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February 9, 2011

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Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Attention: Kirsten Walli
Board Secretary

**Re: Haldimand County Hydro Inc. (EB-2010-0086)
2011 IRM3 Electricity Distribution Rate Application
Reply to Board Staff Submission**

Dear Ms. Walli:

Haldimand County Hydro Inc. filed an application with the Ontario Energy Board (the "Board") on October 29, 2010 seeking approval for changes to rates that Haldimand County Hydro may charge for electricity distribution to be effective May 1, 2011.

Pursuant to the *Notice of Application and Hearing for an Electricity Distribution Rate Change*, issued November 15, 2010, Board Staff filed written submissions on January 20, 2011. Haldimand County Hydro is required to file written responses by February 17, 2011.

Two hard copies of Haldimand County Hydro's Reply to the Board Staff Submission are now enclosed. An electronic copy in PDF format will be submitted through the Board's *Regulatory Electronic Submission System* ("RESS").

This Reply to the Board Staff Submission relating to the 2011 IRM3 Electricity Distribution Rate Application is respectfully submitted for the Board's consideration.

Yours truly,
HALDIMAND COUNTY HYDRO INC.

Original signed by

Jacqueline A. Scott
Finance Manager

cc: Intervenor's of record in previous cost of service rate application proceeding EB-2009-0265 (*Email only*)

IN THE MATTER OF the Ontario Energy Board Act, 1998, being Schedule B to the Energy Competition Act, 1998, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Haldimand County Hydro Inc. to the Ontario Energy Board for an Order or Orders approving or fixing just and reasonable rates and other service charges for the distribution of electricity as of May 1, 2011.

HALDIMAND COUNTY HYDRO INC.

REPLY SUBMISSION

FILED FEBRUARY 9, 2011

Introduction

Haldimand County Hydro Inc. (“HCHI”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”) on October 29, 2010, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for electricity distribution rates effective May 1, 2011. The Application was filed in accordance with the Board’s *Filing Requirements for Transmission and Distribution Applications*.

This document reviews the submission of Board staff and provides the reply submission of HCHI on the following matters:

- Retail Transmission Service Rates Adjustment;
- Review and Disposition of Deferral and Variance Account Balances;
- Tax Sharing Rate Rider;
- Adjustment to the Revenue-to-Cost Ratios; and
- Fixed/Variable Revenue Ratio Adjustment – Residential.

Retail Transmission Service Rates Adjustment

In the interrogatory phase (refer to response to Board staff interrogatory #4b) , Board staff identified data discrepancies in the data entered in the application model only in respect to HCHI's calculation of the proposed Retail Transmission Service Rates. Based on HCHI's understanding of the user instructions as provided for completion of the 2011 RTSR Adjustment Work Form applicable to Sheet B1.2., HCHI input the 2009 Board approved loss factors instead of using the 2010 Board approved loss factors. Accordingly, this original data was valid.

HCHI concurs with the Board staff submission and the treatment of this as an error to be corrected at the time of the Board's Decision, including updating any applicable data based on any updated Uniform Transmission Rates also available at that time.

Review and Disposition of Deferral and Variance Account Balances

HCHI requested disposition of its December 31, 2009 balances of Group 1 Deferral and Variance accounts, including interest projected to April 30, 2011 for a total credit of \$534,814. HCHI is proposing the total claim be disposed of over a one year rate period effective May 1, 2011.

In its submission, Board staff had no issues with HCHI's request. HCHI concurs with the Board staff submission.

Tax Sharing Rate Rider

HCHI proposed to transfer the 50% tax sharing credit of \$35,546 into account 1595 "Disposition and Recovery of Regulatory Balances", effective May 1, 2011, for disposition in a future rate application as the amount did not meet the materiality threshold to warrant a rate rider refund at this time.

In its submission, Board staff agreed with HCHI's approach. HCHI concurs with the Board staff submission.

Adjustments to the Revenue-to-Cost Ratios

The Board's EB-2009-0265 Decision directed the revenue-to-cost ratios for the Sentinel Lighting and Street Lighting rate classes move towards the bottom end of the policy range of 70% equally in one-half increments in the 2010 and 2011 rate years. The beneficiary of these revenue adjustments is the General Service 50 to 4,999 kW rate class – applied to the distribution volumetric rate component only; that is, the base service charge component remains at the current Board approved ceiling level.

Board staff's submits that the proposed revenue-to-cost ratio adjustments are in accordance with the Board's findings in its EB-2009-0265 Decision with respect to the upward ratio adjustment for the Sentinel Lighting and Street Lighting rate classes and downward ratio adjustment for the General Service 50 to 4,999 kW rate class.

Board staff notes that a downward ratio adjustment for the General Service 50 to 4,999 kW rate class can be achieved by lowering the base service charge from its current ceiling value and/or a lowering of the volumetric rate. Board staff further notes that HCHI's proposal to apply the additional revenue to only the volumetric component of the distribution rate of the General Service 50 to 4,999 kW rate class will alter the fixed/variable revenue ratio for this class.

In response to Board staff interrogatory #2a, HCHI indicated that it received prior approval from the Board to proceed in this fashion. Board staff invites HCHI to provide an excerpt of the Decision that supports this claim.

The following is extracted from HCHI's EB-2009-0265 Application:

- (Exhibit 1/Tab1/Schedule 5/Page 3 of 3) “...approval of HCHI's approach to cost allocation, and the associated proposed adjustments to rates in aligning the revenue to cost ratios, as identified in Exhibit 7 with specific adjustments to rates effective May 1, 2010, as set out in Exhibit 8 Tab 1 Schedule 1...”

- (Exhibit 1/Tab2/Schedule 1/Page 7 of 11) “...with regards to cost allocation and the monthly service charge, the G/S 50 to 4999 kW customer rate class current approved monthly service charge has been below the floor amount (avoided costs) as calculated in HCHI’s 2007 Cost Allocation Filing (EB-2007-0002) and in the Cost Allocation model updated for 2010. HCHI takes the opportunity with this cost of service rate application to move the G/S 50 to 4999 kW monthly service charge to the calculated ceiling amount generated from the updated 2010 Cost Allocation model...”
- (Exhibit 7/Tab 1/Schedule 3/Page 4 of 6) “...HCHI is proposing to move the G/S 50 to 4999 kW rate class to the ceiling of the monthly service charge as calculated in the 2010 cost allocation model...this rate class’ monthly service charge is well below the floor for the particular rate class...the bill impact will be minimal, if any, because this adjustment is being offset by the adjustment in the revenue to cost ratio for this rate class...”; and
- (Exhibit 8/Tab 1/Schedule 1/Page 7 of 14) “...HCHI is also proposing an adjustment to the fixed/variable splits in the G/S 50 to 4999 kW rate class...based on the results of the 2010 cost allocation model. As discussed in detail in Exhibit 7 – Cost Allocation at Tab 1, Schedule 3, HCHI proposes to move the G/S 50 to 4999 kW monthly service charge to the ceiling rate to ensure customer related costs are covered by the appropriate revenue mechanism...”

These specifically applied-for revenue-to-cost ratio and fixed/variable split adjustments with respect to the General Service 50 to 4,999 kW rate class were not contested by either Board staff or intervenors in the EB-2009-0265 Settlement Agreement. Accordingly, it is in the absence of any reference to these items in the Board’s EB-2009-0265 Decision that HCHI has literally interpreted their approval by the Board.

HCHI requests that the Board approve the revenue-to-cost ratio adjustments as originally filed in its EB-2009-0265 Application, plus the price cap adjustment, as proposed.

Fixed / Variable Revenue Ratio Adjustment – Residential

As proposed in the EB-2009-0265 Settlement Agreement, the Board approved the movement of the fixed / variable revenue ratio for the Residential rate class to occur equally in increments of 5% over each of the subsequent three rate years, resulting in a 47% fixed / 53 % variable ratio in 2013. For the 2011 rate year, the fixed component will increase to 37% from the existing 32% and the variable component will decrease to 63% from the existing 68%.

Board staff submitted that these fixed/variable revenue ratio adjustments are in accordance with the Board's findings in its EB-2009-0265 Decision. HCHI concurs with the Board staff submission.

All of which is respectively submitted this 9th day of February, 2011.