



RP-2005-0020
EB-2005-0346

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 Canadian
Niagara Power Inc. Eastern Ontario Power 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

Canadian Niagara Power Inc. Eastern Ontario Power (“EOP” or the “Applicant”) is a licensed distributor providing electrical service to consumers within its defined service area. EOP 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.

EOP 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. ("Hydro One"). 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 EOP 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 EOP 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.

EOP has requested an amount of \$2,035,307 as revenue to be recovered through distribution rates and charges. Included in this amount is a debit of \$92,366 for the recovery of regulatory assets. Except where noted in this Decision, the Board finds that EOP has filed its Application in accordance with the Handbook and the guidelines for the recovery of regulatory assets.

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

- Low Voltage Rates;
- Corporate and Shared Costs Allocation Study;
- Comprehensive Regulatory Assets Decision (EB-2006-0011);
- General Service rates; and
- Consequences of the Generic Decision (EB-2005-0529).

Low Voltage Rates

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

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 EOP 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 EOP'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 EOP's revenue requirement.

Corporate and Shared Costs Allocation Study

EOP has applied to adjust its cost of service to reflect the outcome of a study that allocates corporate and shared costs. These are costs associated with the services provided to EOP that reside in other business units.

EOP is affiliated with FortisOntario and shares that corporate relationship with several other business units or corporate entities. FortisOntario owns and operates a transmission business unit, unregulated generation assets, and Canadian Niagara Power Inc. ("CNPI"). In turn, CNPI owns EOP and three other Ontario local electricity distribution companies. Certain general plant and administrative and general functions are shared by these affiliated business units. In order to determine the revenue requirements for 2006 electricity distribution rates for EOP, FortisOntario conducted a study to allocate the corporate and shared costs among its regulated and unregulated business units.

EOP has applied the results from the study in the EDR model. The Board has reviewed the results of the study and accepts the resulting cost consequences for the determination of 2006 rates.

In its argument, the School Energy Coalition ("SEC") requested that the Board order an independent review of the levels and allocation of costs from FortisOntario and the subsidiary, CNPI to its LDC operations. SEC was concerned about the levels of shared services and the corporate relationships among the LDCs and their parent organizations. The Board notes that SEC itself did not find obvious problems with the study.

In the report's documented scope, it is clear that the role of the consultant was to provide an independent review of the allocation study. The Board sees no reason to order a further independent review.

There are several specific examples of these cost allocations resulting in a reduction of the revenue requirement by shifting some of the costs to affiliated entities.

While the Board is generally satisfied with the results of the cost allocation study, and therefore accepts its use in determining 2006 revenue requirements, the study has not been sufficiently tested in this hearing for the Board to endorse its methodology beyond accepting the cost consequences for setting 2006 rates.

Comprehensive Regulatory Assets Decision (EB-2006-0011)

In November 2005, EOP submitted an application for final recovery of its regulatory asset balances under the comprehensive review option. Pursuant to Procedural Order #2, RP-2005-0020/EB-2006-0011, parties conducted a settlement conference on March 27 and 28, 2006. As stated in its decision in that proceeding, the Board accepted the settlement agreement and the cost of service consequences that flowed from the agreement. The Board now finds that the applicant has appropriately adjusted its 2006 EDR application to reflect the regulatory assets settlement in 2006 distribution rates.

General Service Rates

EOP has applied to change the name of the GS> 50 TOU class to GS>50 Legacy and close the class to new customers. EOP has a conventional GS >50 class with a different structure of fixed and variable charges. However, the proposed Legacy rate is more advantageous for a customer with higher demands.

The Board is concerned that EOP's proposal may result in customers with similar consumption profiles being treated unequally. By closing the rate, there may be customers with similar load characteristics to those in the Legacy class that would not have access to the rate. For this reason, the request to close the rate is denied.

The Board will accept the rate levels for the GS>50 Legacy class on a temporary basis. However, the Board directs EOP to develop a rate design proposal, within 90 days of the issuance of this Decision, for a revised general service rate that treats all qualifying customers fairly and equally, based on load characteristics. As much as possible, the proposed general service rate categories should conform to conventional rate classifications such as GS<50 kW, GS 50 – 1000 kW, GS 1000 – 5000 kW, and Large Use over 5000 kW. If EOP believes that other classifications are necessary, it should provide clear reasons in evidence for this.

In developing this proposal, EOP should use the revenue requirement set in this Decision.

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 \$2,059,819 including a debit amount of \$92,366 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 Canadian Niagara Power Inc. Eastern Ontario Power'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 Canadian Niagara Power Inc. Eastern Ontario Power, and is final in all respects.
3. Canadian Niagara Power Inc. Eastern Ontario Power shall notify its customers of the rate changes no later than with the first bill reflecting the new rates.
4. Canadian Niagara Power Inc. Eastern Ontario Power shall file within 90 days of the date of this Decision a revised rate design that eliminates the temporarily approved GS>50 Legacy rate class.

DATED at Toronto, April 28, 2006.

ONTARIO ENERGY BOARD

A handwritten signature in black ink, appearing to read 'P. O'Dell', with a horizontal line underneath.

Peter H. O'Dell
Assistant Board Secretary

Appendix "A"

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April 28, 2006

ONTARIO ENERGY BOARD

Canadian Niagara Power – Eastern Ontario Power

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

The Residential Class (Regular) refers to a service taking electricity normally at 750 volts or less where the electricity is used for domestic and household purposes in a single family unit. A single family unit being a permanent structure located on a single parcel of land and approved by a civic authority as a dwelling and occupied for that purpose by a single customer.

Residential rates are also applied to apartment buildings with 6 units or less that are bulk metered. Apartment buildings with more than 6 units that are bulk metered are deemed to be General Service.

General Service Less Than 50 kW

This classification refers to the supply of electrical energy to single commercial or industrial customer and whose average peak demand is (or is forecasted to be) less than 50 kW. Single commercial or industrial customers are interpreted as a structure or structures on a single parcel of land occupied by one customer. An apartment building with more than 6 units that is bulk metered and has an average peak demand less than 50 kW is deemed to be General Service less than 50 kW. The common area of a separately metered apartment building having a demand less than 50 kW is also deemed to be General Service less than 50 kW.

General Service 50 to 4,999 kW

This classification refers to the supply of electrical energy to single commercial or industrial customer and whose average peak demand is (or is forecasted to be) equal to or greater than 50 kW but less than 5000 kW. Single commercial or industrial customers are interpreted as a structure or structures on a single parcel of land occupied by one customer.

General Service 50 to 4,999 kW – Time of Use

This classification refers to the supply of electrical energy to single commercial or industrial customers requesting time of use rates and whose average peak demand is (or is forecasted to be) equal to or greater than 50 kW but less than 5000 kW. Single commercial or industrial customers are interpreted as a structure or structures on a single parcel of land occupied by one customer

Unmetered Scattered Load

This classification refers to the supply of electrical service to a Customer that is deemed to have a constant load over a billing period, normally with minimum electrical consumption. Energy consumption is based on connected wattage and calculated hours of use. Examples of unmetered scattered load are cable television amplifiers billboards, area lighting.

Sentinel Lighting

This classification refers to dusk to dawn lighting to residential and general service customers.

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Street Lighting

This classification refers to the supply of electrical service for roadway lighting. Energy consumption is based on connected wattage and calculated hours of use. Customers are usually a Municipality, Region or the Ministry of Transportation.

MONTHLY RATES AND CHARGES

Residential

Service Charge	\$	16.13
Distribution Volumetric Rate	\$/kWh	0.0072
Regulatory Asset Recovery	\$/kWh	0.0035
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0052
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0043
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	\$	32.49
Distribution Volumetric Rate	\$/kWh	0.0153
Regulatory Asset Recovery	\$/kWh	0.0006
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0047
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0039
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	\$	755.96
Distribution Volumetric Rate	\$/kW	3.4821
Regulatory Asset Recovery	\$/kW	(0.1374)
Retail Transmission Rate – Network Service Rate	\$/kW	1.9261
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.5517
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 50 to 4,999 kW – Time of Use

Service Charge	\$	3,253.99
Distribution Volumetric Rate	\$/kW	1.1842
Regulatory Asset Recovery	\$/kW	(0.2020)
Retail Transmission Rate – Network Service Rate	\$/kW	2.0457
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.7011
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

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Unmetered Scattered Load

Service Charge (per customer)	\$	32.49
Distribution Volumetric Rate	\$/kWh	0.0153
Regulatory Asset Recovery	\$/kWh	0.0006
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0047
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0039
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge	\$	0.25

Sentinel Lighting

Service Charge	\$	1.75
Distribution Volumetric Rate	\$/kW	2.5892
Regulatory Asset Recovery	\$/kW	1.5041
Retail Transmission Rate – Network Service Rate	\$/kW	1.4600
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.2247
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

Street Lighting

Service Charge (per connection)	\$	1.74
Distribution Volumetric Rate	\$/kW	2.3879
Regulatory Asset Recovery	\$/kW	0.9996
Retail Transmission Rate – Network Service Rate	\$/kW	1.4526
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.1996
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		
Arrears Certificate	\$	15.00
Statement of Account	\$	15.00
Pulling Post Dated Cheques	\$	15.00
Duplicate invoices for previous billing	\$	15.00
Request for other billing information	\$	15.00
Easement Letter	\$	15.00
Income tax letter	\$	15.00
Notification Charge	\$	15.00
Account history	\$	15.00
Credit reference/credit check (plus credit agency costs)	\$	15.00
Account set up charge/change of occupancy charge (plus credit agency costs if applicable)	\$	30.00
Returned cheque (plus bank charges)	\$	15.00
Charge to certify cheques	\$	15.00
Legal letter charge	\$	15.00
Special meter reads	\$	30.00
Meter dispute charge plus Measurement Canada fees (if meter found correct)	\$	30.00

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Non-Payment of Account		
Late Payment - per month	%	1.50
Late Payment - per annum	%	19.56
Collection of account charge – no disconnection – during regular hours	\$	30.00
Collection of account charge – no disconnect – after regular hours	\$	165.00
Disconnect/Reconnect Charges - At Meter During Regular Hours	\$	65.00
Disconnect/Reconnect Charges - At Meter After Hours	\$	185.00
Disconnect/reconnect at pole – during regular hours	\$	185.00
Disconnect/reconnect at pole –after regular hours	\$	415.00
Install/remove load control device – during regular hours	\$	65.00
Install/remove load control device – during regular hours	\$	185.00
Service call – customer-owned equipment	\$	30.00
Service call – after regular hours	\$	165.00
Temporary service install & remove – overhead – no transformer	\$	500.00
Temporary service install & remove – underground – no transformer	\$	300.00
Temporary service install & remove – overhead – with transformer	\$	1,000.00
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	1.0715
Total Loss Factor – Secondary Metered Customer > 5,000 kW	N/A
Total Loss Factor – Primary Metered Customer < 5,000 kW	1.0608
Total Loss Factor – Primary Metered Customer > 5,000 kW	N/A