



EB-2007-0882

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
Brampton Networks Inc. for an order or orders approving
or fixing just and reasonable distribution rates and other
charges, to be effective May 1, 2008.

BEFORE: Paul Vlahos
Presiding Member

Paul Sommerville
Member

DECISION

Introduction

Hydro One Brampton Networks Inc. (“Hydro One Brampton”) is a licensed distributor of electricity providing service to consumers within its licensed service area. Hydro One Brampton filed an application with the Ontario Energy Board (the “Board”) for an order or orders approving or fixing just and reasonable rates for the distribution of electricity and other charges, to be effective May 1, 2008.

Hydro One Brampton is one of over 80 electricity distributors in Ontario that are regulated by the Board. In 2006, the Board announced the establishment of a multi-year electricity distribution rate-setting plan for the years 2007-2010. As part of the plan, Hydro One Brampton is one of the electricity distributors to have its rates adjusted for 2008 on the basis of the 2nd Generation Incentive Rate Mechanism (“IRM”) process.

To streamline the process for the approval of distribution rates and charges for distributors, the Board issued its *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* (the "Report") on December 20, 2006. Among other things, the Report contained the relevant guidelines for 2008 rate adjustments (the "Guidelines") for distributors applying for rate adjustments pursuant to the IRM process.

Notice of Hydro One Brampton's rate application was given through newspaper publication in Hydro One Brampton's service area advising of the availability of the rate application and advising how interested parties may intervene in the proceeding or comment on the application. There were no intervention requests and no comments were received. The Board proceeded by way of a written hearing. Board staff participated actively in the proceeding.

While the Board has considered the entire record in this rate application, it has made reference only to such evidence as is necessary to provide context to its findings.

Price Cap Index Adjustment

Hydro One Brampton's rate application was filed on the basis of the Guidelines. In fixing new rates and charges for Hydro One Brampton, the Board has applied the policies described in the Report.

As outlined in the Report, distribution rates under the 2nd Generation IRM are to be adjusted by a price escalator less a productivity factor (X-factor) of 1.0%. Based on the final 2007 data published by Statistics Canada, the Board has established the price escalator to be 2.1%. The resulting price cap index adjustment is therefore 1.1%. The rate model was adjusted to reflect the newly calculated price cap adjustment. This price cap index adjustment applies to distribution rates (fixed and variable charges) uniformly across all customer classes. An adjustment for the transition to a common deemed capital structure of 60% debt and 40% equity was also effected. In addition, a change in the federal income tax rate effective January 1, 2008 was also incorporated into the rate model and reflected in distribution rates.

The Board also considered the reduction in Ontario capital tax and the increase in capital cost allowance (CCA) applicable to certain buildings and computers acquired after March 2007. The Board has decided that adjustments related to these items are

not required, either because the changes are not of general application, or because they do not appear to be material.

The price cap index adjustment does not apply to the following components of the rates:

- the specific service charges;
- the smart meter rate adder (an amount in the fixed components of the rates associated with smart meter cost recovery); and
- any continuing rate riders.

Accordingly, the Board is providing Hydro One Brampton with a rate model (spreadsheet) that reflects the price cap adjustments described above. Hydro One Brampton is required to review the rate model (spreadsheet) and to confirm its completeness and accuracy with the Board at the time it files its Draft Rate Order. Hydro One Brampton shall file with the Board a Draft Rate Order attaching the proposed Tariff of Rates and Charges which will reflect the Board's price cap adjustments as verified by Hydro One Brampton. Hydro One Brampton shall also provide the rate model (spreadsheet) that underpins the Tariff of Rates and Charges. Any changes to the Board's rate model (spreadsheet) shall be clearly identified and explained.

Rate Riders

When the Board approved new rates for distributors for 2006, it also approved the recovery of regulatory asset balances on a final basis. The Board approved rate riders to facilitate the recovery of the approved balances over the two remaining years of the four-year recovery period mandated by the Minister of Energy (i.e. May 1, 2004 to April 30, 2008). The rate rider(s) associated with the recovery of regulatory assets will cease on May 1, 2008 and shall be removed from the Tariff of Rates and Charges, unless a previous Board decision authorized the continuation of such riders beyond April 30, 2008. No such authorization has been previously provided by the Board for Hydro One Brampton. The final balance in account 1590 cannot be confirmed until after the current recovery period has expired, i.e. after April 30, 2008. Once the residual balance in deferral account 1590 is finalized, the residual balance will be disposed in a future proceeding.

Smart Meter Rate Adder

Background

Hydro One Brampton is one of the licensed distributors authorized by Ontario Regulation 427/06 to conduct discretionary smart metering activities. In its Decision with Reasons in the EB-2007-0063 combined proceeding (the "Combined Proceeding"), the Board reviewed and approved Hydro One Brampton's residential smart metering costs up to May 31, 2007.

As part of this application, Hydro One Brampton requested to true-up the approved revenue requirement (approved OM&A costs and the revenue requirement associated with the approved capital investment) resulting from the Combined Proceeding against amounts collected through the smart meter rate adders.

Rate Rider of -\$0.09

Hydro One Brampton requested a -\$0.09 per metered customer per month rate rider to true-up the 2006 and 2007 revenue requirement (i.e., cost of capital and depreciation) associated with the approved smart metering expenditures (EB-2007-0063) against amounts collected by its smart meter rate adder from May 2006 through April 2007. Also to be included as part of the true-up was the OM&A amount approved in EB-2007-0063. Board staff noted that the OM&A amount approved as part of the EB-2007-0063 was \$8,000, whereas Hydro One Brampton submitted in this application that this amount should be revised to \$24,000. The Board accepts the amount of \$8,000.

As implied by the negative rate rider, the monies collected through Hydro One Brampton's smart meter rate adder have been in excess of the revenue requirement on the approved smart metering expenditures and approved OM&A expenses. The Board notes that, while Hydro One Brampton will need additional funding to complete its smart meter implementation plan, the rate rider will clear the difference between the amounts previously approved by the Board and the monies collected through the smart meter rate adder from May 2006 through April 2007. The Board therefore approves the negative \$0.09 per metered customer per month rate rider to be effective from May 1, 2008, to April 30, 2009.

Permanent rate adder of \$0.12

Hydro One Brampton requested in this application the approval of a new rate adder of \$0.12 per metered customer per month. This rate adder would recover the 2008 revenue requirement associated with the Board approved costs for residential smart meter installations completed up to May 31, 2007 (EB-2007-0063 Decision with Reasons).

At the time of rebasing, the depreciated capital investment approved in the EB-2007-0063 proceeding will be incorporated in Hydro One Brampton's rate base and the revenue requirement associated with these investments will be recovered through Hydro One Brampton's distribution rates. The \$0.12 per metered customer per month rate adder serves to provide, on an interim basis, a return on the approved smart metering investments (i.e. cost of financing and depreciation) until they are incorporated into distribution rates. The Board therefore approves the \$0.12 per metered customer per month rate adder for residential smart meter installation up to May 31, 2007. The Board directs Hydro One Brampton to include the approved rate adder in the monthly delivery charge for metered customers.

Continuation of the \$0.67 Rate Adder

Hydro One Brampton requested the continuation of the smart meter rate adder of \$0.67 per metered customer per month previously approved by the Board in the Decision and Order in the EB-2007-0541 proceeding. The Board notes that the continuation of this rate adder would serve to provide funding for the continued implementation by Hydro One Brampton of its smart metering plan.

The Board notes that Hydro One Brampton's planned smart meter expenditures in 2008 will increase as it continues its smart meter implementation program. This increase results from the fact that as the total investment in smart meter increases, so does the associated depreciation costs and the base upon which a return on capital is calculated.

The Board finds that Hydro One Brampton's planned 2008 smart meter installations will help to meet the Government's goal of installing smart meters for all Ontario customers by December 31, 2010. The Board approves the continuation of Hydro One Brampton's smart meter rate adder of \$0.67 per metered customer per month. This funding relates strictly to smart metering investments that are within the minimum functionalities set out

in Ontario Regulation 425/06. The Board also wishes to emphasize that it is not approving, as part of this proceeding, any smart metering amounts. The \$0.67 per metered customer per month rate adder is not set to guarantee costs recovery, nor is it set at a level that is deemed to be prudent. By providing advance funding, the \$0.67 per metered customer per month rate adder will phase in the rate increase that could otherwise arise if the cost of the associated smart meters were brought into rate base all at once at the time of rebasing. Since a prudence review examining both substance and quantum will be conducted in due course, the Board notes that difference between the amounts recovered through this rate adder and the related revenue requirement should continue to be captured in a variance account.

Retail Transmission Service Rates

On October 17, 2007, the Board issued its EB-2007-0759 Rate Order setting new Uniform Transmission Rates for Ontario transmitters, effective November 1, 2007. The Board approved a decrease of 18% to the wholesale transmission network rate, a decrease of 28% to the wholesale transmission line connection rate, and an increase of 7% to the wholesale transformation connection rate. The combined change in the wholesale transmission line connection and transformation connection rates is a reduction to the connection rate of 5%.

On October 29, 2007, the Board issued a letter to all electricity distributors directing them to propose an adjustment to their retail transmission service (RTS) rates to reflect the new Uniform Transmission Rates for Ontario transmitters effective November 1, 2007. The objective of resetting the rates was to minimize the prospective balance in variance accounts 1584 and 1586 and also to mitigate intergenerational inequities.

Hydro One Brampton proposed to reduce its RTS – Network Service Rates by 18.4% and its RTS – Line and Transformation Connection Service Rates by 6.7% for all its rate classes. These adjustments are based on the corresponding reductions in wholesale transmission charges, adjusted for the fact that Hydro One Brampton owns one of the four transformer stations supplying it. The Board finds that this approach is reasonable and therefore approves these adjustments. Hydro One Brampton is required to include these changes in its rate model (spreadsheet) to be filed with the Board.

Implementation

Hydro One Brampton's new distribution rates are effective May 1, 2008. The Board directs that:

1. Hydro One Brampton shall file with the Board a Draft Rate Order attaching the proposed Tariff of Rates and Charges and the supporting rate model (spreadsheet) within seven (7) days of the date of this Decision. The proposed Tariff of Rates and Charges shall be filed in a Word format. The adjusted rate model shall be filed in an Excel format.

DATED at Toronto, March 19, 2008

Original signed by

Paul Vlahos
Presiding Member

Original signed by

Paul Sommerville
Member