



RP-2005-0020
EB-2005-0383

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
Kashechewan Power Corporation 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

DECISION AND ORDER

Kashechewan Power Corporation ("KPC" or the "Applicant") is a licensed distributor providing electrical service to consumers within its defined service area. KPC 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. According to the Board's schedule for filings, KPC was to have filed its application no later than October 3, 2005. KPC filed a complete application on March 30, 2006.

KPC 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. 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*, 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 KPC 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 Energy Probe (an intervenor), and Energy Probe and KPC submitted written argument. Additional questions were posed by the Board and these were responded to by the Applicant.

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.

On April 27, 2006, the Board issued an Order declaring rates then existing for KPC to be interim, effective May 1, 2006, until such time as the Board issued a final rate order for 2006 rates. This Decision and Order is final with respect to 2006 rates and supersedes the Order of April 27.

KPC has requested an amount of \$672,092 as revenue to be recovered through distribution rates and charges. Included in this amount is a credit of \$1,680 for the recovery of regulatory assets. Except where noted in this Decision, the Board finds that KPC has filed its Application in accordance with the Handbook and the guidelines for the recovery of regulatory assets.

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

- Legal identity of the Applicant;
- Allowance for Bad Debts;
- Financial write-down of diesel fuel inventory;
- Late Payment Charges;
- Cost of Capital; and
- Consequences of the Generic Decision (EB-2005-0529).

Legal Identity of the Applicant

According to the Applicant's response to Energy Probe's interrogatory, the Board notes that the Applicant, Kashechewan Power Corporation, operates as the Kashechewan Power Authority. The Board also notes that the audited financial statements filed by the Applicant are those of the Kashechewan Power Authority. Despite the Applicant's reply argument that the name has been carried on "out of habit", the Board will ask its Chief Regulatory Auditor to clarify this matter with the Applicant and its auditors. In the future, the Board expects that only the legal name will be used for filings with the Board.

Allowance for Bad Debts

The Applicant proposed a negative Tier 1 adjustment of \$60,191 to the bad debt allowance, resulting in an allowance of \$30,000 for ratemaking purposes. This compares with over \$90,000 in 2004 and \$0 in 2003. In proposing the \$30,000 level, the Applicant noted that the much higher amount in 2004 included amounts not related

to electricity sales, such as salary advances and honoraria that were not re-paid and “work done on behalf of the customers”.

The Board accepts the proposed \$30,000 provision for Bad Debt Expense as it is of the same magnitude as in 2002 which did not appear to contain the anomalies exhibited in 2004. However, the Board will expect a more stable bad debt item pattern in the future, together with a more thorough explanation of debt collection policies and bad debt from electricity sales.

Financial Write-down of Diesel Fuel Inventory

The Applicant’s 2004 balance sheet contains a \$70,000 item under “Inventory at Cost”, which compares with \$178,067 for 2003. The Applicant explained that the decrease is mainly attributable to the deterioration of diesel fuel used for generation. Energy Probe submitted that the information provided is not adequate and that the Board should not allow the write-down of this asset at this time.

The Board notes that the Applicant is not requesting any relief through rates of the write-down. The Board will not deal with any non-rate matters pertaining to this issue.

Late Payment Charges

The Applicant recorded \$0 revenue in 2003 and 2004 from Late Payment Charges and no proposal was made to adjust this amount for purposes of 2006 rates. In 2002, the Applicant recorded revenue of \$117,000. The Applicant noted that it is currently considering implementing a late payment charge but it has not made a final decision.

In response to the Board’s written questions, the Applicant stated that it has found late payment charges not to be effective in controlling high levels of accounts receivable and that the use of load limiters may be more effective. The evidence was that the Applicant made substantial investments in load limiters in 2004.

The Board will not deem any revenue amount for late payment charges for purposes of setting rates at this time. However, the Applicant is forewarned that this may not be the case the next time the Board will set rates for the Applicant, especially given the high accumulation of accounts receivable and the Applicant’s investments in load limiters, and the fact that the Applicant had recorded \$117,000 in 2002. At the next rate setting proceeding, the Applicant is expected to provide full evidence on the late payment charges matter.

Cost of Capital

The Applicant is incorporated as a not-for-profit organization but under its Letters of Patent it may generate a surplus and use same for specified social and environmental objectives. There are also restrictions placed on the Applicant to raise substantial debt and there is no debt based on the current filing. The value of the Applicant's fixed assets (\$131,563) is very small as the assets were purchased from Hydro One at a nominal price.

The Applicant requested that the deemed capital structure and cost of capital contained in the Rate Handbook apply to the determination of overall cost of capital financing its rate base. Specifically, the Applicant requested a debt:equity split of 50:50, a 6.25% cost for its debt and 9.00% return on equity, resulting in an overall cost of capital of 7.63%.

Because of the minimal recorded value of fixed assets, the cost of capital component of the Applicant's revenue requirement is extremely small. Given these special circumstances, the Board approves the Applicant's requests pertaining to the overall cost of capital for purposes of setting 2006 rates.

Consequences of the Generic Decision on this Application

The Generic Decision (EB-2005-0529) contains findings relevant to funding for smart meters for electricity distributors. KPC 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. However in this instance, the Board is aware that the Applicant is affected by current discussions about relocating the entire community and that it would be premature to undertake any initiative to install smart meters prior to a decision on that matter.

Therefore, the Board will not direct that the standard amount of \$0.30 per residential customer be implemented in rates at this time. The Board directs the Applicant to inform the Board of what plans KPC has for smart metering, as soon as possible after the matter of relocation is clarified, and in any case no later than one year from the date of this Board Decision.

Resulting Revenue Requirements

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 \$672,092 including a credit amount of \$1680 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.

Effective Date

The Board notes that the revenue requirement found in this Decision will result in increased rates for the Applicant's customers. The Board notes that the Applicant was about six months late in filing its application. The Board does not condone retroactive ratemaking when it involves rate increases. The Board finds that the effective date of the new rates shall be November 1, 2006.

Cost Awards

Energy Probe was found eligible for cost awards in participating in this proceeding as Energy Probe would be seeking to recover only its out-of-pocket costs. Energy Probe claimed \$441. The Applicant objected to Energy Probe's request for a cost award.

The Board found the participation of Energy Probe Foundation to be responsible and helpful in assessing the Applicant's filing. The Board awards Energy Probe \$441 to be paid by the Applicant.

THE BOARD ORDERS THAT:

1. The Tariff of Rates and Charges set out in Appendix "A" of this Order is approved, effective November 1 2006, for electricity consumed or estimated to have been consumed on and after November 1, 2006.

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 Kashechewan Power Corporation, and is final in all respects.
3. Kashechewan Power Corporation shall notify its customers of the rate changes no later than with the first bill reflecting the new rates.

DATED at Toronto, November 2, 2006.

ONTARIO ENERGY BOARD

Original signed by

Peter O'Dell
Assistant Board Secretary

Appendix "A"

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November 2, 2006

ONTARIO ENERGY BOARD

Kashechewan Power Corporation

TARIFF SCHEDULE

This schedule supersedes 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 Board-approved 2006 Electricity Distribution Rate Handbook or any other Licence conditions, Codes, Guidelines or Orders of the Board, and amendments thereto as approved by the Board, which may be applicable to the administration of this rate 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 a supply of power shall be made except as permitted by the approved 2006 Electricity Distribution Rate Handbook or any other Licence conditions, Codes, Guidelines or Orders 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 - November 1, 2006 for all consumption or deemed consumption services used on or after that date.
SPECIFIC SERVICE CHARGES - November 1, 2006 for all charges incurred by customers on or after that date.
LOSS FACTOR ADJUSTMENT – applied on all bills issued on or after November 1, 2006

SERVICE CLASSIFICATIONS

Residential

This classification applies to all customers not falling within the Commercial or Institutional classes.

General Service - Commercial

This classification applies to any commercial business or to an asset operated by Kashechewan First Nation that does not receive funding from the Government of Canada or the Province of Ontario

General Service - Institutional

This classification applies to any customer that receives funding from or is paid for by either the Government of Canada or the Province of Ontario.

MONTHLY RATES AND CHARGES

Residential

Distribution Volumetric Rate	\$/kWh	0.0200
Regulatory Asset Recovery	\$/kWh	(0.0002)
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0051
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0048
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge	\$	0.25

General Service - Commercial

Distribution Volumetric Rate	\$/kWh	0.1674
Regulatory Asset Recovery	\$/kWh	(0.0002)
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0047
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0043
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge	\$	0.25

Kashechewan Power Corporation

TARIFF SCHEDULE

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

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General Service - Institutional

Distribution Volumetric Rate	\$/kWh	0.2825
Regulatory Asset Recovery	\$/kWh	(0.0002)
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0047
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0043
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

Account set up charge/change of occupancy charge (plus credit agency costs if applicable)	\$	30.00
Returned Cheque (plus bank charges)	\$	45.00
Damaged Meter Charge	\$	150.00

Non-Payment of Account

Disconnect/Reconnect Charges for non payment of account - At Meter During Regular Hours	\$	100.00
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LOSS FACTORS

Distribution Loss Factor – Secondary Metered Customer	1.0517
Distribution Loss Factor – Primary Metered Customer	1.0412
Total Loss Factor – Secondary Metered Customer	1.0517
Total Loss Factor – Primary Metered Customer	1.0412