



EB-2008-0173

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 Espanola
Regional Hydro Distribution Corporation for an order or
orders approving or fixing just and reasonable distribution
rates and other charges, to be effective May 1, 2009.

BEFORE: Paul Vlahos
Presiding Member

Ken Quesnelle
Member

DECISION AND ORDER

Introduction

Espanola Regional Hydro Distribution Corporation (“Espanola”) is a licensed distributor of electricity providing service to consumers within its licensed service area. Espanola 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, 2009.

Espanola is one of about 80 electricity distributors in Ontario that are regulated by the Board. In 2008, the Board announced the establishment of a new multi-year electricity distribution rate-setting plan, the 3rd Generation Incentive Rate Mechanism (“IRM”) process that will be used to adjust electricity distribution rates starting in 2009 for those distributors whose 2008 rates were rebased through a cost of service review. As part of the plan, Espanola is one of the electricity distributors to have its rates adjusted for 2009 on the basis of the IRM process, which provides for a mechanistic and formulaic adjustment to distribution rates and charges between cost of service applications.

To streamline the process for the approval of distribution rates and charges for distributors, the Board issued its *Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* on July 14, 2008, its *Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* on September 17, 2008, and its *Addendum to the Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* on January 28, 2009 (together the "Reports"). Among other things, the Reports contained the relevant guidelines for 2009 rate adjustments (the "Guidelines") for distributors applying for distribution rate adjustments pursuant to the IRM process.

In its letter of acknowledgment dated November 25, 2008, the Board informed Espanola that the Board would not hear, as part of this proceeding, its request for an adjustment to its 2009 revenue requirement for the recovery of payments in lieu of taxes.

Notice of Espanola's rate application was given through newspaper publication in Espanola'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. No letters of comment were received. The Vulnerable Energy Consumers Coalition ("VECC") posed interrogatories on Espanola's proposed revenue-to-cost ratio adjustments. Board staff posed interrogatories and also made a submission. The Board proceeded by way of a written hearing.

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.

Price Cap Index Adjustment

Espanola's rate application was filed on the basis of the Guidelines. In fixing new distribution rates and charges for Espanola, the Board has applied the policies described in the Reports.

As outlined in the Reports, distribution rates under the 3rd Generation IRM are to be adjusted by a price escalator less a productivity factor (X-factor) of 0.72% and Espanola's utility specific stretch factor of 0.4%. Based on the final 2008 data published by Statistics Canada, the Board has established the price escalator to be 2.3%. The resulting price cap index adjustment is therefore 1.18%. 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. A change in the federal income tax rate effective January 1, 2009 was incorporated into the rate model and reflected in distribution rates.

The Federal Budget enacted on February 3, 2009 included an increase in the small business income limit from \$400,000 to \$500,000 effective January 1, 2009, and a change in the capital cost allowance (CCA) applicable to certain computer equipment and related system software (CCA class 50) acquired between January 27, 2009 and February 2011. The Board has considered these fiscal changes and determined that the rate model will be adjusted to reflect the increase in the federal small business income limit for affected distributors. With regard to the change in the CCA, the Board notes that this change would be captured in the revenue requirement calculation as it relates to smart meters when a distributor applies for cost recovery for the applicable investment period. For other computer equipment and related system software in class 50, the Board concludes that this adjustment is not required since it does not appear to be material.

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

- Rate Riders;
- Retail Transmission Service Rates;
- Wholesale Market Service Rate;
- Rural Rate Protection Charge;
- Standard Supply service – Administrative Charge;
- Transformation and Primary Metering Allowances;
- Retail Service Charges;
- Loss Factors; and
- Smart Meter Funding Adder.

Rural or Remote Electricity Rate Protection Adjustment

In accordance with Ontario Regulation 442/01, Rural or Remote Electricity Rate Protection (“RRRP”) (made under the *Ontario Energy Board Act, 1998*) the Board issued a Decision on December 17, 2008 setting out the amount to be charged by the Independent Electricity System Operator (“IESO”) with respect to the RRRP for each kilowatt-hour of electricity that is withdrawn from the IESO-controlled grid.

In a letter dated December 17, 2008 the Board directed distributors that had a rate application before the Board to file a request with the Board that the RRRP charge in their tariff sheet be revised to 0.13 cent per kilowatt-hour effective May 1, 2009.

Espanola complied with this directive. The rate model was adjusted to reflect the new RRRP charge.

Smart Meter Funding Adder

On October 22, 2008 the Board issued a Guideline for Smart Meter Funding and Cost Recovery ("Smart Meter Guideline") which sets out the Board's filing requirements in relation to the funding of, and the recovery of costs associated with, smart meter activities conducted by electricity distributors.

As set out in the Smart Meter Guideline, a distributor that plans to implement smart meters in the rate year must include, as part of the application, evidence that the distributor is authorized to conduct smart meter activities in accordance with applicable law.

Espanola reports that it is authorized to conduct smart meter activities because it has procured smart meters pursuant to and in compliance with the August 14, 2007 Request for Proposal issued by London Hydro Inc.

Espanola requested the standard smart meter funding adder of \$1.00 per metered customer per month, which is intended to provide funding in the case where a distributor may be in the early stages of planning and may not yet have sufficient cost information to request a utility-specific funding adder. The Board approves the funding adder as proposed by Espanola. This new funding adder is reflected in the Tariff of Rates and Charges that is appended to this Decision and Order. Espanola's variance accounts for smart meter program implementation costs, previously authorized by the Board, shall also be continued.

The Board notes that the smart meter funding adder of \$1.00 per metered customer per month is intended to provide funding for Espanola's smart metering activities in the 2009 rate year. The Board has not made any finding on the prudence of the proposed smart meter activities, including any costs for smart meters or advanced metering infrastructure whose functionality exceeds the minimum functionality adopted in O. Reg. 425/06, or costs associated with functions for which the Smart Metering Entity has the

exclusive authority to carry out pursuant to O. Reg. 393/07. Such costs will be considered at the time that Espanola applies for the recovery of these costs.

Revenue-to-Cost Ratios

Revenue-to-cost ratios (“Ratios”) measure the relationship between the revenues expected from a class of customers and the level of costs allocated to that class. The Board has established target Ratio ranges (the “Target Ranges”) for Ontario electricity distributors in its report *Application of Cost Allocation for Electricity Distributors*, dated November 28, 2007. In its EB-2007-0901 Decision, the Board made findings with regard to Espanola’s Ratios and directed that they be incrementally adjusted over time, starting in 2008 (the “2008 Ratios”).

Espanola proposed to adjust its Ratios as shown in Column 2 of Table 1.

Table 1 – Espanola’s Revenue-to-Cost Ratios (%)

Rate Class	2008 Ratio	Proposed 2009 Ratio	Target Range
	Column 1	Column 2	Column 3
Residential	104	101	85 – 115
GS < 50 kW	111	107	80 – 120
GS 50 – 4,999 kW	78	100	80 – 180
Street Lighting	43	57	70 – 120
Sentinel Lighting	51	61	70 – 120
USL	92	92	80 – 120

Board staff submitted that the proposed Ratio adjustments are reasonable.

The Board approves Espanola’s proposed rate adjustments as they follow the direction and intent of the 2008 cost of service Decision (EB-2007-0901) and are reasonable.

Retail Transmission Service Rates

On October 22, 2008 the Board issued a Guideline for *Electricity Distribution Retail Transmission Service Rates* (“RTSR Guideline”) which provides electricity distributors with instructions on the evidence needed, and the process to be used, to adjust Retail Transmission Service Rates (“RTSRs”) to reflect changes in the Ontario Uniform Transmission Rates (“UTRs”).

On August 28, 2008, the Board issued its Decision and Rate Order in proceeding EB-2008-0113, setting new UTRs for Ontario transmitters, effective January 1, 2009. The Board approved an increase of 11.3% to the wholesale transmission network rate, an increase of 18.6% to the wholesale transmission line connection rate, and an increase of 0.6% to the wholesale transformation connection rate. The combined change in the wholesale transformation and transmission line connection rates is an increase of about 5%.

Electricity distributors are charged the UTRs at the wholesale level and subsequently pass these charges on to their distribution customers through the RTSRs. There are two RTSRs, whereas there are three UTRs. The two RTSRs are for network and connection. The wholesale line and transformation connection rates are combined into one retail connection service charge. Deferral accounts are also used to capture timing differences and differences in the rate that a distributor pays for wholesale transmission service compared to the retail rate that the distributor is authorized to charge when billing its customers (i.e., deferral accounts 1584 and 1586).

In the RTSR Guideline the Board directed all electricity distributors to propose an adjustment to their RTSRs to reflect the new UTRs for Ontario transmitters effective January 1, 2009. The objective of resetting the rates was to minimize the prospective balances in deferral accounts 1584 and 1586.

Espanola proposed to increase its RTSR – Network Service Rates 11.3% and originally proposed to increase its RTSR – Line and Transformation Connection Service Rates by 19.2%. In its reply submission, Espanola agreed with Board staff's submission on the calculation of the proposed adjustments to the RTSR – Line and Transformation Connection Service Rates and requested to increase them by 5% instead of 19.2%. Espanola indicated that these adjustments were appropriate as they reflect the expected increase in charges payable by Espanola resulting from the UTR changes. The Board finds that this approach is reasonable and approves these adjustments.

The Board is providing Espanola with a rate model (spreadsheet) and a draft Tariff of Rates and Charges (Appendix A) that reflects the elements of this Decision. The Board also reviewed the entries in the rate model to ensure that they were in accordance with the 2008 Board approved Tariff of Rates and Charges and the rate model was adjusted, where applicable, to correct any discrepancies.

The Board Orders That:

Espanola's new distribution rates will be effective May 1, 2009. The Board Orders that:

1. Espanola shall review the draft Tariff of Rates and Charges set out in Appendix A. Espanola shall file with the Board a written confirmation assessing the completeness and accuracy of the draft Tariff of Rates and Charges, or provide a detailed explanation of any inaccuracies or missing information, within seven (7) calendar days of the date of this Decision and Order.

If the Board does not receive a submission by Espanola to the effect that inaccuracies were found or information was missing pursuant to item 1 of this Decision and Order:

2. The draft Tariff of Rates and Charges set out in Appendix A of this Order will become final, effective May 1, 2009, and will apply to electricity consumed or estimated to have been consumed on and after May 1, 2009.
3. The Tariff of Rates and Charges set out in Appendix A of this Order shall supersede all previous distribution rate schedules approved by the Board for Espanola and is final in all respects.
4. Espanola shall notify its customers of the rate changes no later than with the first bill reflecting the new rates.

If the Board receives a submission by Espanola to the effect that inaccuracies were found or information was missing pursuant to item 1 of this Decision and Order, the Board will consider the submission of Espanola and will issue a final Tariff of Rates and Charges.

DATED at Toronto, March 13, 2009

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary

Appendix A

To Decision and Order

EB-2008-0173

March 13, 2009

Espanola Regional Hydro Distribution Corporation

TARIFF OF RATES AND CHARGES

Effective May 1, 2009

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

EB-2008-0173

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, 2009 for all consumption or deemed consumption services used on or after that date.
SPECIFIC SERVICE CHARGES – May 1, 2009 for all charges incurred by customers on or after that date.
RETAIL SERVICE CHARGES – May 1, 2009 for all charges incurred by retailers or customers on or after that date.
LOSS FACTOR ADJUSTMENT – May 1, 2009 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 an account taking electricity at 750 volts or less where the electricity is used exclusively in a single family unit, non-commercial. This can be a separately metered living accommodation, town house, apartment, semi-detached, duplex, triplex or quadplex with residential zoning.

General Service Less Than 50 kW

This classification refers to a non residential 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.

General Service 50 to 4,999 kW

This classification refers to a non residential account whose average peak demand is greater than, or is forecast to be greater than, 50 kW but less 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. Such connections include cable TV power packs, bus shelters, telephone booths, traffic lights, railway crossings, etc. The customer will provide detailed manufacturer information/ documentation with regard to electrical demand/consumption of the proposed unmetered load.

Sentinel Lighting

This classification applies to safety/security lighting with a Residential or General Service customer. This is typically exterior lighting, and unmetered. Consumption is estimated based on the equipment rating and estimated hours of use.

Street Lighting

This classification refers to an account for roadway lighting with a Municipality, Regional Municipality, Ministry of Transportation and private roadway lighting operation, 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.

Espanola Regional Hydro Distribution Corporation

TARIFF OF RATES AND CHARGES

Effective May 1, 2009

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EB-2008-0173

MONTHLY RATES AND CHARGES

Residential

Service Charge	\$	10.99
Distribution Volumetric Rate	\$/kWh	0.0144
Deferral Account Rate Rider – effective until April 30, 2010	\$/kWh	0.0009
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0046
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0037
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0013
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

General Service Less Than 50 kW

Service Charge	\$	18.91
Distribution Volumetric Rate	\$/kWh	0.0168
Deferral Account Rate Rider – effective until April 30, 2010	\$/kWh	0.0009
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0042
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0033
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0013
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

General Service 50 to 4,999 kW

Service Charge	\$	140.44
Distribution Volumetric Rate	\$/kW	3.4549
Deferral Account Rate Rider – effective until April 30, 2010	\$/kW	0.2386
Retail Transmission Rate – Network Service Rate	\$/kW	1.7225
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.3068
Retail Transmission Rate – Network Service Rate – Interval Metered	\$/kW	1.9563
Retail Transmission Rate – Line and Transformation Connection Service Rate – Interval Metered	\$/kW	1.8319
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0013
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

Unmetered Scattered Load

Service Charge (per connection)	\$	8.61
Distribution Volumetric Rate	\$/kWh	0.0131
Deferral Account Rate Rider – effective until April 30, 2010	\$/kWh	0.0009
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0042
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0033
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0013
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

Sentinel Lighting

Service Charge (per connection)	\$	1.17
Distribution Volumetric Rate	\$/kW	9.9282
Deferral Account Rate Rider – effective until April 30, 2010	\$/kW	0.3766
Retail Transmission Rate – Network Service Rate	\$/kW	1.3057
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.0314
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0013
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

Espanola Regional Hydro Distribution Corporation

TARIFF OF RATES AND CHARGES

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EB-2008-0173

Street Lighting

Service Charge (per connection)	\$	1.13
Distribution Volumetric Rate	\$/kW	14.6640
Deferral Account Rate Rider – effective until April 30, 2010	\$/kW	0.4499
Retail Transmission Rate – Network Service Rate	\$/kW	1.2991
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.0103
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0013
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

Specific Service Charges

Customer Administration		
Arrears certificate	\$	15.00
Account history	\$	15.00
Returned Cheque (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 for non payment of account - At Meter During Regular Hours	\$	65.00
Disconnect/Reconnect at pole – during regular hours	\$	185.00
Temporary service install & remove – overhead – no transformer	\$	500.00
Temporary service install & remove – underground – no transformer	\$	300.00
Specific Charge for Access to the Power Poles – per pole/year	\$	22.35
Allowances		
Transformer Allowance for Ownership - per kW of billing demand/month	\$/kW	(0.60)
Primary Metering Allowance for transformer losses – applied to measured demand and energy	%	(1.00)

Retail Service Charges (if applicable)

Retail Service Charges refer to services provided by a distributor to retailers or customers related to the supply of competitive electricity

One-time charge, per retailer, to establish the service agreement between the distributor and the retailer	\$	100.00
Monthly Fixed Charge, per retailer	\$	20.00
Monthly Variable Charge, per customer, per retailer	\$/cust.	0.50
Distributor-consolidated billing charge, per customer, per retailer	\$/cust.	0.30
Retailer-consolidated billing credit, per customer, per retailer	\$/cust.	(0.30)
Service Transaction Requests (STR)		
Request fee, per request, applied to the requesting party	\$	0.25
Processing fee, per request, applied to the requesting party	\$	0.50
Request for customer information as outlined in Section 10.6.3 and Chapter 11 of the Retail Settlement Code directly to retailers and customers, if not delivered electronically through the Electronic Business Transaction (EBT) system, applied to the requesting party		
Up to twice a year		no charge
More than twice a year, per request (plus incremental delivery costs)	\$	2.00

Espanola Regional Hydro Distribution Corporation

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LOSS FACTORS

Total Loss Factor – Secondary Metered Customer < 5,000 kW	1.0543
Total Loss Factor – Secondary Metered Customer > 5,000 kW	N/A
Total Loss Factor – Primary Metered Customer < 5,000 kW	1.0443
Total Loss Factor – Primary Metered Customer > 5,000 kW	N/A