



RP-2005-0020
EB-2005-0426

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

Scugog Hydro 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 Scugog Hydro 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 Scugog Hydro 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.

Scugog Hydro has requested an amount of \$1,086,865 as revenue to be recovered through distribution rates and charges. Included in this amount is a debit of \$205,472 for the recovery of regulatory assets. Except where noted in this Decision, the Board finds that Scugog Hydro has filed its Application in accordance with the Handbook and the guidelines for the recovery of regulatory assets.

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

- Low Voltage Rates;
- Loss Factor Adjustment;
- Tier 2 Adjustments; and
- Consequences of the Generic Decision (EB-2005-0529).

Low Voltage Rates

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

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 Scugog Hydro 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 Scugog Hydro'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 Scugog Hydro's revenue requirement.

Loss Factor Adjustment

Scugog Hydro included in its Application a revision to the distribution loss factor adjustment, which it proposed to change from the current value of 1.0500 to 1.0692.

Based on the evidence provided by Scugog Hydro, the Board will approve the proposed 1.0692 distribution loss factor. However, the Board is concerned about the magnitude of this distribution loss factor. The Board notes that the RP-2004-0188 Report of the Board dated May 11, 2005 stated that any distributor whose distribution losses are higher than 5% will be required to report on those losses and provide an action plan as to how the distributor intends to reduce the level of losses. Scugog Hydro proposed a plan to invest in distribution network projects to reduce losses using funds from conservation and demand management programs. The Board accepts this plan but notes it does not explicitly state that these activities will be completed in 2006. The Board encourages Scugog Hydro to complete these capital projects as soon as possible in order to reduce losses on the distribution system.

Tier 2 Adjustments

Scugog Hydro requested in its Application Tier 2 adjustments in the amount of \$269,000 in deferred capital projects and \$26,667 in deferred maintenance activities. They justify their position based on negative returns in 1999. They maintain that due to financial constraints the utility has been constrained in making annual capital investments and has reduced maintenance and other expenses. It is their intention to reactivate these programs and to complete them before year-end 2006.

The Board finds that Scugog Hydro is eligible for the Tier 2 adjustments and will allow these funds to be collected in rates. The maintenance activities are important. The Board wants to ensure they are completed in a timely fashion and therefore directs Scugog Hydro to report quarterly to the Chief Regulatory Auditor on the progress of the programs and to confirm their completion by the end of 2006.

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 \$1,086,321, including a debit amount of \$205,472 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 Veridian Connections Inc. - Scugog Hydro'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. - Scugog Hydro, and is final in all respects.
3. Veridian Connections Inc. - Scugog Hydro 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



John Zych
Board Secretary

Appendix "A"

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April 12, 2006

ONTARIO ENERGY BOARD

Veridian Connections Inc. - Scugog Hydro

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 residential customers in detached, semi-detached or freehold townhouse dwelling units. Energy is supplied to residential customers as single phase, three wire, 60Hertz, having a nominal voltage of 120/240Volts up to a maximum of 200Amps per dwelling unit.

General Service Less Than 50 kW

This classification applies to a general service account whose monthly peak demand is less than or expected to be less than 50 kW and shall include small apartment buildings and smaller commercial, industrial and institutional developments.

General Service 50 to 4,999 kW

This classification applies to a general service customer whose monthly peak demand is equal to or greater than, or expected to be equal to or greater than 50 kW but less than 5,000kW and includes apartment buildings and commercial, industrial and institutional developments. For all installations above 500 kW, the customer will be responsible for providing a privately owned substation.

Unmetered Scattered Load

This classification applies to an account 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 accounts that are an unmetered lighting load supplied to a sentinel light.

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.

Veridian Connections Inc. - Scugog Hydro

TARIFF OF RATES AND CHARGES

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MONTHLY RATES AND CHARGES

Residential

Service Charge	\$	8.16
Distribution Volumetric Rate	\$/kWh	0.0122
Regulatory Asset Recovery	\$/kWh	0.0045
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	\$	19.88
Distribution Volumetric Rate	\$/kWh	0.0104
Regulatory Asset Recovery	\$/kWh	0.0041
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	\$	185.88
Distribution Volumetric Rate	\$/kW	2.1155
Regulatory Asset Recovery	\$/kW	1.6507
Retail Transmission Rate – Network Service Rate	\$/kW	2.1218
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.7882
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)	\$	5.66
Distribution Volumetric Rate	\$/kWh	0.0140
Regulatory Asset Recovery	\$/kWh	0.0046
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

Veridian Connections Inc. - Scugog Hydro

TARIFF OF RATES AND CHARGES

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Sentinel Lighting

Service Charge (per connection)	\$	2.38
Distribution Volumetric Rate	\$/kW	7.9799
Regulatory Asset Recovery	\$/kW	9.7204
Retail Transmission Rate – Network Service Rate	\$/kW	1.6083
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.4113
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)	\$	0.52
Distribution Volumetric Rate	\$/kW	4.5948
Regulatory Asset Recovery	\$/kW	1.1372
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		
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 Charges - At Meter During Regular Hours	\$	65.00
Disconnect/Reconnect Charges - At Meter After 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
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	1.0692
Total Loss Factor – Primary Metered Customer < 5,000 kW	1.0585