Ontario Energy Board | **Commission de l'Énergie de l'Ontario**

Ontario

EB-2007-0074

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 PowerStream Inc. for an Order or Orders approving or fixing just and reasonable rates for distribution service.

BEFORE: Cynthia Chaplin
Presiding Member

Paul Vlahos
Member

Cathy Spoel
Member

DECISION AND ORDER

On March 7, 2007, PowerStream Inc. ("PowerStream") filed an Application with the Ontario Energy Board (the "Board) pursuant to section 78 of the *Ontario Energy Board Act, 1988* for an order or orders approving or fixing just and reasonable rates for the distribution of electricity. PowerStream is a licensed distributor providing electrical service to consumers within its defined service areas as specified in its licence ED-2004-0420 in the Town of Markham ("Markham"), the Town of Richmond Hill ("Richmond Hill"), the City of Vaughan ("Vaughan"), and the Town of Aurora ("Aurora"). This Application was filed by PowerStream in response to the Board's direction in RP-2005-0020/EB2006-0409 to bring forward a proposal to harmonize its rates in 2007. Prior to this Application, four sets of rates were in effect, one for each municipality served.

Public notice of the Application was given through newspaper publication in Powerstream's service area. The evidence filed in support of the Application was made available for review by interested members of the public. While the Board has considered the entire record in this proceeding, and has found it sufficient, it has made reference in this Decision only to such parts of the record as are necessary to provide context to its findings.

To harmonize its rates, PowerStream performed the following four steps:

1. Combined the approved 2006 EDR revenue requirements of PowerStream and Aurora as adjusted for the new capital structure and PILs, and combined Retail Transmission Rates and distribution losses to produce one set of new 2006 rates using the 2006 EDR model,
2. Allocated the combined 2006 revenue requirement to the rate classes using the Board developed cost allocation model and compared those allocated costs to the revenues from the combined 2006 rates to determine the differences between the rates and allocated costs,
3. Re-aligned the combined 2006 rates by closing the differences by 25% between the allocated costs and the combined rates by rate class, and
4. Applied the re-aligned 2006 rates to the 2007 IRM model to produce the proposed rates for which PowerStream is seeking approval.

In support of this application, PowerStream pre-filed evidence and appeared at a Technical Conference held at the Board's offices on June 11, 2007.

In reviewing the evidence the Board considered the following:

1. What is the impact on revenue requirement?
2. Is the proposal to incorporate the Board's proposed cost allocation model reasonable?
3. Was the Board's final finding for the price cap index adjustment in 2007 EDR applied to the 2007 IRM Model?
4. Are the changes in the levels of the fixed monthly charges reasonable?
5. Are the total bill impacts reasonable?
6. What is an appropriate implementation date?
7. Other rate matters addressed by PowerStream in their application; combining Retail Transmission Rates, combining distribution losses, and the treatment of Regulatory Assets.

For the reasons set out below, the Board approves PowerStream's application.

Revenue Requirement Impact

The application is not revenue neutral. The 2006 revenue requirement for PowerStream increases by $111,272 to $104,330,964 from $104,219,692, which represents about a 0.1% increase. The main drivers for the net change in the revenue requirement arise from the acquisition of Aurora Hydro. They are:

- Changing Aurora's Debt Equity ratio from 50/50 to 60/40, debt to equity,
- Retiring Aurora's $12,736,000 promissory note at 7.25% and replacing it with a note at the deemed rate of 6.12%.

As a result of these changes in capital structure and debt costs, Net Income Before PILs and PILs changed, which resulted in a net increase in the revenue requirement.

The Board approves the changes in capital structure and related costs for the purposes of setting the 2006 revenue requirement as the first step in the harmonization of rates. In making this finding, the Board considered the increase in revenue requirement to be *de minimis* in the context of this application.

The Move to Allocated Costs

In the second step in harmonization PowerStream allocated its harmonized 2006 EDR costs to the rate classes using the cost allocation model issued by the Board on November 15, 2006. The combined rates were used to develop revenues for comparison to the allocated costs. PowerStream proposes to reduce the difference between the revenues and the allocated costs by 25% for each rate class. This step is revenue neutral for the utility in totality.

While the cost allocation model was developed collaboratively with stakeholders, the Board has not yet made a decision on the implementation of the model in rate making. However, as PowerStream is not proposing to fully implement the allocated costs arising from the model, there will be an opportunity to make any adjustments that might be required once the Board has made a decision on the use of the cost allocation model. The Board finds this approach to be reasonable.

Application of the Price Cap Index Adjustment to the 2007 IRM Model

The Board notes that the application by PowerStream was submitted prior to the Decision on the 2007 price cap index adjustment in the 2007 EDR. In its Decision in 2007 EDR, the Board approved a price cap index adjustment of 1.90%. PowerStream's application incorporated the default rate of 1.92% coded into the model distributed by Board staff for the 2007 EDR. The Board has reflected the approved 1.90% in setting the final rates.

Fixed Monthly Charges

The split between the fixed monthly charge and the variable charge is proposed to change upon harmonization. Every existing rate would be moved to a new common rate resulting from applying the harmonized costs to the 2006 EDR model. Thus, a change for all would naturally occur. The overall changes to the fixed/variable split in rates are not more than 3%. The Board accepts the resulting proposed fixed monthly charges.

Total Bill Impacts from Harmonization

Based on the evidence, no rate class would experience an increase greater than 10%, except for street lighting and sentinel lighting. The Board recognizes that when rates are harmonized, some customers will experience an increase and others a decrease. In the case of its residential customers, PowerStream's evidence shows that the largest increase for a typical residential customer would occur in Vaughan (2.5%) and the largest decrease in Aurora (8.2%). For General Service customers (less than 50 kW) using 2,000 kWh, the change in bills would range from +2.5% (in Markham) to -5.9% (in Aurora).

The total bill for street lighting in Markham would increase by 17.3%. However, PowerStream pointed out that Markham has mitigated the impact by contracting for supply through a third party. The total bill for sentinel lights, i.e. security lighting in farm lanes and other places, would increase by over 20%. The Board notes, however, that the maximum bill increase would only be $3.95 due to the low monthly bill for sentinel lighting.

The Board finds these changes to be reasonable under the circumstances surrounding harmonization of PowerStream's rates.

Implementation Date

The original application did not include an implementation date. At the Technical Conference, PowerStream stated that they would not want an effective date later than November 1, 2007. PowerStream also advised that they would appreciate a month to effect the changes to the billing system and prepare customer communication material. The Board directs PowerStream to implement the rates effective November 1, 2007.

Other Rate Matters

In the process of harmonization, PowerStream also addressed the issues of combining Retail Transmission Rates and incorporating distribution losses. The proposed approach would result in all customers paying the same average rate for retail transmission service and distribution losses. The Board accepts this blending of these costs as proposed in the application.

PowerStream, however, did not propose blending the Regulatory Assets. PowerStream proposed to keep the existing charges separate in the four operating areas. PowerStream pointed out that these costs were incurred prior to amalgamation and should therefore remain separate. The Board agrees with this and directs that PowerStream maintain the Regulatory Asset accounts separately by operating area until the rate riders associated with the Regulatory Assets account are removed.

Costs

The Board directs that the Board's costs of, and incidental to, this proceeding be paid by PowerStream immediately upon receipt of the Board's invoice.

THE BOARD ORDERS THAT:

1. The Tariff of Rates and Charges set out in Appendix "A" of this Order is approved, effective November 1, 2007.

2. The Tariff of Rates and Charges set out in Appendix "A" of this Order supersedes all previous distribution rate schedules approved by the Ontario Energy Board for PowerStream Inc. and Aurora Hydro Connections Inc.

3. PowerStream Inc. shall notify its customers of the rate changes no later than with the first bill reflecting the new rates.

DATED at Toronto, July 26, 2007.

ONTARIO ENERGY BOARD

Original Signed by

Peter H. O'Dell
Assistant Board Secretary

Appendix "A"

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July 26, 2007

ONTARIO ENERGY BOARD