



RP-2005-0020
EB-2005-0386

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 Kitchener-
Wilmot 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

Kitchener-Wilmot Hydro Inc. (“KW Hydro” or the “Applicant”) is a licensed distributor providing electrical service to consumers within its defined service area. KW 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.

KW 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 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 KW 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 Board also received one letter of comment from a ratepayer of KW Hydro. The evidence in the Application was tested

through written interrogatories from Board staff and intervenors, and intervenors and the Applicant had the opportunity to file written argument. While the Board has considered the entire record in this proceeding, it has made reference to evidence and argument in this Decision only to the extent necessary to provide context to its findings.

KW Hydro has requested an amount of \$34,199,552 as revenue to be recovered through distribution rates and charges. Included in this amount is a credit of \$513,097 for the recovery of regulatory assets. Except where noted in this Decision, the Board finds that KW Hydro has filed its application in accordance with the Handbook and the guidelines for the recovery of regulatory assets.

Notwithstanding the KW 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;
- Treatment of Retailer Prudential Credits; and
- Impact of the Generic Decision (EB-2005-0529).

Low Voltage Rates

KW Hydro provides wheeling distribution services to a portion of Waterloo North Hydro's distribution system, and has applied for Low Voltage ("LV") distribution wheeling rates to be charged as of May 1, 2006. The Applicant has applied for two rates – one for a dedicated line and the other for a shared line. While the Applicant has proposed its own methodology upon which the proposed rates are based, the Board finds the methodology to be similar to the one documented in the Handbook. The Board finds KW Hydro's LV rates to be charged for wheeling services provided to Waterloo North Hydro from May 1, 2006 onwards to be reasonable.

On November 29, 2005, the Applicant amended its original application to seek approval for recovery of historical costs for LV services provided to Waterloo North Hydro since 2002. In 2002, KW Hydro had applied for approval of LV rates effective upon market opening, but the application was discontinued in late 2002 due to the rate freeze imposed by Bill 210. The Applicant is now requesting approval of recovery of \$144,451 from Waterloo North Hydro.

This request by the Applicant is unusual and the onus is on the Applicant to demonstrate why it is appropriate to recover the out of period amount. Agreeing to the Applicant's request would constitute retroactive ratemaking, a practice not endorsed by the Board, and not permitted by the courts once rates have been declared final. Under Bill 210, the rates for electricity distributors were made final. During the period of the rate freeze (December 2002 to January 2005), applications to the Board for rate changes were permitted only with the leave of the Minister of Energy; either the Applicant did not make such an application, or the application was not referred to the Board by the Minister. For the above reasons, the Board will not authorize the historical LV distribution wheeling rates being sought. In making this finding, the Board has also concluded that failure to recover the requested amount will not cause unmanageable financial hardship to the Applicant.

Treatment of Retailer Prudential Credits

The Applicant has recorded in Regulatory Asset Account 2425 amounts related to Retailer Prudential credits. While the Applicant's distribution customers are unaffected by the Retailer Prudential amounts as recorded by the Applicant, the Board is of the view that that the practice of recording of Retailer Prudentials in this account is inconsistent with the Board's Accounting Procedures Handbook for Electricity Distribution Utilities, and directs the Applicant to contact Board staff to discuss the proper accounting treatment.

Consequences of the Generic Decision on this Application

The Generic Decision contains findings relevant to funding for smart meters and stand by rates 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 directs 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.

With respect to standby rates, the Generic Decision provided that existing and proposed standby rates should be declared interim upon the effective date of the rates approved in this decision. Given that KW Hydro proposed to continue its legacy standby rates, those rates are declared interim at the proposed level as of the effective date of the rate order accompanying this Decision.

The Board notes that, in the Generic Issues Proceeding, KW Hydro asserted that its standby rates would also apply to merchant (i.e., non-load-displacement) generation facilities. For additional clarity, KW Hydro is authorized under existing distribution rate orders to charge distribution rates on load supplied to any customer. KW Hydro is not authorized to, and may not, apply rates to power supplied to its system by a generator.

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 \$34,449,410 and a credit of \$513,097 for regulatory assets recovery.

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 identify costs specifically arising from and 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 Kitchener-Wilmot 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 Kitchener-Wilmot Hydro Inc., and is final in all respects, except for the standby rates, which are approved as interim.
- 3) Kitchener-Wilmot 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

John Zych
Board Secretary

Appendix "A"

RP-2005-0020
EB-2005-0386

April 12, 2006

ONTARIO ENERGY BOARD

Kitchener-Wilmot 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

RP-2005-0020
EB-2005-0386

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

This classification applies to an account taking electricity at 750 volts or less where the electricity is used exclusively in a separate metered living accommodation. Customers shall be residing in single-dwelling units that consist of a detached house or one unit of a semi-detached, duplex, triplex or quadruplex house, with a residential zoning. Separately metered dwellings within a town house complex or apartment building also qualify as residential customers. All customers are single-phase.

General Service Less Than 50 kW

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

General Service 50 to 4,999 kW

This classification applies to a non residential account whose average monthly maximum demand used for billing purposes is equal to or greater than, or is forecast to be equal to or greater than, 50 kW but less than 5,000 kW. Note that for the application of the Retail Transmission Rate – Network Service Rate and the Retail Transmission Rate – Line and Transformation Connection Service Rate the following sub-classifications apply:

- General Service 50 to 999 kW non-interval metered
- General Service 50 to 999 kW interval metered
- General Service 1,000 to 4,999 kW interval metered.

Large Use

This classification applies to an account whose average monthly maximum demand used for billing purposes is equal to or greater than, or is forecast to be equal to or greater than, 5,000 kW.

Unmetered Scattered Load

This classification applies to an account taking electricity at 750 volts or less 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, 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.

Standby Power

This classification applies to an account with load displacement facilities that contracts with the distributor to provide emergency standby power when its load displacement facilities are not in operation. The level of the billing demand will be agreed to by the distributor and the customer, based on detailed manufacturer information/documentation such as name-plate rating of the load displacement facility.

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RP-2005-0020
EB-2005-0386

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.

Embedded Distributor

This classification applies to an electricity distributor licensed by the Board that is provided electricity by means of this distributor's facilities.

MONTHLY RATES AND CHARGES

Residential

Service Charge	\$	9.83
Distribution Volumetric Rate	\$/kWh	0.0123
Regulatory Asset Recovery	\$/kWh	(0.0002)
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0051
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	\$	25.47
Distribution Volumetric Rate	\$/kWh	0.0091
Regulatory Asset Recovery	\$/kWh	(0.0003)
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0045
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0016
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	\$	233.18
Distribution Volumetric Rate	\$/kW	3.5232
Regulatory Asset Recovery	\$/kW	(0.0440)
Retail Transmission Rate – Network Service Rate	\$/kW	2.3431
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	0.8101
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

Large Use

Service Charge	\$	14,208.41
Distribution Volumetric Rate	\$/kW	1.4329
Regulatory Asset Recovery	\$/kW	(0.4377)
Retail Transmission Rate – Network Service Rate – Interval Metered	\$/kW	2.2022
Retail Transmission Rate – Line and Transformation Connection Service Rate – Interval Metered	\$/kW	0.7615
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

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RP-2005-0020
EB-2005-0386

Unmetered Scattered Load

Service Charge (per connection)	\$	12.60
Distribution Volumetric Rate	\$/kWh	0.0091
Regulatory Asset Recovery	\$/kWh	(0.0003)
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0045
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0016
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

Standby Power – INTERIM APPROVAL

Monthly Rate - Applicable Customer Class Distribution Volumetric Rate – \$/kW of contracted amount

Street Lighting

Service Charge (per connection)	\$	0.79
Distribution Volumetric Rate	\$/kW	4.3987
Regulatory Asset Recovery	\$/kW	(0.6873)
Retail Transmission Rate – Network Service Rate	\$/kW	1.4249
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	0.4927
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

Embedded Distributor

Monthly Distribution Wheeling Service Rate – Dedicated LV Line	\$/kW	1.13
Monthly Distribution Wheeling Service Rate – Shared LV Line	\$/kW	0.10

Specific Service Charges

Customer Administration		
Returned Cheque charge (plus bank charges)	\$	15.00
Account set up charge / change of occupancy charge (plus credit agency costs if applicable)	\$	10.00
Non-Payment of Account		
Late Payment - per month	%	1.50
Late Payment - per annum	%	19.56
Disconnect/Reconnect at meter – during regular hours	\$	45.00
Disconnect/Reconnect at meter – after regular hours	\$	75.00
Disconnect/Reconnect at pole – during regular hours	\$	95.00
Service call – after regular hours	\$	105.00
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	1.0329
Total Loss Factor – Secondary Metered Customer > 5,000 kW	1.0154
Total Loss Factor – Primary Metered Customer < 5,000 kW	1.0226

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Total Loss Factor – Primary Metered Customer > 5,000 kW

RP-2005-0020
EB-2005-0386
1.0053