



EB-2007-0864

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 Newbury
Power 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

Newbury Power Inc. is a licensed distributor of electricity providing service to consumers within its licensed service area. Newbury Power Inc. 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.

Newbury Power Inc. 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, Newbury Power Inc. 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 Newbury Power Inc.'s rate application was given through newspaper publication in Newbury Power Inc.'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

Newbury Power Inc.'s rate application was filed on the basis of the Guidelines. In fixing new rates and charges for Newbury Power Inc., 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 Newbury Power Inc. with a rate model (spreadsheet) that reflects the price cap adjustments described above. Newbury Power Inc. 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. Newbury Power Inc. 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 Newbury Power Inc. and any other Board findings contained in this decision that would impact 2008 rates. Newbury Power Inc. 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

In their 2006 EDR application (RP-2005-0020/EB-2005-0392) , Newbury Power Inc. proposed to dispose of their regulatory asset balances as of December 31, 2004 totalling \$111,361, and to recover \$22,171 of Low Voltage ("LV") Charges. In its Decision, the Board requested that Newbury Power Inc. file a rate mitigation plan since the total bill impact would have otherwise exceeded the 10% threshold established by the Board in that proceeding. Newbury Power Inc. proposed and received approval to defer the collection of the Regulatory Assets balances and LV Charges until a later date.

Newbury Power Inc. is now requesting approval for the recovery of the regulatory asset balance of \$111,361 as of December 31, 2004. Newbury Power Inc. proposes to dispose of this amount by means of a rate rider over a 5-year period.

Newbury Power Inc. is also requesting the recovery of \$22,171 of LV Charges that Hydro One Networks Inc. levied on Newbury Power Inc. for LV wheeling distribution services. Newbury Power Inc. proposes to recover this amount by means of a rate rider over a 1-year period.

Newbury Power Inc. stated that the 5-year recovery period for the regulatory asset balance would ensure that the impact on the total bill would be lower than the 10% threshold when considering both of these requests.

Since these proposals amount to implementing the effect of a previous Decision from the Board, and given that the total bill impact will be lower than the 10% threshold, the Board approves these requests.

Smart Meter Rate Adder

Newbury Power Inc. requested the continuation of the smart meter rate adder previously approved by the Board in order to provide funding for possible future implementation of smart meter costs and to minimize future rate impacts. The Board-approved rate adder for Newbury Power Inc. of \$0.25 per month per metered customer shall continue. Newbury Power Inc.'s variance accounts for smart meter program implementation costs, previously authorized by the Board, shall also be continued.

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.

Newbury Power Inc. did not file a proposal to adjust its RTS rates. Given the magnitude of the changes in wholesale transmission rates, the Board directs Newbury Power Inc. to reduce its RTS – Network Service Rates by 18% and its RTS – Line and Transformation connection Service Rates by 5% for all its rate classes. Newbury Power Inc. is required to include these changes in its rate model (spreadsheet) to be filed with the Board.

Implementation

Newbury Power Inc.'s new distribution rates are effective May 1, 2008. The Board directs that:

1. Newbury Power Inc. 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 25, 2008

Original signed by

Paul Vlahos
Presiding Member

Original signed by

Paul Sommerville
Member