



EB-2013-0141

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Hydro One
Networks Inc. for an order approving just and reasonable
rates and other charges for electricity distribution to be
effective January 1, 2014.

BEFORE: Ken Quesnelle
Presiding Member

Marika Hare
Member

Allison Duff
Member

FINAL DECISION and ORDER
December 5, 2013

Hydro One Networks Inc. (“Hydro One”) filed an application with the Ontario Energy Board (the “Board”) on April 26, 2013 under section 78 of the Act, seeking approval for changes to the rates that Hydro One charges for electricity distribution, effective January 1, 2014 (the “Application”). The Board assigned file number EB-2013-0141 to the Application and issued a Notice of Application on May 24, 2013.

The Application met the Board’s requirements as detailed in the *Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* (the “RRFE Report”) dated October 18, 2012 and the *Filing Requirements for Transmission and Distribution Applications* (the “Filing Requirements”) dated July 17, 2013.

The Vulnerable Energy Consumers Coalition (“VECC”), School Energy Coalition (“SEC”), Federation of Ontario Cottagers Association (“FOCA”), Energy Probe, Balsam Lake Coalition (“BLC”), Power Workers Union (“PWU”), Ontario Sustainable Energy Association (“OSEA”), Canadian Manufacturers and Exporters (“CME”), Union Gas Limited (“Union”), the Ontario Federation of Agriculture (“OFA”), and the Consumers Council of Canada (“CCC”) and Mr. Howard I. Blatt applied for and were granted intervenor status. All but BLC, Union and PWU were granted cost eligibility. Five Letters of Comment were received.

A settlement conference was held on September 4, 2013 on the issues related to a Smart Grid rate rider. The parties agreed to a settlement and Hydro One filed a Settlement Proposal on September 17, 2013.

On September 26, 2013 the Board issued a Partial Decision and Procedural Order No. 3, in which it accepted the Settlement Proposal and approved a rate rider to recover the costs of Hydro One’s Smart Grid program. The Partial Decision did not deal with the other aspects of the Application including the Incentive Rate Mechanism (IRM) adjustment, the Retail Transmission Service Rates and the Income Tax Sharing rate rider. Accordingly, the Board made provision for submissions on the other aspects of the Application.

Submissions were received from the Power Workers Union (PWU) and Board staff. The PWU supported the other aspects of Hydro One’s Application noting that the 2014 IRM calculation would be updated by the Board. Board staff submitted that it had no concerns regarding Hydro One’s 2014 IRM rate calculations (subject to updates), the updated Retail Transmission Service Rates (RTSR) or the calculation of the Shared Tax Savings.

While the Board has considered the entire record in this proceeding, it has made reference only to such evidence as is necessary to provide context to its findings. As the Smart Grid rate rider has already been approved, the following remaining issues are addressed in this Final Decision and Order:

- Price Cap Index Adjustment;
- Shared Tax Savings Adjustments; and
- Retail Transmission Service Rates.

Price Cap Index Adjustment

The Board issued its *Report on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors* (the "Price Cap IR Report") on November 21, 2013 which provides the 2014 rate adjustment parameters for distribution companies selecting either the Price Cap IR or Annual IR Index option.

Distribution rates under the Price Cap IR option are adjusted by an inflation factor, less a productivity factor and a stretch factor. The inflation factor for 2014 rates is 1.7%. Based on the total cost benchmarking model developed by Pacific Economics Group Research, LLC, the Board determined that the appropriate value for the productivity factor is zero percent. The Board also determined that the stretch factor can range from 0.0% to 0.6% for distributors selecting the Price Cap IR option, assigned based on a distributor's cost evaluation ranking. In the Price Cap IR Report, the Board assigned Hydro One a stretch factor of 0.6%.

As a result, the net price cap index adjustment for Hydro One is 1.1% (i.e. $1.7\% - (0\% + 0.6\%)$). The price cap index adjustment applies to distribution rates (fixed and variable charges) uniformly across all customer classes. The price cap index adjustment does not apply to the components of delivery rates set out in the list below.

- Rate Riders;
- Rate Adders;
- Low Voltage Service Charges;
- Retail Transmission Service Rates;
- Wholesale Market Service Rate;
- Rural or Remote Rate Protection Charge;
- Standard Supply Service – Administrative Charge;
- Transformation and Primary Metering Allowances;
- Loss Factors;
- Specific Service Charges;
- MicroFit Charge; and,
- Retail Service Charges.
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Rural or Remote Electricity Rate Protection Charge

As of the date of this Decision and Rate Order, the Board has not issued a decision on the Rural or Remote Electricity Rate Protection ("RRRP") charge for 2014. In the event

that a new charge is established for 2014, the RRRP rate order will supersede this Decision and Rate Order with respect to the RRRP charge.

Shared Tax Savings Adjustments

In its *Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors*, issued September 17, 2008, the Board determined that a 50/50 sharing of the impact of legislated tax changes between shareholders and ratepayers is appropriate.

The tax reduction will be allocated to customer rate classes on the basis of the last Board approved cost of service distribution revenue.

The Application identified a total tax savings of \$2,183,500 resulting in a shared amount of \$1,091,750 to be refunded to rate payers. The rider will also be designed to include 13% for an HST rebate shortfall on the 2013 Shared Tax Savings Rate Rider that is currently in effect. When the 2013 Shared Tax Savings Rate Rider was implemented it was deemed to be HST exempt although it should not have been. As a result, an amount of \$141,928 will be refunded to customers. Therefore, the rider for 2014 will include the 2014 Shared Tax Savings of \$1,091,750 and the HST rebate shortfall of \$141,928 for a total of \$1,233,678 to be refunded to customers.

The Board approves the disposition of the shared tax savings of \$1,233,678 based on a volumetric rate rider using annualized consumption for all customer classes over a one-year period (i.e. January 1, 2014 to December 31, 2014).

Retail Transmission Service Rates

Electricity distributors are charged for transmission costs at the wholesale level and then pass these charges on to their distribution customers through the Retail Transmission Service Rates ("RTSRs"). Variance accounts are used to capture differences in the rate that a distributor pays for wholesale transmission service compared to the retail rate that the distributor is authorized to charge when billing its customers (i.e. Accounts 1584 and 1586).

On June 22, 2012 the Board issued revision 3.0 of the *Guideline G-2008-0001 - Electricity Distribution Retail Transmission Service Rates* (the "RTSR Guideline") which outlines the information that the Board requires electricity distributors to file to adjust their RTSRs for 2014. The RTSR Guideline requires electricity distributors to adjust

their RTSRs based on a comparison of historical transmission costs adjusted for the new Uniform Transmission Rates (“UTR”) levels and the revenues generated under existing RTSRs. Similarly, embedded distributors must adjust their RTSRs to reflect any changes to the applicable Sub-Transmission RTSRs of their host distributor(s), e.g. Hydro One Networks Inc. The objective of resetting the rates is to minimize the prospective balances in Accounts 1584 and 1586.

Hydro One applied to adjust its Retail Transmission Service Rates (“RTSR”) to reflect the UTRs effective January 1, 2013, resulting from the Board’s EB-2012-0031 Rate Order issued December 20, 2012. These are shown in the following table:

2013 Uniform Transmission Rates	
Network Service Rate	\$3.63 per kW
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.75 per kW
Transformation Connection Service Rate	\$1.85 per kW

The Board finds that these 2013 UTRs are to be incorporated into the filing module to generate the 2014 RTSRs for Hydro One.

As of the date of this Decision and Rate Order, the Board has not issued its rate order for Hydro One Network Inc. Transmission which will adjust the UTRs effective January 1, 2014. The Board will therefore approve the RTSRs as partially adjusted in this Application. The differences arising from the new UTRs will be captured in Accounts 1584 and 1586 for future disposition.

IMPLEMENTATION

The Board made findings in its Partial Decision and this Final Decision and Order which will change the 2014 distribution rates from those proposed by Hydro One.

The Board expects Hydro One to file a draft Rate Order, including a proposed Tariff of Rates and Charges and all relevant calculations showing the impact of this Decision and Rate Order on Hydro One’s determination of the final rates. Supporting documentation shall include, but not be limited to, filing a completed version of the 2014 IRM Rate Generator model, and related documents showing how the RTSR, the Shared Tax Savings rate rider and the Smart Grid rate rider were established.

A Rate Order will be issued after the steps set out below are completed.

THE BOARD ORDERS THAT:

1. Hydro One shall file with the Board, and shall also forward to intervenors, a draft Rate Order that includes revised models in Microsoft Excel format and a proposed Tariff of Rates and Charges reflecting the Board's findings no later than 7 days from date of issuance of this Final Decision and Order.
2. Board staff and intervenors shall file any comments on the draft Rate Order including the revised models and proposed rates with the Board and forward to Hydro One within 7 days of the date of filing of the draft Rate Order.
3. Hydro One shall file with the Board and forward to intervenors responses to any comments on its draft Rate Order including the revised models and proposed rates within 4 days of the date of receipt of Board staff and/or intervenor comments.

All filings to the Board must quote file number **EB-2013-0141**, be made through the Board's web portal at, <https://www.pes.ontarioenergyboard.ca/eservice/> and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.ontarioenergyboard.ca. If the web portal is not available parties may email their document to BoardSec@ontarioenergyboard.ca. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 2 paper copies.

DATED at Toronto, December 5, 2013

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary