



EB-2007-0886

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 Peterborough Distribution Incorporated - Peterborough Service Area for an order or orders approving or fixing just and reasonable distribution rates and other charges, for the 2008 rate year.

BEFORE: Paul Vlahos
Presiding Member

Paul Sommerville
Member

DECISION

Introduction

Peterborough Distribution Incorporated ("PDI") is a licensed distributor of electricity providing service to consumers within its licensed service areas. PDI filed an 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 charges, to be effective May 1, 2008 within its Peterborough Service Area.

PDI is one of over 80 electricity distributors in Ontario that are regulated by the Board. In 2006, the Board announced the establishment of a multi-year electricity distribution rate-setting plan for the years 2007-2010. As part of the plan, PDI is one of the electricity distributors to have its rates adjusted for 2008 on the basis of the 2nd

Generation Incentive Rate Mechanism (“IRM”) process.

To streamline the process for the approval of distribution rates and charges for distributors, the Board issued its *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario’s Electricity Distributors* (the “Report”) on December 20, 2006. Among other things, the Report contained the relevant guidelines for 2008 rate adjustments (the “Guidelines”) for distributors applying for rate adjustments pursuant to the IRM process.

On October 30, 2007, PDI filed its 2008 Electricity Distribution Rate application, for rates within its Peterborough Service Area that would come into effect on May 1, 2008, based on the Board’s IRM methodology. The application was prepared using the 2007 rates approved by the Board. The Notice of Application was issued by the Board on November 16, 2007.

Notice of PDI’s rate application for its Peterborough Service Area was given through newspaper publication in PDI’s service area advising of the availability of the rate application and advising how interested parties may intervene in the proceeding or comment on the application. There were no intervention requests and no comments were received.

Amended Application

On March 7, 2008, PDI amended its application to the Board requesting:

1. that the Board use adjusted 2007 rates rather than the existing 2007 rates in determining PDI’s 2008 rates for its Peterborough Service Area; and,
2. that the Board authorize the implementation of the adjusted 2007 rates for its Peterborough Service Area effective January 1, 2008.

According to the amended application, PDI discovered that its 2007 revenue was below budget by approximately 4%, representing approximately \$400,000. It claimed that this shortfall resulted from the fact that the customer numbers used in PDI’s 2006 rate application were incorrect. More specifically, the number of unmetered sentinel lights was “double-counted in numerous instances”, with 156 of the 626 sentinel light connections being counted not only in the Sentinel Light class but also included in the

- 3 -

GS < 50 kW (76), GS > 50 kW (77) and Residential (3) classes. The amended application did not include a request that PDI's 2007 rates for its Peterborough Service Area be made interim.

Notice on the amended application was issued April 2, 2008. There were no intervention requests and no comments were received. The Board proceeded by way of a written hearing. Board staff participated actively in the proceeding.

While the Board has considered the entire record in this rate application, it has made reference only to such evidence as is necessary to provide context to its findings.

2007 Rates

PDI's 2007 rate application was filed on the basis of the Guidelines. In fixing new rates and charges for PDI, the Board applied the policies described in the Report. On April 30, 2007, the Board issued its decision approving interim rates effective May 1, 2007 to accommodate a further review of an aspect of the application dealing with the recovery of costs associated with storm damages. On July 31, 2007, after a review of the storm damage cost recovery issue for Canadian Niagara Power, Lakeland Power and Peterborough Distribution (EB-2007-0514, EB-2007-0595, EB-2007-0571, EB-2007-0551), the Board issued its Decision on this matter and subsequently issued a Rate Order on August 20, 2007 for rates to be effective September 1, 2007 reflecting the complete original application.

The amended application for 2008 rates sought approval to revise the 2007 rates based on the corrected customer counts and use the resulting adjusted 2007 rates as the basis for the 2008 IRM rate process and that the implementation of these adjusted rates be effective January 1, 2008. Subsequently, in its reply submission dated July 2, 2008, PDI withdrew its request for the implementation of the adjusted 2007 rates from January 1, 2008 to April 30, 2008.

The Board accepts PDI's proposal to use the adjusted 2007 rates, which reflect the corrected customer counts, as the basis for the 2008 IRM rate process.

2008 Price Cap Index Adjustment

As outlined in the Report, distribution rates under the 2nd Generation IRM are to be

adjusted by a price escalator less a productivity factor (X-factor) of 1.0%. Based on the final 2007 data published by Statistics Canada, the Board has established the price escalator to be 2.1%. The resulting price cap index adjustment is therefore 1.1%. The rate model was adjusted to reflect the newly calculated price cap adjustment. This price cap index adjustment applies to distribution rates (fixed and variable charges) uniformly across all customer classes. An adjustment for the transition to a common deemed capital structure of 60% debt and 40% equity was also effected. In addition, a change in the federal income tax rate effective January 1, 2008 was also incorporated into the rate model and reflected in distribution rates.

The Board also considered the reduction in Ontario capital tax and the increase in capital cost allowance (CCA) applicable to certain buildings and computers acquired after March 2007. The Board has decided that adjustments related to these items are not required, either because the changes are not of general application, or because they do not appear to be material.

The price cap index adjustment does not apply to the following components of the rates:

- the specific service charges;
- the smart meter rate adder (an amount in the fixed components of the rates associated with smart meter cost recovery); and
- any continuing rate riders.

Accordingly, as part of the interrogatory process, the Board provided PDI with the rate model (spreadsheet) that reflects the price cap adjustments described above, and PDI filed the revised rate model. PDI is required to use the aforementioned rate model and file with the Board a Draft Rate Order attaching the proposed Tariff of Rates and Charges which will reflect the Board's price cap adjustments as verified by PDI. PDI shall also provide the rate model (spreadsheet) that underpins the Tariff of Rates and Charges.

Rate Riders

In the aforementioned Board Decision on the matter of costs associated with storm damages, the Board authorized the establishment of rate riders to recover costs incurred by PDI relating to severe storm damages in 2006. The approved rate riders

shall continue until August 31, 2008, the time that was previously determined by the Board.

Smart Meter Rate Adder

PDI requested the continuation of the smart meter rate adder previously approved by the Board in order to provide funding for possible future implementation of smart meter costs and to minimize future rate impacts. The Board-approved rate adder for PDI of \$0.26 per month per metered customer shall continue. PDI's variance accounts for smart meter program implementation costs, previously authorized by the Board, shall also be continued.

Retail Transmission Service Rates

On October 17, 2007, the Board issued its EB-2007-0759 Rate Order setting new Uniform Transmission Rates for Ontario transmitters, effective November 1, 2007. The Board approved a decrease of 18% to the wholesale transmission network rate, a decrease of 28% to the wholesale transmission line connection rate, and an increase of 7% to the wholesale transformation connection rate. The combined change in the wholesale transmission line connection and transformation connection rates is a connection rate reduction of 5%.

On October 29, 2007, the Board issued a letter to all electricity distributors directing them to propose an adjustment to their retail transmission service (RTS) rates to reflect the new Uniform Transmission Rates for Ontario transmitters effective November 1, 2007. The objective of resetting the rates was to minimize the prospective balance in variance accounts 1584 and 1586 and also to mitigate intergenerational inequities.

PDI proposed to reduce both its RTS – Network Service Rates and its RTS – Line and Transformation Connection Service Rates by 12% for all its rate classes. These adjustments are based on the average of the reductions in wholesale transmission charges. The Board finds that this approach is reasonable and therefore approves these adjustments. PDI is required to include this change in its rate model (spreadsheet) to be filed with the Board.

Implementation

PDI's revised distribution rates for its Peterborough Service Area are to be effective as of the date of the final Rate Order that will follow this decision. The Board directs that:

1. PDI shall file with the Board a Draft Rate Order attaching the proposed Tariff of Rates and Charges and the supporting rate model (spreadsheet) within seven (7) days of the date of this Decision. The proposed Tariff of Rates and Charges shall be filed in a Word format. The adjusted rate model shall be filed in an Excel format.

DATED at Toronto, July 15, 2008

ONTARIO ENERGY BOARD

Original signed by

Paul Vlahos
Presiding Member

Original signed by

Paul Sommerville
Member