K22.4

2.3 Decoupling

In 2010 the Board initiated a consultation process in relation to revenue decoupling mechanisms. The focus of that consultation was to examine the extent of revenue erosion due to, among other things, energy conservation efforts. The Board issued a consultant's report for stakeholder comment. That report contained a review of revenue decoupling mechanisms implemented in other jurisdictions and proposed options for consideration in Ontario.[6]

The Board indicated, when it initiated the renewed regulatory framework project in 2010, that the revenue decoupling consultation would proceed once there was substantial completion of the renewed regulatory framework policy initiative. The Board is of the view that it is now appropriate to resume the revenue decoupling initiative. Information regarding this initiative will be provided in due course.

2.4 Rate Mitigation

Rate mitigation has been a policy of the Board since 2000. At that time, the Board established a requirement that distributors *consider* mitigation where total bill increases for any customer class exceed 10%.[7] Since only consideration and not implementation of mitigation is required, this percentage is referred to as a "soft" threshold. The most recent articulation of the Board's mitigation policy confirmed the continuation of the "soft" 10% threshold for the filing of mitigation plans and provides guidance to distributors on preparing those plans.[8] In its mitigation plan a distributor may propose any, or no, mitigation mechanism as may be suitable in a particular circumstance.

[6] Lowry, Mark Newton, Ph.D., et al., Pacific Economics Group Research LLC. Review of Distribution Revenue Decoupling Mechanisms. March 19, 2010.
[7] January 18, 2000 Decision with Reasons in a proceeding to determine certain matters relating to the proposed Electricity Distribution Rate Handbook (RP-1999-0034).
[8] Report of the Board May 11, 2005 – 2006 Electricity Distribution Rate Handbook, p. 90.

2.4.1 Mitigation Policies under the Renewed Regulatory Framework

An objective for the development of a renewed regulatory framework is to ensure that distributors are encouraged to manage the prioritization and pace of network investments having regard to the total bill impact on customers. This prompted the Board to include the re-examination of its rate mitigation policy as part of the renewed regulatory framework consultation.

Stakeholder Views

There was broad support for the idea that distributors should consider mitigation when engaged in planning, ensuring that capital and OM&A expenditures are paced and prioritized in a manner such that costs are smoothed and minimized over the long term. Ensuring that the Board's approach to rate setting is designed such that rate increases are more gradual also received support from stakeholders. Conflicting views were expressed about whether the Board should consider total bill increases for rate mitigation purposes. A hybrid approach was proposed under which distributors would be required to consider anticipated total bill increases when planning investments. However, mitigation after the revenue requirement has been determined would only apply in relation to anticipated increases in distribution rates.

Stakeholder's comments reinforced that mitigation may not necessarily be appropriate in all circumstances. Some argued that the threshold should be "soft", thereby providing more flexibility in determining when the filing of a mitigation proposal is required. Other stakeholders, however, supported a firm and consistently-applied threshold, arguing that this will achieve greater predictability for both ratepayers (in relation to their electricity costs) and distributors (in relation to the regulatory process).

There was agreement among most stakeholders that, regardless of methodology, an empirical threshold should be developed. Proposals for a methodology on which to base the threshold include: a customer 'willingness to pay' survey or an 'economic tolerance' study; a factor of an inflation index such as the Consumer Price Index; and the establishment of criteria rather than relying on a specific figure.

In general, stakeholders were comfortable with continued use of conventional mechanisms but believed that alternative mechanisms should be further explored.

The Board's Conclusions

The Board has concluded that it will maintain its current policy with respect to rate mitigation. The implementation of the renewed regulatory framework should make the need for mitigation of large rate increases less likely as controls to address cost increases are integrated into the planning and rate-setting processes, and each distributor will be able to choose the rate-setting approach that best suits its particular investment profile. The Board will expect distributors to consider total bill increases when they engage in planning, an exercise that will be facilitated under the integrated approach to network planning described in Chapter 3, and to demonstrate to the extent possible the responsiveness of their planned capital and OM&A expenditures to the need for reasonably stable and affordable rates for customers. The Board is therefore of the view that changes to its rate mitigation policy are not necessary at this time. Once the Board and stakeholders have gained experience with the new rate-setting methods, the Board may revisit this issue if the need arises.

The Board further concludes that it is not necessary at this time to limit the mitigation mechanisms that distributors may want to propose. The Board will continue to evaluate proposed mechanisms on a case-by-case basis.

2.5 Implementation

Issues related to the inflation and productivity adjustment mechanisms have been explored in several different consultations over the last ten years. The Board has benefited from those consultations and has gained significant experience applying the

9.0 REVENUE REQUIREMENT AND RATE SMOOTHING

Hydro One applied for the OEB's approval of a revenue requirement for each of the five years of the rate plan. OEB staff noted that the company's revenue requirement grew by 19% between 2011 and 2015 (largely due to capital additions) and would grow by 17.8% from 2015 – 2019. Due to the large increase in revenue requirement in 2015, Hydro One proposed rate smoothing by way of rate riders over the five year period of the plan, resulting in an annual average distribution revenue increase of 6.3%. If the Hydro One application were accepted as filed, typical UR and R1 customers would experience a total bill impact of less than 2% (below the predicted rate of inflation) for each of the five years. Other classes would see an increase in some cases significantly above inflation.

The Vulnerable Energy Consumers' Coalition (VECC) and SIA opposed the rate smoothing proposal, arguing that it promotes intergenerational inequity, adds interest and carrying costs, masks the actual increase in any one year, and is unnecessary because the effect on the distribution component of the bill would be immaterial. VECC argued that the unsmoothed increases for 2015 and 2016 are acceptable, and that there is no evidence that customers want to pay additional costs to achieve rate smoothing.

Findings

The OEB's overall finding is that the revenue requirements and rates approved in this application will be in place for a three year period. The OEB will not approve the rate smoothing scheme as requested. The OEB considers that the rate smoothing would only have a minor effect on rates over the three year period. The OEB directs that rate mitigation be applied for customers in rate classes that experience undue rate impacts, that is, an increase from all causes greater than 10% on the total bill. The OEB will condition its rate approvals accordingly, when the Draft Rate Order is filed.

5. Use best efforts to track any assets taken out of service before the end of their useful lives associated with the completion of ICM work segments approved in Phase 2 of this proceeding.
6. Evaluate options to measure or estimate actual line losses and the impacts on Account 1588 balances in accordance with the Accounting Procedures Handbook. File the results in its application for 2015 rates.

Findings

The OEB is satisfied that Toronto Hydro has responded to all relevant OEB directions. This issue was not contested by the parties.

3.27 Do any of Toronto Hydro's proposed rates require rate smoothing?

Background

The OEB's Filing Requirements[34] state that "A distributor must file a mitigation plan if total bill increases for any customer class exceed 10%."

Toronto Hydro has not proposed a mitigation plan for the rate classes exceeding the 10% threshold in 2016.

Findings

Subject to the OEB's comments on the foregone revenue rate rider below, the OEB will not require rate smoothing. The OEB recognizes that any increase in rates has an impact on customers and is mindful of the concerns expressed by some intervenors that the magnitude of the proposed increases would justify rate smoothing.

However, the OEB has established a threshold at which point the applicant must undertake rate smoothing. Toronto Hydro's proposed rates do not meet that threshold. The OEB has also not approved the entire rate increase applied for by Toronto Hydro. This will consequently lead to lower rate impacts.

In this Decision, the OEB is approving foregone revenue rate riders for the May 1, 2015 to February 29, 2016 period. Toronto Hydro shall assess any additional impacts from the application of these riders and shall propose a mitigation plan if required.

[34] Ontario Energy Board *Filing Requirements for Electricity Distribution Rate Applications -2014 Edition for 2015 Rate Applications,* Ch 2/pp. 58-59.

Notwithstanding the Board's position, CCC has submitted that OPG may not be the type of entity that can be regulated through an incentive regulation model. CCC submitted that the working groups should consider whether incentive regulation is appropriate for OPG as a threshold issue.

LPMA submitted that incentive regulation for the hydroelectric facilities may be premature as there is no history related to the newly regulated hydroelectric facilities under regulation. The Society submitted that "incentive rates are an implicit acknowledgement of a lack of expertise."[120]

Board Findings

The Board has indicated in previous decisions its objective of having OPG payment amounts set on an incentive regulation methodology ("IRM"). The Board continues to believe that a long-term, properly designed IRM has the potential to lead to operational efficiencies and innovation, and thus lower electricity costs. Progress in this direction of an IRM to payment setting has been made, with the issuance of the Board's Report on *Incentive Regulation for Ontario Power Generation's Prescribed Assets* (EB-2012-0340).

OPG shall file the London Economics Inc. study immediately upon completion. Recommendations on the details of the IRM are to be established through a working group, comprised of OPG, Board staff and stakeholders. The Board sees no reason for delay. The Board remains committed to setting payment amounts for the nuclear assets under IRM as well. However, the Board will wait until the Darlington Refurbishment Project is further advanced before issuing further direction in this regard.

10.2 Payment Design and Mitigation
(Issue 11.2 and 11.3)

OPG has determined that the payment amount increase sought in the current application, including the newly regulated hydroelectric facilities, is 23.4%. The estimated bill impact is an increase of $5.31 per month on the bill of a typical residential consumer. As the bill impact is less than 10%, OPG has not proposed any mitigation.

[120] Society Submission page 11

Board staff noted that the 23.4% increase in payment amounts is the largest increase OPG has proposed in a cost of service application. In addition, OPG will be seeking to dispose of further significant balances by way of a stand-alone deferral and variance account application shortly following this proceeding. Board staff submitted that some consideration of mitigation was appropriate.

The newly regulated hydroelectric facilities currently receive payment for generation based entirely on the Hourly Ontario Energy Price ("HOEP"). OPG seeks a payment amount of $47.57/MWh, which is a 59% increase over the $30/MWh proxy for HOEP that OPG has assumed for this application. Board staff submitted that the Board could consider approving half of the increase for the 2014 test year, and the full increase for the 2015 test year. These 2014 payment amounts would be higher than the 2009-2013 historical HOEP. SEC disagreed with the Board staff proposal. SEC submitted that the intent of O. Reg. 53/05 is that the newly regulated hydroelectric facilities will move to a "normal" regulated rate effective July 1, 2014.

OPG argued that the Board staff proposal without a deferral account is really the confiscation of prudently incurred costs that OPG is legally entitled to recover. The proposal is contrary to expert reports filed in other Board proceedings that refer to phase-in of rates and deferred amounts recognized as regulatory assets, and implementation such that there is no harm to the utility.

Board Findings

The design of the regulated hydroelectric and nuclear payment amounts is the same as had been established through the previous two payment amount proceedings, and no changes have been proposed. The Board accepts the existing payment amounts design for 2014 and 2015.

No mitigation of payment amount increases is approved in this Decision. It should be noted that the total bill impact to ratepayers over the test period will be dependent upon another application and proceeding related to disposition of OPG's deferral and variance account balances as at December 31, 2014, and which will likely seek rate riders starting in 2015 to account for the clearance of these deferral and variance accounts. The need for mitigation should be an issue in this subsequent proceeding, in the context of OPG's total bill impact.

Year	2016	2017	2018	2019	2020	2021	
OPG Regulated Nuclear Rate (Plus Riders) Exhibit N3, T1, S1, Att 1, Table 5, Line 1 + riders from Exhibit N3, T1, S1, Table 3 line 11	$72.30	$85.83	$85.66	$83.87	$101.28	$96.30	
OPG Regulated Nuclear Rate (Plus Riders) in KWh [Line 2/1000]	$0.0723	$0.0858	$0.0857	$0.0839	$0.1013	$0.0963	
OPG's Production Forecast							
Total OPG Production, Nuclear and Hydro (TWh) Exhibit N3, T1, S1, Table 2	80.8	71.1	71.4	72	70.3	68.4	
Nuclear Production (TWh) Exhibit N3, T1, S1, Tab	47.8	38.1	38.5	39	37.4	35.4	
Nuclear Production as % of OPG Total Production [Line 6/ Line 5]	59.2%	53.6%	53.9%	54.2%	53.2%	51.8%	
Demand demand for typical household and ON as a whole							
OPG's Bill Estimate Exhibit N3, T1, S1, Table 1	$150.58	$150.58	$150.58	$150.58	$150.58	$150.58	
Typical Consumption (KWh) Exhibit N3, T1, S1, Table 1	789	789	789	789	789	789	
Provincial Demand (TWh) Exhibit N3, T1, S1, Table 1	137.6	137.6	137.6	137.6	137.6	137.6	
Typical residential demand supplied by OPG (%) [Line5 /Line 11]	58.7%	51.7%	51.9%	52.3%	51.1%	49.7%	
Typical residential demand supplied by OPG (KWh) [Line 10*Line 12]	463	408	409	413	403	392	
Amount of power the typical household purchases from OPG's nuclear facilities							
OPG Nuclear Production as % of ON Demand [Line 6/Line11]	34.7%	27.7%	28.0%	28.3%	27.2%	25.7%	
Typical KWh coming from OPG's Nuclear Production [Line 7 * Line 13]	274	218	221	224	214	203	
Cost to Average Household Ratepayer of Nuclear Revenue Requirement							
Monthly Cost of OPG Nuclear Production for Typical Household [Line 3*Line 16]	$19.82	$18.75	$18.91	$18.76	$21.72	$19.55	
Annual % change in Monthly Nuclear Costs for Typical Ratepayer		-5.38%	0.85%	-0.82%	15.80%	-10.00%	
Annual change in Monthly $ in Nuclear Costs for Typical Ratepayer		-$1.07	$0.16	-$0.15	$2.96	-$2.17	
% change to entire bill for Typical Ratepayer (holding everything else constant)		-0.71%	0.11%	-0.10%	1.97%	-1.44%	
Example of change in nuclear rate needed to keep increase between -10% and 10%							
OPG Regulated Nuclear Rate (Plus Riders)	$72.30	$85.83	$85.66	$83.87	**$96.00**	$96.30	
OPG Regulated Nuclear Rate (Plus Riders) in KWh	$0.0723	$0.0858	$0.0857	$0.0839	$0.0960	$0.0963	
Cost of OPG Nuclear Production for Typical Household	$19.82	$18.75	$18.91	$18.76	$20.59	$19.55	
Annual % change in Monthly Nuclear Costs for Typical Ratepayer		-5.38%	0.85%	-0.82%	9.77%	-5.05%	
Annual change in Monthly $ in Nuclear Costs for Typical Ratepayer		-0.71%	0.11%	-0.10%	1.22%	-0.69%	
Deferred amounts under EP proposal	0	0	0	0	$197,472,000	0	
OPG's proposal deferred amounts		$ 251,000,000	$ 162,000,000	-$ 38,000,000	$ 488,000,000	$ 142,000,000	
Difference between OPG's and Energy Probe's example		-$ 251,000,000	-$ 162,000,000	$ 38,000,000	-$ 290,528,000	-$ 142,000,000	Total -$ 807,528,000