



RP-2005-0020
EB-2005-0384

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 Kenora
Hydro Electric Corporation Ltd. 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

Kenora Hydro Electric Corporation Ltd. (“Kenora Hydro” or the “Applicant”) is a licensed distributor providing electrical service to consumers within its defined service area. Kenora 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.

Kenora Hydro is one of over 90 electricity distributors in Ontario that are regulated by the Board. To streamline the process for the approval of distribution rates and charges for these distributors, the Board developed and issued the 2006 Electricity Distribution Rate Handbook (the “Handbook”) and complementary spreadsheet-based models. These materials were developed after extensive public consultation with distributors, customer groups, public and environmental interest groups, and other interested parties. The Handbook contains requirements and guidelines for filing an application.

The models determine the amounts to be included for the payments in lieu of taxes (“PILs”) and calculate rates based on historical financial and other information entered by the distributor.

Also included in this process was a methodology and model for the final recovery of regulatory assets flowing from the Board’s decision dated December 9, 2004 on the Review and Recovery of Regulatory Assets – Phase 2 for Toronto Hydro, London Hydro, Enersource Hydro Mississauga and Hydro One Networks Inc. In Chapter 10 of the decision, the Board outlined a Phase 2 process for the remaining distributors. By letter of July 12, 2005, the Board provided guidance and a spreadsheet-based model to the distributors for the inclusion of this recovery as part of their 2006 distribution rate applications.

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 Kenora 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 Kenora 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.

Kenora Hydro has requested an amount of \$2,171,872 as revenue to be recovered through distribution rates and charges. Included in this amount is a credit of \$133,119 for the recovery of regulatory assets. Except where noted in this Decision, the Board finds that Kenora Hydro has filed its Application in accordance with the Handbook and the guidelines for the recovery of regulatory assets.

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

- Additional Hardship Funding Request; and
- Consequences of the Generic Decision (EB-2005-0529).

Additional Hardship Funding Request

Kenora Hydro included in its Application, as Tier 2 adjustment, the recovery of \$156,000 on account of additional hardship. The Applicant stated that in 2002 it was discovered that Kenora Hydro had been under billed by Ontario Power Generation Inc. ("OPGI") for energy delivered from June 1998 through April 2002. As a result, the 1999 financial results, upon which all subsequent filings have been based, indicated a net income figure which was overstated by \$239,166 and therefore, the incremental Market Adjusted Revenue Requirement ("MARR") amount that Kenora Hydro was entitled to was understated by \$239,166.

Kenora Hydro argued that, in addition to the direct impact of OPGI's under billing, it had been trying to mitigate losses over the last several years by postponing its capital projects and the on-going upgrade of its distribution system. As a result of delays in succession planning of staff, Kenora Hydro was also operating at less than the optimal staff levels in 2004. According to Kenora Hydro, the vacancy created by the sudden retirement of a senior journeyman in late 2003 and the lack of financial resources in the utility resulted in an estimated amount of \$156,000 of burdened labour costs not being spent. Kenora Hydro argued that this situation had been the direct result of the undue

financial hardship experienced by the utility, and proposed to incorporate the amount of \$156,000 into distribution expenses as a Tier 2 adjustment.

The Board notes that the Handbook restricts the circumstances under which a Tier 2 adjustment can be made to:

- The Applicant began the 1999 RUD process with negative returns; and
- The Applicant did not receive the second third of the incremental MARR.

The Board notes that Kenora Hydro had a positive return of \$384,312 in 1999. Furthermore, although the Applicant chose not to receive the second third of the incremental MARR, it received the full incremental MARR of \$141,455 subsequently in its 2005 rate application in RP-2005-0013 / EB-2005-0040. Therefore, the Board finds that Kenora Hydro's request cannot be treated as a Tier 2 adjustment.

However, the Board notes that Kenora Hydro was operating at less than the optimal staff levels and that an additional \$156,000 in labour costs would have been spent as distribution expense in 2004 (and beyond), had the financial resources been available to the Applicant. The Board views Kenora Hydro's claim as a request for a normalization of distribution expenses in 2004. The Board finds that the additional \$156,000 requested by the Applicant should be treated as a non-routine / unusual Tier 1 adjustment and charged to the same distribution expense account as proposed by Kenora Hydro.

The Board emphasizes that its finding does not imply that Kenora Hydro's incremental MARR amount will be subject to a retroactive adjustment reflecting OPGI's under billing for 1999.

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 \$2,189,800, including a credit amount of \$133,119 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 Kenora Hydro Electric Corporation Ltd.'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 Kenora Hydro Electric Corporation Ltd., and is final in all respects.
3. Kenora Hydro Electric Corporation Ltd. 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 fluid and cursive, with the first name "John" written in a larger, more prominent script than the last name "Zych".

John Zych
Board Secretary

Appendix "A"

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April 12, 2006

ONTARIO ENERGY BOARD

Kenora Hydro Electric Corporation Ltd.

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

All services supplied to single-family dwelling units for domestic or household purposes shall be classified as residential service.

Subclasses would be:

Overhead

- Transformers not on private property
- Transformers on private property

Underground

- Transformers not on private property
- Transformers on private property

General Service

All services other than those designated as residential service, municipal street lighting service. This includes combination type services where a variety of uses are made of the same service by the Customer (e.g. General Service less than 50 kVA combined with residential service).

Subclasses would be:

Demand less than 50 kVA - (100A @ 120/208V; 100A @ 120/240V, 60A @ 347/600V)

Demand equal to 50 kVA, up to 500 kVA - (1600A @ 120/208V; 600A @ 347/600V; 600A @ 120/240V)

Demand equal to 500 kVA, up to 5,000 kVA - (greater than 1600A @ 120/208V OR greater than 600A @ 347/600V and service from the 44 kV distribution system)

For new installations, demand sizing is based on the main switch size in amps converted to kVA.

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 kVA and the consumption is unmetered. Such connections include cable TV power packs, bus shelters, telephone booths, traffic lights, 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.

Street Lighting

All service supplied to any electrical street lighting equipment owned by, or operated for, the City of Kenora that is used to illuminate roadways and sidewalks, etc. The street light equipment is not metered, and they turn on and off by photoelectric cells. The consumption will be based on the calculated connected load times the required lighting times established in the

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approved OEB street lighting load shape template.

MONTHLY RATES AND CHARGES

Residential

Service Charge	\$	13.44
Distribution Volumetric Rate	\$/kWh	0.0096
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	0.0017
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	\$	25.37
Distribution Volumetric Rate	\$/kWh	0.0040
Regulatory Asset Recovery	\$/kWh	(0.0010)
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0044
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0015
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	\$	363.02
Distribution Volumetric Rate	\$/kW	1.2056
Regulatory Asset Recovery	\$/kW	(0.4097)
Retail Transmission Rate – Network Service Rate	\$/kW	1.8149
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	0.5930
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)	\$	12.67
Distribution Volumetric Rate	\$/kWh	0.0041
Regulatory Asset Recovery	\$/kWh	(0.0010)
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0044
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0015
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)	\$	3.45
Distribution Volumetric Rate	\$/kW	2.2683
Regulatory Asset Recovery	\$/kW	(0.5334)
Retail Transmission Rate – Network Service Rate	\$/kW	1.3687
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	0.4584
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010

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0.25

Regulated Price Plan – Administration Charge (if applicable) \$

Specific Service Charges

Customer Administration

Arrears Certificate	\$	15.00
Statement of Account	\$	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
Account History	\$	15.00
Credit reference/credit check (plus credit agency costs)	\$	25.00
Returned Cheque (plus bank charges)	\$	25.00
Legal Letter Charge	\$	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
Disconnect/Reconnect Charge - At Meter During Regular Hours	\$	65.00
Disconnect/Reconnect Charge - At Meter After Regular Hours	\$	185.00
Disconnect/Reconnect Charge - At Pole During Regular Hours	\$	185.00
Disconnect/Reconnect Charge - 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	\$	65.00
Service call – After Regular Hours	\$	165.00
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	1.0812
Total Loss Factor – Secondary Metered Customer > 5,000 kW	1.0812
Total Loss Factor – Primary Metered Customer < 5,000 kW	1.0704
Total Loss Factor – Primary Metered Customer > 5,000 kW	1.0704