



RP-2005-0020
EB-2005-0394

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 Niagara
Falls 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

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

NFHI 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 NFHI 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 NFHI 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.

NFHI has requested an amount of \$20,239,142 as revenue to be recovered through distribution rates and charges. Included in this amount is a debit of \$703,725 for the recovery of regulatory assets. Except where noted in this Decision, the Board finds that NFHI has filed its Application in accordance with the Handbook and the guidelines for the recovery of regulatory assets.

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

- Transmission Assets;
- Rate Increase Impact;
- Reduction of Retail Transmission Connection Rates;
- Future Recovery of Foregone Revenue;
- Costs related to Rebate Cheques Recorded in Account 1572; and
- Consequences of the Generic Decision (EB-2005-0529).

Transmission Assets

To meet growing local demand and provide a reliable and secure supply of electricity, NFHI constructed the Kalar Transformer Station (the "Kalar TS") through 2003 and 2004. The in service date of the Kalar TS was October 28, 2004.

NFHI indicated that in its 2004 unadjusted accounting data, it recorded the Kalar TS as a non-distribution asset and excluded it from rate base. In this Application, NFHI has requested that the Kalar TS assets be deemed to be distribution assets. It also requested its distribution expenses be adjusted to include in its rates the operation, maintenance and amortization costs associated with the Kalar TS assets.

Some assets operated by a distributor may be classified as part of a transmission system according to the definition in the *Ontario Energy Board Act, 1998*. The Board has the power, under section 84 of the Act, to determine that transmission system assets are part of a distribution system, and can therefore treat them as distribution assets for the purpose of setting distribution rates. As stated above, NFHI has requested the Kalar TS assets completed in 2004 be deemed to be distribution assets in its rate base. It has also requested its distribution expenses be adjusted to include depreciation costs.

The Board deems the NFHI Kalar TS assets to be distribution assets. The costs associated with those assets are to be included in the revenue requirement for the Applicant.

Rate Increase Impact

The Vulnerable Energy Consumers Coalition (“VECC”) argued that NFHI’s base distribution revenue for 2006 increases by almost 20% compared to 2005. Considering that 2006 rates are based on a 2004 historical base, while those for 2005 and earlier years are derived from 1999 data with subsequent adjustments, VECC compared the base distribution revenue increase of 20% with the cumulative inflation of about 10% over the period 1999 to 2004.

VECC sought further explanation from NFHI through interrogatories. VECC is of the view that the reasons provided by NFHI do not fully explain the \$350,000 increase in operation expense in 2004 over 2002. VECC cautioned the Board about such sizable increases, and submitted that the 2004 Operations Expense of NFHI included for purposes of determining 2006 rates should be reduced to no more than \$275,000.

NFHI indicated that the increase is 16.9% and that the increase excluding PILs is only 13.4%. NFHI reconciled over 90% of the increase in operation expense from 2002 to 2004. NFHI argued that VECC’s calculations are largely arbitrary.

The Board’s objectives require it to consider the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service, and the financial viability of the electricity industry.

The rates for 2006 are based on 2004 data, while current rates are, in large part, based on significantly older 1999 data. The Board notes that, depending on a distributor’s circumstances, its revenue requirement and associated rates resulting from the updated test year could be substantially lower or higher than present levels. Comparisons to existing rates are relevant but not determinative in establishing new rates, especially in cases where structural differences exist between former and prospective cost structures.

The Board finds that NFHI has provided adequate support for the revenue requirement sought in its Application, and the Board will not make any adjustments.

Retail Transmission Service Rates

NFHI applied for a 3% increase in retail transmission network rates and a 2% increase in retail transmission transformation connection rates based on its revenues and costs associated with retail transmission service in 2004.

VECC argued that NFHI had not adjusted the retail transmission rates to account for the reduction in transformation charges that is achieved through the coming into service of the new Kalar TS. VECC argued that as distribution rates reflect the costs of the new Kalar TS, customers should see a benefit by way of lower retail transmission rates. As the estimate from NFHI was that 12% of its supply will pass through the new Kalar TS and therefore not be subject to transformation connection charges from Hydro One Networks, a matching reduction in retail transmission rates would be appropriate.

NFHI submitted that the rate Application was based on historical data using 2004 as the base year. Any change in 2005 to transformation connection charges due to the new station will be recorded in variance accounts and disposed of in future rate applications. NFHI contended that VECC was attempting to apply a forward test year approach on a single item in the Application.

The Board finds that no Board guidelines preclude utilities from adjusting retail transmission rates to reflect the transformation related cost incurred in a normal operating year. It is consistent with the rate setting principle in the Handbook to make necessary adjustments to make 2004 a normal or typical year with respect to costs and revenues.

The Board notes that NFHI's reliance on the transformation connection services of Hydro One Networks has been reduced due to the partial replacement services provided by the Kalar TS, the costs of which will now be borne by customers. Due to this reduction, 2004 does not represent a typical year of transformation connection service cost incurred by NFHI. As a result, the Board denies NFHI's request for an increase of 2% in the retail transformation connection rate and further reduces that rate by 8% to reflect the decrease in costs of the services in order to reduce the potential for large credit balances to accumulate in the variance accounts. The reduction of 8% is calculated assuming a reduction in the load subject to transformation costs of 12%, and that the transformation costs represent approximately 66% of the transmission system charges.

Future Recovery of Foregone Revenue

To mitigate bill impacts of the applied-for rates in 2006, NFHI stated it has removed from rate base the capital expenditure on its 3rd tranche Conservation and Demand Management (“CDM”) plan and the capital expenditure on wholesale meters in 2005.

The Applicant requested that the Board confirm that NFHI will be entitled to recover the foregone revenue in its next distribution rate application or include the removed items in its rate base at its next opportunity to calculate it, when doing so will not contribute to unacceptable bill impacts.

Given that the Handbook allows capital expenditures of this nature to be included in rate base, the Board authorizes NFHI to track the associated forgone revenue in a deferral account for future disposition. The Applicant shall also report to the Board the associated revenue forgone as part of its Electricity Reporting and Record Keeping Requirements filings.

Costs related to Rebate Cheques Recorded in Account 1572

NFHI used account 1572- Extraordinary Event Losses for costs related to rebate cheques, although the Board’s guidelines stipulated that distributors track the related costs in account 1525 – Miscellaneous Deferred Debits. In addition, NFHI proposed to allocate the account 1572 balance across customers who received the rebate cheques.

The Board notes that the proposed costs related to rebate cheques and their allocation is consistent with the Board’s guidelines for final recovery. Therefore, the resulting rate rider and bill impact will not change if the amount is recorded in account 1525.

In future, however, the amounts related to extraordinary event losses should not be mixed with the costs related to rebate cheques in account 1572. Given the different purposes of these two accounts, NFHI shall move the costs related to rebate cheques to account 1525 pursuant to the Board’s guideline.

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 \$20,346,080, including a debit amount of \$703,725 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 Board dues recorded in Account 1508 in this proceeding. However, given that the final 2005 Board 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 Board 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 Niagara Falls 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 Niagara Falls Hydro Inc, and is final in all respects.
3. Niagara Falls 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 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

Niagara Falls 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

This class pertains to customers residing in detached, semi-detached or duplex dwelling units, where energy is supplied single-phase, 3 wire, 60 hertz, having a nominal voltage of 120/240 volts.

General Service Less Than 50 kW

This class pertains to non-residential customers taking electricity at 750 volts or less whose monthly average peak demand is less than, or is forecast to be less than, 50 kW.

General Service 50 to 4,999 kW

This classification refers to a non residential account whose monthly average peak demand is equal to or greater than, or is forecast to be equal to or greater than 50 kW but less than 5000 kW.

Unmetered Scattered Load

This classification refers to an account taking electricity at 750 volts or less whose monthly average peak demand is less than, or forecast to be less than, 50 kW and the consumption is unmetered. Such connections include cable TV power pack, bus shelters, telephone booths, traffic lights, railway crossings, etc. The customer will provide detailed manufacturer information/ documentation with regard to electricity demand/consumption of the proposed unmetered load.

Sentinel Lighting and Street Lighting

These classifications refer to an account for roadway lighting with a Municipality, Regional Municipality, Ministry of Transportation and private roadway lighting operation, controlled by photo cells. Street lighting profile is derived through the use of a "virtual streetlight meter" that uses a street light control eye, consistent with the model type and product manufacturer of devices currently in service in the Applicant's distribution area, to simulate the exact daily conditions that the typical street light is exposed to. This simulated street light load is captured using an interval metering device, and is processed as part of the distributor's daily interval meter interrogation, validation and processing procedures.

Niagara Falls Hydro Inc.

TARIFF OF RATES AND CHARGES

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MONTHLY RATES AND CHARGES

Residential

Service Charge	\$	16.47
Distribution Volumetric Rate	\$/kWh	0.0138
Regulatory Asset Recovery	\$/kWh	0.0016
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0059
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0046
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	\$	48.26
Distribution Volumetric Rate	\$/kWh	0.0102
Regulatory Asset Recovery	\$/kWh	(0.0007)
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0054
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0041
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	\$	284.65
Distribution Volumetric Rate	\$/kW	3.0580
Regulatory Asset Recovery	\$/kW	0.2909
Retail Transmission Rate – Network Service Rate	\$/kW	2.1949
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.6451
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)	\$	24.00
Distribution Volumetric Rate	\$/kWh	0.0102
Regulatory Asset Recovery	\$/kWh	(0.0007)
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0054
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0041
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)	\$	1.12
Distribution Volumetric Rate	\$/kW	4.1449
Regulatory Asset Recovery	\$/kW	5.8813
Retail Transmission Rate – Network Service Rate	\$/kW	1.6637
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.2984
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

Niagara Falls Hydro Inc.

TARIFF OF RATES AND CHARGES

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Street Lighting

Service Charge (per connection)	\$	0.33
Distribution Volumetric Rate	\$/kW	1.7176
Regulatory Asset Recovery	\$/kW	(1.1901)
Retail Transmission Rate – Network Service Rate	\$/kW	1.6553
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.2718
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		
Legal Letter Charge	\$	15.00
Account Set up Charge/Change of Occupancy Charge (Plus Credit Agency Costs If Applicable)	\$	30.00
Returned Cheque (Plus Bank Charges)	\$	20.00
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 Charge – At Pole – During Regular Hours	\$	185.00
Disconnect/Reconnect Charge – At Pole – After Hours	\$	415.00
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	1.0572
Total Loss Factor – Secondary Metered Customer > 5,000 kW	N/A
Total Loss Factor – Primary Metered Customer < 5,000 kW	1.0466
Total Loss Factor – Primary Metered Customer > 5,000 kW	N/A