



RP-2005-0013
EB-2005-0079

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
Thunder Bay Hydro Electricity Distribution Inc.
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 proceedings 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: \$ 1,606,655

2005 PILs Proxy: \$ 1,893,701

Regulatory Assets Second Tranche: -\$195,847

The Applicant also applied for recovery of amounts and/or items outside of the guidelines. Specifically, the Applicant requested an adjustment to correct an error made in setting its original street lighting rates in 2001. The Applicant also requested an amount of PILs in excess of the guidelines.

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 non-standard adjustment to correct a calculation error in its street lighting rates which caused the rate for street lights to be unreasonably high. SEC states that since the applicant is able to make the adjustment and still keep its rates low, it is an appropriate case in which to allow a non-standard adjustment to correct a clear error.

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.

The Board will allow the requested change to street lighting rates in order to correct the error made in 2001 when these rates were initially established, given that the applicant has been charging the street lighting customer the corrected rates and as a result incurring revenue shortfalls.

The Board has also made adjustments to the PILs proxy to conform with the guidelines and has also adjusted the application for the recovery of non-RSVA regulatory assets as the applied-for recovery was in excess of the non-RSVA total reported by the applicant. The Board deems it appropriate to limit the recovery of non-RSVAs to 70% of the total adjusted amount reported by the Applicant. This is a deferral of \$299,290. These adjustments result in the following approved amounts:

MARR: \$ 1,606,665

2005 PILs Proxy: \$ 1,557,996

Regulatory Assets Second Tranche: -\$ 886,832

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 30, 2005

ONTARIO ENERGY BOARD

Peter H. O'Dell
Assistant Board Secretary

Appendix "A"

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March 30, 2005

ONTARIO ENERGY BOARD