



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

PARTIAL DECISION AND ORDER

EB-2015-0065

ENERSOURCE HYDRO MISSISSAUGA INC.

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

BEFORE: Allison Duff
Presiding Member

Victoria Christie
Member

Cathy Spoel
Member

March 3, 2016

1 INTRODUCTION AND SUMMARY

Enersource Hydro Mississauga Inc. (Enersource) serves about 202,000 mostly residential and commercial electricity customers in the City of Mississauga. 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.

Enersource filed an application with the OEB on October 2, 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. Enersource 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. Enersource last appeared before the OEB with a cost of service application for 2013 in the EB-2012-0033 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 Partial Decision and Order with respect to Enersource's application. The following issues are addressed in this Partial Decision and 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
- Residential Rate Design
- Renewable Generation Connection Funding Amounts
- Implementation and Order

Enersource also requested approval of an Incremental Capital Module (ICM), which the OEB will address in a forthcoming decision.

In accordance with the OEB-approved parameters for inflation and productivity for 2016, Enersource 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.

Enersource 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 OEB approves the adjustments to Enersource's application as calculated through this proceeding and will allow Enersource to collect the foregone revenue resulting from the implementation of the rates on April 1, 2016, with an effective date of January 1, 2016.

The adjustments to basic distribution charges arising from this Partial Decision result in a monthly increase of \$0.06 for a residential customer consuming 800 kWh. The impacts as a result of an April 1 implementation date and an associated shorter collection period for temporary adjustments can only be calculated after Enersource provides the information requested at the end of this Decision.

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, Enersource provided written evidence and a completed rate model to support its application on August 17, 2015. The application was considered incomplete with respect to the ICM and Enersource filed supplementary evidence on the ICM on October 2, 2015. Questions on matters unrelated to the ICM were asked and answers were provided by Enersource to clarify and correct the evidence on September 23, 2015. A Technical Conference was held on January 8, 2016, to address the ICM and Renewable Energy Generation (REG). The Association of Major Power Consumers in Ontario (AMPCO), Consumers Council of Canada (CCC), Energy Probe Research Foundation (Energy Probe), School Energy Coalition (SEC) and Vulnerable Energy Consumers Coalition (VECC) (the intervenors) participated in the proceedings, but only with respect to the ICM and REG. OEB staff and the intervenors provided written submissions on February 4, 2016. Only the submission of OEB staff addressed issues

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

related to the Price Cap IR elements of the application. Enersource provided a reply argument on February 10, 2016. This partial Decision and Rate Order addresses only the IRM component of Enersource's application; with the ICM component to follow under a separate 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 with respect to the IRM application.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 Partial Decision and Order.

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.

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 Enersource 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 Enersource 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 A.

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 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 determined⁷ that the RRRP charge for 2016 shall be \$0.0013 per kWh;

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

⁷ Decision and Rate Order, EB-2015-0294

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 in a separate OEB decision. The proposed Tariff of Rates and Charges flowing from this Partial Decision and Order should be updated to reflect these new regulatory charges, as well as the OESP credits to be provided to enrolled low income customers.

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 charge for residential customers.

The Application identified a total tax increase of \$61,965 resulting in a shared amount of \$30,983 to be charged to rate payers.

Findings

The OEB approves the disposition of the shared tax increase of \$30,983 to be applied to all customer classes over a nine month period (i.e. April 1, 2016 to December 31, 2016). 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. Distributors may apply to the OEB annually to approve the proposed UTRs and RTSRs they will charge their customers.

Findings

The OEB has adjusted the UTRs effective January 1, 2016,⁸ as shown in the following table:

2016 Uniform Transmission Rates

Network Service Rate	\$3.66 per kW
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.87 per kW
Transformation Connection Service Rate	\$2.02 per kW

The OEB finds that these 2016 UTRs are to be incorporated into the rate model to adjust the RTSRs that Enersource will charge its customers.

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 (EDDVAR) 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.

⁸ 2016 Uniform Electricity Transmission Rate Order, EB-2015-0311

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

Enersource's 2014 actual year-end total balance for Group 1 accounts including interest projected to December 31, 2015 is a debit of \$10,634,438. This amount results in a total debit claim of \$0.0014 per kWh, which exceeds the preset disposition threshold. Enersource proposes to dispose of this debit amount over a one-year period.

In its submission, OEB staff noted that the principal amounts as of December 31, 2014 reconcile with the amounts reported as part of the *Reporting and Record-Keeping Requirements* and that Enersource's proposal for a one-year disposition period is in accordance with the OEB's report. OEB staff submitted that the amounts should be disposed on a final basis.

Enersource also requested the disposal of a Global Adjustment (GA) balance of \$11,424,273 to all non-RPP customers, including customers that transitioned into Class A on July 1, 2015. Class A customers are not typically allocated GA balances because they settle GA amounts directly with the distributor, or with the IESO if they are market participants. However, Enersource proposed that customers that transitioned to Class A in 2015 contribute to the recovery as they contributed to the GA balances as of December 31, 2014.

Enersource has also proposed splitting out the portion of accounts 1595 for 2010, 2011 and 2012 related to GA from the rest so that it can be recovered from those customers who contributed to the variance.

Findings

The OEB approves the disposition of a debit balance of \$10,634,438 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 nine month period from April 1, 2016 to December 31, 2016.

The following table identifies the principal and interest amounts which the OEB approves for disposition.

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	1,743,891	49,704	1,793,595
Smart Meter Entity Variance Charge	1551	(69,617)	(1,582)	(71,198)
RSVA - Wholesale Market Service Charge	1580	(5,840,806)	(166,561)	(6,007,368)
RSVA - Retail Transmission Network Charge	1584	5,839,074	157,026	5,996,100
RSVA - Retail Transmission Connection Charge	1586	2,979,421	64,454	3,043,874
RSVA - Power	1588	(2,350,513)	(53,058)	(2,403,572)
RSVA - Global Adjustment	1589	11,160,843	263,430	11,424,273
Disposition and Recovery of Regulatory Balances (2010)	1595	(2,120,163)	(672,524)	(2,792,687)
Disposition and Recovery of Regulatory Balances (2011)	1595	3,054	(5,603)	(2,549)
Disposition and Recovery of Regulatory Balances (2012)	1595	(268,298)	(77,734)	(346,032)
Total Group 1 Excluding Global Adjustment - Account 1589		(83,957)	(705,878)	(789,835)
Total Group 1		11,076,886	(442,448)	10,634,438

The OEB finds that non-RPP customers and Class A customers that transitioned in 2015 will be responsible for their portion of the GA balance as of December 31, 2014. A customer should pay for costs incurred on its behalf, regardless of its current class assignment.

The OEB established a default cost allocation methodology to facilitate the disposition process. In its EDDVAR report the OEB stated that it is not necessary to allocate the residual balance in Accounts 1590 and 1595 on a case-by-case basis since the

balances are expected to be immaterial¹⁰. However, the OEB stated that a distributor should identify in its application any circumstances that may warrant a different approach.

The OEB approves Enersource's proposed recovery of the \$11,424,273 GA balance in Account 1589. On a related note, the OEB also accepts Enersource's proposal to split the allocation of residual balance amounts between non GA amounts and GA amounts. While this is not the usual process for disposition of 1595 accounts, Enersource's proposal is accepted in this case due to the materiality of the accounts.

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

9 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. 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

¹⁰ Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (July 31, 2009). P. 20

rate-setting adjustments, may result in the requirement for a longer transition period than the four years specified in the OEB policy. Distributors may also propose other strategies to smooth out these increases as appropriate.

Adjustments to Enersource's rate model to implement the change in fixed rates result in an increase to the fixed charge prior to IRM adjustments of \$2.23; OEB staff has calculated the bill impacts of this Partial Decision, to be 2.85% for typical low consumption customers, below the 10% threshold.

Findings

The OEB approves the proposed transition over a four year period. 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 Enersource's evidence.

10 RENEWABLE GENERATION CONNECTION FUNDING AMOUNTS

Under *The Ontario Energy Board Act, 1998* distributors are entitled to recover from load customers certain costs relating to the connection of renewable generation facilities. Some costs are recovered from a distributor's own customers, but a larger proportion of costs are recovered from all Ontario consumers via a charge levied by the Independent Electricity System Operator (IESO). These costs are identified in a Green Energy Plan filed by a distributor and approved by the OEB, or in a Distribution System Plan.

As part of its 2013 cost of service application in EB-2012-0033, Enersource filed a basic Green Energy Act Plan (the GEA Plan) which was approved by the OEB.

In this Application, Enersource has requested to collect renewable generation funding of \$105,010 in 2016 from all provincial ratepayers.

The OEB notes that Enersource is eligible to continue to track any eligible capital amount in Account 1531 – Renewable Generation Connection OM&A Deferral Account and any incremental operational expenses related to these investments in Account 1532 – Renewable Generation Connection OM&A Deferral Account.

Both VECC and OEB staff submitted that Enersource's request to increase its renewable generation funding in 2016 from all provincial ratepayers is reasonable and should be approved.

Findings

The OEB approves Enersource's request to collect renewable generation funding of \$105,010 in 2016 or \$13,126.25 per month from May 1, 2016 to December 31, 2016 from all provincial customers.

The OEB notes that any funding will be collected in Account 1533 – Renewable Generation Connection Funding Adder Deferral Account and that separate sub-accounts shall be used to record any amounts collected from distributor's ratepayers and the IESO. The OEB notes that a final prudence review will be part of Enersource's next rebasing application, as stated in section 3.3.1 of Chapter 3 of the *Filing Requirements for Electricity Distribution Rate Applications –2015 Edition*.

11 IMPLEMENTATION

Enersource has requested rates effective January 1, 2016 however, the earliest they can be implemented is April 1, 2016. The OEB finds that a January 1, 2016 effective date is appropriate as the delay in the proceeding was primarily related to the ICM component of the application. Enersource's new distribution rates shall be effective January 1, 2016 and implemented April 1, 2016. The rates will be interim until the decision on the ICM is finalized.

Foregone revenue rate riders are to be calculated to recover the foregone revenue from January 1, 2016 to March 31, 2016 over the period April 1, 2016 to December 31, 2016. The rider for the Residential class customers should be on a fixed monthly rate basis. Rate riders for all remaining customer classes will be calculated on a volumetric basis.

At the close of the period, Enersource should compare the actual foregone revenue rate rider revenues collected to the actual foregone revenue and record any variance in account 1595.

12 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Enersource Hydro Mississauga Limited shall file with the OEB, and shall also forward to the Intervenor, a draft rate order attaching a proposed Tariff of Rates and Charges for 2016, reflecting the OEB's findings in this Partial Decision, by **March 9, 2016**. The draft rate orders shall also include:
 - Updated models showing the revised calculation of rate riders for the nine month period
 - Customer rate impacts, including for low-volume residential customers, resulting from the implementation of this Partial Decision with the impact of the IR Price Cap and the foregone revenue rate rider shown separately
 - The calculation of the foregone revenue rate riders to be applied April 1, 2016 to December 31, 2016 to recover revenue that would have been recovered in rates from January 1, 2016 to March 31, 2016.
2. OEB staff and Intervenor shall file any comments on the draft rate order with the OEB, and forward the comments to Enersource on or before **March 11, 2016**. Intervenor should note that cost awards only apply to the REG portion of the Partial Decision.
3. Enersource shall file with the OEB and forward to the Intervenor responses to any comments on its draft rate order on or before **March 15, 2016**.

All filings to the OEB must quote the file number, EB-2015-0065 and be made electronically through the OEB's web portal at <https://www.pes.ontarioenergyboard.ca/eservice/> in searchable / unrestricted PDF format. Two paper copies must also be filed at the OEB's address provided below. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at <http://www.ontarioenergyboard.ca/OEB/Industry>. If the web portal is not available parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

All communications should be directed to the attention of the Board Secretary at the

address below, and be received no later than 4:45 p.m. on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Jane Scott at Jane.Scott@ontarioenergyboard.ca and OEB Counsel, at Richard.Lanni@ontarioenergyboard.ca.

ADDRESS

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DATED at Toronto, **March 3, 2016**

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary

Schedule A

To Partial Decision and Order

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

OEB File No: EB-2015-0065

DATED: March 3, 2016

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