



RP-2005-0013
EB-2005-0098

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 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 proceedings 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.

On February 18, 2005, the Board issued its decision approving Hydro One's Conservation and Demand Management Plans (RP-2004-0203).

On March 14, 2005, the Board issued its rate order regarding Hydro One's application for final recovery of Regulatory Assets (RP-2004-0017, RP-2004-0018, EB-2004-0371).

The Applicant filed an application for adjustments to the rates for Hydro One Legacy customers (those customers in the service areas that Hydro One has provided distribution service to prior to and since market opening) as follows:

MARR:	\$ 31,400,000
2005 PILs Proxy:	\$ 16,900,000
Regulatory Assets Second Tranche:	\$ 38,571,000

This application relied on the previously approved but not implemented rates and the Board's decision on Hydro One's regulatory assets. In particular, on August 30, 2002, the Ontario Energy Board issued a rate order (RP-2000-0023) approving distribution rates for the Legacy customers. This order authorized rates to be implemented October 1, 2002 and rates to be implemented effective March 1, 2003. The March 1, 2003 rates were designed to permit Hydro One an opportunity to recover all its MARR, subject to a rate mitigation plan. These rates were not implemented due to Bill 210.

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, indicating that the Board's existing processes for 2006 and 2007 will address these issues going forward, and, that these issues should not be added to the 2005 rates adjustment process.

SEC also identified specific concerns regarding the rates proposed by Hydro One for its Legacy customers. SEC raised concerns with Hydro One's deviations from the Board's filing guidelines, Hydro One's proposal to change variable rates only, rather than variable and fixed rates and with Hydro One's level of disclosure.

Hydro One filed reply submissions and argued against SEC's positions. Hydro One considered that SEC's issues should not be added to the 2005 rates adjustment process. Hydro One reminded SEC and the Board that its filing is consistent with past Board decisions (RP-2000-0023, RP-2004-0117/0118) and that its deviations from the Board's filing guidelines, in this instance, and adjustments to variable rates exclusively are an effort to adhere to these past decisions. Hydro One disputed SEC's allegation concerning disclosure and referenced evidence from previous rates cases in support of this position.

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 capital studies for all distributors in 2006, 2007 and 2008. The Board is of the view that there are compelling reasons to diverge from the Board's original filing guidelines for the 2005 distribution rate adjustment process.

The Board finds that the methodology used by Hydro One to develop the proposed rates is properly based on past decisions of the Board. The objective in the 2005 rates adjustment process is to institute new rates through a mechanical process; other more generic issues are left to future Board processes. The Board finds that Hydro One's rate proposals for its Legacy customers are largely consistent with this objective. The Board also finds that there is an adequate level of disclosure, for example with respect to the development of demand rates. The Board is satisfied that Hydro One has acted on compelling reasons in deviating from the Board's filing guidelines and the Board's direction on adjusting fixed rates.

The Board notes that under Hydro One's proposed rates, few, if any, of its Legacy customers are anticipated to experience an excessive bill impact. As well, the Board is aware that Hydro One's rates are premised on a rate mitigation plan agreed to in the RP-2000-0023 proceeding. Therefore, the Board does not consider that further rate mitigation is required.

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 by including the brochure provided by the Board.

DATED at Toronto, March 15, 2005

ONTARIO ENERGY BOARD

Original signed by

John Zych
Board Secretary

Appendix "A"

RP-2005-0013
EB-2005-0098

March 15, 2005

ONTARIO ENERGY BOARD

Original signed by

John Zych
Board Secretary