



RP-2005-0013
EB-2005-0005

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 **Aurora
Hydro Connections Limited** for an order or orders
approving or fixing just and reasonable rates.

BEFORE: Gordon Kaiser
Vice Chair and Presiding Member

Paul Vlahos
Member

Pamela Nowina
Member

DECISION AND ORDER

Background and Application

In November 2003, the Ontario government announced that it would permit local distribution companies to apply to the Board for the next installment of their allowable return on equity beginning March 1, 2005. The Government also indicated that the Board's approval would be conditional on a financial commitment to reinvest in conservation and demand management initiatives, an amount equal to one year's incremental returns.

Also in November 2003, the Government announced, in conjunction with the introduction of Bill 4, the *Ontario Energy Board Amendment Act, (Electricity Pricing), 2003*, that electricity distributors could start recovering Regulatory Assets in their rates, beginning March 1, 2004, over a four year period.

In February and March, 2004, the Board approved the applications of distributors to recover 25% of their December 31, 2002 Regulatory Asset balances (or additional amounts for rate stability) in their distribution rates on an interim basis effective March 1, 2004 and implemented on April 1, 2004.

On December 20, 2004 the Board issued filing guidelines to all electricity distribution utilities for the April 1, 2005 distribution rate adjustments. The guidelines allowed the applicants to recover three types of costs. These costs concern (i) the rate recovery of the third tranche of the allowable return on equity (Market Adjusted Revenue Requirement or "MARR"), (ii) the 2005 proxy allowance for payments in lieu of taxes ("PILs") and (iii) a second installment of the recovery of Regulatory Assets.

A generic Notice of the proceeding was published on January 25, 2005 in major newspapers in the province, which provided a 14 day period for submissions from interested parties. On February 4, 2005, the Board issued Procedural Order No. 1, providing for an extension for submissions until February 16, 2005 and also providing for reply submissions from applicants and other parties.

The Applicant filed an application for adjustments to their rates for the following amounts:

MARR: \$820,000

2005 PILs Proxy: \$895,485

Regulatory Assets Second Tranche: \$2,226,011

Submissions

The Board received one submission which addressed the 2005 rate setting process in general. This submission was made by School Energy Coalition (SEC). SEC objected to the guideline which caused the recovery of the 2005 PILs proxy to be reflected only on the variable charge. SEC was also concerned that monthly service charges and overall distribution charges varied significantly between utilities across the province. SEC also raised concerns regarding the consistency of, and access to, information on the applications as filed by the utilities.

Reply submissions to SEC's general submissions were received from the Coalition of Large Distributors, the Electricity Distributors Association, Hydro One Networks, and the LDC Coalition (a group of 7 distributors). These parties generally argued against the recommendations put forward by SEC, by and large indicating that the Board's existing processes for 2006 and 2007 have been planned to address these issues going forward and that these issues should not be added to the 2005 rates adjustment process.

SEC made specific submissions for this application regarding the Applicant's request to increase the PILs proxy by \$70,241 and the Applicant's use of a monthly interest rate of 0.60417% to calculate interest on its regulatory asset accounts. SEC requested that the Applicant not be allowed to make an adjustment to the PILs proxy beyond those mandated by the Board for the 2005 application. SEC also requested that the interest calculation be filed, showing that it nets to the approved annual rate of 7.25%.

In reply, the Applicant stated that, of the \$70,241 PILs adjustment, a net amount of only \$48,698 is recoverable from the Applicant's customers. The balance is offset by the change in the PILs proxy calculation for 2005, according to the Board's filing guidelines.

The Applicant confirmed that the interest rate it proposes to charge on its regulatory asset balances is 7.25%. The interest rate was stated on page two of the Manager's Summary.

The full record of the proceeding is available for review at the Board's offices.

Board Findings

The Board first addresses the general submission of SEC. While SEC raises important issues regarding electricity distribution rates, the Board has put in place a process which will address most of the issues raised by SEC on a comprehensive basis with coordinated cost of service, cost allocation and cost of capital studies for all distributors in 2006, 2007 and 2008. The Board does agree that unless there are compelling reasons to diverge from the Board's original filing guidelines for the 2005 distribution rate adjustment process, distributors should follow the guidelines in their applications.

In regards to the issues raised by SEC, the Board finds that the PILs proxy requested by the Applicant was in fact \$40,043 less than what would have been generated had the Applicant followed the Board's guidelines. The Board therefore accepts the PILs proxy amount as filed.

Although the Application lacks a detailed explanation of the interest rate calculations, the Board finds that any potential overcharging of interest to the

regulatory asset accounts will be determined, and if necessary corrected, when the Applicant applies to the Board for final Phase 2 prudence review.

However, the Applicant's request for the recovery of 33% of the total regulatory asset balance, coupled with the change in RPP, generated a total bill impact of 10.78% for a typical residential customer using 1000 kWh per month. In order to mitigate the impacts on ratepayers, the Board deems it reasonable to limit the recovery of RSVAs to 75% of the amount requested. This is a deferral of \$600,000.

As a result, the Board has made adjustments to the amounts applied for resulting in the following approved amounts:

MARR: \$820,000

2005 PILs Proxy: \$895,485

Regulatory Assets Second Tranche: \$1,626,011

Subject to these adjustments, the Board finds that the application conforms with earlier decisions of the Board (including approval for the Applicant's Conservation and Demand Management plan), directives and guidelines.

The Board will issue a separate decision on cost awards.

THE BOARD ORDERS THAT:

- 1) The rate schedule attached as Appendix "A" is approved effective March 1, 2005, to be implemented on April 1, 2005. All other rates currently in effect that are not shown on the attached schedule remain in force. If the Applicant's billing system is not capable of prorating to accommodate the April 1, 2005 implementation date, the new rates shall be implemented with

the first billing cycle for electricity consumed or estimated to have been consumed after April 1, 2005.

- 2) The Applicant shall notify its customers of the rate changes, no later than with the first bill reflecting the new rates and include the brochure provided by the Board.

DATED at Toronto, March 29, 2005

ONTARIO ENERGY BOARD

Peter H. O'Dell
Assistant Board Secretary

Appendix "A"

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March 29, 2005

ONTARIO ENERGY BOARD