



EB-2009-0193

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 Enersource
Hydro Mississauga Inc. for an order or orders approving or
fixing just and reasonable distribution rates and other
charges, to be effective January 1, 2010.

BEFORE: Paul Vlahos
Presiding Member

DECISION

Introduction

Enersource Hydro Mississauga Inc. (“Enersource”) is a licensed distributor of electricity providing service to consumers within its licensed service area. Enersource 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 January 1, 2010.

Enersource is one of about 80 electricity distributors in Ontario that are regulated by the Board. In 2008, the Board announced the establishment of a new multi-year electricity distribution rate-setting plan, the 3rd Generation Incentive Rate Mechanism (“3rd Generation IRM”) process that will be used to adjust electricity distribution rates starting in 2009 for those distributors whose 2008 rates were rebased through a cost of service review. As part of the plan, Enersource is one of the electricity distributors to have its rates adjusted for 2010 on the basis of the 3rd Generation IRM process, which provides for a mechanistic and formulaic adjustment to distribution rates and charges between cost of service applications.

To streamline the process for the approval of distribution rates and charges for distributors, the Board issued its *Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* on July 14, 2008, its *Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* on September 17, 2008, and an *Addendum to the Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* on January 28, 2009¹ (together the "Reports"). On July 22, 2009 the Board issued an update to Chapter 3 of the Board's "Filing Requirements for Transmission and Distribution Applications" (the "Filing Requirements"), which outlined the information that the Board requires an electricity distributor to file when it makes an application seeking approval for IRM based rates.

Among other things, the Reports and Filing Requirements contain the relevant guidelines for 2010 rate adjustments (the "Guidelines") for distributors applying for distribution rate adjustments pursuant to the IRM process.

Notice of Enersource's rate application was given through newspaper publication in Enersource'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. No letters of comment were received.

The Board determined that it may order cost awards in relation to Enersource's requests for rates to be effective January 1, 2010 rather than May 1, 2010. The intervenors of record are: the Association of Major Power Consumers in Ontario ("AMPCO"), Consumers Council of Canada ("CCC"); Energy Probe Research Foundation ("EP"), the School Energy Coalition ("SEC") and the Vulnerable Energy Consumers Coalition ("VECC"). All have been active participants in the review of 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.

The Board deals below with the following issues:

- Requested change in effective date to January 1 from May 1
- Price Cap Index Adjustment

¹ The January 29, 2008 Addendum is to be superseded for the 2009 Licensed Electricity Distributors reporting year at a still to be determined date.

- Changes in the federal and provincial income tax rates
- Deferral and Variance Account Review
- Low Voltage Distribution Rates
- Smart Meter Funding Adder
- Retail Transmission Service Rates

Requested change in effective date to January 1 from May 1

Enersource sought approval for rates to be effective January 1, 2010 rather than May 1, 2010, the latter being the commencement of the rate year in accordance with the Board's current practice. To effect this change, Enersource proposed certain adjustments to the inputs in the IRM formula. The proposed alignment of its fiscal year (commencing January 1) and its rate year (commencing May 1) would, in Enersource's view, accomplish two considerations. First, it would better align the actual return with the Board-approved rate of return. Second, as Enersource is a reporting issuer, it would remove the complexities of having to explain to the investment community the financial implications of the current misalignment.

Board staff accepted Enersource's position that it and the investment community could benefit from the alignment of the rate year with the fiscal year; however, Board staff noted that this would add another rate adjustment and that in the past the Board had concerns about multiple rate changes in one year.

Intervenors opposed Enersource's proposal primarily on the grounds that a change in the rate year from May 1 is a matter that must be dealt with in a generic context.

While the Board accepts Enersource's argument that aligning its rate year with its financial year would simplify reporting to the investment community and thus sees merit in the request, the Board believes that other distributors, particularly those that are reporting issuers, may also be interested in a change in rate year to January 1. The implications of such a change need to be examined more fully, in a Board policy context. The Board will initiate a brief consultation process in this matter in the near future. For purposes of this Decision, the 2010 rate year for Enersource shall commence May 1.

Price Cap Index Adjustment

As outlined in the Reports and Filing Requirements, distribution rates under the 3rd Generation IRM are to be adjusted by a price escalator less a productivity factor (X-factor) of 0.72% and Enersource's as of yet undetermined utility-specific stretch factor.

The Board will establish the price escalator based on the final 2009 data published by Statistics Canada normally on or about February 28, 2010. The rate generator will be adjusted to reflect the newly calculated 2010 price cap index adjustment. This price cap index adjustment will apply to distribution rates (fixed and variable charges) uniformly across all customer classes.

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

- Rate Riders;
- Retail Transmission Service Rates;
- Wholesale Market Service Rate;
- Rural Rate Protection Charge;
- Standard Supply service – Administrative Charge;
- Transformation and Primary Metering Allowances;
- Retail Service Charges;
- Loss Factors; and
- Smart Meter Funding Adder.

Changes in the federal and provincial income tax rates

Changes in the federal and provincial income tax rates effective January 1, 2010 and July 1, 2010 will be incorporated into the rate model and reflected in distribution rates. The Federal Budget enacted on February 3, 2009 included an increase in the small business income limit from \$400,000 to \$500,000 effective January 1, 2009. The Provincial Budget of March 26, 2009 included progressive reductions in provincial income tax rates effective July 1 of each year and eliminated the Ontario capital tax effective July 1, 2010. Pursuant to the Guidelines, a 50/50 sharing of the impact of the above tax changes will be reflected in the rate model.

Deferral and Variance Account Review

On July 31, 2009, the Board issued its “Report on Electricity Distributors’ Deferral and Variance Account Review Initiative” (“EDDVAR Report”). The EDDVAR Report set out the Board’s policy framework for the review and disposition of deferral and variance accounts for electricity distributors. Since Enersource filed its application before the issuance of the EDDVAR Report, Board staff addressed this issue through interrogatories. In response to Board staff’s interrogatories, Enersource indicated that the balances in the Group 1 Accounts as of December 31, 2008 had exceeded the established preset disposition threshold +/- \$0.001/kWh contained in the EDDVAR Report. Enersource advised that it was not proposing the disposition of Group 1 Account balances because, as of August 31, 2009, the Group 1 Account balances changed from an amount refundable to customers to an amount recoverable from customers.

On November 27, 2009 Enersource filed a separate application (EB-2009-0405) requesting the disposition of Group 1 Account balance as of December 31, 2008 (excluding Account 1588) and the disposition of Account 1588 balance as of September 30, 2009, effectively removing this issue from the current application. As a result, no Board findings are necessary on this matter in this proceeding.

Low Voltage Distribution Rates

As outlined in the Filing Requirements, for the 2010 IRM process applicants were required to identify the Low Voltage rate adders approved in their most recent cost of service application and be shown separately in the distributor’s 2010 Tariff of Rates and Charges. As the Filing Requirements were issued after Enersource filed its application, Enersource did not identify the Low Voltage rate adders. In response to a Board staff interrogatory, Enersource indicated that it does not currently have any Low Voltage rate adder amounts included in current rates but wished to include Low Voltage rate adders in this application. Enersource included in its response a calculation and proposed quantum to be included in the distributor’s 2010 Tariff of Rates and Charges.

The Board observes that the proposed kWh Low Voltage rate adders are \$0.0000 when rounded to the fourth decimal place and kW Low Voltage rate adders are \$0.00 when rounded to the second decimal place. The Board therefore finds that Low Voltage rates are not necessary for Enersource to charge. Enersource shall continue to record the Low Voltage charges in Account 1550 – Low Voltage Variance Account.

Smart Meter Funding Adder

On October 22, 2008 the Board issued a Guideline for Smart Meter Funding and Cost Recovery (“Smart Meter Guideline”) which sets out the Board’s filing requirements in relation to the funding of, and the recovery of costs associated with, smart meter activities conducted by electricity distributors.

As set out in the Smart Meter Guideline, a distributor that plans to implement smart meters in the rate year must include, as part of the application, evidence that the distributor is authorized to conduct smart meter activities in accordance with applicable law. Enersource is authorized to conduct smart meter activities because it is identified in paragraph 3 of section 1(1) of O. Reg. 427/06.

Enersource requested to change its utility-specific smart meter funding adder from \$1.41 to \$2.17 per metered customer per month. On the basis of the evidence adduced, the Board approves the proposed funding adder as reasonable. This new funding adder will be reflected in the Tariff of Rates and Charges. Enersource’s variance accounts for smart meter program implementation costs, previously authorized by the Board, shall also be continued.

The smart meter funding adder is intended to provide funding for Enersource’s smart metering activities in the 2010 rate year. The Board has not made any finding on the prudence of the proposed smart meter activities, including any costs for smart meters or advanced metering infrastructure whose functionality exceeds the minimum functionality adopted in O. Reg. 425/06, or costs associated with functions for which the Smart Meter Entity has the exclusive authority to carry out pursuant to O. Reg. 393/07. Such costs will be considered at the time that Enersource applies for the recovery of these costs.

Retail Transmission Service Rates

Electricity distributors are charged the Ontario Uniform Transmission Rates (“UTRs”) at the wholesale level and subsequently pass these charges on to their distribution customers through the Retail Transmission Service Rates (“RTSRs”). There are two RTSRs, whereas there are three UTRs. The two RTSRs are for network and connection. The wholesale line and transformation connection rates are combined into one retail connection service charge. Deferral accounts are also used to capture timing

differences and differences in the rate that a distributor pays for wholesale transmission service compared to the retail rate that the distributor is authorized to charge when billing its customers (i.e., deferral accounts 1584 and 1586).

On May 28, 2009, the Board issued its Decision and Rate Order in proceeding EB-2008-0272, setting new UTRs for Ontario transmitters, effective July 1, 2009. The Board approved an increase of 3.5% to the wholesale transmission network service rate, no change to the wholesale transmission line connection service rate, and a decrease of 3.1% to the wholesale transformation connection service rate. The combined change in the wholesale transmission line connection and transformation connection service rates is a decrease of about 2.2%.

On July 22, 2009 the Board amended the Guideline for *Electricity Distribution Retail Transmission Service Rates* (“RTSR Guideline”) which provides electricity distributors with instructions on the evidence needed, and the process to be used, to adjust RTSRs to reflect changes in the UTRs. In the RTSR Guideline the Board directed all electricity distributors to propose an adjustment to their RTSRs to reflect the new UTRs for Ontario transmitters effective July 1, 2009. The objective of resetting the rates is to minimize the prospective balances in deferral accounts 1584 and 1586.

Also on July 22, the Board issued Chapter 3 of the Filing Requirements for Transmission and Distribution Applications, which among other things, provided that the above noted UTR percentage changes would be used as a proxy adjustment to a distributor’s current RTSRs for purposes of setting 2010 rates.

As Enersource filed its application prior to the July 22 RTSR Guideline, it subsequently filed an amended rate generator in response to Board staff interrogatories. In the amended rate generator Enersource proposed to increase its RTSR – Network Service Rates by 3.5% and to decrease its RTSR – Line and Transformation Connection Service Rates by 2.2% congruent with the Board-approved July 1, 2009 UTRs.

The Board finds that the approach followed by Enersource to be reasonable. However, should the UTRs change as a result of a current proceeding before the Board dealing with the Supplemental Evidence by Hydro One Transmission, the Board will amend Enersource’s rate generator to include the changes in UTRs between the January 1, 2009 level currently embedded in Enersource’s rates and the Board-approved UTRs prior to release of the draft Tariff of Rates and Charges for 2010 rates.

Conclusion

The Board intends to provide to Enersource before April 1, 2010 a final rate generator (spreadsheet) and append a draft Tariff of Rates and Charges that would reflect the elements of this Decision. The Board will also review the entries in the rate model to ensure that they were in accordance with the 2009 Board approved Tariff of Rates and Charges and the rate model was adjusted, where applicable, to correct any discrepancies.

The Board Orders That:

1. Enersource's new distribution rates shall be effective May 1, 2010.
2. Enersource shall review the draft Tariff of Rates and Charges when received from the Board and shall file with the Board a written confirmation attesting to the completeness and accuracy of the draft Tariff of Rates and Charges, or provide an explanation of any inaccuracies or missing information, within seven (7) calendar days of receipt of the draft Tariff of Rates and Charges.

If the Board does not receive a submission by Enersource to the effect that inaccuracies were found or information was missing pursuant to item 1 of this Decision:

3. The draft Tariff of Rates and Charges will become final, effective May 1, 2010,
4. Enersource shall notify its customers of the rate changes no later than with the first bill reflecting the new rates.

If the Board receives a submission by Enersource to the effect that inaccuracies were found or information was missing pursuant to item 1 of this Decision and Order, the Board will consider the submission of Enersource and will issue a final Tariff of Rates and Charges.

A cost awards decision will be issued after the following steps are completed.

5. AMPCO, CCC, EP, SEC and VECC shall file with the Board and forward to Enersource their respective cost claims within fourteen (14) calendar days of the date of this Decision.

6. Enersource may file with the Board and forward to AMPCO, CCC, EP, SEC and VECC any objections to the claimed costs within twenty eight (28) calendar days from the date of this Decision.
7. AMPCO, CCC, EP, SEC and VECC may file with the Board and forward to Enersource any responses to any objections to the cost claims within thirty five (35) calendar days of the date of this Decision.

The Company shall pay the Board's costs of, and incidental to, this proceeding upon receipt of the Board's invoice.

DATED at Toronto, December 15, 2009

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary