



RP-2005-0020
EB-2005-0364

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 Festival
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

Festival Hydro Inc. (“FHI” or the “Applicant”) is a licensed distributor providing electrical service to consumers within its defined service area. FHI 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.

FHI 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 Networks Inc.’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 FHI 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 FHI 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.

FHI has requested an amount of \$10,132,105 as revenue to be recovered through distribution rates and charges. Included in this amount is a credit of \$115,121 for the recovery of regulatory assets. Except where noted in this Decision, the Board finds that FHI has filed its Application in accordance with the Handbook and the guidelines for the recovery of regulatory assets.

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

- Low Voltage Rates;
- Conservation Demand Management (CDM) Funding;
- Residential Rate Harmonization and Partial-Harmonization;
- Bad Debt;
- Interest Revenue Reduction; and
- Consequences of the Generic Decision (EB-2005-0529).

Low Voltage Rates

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

The Board notes that this estimate reflects Hydro One Networks' current approved facility charges for connection to shared high-voltage distribution station of \$1.48/kW,

connection to shared low voltage distribution station of \$1.87/kW, and shared LV lines of \$0.56/kW. The Board further notes that Hydro One Networks applied for a facility charge for connection to shared high-voltage distribution station of \$1.67/kW, connection to shared low voltage distribution station of \$2.11/kW, and shared LV lines of \$0.63/kW in its 2006 rate application RP-2005-0020/EB-2005-0378, and that the Board has approved these rates.

The Board is of the view that the LV adjustment that FHI 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 systematic sources of variance. The Board is of the view that FHI's rates should reflect the LV rates and other charges authorized by the Board for the host distributor. Accordingly, the Board has revised the amount for LV charge recovery in FHI's revenue requirement.

CDM Funding

FHI has applied for approval to recover \$9,000 in expenses for CDM activities in distribution rates. FHI has proposed distribution of 2,000 compact fluorescent light bulbs to residential customers.

The Vulnerable Energy Consumers Coalition ("VECC") expressed concern that that the focus of FHI's CDM efforts appears to be exclusively on lighting related initiatives. VECC is of the opinion that incremental CDM funds should not be approved "unless the program offering is balanced such that it reaches all customers and, in particular includes targeted low income programs".

The Board has noted VECC's concerns, but observes that specific low-income program targets are not explicitly required under the Board's guidelines for incremental CDM spending. In addition, FHI has stated that its program is open to all residential customers.

The Total Resource Cost ("TRC") test is an economic test to evaluate if energy efficiency programs provide a benefit to electricity ratepayers. The test and assumptions to be used in implementing the test are outlined in the Board's TRC Guide.

The Board has approved this test and the TRC Guide as a means of measuring the cost effectiveness of CDM programs. The results of the test filed by the Applicant demonstrate that the benefits outweigh the costs in this proposal. The Board accepts the results and approves the incremental CDM funding as proposed.

Residential Rate Harmonization and Partial Harmonization

In 2000, FHI purchased the electrical assets of the former Hensall PUC and Seaforth PUC. FHI's main service area before the acquisitions was the City of Stratford. Because of the large differences in residential rates at the time of the acquisitions, the rates of these three areas were not harmonized.

In the Application, FHI proposed to harmonize Seaforth residential rates with Stratford by replacing the Seaforth residential rates with the Stratford residential rates. These existing rates are fairly similar.

FHI also proposed to move Hensall residential rates closer to the remaining residential rates. To partially harmonize these residential rates, FHI increased the Hensall residential monthly service rate generated by the model to \$9.00/month and applied the revenue increase as an offset to reduce the fixed residential rate for Stratford and Seaforth customers to \$14.34/month. FHI submitted that it achieved revenue neutrality through the above adjustments.

VECC submitted that the Board should direct FHI to moderate its harmonization plan. VECC suggested that a possible approach would be to limit the impacts such that less than 10% of the customers would experience a bill impact of more than 10%.

The Board finds that the rate harmonization and partial harmonization approach proposed by FHI is reasonable and accepts the Applicant's implementation plan. The proposals will increase consistency in residential rates throughout FHI's service area. The Board is satisfied that the residential rate harmonization and partial harmonization will not create undue customer rate impacts.

Bad Debt

FHI applied for a \$19,184 increase in 2006 bad debt over the 2004 level to reflect a realistic level in that expense for a normal operating year. FHI submitted its average

bad debt in prior years was \$80,000 and the 2004 bad debt level of \$60,816 was unusually low.

The Board is not persuaded that the 2004 bad debt expense does not represent a typical year, given the downward trend in FHI's bad debt expenses from 2002 to 2004. Therefore, the Board will not approve the requested increase in bad debt expense. In making this finding, the Board notes that FHI is not in financial distress and that no evidence suggests that failure to recover the requested amount will cause unmanageable financial hardship to the Applicant.

Revenue Offset Adjustment for Interest Reduction

FHI requested a revenue adjustment of \$120,565 for an expected reduction in interest income. It indicated that it would not generate similar interest income in 2006 as it did in 2004 for the following reasons:

- its regulatory assets balance changed from a debit to a credit in 2004; and
- its cash balance is lower due to the repurchase of common shares in June 2005. This repurchase was intended to move the actual debt to equity ratio to match the deemed capital structure.

The Board acknowledges the efforts FHI has made to match its actual capital structure with the deemed structure. The Board finds that the proposed interest revenue reduction is reasonable and accepts it, given that it will not create undue customer rate impacts.

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 include a specific smart meter plan in the revenue requirement. In this situation, the Generic Decision provides that an amount determined as \$3.50 per meter per month installed during the rate year be reflected in the Applicant's revenue requirement, instead of the smart meter-related costs proposed by the Applicant. Consequently, the amounts that the Applicant has proposed in the 2006 rate Application have been removed and replaced with the amount determined in accordance with the Generic Decision. Furthermore, the Board finds in this Decision that this smart meter revenue will be allocated to all metered customers and recovered

through the monthly service charge. The revised amount 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 \$10,021,835, including a credit amount of \$115,121 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 Festival 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 Festival Hydro Inc., and is final in all respects.
3. Festival 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"

RP-2005-0020
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April 12, 2006

ONTARIO ENERGY BOARD

Festival 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

A customer is classed as residential when all the following conditions are met:

- (a) the property is zoned strictly residential by the local municipality,
- (b) the account is created and maintained in the customer's name,
- (c) the building is used for dwelling purposes.

Exceptions may be made for properties zoned for farming use, under the following conditions:

- (a) the principal use of the service is for the residence,
- (b) the service size is 200 amperes or less, and the service is 120/240 volt single phase.

General Service Less Than 50 kW

This classification refers to a non residential account whose peak demand is less than 50 kW in eight of the past twelve months and never reaches 100 kW in any month. For a new customer without prior billing history, the peak demand will be estimated by Festival Hydro Inc. Customers who are classed as General Service but consider themselves to be residential, must provide Festival Hydro Inc. with a copy of their tax assessment, which clearly demonstrates the zoning is for residential use only.

General Service 50 to 4,999 kW

This classification refers to a non residential account whose peak demand is equal to or greater than 50 kW in eight of the past twelve months, or with a peak demand above 100 kW in any month, but less than 5,000 kW. For new customers without prior billing history, the peak demand will be estimated by Festival Hydro Inc.

Large Use

This classification refers to an account whose monthly peak demand is equal to or greater than 5,000 kW for twelve consecutive months, or is forecast to be equal to or greater than 5,000 kW.

Unmetered Scattered Load

This classification applies to an account 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, pedestrian Cross-Walk signals/beacons, 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 refers to accounts that are an unmetered lighting load supplied to a sentinel light.

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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. If connected to the municipal or the Province of Ontario street lighting system, decorative lighting and tree lighting services will be treated as a Street Lighting class of service. Decorative or tree lighting connected to Festival Hydro Inc.'s distribution system will be treated as a General Service Less Than 50 kW class customers.

MONTHLY RATES AND CHARGES

Residential

Service Charge	\$	14.35
Distribution Volumetric Rate	\$/kWh	0.0158
Regulatory Asset Recovery	\$/kWh	0.0007
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0057
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0050
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge	\$	0.25

Residential (Hensall)

Service Charge	\$	9.31
Distribution Volumetric Rate	\$/kWh	0.0100
Regulatory Asset Recovery	\$/kWh	0.0007
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0057
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0050
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	\$	28.33
Distribution Volumetric Rate	\$/kWh	0.0142
Regulatory Asset Recovery	\$/kWh	(0.0003)
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0052
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0045
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	\$	209.39
Distribution Volumetric Rate	\$/kWh	2.2529
Regulatory Asset Recovery	\$/kWh	(0.2085)
Retail Transmission Rate – Network Service Rate	\$/kWh	2.1218
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	1.7882
Retail Transmission Rate – Network Service Rate – Interval Metered	\$/kW	2.2535
Retail Transmission Rate – Line and Transformation Connection Service Rate – Interval Metered	\$/kW	1.9603
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge	\$	0.25

Festival Hydro Inc.

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Large Use

Service Charge	\$	10,413.14
Distribution Volumetric Rate	\$/kW	1.0895
Regulatory Asset Recovery	\$/kW	(0.0580)
Retail Transmission Rate – Network Service Rate – Interval Metered	\$/kW	2.4952
Retail Transmission Rate – Line and Transformation Connection Service Rate – Interval Metered	\$/kW	2.2417
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)	\$	14.01
Distribution Volumetric Rate	\$/kWh	0.0142
Regulatory Asset Recovery	\$/kWh	(0.0005)
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0052
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0045
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 (per connection)	\$	0.79
Distribution Volumetric Rate	\$/kW	4.1788
Regulatory Asset Recovery	\$/kW	1.9871
Retail Transmission Rate – Network Service Rate	\$/kW	1.6083
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.4113
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)	\$	0.45
Distribution Volumetric Rate	\$/kW	2.0909
Regulatory Asset Recovery	\$/kW	(0.1200)
Retail Transmission Rate – Network Service Rate	\$/kW	1.6002
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.3824
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
Income tax letter	\$	15.00
Credit reference/credit check (plus credit agency costs)	\$	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
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	\$	30.00
Disconnect/Reconnect Charge - At Meter During Regular Hours	\$	65.00
Disconnect/Reconnect Charge - 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 – after 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	\$	1000.00
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	1.0281
Total Loss Factor – Secondary Metered Customer > 5,000 kW	1.0145
Total Loss Factor – Primary Metered Customer < 5,000 kW	1.0178
Total Loss Factor – Primary Metered Customer > 5,000 kW	1.0045