Ontario Energy Board

Commission de l'énergie de l'Ontario

Ontario

EB-2008-0246

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 Tillsonburg Hydro Inc. for an order approving or fixing just and reasonable rates and other charges for the distribution of electricity to be effective May 1, 2009.

BEFORE: Paul Vlahos
Presiding Member

Ken Quesnelle
Member

DECISION

July 10, 2009

Overview

Tillsonburg Hydro Inc. ("THI" or the "Applicant") is an electricity distributor serving the Town of Tillsonburg (the "Town"). In 2008, THI was serving approximately 5,900 Residential customers; 640 General Service customers under 50 kW (energy billed); 85 General Service customers above 50 kW (demand billed); 19 Unmetered Scattered Load customers; 80 Sentinel Lighting accounts; and 1 Street Lighting customer, the Town.

THI is an Ontario business corporation, 100% owned by the Town of Tillsonburg (Town). THI is a "virtual" utility. It has no employees and does not own all of the assets required to provide distribution service on a "stand alone" commercial basis. The Town makes several of its employees and many of its assets available to THI. In 2008 the Town provided 9.6 FTE technical employees dedicated to THI and 7.45 FTE employees to provide other aspects of service to THI and there are no proposed changes for 2009. The arrangement is governed by a Master Service Agreement (MSA) under which THI pays fixed charges that recover the Town's directly incurred costs (operating and capital) and a Management Fee that supports the recovery of indirectly incurred costs and contributes towards the recovery of the cost of capital. THI owns and is responsible for assets that are unique to the provision of electricity distribution services.

THI is an embedded distributor of Hydro One Network's distribution system, which supplies all of THI's electricity supplies.

THI's initial application was filed on August 22, 2008. A Notice of Application was issued on September 11, 2008. On October 24, 2008, THI advised the Board that it would be filing an update to its evidence to reflect changing demand and energy consumption forecasts as a result of prevailing economic conditions, as well as changes to transmission rates and Regulated Price Plan prices. On December 15, 2008, the Applicant filed its updated evidence (the "December update") with the Board and the intervenors of record. The Applicant stated that the December update:

- Reflected revisions to its 2009 capital budget and 2009 OM&A budget;
- Reflected its 2008 3rd quarter financial results and revised 4th quarter projection;
- Reflected changes to the load forecast for 2008 and 2009;
- Reflected the impact of the OEB's recently announced changes to Regulated Price Plan prices and to Uniform Transmission Rates;

- Incorporated better estimates of coincident peak and non-coincident peak data that result in more accurate revenue to cost ratios;
- Reflected the findings of the independent third party review of its CDM program results; and
- Corrected errors in its August 22nd filing.

As a result of the updated material, a Notice of Revised Application was issued on January 12, 2009.

Further updates were filed by THI on April 15, 2009 (the "April filing").

The intervenors of record for this application are: the Association of Major Power Consumers in Ontario ("AMPCO"), Energy Probe Research Foundation ("Energy Probe"), the School Energy Coalition ("SEC"), the Vulnerable Energy Consumers Coalition ("VECC") and Ms. K. Englander, a resident of Tillsonburg. AMPCO and Ms. Englander did not participate in the review of the application.

The Board heard the application by way of a written hearing. THI responded to a number of interrogatories (in two rounds) by Board staff, VECC, Energy Probe and SEC. THI filed Argument-In-Chief (AIC) and arguments and submissions were filed by the intervenors and Board staff. THI filed reply argument.

In its initial application, THI requested that the Board order its current rates effective May 1, 2009 on an interim basis if the Board had not authorized final rates on or before that date. On April 13, 2009 the Board received a request from THI and on April 15, 2009 supporting rationale relating to that request that the Board declare the rates, as proposed in the evidence, interim effective May 1, 2009. The Board indicated in its Interim Rate Order and Procedural Order No. 3 on April 24, 2009 that it would not be able to conclude its review of the application in order to set rates to be implemented May 1, 2009 and that it would not approve THI's request for the proposed rates to be declared interim. However, pending the issuance of final rates for 2009, the Board declared the current rates interim, effective May 1, 2009. In declaring the current rates interim, the Board emphasized that this interim rate order should not be construed as predictive, in any way whatsoever, of the final determination of this application with regards to the effective date.

The Application

Based on the December update and the April filing material, the Applicant sought approval to:

- Raise rates to overcome a revenue deficiency of $817,590, based on the existing rates, resulting in a revenue requirement of $3,346,017;
- Eliminate the current General Service 500 – 5,000 kW class and to re-classify the customers in that class to either a new General Service 500 – 1,499 kW class or a new General Service 1,500 – 5,000 kW class;
- Eliminate the current Sentinel Lighting class and to re-classify the existing customers in that class to the Unmetered Scattered Load (USL) class;
- Implement rate riders that recover the balances recorded in certain variance and deferral accounts as of December 31, 2007 and the associated carrying charges as of April 30, 2009 and to recover THI's Lost Revenue Adjustment Mechanism (LRAM) and Shared Savings Mechanism (SSM) awards;
- Increase the Smart Meter funding adder, currently approved at $0.26 per month per metered customer, to $1.00 per metered customer per month;
- Revise distribution loss factors;
- Approval of a Standby Service rate; and
- Make rates effective May 1, 2009.

Based on the December update evidence, THI provided the following table showing the estimated percentage change in total bills for average customers within each class:

Percentage Change in Total Bills

	December 15th Update
Residential @ 1,000 kWh/month	6.76%
GS < 50 kW @ 2,000 kWh/month	13.32%
GS 50-499 kW @ 125 kW/42,500 kWh/month	11.39%
GS 500-1,499 kW @ 1,000 kW/450,000 kWh/month	9.74%
GS ≥ 1,500 kW @ 2,500 kW/1,000,000 kWh/month	13.42%
USL @ 2,225 kWh/month	-2.68%
Street Lighting @ 320 kW/110,850 kWh/month	-4.51%

The full record of the procceding is available at the Board's offices. The Board has summarized the record in this Decision only to the extent necessary to provide context for its findings.

The Board wishes to point out that the evidence was unclear in several respects, including the final relief being requested for specific items that were raised as issues by the parties. This was the result of several updates from the time of filing and lack of clear presentation of the final proposed amounts. The Board aknowledges the confusion expressed by Board staff and intervenors. Rather than delaying the completion of this proceeding, the Board relies on values that it it believes reflect the final relief sought on the specific items. In cases where the record was particularly unclear, rather than delay the completion of this proceeding the Board defers matters to a subsequent IRM based application as the venue to deal with more substantial outstanding issues.

RATE BASE

THI proposed a 2009 rate base of $8,713,761, which includes proposed capital expenditures of $677,602 (net of contributions ($58,910) and excluding expenditures for smart meters) and a working capital allowance of $2,471,140.

The Board deals below with the following matters:

- 2009 Capital Expenditures
- Working Capital Allowance

2009 Capital Expenditures

THI's proposed $677,602 in capital expenditures consist of $169,866 related to customer additions and $507,736 to its Voltage Conversion program.

VECC, Energy Probe and Board staff stated that they take no issue with the proposed amounts for 2009. SEC did not comment.

Board Findings

The Board finds that the proposed capital expenditure amount of $677,602 (net of contributions and excluding expenditures for smart meters) is well supported by the evidence and approves it for ratemaking purposes.

Working Capital Allowance

THI's proposed working capital allowance is $2,471,140 is based on 15% of the sum of the commodity cost of power and applicable transmission charges, and controllable OM&A expenses. The commodity cost of power and transmission charges were those applicable at the time THI made its application.

Parties commented on the need to update the working capital allowance to reflect any adjustments made by the Board and the updated Regulated Price Plan prices.

Energy Probe noted that it does not support the methodology used by THI to calculate the commodity component of the cost of power. THI has used a single rate per kWh regardless of whether the customer is an RPP or non-RPP customer and that this is not appropriate. It is Energy Probe's understanding that beginning May of 2009, the MUSH sector will no longer be eligible for the RPP. This means that the vast majority of the volumes consumed by customers of THI will be non-RPP volumes. Given the potential difference between RPP and non-RPP prices, this could have a significant impact on the cost of power component of the working capital allowance component of rate base. Energy Probe submitted that the Board should direct THI to provide this breakdown of cost of power expenses as part of its next rebasing application.

VECC submitted that while the 15% rule has been useful as a rule of thumb in obviating the production of a lead-lag study in prior proceedings as well as the current one, the resulting allowance for working capital may not be a fair approximation of the utility's actual working capital requirements. VECC asked that the Board consider requiring THI to provide a lead-lag study in support of its proposed working capital allowance when it submits a rebasing application in 2012, unless THI can show that the costs of such an exercise are likely to outweigh the benefits.

THI acknowledged that the working capital allowance will need to be updated but did not respond to the other submissions by Energy Probe and VECC.

Board Findings

The Board directs THI to update the Working Capital Allowance to reflect any changes in controllable expenses of load forecasts as directed in this Decision, as well as to reflect the most current estimate of the RPP commodity price of $0.06072/kWh, from the Board RPP Report of April 15, 2009, as well as updates to reflect current retail transmission prices. The Board directs THI to submit with the draft rate order an updated Exhibit 2, Tab 4, Schedules 1 and 2 as support for the working capital allowance recalculation. THI should identify the commodity, RTS, Wholesale Market Service Charge and other applicable rates used in the Cost of Power update.

The Board will not direct THI to undertake a lead/lag study at this time. It might not be the most cost effective way for testing the reasonableness of the current default provision for working capital, which is used by all, except two, electricity distributors.

With respect to Energy Probe's submission on the impact of the changes to the MUSH sector, the Board notes that RPP eligibility for this sector has been extended by government regulation to November 2009. Further, this is an issue that affects all distributors and that the matter should be best dealt with more generically.

OPERATING REVENUE

THI's estimate of the revenue 2009 revenue requirement is based on its load forecast and its forecast of revenue from other sources, the latter being an offset to the revenue that needs to be generated from basic distribution rates.

The Board deals below with the following matters:

- Load Forecast
- Other Distribution Revenue

Load Forecast

THI retained Elenchus Research Associates Inc. (ERA) to prepare a load forecast for the 2008 bridge and the 2009 test years.

ERA reviewed THI's charge parameter data for the period 2003-2007. The data was normalized for, among other things, changes to customer classes. ERA concluded that the loads of the GS 500 - 4,999 kW, Street Lighting, Sentinel Lighting and Unmetered Scattered Load customer classes were not weather sensitive and that the loads for all other classes of customers were determined to be weather sensitive.

ERA parameterized THI's normal weather scenario using the 10 most recent years of Heating and Cooling Degree Days (HDD and CDD) observations recorded at Hamilton International Airport. ERA concluded that THI will experience 3,779 HDDs and 300 CDDs in a weather-normal year.

In its application, THI adopted a 2 step approach to revenue forecasting. It first used econometric techniques to forecast its charge parameters and then it adjusted the economic forecast for anticipated exogenous factors; specifically Conservation and Demand Management, embedded generation and economic conditions.

Declining Employment

In its submission, VECC stated:

> "With respect to the forecasts for the various GS classes, VECC is concerned that by using an economic outlook that calls for declining employment post-2007,

> THI has already captured some of the impact attributable to the closure of Synrecon and the idling of DDM."

VECC submitted that by adjusting its projected demand for the GS classes for the full impact of these events, THI is double counting at least a portion of the impact of these two events.

In response, THI argued that this was not the case and pointed out that its load forecasting equation was originally prepared in August 2008 prior to the economic downturn. THI submitted that, given the current economic situation, the original assumption that THI's service area employment forecast would be one of "no-growth" is now considered overly optimistic and therefore the forecast is higher than it would be if it were predicated on the current economic outlook.

Customer Count

VECC expressed concern that the equation for forecasted total billed kWh did not include customer count. VECC stated that, in its view, it is important that there be some connection between the forecast of total load and the forecasted customer count.

THI responded that it had cited in an interrogatory response the statistical problems and counterintuitive results that including customer count in the model could produce. THI submitted that the accuracy of the model had been endorsed by Board staff and that the accuracy was more important and relevant than preconceived notions about what the exogenous variables of the model should be.

CDM

VECC indicated two specific issues with THI's CDM adjustment; i.e.:

a) that some degree of double counting had occurred in THI's CDM adjustment due to the inclusion of a growing trend in CDM activity that will capture effects over and above the 2007 programs, and
b) that the CDM reduction based the OPA forecast should apply only to summer peak demand and not to average monthly demands.

VECC recommended that the CDM adjustment for demand billed customers be reduced from 2.62% to 1.6%.

THI responded that its 2007 load data reflects observed CDM in that period and not the effects of any changed and increased CDM achievements and therefore there is no double counting. THI agreed with VECC's assertion that half of the OPA's peak reduction programs are focused on summer peak. THI noted that its customers can be expected to seek all economic CDM, that half of the peak savings are expected to be achieved through ongoing CDM initiatives and that the OPA data relied on to estimate the impact of CDM is the average achievement forecast for southwestern Ontario.

System Losses

Board staff raised the issue as to how the Applicant accounted for system losses in converting from wholesale purchased load to billed load. It seemed to Board staff that all the system losses were assumed to be associated with the weather-sensitive classes and no losses were associated with the remaining classes. Board staff invited THI to clarify how it handled system losses in the conversion process and to explain why it chose this specific method. Board staff also stated it would be useful to include an estimate of the maximum error that may have been introduced as a result of the method used in the application.

Energy Probe also expressed a concern that the historical data used to estimate the single econometric equation included not only the volumes consumed by three specific classes, but also the losses associated with all rate classes. Energy Probe based its assertion on the IR response at Exhibit 10, Tab 2, Schedule 3.

THI responded that Board staff had misinterpreted its approach. It stated:

> "… [THI] has not allocated any losses to any distribution rate class in its load forecast – to do so would materially harm the LDC as it would inflate the class throughput to a level that is not recoverable through meter readings that, by definition, are "exclusive of losses" as is shown at E3/T2/S1/AttA/p.10, dated November 4 2008. All distribution billing data used in THI's load forecast to apportion the weather sensitive load to specific classes is as measured at the distribution meter and is exclusive of distribution losses."

THI did not respond directly to Energy Probe's assertion.

Clarification of Forecast Evidence

Board staff, Energy Probe and VECC all noted that, in the responses to the supplemental interrogatories, the Applicant provided two different updated forecasts - 181.7 GWh and 179.6 GWh. Board staff noted that, in both cases, no details were provided regarding the updates. Also, while the Applicant subsequently filed, in confidence, supplementary information regarding one of the forecasts, Board staff stated it was unclear which forecast was applicable; moreover, no details or rationale were provided that would permit the Board to conclude the new forecast to be reasonable or otherwise. On the understanding that no new evidence could be introduced in its Reply Argument, Board staff invited THI to assist the Board by providing a more complete explanation.

THI replied that the inconsistency of the forecasts was due to the omission of the reclassification of a customer to the GS 50 - 499 kW customer class. THI confirmed that its proposed 2009 forecast is 181.7 GWh.

Use of a Common Econometric Equation

Energy Probe expressed concern that THI used a common econometric equation to forecast the weather-sensitive load for a number of classes. Energy Probe's main concern with this approach was that this implied that each of the three weather-sensitive rate classes was equally impacted by changes in degree days and economic variables. Energy Probe submitted that this would most likely not be the case. VECC expressed similar reservations regarding the step in THI's load forecast methodology where the weather adjustment factor was assumed to be the same for both the Residential and GS<50 classes. However, VECC acknowledged that given the limited data THI had to work with, there may be no better approach for now.

Energy Probe submitted that in future rate rebasing applications, THI should develop separate equations for each of the weather-sensitive classes.

THI responded that it has acknowledged that class-specific forecasts would be more desirable but data availability precluded this type of analysis. THI argued that until such time as more accurate consumption data from smart meters are available, the current method is appropriate.

Forecast Adjustments

Energy Probe submitted that a number of adjustments should be made to the forecast as filed and updated. Specifically:

a) THI should update the kW forecast for 2009 for the GS 500 – 4999 kW class to reflect the most recent kW/kWh information available, and
b) for street lighting, USL and sentinel lighting, the forecast should be updated to reflect the most recent actual data available.

THI responded that its kW forecast is based on the kW/kWh ratio for 2006 because anomalous events related to large customer activities in 2007 and 2008 render those years inappropriate for rate making purposes. THI did not respond to the Energy Probe's submission that the forecast should be updated to reflect the most current data for street lighting, USL and sentinel lighting.

Board Findings

For the reasons set below, the Board accepts the proposed load forecast for purposes of setting 2009 rates.

Declining Employment

The Board does not consider THI's response to VECC's concern that it has double counted the effects of declining employment to be fully responsive. It may be the case that the economy has weakened since the application was originally framed and the original projection may now be viewed as optimistic but that observation in and of itself does not refute VECC's double counting assertion. However, in the context of this application the Board accepts THI's assertion that its original projection is likely higher than one that would be supported by the new economic outlook and will not require any response to VECC's concern.

Customer Count

The Board accepts THI's argument that it is preferable to have a model that is demonstrably more accurate than one that includes inputs based on intuition. The Board notes that the analysis based on including the customer count data in the model that purported a degradation of the accuracy of the model was not challenged.

CDM

The Board accepts the submissions of the applicant and will not require it to adjust its CDM impacts by the amounts suggested by VECC.

System Losses

In the matter related to the treatment of losses, based on the applicant's reply submissions, the Board is satisfied that the concerns expressed by Board Staff and Energy Probe are based on false assumptions. In some instances the record was not as clear as it could have been. In particular, the IR response that Energy Probe cited in its submissions lacks sufficient clarity and appears to have misled Energy Probe. On the other hand, the Board notes that THI provided an explicit response to Board staff IR # 14 that the system losses are not included in the share percentage values.

Clarification of Forecast Evidence

The Board accepts THI's explanation of the apparent inconsistency of the evidence related to the forecasted load was due to the omission of the reclassification of a customer to the GS 50 - 499 kW customer class.

Use of a Common Econometric Equation

The Board accepts THI's argument in response to Energy Probes concern regarding the use of one econometric equation to forecast the weather-sensitive load for a number of classes. The Board expects that the forecast modeling inputs will evolve commensurate with the availability of more granular data.

Forecast Adjustments

In consideration of the suggested adjustments submitted by Energy Probe, and in part, agreed to by VECC, the Board agrees with THI's argument that the use of data that reflects known anomalous events would be inappropriate. The Board accepts the use of the 2006 ratio as the basis for the projected 2009 kW. The Board will not direct the updating of data related to the selected classes requested by Energy Probe. The Board does not consider the potential impacts of the update to be sufficient to warrant the exercise suggested. Also, this would be a selective update and it may not be directionally in line with an overall update, therefore producing a specious outcome.

Other Distribution Revenue

In its April filing in Attachment B.2, THI has reduced the revenue offset from a level of $128,433 in the December filing to $106,433 to reflect a reduction in interest income that has resulted from lower interest rates in 2009.

Energy Probe submitted that THI has failed to correct the original forecast level of $128,443 to reflect the omission of some miscellaneous revenues totaling $24,300.

In its Reply Argument, THI acknowledged that it has not made that adjustment and that it would be appropriate to do so, resulting in an amount of $130,703.

Board Findings

The Board directs THI to revise in the draft rate order the revenue offset to $130,703, consisting of $124,703 in other regulated rates and charges and $6,000 in interest income.

OPERATING COSTS

The Board deals below with the following issues:

- Operation, Maintenance and Administrative (OM&A) Expenses
- Loss Adjustment Factors
- Payments in Lieu of Taxes (PILs)
- Smart Meter Funding Adder

Operation, Maintenance and Administrative, (OM&A) Expenses

The following table shows the proposed OM&A expenses and compares them with prior years.

Tillsonburg Hydro Inc.

Line		Col. 1 2006 Board Approved	Col. 2 Variance 2006/2006	Col. 3 2006 Actual	Col. 4 Variance 2007/2006	Col. 5 2007 Actual	Col. 6 Variance 2008/2007	Col. 7 2008 Bridge	Col. 8 Variance 2009/2008	Col. 9 2009 Test	Col. 11 Variance 2009/2006
1	Operation	403,209	256,119	659,328	-42,696	616,632	-3,247	613,385	269,907	883,292	223,964
2			63.5%		-6.5%		-0.5%		44.0%		34.0%
3	Maintenance	145,599	36,753	182,352	-2,844	179,508	-16,753	162,755	23,337	186,092	3,740
4			25.2%		-1.6%		-9.3%		14.3%		2.1%
5	Billing & Collections	327,045	50,438	377,483	17,285	394,768	31,340	426,108	117,339	543,447	165,964
6			15.4%		4.6%		7.9%		27.5%		44.0%
7	Community Relations	0	25,863	25,863	-19,405	6,458	-6,458	0	0	0	-25,863
8					-75.0%		-100.0%				-100.0%
9	Administrative and General Expenses	466,193	-89,873	376,320	46,584	422,904	1,815	424,719	86,475	511,194	134,874
10			-19.3%		12.4%		0.4%		20.4%		35.8%
11	**Total OM&A Expenses**	**1,342,046**	**279,300**	**1,621,346**	**-1,076**	**1,620,270**	**6,697**	**1,626,967**	**497,058**	**2,124,025**	**502,679**
12			20.81%		-0.07%		0.41%		30.55%		31.00%

General - Economic Conditions

Intervenors expressed concern about the substantial overall rate of increase in OM&A expenses from 2008 compared to the relatively flat levels in the recent past. It was noted that in the current economic situation, in which THI is losing a number of large customers, there is even more onus on THI to control its spending. Energy Probe suggested an envelope approach where 2009 OM&A costs should be approved at a level approximately $260,000 lower than forecast by THI.

Board Findings

As the Board has noted in recent decisions, prevailing economic conditions are not determinative of the appropriate costs for a utility. Rather, they serve to heighten the Board's scrutiny of the proposed costs and if necessary to employ appropriate rate smoothing tools. The Board will not make findings based on an envelope approach in this case as there is sufficient evidence for the Board to assess the reasonableness of the amounts proposed in specific areas that were raised by intervenors and Board staff.

The Board deals below with the following OM&A issues:

- Management Fee
- Labour Costs
- Number of Directors.
- Paper and postage costs
- The New CIS
- Regulatory Costs

Where the Board makes findings and adjustments to the costs proposed, these are for purposes of setting 2009 rates. The decisions whether to proceed with THI's specific plans are left to THI.

Management Fee

The issue of the management fee was raised by intervenors and Board staff in a number of specific items, and the Board deals with this issue first, so as not to repeat the arguments in each case.

The MSA provides the means for the Town to collect a 5% management fee. The fee contributes to the recovery of:

- indirect costs;
- the return on and of Town capital made available to THI; and,
- unidentified direct costs

Board staff stated that it has little concern about the fee level but it does have a concern about using a percentage fee instead of a flat fee. By levying 5% on everything, untoward windfalls arise. Board staff also submitted that it would be more appropriate to have a flat charge (of $145,000).

VECC submitted that it is not appropriate to collect a margin for simply paying bills related to third-party flow-through costs such as regulatory costs, the cost of retaining consultants (for which there are no associated utility or shareholder overhead costs to be borne), and taxes. VECC submitted that the 5% fee should only be levied on items such as internal labour provided by the shareholder when required to recover an appropriate share of overhead costs from the utility. VECC argued that a 5% margin is too high.

Energy Probe objected to the mark up being applied to flow through costs from third party supplies, such as property taxes, natural gas costs, insurance costs, contracted vegetation management costs, intervenor costs, OEB costs, consulting costs, audit costs, and legal costs. Energy Probe noted that it does not have the information to determine what the impact of the elimination of the management fee on the pass through of these third party costs is, and submitted that the Board should direct THI to provide the relevant figure included in the 2009 OM&A forecast.

THI responded to the issues raised by intervenors and Board staff and submitted that: there is no double counting; it would not be appropriate to replace the percentage fee with a fixed fee; applying the management fee to all third party costs is appropriate because it captures the level of the Town's activity on behalf of THI; and not applying the fee to third party costs will result in THI being subsidized by the Town.

THI stated that a cost study would help in documenting costs and demonstrating the appropriateness of the management fee, but it does not currently have the in-house expertise to complete such a study and would in all likelihood require external resources to complete this work. Should the Board order THI to conduct a cost study, it would seek to record the costs of that study in the appropriate deferral account and seek disposition of the balance in a future proceeding.

Board Findings

As THI is a "virtual" utility obtaining all of its services from the Town and its OM&A expenses are determined by the general and specific provisions in the MSA, a considerable degree of effort by Board staff and intervenors went to this issue. While THI's responses to the concerns raised were comprehensive, the Board shares some of the concerns raised by the parties.

The Board is prepared to accept the cost consequences of the management fee flowing from the current structure of the MSA for purposes of setting 2009 rates. However, the Board expects THI to cause a review of the provisions in the current MSA with respect to the mark up provision for goods and services supplied by third parties for the exclusive use by THI and the appropriateness of the current 5% fee level. The review should either involve, or at a minimum include an opinion by, a reputable third party on such matters. THI should file this evidence at the time of its next rebasing application. While the Board will not authorize the establishment of a deferral account, at the time of rate rebasing THI may request recovery of the prudently spent amounts regarding this initiative.

The Board notes that the current Master Service Agreement terminates June 30, 2009. The Board also notes that the application of a management fee on capital goods, such as the WAN equipment for smart meters and the new CIS has raised concerns by Board staff and intervenors about the appropriateness of including the mark-up in rate base. The Board expects that when THI rebases in 2013 or seeks recovery of smart meter costs earlier than that date, THI will be prepared to justify any mark-up costs. In other words, the reasonableness of including a management fee for third party costs on capital goods included in 2009 rate base, remains an open issue.

The Board notes that the reductions made by the Board on certain items throughout this decision may also reflect associated reductions in the application of the 5% management on those items, as appropriate.

Labour costs

THI's proposed 2009 budget included hiring two apprentice Linesmen and an Operations Regulatory Affairs Manager ("ORA Manager"). At the time the proceeding record was completed, the two apprentices had been hired, the ORA Manager had not.

The cost of living adjustment was estimated at $27,000 based on an assumed consumer price index increase of 2.0%.

With respect to the hiring of two apprentices, THI submitted that it is taking prudent and appropriate steps to prepare for retirements that are anticipated but will commence on dates that THI cannot predict. The ORA Manager is required so that THI has access to adequate regulatory expertise and to lessen the demands on the Finance Regulatory Affairs Manager ("FRA Manager").

Board staff noted that THI does not know how long there will be a doubling up of the existing Linesmen and the new hires and that THI acknowledged that it did not expect the ORA Manager to provide relief from the costs of the FRA Manager allocated to THI for 2009 as the ORA Manager will require development into the position. Board staff submitted that without knowledge of retirement dates, the hiring of apprentice Linesmen might be premature. The doubling up of costs would be in rates for the next four years. Board staff made the same point with regard to the FRA Manager costs allocated to THI.

SEC agreed with Board Staff's submissions regarding the appropriateness of the new hires. In addition, SEC pointed out THI was unable to estimate when the ORA Manager position will be filled and under the circumstances it is inappropriate to include the cost of the position in THI's cost of service.

With respect to the hiring of two apprentices, VECC stated that it accepts the necessity for succession planning, but THI should be required to establish that the hiring of two apprentices now – leading to a surplus of 2 FTEs in the base year – was economical as compared with alternatives such as (i) waiting for the first vacancy to come closer to being realized and hiring an experienced linesman at that time, and repeating when a second vacancy becomes imminent, or (ii) hiring one apprentice now and prepare to hire an experienced linesman when necessary. VECC noted that should an existing linesman (or two) retire during the IRM period, THI will realize gains by loading the base year rates with excess costs that are not expected to persist.

Energy Probe submitted that THI has not provided sufficient evidence to support the inclusion of the ORA Manager position. Energy Probe submitted that since the 2009 rate rebasing has taken place, there will be a decrease in the regulatory burden associated with rate applications for the next three years. Energy Probe submitted that THI has failed to justify the need for this position, especially since it is burdened with 73% of the costs of the FRA Manager. Energy Probe further submitted that, even if the Board determines that the position is required, THI has not reduced the costs associated with the current FRA Manager position.

With respect to the cost of living adjustment increase Energy Probe submitted that, in light of the current economic conditions, the CPI increase should be lowered to 1% noting that this level is still at the high end of current forecasts for 2009. Energy Probe noted that the most recent data from Statistics Canada which is for the month of April 2009 indicates that the inflation rate over the same period in 2008 had fallen to 0.4%. A reduction in the CPI forecast to 1.0% would reduce the increase by $13,500.

In its Reply Argument, THI indicated that the Town has recently authorized a 1.5% cost of living adjustment, and that THI is prepared to reduce labour costs by $6,750 in this regard.

THI reiterated the rationale for having hired the two apprentices now and the need to fill the ORA Manager position. THI submitted that the recruitment of two apprentices was required to provide for appropriate succession planning. THI noted that it is unable to forecast retirement dates since these are decisions beyond its control but it must nevertheless be appropriately considered. THI undertook to advise the Board as retirement dates are made known to it.

With respect to the planned ORA Manager position, THI noted that, despite the availability of the FRA Manager, there are a number of unaddressed regulatory related initiatives. THI submitted that the FRA Manager and the ORA Manager are not substitutable positions, that there are no overlapping duties and that recruiting the ORA Manager (or procuring appropriate consulting services) will not either eliminate or diminish its need for the FRA Manager.

Board Findings

The Board accepts the reduction of $6,750 associated with the lower cost of living adjustment than assumed in THI's initial filing.

With regard to the two apprentices, the Board does not question the need for THI to engage in succession planning. The issue for the Board is what should be the appropriate costs to be included in 2009 rates. If there will be no retirements soon, ratepayers will be paying for the services of four individuals when two are required for the work required. If the retirements do not happen in 2009 and they happen much later, ratepayers will still be burdened with the costs of four individuals until that time. In either case, the shareholder will benefit at the expense of the ratepayer. These issues arise from the expectation that the 2009 rates will be set until rebasing in four years. The Board notes THI's suggestion to report to the Board of developments. Any action that the Board will need to take as a result of that reporting will have to involve a proceeding. The Board does not find this to be an efficient way to proceed in this case, especially for such routine matters as labour additions. This would not be consistent with the Board's regulatory construct where proceedings other the mechanistic IRM process can be avoided. Given the 4 year term of the IRM plan and the risk that rates may turn out to be inflated on account of the number of Linesmen on payroll, and to offset the potential benefit accruing to the shareholder, the Board finds it is reasonable to reflect in rates half the costs of the two apprentice Linesmen for purposes of setting 2009 rates. The labour budget will therefore be reduced by $60,000 for purposes of setting 2009 rates in this regard.

With respect to the ORA Manager position, the Board does not find that the additional costs are justifiable for a number of reasons.

First, cost of service proceedings occur every four years under the Board's current IRM regime. Acquiring the expertise internally for that periodic need is highly questionable, particularly for a distributor the size of THI.

Second, THI's "unaddressed regulatory activities" argument is not convincing. Already 73% of the time of the FRA Manager is allocated for regulatory matters. This is more than adequate to deal with annual IRM process, which is highly mechanistic.

Third, it is not expected that THI, primarily because of its size, will be involved wholly or substantially or on its own in the various Board initiatives which may occur over the next few years.

Fourth, the costs of both positions would equal close to 10% of the total OM&A expenses being requested by THI. This is an excessive level.

The Board finds that the 73% allocation of the FRA Manager is adequate to reasonably satisfy THI's regulatory requirements with the occasional use of outside expertise for cost of service proceedings. The proposed labour budget shall therefore be reduced by $102,000 in this regard for purposes of setting 2009 rates.

Number of Directors

THI's budget includes $83,000 for 9 members on its Board. The number increased from 7 to 9 in 2007. THI's rationale for the increase is to comply with the Affiliate Relationships Code ("ARC"), which requires that at least one third of the members be independent from any affiliate.

Board staff submitted that a nine-member board is a heavy burden for a company having a rate base of $9 million and 19 FTE's.

Energy Probe noted that the composition of the board of directors prior to the increase in membership was 4 affiliated members and 3 independent members. THI was already in compliance with the ARC requirement. Energy Probe argued that it is not reasonable for a utility the size of THI to have such a large board. Energy Probe referred to the EB-2007-0928 Decision dated October 27, 2008 for Erie Thames Powerlines Corporation ("ETPC"), where the Board dealt with a similar issue. ETPC had increased the number of members of its board from 7 to 11. In its Decision, the Board concluded that a utility the size of ETPC (14,000 customers) did not require such a large board and denied the additional costs for the larger board. Energy Probe submitted that THI has not justified the 2 member increase and that the Board should disallow $18,400 ($83,000 x 2/9).

THI responded that ETPC's application was to include costs of 11 members from 7. THI's board has 9 members. THI stated that the need for good governance is independent of the number of customers served, the size of the rate base or the workforce complement. THI submitted that the costs incurred are not inappropriately high.

Board Findings

The Board finds that THI has not demonstrated satisfactorily that its board needed to be increased from 7 to 9. The Board is not persuaded that the complexity of THI as a business has increased to the degree suggested, or increased at all, to require an expanded board. The provisions in the ARC regarding independence could continue to be met with a 7 member board. The OM&A budget shall be reduced by $18,400 in this regard for ratemaking purposes.

Paper and Postage Costs

THI included in its 2009 budget $30,000 for paper and postage costs. THI stated that up to and including 2008, it was not charged by the Town for the paper and postage used to operate the utility but the situation has now changed.

Board staff referred to the MSA between the Town and THI and argued that these costs are part of the $152,657 fee paid by THI to the Town.

In Reply Argument, THI stated the following:

> "Board staff submitted that this cost was addressed in the MSA and that authorizing recovery through rates would result in double recovery. The MSA does identify that Paper and Postage costs are recoverable from THI. The legitimacy of this distribution service is not in question. The issue, however, is that the costs associated with this line item have not been recovered in prior years. THI submits that this cost is incurred to provide distribution service and is therefore eligible for recovery through rates. If the Board does not authorize recovery through rates taxpayers will inappropriately subsidize THI.
>
> THI further notes that in previous periods, the costs of paper and postage – being an unidentified cost – would have qualified for recovery through the MF. THI submits that the identification and recovery of Paper and Postage costs on a line item basis reduces the amount of unidentified direct costs but not sufficiently to warrant a reduction in the MF. THI points out that although the MF is expected to be lower than the sum of the Town's indirect costs and capital costs there is still sufficient expectation of unrecorded or unidentified costs that a reduction in the MF is not justified."

Board Findings

The Board did not find THI's explanation clear and of assistance. It is not clear to the Board whether or not the $30,000 is embedded in the $152,657 fee for 2009.

Rather than further delaying this proceeding to obtain clear evidence, the Board will not allow this expense for purposes of setting 2009 rates. THI may wish to bring clear evidence on this issue as part of its 2010 IRM application. No deferral account is necessary in this regard. At the time of the filing of the evidence THI may request recovery of the disallowed amount.

The New Customer Information System (CIS)

Included in THI's budget are certain costs for replacing the existing CIS with a new CIS as the existing system will no longer be supported by its vendor. The assets will not be in rate base, as they will be owned by the Town. The costs charged by the Town include recovery of the total capital costs of the new CIS. The Town will charge the total costs to THI over a 4-year period (amended from 3 years originally proposed) and will allocate 71.7% of the ongoing support costs to THI on the rationale that although the same number of bills are issued for electricity as for water/sewer, the higher allocation to electricity reflects the additional complexity in calculation the electricity bill.

Board staff and intervenors raised the following concerns:

- it is not reasonable to charge the full capital costs to THI, and
- the amortization period should be increased to 5 years

Board staff noted that it is a generally accepted regulatory practice that customers share the costs of facilities over their useful life and that there are no free riders. Good costing should be able to identify incremental costs associated with the increased functionality for smart meters, and all users of the system would receive the average capital costs for the aspect not associated with smart meters. The incremental costs for smart meters would appropriately be allocated to THI. Board staff submitted that to charge the entire capital cost of the CIS system to THI is inappropriate.

SEC argued that THI's position is contrary to established regulatory policy in which the costs of the assets shared with affiliates are shared on a fully allocated basis. The capital cost of the new system should be allocated in the same way that the operating costs are allocated.

Energy Probe stated that THI itself acknowledges that the Town will benefit by being able to avoid the costs of owning and operating two CIS and of printing and mailing two separate bills – one for electricity and the other for water/sewer. These savings to the Town should be reflected in an allocation of the new CIS capital costs to the town.

Energy Probe argued that it would not be reasonable for electricity ratepayers to bear the full burden of the new CIS system when there will be benefits accruing to the Town. Energy Probe submitted that it would be reasonable to allocate the same 71.7% share of the capital costs to THI as are allocated to them for the ongoing support costs.

THI submitted that it is appropriate to recover 100% of the capital costs of the new CIS through distribution rates due to cost causality. The Town's Water and Sewer operations did not contribute in any way to the need to replace the CIS. However, should the Board see fit to authorize a sharing of capital costs, an appropriate allocator would need to be determined. THI noted that the drivers relied on to determine the sharing of ongoing support costs are not appropriate drivers to support the sharing of incurred capital costs.

Board staff and intervenors suggested an amortization period longer than 4 years as being more appropriate for this type of expenditure and for achieving better rate smoothing.

THI argued that a 4 year amortization period is appropriate as it reflects the type of expenditure, it achieves appropriate rate smoothing and aligns with the Board's intended IRM period.

Board Findings

The Board does not accept that the purchase costs of the new CIS should be borne entirely by electricity ratepayers. The need for the new CIS may have been caused by the new needs of the electricity side but there will be some benefits for the Town's water/sewer operations, as THI acknowledges. The cost causation principle is an important principle in regulatory theory and practice. However, the principles of use and benefit also figure prominently in regulatory theory and practice. Often, cost allocations are a blend of these three principles. The Board finds that not all of the purchase costs of the new CIS should be borne by the Town's electricity operations. The Board accepts the suggestion that it would be reasonable to allocate the same 71.7% share of the capital costs to THI as are allocated to it for the ongoing support costs. The purchase costs of the new CIS allocated to THI will therefore be reduced to $221,176 from $308,475.

The Board accepts a 4 year amortization period as reasonable. Therefore the CIS purchase costs to be included in 2009 rates shall be $55,294.

Regulatory Costs

In its AIC, THI proposed to recover $64,800 annually through rates to offset the costs of the subject 2009 rate rebasing application. While it is not stated, this amount appears to be one quarter of the total one-time costs associated with this application. This amount does not match with the values provided in response to Board staff Interrogatory No. 19, which shows a total amount of $61,000 for 2009. THI noted that this amount (either the $61,000 or the $64,800) is higher than that incurred by other distributors and attributed the high level to the filing of two updates to the applications and the reliance, almost exclusively, on consulting services out of necessity to complete its application.

Board staff noted that even considering the fact that the application has been updated and amended since the initial filing, the total of $175,000 for consulting is significantly higher than other distributors' claims in the 2009 rates applications. Board staff noted that in other cost of service applications, one-time consulting fees are significantly lower, in the range of $50,000 to $60,000. In addition, the Finance Regulatory Affairs Manager was involved in the application preparation, and so the consultants would not have performed all the tasks of the proposed Operations Manager.

SEC noted that THI has included $25,000 for one-time Board costs and stated that THI is aware that the Board's costs may be zero or much lower than the provision. THI nonetheless seeks approval of the amount on the basis that it may offset other costs that are not in the application. SEC submitted that if the forecast is incorrect it should not be approved.

Energy Probe argued that the $25,000 provision for OEB costs appears too high given that there was not an oral component to the application. It submitted that the Board should substitute its estimated costs associated with this application in place of the $25,000, and suggested a reduction by about $10,000.

In its Reply Argument, THI noted its reliance on external consulting, the numerous updates it had to make and the supplementary interrogatory process. THI also requested that if the Board authorizes cost awards to intervenors that exceed the $31,000 amount budgeted, the Board should authorize THI to record any excess in a deferral account.

Board Findings

As shown in the response to Board staff Interrogatory No. 19, the regulatory costs identified by THI include both ongoing and one-time costs. The ongoing costs relate to the Board's annual cost assessment, the Board's licence fee and the Electrical Safety Authority fees and total $20,646. The one-time costs associated with the 2009 rate application show an annualized amount totaling $61,000.

With respect to the ongoing costs, the Board accepts the amounts requested by THI for the purpose of setting 2009 rates.

With respect to the recovery of the one-time costs associated with the 2009 rate application, the Board accepts that they be amortized over a four year period to coincide with the Board's current IRM and rebasing plan.

Given what has actually transpired in the review of this application, the forecasted amount of $25,000 for the Board costs has not been used. The Board directs that this amount be removed from the costs used to establish 2009 rates.

The Board accepts the proposed $31,000 provision for costs awards as reasonable. It is not the Board's general policy or practice to authorize a variance account for this expense and the Board will not do so in this case. It should also be noted that it is not appropriate to make new requests at the time of reply argument where other parties are not given an opportunity to test and comment on the new requests.

The Board finds the proposed $175,000 in one-time consulting costs to be excessively high. THI referred to one other distributor's application to argue that its proposed costs are reasonable. Board staff reported that a typical one-time consulting costs for rebasing proceedings are significantly lower. In view of the circumstances associated with this application, the Board considers an amount of $75,000 to be reasonable.

In summary, the Board finds that $106,000 in one-time costs associated with this application is reasonable and directs THI to use the four year amortized value associated with this amount to establish the 2009 rates.

Loss Adjustment Factors

THI originally proposed a Total Loss Factor (TLF) for 2009 of 1.0388 based on an average of the historic TLFs for 2005 to 2007. In response to Board staff Interrogatory No. 30, THI provided a revised set of historic TLFs for 2005 to 2007, but did not provide a revised proposed TLF for 2009. In its AIC, THI affirmed that based on a similar averaging methodology, the proposed TLF for 2009 is 1.0420. The approved TLF for 2008 was 1.0422.

No party opposed the proposed loss adjustment factors.

Board Findings

The Board finds THI's revised loss adjustment factors of 1.0420 for secondary metered customers and 1.0316 for primary metered customers are reasonable and approves them for ratemaking purposes.

Payments in Lieu of Taxes (PILs)

No party took issue with the methodology applied by THI in the calculation the PILs provision. Parties commented that the calculation will need to be updated to reflect current applicable parameters and the Board's adjustments in this decision. THI agreed.

Energy Probe noted that, as part of the recent provincial budget, the Apprenticeship Training Tax Credit for small businesses (i.e. with taxable income under $500,000) has been increased. Energy Probe calculated that a tax reduction of $20,000 could be available in regard to the two apprentices.

THI responded that it is not aware that it may be eligible for the appropriate tax credit because it is a virtual utility and the apprentices are Town employees.

Board Findings

The Board does not believe that the apprentice credit applies here for the reason stated by THI.

The Board directs THI to reflect in the draft rate order updated calculations for PILs and to attach as support an updated Exhibit 4, Tab 3, Schedule 1 and Schedule 2.

Smart Meter Funding Adder

THI proposed to increase the smart meter funding adder, currently approved at $0.26 per month per metered customer, to $1.00. THI stated that it was becoming authorized under the amended regulation pursuant to and in compliance with the London Hydro RFP process, and intends to deploy smart meters in 2009. THI is not seeking approval for capital and operating costs incurred to date or in 2009, but will track actual costs, and revenues received by way of the funding adder, in established deferral accounts for review and disposition in a subsequent application.

Board staff submitted that THI has not complied with the Board's Smart Meter Guideline to support an increase of the smart meter funding adder to $1.00 per month per metered customer. The Smart Meter Guideline was issued in October 2008, more than seven months ago and other distributors, whether filing Cost of Service or IRM applications, have been able to easily and adequately meet the filing requirements in support for an increase to $1.00. THI has not provided adequate documentation on the record to show that it is authorized and is planning deployment activities beginning in 2009, as evidenced by several interrogatories posed by Board staff and intervenors in two rounds of discovery. Board staff submitted that THI's explanation that it has not received authorization from its Board of Directors is inadequate.

Board staff noted that denying the increase to the smart meter funding adder would be a strict application of the Smart Meter Guideline, and would be consistent with the Board's practice in other Cost of Service and IRM applications in 2008 and 2009. In other rate applications, the Board approved the increased smart meter funding if there was a demonstrated and realistic expectation or maintained the existing funding adder in the absence of such evidence.

However, Board staff stated that it also recognizes both the seed funding and rate mitigation purposes of the smart meter funding adder. Denying the increase could lead to delays in smart meter deployment by THI as it becomes authorized and could result in more significant rate increases in subsequent years as full deployment is achieved.

Should the Board decide to approve the increased smart meter funding, Board staff suggested that THI be required to file the requested information in compliance with the Smart Meter Guideline within a stated period (e.g. within 3 months from the Board's Decision). The increase in the smart meter funding adder could be made conditional upon filing adequate information in accordance with the Smart Meter Guideline.

VECC stated that it agrees with staff's suggestion, given the likelihood that such conditional approval will mitigate the future rate shocks that would otherwise be visited on the ratepayers in all likelihood, i.e., the larger future increases required to fund the initiatives as a result of denial of the requested increase in this proceeding.

VECC suggested that, should the Board feel it necessary, the Board could also consider giving THI a financial incentive to come into compliance with the Smart Meter Guideline in a timely manner, e.g., by making the effective date of 2009 approved rates dependent on the lag between THI's final submissions and THI providing information to the Board sufficient to comply with the Guideline.

THI responded that until it has successfully obtained Board of Director approval to install Smart Meters, it is inappropriate for THI to file any documentation of its plans and it sees no reason to require conditional approval to increase the adder to the accepted industry level. THI submitted that it would be inappropriate that just and reasonable rates could be delayed for the sake of filing documents on compliance with a government initiative when there is no evidence to suggest that THI will not comply.

Board Findings

The Board notes that THI has been collecting $0.26 per month per metered customer since its May 1, 2006 rates. There are some funds available to THI to commence deployment of smart meters. Also, it is now almost mid year of the 2009 test year. In the circumstances, the Board is prepared to approve $0.50 per month per metered customer. THI will be able to propose an increase to that rate at the time it files for its next IRM application. Should approval by THI's Board not be obtained and filed by the time THI files for its next IRM application, THI's IRM rates filing shall exclude any rate adder for smart meters.

COST OF CAPITAL

The Board has documented its guideline Cost of Capital methodology in the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* (the "Board Report"), issued December 20, 2006. The Board Report is a guideline, but departures from the methodology in the Board Report are expected to be adequately supported.

In Section 6 of its application, THI has proposed its requested Cost of Capital. This is summarized in the following table.

Cost of Capital Parameter	THI's Proposal
Capital Structure	56.7% debt (composed of 52.7% long-term debt and 4.0% short-term debt) and 43.3% equity
Short-Term Debt	4.47%, but to be updated in accordance with section 2.2.2 of the Board Report.
Long-Term Debt	6.10%, corresponding to the Board's deemed long-term debt rate for 2008. However, this would be updated with the deemed long-term debt rate based on January 2009 Bank of Canada, TSX, and Consensus Forecasts data.
Return on Equity	8.57%, but to be updated in accordance with the methodology documented in Appendix B of the Board Report.
Return on Preference Shares	Not applicable
Weighted Average Cost of Capital	7.06% as proposed, but subject to change due to updates to the Cost of Capital parameters per the Board Report, at the time of the Board's Decision. THI's updates to its actual and forecasted long-term debt also affects the WACC.

On February 24, 2009, the Board issued a letter to all distributors announcing the updated Cost of Capital parameters to be used for rate-setting in 2009 Cost of Service electricity distribution rate applications. These updated parameters are:

Return on Equity:	8.01%
Deemed Long-term Debt Rate:	7.62%
Deemed Short-term Debt Rate:	1.33%

The issue was the proposed cost rate of the long term debt component of the hypothetical capital structure as THI is 100% equity financed by the Town.

Board staff noted while 100% equity may not be the most efficient means of structuring the capital financing of the utility, THI has in the past and proposes to use in the current proceeding the deemed capital structure established by the Board for rate-setting purposes. THI does not have any history of debt financing. In the absence of any other information, application of the guidelines in the Board Report would suggest that the updated deemed long-term debt rate of 7.62% would apply.

Given the absence of any debt, affiliate or third party, both VECC and Energy Probe submitted that the Board's methodology should not apply here in determining the cost rate of long term rate and that a proxy rate of 6.10% should be set, the rate that is currently reflected in THI's rates and included in THI's initial application.

THI argued that the Board should find that the cost rate should be 7.62%, derived from the application of the Board's current methodology.

Board Findings

According to the Board's policies, the Board's deemed long term debt rate is to be used for new affiliated debt (and only if the contracted rate is higher than the deemed long term debt rate) and for all variable rate debt and for affiliate debt that is callable on demand.

The Board's policies do not deal specifically with the situation of where a distributor does not have any long term debt, affiliate or otherwise.

In prior decisions for THI and for other utilities, the Board has in such circumstances allowed the rate derived by the Board, in this case 7.62%. In its 2006 EDR application (RP-2005-0020/EB-2005-0420), THI documented its 100% equity status. It applied for and was approved the then-current deemed debt rate of 6.25% for the deemed debt capitalization. In Hydro One Remote Communities Inc's 2009 Cost of Service application, the Board stated:

> The Board finds that it is not appropriate to apply the Board's deemed long-term debt rate to the notional or deemed long-term debt. The two are quite separate concepts. <u>The deemed long-term debt rate is intended to apply in the absence of an appropriate market determined cost of debt,</u>

> such as affiliate and variable rate debt situations. For companies with embedded debt, it is the cost of this embedded debt which should be applied to any additional notional (or deemed) debt that is required to balance the capital structure. [Emphasis added.][1]

The Board considers that THI's situation adheres to the emphasized section, and finds that there are no compelling reasons to change that approach in this case.

The Board-approved capitalization and cost of capital for THI are shown in the table below.

Component	Capitalization (%)	Rate (%)	
Long-term Debt	52.70%	7.62%	4.02%
Short-term Debt	4%	1.33%	0.05%
Total Debt	***56.70%***	***7.18%***	***4.07%***
Common Equity	43.30%	8.01%	3.47%
Preferred Shares	0%		0.00%
Total Equity	***43.30%***	***8.01%***	***3.47%***
Total	**100.00%**	**7.54%**	**7.54%**

DEFERRAL AND VARIANCE ACCOUNTS

THI requested the disposition of only three Deferral and Variance accounts. The accounts and the principal as of December 31, 2007 and interest to April 30, 2009 are shown in the table below.

ACCOUNT	ACCOUNT NAME	BALANCE $
1508	Other Regulatory Assets	90,204
1525	Miscellaneous Deferred Debits	14,768
2425	Other Deferred Credits	52,480
TOTAL		157,452

THI had provided in its initial evidence the calculated rate riders to recover this amount, to be in effect for two years. In its AIC, THI provided an updated set of rate riders.

[1] Ontario Energy Board, Decision and Order on Hydro One Remote Communities Inc.'s 2009 distribution rate application, (EB-2008-0232), April 30, 2009, p. 12

Board staff noted that amounts totalling $52,500 attributable to LRAM and SSM awards have been included in account 2425 and that in other distributors' applications LRAM and SSM amounts are accounted for through a separate rate rider and not included with the rate riders associated with the disposition of deferral and variance accounts. In its Reply Argument, THI clarified that no other amounts have been recorded in account 2425 and provided data in support of the LRAM/SSM rate rider of $0.0005/kWh for the residential class. THI noted that it used Board-authorized carrying charges rather than Board-authorized short term debt rates.

THI indicated that the appropriate LRAM/SSM rate rider is $0.0005/kWh and is computed as follows:

Proposed LRAM/SSM award	$52,436
Annual Amount Proposed to be Recovered	$26,218
2009 TY Residential kWh	49,583,434
LRAM/SSM award per residential kWh	$0.0005/kWh

In response to Board staff Interrogatory No. 49 parts (c) and (p), THI provided information on a selected group of its deferral and variance accounts (1505, 1525, 2425, 1580, 1582, 1584, 1586, 1588, 1590) that have account balances as of December 31, 2007. With respect to RSVA accounts 1580, 1582, 1584, 1586, 1588, Board staff sought confirmation that the disposal amounts provided in the interrogatory response included the December 31, 2007 balance plus interest to April 30, 2009.

Board staff noted that a separate initiative that the Board will undertake for the disposition of commodity account 1588 (RSVA power) and other related RSVAs has not yet been finalized. Board staff noted that that Board Staff Discussion Paper "Electricity Distributors' Deferral and Variance Account Review Initiative" (EB-2008-0046) issued on April 1, 2009, proposes that distributors be required to file an application to dispose of all account balances (with a few exceptions such as PILs, CDM, smart meters and account 1590) as part of their cost-of-service application.

Board staff noted that the RSVA Power account 1588 comprises Cost of Power and the Global Adjustment sub-account and further that the Cost of Power balance is attributable to all customers, whereas the Global Adjustment balance is attributable to only non-RPP customers. Board staff invited THI to provide:

- the closing balances corresponding to RSVA - Cost of Power account (excluding the global adjustment balance) and the Global Adjustment sub-account, and
- updated rate riders to reflect the allocation treatment discussed above (i.e. Cost of Power balance is attributable to all customers, whereas the Global Adjustment balance is attributable to only non-RPP customers). As a simplifying methodology, Board staff suggests that GS 50 – 499 kW, GS 500kW – 1,499 kW and GS>1500 kW rate classes be considered to comprise non-RPP customers, and the other rate classes be considered to comprise RPP customers.

Despite the fact that THI has requested disposition only of accounts 1508, 1525 and 2425, Board staff submitted that, notwithstanding the fact that the staff proposal is not yet confirmed Board policy, the Board should order the disposition of all of the above stated deferral and variance account balances that have account balances as of December 31, 2007. Board staff submitted that a three-year recovery period to mitigate the impact of disposition is reasonable.

VECC submitted that the overall balance approved for recovery should reflect the Board's approved interest rate on deferral balances in each period. VECC further submitted that the recovery of the balances in these accounts could be spread over 4 years (similar to the proposed amortization of regulatory costs) to mitigate the impact on THI's ratepayers.

Energy Probe noted that the balance in all of the accounts is a credit to customers and submitted that the Board ought to consider whether it is appropriate to recover the amounts from ratepayers while not refunding any of the significant balances, especially given the magnitude of the increase in the requested revenue requirement. Energy Probe submitted that the interest rates used in the calculation of the interest balances on the accounts should be updated to reflect the prescribed interest rates as set by the Board.

Energy Board suggested that the recovery of the deferral and variance account balances should be over three years, rather than two, to provide even more rate mitigation.

THI confirmed that the balances in the table provided at page 26 of Board staff's submission include the December 31, 2007 balance plus carrying charges to April 30, 2009. THI submitted that it is appropriate for it to be eligible to recover the accrued carrying charges as of the date that the Board's order is implemented on these balances.

In Attachment B.2 of its Reply Argument, THI provided the following total recovery amounts by account:

Account 1508 (Other Regulatory Assets)	+$90,204
Account 1525 (Miscellaneous Deferred Debits)	+$14,768
Account 1562 (Deferred Payments in Lieu of Taxes)	-$63,093
Account 1580 (RSVAWMS)	-$415,993
Account 1582 (RSVAONE-TIME)	+$161
Account 1584 (RSVANW)	-$130,239
Account 1586 (RSVACN)	-$10,262
Account 1588 (RSVAPOWER)	-$469,675
Sub-Total	-$984,129
Account 1590 (Recovery of Reg. Asset Bal.)	+$713,109
Total	-$271,020

THI provided revised proposed rate riders that dispose of the balances in account 1508 and 1525, plus carrying charges, over a two year period and dispose of the balances recorded in all variance and deferral accounts other than accounts 1555, 1556, 1565 and 1566, plus carrying charges over a two year period. With respect to the latter, THI noted that the revised rate riders proposed differ from those provided in its AIC because a portion of the balance recorded in account 1590 was disposed of through the rate riders filed with the AIC while the proposed revised rate riders dispose of the entire balance as of December 31, 2007 plus associated carrying costs to April 30, 2009.

THI submitted that if the Board finds it appropriate to dispose of the balances recorded in accounts 1562, 1580, 1582, 1584, 1586 or 1588 that it also authorize disposition of the balance recorded in account 1590 (Recovery of Regulatory Asset Balances account). The balance recorded in account 1590 as of December 31, 2007, including associated carrying costs, was $846,234. As the rate rider related to this account continued in effect until April 2008, the principal was reduced by a further $161,091, resulting in a balance recorded in account 1590 as of December 31, 2008, including associated carrying costs of $709,227. Adding the associated carrying costs up to and including April 30, 2009 at the prescribed rates on this account results in a balance of $713,109.

THI noted that clearing all these account balances as of December 31, 2007, with the associated carrying costs and subsequent 1590 collections to April 30, 2009, is expected to result in a negative rate rider that may, all other things being equal, mitigate the impact of the recovery of the Board authorized gross revenue deficiency. THI indicated that the computed carrying charges will be revised to align with the implementation date ordered by the Board.

THI continues to prefer to dispose of the account balances over a relatively short period of time, two years, in an effort to reasonably match the customers who caused the recorded balances with the customers who receive or remit these balances.

Board Findings

The Board approves the disposition of the reported balances associated with LRAM and SSM through a separate rate rider from other riders over a two year period

The issue for the Board is whether or not to dispose of more accounts than THI has asked for (Accounts 1508 and 1525). Disposing of all accounts would result in a credit to customers. Typically, the Board has not approved the disposition of account 1590 until the final balance can be verified. This has not been done in this application. However, in this particular application, the Board is concerned with the large rate increases in base rates for 2009. The Board therefore directs disposition of the balances in all accounts except the PILS accounts (1562), which is subject of a current combined proceeding. Verification of the balance will be reviewed as part of THI's next rate rebasing application and any variances from the disposed amounts will be dealt with at that time. The disposition of the current balances shall be over a two year period.

The Board directs THI to include documentation in its Draft Rate Order showing the allocation of each account balance to each rate class and the levels of the rate riders over the two year disposition period.

COST ALLOCATION AND RATE DESIGN

Reclassification of rate classes

THI proposes to partition its existing General Service 500 – 4,999 kW rate class into General Service 500 – 1,499 kW and General Service 1,500 – 4,999 kW rate classes to address an existing intra-class subsidy and to improve the homogeneity of its customer classes. THI also proposes to eliminate its Sentinel Lighting rate class by merging it with the existing Unmetered Scattered Load (USL) rate class.

A comparison between the existing 2008 and the proposed 2009 rates as shown in its AIC is provided in the following table.

Rate Class	2008 Monthly Service Charge	2009 Monthly Service Charge	2008 Distribution Volumetric Rate	2009 Distribution Volumetric Rate
GS 500–1,499 kW		$751.00		$1.8983/kW
GS 1,500-4,999 kW		$1,151.00		$2.2409/kW
GS 500-4,999 kW	$1,158.42		$0.4773/kW	
Sentinel Lighting	$1.18		$7.3155/kW	
USL	$12.38		$0.0100/kWh	
USL + Sentinel		$20.00		$0.0027/kWh

The partitioning of the General Service 500 – 4,999 kW rate class

Board staff submitted that it supports the proposal, but noted that the AIC indicates total bill increases from 2008 to 2009 exceeding 10% for the both newly created rate classes, particularly the latter. Board staff observed that these increases are triggered by a combination of:

- the revenue to cost ratios moving from the original 43% to respectively 70% and 62%; and
- an increase in the volumetric rate from 2008 to 2009 as shown in the table.

VECC noted that THI tested alternate break points (e.g. 3,000 kW) and the Cost Allocation results yielded a lower differential. VECC stated that, as a result, it supports THI’s proposal to segment this class and agreed that 1,500 kW is the appropriate break point.

Energy Probe submitted that it does not oppose the changes, but noted that the Board is currently reviewing customer classes in a generic proceeding. It further submitted that it may, therefore, be premature for THI to make the changes it is proposing, not knowing if there may be addition changes in the near future.

Board Findings

The completion of the Board's initiative for possible reclassification of all customer classes is not imminent. The Board accepts THI's proposal as reasonable.

The Proposed Merging of the Sentinel Lighting and the USL classes

Board staff noted that the justification for combining these two classes appeared to be that they both are unmetered and the classes are relatively small. Board staff expressed concern that the load profile of the current USL and the current Sentinel Lighting connections could be significantly different. Also going from a per kW to a per kWh billing determinant for the Sentinel Lighting accounts, the basis the estimation of the kWh usage is not explained.

Board staff also noted that the AIC indicates a total bill increase from 2008 to 2009 for the USL rate class to be 10.4%. It appeared to Board staff that this increase is triggered by the increase in the monthly service charge from 2008 to 2009 as shown in the above table. Board staff invited THI to provide an explanation of the estimated consumption it will use for the Sentinel Lights and bill impact analysis for the current Sentinel Lighting rate class resulting from its merger with the USL rate class. Board staff further suggested that THI clarify whether the monthly service charge in the new USL + Sentinel rate class is on a per connection basis or on a per customer basis.

VECC submitted that the merging of the two classes is motivated by the perceived homogeneity of the two classes. VECC noted that THI claims that under the currently authorized rates the distribution charges to Sentinel Lighting and USL customers are approximately the same. However, as indicated by the results of THI's initial Cost Allocation filing, these similar revenues result in significantly different revenue to cost ratios for the two classes (130.28% vs. 78.24%). This result suggests to VECC that the customers in the two classes are not similar from a cost causality perspective. As result, VECC submitted that the two separate customer classes should be maintained.

Energy Probe submitted that they do not oppose the changes, but noted that the Board is currently reviewing customer classes in a generic proceeding. They further submitted that it may, therefore, be premature for THI to make the changes it is proposing, not knowing if there may be addition changes in the near future.

In its reply argument, THI stated that it relied on its Load Forecast for the 2009 TY estimate of energy consumption by the proposed consolidated customer class and proposed that the monthly service charge be applied on a connection basis. THI stated that it continues to seek to merge these customer classes because these customers require similar services, are considered homogeneous and to reduce the complexity of THI's rates. It also noted that, in the absence of evidence supporting an alternative approach, the Board should approve the proposed consolidation.

Board Findings

The Board does not accept the proposed consolidation of the two classes.

The Board is not convinced from the evidence provided that the current USL and the current Sentinel Lighting connections are that similar from a load profile or cost causality perspective. The Board does not consider the separate rate classification to be of that regulatory complexity, as THI alleges, to warrant consolidation. Neither does the Board accept THI's position that in the absence of evidence supporting an alternative approach, the Board should approve the proposed consolidation. The onus is on the applicant to provide convincing evidence in support of its proposals.

Revenue to Cost Ratios

Board Findings

The evidence regarding revenue to cost ratios (R/C ratios) turned out to be a particularly complex area. Also, given the Board's rejection of the proposed consolidation of the USL and Sentinel Lights classes, the presentation of the Applicant's evidence, which was only on the basis of the proposed consolidation, has added to the complexity.

The issues for the Board are as follows:

1) what are the R/C ratios that result from a proper application of the Initial Cost Allocation Filing to be used as the starting point?
2) what should be the appropriate transition of these ratios to comply with the Board's target ratios?

As in other decisions, the "starting point" should reflect allocating the "cost" of the transformer ownership allowance credit solely to the GS 50-499; 500-1499 and 1500-5000 classes. The Board acknowledges that the treatment of transformer ownership allowance in the current OEB Cost Allocation model results in an over allocation of costs to those classes where customers generally do not own their own transformers (e.g. Residential and GS<50). This circumstance arises because the model not only allocates these classes the full cost of the transformers used to serve them but also a share of the "cost" of the discount.

In principle the discount is an intra-class issue for those classes where some customers own their transformer and others do not. The Cost Allocation model recognizes that some customers own their transformers. However, unless a discount is introduced for these customers (and paid for by the other customers in the same class) those customers in the class who own their transformer will pay too much and those who don't will not bear full cost responsibility for the transformers they use.

THI has provided a revised version of its Cost Allocation Informational filing that follows this approach and is consistent with its proposal regarding the transformer ownership allowance and is therefore to be used as the starting point.

With respect to the issue of the appropriate transition of the resulting starting point R/C ratios that are not within the Board's recommended ranges, the Board accepts the practice that has been established in other distributors' decisions; namely, that the ratios for 2009 rates shall be those that approach the minimum or maximum of the Board target range by 50% of the difference. The remaining 50% difference shall be incorporated in THI's rates over the next two years by equal increments.

As part of preparing the draft rate order, THI shall design its rates to reflect the above findings. If the resulting total bill impacts for a particular class exceed 10%, THI shall identify these impacts and propose remedial options.

Monthly Fixed Charges

In its AIC, THI stated that its proposal was to charge the maximum fixed monthly charges permitted by Board policy (i.e. the range established by the Board's Report of Cost Allocation for Electricity Distributors). The following table shows the fixed monthly service charges for the 2008 and the 2009 (as shown in the AIC) proposed rates.

Rate Class	2008 Monthly Service Charge	2009 Monthly Service Charge as per AIC
Residential	$11.65	$14.30
GS < 50 kW	$25.03	$29.15
GS 50 – 499 kW	$111.76	$111.00
GS 500 – 1,499 kW	$1,158.42	$751.00
GS 1,500 - 4,999 kW	$1,158.42	$1,151.00
Street Lighting	$1,336.76	$1,150.00
Sentinel Lighting	$1.18	$20.00
USL	$12.38	$20.00

Board staff noted that the Report did not establish an upper bound or maximum level of fixed charge but merely identified that additional review is required to examine this matter. Therefore, there is no "Board policy" on which THI can justify the changes it proposes to the levels of the monthly service charges and therefore, Board staff submitted that the justification relied on THI's rationale of mitigating the risk of revenue recovery.

VECC noted that the Board's general approach in 2009 Rate Decisions appears to be that, within the limits noted by the Board, the choice is with the discretion of the distributor. VECC submitted that it is inappropriate to allow a distributor to pick and choose among these arguments to support a particular position. In VECC's view, a more standardized approach is required. VECC submitted that, subject to bill impact considerations, when the service charge for a customer class is within the range established by the Board's Report the distributor should be required to maintain its existing fixed-variable split. Based on this approach, VECC submitted that THI's proposed fixed-variable split for the Residential class is appropriate.

In its Reply Argument, THI stated as follows:

> "THI accepts that the Board has provided guidance on how to establish an appropriate fixed charge.
>
> THI is open to an examination of the merits of a public process that would result in guidance on the appropriate proportional recoveries through fixed and variable charges. THI is also aware that the Board recently suspended its distribution rate design initiative and suggest that this issue be considered as an element of that initiative when it recommences."

Board Findings

It is not clear to the Board what THI's final position with respect to its original proposal. THI could have been more helpful in this regard. The Board interprets THI's statement in its Reply Argument that it is willing to await further examination of this issue in a future Board process. The Board directs THI to maintain the existing fixed charges.

Volumetric Rates

Board staff noted that the 2009 test year revenue requirement contained in THI's AIC ($3,240,000) is lower than what was reflected in the application ($3,325,000) yet the volumetric rates in the AIC are higher than what was provided in the application in all cases except for the GS 500 – 1,499 kW rate class. The two sets of rates are shown in the table below.

Rate Class	Volumetric rates per Application	Volumetric rates per Argument-in-chief
Residential	$0.0188/kWh	$0.0203/kWh
GS < 50 kW	$0.0147/kWh	$0.0148/kWh
GS 50 – 499 kW	$1.8687/kW	$1.9763/kW
GS 500 – 1,499 kW	$2.4238/kW	$2.4209/kW
GS 1500 – 4,999 kW	$1.5564/kW	$1.8983/kW
Street Lighting	$3.0283/kW	$4.1125/kW
USL + Sentinel	$0.0026/kWh	$0.0027/kWh

Board staff calculated that the revenue generated using the volumetric rates provided in the AIC and the volumes provided in the application indicates that the revenue generated exceeds the revenue requirement by approximately $168,000. Board staff invited THI to provide a detailed calculation of revenue generated from its proposed rates and demonstrate its correlation with the revenue requirement. Board staff also invited THI to provide an explanation and justification as to why the rates have changed between its application and its AIC.

Board Findings

The Board notes that THI did not specifically respond to Board staff's concerns. Rather, it stated:

> "THI is open to an examination of the merits of a public process that would result in guidance on the appropriate proportional recoveries through fixed and variable charges. THI is also aware that the Board recently suspended its distribution rate design initiative and suggest that this issue be considered as an element of that initiative when it recommences."

The difference calculated by Board staff is material and the Board would have expected THI to provide a response in this regard. While the volumetric rates will change because of the Board's specific findings on revenue requirement items and the maintenance of the fixed charges at their current levels, with the filing of the draft order the Board directs THI to provide appropriate documentation demonstrating that the final rates do not produce higher revenue than the calculated revenue requirement.

Standby Service Rate

THI does not have an approved Standby Service Rate.

Board staff noted that THI makes reference to a proposed Standby Service Rate in its original application and its AIC, but no supporting material can be found in the evidence regarding a proposed Standby Service Rate. Board staff invited THI to indicate where in its evidence it has provided the details on the proposed Standby Service Rate.

THI responded as follows:

> "THI notes that the only reference to standby rates are in its Draft Issues List. THI notes that no party made submissions on this issue. THI makes no submission."

Board Findings

The Board finds THI's response to be totally unhelpful. THI could have responded whether it did or did not propose a standby service so that the record is clear. The Board will take from the response that THI did not apply for a standby service rate.

Transformer Ownership Allowance

THI proposed to continue its currently approved allowance of $0.60 per kW for those customers in the General Service classes that provide their own transformation.

Board staff submitted that the approach taken and the resulting allocations appear to be reasonable.

Board Findings

The Board approves the continuation of the $0.60 per kW Transformer Ownership Allowance as proposed.

Retail Transmission Service Rates

In a decision rendered on March 14, 2008, relating to THI's 2008 rates, the Board directed THI to decrease its retail transmission network service rates and line and transformation connection service rates by 18% and 5% respectively. This was against a backdrop of an 18% decrease and 5% decrease respectively in the uniform transmission rates for Ontario transmitters effective November 1, 2007.

In the current 2009 rates application, THI proposed an increase of approximately 11.3% in the network rates and an increase of approximately 5.5% in the connection rates, both in concert with the increase in the uniform transmission rates for Ontario transmitters effective January 1, 2009.

Board staff submitted that THI's proposed increases to the network and connection rates are in concert with the increase in the uniform transmission rates for Ontario transmitters effective January 1, 2009 and should be accepted.

Board Findings

The Board accepts THI's increases to the network and connection rates as proposed.

Specific Service Charges

THI proposed to continue with all of its currently approved Specific Service Charges.

Board staff submitted that these charges are reasonable.

Board Findings

The Board approves THI's specific service charges as proposed.

Rate Mitigation

THI did not propose any mitigation other than recovering the balances in the deferral accounts for which it sought disposition over two years and to achieve the Revenue to Cost ratios consistent with the Board approved ranges over two years.

Board staff noted that, typically, in rate applications before the Board, a resultant bill impact greater than 10% has caused the Board to consider the need for rate mitigation. Board staff stated that it acknowledges the conflict between establishing the appropriate cost allocation and rate design amongst the rate classes and the impacts that causes while at the same time allowing the distributor to recover its determined revenue requirement and trying to keep the resulting bill impacts within a 10% level. The question of which criterion should dominate depends on the specific circumstances. Board staff submitted that in this case, subject to an examination of the impacts to the former Sentinel Lighting customers, there is no need to introduce specific rate mitigation measures.

Board Findings

Earlier in this Decision, the Board did not approve the proposed consolidation of the USL and Sentinel Lights classes. Also, the Board's findings on the disposition of the overall credit balance in the deferral accounts will offset bill increases. Further, the

Board's findings throughout this Decision will result in a lower revenue requirement than proposed by THI, and a lower smart meter rate adder than proposed. The result of these will be lower bill impacts for affected customers than what was included in THI's application. The Board does not anticipate that typical customers, as customarily measured by the Board, will experience bill impacts greater than 10%. Should that be the case, the Board expects THI to identify and report these situations when it files its draft rate order and the Board will be guided by those reports.

Implementation

THI's application was for the new rates to be effective May 1, 2009. The Board had declared rates interim effective May 1, 2009. In declaring the rates interim, the Board stated that the interim rate order "should not be construed as predictive, in any way whatsoever, of the final determination of this application with regards to the effective date".

SEC submitted that the application was delayed significantly as a result of the Applicant effectively not having filed until December 15, 2008 – a four month delay from the initial filing. SEC submitted that, under the circumstances, the effective date of the new rate order should be either September 1 or the first month after the Board's Decision is rendered, whichever is sooner. SEC submitted that, if the Board determines that the effective date should be a date that is earlier than the implementation date, the lost revenue from the effective date to the implementation date of the new rate order should be collected over a two-year period.

THI responded that it is inappropriate to make rates effective on any day other than May 1, 2009. THI filed its application on August 22, 2008. It provided a comprehensive Update on December 15, 2008. The Update was not a delayed submission; it was filed to provide the Board and intervenors with the most current information on a significant change in circumstances. THI had no other prudent choice but to inform the Board of this material change. If the Board makes rates effective as of a date after May 1, 2009 it will penalize THI, continue THI's under earning and will effectively discourage and dis-incent other LDCs from relying on the best available information to support their rates applications – in short rates will not satisfy the just and reasonable standard.

Board Findings

Given the date of this Decision, the time that it will take for THI to file a draft rate order; for parties' submissions on the draft rate order, for THI's reply submission and for Board review of all the material, it does not appear that the new rates can be implemented prior to September 1, 2009. The Board will assume September 1, 2009 as the target implementation date.

As the Board has made the rates interim as of May 1, 2009, there are no legal impediments for the Board to find an effective date of May 1, 2009. However, this would constitute retroactivity. As the Board has stated on many occasions, even if there are no legal impediments, the Board does not condone retroactivity. While there may be some legitimacy for the causes of delay in this case, THI should not be totally absolved of the adverse consequences caused by retroactivity. It is not reasonable to expect customers to be burdened with retroactivity, no matter how the retroactivity is morphed into rates or bills. The Board finds that, on balance, an effective date of June 15, 2009 is reasonable in the circumstances. The reasons for the delay in completing this proceeding primarily lie with THI. Therefore, the Board finds that the new rates shall be effective June 15, 2009. For additional clarity, there will be no recovery of any foregone distribution revenue from May 1, 2009 to June 14, 2009.

Throughout the decision, the Board has used a "nominal" term of two years in relation to the disposal of the deferral and variance accounts. As the 2009 rates will be implemented as of September 1, 2009, for the rate riders to dispose of the deferral and variance account balances THI is directed to calculate the rate riders on the basis of a duration until April 30, 2011.

In developing its Draft Rate Order, THI is directed to establish the 2009 rates assuming a 12 month recovery period. As the effective date of the rates will be June 15, 2009 and the implementation date will be September 1, 2009, THI is directed to calculate rate riders that would recover the foregone distribution revenue from June 15, 2009 until August 30, 2009 and should propose an appropriate time period for recovery, giving due consideration to bill impacts. THI must include supporting materials to satisfy the Board that the revenues received would recover only the foregone revenues.

The Board's findings outlined in this decision are to be reflected in material, commonly referred to as a Draft Rate Order. The Board expects THI to file detailed supporting material, including all relevant calculations showing the impact of this Decision on THI's proposed revenue requirement, the allocation of the approved revenue requirement to the classes and the determination of the final rates, including rate impacts. Supporting documentation shall include, but not be limited to, filing a completed version of the Revenue Requirement Work Form excel spreadsheet, which can be found on the Board's website. The reductions made by the Board on certain items shall also reflect the associated reductions in the application of the 5% management on those items, as appropriate. THI should also show detailed calculations of the revised retail transmission rates reflecting this Decision.

A final Rate Order will be issued after the following steps have been completed.

1. THI shall file with the Board, and shall also forward to intervenors, a Draft Rate Order attaching a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision, within 14 days of the date of this Decision.

2. Intervenors shall file any comments on the Draft Rate Order with the Board and forward to THI within 7 days of the date of filing of the Draft Rate Order.

3. THI shall file with the Board and forward to intervenors responses to any comments on its Draft Rate Order within 7 days of the date of receipt of intervenor submissions.

Costs Awards

The Board may grant cost awards to eligible stakeholders pursuant to its power under section 30 of the *Ontario Energy Board Act, 1998*. The Board will determine eligibility for costs in accordance with its Practice Direction on Cost Awards. When determining the amount of the cost awards, the Board will apply the principles set out in section 5 of the Board's Practice Direction on Cost Awards. The maximum hourly rates set out in the Board's Cost Awards Tariff will also be applied.

A cost awards decision will be issued after the following steps have been completed.

1. Intervenors shall file with the Board, and forward to THI, their respective cost claims within 30 days from the date of this Decision.

2. THI shall file with the Board and forward to intervenors any objections to the claimed costs within 44 days from the date of this Decision.

3. Intervenors shall file with the Board and forward to THI any responses to any objections for cost claims within 51 days of the date of this Decision.

THI shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

DATED at Toronto, July 10, 2009

ONTARIO ENERGY BOARD

Original signed by

____
Paul Vlahos
Presiding Member

Original signed by

____
Ken Quesnelle
Member