

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
27th Floor, Suite 2701
Toronto ON M4P 1E4
Telephone: 416 481-1967
Facsimile: 416 440-7656

Commission de l'énergie de l'Ontario
C.P. 2319
2300, rue Yonge
27^e étage, bureau 2701
Toronto ON M4P 1E4
Téléphone : 416 481-1967
Télécopieur : 416 440-7656



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2008 Electricity Distribution Rates Background

Highlights:

- In 2006 the OEB developed a multi-year electricity distribution rate setting plan in which a limited number of utilities would be identified each year to have their rates set by way of a public cost of service proceeding in which the utility could apply for rates based on their cost to deliver electricity
- Any other utilities applying for rates that year would have their rates set by way of incentive regulation guidelines
- Cost of Service proceedings reflect an individual utility's cost to provide service to their consumers
- Incentive regulation rate reviews are formulaic in nature and provide a standard rate adjustment for inflation and productivity improvements
- 21 utilities are having their 2008 rates set by way of a cost of service proceeding
- 60 utilities are having their 2008 rates set by way of the Board's incentive regulation guidelines
- Most rate changes take effect May 1, 2008
- On average, distribution rates represent approximately 25% of bills

Background Electricity distribution rates vary from utility to utility and are reflected on the “Delivery” line of consumer bills. They are designed to cover the costs incurred by the utilities to provide electricity services to individual homes and businesses within their service territory. These rates include the costs to design, build and maintain overhead and underground distribution lines, poles, stations and local transformers, operate local systems, read meters, customer service, emergency response as well as the costs to deliver electricity from generating stations to local utilities along the high-voltage transmission system. Rates also include a regulated profit.

Distribution rates are set to recover the costs to deliver electricity, and reflect an individual utility’s cost of service. Factors that contribute to the varied rates among utilities include age and condition of assets, geographic terrain and distance, and population density. The proportion of residential to commercial and industrial consumers can also account for cost differences among utilities.

Distribution rates do not cover:

- The cost to generate electricity (the electricity commodity set by the Board under the Regulated Price Plan) reflected in the “Electricity” line of consumer’s electricity bills
- The Debt Retirement Charge (set by the Government of Ontario to pay down the stranded debt of Ontario Hydro)
- The Regulatory Charge (the costs to administer the wholesale electricity system and maintain the reliability of the provincial grid)

In 2008, distribution rates will be set using two different methodologies. Most utilities will have their rates set using incentive regulation guidelines which provide a standard rate adjustment that accounts for inflation and productivity improvements. Others will have their rates set by way of a cost of service proceeding, in which the utility applies for rates based on the costs it incurs to deliver electricity.

**2008
Process**

In 2008, 21 utilities are having their 2008 rates set by way of a cost of service proceeding. They are:

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| • Atikokan Hydro Inc. | • Guelph Hydro Electric Systems Inc. | • Norfolk Power Distribution Ltd. |
| • Barrie Hydro Distribution Inc. | • Horizon Utilities Corporation | • PUC Distribution Inc. |
| • Brantford Power Inc. | • Hydro One Networks Inc. | • Rideau St. Lawrence Distribution Inc. |
| • Chapleau Public Utilities Corporation | • Halton Hills Hydro Inc. | • Sioux Lookout Hydro Inc. |
| • Enersource Hydro Mississauga Inc. | • Hydro Ottawa Limited | • Toronto Hydro- Electric System Limited |
| • Erie Thames Powerlines Corp. | • Hydro 2000 Inc. | • Wellington North Power Inc. |
| • Espanola Regional Hydro Distribution | • Lakefront Utilities Inc. | |
| | • Oshawa PUC Networks Inc. | |

Sixty utilities are having their 2008 rates set using the Board's incentive regulation guidelines. They are:

- Bluewater Power Distribution Corporation
- Burlington Hydro Inc.
- Cambridge and North Dumfries Hydro Inc.
- Canadian Niagara Power Inc. - Eastern Ontario Power
- Canadian Niagara Power Inc.- Fort Erie
- Canadian Niagara Power Inc. -Port Colborne
- Centre Wellington Hydro Ltd.
- Chatham-Kent Hydro Inc.
- Clinton Power Corp.
- COLLUS Power Corp.
- Cooperative Hydro Embrun Inc.
- E.L.K. Energy Inc.
- ENWIN
- Essex Powerlines Corporation
- Festival Hydro Inc.
- Fort Frances Power Corporation
- Grand Valley Energy Inc.
- Greater Sudbury Hydro Inc.
- Grimsby Power Incorporated
- Haldimand County Hydro Inc.
- Hearst Power Distribution Company Limited
- Hydro Hawkesbury Inc.
- Hydro One Brampton Networks Inc.
- Innisfil Hydro Distribution Systems Limited
- Kenora Hydro Electric Corporation Ltd.
- Kingston Electricity Distribution Limited
- Kitchener-Wilmot Hydro Inc.
- Lakeland Power Distribution Ltd.
- London Hydro Inc.
- Middlesex Power Distribution Corporation
- Midland Power Utility Corporation
- Milton Hydro Distribution Inc.
- Newbury Power Inc.
- Niagara Falls Hydro Inc.
- Niagara-on-the-Lake Hydro Inc.
- North Bay Hydro Distribution Limited
- Northern Ontario Wires Inc.
- Oakville Hydro Electricity Distribution Inc.
- Orangeville Hydro Limited
- Orillia Power Distribution Corporation
- Ottawa River Power Corporation
- Parry Sound Power Corporation
- Peninsula West Utilities Limited
- Peterborough Dist. Inc. - Peterborough
- Peterborough Dist. Inc. - Lakefield
- Peterborough Dist. Inc. - Asphodel - Norwood
- Renfrew Hydro
- PowerStream Inc.
- St. Thomas Energy Inc.
- Thunder Bay Hydro Electricity Distribution Inc.
- Tillsonburg Hydro Inc.
- Veridian Connections Inc.
- Wasaga Distribution Inc.
- Waterloo North Hydro Inc.
- Welland Hydro-Electric System Corp.
- West Coast Huron Energy Inc.
- West Perth Power Inc.
- Westario Power Inc.
- Whitby Hydro Electric Corporation
- Woodstock Hydro Services Inc.

At this time six utilities have not filed applications for revised 2008 distribution rates. They are:

- Attawapiskat Power Corp.
- Brant County Power
- Fort Albany Power Corporation
- Dutton Hydro Limited
- Kashechewan Power Corporation
- Newmarket Hydro – Tay

The Board reviews each rate application independently.

The rate changes for utilities undergoing cost of service reviews reflect a number of factors including:

- Cost Allocation - The Board considered the revenue-to-cost ratios for each customer class. This addresses cross subsidization between customer classes so each customer class recovers in its specific rates, the costs that are incurred by that class so the rates fall within the Board's guideline ranges.
- Regulatory Assets (including deferral and variance accounts, and rate riders) - The Board reviewed the specific utility's regulatory asset recoveries to ensure any rate riders previously approved were still appropriate and if not, were adjusted to reflect the current state of the regulatory asset deferral and variance accounts.
- Retail Transmission Service Rates - The Board reviewed the utility's proposal for retail transmission service rates to ensure they reflect the reduction in the wholesale transmission rates charged to the utilities by Hydro One Networks, effective November 1, 2007.
- Cost of Capital and Capital Structure - The Board ensured the utility's cost of capital and capital structure was in accordance with the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario Electricity Distributors*. The Board also mandated that distributors use updated financial market statistics to set the cost of capital for the utility's revenue requirement in setting rates for 2008.
- The decrease in GST to 5% that took effect January 1, 2008 - Distribution utilities have already reduced the GST on customer bills from 6% to 5% as of January 1, 2008. Therefore this change did not affect the current applications for new distribution rates effective May 1, 2008.
- Tax Changes - The Board ensured that the utilities' income tax allowance included the most recent tax changes announced by the federal and provincial governments. These changes generally resulted in a lower tax provision reflected in the approved rates.

The rate changes for utilities undergoing incentive regulation reviews reflect a number of factors including:

- Gross Domestic Product Implicit Price Index (GDP-IPI) - The inflation factor used to calculate rates under the incentive regulation guidelines. The GDP-IPI is 2.1%
- Productivity factor – The productivity factor encourages utilities to find efficiencies in their operations. The Productivity factor is 1%.
- Retail Transmission Service Rates - The Board reviewed the utility's proposal for retail transmission service rates to ensure they reflect a reduction in the wholesale transmission rates charged to the utilities by Hydro One Networks, effective November 1, 2007.
- The treatment of smart meter activity.
- The decrease in GST to 5% that took effect January 1, 2008 - Distribution utilities have already reduced the GST on customer bills from 6% to 5% as of January 1, 2008. Therefore this change did not affect the current applications for new distribution rates effective May 1, 2008.
- Tax Changes - The Board ensured that the utilities' income tax allowance included the most recent tax changes announced by the federal and provincial governments. These changes generally resulted in a lower tax provision reflected in the approved rates.
- Rate Harmonization – the Board ensured that rate harmonization was reflected in applications where utilities had harmonized rates due to mergers and amalgamations.

Four utilities undergoing incentive regulation reviews who are authorized by

government regulation to undertake smart metering activities, also asked for incremental smart meter funding.

Bill Impacts

In mid-April, the Board will also announce the results of its review of the cost of electricity supply for consumers under the Regulated Price Plan (RPP), reflected in the “Electricity” line of the bill. The RPP price is paid by consumers who do not have a contract with a retailer for their electricity supply and is subject to review and adjustment, if necessary, twice a year. Any change to the RPP price will also take effect May 1, 2008 and will also affect total bill charges.

A table of the estimated bill impacts on residential consumers bills will be available once any potential adjustments to the RPP are determined and as specific rate orders for individual utilities are issued by the Board. This table will be published on the Board’s website www.oeb.gov.on.ca.

For More Information

Details on the 2008 Electricity Distribution rates are available via the Board’s Web site at www.oeb.gov.on.ca.

The Ontario Energy Board regulates the province’s electricity and natural gas sectors in the public interest. It envisions a viable and efficient energy sector with informed consumers served by responsive regulatory processes that are effective, fair and transparent in the public interest. It envisions a viable and efficient energy sector with informed consumers served by responsive regulatory processes that are effective, fair and transparent.

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For more information please contact:

Vanda Wall
Ontario Energy Board
(416) 440-8149