



RP-2005-0020
EB-2005-0337

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 distribution rates
and other charges, effective May 1, 2006.

BEFORE: Paul Vlahos
Presiding Member

Bob Betts
Member

DECISION AND ORDER

Aurora Hydro Connections Limited (“Aurora Hydro” or the “Applicant”) is a licensed distributor providing electrical service to consumers within its defined service area. Aurora 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.

Aurora 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.

As a distributor that is embedded in Hydro One Network’s low voltage system, the Applicant has included the recovery of certain Regulatory Assets that have been allocated by Hydro One Networks. The amount claimed by the Applicant was provided by Hydro One Networks as a reasonable approximation of the actual amount that Hydro One Networks will assess the Applicant. To the degree that the amount differs from the actual amount approved for Hydro One Networks in another proceeding (RP-2005-0020/EB-2005-0378), this difference will be reconciled at the end of the Regulatory Asset recovery period, as set out in the Phase II regulatory assets decision issued on December 9, 2004 (RP-2004-0064/RP-2004-0069/RP-2004-0100/RP-2004-0117/RP-2004-0118).

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 when appropriate.

Public notice of the rate Application made by Aurora 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 Aurora Hydro 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.

Aurora Hydro has requested an amount of \$9,936,777 as revenue to be recovered through distribution rates and charges. Included in this amount is a debit of \$1,649,828 for the recovery of regulatory assets. Except where noted in this Decision, the Board finds that Aurora Hydro has filed its Application in accordance with the Handbook and the guidelines for the recovery of regulatory assets.

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

- Low Voltage Rates;
- Tier 1 Adjustment;
- Tier 2 Adjustment;
- Consequences of the PowerStream Acquisition; and
- Consequences of the Generic Decision (EB-2005-0529).

Low Voltage Rates

Aurora Hydro included in its Application recovery of ongoing Low Voltage ("LV") charges that Hydro One Networks will be levying on Aurora Hydro for Low Voltage wheeling distribution services provided to Aurora Hydro.

The Board notes that this estimate reflects Hydro One Networks' current approved LV rate of \$0.56/kW. The Board further notes that Hydro One Networks applied for an LV rate of \$0.63/kW in its 2006 rate application RP-2005-0020/EB-2005-0378, and the Board has approved this rate.

The Board is of the view that the LV adjustment that Aurora Hydro has included in its Application is insufficient to recover its expected LV charges in 2006, as this amount does not reflect the updated Hydro One Networks rate. Although the Generic Decision provides that embedded distributors are to track differences between LV costs charged by the host distributor(s) and corresponding revenues recovered from ratepayers, the Board seeks to minimize systemic sources of variance. The Board is of the view that Aurora Hydro's rates should reflect the LV rates authorized by the Board for the host distributor. Accordingly, the Board has revised the amount for LV charge recovery in Aurora Hydro's revenue requirement.

Tier 1 Adjustment - Operation and Maintenance

Aurora Hydro included \$54,766 as a non-routine item in its Operation and Maintenance activities as part of the Tier 1 distribution expenses adjustment. Aurora Hydro submits that this adjustment has been included to reflect a normal level of expenses for all O&M activities. It claims that the 2004 level is low as a result of moderate weather, including reduced maintenance related to storm damage. The amount reflects the difference between the 2004 (\$754,492) and the average of 2002, 2003 and 2004 (\$809,258).

In its argument, the School Energy Coalition ("SEC") submitted that Aurora has not sufficiently demonstrated the need for \$54,000 to justify the inclusion of this amount.

There are a number of factors that could lead to year over year fluctuations in costs other than weather and storms. Such factors could include productivity, levels of capitalized labour and equipment on construction programmes, and overheads, to name only a few. The Handbook provides that for historical test year applications, an Applicant must demonstrate that a Tier 1 adjustment of this kind is for a non-routine or unusual item. Aurora Hydro has not identified an item, but rather an overall level of expense which is a function of many factors. Therefore this adjustment is not in compliance with the Handbook, and the Board will not approve the request.

Tier 2 Adjustment, Rate Base

Aurora Hydro made a Tier 2 adjustment to Rate Base of \$811,000 on the basis that it experienced negative returns of \$166,760 in 1999. The evidence was that several capital projects were delayed as a result of the impact on the distributor from the methodology used in the 1999 rate setting process. As a consequence of the ongoing shortfall in revenues, Aurora Hydro continued its maintenance programs, but has not been able to complete all of its capital programs each year or provide any dividend payment to its shareholder. The total of deferred capital expenditures for 2001 to 2004 is \$811,000. The Board accepts Aurora Hydro's documentation of the deferred capital expenditures for this period.

In Aurora Hydro's Application, the Tier 2 adjustment includes the full effect of \$811,000 in Rate Base for 2004. The EDR model applies the half-year rule to additions in 2004, and as such, only one half of the \$811,000 would be recognized for rate making purposes. Aurora Hydro applied a grossed-up amount in the EDR model in order to overcome the half-year rule and receive the full year effect in rate base.

The Vulnerable Energy Consumers Coalition ("VECC") submitted that the actual investments being proposed in 2006 will be made throughout the year.

The Board will allow the requested Tier 2 adjustment as a reasonable request, but not at the grossed-up level. Only \$811,000 will be allowed. The Application of the half-year rule will more accurately reflect Aurora Hydro's own submission on the quarterly expenditures at Exhibit A, Schedule 3-3, page 2. In accordance with the Handbook, the Board directs Aurora Hydro to report to the Board on the progress and completion of the Tier 2 projects in its next rates application.

Consequences of the PowerStream Acquisition

Since Aurora Hydro has been purchased by PowerStream, SEC argued that the Board should deny Aurora Hydro's requested rate increases on the basis that any increase now will affect PowerStream's existing customers in the future. The Board rejects this argument and observes that each rate case is decided on its own merits. If and when PowerStream proposes rate harmonization, impacts will be examined in that case at that time.

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.

Resulting Revenue Requirement

As a result of the Board's determinations on these issues, the Board has adjusted the revenue requirement to be recovered through distribution rates and charges to \$9,928,797, including a debit amount of \$1,649,828 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. Intervenors 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 Aurora Hydro Connections Limited'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 Aurora Hydro Connections Limited, and is final in all respects
3. Aurora Hydro Connections Limited 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



John Zych
Board Secretary

Appendix "A"

RP-2005-0020
EB-2005-0337

April 12, 2006

ONTARIO ENERGY BOARD

Aurora Hydro Connections Limited

TARIFF OF RATES AND CHARGES

Effective May 1, 2006

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

RP-2005-0020
EB-2005-0337

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 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, 50 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 customer will provide detailed manufacturer information/documentation with regard to electrical demand/consumption of the proposed unmetered load.

Sentinel Lighting

This classification refers to an account taking electricity at 750 volts or less where the electricity is being used exclusively for private outdoor area lighting controlled by photocells. The consumption for this classification is calculated based on the connected load times the number of hours of operation per month, averaged over a 12 month period. The hours of operation in a month is calculated based on the average number of days in a month times twelve hours of operation per day.

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.

Aurora Hydro Connections Limited

TARIFF OF RATES AND CHARGES

Effective May 1, 2006

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RP-2005-0020
EB-2005-0337

MONTHLY RATES AND CHARGES

Residential

Service Charge	\$	14.18
Distribution Volumetric Rate	\$/kWh	0.0178
Regulatory Asset Recovery	\$/kWh	0.0051
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0061
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0053
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	\$	32.66
Distribution Volumetric Rate	\$/kWh	0.0138
Regulatory Asset Recovery	\$/kWh	0.0039
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0055
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0048
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 4,999 kW

Service Charge	\$	209.38
Distribution Volumetric Rate	\$/kW	2.5204
Regulatory Asset Recovery	\$/kW	1.3376
Retail Transmission Rate – Network Service Rate	\$/kW	2.2720
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.9763
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

Unmetered Scattered Load

Service Charge (per connection)	\$	16.19
Distribution Volumetric Rate	\$/kWh	0.0138
Regulatory Asset Recovery	\$/kWh	0.0050
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0055
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0048
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	\$	2.66
Distribution Volumetric Rate	\$/kW	8.0620
Regulatory Asset Recovery	\$/kW	2.2609
Retail Transmission Rate – Network Service Rate – Interval Metered	\$/kW	1.7818
Retail Transmission Rate – Line and Transformation Connection Service Rate – Interval Metered	\$/kW	1.5498
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

Aurora Hydro Connections Limited

TARIFF OF RATES AND CHARGES

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RP-2005-0020
EB-2005-0337

Street Lighting

Service Charge (per connection)	\$	0.59
Distribution Volumetric Rate	\$/kW	5.3766
Regulatory Asset Recovery	\$/kW	0.1716
Retail Transmission Rate – Network Service Rate	\$/kW	1.7926
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.5593
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 (plus bank charges)	\$	15.00
Legal letter charge	\$	15.00
Account set up charge/change of occupancy charge (plus credit agency costs if applicable)	\$	30.00
Non-Payment of Account		
Late Payment - per month	%	1.50
Late Payment - per annum	%	19.56
Disconnect/Reconnect Charge - At Meter During Regular Hours	\$	65.00
Disconnect/Reconnect Charge - At Meter After Hours	\$	185.00
Disconnect/Reconnect at pole – Regular Hours	\$	185.00
Disconnect/Reconnect at pole – After Regular Hours	\$	415.00
Install/Remove load control devices – During Regular Hours	\$	65.00
Install/Remove load control devices – After Regular Hours	\$	185.00
Temporary Service install & remove – overhead – no transformer	\$	500.00
Temporary Service install & remove – underground – no transformer	\$	300.00
Specific Charge for Access to the Power Poles – per pole/year	\$	22.35
Allowances		
Transformer Allowance for Ownership - per kW of billing demand/month	\$	(0.60)
Primary Metering Allowance for transformer losses – applied to measured demand and energy	%	(1.00)

LOSS FACTORS

Total Loss Factor – Secondary Metered Customer < 5,000 kW	1.0639
Total Loss Factor – Secondary Metered Customer > 5,000 kW	N/A
Total Loss Factor – Primary Metered Customer < 5,000 kW	1.0533
Total Loss Factor – Primary Metered Customer > 5,000 kW	N/A