

DECISION AND RATE ORDER

EB-2018-0037

HALTON HILLS HYDRO INC.

Application for rates and other charges to be effective May 1, 2019

By Delegation, Before: Pascale Duguay

[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 Halton Hills Hydro Inc. (Halton Hills Hydro) on October 15, 2018, as amended during the course of the proceeding.

Halton Hills Hydro serves about 22,000 mostly residential and commercial electricity customers in the Town of Halton Hills. 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).

Halton Hills 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 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 total bill decrease before taxes of \$0.91 for a residential customer consuming 750 kWh, effective May 1, 2019.

Halton Hills Hydro has also applied to change the composition of its distribution service rates. 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, in 2019 the final upward adjustment, exceeding the mechanistic adjustment alone, in this decision has been made and now the distribution rates have transitioned to fully fixed structure. There is no longer a variable usage rate for this class of customer. 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.

Halton Hills Hydro filed its application on October 15, 2018, under section 78 of the OEB Act and in accordance with the Filing Requirements. Halton Hills Hydro supported its application with written evidence and a completed Rate Generator Model. Questions were asked of, and answers were provided by, Halton Hills Hydro through emails and phone calls with the OEB. Based on this information, a draft decision was prepared and provided to Halton Hills Hydro on February 22, 2019. Halton Hills 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 Halton Hills Hydro's proposals relating to each of them:

- Price Cap 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.

This Decision does not address rates and charges approved by the OEB in previous proceedings which are not part of the scope of an IRM proceeding (such as specific

service charges² and loss factors). No further approvals are required to continue to include these items on a distributor's Tariff of Rates and Charges.

4 PRICE CAP ADJUSTMENT

Halton Hills Hydro seeks to increase its rates, effective May 1, 2019, 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 Halton Hills Hydro are set out in Table 4.1, below. Inserting these components into the formula results in a 1.50% increase to Halton Hills's rates: $1.50\% = 1.50\% - (0.00\% + 0.00\%)$.

Table 4.1: Price Cap IR Adjustment Formula

Components		Amount
Inflation Factor ³		1.50%
X-Factor	Productivity ⁴	0.00%
	Stretch (0.00% – 0.60%) ⁵	0.00%

The inflation factor of 1.50% applies to all Price Cap IR applications for the 2019 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.

² The most recent proceedings where approval was granted to change specific service charges are Report of the OEB – “Wireline Pole Attachment Charges” EB-2015-0304, Issued March 22, 2018 and the Decision and Order on Energy Retail Service Charges EB-2015-0304, Issued on February 14, 2019.

³ For 2019 Inflation factor see Ontario Energy Board 2019 Electricity Distribution Rate applications - Updates November 23, 2018.

⁴ Report of the OEB – “Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors” EB-2010-0379, Issued November 21, 2013, corrected December 4, 2013.

⁵ The stretch factor groupings are based on the Report to the Ontario Energy Board – “Empirical Research in Support of Incentive Rate-Setting: 2017 Benchmarking Update”, prepared by Pacific Economics Group LLC., August 2018.

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 2019 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 Halton Hills Hydro is 0.00%.

Findings

The OEB finds that Halton Hills Hydro's request for a 1.50% rate adjustment is in accordance with the annually updated parameters set by the OEB. The adjustment is approved, and Halton Hills Hydro's new rates shall be effective May 1, 2019.

The adjustment applies to distribution rates (fixed and variable charges) uniformly across all customer classes.⁶

5 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.

Halton Hills Hydro is partially embedded within Hydro One Networks 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 5.1 and Table 5.2.

⁶ 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, smart metering entity charge, 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.

Table 5.1: UTRs⁷

Current Approved UTRs (2019)	per kW
Network Service Rate	\$3.71
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.94
Transformation Connection Service Rate	\$2.25

Table 5.2: Hydro One Networks Inc. Sub-Transmission Host-RTSRs⁸

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

Findings

Halton Hills Hydro'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 2019 UTRs are to be incorporated into the rate model to adjust the RTSRs that Halton Hills Hydro will charge its customers accordingly.

The differences resulting from the approval of new 2019 RTSRs will be captured in Accounts 1584 and 1586 for future disposition.

6 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

⁷ Decision and Order, EB-2018-0326, December 20, 2018.

⁸ Decision and Order, EB-2016-0081, December 21, 2016.

disposed.⁹ 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.¹⁰ If the balance does not exceed the threshold, a distributor may elect to request disposition.

The 2017 actual year-end total balance for Halton Hills Hydro's Group 1 accounts including interest projected to April 30, 2019 is a credit of \$723,715. This amount represents a total credit claim of \$0.0015 per kWh, which does exceed the disposition threshold.

Included in the balance of the Group 1 accounts is the Global Adjustment (GA) account debit balance of \$754,583. 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.¹¹

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 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.

⁹ 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.

¹⁰ Report of the OEB – "Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)." EB-2008-0046, July 31, 2009.

¹¹ 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.

Under the general principle of cost causality, customer groups that cause variances should be responsible for paying (or receiving credits) for their disposal. The movement from one class to another should not prevent identifiable customers from paying down/receiving a debit/credit balance.

Halton Hills Hydro proposes the recovery of its GA variance account balance of \$754,583 as at December 31, 2017, including interest to April 30, 2019, in accordance with the following table.

Table 6.1: Recovery of GA Variance

Proposed Amounts	Proposed Method for Recovery
\$630,179 recovered from customers who were Class B for the entire period from January 2017 to December 2017	per kWh rate rider
\$124,404 from customers formerly in Class B during the period January 2017 to June 2017 who were reclassified to Class A	12 equal installments ¹²

The balance of the Group 1 accounts includes \$8,234 for the refund of Capacity Based Recovery (CBR) charges for Class B customers related to the IESO's wholesale energy market for Capacity Based Recovery 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 2017 to December 2017. The disposition is also impacted by whether or not the Class B CBR rate riders in the 2019 IRM Rate Generator Model¹³ rounds to zero at the fourth decimal place in one or more rate classes.

Halton Hills Hydro had Class A customers during the period from January 2017 to December 2017 but the CBR Class B rate riders calculated rounded to zero at the fourth decimal place in one or more of the rate classes. In this event, the entire Account 1580 sub-account CBR Class B is added to the Account 1580WMS control account to be disposed through the general purpose Group 1 Deferral and Variance Account.

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

¹² 2019 IRM Rate Generator Model, Tab 6.1a "GA Allocation".

¹³ 2019 IRM Rate Generator Model, Tab 6.2 "CBR B".

Charges. These Group 1 accounts have a total credit balance of \$1,478,298, which results in a refund to customers.

The balances proposed for disposition reconcile with the amounts reported as part of the OEB's *Electricity Reporting and Record-Keeping Requirements*.¹⁴ Halton Hills Hydro further notes that its proposal for a one-year disposition period is in accordance with the OEB's policy.¹⁵

Earlier this year, the OEB suspended its approvals of Group 1 rate riders on a final basis. As stated in its letter to the sector dated July 20, 2018, the OEB will determine whether the riders will be approved on an interim basis or not approved at all (i.e. no disposition of account balances) on a case by case basis until further notice.¹⁶

Findings

The OEB approves the disposition of a credit balance of \$723,715 as of December 31, 2017, including interest projected to April 30, 2019 for Group 1 accounts on an interim basis.

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

Table 6.2: 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	7,548	(3,885)	3,663
Smart Meter Entity Variance Charge	1551	(5,390)	(97)	(5,487)
RSVA - Wholesale Market Service Charge	1580	(501,757)	(7,949)	(509,706)
RSVA - Retail Transmission Network Charge	1584	(44,521)	(1,564)	(46,085)
RSVA - Retail Transmission Connection Charge	1586	(99,585)	(3,825)	(103,410)

¹⁴ Electricity Reporting and Record Keeping Requirements, Version dated May 3, 2016.

¹⁵ Report of the OEB – “Electricity Distributors’ Deferral and Variance Account Review Initiative (EDDVAR).” EB-2008-0046, July 31, 2009.

¹⁶ OEB letter to all rate-regulated licensed electricity distributors, Re: OEB’s Plan to Standardize Processes to Improve Accuracy of Commodity Pass-Through Variance Accounts, July 20, 2018.

RSVA – Power	1588	(790,191)	(27,082)	(817,273)
RSVA - Global Adjustment	1589	723,224	31,358	754,583
Totals for all Group 1 accounts		(710,672)	(13,043)	(723,715)

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*.¹⁷ 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. Halton Hills Hydro shall ensure these adjustments are included in the reporting period ending June 30, 2019 (Quarter 2).

The OEB approves these balances to be disposed through interim rate rider and charges as calculated in the Rate Generator Model. The interim rate rider and charges will be in effect over a one-year period from May 1, 2019 to April 30, 2020.¹⁸

7 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 2016.¹⁹ This is the last year of Halton Hills Hydro transition period and, accordingly, 2019 is the final year in which Halton Hills Hydro rates will be adjusted upwards by more than the mechanistic adjustment alone. Halton Hills Hydro has transitioned to a fully fixed structure.

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

¹⁷ Accounting Procedures Handbook for Electricity Distributors, effective January 1, 2012.

¹⁸ 2019 IRM Rate Generator Model Tab 6.1 GA, Tab 6.1a GA Allocation and Tab 7 Calculation of Def-Var RR.

¹⁹ As outlined in the Policy cited at footnote 1 above.

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.

Halton Hills Hydro notes that the implementation of the transition results in an increase to the fixed charge prior to the price cap adjustment of \$2.92. 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 distributor has now completed its transition to a fully fixed rate structure. The OEB finds that the proposed 2019 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 demonstrate that no mitigation is required. The OEB approves the increase as proposed by the applicant and calculated in the final Rate Generator Model.

8 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 Halton Hills Hydro's last cost of service decision, and to ensure that the 2018 OEB-approved Tariff of Rates and Charges, as well as the cost, revenue and consumption results from 2017, are as reported by Halton Hills 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 8.1: Regulatory Charges

Rate	per kWh
Rural or Remote Electricity Rate Protection (RRRP)	\$0.0005
Wholesale Market Service (WMS) billed to Class A and B Customers	\$0.0030
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, WMS and CBR rates were set by the OEB on December 20, 2018.²⁰

The Smart Metering Entity Charge is a component of the “Distribution Charge” on a customer’s bill, established by the OEB through a separate order. The Smart Metering Entity Charge was set by the OEB on March 1, 2018.²¹

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, 2019 for electricity consumed or estimated to have been consumed on and after such date. Halton Hills Hydro Inc. shall notify its customers of the rate changes no later than the delivery of the first bill reflecting the new final and interim rates.

DATED at Toronto, [date]

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary

²⁰ Decision and Order, EB-2018-0294, December 20, 2018.

²¹ Decision and Order, EB-2017-0290, March 1, 2018.

Schedule A

To Decision and Rate Order

Tariff of Rates and Charges

OEB File No: EB-2018-0037

DATED: March XX, 2019