



EB-2005-0205

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 Tillsonburg Hydro Inc. for an order or orders approving or fixing just and reasonable rates.

BEFORE: Gordon Kaiser
Vice Chair and Presiding Member

Paul Sommerville
Member

Bob Betts
Member

DECISION AND ORDER

On January 17, 2005, Tillsonburg Hydro Inc. (“Tillsonburg” or the “Applicant”) filed with the Ontario Energy Board (the “Board”) an application under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, Schedule B, as amended (the “Act”), for an order or orders of the Board approving or fixing just and reasonable rates for the distribution of electricity, effective January 1, 2005.

Tillsonburg applied to increase the distribution rates effective January 1, 2005 to recover its full 1999 net loss of \$266,665 and associated Payment in Lieu of Taxes (“PILs”) of \$138,109, for a total of \$404,774.

On March 16, 2005, the Board issued a Notice of Application and Notice of Written Hearing which was published and served in accordance with the Board's direction. No interventions were received.

Copies of the Application including the evidence filed in this proceeding are available for review at the Board's offices.

Tillsonburg has made previous attempts to recover the 1999 net loss.

As part of an application dated June 21, 2002 (RP-2002-0134/EB-2002-0396), Tillsonburg proposed to recover the 1999 net loss of \$266,665 and associated PILs through a permanent adjustment to distribution rates.

As a result of the passage of Bill 210 on December 9, 2002, the processing of that application was discontinued and considered closed in accordance with subsection 4 (11) of Bill 210.

On February 11, 2004, Tillsonburg wrote to the Minister of Energy pursuant to s.79(6) of the *Ontario Energy Board Act* seeking the approval of the Minister to re-file the subject application with the Board. The Minister's approval was neither granted nor denied by the time the requirement to obtain Ministerial approval was repealed, effective January 1, 2005.

Board Findings

While the Board has considered all of the evidence filed in this proceeding, it has only referenced the evidence to the extent necessary to provide background to its findings.

In the Application filed on January 17, 2005, Tillsonburg requested a permanent adjustment to distribution rates effective January 1, 2005 to recover the 1999 net loss and associated PILs. Tillsonburg's dilemma arises as a consequence of the methodology employed in the initial unbundling of its distribution rates in 2000. At that time, distribution companies that had experienced an operating loss in 1999 were deemed to have neither a loss nor a gain in that year. Accordingly, the resulting rates

failed to take into account the loss that Tillsonburg had in fact experienced. This approach had the effect of somewhat artificially suppressing its rates and its rate of return on equity. Its rates and rate of return were impoverished to the extent of the unrecognised loss.

As a result of this approach, Tillsonburg submitted that it has experienced financial hardship. Tillsonburg submitted that it has cancelled and deferred of some significant capital projects since 2001. The Applicant has also tried to reduce its operations, maintenance and administration expenses ("OM&A") by entering into a services agreement with the Town of Tillsonburg.

In order to offset the revenue shortfall attributable to the unrecognised 1999 net loss, the Applicant submitted that it would have to reduce its OM&A costs by a further \$404,774 before taxes, which would represent a reduction of 40% of its 2004 OM&A expense total of \$1,010,395. Tillsonburg submitted that this was unattainable.

Tillsonburg submitted that the inevitable consequence of such cancellations, deferrals and reductions will be reduced service levels for customers, mainly in the area of reliability and responsiveness to consumer needs. It is Tillsonburg's intention to reintroduce these projects to enhance system reliability and to ensure public safety, if the application is successful.

The Board notes that Tillsonburg's net loss in 1999 was the result of its artificially lower rates in the 1990s to satisfy the requirement of the former regulator, Ontario Hydro, for working capital reduction.

During the course of the instant proceeding, Tillsonburg amended its application by withdrawing its request for recovery of the PILs associated with the 1999 net loss, and any retroactive amounts that would result from an effective date of January 1, 2005.

Included in the proposed rates is an amount of \$94,642 for PILs recovery. This amount is unchanged from the amount in the Applicant's current rates. Tillsonburg considers this amount sufficient for its projected PILs expense.

Accordingly, Tillsonburg now seeks an increase to its distribution rates to reflect an annualized recovery amount of \$266,665, effective August 1, 2005.

The bill impacts of the proposed increase are generally less than 5% for customers in the residential and general service classes in Tillsonburg's service territory. The impacts do not exceed 3.34% for a residential customer using 1,000 kWh per month and 2.92% for a general service customer with a demand of less than 50kW using 2,000 kWh per month. The Board notes that the proposed rates are comparable to those charged by neighbouring distributors.

Tillsonburg has demonstrated that the rate impacts are not significant and that it intends to use the revenues from the rate increase to pay for the necessary expenditures to protect system integrity and reliability. The Board considers that the Applicant has succeeded in demonstrating that the failure to recognize the 1999 loss in its distribution rates has resulted in the suspension or cancellation of projects that may have an impact on the overall reliability and responsiveness of its system. The Board approves the application as amended effective August 1, 2005.

In light of the above, the Board finds that it is in the public interest to order as follows.

THE BOARD ORDERS THAT:

1. The rate schedule attached is approved effective August 1, 2005, to be implemented as soon as possible thereafter on consumption following July 31, 2005.
2. If the Applicant's billing system is not capable of prorating to accommodate the implementation date, the new rates shall be implemented with the first billing cycle for electricity consumed or estimated to have been consumed after August 1, 2005.

3. All other Board approved rates and charges currently in effect that are not shown on the attached schedule remain in force.

DATED at Toronto, July 29, 2005

ONTARIO ENERGY BOARD

Original signed by

Peter H. O'Dell
Assistant Board Secretary

Tillsonburg Hydro Inc.
Schedule of Changed Distribution Rates

EB-2005-0205

Effective Date: August 1, 2005

RESIDENTIAL

| | | |
|------------------------------|-------------|----------|
| Monthly Service Charge | (per month) | \$10.86 |
| Distribution Volumetric Rate | (per kWh) | \$0.0140 |

GENERAL SERVICE < 50 KW

| | | |
|------------------------------|-------------|----------|
| Monthly Service Charge | (per month) | \$23.27 |
| Distribution Volumetric Rate | (per kWh) | \$0.0079 |

GENERAL SERVICE > 50 KW (Non Time of Use)

| | | |
|------------------------------|-------------|-----------|
| Monthly Service Charge | (per month) | \$93.92 |
| Distribution Volumetric Rate | (per kW) | \$0.6508 |
| Rate Rider | (per kW) | -\$0.6406 |

GENERAL SERVICE > 50 KW (Time of Use)

| | | |
|------------------------------|-------------|-----------|
| Monthly Service Charge | (per month) | \$794.14 |
| Distribution Volumetric Rate | (per kW) | \$0.3042 |
| Rate Rider | (per kW) | -\$0.8766 |

SENTINEL LIGHTS (Non Time of Use)

| | | |
|------------------------------|------------------|----------|
| Monthly Service Charge | (per connection) | \$1.13 |
| Distribution Volumetric Rate | (per kW) | \$6.6718 |

STREET LIGHTING (Non Time of Use)

| | | |
|------------------------------|----------------|------------|
| Monthly Service Charge | (per customer) | \$1,265.35 |
| Distribution Volumetric Rate | (per kW) | \$3.7741 |

Unmetered Scattered Loads

Billed at General Service < 50 kW rates

| | | |
|------------------------------|------------------|----------|
| Monthly Service Charge | (per connection) | \$23.27 |
| Distribution Volumetric Rate | (per kWh) | \$0.0079 |