



RP-2005-0020
EB-2005-0351

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 Middlesex
Power 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

Bob Betts
Member

DECISION AND ORDER

Middlesex Power Distribution Corporation (“Middlesex Power” or the “Applicant”) is a licensed distributor providing electrical service to consumers within its defined service area. Middlesex Power 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.

Middlesex Power 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.

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 Middlesex Power 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 Middlesex Power 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.

Middlesex Power has requested an amount of \$3,359,980 as revenue to be recovered through distribution rates and charges. Included in this amount is a debit of \$224,642 for the recovery of regulatory assets. Except where noted in this Decision, the Board finds that Middlesex Power has filed its Application in accordance with the Handbook and the guidelines for the recovery of regulatory assets.

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

- Low Voltage Rates;
- Tier 2 Adjustments;
- Distribution Loss Adjustment Factor;
- Conservation and Demand Management ("CDM") Funding;
- Sentinel Lighting; and
- Consequences of the Generic Decision (EB-2005-0529).

Low Voltage Rates

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

The Board notes that this estimate reflects Hydro One Networks' current 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 Middlesex Power 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 Middlesex Power'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 Middlesex Power's revenue requirement.

Tier 2 Adjustments

Middlesex Power has requested Tier 2 adjustments due to its having experienced negative financial returns in 1999. As a result of the financial hardship, Middlesex Power stated that: "some significant operation decisions had been made which have reduced the level of spending for operation, maintenance and capital programs".

In its Application, Middlesex Power proposed the following Capital and Operation and Maintenance programs related to its Tier 2 adjustments:

Capital

Automated Mapping Facility Management Global Information System - \$250,000
Fleet Requirements - \$200,000
Line Loss Improvement Program - \$150,000

Operation and Maintenance

PCB Elimination - \$50,000
Distribution Station Maintenance and Over Head Line Maintenance - \$84,600

The plan proposed by Middlesex Power is documented in detail, and is proposed to be executed over the years 2006 through 2008.

The Board is satisfied that Middlesex Power meets the criteria to be eligible for Tier 2 adjustments. The Board has reviewed the proposed Tier 2 plans and finds that they are reasonable. The Board approves the 2006 revenue requirement and rate consequences of the Tier 2 plans, specifically the Operation and Maintenance budget of \$134,600 and Capital budget of \$600,000 for 2006. However, the Board particularly notes for the Applicant's attention that the Board's approval of the cost consequences of the Tier 2 plan extends only to the 2006 rate year. The Board makes no findings regarding the spending plan and rate consequences beyond 2006.

Distribution Loss Adjustment Factor

Middlesex Power is proposing a Distribution Loss Adjustment Factor greater than 5%. The Handbook requires Applicants that propose a loss factor exceeding 5% to provide an explanation for the proposed level and a loss reduction plan.

Middlesex Power provided the following explanation of the proposed loss factor: "Factors affecting line losses include conductor size, transformer efficiency, feeder balancing and the primary contributor is the substations. Middlesex Power has six 4000-volt substations that supply approximately 60% of the 40-megawatt peak load. Substation losses account for approximately 50% of the total losses".

Middlesex Power is proposing to reduce system losses through a voltage conversion program. Middlesex Power stated that: "the program will eliminate the 4000-volt substations and convert customers to the 27.6 kilovolt system that has much lower losses". Also "when the entire voltage conversion is completed it will reduce system losses in MPDC to 2.6%. Due to the cost of conversion this plan will take approximately 15 years".

The Board notes that approval was given to the Tier 2 adjustment for the Line Loss Improvement Program. The Board approved the 2006 budget of \$150,000. The Board is satisfied that Middlesex Power has provided an action plan and accepts the proposed loss factor.

Incremental CDM

Middlesex Power has applied for approval to recover \$50,000 in distribution rates to be invested in incremental CDM activities. However, it did not provide cost-effectiveness testing results for the proposed activities, or details of the activities themselves.

The Board notes that in the decision on the Generic CDM Issues RP-2005-0020 / EB-2005-0523, the Board adopted the TRC test as the prudence test for CDM spending. Without the TRC measure of cost effectiveness on the programs proposed by Middlesex Power, the Board cannot determine if the CDM expenditures are prudent.

As a result, the Board will not approve the proposed \$50,000 for incremental CDM spending.

Sentinel Lighting

Due to the overcollection of Regulatory Asset amounts for this class, sentinel lighting customers will have a credit applied to their bills based on an amount per kW consumed. The total amount of the credit for the sentinel lighting class is \$1,239.

If this credit is applied to the variable component of the sentinel lighting rates, it would create a credit invoice which increases with consumption. The Board does not view a credit position for consumption as an appropriate representation of the cost of power. The Board orders that the proposed Regulatory Asset credit per kW consumed be removed from sentinel lighting customers' rates, and a one time credit adjustment be applied to clear the \$1,239 credit. The one time credit adjustment should be applied to the first customer bills that reflect the 2006 rates.

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 file 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. As there is a variance account, and for simplicity, the Board has not made any distinction for purposes of setting rates between the meter costs for residential and non-residential customers. 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 \$3,318,040 including a debit amount of \$224,642 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 Middlesex Power 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 Middlesex Power Distribution Corporation, and is final in all respects.
3. Middlesex Power Distribution Corporation shall notify its customers of the rate changes no later than with the first bill reflecting the new rates.
4. Middlesex Power Distribution Corporation shall clear the regulatory asset credit balance for the Sentinel Lighting class by way of a one-time credit based on proportionate 2005 consumption to customers in that class, effected on the first bills rendered after the effective date of the appended Tariff of Rates and Charges.

DATED at Toronto, April 12, 2006.

ONTARIO ENERGY BOARD



John Zych
Board Secretary

Appendix "A"

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April 12, 2006

ONTARIO ENERGY BOARD

Chatham-Kent Hydro - Middlesex Power

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

This classification applies to an account taking electricity at 750 volts or less and includes:

- 1) All services supplied to single-family dwelling units for domestic or household purposes,
- 2) All multi-unit residential establishments such as apartments of 6 or less units.
- 3) If a service supplies a combination of residential and commercial load and wiring does not permit separate metering, the classification of this customer will be determined individually by the distributor.

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 and includes multi-unit residential establishments such as apartment buildings supplied through one service (bulk-metered).

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 5,000 kW non-interval metered
- General Service 50 to 5,000 kW interval metered

Large Use

This classification applies to an account whose average monthly maximum demand used for billing purposes over the most recent 12 consecutive months 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.

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Sentinel Lighting

This classification refers to accounts that are an unmetered lighting load supplied to a sentinel light.

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.

MONTHLY RATES AND CHARGES

Residential

Service Charge	\$	14.71
Distribution Volumetric Rate	\$/kWh	0.0152
Regulatory Asset Recovery	\$/kWh	0.0022
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0055
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0049
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	\$	19.32
Distribution Volumetric Rate	\$/kWh	0.0056
Regulatory Asset Recovery	\$/kWh	0.0015
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0050
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0044
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	\$	45.62
Distribution Volumetric Rate	\$/kW	1.6482
Regulatory Asset Recovery	\$/kW	0.3362
Retail Transmission Rate – Network Service Rate	\$/kW	2.0299
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.7412
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 (if applicable)	\$	0.25

Large Use

Service Charge	\$	3,820.68
Distribution Volumetric Rate	\$/kW	0.2295
Regulatory Asset Recovery	\$/kW	(0.1780)
Retail Transmission Rate – Network Service Rate – Interval Metered	\$/kW	2.3871
Retail Transmission Rate – Line and Transformation Connection Service Rate – Interval Metered	\$/kW	2.1828
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010

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Regulated Price Plan – Administration Charge (if applicable)	\$	0.25
Unmetered Scattered Load		
Service Charge (per connection)	\$	9.47
Distribution Volumetric Rate	\$/kWh	0.0056
Regulatory Asset Recovery	\$/kWh	0.0062
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0050
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0044
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)	\$	0.19
Distribution Volumetric Rate	\$/kW	1.1133
Regulatory Asset Recovery	\$/kW	0.0062
Retail Transmission Rate – Network Service Rate	\$/kW	1.5386
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.3742
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)	\$	0.15
Distribution Volumetric Rate	\$/kW	0.6844
Regulatory Asset Recovery	\$/kW	0.1187
Retail Transmission Rate – Network Service Rate	\$/kW	1.5306
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.3461
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
Easement letter	\$	15.00
Credit reference/credit cheque (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
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
Temporary service install & remove – overhead – no transformer	\$	500.00
Specific charge for access to the power poles – per pole/year	\$	22.35
Switching for company maintenance – Charge based on Time and Materials	\$	
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)

Chatham-Kent Hydro - Middlesex Power

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LOSS FACTORS

Total Loss Factor – Secondary Metered Customer < 5,000 kW	1.0608
Total Loss Factor – Secondary Metered Customer > 5,000 kW	1.0145
Total Loss Factor – Primary Metered Customer < 5,000 kW	1.0501
Total Loss Factor – Primary Metered Customer > 5,000 kW	1.0045