



RP-2005-0020  
EB-2005-0335

**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 Atikokan  
Hydro Inc. for an order or orders approving or fixing just  
and reasonable distribution rates and other charges,  
effective May 1, 2006.

**BEFORE:** Paul Vlahos  
Presiding Member

Bob Betts  
Member

## DECISION AND ORDER

Atikokan Hydro Inc. (“Atikokan Hydro” or the “Applicant”) is a licensed distributor providing electrical service to consumers within its defined service area. Atikokan Hydro filed an application (the “Application”) with the Ontario Energy Board (the “Board”) for an order or orders approving or fixing just and reasonable rates for the distribution of electricity and other matters, to be effective May 1, 2006.

Atikokan Hydro is one of over 90 electricity distributors in Ontario that are regulated by the Board. To streamline the process for the approval of distribution rates and charges for these distributors, the Board developed and issued the *2006 Electricity Distribution Rate Handbook* (the “Handbook”) and complementary spreadsheet-based models. These materials were developed after extensive public consultation with distributors, customer groups, public and environmental interest groups, and other interested parties. The Handbook contains requirements and guidelines for filing an application.

The models determine the amounts to be included for the payments in lieu of taxes (“PILs”) and calculate rates based on historical financial and other information entered by the distributor.

Also included in this process was a methodology and model for the final recovery of regulatory assets flowing from the Board’s decision dated December 9, 2004 on the Review and Recovery of Regulatory Assets – Phase 2 for Toronto Hydro, London Hydro, Enersource Hydro Mississauga and Hydro One Networks Inc. In Chapter 10 of the decision, the Board outlined a Phase 2 process for the remaining distributors. By letter of July 12, 2005, the Board provided guidance and a spreadsheet-based model to the distributors for the inclusion of this recovery as part of their 2006 distribution rate applications.

In its preliminary review of the 2006 rate applications received from the distributors, the Board identified several issues that appeared to be common to many or all of the distributors. As a result, the Board held a hearing (EB-2005-0529) to consider these issues (the “Generic Issues Proceeding”) and released its decision (the “Generic Decision”) on March 21, 2006. The rulings flowing from that Generic Decision apply to this Application, except to the extent noted in this Decision. The Board notes that pursuant to ss. 21 (6.1) of the *Ontario Energy Board Act, 1998*, and to the extent that it is pertinent to this Application, the evidentiary record of the Generic Issues Proceeding is part of the evidentiary record upon which the Board is basing this Decision.

In December 2001, the Board authorized the establishment of deferral accounts by the distributors related to the payments that the distributors make to the Ministry of Finance in lieu of taxes. The Board is required, under its enabling legislation, to make an order with respect to non-commodity deferral accounts once every twelve months. The Board has considered the information available with respect to these accounts and orders that the amounts recorded in the accounts will not be reflected in rates as part of the Rate Order that will result from this Decision. The Board will continue to monitor the accounts with a view to clearing them in due course.

Public notice of the rate application made by Atikokan Hydro was given through newspaper publication in its service area. The evidence filed was made available to the public. Interested parties intervened in the proceeding. The evidence in the Application was tested through written interrogatories from Board staff and intervenors, and

intervenors and the Applicant had the opportunity to file written argument. While the Board has considered the entire record in this proceeding, it has made reference in this Decision only to such evidence and argument as is necessary to provide context to its findings.

Atikokan Hydro has requested an amount of \$973,271 as revenue to be recovered through distribution rates and charges. Included in this amount is a credit of \$427 for the recovery of regulatory assets. Except where noted in this Decision, the Board finds that Atikokan Hydro has filed its application in accordance with the Handbook and the guidelines for the recovery of regulatory assets.

Notwithstanding the Atikokan Hydro's general compliance with the Handbook and associated models, in considering this application the Board reviewed the following matters in detail:

- 2005 Wholesale Meter Costs;
- Bad Debt;
- Transformer Ownership Credit;
- Distribution Loss Adjustment Factors;
- Impact of the Generic Decision (EB-2005-0529); and
- Financial Hardship and Quality of the Application.

### **2005 Wholesale Meter Costs**

The Applicant has applied for recovery of an amount of \$71,729 as the capital cost of a wholesale meter project, the installation of which was completed in 2005. The Applicant has noted that the wholesale meter project, planned to be completed over two years, was done to comply with regulatory requirements. The two meters replace five existing metering points, and will result in reduced Meter Service Provider costs. Atikokan Hydro has also indicated that it and its municipal shareholder have been unable to secure other financing for these meter costs, and that both meters are in service for the whole of 2006.

The Vulnerable Energy Consumers Coalition ("VECC") argued that this 2005 capital expenditure inclusion is inconsistent with the 2006 EDR Model, which allows Rate Base to be increased for the incremental difference, if any, between the spending on wholesale meters in 2005 beyond that spent in 2004.

The Board finds that inclusion of the full amount of capital expenditures related to wholesale meters installed during 2005 is compliant with the Handbook. The Board notes that the intent of Tier 1 adjustments is “to move the 2004 data closer to a ‘typical’ year in terms of capital investments, operations and revenues and to allow for limited specified adjustments”, as stated in the Report of the Board RP-2005-0188 (pp. 9-10). The Board also notes that the Handbook, at p.15, states, with respect to wholesale meter Tier 1 adjustments to rate base, that: “[t]he applicant should include its 2005 projected estimates for wholesale meters.” The Board understands this to mean that a distributor should include the full amount of 2005 wholesale meter costs for meters that will come into service prior to the 2006 rate year. This treatment is analogous to that allowed for new transformer stations coming into service prior to 2006. Therefore, the Board accepts Atikokan Hydro’s proposal.

### **Bad Debt**

The Applicant has included as a Tier 1 Distribution Expense adjustment an amount of \$65,416 for recovery of material bad debt due to the loss of a major customer in 2003. This adjustment is outside of the 2004 historical test year and is a deviation from the Handbook.

The Applicant noted that the customer had a previous good payment history and that Security Deposit policies precluded Atikokan Hydro from obtaining a security deposit against default. The Applicant also contended that recovery of this bad debt is necessary in light of the Applicant’s financial situation.

The Board will not authorize the recovery of this bad debt amount because the Board views the amounts being sought to be out of period. This request by the Applicant is unusual and there is a high onus on the Applicant to demonstrate why it is appropriate to recover the out of period amounts. Agreeing to the Applicant’s request would constitute retroactive ratemaking, a practice not endorsed by the Board. In fact, retroactivity is not permitted by the courts when rates have been declared final. Under Bill 210, the rates for electricity distributors were made final.

### **Transformer Ownership Credit**

Most Ontario electricity distributors, including Atikokan Hydro, currently have a Transformer Ownership Credit of \$0.60/kW. The Applicant has proposed to eliminate

the Transformer Ownership Credit, or, in the alternative, to reduce the Transformer Ownership Credit to be equal to 10% of the volumetric distribution charge applicable to a customer. Atikokan Hydro noted that its current volumetric rates for larger demand-metered customers are less than \$0.60/kW, with the effect that the customer receives a credit amount on the distribution portion of its bill.

The Board notes that the evidence indicates that while many of the Applicant's existing customers who own their own transformers have likely fully depreciated the assets, some customers have newer transformers. The transformer ownership credit is intended as an incentive for commercial and industrial customers with larger loads to purchase a dedicated transformer. This relieves the distributor from making the capital investment and recovering it in distribution rates from all of its customers. In the absence of the transformer ownership credit, there would be no incentive for individual customers to purchase their own dedicated transformer. This would result in increasing costs and rates, as the utility would, in all likelihood, have to make such investments to serve customers in the future. Rescinding of the transformer allowance credit would also eliminate all compensation for customers who have already purchased their own equipment.

The Board finds the current situation of the utility, whereby the transformer allowance credit exceeds the distribution volumetric charge, is not sustainable. To maintain the financial integrity of Atikokan Hydro while providing some compensation and incentive to customers who have purchased or may be considering purchasing their own transformers, the Board authorizes the transformer ownership credit for Atikokan Hydro to be equal to 10% of the distribution volumetric charge applicable to the customer.

### **Distribution Loss Adjustment Factors**

As part of the wholesale meter replacement in 2004 and 2005, the wholesale meters for Atikokan Hydro were relocated 23 km away at the transformer station that serves Atikokan Hydro. The Applicant thus notes that its existing Distribution Loss Factors do not account for losses that occur over the 23 km of 44 kV line which transports energy from the Transformer Station to the Applicant's service area. Atikokan Hydro has applied for an updated loss factor of 7.69% versus its current approved loss factor of 3.92%.

The Applicant calculated the 7.69% proposed loss factor in an additive manner. The Applicant used 3.92%, its current approved total loss factor for secondary metered customers below 5,000 kW, in calculating its proposed updated distribution loss factor, and then added an amount for losses incurred over the 23 km feeder line. This approach is inconsistent with standard practice and would result in an over-estimation of the loss factors. Board staff sought additional explanation of the Applicant's proposed loss factors and the underlying methodology through interrogatories.

VECC noted the Applicant's inability to reconcile its methodology in the Application with information provided in Schedule 10-5 and interrogatory responses and suggested that the Board direct Board staff to work with the Applicant to address the problem.

Further, the Applicant incorporates the loss factors incorrectly in the Application, with the result that the proposed factors, if approved, could result in over-collection from customers of commodity, wholesale market and retail transmission charges, with imbalances accumulating in the corresponding RSVA accounts.

In its review of the rate model, the Board noted that the Applicant made errors in entering both historical and proposed loss factors, including changing the Supply Facility Loss Factor. The Board is not confident as to the methodology used by the Applicant in deriving its line loss factors. The Board will approve on an interim basis the proposed 7.69% loss factor but directs the Applicant to co-operate with the Board's Chief Compliance Officer or other staff of the Board in seeking a resolution on this matter.

### **Consequences of the Generic Decision on this Application**

The Generic Decision contains findings relevant to funding for smart meters for electricity distributors. The Applicant did not file a specific smart meter investment plan or request approval of any associated amount in revenue requirement. Absent a specific plan or discrete revenue requirement, the Generic Decision provides that \$0.30 per residential customer per month be reflected in the Applicant's revenue requirement. The Board finds that this increase in the revenue requirement amount will be allocated equally to all metered customers and recovered through their monthly service charge. This increment is reflected in the approved monthly service charges contained in the Tariff of Rates and Charges appended to this Decision. Pursuant to the Generic

Decision, a variance account will be established, the details of which will be communicated in due course.

### **Financial Hardship and Quality of the Application**

Atikokan Hydro stated the following in the Manager's Summary of its Application:

- 1.2 As will be evidenced in the audited financial statements, Atikokan Hydro Inc. is facing financial distress. This has been caused by the resulting present rate structure being based on 1999 data as well as the fact that the LDC is shrinking both in load and number of customers.
- 1.3 The Company has had to suspend payments to its shareholder in order to finance the legislated wholesale metering installation costs. Neither the company nor the shareholder was able to borrow money from the banks.

Atikokan Hydro stated that the requested rates are needed for the "sustainability" of the utility, and has referenced its financial position as the basis for justifying certain deviations from the Handbook. In response to interrogatories, Atikokan Hydro provided evidence on its declining customer base, and on various areas that indicate its financial vulnerability.

While the Board has found that Atikokan Hydro's Application is generally in compliance with the Handbook, the Board is concerned about Atikokan Hydro's financial situation and the potential consequences for its customers. While the Board notes that Atikokan Hydro has higher distribution rates than most other distributors in Ontario, a declining customer base will put upward pressure on rates.

The Board is also concerned with the quality of Atikokan Hydro's Application. Numerous deficiencies were identified by Board staff and communicated to the Applicant regarding its original Application. Board staff and intervenors posed a number of interrogatories to seek further information to complete, clarify and correct the record of the Application, and the Board has made further corrections.

The Board will therefore approve Atikokan Hydro's proposed rates, as adjusted by the Board pursuant to its findings, but only on an interim basis. By this Decision, the Board informs the Board's Chief Regulatory Auditor of Atikokan Hydro's financial situation and

suggests an investigation may assist in determining how best to proceed with a process to determine final rates for Atikokan Hydro.

### **Resulting Revenue Requirement**

As a result of the Board's determinations on these matters, the Board has adjusted the revenue requirement to be recovered through distribution rates and charges to \$912,478 and a credit of \$427 for the recovery of regulatory assets.

In its letter of December 20, 2004 to electricity distributors, the Board indicated that it would consider the disposition of the 2005 OEB dues recorded in Account 1508 in this proceeding. However, given that the final 2005 OEB dues are not available because of the difference in fiscal years for the Board and the distributors, and given that the model used to develop the Application does not incorporate this provision, the Board will review and dispose of the 2005 OEB dues at a later time.

### **Cost Awards**

This application is one of a number of applications before the Board dealing with 2006 rates chargeable by distributors. Intervenor may be parties to multiple applications and, if eligible, their costs associated with a specific distributor may not be separable. Therefore, for these applications, the matter of intervenor cost awards will be addressed by the Board at a later date, upon the conclusion of the current rate applications. If an intervenor that is eligible to recover its costs is able to uniquely identify its costs associated with this application, it must file its cost claim within 10 days from the receipt of this Decision.

### **THE BOARD ORDERS THAT:**

- 1) The Tariff of Rates and Charges set out in Appendix "A" of this Order is approved, effective May 1, 2006, for electricity consumed or estimated to have been consumed on and after May 1, 2006. The application of the revised distribution rates shall be prorated to May 1, 2006. If Atikokan Hydro Inc.'s billing system is not capable of prorating changed loss factors jointly with distribution rates, the revised loss factors shall be implemented upon the first subsequent billing for each billing cycle.



- 2) The Tariff of Rates and Charges set out in Appendix "A" of this Order supersedes all previous distribution rate schedules approved by the Ontario Energy Board for Atikokan Hydro Inc., and is interim in all respects.
- 3) Atikokan Hydro Inc. shall notify its customers of the rate changes no later than with the first bill reflecting the new rates.

DATED at Toronto, April 12, 2006.

**ONTARIO ENERGY BOARD**

A handwritten signature in black ink, appearing to read "John Zych". The signature is written in a cursive, flowing style.

John Zych  
Board Secretary

Appendix "A"

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April 12, 2006

ONTARIO ENERGY BOARD

# Atikokan Hydro Inc.

## TARIFF OF RATES AND CHARGES

### Effective May 1, 2006

**This schedule supersedes and replaces all previously approved schedules of Rates, Charges and Loss Factors**

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#### APPLICATION

- The application of these rates and charges shall be in accordance with the Licence of the Distributor and any Codes, Guidelines or Orders of the Board, and amendments thereto as approved by the Board, which may be applicable to the administration of this schedule.
- No rates and charges for the distribution of electricity and charges to meet the costs of any work or service done or furnished for the purpose of the distribution of electricity shall be made except as permitted by this schedule, unless required by the Distributor's Licence or a Code, Guideline or Order of the Board, and amendments thereto as approved by the Board, or as specified herein.
- This schedule does not contain any rates and charges relating to the electricity commodity (e.g. the Regulated Price Plan).

#### EFFECTIVE DATES

- DISTRIBUTION RATES - May 1, 2006 for all consumption or deemed consumption services used on or after that date.  
SPECIFIC SERVICE CHARGES - May 1, 2006 for all charges incurred by customers on or after that date.  
LOSS FACTOR ADJUSTMENT – May 1, 2006 unless the distributor is not capable of prorating changed loss factors jointly with distribution rates. In that case, the revised loss factors will be implemented upon the first subsequent billing for each billing cycle.

#### SERVICE CLASSIFICATIONS

##### Residential

This classification applies to an account taking electricity at 750 volts or less where the electricity is used exclusively in a separate metered living accommodation. Customers shall be residing in single-dwelling units that consist of a detached house or one unit of a semi-detached, duplex, triplex or quadruplex house, with a residential zoning. Separately metered dwellings within a town house complex or apartment building also qualify as residential customers.

##### General Service Less Than 50 kW

This classification applies to a non residential account taking electricity at 750 volts or less whose average monthly maximum demand is less than, or is forecast to be less than, 50 kW.

##### General Service 50 to 2,499 kW

This classification applies to a non residential account whose average monthly maximum demand used for billing purposes is equal to or greater than, or is forecast to be equal to or greater than, 50 kW but less than 2,500 kW. Note that for the application of the Retail Transmission Rate – Network Service Rate and the Retail Transmission Rate – Line and Transformation Connection Service Rate the following sub-classifications apply:

- General Service 50 to 999 kW non-interval metered
- General Service 50 to 999 kW interval metered
- General Service 1,000 to 2,499 kW interval metered.

##### General Service 2,500 to 4,999 kW

This classification applies to a non residential account whose average monthly maximum demand used for billing purposes is equal to or greater than, or is forecast to be equal to or greater than, 2,500 kW but less than 5,000 kW.

##### Unmetered Scattered Load

This classification applies to an account taking electricity at 750 volts or less whose average monthly maximum demand is less than, or is forecast to be less than, 50 kW and the consumption is unmetered. Such connections include cable TV power packs, bus shelters, telephone booths, traffic lights, railway crossings, etc. The level of the consumption will be agreed to by the distributor and the customer, based on detailed manufacturer information/documentation with regard to electrical consumption of the unmetered load or periodic monitoring of actual consumption.

##### Sentinel Lighting

This classification applies to safety/security lighting with a Residential, General Service or Large Use customer. This is typically exterior lighting, and often unmetered. Consumption is estimated based on the equipment rating and estimated hours of use.

# Atikokan Hydro Inc.

## TARIFF OF RATES AND CHARGES

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#### Street Lighting

This classification applies to an account for roadway lighting with a Municipality, Regional Municipality, Ministry of transportation and private roadway lighting, controlled by photo cells. The consumption for these customers will be based on the calculated connected load times the required lighting times established in the approved OEB street lighting load shape template.

### MONTHLY RATES AND CHARGES

#### Residential

Service Charge	\$	26.94
Distribution Volumetric Rate	\$/kWh	0.0106
Regulatory Asset Recovery	\$/kWh	0.0001
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0052
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0019
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge	\$	0.25

#### General Service Less Than 50 kW

Service Charge	\$	53.71
Distribution Volumetric Rate	\$/kWh	0.0068
Regulatory Asset Recovery	\$/kWh	0.0001
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0047
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0017
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge	\$	0.25

#### General Service 50 to 2,499 kW

Service Charge	\$	71.66
Distribution Volumetric Rate	\$/kW	0.2729
Regulatory Asset Recovery	\$/kW	0.0084
Retail Transmission Rate – Network Service Rate	\$/kW	1.9188
Retail Transmission Rate – Network Service Rate – Interval Metered	\$/kW	2.0379
Retail Transmission Rate – Network Service Rate – Interval Metered, ≥1,000 kW	\$/kW	2.0355
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	0.6652
Retail Transmission Rate – Line and Transformation Connection Service Rate – Interval Metered	\$/kW	0.7292
Retail Transmission Rate – Line and Transformation Connection Service Rate – Interval Metered, ≥1,000 kW	\$/kW	0.7352
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

#### General Service 2,500 to 4,999 kW

Service Charge	\$	2,393.62
Distribution Volumetric Rate	\$/kW	0.1781
Regulatory Asset Recovery	\$/kW	(0.0863)
Retail Transmission Rate – Network Service Rate	\$/kW	2.1459
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	0.7845
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

# Atikokan Hydro Inc.

## TARIFF OF RATES AND CHARGES

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#### Unmetered Scattered Load

Service Charge (per Account)	\$	50.17
Distribution Volumetric Rate	\$/kWh	0.0064
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0047
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0017
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

#### Sentinel Lighting

Service Charge	\$	1.08
Distribution Volumetric Rate	\$/kW	9.3859
Regulatory Asset Recovery	\$/kW	2.9651
Retail Transmission Rate – Network Service Rate	\$/kW	1.4544
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	0.5250
Wholesale Market Service Rate	\$/kW	0.0052
Rural Rate Protection Charge	\$/kW	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

#### Street Lighting

Service Charge (per connection)	\$	1.95
Distribution Volumetric Rate	\$/kW	2.2491
Regulatory Asset Recovery	\$/kW	0.1283
Retail Transmission Rate – Network Service Rate	\$/kW	1.4471
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	0.5142
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

#### Specific Service Charges

Customer Administration		
Returned Cheque charge (plus bank charges)	\$	25.00
Account set up charge / change of occupancy charge (plus credit agency costs if applicable)	\$	25.00
Special Meter reads	\$	25.00
Non-Payment of Account		
Late Payment - per month	%	1.50
Late Payment - per annum	%	19.56
Collection of account charge – no disconnection	\$	25.00
Disconnect/Reconnect at Meter – during regular hours	\$	28.00
Disconnect/Reconnect at Meter – after regular hours	\$	315.00
Disconnect/Reconnect at Pole – during regular hours	\$	28.00
Disconnect/Reconnect at Pole – after regular hours	\$	315.00
Specific Charge for Access to the Power Poles – per pole/year	\$	22.35
Allowances		
Transformer Allowance for Ownership – per kW of billing demand/month – customer shall be credited at a rate of 10% of the applicable Distribution Volumetric Rate		
Primary Metering Allowance for transformer losses – applied to measured demand and energy	%	(1.00)

**Atikokan Hydro Inc.**  
**TARIFF OF RATES AND CHARGES**  
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**LOSS FACTORS**

Total Loss Factor – Secondary Metered Customer < 5,000 kW	1.0817
Total Loss Factor – Secondary Metered Customer > 5,000 kW	N/A
Total Loss Factor – Primary Metered Customer < 5,000 kW	1.0709
Total Loss Factor – Primary Metered Customer > 5,000 kW	N/A