



**Ontario Energy Board
Commission de l'énergie de l'Ontario**

DECISION AND RATE ORDER

EB-2017-0072

Renfrew Hydro Inc.

Application for rates and other charges to be effective January 1, 2018

By Delegation, Before: Jane Scott

[date]

1 INTRODUCTION AND SUMMARY

Through this Decision and Order, the Ontario Energy Board (OEB) approves the incentive rate-setting mechanism (IRM) application filed by Renfrew Hydro Inc. (Renfrew Hydro) on August 14, 2017, as amended during the course of the proceeding.

Renfrew Hydro serves about 4,275 mostly residential and commercial electricity customers in the Town of Renfrew. The company is seeking the OEB's approval for the rates it charges to distribute electricity to its customers, as is required of licenced and rate-regulated distributors in Ontario.

A distributor may choose one of three rate-setting methodologies approved by the OEB. Each of these is explained in the OEB's *Chapter 3 Filing Requirements for Incentive Rate-Setting Applications* (the Filing Requirements).

Renfrew Hydro's application is based on a Price Cap Incentive Rate-setting option (Price Cap IR) with a five-year term. The Price Cap IR option involves the setting of rates through a cost of service (COS or rebasing) application in the first year. Mechanistic price cap adjustments, based on inflation and the OEB's assessment of the distributor's efficiency, are then approved through IRM applications in each of the ensuing four (adjustment) years.

As a result of the OEB's findings in this Decision, there will be a monthly bill decrease of \$1.66 for a residential customer consuming 750 kWh, effective January 1, 2018.

Renfrew Hydro has also applied to change the composition of its distribution service rates. Residential distribution service rates currently include a fixed monthly charge and a variable usage charge. In 2015, the OEB issued a policy to transition these rates to a fully fixed structure over a four-year period beginning in 2016.¹ Accordingly, the fixed monthly charge for 2018 has once again been adjusted upward in this Decision by more than the mechanistic price cap adjustment alone. The variable usage rate is commensurately lower. This policy change does not affect the total revenue that distributors collect from residential customers.

¹ Board Policy - "A New Distribution Rate Design for Residential Electricity Customers." EB-2012-0410, April 2, 2015

2 THE PROCESS

This Decision is being issued by delegated authority, without a hearing, under section 6 of the *Ontario Energy Board Act, 1998* (the OEB Act).

The OEB follows a standardized and streamlined process for IRM applications filed under Price Cap IR. In each adjustment year of a Price Cap IR term, the OEB prepares a Rate Generator Model that includes information from the distributor's past proceedings and annual reporting requirements. A distributor will then review and complete the Rate Generator Model and include it with its application. During the course of the proceeding, the Rate Generator Model will also be updated or corrected, as required.

The Rate Generator Model updates base rates, retail transmission service rates and, if applicable, shared tax saving adjustments. It also calculates rate riders for the disposition of deferral and variance account balances.

Renfrew Hydro filed its application on August 14, 2017, under section 78 of the OEB Act and in accordance with the Filing Requirements. Renfrew Hydro supported its application with written evidence and a completed rate model. Questions were asked of, and answers were provided by, Renfrew Hydro through emails and phone calls with the OEB. Based on this information, a decision was drafted and provided to Renfrew Hydro on December 1, 2017. Renfrew Hydro was given the opportunity to provide its comments on the draft for consideration prior to the OEB issuing this Decision.

3 ORGANIZATION OF THE DECISION

In this Decision, the OEB addresses the following issues, and provides reasons for approving or denying Renfrew Hydro's proposals relating to each of them:

- Price Cap Adjustment
- Revenue-to-Cost Ratio
- Retail Transmission Service Rates
- Group 1 Deferral and Variance Accounts
- Residential Rate Design

In the final section, the OEB addresses the steps to implement the final rates that flow from this Decision.

4 PRICE CAP ADJUSTMENT

Renfrew Hydro seeks to increase its rates, effective January 1, 2018, based on a mechanistic rate adjustment using the OEB-approved *inflation minus X-factor* formula applicable to Price Cap IR applications.

The components of the Price Cap IR formula applicable to Renfrew Hydro are set out in Table 4.1, below. Inserting these components into the formula results in a 0.75% increase to LDC's rates: $0.75\% = 1.20\% - (0.00\% + 0.45\%)$.

Table 4.1: Price Cap IR Adjustment Formula

Components		Amount
Inflation Factor ²		1.20%
X-Factor	Productivity ³	0.00%
	Stretch (0.00% – 0.60%) ⁴	0.45%

The inflation factor of 1.20% applies to all Price Cap IR applications for the 2018 rate year.

The X-factor is the sum of the productivity factor and the stretch factor. It is a productivity offset that will vary among different groupings of distributors. Subtracting the X-factor from inflation ensures that rates decline in real, constant-dollar terms, providing distributors with a tangible incentive to improve efficiency or else experience declining net income.

The productivity component of the X-factor is based on industry conditions over a historical study period and applies to all Price Cap IR applications for the 2018 rate year.

The stretch factor component of the X-factor is distributor specific. The OEB has established five stretch factor groupings, each within a range from 0.00% to 0.60%. The

² Report of the Board - "Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors" EB-2010-0379, December 4, 2013

³ Ibid.

⁴ The stretch factor groupings are based on the Report to the Ontario Energy Board – "Empirical Research in Support of Incentive Rate-Setting: 2016 Benchmarking Update", prepared by Pacific Economics Group LLC., July 15, 2017

stretch factor assigned to any particular distributor is based on the distributor's total cost performance as benchmarked against other distributors in Ontario. The most efficient distributor would be assigned the lowest stretch factor of 0.00%. Conversely, a higher stretch factor would be applied to a less efficient distributor (in accordance with its cost performance relative to expected levels) to reflect the incremental productivity gains that the distributor is expected to achieve. The stretch factor assigned to Renfrew Hydro is 0.45%.

Findings

The OEB finds that Renfrew Hydro's request for a 0.75% Price Cap IR adjustment is in accordance with the annually updated parameters set by the OEB. The adjustment is approved, and Renfrew Hydro's new rates shall be effective January 1, 2018.

The adjustment applies to distribution rates (fixed and variable charges) uniformly across all customer classes.⁵

5 REVENUE-TO-COST RATIO ADJUSTMENTS

A revenue-to-cost ratio measures the relationship between the revenues that a distributor expects to receive from a class of customers and the level of costs allocated to that class. Generally, an increase to the revenue-to-cost ratio of one rate class will result in a decrease to the ratio of one or more of the other rate classes. A distributor may seek to adjust its revenue-to-cost ratios during an IRM term, in accordance with OEB-established target ranges, if the adjustment was approved by the OEB in a previous proceeding.⁶

In this application, Renfrew Hydro proposes an increase to the revenue-to-cost ratios for general service 50 to 4,999 kW service classification. The additional revenues from these adjustments would be used to reduce the revenue-to-cost ratios for unmetered scattered load service classification and street lighting service classification customers.

⁵ Price Cap IR and Annual IR Index adjustments do not apply to the following rates and charges: rate riders, rate adders, low voltage service charges, retail transmission service rates, wholesale market service rate, rural or remote electricity rate protection charge, standard supply service – administrative charge, transformation and primary metering allowances, loss factors, specific service charges, microFIT charge, and retail service charges.

⁶ Report of the Board – “Application of Cost Allocation for Electricity Distributors.” EB-2007-0667, November 28, 2007; and, Report of the Board – “Review of Electricity Distribution Cost Allocation Policy.” EB-2010-0219, March 31, 2011

Table 5.1, below, outlines the revenue-to-cost ratios for which the applicant seeks approval for the 2018 rate year.

Table 5.1: Revenue-to-Cost Ratios

Rate Class	2017 Ratio (%)	Proposed 2018 Ratio (%)
RESIDENTIAL SERVICE CLASSIFICATION	95.63%	95.63%
GENERAL SERVICE LESS THAN 50 SERVICE CLASSIFICATION	120.07%	120.07%
GENERAL SERVICE 50 TO 4,999 KW SERVICE CLASSIFICATION	92.69%	96.70%
UNMETERED SCATTERED LOAD SERVICE CLASSIFICATION	220.09%	160.00%
STREET LIGHTING SERVICE CLASSIFICATION	160.00%	120.00%

Findings

The OEB agrees that the proposed adjustments for the 2018 rate year are consistent with OEB’s findings in its decision for Renfrew Hydro's 2017 rates.⁷ Renfrew Hydro’s revenue-to-cost ratios are approved, as set out in Table 5.1 above.

6 RETAIL TRANSMISSION SERVICE RATES

Distributors charge retail transmission service rates (RTSRs) to their customers to recover the amounts they pay to a transmitter, a host distributor or both for transmission services. All transmitters charge Uniform Transmission Rates (UTRs) approved by the OEB to distributors connected to the transmission system. Host distributors charge RTSRs to distributors embedded within the host’s distribution system.

Renfrew Hydro is fully embedded within Hydro One Networks Inc.’s distribution system and is requesting approval to adjust the RTSRs that it charges its customers to reflect the rates that it pays for transmission services included in Table 6.1.

⁷ Decision and Rate Order, EB-2016-0166, February 9, 2017

Table 6.1: Hydro One Networks Inc. Sub-Transmission RTSRs⁸

Current Applicable UTRs (2017)	per kWh
Network Service Rate	\$3.19
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.77
Transformation Connection Service Rate	\$1.75

Findings

Renfrew Hydro's proposed adjustment to its RTSRs is approved. The RTSRs were adjusted based on the current host-RTSRs.

The differences resulting from the approval of new 2018 UTRs or RTSRs will be captured in Accounts 1584 and 1586 for future disposition.

7 GROUP 1 DEFERRAL AND VARIANCE ACCOUNTS

In each year of an IRM term, the OEB will review a distributor's Group 1 deferral and variance accounts in order to determine whether their total balance should be disposed.⁹ OEB policy requires that Group 1 accounts be disposed if they exceed (as a debit or credit) a pre-set disposition threshold of \$0.001 per kWh, unless a distributor justifies why balances should not be disposed.¹⁰ If the balance does not exceed the threshold, a distributor may elect to request disposition.

The 2016 actual year-end total balance for Renfrew Hydro's Group 1 accounts including interest projected to December 31, 2017 is a debit of \$19,533. This amount represents a total debit claim of \$0.0002 per kWh, which does not exceed the disposition threshold.

⁸ Decision and Rate Order, EB-2016-0081, December 21, 2016

⁹ Group 1 accounts track the differences between the costs that a distributor is billed for certain IESO and host distributor services (including the cost of power) and the associated revenues that the distributor receives from its customers for these services. The total net difference between these costs and revenues is disposed to customers through a temporary charge or credit known as a rate rider.

¹⁰ "Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)", EB-2008-0046, July 31, 2009

Findings

The OEB finds that no disposition is required at this time as the disposition threshold has not been exceeded.

8 RESIDENTIAL RATE DESIGN

All residential distribution rates currently include a fixed monthly charge and a variable usage charge. The OEB's residential rate design policy stipulates that distributors will transition residential customers to a fully fixed monthly distribution service charge over a four-year period, beginning in 2016.¹¹ Renfrew Hydro did not file an application in 2016, therefore this is Renfrew Hydro's second year of transition. The OEB requires that distributors filing IRM applications affecting 2018 rates continue with this transition by once again adjusting their distribution rates to increase the fixed monthly service charge and decrease the variable charge consistent with the policy.

The OEB expects an applicant to apply two tests to evaluate whether mitigation of bill impacts for customers is required during the transition period. Mitigation usually takes the form of a lengthening of the transition period. The first test is to calculate the change in the monthly fixed charge, and to consider mitigation if it exceeds \$4. The second is to calculate the total bill impact of the proposals in the application for low volume residential customers (defined as those residential RPP customers whose consumption is at the 10th percentile for the class). Mitigation may be required if the bill impact related to the application exceeds 10% for these customers.

Renfrew Hydro notes that the implementation of the transition results in an increase to the fixed charge prior to the price cap adjustment of \$2.50. The bill impacts arising from the proposals in this application, including the fixed rate change, are below 10% for low volume residential customers.

Findings

The OEB finds that the proposed 2018 increase to the monthly fixed charge is calculated in accordance with the OEB's residential rate design policy. The results of the monthly fixed charge, and total bill impact for low consumption residential consumers show that no mitigation is required. The OEB approves the increase as proposed by the applicant and calculated in the final Rate Generator Model.

¹¹ As outlined in the Report cited at footnote 1 above.

9 IMPLEMENTATION AND ORDER

This Decision is accompanied by a Rate Generator Model, applicable supporting models, and a Tariff of Rates and Charges (Schedule A).

Model entries were reviewed in order to ensure that they are in accordance with Renfrew Hydro's last COS decision, and to ensure that the 2017 OEB-approved Tariff of Rates and Charges, as well as the cost, revenue and consumption results from 2016, are as reported by Renfrew Hydro to the OEB.

The Rate Generator Model was adjusted, where applicable, to correct any discrepancies. The Rate Generator Model incorporates the rates set out in the following table.

Table 9.1: Regulatory Charges

Rate	per kWh
Rural or Remote Electricity Rate Protection (RRRP)	\$0.0003
Wholesale Market Service (WMS) billed to Class A and B Customers	\$0.0032
Capacity Based Recovery (CBR) billed to Class B Customers	\$0.0004

Each of these rates is a component of the "Regulatory Charge" on a customer's bill, established annually by the OEB through a separate generic order. The RRRP rate was set by the OEB on June 22, 2017.¹² The WMS and CBR rates were set by the OEB on December 15, 2016.¹³

¹² Decision and Order, EB-2017-0234, June 22, 2017

¹³ Decision and Order, EB-2016-0362, December 15, 2016

THE ONTARIO ENERGY BOARD ORDERS THAT

1. The Tariff of Rates and Charges set out in Schedule A of this Decision and Rate Order is approved effective January 1, 2018 for electricity consumed or estimated to have been consumed on and after such date. Renfrew Hydro Inc. shall notify its customers of the rate changes no later than the delivery of the first bill reflecting the new rates.

DATED at Toronto, [date]

ONTARIO ENERGY BOARD

Kirsten Walli
Board Secretary

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Schedule A

To Decision and Rate Order

Tariff of Rates and Charges

OEB File No: EB-2017-0072

DATED: [date]