



RP-2005-0020
EB-2005-0362

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 Espanola Regional Hydro Distribution Corporation 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

DECISION AND ORDER

Espanola Regional Hydro Distribution Corporation (“Espanola Hydro” or the “Applicant”) is a licensed distributor providing electrical service to consumers within its defined service area. Espanola 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. According to the Board’s schedule for filings, Espanola Hydro was to have filed its application no later than October 2005. Espanola Hydro actually filed a complete application on January 31, 2006.

Espanola 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. 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 Espanola 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 Espanola 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.

On April 28, 2006, the Board issued an Order declaring rates then existing for Espanola Hydro to be interim, effective May 1, 2006, until such time as the Board issued a final rate order for 2006 rates. This Decision and Order is final with respect to 2006 rates and supersedes the Order of April 28.

Espanola Hydro has requested an amount of \$1,450,397 as revenue to be recovered through distribution rates and charges. Included in this amount is a debit of \$139,363 for the recovery of regulatory assets. Except where noted in this Decision, the Board finds that Espanola Hydro has filed its Application in accordance with the Handbook and the guidelines for the recovery of regulatory assets.

Notwithstanding Espanola 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;
- Capital Structure;
- Claim of Financial Distress;
- Mitigation of Rate Impacts; and
- Consequences of the Generic Decision (EB-2005-0529).

Low Voltage Rates

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

The Board notes that this estimate reflects Hydro One Networks’ previously 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 Espanola 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 Espanola 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 Espanola Hydro's revenue requirement.

Capital Structure

Espanola Hydro indicated that its actual capital structure consisted of 106% debt and -6% equity. This deviates significantly from the 50:50 deemed capital structure outlined in the EDR Handbook to be used by distributors the size of the Applicant. The debt, which is held by its municipal corporation shareholder, consists of two notes payable, both of which feature a 5% interest rate. Espanola Hydro stated that the debt is 100% held by its shareholder and as there is no provision or expectation for any repayment of principal or interest to the shareholder, there should be no risk to the distributor. Espanola Hydro noted that its capital structure was set up this way for the most effective tax planning. Espanola Hydro also stated that in 2004, a 5% interest rate on the amount due to the shareholder was capitalized and added to the debt, thereby increasing debt to 106%.

The Board is concerned about the potential risk to the utility's financial viability arising from this unusually leveraged capital structure. It is not clear to what extent Espanola Hydro can avoid interest payments if its financial circumstances warrant. Nor is it clear what the consequences are of not making these debt payments to the municipal shareholder. For the purposes of setting rates for 2006, the Board will deem a capital structure as prescribed in the Handbook, 50% debt and 50% equity. However, the Board's Chief Regulatory Auditor will be informed of this situation, who will make a determination of how to proceed in this matter.

Claim of Financial Distress

In June 2005, the Board denied a request made by Espanola Hydro for an increase in distribution rates (EB-2005-0243). In its decision, the Board expressed concerns about the reliability of the Applicant's 2004 financial statements in support of its request, as well as the financial health of the utility. As a result, the Chief Regulatory Auditor undertook an audit review of the utility. The findings from this review confirm concerns about confidence in the accuracy of Espanola Hydro's 2004 financial statements, identify a range within which certain financial statement amounts actually fall, and notes that the values used by Espanola Hydro are within the ranges identified.

In its current application, Espanola Hydro claimed that it is in financial distress and proposed an upward adjustment of \$111,000 to the revenue requirement that resulted from the use of the rate model pursuant to the Handbook. Espanola Hydro did not claim this adjustment to be either of the Tier 1 or Tier 2 type as stipulated in the Handbook. Espanola Hydro did not attempt to substantiate this claim and how the proposed additional revenue would be used. Rather, Espanola Hydro's rationale for the adjustment is to bring the level of its distribution rates up to the provincial average.

The techniques of rate making are designed to safeguard a utility from financial hardship and to in fact create a robust financial company. The Board notes that, absent the additional money, the model generates a revenue requirement and resulting rates sufficient to cover operating and other expenses as well as providing for a reasonable return on a deemed equity. With respect to the Applicant's argument that this adjustment will bring the level its distribution rates in line with the provincial average, the Board reiterates that it does not set rates based on regional or provincial averages. The Board therefore does not accept the proposed additional \$111,000 over the revenue

requirement that the model would otherwise generate and has therefore removed this amount in setting 2006 rates.

Mitigation of Rate Impacts

The Handbook stipulates that an applicant must file a mitigation plan if total bill increases for any customer classes or group exceed 10%. Espanola Hydro has identified that the bill increases for the Sentinel Light sub-class would have been higher than 10% and has proposed a mitigation plan to reduce the level to less than 10%. There are 27 Sentinel Light accounts. The prime reason for the impact is the allocated share of the recovery of the Regulatory Asset costs.

Espanola Hydro proposed a three step mitigation plan as follows:

- Commencing May 1, 2006, the Regulatory Asset Recovery charge for this class be reduced by \$10.00 per kW from the rate determined by the model for a period of 6 months;
- Commencing November 1, 2006, the Regulatory Asset Recovery charge will be reduced by \$5.50 per kW from the rate determined by the model for the next 6 months; and
- Commencing May 1, 2007, the Regulatory Asset Recovery charge will go to the rate that is calculated in the rate model.

Espanola Hydro acknowledges that it will forego a small amount of revenue associated with the recovery of regulatory assets as part of the plan. The Board finds this plan to be acceptable, but will alter the commencement dates of the six month mitigation period to reflect the effective date of the rate order as a result of 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, variance accounts have been authorized by the Board and the details have been communicated by the Board on June 13, 2006.

Resulting Revenue Requirements

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 \$1,460,632, including a debit amount of \$139,363 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 October 18, 2006, for electricity consumed or estimated to have been consumed on and after October 18, 2006. The application of the revised distribution rates shall be prorated. If Espanola Regional Hydro

Distribution Corporation'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 Espanola Regional Hydro Distribution Corporation, and is final in all respects.
3. Espanola Regional Hydro Distribution Corporation shall notify its customers of the rate changes no later than with the first bill reflecting the new rates.

DATED at Toronto, October 18, 2006

ONTARIO ENERGY BOARD

Original signed by

Peter H. O'Dell
Assistant Board Secretary

Appendix "A"

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October 18, 2006

ONTARIO ENERGY BOARD

Espanola Regional Hydro Distribution Corporation

TARIFF OF RATES AND CHARGES

Effective October 18, 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 – October 18, 2006 for all consumption or deemed consumption services used on or after that date.
SPECIFIC SERVICE CHARGES – October 18, 2006 for all charges incurred by customers on or after that date.
LOSS FACTOR ADJUSTMENT – October 18 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 refers to an account taking electricity at 750 volts or less where the electricity is used exclusively in a single family unit, non-commercial. This can be a separately metered living accommodation, town house, apartment, semi-detached, duplex, triplex or quadruplex with residential zoning.

General Service Less Than 50 kW

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

General Service 50 to 4,999 kW

This classification refers to a non residential account whose average peak demand is greater than, or is forecast to be greater than, 50 kW but less than 5,000 kW.

Unmetered Scattered Load

This classification refers to an account taking electricity at 750 volts or less whose monthly average peak 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 applies to safety/security lighting with a Residential or General Service customer. This is typically exterior lighting, and unmetered. Consumption is estimated based on the equipment rating and estimated hours of use.

Street Lighting

This classification refers to an account for roadway lighting with a Municipality, Regional Municipality, Ministry of Transportation and private roadway lighting operation, 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.

Espanola Regional Hydro Distribution Corporation

TARIFF OF RATES AND CHARGES

Effective October 18, 2006

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MONTHLY RATES AND CHARGES

Residential

Service Charge	\$	10.30
Distribution Volumetric Rate	\$/kWh	0.0131
Regulatory Asset Recovery	\$/kWh	0.0030
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0053
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 Less Than 50 kW

Service Charge	\$	12.95
Distribution Volumetric Rate	\$/kWh	0.0198
Regulatory Asset Recovery	\$/kWh	0.0015
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0049
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0035
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	\$	122.26
Distribution Volumetric Rate	\$/kW	1.6403
Regulatory Asset Recovery	\$/kW	0.4822
Retail Transmission Rate – Network Service Rate	\$/kW	1.9902
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.3968
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)	\$	6.34
Distribution Volumetric Rate	\$/kWh	0.0198
Regulatory Asset Recovery	\$/kWh	0.0015
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0049
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0035
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

Espanola Regional Hydro Distribution Corporation

TARIFF OF RATES AND CHARGES

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Sentinel Lighting

Service Charge (per connection)	\$	0.45
Distribution Volumetric Rate	\$/kW	8.4086
Regulatory Asset Recovery – Effective October 18, 2006 to April 30, 2007	\$/kW	2.0503
Regulatory Asset Recovery – Effective May 1, 2007 to October 31, 2007	\$/kW	6.5503
Regulatory Asset Recovery – Effective November 1, 2007	\$/kW	12.0503
Retail Transmission Rate – Network Service Rate	\$/kW	1.5085
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.1024
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)	\$	0.41
Distribution Volumetric Rate	\$/kW	2.8644
Regulatory Asset Recovery	\$/kW	0.1879
Retail Transmission Rate – Network Service Rate	\$/kW	1.5009
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.0798
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
Account history	\$	15.00
Returned Cheque (plus bank charges)	\$	15.00
Account set up charge/change of occupancy charge (plus credit agency costs if applicable)	\$	30.00
Special meter reads	\$	30.00
Meter dispute charge plus Measurement Canada fees (if meter found correct)	\$	30.00
Non-Payment of Account		
Late Payment - per month	%	1.50
Late Payment - per annum	%	19.56
Collection of account charge – no disconnection	\$	30.00
Disconnect/Reconnect Charge - at meter during regular hours	\$	65.00
Disconnect/Reconnect Charge - at pole during 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	1.0724
Total Loss Factor – Secondary Metered Customer > 5,000 kW	N/A
Total Loss Factor – Primary Metered Customer < 5,000 kW	1.0617
Total Loss Factor – Primary Metered Customer > 5,000 kW	N/A