



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

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## **DECISION AND RATE ORDER**

**EB-2017-0058**

### **LAKELAND POWER DISTRIBUTION LTD.**

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

**By Delegation, Before: Jane Scott**

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**December 14, 2017**

## 1 INTRODUCTION AND SUMMARY

Through this Decision and Order, the Ontario Energy Board (OEB) approves the incentive rate-setting mechanism (IRM) application filed by Lakeland Power Distribution Ltd. (Lakeland Power) on October 13, 2017, as amended during the course of the proceeding.

Lakeland Power serves about 13,400 mostly residential and commercial electricity customers in the municipalities of Bracebridge, Huntsville, Sundridge, Burk's Falls, Magnetawan and Parry Sound. 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.

Lakeland Power and Parry Sound Power Corporation (Parry Sound Power) amalgamated to form a consolidated entity on July 1, 2014 under the Lakeland Power distribution licence. At the time of the transaction, the Lakeland Power service area was on a May 1 rate year, while the Parry Sound Power service area was on a January 1 rate year. The Lakeland Power's intention is to maintain distinct rate schedules for the two service areas until the rates are harmonized.

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).

Lakeland Power'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, and based on a residential customer consuming 750 kWh, there will be a monthly bill increase of \$0.22 for customers in the legacy Lakeland Power service area, effective May 1, 2018; and, a monthly bill increase of \$4.59 for customers in the Parry Sound Power service area, effective January 1, 2018.

Lakeland Power has also applied to change the composition of its distribution service rates for both service areas. 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.<sup>1</sup> Accordingly, the fixed monthly charges for 2018 have once again been adjusted upward in this Decision by more than the mechanistic price cap adjustment alone. The variable usage rates are commensurately lower. This policy change does not affect the total revenue that distributors collect from residential customers.

## 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.

Lakeland Power filed its application on October 13, 2017, under section 78 of the OEB Act and in accordance with the Filing Requirements. Lakeland Power supported its application with written evidence and completed rate models. Questions were asked of, and answers were provided by, Lakeland Power through emails and phone calls with the OEB. Based on this information, a decision was drafted and provided to Lakeland Power on December 4, 2017. Lakeland Power 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 Lakeland Power's proposals relating to each of them:

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

- Price Cap Adjustment
- Shared Tax Adjustments
- 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

Lakeland Power seeks to increase its rates, effective May 1, 2018 for the Lakeland legacy service area and effective January 1, 2018 for the Parry Sound Power service area, 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 Lakeland Power are set out in Table 4.1, below. Inserting these components into the formula results in a 0.90% increase to Lakeland Power's rates:  $0.90\% = 1.20\% - (0.00\% + 0.30\%)$ .

**Table 4.1: Price Cap IR Adjustment Formula**

Components		Amount
Inflation Factor <sup>2</sup>		1.20%
X-Factor	Productivity <sup>3</sup>	0.00%
	Stretch (0.00% – 0.60%) <sup>4</sup>	0.30%

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

<sup>2</sup> 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

<sup>3</sup> Ibid.

<sup>4</sup> 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 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.

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 Lakeland Power is 0.30%.

## Findings

The OEB finds that Lakeland Power'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 the new rates shall be effective in the legacy Lakeland Power service area as of May 1, 2018, and in the Parry Sound service area as of January 1, 2018.

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

## 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

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<sup>5</sup> 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.

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.

With respect to the legacy Lakeland Power service area, the application identifies a \$58,828 increase in the amount of taxes payable in the 2018 rate year. Therefore, an amount of \$29,414 is to be collected from rate payers.

With respect to the Parry Sound service area, a total tax decrease of \$957 has been identified, resulting in a shared amount of \$479 to be distributed to rate payers. The allocated tax sharing amount is so small that it does not result in rate riders for every rate class.

### **Findings**

The OEB approves the tax charge of \$29,414 and the refund of \$479.

The amount of \$29,414 relating to the legacy Lakeland Power service area shall be disposed through a fixed monthly rate rider for residential customers and through riders calculated on a volumetric basis for all other customers over a one-year period, from May 1, 2018 to April 30, 2019.

The allocated tax sharing amount of \$479 for the Parry Sound service area does not produce a rate rider in one or more rate classes, therefore the OEB directs Lakeland Power 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.

Lakeland Power is fully embedded within Hydro One Network Inc.'s distribution system; and, the applicant requests 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.

**Table 6.1: Hydro One Networks Inc. Sub-Transmission RTSRs<sup>6</sup>**

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

## Findings

Lakeland Power's proposed adjustment to its RTSRs is approved. The RTSRs were adjusted based on the current 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.<sup>7</sup> 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.<sup>8</sup> If the balance does not exceed the threshold, a distributor may elect to request disposition.

The applicant proposes specific treatment for each of the service areas.

With respect to the Lakeland Power legacy service area, the 2016 actual year-end total balance for Group 1 accounts is a credit of \$97,838. This amount represents a total

<sup>6</sup> Decision and Rate Order, EB-2016-0081, December 21, 2016

<sup>7</sup> 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.

<sup>8</sup> Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR), EB-2008-0046, July 31, 2009

credit claim of \$0.0005 per kWh, which does not exceed the disposition threshold. Lakeland is not proposing disposition of this amount at this time.

With respect to the Parry Sound service area, the 2016 actual year-end total balance for the Group 1 accounts including interest projected to December 31, 2017 is a debit of \$401,610. This amount represents a total debit claim of \$0.0052 per kWh, which exceeds the disposition threshold. Lakeland Power proposes the disposition of this debit amount over a one-year period.

Included in the balance of the Group 1 accounts is the Global Adjustment (GA) account credit balance of \$3,433. A customer's costs for the commodity portion of its electricity service reflects the sum of two charges: the price of electricity established by the operation of the Independent Electricity System Operator (IESO) administered wholesale market, and the GA.<sup>9</sup>

The GA is paid by consumers in several different ways:

- For Regulated Price Plan (RPP) customers, the GA is incorporated into the standard commodity rates, therefore there is no variance account for the GA.
- Customers who participate in the Ontario Industrial Conservation Initiative program are referred to as "Class A" customers. These customers are assessed GA costs through a peak demand factor that is based on the percentage their demand contributes to the top five Ontario system peaks. This factor determines a Class A customer's allocation for a year-long billing period that starts in July every year. As distributors settle with Class A customers based on the actual GA costs there is no resulting variance.
- "Class B" non-RPP customers pay the GA charge based on the amount of electricity they consume in a month (kWh). Class B non-RPP customers are billed GA based on an IESO published GA price. For Class B non-RPP customers, distributors track any difference between the billed amounts and actual costs in the GA Variance Account for disposal, once audited.

Lakeland Power proposes the refund of the GA variance account balance for the Parry Sound service area of \$3,433 as at December 31, 2016, including interest to December 31, 2017, in accordance with Table 7.1:

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<sup>9</sup> The GA is established monthly, by the IESO, and varies in accordance with market conditions. It is the difference between the market price and the sum of the rates paid to regulated and contracted generators and conservation and demand management (demand response) program costs.



**Table 7.1: Recovery of GA Variance**

Proposed Amounts	Proposed Method for Recovery
\$3,433 refunded to customers who were Class B for the entire period from January 2016 to December 2016	per kWh rate rider

The balance of the Group 1 accounts includes \$3,406 for the refund of Capacity Based Recovery (CBR) charges for Class B customers related to the IESO's wholesale energy market Demand Response 3 program. Distributors paid CBR charges to the IESO in 2016 and recorded these to a dedicated sub-account. The disposition of this sub-account is impacted by whether or not a distributor had any customers who were part of Class A during the period from January 2016 to December 2016.

The Parry Sound service area had no Class A customers during the period from January 2016 to December 2016 so it applied to have the balance of this account disposed along with Account 1580 - Wholesale Market Service Charge through the general Deferral and Variance Account rate rider.

The remaining Group 1 accounts being sought for disposition, through the general Deferral and Variance Account rate rider, include the following flow through variance accounts: Low Voltage Charges, Smart Meter Entity Charges, Wholesale Market Service Charges, Retail Transmission Service Charges, and Commodity Power Charges. These Group 1 accounts have a total debit balance of \$405,042, which results in a charge to customers.

In its application, Lakeland Power provided a reconciliation of the balances proposed for disposition with the amounts reported as part of the OEB's *Electricity Reporting and Record-Keeping Requirements*.<sup>10</sup> Lakeland Power further notes that its proposal for a one-year disposition period is in accordance with the OEB's policy.<sup>11</sup>

## Findings

The OEB approves the disposition of a debit balance of \$401,610 for the Parry Sound service area, as of December 31, 2016, including interest projected to December 31,

<sup>10</sup> Electricity Reporting and Record Keeping Requirements, Version dated May 3, 2016

<sup>11</sup> "Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)," EB-2008-0046, July 31, 2009

2017 for Group 1 accounts and the request to not dispose of the Group 1 balances for the Lakeland Power legacy service area.

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

**Table 7.2: Group 1 Deferral and Variance Account Balances**

<b>Account Name</b>	<b>Account Number</b>	<b>Principal Balance (\$) A</b>	<b>Interest Balance (\$) B</b>	<b>Total Claim (\$) C=A+B</b>
LV Variance Account	1550	164,463	2,802	167,265
Smart Meter Entity Variance Charge	1551	(522)	(8)	(530)
RSVA - Wholesale Market Service Charge	1580	(73,930)	(1,482)	(75,412)
Variance WMS - Sub-account CBR Class B	1580	(3,296)	(110)	(3,406)
RSVA - Retail Transmission Network Charge	1584	175,325	2,948	178,273
RSVA - Retail Transmission Connection Charge	1586	135,345	2,283	137,628
RSVA – Power	1588	297	928	1,225
RSVA - Global Adjustment	1589	(3,221)	(222)	(3,433)
<b>Totals for all Group 1 accounts</b>		<b>394,471</b>	<b>7,139</b>	<b>401,610</b>

The balance of each of the Group 1 accounts 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*.<sup>12</sup> 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. Lakeland Power shall

<sup>12</sup> Accounting Procedures Handbook for Electricity Distributors, effective January 1, 2012

ensure these adjustments are included in the reporting period ending March 31, 2018 (Quarter 1).

The OEB approves these balances to be disposed through rate riders, as calculated in the Rate Generator Model. The rate riders will be in effect over a one-year period from January 1, 2018 to December 31, 2018.<sup>13</sup>

## 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.<sup>14</sup> 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 RPP customers whose consumption is at the 10<sup>th</sup> percentile for the class). Mitigation may be required if the bill impact related to the application exceeds 10% for these customers.

In its 2016 IRM proceeding, Parry Sound Power was approved for a five year phase-in period due to the transition to fully fixed rates over four years resulting in an increase above the \$4 threshold.<sup>15</sup>

Lakeland Power notes that the implementation of the transition results in an increase to the fixed charge prior to the price cap adjustment of \$3.09 for the legacy Lakeland Power service area and \$3.70 for the Parry Sound service area. The bill impacts arising from the proposals in this application, including the fixed rate change, are below 10% for low volume residential customers in each of the service areas.

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<sup>13</sup> 2018 IRM Rate Generator Model Tab 6.1 GA, Tab 6.1a "GA Allocation", Tab 6.2 "CBR B", Tab 6.2a "CBR\_Allocation" and Tab 7 "Calculation of Def-Var RR"

<sup>14</sup> As outlined in the Report cited at footnote 1 above.

<sup>15</sup> Decision and Rate Order, EB-2015-0086, December 10, 2015

## Findings

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

## 9 IMPLEMENTATION AND ORDER

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

Model entries were reviewed in order to ensure that they are in accordance with Lakeland Power's and Parry Sound Power's last COS decisions, and to ensure that the 2017 OEB-approved Tariffs of Rates and Charges, as well as the cost, revenue and consumption results from 2016, are as reported by Lakeland Power to the OEB.

The Rate Generator Models were adjusted, where applicable, to correct any discrepancies. The Rate Generator Models 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.<sup>16</sup> The WMS and CBR rates were set by the OEB on December 15, 2016.<sup>17</sup>

<sup>16</sup> Decision and Order, EB-2017-0234, June 22, 2017

<sup>17</sup> Decision and Order, EB-2016-0362, December 15, 2016

**THE ONTARIO ENERGY BOARD ORDERS THAT**

1. The Tariffs of Rates and Charges set out in Schedule A of this Decision and Rate Order is approved effective January 1, 2018 for the Parry Sound service area and May 1, 2018 for the Lakeland legacy service area for electricity consumed or estimated to have been consumed on and after such date. Lakeland Power 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, December 14, 2017

**ONTARIO ENERGY BOARD**

*Original Signed By*

Kirsten Walli  
Board Secretary

**Schedule A**

**To Decision and Rate Order**

**Tariffs of Rates and Charges**

**OEB File No: EB-2017-0058**

**DATED: December 14, 2017**