



Ontario Energy Board
Commission de l'énergie de l'Ontario

DECISION AND RATE ORDER

EB-2015-0005

ESSEX POWERLINES CORPORATION

Application for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2016.

By Delegation, Before: Lynne Anderson

[date]

1 INTRODUCTION AND SUMMARY

Essex Powerlines Corporation (Essex Powerlines) serves about 29,000 mostly residential and commercial electricity customers in the Town of Amherstburg, the Town of LaSalle, the Municipality of Leamington and the Town of Tecumseh. 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.

Essex Powerlines filed an application with the OEB on November 2, 2015, to seek approval for changes to its distribution rates to be effective May 1, 2016. The OEB has established three different rate-setting methods for distributors. Essex Powerlines 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. Essex Powerlines last appeared before the OEB with a cost of service application for 2010 in the EB-2009-0143 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 Essex Powerlines' application. The following issues are addressed in this Decision and Rate Order.

- Price Cap Incentive Rate-setting
- Regulatory Charges
- Shared Tax Adjustments
- Retail Transmission Service Rates
- Review and Disposition of Group 1 Deferral and Variance Accounts
- Review and Disposition of Lost Revenue Adjustment Mechanism Variance Account Balance
- Residential Rate Design
- Implementation and Order

In accordance with the OEB-approved parameters for inflation and productivity for 2016, Essex Powerlines applied for a rate increase of 1.95%. The 1.95% applies to distribution rates (fixed and variable charges) uniformly across all customer classes; it does not apply to the rates and charges listed in Schedule B.

Essex Powerlines 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

2016.¹ Accordingly, the fixed monthly charge for 2016 has been adjusted upward in this Decision by more than the mechanistic adjustment alone 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.

The bill impacts arising from this Decision for Essex Powerlines result in a monthly increase of \$3.78 for a residential customer consuming 800 kWh.

The OEB approves the adjustments to Essex Powerlines' application as calculated through this proceeding.

2 THE PROCESS

The OEB follows a standard, streamlined process for incentive rate-setting (IR) applications under a Price Cap IR 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, Essex Powerlines provided written evidence and a completed rate model to support its application on November 2, 2015. Questions were asked and answers were provided by Essex Powerlines through emails and phone calls. Based on this information, a decision was drafted and provided to Essex Powerlines on February 10, 2016. Essex Powerlines was given the opportunity to provide its comments on the draft for consideration prior to finalizing this Decision.

3 ORGANIZATION OF THE DECISION

The OEB has organized this Decision into sections, reflecting the issues that the OEB has considered in making its findings.² 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 implement the final rates that flow from this Decision.

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

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

4 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 gains.³ 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 formula,⁴ 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.

Findings

In this case, the OEB assigned Essex Powerlines a stretch factor of 0.15% based on the updated benchmarking study for use for rates effective in 2016.⁶ As a result, the net price cap index adjustment for Essex Powerlines is 1.95% (i.e. 2.1% - (0% + 0.15%)).

The 1.95% 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 Schedule B.

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.

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

5 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 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 determined⁷ that the RRRP charge for 2016 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. These changes have been in effect since January 1, 2016 for all distributors as a result of the generic order that was part of the OEB's separate decision. The Tariff of Rates and Charges flowing from this Decision and Rate Order has also been updated so as to reflect these new regulatory charges, as well as the OESP credits to be provided to enrolled low income customers.

⁷ Decision and Rate Order, EB-2015-0294

6 SHARED TAX ADJUSTMENTS

The OEB approves an amount for taxes in a distributor's cost of service proceeding that 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 \$95,288 resulting in a shared amount of \$47,644 to be refunded to rate payers.

Findings

The OEB approves the disposition of the shared tax savings of \$47,644 to be applied to all customer classes over a one-year period (i.e. May 1, 2016 to April 30, 2017). 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.

7 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, embedded distributors, such as Essex Powerlines, 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 RTSRs they propose to charge their customers.

Findings

The OEB approved new rates for Hydro One's Sub-Transmission class, including the applicable RTSRs,⁸ as shown in the following table:

2016 Sub-Transmission RTSRs

Network Service Rate	\$3.34 per kW
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.78 per kW
Transformation Connection Service Rate	\$1.77 per kW

The OEB finds that these 2016 Sub-Transmission class RTSRs are to be incorporated into the rate model to adjust the RTSRs that Essex Powerlines will charge its customers accordingly.

8 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 IR 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.

Essex Powerlines's 2014 actual year-end total balance for Group 1 accounts including interest projected to April 30, 2016 is a credit of \$69,374. This amount results in a total

⁸ Rate Order, EB-2015-0079, issued January 14, 2016

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

credit claim of \$0.0001 per kWh, which does not exceed the preset disposition threshold. Essex Powerlines did not seek disposition of balances in its application.

Findings

In its decision on Essex Powerlines' 2015 IRM application, the OEB ordered that a complete audit of all of the utility's DVA accounts, procedures and controls be undertaken.¹⁰ The OEB ordered the audit to "ensure all DVA entries and balances, not just those associated with Group 1 variance accounts, are accurate for 2013 and on a go forward basis". The only exceptions to the audit are the smart meter Accounts 1555 and 1556 (which already underwent a final review in Essex Powerlines' 2015 IRM proceeding).

Given that the audit has yet to be completed, it is appropriate that balances not be disposed at this time regardless of the disposition threshold.

9 REVIEW AND DISPOSITION OF THE LOST REVENUE ADJUSTMENT MECHANISM VARIANCE ACCOUNT BALANCE

As part of the Ministry of Energy's conservation-first strategy, the OEB requires distributors to engage in and deliver conservation and demand management activities in an effort to reduce total energy consumption and reduce peak demand on the provincial electricity system. The OEB policy¹¹ established the Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) to capture the revenue implications for the distributor from the reduction in actual demand, as compared with the last OEB-approved load forecast, resulting from conservation and demand management activities. These differences are recorded for each of a distributor's customer classes.

A distributor may apply for the disposition of the balance in the LRAMVA on an annual basis, as part of its IRM rate application, if the balance is deemed significant by the distributor.

Essex Powerlines requests disposition of its LRAMVA balance of a debit of \$228,784, as updated through correspondence with OEB staff, consisting of programs delivered in 2013 and 2014, as well as the persisting lost revenues from programs delivered in 2011

¹⁰ EB-2014-0301/EB-2014-0072

¹¹ Guidelines for Electricity Distributor Conservation and Demand Management (April 26, 2012)

and 2012 in 2013 and the persisting lost revenues from programs delivered in 2011, 2012 and 2013 in 2014.

Findings

In the light of the decision on Essex Powerlines' 2015 IRM application and the audit that is underway, the OEB does not approve Essex Powerlines' current request for recovery of the balance in Account 1568 until the audit of all DVAs is completed.

10 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 Essex Powerlines's rate model to implement the change in fixed rates result in an increase to the fixed charge prior to IRM adjustments of \$3.32; OEB staff has calculated the bill impacts of this Decision, including the fixed rate change, to be an increase of 4.49% for typical low consumption customers.

Findings

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

11 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 (Schedule A). Entries in the models were reviewed to ensure that they were in accordance with Essex Powerlines's EB-2009-0143 cost of service decision, the 2015 OEB-approved Tariff of Rates and Charges as well as the cost, revenue and consumption results from 2014 as reported by Essex Powerlines 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 Schedule A of this Decision and Rate Order is approved effective May 1, 2016 for electricity consumed or estimated to have been consumed on and after such date. Essex Powerlines Corporation shall notify its customers of the rate changes no later than the delivery of the first bill reflecting the new rates.

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DATED at Toronto, [date]

ONTARIO ENERGY BOARD

Kirsten Walli
Board Secretary

DRAFT

Schedule A

To Decision and Rate Order

Tariff of Rates and Charges

OEB File No: EB-2015-0005

DATED: [date]

Schedule 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-2015-0005

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