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July 5, 2005

To: All Electricity Distribution Utilities

Re: Retail Transmission Service Rate Adjustments

It has come to the Board's attention that for a number of electricity distributors, balances in the two Retail Settlement Variance Accounts (RSVAs) relating to Retail Transmission Service (RTS) rates indicate an ongoing over or under-recovery of transmission connection and network costs over the 2002-2004 period. These accumulations suggest that the RTS rates set by the Board in 2001 may require adjustment.

In light of this, the Board will require distributors with RTS rates that require adjustment to address this issue as part of the 2006 EDR rate application process.

Background

Retail Transmission Service (RTS) Rates were established by the Board in 2001. There are two RTS rates that are levied by the distributors to recover the cost of transmission services charged by Hydro One: RTS Connection and RTS Network. These rates are charged to all customer classes, based on kWh or kW consumption, depending on the appropriate class.

As the RTS rates were designed as cost recovery rates (as set out in Chapter 11 of the 2000 Electricity Distribution Rate Handbook), Retail Settlement Variance Accounts (RSVAs) were established to record the variance between transmission costs owed by the distributor and the transmission charges paid by consumers through the distributor's RTS rates. The two accounts are:

- RSV Account 1584 – records the variance for RTS Network rates.
- RSV Account 1586 – records the variance for RTS Connection rates.

The Board panel for the 2006 EDR Handbook process, in its Issues Day decision on November 3, 2004, stated: "The Board finds that adjustments to retail transmission rates should not be considered in this process. They should be considered as part of the cost allocation process." However, in the light of the information that the Board has now received concerning the accumulation of balances in the RSVA accounts, the Board now believes that it is appropriate for distributors to consider the necessity of an RTS rate adjustment as part of their 2006 EDR application. Minimizing the variances in the RSVA accounts reduces intergenerational inequities in distribution rates.

Methodology

The guidelines below outline a simple methodology for distributors to consider whether their RTS rates merit adjustment and the extent to which rates should change.

- a) A distributor should examine the balances in each of its two RTS-related RSVA accounts. If the balances show little variation over the course of a year, or show a pattern of oscillation between negative and positive values, no adjustment need be contemplated. If a consistent pattern of either over or under-recovery is occurring, the distributor should make application for an RTS rate adjustment.
- b) If this examination indicates that RTS rates should be adjusted, the distributor should determine the percentage difference between transmission costs and transmission revenues for each of the RTS rates in 2004. This percentage should then be applied to the RTS rates in question to reduce or increase the rates in each class to a more appropriate level.

The 2006 EDR spreadsheet model will calculate any necessary RTS rate adjustments at Sheet 8-6.

The Board is developing a separate process to clear the post-2004 balances that arise in the RSVA accounts.

Application Deadline

The deadline for applications regarding RTS rate adjustments will be the same deadline as the distributor's 2006 rate filing. A distributor must indicate in the Summary of the Application whether an RTS rate adjustment has been included in the application and must explain clearly why an adjustment is sought and how the adjustment has been made, or why an adjustment is not being sought.