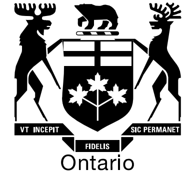
Ontario Energy Board

Commission de l'énergie de l'Ontario



EB-2007-0901

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 Espanola Regional Hydro Distribution Corporation for an order approving or fixing just and reasonable rates and other charges for the distribution of electricity to be effective May 1, 2008.

BEFORE: Paul Vlahos
Presiding Member

Bill Rupert
Member

DECISION

June 3, 2008

Espanola Regional Hydro Distribution Corporation ("Espanola" or "the Company") is a distributor of electricity that operates in Northern Ontario near the north shore of Lake Huron. It serves 3,268 metered customers in three urban communities – the Town of Espanola, Massey and Webbwood, the latter two being communities located within the municipality of the Township of Sables-Spanish Rivers. The Company is owned by Espanola Regional Hydro Holdings Corporation, which in turn is owned by the Town of Espanola (81%) and the Township of Sable-Spanish Rivers (19%).

Espanola is one of over 80 electricity distributors in Ontario that are regulated by the Board. In 2006, the Board announced the establishment of a multi-year electricity distribution rate-setting plan for the years 2007-2010. In an effort to assist distributors in preparing their applications, the Board issued the *Filing Requirements for Transmission and Distribution Applications* on November 14, 2006. Chapter 2 of that document outlines the filing requirements for cost of service rate applications, based on a forward test year, by electricity distributors.

On May 4, 2007, as part of the plan, the Board indicated that Espanola would be one of the electricity distributors to have its rates rebased in 2008. Accordingly, the Company filed a cost of service application based on 2008 as the forward test year. In accordance with the Board's plan, Espanola was to file its application and evidence by August 15, 2007 to provide sufficient time so that its new rates can be implemented May 1, 2008. Espanola filed its application on November 6, 2007.

The application indicated that the existing rates would produce a revenue deficiency of $240,637 for 2008. The resulting rate increase was estimated as 3.3% on the distribution component of the bill for a residential customer consuming 1,000 kWh per month.

The Board assigned the application file number EB-2007-0901 and issued a Notice of Application and Hearing dated December 7, 2007. The Board approved two interventions in the proceeding: one from the School Energy Coalition ("SEC") and the other from the Vulnerable Energy Consumers Coalition ("VECC"). Both were active in submitting interrogatories and arguments. Board staff also posed interrogatories and made submissions. Espanola's reply argument was filed on April 21, 2008.

The full record is available at the Board's offices. The Board has chosen to summarize the record to the extent necessary to provide context to its findings.

RATE BASE

For a distributor, rate base consists of net fixed assets (gross fixed assets minus accumulated depreciation and any contributed capital) plus an allowance for cash working capital. Net fixed assets are determined as the average of the beginning and the end year values, and reflect capital additions for the test year. The Board's guidelines stipulate a level of cash working capital equal to 15% of the sum of OM&A expenses and the cost of power. The cost of power consists of the commodity cost of power and transmission charges. The Company proposed a rate base of $2,763,963 for the 2008 test year, of which $869,130 is for working capital.

The Board deals below with the following issues: capital expenditures; and, working capital.

Capital Expenditures

The Company proposed a capital expenditure level of $204,399 for 2008. This level compares with $146,808 in 2007 and $98,444 (as revised) in 2006.

The main drivers for the increase in 2008 from prior years are the replacement of deteriorated poles ($98,196) and the replacement of underground primary cable ($41,644). Capital expenditures for customer demand projects (new or upgraded services) were estimated at $30,000.

The Company has undertaken an asset condition assessment study but it has not yet been completed.

Board staff noted that, as the condition assessment has not yet been completed, it is unclear as to how the expenditure levels were determined. Board staff also noted that, as the service reliability indicators had not been factored into the determination of the 2008 expenditures, insufficient evidence was provided for the proposed capital expenditures.

VECC questioned the validity of the Company's assertions that sustaining investment in pole replacement will need to target 40 poles per year and the long term target for annual sustaining reinvestment in underground conduit will be double 2008 spending levels. VECC suggested that the Company may be pre-judging the outcome of the study.

VECC suggested that the Board should include a nominal 5% allowance for capital contributions associated with the Company's capital budget for new and upgraded services based on 2006 experience, which would result in a $1,500 reduction in the 2008 rate base.

Board Findings

There is no doubt that the proposed levels of capital expenditure are considerably higher compared to historical norms. Higher spending proposals must be supported by evidentiary support, the degree of which is commensurate with the extent of the increases sought. The evidence in this case supports to an extent the need for increased spending, but not to the level proposed. This is particularly so since the asset condition assessment has not yet been completed, including the planned external review of the study. Also, the Company's evidence is that it has no major capital projects planned and that the proposed capital budget is based on only upgrading existing infrastructure. In the circumstances, the Board feels that a reduction to the proposed capital budget is warranted. The Board approves an envelope of capital expenditures of $165,000 for 2008 or approximately 80% of the proposed capital budget for ratemaking purposes.

The Board notes that the Company did not respond to VECC's argument that inclusion of an amount for capital contributions is warranted. The Board finds VECC's proposal reasonable and directs the Company to subtract $1,500 from rate base.

Working Capital

VECC noted that the Company proposed to increase all three components of transmission service for which it pays, when in fact, these should be decreasing in light of the Board's approval of lower transmission and connection services for Hydro One Transmission and Hydro One's Distribution's application currently before the Board.

Board Findings

Later in this Decision, the Board accepts a reduction to the Company's Retail Transmission Service rates to reflect lower transmission and connection charges. Therefore, the cash working capital will need to be recalculated to reflect these findings.

In Chapter 2 of the Board's filing requirements for distributors, the Board suggests that, when filing, the cost of power will be that available from the most recent Board-approved Regulated Price Plan ("RPP"). In the Board's view, there are benefits and no cost for the electricity distribution sector and for the Board to have one common cost of commodity power forecast. As long as the Board is required to produce a cost of power forecast in its responsibility to set RPP prices, and to the extent that the Board's forecast covers a period which can subsume in whole or in large part the test period for setting distribution rates, it makes good sense to utilize that forecast. Applying individual efforts by each distributor can lead to inconsistencies among distributors, can be expensive and is unnecessary. The Navigant forecast used by the Board to set RPP prices for May 1, 2008 onward covers most of the Company's test year filing. The Board prefers that the use of Navigant's forecast prices should be used in this case and it so finds. The Board directs the Company to reflect in its re-calculation of cash working capital an all-in supply cost of $0.0545/kWh derived from the Board's Price Report issued April 11, 2008.

OPERATING COSTS

Operating costs include OM&A expenses, depreciation and amortization expenses, payments in lieu of taxes (PILs taxes), and any transformer allowance payments to customers. PILs taxes are proxies for capital and income taxes that, otherwise, would have to be paid if the distributor was not owned by a municipality or the Ontario government.

The final PILs tax allowance for ratemaking purposes is determined after the Board makes its findings on other relevant parts of the Company's application. Espanola has not applied for PILs taxes to be recovered in 2008 rates as it has non-capital tax losses of $457,257 that it can carry forward to shelter taxable income in 2008, and beyond. Also, the Company has no Large Corporate Tax or Ontario Capital Tax payable.

Operating costs also include interest charges on the Company's debt. These are dealt with in the cost of capital section of the Decision.

The Board deals below with the issue of controllable OM&A expenses.

Controllable OM&A Expenses

The table below shows the components of the proposed controllable OM&A expenses for 2008 and compares them with previous years.

Controllable OM&A Expenses ($)

	2006 Actual	2007 Bridge Year	2008 Test Year
Operations	233,568	216,616	237,426
Maintenance	163,899	184,343	187,328
Billing and Collecting	267,466	251,828	254,687
Community Relations	1,000	2,000	2,000
Administrative and General Expenses	326,591	286,325	282,788
Total Controllable Expenses	**992,524**	**941,112**	**964,229**

The Company only has 5.5 Full Time Equivalent employees on its payroll. The total cost proposed for salaries and benefits is $421,672. Since January 1, 2006, a number of services are provided by PUC Services Inc., a non-affiliate, through a services agreement.

Board staff questioned whether Espanola's new arrangements with PUC Services produce reasonable costs compared to the old arrangement it had with Espanola Regional Hydro Services Corporation. Espanola responded that the increased costs were not arising from the management services agreement with PUC Services, but from the incorrect allocation of costs in the 2004 year, which was used as a basis to set 2006 rates. Espanola argued that the service agreement with PUC Services had allowed it to contain its costs and reduce costs in some areas, while also managing increased regulatory requirements.

SEC stated that it was unclear whether the regulatory consulting costs of $36,700 the Company proposed to include in 2008 rates were the 2008 costs amortized over three years, or costs expected to be realized each year. If the latter, SEC questioned whether regulatory consulting costs in non-rebasing years would be at the same level as during a year when a cost of service application is prepared. Espanola responded that this amount is the forecast average over three years (2008 to 2010) taking into consideration that there are costs in 2008 for rate rebasing and there will be costs in 2010 for the 2011 rate rebasing application. Espanola added that since it was expected that costs in 2008 and 2010 would be higher than in 2009, an average has been used for 2008.

VECC expressed surprise that the approximate $23,000 reduction in revenue earned by Espanola for work performed for other utilities since 2006 is not reflected in lower OM&A costs over the same period. Espanola explained that the revenue related to work performed for other utilities was based on labour and associated payroll burdens, and these costs had not been reduced by the reduction of work performed for other utilities, as the available labour is utilized to perform work on Espanola's system.

Board Findings

The Board notes that the 2008 controllable OM&A forecast expense of $964,229 represents a 2.5% increase over 2007 levels and is 3% lower compared to 2006 actual. The Board accepts the Company's proposed controllable OM&A expense as reasonable. In so finding, the Board accepted the explanations given by Espanola with respect to the issues raised by intervenors and Board staff.

OPERATING REVENUES

For the purposes of setting base distribution rates for the electricity sector, the Board determines the revenue requirement to be generated from sales of load. The revenue requirement is net of revenues from other sources. Espanola calculated the 2008 requirement at $1,340,404 which, after an allowance of $146,652 from revenue from other sources, leaves $1,193,752 to be recovered through distribution rates. Excluded from this amount is the "cost" of the transformer allowance of $12,958.

The Board deals below with the issue of load forecast.

Load Forecast

The Company's load forecast was developed using a normalized average consumption ("NAC") estimate for a given rate class multiplied by a customer count forecast for that rate class. The NAC value is based on 2004 consumption data that was generated by Hydro One using Hydro One's weather normalization model for the cost allocation initiative previously undertaken by the Board. The Company's load forecast is based on a forecast customer annual growth of negative 0.1 % from 2006 t0 2008. This compares with zero growth in the 2002-2006 period.

Board staff observed that the Company's methodology utilized only a single year of weather-normalized historical load to determine the future load. Board staff noted that this assumed that no CDM improvements had occurred over the past few years and that none were expected in the immediate future, and might therefore result in an overestimation of load. VECC indicated that while it had similar concerns about this approach, it was not clear that, in the short term, a better alternative exists.

Board Findings

The Board accepts the Company's customer forecast. The Board also accepts the Company's use of 2004 weather normalized data. The Board has noted Board staff's concerns but, as the Company notes in its evidence, the process to obtain these data was an intensive effort for all parties involved and it is leveraging the value of this work. The Company has not expressed concern that its load may be overestimated.

OTHER MATTERS

In this section, the Board deals with the following issues: Smart Meters;, Retail Transmission Service Rates; Low Voltage costs; and, Line Losses.

Smart Meters

Espanola is not one of the 13 distributors currently authorized by the Government to undertake smart meter activities and is not named in the combined smart meter proceeding (EB-2007-0063). Espanola did not include any amounts in rate base or in operating expenses for 2008 and proposed to retain the existing approved smart meter rate adder of $0.26 per month per metered customer. It stated that it is part of a

working group of distributors in northeastern Ontario who are working collaboratively on plans for smart meter implementation in 2009 and that it will file an application at a later time.

Board Findings

The Government has established a phased approach to the implementation of smart meters across the province. The Board is aware of the Ministry of Energy's December 21, 2007 letter to London Hydro indicating that the Ministry intends to recommend to Cabinet that Regulation 427/06 be amended to authorize more distributors to install smart meters.

Unlike other distributors (for example, Lakefront and PUC Distribution), Espanola is not forecasting to install any smart meters during the 2008 test year. For this reason, the Board finds that the Company's proposal to continue the existing $0.26 per month per metered customer is appropriate and is therefore approved.

Retail Transmission Service (RTS) Rates

On October 17, 2007, the Board issued its EB-2007-0759 Rate Order, setting new Uniform Transmission Rates for Ontario transmitters, effective November 1, 2007. The Board approved a decrease of 18% to the wholesale transmission network rate, a decrease of 28% to the wholesale transmission line connection rate, and an increase of 7% to the wholesale transformation connection rate.

On October 29, 2007, the Board issued a letter to all electricity distributors directing them to propose an adjustment to their retail transmission service ("RTS") rates to reflect the new Uniform Transmission Rates for Ontario transmitters effective November 1, 2007. The objective of resetting the rates was to minimize the prospective balance in variance accounts 1584 and 1586 and also to mitigate intergenerational inequities.

Espanola is an embedded distributor served by host distributor Hydro One. In its original application, Espanola proposed no change from currently approved rates in its Retail Transmission Rate – Network Service ("RTR-N") and Retail Transmission Rate – Line and Transformation Connection Service ("RTR-C").

Board staff noted that since Espanola is entirely embedded, its entire wholesale cost of transmission service is determined by Hydro One's rates for retail transmission service that apply to embedded distributors and that Hydro One has filed a proposal in its current application before the Board seeking a change in these rates. Board staff submitted that it may be reasonable for Espanola to calculate revised transmission retail rates based on Hydro One's proposed rates for retail transmission service that apply to embedded distributors. VECC supported Board staff's submissions.

In its reply submission, Espanola revised its RTR-N and RTR-C for all customer classes and proposed a rate decrease of approximately 22% and 11% respectively.

Board Findings

The Board finds that Espanola's revised proposal reasonable and accepts it.

Low Voltage Costs

Espanola is a totally embedded distributor, receiving all of its electricity through the host distributor Hydro One. Espanola's application includes $139,296 for Low Voltage charges by Hydro One. This compares with $133,538 incurred in 2007.

Board staff submitted that the forecast of Low Voltage costs should be based on the assumption that the applicable Sub-transmission rates in Hydro One's application currently with the Board will be approved. Board staff noted that, in the event that the rates are not approved as submitted in Hydro One's application, any discrepancy would be captured in a variance account.

Espanola submitted a revised forecast of its Low Voltage costs, comprising two types of line cost, two types of distribution station cost, and the proposed fixed and meter charges. The latter two charges are monthly charges, respectively $188 and $553. The revised cost forecast includes the monthly charges at a total of $35,568.

Espanola stated that it would update the LV Adjustments to the volumetric rates if the Board were to make such an order.

Board Findings

The Board is concerned that the revised forecast has not been tested by the parties and that the volumetric rates have not been produced. Also, there is a possibility that this would delay the rate order settlement process. The Board therefore directs the Company to use the data that it has submitted in its original application. In making this finding, the Board has noted that there is a variance account which will capture the difference in amounts paid to its host distributor and the amounts collected from customers.

Line Losses

Espanola is seeking approval for a Total Loss Factor of 1.0543 based on an underlying Distribution Loss Factor of 1.0495 (average of actual in the 3-year period 2004 to 2006) and a Supply Facilities Loss Factor of 1.0045.

Espanola's actual Distribution Loss Factor during the 3-year period 2004 to 2006 has steadily declined. Espanola attributed the decline to the steps taken to improve the determination of kWh associated with unbilled revenue.

Board staff submitted that the Distribution Loss Factor proposed by Espanola would be reasonably "in-line" with the Distribution Loss Factor of an embedded distributor, provided it includes losses incurred in the host distributor's system. Espanola responded that losses incurred in the host distributor's system are included in the Distribution Loss Factor.

Board Findings

The Board commends the Company for improving its Distribution Loss Factor and approves the proposed Total Loss Factor of 1.0543 as reasonable for purposes of setting 2008 rates.

CAPITALIZATION / COST OF CAPITAL

The Board's guidelines for capitalization and cost of capital components are set out in its *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* dated December 20, 2006 (the "Board Report"). The Board Report sets out the formulas and policy guidelines to be used to determine

capitalization of rate base, the return on equity and the deemed costs of long term and short term debt and sets out the process by which these figures will be updated.

In its pre-filed evidence, Espanola had proposed an overall cost of capital based on the following capitalization and cost of capital components.

Proposed Capital Structure / Cost of Capital

Parameter	Proposal
Capital Structure	53.3% debt (composed of 49.3% long-term debt and 4.0% short-term debt) and 46.7% common equity
Short-Term Debt Rate	4.77%, but to be updated
Long-Term Debt Rate	5.82% for a long-term debt with its parent company (affiliated debt) under negotiation.
Return on Common Equity	8.69%, but to be updated.

Espanola's 2006 rate base was capitalized only with debt. It has since been in the process of attaining a capitalization closer aligned with the Board's policy and it has been in negotiations with its parent regarding the cost of affiliate debt. In its application, Espanola used a deemed capital structure of 53.3% long-term debt and 46.7% equity to comply with the Board's direction to phase in a target 60:40 debt:equity ratio.

The Board announced updated cost of capital parameters on March 7, 2008. In setting the ROE for the establishment of 2008 rates, the Board has used the Consensus Forecasts and published Bank of Canada data for January 2008, in accordance with the Board's guidelines. In fixing new rates and charges for Espanola, the Board has applied the policies described in the Board Report. Based on the final 2007 data published by *Consensus Forecasts* and the Bank of Canada, the Board has established the ROE to be 8.57%.

The Board Report also established that the short-term debt rate should be updated using the methodology in section 2.2.2 of the Board Report. The Board has set the short-term debt rate at 4.47% using data from *Consensus Forecasts* and the Bank of Canada for January 2008.

The Board Report also established that the deemed long-term debt rate should be updated using the methodology in Appendix A of the Board Report. The deemed long-term debt rate acts as a proxy for or ceiling on the allowed debt rate for new, affiliated or variable rate debt, and may be applicable for establishing the embedded cost of debt in the test year period depending on the nature of the distributor's debt financing. The Board has set the deemed long-term debt rate at 6.10% based on data from Consensus Forecasts and TSX Inc. for January 2008.

Board staff submitted that the allowed long term debt rate should be the lower of the 5.82% and the 6.10% rate. VECC submitted that 5.82% would be appropriate if the restructuring is on track to occur in 2008; otherwise VECC submitted that the existing debt rate of 5% should apply. SEC submitted that, in the absence of a justification, the allowed rate should be 5%.

Board Findings

It appears from Espanola's reply argument that the Company is now seeking a cost rate of 6.10% for the affiliated debt. The Board does not accept this proposal. Neither Board staff nor intervenors had an opportunity to test and address why the 5.82% rate under negotiation with its parent is no longer appropriate.

Therefore, the issue is whether the appropriate cost rate for the long term capital component should be the current 5% or the originally proposed 5.82%. On the basis of the evidence, it appears that the 5.82% rate would be acceptable to the two parties. The Board considers this rate to be reasonable and directs the Company to use this figure for ratemaking purposes.

The table below sets out the Board's updated costs for the various components of the capital structure, which reflect the Board's recently published cost of capital parameters and the above findings.

Board-approved 2008 Capital Structure and Cost of Capital

Capital Component	% of Total Capital Structure	Cost (%)
Short-Term Debt	4.0	4.47%
Long-Term Debt	49.3	5.82%
Common Equity	46.7	8.57%
Total	100.0	

COST ALLOCATION AND RATE DESIGN

The following issues are dealt with in this section: Revenue to Cost Ratios; and, Monthly Fixed Charges.

Revenue to Cost Ratios

The Company filed results of a cost allocation study in the Informational Filing EB-2007-0001 as shown in Column 1 in the table below, based on its 2006 approved revenue requirement and rates. In its current application, the Company proposed the revenue to cost ratios for its rate classes shown in column 2 in the table below. The Board's target ranges contained in the Board's Cost Allocation Report for Electricity Distributors, dated November 28, 2007 (the "Cost Allocation Report"), are shown in column 3.

Revenue to Cost Ratios (%)

	Informational Filing / Run 2 **Col 1**	**Per Application: Exhibit 8 / p. 8** **Col 2**	**Board Target Range** **Col 3**
Residential	109	102	85 – 115
GS < 50 kW	113	109	80 – 120
GS > 50 kW	57	100	80 – 180
Street Lights	16	29	70 – 120
Sentinel Lights	32	47	70 – 120
Unmetered Scattered Load (USL)	92	92	80 – 120

Column 2 shows that two rate classes (Street Lights and Sentinel Lights) remain outside the Board's target range shown in Column 3.

With respect to the Street Lights rate class, Board staff noted that in other situations similar to Espanola's the Board has directed that the rates be increased to reach the Board's target range more quickly. SEC submitted that, given that street lights are owned by an affiliate, the Company cannot provide service under cost. VECC

submitted that the rates for the Street Lights class should be revised so that the ratio would be closer to the lower limit of the policy range.

With respect to the Sentinel Lights rate class, Board staff noted that a ratio of 51% would be half way to the lower limit of the Board's target range. VECC submitted that the ratio should be closer to the lower limit of the target range.

Board staff noted that the ratio for the General Service > 50 kW class moves from outside the range to the neutral point at 100%, with comparatively high bill impacts as a result. SEC observed that, with the ratio increased to 100% as proposed, the impacts on the distribution portion of the bill would range from approximately 70% to 100% above the current distribution bill. SEC suggested that the increase should be staggered over two years.

VECC submitted that the rates for GS > 50 kW should be revised to yield a ratio at the lower end of the target range. VECC argued that it is inconsistent to move this class all the way to 100% while leaving the Unmetered Scattered Load class ratio unchanged at 92%. VECC also pointed out that the ratios for Residential and GS < 50 kW are above 100% and that these classes should benefit from the additional revenues resulting from rate re-balancing.

Board Findings

As the Board has noted in the Cost Allocation Report, cost causality is a fundamental principle in setting rates. However, observed limitations in data affect the ability or desirability of moving immediately to a revenue to cost framework around 100%. The Board's target ranges are a compromise until such time as data is refined and experience is gained.

The Board is prepared to adopt the general principle that, where the proposed ratio for a given class (Column 2) is above the Board's target range (Column 3), there should be a move of 50% toward the top of the range from what was reported in its Informational Filing (Column 1). None of Espanola's classes are in this situation. Where the revenue to cost ratios in the Informational Filing (Column 1) are below the Board's ranges (Column 3), the rates for 2008 shall be set so that the ratios for these classes shall move by 50% toward the bottom of the Board's target ranges.

Under this approach, rates for two classes would be adjusted to achieve the following revenue to cost ratios:

Street Lights	43%
Sentinel Lights	51%

The Board expects the Company to achieve the remaining 50% move for these two classes by equal increments in years 2009 and 2010.

The above are the result of applying the general principle in the Cost Allocation Report . In this case, however, there is a specific Company proposal that concerns the Board, and it concerns intervenors and Board staff. While the Company-proposed ratio of 100% for the GS > 50 kW class is within the Board target range, the move is too quick from a rate impact perspective. The move to 100% shall be accomplished over two years, 2008 and 2009. Therefore the rates for this class would be adjusted to achieve a revenue to cost ratio of 78% for 2008, which is almost at the bottom of the Board's target range.

As a result of these findings, there will be a lower net revenue requirement that needs to be recovered from the other classes. The Board finds that the additional revenue from the Street Lights and Sentinel Lights rate classes shall be allocated to the GS < 50 kW and Residential, to be prorated on the basis of forecast revenue for each class.

In making the above findings, the Board has not been persuaded by SEC's argument that the Company cannot charge its affiliate, the owner of Street Lights, a rate below cost. The Board's Affiliate Relationships Code does not apply here since the rate class is open for any entity that satisfies the eligibility criteria for that rate class. The fact that the entity is an affiliate does not determine the issue.

In filing its Draft Rate Order, the Company shall provide the information necessary to establish its compliance with the above directions for 2008 rates.

Monthly Fixed Charges

The previously approved and proposed monthly fixed charges are shown in the table below.

Monthly Service Charges ($)

Rate Classification	Approved Fixed Charge	Proposed Fixed Charge
Residential	$10.13	$10.13
GS < 50 kW	$12.93	$18.17
GS > 50 kW	$123.11	$123.11
Street Light	$0.41	$0.82
Sentinel Light	$0.45	$0.90
USL	$6.47	$8.53

Board staff noted that the proposed Monthly Service Charge for the Residential class is held constant at the current approved amount, and is within the range between the floor and ceiling amounts calculated in the cost allocation model. VECC submitted that the proposal is appropriate.

Board staff noted that the proposed Monthly Service Charge for the General Service > 50 kW class is held constant at its current approved amount, which is above the calculated ceiling amount. Board staff submitted that the proposal is consistent with the Board's cost allocation policy. SEC supported the proposal to hold the charge constant.

Board staff indicated that the proposed monthly service charges for the remaining classes are within the range between the floor and ceiling in the cost allocation model. SEC supported the proposal to increase the charge to the GS < 50 kW class.

Board Findings

The Board notes that the proposed fixed charges are consistent with the Board's policy enunciated in the Cost Allocation Report and no party objected to the Company's proposals. The Board approves the monthly fixed charges as proposed by the Company.

DEFERRAL AND VARIANCE ACCOUNTS

The Company's proposals for disposition of accounts and creation of new accounts changed from its initial filing to its reply submission to reflect parties' submissions. The Company no longer seeks disposition of certain accounts and creation of a certain new account.

The Board deals below with the Company's remaining requests.

Disposition

The following table shows the deferral and variance account balances Espanola has sought to recover in its application.

Deferral and Variance Accounts Proposed for Disposition (balances as at April 30, 2008)

ACCOUNT #	ACCOUNT NAME	BALANCE REQUESTED FOR DISPOSITION
1508	Other Regulatory Assets	$56,165
1525	Miscellaneous Deferred Debits	$1,762
1550	Low Voltage Variance	$62,680
TOTAL		**$120,607**

Espanola's proposal is to collect these balances from ratepayers over two years.

Account 1508 (Other Regulatory Assets)

In its application, Espanola requested disposition of account 1508 with a total balance of $56,165. This balance consisted of $9,221 in sub-account OEB Costs Assessments and $46,944 in sub-account OMERS Pension Contributions.

Board staff noted that it is unclear from the application and interrogatory responses if Espanola ceased including principal amounts in account 1508 after April 30, 2006.

In its reply submission, Espanola noted that it had further reviewed the matter and determined that it did not cease including the principal amounts in account 1508 after April 30, 2006 for both sub-accounts. Espanola noted that after adjusting for principal and related interest, the revised amount is $42,330.

Board Findings

The Board approves the clearance of the $42,330 revised balance of Account 1508.

Account 1525 (Miscellaneous Deferred Debits)

Espanola is requesting the disposition of the balance of $1,762 in account 1525. This expense is associated with the issuance of refund cheques to customers under the Government's Ontario Price Credit.

Board Findings

The Board approves the $1,762 amount in Account 1525 to be disposed of as proposed by the Company.

Account 1550 (Low Voltage Variance)

Espanola requested disposition of Account 1550 in the amount of $62,680.

Board staff noted the Company's response to Board staff interrogatory #42 that for the period from May 1, 2006 to October 2006, the low voltage ("LV") costs were reflected in Account 4720 and were rolled into Account 4716 for variance purposes. Beginning November 2006, the LV costs were reflected in Account 4750. The amount in account 4720 was moved to account 4750. Board staff stated that it is unclear whether the amount rolled into Account 4716 for variance purposes was restated and moved to Account 4750. Board staff also stated that it was unclear whether Account 1550 was stated in accordance with Board guidance with respect to LV costs, as Account 4716 impacts Account 1586 and Account 4750 impacts Account 1550.

In its reply submission, Espanola submitted that there has been no misclassification in Accounts 1550 and 1586. From May 1, 2006 to October 2006 LV charges were recorded in Account 4720 and the entire amount was reclassified to Account 4750 from May 1, 2006 to October 2006 in accordance with the Accounting Procedures Handbook

("APH"). In addition, Espanola stated that Account 1550 was used to record the LV variance effective May 1, 2006 and the LV variance was recorded in Account 1586 for periods ended December 31, 2003 and April 30, 2006. Espanola also stated that it had reviewed Board guidance provided in the APH and the December 2005 Frequently Asked Questions and believed that it is in accordance with the guidance provided.

Board Findings

The Board is satisfied with the Company's explanation in that there is no misclassification in Accounts 1550 and 1586. The Board approves the amount of $62,680 requested for disposition in Account 1550.

Requested New Deferral Account - Late Payment Class Action Suit Account

A class action claiming $500 million in restitution payment plus interest was served on Toronto Hydro on November 18, 1998. The action was commenced against Toronto Hydro as the representative of the defendant class consisting of all electricity distributors in Ontario which have charged late payment charges on overdue bills at any time after April 1, 1981. Espanola requested a new deferral account to record any claim and costs that Espanola would incur assuming a claim against Toronto Hydro succeeds.

Board staff noted that, within the electricity sector, deferral and variance accounts are generally established and defined on a generic basis – not a utility specific basis.

VECC submitted that it is premature to approve this deferral and variance account. VECC stated that, should the need arise, the Board can authorize the creation of such an account on an industry wide basis and establish a common set of rules at that time. SEC concurred with VECC.

Espanola replied that it expects that the Toronto Hydro matter will be addressed before Espanola's next rebasing rate application. Espanola submitted that, based on the experience with the Enbridge Gas case, it would be reasonable and prudent to request a deferral account to record the costs that Espanola would incur assuming the claim against Toronto Hydro is allowed. It also submitted that this deferral account could be established on a province-wide basis.

Board Findings

The Board does not authorize the creation of the requested account for Espanola. The class action suit matter is not specific to Espanola. If and when the class action law suit against Toronto Hydro progresses, the Board will likely deal with the utility cost matter on a sector-wide basis.

IMPLEMENTATION MATTERS

The Board has made numerous findings throughout this Decision. These are to be appropriately reflected in a Draft Rate Order prepared by the Company.

The Board issued an Interim Rates Order on April 24, 2008 declaring rates interim as of May 1, 2008. However, as the Company was almost three months late in filing its application, and given the time that is typically required to settle matters before the Rate Order can be issued, the Board has determined that the effective date of the new rates shall be July 1, 2008. The current rates therefore shall continue until July 1, 2008. For additional clarity, the new rates to be filed by the Company shall be calculated on the basis that the revenue requirement arising from this Decision is recoverable over a twelve month period, but the new rates will not be effective and implemented until July 1, 2008.

The July 1, 2008 effective date is predicated on the Company complying with the timelines set out at the end of the Decision and its Draft Rate Order properly reflects the Board's findings. Should these not be reasonably adhered to, the effective date may be further delayed.

In filing its Draft Rate Order, it is the Board's expectation that the Company will not use a calculation of a revised revenue deficiency to reconcile the new distribution rates with the Board's findings in this Decision. Rather, the Board expects the Company to file detailed supporting material, including all relevant calculations showing the impact of this Decision on the Company's proposed revenue requirement, the allocation of the approved revenue requirement to the classes and the determination of the final rates. The Draft Rate Order shall also include customer rate impacts and detailed calculations of the revised variance account rate riders.

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

1. The Company shall file with the Board, and shall also forward to VECC and SEC, a Draft Rate Order attaching a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision, within 14 days of the date of this Decision.
2. VECC and SEC may file with the Board and forward to the Company any responses to the Company's Draft Rate Order within 20 days of the date of this Decision.

3. The Company shall file with the Board and forward to VECC and SEC responses to any comments on its Draft Rate Order within 26 days of the date of this Decision.

A cost awards decision will be issued after the steps set out below are completed.

4. VECC and VECC shall file with the Board and forward to the Company their respective cost claims within 26 days from the date of this Decision.

5. The Company may file with the Board and forward to VECC and SEC any objections to the claimed costs within 40 days from the date of this Decision.

6. VECC and SEC may file with the Board and forward to the Company any responses to any objections for cost claims within 47 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, June 3, 2008

ONTARIO ENERGY BOARD

Original Signed By

Paul Vlahos
Presiding Member

Original Signed By

Bill Rupert
Member