



RP-2005-0020
EB-2005-0422

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 Veridian
Connections 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

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

VCI is one of over 90 electricity distributors in Ontario that are regulated by the Board. To streamline the process for the approval of distribution rates and charges for these distributors, the Board developed and issued the 2006 Electricity Distribution Rate Handbook (the “Handbook”) and complementary spreadsheet-based models. These materials were developed after extensive public consultation with distributors, customer groups, public and environmental interest groups, and other interested parties. The Handbook contains requirements and guidelines for filing an application. The models

determine the amounts to be included for the payments in lieu of taxes (“PILs”) and calculate rates based on historical financial and other information entered by the distributor.

Also included in this process was a methodology and model for the final recovery of regulatory assets flowing from the Board’s decision dated December 9, 2004 on the Review and Recovery of Regulatory Assets – Phase 2 for Toronto Hydro, London Hydro, Enersource Hydro Mississauga and Hydro One Networks Inc. In Chapter 10 of the decision, the Board outlined a Phase 2 process for the remaining distributors. By letter of July 12, 2005, the Board provided guidance and a spreadsheet-based model to the distributors for the inclusion of this recovery as part of their 2006 distribution rate applications.

As a distributor that is embedded in Hydro One Network’s low voltage system, the Applicant has included the recovery of certain Regulatory Assets that have been allocated by Hydro One Networks. The amount claimed by the Applicant was provided by Hydro One Networks as a reasonable approximation of the actual amount that Hydro One Networks will assess the Applicant. To the degree that the amount differs from the actual amount approved for Hydro One Networks in another proceeding (RP-2005-0020/EB-2005-0378), this difference will be reconciled at the end of the Regulatory Asset recovery period, as set out in the Phase II regulatory assets decision issued on December 9, 2004 (RP-2004-0064/RP-2004-0069/RP-2004-0100/RP-2004-0117/RP-2004-0118).

In its preliminary review of the 2006 rate applications received from the distributors, the Board identified several issues that appeared to be common to many or all of the distributors. As a result, the Board held a hearing (EB-2005-0529) to consider these issues (the “Generic Issues Proceeding”) and released its decision (the “Generic Decision”) on March 21, 2006. The rulings flowing from that Generic Decision apply to this Application, except to the extent noted in this Decision. The Board notes that pursuant to ss. 21 (6.1) of the *Ontario Energy Board Act, 1998*, and to the extent that it is pertinent to this Application, the evidentiary record of the Generic Issues Proceeding is part of the evidentiary record upon which the Board is basing this Decision.

In December 2001, the Board authorized the establishment of deferral accounts by the distributors related to the payments that the distributors make to the Ministry of Finance

in lieu of taxes. The Board is required, under its enabling legislation, to make an order with respect to non-commodity deferral accounts once every twelve months. The Board has considered the information available with respect to these accounts and orders that the amounts recorded in the accounts will not be reflected in rates as part of the Rate Order that will result from this Decision. The Board will continue to monitor the accounts with a view to clearing them when appropriate.

Public notice of the rate Application made by VCI 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 VCI 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.

VCI has requested an amount of \$43,663,160 as revenue to be recovered through distribution rates and charges. Included in this amount is a credit of \$984,404 for the recovery of regulatory assets. Except where noted in this Decision, the Board finds that VCI has filed its Application in accordance with the Handbook and the guidelines for the recovery of regulatory assets.

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

- Low Voltage Rates;
- Rate Harmonization;
- Tier 1 Adjustments;
- Debt Rate;
- Incentive Pay; and
- Consequences of the Generic Decision (EB-2005-0529).

Low Voltage Rates

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

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 VCI 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 VCI'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 VCI's revenue requirement.

Rate Harmonization

VCI administers four geographically based approved rate schedules. They are segmented by communities served as follows:

1. Ajax, Clarington, Pickering, Uxbridge
2. Belleville
3. Brock Township
4. Port Hope

VCI has applied for the harmonization of rates for the above listed jurisdictions. With the exceptions of General Service Greater than 50 kW in the community of Belleville and General Service Less than 50 kW in Port Hope, total bill impacts are less than 10%. The Belleville bill impact results are based on comparison with existing rates, which are unusually low. The bill impacts in Port Hope are restricted to very low consumption categories. The Vulnerable Energy Consumers Coalition ("VECC") and the School Energy Coalition ("SEC") both expressed agreement with the proposed harmonization plan. The Board accepts VCI's harmonization plan. However the Board directs that VCI notify those customers that are subject to bill impacts in excess of 10% of the rate change prior to receiving their first bill with the new rates.

Tier 1 Adjustments

VCI identified \$5,807,917 Tier 1 adjustments as corrections of account mapping anomalies from VCI's financial system to the Board's Uniform System of Accounts with respect to certain poles, towers, fixtures and other distribution equipment. VECC expressed concern about the size of these adjustments and VECC's inability to verify them. Upon review, the Board is satisfied that the proposed Tier 1 adjustments are reasonable and in conformance with the Board's filing guidelines.

Debt Rate

VECC questioned the debt rate that VCI has applied to promissory notes held by its various municipal shareholders. VECC submits that the debt rate should be reduced to 7% from 7.6%. VCI contends that it has made its Application in compliance with the prescribed methodology in the 2006 EDR Handbook, and argues that this issue has already been decided by the Board.

The Board agrees that VCI has filed in conformance with the 2006 EDR Handbook, and will accept the debt rate of 7.6% for the promissory notes.

Incentive Pay

VECC and SEC addressed VCI's Employee Incentive Plan, identifying the achievement of the net income component as being more shareholder related than ratepayer related. VCI contends that the benefits of their plan go to the ratepayer.

While the Board does not consider the achievement of net income to be a factor that works only for the benefit of the shareholder, as customers also benefit by a financially healthy utility through higher credit ratings and good service, the Board would be concerned if this factor were predominant among the factors determining incentive pay. This factor does not predominate in this case, and the Board will accept the costs as filed for incentive pay. However, the Board expects VCI to file appropriate evidence in the next main rates case to establish that none of the incentive compensation should be charged to the shareholder.

Consequences of the Generic Decision on this Application

The Generic Decision contains findings relevant to funding for smart meters for electricity distributors. The Applicant did file a specific smart meter plan in the revenue requirement. In this situation, the Generic Decision provides that an amount determined

as \$3.50 per meter per month installed during the rate year be reflected in the Applicant's revenue requirement, instead of the smart meter-related costs proposed by the Applicant. As there is a variance account, and for simplicity, the Board has not made any distinction for purposes of setting rates between the meter costs for residential and non-residential customers. Consequently, the amounts that the Applicant has proposed in the 2006 rate Application have been removed and replaced with the amount determined in accordance with the Generic Decision. Furthermore, the Board finds in this Decision that this smart meter revenue will be allocated to all metered customers and recovered through the monthly service charge. The revised amount is reflected in the approved monthly service charges contained in the Tariff of Rates and Charges appended to this Decision. Pursuant to the Generic Decision, a variance account will be established, the details of which will be communicated in due course.

Resulting Revenue Requirement

As a result of the Board's determinations on these issues, the Board has adjusted the revenue requirement to be recovered through distribution rates and charges to \$43,403,032, including a credit amount of \$984,404 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. Intervenor 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 Veridian Connections 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 Veridian Connections Inc., and is final in all respects.
- 3) Veridian Connections 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 larger and more prominent than the last name "Zych".

John Zych
Board Secretary

Appendix "A"

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April 12, 2006

ONTARIO ENERGY BOARD

Veridian Connections 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

All residential customers with kilowatt-hour meters shall be deemed to have a demand of 50kW or less. This customer classification includes Single Family Homes, Street Townhouses, Multiplexes, and Block Townhouses.

General Service Less Than 50 kW

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

General Service 50 to 2,999 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 3,000 kW. For new customers without prior billing history, the peak demand will be based on 90% of the installed transformer. 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 999 kW non-interval metered
- General Service 50 to 999 kW interval metered
- General Service 1,000 to 2,999 kW interval metered.

General Service 3,000 to 4,999 kW

This classification applies to a non residential account whose average peak demand used for billing purposes over the past twelve months is equal to or greater than, or forecast to be equal to or greater than, 3,000 kW but less than 5,000 kW. For new customers without prior billing history, the peak demand will be based on 90% of the installed transformer.

Large Use

This classification applies to an account whose average monthly maximum demand used for billing purposes is greater than, or is forecast to be greater than, 5,000 kW.

Unmetered Scattered Load

In general, all services will be metered. However, certain types of electrical loads are not practical to meter, or the cost of metering represents an inordinate expense to both the Customer and Veridian. Such connections include cable TV power packs, bus shelters, telephone booths, traffic lights, railway crossings, etc. These situations can be managed through a controlled connection and a pre-defined basis for estimating consumption.

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Sentinel Lighting

Sentinel lights (dusk-to-dawn) connected to unmetered wires will have a flat rate monthly energy charge added to the regular customer bill.

Street Lighting

All services supplied to street or roadway lighting equipment owned by or operated for a municipality or the Province of Ontario shall be classified as Street Lighting Service.

MONTHLY RATES AND CHARGES

Residential

Service Charge	\$	10.90
Distribution Volumetric Rate	\$/kWh	0.0153
Regulatory Asset Recovery	\$/kWh	(0.0003)
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0059
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0040
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	\$	13.87
Distribution Volumetric Rate	\$/kWh	0.0176
Regulatory Asset Recovery	\$/kWh	(0.0006)
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0054
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0036
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 2,999 kW

Service Charge	\$	133.94
Distribution Volumetric Rate	\$/kW	3.1696
Regulatory Asset Recovery	\$/kW	(0.1516)
Retail Transmission Rate – Network Service Rate	\$/kW	2.6175
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.7504
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

General Service 3,000 to 4,999 kW

Service Charge	\$	5,266.03
Distribution Volumetric Rate	\$/kW	1.5864
Regulatory Asset Recovery	\$/kW	(0.3291)
Retail Transmission Rate – Network Service Rate – Interval Metered	\$/kW	2.8674
Retail Transmission Rate – Line and Transformation Connection Service Rate – Interval Metered	\$/kW	1.9175
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

Originally Issued April 12, 2006
Revised April 21, 2006

Veridian Connections Inc.

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Large Use

Service Charge	\$	7,888.35
Distribution Volumetric Rate	\$/kW	1.6849
Regulatory Asset Recovery	\$/kW	(0.4451)
Retail Transmission Rate – Network Service Rate – Interval Metered	\$/kW	2.8674
Retail Transmission Rate – Line and Transformation Connection Service Rate – Interval Metered	\$/kW	1.9175
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)	\$	6.74
Distribution Volumetric Rate	\$/kWh	0.0176
Regulatory Asset Recovery	\$/kWh	(0.0006)
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0054
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0036
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	\$	2.56
Distribution Volumetric Rate	\$/kW	3.4781
Regulatory Asset Recovery	\$/kW	(0.6391)
Retail Transmission Rate – Network Service Rate	\$/kW	1.6166
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.0811
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

Street Lighting

Service Charge (per connection)	\$	0.78
Distribution Volumetric Rate	\$/kW	2.3116
Regulatory Asset Recovery	\$/kW	(0.4131)
Retail Transmission Rate – Network Service Rate	\$/kW	1.7069
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.1416
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

Veridian Connections Inc.

TARIFF OF RATES AND CHARGES

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Specific Service Charges

Customer Administration		
Arrears certificate	\$	15.00
Statement of account	\$	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
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 at meter - during regular hours	\$	65.00
Disconnect/Reconnect at meter - after regular hours	\$	185.00
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 - overhead - with transformer	\$	1,000.00
Specific Charge for Access to the Power Poles \$/pole/year	\$	22.35
Customer Substation Isolation - After Hours	\$	905.00
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	1.0549
Total Loss Factor – Secondary Metered Customer > 5,000 kW	1.0145
Total Loss Factor – Primary Metered Customer < 5,000 kW	1.0444
Total Loss Factor – Primary Metered Customer > 5,000 kW	1.0045