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

DECISION AND RATE ORDER

EB-2020-0014

E.L.K. ENERGY INC.

Application for rates and other charges to be effective May 1, 2021

By Delegation, Before: Theodore Antonopoulos

[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 E.L.K. Energy Inc. (E.L.K. Energy) for new rates effective May 1, 2021.

E.L.K. Energy serves approximately 11,800 mostly residential and commercial electricity customers in the Towns of Essex, Lakeshore and Kingsville. 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.

E.L.K. Energy's application is based on the Annual IR Index option to set rates for 2021. The Annual IR Index is based on inflation less the OEB's highest stretch factor assessment of a distributor's efficiency. In accordance with the OEB-approved 2021 parameters for an Annual IR Index adjustment, E.L.K. Energy applied for an increase of 1.60% to distribution rates.

As a result of this Decision, there will be a monthly total bill increase of $0.19 for a residential customer consuming 750 kWh, effective May 1, 2021. The increase does not factor in applicable taxes or the Ontario Electricity Rebate.[1]

[1] O.Reg 363/16. S. 3, effective November 1, 2019

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 the Annual IR Index option. In each adjustment year of an Annual IR Index term, the OEB prepares a Rate Generator Model that includes, as a placeholder, information from the distributor's past proceedings and annual reporting requirements.[2] A distributor will then review and complete the Rate Generator Model, and include it with its application.

E.L.K. Energy filed its application on November 2, 2020 under section 78 of the OEB Act and in accordance with the OEB's *Filing Requirements for Electricity Distribution Rate Applications, Chapter 3 - Incentive Rate-Setting Applications* (Filing Requirements).

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.

[2] 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.

3 ORGANIZATION OF THE DECISION

In this Decision, the OEB addresses the following issues, and provides reasons for approving or denying E.L.K. Energy's proposals relating to each of them:

- Annual IR Index Adjustment
- Shared Tax Adjustments
- Retail Transmission Service Rates
- Group 1 Deferral and Variance Accounts

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

[3] Certain Service Charges are subject to annual inflationary adjustments to be determined by the OEB through a generic order. The Decision and Order EB-2020-0285, issued December 3, 2020 established the adjustment for energy retailer service charges, effective January 1, 2021. The Order EB-2020-0288, issued December 10, 2020, set the Wireline Pole Attachment Charge for January 1, 2021 on an interim basis.

4 ANNUAL IR INDEX ADJUSTMENT

E.L.K. Energy seeks to change its rates, effective May 1, 2021, based on a mechanistic rate adjustment using the OEB-approved ***inflation minus X-factor*** formula applicable to Annual Index IR applications.

The components of the Annual IR Index adjustment formula applicable to E.L.K. Energy are set out in Table 4.1, below. Inserting these components into the formula results in a 1.60% increase to E.L.K. Energy's rates: **1.60% = 2.20% *- (0.00% + 0.60%)***.

Table 4.1: Annual IR Index Adjustment Formula

Components		Amount
Inflation Factor[4]		2.20%
X-Factor	Productivity[5]	0.00%
	Stretch (0.00% to 0.60%)[6]	0.60%

A maximum inflation factor of 2.20% applies to all Annual IR Index applications for the 2021 rate year, provided that a utility does not elect a lower inflation factor to be used.

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 2021 rate year.

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

[4] For the 2021 Inflation Factor, see Ontario Energy Board 2021 Electricity Distribution Rate applications webpage – November 9, 2020.

[5] 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

[6] The stretch factor groupings are based on the Report to the Ontario Energy Board – "Empirical Research in Support of Incentive Rate-Setting: 2019 Benchmarking Update", prepared by Pacific Economics Group LLC., August 2020

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. For Annual IR Index applications, the OEB applies a default stretch factor of 0.60%.

In light of the continued uncertainty regarding the severity and duration of the COVID-19 emergency, and its impact on electricity utilities and customers alike, for 2021 rate adjustment applications, the OEB allowed utilities the discretion of applying either the calculated inflation factor in accordance with the OEB-approved methodology or a lower value. Utilities were also given the discretion to forego the inflationary increase entirely.[7]

The OEB required all utilities that filed (or were planning to file) 2021 rate adjustment applications to file a letter on the record of their rates proceedings, indicating the inflation factor that the utility has elected.

On February 18, 2021, E.L.K. Energy advised the OEB that it is electing an inflation factor of 2.20% for 2021 rates, resulting in a rate adjustment of 1.60%.[8]

Findings

The OEB finds that E.L.K. Energy's request for a 1.60% rate adjustment is in accordance with the annually updated parameters set by the OEB, as well as the process established for the implementation of the 2021 inflation factor. The adjustment is approved, and E.L.K. Energy's new rates shall be effective May 1, 2021.

The adjustment applies to distribution rates (fixed and variable) uniformly across all customer classes.[9]

[7] OEB Letter, 2021 Inflation Parameters, issued November 9, 2020
[8] EB-2020-0014, Email Correspondence, re: E.L.K Energy's 2021 Inflation Factor, February 18, 2021
[9] 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 and microFIT charge.

5 SHARED TAX ADJUSTMENTS

In any adjustment year of an Annual IR Index, a change in legislation may result in a change to the amount of taxes payable by a distributor. With regard to IRM applications, the OEB has long held that the impact of such legislated tax changes be shared 50/50 between shareholders and ratepayers. 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 the distributor's last cost of service proceeding.

On July 25, 2019, the OEB issued a letter[10] providing accounting guidance with respect to recent changes in capital cost allowance (CCA) rules. The guidance provides that impacts from changes in CCA rules will not be assessed in IRM applications and that any request for disposition of amounts related to CCA changes is to be deferred to the distributor's next cost-base rate application. A distributor's request for disposition of shared tax adjustment amounts in an IRM application should, therefore, be comprised only of impacts for tax changes unrelated to CCA (such as changes in corporate income tax rates).

The application identifies a total tax increase of $22,445, resulting in a shared debit amount of $11,223 to be collected from ratepayers.

This allocated tax sharing amount does not produce a rate rider to the fourth decimal place, in one or more rate classes. In such situations, where the Rate Generator Model does not compute rate riders, distributors typically are required to transfer the entire OEB-approved tax sharing amount into the Disposition and Recovery of Regulatory Balances Control Account (Account 1595) for disposition at a later date.

Findings

The OEB approves the tax charge of $11,223.

The allocated tax sharing amount does not produce a rate rider in one or more rate classes. The OEB, therefore, directs E.L.K. Energy to record the OEB-approved tax sharing debit amount of $11,223 into Account 1595.

[10] OEB Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance, July 25, 2019.

6 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 is OEB-approved.

E.L.K. Energy is fully 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 6.1.

Table 6.1: Hydro One Networks Inc. Sub-Transmission Host-RTSRs[11]

Sub-Transmission Host RTSRs (2021)	per kW
Network Service Rate	$3.4778
Connection Service Rates	
Line Connection Service Rate	$0.8128
Transformation Connection Service Rate	$2.0458

Findings

E.L.K. Energy's proposed adjustment to its RTSRs is approved. The OEB notes that Hydro One Network Inc.'s 2021 host-RTSRs were incorporated into the rate model to adjust the RTSRs that E.L.K. Energy will charge its customers.

[11] EB-2020-0030, Decision and Order, December 17, 2020

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.[12] 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.[13] If the balance does not exceed the threshold, a distributor may elect to request disposition.

The 2019 actual year-end total balance for E.L.K. Energy's Group 1 accounts including interest projected to April 30, 2021 is a debit of $338,797. This amount represents a total debit claim of $0.0014 per kWh, which exceeds the disposition threshold. E.L.K. Energy has requested disposition of this debit amount over a one-year period.

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).[14]

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

[12] 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.
[13] Report of the OEB – "Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)." EB-2008-0046, July 31, 2009.
[14] 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.

difference between the billed amounts and actual costs for these customers in the GA Variance Account for disposal, once audited.

In E.L.K. Energy's 2017 rate proceeding, the OEB accepted a settlement proposal[15] between participating parties, which formed a part of the OEB's Decision and Rate Order.[16] Among other things, the settlement provided that Group 1 accounts would be disposed as at December 31, 2015, with the exception of Accounts 1588 and 1589. Accounts 1588 and 1589 were to be included as part of a regulatory audit to be completed before E.L.K. Energy files its next cost of service rebasing application for 2022 rates.[17] Since the regulatory audit has not been completed, E.L.K. Energy is not requesting to dispose of these accounts in this proceeding. E.L.K. Energy expects the audit be completed by the end of the first quarter of 2021.[18]

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, in a credit amount of $9,768, relating to the IESO's wholesale energy market for the CBR program. E.L.K. Energy had Class A customers during the period from January 2019 to December 2019 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 GA) include the following flow-through variance accounts: Low Voltage Charges, Smart Meter Entity Charges, Wholesale Market Service Charges and Retail Transmission Service Charges. These Group 1 accounts have a total debit balance of $338,797, 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] E.L.K. Energy further submits that its proposal for a one-year disposition period is in accordance with the OEB's policy.[20]

[15] EB-2016-0066, Settlement Proposal, November 2, 2017.
[16] Decision and Rate Order, EB-2016-0066, November 2, 2017.
[17] Ibid.
[18] Staff Question-3
[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.

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.[21] The OEB issued accounting guidance[22] 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 rate application, E.L.K. Energy received approval to dispose of its 2017 Group 1 balances on an interim basis, excluding Accounts 1588 and 1589. In its 2020 rate application, E.L.K. Energy received approval to dispose of its 2018 Group 1 balances on an interim basis, excluding Accounts 1588, 1589 and 1595. E.L.K. Energy has not requested that the OEB approve on a final basis its Group 1 balances previously approved on an interim basis. Furthermore, as the audit of Accounts 1588 and 1589 has not yet been completed, E.L.K. Energy has requested not to dispose of the Account 1588 and 1589 balances accumulated from the period January 1, 2015 to December 31, 2019.

Findings

The OEB approves the disposition of a debit balance of $338,797 as of December 31, 2019, including interest projected to April 30, 2021, for Group 1 accounts, excluding accounts 1588, 1589 and 1595, on an interim basis. The OEB expects E.L.K. Energy to bring forth the results of the audit of Accounts 1588 and 1589 for the OEB's consideration in its upcoming cost of service application for 2022 rates.

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

[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.
[22] Accounting Procedures Handbook Update – Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589, February 21, 2019.

Table 7.1: 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	411,230	8,587	419,817
Smart Meter Entity Variance Charge	1551	3,466	170	3,636
RSVA - Wholesale Market Service Charge	1580	(84,371)	(4,611)	(88,983)
Variance WMS - Sub-account CBR Class B	1580	(10,048)	280	(9,768)
RSVA - Retail Transmission Network Charge	1584	(100,247)	1,305	(98,942)
RSVA - Retail Transmission Connection Charge	1586	108,796	4,241	113,037
Totals for all Group 1 accounts		**328,826**	**9,971**	**338,797**

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.*[23] 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.

The OEB approves these balances to be disposed through interim rate riders as calculated in the Rate Generator Model. The interim rate riders will be in effect over a one-year period from May 1, 2021 to April 30, 2022.[24]

[23] Accounting Procedures Handbook for Electricity Distributors, effective January 1, 2012.
[24] 2021 IRM Rate Generator Model Tab 6.1 GA, Tab 6.1a GA Allocation, Tab 6.2 CBR B, Tab 6.2a CBR B_Allocation and Tab 7 Calculation of Def-Var RR.

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 E.L.K. Energy's last cost of service decision and to ensure that the 2020 OEB-approved Tariff of Rates and Charges, as well as the cost, revenue and consumption results from 2019, are as reported by E.L.K. Energy 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 10, 2020.[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]

In the *Report of the Board: Review of Electricity Distribution Cost Allocation Policy*,[27] the OEB indicated that it will review the default province-wide microFIT charge annually to ensure it continues to reflect actual costs in accordance with the established methodology. On February 25, 2021 the OEB announced that the microFIT charge for the 2021 rate year will remain at $4.55 per month.[28]

[25] EB-2020-0276, Decision and Order, December 10, 2020
[26] EB-2017-0290, Decision and Order, March 1, 2018
[27] EB-2010-0219, Report of the Board "Review of Electricity Distribution Cost Allocation Policy", March 31, 2011
[28] OEB letter: Review of Fixed Monthly Charge for microFIT Generator Service Classification, issued February 25, 2021

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, 2021 for electricity consumed or estimated to have been consumed on and after such date. E.L.K. Energy 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, Month Day, 2021

ONTARIO ENERGY BOARD

Christine E. Long
Registrar

Schedule A

To Decision and Rate Order

Tariff of Rates and Charges

OEB File No: EB-2020-0014

DATED: [Date]