



RP-2005-0020
EB-2005-0395

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

The Applicant 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 that 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 creation 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 in due course.

Public notice of the rate Application made by NOTL 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 the Applicant 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.

NOTL has requested an amount of \$4,570,091 as revenue to be recovered through distribution rates and charges. Included in this is a debit amount \$69,232 for the recovery of Regulatory Assets. Except where noted in this decision, the Board finds that NOTL has filed its Application in accordance with the Handbook and the guidelines for the recovery of regulatory assets.

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

- Low Voltage Rates;
- Unmetered Scattered Load;
- Transformation Assets;
- Capital Structure; and
- Impact of the Generic Decision (EB-2005-0529).

Low Voltage Rates

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

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 NOTL 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 NOTL'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 NOTL's revenue requirements.

Unmetered Scattered Load

Currently the Applicant does not have a separate USL sub-classification, but includes the accounts in its General Service < 50 kW sub-class. The billing is on a per customer basis. To ensure consistency with the rate schedules of other electricity distributors, the Board finds that a separate sub-class for USL should be created. This will be billed in the same manner as the General Service < 50 kW sub-class, including the billing on a per customer basis. This rate design change will not affect the revenue requirement of the Applicant. Details of the new rate are included in the Tariff of Rates and Charges.

Transformation Assets

On October 12, 2005, the Board granted Hydro One Networks Inc. leave to sell to NOTL several transformation assets in the Decision and Order EB-2005-0450. On January 6, 2006, the Board also granted NOTL approval to amend a pre-existing rate order (RP-2003-0177/EB-2003-0219) and reset the baseline for incremental load to 6.353 MW. The amendment reflected the acquisition of the transformation assets in 2005. The amended rate order authorized NOTL to collect \$1.50/kW for incremental transformation services above a baseline load of 6.353 MW.

Some assets operated by a distributor may be classified as part of a transmission system according to the definition of "transmission system" 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. In this Application, NOTL has requested the transformation assets acquired in 2005 be

deemed to be distribution assets in its rate base. It has also requested its distribution expenses be adjusted to include annual additional operation, maintenance and amortization costs associated with the acquired transformation assets.

The Board deems the transformation assets acquired by NOTL in 2005 to be distribution assets. The costs associated with those assets are to be included in the revenue requirement for the Applicant. As a result, the \$1.50/kW for incremental transformation services above a baseline load of 6.353 MW will no longer apply after May 1, 2006.

Capital Structure

While NOTL used a 50:50 debt equity capital structure to determine its cost of capital, its actual capital structure is currently at a ratio of 61:39, debt to equity. The Handbook specifies that if a distributor's actual capital structure deviates by more than 10% from the deemed structure, the difference must be explained to the Board.

In reply to the School Energy Coalition's ("SEC") interrogatories on NOTL's plans to restore the capital structure to the deemed ratio, NOTL submitted that it had constructed and procured transformer stations to meet the local community's future growth needs and the deviation was due to the additional debt borrowed to fund those stations. NOTL stated that its financial position permits it to make scheduled loan payments, and that as the debt is retired, its actual capital structure will move toward the deemed structure.

The Board notes that the NOTL's deviation from the deemed capital structure would have been approximately 6% if the loan was not taken in 2005 to fund the asset purchase. The Board accepts this temporary debt to equity structure but expects NOTL to work towards a 50/50 ratio.

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 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.

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 \$4,594,472, and a debit amount of \$69,232 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 Niagara-on-the-Lake 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 Board for Niagara-on-the-Lake Hydro Inc., and is final in all respects.
- 3) Niagara-on-the-Lake 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-on-the-Lake 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 classification applies to an account taking electricity at 750 volts or less where the electricity is used exclusively in a separately 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.

General Service Less Than 50 kW

This classification applies to a non residential account 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 applies 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 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.

Street Lighting

This classification applies to an account for roadway lighting with a Municipality, Regional Municipality, Ministry of Transportation and private roadway lighting operation, controlled by photo cells. The consumption for these customers will be based on the calculated connected load times the required lighting times established by an approved OEB process.

Sentinel Lighting

This classification refers to an account for unmetered private driveway and roadway lighting controlled by photo-cells. A 12 hour average operation is assumed.

Niagara-on-the-Lake Hydro Inc.

TARIFF OF RATES AND CHARGES

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MONTHLY RATES AND CHARGES

Residential

Service Charge	\$	17.58
Distribution Volumetric Rate	\$/kWh	0.0122
Regulatory Asset Recovery	\$/kWh	0.0018
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0056
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0023
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	\$	39.83
Distribution Volumetric Rate	\$/kWh	0.0119
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	0.0021
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	\$	460.51
Distribution Volumetric Rate	\$/kW	3.4413
Regulatory Asset Recovery	\$/kW	(0.1197)
Retail Transmission Rate – Network Service Rate	\$/kW	2.0850
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	0.8151
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

Unmetered Scattered Load

Service Charge (per customer)	\$	39.59
Distribution Volumetric Rate	\$/kWh	0.0119
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	0.0021
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

Niagara-on-the-Lake Hydro Inc.

TARIFF OF RATES AND CHARGES

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Sentinel Lighting

Service Charge	\$	2.90
Distribution Volumetric Rate	\$/kWh	5.8500
Regulatory Asset Recovery	\$/kWh	2.5096
Retail Transmission Rate – Network Service Rate	\$/kWh	1.5804
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.6433
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)	\$	1.09
Distribution Volumetric Rate	\$/kW	4.2808
Regulatory Asset Recovery	\$/kW	(1.5463)
Retail Transmission Rate – Network Service Rate	\$/kW	1.5724
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	0.6301
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
Statement of Account	\$	15.00
Pulling Post Dated Cheques	\$	15.00
Duplicate Invoices for Previous Billing	\$	15.00
Request for Other Billing Information	\$	15.00
Easement Letter	\$	15.00
Account History	\$	15.00
Credit reference/credit check (plus credit agency costs)	\$	15.00
Returned Cheque Charge (plus bank charges)	\$	15.00
Charge to Certify Cheque	\$	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
Collection of Account Charge – No Disconnection	\$	30.00
Disconnect/Reconnect Charges at Meter – During Regular Hours	\$	65.00
Disconnect/Reconnect Charges at Meter – After Regular Hours	\$	185.00
Disconnect/Reconnect Charges at Pole– During Regular Hours	\$	185.00
Disconnect/Reconnect Charges at Pole – After Regular Hours	\$	415.00
Service Call – Customer-owned Equipment – During Regular Hours	\$	30.00
Service Call – Customer-owned Equipment – After Regular Hours	\$	165.00
Install/Remove Load Control Device – During Regular Hours	\$	65.00
Install/Remove Load Control Device – After Regular Hours	\$	185.00
Temporary Service Install & Remove – Overhead – No Transformer	\$	500.00
Temporary Service Install & Remove – Underground – No Transformer	\$	300.00
Temporary Service Install & Remove – Overhead – with Transformer	\$	1,000.00

Niagara-on-the-Lake Hydro Inc.
TARIFF OF RATES AND CHARGES
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Specific Charge for Access to the Power Poles – per pole/year	\$	22.35
Specific Charge for Bell Canada Access to the Power Poles – per pole/year	\$	18.36
Note: Specific Charge for Bell Canada Access to the Power Poles is valid only until the existing joint-use agreement is terminated.		
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	1.0501
Total Loss Factor – Secondary Metered Customer > 5,000 kW	1.0161
Total Loss Factor – Primary Metered Customer < 5,000 kW	1.0396
Total Loss Factor – Primary Metered Customer > 5,000 kW	1.0060