

# CHAPTER 1

## INTRODUCTION

### 1.1 INTRODUCTION

The Ontario Energy Board (“Board”) is responsible for the rate regulation of all electricity distribution utilities (“utilities”) in Ontario under the *Ontario Energy Board Act, 1998* (“Act”). Section 78(2) of the Act states that:

No distributor shall distribute electricity or meet its obligations under section 29 of the *Electricity Act, 1998* except in accordance with an order of the Board.

The Electricity Distribution Rate Handbook (“Rate Handbook” or “Handbook”) describes the regulatory framework that the Board will use to administer electricity distribution rates in the Province. The Rate Handbook outlines the performance-based regulation (“PBR”) framework and contains the rate principles, policies, and procedures to be used for establishing initial unbundled distribution rates and subsequently for adjusting rates in year 2 and 3 of the PBR plan.

The policies and guidelines contained in the Rate Handbook were adopted by the Board in its Decision RP-1999-0034 (PBR), Decision RP-1999-0040 Standard Supply Service (“SSS”), and Decision RP-2000-0069 (Minister’s Directive), or have been authorized by the Board in its approval of this Rate Handbook.

### 1.2 PURPOSE

There are several purposes that the Rate Handbook seeks to meet.

Chapters 2 through 7 of the Handbook provide the guidelines for filing for initial rates and rate adjustments under PBR approved by the Board in its Decision with Reasons RP-1999-0034 and RP-2000-0069. In Decision RP-1999-0034, the Board reaffirmed its policy to move to a PBR regime and accepted that current rates are a reasonable base for unbundling the distribution component from the cost of power (“COP”) and in establishing the initial rates on which PBR will apply in the future. In Decision RP-2000-0069, the

Board adopted an even phase-in approach over three years to incorporating the additional revenue requirement associated with market returns into rates. In addition, the Board rejected the concept of deferred returns and earnings sharing during the first generation PBR.

The guidelines in Chapters 2 through 7 are the foundation for first generation PBR and are effective for rate adjustments in 2000-2003 inclusive. Chapters 4 and 6 provide detailed sample calculations on initial rates and rate adjustments for first generation PBR. Any second generation PBR may entail substantial review and revision by the Board. It is expected that revisions to the Handbook will be implemented in 2003 to facilitate the implementation of 2<sup>nd</sup> generation PBR. In order to revise the Rate Handbook, the Board will initiate an interim review of the PBR mechanism beginning in 2002.

Chapter 9 of the Rate Handbook contains successor requirements to Ontario Hydro's Standard Application of Rates ("SAR"), under which the previous regulator set out specific rules for the administration of rates and charges<sup>1</sup>. Chapter 10 contains the guidelines required for the filing of rates and rate changes for the SSS that must be offered by a utility. Chapter 11 contains the rate implementation of both the Retail Settlement Code ("RSC") and the Distribution System Code ("DSC").

The Rate Handbook contains a number of appendices. The appendices provide documentation to assist an electricity distribution utility in its filing of the appropriate information for the purpose of rate setting.

The Rate Handbook will be updated and amended as required. The Board will issue the appropriate Handbook page revisions, additions or replacement as they become available. The utility is responsible for maintaining a complete up-to-date copy of the Rate Handbook.

### **1.3           CONDITION OF LICENCE**

Compliance with the Rate Handbook is a condition of licence for all electricity distribution utilities in Ontario.

### **1.4           COST ALLOCATION STUDIES**

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<sup>1</sup>A number of items formerly found in the SAR have been superseded by aspects of the Retail Settlement Code and the Distribution System Code.

Cost allocation factors have not been revisited since the 1980's. Prior to the implementation of 2<sup>nd</sup> generation PBR the Board will require utilities to develop cost allocation studies that reflect: (1) the new structure of the industry, (2) current load profiles of the various rate groups and (3) a review of the method of allocating distribution cost to rate classes<sup>2</sup>. The Board strongly encourages utilities to jointly sponsor these studies, achieving economies where possible through joint development of load data.

## **1.5 REGULATORY PROCESS**

Currently the electricity distribution utilities have Transitional Rate Orders that stay in effect for a period of up to two years or until a new rate order is issued. The Transitional Rate Orders were issued pursuant to section 129 of the Act. Section 129(7) states that such orders are deemed to be an application for a utility's rate order under section 78 of the Act.

The electricity distribution utilities must have Board-approved unbundled rates in effect by the electricity market opening. In order to establish new rates and adjust these rates, there are certain regulatory processes, filing requirements, and obligations of utilities that must be followed. The main components of the regulatory regime for an electricity distribution utility to undertake are:

- Establish base unbundled rates that have separate distribution and commodity components. A procedure for accomplishing this is presented in Chapter 3 with a detailed calculation process in Chapter 4.
- File for these unbundled rates with the Board by November 30, 2000. If a utility has filed for unbundled rates under the previous deadline (May 1, 2000), the utility must re-file using the phase-in approach for market returns as adopted by the Board in Decision RP-2000-0069. The filing requires discrete information from all utilities that were in existence in 1999 (e.g. recently amalgamated, merged or acquired utilities must submit discrete RUD model and information for each utility in existence in 1999).
- File for approval of an SSS offering in accordance with the implementation guidelines in Chapter 10.

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<sup>2</sup>Currently, utilities have both rate classes and groups within these rate classes (eg. intermediate use within the general service rate class). A rate class is a class derived from a cost allocation study. A rate group is an arbitrary sub-set of the rate class.

- Provide filings in accordance with the RSC and the DSC.
- Institute customer service quality and service reliability monitoring procedures in accordance with the service quality standards described in Chapter 7.
- File annual data in accordance with the filing requirements indicated in Chapter 12 with detailed account information provided in Appendix A.
- File an application for any change or amendment to any distribution rate to be charged to a customer. This includes any change to the rates for customers acquired through a merger, acquisition or amalgamation of another electricity distribution utility's service territory.

### **1.5.1 Notice of Application**

Section 78(2) of the Act provides that the Board must make an order approving any rate or charge of an electricity distribution utility. In making an order, the Board is governed by other provisions of the Act and by the *Statutory Powers Procedure Act*. Section 21(2) of the *Ontario Energy Board Act, 1998* states that the Board shall not make an order until it has held a hearing after giving notice. Sub-section 21(3) allows the Board to proceed by way of written hearing and sub-section 21(4) allows the Board to dispose of the proceeding without a hearing provided, among other reasons, that no person requests a hearing within a reasonable time set by the Board after the Board gives notice of the right to request a hearing.

In carrying out its statutory obligations the Board will require that the utility give a notice of its rate application. Direction for issuance of notice is found in Appendix B.

In applications where no one intervenes or requests a hearing, the Board will usually proceed without a hearing. In applications in which interventions or comments are received, the Board will usually proceed by way of written hearing. The Board will consider requests for an oral hearing and will make a determination based on individual circumstances.

If a utility has already filed for unbundled rates and has published its notice, the utility will not be required to provide additional notice unless, in the Board's view, re-notification is warranted. However, the utility must submit copies of its revised to the existing intervenors of record.

### **1.5.2 Establishing Initial PBR Rates and Plan Parameters**

Electricity distribution utilities should indicate their desired effective date for the new rate schedule in their applications. The Board will endeavor to approve initial rates as soon as practical after the utility has filed its application with the Board. The Board will provide direction on when rates are to take effect at the time of issuance of the rate order.

Utilities should also note that in accordance with section 3.2.12 of the Decision RP-1999-0034 initial rates may not incorporate any transition costs.

Payments in lieu of taxes (PILs) come into effect upon proclamation of Section 93 of the Electricity Act, 1998. Until a date for market opening is established, the Board will require utilities to file for pre-market opening rates only (i.e. rates exclusive of PILs).

Information regarding incorporation of PILs will be provided prior to market opening.

### **1.5.3 The Annual Rate Adjustment Process**

The rate adjustment will be according to the mechanism outlined in Chapter 5. The Input Price Index is an integral part of the rate adjustment process. The Board will publish its Input Price Index (“IPI”) by February 15 of 2002 and 2003. The utility will implement the resulting rate change on March 1 of 2002 and 2003. While a utility may choose not to implement an allowed rate increase, it must implement a rate reduction.