for rates effective in 2016⁶. As a result, the net price cap index adjustment for Canadian Niagara Power is 1.65% (i.e. $2.1\% - (0\% + 0.45\%)$).

The 1.65% adjustment applies to distribution rates (fixed and variable charges) uniformly across all customer classes; it does not apply to the rates and charges listed in Appendix B.

5.0 Regulatory Charges

There are a number of charges levied to consumers to cover the costs associated with various programs and wholesale market services.

The Rural or Remote Electricity Rate Protection (RRRP) program is designed to provide financial assistance to eligible customers located in rural or remote areas where the costs of providing electricity service to these customers greatly exceeds the costs of providing electricity to customers located elsewhere in the province of Ontario. The RRRP program cost is recovered from all electricity customers in the province through a charge that is reviewed annually and approved by the OEB.

Wholesale market service (WMS) charges recover the cost of the services provided by the Independent Electricity System Operator (IESO) to operate the electricity system and administer the wholesale market. These charges may include costs associated with: operating reserve, system congestion and imports, and losses on the IESO-controlled grid. Individual electricity distributors recover the WMS charges from their customers through the WMS rate.

The Ontario Electricity Support Program (OESP) is a new regulatory charge that will be initiated in 2016. This program delivers on-bill rate assistance to low income electricity customers. All Ontario customers contribute to the OESP through the OESP charge.

These regulatory charges are established annually by the OEB through a separate order.

⁶ As outlined in the Report cited at footnote 5 above.

Findings

The OEB has determined⁷ that the RRRP charge for 2015 shall be \$0.0013 per kWh; the WMS rate shall be \$0.0036 per kWh; and the OESP charge shall be \$0.0011 per kWh. The Tariff of Rates and Charges flowing from this Decision and Rate Order reflects these new regulatory charges, as well as the OESP credits to be provided to enrolled low income customers.

6.0 Revenue-to-Cost Ratio Adjustments

Revenue-to-cost ratios measure the relationship between the revenues expected from a class of customers and the level of costs allocated to that class. This is one of the factors the OEB considers when setting rates. The OEB has established target ratio ranges for electricity distributors⁸ to reflect its expectation that each class will pay for the costs to serve it, while considering the variability among distributors and the associated rate class impacts.

In general, increases to the revenue-to-cost ratios of one class will create decreases in other rate classes. Within a mechanistic IR application, adjustments are permitted to revenue-to-cost ratios if this was approved as part of a cost of service rebasing application.

In this application, Canadian Niagara Power proposed to increase the revenue-to-cost ratio for Residential and Sentinel Lighting. The additional revenues from these adjustments would be used to reduce the revenue-to-cost ratio for Unmetered Scattered Load.

These ratio adjustments are consistent with the ranges resulting from the 2013 cost of service application (EB-2012-0112). The decision for 2013 rates requires Canadian Niagara Power to adjust the fixed-variable splits of each customer class to achieve fully harmonized rates for its three service territories (Fort Erie, Gananoque and Port Colborne) by the 2016 rate year. In addition, targeted monthly service charges were established for each customer class for the 2014, 2015 and 2016 rate years in order to adjust revenue-to-cost ratios and fixed-to-variable ratios.

The table below outlines the proposed revenue-to-cost ratios.

⁷ Decision with Reasons and Rate Order, EB-2015-0294

⁸ Application of Cost Allocation for Electricity Distributors (November 28, 2007); and Review of Electricity Distribution Cost Allocation Policy (March 31, 2011)

Current and Proposed Revenue-to-Cost Ratio

Rate Class	Current 2015 Ratio	Proposed 2016 Ratio
Residential	91.31	91.42
GS Less Than 50 kW	109.34	109.34
General Service 50 kW to 4,999 kW	119.94	119.94
Street Lighting	96.28	96.28
Sentinel Lighting	91.31	91.42
Unmetered Scattered Load	155.30	120.00

Findings

I agree that the proposed revenue-to-cost ratios are consistent with the decision arising from the 2013 cost of service proceeding and approve the revenue-to-cost ratios as filed.

7.0 Retail Transmission Service Rates

Electricity distributors use Retail Transmission Service Rates (RTSRs) to pass along the cost of transmission service to their distribution customers. The RTSRs are adjusted annually to reflect the application of the current Uniform Transmission Rates ("UTR") to historical transmission deliveries and the revenues generated under existing RTSRs. The UTRs are established annually by a separate OEB order. Similarly, partially embedded distributors, such as Canadian Niagara Power, 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. Distributors may apply to the OEB annually to approve the proposed UTRs and RTSRs they will charge their customers.

Findings

Distributors whose rates are set as of January 1 typically calculate their RTSRs using the previous year's UTRs as the updates are not yet available. In this case, the OEB has not yet adjusted UTRs and Hydro One sub-transmission class rates for 2016. I will therefore approve the RTSRs as adjusted in this Application to reflect the current applicable rates. The differences arising from the new 2016 rates, once approved, will be captured in Accounts 1584 and 1586 for future disposition.

8.0 Review and Disposition of Group 1 Deferral and Variance Account Balances

Group 1 Deferral and Variance Accounts track the differences between the costs that a distributor is billed for certain IESO and host distributor costs (including the cost of power) and the revenues that the distributor receives from its customers for these costs through its OEB-approved rates. The total net difference between these costs and revenues is disposed to customers through a temporary charge or credit known as a rate rider.

The OEB's policy on deferral and variance accounts⁹ provides that, during the incentive rate-setting (IRM) plan term, the distributor's Group 1 account balances will be reviewed and disposed if the pre-set disposition threshold of \$0.001 per kWh, whether in the form of a debit or credit, is exceeded. It is the distributor's responsibility 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.

Canadian Niagara Power's 2014 actual year-end total balance for Group 1 accounts including interest projected to December 31, 2015 is a debit of \$577,268. This amount results in a total debit claim of \$0.0011 per kWh, which exceeds the preset disposition threshold. The amounts result in a debit for all service areas pertaining to the Global Adjustment Account 1589 and a credit for all service areas pertaining to all other Group 1 accounts. Canadian Niagara Power proposes to dispose of these debit and credit amounts over a two-year period in order to reduce the 10.7% bill impacts to Gananoque-area General Service greater than 50 kW customers that would result if amounts were disposed over a twelve month period.

⁹ Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (July 31, 2009)

The table below identifies Group 1 amounts excluding Global adjustment Account 1589, the Global Adjustment Account 1589 and All Group 1 Account amounts for each service area.

Table 1 Group 1 Deferral and Variance Accounts by Service Territory

	Group 1 excluding Global Adjustment Account 1589	Global Adjustment Account 1589	All Group 1 Accounts
Gananoque Service Territory	(315,168)	379,786	64,617
Port Colborne Service Territory	(510,875)	449,979	(60,896)
Fort Erie Service Territory	(222,283)	795,829	573,545
Total	(1,048,326)	1,625,594	577,268

The balances proposed for disposition do not reconcile with the amounts reported as part of the OEB's *Reporting and Record-Keeping Requirements*. Canadian Niagara Power confirmed through questions from OEB staff that the figures reported in table 1 above reflect adjustments to audited balances as follows:

- 1) Removal of \$110,719 from Account 1595 (2013) into Account 1589 Global Adjustment. The \$110,719 residual debit amount in Account 1595 was caused by the loss of some larger customers. The Global Adjustment rate rider expired on December 31, 2014. Canadian Niagara Power reported that it transferred the debit amount in order to ensure recovery from non-RPP customers.
- 2) True-up of commodity costs: Canadian Niagara Power adjusted the 2014 balance in Account 1588 RSVA – Power as a result of a true-up with the IESO that reduced the credit balance from \$1,496,564 to \$938,737. The majority of the adjustments calculated relate to incorrect Weighted Average Hourly Energy Price data used in form 1598 submissions completed for January 2014 consumption. No adjustments were made to periods prior to 2014 that have been disposed on a final basis.

The combined effects of these two changes result in a final adjusted balance of \$577,268. Canadian Niagara Power reports that while this amount and its components have not been audited, the majority of the inputs (i.e. energy volumes, RPP prices) into the true-up calculation for Account 1588 were within the scope of the 2014 audit completed by its external auditors in early 2015. Canadian Niagara Power has indicated

that its overall settlement and true up process has been informed by the experience of an audit performed by the OEB in 2012 for another distribution utility owned by the same parent company. A copy of this audit has been filed on the record of this proceeding. The same staff with experience of the audit are those who carry out accounting for Canadian Niagara Power.

Findings

I agree to dispose of the adjusted Group 1 balance of \$577,268. This includes the adjusted balance for Account 1588 RSVA.

I do not agree with Canadian Niagara Power's allocation of \$110,719 from Account 1595 (2013) into Account 1589 Global Adjustment, since it arose due to a loss of customers. The residual balance, which is about 25% of the initial global adjustment balance from 2013 ordered to be disposed, should be allocated to all customers. In this circumstance, it is fairer for the impact of the departure of customer load to be borne by the entire customer base rather than be pooled among only customers who pay the global adjustment charge separately. This spreads the costs among all customers, who can more readily bear this cost relative to a smaller pool.

While it is the normal approach only to clear audited balances I note that all other aspects of the Group 1 accounts, except the adjustments, have been audited. I accept the explanation provided by Canadian Niagara Power for the adjustment that was made to Account 1588 RSVA.

The remaining balances proposed for disposition are the same as the amounts reported as part of the OEB's *Reporting and Record-Keeping Requirements*. Accordingly, I approve the disposition of a debit balance of \$577,268 as of December 31, 2014, including interest projected to December 31, 2015 for Group 1 accounts. These balances are to be disposed through rate riders over a two-year period from January 1, 2016 to December 31, 2017.

The following tables identify the principal and interest amounts which the OEB approves for disposition for each service area.

Table 2 Group 1 Deferral and Variance Account Balances Fort Erie Service Territory

Account Name	Account Number	Principal Balance (\$) A	Interest Balance (\$) B	Total Claim (\$) C = A + B
LV Variance Account	1550	(50,131)	(896)	(51,027)
Smart Meter Entity Variance Charge	1551	(1,378)	2	(1,376)
RSVA - Wholesale Market Service Charge	1580	28,591	2,720	31,311
RSVA - Retail Transmission Network Charge	1584	236,102	4,120	240,222
RSVA - Retail Transmission Connection Charge	1586	190,809	3,286	194,095
RSVA - Power	1588	(744,680)	(18,490)	(763,170)
RSVA - Global Adjustment	1589	777,892	17,937	795,829
Disposition and Recovery of Regulatory Balances (2013)	1595	64,193	63,470	127,662
Total Group 1 Excluding Global Adjustment – Account 1589		(276,494)	54,210	(222,283)
Total Group 1		501,398	72,147	573,545

Table 3 Group 1 Deferral and Variance Account Balances Port Colborne Service Territory

Account Name	Account Number	Principal Balance (\$) A	Interest Balance (\$) B	Total Claim (\$) C = A + B
LV Variance Account	1550	(32,146)	(582)	(32,728)
Smart Meter Entity Variance Charge	1551	(207)	11	(196)
RSVA - Wholesale Market Service Charge	1580	(4,109)	1,581	(2,528)
RSVA - Retail Transmission Network Charge	1584	(17,349)	(394)	(17,743)
RSVA - Retail Transmission Connection Charge	1586	10,128	191	10,320
RSVA - Power	1588	(512,384)	(12,625)	(525,008)
RSVA - Global Adjustment	1589	438,743	11,237	449,979
Disposition and Recovery of Regulatory Balances (2013)	1595	(172,482)	229,490	57,008
Total Group 1 Excluding Global Adjustment – Account 1589		(728,549)	217,674	(510,875)
Total Group 1		(289,806)	228,911	(60,895)

Table 4 Group 1 Deferral and Variance Account Balances Gananoque Service Territory

Account Name	Account Number	Principal Balance (\$) A	Interest Balance (\$) B	Total Claim (\$) C = A + B
LV Variance Account	1550	66,793	1,193	67,986
Smart Meter Entity Variance Charge	1551	(44)	6	(39)
RSVA - Wholesale Market Service Charge	1580	(152,885)	(3,030)	(155,915)
RSVA - Retail Transmission Network Charge	1584	(69,272)	(1,397)	(70,669)
RSVA - Retail Transmission Connection Charge	1586	(45,951)	(913)	(46,864)
RSVA - Power	1588	(109,581)	(2,527)	(112,108)
RSVA - Global Adjustment	1589	373,161	6,625	379,786
Disposition and Recovery of Regulatory Balances (2012)	1595	1,691	233	1,923
Disposition and Recovery of Regulatory Balances (2013)	1595	1,611	(1,095)	516
Total Group 1 Excluding Global Adjustment – Account		(307,639)	(7,530)	(315,168)

1589				
Total Group 1		65,522	(905)	64,617

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. Canadian Niagara Power should ensure these adjustments are included in the reporting period ending March 31, 2016 (Quarter 1).

9.0 Residential Rate Design

Currently, all residential distribution rates include a fixed monthly charge and a variable usage charge. The OEB's April 2, 2015 policy on electricity distribution rate design set out that distribution rates for residential customers will transition to a fully fixed rate structure from the current combination of fixed and variable charges over four years. Starting in 2016, the fixed rate will increase gradually, and the usage rate will decline.

The 2016 rate model has been revised to include the first year of the gradual transition to fully fixed rates and its impact to the monthly fixed charge that residential customers will pay. The OEB is requiring distributors to calculate and report on the rate impacts of the change so that strategies may be employed to smooth the transition for the customers most impacted, such as those that consume less electricity, if mitigation is required. In support of this, the OEB requires distributors to calculate the impact of this change to residential customers in general; it also requires applicants to calculate the combined impact of the fixed rate increase and any other changes in the cost of distribution service for those customers who are at the 10th percentile of overall consumption. Any increase of 10% or greater to these low-consumption customers' bills arising from changes made in this Decision, or an increase to the monthly fixed charge of greater than \$4 prior to incentive rate-setting adjustments, may result in the requirement for a longer transition period than four years specified in the OEB policy. Distributors may also propose other strategies to smooth out these increases as appropriate.

Adjustments to Canadian Niagara Power's rate model to implement the change in fixed rates results in an increase to the fixed charge prior to IRM adjustments of \$3.40; OEB staff have calculated the bill impacts of this Decision, including the fixed rate change, to be below 10% for typical low consumption customers.

Findings

I find that the increases to the monthly fixed charge and to low consumption consumers are consistent with OEB policy and approve the increase as calculated in the final rate model.

10.0 Implementation and Order

I have made conclusions in this Decision and Order which change the 2016 distribution rates from those proposed by Canadian Niagara Power.

I expect Canadian Niagara Power 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 Canadian Niagara Power's determination of the final rates. Supporting documentation shall include, but not be limited to, filing a completed version of the 2016 IRM Rate Generator model.

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

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Canadian Niagara Power shall file with the OEB a draft Rate Order that includes revised models in Microsoft Excel format and a proposed Tariff of Rates and Charges reflecting my conclusions in this Decision by 7 days from date of issuance of Decision and Order.
2. OEB staff shall file any comments on the draft Rate Order including the revised models and proposed rates with the OEB and forward to Canadian Niagara Power within 7 days of the date of filing of the draft Rate Order.

Canadian Niagara Power shall file with the OEB 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.

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DATED at Toronto, [date]

ONTARIO ENERGY BOARD

Kirsten Walli
Board Secretary

Appendix A

To Decision and Order

Tariff of Rates and Charges

Board File No: EB-2015-0058

DATED: [date]

Appendix B

To Decision and Order

List of Rates and Charges Not Affected by the Price Cap or Annual IR Index

OEB File No: EB-2015-0058

DATED: [date]

The following rates and charges are not affected by the Price Cap or Annual IR Index:

- 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
- Retail service charges