



RP-2005-0013
EB-2005-0023

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 **EnWin
Powerlines LTD.** for an order or orders approving or
fixing just and reasonable rates.

BEFORE: Gordon Kaiser
Vice Chair and Presiding Member

Paul Vlahos
Member

Pamela Nowina
Member

DECISION AND ORDER

Background and Application

In November 2003 the Ontario government announced that it would permit local distribution companies to apply to the Board for the next installment of their allowable return on equity beginning March 1, 2005. The Government also indicated that the Board's approval would be conditional on a financial commitment to reinvest in conservation and demand management initiatives, an amount equal to one year's incremental returns.

Also in November 2003, the Government announced, in conjunction with the introduction of Bill 4, the *Ontario Energy Board Amendment Act, (Electricity Pricing), 2003*, that electricity distributors could start recovering Regulatory Assets in their rates, beginning March 1, 2004, over a four year period.

In February and March, 2004, the Board approved the applications of distributors to recover 25% of their December 31, 2002 Regulatory Asset balances (or additional amounts for rate stability) in their distribution rates on an interim basis effective March 1, 2004 and implemented on April 1, 2004.

On December 20, 2004 the Board issued filing guidelines to all electricity distribution utilities for the April 1, 2005 distribution rate adjustments. The guidelines allowed the applicants to recover three types of costs. These costs concern (i) the rate recovery of the third tranche of the allowable return on equity (Market Adjusted Revenue Requirement or "MARR"), (ii) the 2005 proxy allowance for payments in lieu of taxes ("PILs") and (iii) a second installment of the recovery of Regulatory Assets.

A generic Notice of the proceeding was published on January 25, 2005 in major newspapers in the province, which provided a 14 day period for submissions from interested parties. On February 4, 2005, the Board issued Procedural Order No. 1, providing for an extension for submissions until February 16, 2005 and also providing for reply submissions from applicants and other parties.

The Applicant filed an application for adjustments to their rates for the following amounts:

MARR: \$ 2,253,649

2005 PILs Proxy: \$ 7,078,399

Regulatory Assets Second Tranche: \$ 4,177,701

The Applicant also applied for recovery of amounts and/or items outside of the guidelines. Specifically, the Applicant requested:

- recovery of the loss of revenue in the amount of \$107,449 associated with the loss of two large customers
- recovery of \$345,127 in incremental OPEBs - other post employment benefits
- recovery of \$240,447 relating to forgone revenues associated with the reduction of the late payment charge from 2.0% to 1.5%
- PILs proxy that was generated outside the Board's guidelines
- rate adjustment to keep the Monthly Service Charge in each class constant.

Submissions

The Board received one submission which addressed the 2005 rate setting process in general. This submission was made by School Energy Coalition (SEC). SEC objected to the guideline which caused the recovery of the 2005 PILs proxy to be reflected only on the variable charge. SEC was also concerned that monthly service charges and overall distribution charges varied significantly between utilities across the province. SEC also raised concerns regarding the consistency of, and access to, information on the applications as filed by the utilities.

Reply submissions to SEC's general submissions were received from the Coalition of Large Distributors, the Electricity Distributors Association, Hydro One Networks, and the LDC Coalition (a group of 7 distributors). These parties generally argued against the recommendations put forward by SEC, by and large indicating that the Board's existing processes for 2006 and 2007 have been

planned to address these issues going forward and that these issues should not be added to the 2005 rates adjustment process.

SEC made specific submissions for this application:

- the adjustment for the change in the late payment charge should not be allowed because the utility has not provided any evidence
- the adjustment for loss of load should not be allowed because the Applicant, a) is not considering revenue increases associated with new customers and b) such adjustments will be considered in 2006
- an adjustment for the increase in OPEBs recovery for 2005 should not be allowed because, a) no evidence is provided to justify the increase, b) cost decreases have not been taken into account and c) this topic is scheduled for 2006
- the Applicant should be required to seek Phase 2 approval of its regulatory assets immediately because of the improper interim allocation of transition costs (\$13.1 million) and the material impact that any delay in re-allocation will have on schools.
- the rates for 2005 be set after the Phase 2 regulatory assets approval has been granted.

In reply, the Applicant submitted the following:

- a spreadsheet illustrating the calculation of \$240,447 in forgone revenue due to the reduction in the late payment charge
- in regards to the loss of load, the customers in the higher consumption/demand classes are not as easily replaced as customers in the other classes and that particularly in the case of the large user, the Applicant has lost that revenue for the foreseeable future

- a table prepared by the Applicant's actuarial consultants setting out its incremental benefit expenses of \$345,127 as at December 31, 2003
- the 2006 ratemaking process will not address the revenue that will be forgone now, if the Applicant is unable to increase its OPEBs recovery by \$345,127
- a request that the Applicant be afforded the same treatment in regards to regulatory assets recovery as all other distributors that do not have Phase 2 orders
- an assertion that distributors are within their rights to apply for distribution rate adjustments in addition to the 2005 MARR/PILs/regulatory assets adjustment and that it would not be reasonable to require distributors to make separate applications to the Board that can readily be accommodated in a single application
- there is no basis for a cost award in favour of SEC.

The full record of the proceeding is available for review at the Board's offices.

Board Findings

The Board first addresses the general submission of SEC. While SEC raises important issues regarding electricity distribution rates, the Board has put in place a process which will address most of the issues raised by SEC on a comprehensive basis with coordinated cost of service, cost allocation and cost of capital studies for all distributors in 2006, 2007 and 2008. The Board does agree that unless there are compelling reasons to diverge from the Board's original filing guidelines for the 2005 distribution rate adjustment process, distributors should follow the guidelines in their applications.

In regards to the specific submissions by SEC in this application, the out of scope items will be addressed below.

The Board denies SEC's request that the Applicant be required to undergo Phase 2 prudence review of its regulatory assets before its 2005 rates are set. The Board intends to review the regulatory asset balances of all remaining distributors who have not received their final Orders later this year at which time any improper interim allocations will be corrected. In addition, given the time required to complete such a proceeding, the request is not reasonable at this time.

At this time, the Board will approve only the portion of the application that conforms to the guidelines as the generic notice published informed customers and the public of only the changes contemplated in the guidelines. The Applicant may wish to apply for other specific changes to rates in a separate application.

Therefore, the Board denies the Applicant's request for recovery of \$107,449 associated with loss of load and \$345,127 in incremental OPEBs. In addition, the Board denies the Applicant's request for an adjustment to keep the Monthly Service Charge in each class constant. However, the Board will allow the additional revenue claimed in the amount of \$240,447 for the change in the late payment policy as this is consistent with the Board's September 1, 2004 letter directing the Applicant to make such an application in the next rate adjustment process or no later than March 1, 2005. The Board is satisfied that the evidence provided by the Applicant is consistent with Chapter 9 of the Board's Electricity Distribution Rate Handbook.

Since the amounts associated with the loss of load and incremental OPEBs were included in the application as rate adders, the amounts applied for in MARR and the second interim tranche of regulatory assets do not change. However, the Board has amended the PILs proxy to be consistent with the Board's guidelines.

As a result, the Board has made adjustments to the amounts applied for resulting in the following approved amounts:

MARR: \$ 2,253,649

2005 PILs Proxy: \$ 6,719,778

Regulatory Assets Second Tranche: \$ 4,177,701

Subject to these adjustments, the Board finds that the application conforms with earlier decisions of the Board (including approval for the Applicant's Conservation and Demand Management plan), directives and guidelines.

The Board will issue a separate decision on cost awards.

THE BOARD ORDERS THAT:

- 1) The rate schedule attached as Appendix "A" is approved effective March 1, 2005, to be implemented on April 1, 2005. All other rates currently in effect that are not shown on the attached schedule remain in force. If the Applicant's billing system is not capable of prorating to accommodate the April 1, 2005 implementation date, the new rates shall be implemented with the first billing cycle for electricity consumed or estimated to have been consumed after April 1, 2005.
- 2) The Applicant shall notify its customers of the rate changes, no later than with the first bill reflecting the new rates and include the brochure provided by the Board.

DATED at Toronto, March 30, 2005

ONTARIO ENERGY BOARD

Peter H. O'Dell
Assistant Board Secretary

Appendix "A"

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March 30, 2005

ONTARIO ENERGY BOARD