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

Ontario

DECISION AND RATE ORDER

EB-2018-0030

ERTH POWER CORPORATION – ERTH POWER MAIN RATE ZONE

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

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 ERTH Power Corporation (ERTH Power) on January 31, 2019, as amended during the course of the proceeding.

On March 14, 2018, Erie Thames Powerlines Corporation submitted a Mergers, Acquisitions, Amalgamations and Divestitures (MAADs) application seeking approval to amalgamate Erie Thames Powerlines Corporation and West Coast Huron Energy Inc. (West Coast Huron Energy)..

On June 19, 2018, Erie Thames Powerlines Corporation became ERTH Power Corporation (ERTH Power).[1]

On December 20, 2018, the OEB approved the amalgamation and deferred rate re-basing from the closing date for nine years.[2] ERTH Power notified the OEB the transaction was complete effective January 8, 2019.

As approved in the MAADs application and the Electricity Distribution Licence,[3] ERTH Power maintains two separate rate zones, ERTH Power Main rate zone, and Goderich rate zone (formerly West Coast Huron Energy), until such time as rates are re-based. In its letter to the OEB dated January 31, 2019, ERTH Power noted that this application and the resulting tariff schedule should be referred to as ERTH Power Main rate zone. The rate application for the Goderich rate zone was filed by West Coast Huron Energy on October 15, 2018,[4] before the approval of the amalgamation. The application for the ERTH Power Main rate zone and the application for the Goderich rate zone have been heard separately.

ERTH Power Main rate zone consists of about 18,800 mostly residential and commercial electricity customers in the municipalities of Port Stanley, Aylmer, Belmont, Ingersoll, Thamesford, Otterville, Norwich, Burgessville, Beachville, Embro, Tavistock, Mitchell, Dublin and Clinton. ERTH Power is seeking the OEB's approval for the rates it charges to distribute electricity to its customers in the ERTH Power Main rate zone, as is required of licenced and rate-regulated distributors in Ontario.

[1] Erie Thames Powerlines Corporation's Electricity Distribution Licence (ED-2002-0516) was amended in the OEB's August 30, 2018 Decision and Order (EB-2018-0220) which changed the name that appears on the Licence from Erie Thames Powerlines Corporation to ERTH Power Corporation.
[2] EB-2018-0082, Decision and Order, December 20, 2018
[3] ED-2002-0516
[4] EB-2018-0077

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).

The ERTH Power Main rate zone application is based on a Price Cap Incentive Rate-setting option (Price Cap IR). The Price Cap IR option has a five-year term which 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. However, as a result of the amalgamation, the rate rebasing period for the two rate zones has been deferred for nine years from the closing of the amalgamation.[5]

As a result of the OEB's findings in this Decision, there will be a monthly total bill increase before taxes of $0.61 for a residential customer consuming 750 kWh, effective May 1, 2019.

ERTH Power is also seeking to change the composition of the distribution service rates for the ERTH Power Main rate zone. 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.[6] 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 a 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.

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.

[5] EB-2018-0082, Decision and Order, December 20, 2018
[6] OEB Policy – "A New Distribution Rate Design for Residential Electricity Customers." EB-2012-0410, April 2, 2015.

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.

The ERTH Power Main rate zone application was filed on January 31, 2019, under section 78 of the OEB Act and in accordance with the Filing Requirements. This application was supported by written evidence and a completed Rate Generator Model. Questions were asked of, and answers were provided by, ERTH Power through emails and phone calls with the OEB. Based on this information, a draft decision was prepared and provided to ERTH Power on March 26, 2019. ERTH 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 ERTH Power'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 charges[7] 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

ERTH Power seeks to increase the rates it charges customers in the ERTH Power Main rate zone, effective May 1, 2019, based on a mechanistic rate adjustment using the

[7] The most recent proceedings where approval was granted to change specific service charges are the 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.

OEB-approved ***inflation minus X-factor*** formula applicable to Price Cap IR applications.

The components of the Price Cap IR formula applicable to the ERTH Power Main rate zone are set out in Table 4.1 below. Inserting these components into the formula results in a 1.20% increase to ERTH Power Main rate zone's rates: ***1.20% = 1.50% - (0.00% + 0.30%)***.

Table 4.1: Price Cap IR Adjustment Formula

Components		Amount
Inflation Factor[8]		1.50%
X-Factor	Productivity[9]	0.00%
	Stretch (0.00% – 0.60%)[10]	0.30%

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.

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

[8] For 2019 Inflation factor see Ontario Energy Board 2019 Electricity Distribution Rate applications - Updates November 23, 2018.
[9] 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.
[10] 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.

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 ERTH Power for the ERTH Power Main rate zone is 0.30%.

Findings

The OEB finds that ERTH Power's request for a 1.20% rate adjustment for customers in the ERTH Power Main rate zone is in accordance with the annually updated parameters set by the OEB. The adjustment is approved, and the new rates for the ERTH Power Main rate zone shall be effective May 1, 2019.

The adjustment applies to distribution rates (fixed and variable charges) uniformly across all customer classes.[11]

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.

The ERTH Power Main rate zone is partially embedded within Hydro One Networks Inc.'s distribution system. ERTH Power is requesting approval to adjust the RTSRs that it charges its customers in this rate zone in order to reflect the rates that it pays for transmission services included in Table 5.1 and Table 5.2.

[11] 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: UTRs[12]

Current Approved UTRs (2019)	per kW
Network Service Rate	$3.71
Connection Service Rates	
Line Connection Service Rate	$0.94
Transformation Connection Service Rate	$2.25

Table 5.2: Hydro One Networks Inc. Sub-Transmission Host-RTSRs[13]

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

Findings

ERTH 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 2019 UTRs are to be incorporated into the rate model to adjust the RTSRs that ERTH Power will charge its customers in the ERTH Power Main rate zone 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

[12] Decision and Interim Rate Order, EB-2018-0326, December 20, 2018.
[13] Decision and Order, EB-2016-0081, December 21, 2016

disposed.[14] 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.[15] If the balance does not exceed the threshold, a distributor may elect to request disposition.

The 2017 actual year-end total balance for the ERTH Power Main rate zone's Group 1 accounts including interest projected to April 30, 2019 is a debit of $861,769. This amount represents a total debit claim of $0.0018 per kWh, which exceeds the disposition threshold. ERTH 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 debit balance of $759,877. 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.[16]

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

[14] 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.
[15] Report of the OEB – "Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)." EB-2008-0046, July 31, 2009
[16] 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, distributors track any difference between the billed amounts and actual costs in the GA Variance Account for disposal, once audited.

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.

ERTH Power proposes the recovery of its GA variance account debit balance of $759,877 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
$591,327 recovered from customers who were Class B for the entire period from January to December 2017	per kWh rate rider
$168,550 from customers formerly in Class B during the period January to June 2017 who were reclassified to Class A	12 equal installments[17]

The balance of the Group 1 accounts includes $543 for the recovery of Capacity Based Recovery (CBR) charges for Class B customers related to the IESO's wholesale energy market for Capacity Based Recovery program. Distributors pay CBR charges to the IESO and record 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 to December 2017. The disposition is also impacted by whether or not the Class B CBR rate riders in the 2019 IRM Rate Generator Model[18] rounds to zero at the fourth decimal place in one or more rate classes.

ERTH Power had Class A customers in the ERTH Power Main rate zone during the period from January 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 1580 WMS control account to be disposed through the general purpose Group 1 Deferral and Variance Account.

[17] 2019 IRM Rate Generator Model, Tab 6.1a “GA Allocation”
[18] 2019 IRM Rate Generator Model, Tab 6.2 “CBR B”

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 $101,891, 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.*[19] ERTH Power further notes that its proposal for a one-year disposition period is in accordance with the OEB's policy.[20]

Last 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.[21]

Findings

The OEB approves the disposition of a debit balance of $861,769 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	672,956	40,135	713,092
Smart Meter Entity Variance Charge	1551	(6,426)	(375)	(6,801)
RSVA - Wholesale Market Service Charge	1580	(407,240)	(31,129)	(438,370)

[19] Electricity Reporting and Record Keeping Requirements, Version dated May 3, 2016
[20] Report of the OEB – "Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)" EB-2008-0046, July 31, 2009
[21] 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

Variance WMS - Sub-account CBR Class B	1580	(783)	1,326	543
RSVA - Retail Transmission Network Charge	1584	(206,409)	(6,001)	(212,410)
RSVA - Retail Transmission Connection Charge	1586	(34,265)	2,056	(32,209)
RSVA – Power	1588	75,672	2,373	78,045
RSVA - Global Adjustment	1589	724,087	35,790	759,877
Totals for all Group 1 accounts		817,592	44,177	861,769

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*.[22] 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. ERTH Power 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 riders and charges as calculated in the Rate Generator Model. The interim rate riders and charges will be in effect over a one-year period from May 1, 2019 to April 30, 2020.[23]

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.[24] This is the last year of transition for the ERTH Power Main rate zone and, accordingly, 2019 is the final year in which the rates will be

[22] Accounting Procedures Handbook for Electricity Distributors, effective January 1, 2012
[23] 2019 IRM Rate Generator Model Tab 6.1 GA, Tab 6.1a GA Allocation, Tab 6.2 CBR B and Tab 7 Calculation of Def-Var RR
[24] As outlined in the Policy cited at footnote 6 above.

adjusted upwards by more than the mechanistic adjustment alone. The ERTH Power Main rate zone 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 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.

ERTH Power notes that the implementation of the transition results in an increase to the fixed charge prior to the price cap adjustment of $3.23. 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 for the ERTH Power Main rate zone.

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 model, and a Tariff of Rates and Charges (Schedule A).

Model entries were reviewed in order to ensure that they are in accordance with ERTH Power's last cost of service decision pertaining to the ERTH Power Main rate zone, 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 ERTH 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 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.[25]

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.[26]

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. ERTH Power Corporation shall notify its customers in the ERTH Power Main rate zone 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

Kirsten Walli
Board Secretary

[25] Decision and Order, EB-2018-0294, December 20, 2018
[26] 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-2018-0030

DATED: March XX, 2019