



RP-2005-0020
EB-2006-0050

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 Oakville
Hydro Electricity Distribution Inc. 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

Oakville Hydro Electricity Distribution Inc. ("Oakville Hydro" or the "Applicant") is a licensed distributor providing electrical service to consumers within its defined service area. Oakville 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. According to the Board's schedule for filings, Oakville Hydro was to have filed its application no later than August 2, 2005. Oakville Hydro actually filed a final, complete application in April 2006.

Oakville 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. 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 Oakville 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 Oakville 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.

On April 28, 2006, the Board issued an Order declaring rates then existing for Oakville Hydro 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 28.

Oakville Hydro has requested an amount of \$31,845,698 as revenue to be recovered through distribution rates and charges. Included in this amount is a debit of \$4,105,441 for the recovery of regulatory assets. Except where noted in this Decision, the Board finds that Oakville Hydro has filed its Application in accordance with the Handbook and the guidelines for the recovery of regulatory assets.

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

- Addition to Rate base
- Adjustment to Rate base
- Cost of Debt
- Unmetered Scattered Load ("USL")
- Consequences of the Generic Decision (EB-2005-0529).

Addition to Rate base

In its Application, Oakville Hydro applied for a Non-routine/Unusual Tier 1 adjustment to its rate base, in the amount of \$1,345,000, for the cost of upgrading their Engineering, Operational, and Financial software system, implemented on January 1, 2006.

As set out in section 3.2.3 of the Handbook, the purpose of a Tier 1 adjustment is to adjust the results of the 2004 year to be more representative of a typical year of capital investments, operations and revenue, to the extent possible.

The adjustment proposed by Oakville Hydro is related to a capital investment that did not become operational until 2006. According to the evidence submitted by Oakville Hydro, it was forced to extend the originally planned implementation date of November 1, 2004 until the fall of 2005. Furthermore, this investment is not included in any of the categories of investments for which a Tier 1 adjustment is required, and in any event did not take place in 2004.

Therefore, the Board concludes that this adjustment is not consistent with the Handbook, and will not approve the rate base adjustment for an investment taking place

in 2005. The Board notes that Oakville Hydro had the option to apply on a forward test year basis to reflect forecast costs for the test year, but did not do so. Having chosen to file the Application on an historical test year basis, Oakville Hydro may not make selective adjustments for post-2004 events outside the guidelines of the Handbook.

Adjustment to Rate base

In its Application, Oakville Hydro applied to reduce its rate base in the amount of \$16,905,159 to reverse the undepreciated write-up of assets reflecting Fair Market Value revaluation in 2000.

The Board is generally satisfied that Oakville Hydro has properly documented this adjustment to ratebase. However, the Board notes that the methodology used by Oakville Hydro understates the level of accumulated depreciation that applies to the Fair Market Value revaluation. Therefore, the Board will lower the reduction to rate base in the amount of \$15,951,605 for the removal of the Fair Market Value revaluation.

Cost of Debt

Oakville Hydro has two promissory notes held by the Town of Oakville for a total of \$67,945,839, issued on February 1, 2000, and due February 1, 2020. Oakville Hydro's 2004 financial statements indicate that the interest rate in effect at the end of that year was 6.75%, and its evidence indicated that future rates will be determined annually throughout the remainder of the terms of the notes. In its application, Oakville Hydro applied for an interest rate of 7.00%, which was the renegotiated rate that became effective January 1, 2005.

According to the Handbook, the deemed debt rate of 6.00% applies to new or renegotiated debt issued on or after May 13, 2005 for a utility the size of Oakville Hydro. The evidence provided by Oakville Hydro indicates that the loan is renegotiated, or is renegotiable, on an annual basis. In applying the above-noted Handbook rule to this situation, the Board finds that since the rate is renegotiable annually, the principle underlying the Handbook rule applies here as well, whether or not the rate is actually renegotiated each year. This is consistent with the forward-looking basis upon which the cost of capital rates were set in the 2006 electricity distribution rates context.

The Board finds that the updated deemed debt rate of 6.00% should be applied to the promissory notes for the purposes of determining 2006 rates. Accordingly, the Board

has adjusted the EDR and PILs models to reflect the 6.00% debt rate.

Unmetered Scattered Load (“USL”)

In its application, Oakville Hydro applied for the creation of a sub-class for the USL. The Board approves a separate USL sub-classification. As per the 2006 EDR Handbook, this class will be billed at 50% of the General Service < 50 kW monthly service charge.

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 finds 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 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 \$31,083,253, including a debit amount of \$4,105,441 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. Intervenor 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 Oakville Hydro Electricity Distribution Inc.'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 Oakville Hydro Electricity Distribution Inc., and is final in all respects.
3. Oakville Hydro Electricity Distribution Inc. shall notify its customers of the rate changes no later than with the first bill reflecting the new rates.

DATED at Toronto, August 8, 2006.

ONTARIO ENERGY BOARD



Peter H. O'Dell
Assistant Board Secretary

Appendix "A"

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August 8, 2006

ONTARIO ENERGY BOARD

Oakville Hydro Electricity Distribution Inc.

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 class refers to the supply of electrical energy to detached and semi-detached residential buildings as well as farms as defined in the local zoning by-laws. Where the residential dwelling comprises the entire electrical load of a farm, it is defined as a residential service. Where electricity is provided to a combined residential and business (including agricultural usage) and the service does not provide for separate metering, the classification shall be at the discretion of Oakville Hydro and shall be based on such considerations as the estimated predominant consumption.

General Service Less Than 50 kW

This class refers to customers who do not qualify as residential customers and whose monthly average peak demand in the preceding twelve months is less than 50kW. For new customers without prior billing history, the peak demand will be based on 90% of the proposed capacity or installed transformation. **Note:** Apartment buildings or multi-unit complexes and subdivisions are treated as General Service (Above 50 kW).

General Service 50 to 999 kW

This class refers to customers whose monthly average peak demand in the preceding twelve months is in the range of 50 to 999 kW. There are two sub categories within this class, those being non-interval and interval metered accounts. For new customers without prior billing history, the peak demand will be based on 90% of the proposed capacity or installed transformation.

General Service 1,000 to 4,999 kW

This class refers to customers whose monthly average peak demand in the preceding twelve months is in the range of 1,000 to 4,999 kW. These accounts will all be interval metered accounts. For new customers without prior billing history, the peak demand will be based on 90% of the proposed capacity or installed transformation.

Large User

This class refers to customers whose monthly average peak demand in the preceding twelve months is 5,000 kW or greater. These accounts will all be interval metered accounts. For new customers without prior billing history, the peak demand will be based on 90% of the proposed capacity or installed transformation.

Unmetered Scattered Load

This classification applies to an account taking electricity at 750 volts or less 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, pedestrian X-Walk signals/beacons, 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

Oakville Hydro Electricity Distribution Inc.

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

Street Lighting

All services supplied to street lighting equipment owned by or operated for the Municipality, the Region or the Province of Ontario shall be classified as Street Lighting Service. Street Lighting plant, facilities, or equipment owned by the customer are subject to the Electrical Safety Authority (ESA) requirements and Oakville Hydro specifications.

MONTHLY RATES AND CHARGES

Residential

Service Charge	\$	13.99
Distribution Volumetric Rate	\$/kWh	0.0150
Regulatory Asset Recovery	\$/kWh	0.0024
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0059
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0052
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	\$	30.37
Distribution Volumetric Rate	\$/kWh	0.0131
Regulatory Asset Recovery	\$/kWh	0.0013
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0054
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0047
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 999 kW

Service Charge	\$	199.04
Distribution Volumetric Rate	\$/kW	1.9371
Regulatory Asset Recovery	\$/kW	0.3046
Retail Transmission Rate – Network Service Rate	\$/kW	2.0339
Retail Transmission Rate – Network Service Rate – Interval metered	\$/kW	2.0997
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.7691
Retail Transmission Rate – Line and Transformation Connection Service Rate – Interval Metered	\$/kW	1.8263
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge	\$	0.25

General Service 1,000 to 4,999 kW

Service Charge	\$	3,161.10
Distribution Volumetric Rate	\$/kW	1.7264
Regulatory Asset Recovery	\$/kW	0.3263
Retail Transmission Rate – Network Service Rate – Interval metered	\$/kW	2.0997
Retail Transmission Rate – Line and Transformation Connection Service Rate – Interval Metered	\$/kW	1.8263
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

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Large Use

Service Charge	\$	14,801.28
Distribution Volumetric Rate	\$/kW	4.7337
Regulatory Asset Recovery	\$/kW	(0.5009)
Retail Transmission Rate – Network Service Rate	\$/kW	2.8156
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	2.4490
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)	\$	15.05
Distribution Volumetric Rate	\$/kWh	0.0140
Regulatory Asset Recovery	\$/kWh	0.0048
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0054
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0047
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge	\$	0.25

Sentinel Lighting

Service Charge (per connection)	\$	0.04
Distribution Volumetric Rate	\$/kW	0.6747
Regulatory Asset Recovery	\$/kW	0.6258
Retail Transmission Rate – Network Service Rate	\$/kW	0.4077
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	0.3546
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)	\$	0.31
Distribution Volumetric Rate	\$/kW	1.8976
Regulatory Asset Recovery	\$/kW	0.3637
Retail Transmission Rate – Network Service Rate	\$/kW	1.6968
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.4759
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		
Statement of account	\$	15.00
Pulling post dated cheques	\$	15.00
Duplicate invoices for previous billing	\$	15.00
Easement letter	\$	15.00
Account history	\$	15.00
Credit reference/credit check (plus credit agency costs)	\$	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

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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 at meter – during regular hours	\$	65.00
Disconnect/Reconnect at meter – after regular hours	\$	185.00
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 (\$/pole/year)	\$	22.35
Allowances		
Transformer Allowance for Ownership - per kW of billing demand/month	\$	(0.50)
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	1.0525
Total Loss Factor – Secondary Metered Customer > 5,000 kW	1.0145
Total Loss Factor – Primary Metered Customer < 5,000 kW	1.0420
Total Loss Factor – Primary Metered Customer > 5,000 kW	1.0045