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ONTARIO ENERGY BOARD

BB-2004-0511

RP-2004-0203

November 24, 2004

Mr. John Zych
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2601
Toronto, Ontario

**Re: Conservation and Demand Management Plan Deferral Account
Application - RP-2004-0203**

Dear Mr. Zych:

This Application is made by Kenora Hydro Electric Corporation Ltd. ("Company" or "Kenora Hydro") for an interim order of the Ontario Energy Board ("Board") to permit the establishment of a deferral account or accounts within which to track expenditures on conservation and demand management initiatives pursuant to the Minister of Energy's open letter to electricity distribution companies dated May 31, 2004.

Kenora Hydro has also asked the Minister of Energy to consider allowing the Company full recovery of its MARR of \$141,455.47 in light of the above-noted initiatives and not the one third in the amount of \$47,152.

The Company plans to begin work on the most appropriate conservation and demand management initiatives immediately and looks forward to the Board's interim order.

A handwritten signature in black ink, appearing to read "D. Sinclair", enclosed within a large, loopy oval shape.

David Sinclair
President and CEO

Cc: G. Lucas- Chair
K. Brown- Treasurer

APPLICATION

RP-2004-0203

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, Schedule B of the *Energy Competition Act, 1998*:

AND IN THE MATTER OF an Application by Kenora Hydro Electric Corporation Ltd. to establish a deferral account or accounts within which to track expenditures on conservation and demand management initiatives, pursuant to section 79.6 of the *Ontario Energy Board Act 1998*.

1. Introduction

- 1.1 Kenora Hydro Electric Corporation Ltd. ("Company") is a licensed electricity distribution business operating in the City of Kenora.
- 1.2 The Company submits this Application for an interim order in accordance with the Preliminary Guidelines issued by the Ontario Energy Board ("Board") dated July 16, 2004, to establish deferral accounts within which to track expenditures on conservation and demand management initiatives, with a special request of the Minister to allow Kenora Hydro Electric Corporation Ltd. to apply for, and recover, all three tranches of MARR. The Company feels the justification to the Minister for recovering the three tranches would be based on the following:

Between May 1998 and April 2002, Ontario Power Generation was underbilling for the cost of power ("COP") to the Company, which ultimately resulted in the underbilling in 1999, for the cost of power, of \$239,167 (this being the base year for the rate unbundling process).

The Company's MARR entitlement (at the rate of 9.88%) from the point of unbundling and with the cost of power (NOT CORRECTED) was \$525,767 on its rate base \$6.139 million with a return of \$384,312 leaving a change in revenue requirement of \$141,455.

Consequently, the Company chose to forego the first two years of MARR based on that profit level for the benefit of Kenora Hydro's customers.

Because of the error in the COP the Company's MARR entitlement (at 9.88%) was \$528,840 on its revised rate base of \$6.174 million with a revised return of \$145,146 requiring a

change in revenue of \$383,694. However, if the corrected COP had been in place at the time of the unbundling process the Company would not have foregone the first two years of MARR.

Consequently, and with the Minister's approval, the Company is prepared to allocate all of the MARR that would have been collected of \$141,455 not the one third (\$47,152) to conservation and demand management initiatives. The Company is confident, that with the higher expenditure amount, it can have a more meaningful and positive impact to the Minister's initiatives.

- 1.3 In this Application, the Company intends to propose the introduction of various conservation and demand management initiatives that require an expenditure equal to the Company's three tranches of MARR totaling \$141,455.47 to be spent by September 30, 2007 and recovered through a rate adjustment effective March 1, 2005.

2. Initiatives

- 2.1 The Company proposes to introduce both short-term and long-term initiatives that will reduce customers' overall energy demand through energy efficiency. The following initiatives will, in management's judgment, achieve energy efficiencies within our community and are fully endorsed by the Company's Board of Directors:

- Public awareness campaigns on GHG reduction, conservation and energy efficiency through behavioral changes and the purchase of energy efficient products;
- Load management measures to facilitate interruptible and dispatchable loads through the installation of load control equipment and devices;
- Installation of "smart" meters and related infrastructure as approved units become available;
- Research into applied wind and energy storage systems (including green heat), high efficiency lighting, and power electronics to be employed for energy efficiency and effective demand management activities; and
- Participate in shared initiatives with neighbouring distribution utility companies.

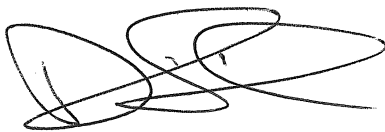
2.2 Prior to implementing any or all these initiatives, Kenora Hydro Electric Corporation Ltd, will consider the following:

- The cost-effectiveness of each initiative that will allow for the broadest range of customers to participate and share in the benefits of conservation and demand management investment by the Company;
- Determine and measure the expected results of each initiative to ensure consistency with government policy;
- Cooperate with other distributors as appropriate to coordinate various initiatives; and
- Take advantage of other government and/or community initiatives where these apply.
- Consider the viability and timeliness of future conservation projects that may satisfy corporate objectives.

3. Next Steps

The approval for the establishment of the deferral account or accounts will permit the Company to begin this work immediately.

Dated at Kenora, Ontario this 24th day of November, 2004.

A handwritten signature in black ink, appearing to read 'David Sinclair', with several loops and a long horizontal stroke extending to the right.

David Sinclair
President and CEO



November 24, 2004

The Honourable Dwight Duncan
Minister of Energy
900 Bay Street, 4th Floor
Hearst Block
Toronto, Ontario
M7A 2E1

**Re: Conservation and Demand Management Plan - Request For Full
Recovery of MARR - Application RP-2004-0203**

Dear Minister Duncan:

Kenora Hydro Electric Corporation Ltd. ("Company") is the licensed electricity distributor for the City of Kenora. The Company is actively pursuing conservation and demand management initiatives in its service territory as per your announcement and has made an application to the Ontario Energy Board ("OEB") for an interim order to establish the appropriate deferral account or accounts.

During the original 2000 rate unbundling process that all Ontario local electric distribution utilities were obliged to follow, the Company chose not to recover the first two tranches of the allowed market adjusted rate of return ("MARR") in order to protect its customers in the face of rate uncertainty in a restructured Ontario electricity market. This meant that the remaining third of MARR would be \$47,152.

Given the increasing importance of energy conservation and demand management and to ensure that the initiatives it undertakes are meaningful and progressive for both the utility and its customers over the long term, the Company's Board of Directors has instructed me to pursue a special request of you to allow Kenora Hydro Electric Corporation Ltd. to apply to the OEB to recover, all three tranches of MARR for the following reasons:

- 1) Between May 1998 and April 2002, Ontario Power Generation was underbilling for the cost of power ("COP") to the Company, which ultimately resulted in the underbilling in 1999, for the cost of power, of \$239,167 (this being the base year for the rate unbundling process).

The Company's MARR entitlement (at the rate of 9.88%) from the point of unbundling and with the cost of power (not corrected) was \$525,767 on its rate base \$6.139 million with a return of \$384,312 leaving a change in revenue requirement of \$141,455. As a result, the Company chose to forego the first two years of MARR based on that profit level for the benefit of Kenora Hydro's customers.

- 2) Because of the error in the COP the Company's MARR entitlement (at 9.88%) was \$528,840 on its revised rate base of \$6.174 million with a revised return of \$145,146 requiring a change in revenue of \$383,694. However, if the corrected COP had been in place at the time of the unbundling process the Company would not have foregone the first two years of MARR.
- 3) Consequently, and with your approval, the Company is prepared to allocate all of the MARR that would have been collected of \$141,455 not the one third (\$47,152) to conservation and demand management initiatives. The Company is confident, that with the higher expenditure amount, it can have a more meaningful and positive impact to the initiatives.

Your approval of Kenora Hydro's request to proceed to the OEB for an expenditure equal to the Company's three tranches of MARR totaling \$141,455.47 to be spent by September 30, 2007 and recovered through a rate adjustment effective March 1, 2005 for the purpose of conservation and demand management initiatives would allow the Company to begin work on the initiatives immediately. The initiatives that Kenora Hydro is giving serious consideration to include:

- An electricity distribution efficiency study to minimize losses including determination of an appropriate capital component (est. cost \$40K - 45K);
- Information and promotional programs (including incentives) and measures for customers to encourage energy savings through positive changes in consumption patterns, operations and behavior that will reduce GHG production (est. cost \$20K - 25K);
- Determination of the appropriate cost effective technical options for conservation and demand management behind customers meters for all customer classes (est. cost \$15K - 20K);
- Examine the application and the roll-out of smart metering technology and support infrastructure (est. cost \$20K - 25K); and
- Research into applied wind and energy storage systems (including green heat), high efficiency lighting, and power electronics to be employed for

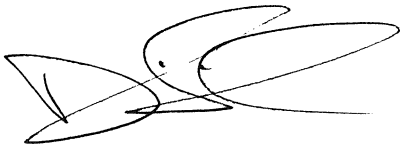
energy efficiency and effective demand management activities (est. cost \$20K - 25K).

The Board of Directors will ensure that any conservation and demand management initiatives that the Company undertakes are realistic, viable, cost efficient, cost effective and have the greatest chance of long term success for Kenora Hydro's customers. The costs of developing these initiatives including the operation, maintenance and administration of the programs will be part of this effort.

Kenora Hydro Electric Corporation Ltd. looks forward to receiving your support for the Company's request to recover the full MARR and the OEB's interim order.

If there are any matters that require clarification I would be pleased to answer them. I look forward to your response.

Yours truly,

A handwritten signature in black ink, appearing to read 'David Sinclair', with a stylized, sweeping flourish extending to the right.

David Sinclair
President and CEO

Cc: G. Lucas- Chair
K. Brown- Treasurer



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FEB 11 2005

ONTARIO ENERGY BOARD

File: 400.16

February 4, 2005

Mr. John Zych
Board Secretary
Ontario Energy Board
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Mr. Zych:

File
EB 2004 0511

Re: Kenora Hydro Demand Side Management Plan – Additional Details – RP-2004-0203

Further to my discussion with Mr. Stephen McComb, the following is the additional detail requested as it pertains to our Demand Side Management application.

Our proposal provides expenditures of \$141,455 over a period of two (2) years. The attached schedule demonstrates the yearly expenditures related to the DSM program.

Full program recovery through rates is \$141,455.

Should you require anything further please feel free to contact this office.

Sincerely,

A handwritten signature in black ink, appearing to read "D.E. Sinclair", is written over a horizontal line.

D.E. (Dave) Sinclair
President & CEO

c.c. Mr. Stephen McComb (OEB)
Ms. K. Brown
Ms. J. Robertson

Attachment

KENORA DEMAND SIDE MANAGEMENT PROGRAM

	2005	2006
PUBLIC AWARENESS		
<u>EXPENSES</u>		
INFORMATION SESSIONS	\$4,000.00	
ADVERTISING	\$3,455.00	
REBATE PROGRAM	\$8,000.00	
HOT WATER TUNE-UPS	\$7,000.00	
LOAD MANAGEMENT		
<u>EXPENSES</u>		
STUDY AND FOLLOW-UP	\$20,000.00	\$5,000.00
<u>CAPTIAL</u>		
UPGRADE EQUIPMENT	\$6,000.00	\$12,000.00
TECHNICAL OPTIONS		
<u>EXPENSES</u>		
STREET LIGHT LED RESEARCH		\$6,000.00
<u>CAPTIAL</u>		
TRAFFIC LIGHTS	\$20,000.00	
SMART METERS		
<u>EXPENSES</u>		
NET METERING STUDY	\$15,000.00	
<u>CAPITAL</u>		
SMART METERING	\$10,000.00	
RESEARCH ON DISTRIBUTED GENERATION		
<u>EXPENSES</u>		
WIND/SOLAR GENERATION		\$25,000.00
<u>SUBTOTAL</u>		
EXPENSES	\$57,455.00	\$36,000.00
CAPTIAL	\$36,000.00	\$12,000.00
	\$93,455.00	\$48,000.00
TOTAL PROGRAM	\$141,455.00	