Ontario Energy Board

Commission de l'énergie de l'Ontario

Ontario

EB-2010-0130

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 Guelph Hydro Electric Systems Inc. for an order or orders approving or fixing just and reasonable distribution rates and other charges, to be effective May 1, 2011.

BEFORE: Karen Taylor
Presiding Member

Paula Conboy
Member

DECISION AND ORDER
(Issued March 14, 2011 and as corrected March 17, 2011)

Introduction

Guelph Hydro Electric Systems Inc. ("Guelph Hydro"), a licensed distributor of electricity, filed an application with the Ontario Energy Board (the "Board") on September 17, 2010, under section 78 of the *Ontario Energy Board Act*, *1998*, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to the rates that Guelph Hydro charges for electricity distribution, to be effective May 1, 2011.

Guelph Hydro is one of 80 electricity distributors in Ontario 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 ("IRM") process, which would 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, Guelph Hydro is one of the electricity distributors that will have its rates adjusted for 2011 on the basis of the 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 its *Addendum to the Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* on January 28, 2009 (together the "Reports"). Among other things, the Reports contained the relevant guidelines for 2011 rate adjustments for distributors applying for distribution rate adjustments pursuant to the IRM process. On July 9, 2010 the Board issued an update to Chapter 3 of the Board's *Filing Requirements for Transmission and Distribution Applications* (the "Filing Requirements"), which outlines the Filing Requirements for IRM applications based on the policies in the Reports.

Notice of Guelph Hydro's rate application was given through newspaper publication in Guelph Hydro's service area advising interested parties where the rate application could be viewed and advising how they could intervene in the proceeding or comment on the application. No letters of comment were received. The Vulnerable Energy Consumers Coalition ("VECC") and the School Energy Coalition ("SEC") applied and were granted intervenor status in this proceeding. Both parties were granted cost eligibility for their participation in the proceeding related to Guelph Hydro's request for an incremental capital module. Board staff also participated in the proceeding. The Board proceeded by way of a written hearing.

While the Board has considered the entire record in this proceeding, it has made reference only to such evidence as is necessary to provide context to its findings. The following issues are addressed in this Decision and Order:

- Price Cap Index Adjustment;
- Changes in the Federal and Provincial Income Tax Rates;
- Smart Meter Funding Adder;
- Retail Transmission Service Rates;
- Review and Disposition of Group 1 Deferral and Variance Accounts;
- Late Payment Penalty Litigation Costs; and
- Incremental Capital Module.

Price Cap Index Adjustment

Guelph Hydro's rate application was filed on the basis of the Filing Requirements. In fixing new distribution rates and charges for Guelph Hydro, the Board has applied the policies described in the Filing Requirements and the Reports.

As outlined in the Reports, 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 Guelph Hydro's utility specific stretch factor of 0.4%. Based on the final 2010 data published by Statistics Canada, the Board has established the price escalator to be 1.3%. The resulting price cap index adjustment is therefore 0.18%. The rate model reflects this price cap index adjustment. The price cap index adjustment applies 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 delivery rates:

- Rate Riders;
- Rate Adders;
- Low Voltage Service Charges;
- Retail Transmission Service Rates;
- Wholesale Market Service Rate;
- Rural Rate Protection Charge;
- Standard Supply service – Administrative Charge;
- Transformation and Primary Metering Allowances;
- Loss Factors;
- Specific Service Charges;
- MicroFIT Service Charges; and
- Retail Service Charges.

Changes in the Federal and Provincial Income Tax Rates

In its *Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* dated September 17, 2008, the Board determined that a 50/50 sharing of the impact of currently known legislated changes, as applied to the tax level reflected in the Board-approved base rates for a distributor, is appropriate for the 3rd Generation IRM applications. This was based on a decision of the Board in a proceeding in relation to natural gas distributors' (EB-2007-0606/615) incentive regulation applications in which tax as a Z-factor was being considered. In this decision, the Board found that a 50/50 sharing is appropriate because it recognizes that tax changes already flow to some extent through the inflation factor, though the precise timing and quantum of the tax reduction during a current IRM period is not known.

The calculated annual tax reduction over the plan term will be allocated to customer rate classes on the basis of the Board-approved base-year distribution revenue. These amounts will be refunded to customers each year of the plan term, over a 12-month period, through a volumetric rate rider derived using annualized consumption by customer class underlying the Board-approved base rates.

In 2011, the maximum income tax rate is 28.25%, the minimum rate for those distributors eligible for both the federal and Ontario small business deduction is 15.50%, and the blended tax rate varies for certain distributors that are only eligible for the Ontario small business deduction. The model provided to distributors calculates the amount of change caused by the tax rate reductions and adjusts distribution rates by 50% of the total change from those taxes included in the most recent cost of service base distribution rates.

The Board finds that a 50/50 sharing of the impact of changes from the tax level reflected in the Board-approved base rates to the currently known legislated tax level for 2011 is appropriate and shall be effected by means of a rate rider over a one-year period.

Smart Meter Funding Adder

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

Guelph Hydro originally requested to change its utility-specific smart meter funding adder ("SMFA") from $1.00 to $3.32 per metered customer per month.

On March 2, 2011, Guelph Hydro filed a letter stating that on February 28, 2011, Board staff notified Guelph Hydro of some errors in the SMFA Workform. Guelph Hydro submitted that it has corrected the errors and re-filed the SMFA Workform. The revised SMFA Workform calculates a 2011 SMFA of $1.17 per metered customer per month.

The Board notes that the SMFA is a tool designed to provide advance funding and to mitigate the anticipated rate impact of smart meter costs when recovery of those costs is approved by the Board (G-2008-0002). The Board also observes that the SMFA was not intended to be compensatory (return on and of capital) on a cumulative basis over the term the SMFA was in effect. The SMFA was initially designed to fund future investment, not fully fund prior capital investment. Such treatment increases the risk, absent a prudence review, of over recovery. The Board is not saying that prudently incurred costs are not recoverable; it is stating that a determination of full recovery will be made as part of an application for a prudence review. Since the deployment of smart meters on a province-wide basis is now nearing completion, and for the reasons noted earlier, the Board expects distributors to file for a final prudence review at the earliest possible opportunity following the availability of audited costs. For those distributors that are scheduled to file a cost-of-service application for 2012 distribution rates, the Board expects that they will apply for the disposition of smart meter costs and subsequent inclusion in rate base. For those distributors that are scheduled to remain on IRM, the Board expects these distributors to file an application with the Board seeking final approval for smart meter related costs. In the interim, the Board will approve Guelph Hydro’s SMFA of $1.17 per metered customer per month from May 1, 2011 to April 30, 2012. This new SMFA will be reflected in the Tariff of Rates and Charges, and will cease on April 30, 2012. Guelph Hydro’s variance accounts for smart meter program implementation costs, previously authorized by the Board, shall be continued.

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 Metering Entity has the exclusive authority to carry out pursuant to O. Reg. 393/07. Such costs will be considered at the time that Guelph Hydro applies for the recovery of these costs on a final basis, if applicable.

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"). Variance accounts are 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., variance accounts 1584 and 1586).

On July 8, 2010 the Board issued revision 2.0 of the *Guideline G-2008-0001 - Electricity Distribution Retail Transmission Service Rates* (the "RTSR Guideline"). The RTSR Guideline outlines the information that the Board requires electricity distributors to file to adjust their RTSRs for 2011. The RTSR Guideline requires electricity distributors to adjust their RTSRs based on a comparison of historical transmission costs adjusted for the new UTR levels and the revenues generated under existing RTSRs. The objective of resetting the rates is to minimize the prospective balances in accounts 1584 and 1586. In order to assist electricity distributors in the calculation of the distributor's specific RTSRs, Board staff provided a filing module. On January 18, 2011, the Board issued its Rate Order for Hydro One Transmission (EB-2010-0002) which adjusted the UTRs effective January 1, 2011. The new UTRs are shown in the following table:

Table 1 - Uniform Transmission Rates	**kW Monthly Rates**		**Change**
	Jan 1, 2010	**Jan 1, 2011**	
Network Service Rate	$2.97	$3.22	+8.4%
<u>Connection Service Rates</u>			
Line Connection Service Rate	$0.73	$0.79	
Transformation Connection Service Rate	$1.71	$1.77	
			+4.9%

The Board has adjusted each distributor's rate application model to incorporate these changes.

Based on the filing module provided by Board staff and the new UTRs effective January 1, 2011 noted in the table above, the Board approves the changes to the RTSRs calculated in the filing module.

Review and Disposition of Group 1 Deferral and Variance Accounts

The *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Report* (the "EDDVAR Report") provides that, during the IRM plan term, the distributor's Group 1 account balances will be reviewed and disposed if the preset disposition threshold of $0.001 per kWh (debit or credit) is exceeded. The onus is on the distributor to justify why any account balance in excess of the threshold should not be disposed.

Guelph Hydro's Group 1 account balances did not exceed the preset disposition threshold referenced above. The Board therefore finds that no disposition is required at this time.

Late Payment Penalty Litigation Costs

In this application, Guelph Hydro requested the recovery of a one time expense of $207,326 related to the late payment penalty ("LPP") costs and damages resulting from a court settlement that addressed litigation against many of the former municipal electricity utilities in Ontario.

On October 29, 2010 the Board commenced a generic proceeding on its own motion to determine whether Affected Electricity Distributors[1], including Guelph Hydro, should be allowed to recover from their ratepayers the costs and damages incurred as a result of the Minutes of Settlement approved on April 21, 2010 by the Honourable Mr. Justice Cumming of the Ontario Superior Court of Justice (Court File No. 94-CQ-r0878) and as amended by addenda dated July 7, 2010 and July 8, 2010 in the late payment penalty class action and if so, the form and timing of such recovery. This proceeding was assigned file No. EB-2010-0295.

On February 22, 2011, the Board issued its Decision and Order and determined that it is appropriate for the Affected Electricity Distributors to be eligible to recover the costs and damages associated with the LPP class action in rates. The decision set out a listing of each Affected Electricity Distributor and their share of the class action costs that is approved for recovery. The Board also directed Affected Electricity Distributors such as Guelph Hydro to file with the Board detailed calculations including supporting documentation, outlining the derivation of the rate riders based on the methodology

[1] As defined in the Board's Decision and Order EB-2010-0295

outlined in the EB-2010-0295 Decision and Order. The Board noted that the rate riders submitted would be verified in each Affected Electricity Distributor's IRM or cost of service application, as applicable. Guelph Hydro elected to recover the amount approved in the EB-2010-0295 proceeding and accordingly filed the associated rate riders.

The Board has reviewed Guelph Hydro's proposed rate riders and approves them as filed.

Incremental Capital Module

Background

The Request

Guelph Hydro proposed an incremental capital module to recover the incremental capital costs of $10,900,000 associated with the design and construction of a municipal transformer station in South Guelph ("New MTS - Clair"). Guelph Hydro requested that these costs be recovered by means of a rate rider that would be in place until such time that Guelph Hydro files its next rebasing application.

The *Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* and *The Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors; (together the "Report")* requires that incremental capital expenditures satisfy the eligibility criteria of materiality, need and prudence in order to be considered for recovery prior to rebasing. Applicants must demonstrate that the amounts exceed the Board's materiality threshold and clearly have a significant influence on the operation of the distributor, must be clearly non-discretionary and the amounts must be outside the base upon which rates were derived. In addition, the decision to incur the amounts must represent the most cost-effective option for ratepayers.

Guelph Hydro completed the 2011 IRM3 Incremental Capital Workform, and calculated that the costs of the New MTS - Clair exceed the materiality threshold of $7,000,000. Guelph Hydro's 2011 total forecasted capital expenditures are $20,400,000 (net of capital contributions), which includes the forecasted cost of $10,900,000 to design and construct the municipal transformer station that is the subject of this incremental capital claim.

Guelph Hydro indicated that the incremental capital expenditures related to the design and construction of a municipal transformer station are required to provide relief for the shortage of supply to Guelph Hydro. Guelph Hydro provided a “Guelph South Load Forecast”, which indicated that demand in the area of the New MTS - Clair would exceed installed supply in that area of the city between 2010 and 2011. Guelph Hydro stated that the expenses are non-discretionary, and that the expenditures have not previously been included in Guelph Hydro’s Board approved rate base.

The New MTS - Clair has a scheduled in-service date of October 2011. Guelph Hydro indicated that its customers are severely at risk of service interruption if there is a loss of high voltage supply at the existing Hanlon TS.

Guelph Hydro requested to recover the costs of the New MTS - Clair by means of a volumetric rate rider that would be in place until such time that Guelph Hydro files its next rebasing application.

Guelph Hydro indicated that if the approval is not granted it would have a significant impact on the operation of the utility. Guelph Hydro noted that, in the short-term, it had sufficient short-term borrowing capacity to carry out its capital plan. However, Guelph Hydro noted that in the long-term, disapproval of Guelph Hydro`s claim may have significant impacts on its future borrowing costs.

The Issues

Project Need

Guelph Hydro provided evidence supporting project need in its application and interrogatory responses. Guelph Hydro indicated that the transformer station is non-discretionary, and that the asset must be in place in 2011 to properly serve its customers.

Board staff submitted that Guelph Hydro has demonstrated immediate short term and long term capacity requirements as evidenced by Guelph Hydro’s load forecast and customer requests for capacity. Board staff acknowledged that system reliability is maintained by adding new supply capacity in advance of the development of load.

Board staff noted that from the evidence, it is unclear whether Guelph Hydro will be required to make payments to Hydro One in respect of bypass. Board staff submitted that this may affect Guelph Hydro's analysis of the total costs of alternatives presented. Board staff submitted that the bypass issue, and associated costs, have not been adequately addressed in Guelph Hydro's application.

VECC and SEC both agreed that Guelph Hydro provided adequate evidence to demonstrate that the New MTS - Clair is non-discretionary and supported the incremental capital claim.

In its reply submission, Guelph Hydro noted that it does not expect to make bypass payments to Hydro One since the New MTS is planned for load growth beyond the rated capacity of Hanlon TS.

Prudence

Guelph Hydro provided an in depth evaluation of project alternatives in the form of an optimization exercise at page 15 of Appendix 5.2. Guelph Hydro considered distances from load centers, load capacity, feeder number and length, and other monetary and timing constraints. Three main options were considered in the final analysis; "Hanlon MTS expansion", "New MTS – Clair", and "New MTS – Maltby".

Guelph Hydro concluded that the optimal project option was to construct the new MTS at the Clair location. Guelph Hydro also provided a list of advantages and disadvantages of a self-build versus a Hydro One build, and noted that the Hydro One Hanlon TS option would have an in-service date of late 2012, while the self-build option would be in-service in fall 2011.

Board staff submitted that rate impacts are least under the proposed New MTS - Clair with respect to Guelph Hydro's immediate service area and the transformer is ideally located to serve Guelph Hydro's expected load growth in the immediate area of its distribution system.

Board staff submitted that the other alternatives to construction of the New MTS – Clair are not optimal based on total cost, in-service dates, and the associated risk of supply outages and that the transformer station proposed is the most cost-effective alternative presented. Board staff submitted that it is in the best interest of Guelph Hydro's ratepayers that the New MTS - Clair be built.

VECC submitted that Guelph Hydro has adequately demonstrated the prudence of the proposed expenditure. In its study of supply alternatives, Guelph Hydro considered a number of options including not only different locations for a Guelph-owned MTS but also expansion (by Hydro One) of the existing Hanlon TS. VECC submitted that the preferred supply alternative (the New MTS – Clair) is not only the lowest cost option but also has a number of operational advantages over the other options. VECC further submitted that the selection of Wardrop Engineering to assist with the project was made through an RFP process. SEC supported VECC's position.

Materiality

Guelph Hydro completed the 2011 IRM3 Incremental Capital Workform, and calculated that the costs of the New MTS – Clair exceed the materiality threshold of $7,000,000. Guelph Hydro's 2011 forecasted capital expenditures are $20,400,000 (net of capital contributions), which includes the forecasted cost of $10,900,000 to design and construct the municipal transformer station that is the subject of this incremental capital claim.

Guelph Hydro noted that none of projects included in its 2011 capital budget ($20,400,000) are discretionary in nature.

VECC submitted that the requested incremental capital amount is material, not only in that the spending exceeds the threshold value but that the quantum involved (approximately $10,900,000) is more than half the total 2011 capital budget. SEC supported VECC's position.

Incremental Revenue Requirement Calculation

Guelph Hydro submitted a completed version of the Board's IRM3 Incremental Capital Workform which calculated the 2011 revenue requirement of $1,068,072 associated with the requested incremental capital recovery.

VECC submitted that it has two concerns regarding the calculation of the incremental revenue requirement.

VECC submitted that in determining the Return on Rate Base Guelph Hydro has used the capital structure (4% - Short Term Debt; 49.3% - Long Term Debt and 46.7% - Equity) as approved for its 2008 Rate Application. Since then Guelph Hydro has transitioned, through successive IRM applications, to the Board's deemed capital structure for electricity distributors.

VECC noted that the 2011 rates reflect the Board's deemed capital structure (4% - Short Term Debt; 56% - Long Term Debt and 40% - Equity). Therefore, VECC submitted that the calculation of the incremental revenue requirement arising from the requested capital adjustment should be calculated using the same capital structure. VECC noted that using this deemed capital structure the incremental revenue requirement would be $1,026,883.

VECC noted that its second concern is with respect to the calculation of the MTS associated depreciation expense and rate base. VECC noted that in the Report, it was determined that the half-year rule would not apply "so as to not build in a deficiency for subsequent years in the term of the plan".

VECC noted that in Guelph Hydro's case there are no "subsequent years" since Guelph Hydro rates will be rebased in 2012. As a result, VECC submitted that there is no reason to depart from the Board's standard practice of applying the half-year rule for the determination of depreciation and rate base.

SEC agreed with the submissions of VECC regarding the use of the Board`s deemed capital structure and the application of the half-year rule.

Guelph Hydro submitted that it agrees with the submissions of VECC and SEC regarding the use of the Board`s deemed capital structure.  Guelph Hydro submitted that the incremental revenue requirement arising from incremental capital claim should be calculated using the Board`s deemed capital structure.

With respect to the application of the half year rule, Guelph Hydro noted that it followed the policies set out in the Report to complete the Incremental Capital Module calculation. On page 31, the Report states, "In calculating the rate relief, the Board has determined not to apply the half-year rule so as not to build in a deficiency for subsequent years in the term of the plan."

Guelph Hydro submitted that the Incremental Capital Module and the incremental revenue requirement calculation should apply according to the Board's policy, uniformly for all distributors regardless of the IRM year in which the distributor is in the IRM cycle. Guelph Hydro submitted that to follow the suggestion outlined by VECC would be against the Board's policy

Guelph Hydro submitted that its first intent was to file an early re-basing application for 2011 electricity distribution rates. Guelph Hydro noted that it received a Board letter which advised distributors seeking rate rebasing in advance of their next regularly scheduled cost of service proceeding, that they would be required to justify why an early rebasing is necessary. The Board's letter noted that the panel of the Board hearing the application may determine, as a preliminary issue, whether the application for rebasing is justified or whether the application as framed should be dismissed. Further, the Board panel may disallow some or all of the regulatory costs associated with the preparation and hearing of that application, including the Board's costs and intervenor costs. Guelph Hydro submitted that after receiving the above noted letter it decided to stay in its existing IRM cycle. Guelph Hydro submitted that is decision to stay in the IRM plan was driven by a financial analysis and incremental capital module expectations based on a full year approach consistent with the Board's policy.

Revenue Offset

VECC and SEC, in the interrogatory process, sought information regarding the incremental revenues associated with load growth underlying the need for the project. In response, Guelph Hydro provided the area load growth related to the project.

In response to VECC and SEC interrogatories, Guelph Hydro provided the load growth related to the project but took the position that the incremental cost related to connecting new customers would more than offset the initial year's incremental revenue and that only new revenue attributable to the new investment should be considered.

VECC noted that Guelph Hydro has recognized the capital contribution made by the new GS 1,000-4,999 customer. VECC submitted that there is some question as to the level of incremental revenue for 2011. VECC noted that the response to VECC IR #4

(b) suggests it is less than $6,000, the response to VECC IR #4 (a) puts the value at $10,800 and the economic evaluation provided in response to SEC IR #2 reports a 2011 revenue for the GS 1,000-4,000 class of $12,632. VECC requested that Guelph Hydro address these discrepancies in its reply submission.

Guelph Hydro clarified that the correct incremental revenue expected from the GS 1000 to 4999 kW customer is $12,632, which is the amount calculated by the Economic Evaluation Model. Guelph Hydro submitted that the incremental cost of connecting new customers would more than offset the initial year's incremental revenue. Guelph Hydro further submitted that the additional distribution revenue would be included in the economic evaluation model for any new development serviced by the New MTS - Clair, which in turn would be used to reduce the capital contribution from the developer for the costs associated with the new development not the New MTS - Clair.

Incremental Capital Rate Rider – Sunset Date

Guelph Hydro requested an April 30, 2012 sunset date for its Incremental Capital Rate Rider. As part of the Interrogatory process, Board staff asked Guelph Hydro to provide the rationale for the proposed sunset date. Guelph Hydro noted that it is scheduled to file a Cost of Service application for the 2012 rate year, which would set rates commencing May 1, 2012. Therefore, the remaining term of the IR plan is only one year. Guelph Hydro stated that at the time of its Cost of Service application, it will seek the incorporation of the requested incremental capital expenditures related to the New MTS - Clair into its rate base.

Guelph Hydro also noted, in accordance with its May 11, 2010 letter, that it would be seeking a January 1, 2012 effective date for its 2012 rates. If the Board approves the 2012 effective date for the purpose of aligning the fiscal year with the rate year, then the sunset date for the Incremental Capital Rate Rider would be December 31, 2011.

Board staff submitted that the calculation of the rate rider can only be made on the basis of the best available information. At the time of this proceeding, the Board has not provided any direction to Guelph Hydro in regards to the alignment of the fiscal year with the rate year. Therefore, the appropriate sunset date for the Incremental Capital Rate Rider is April 30, 2012.

SEC submitted that if the Board accepts the incremental capital claim, there is a revenue requirement shortfall to be collected by Guelph Hydro relative to 2011. VECC submitted that amount should be divided by twelve months' volume, and collected over the twelve months commencing May 2011.

Deemed Distribution Asset

Guelph Hydro requested that the Board deem the New MTS – Clair to be a distribution asset under section 84(a) of the *OEB Act* in order that it may recover the revenue requirement related to the New MTS – Clair through distribution rates. No parties disagreed with this proposal.

Board Findings

Project Need, Prudence, and Materiality

The Board finds that Guelph Hydro's Incremental Capital request meets all the eligibility criteria set out in The *Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors*. The New MTS – Clair project is a non-discretionary expenditure that is clearly outside of the base upon which rates were derived. The New MTS – Clair project is required to meet supply requirements in Guelph Hydro's service area. The capital costs are deemed to be prudent as Guelph Hydro has provided adequate evidence that potential alternatives were analyzed and that the New MTS – Clair option represents the most cost-effective option for ratepayers. In addition, Guelph Hydro's non-discretionary 2011 capital expenditures meet the Board's materiality threshold.

Incremental Revenue Requirement Calculation

The Board finds that the incremental revenue requirement arising from the incremental capital claim should be calculated using the Board`s deemed capital structure as this is consistent with how 2011 rates are being set.

The Board finds that the half-year rule should apply to the MTS-related depreciation and rate base calculations. The Board notes that the Report states, "In calculating the rate relief, the Board has determined not to apply the half-year rule so as not to build in a deficiency for subsequent years in the term of the plan." However, in this case, there are no subsequent years in the plan. Guelph Hydro is filing its rebasing application for 2012 rates and therefore no deficiency will be built into the calculation if the half-year rule is applied. The Board notes that the New MTS – Clair will only be in-service for approximately 2-3 months in 2011 and therefore it would be unreasonable to provide for a full-year of depreciation in the 2011 rate year.

With respect to the issue of whether the revenue offset should reduce the revenue requirement of the New MTS - Clair, the Board notes that the formula used to determine the threshold value incorporates a factor for growth. As stated in the Supplemental Report of the Board: “There is no dispute among participants that the price adjustment and organic growth factors should be captured in the calculation of the threshold and that not doing so would amount to “double-dipping”.” It is clear that the inclusion of the growth factor “g” in the threshold value formula was intended to address this issue of incremental growth.

The issue here is whether additional growth over and above the growth factor “g” should be factored into the revenue requirement for New MTS – Clair. The Board notes that as a result of future new developments, Guelph Hydro will also incur incremental capital costs to connect new customers to the grid. Under a price cap, the incremental revenue generated from load growth act as an offset to the costs that a distributor incurs to connect new customers. Therefore, the Board finds that the incremental revenue requirement of the New MTS - Clair should not be reduced by the revenue offset.

Incremental Capital Rate Rider – Sunset Date

The Board finds that the incremental revenue requirement related to the incremental capital claim shall be recovered by means of a variable rate rider expiring April 30, 2012.

Determination of the Revenue Requirement

The Board directs Guelph Hydro to file an updated Incremental Capital Project Worksheet and an updated Incremental Capital Workform. The updated Workform should reflect the incremental capital claim of $10,900,000 revised to reflect the use of the Board’s deemed capital structure and the application of the half-year rule, Guelph Hydro’s Board-approved 2008 Cost of Capital parameters, and the 2011 PILs rates.

Reporting Requirements

Pursuant to the Report*,* Guelph Hydro will be required to track the difference between the capital expenditure it has proposed in this application and the actual spending. Guelph Hydro will be required to report on the actual amount spent in its 2012 cost of service rate application.

At the time of rebasing, the Board will carry out a prudence review of the actual costs to determine the amounts to be incorporated in rate base. The Board will also make a determination at that time regarding the treatment of differences between forecast and actual spending during the IRM plan term.

Deemed Distribution Asset

Pursuant to section 84(a) of the *OEB Act,* the Board deems the New MTS - Clair to be a distribution asset.

THE BOARD ORDERS THAT:

1. Guelph Hydro's new distribution rates shall be effective May 1, 2011.

2. Guelph Hydro shall file with the Board an updated Incremental Capital Project Worksheet and an updated Incremental Capital Workform reflecting the Board`s findings within seven (7) calendar days of the date of this Decision and Order. The Board will subsequently provide Guelph Hydro with a rate model (spreadsheet) and applicable supporting models and a draft Tariff of Rates and Charges that reflect the elements of this Decision and Order.

All filings to the Board must quote file number **EB-2010-0130,** be made through the Board's web portal at, www.errr.ontarioenergyboard.ca and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.ontarioenergyboard.ca. If the web portal is not available parties may email their document to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

DATED at Toronto, March 14, 2011

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary