



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

DECISION AND RATE ORDER

EB-2017-0046

HEARST POWER DISTRIBUTION COMPANY LIMITED

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

By Delegation, Before: Theodore Antonopoulos

[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 Hearst Power Distribution Company Limited (Hearst Power) on October 26, 2017, as amended during the course of the proceeding.

Hearst Power serves about 2,600 mostly residential and commercial electricity customers in the Town of Hearst. 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).

Hearst 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, there will be a monthly bill increase of \$3.03 for a residential customer consuming 750 kWh, effective May 1, 2018.

Hearst Power 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 OEB 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.

Hearst Power filed its application on October 26, 2017, under section 78 of the OEB Act and in accordance with the Filing Requirements. Hearst Power supported its application with written evidence and a completed rate model. Questions were asked of, and answers were provided by, Hearst Power through emails and phone calls with the OEB. Based on this information, a draft decision was prepared and provided to Hearst Power on February 27, 2018. Hearst 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 Hearst Power's proposals relating to each of them:

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

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

4 PRICE CAP ADJUSTMENT

Hearst Power seeks to increase its rates, effective May 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 Hearst Power are set out in Table 4.1, below. Inserting these components into the formula results in a 1.05% increase to Hearst Power's rates: $1.05\% = 1.20\% - (0.00\% + 0.15\%)$.

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	0.15%

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.

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

² Report of the OEB – “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 2017

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 Hearst Power is 0.15%.

Findings

The OEB finds that Hearst Power's request for a 1.05% Price Cap IR adjustment is in accordance with the annually updated parameters set by the OEB. The adjustment is approved, and Hearst Power's new rates shall be effective May 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 \$2,139, resulting in a shared amount of \$1,069 to be distributed to 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.

Findings

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

The OEB directs Hearst Power to record the tax sharing of \$1,069 in variance Account 1595 by June 30, 2018 for disposition at a future 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 host-RTSRs to distributors embedded within the host's distribution system.

Hearst Power is partially embedded within Hydro One Network Inc.'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, Table 6.2.

Table 6.1: UTRs⁶

Current Approved UTRs (2018)	per kWh
Network Service Rate	\$3.61
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.95
Transformation Connection Service Rate	\$2.34

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

Current Approved Sub-Transmission Host-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

⁶ Decision and Rate Order, EB-2017-0359, February 1, 2018

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

Hearst Power's proposed adjustment to its RTSRs is approved. The RTSRs were adjusted based on the current host-RTSRs and the UTRs current at the time of the filing. The OEB finds that the new 2018 UTRs are to be incorporated into the rate model to adjust the RTSRs that Hearst Power will charge its customers accordingly.

The differences resulting from the approval of new 2018 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 Hearst Power's Group 1 accounts including interest projected to April 30, 2018 is a debit of \$91,756. This amount represents a total debit claim of \$0.0012 per kWh, which exceeds the disposition threshold. Hearst 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 balance of a credit of \$27,867. 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.¹⁰

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.

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 OEB – "Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)." EB-2008-0046, July 31, 2009

¹⁰ 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

- 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 the 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.

Hearst Power proposes the refund of its GA variance account balance of a credit of \$27,867 as at December 31, 2016, including interest to April 30, 2018, in accordance with the following table.

Table 7.1: Recovery of GA Variance

Proposed Amounts	Proposed Method for Recovery
\$27,867 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 \$5,734 for the recovery 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.

Hearst Power 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, Commodity Power Charges, and Account 1595 residual balances. These Group 1 accounts have a total debit balance of \$119,623, which results in a charge to customers.

The balances proposed for disposition reconcile with the amounts reported as part of the OEB's *Electricity Reporting and Record-Keeping Requirements*.¹¹ Hearst Power further notes that its proposal for a one-year disposition period is in accordance with the OEB's policy.¹²

As noted by the OEB in its decision on Hearst Power's 2017 IRM application¹³, the OEB was concerned with a large residual balance in Account 1595 (2012). The OEB noted that the proposed debit balance was a residual balance flowing from a previously approved credit balance from Hearst Power's 2012 rate proceeding¹⁴. This original balance was approved for disposition over three years commencing May 1, 2012. Hearst Power transferred the approved balances to Account 1595 (2012) for the purpose of tracking the disposition period consistent with the OEB's accounting guidance.

However, Hearst Power brought forward for disposition the residual balance in this account in its 2015 cost of service proceeding, prematurely. For 2015 cost of service filers, most utilities brought forward their year ending 2013 balances. Due to the lateness of Hearst Power's cost of service application, Hearst Power proposed to dispose of the year ending 2014 balances because Hearst Power was able to provide audited balances to support its request for disposition given the passage of time. Included in the group of accounts whose balances were proposed for disposition was Account 1595 (2012), which as of December 31, 2014 was audited, but had not been completely drawn down (the approved rate riders continued to be in effect for another four months, to April 30, 2015). The OEB approved Hearst Power's proposal.

With the disposition of a residual credit balance, and the continuation of the original credit riders for another four months, Hearst Power over refunded its customers by a significant amount.

The OEB's decision in Hearst Power's 2017 IRM application did not approve the disposition of any 1595 sub-accounts, due to another concern relating to the proposed

¹¹ Electricity Reporting and Record Keeping Requirements, Version dated May 3, 2016

¹² As outlined in the Report cited at footnote 9 above

¹³ EB-2016-0224

¹⁴ EB-2011-0171

disposition of two other 1595 sub-accounts, one of which had been disposed in a prior proceeding. The OEB in its decision also required Hearst Power to provide a detailed mapping of the approved amounts transferred to the applicable sub-accounts of 1595 and provide a reconciliation explaining any errors made in these accounts commencing with the 2011 rate year.

In its current application, Hearst Power provided this detailed mapping which was reviewed by OEB staff.

Findings

The OEB approves the disposition of a debit balance of \$91,756 as of December 31, 2016, including interest projected to April 30, 2018 for Group 1 accounts. The OEB is satisfied with the mapping provided by Hearst Power of its 1595 sub accounts and notes that no other sub account is proposed for disposition but for the 2012 sub account. Hearst Power has now applied the appropriate accounting treatment to close the two other 1595 sub accounts that were brought forward for disposition as part of the 2017 IRM application.

As for the large debit balance arising from the previously over refunded amounts in the 2012 sub-account, while not an optimal circumstance, the OEB approves the residual balance. As noted in Hearst Power's 2017 IRM decision, the intent of establishing separate sub-accounts within account 1595 for each disposition period is to track the original draw-down of approved balances and therefore the correction of mistakes arising from the use of account 1595 does not impact originally approved balances. The OEB is prepared to allow Hearst Power to correct its mistake of prematurely disposing of the 2012 residual balance in this circumstance. The OEB cautions that this may not always be the outcome in future as errors made by distributors in the use of account 1595 will be assessed on a case by case basis to determine an appropriate remedy.

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

Account Name	Account Number	Principal Balance (\$) A	Interest Balance (\$) B	Total Claim (\$) C=A+B
LV Variance Account	1550	81,680	1,971	83,651
Smart Meter Entity Variance Charge	1551	88	(2)	86
RSVA - Wholesale Market Service Charge	1580	(56,630)	(2,341)	(58,971)
Variance WMS - Sub-account CBR Class B	1580	5,554	180	5,734
RSVA - Retail Transmission Network Charge	1584	(6,338)	(3)	(6,341)
RSVA - Retail Transmission Connection Charge	1586	16,904	437	17,341
RSVA – Power	1588	(22,260)	(484)	(22,744)
RSVA - Global Adjustment	1589	(29,418)	1,551	(27,867)
Disposition and Recovery of Regulatory Balances (2012)	1595	97,055	3,813	100,867
Totals for all Group 1 accounts		86,634	5,123	91,756

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*.¹⁵ 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. Hearst Power shall ensure these adjustments are included in the reporting period ending June 30, 2018 (Quarter 2).

¹⁵ Accounting Procedures Handbook for Electricity Distributors, effective January 1, 2012

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 May 1, 2018 to April 30, 2019.¹⁶

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 2016.¹⁷ 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 10th percentile for the class). Mitigation may be required if the bill impact related to the application exceeds 10% for these customers.

Hearst Power notes that the implementation of the transition results in an increase to the fixed charge prior to the price cap adjustment of \$3.85. 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.

¹⁶ 2018 IRM Rate Generator Model Tab 6.1 GA, and Tab 7 "Calculation of Def-Var RR"

¹⁷ As outlined in the Policy cited at footnote 1 above

9 OTHER MATTERS

In addition to the matters discussed previously, Hearst Power sought approval for the following rates and charges¹⁸ in its application:

- Continuance of the Specific Services charges and Loss Factors.
- Continuance of the MicroFit monthly charge.
- Continuance of the Smart Meter Entity charge.

These rates/charges were approved by the OEB in previous proceedings. No further approval is required in this Decision to include these on Hearst Power's Tariff of Rates and Charges.

10 IMPLEMENTATION AND ORDER

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

Model entries were reviewed in order to ensure that they are in accordance with Hearst Power'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 Hearst Power 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 10.1: 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

¹⁸ Hearst Power Distribution Company Limited, 2018 IRM Application, EB-2017-0046, October 26, 2017, page 4

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, WMS and CBR rates were set by the OEB on December 20, 2017.¹⁹

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, 2018 for electricity consumed or estimated to have been consumed on and after such date. Hearst Power Distribution Company Limited 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

¹⁹ Decision and Order, EB-2017-0333, December 20, 2017

Schedule A

To Decision and Rate Order

Tariff of Rates and Charges

OEB File No: EB-2017-0046

DATED: [date]