



RP-2005-0013
EB-2005-0083
EB-2005-0084
EB-2005-0085
EB-2005-0086

IN THE MATTER OF the *Ontario Energy Board Act*,
1998, S.O. 1998, c.15 (Schedule B);

AND IN THE MATTER OF Applications by **Veridian
Connections 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 Applications

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 four applications, one for each service area, dated January 17, 2005 and revised applications dated February 17, 2005 for adjustments to their rates for the following amounts:

For Veridian Connections:

MARR: \$ 2,606,976

2005 PILs Proxy: \$ 3,604,006

Regulatory Assets Second Tranche: \$ 415,106

For Veridian Connections – Belleville:

MARR: \$ 617,373

2005 PILs Proxy: \$ 901,607

Regulatory Assets Second Tranche: -\$ 97,559

For Veridian Connections – Brock:

MARR: \$ 41,636

2005 PILs Proxy: \$ 47,152

Regulatory Assets Second Tranche: \$ 14,541

For Veridian Connections – Port Hope:

MARR: \$ 237,146

2005 PILs Proxy: \$ 320,179

Regulatory Assets Second Tranche: -\$ 32,164

The Applicant also applied for recovery of amounts outside of the guidelines. Specifically, the Applicant requested amounts of Regulatory Asset recovery 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 the Applications regarding the requested amounts of Regulatory Asset recovery in excess of the guidelines. SEC stated that the Board should require the Applicant either to follow the Board's standard methodology for Regulatory Assets, or accelerate its Phase 2 application and approval so that recovery can take place on an expedited basis, but with the corrected cost allocation. In reply, the Applicant submitted, on February 23, 2005, that it was appropriate to accelerate the recovery of the company's regulatory assets, on the basis that the amounts held were relatively small and that it was in its customer's interest to reduce deferred distribution charges to the extent possible.

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.

At this time, the Board will approve only the portion of the Applications that conform to the guidelines as the generic notice published informed customers and the public of only the changes contemplated in the guidelines. The Board will, therefore, only allow a 33% recovery of the adjusted amounts of regulatory assets rather than the requested 50% recovery.

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

For Veridian Connections:

MARR: \$ 2,606,976

2005 PILs Proxy: \$ 3,604,006

Regulatory Assets Second Tranche: \$ 335,094

For Veridian Connections – Belleville:

MARR: \$ 617,373

2005 PILs Proxy: \$ 901,607

Regulatory Assets Second Tranche: -\$ 111,263

For Veridian Connections – Brock:

MARR: \$ 41,636

2005 PILs Proxy: \$ 47,152

Regulatory Assets Second Tranche: \$ 11,846

For Veridian Connections – Port Hope:

MARR: \$ 237,146

2005 PILs Proxy: \$ 320,179

Regulatory Assets Second Tranche: -\$ 37,728

Subject to these adjustments, the Board finds that the applications conform 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 schedules 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 schedules 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 23, 2005

ONTARIO ENERGY BOARD

Peter H. O'Dell
Assistant Board Secretary

Appendix "A"

RP-2005-0013
EB-2005-0083
EB-2005-0084
EB-2005-0085
EB-2005-0086

March 23, 2005

ONTARIO ENERGY BOARD