



RP-2005-0020
EB-2005-0511

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 Hydro One
Remote Communities 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

Hydro One Remote Communities Inc (“Remotes” or the “Applicant”) is a licensed distributor providing electrical service to consumers within its defined service area. Remotes 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.

Remotes 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.

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 Remotes was given in its service area. The evidence filed was made available to the public. Interested parties intervened and others were given observer status in the proceeding. The evidence in the Application was tested through written interrogatories from Board staff and intervenors, and intervenors and Remotes 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.

Remotes is unique from other electricity distributors in many aspects of its operation. It is an integrated generation and distribution company licensed to generate and distribute electricity within 20 isolated communities in Northern Ontario. Its systems are totally isolated from the provincial grid. As a result, the rates have been established to recover the costs associated with both the generation and distribution components of its

operation. Remotes has requested an amount of \$31,551,000 as revenue to be recovered through distribution rates and charges and also from funds made available through the Rural and Remote Rate Protection (RRRP) program.

The Board finds that Remotes has filed its Application in general compliance with the Handbook and the associated models, amended as necessary to include both the generation and distribution related costs.

In considering this Application the Board reviewed the following matters in detail:

- The revenue received through the RRRP program;
- RRRP Variance Account;
- Conservation and Demand Management (“CDM”) Funding;
- Rate design and the revenue received through rates;
- Bill impacts;
- Consequences of the Generic Decision (EB-2005-0529); and
- The request for exemptions from sections of the Distribution System Code.

The Rural and Remote Rate Protection (RRRP) program

Currently, Remotes receives \$21,108,000 through the RRRP program. Its Application seeks approval for the continuation of that amount for 2006.

The application of the RRRP is through a Regulation of the Ontario government (O. Reg. 442/01). As such, the Board does not approve either the continuation or the level of the funding. However, the Board has made its Decision regarding the revenue requirement of Remotes presuming that the \$21,108,000 is received by the Applicant in 2006.

The Rural and Remote Rate Protection Variance Account

In 2003, pursuant to O. Reg. 442/01, Remotes established a Rural and Remote Rate Protection Variance Account. In its Application, Remotes identified the balance at the time of the Application to be a credit amount of \$7.2 million, which would increase by approximately \$10,000 at the end of 2006. It sought approval to retain the balance in the account and use it as a stabilization fund to mitigate two ongoing risks related to its costs; namely, increased diesel fuel prices and the potential inclusion of new

communities in its service territory. The Board is satisfied with the approach taken by Remotes in the application of this account, and notes that this account will be reviewed for disposition by the Board on an ongoing basis.

CDM Funding

Remotes has applied for approval to include \$300,000 in revenue requirement for conservation and energy efficiency activities for 2006. The activities associated with this program include the development and implementation of a range of residential energy efficiency measures, a customer education program for all customers and a product supplier program to increase the availability of energy-efficient products in remote communities. The Board notes that Remotes engaged Navigant Consulting to undertake an avoided cost analysis for the conservation measures, and filed these results.

Although the Navigant report indicates positive avoided costs for the conservation programs, it does not fully conform to the Board's Total Resource Cost ("TRC") testing guidelines. Given the importance of effective conservation, particularly in the setting of the communities served by Remotes, the Board is prepared to approve the inclusion of \$300,000 in the revenue requirement for the identified conservation and energy efficiency activities in 2006, but Remotes must complete and file with the Board the full TRC testing results within 90 days of the release of this Decision.

Rate design and the revenue received through rates

Remotes proposed no changes for 2006 from the current 2004 levels for the following aspects of its rates:

- Any class monthly service charge;
- Any level of demand charges;
- Street Lighting;
- Standard A Residential (both Road/Rail and Air access); and
- Standard A General Service (both Road/Rail and Air access).

For its non-Standard A Residential (year-round (R2) and seasonal (R4)), Remotes is proposing to change its current single energy rate for all consumption (\$0.0875/kWh) to a set of energy blocks; the first 1,000 kWh, the next 1,500 kWh and all additional kWh. In addition, the levels of the rates would be set on an increasing block structure:

\$0.0775/kWh, \$0.1033/kWh and \$0.1300/kWh. The levels of the rates and the sizes of the blocks have been determined to maintain revenue neutrality by customer class on an annual basis.

For its non-Standard A General Service classes (Single Phase (GS1) and Three Phase (GS3)), Remotes is proposing to change its current energy blocks and rates as follows:

Current block	Current rate	Proposed block GS1	Proposed block GS3	Proposed rate both classes
First 12,500 kWh	\$0.0938/kWh	First 6,000 kWh	First 25,000 kWh	\$0.0868/kWh
Next 112,500 kWh	\$0.0681/kWh	Next 7,000 kWh	Next 15,000 kWh	\$0.1150/kWh
All additional	\$0.0431/kWh	All additional	All additional	\$0.1300/kWh

The levels of rates and the sizes of the blocks have been determined to maintain revenue neutrality by customer class on an annual basis.

The Board notes that the proposed introduction of a block bundled rate structure with increasing rates is similar to the rate structure for the commodity portion of the rates of those customers in the rest of the Province supplied through the Regulated Price Plan. The Board also notes the extensive consultation process that was held with customers and community leaders in the development of the proposal.

The Board accepts the analysis that the proposed rates will maintain revenue neutrality by customer class on an annual basis and that most customers will experience reductions in their monthly bills.

The Board approves the proposed rate structures and levels for 2006 and acknowledges the forecasted revenue to be received through all the rates to be \$13,022,616.

Bill Impacts

In its argument, the Department of Indian Affairs and Northern Development (“DIAND”) submitted that a very small number of customers with unusually high consumption will experience bill impacts in excess of 10%. DIAND submitted that the Board should

direct Remotes to inform those customers of the impacts and to help those customers to deal with the impacts.

In reply, Remotes submitted that it has undertaken extensive consultation with customers about its rate proposals and that it plans to communicate the rate change information to its customers along with information about energy conservation. Remotes believe that implementing the tiered rates in concert with its conservation and demand management program will help reduce potential unfavourable bill impacts for customers using large amounts of electricity.

The Board acknowledges the concerns of both parties about bill impacts, but is satisfied in this case that the proposed rates are justified and the consequent impacts are acceptable. As a matter of standard practice, the Board directs utilities to inform customers of rate changes and impacts, and does so in this instance. The Board encourages Remotes to assist customers in mitigating the effects of the rate increases by providing practical information on energy conservation.

Consequences of the Generic Decision on this Application

The Generic Decision (EB-2005-0529) contains findings relevant to funding for smart meters for electricity distributors. Remotes 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. However in this instance, the Board is aware that the implementation of smart metering may pose special challenges.

Therefore, the Board will not direct that the standard amount of \$0.30 per residential customer be implemented in rates at this time. The Board directs Remotes to file with the Board within 90 days of the release of this Decision a report on the feasibility of smart metering in its service areas, along with a statement of what plans Remotes has for smart metering.

The request for exemptions from sections of the Distribution System Code

As part of its Application, Remotes sought exemptions from various sections of the Distribution System Code. The handling of this type of request has been delegated to

another process within the Board. The Applicant has acknowledged this delegation and in the interests of expediency has withdrawn the exemption request from this Application and will deal with this matter separately.

Resulting Revenue Requirement

As a result of the Board's determinations on these issues, the Board has found the revenue requirement to be recovered through distribution rates and charges and funds made available through the Rural and Remote Rate Protection program to be \$31,551,000. The rates in the attached Tariff of Rates and Charges are designed to recover the amount of this revenue requirement not provided through the RRRP program.

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.
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 Hydro One Remote Communities Inc, and is final in all respects.

3. Hydro One Remote Communities Inc shall notify its customers of the rate changes no later than with the first bill reflecting the new rates.

DATED at Toronto, April 26, 2006.

ONTARIO ENERGY BOARD

A handwritten signature in black ink, appearing to read "P. O'Dell", written over a horizontal line.

Peter H. O'Dell
Assistant Board Secretary

Appendix "A"

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April 26, 2006

ONTARIO ENERGY BOARD

Hydro One Remote Communities Inc.

TARIFF OF RATES AND CHARGES

Effective May 1, 2006

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

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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.

EFFECTIVE DATES

ELECTRICITY RATES - May 1, 2006 for all consumption or deemed consumption used on or after that date.
SPECIFIC SERVICE CHARGES - May 1, 2006 for all charges incurred by customers on or after that date.

SERVICE CLASSIFICATIONS

Non Standard A Residential

Year-Round Residential - R2

This classification refers to a residential service that is the principal residence of the customer. This classification may include additional buildings served through the same meter, provided they are not rental income units. To be classed as year round residential, all of the following criteria must be met:

- Occupants must state that this is their principal residence for purposes of the Income Tax Act;
- The occupant must live in this residence for at least 8 continuous months of the year;
- The address of this residence must appear on the occupant's electric bill, driver's licence, credit card invoice, property tax bill, etc.;
- Occupants who are eligible to vote in Provincial or Federal elections must be enumerated for this purpose at the address of this residence.

Seasonal Residential – R4

This classification is comprised of any residential service not meeting the year-round residential criteria. As such, the seasonal residential class includes cottages, chalets, and camps.

Non Standard A General Service

This classification is applicable to any service that does not fit the description of the year-round residential or seasonal residential. Generally, it is comprised of commercial, administrative, recreational, and auxiliary services. It includes combination of services where a variety of uses are made of the service by the owner of one property, and all multiple services except residential.

General Service Single Phase – G1

This classification is applicable to General Service Single Phase customers.

General Service Three Phase – G3

This classification is applicable to General Service Three Phase customers.

General Service over 50 kW

Customers estimated to have an average monthly peak load over 50 kW shall be metered on monthly kW as well as kWh.

Unmetered Scattered Load

This classification applies where connections can be provided without metering. These loads are generally small in size and consistent in magnitude of load. Remotes reserves the right to review all cases and may request a meter be installed at its sole discretion. All unmetered connections fall under the General Service or Lights rate classifications.

Hydro One Remote Communities Inc.

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Street Lighting

The energy consumption for street lights is estimated based on Remote's profile for street lighting load, which provides the amount of time each month that the street lights are operating. Streetlight charges include:

- An energy charge based on installed load, at a rate approved annually (Dollars per kWh x # of fixtures x billing);
- A pole rental charge approved annually, when the light is attached to a Remotes pole.

Remotes must approve the location of new lighting installations on its poles and the streetlight owner must enter into an agreement to use such poles. Remotes will make the electrical service connection of all streetlights to the distribution system.

Standard A Service

Standard A rates are applicable to all accounts paid directly or indirectly out of Federal and/or Provincial government revenue.

Exceptions to these are:

- Crown Corporations
- Community Centres/Halls
- Ice Rinks/Arenas
- Radio, Televisions and Cable
- Libraries

Any Standard A account may be reclassified as General Service, Residential Year-Round or Residential-Seasonal at any time.

To reclassify a Standard A account, a letter from the accountable Federal and/or Provincial Government agency must be provided to Remotes stating that the account does not receive any direct and/or indirect funding of a continuous nature. An alternative to this letter would be a declaration from a Director of the organization stating that the organization receives no funding. This declaration must be accompanied by an audited statement, which includes the funding source. An example of direct funding is an MTO account paid directly by MTO. An example of indirect funding is a First Nation School account paid by a First Nation through funding by Indian and Northern Affairs Canada.

Standard A Residential Road/Rail

This classification is applicable to residential customers in communities that are accessible by a year-round road or by rail.

Standard A Residential Air Access

This classification is applicable to residential customers in communities that are not accessible by a year-round road or by rail.

Standard A General Service Road/Rail

This classification is applicable to all non-residential Standard A customers in communities that are accessible by a year-round road or by rail.

Standard A General Service Air Access

This classification is applicable to all non-residential Standard A customers in communities that are not accessible by a year-round road or by rail.

MONTHLY RATES AND CHARGES

Year-Round Residential – R2

Service Charge	\$	16.45
Energy Charge First 1,000 kWh	\$/kWh	0.0775
Energy Charge Next 1,500 kWh	\$/kWh	0.1033
Energy Charge All Additional kWh	\$/kWh	0.1300

Seasonal Residential – R4

Service Charge	\$	27.80
Energy Charge First 1,000 kWh	\$/kWh	0.0775
Energy Charge Next 1,500 kWh	\$/kWh	0.1033
Energy Charge All Additional kWh	\$/kWh	0.1300

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General Service Single Phase – G1

Service Charge	\$	27.95
Energy Charge First 6,000 kWh	\$/kWh	0.0868
Energy Charge Next 7,000 kWh	\$/kWh	0.1150
Energy Charge All Additional kWh	\$/kWh	0.1300
Demand Charge 0 – 50 kW	\$/kW	0.00
Demand Charge 50 – 4,999 kW	\$/kW	6.45
Demand Charge All additional kW	\$/kW	12.22

General Service Three Phase – G3

Service Charge	\$	35.00
Energy Charge First 25,000 kWh	\$/kWh	0.0868
Energy Charge Next 15,000 kWh	\$/kWh	0.1150
Energy Charge All Additional kWh	\$/kWh	0.1300
Demand Charge 0 – 50 kW	\$/kW	0.00
Demand Charge 50 – 4,999 kW	\$/kW	6.45
Demand Charge All additional kW	\$/kW	12.22

Street Lighting

Energy Charge	\$/kWh	0.0860
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Standard A Residential Road/Rail

Energy Charge First 250 kWh	\$/kWh	0.5096
Energy Charge All additional kWh	\$/kWh	0.5822

Standard A Residential Road/Rail

Energy Charge First 250 kWh	\$/kWh	0.5096
Energy Charge All additional kWh	\$/kWh	0.5822

Standard A Residential Air Access

Energy Charge First 250 kWh	\$/kWh	0.7691
Energy Charge All additional kWh	\$/kWh	0.8418

Standard A General Service Road/Rail

Energy Charge	\$/kWh	0.5822
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Standard A General Service Air Access

Energy Charge	\$/kWh	0.8418
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Hydro One Remote Communities Inc.

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Specific Service Charges

Customer Administration		
Arrears Certificate	\$	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
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/Disconnection/Load Limiter/Reconnection – if in Community	\$	65.00