



EB-2005-0285

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
S.O. 1998, c.M15, Sched. B;

AND IN THE MATTER OF an application by Cambridge and
North Dumfries Hydro Inc. for an order or orders approving
just and reasonable electricity distribution rates.

BEFORE: Paul Vlahos
Presiding Member

Cynthia Chaplin
Member

Cathy Spoel
Member

DECISION WITH REASONS

July 27, 2005

The Application and Background

Cambridge and North Dumfries Hydro Inc. (“CNDHI” or “the applicant”) is the licensed electricity distributor providing service to the City of Cambridge and the Township of North Dumfries. CNDHI has applied to the Ontario Energy Board under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 Sched. B for a rate adjustment to recover in rates costs associated with transformer station known as MTS#1.

The applicant constructed transformer station MTS#1 in 2002. That same year, CNDHI applied to the Board for rate relief for the costs associated with the transformer station. In late 2002, the legislature passed Bill 210, which discontinued all distribution rate applications that had commenced but had not been decided before the Bill came into force. As a result the CNDHI application was discontinued.

Under section 79.6 of the *Ontario Energy Board Act, 1998* as amended by Bill 210, an application to the Board for rate adjustment could be made with the written approval of the Minister of Energy. On July 24, 2003, CNDHI applied for a rate increase pursuant to a letter from the Minister permitting the application. The Minister’s letter contained several conditions, including the following:

Until the Board has determined the true cost of this service, Cambridge and North Dumfries Hydro shall collect \$1.50/kW for transformation connection service from the date the transformer station came into service.

By Order RP-2003-0178/EB-2003-0220, the Board implemented the directions from the Minister’s letter, and authorized CNDHI to collect \$1.50/kW effective July 1, 2002 for the transformation load incremental to the then existing transformation load provided by Hydro One. This authorization was “subject to final classification of the distribution company owned-transformer assets and the final determination of the true cost of service”. CNDHI was directed to record the revenues from the station in certain accounts.

The provisions of Bill 210 that prohibited rates applications except with the consent of the Minister were repealed in January 2005. By application dated April 29, 2005, CNDHI sought to reflect in its rates the incremental revenue requirement associated with the \$10.7 million capital investment in the transformer station and associated costs

since July 4, 2002, the date the transformer became operational. CNDHI calculated the incremental revenue requirement to be recovered from ratepayers at \$3,895,547. CNDHI sought to recover this amount by way of rate rider over a nine month period from August 1, 2005 to April 30, 2006. The increase on a typical residential customer's bill was calculated at 6.16% for the nine month period.

The Board directed the applicant to publish notice of its application. There were no interventions received in response to the notice. By letter dated June 21, 2005, the Board asked the applicant certain questions. Responses were provided by letter dated June 27, 2005. The full record of the proceeding is available to the public at the Board's offices.

Board Findings

Without a review of CNDHI's overall revenue requirement, the Board does not have sufficient information to conclude that the relief requested would result in just and reasonable rates. In general, the Board does not permit additions to utility rate base to be reflected in rates in the absence of a review of the prudence of the particular investment, the costs and return associated with the entire rate base, and the revenues of the utility (a rebasing exercise). If the costs associated with additions to rate base are selectively permitted into rates between rebasing years, there is a risk that rates for customers of the utility are higher than would be appropriate, as the multitude of other factors that affect revenue requirement are being ignored. For example, by the applicant's own evidence, it undertook the investment because of load growth in its service area. The offsetting income from the additional load has not been fully accounted for by the applicant. The applicant's rates may have been and may continue to be sufficient from an overall revenue requirement perspective for the period in question. The Board cannot approve requests for retroactive rate relief of this magnitude on a selective basis without evidence of an overall net revenue deficiency.

The Board asked the applicant, in light of the fact that CNDHI did not claim financial hardship and that the revenue from the interim rate appeared to be sufficient to cover claimed operating and interest costs, to enumerate the financial prejudice to CNDHI if this matter was to be considered as part of CNDHI's application for 2006 adjustments soon to be filed with the Board. The applicant confirmed that it was not claiming financial hardship, but pointed out that the completion of the transformer project has not

come without impact on its operations, and that it was uncertain whether the 2006 rate application process would accommodate the relief now being sought.

The Board recognizes that there has been no general rebasing for electricity distributors since 1999 and that distribution rates have been frozen since 2002. These circumstances have applied to all electricity distributors, although the Board has addressed some circumstances of financial hardship. The 2006 rate applications will be the first opportunity for most distributors, including CNDHI, to apply to have increases in distribution rate base reflected in rates.

With the pending rebasing based on 2004 data for establishing 2006 rates under the 2006 Distribution Rates Handbook, CNDHI will have an opportunity to include the assets and costs associated with the transformer station on a going forward basis, subject to the Board's deeming the transformer asset as a distribution asset. In the meantime, CNDHI will continue to benefit from the interim rate that was granted.

For the reasons above, the application by CNDHI is denied. Should CNDHI wish to pursue its request for retroactive rate relief within the context of a full revenue requirement review, it may do so as part of its application for 2006 rates.

DATED AT Toronto, July 27, 2005

Original signed by

Paul Vlahos
Presiding Member

Original signed by

Cynthia Chaplin
Member

Original signed by

Cathy Spoel
Member