



**RP-2005-0013**  
**EB-2005-0027**

**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  
**Festival Hydro Inc.** 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 on behalf of one harmonized (Stratford - Co Application) and two non-harmonized (Seaforth and Hensall) service areas, for adjustments to their rates for the following amounts:

**MARR:** \$ 661,623

**2005 PILs Proxy:** \$ 1,252,830

**Regulatory Assets Second Tranche:** \$ 66,828

The Applicant allocated the MARR and PILs to these service areas according to 1999 capital base shares as approved by the Board in past applications.

The Applicant also applied for recovery of amounts and use of allocation methodologies outside of the guidelines. Specifically, the Applicant requested:

- reallocation of small amounts of MARR between the service areas in order to create an acceptable rate increase for Hensall's residential rates (in order to eventually move towards harmonization) and for rate stability in the Seaforth service area.
- a change in the fixed/variable split for the Hensall residential class from 96%/4% to 100% on the fixed charged in order to keep the fixed charge consistent with current rates.
- allocation of the second interim tranche of regulatory asset recovery only to the Stratford - Co Application service area.
- an increase in the refund of RSVAs that the RAM model generated for Sheet 7 from \$87,096 to \$378,264 in order to reduce the current and prospective credits in accounts 1584 and 1586.
- allocation of the remainder of the RSVA refund above and beyond the \$87,096 by working backwards in the model to determine the amount of credit required by each class in order to reach the desired rates. The

resulting allocation shares closely resemble the 2003 distribution revenue shares. The extra RSVA refund was allocated only to the Stratford - Co Application.

- to forgo the amount of non-RSVA recovery of \$153,924 generated on Sheet 8 of the RAM.

Therefore, the allocated amounts applied for by the Applicant are as follows:

**Stratford:**

**MARR applied for:** \$ 646,273

**2005 PILs Proxy:** \$ 1,221,986

**Regulatory Assets Second Tranche:** -\$ 378,264

**Seaforth:**

**MARR applied for:** \$ 8,150

**2005 PILs Proxy:** \$ 24,557

**Regulatory Assets Second Tranche:** \$ 0

**Hensall:**

**MARR applied for:** \$ 7,200

**2005 PILs Proxy:** \$ 6,287

**Regulatory Assets Second Tranche:** \$ 0

## 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 regarding the alternative allocation methodology employed by the Applicant to allocate the extra RSVA refund.

Although SEC supported the rate stability approach proposed by the applicant, SEC requested that the Applicant not be allowed to allocate the extra refund on Sheet 7 by the proposed method because it results in 6% to 7% increase in the typical school's distribution portion of the bill than by using 2003 kWhs.

The Applicant did not submit a reply.

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 past applications, the Board has approved minor deviations from the guidelines for the Applicant. Although the Board appreciates the Applicant's objective of maintaining relatively stable distribution rates for its customers, the deviations from the guidelines in this application are excessive.

Therefore, 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.

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

**Festival Hydro (Total)****MARR:** \$ 661,623**2005 PILs Proxy:** \$ 1,252,830**Regulatory Assets Second Tranche:** \$ 66,828**Allocated amounts:****Stratford:****MARR :** \$ 645,334**2005 PILs Proxy:** \$ 1,221,986**Regulatory Assets Second Tranche:** \$ 65,184**Seaforth:****MARR:** \$ 12,969**2005 PILs Proxy:** \$ 24,557**Regulatory Assets Second Tranche:** \$ 1,310**Hensall:****MARR:** \$ 3,320**2005 PILs Proxy:** \$ 6,287**Regulatory Assets Second Tranche:** \$ 334

All three applications were amended to be consistent with the Board's guidelines. The MARR was re-allocated according to the Board approved method using the 1999 capital base shares. The fixed/variable split for the Hensall residential class was changed to the Board approved split. The regulatory assets recovery was allocated to all three service areas according to the 1999 capital base shares as approved in the 2004 rate adjustment process (RP-2004-0046/EB-2004-0032). The extra refund of RSVAs was removed and the recovery amounts of non-RSVAs were re-inserted.

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 schedules 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 schedules 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 29, 2005

ONTARIO ENERGY BOARD

*Original Signed By*

Peter H. O'Dell  
Assistant Board Secretary



Appendix "A"

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March 29, 2005

ONTARIO ENERGY BOARD