



EB-2007-0850

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 PowerStream 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

PowerStream Inc. (“PowerStream”) is a licensed distributor of electricity providing service to consumers within its licensed service area. PowerStream 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.

PowerStream 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, PowerStream 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 PowerStream's rate application was given through newspaper publication in PowerStream'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 issued Procedural Order No.1 on December 19, 2007, in which the Board announced that it would proceed by way of a written hearing. Procedural Order No. 1 also established a schedule for the filing of and response to interrogatories, and the filing of and response to submissions. Board staff submitted interrogatories and a submission on the application.

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

PowerStream's rate application was filed on the basis of the Guidelines. In fixing new rates and charges for PowerStream, 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. 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 PowerStream with a rate model (spreadsheet) that reflects the price cap adjustments described above. PowerStream 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. PowerStream 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 PowerStream. PowerStream 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 PowerStream.

PowerStream requested the approval of a one-year Regulatory Asset Recovery rate rider to dispose of the balance in account 1590 as of April 30, 2008. In its submission, Board Staff noted that the usual practice for disposing of variance and deferral accounts in the electricity sector is to use the most up-to-date audited balances, as supported by audited financial statements, plus forecast carrying charges on those balances up to the start of the new rate year. The Board accepts Staff's observation and notes that the final balance 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. Therefore, the Board rejects this proposal.

PowerStream also proposed to dispose of the regulatory asset balances accumulated up to December 31, 2006, including interest up to April 30, 2008. The Board notes that on February 19, 2008, the Board announced an initiative for the review and disposition of commodity account 1588 (RSVA-Power). As part of this initiative, the Board will consider whether to extend this initiative to other accounts that are similar in nature, including RSVAs and RCVAs. The Board finds it more appropriate to defer this matter to this initiative. In addition, the Board finds that such a request goes beyond the spirit of a mechanistic price cap adjustment. The Board therefore denies the disposition of the regulatory asset balances accumulated up to December 31, 2006 (including interest up to April 30, 2008) in this proceeding.

PowerStream forecast that it will over-recover about \$4.1 million between November 1, 2007, and April 30, 2008, as a result of the lower wholesale transmission rates that became effective on November 1, 2007. PowerStream recovers its wholesale transmission costs through its retail transmission service rates which will not be adjusted until May 1, 2008, hence the forecast over-recovery. PowerStream proposed to return this amount as part of the requested one-year rate rider discussed above. As previously noted, the Board's usual practice in the electricity sector is to use the most up-to-date audited balances, as supported by audited financial statements. The Board finds it more appropriate to defer this matter to the Deferral Account Review Initiative. Therefore the Board will not approve the disposition of the forecast retail transmission service rates over-collection in this proceeding. .

Smart Meter Rate Adder

PowerStream is one of the licensed distributors authorized by Ontario Regulation 427/06 to conduct discretionary metering activities. In its EB-2007-0573 Decision and Order dated April 12, 2007, the Board approved PowerStream's request for a smart meter rate adder of \$0.73 per metered customer per month effective May 1, 2007. This rate adder was based on planned installations and operating expenses for 2007.

PowerStream is requesting that its smart meter rate adder be changed from \$0.73 to \$1.41 per metered customer per month effective May 1, 2008. The proposed \$1.41 per metered customer per month rate adder is based on a return on and of smart metering investments (i.e. return on capital and depreciation) for the 2007 installations and on the planned 2008 installations. This proposed rate adder also incorporates the associated incremental operating expenses for 2008, including an estimate of \$500,000 for the IESO meter data management/meter data repository (MDM/R) fees. The MDM/R fees have not yet been approved.

In its submission, Board staff noted, and PowerStream concurred, that any difference between this estimate and actual costs would be captured in the smart meter variance accounts. However, the Board notes that the determination of the MDM/R fees does not seem imminent. The Board therefore finds that the funding of these costs through the smart meter adder is premature and denies PowerStream's request to include the estimate of \$500,000 for the MDM/R fees.

In response to a Board staff interrogatory, PowerStream calculated that the exclusion of the estimated MDM/R fees would bring its requested smart meter rate adder down to \$1.21 per metered customer per month. The Board notes that PowerStream's planned smart meter expenditures in 2008 will increase as it continues its smart meter implementation program. This expenditure 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 PowerStream'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 also finds that the proposed adjustment is fair and appropriately reflects the expected increase in smart meter costs in 2008. The Board therefore approves that PowerStream's smart meter rate adder be changed to \$1.21 per metered customer per month effective May 1, 2008. 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 \$1.21 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 \$1.21 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 the 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 connection rate reduction 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.

PowerStream proposed to reduce its RTS – Network Service Rate by 17.8% and its RTS - Line and Transformation Connection Service Rate by 19.3% across all rate classes. These adjustments are based on a comparison of RTS revenue under existing rates and adjusted wholesale transmission costs. The Board finds that this approach is reasonable and therefore approves these adjustments. PowerStream is required to include this change in its rate model (spreadsheet) to be filed with the Board.

Implementation

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

1. PowerStream 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 17, 2008.

Original signed by

Paul Vlahos
Presiding Member

Original signed by

Paul Sommerville
Member