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

Ontario

DECISION AND RATE ORDER

EB-2019-0035

FESTIVAL HYDRO INC.

Application for rates and other charges to be effective January 1, 2020

By Delegation, Before: Pascale Duguay

[date]

1 INTRODUCTION AND SUMMARY

Through this Decision and Rate Order, the Ontario Energy Board (OEB) approves the incentive rate-setting mechanism (IRM) application filed by Festival Hydro Inc. (Festival Hydro) for new rates effective January 1, 2020.

Festival Hydro serves approximately 20,000 mostly residential and commercial electricity customers in the City of Stratford and the surrounding towns of St. Mary, Seaforth, Brussels, Dashwood, Hensall and Zurich. The company is seeking the OEB's approval for the rates it charges to distribute electricity to its customers, as is required of licensed 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 *Handbook for Utility Rate Applications*.

Festival 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 typically 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 no change in the monthly total bill before taxes for a residential customer consuming 750 kWh, effective January 1, 2020.

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 hearing 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, as a placeholder, information from the distributor's past proceedings and annual reporting requirements.[1] A distributor will then review and complete the Rate Generator Model, and include it with its application.

[1] The Rate Generator Model is a Microsoft Excel workbook that is used to update 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. During the course of an IRM proceeding, the Rate Generator Model may be updated in order to make any necessary corrections, or to incorporate new rate-setting parameters as they become available.

Festival Hydro filed its application on August 12, 2019 under section 78 of the OEB Act and in accordance with the Chapter 3 of the OEB's *Filing Requirements for Incentive Rate-Setting Applications* (Filing Requirements) and *Addendum to Filing Requirements for Electricity Distribution Rate Applications*.

The application was supported by pre-filed written evidence and a completed Rate Generator Model. During the course of the proceeding, the applicant responded to OEB staff questions through emails and phone calls and, where required, updated and clarified the evidence.

3 ORGANIZATION OF THE DECISION

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

- Price Cap Adjustment
- Retail Transmission Service Rates
- Group 1 Deferral and Variance Accounts
- Lost Revenue Adjustment Mechanism Variance Account Balance

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[2] 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

Festival Hydro seeks to increase its rates, effective January 1, 2020, based on a mechanistic rate adjustment using the OEB-approved ***inflation minus X-factor*** formula

[2] Specific service charges have been amended by the OEB through: 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. Certain Service Charges are subject to annual inflationary adjustments to be determined by the OEB through a generic order. The Decision and Order EB-2019-0280 issued November 28, 2019 for energy retailer service charges, and the cover letter dated November 28, 2019 "Inflation Adjustment for Energy Retailer Service Charges (EB-2019-0280) and Wireline Pole Attachment Charge (EB-2015-0304) for Electricity Distributors", established the adjustments effective January 1, 2020.

applicable to Price Cap IR applications.

The components of the Price Cap IR adjustment formula applicable to Festival Hydro are set out in Table 4.1, below. Inserting these components into the formula results in a 1.55% increase to Festival Hydro's rates: **1.55% = 2.00% - *(0.00%* + 0.45%*)***.

Table 4.1: Price Cap IR Adjustment Formula

Components		Amount
Inflation Factor[3]		2.00%
X-Factor	Productivity[4]	0.00%
	Stretch (0.00% – 0.60%)[5]	0.45%

The inflation factor of 2.00% applies to all Price Cap IR applications for the 2020 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 and Annual IR Index applications for the 2020 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

[3] For the 2020 Inflation Factor, see Ontario Energy Board 2020 Electricity Distribution Rate applications webpage - October 31, 2019.

[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: 2018 Benchmarking Update", prepared by Pacific Economics Group LLC., August 15, 2019.

the distributor is expected to achieve. The stretch factor assigned to Festival Hydro is 0.45%.

Findings

The OEB finds that Festival Hydro's request for a 1.55% rate adjustment is in accordance with the annually updated parameters set by the OEB. The adjustment is approved, and Festival Hydro's new rates shall be effective January 1, 2020.

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

5 RETAIL TRANSMISSION SERVICE RATES

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

Festival 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 currently approved 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: UTRs[7]

UTRs (2019)	per kW
Network Service Rate	$3.83
Connection Service Rates	
Line Connection Service Rate	$0.96
Transformation Connection Service Rate	$2.30

Table 5.2: Hydro One Networks Inc. Sub-Transmission Host-RTSRs[8]

Sub-Transmission Host RTSRs (2019)	per kW
Network Service Rate	$3.29
Connection Service Rates	
Line Connection Service Rate	$0.79
Transformation Connection Service Rate	$1.98

Findings

Festival Hydro's proposed adjustment to its RTSRs is approved. Festival Hydro RTSRs were adjusted to reflect the OEB-approved UTRs and host-RTSRs.

The differences resulting from the approval of new 2020 UTRs will be captured in Accounts RSVA – Retail Transmission Network Charge 1584 and Retail Transmission Connection Charge 1586.

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] EB-2019-0164, Decision and Order, July 25, 2019.
[8] EB-2017-0049, Decision and Order, June 11, 2019.

disposed.[9] OEB policy requires that Group 1 accounts be disposed if they exceed or equal (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 2018 actual year-end total balance for Festival Hydro's Group 1 accounts including interest projected to December 31, 2019 is a credit of $600,643. This amount represents a total credit claim of $0.001 per kWh, which equals the disposition threshold, and the utility has requested disposition.

a) Global Adjustment Variance Account

One of the components of the commodity costs billed by the Independent Electricity System Operator (IESO), which is included in Group 1 accounts, is the Global Adjustment (GA).[11]

Different customer groups pay the GA in different ways:

- For Regulated Price Plan (RPP) customers, the GA is incorporated into the standard commodity rates customers pay. Therefore, there is no separate variance account for the GA.

- "Class A" customers are allocated GA costs based on the percentage their demand contributes to the top five Ontario system peaks. As distributors settle with Class A customers based on actual GA costs, there is no resulting variance.

- "Class B" non-RPP customers are billed GA based on the electricity they consume in a month at the IESO published GA price. Distributors track any difference between the billed amounts and actual costs for these customers 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 to reflect the difference between the wholesale market price for electricity and regulated rates for:
- Ontario Power Generation's nuclear and hydroelectric generating stations
- payments for building or refurbishing infrastructure such as gas-fired and renewable facilities and other nuclear
- contracted rates paid to a number of generators across the province
- the cost of delivering conservation programs.

Under the general principle of cost causality, customer groups that cause variances which are recorded in Group 1 accounts should be responsible for paying (or receiving credits) for their disposal. A customer's movement from one group to another should not prevent that customer from paying/receiving a debit/credit balance.

Festival Hydro proposes the refund of its GA variance account balance of $173,751 as at December 31, 2018, including interest to December 31, 2019, in accordance with the following table.

Table 6.1: Refund of GA Variance

Proposed Amounts	Proposed Method for Refund
$166,706 refunded to customers who were Class B for the entire period from January 2018 to December 2018	per kWh rate rider
$7,044 refunded to customers formerly in Class B during the period January 2018 to June 2018 who were reclassified to Class A	12 equal installments[12]

b) Capacity Based Recovery Class B Sub-account

The balance of the Group 1 accounts includes the Capacity Based Recovery (CBR) sub-account for Class B customers of $8,716, relating to the IESO's wholesale energy market for the CBR program. Festival Hydro had Class A customers during the period from January 2018 to December 2018 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 – Wholesale Market Service Charge control account to be disposed through the general purpose Group 1 Deferral and Variance Account.

c) Group 1 Accounts

The Group 1 accounts being sought for disposition (excluding global adjustment), 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 credit balance of $426,892, which results in a refund to

[12] 2020 IRM Rate Generator Model, Tab 6.1a "GA Allocation".

customers. This balance combined with the balance for the global adjustment account results in the total credit balance for Group 1 accounts of $600,643.

The balances proposed for disposition reconcile with the amounts reported as part of the OEB's *Electricity Reporting and Record-Keeping Requirements.*[13] Festival Hydro further submitted that its proposal for a one-year disposition period is in accordance with the OEB's policy.[14]

In 2018, the OEB suspended its approvals of Group 1 rate riders on a final basis pending the development of further accounting guidance on commodity pass-through variance accounts.[15] The OEB issued accounting guidance[16] on the commodity accounts on February 21, 2019. In this letter, the OEB indicated that it expects distributors to consider the accounting guidance in the context of historical balances that have not yet been disposed on a final basis. Distributors are expected to make any adjustments needed prior to filing for final disposition.

In its 2019 IRM application, Festival Hydro received approval to dispose of its 2017 Group 1 balances on an interim basis. Festival Hydro has reviewed the 2017 and 2018 balances in the context of the new accounting guidance and has determined that credit adjustments of $75,170 and $160,235 are needed for Account 1588 for 2017 and 2018 respectively. The adjustments relate to the correction of a formula error when calculating embedded generation settlement values, and a true-up of the Hourly Ontario Energy Price (HOEP) price used for settlement purposes. Festival will make (or has already made) settlement claims with the IESO for these adjustments in 2019. Festival Hydro has recorded these amounts as principal adjustments in the DVA continuity schedule of this proceeding. As a result, Festival Hydro is requesting final disposition of its adjusted 2017 and 2018 balances.

Festival Hydro has further confirmed that the OEB's February 21, 2019 accounting guidance has been fully implemented effective from January 1, 2019.

Findings

The OEB approves the disposition of the December 31, 2018 Group 1 account balances of credit $600,643 on a final basis. This balance includes the impact of the 2017 and

[13] Electricity Reporting and Record Keeping Requirements, Version dated May 3, 2016.
[14] Report of the OEB – "Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)." EB-2008-0046, July 31, 2009.
[15] 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.
[16] Accounting Procedures Handbook Update – Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589, February 21, 2019.

2018 adjustments that resulted from implementing the OEB's February 21, 2019 guidance and interest projected to December 31, 2019.

The OEB is approving disposition of the December 31, 2018 Group 1 accounts on a final basis because Festival Hydro has confirmed that it has fully implemented the OEB's February 21, 2019 accounting guidance effective from January 1, 2019. In addition, the OEB is satisfied that Festival Hydro has undertaken the necessary analysis to quantify the impact of the OEB's new accounting guidance on the historical 2017 and 2018 balances.

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	16,415	1,236	17,651
Smart Meter Entity Variance Charge	1551	(26,705)	(378)	(27,083)
RSVA - Wholesale Market Service Charge	1580	(101,170)	2,659	(98,511)
RSVA - Retail Transmission Network Charge	1584	(12,845)	1,264	(11,581)
RSVA - Retail Transmission Connection Charge	1586	134,542	1,459	136,002
RSVA - Power	1588	(325,675)	(12,930)	(338,605)
RSVA - Global Adjustment	1589	(180,157)	6,406	(173,751)
Disposition and Recovery of Regulatory Balances (2017)	1595	(80,472)	(24,293)	(104,765)
Totals for all Group 1 accounts		(576,067)	(24,576)	(600,643)

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. Festival Hydro shall ensure these adjustments are included in the reporting period ending March 31, 2020 (Quarter 1).

The OEB approves these balances to be disposed through final rate riders and payments as calculated in the Rate Generator Model. The final rate riders and payments will be in effect over a one-year period from January 1, 2020 to December 31, 2020.[18]

7 LOST REVENUE ADJUSTMENT MECHANISM VARIANCE ACCOUNT BALANCE

In recent years, distributors have delivered conservation and demand management (CDM) programs to their customers through the Conservation First Framework (CFF), which began on January 1, 2015. These programs result in reduced total energy consumption. To address the impact of the reduced consumption, the OEB established a Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) to capture a distributor's revenue implications resulting from differences between actual savings and forecast conservation savings included in the last OEB-approved load forecast.[19] These differences are recorded by distributors at the rate class level.

On March 20, 2019, the CFF was revoked.[20] However, the OEB indicated that electricity distributors will continue to have access to a lost revenue adjustment mechanism for conservation program activities undertaken under the CFF.[21]

[17] Accounting Procedures Handbook for Electricity Distributors, effective January 1, 2012.
[18] 2020 IRM Rate Generator Model Tab 6.1 GA, Tab 6.1a GA Allocation and Tab 7 Calculation of Def-Var RR.
[19] Guidelines for Electricity Distributor Conservation and Demand Management, EB-2012-0003, April 26, 2012; and Requirement Guidelines for Electricity Distributors Conservation and Demand Management, EB-2014-0278, December 19, 2014.
[20] On March 20, 2019 the Minister of Energy, Northern Development and Mines issued separate Directives to the OEB and the IESO.
[21] Ontario Energy Board letter dated June 20, 2019.

A distributor may apply for the disposition of the balance in the LRAMVA on an annual basis, as part of its IRM application, if the balance is deemed significant by the distributor.

Festival Hydro has applied to dispose its LRAMVA debit balance of $243,032 as revised throughout the course of this proceeding. The balance consists of lost revenues in 2018 from CDM programs delivered during the period from 2013 to 2018 and carrying charges. The actual conservation savings claimed by Festival Hydro were determined by the IESO.[22] For CDM programs delivered prior to 2018, the IESO provided LDCs with a Final Results Report that summarized all annual CDM results. For CDM programs delivered in 2018, the IESO made monthly Participation and Cost Reports and detailed project level data available to support LRAMVA applications. Actual conservation savings were compared against Festival Hydro's forecasted conservation savings of 4,320,150 kWh included in the load forecast, which was set out in Festival Hydro's 2015 cost of service proceeding.[23]

Findings

The OEB finds that Festival Hydro's revised LRAMVA balance has been calculated in accordance with the OEB's CDM-related guidelines and updated LRAMVA policy. The OEB approves the disposition of Festival Hydro's LRAMVA debit balance of $243,032, as set out in Table 7.1 below.

Table 7.1 LRAMVA Balance for Disposition

Account Name	Account Number	Actual CDM Savings ($) A	Forecasted CDM Savings ($) B	Carrying Charges ($) C	Total Claim ($) D=(A-B)+C
LRAMVA	1568	$269,355	$32,525	$6,202	$243,032

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 Festival Hydro's last cost of service decision, and to ensure that the 2019 OEB-approved Tariff of Rates and Charges, as well as the cost, revenue and consumption results from 2018,

[22] For CDM programs delivered from 2015 to 2017, the IESO provided distributors with a Final Results Report that summarized all savings results. For 2018, distributors accessed the Participant and Cost Reports and detailed project level data from the IESO to support LRAMVA applications.
[23] EB-2014-0073, Decision, April 30, 2015.

are as reported by Festival 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.[24]

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.[25]

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. The Tariff of Rates and Charges set out in Schedule A of this Decision and Rate Order is approved effective January 1, 2020 for electricity consumed or estimated to have been consumed on and after such date. Festival Hydro Inc. shall notify its customers of the rate changes no later than the delivery of the first bill reflecting the new final rates.

[24] EB-2018-0294, Decision and Order, December 20, 2018.
[25] EB-2017-0290, Decision and Order, March 1, 2018.

DATED at Toronto, [Date]

ONTARIO ENERGY BOARD

Christine E. Long
Registrar and Board Secretary

Schedule A

To Decision and Rate Order

Tariff of Rates and Charges

OEB File No: EB-2019-0035

DATED: [Date]