



RP-2005-0020
EB-2005-0415

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 Sioux
Lookout 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

Sioux Lookout Hydro Inc. (“SLH” or the “Applicant”) is a licensed distributor providing electrical service to consumers within its defined service area. SLH 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.

SLH 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. (“Hydro One”). 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 SLH 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 SLH 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.

SLH has requested an amount of \$2,548,188 as revenue to be recovered through distribution rates and charges. Included in this amount is a debit of \$927,574 for the recovery of regulatory assets. Except where noted in this Decision, the Board finds that SLH has filed its Application in accordance with the Handbook and the guidelines for the recovery of regulatory assets.

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

- Post-2004 Interest on Regulatory Asset balances;
- Bill Impact Mitigation;
- Low Voltage Rates; and
- Consequences of the Generic Decision (EB-2005-0529).

Post-2004 Interest on Regulatory Asset Balances

In its original application, Sioux Lookout omitted carrying charges for the period January 1, 2005 to April 30, 2006 on the December 31, 2004 balances of Regulatory Asset accounts. In response to Board staff interrogatories, the Applicant submitted a revised Regulatory Asset spreadsheet including calculated interest.

The Board notes that the resulting amounts appear to have been calculated using interest rates different than those approved by the Board. However, the debit and credit amounts are offsetting and if corrected would result in a slightly higher revenue requirement, thus acting against the Applicant's rate mitigation efforts. As a result the Board will accept the post-2004 carrying charges as filed.

Bill Impact Mitigation

In its original application, SLH proposed to mitigate bill impacts on its customers by reducing by 50% the recovery of Hydro One Networks' Regulatory Asset costs assigned to SLH by the Board's letter of July 25, 2005 for the period January 1, 2004 to April 30, 2006. On October 18, 2005, Sioux Lookout filed an amended application whereby the recovery of those costs in rate riders would be reduced by 30%.

In response to a Board staff interrogatory, the Applicant indicated that it proposed to seek recovery of the amount not being collected in a subsequent rate application. The Applicant is thus proposing to extend the period of Regulatory Asset recovery beyond 2007.

In general, distribution utilities should recover approved regulatory assets over a short time frame, typically four years, to avoid intergenerational inequities and to reduce associated interest costs. However, the Board acknowledges that depending on a utility's circumstances, recovery over a longer period may be appropriate and necessary to avoid "rate shock". The Board finds SLH's proposal to mitigate bill impacts in 2006 by extending the period for recovery of Hydro One Networks' Regulatory Assets charged to SLH by an additional year to be reasonable.

The Applicant is instructed to document its recoveries and the outstanding amounts in subsequent distribution rate applications until the mitigated amount is fully recovered.

Low Voltage Rates

As noted in the Application, SLH is an embedded distributor. Hydro One Networks, the "host" distributor, provides Low Voltage wheeling distribution services to transport energy from the transmission network to SLH's distribution network for delivery to SLH's retail customers. Hydro One Networks applied and received approval for new LV rates effective May 1, 2006, that they will levy on embedded distributors for Low Voltage wheeling services and the use of assets required to provide these services.

The Handbook allows an embedded distributor to include, as part of its application for 2006 distribution rates, the estimated LV charges that the embedded distributor would be charged by its host distributor(s).

SLH did not include an estimate for this amount in its Application. In response to interrogatories from Board staff and from the School Energy Coalition ("SEC"), SLH stated that it wishes to purchase from Hydro One Networks the distribution station and associated assets through which LV services are provided. Should SLH purchase these assets, it states that it will no longer be embedded in Hydro One Networks LV system or subject to Hydro One Networks' LV charges.

SLH stated that LV charges levied on it are significant due to its geographic circumstances. SLH's rate base and operating expenses would increase somewhat if it were to acquire the assets, but the Applicant noted that it is currently underleveraged and would use debt to finance the acquisition. This would move its capital structure closer to the deemed capital structure that the Board has determined to be generally appropriate for an electricity distributor of SLH's size. Any increase in rate base and operating expenses would be offset, wholly or partially, by elimination of ongoing LV charges.

SEC supported SLH's efforts to acquire the Hydro One Networks assets and avoid LV charges.

The Board notes that it is up to SLH to negotiate an acceptable transaction with Hydro One Networks. Any such agreement for the sale of distribution assets by Hydro One Networks would be subject to Board review upon application, pursuant to ss. 86 of the *Ontario Energy Board Act, 1998*. The Board instructs SLH to report, in its next rate application, on the progress or outcome of attempts to negotiate a purchase of the distribution assets from Hydro One Networks. SLH should contact Board staff to discuss this matter if issues arise.

Absent this acquisition, SLH will continue to be subject to LV charges from Hydro One Networks. The Board will accept the non-recovery of ongoing LV charges at this time as part of the Applicant's mitigation proposal. As set out in the Generic Decision, SLH will track in a variance account the differences between the LV charges it incurs and the amount it recovers. SLH is directed to report on the balance of the variance account in

its next rate application, where the Board will review and determine the disposition of the charges recorded. Should SLH face financial difficulty that would pose a serious risk to its financial viability, or to the maintenance of safe and reliable distribution operations, SLH should inform the Board immediately.

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 \$2,556,421, including a debit amount of \$927,574 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 Sioux Lookout 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 Sioux Lookout Hydro Inc., and is final in all respects.
3. Sioux Lookout 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" being more prominent than the last name "Zych".

John Zych
Board Secretary

Appendix "A"

RP-2005-0020
EB-2005-0415

April 12, 2006

ONTARIO ENERGY BOARD

Sioux Lookout Hydro Incorporated

TARIFF OF RATES AND CHARGES

Effective May 1, 2006

This schedule supersedes and replaces all previously approved schedules of Rates, Charges and Loss Factors

RP-2005-0020
EB-2005-0415

APPLICATION

- The application of these rates and charges shall be in accordance with the Licence of the Distributor and any Codes, Guidelines or Orders of the Board, and amendments thereto as approved by the Board, which may be applicable to the administration of this schedule.
- No rates and charges for the distribution of electricity and charges to meet the costs of any work or service done or furnished for the purpose of the distribution of electricity shall be made except as permitted by this schedule, unless required by the Distributor's Licence or a Code, Guideline or Order of the Board, and amendments thereto as approved by the Board, or as specified herein.
- This schedule does not contain any rates and charges relating to the electricity commodity (e.g. the Regulated Price Plan).

EFFECTIVE DATES

DISTRIBUTION RATES - May 1, 2006 for all consumption or deemed consumption services used on or after that date.
SPECIFIC SERVICE CHARGES - May 1, 2006 for all charges incurred by customers on or after that date.
LOSS FACTOR ADJUSTMENT – May 1, 2006 unless the distributor is not capable of prorating changed loss factors jointly with distribution rates. In that case, the revised loss factors will be implemented upon the first subsequent billing for each billing cycle.

SERVICE CLASSIFICATIONS

Residential

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

General Service Less Than 50 kW

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

General Service 50 to 4,999 kW

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

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

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, 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.

Sioux Lookout Hydro Incorporated

TARIFF OF RATES AND CHARGES

Effective May 1, 2006

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RP-2005-0020
EB-2005-0415

MONTHLY RATES AND CHARGES

Residential

Service Charge	\$	20.12
Distribution Volumetric Rate	\$/kWh	0.0086
Regulatory Asset Recovery	\$/kWh	0.0106
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0057
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0050
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	\$	35.73
Distribution Volumetric Rate	\$/kWh	0.0067
Regulatory Asset Recovery	\$/kWh	0.0104
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0052
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0045
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	\$	411.24
Distribution Volumetric Rate	\$/kW	1.4263
Regulatory Asset Recovery	\$/kW	4.2041
Retail Transmission Rate – Network Service Rate	\$/kW	2.1218
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.7882
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
Retail Transmission Rate – Network Service Rate – Interval Metered >1,000 kW	\$/kW	2.2508
Retail Transmission Rate – Line and Transformation Connection Service Rate – Interval Metered >1,000 kW	\$/kW	1.9763
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)	\$	17.74
Distribution Volumetric Rate	\$/kWh	0.0067
Regulatory Asset Recovery	\$/kWh	0.0104
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0052
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0045
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

Sioux Lookout Hydro Incorporated

TARIFF OF RATES AND CHARGES

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RP-2005-0020
EB-2005-0415

Street Lighting

Service Charge (per connection)	\$	0.86
Distribution Volumetric Rate	\$/kW	2.2775
Regulatory Asset Recovery	\$/kW	2.7359
Retail Transmission Rate – Network Service Rate	\$/kW	1.6002
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.3824
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		
Statement of Account	\$	15.00
Duplicate invoices for previous billing	\$	15.00
Easement Letter	\$	15.00
Income tax letter	\$	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
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 Charge - At Meter During Regular Hours	\$	110.00
Disconnect/Reconnect Charge - At Meter After Hours	\$	245.00
Disconnect/Reconnect at pole – during regular hours	\$	245.00
Disconnect/Reconnect at pole – after regular hours	\$	415.00
Install/Remove load control device – during regular hours	\$	110.00
Install/Remove load control device – after regular hours	\$	245.00
Temporary service – install and remove – overhead – no transformer	\$	500.00
Temporary service – install and remove – underground – no transformer	\$	300.00
Temporary service – install and remove – overhead – with transformer	\$	1,000.00
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	1.0547
Total Loss Factor – Secondary Metered Customer > 5,000 kW	1.0145
Total Loss Factor – Primary Metered Customer < 5,000 kW	1.0442
Total Loss Factor – Primary Metered Customer > 5,000 kW	1.0045