



RP-2005-0020
EB-2005-0428

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 Welland
Hydro-Electric System Corp. 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

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

Welland 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.

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*, c. 15 (Sched. B), 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 in due course.

Public notice of the rate Application made by Welland 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 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.

Welland Hydro has requested an amount of \$8,583,498 as revenue to be recovered through distribution rates and charges. Included in this amount is a debit of \$839,987 for the recovery of regulatory assets. Except where noted in this Decision, the Board finds that Welland Hydro has filed its Application in accordance with the Handbook and the guidelines for the recovery of regulatory assets.

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

- Distribution Loss Adjustment Factors;
- Bad Debt; and
- Impact of the Generic Decision (EB-2005-0529).

Distribution Loss Adjustment Factors

Welland Hydro is proposing a distribution loss adjustment factor based on a three-year (2002-2004) average of 1.0599, a level greater than 5%. The 2006 Handbook requires Applicants that propose a loss factor exceeding 5% to provide an explanation for the proposed level and a loss reduction plan.

Welland Hydro submitted that it had experienced theft of power due to marijuana grow houses in 2003 and 2004. The customers that were billed for theft accounted for 1,101,557 kWh in 2002 and 420,230 kWh in 2003. These kWh consumption amounts were included in the calculation of the losses. Had they not been included, the restated amounts would have recalculated a 5.85% three year average. Welland Hydro submitted that not all grow houses were detected during this period and therefore, the true three year average would have been 5.00% or less. Accordingly, Welland Hydro did not propose an action plan for reducing the level of losses at this time.

The Board accepts that the theft of power in 2003 and 2004 could have caused Welland

Hydro's three year average loss level to exceed 5%. Although the level of losses in the future is uncertain, the Board approves the proposed loss of 5.99%.

However, the Board directs Welland Hydro to file a plan within 90 days of the date of this Decision detailing how it intends to reduce the level of losses due to theft. If grow houses are a problem in the area and contribute significantly to losses, the plan should indicate how the utility plans to deal with this source of loss.

Bad Debt

Welland Hydro's bad debt expenses were \$36,040 in 2002, \$324,741 in 2003, and \$265,139 in 2004. The Applicant requested that the 2004 amount be used for ratemaking purposes.

The Applicant provided a yearly breakdown by types of customer classes for these expense amounts. The 2004 amount includes a bad debt expense of \$168,069 for the Large Use class. Welland Hydro stated that its bad debt expense was primarily from a small group of customers who had filed for bankruptcy. The Applicant submitted that in lieu of asking for a rate rider to recover the full amount, it has taken a conservative approach and has asked for less than 50% of the total bad debt write-off.

The evidence suggests that the bad debt levels experienced by Welland in 2003 and 2004 were exceptional, and are not indicative of baseline bad debt levels going forward. The Board is not prepared to set prospective rates based on an allowance for bad debt that includes exceptional amounts, which finding is consistent with the guidelines set out in the Rate Handbook. Nor will the Board permit a prospective allowance for bad debt which serves to recapture bad debt losses from a prior period. For purposes of 2006 rate setting, the Board fixes an allowance of \$36,000, approximately equal to the level that was incurred in 2002.

Consequences of the Generic Decision on this Application

The Generic Decision contains findings relevant to funding for smart meters for electricity distributors. The Applicant did not file a specific smart meter investment plan or request approval of any associated amount in revenue requirement. Absent a specific plan or discrete revenue requirement, the Generic Decision provides that \$0.30 per residential customer per month be reflected in the Applicant's revenue requirement. The Board directs that this increase in the revenue requirement amount will be allocated

equally to all metered customers and recovered through their monthly service charge. This increment is reflected in the approved monthly service charges contained in the Tariff of Rates and Charges appended to this Decision. Pursuant to the Generic Decision, a variance account will be established, the details of which will be communicated in due course.

Resulting Revenue Requirement

As a result of the findings contained in this Decision, Welland Hydro's revenue requirement has been adjusted to \$8,420,650, including a debit amount of \$839,987 for 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 Welland Hydro-Electric System Corp.'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 Welland Hydro-Electric System Corp., and is final in all respects.
- 3) Welland Hydro-Electric System Corp. 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" and the last name "Zych" clearly distinguishable.

John Zych
Board Secretary

Appendix "A"

RP-2005-0020
EB-2005-0428

April 12, 2006

ONTARIO ENERGY BOARD

Welland Hydro-Electric System Corp.

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-2005-0428

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 refers to the supply of electrical energy to residential customers residing in detached or semi-detached units, as defined in the local zoning by-law.

General Service Less Than 50 kW

This classification refers to the supply of electrical energy to commercial buildings taking electricity at 750 volts or less whose monthly average peak demand is less than, or is forecast to be less than, 50 kW. Commercial buildings are defined as buildings, which are used for purposes other than resident dwellings.

General Service 50 to 4,999 kW

This classification refers to the supply of electrical energy to commercial buildings whose monthly average peak demand is equal to or greater than, or is forecast to be equal to or greater than, 50 kW but less than 5,000 kW. Commercial buildings are defined as buildings, which are used for purposes other than resident dwellings.

Large Use

This classification refers to an account whose monthly average peak demand is equal to or greater than, or is forecast to be equal to or greater than, 5,000 kW.

Unmetered Scattered Load

This classification refers to an account taking electricity at 750 volts or less whose monthly average peak demand is less than, or is forecast to be less than, 50 kW and the consumption is unmetered. Unmetered or flat connections are permitted with the approval of Welland Hydro-Electric System Corp. Engineering Department. Flat rate connects may include, but are not limited to, Traffic Lights, Street Lights, Bus Shelters, and Signs. Energy consumption is determined by information provided by the customer and/or load measurement taken by Welland Hydro-Electric System Corp. following connection of the flat service.

Sentinel Lighting

This classification refers to an account for roadway lighting not classified as unmetered or street lighting. The consumption for the customer will be based on the calculated connected load times a twelve hour day times the applicable billing period.

Street Lighting

This classification refers to the Street Lighting system owned by the City of Welland. Welland Hydro-Electric System Corp. provides new installations and maintenance of the street lighting system, as required by the City of Welland.

Welland Hydro-Electric System Corp.

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MONTHLY RATES AND CHARGES

Residential

Service Charge	\$	12.40
Distribution Volumetric Rate	\$/kWh	0.0122
Regulatory Asset Recovery	\$/kWh	0.0030
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0062
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0046
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	\$	18.28
Distribution Volumetric Rate	\$/kWh	0.0062
Regulatory Asset Recovery	\$/kWh	0.0020
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0055
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0042
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	\$	180.85
Distribution Volumetric Rate	\$/kW	0.7575
Regulatory Asset Recovery	\$/kW	0.5337
Retail Transmission Rate – Network Service Rate	\$/kW	1.8997
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.4294
Retail Transmission Rate – Network Service Rate – Interval Metered	\$/kW	1.8844
Retail Transmission Rate – Line and Transformation Connection Service Rate – Interval Metered	\$/kW	1.7121
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

Large Use

Service Charge	\$	10,022.67
Distribution Volumetric Rate	\$/kW	0.6763
Regulatory Asset Recovery	\$/kW	0.1004
Retail Transmission Rate – Network Service Rate	\$/kW	1.3808
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.9013
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)	\$	9.14
Distribution Volumetric Rate	\$/kWh	0.0062
Regulatory Asset Recovery	\$/kWh	0.0020
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0055
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0042
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

Welland Hydro-Electric System Corp.

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EB-2005-0428

Sentinel Lighting

Service Charge (per connection)	\$	0.34
Distribution Volumetric Rate	\$/kW	0.7749
Regulatory Asset Recovery	\$/kW	1.2981
Retail Transmission Rate – Network Service Rate	\$/kW	1.7694
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.3313
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)	\$	0.17
Distribution Volumetric Rate	\$/kW	0.7237
Regulatory Asset Recovery	\$/kW	0.0477
Retail Transmission Rate – Network Service Rate	\$/kW	1.7655
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.3284
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
Returned Cheque (plus bank charges)	\$	15.00
Charge to certify cheque	\$	15.00
Legal letter charge	\$	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
Disconnect / Reconnect at meter - during regular hours	\$	65.00
Install / Remove load control device - during regular hours	\$	65.00
Disconnect / Reconnect at meter - after regular hours	\$	185.00
Specific Charge for Access to the Power Poles – per pole/year	\$	22.35
Meter upgrade requested by customer plus installation – per month	\$	10.00
		plus installation on a time and materials basis.
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)

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LOSS FACTORS

Total Loss Factor – Secondary Metered Customer < 5,000 kW	1.0599
Total Loss Factor – Secondary Metered Customer > 5,000 kW	1.0145
Total Loss Factor – Primary Metered Customer < 5,000 kW	1.0493
Total Loss Factor – Primary Metered Customer > 5,000 kW	1.0045