



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

DECISION AND RATE ORDER

EB-2017-0067

**OAKVILLE HYDRO ELECTRICITY
DISTRIBUTION INC.**

Application for rates and other charges to be effective January 1, 2018

By Delegation, Before: Jane Scott

[date]

1 INTRODUCTION AND SUMMARY

Through this Decision and Order, the Ontario Energy Board (OEB) approves the incentive rate-setting mechanism (IRM) application filed by Oakville Hydro Electricity Distribution Inc. (Oakville Hydro) on August 14, 2017, as amended during the course of the proceeding.

Oakville Hydro serves about 70,000 mostly residential and commercial electricity customers in the City of Oakville. The company is seeking the OEB's approval for the rates it charges to distribute electricity to its customers, as is required of licenced and rate-regulated distributors in Ontario.

A distributor may choose one of three rate-setting methodologies approved by the OEB. Each of these is explained in the OEB's *Chapter 3 Filing Requirements for Incentive Rate-Setting Applications* (the Filing Requirements).

Oakville Hydro's application is based on a Price Cap Incentive Rate-setting option (Price Cap IR) with a five-year term. The Price Cap IR option involves the setting of rates through a cost of service (COS or rebasing) application in the first year. Mechanistic price cap adjustments, based on inflation and the OEB's assessment of the distributor's efficiency, are then approved through IRM applications in each of the ensuing four (adjustment) years.

As a result of the OEB's findings in this Decision, there will be a monthly bill increase of \$1.04 for a residential customer consuming 750 kWh, effective January 1, 2018.

Oakville Hydro has also applied to change the composition of its distribution service rates. Residential distribution service rates currently include a fixed monthly charge and a variable usage charge. In 2015, the OEB issued a policy to transition these rates to a fully fixed structure over a four-year period beginning in 2016.¹ Accordingly, the fixed monthly charge for 2018 has once again been adjusted upward in this Decision by more than the mechanistic price cap adjustment alone. The variable usage rate is commensurately lower. This policy change does not affect the total revenue that distributors collect from residential customers.

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

2 THE PROCESS

This Decision is being issued by delegated authority, without a hearing, under section 6 of the *Ontario Energy Board Act, 1998* (the OEB Act).

The OEB follows a standardized and streamlined process for IRM applications filed under Price Cap IR. In each adjustment year of a Price Cap IR term, the OEB prepares a Rate Generator Model that includes information from the distributor's past proceedings and annual reporting requirements. A distributor will then review and complete the Rate Generator Model and include it with its application. During the course of the proceeding, the Rate Generator Model will also be updated or corrected, as required.

The Rate Generator Model updates base rates, retail transmission service rates and, if applicable, shared tax saving adjustments. It also calculates rate riders for the disposition of deferral and variance account balances.

Oakville Hydro filed its application on August 14, 2017, under section 78 of the OEB Act and in accordance with the Filing Requirements. Oakville Hydro supported its application with written evidence and a completed rate model. Questions were asked of, and answers were provided by, Oakville Hydro through emails and phone calls with the OEB. Based on this information, a decision was drafted and provided to Oakville Hydro on December 1, 2017. Oakville Hydro was given the opportunity to provide its comments on the draft for consideration prior to the OEB issuing this Decision.

3 ORGANIZATION OF THE DECISION

In this Decision, the OEB addresses the following issues, and provides reasons for approving or denying Oakville Hydro's proposals relating to each of them:

- Price Cap Adjustment
- Shared Tax Adjustment
- Retail Transmission Service Rates
- Group 1 Deferral and Variance Accounts
- Residential Rate Design

In the final section, the OEB addresses the steps to implement the final rates that flow from this Decision.

4 PRICE CAP ADJUSTMENT

Oakville Hydro seeks to increase its rates, effective January 1, 2018, based on a mechanistic rate adjustment using the OEB-approved *inflation minus X-factor* formula applicable to Price Cap IR applications.

The components of the Price Cap IR formula applicable to Oakville Hydro are set out in Table 4.1, below. Inserting these components into the formula results in a 0.9% increase to Oakville Hydro's rates: $0.90\% = 1.20\% - (0.00\% + 0.30\%)$.

Table 4.1: Price Cap IR Adjustment Formula

| Components | | Amount |
|-------------------------------|--------------------------------------|--------|
| Inflation Factor ² | | 1.20% |
| X-Factor | Productivity ³ | 0.00% |
| | Stretch (0.00% – 0.60%) ⁴ | 0.30% |

The inflation factor of 1.20% applies to all Price Cap IR applications for the 2018 rate year.

The X-factor is the sum of the productivity factor and the stretch factor. It is a productivity offset that will vary among different groupings of distributors. Subtracting the X-factor from inflation ensures that rates decline in real, constant-dollar terms, providing distributors with a tangible incentive to improve efficiency or else experience declining net income.

The productivity component of the X-factor is based on industry conditions over a historical study period and applies to all Price Cap IR applications for the 2018 rate year.

² Report of the Board – “Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario’s Electricity Distributors” EB-2010-0379, December 4, 2013

³ Ibid.

⁴ The stretch factor groupings are based on the Report to the Ontario Energy Board – “Empirical Research in Support of Incentive Rate-Setting: 2016 Benchmarking Update”, prepared by Pacific Economics Group LLC., July 15, 2017

The stretch factor component of the X-factor is distributor specific. The OEB has established five stretch factor groupings, each within a range from 0.00% to 0.60%. The stretch factor assigned to any particular distributor is based on the distributor's total cost performance as benchmarked against other distributors in Ontario. The most efficient distributor would be assigned the lowest stretch factor of 0.00%. Conversely, a higher stretch factor would be applied to a less efficient distributor (in accordance with its cost performance relative to expected levels) to reflect the incremental productivity gains that the distributor is expected to achieve. The stretch factor assigned to Oakville Hydro is 0.30%.

Findings

The OEB finds that Oakville Hydro's request for a 0.90% Price Cap IR adjustment is in accordance with the annually updated parameters set by the OEB. The adjustment is approved, and Oakville Hydro's new rates shall be effective January 1, 2018.

The adjustment applies to distribution rates (fixed and variable charges) uniformly across all customer classes.⁵

5 SHARED TAX ADJUSTMENTS

In any adjustment year of a Price Cap IR term, a change in legislation may result in a change to the amount of taxes payable by a distributor. For IRM applications, the OEB has long held that a 50/50 sharing of the impact of legislated tax changes between shareholders and ratepayers is appropriate in these situations. The shared tax change amount, whether in the form of a credit or a debit, 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 COS proceeding.

The application identifies a total tax change of \$29,206, resulting in a shared amount of \$14,603 to be collected from rate payers. Since the allocated tax sharing amount does not produce a rate rider in one or more rate classes, the Rate Generator Model does not compute rate riders and distributors are therefore required to transfer the entire OEB approved tax sharing amount into Account 1595 for disposition at a later date.

⁵ Price Cap IR and Annual IR Index adjustments do not apply to the following rates and charges: 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, and retail service charges.

Findings

The allocated tax sharing amount does not produce a rate rider in one or more rate classes, therefore the OEB directs Oakville Hydro to record the OEB-approved tax sharing amount into Account 1595 for disposition at a later date.

6 RETAIL TRANSMISSION SERVICE RATES

Distributors charge retail transmission service rates (RTSRs) to their customers to recover the amounts they pay to a transmitter, a host distributor or both for transmission services. All transmitters charge Uniform Transmission Rates (UTRs) approved by the OEB to distributors connected to the transmission system. Host distributors charge RTSRs to distributors embedded within the host's distribution system.

Oakville Hydro is partially embedded within Hydro One's distribution system and is requesting approval to adjust the RTSRs that it charges its customers to reflect the rates that it pays for transmission services included in Table 6.1 and Table 6.2.

Table 6.1: Hydro One Networks Inc. UTRs⁶

| Current Applicable UTRs (2017) | per kWh |
|--|----------------|
| Network Service Rate | \$3.52 |
| <u>Connection Service Rates</u> | |
| Line Connection Service Rate | \$0.88 |
| Transformation Connection Service Rate | \$2.13 |

⁶ Decision and Rate Order, EB-2017-0280, November 23, 2017

Table 6.2: Hydro One Networks Inc. Sub-Transmission RTSRs⁷

| Approved Sub-Transmission RTSRs (2017) | per kWh |
|--|---------|
| Network Service Rate | \$3.19 |
| <u>Connection Service Rates</u> | |
| Line Connection Service Rate | \$0.77 |
| Transformation Connection Service Rate | \$1.75 |

Findings

Oakville Hydro's proposed adjustment to its RTSRs is approved. The RTSRs were adjusted based on the current UTRs and host-RTSRs.

The differences resulting from the approval of new 2018 UTRs or RTSRs will be captured in Accounts 1584 and 1586 for future disposition.

7 GROUP 1 DEFERRAL AND VARIANCE ACCOUNTS

In each year of an IRM term, the OEB will review a distributor's Group 1 deferral and variance accounts in order to determine whether their total balance should be disposed.⁸ OEB policy requires that Group 1 accounts be disposed if they exceed (as a debit or credit) a pre-set disposition threshold of \$0.001 per kWh, unless a distributor justifies why balances should not be disposed.⁹ If the balance does not exceed the threshold, a distributor may elect to request disposition.

The 2016 actual year-end total balance for Oakville Hydro's Group 1 accounts including interest projected to December 31, 2017 is a debit of \$1,098,088. This amount represents a total debit claim of \$0.0007 per kWh, which does not exceed the disposition threshold.

⁷ Decision and Rate Order, EB-2016-0081, December 21, 2016

⁸ Group 1 accounts track the differences between the costs that a distributor is billed for certain IESO and host distributor services (including the cost of power) and the associated revenues that the distributor receives from its customers for these services. The total net difference between these costs and revenues is disposed to customers through a temporary charge or credit known as a rate rider.

⁹ "Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)", EB-2008-0046, July 31, 2009

Findings

The OEB finds that no disposition is required at this time as the disposition threshold has not been exceeded.

8 RESIDENTIAL RATE DESIGN

All residential distribution rates currently include a fixed monthly charge and a variable usage charge. The OEB's residential rate design policy stipulates that distributors will transition residential customers to a fully fixed monthly distribution service charge over a four-year period, beginning in 2016.¹⁰ The OEB requires that distributors filing IRM applications affecting 2018 rates continue with this transition by once again adjusting their distribution rates to increase the fixed monthly service charge and decrease the variable charge consistent with the policy.

The OEB expects an applicant to apply two tests to evaluate whether mitigation of bill impacts for customers is required during the transition period. Mitigation usually takes the form of a lengthening of the transition period. The first test is to calculate the change in the monthly fixed charge, and to consider mitigation if it exceeds \$4. The second is to calculate the total bill impact of the proposals in the application for low volume residential customers (defined as those residential Regulated Price Plan (RPP) customers whose consumption is at the 10th percentile for the class). Mitigation may be required if the bill impact related to the application exceeds 10% for these customers.

Oakville Hydro notes that the implementation of the transition results in an increase to the fixed charge prior to the price cap adjustment of \$3.43. The bill impacts arising from the proposals in this application, including the fixed rate change, are below 10% for low volume residential customers.

Findings

The OEB finds that the proposed 2018 increase to the monthly fixed charge is calculated in accordance with the OEB's residential rate design policy. The results of the monthly fixed charge, and total bill impact for low consumption residential consumers show that no mitigation is required. The OEB approves the increase as proposed by the applicant and calculated in the final Rate Generator Model.

¹⁰ As outlined in the Report cited at footnote 1 above.

9 IMPLEMENTATION AND ORDER

This Decision is accompanied by a Rate Generator Model, applicable supporting models, and a Tariff of Rates and Charges (Schedule A).

Model entries were reviewed in order to ensure that they are in accordance with Oakville Hydro's last COS decision, and to ensure that the 2017 OEB-approved Tariff of Rates and Charges, as well as the cost, revenue and consumption results from 2016, are as reported by Oakville Hydro to the OEB.

The Rate Generator Model was adjusted, where applicable, to correct any discrepancies. The Rate Generator Model incorporates the rates set out in the following table.

Table 9.1: Regulatory Charges

| Rate | per kWh |
|--|----------------|
| Rural or Remote Electricity Rate Protection (RRRP) | \$0.0003 |
| Wholesale Market Service (WMS) billed to Class A and B Customers | \$0.0032 |
| Capacity Based Recovery (CBR) billed to Class B Customers | \$0.0004 |

Each of these rates is a component of the "Regulatory Charge" on a customer's bill, established annually by the OEB through a separate generic order. The RRRP rate was set by the OEB on June 22, 2017.¹¹ The WMS and CBR rates were set by the OEB on December 15, 2016.¹²

¹¹ Decision and Order, EB-2017-0234, June 22, 2017

¹² Decision and Order, EB-2016-0362, December 15, 2016

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 January 1, 2018 for electricity consumed or estimated to have been consumed on and after such date. Oakville Hydro Electricity Distribution Inc. shall notify its customers of the rate changes no later than the delivery of the first bill reflecting the new rates.

DATED at Toronto, [date]

ONTARIO ENERGY BOARD

Kirsten Walli
Board Secretary

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Schedule A

To Decision and Rate Order

Tariff of Rates and Charges

OEB File No: EB-2017-0067

DATED: [date]