



**EB-2013-0117**

**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 Canadian  
Niagara Power Inc. for an order approving just and  
reasonable rates and other charges for electricity distribution  
to be effective January 1, 2014.

**By Delegation, Before:** Lynne Anderson

**Decision and Order**  
**December 5, 2013**

Canadian Niagara Power Inc. ("CNPI") filed an application with the Ontario Energy Board (the "Board") on August 16, 2013 under section 78 of the Act, seeking approval for changes to the rates that CNPI charges for electricity distribution, effective January 1, 2014 (the "Application"). CNPI operates in three geographical service areas: Port Colborne, Fort Erie and Gananoque (Eastern Ontario Power). The Board assigned file number EB-2013-0117 to the Application and issued a Notice of Application on September 9, 2013.

The Application met the Board's requirements as detailed in the *Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* (the "RRFE Report") dated October 18, 2012 and the *Filing Requirements for Transmission and Distribution Applications* (the "Filing Requirements") dated July 17, 2013. CNPI selected the Price Cap Incentive Rate-setting ("Price Cap IR") option to adjust its 2014 rates. The Price Cap IR methodology provides for a mechanistic and formulaic adjustment to distribution rates and charges between cost of service applications. CNPI was last before the Board with a full cost of service application for

the 2013 rate year in the EB-2012-0112 proceeding.

The Board conducted a written hearing and Board staff participated in the proceeding. No letters of comment were received.

While I have considered the entire record in this proceeding, I have 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;
- Rural or Remote Electricity Rate Protection Charge;
- Rate Design;
- Retail Transmission Service Rates; and
- Review and Disposition of Group 1 Deferral and Variance Account Balances.

### **Price Cap Index Adjustment**

The Board issued its *Report on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors* (the "Price Cap IR Report") on November 21, 2013 which provides the 2014 rate adjustment parameters for distribution companies selecting either the Price Cap IR or Annual IR Index option.

Distribution rates under the Price Cap IR option are adjusted by an inflation factor, less a productivity factor and a stretch factor. The inflation factor for 2014 rates is 1.7%. Based on the total cost benchmarking model developed by Pacific Economics Group Research, LLC, the Board determined that the appropriate value for the productivity factor is zero percent. The Board also determined that the stretch factor can range from 0.0% to 0.6% for distributors selecting the Price Cap IR option, assigned based on a distributor's cost evaluation ranking. In the Price Cap IR Report, the Board assigned CNPI a stretch factor of 0.45%.

As a result, the net price cap index adjustment for CNPI is 1.25% (i.e.  $1.7\% - (0\% + 0.45\%)$ ). The price cap index adjustment applies to distribution rates (fixed and variable charges) uniformly across all customer classes. The price cap index adjustment does not apply to the components of delivery rates set out in the list below:

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

### **Rural or Remote Electricity Rate Protection Charge**

As of the date of this Decision and Rate Order, the Board has not issued a decision on the Rural or Remote Electricity Rate Protection (“RRRP”) charge for 2014. In the event that a new charge is established for 2014, the RRRP rate order will supersede this Decision and Rate Order with respect to the RRRP charge.

### **Rate Design**

In CNPI’s 2013 cost of service proceeding, the Board accepted a Settlement Agreement proposed by the parties involved. The Settlement Agreement provided that, beginning with the 2013 rate design, CNPI would adjust the fixed-to-variable splits of each customer class to achieve fully harmonized rates by the 2016 rate year. As well, the Settlement Agreement set out the parties’ acceptance of a target monthly service charge for each of the customer classes for the 2014, 2015 and 2016 rate years in order to account for specific adjustments to revenue-to-cost ratios and to select fixed-to-variable ratios for setting rates.

Therefore, for its 2014 Price Cap IR application, CNPI has applied the price cap index adjustment to the 2014 “going in” rates as stipulated in the 2013 Board-approved Settlement Agreement and not CNPI’s latest Board-approved rate schedule.

CNPI did not use the 2014 IRM Rate Generator and in its place created its own rate

adjustment model. CNPI's model used its 2014 "going in" rates and multiplied each one by a Price Cap Index of 0.48% (a placeholder number until such time as the final adjustment was determined).

Board staff submitted that it confirmed the 2014 "going in" rates with those proposed in the Settlement Agreement accepted by the Board in its Decision in the matter of EB-2012-0112, and took no issue with CNPI's approach.

I find that the rate design approach filed by CNPI in this proceeding is consistent with the approach agreed to by CNPI and the other parties to the 2013 Settlement Agreement. Therefore, I have no concerns with CNPI's rate design approach.

### **Retail Transmission Service Rates**

Electricity distributors are charged for transmission costs at the wholesale level and then pass these charges on to their distribution customers through the Retail Transmission Service Rates ("RTSRs"). Variance accounts are used to capture 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 June 22, 2012 the Board issued revision 3.0 of the *Guideline G-2008-0001 - Electricity Distribution Retail Transmission Service Rates* (the "RTSR Guideline") which outlines the information that the Board requires electricity distributors to file to adjust their RTSRs for 2014. The RTSR Guideline requires electricity distributors to adjust their RTSRs based on a comparison of historical transmission costs adjusted for the new Uniform Transmission Rates ("UTR") levels and the revenues generated under existing RTSRs. Similarly, embedded distributors must adjust their RTSRs to reflect any changes to the applicable Sub-Transmission RTSRs of their host distributor(s), e.g. Hydro One Networks Inc. The objective of resetting the rates is to minimize the prospective balances in Accounts 1584 and 1586.

As of the date of this Decision and Rate Order, the Board has not issued its rate order for Hydro One Network Inc. Transmission (EB-2012-0031) which will adjust the UTRs effective January 1, 2014. I will therefore approve the RTSRs as partially adjusted in this Application. The differences arising from the new UTRs will be captured in Accounts 1584 and 1586 for future disposition.

## Review and Disposition of Group 1 Deferral and Variance Account Balances

The *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Report Initiative* dated July 31, 2009 (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.

CNPI's 2012 actual year-end total balance for Group 1 Accounts including interest projected to December 31, 2013 is a credit of \$274,222. This amount results in a total credit claim of \$0.0005 per kWh, which does not exceed the preset disposition threshold. CNPI did not seek disposition of balances in its application.

In its submission, Board staff noted that the principal amounts as of December 31, 2012 reconcile with the amounts reported as part of the *Reporting and Record-keeping Requirements*.

I find that no disposition is required at this time.

### IMPLEMENTATION

I have made findings in this Decision and Rate Order which change the 2014 distribution rates from those proposed by CNPI.

I expect CNPI to file a draft Rate Order, including a proposed Tariff of Rates and Charges and all relevant calculations showing the impact of this Decision and Rate Order on CNPI's determination of the final rates. Supporting documentation shall include, but not be limited to, filing a completed and updated version of the CNPI's rate adjustment model.

A Rate Order will be issued after the steps set out below are completed.

### THE BOARD ORDERS THAT:

1. CNPI shall file with the Board a draft Rate Order that includes revised models in Microsoft Excel format and a proposed Tariff of Rates and Charges

reflecting the Board's findings in this Decision by December 12, 2013.

2. Board staff shall file any comments on the draft Rate Order including the revised models and proposed rates with the Board and forward to CNPI within 7 days of the date of filing of the draft Rate Order.
3. CNPI shall file with the Board responses to any comments on its draft Rate Order including the revised models and proposed rates within 4 days of the date of receipt of Board staff comments.

All filings to the Board must quote file number **EB-2013-0117**, be made through the Board's web portal at, <https://www.pes.ontarioenergyboard.ca/eservice//> 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](http://www.ontarioenergyboard.ca). If the web portal is not available parties may email their document to [BoardSec@ontarioenergyboard.ca](mailto:BoardSec@ontarioenergyboard.ca). 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 2 paper copies.

**DATED** at Toronto, December 5, 2013

**ONTARIO ENERGY BOARD**

*Original signed by*

Kirsten Walli  
Board Secretary