



RP-2005-0020
EB-2005-0412

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 PUC
Distribution 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

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

PUC 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 PUC 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.

PUC has requested an amount of \$15,781,047 as revenue to be recovered through distribution rates and charges. Included in this amount is a debit of \$1,486,250 for the recovery of regulatory assets. Except where noted in this Decision, the Board finds that PUC has filed its Application in accordance with the Handbook and the guidelines for the recovery of regulatory assets.

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

- Adequacy of the information provided in support of the Application;
- Unmetered Scattered Load;
- Administrative and General Expenses;
- PILs;
- Specific Service Charges;
- Allocation of Account 1508 "Other Regulatory Assets"; and
- Impact of the Generic Decision (EB-2005-0529).

Adequacy of the information provided in support of the Application

PUC Distribution Inc. acquires all of its services from an affiliate. The Board notes that the Application includes no information on staff compensation levels paid by PUC, which is provided in Schedule 6-4 of most applications. The response to an interrogatory on this subject does not break the information down by group of employee. The Application includes little information on how costs are assigned or shared with unregulated affiliates. While PUC provided a study conducted by its auditors, the scope of the study and the statistics that it uses do not provide the detailed picture that would be desirable. In response to another interrogatory, PUC provided the Service Level Agreement that governs PUC's costs, but the Board notes that it is signed for both parties by the same individual.

In this and similar situations, the Board is concerned that the Applicant has not met its burden of proof in demonstrating the reasonableness of its costs. This is not a finding that the costs are necessarily unreasonable, but rather a finding that the Applicant has

not provided sufficient information to make that determination. In this case, the Board will approve the costs claimed by PUC, with the exceptions noted in this decision. However, the Board reminds the Applicant that the burden of demonstrating reasonableness of costs rests with an applicant, including costs associated with transactions with affiliates. In its next rate case, the Applicant must provide detailed financial information on its operations, and details of costs incurred by its affiliates in providing services to the applicant.

The Applicant can refer to the Board's decision on rates for Enbridge Gas Distribution Inc. dated December 13, 2002 (RP-2001-0032) for an indication of the information that the Applicant should provide in its next application for rate approval. In that decision, the Board found that, while it is not inherently opposed to unregulated affiliates profiting from their relationship with the regulated affiliate, it is essential that the applicant utility be able to establish that outsourcing arrangements also provide tangible benefits to the applicant utility and its ratepayers. The Board also stated that the applicant must demonstrate not only that the arrangements will not harm ratepayers, but also that there will be a significant and tangible benefit to ratepayers.

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.

Administrative and General Expenses

The Applicant acknowledged that its Administrative and General Expenses had increased during the period 2002 – 2004 by over 40%. The costs that had increased include items that might continue into 2006 but are not of a recurring nature, others that may be shared with affiliates, and yet others that arguably are properly included as capital expenditures rather than expenses. The documentation was not adequate to assure the Board that an increase in cost of this magnitude was necessary.

The Board will allow one-half of the increase proposed in the Revenue Requirement for Administrative and General Expenses. The approved level of Administrative and General Expenses is set at the 2002 amount plus one-half of the difference between the 2002 and 2004 amounts.

PILs

The Applicant included in the Revenue Requirement an amount of \$1,055,925 for its PILs cost in 2006. In making this calculation, PUC included as an addition to its net income the amount of \$1,486,250, which is the amount of Regulatory Asset Recovery in 2006. The Board does not accept that this is a component of net income in 2006. Rather, it is a delayed recovery of costs in previous years that would have already been expensed for tax purposes. The Board has calculated an allowance for PILs cost at \$164,831.

Specific Service Charges

The Applicant substituted its own formula instead of the standard amount in the Handbook for some seventeen Specific Service Charges. The School Energy Coalition argued that a greater degree of standardization is desirable across the province and further, that the differences from the standard charges are very small. The Board accepts this argument, and finds that the service charges not consistent with the standard amounts in the Handbook should be changed so they are the same as those in the Handbook. The Board believes that the standard schedule of specific service charges provides adequate flexibility to charge for the services applied for.

Similarly, the Applicant is diverging from the Handbook for other unique charges. The Board considers that the following services can be captured within the list of service provided in the Handbook and therefore are denied:

- arrears certificate
- statement of account; pulling post dated cheques
- duplicate invoices for previous billing
- request for other billing information
- easement letter
- income tax letter
- notification charge
- account history
- credit reference / credit check
- charge to certify cheque.

In addition, the Applicant does not expect any requests for certain services, and has forecast no revenue from these services. There are two explanations given for these situations. For some services, PUC intends to provide the service as part of its standard service, and charge separately for the service in a discretionary way, such as when the customer exceeds some customary or reasonable limit. For other services, the requirement is infrequent and varies amongst customers to the extent that a revenue forecast is unreliable.

The Board accepts that some of services in the Handbook list are difficult to forecast accurately or that PUC has indicated the charges would be waived. These factors have understated the contribution to revenue for PUC. While it is within the control of the Company to waive fees, that discretion should not be exercised to the detriment of ratepayers. Therefore, based on the information available the Board estimates and deems a revenue contribution of \$20,000.

Allocation of Account 1508 “Other Regulatory Assets”

The Applicant allocated its balance in the regulatory asset account 1508 based on number of customers. The Vulnerable Energy Consumers Coalition (“VECC”) argued that distribution revenue would be a more appropriate allocator.

The Board notes that the account balance in question is not large, so the financial impact is minimal even though there is a large difference in the proportions allocated to the residential class in the respective allocators. In fact, the Board notes that the difference disappears in rounding of the rate rider for some classes. Nevertheless, the Board does agree with VECC’s argument, and notes that this allocator was suggested in the instructions for the regulatory asset model. The rate riders in the tariff sheet accompanying this Decision reflect the allocation of Other Regulatory Assets by distribution revenue.

Consequences of the Generic Decision on this Application

The Generic Decision contains findings relevant to funding for smart meters for electricity distributors. PUC has included amounts related to Smart Meters in its PILs model, but has not include a Smart Meter plan explicitly in its rate Application. 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 \$14,639,998, including a debit amount of \$1,486,250 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 PUC Distribution 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 PUC Distribution Inc., and is final in all respects.
- 3) PUC Distribution 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

PUC Distribution 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 separate metered living accommodation, and where a small business establishment exists in addition to a dwelling within one of the aforementioned dwelling units. Customers shall be residing in single-dwelling units that consist of a detached house or one unit of a semi-detached, duplex, or triplex house, with a residential zoning. Separately metered dwellings within a town house complex or apartment building up to three units 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 over the past 12 months 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.

Sentinel Lighting

This classification refers to all services supported to supply sentinel lighting equipment.

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.

PUC Distribution Inc.
TARIFF OF RATES AND CHARGES
Effective May 1, 2006

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approved schedules of Rates, Charges and Loss Factors**

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MONTHLY RATES AND CHARGES

Residential

Service Charge	\$	7.28
Distribution Volumetric Rate	\$/kWh	0.0111
Regulatory Asset Recovery	\$/kWh	0.0024
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0048
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	\$	11.11
Distribution Volumetric Rate	\$/kWh	0.0185
Regulatory Asset Recovery	\$/kWh	0.0020
Retail Transmission Rate – Network 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	\$	149.11
Distribution Volumetric Rate	\$/kW	3.6481
Regulatory Asset Recovery	\$/kW	0.6301
Retail Transmission Rate – Network Service Rate	\$/kW	1.7919
Retail Transmission Rate – Network Service Rate – Interval Metered	\$/kW	2.2535
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)	\$	10.85
Distribution Volumetric Rate	\$/kWh	0.0185
Regulatory Asset Recovery	\$/kWh	0.0020
Retail Transmission Rate – Network 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)	\$	1.31
Distribution Volumetric Rate	\$/kW	8.5291
Regulatory Asset Recovery	\$/kW	0.6160
Retail Transmission Rate – Network Service Rate	\$/kW	1.3583
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

PUC Distribution Inc.

TARIFF OF RATES AND CHARGES

Effective May 1, 2006

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Street Lighting

Service Charge (per connection)	\$	0.47
Distribution Volumetric Rate	\$/kW	2.5802
Regulatory Asset Recovery	\$/kW	0.5199
Retail Transmission Rate – Network Service Rate	\$/kW	1.3514
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		
Account set up charge/change of occupancy charge (plus credit agency costs if applicable)	\$	30.00
Returned Cheque (plus bank charges)	\$	15.00
Legal letter	\$	15.00
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
Collection of account charge – no disconnection – after regular hours	\$	165.00
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
Install/Remove load control device – during regular hours	\$	65.00
Install/Remove load control device – after regular hours	\$	185.00
Service call – customer-owned equipment		Time & materials
Service call – after regular hours		Time & materials
Temporary service install & remove – overhead – no transformer		Time & materials
Temporary service install & remove – underground – no transformer		Time & materials
Temporary service install & remove – overhead – with transformer		Time & materials
Removal of overhead lines – during regular hours		Time & materials
Removal of overhead lines – after hours		Time & materials
Roadway escort – after regular hours		Time & materials
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	1.0430
Total Loss Factor – Primary Metered Customer < 5,000 kW	1.0326