

**Ontario Energy
Board**

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



EB-2014-0095

IN THE MATTER OF AN APPLICATION BY

Newmarket-Tay Power Distribution Ltd.

FOR APPROVAL OF DISTRIBUTION RATES FOR 2015

DECISION AND RATE 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 Newmarket-
Tay Power Distribution Ltd. for an order approving just and
reasonable rates and other charges for electricity
distribution to be effective September 1, 2015.

By Delegation, Before: Lynne Anderson

DECISION AND RATE ORDER

[date]

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1.0 Introduction and Summary

Newmarket-Tay Power Distribution Ltd. (Newmarket-Tay Power) serves about 35,000 mostly residential and commercial electricity customers in Newmarket. 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.

Newmarket-Tay Power filed an application with the OEB on August 5, 2015, to seek approval for changes to its distribution rates to be effective September 1, 2015. The OEB has established three rate-setting methods for distributors. Newmarket-Tay Power selected the Annual Incentive Rate-setting Index (Annual IR Index) option to adjust its distribution rates. Annual IR Index methodology provides for a mechanistic and formulaic adjustment to distribution rates and charges in the period between cost of service applications. Newmarket-Tay Power last appeared before the Board with a full cost of service application for the 2010 rate year in the EB-2009-0269 proceeding. Newmarket –Tay Power is seeking an adjustment for 2015 rates and as such has used the OEB's 2015 rate model.

This is the OEB's Decision with respect to Newmarket-Tay Power's application. The following issues are addressed in this Decision and Rate Order.

- Price Cap Index Adjustment
- Regulatory Charges
- Shared Tax Savings
- Retail Transmission Service Rates
- Review and Disposition of Group 1 Deferral and Variance Accounts
- Residential Rate Design
- Implementation and Order

Newmarket-Tay Power 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 2015 has been adjusted in this Decision to be higher than it was in 2014 and the variable-usage rate is commensurately lower. The amount of revenue the distributor is expected to collect from residential customers will not be affected, only the proportion of revenue collected through variable and fixed charges.

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

The proposed rate adjustments to Newmarket-Tay Power's application arising from this Decision result in a monthly increase of \$9.51 for a residential customer consuming 800 kWh. Government policy initiatives that remove the Debt Retirement Charge and the Ontario Clean Energy Benefit from residential electricity bills, effective January 1, 2016, will impact the total bill as well.

I approve the adjustments to Newmarket-Tay Power's application as calculated through this proceeding.

2.0 Effective Date for New Rates

Newmarket-Tay Power's rate year normally commences May 1. Newmarket-Tay Power applied for rates effective September 1, 2015. Its complete application was not filed until August 5, 2015. The OEB establishes filing deadlines for rate applications based on the expected time to process applications. Newmarket-Tay Power's filing deadline for May 1, 2015 rates was August 13, 2014. The filing deadline for distributors seeking January 1, 2016 rates was August 17, 2015, approximately the same timeframe as Newmarket-Tay Power's application. Newmarket-Tay Power made no request for interim rates nor did it explain why it requires a September 1, 2015 effective date.

Findings

While I recognize that an Annual IR Index application is intended to be mechanistic and therefore the OEB's review process would generally be shorter than for other types of rate applications, the request for a September 1, 2015 effective date is not reasonable given the date the application was filed. I approve rates to be effective January 1, 2016 consistent with previous decisions of the OEB to set rates effective the month following the final decision².

3.0 The Process

The OEB follows a standard, streamlined process for incentive rate-setting (IR) applications such as Annual IR Index plan.

Initially, 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 this case, Newmarket-Tay Power provided written evidence and a completed rate model to support its application on August 5, 2015. Questions were asked and answers were provided by Newmarket-Tay Power through emails and phone calls. Based on this

² Newmarket-Tay Power Distribution Inc. (EB-2011-0184) and Niagara Peninsula Energy Inc. (EB-2014-0096)

information, a decision was drafted and provided to Newmarket-Tay Power on November 25, 2015. Newmarket-Tay Power was given the opportunity to provide its comments on the draft for consideration prior to finalizing the Decision.

4.0 Organization of the Decision

The OEB has organized this Decision into sections, reflecting the issues that the OEB has considered in making its findings³. Each section covers the OEB's reasons for approving or denying the proposals included in the application. The last section addresses the steps to be taken by Newmarket-Tay Power and OEB staff in order to implement the final rates that flow from this Decision.

5.0 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 gains⁴. 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 formula⁵, the OEB has set the inflation factor for 2015 rates at 1.6%.

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 Annual Index applications, a stretch factor of 0.6% will be applied.

Findings

Newmarket-Tay Power has been assigned the default stretch factor of 0.6% for its Annual IR application. As a result, the net price cap index adjustment for Newmarket-Tay Power is 1.0% (i.e. 1.6% - (0% + 0.6%)).

³ See list of issues in the Introduction, p.1

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

⁵ As outlined in the Report cited at footnote 4 above.

The 1.0% 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.

6.0 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.

Findings

The OEB has determined⁶ 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.

7.0 Shared Tax Adjustments

The OEB approves an amount for taxes in a distributor's cost of service proceeding that

⁶ Decision with Reasons and Rate Order, EB-2015-0294

is based on the tax rates in place at the time. Legislated changes in tax rates impact the amount of taxes that a distributor pays in the period between cost of service proceedings, but it does not alter the amount that ratepayers contribute towards the cost of taxes unless the rates are updated by an order of the OEB. The OEB has determined that a 50/50 sharing of the impact of legislated tax changes between shareholders and ratepayers is appropriate. The shared tax change amount will be assigned to customer rate classes in the same proportions as the OEB-approved distribution revenue by rate class from a distributor's last cost of service proceeding. In accordance with the OEB's rate design policy, the rate riders to dispose of these amounts will be calculated as a fixed monthly refund for residential customers.

The Application identified a total tax savings of \$145,503 resulting in a shared amount of \$72,752 to be refunded to rate payers. Newmarket-Tay Power has requested to refund the balance to tax payers over a seven month period but stated the OEB may adjust the calculation as it sees fit. OEB staff has calculated the tax sharing rate riders as fixed rates for the residential class instead of variable rates (the latter being the practice to date), in order to incorporate the OEB's recent rate design policy. OEB staff has also used a one year recovery period, as established in *Chapter 3 Filing Requirements For Electricity Distribution Rate Applications - 2015 Edition for 2016 Rate Applications*.

Findings

I approve the disposition of the shared tax savings of \$72,752 to be applied to all customer classes according to their annualized consumption. The disposition shall be over a one-year period (i.e. January 1, 2016 to December 31, 2016). A one year recovery period is consistent with the Filing Requirements. The amount to be disposed will be based on a fixed monthly rate rider for residential customers. Rates riders for all remaining customer classes will be calculated on a volumetric basis.

8.0 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 Newmarket-Tay 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.

The OEB issued its Rate Order for Hydro One Transmission (EB-2014-0357) which adjusted the UTRs effective January 1, 2015, as shown in the following table:

2015 Uniform Transmission Rates

Network Service Rate	\$3.78 per kW
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.86 per kW
Transformation Connection Service Rate	\$2.00 per kW

The OEB also approved new rates for Hydro One's Sub-Transmission class, including the applicable RTSRs, effective January 1, 2015 (EB-2013-0416), as shown in the following table.

2015 Sub-Transmission RTSRs

Network Service Rate	\$3.41 per kW
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.79 per kW
Transformation Connection Service Rate	\$1.80 per kW

The OEB has not yet adjusted UTRs for 2016.

Findings

I find that these 2015 UTRs and Sub-Transmission class RTSRs incorporated into the calculation of Newmarket-Tay Power's RTSRs are appropriate. The differences arising from the new 2016 rates, once approved, will be captured in Accounts 1584 and 1586 for future disposition.

9.0 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 accounts⁷ 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.

Newmarket-Tay Power's 2013 actual year-end total balance for Group 1 accounts including interest projected to December 31, 2013 is a credit of \$279,132. This amount results in a total credit claim of \$0.0004 per kWh, which does not exceed the preset disposition threshold. Newmarket-Tay Power did not seek disposition of balances in its application.

Findings

I conclude that no disposition is required at this time as the disposition threshold has not been exceeded.

10.0 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 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

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

longer transition period than four years specified in the OEB policy. Distributors may also propose other strategies to smooth out these increases as appropriate.

For 2016 filers, the 2016 rate model includes a new component that will implement the first year of the gradual transition to fully fixed rates and will show the impact to the monthly fixed charge that residential customers will pay. The 2015 rate model used by Newmarket-Tay Power did not include the gradual transition to fully fixed rates and its impact to the monthly fixed charge.

There is no formal indication from Newmarket-Tay Power that it will be filing a 2016 rate application. To implement the OEB's policy, OEB staff amended the rate models for Newmarket-Tay Power's to commence the gradual transition to fixed rates for the residential class.

Given that the 2016 rate model applies the fixed rate transition to 2015 base rates (i.e. before the Price Cap adjustment), OEB staff used the end point of Newmarket-Tay Power's 2015 model, as the starting point for the fixed rate adjustment. The fixed rate adjustment was applied using the more recent 2016 rate model to calculate the change to residential fixed and variable rates for the first transition year. No other components of the 2016 rate model were used to further adjust Newmarket-Tay Power's rates.

Adjustments to Newmarket-Tay Power's rate model to implement the change in fixed rates results in an increase to the fixed charge of \$2.90. OEB staff was not able 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.

Findings

I find that the changes to the monthly fixed rate are consistent with OEB policy and I approve the increase as calculated in the final rate models. I also find that Newmarket-Tay Power should provide information and calculations for the 10th percentile customers in its comments on this draft Decision and Rate Order.

11.0 Implementation and Order

Rate Model

With this Decision and Rate Order are a rate model, applicable supporting models and a Tariff of Rates and Charges (Appendix A). Entries in the rate model(s) were reviewed to ensure that they were in accordance with Newmarket-Tay Power's EB-2009-0269 cost

of service decision, the 2014 OEB-approved Tariff of Rates and Charges as well as the cost, revenue and consumption results from 2013 as reported by Newmarket-Tay Power to the OEB. The rate model was adjusted, where applicable, to correct any discrepancies.

THE ONTARIO ENERGY BOARD ORDERS THAT

1. The Tariff of Rates and Charges set out in Appendix A of this Decision and Rate Order is approved effective January 1, 2016 for electricity consumed or estimated to have been consumed on and after such date. Newmarket-Tay Power Distribution Ltd. shall notify its customers of the rate changes no later than the delivery of the first bill reflecting the new rates.

ADDRESS

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4
Attention: Board Secretary

E-mail: boardsec@ontarioenergyboard.ca
Tel: 1-888-632-6273 (Toll free)
Fax: 416-440-7656

DATED at Toronto, [date]

ONTARIO ENERGY BOARD

Kirsten Walli
Board Secretary

Appendix A

To Decision and Rate Order

Tariff of Rates and Charges

Board File No: EB-2014-0095

DATED: [date]

Appendix B

To Decision and Rate Order

List of Rates and Charges Not Affected by the

Price Cap or Annual IR Index

OEB File No: EB-2014-0095

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