Ontario Energy Board

Commission de l'Énergie de l'Ontario

EB-2005-0528

IN THE MATTER OF the *Ontario Energy Board Act, 1998;*

AND IN THE MATTER OF an Application by Hydro One Networks Inc., for an Order or Orders approving or fixing just and reasonable rates for the distribution of electricity.

BEFORE: Pamela Nowina
Vice Chair and Presiding Member

Paul Vlahos
Board Member

DECISION WITH REASONS

April 17, 2006

The Proceeding

On November 15, 2005 Hydro One Networks Inc. (“Hydro One” or “the Company”) filed an Application with the Ontario Energy Board (the “Board”) under section 78 of the *Ontario Energy Board Act*, 1998 for approval of rates on an interim basis for distributed generator customers.

The Board issued a Notice of Application dated December 19, 2005 and this proceeding was designated as a written hearing.

In response to the Notice of Application, eight intervenors registered for this proceeding. These are as follows:

Association of Power Producers of Ontario (“APPrO”)
Canadian Manufacturers and Exporters (“CME”)
Energy Cost Management Inc. (“ECMI”)
Ontario Power Generation Inc. (“OPGI”)
Schools Energy Coalition (“SEC”)
Sky Generation
Union Gas Distribution Ltd.
Vulnerable Energy Consumers Coalition (“VECC”)

On January 13, 2006 the Board issued Procedural Order No. 1, allowing parties to file interrogatories and submissions. Only VECC and Board staff submitted interrogatories. A number of parties made submissions. These are referred to in this Decision to the extent necessary to provide context to the Board’s findings.

Background

Hydro One’s application was made on behalf of its Distribution business. Currently existing and new generators are billed as any other customer connected to the distribution system and are charged the appropriate monthly service charge regardless of volumetric use.

The Company proposed that the current distribution rates for eligible generator customers be amended to permit charging them on a volumetric basis only and proposed to create interim rate classes applicable to distributed generators with a three-phase connection to Hydro One's distribution system and with interval metering in place.

The Company also requested approval to establish a deferral account to track the estimated $160,000 annual reduction in distribution revenues due to the proposed elimination of the monthly service charge and the one-time set-up costs of $25,000.

The Company currently serves a total of 86 customers in these classes and these rates would be offered to such eligible customers in Hydro One's existing General Service three-phase (G3) and the Sub-transmission (T) classes of core customers and the General Service (GS) class of acquired customers.

The Company proposed no immediate changes in existing distribution rates for non-participating customers.

Hydro One's application is a request for establishing distinct rates for distributed (or merchant) generation. This request does not relate to Hydro One's request in its 2006 main rates case (RP-2005-0020/EB-2005-0378) where the Board approved a standby charge and an associated variance account. This latter charge applies to load displacement customers, not to distributed generators.

Board Findings

The Board agrees with the submissions of the various parties in this proceeding regarding the importance of the development of distributed generation and its benefits for electricity distribution in the Province. However, the Board finds that the proposal contained in this Application is unlikely to promote the development of this need. The Board does not approve the application for the reasons noted below.

The Board finds the arguments of VECC particularly compelling. VECC argued:

> "The extent to which temporary financial relief, for what is likely to be a short period, will affect the decision making process of potential distributed generators is questionable. Investment in distributed generation is a long-term investment and reducing rates in the short-term while there is still continuing uncertainty as to what

> rates generators will ultimately pay over the long-term is unlikely to have a significant impact on the development of new generation in the province."

According to Hydro One, the total annual savings anticipated for generators under the proposal are $160,000. The cost for Hydro One to implement the proposal is $25,000. The Board agrees with VECC that the savings to the generators are unlikely to be a critical investment criterion for most distributed generators, particularly when they cannot be assured that the savings will continue. It is the view of the Board that more concrete government mechanisms, such as the standard offer program which applies for certain sourced generation, are the appropriate methods to provide incentives to the industry.

VECC also argued that the proposal is inconsistent with the principle of cost-based rates.

> "Hydro One Networks proposal is inconsistent with the principle of cost-based rates. Hydro One Networks acknowledges that there is no cost-basis for waiving the current monthly service charge, but rather supports the proposed change on the basis of financial hardship for the customers concerned. VECC notes that there are other customer groups (including ratepayers whose interests VECC represents) equally facing "financial hardship" when it comes to electricity bills. It would be inappropriate for the OEB to depart from its traditional principles of cost-based rates in this particular instance but continue to strictly apply "cost-based principles" when determining the overall revenues to be recovered from other customer classes."

The Board agrees with VECC that it is important to maintain the principle of cost-based rates. SEC also did not support the Company's proposal stating that the Company provided no evidence of a financial barrier to distributed generators, nor any analysis to support the complete removal of the service charge. Hydro One had no evidence that distributed generators were paying more than their appropriate costs.

Hydro One, APPrO and Sky Energy argued that distributed generators may have a significantly different cost structure than other customers and also provide benefits to the system which should be taken into account. However, no evidence was presented to substantiate these submissions and the impact of these observations has yet to be established. The Board notes that an analysis of the benefits may indicate that the benefits flow to all Ontario electricity customers, not just the distribution customers of Hydro One.

In a case of alleged hardship to distributed generators (and the Board had no evidence of this for distributed generators in general), the Board might be willing to establish an interim rate until the facts could be established. In this case, although Hydro One has stated that it is requesting an interim rate, it also has made clear that the rate would not be retroactively adjusted after the final rate has been established. In fact, Hydro One states that it does not have the technological capability to do this. Therefore, an interim finding in this case does not give the Board and other parties the assurance that would normally come from interim rates that inequities could be remedied. (As an aside, this lack of capability is of concern to the Board, as the use of interim rates is an effective regulatory tool which is often used. The Board anticipates that Hydro One will correct its technical limitations in this regard.)

Although the Board believes there is merit in considering the Company's proposal for a volumetric only rate for distributed generator customers, it cannot be considered in the absence of supporting detailed cost and benefit information. The Board believes that the cost allocation process currently underway with the Board and industry stakeholders is the appropriate process for determining the underlying costs for distributed generators. The Board therefore directs the Company as part of its upcoming cost allocation review filing to properly identify the costs for serving the proposed new rate classification(s). Following this, the Board will expect the Company to come forward with an updated rate design proposal for distributed generators that also considers the benefits that these customers provide.

The Board awards intervenors eligible for costs awards, 100% of their reasonably incurred costs to be paid by Hydro One. The Board will allow parties in this case to settle on costs without the Board's involvement. Should this not prove successful, intervenors or Hydro One may approach the Board seeking resolution for any disputed amount.

DATED at Toronto, April 17, 2006

ONTARIO ENERGY BOARD

Original signed by

Pamela Nowina
Presiding Member and Vice Chair

Original signed by

Paul Vlahos
Board Member