



**EB-2009-0265**

**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  
Haldimand County Hydro Inc. for an order approving  
just and reasonable rates and other charges for  
electricity distribution to be effective May 1, 2010.

**BEFORE:** Cathy Spoel  
Presiding Member

## **DECISION ON PARTIAL SETTLEMENT AGREEMENT**

### **INTRODUCTION**

Haldimand County Hydro Inc. (“Haldimand County Hydro”) owns and operates the electricity distribution system in its licensed service area in Haldimand County, serving approximately 20,843 Residential, General Service, Street Lighting, Sentinel Light and Unmetered Scattered Load customers and two Embedded Distributors. The total service territory for Haldimand is 1,252 square kilometers consisting of rural areas and six communities: Caledonia, Cayuga, Dunnville, Hagersville, Jarvis and Townsend.

Haldimand County Hydro filed an application with the Ontario Energy Board (the “Board”), on August 28, 2009, under section 78 of the *Ontario Energy Board Act*, 1998, S.O. 1998, c.15 (Schedule B), seeking approval for changes to the rates that Haldimand County Hydro charges for electricity distribution, to be effective May 1, 2010.

The Board issued a Notice of Application and Hearing on September 16, 2009. Energy Probe Research Foundation (“Energy Probe”), School Energy Coalition (“SEC”) and the Vulnerable Energy Consumers Coalition (“VECC”) applied for intervenor status and cost eligibility. The Board also granted intervention status to a residential ratepayer, Ms. Lisa Pryor.

In its Application, Haldimand requested a service revenue requirement of \$13,938,976 which produced a deficiency in gross distribution revenue of \$1,584,943 at current rates for the 2010 Test Year.

Procedural Order No. 1 setting the dates to file written interrogatories and responses to them by the Applicant was issued on October 14, 2009. In Procedural Order No. 3 issued on December 11, 2009, the Board provided dates for filing supplemental written interrogatories and outlined the dates for a settlement conference between the Applicant and intervenors with the objective of reaching a settlement among the parties on the issues.

### **SETTLEMENT AGREEMENT**

A settlement conference was held on January 21<sup>st</sup> and 22<sup>nd</sup>, 2010 in the Board's hearing room. All parties with the exception of Ms. Pryor participated in the Settlement Conference. Board staff participated in accordance with their role as set out in the Board's Settlement Conference Guidelines.

The parties reached a partial settlement. The Settlement Agreement was filed on February 12, 2010 and is attached as Appendix A to this Decision (the "Settlement Agreement"). As indicated in Procedural Order No. 4, the Board has decided to deal with the unsettled issues by way of written submissions. The Applicant in its cover letter to the Settlement Agreement requested that the Board issue its decision on the Agreement prior to the filing of written submissions on February 19, 2010.

The following issues have been identified in the Settlement Agreement as unsettled:

1. Load forecast Methodology
2. Lead / Lag Study – the appropriateness of a lead / lag study for Haldimand's next rebasing application
3. Harmonized Sales Tax – the appropriate treatment of Ontario's shift to a Harmonized Sales Tax, planned for implementation effective July 1, 2010, with respect to both capital and operating expenditures.

#### 4. Cost of Capital

- a) Capital Structure – The debt component of Haldimand’s capital structure is proposed at 56% long term debt and 4% short term debt for ratemaking purposes. The parties agreed that the issue of whether the 4% short term debt component is appropriate will be the subject of written submissions.
  - b) Return on Equity – Haldimand County Hydro’s Application provided for an adjustment to the rate of Return on Equity based on the Board’s updated cost of capital parameters. The Applicant’s position is that the methodology for determining its Return on Equity for the 2010 Test Year is as set out in the December 11, 2009 *Report of the Board on Cost of Capital for Ontario’s Regulated Utilities*. The intervenors do not agree that the rate should be determined as provided for in that Report. This issue will be the subject of written submission.
5. RSVA Account 1588 – Sub-account Global Adjustment (separation by RPP/Non-RPP)

Although the parties reached a settlement on Deferral and Variance Accounts, the Agreement provided for Board staff to make a submission on the narrow issue of RSVA Account 1588 (Sub-account Global Adjustment).

On February 16, 2010 Ms. Lisa Pryor filed her response to the Settlement Agreement with the Board and all parties via e-mail. Ms. Pryor opposed the Settlement Agreement on the ground that the rates were still high. Ms. Pryor submitted that Haldimand County Hydro needed to hire more apprentices and change their billing practices including their billing cycle. The Board notes that Ms. Pryor had not filed any evidence to support her position or interrogatories testing the applicant’s evidence and did not participate in the settlement conference.

#### **BOARD FINDINGS**

The Board has reviewed Haldimand County Hydro’s Settlement Agreement of February 12, 2010. The Board has also noted Ms. Pryor’s objection to the Agreement. However, the Agreement has resulted in a substantial reduction to the revenue deficiency, reducing it from \$1,584,943 to \$961,358. The Board is satisfied with the outcome of the settlement reached between the parties and approves the Settlement Agreement as filed for rates effective May 1, 2010.

As directed in Procedural Order No. 4, Board staff and intervenors will file their written submissions on the unsettled issues on or before February 19, 2010. The Applicant will file its Reply Argument by March 5, 2010. The Board will issue its decision on the remaining issues along with instructions on the filing and review of Haldimand County Hydro's draft Rate Order following the closing of the record of this proceeding.

**DATED** at Toronto, February 18, 2010

**ONTARIO ENERGY BOARD**

*Original Signed By*

Cathy Spoel  
Presiding Member

**APPENDIX A**

**TO BOARD DECISION ON PARTIAL SETTLEMENT AGREEMENT**

**BOARD FILE NO. EB-2009-0265**

**HALDIMAND COUNTY HYDRO INC. 2010 DISTRIBUTION RATES**

**SETTLEMENT AGREEMENT**

**DATED: February 18, 2010**



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February 12, 2010

**Delivered by E-mail and Courier**

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27th Floor  
Toronto, Ontario  
M4P 1E4

Dear Ms. Walli:

**Re: Haldimand County Hydro Inc. – 2010 Cost of Service Electricity  
Distribution Rate Application – Board File No.EB-2009-0265**

We are counsel to Haldimand County Hydro Inc. (“HCHI”) in the above captioned matter.

A Settlement Conference was convened in respect of this proceeding on Thursday, January 21, 2010, in accordance with Procedural Order #3. The conference continued into Friday, January 22, 2010. Representatives of the Applicant and all intervenors, with the exception of Ms. Pryor, participated in the Settlement Conference, and Board Staff participated in accordance with their role as set out in the Board’s Settlement Conference Guidelines.

We are pleased to advise that all parties that participated in the Settlement Conference have achieved a partial settlement in this matter. Please find accompanying this letter a copy of the proposed Settlement Agreement. Each of the parties has reviewed and approved the Agreement. We acknowledge with thanks the assistance of Board staff in this process.

There are a small number of items that are not settled, and the parties agree that these items may be addressed by way of written submissions. The timeline for those submissions was set out in the Board’s Procedural Order #4, issued February 10, 2010, as follows:

- February 19, 2010 – Board Staff and intervenor Submissions
- March 5, 2010 – Applicant’s Reply Submissions

As we have mentioned in previous correspondence, it is important to all parties that they have the Board’s decision on the Settlement Agreement prior to filing written submissions. We respectfully request that the Board confirm that it will issue its decision on the proposed Settlement Agreement by no later than February 19, 2010. In the event

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that the Board requires more time to consider and dispose of any proposal that may be filed, we ask that the Board extend the filing deadlines for submissions accordingly.

We thank you for your consideration in this matter. Should you have any questions or require further information, please do not hesitate to contact me.

Yours very truly,

**BORDEN LADNER GERVAIS LLP**

*Original Signed by James C. Sidlofsky*

**James C. Sidlofsky**

JCS

Encl.

cc. Theodore Antonopoulos, Ontario Energy Board  
Khalil Viraney, Ontario Energy Board  
Lloyd Payne, Haldimand County Hydro Inc.  
Jackie Scott, Haldimand County Hydro Inc.  
Intervenors of Record

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**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 Haldimand County Hydro Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2010.

## **SETTLEMENT AGREEMENT**

**FILED FEBRUARY 12, 2010**

### **INTRODUCTION:**

Haldimand County Hydro Inc. (“HCHI”) owns and operates the electricity distribution system in its licensed service area in Haldimand County, serving approximately 20,843 customers. HCHI’s service area is 1,252 km<sup>2</sup>, and consists of a rural area of 1,216 km<sup>2</sup> and six communities: Caledonia, Cayuga, Dunnville, Hagersville, Jarvis and Townsend. HCHI is both an embedded and host distributor in relation to Hydro One Networks Inc., and is a host distributor in relation to Norfolk Power Distribution Inc.

HCHI filed an application (the “Application”) with the Ontario Energy Board (the “Board”) on August 28, 2009 under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to the rates that HCHI charges for electricity distribution, to be effective May 1, 2010. The Board assigned the File Number EB-2009-0265 to the Application. Four parties requested and were granted intervenor status: Energy Probe (“EP”); the School Energy Coalition (“Schools”); the Vulnerable Energy Consumers Coalition (“VECC”); and Lisa Pryor.

The Board issued Procedural Order No. 1 on October 14, 2009. Board staff filed interrogatories on October 27, 2009, and all registered intervenors filed interrogatories by October 30, 2009. Following receipt of an extension to the original November 16, 2009 filing deadline from the Board, HCHI filed responses to interrogatories on November 30, 2009. The Board issued Procedural Order No. 3 on December 11, 2009. That Procedural Order provided for supplemental interrogatories and a Settlement Conference. HCHI responded to supplemental interrogatories from Board Staff and certain of the intervenors on January 13, 2010 and January 19, 2010. The evidence in this proceeding (referred to here as the “Evidence”) consists of the Application and HCHI’s responses to both the initial and supplemental rounds of interrogatories.

The Settlement Conference was conducted on January 21 and 22, 2010, at the Board’s offices, with George Dominy acting as facilitator. Representatives of the Applicant and all intervenors, with the exception of Ms. Pryor, participated in the Settlement



Conference, and Board Staff participated in accordance with their role as set out in the Board's Settlement Conference Guidelines.

**A PARTIAL SETTLEMENT HAS BEEN REACHED IN THIS PROCEEDING:**

The parties that participated in the Settlement Conference are pleased to advise the Board that a partial settlement has been reached in this proceeding. This document comprises the Settlement Agreement to the Board, and it is presented jointly by HCHI and EP, Schools and VECC (collectively referred to as the "Parties"). It identifies both settled and unsettled matters, and contains such references to the Evidence as necessary to assist the Board in understanding and approving the Settlement Agreement. The Parties confirm that the Evidence filed to date in respect of that settled or partially settled issue, as supplemented in some instances by additional information recorded in this Settlement Agreement, supports the settlement or partial settlement of the matters identified in this Settlement Agreement. In addition, the Parties agree that the Evidence, supplemented where necessary by the additional information appended to this Settlement Agreement, contains sufficient detail, rationale and quality of information to allow the Board to make findings in keeping with the settlement reached by the Parties.

The Parties explicitly request that the Board consider and accept this Settlement Agreement as a package. None of the matters in respect of which a settlement has been reached is severable. Numerous compromises were made by the parties with respect to various matters to arrive at this comprehensive Settlement Agreement. The distinct issues addressed in this proposal are intricately interrelated, and reductions or increases to the agreed-upon amounts may have financial consequences in other areas of this proposal which may be unacceptable to one or more of the Parties. If the Board does not, prior to the filing of written submissions in respect of the unsettled matters, accept the Settlement Agreement in its entirety, then there is no settlement, unless the Parties agree that those portions of the Settlement Agreement that the Board does accept may continue as a valid settlement.

This having been said, Board Staff have requested that one matter be addressed with the Board pertaining to RSVA Account 1588 – Power – Subaccount Global Adjustment and more particularly, to the manner in which any balance in the Global Adjustment sub-account should be cleared. This is not a matter that is at issue for the parties, and the Board's determination with respect to this matter will not affect the settlement.

The parties agree that all positions, information, documents, negotiations and discussion of any kind whatsoever which took place or were exchanged during the settlement conference are strictly confidential and without prejudice, and inadmissible unless relevant to the resolution of any ambiguity that subsequently arises with respect to the interpretation of any provision of this Settlement Agreement. Unless stated otherwise, the settlement of any particular issue in this proceeding and the positions of the parties in this Settlement Agreement are without prejudice to the rights of parties to raise the same issue and/or to take any position thereon in any other proceedings. It is

further acknowledged and agreed that none of the Parties will withdraw from this Agreement under any circumstances, except as provided under Rule 32.05 of the Board's *Rules of Practice and Procedure*.

This Settlement Agreement provides a brief description of each of the settled, partially settled and unsettled issues, together with references to the Evidence and additional supporting material as necessary. The Parties agree that the proposed settlement achieves the Board's objectives of protecting the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service, promoting economic efficiency and cost effectiveness in the distribution of electricity, and facilitating the maintenance of the financial viability of HCHI. The Parties also agree that while HCHI has filed budgets for the Test Year that are illustrative of how it would achieve these goals, as is always the case with forward test year cost of service cases, the actual decisions as to how to allocate resources, and in what areas to spend the agreed-upon capital and operating, maintenance and administrative costs ("OM&A"), are ones that must be made by the utility during the course of the year.

Because this is a partial settlement, and certain matters that will be the subject of written submissions will have an impact on HCHI's final 2010 rates, the Parties have not appended a revised Schedule of Rates and Charges to this Settlement Agreement.

#### **ORGANIZATION AND SUMMARY OF THE SETTLEMENT AGREEMENT:**

There is no approved Issues List for this proceeding. However, for the purposes of organizing this Settlement Agreement, the Parties have followed the Board's Filing Guidelines that address all of the revenue requirement components, load forecast, deferral and variance account dispositions, cost allocation and rate design and other issues relevant to determining HCHI's 2010 distribution rates and rate riders.

The following Appendices accompany this Settlement Agreement:

- Appendix A: List of Unsettled Matters
- Appendix B: Changes to Proposed Revenue Requirement Resulting from the Settlement Agreement
- Appendix C: Updated Rate Base Calculation
- Appendix D: Updated Working Capital Calculation
- Appendix E: Updated Depreciation Calculation
- Appendix F: Updated Taxable Income and PILs/Tax Provision Calculations
- Appendix G: Updated Weighted Long Term Debt Calculation
- Appendix H: Bill Impacts

## **Unsettled Matters**

A list of the unsettled matters, which the Parties request be disposed of by way of written submissions, accompanies this Settlement Agreement as Appendix A. A summary of changes to HCHI's proposed Revenue Requirement resulting from this Settlement Agreement accompanies this Settlement Agreement as Appendix B.

## **NEXT STEPS:**

In Procedural Order No. 4, issued February 10, 2010, the Board established the following dates with respect to this Settlement Agreement and final submissions:

- The Settlement Agreement is to be filed by February 12, 2010;
- Board Staff and intervenor submissions are to be filed by February 19, 2010; and
- HCHI's reply argument is to be filed by March 5, 2010.

## **OUTLINE OF THE SETTLEMENT BY CATEGORY:**

As noted above, there is no approved Issues List for this proceeding, however, for the purposes of organizing this Settlement Agreement, the categories in the filing guidelines have been utilized.

### **1. ADMINISTRATION**

- a) **Has HCHI responded appropriately to all relevant Board directions from previous proceedings?**

**Status:** Complete Settlement

The Parties agree that there are no relevant Board directions from previous proceedings.

## 2. RATE BASE (Exhibit 2)

### a) Are HCHI's asset condition, economic and business planning assumptions appropriate? (Also Exhibit 4)

**Status:** Complete Settlement

The Parties agree that HCHI's asset condition, economic and business planning assumptions are appropriate.

**Evidence References:** Exhibit 1 / Tab 2 / Schedule 1; Exhibit 2 / Tab 1 / Schedule 1; Exhibit 2 / Tab 3 / Schedule 1, Schedule 2, and Appendix A (Distribution Asset Management Plan); and Exhibit 4 / Tab 1 / Schedule 1.

### b) Are the amounts proposed for the Rate Base appropriate?

**Status:** Partial Settlement

The Parties agree that the amounts proposed for HCHI's Rate Base are appropriate, subject to the adjustments to the Working Capital Allowance calculation set out in item 2(c) below.

Accompanying this Settlement Agreement as Appendix C is an updated calculation of HCHI's Rate Base reflecting these changes.

#### **Unsettled Issue: Rate Base**

The Parties agree that the following matter related to Rate Base will be the subject of written submissions:

- the appropriate treatment of Ontario's shift to a Harmonized Sales Tax, planned for implementation effective July 1, 2010, with respect to both capital expenditures and operating costs.

**Evidence References:** Exhibit 2 / Tab 1 / Schedule 1 and 2; Exhibit 2 / Tab 2 / Schedule 1; Exhibit 2 / Tab 4 / Schedule 1; Exhibit 4 / Tab 1 / Schedule 1; Exhibit 4 / Tab 2 / Schedule 1 to 8; Board Staff Supplemental IRR #11; and Energy Probe IRR #1.

**c) Has the Working Capital Allowance been determined appropriately? (Also Exhibit 6)**

**Status:** Complete Settlement

The Parties agree that the amount proposed for HCHI's Working Capital Allowance is appropriate, subject to the following adjustments:

- i. HCHI will use the current (the Board's October 15, 2009 Regulated Price Plan Price Report) RPP and non-RPP figures in the cost of power component of the Working Capital Allowance calculation; and
- ii. HCHI will incorporate the changes in controllable costs set out in its discussion of changes to OM&A, below, resulting from this settlement.

**Unsettled Issue: Working Capital**

The Parties agree that the following matter related to Working Capital will be the subject of written submissions:

- the appropriateness of a lead-lag study being required for HCHI's next cost of service application.

Accompanying this Settlement Agreement as Appendix D is an updated calculation of HCHI's Working Capital Allowance reflecting these changes.

**Evidence References:** Exhibit 2 / Tab 4 / Schedule 1; Board Staff IRR #6, #15, #17, and #21; Board Staff Supplemental IRR #7; Energy Probe IRR #2, #7, #16, #19, #21, and #22; Energy Probe Supplemental IRR #28, #33, #35, #37, and #38; SEC IRR #4, #5, and #6; and VECC IRR #1; and VECC Supplemental IRR #29.

**d) Are the amounts proposed for Capital Expenditures appropriate?**

**Status:** Complete Settlement

The Parties agree that the amounts proposed for HCHI's capital expenditures are appropriate.

**Evidence References:** Exhibit 2 / Tab 2 / Schedule 1 to 3; and Exhibit 2 / Tab 3 / Schedule 1, Schedule 2, and Appendix A (Distribution Asset Management Plan)

### 3. OPERATING REVENUE (Exhibit 3)

- a) **Is the load forecast and methodology (including weather normalization) appropriate?**

**Status:** Not settled.

The Parties agree that this matter will be the subject of written submissions.

**Evidence References:** Exhibit 3 / Tab 2 / Schedule 2 and Appendix A (Monthly Data Used for Regression Analysis) and Appendix B (Monthly Heating and Cooling Degree Data Used in Analysis); Board Staff IRR #8 to IRR #12; Board Staff Supplemental IRR #3 to IRR #6; Energy Probe IRR #9 to IRR #14; VECC IRR #7 to IRR #11; and VECC Supplemental IRR #31.

- b) **Are the proposed Loss Factors appropriate for conversion from purchased power to billed power? (Also Exhibit 8)**

**Status:** Complete Settlement

The Parties agree that the proposed loss factors are appropriate.

**Evidence References:** Exhibit 8 / Tab 1 / Schedule 4 and Appendix B ("Distribution Loss Assessment Study") and Appendix C ("Embedded Distributor Loss Factor Study"); and Board Staff IRR #28 to #34.

- c) **Is the proposed amount for Other Revenue appropriate?**

**Status:** Complete Settlement

The Parties have agreed that the amount proposed for other revenue is appropriate, subject to the following correction and adjustments:

- i. In the Application, at Exhibit 3, Tab 2, Schedule 1, page 7, HCHI indicated that it was including \$42,207 in revenue on account of host distribution services provided to Norfolk Power Distribution Inc. ("NPDI"). That value is incorrect, as NPDI will not be receiving services from HCHI after August of the 2010 Test Year as updated in response to Board Staff Interrogatory #14. The Parties have agreed that the correct value for the revenue to be received by HCHI from NPDI in the 2010 Test Year is \$14,068, and that this is one-time revenue, so that this offset to HCHI's distribution revenue requirement will be normalized over the four year rate period.

- ii. Accordingly, HCHI will reduce its revenue offsets by \$42,207 and then further increase its revenue offsets, reflecting two adjustments:
- \$3,517 on account of revenues from distribution service provided to NPDI; and
  - \$12,500, reflecting 50% of the salvage value of two vehicles scheduled for disposal in the 2010 Test Year. (Salvage values of two vehicles totalling \$25,000 of which the rate payers should benefit by 50% or \$12,500)
- iii. Resulting net effect to revenue offsets is a reduction of \$26,190.

**Evidence References:** Exhibit 3 / Tab 2 / Schedule 1 and Appendix A (“Embedded Distributor – NPDI Supporting Letters”); Exhibit 3 / Tab 3 / Schedule 1 and 2; Board Staff IRR #13 to #14 including Appendix D (“NPDI Correspondence – Additional”); Board Staff Supplemental IRR #22; Energy Probe IRR #6, #8, #15, and #27; Energy Probe Supplemental IRR# 32, and #34; VECC IRR #6; and VECC Supplemental IRR #30.

**d) Is the revenue from the Specific Service Charges appropriate? (Also Exhibit 6 & Exhibit 8)**

**Status:** Complete Settlement

The Parties agree that the revenue from Specific Service Charges is appropriate.

**Evidence References:** Exhibit 1 / Tab 1 / Schedule 5 / Page 2 and Appendix A / Page 4 (“Proposed Tariff of Rates and Charges”); Exhibit 3 / Tab 3 / Schedule 1 and 2.



#### 4. OPERATING COSTS (Exhibit 4)

##### a) Are the overall levels of OM&A budgets appropriate?

**Status:** Complete Settlement

The Parties have agreed that the overall level of HCHI's OM&A budget as proposed in the Application is appropriate, subject to the following:

- i. HCHI will reduce its overall 2010 Test Year OM&A expenditures by \$260,057. This represents a reduction from the \$7,651,970 proposed in the Application to a total of \$7,391,913, and incorporates the following adjustments:
  - A reduction of \$47,400 related to Board of Directors fees in respect of HCHI's parent company;
  - A reduction of \$38,835 related to a one-time cost of \$51,780 for installation of identification and danger signs on poles normalized over the 4 year rate period;
  - A reduction of \$89,822 related to ongoing tree trimming costs; and
  - A reduction of \$84,000 related to meter reading costs of \$168,000 in each of 2010 and 2011 normalized over the 4 year rate period. After 2011 these manual meter reading costs are expected to be replaced with automated meter reading costs, to be accumulated in the deferred smart meter operating costs.
- ii. As noted above, the appropriate treatment of Ontario's shift to a Harmonized Sales Tax, planned for implementation effective July 1, 2010, with respect to both capital expenditures and operating costs, will be the subject of written submissions.

**Evidence References:** Exhibit 4 / Tab 2 / Schedule 1 to 8; Board Staff IRR #6, #15, #17, and #21; Board Staff Supplemental IRR #7 and #22; Energy Probe IRR #2, #16, #19, #21, and #22; Energy Probe Supplemental IRR #28, #35, #37, and #38; SEC IRR #4, #5, and #6; and VECC IRR #1 and #13; and VECC Supplemental IRR #29.

**b) Is HCHI's depreciation policy and expenses appropriate?**

**Status:** Complete Settlement

The Parties agree that HCHI will apply the half-year rule with respect to depreciation for its 2010 capital additions, resulting in a reduction of \$115,034 in HCHI's 2010 Test Year revenue requirement. Refer to *Appendix E* for this recalculation as provided in response to Energy Probe Supplemental Interrogatory #38.

**Evidence References:** Exhibit 2 / Tab 1 / Schedule 1 / Page 5; Exhibit 4 / Tab 2 / Schedule 8; Board Staff IRR #21; Energy Probe IRR #21; and Energy Probe Supplemental IRR #38.

**c) Is the Payment in Lieu of Taxes (including methodology) appropriate?**

**Status:** Complete Settlement

The Parties have agreed that the Payment in Lieu of Taxes, including HCHI's methodology, is appropriate, subject to the following:

With respect to the following tax-related matters, the Parties have agreed as follows:

- i. Adjust taxable income for the following two items:
  - True-up of "Previous Year's Federal Tax Credits" estimated at \$6,000 and now reduced to \$4,000; and
  - Removal of the opening and closing Regulatory Asset account balances in the net amount of \$113,048 (opening balance of \$4,457,505 less closing balance of \$4,344,457).
- ii. Apprenticeship Training Tax Credit ("ATTC") and Cooperative Education Tax Credit ("CETC") recalculation due to the 2009 Ontario Budget changes recently enacted. This results in a revised credit of \$44,342 versus a credit of \$15,000 in the original application.
- iii. Use of the "new" capital cost allowance ("CCA") Class 52 "Computer Systems Software – post January 27, 2009 to February 2011" for a net reduction in CCA of \$4,302.
- iv. Elimination of the Ontario surtax claw-back effective July 1, 2010 due to the 2009 Ontario Budget changes just recently enacted. The current rate of 4.25% is to be pro-rated accordingly on taxable income amounts in excess of \$500,000 and less than \$1.5 million dollars, net of the small

business deduction on the first \$500,000 taxable income. Due to the cumulative changes to taxable income as a result of all agreed to amounts, the tax savings from the surtax claw-back are now calculated as \$20,341.

- v. Payments in Lieu of Tax ("PILs") changes as a result of the OM&A amounts as agreed to by the Parties as described above.

Revised taxable income and PILs/tax provision calculations are provided in the attached *Appendix F*.

**Evidence References:** Exhibit 4 / Tab 3 / Schedule 1 and Appendix A ("Federal and Ontario Tax Returns"); Board Staff IRR #20 (c); Board Staff Supplemental IRR #10, #12, and #22; Energy Probe IRR #23, #24, and #25; and Energy Probe Supplemental IRR #41.

## 5. COST OF CAPITAL AND CAPITAL STRUCTURE (Exhibit 5)

### a) Are the proposed Capital Structure and Rate of Return on Equity appropriate?

**Status:** Not settled.

The Parties agree that HCHI's proposed debt to equity ratio for rate making purposes of 60% to 40% is appropriate. However, the following two matters are not settled with respect to the proposed Capital Structure and Rate of Return on Equity:

- i. The debt component of HCHI's capital structure is comprised of 56% long term debt and 4% short term debt for rate making purposes. The intervenors do not agree that 4% short term debt is an appropriate amount for HCHI for rate making purposes. The Parties have agreed that this matter will be the subject of written submissions.
- ii. The Application provides for an adjustment based on the Board's updated cost of capital parameters. It is HCHI's position that the methodology for determining its Return on Equity for the 2010 Test Year is as set out in the December 11, 2009 *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities*. The intervenors do not agree that the rate should be determined as provided for in that Report. The Parties have agreed that this matter will be the subject of written submissions.

### b) Is the proposed Return on Debt appropriate?

**Status:** Complete Settlement

The Parties agree that the applicable blended long term debt rate for rate making purposes is 5.13% as updated in response to Board Staff Supplemental Interrogatory #14 and Energy Probe Supplemental Interrogatory #39(c). The Parties agree that the Board's short term debt rate for the 2010 Test Year will be as established by the Board in early 2010, in accordance with the Board's 2010 cost of capital parameters. Refer to *Appendix G* for this recalculation as provided in response to Energy Probe Supplemental Interrogatory #39.

**Evidence References:** Exhibit 5 / Tab 1 / Schedule 1 to 4; Board Staff IRR #22; Board Staff Supplemental IRR #14 and #22; Energy Probe IRR #26; Energy Probe Supplemental IRR #39, and #42; and SEC IRR #7.

## 6. CALCULATION OF REVENUE DEFICIENCY (Exhibit 6)

### a) Is the calculation of Revenue Deficiency appropriate?

**Status:** Complete Settlement

The Parties agree that HCHI's calculation of the Revenue Deficiency is appropriate. The Parties acknowledge that with changes set out in this Settlement Agreement, HCHI's revenue requirement and the revenue deficiency calculation will change, but the Parties agree that HCHI's methodology for calculating the revenue deficiency is correct.

**Evidence References:** Exhibit 6 / Tab 1 / Schedule 1; Board Staff Supplemental IRR #22; and VECC Supplemental IRR #36 (c).

### b) Is the calculation of the proposed Revenue Requirement appropriate?

**Status:** Partial Settlement

The Parties agree that the adjustments to revenue, OM&A, depreciation methodology and long term debt cost discussed in this Settlement Agreement are appropriate. All of those adjustments will have impacts on HCHI's proposed Revenue Requirement. However, certain matters that remain unsettled, such as the treatment of HST, the percentage of short term debt for rate making purposes, and the rate of return on equity, will have impacts on HCHI's Revenue Requirement. Accordingly, it is not possible to provide the Board with a final proposed calculation of HCHI's revenue requirement for the 2010 Test Year at this time. To assist the Board, however, HCHI has prepared a table setting out the revisions to the Revenue Requirement that have been agreed upon to date by the Parties, subject to any further adjustments that may arise from the Board's disposition of the unsettled issues. That table accompanies this Settlement Agreement as *Appendix B*.

**Evidence References:** Application; interrogatory responses; attachments to this Settlement Agreement.

## 7. COST ALLOCATION (Exhibit 7)

### a) Is HCHI's cost allocation appropriate?

**Status:** Complete Settlement

The Parties agree that HCHI's proposed approach to cost allocation, as modified by HCHI's response to VECC Supplemental Interrogatory #34, is appropriate. In that response, HCHI reran its 2010 Cost Allocation model and allocated distribution revenues of \$173,771 to Hydro One Networks Inc. Distribution revenues for HCHI's other customer classes were reduced accordingly in order to maintain the same total distribution revenues.

**Evidence References:** Exhibit 7 / Tab 1 / Schedule 1 to 3 and Appendix A ("2010 Cost Allocation Model"); Board Staff IRR #23, #24, and #25; Board Staff Supplemental IRR #22; VECC IRR #15, and #16; and VECC Supplemental IRR #32 and #34.

### b) Are the proposed revenue-to-cost ratios appropriate?

**Status:** Complete Settlement

The Parties have agreed that the proposed revenue-to-cost ratios are appropriate and to adjust only for the revised cost allocation calculation discussed in section 7(a) above.

**Evidence References:** Exhibit 7 / Tab 1 / Schedule 3 and Appendix A ("2010 Cost Allocation Model"); Board Staff IRR #23, #24, and #25; Board Staff Supplemental IRR #22; VECC IRR #15, and #16; and VECC Supplemental IRR #32, and #34.

## 8. RATE DESIGN (Exhibit 8)

- a) **Are the customer charges and the fixed-variable splits for each class appropriate?**

**Status:** Complete Settlement

In the Application, HCHI proposed to change the current fixed/variable proportion of the distribution revenue attributable to the Residential customer class, based on a comparison between HCHI and its peer grouping as set out in the March 20, 2008 Report prepared by the Board's consultant, Pacific Economics Group LLC (the "PEG Report"). As initially proposed, the Residential fixed/variable split would have moved from the current ratio of 32.14% fixed/67.86% variable to 53.12% fixed/46.88% variable, corresponding to the average fixed/variable split for the "Mid-Size Southern Low & Medium Undergrounding" group of distributors.

The Parties have agreed that the following adjustments to the fixed/variable revenue ratio for the Residential rate class will take place during the 2010 Test Year and the three subsequent years as follows:

2010 Test Year:	32.14% fixed / 67.86% variable (existing)
2011:	37% fixed / 63% variable
2012:	42% fixed / 58% variable
2013:	47% fixed / 53% variable

**Evidence References:** Exhibit 7 / Tab 1 / Schedule 3; Exhibit 8 / Tab 1 / Schedule 1 and Appendix A ("Residential Rate Harmonization"); Board Staff IRR #26, and #27; VECC IRR #17, and #20; and VECC Supplemental IRR #33, #35, and #36 (a), (b) & (d).

- b) **Are the customer bill impacts appropriate?**

**Status:** Complete Settlement

The bill impacts are still subject to changes based on the outcome of the items submitted to the Board for disposal of through written submissions, and the Board's decisions on any matters. However, for the purpose of settlement, the Parties agree that regardless of the ultimate determination on those issues no rate classes face bill impacts in this proceeding that require mitigation efforts. The Parties agree that the adjustment to the Residential rate class in 8(a) above and the revenue requirement reductions achieved through the settled issues provide sufficient rate mitigation. Bill impact tables illustrating customer bill impacts based on the Application; based on the settled matters as set out in the this Settlement Agreement using the Board's 2009 return on equity of 8.01%; and

based on the settled matters as set out in this Settlement Agreement using a return on equity of 9.75% are provided at Appendix H.

**Evidence References:** Exhibit 1 / Tab 2 / Schedule 1 / Table 3; Exhibit 8 / Tab 1 / Schedule 2; Exhibit 8 / Tab 1 / Schedule 8 and Appendix E ("Table of Rates and Bill Impacts"); Board Staff IRR #26 (b); VECC IRR #20 (b) & (c); and VECC Supplemental IRR #36 (a), (b), & (d).

- c) **Are the proposed Retail Transmission Service, Low Voltage Charge, Wholesale Market and Rural and Remote Rate Protection rates appropriate?**

**Status:** Complete Settlement

The Parties agree that HCHI's proposed Retail Transmission Service, Low Voltage Charge, Wholesale Market and Rural and Remote Rate Protection rates are appropriate and will be applied to all applicable rate classes. The only adjustment is as a result of the response to Board Staff Supplemental Interrogatory #15 which provided for updated information (actual data updated to November 2009) and the correction of an error in the original calculation (charged and billed determinants and the appropriate uplift for losses).

**Evidence References:** Exhibit 1 / Tab 1 / Schedule 5; Exhibit 8 / Tab 1 / Schedule 1 / Pages 11 to 12; Exhibit 8 / Tab 1 / Schedule 3 and Schedule 6; Board Staff Supplemental IRR #15, #16 and #22; and VECC IRR #18, and #19.

- d) **Are the Specific Service Charges and the Transformer Allowance appropriate?**

**Status:** Complete Settlement

The Parties agree that HCHI's Specific Service Charges and the Transformer Allowance are appropriate.

**Evidence References:** Exhibit 1 / Tab 1 / Schedule 5 / Page 2 and Appendix A / Page 4 ("Proposed Tariff of Rates and Charges").



**e) Is the Smart Meter funding adder appropriate?**

**Status:** Complete Settlement

HCHI has proposed a utility-specific Smart Meter funding adder of \$1.87. The Parties agree that HCHI's proposed Smart Meter funding adder is appropriate.

**Evidence References:** Exhibit 9 / Tab 2 / Schedule 1 to 3 and Appendix C ("Smart Meter Revenue Requirement Calculations"); and VECC IRR #21, and #22.

**f) Are the proposed Deferral and Variance Account rate riders appropriate (Also Exhibit 9)**

**Status:** Complete Settlement

The Parties agree that HCHI's Deferral and Variance Account rate riders have been appropriately calculated.

**Evidence References:** Exhibit 9 / Tab 1 / Schedule 1 to 4 and Appendix A ("Deferral and Variance Accounts – Continuity Schedule"); Board Staff IRR #35 to #40; and Board Staff Supplemental IRR #17 to #20.

## 9. DEFERRAL AND VARIANCE ACCOUNTS (Exhibit 9)

a) **Is the proposal for the amounts, disposition and continuance of HCHI's Deferral and Variance accounts appropriate?**

**Status:** Complete Settlement among the Parties, subject to submissions on a Board Staff request regarding the treatment of RSVA Account 1588 – Power – Subaccount Global Adjustment.

In the Application, HCHI had proposed to dispose of the December 31, 2008 balances, together with carrying charges calculated to April 30, 2010, over a single year in respect of the following accounts:

**Group 1:**

- 1550 Low Voltage Account
- 1580 RSVA Wholesale Market Service Charge Account
- 1584 RSVA Retail Transmission Network Charges Account
- 1586 RSVA Retail Transmission connection Charge Account
- 1588 RSVA Power (Not Including Global Adj. Sub. a/c) Account
- 1588 RSVA Power Account – Subaccount Global Adjustment
- 1590 Recovery of Regulatory Accounts Balances Account

**Group 2**

- 1508 Other Regulatory Assets Account – Pension Contributions
- 1518 RCVA Retail Account
- 1548 RCVA Service Transaction Account

In the aggregate, the balances represent a credit of \$225,476 to HCHI's customers.

In the Application, HCHI proposed to dispose of this amount over a single year. The Parties have agreed with this approach.

In the Application, HCHI acknowledges that a portion of the Account 1590 balance includes an amount transferred from Account 1570 (representing a credit of \$530,931). That portion related to Account 1570, having been collected on a per customer basis, has also been allocated on a per customer basis, with disposition being requested on a volumetric basis. The Parties have agreed that this is consistent with the Board's guidelines in this regard.

The Parties also acknowledge that Board staff may have submissions with respect to the appropriate disposition of the balance in the RSVA Account 1588 – Power – Subaccount Global Adjustment, having inquired as to whether HCHI's billing system is capable of applying an associated rate rider only to non-RPP customers. While the Parties may have submissions in this regard, HCHI notes

at this time that its billing system is not capable of creating distinctions among customers of the same rate class with respect to rate riders.. The Parties mention this matter as they have agreed it will be the subject of written submissions; however, this should be considered a severable issue; that is, the Board's determination of this matter will not affect the settlement among the parties nor the Board's approval of this Settlement Agreement.

**Evidence References:** Exhibit 9 / Tab 1 / Schedule 1 to 4 and Appendix A ("Deferral and Variance Accounts – Continuity Schedule"); Board Staff IRR #35 to #40; and Board Staff Supplemental IRR #17 to #20 and #22.

## 10. LRAM/SSM (Exhibit 10)

- a) **Are the amounts proposed for HCHI's LRAM and SSM recoveries appropriate?**

**Status:** Complete Settlement.

The Parties agree that the amount of \$357,230.14 proposed by HCHI for LRAM recovery is appropriate.

HCHI had initially proposed an amount of \$10,026.44 for recovery related to SSM. In its response to Board Staff Supplemental Interrogatory #21, that amount was reduced by \$2,466.91, for a revised total of \$7,559.53. The Parties agree that the revised amount of \$7,559.53 for SSM recovery is appropriate.

**Evidence References:** Exhibit 10 / Tab 1 / Schedule 1 to 6 and Appendix A ("EnerSpectrum Report"); Board Staff IRR #41 and #42; Board Staff Supplemental IRR #21 and #22; VECC IRR #23 to #27; and VECC Supplemental IRR #37 and #38.

## APPENDIX A

### Unsettled Matters for Written Submission

1. Lead / Lag Study – the appropriateness of a lead-lag study for HCHI’s next cost of service application.
2. Cost of Capital:
  - a. Capital Structure - The debt component of HCHI’s capital structure is comprised of 56% long term debt and 4% short term debt for rate making purposes. The intervenors do not agree that 4% short term debt is an appropriate amount for HCHI for rate making purposes. The Parties have agreed that this matter will be the subject of written submissions; and
  - b. Return on Equity – The Application provides for an adjustment based on the Board’s updated cost of capital parameters. It is HCHI's position that the methodology for determining its Return on Equity for the 2010 Test Year is as set out in the December 11, 2009 *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities*. The intervenors do not agree that the rate should be determined as provided for in that Report. The Parties have agreed that this matter will be the subject of written submissions.
3. Harmonized Sales Tax (“HST”) – the appropriate treatment of Ontario’s shift to a Harmonized Sales Tax, planned for implementation effective July 1, 2010, with respect to both capital expenditures and operating costs.
4. Load Forecast Methodology
5. RSVA Account 1588 - Power – Subaccount Global Adjustment disposition to be applied only to the non-RPP customers.  
(Note: This item is severable from the balance of the Settlement Agreement as stated on page 2 above.)

## APPENDIX B

### Changes to Proposed Revenue Requirement Resulting from the Settlement Agreement

<b>1. Revenue Requirement – Original per Application</b>		<b>\$12,823,642</b>
<b>2. Changes Resulting from the Settlement Proposal:</b>		
<b>ISSUE</b>	<b>DETAILS</b>	<b>INCREASE (DECREASE)</b>
<b>Operating, Maintenance &amp; Administrative Costs</b>		
Management Fee – HCUI	Board of Director Fee reduction from HCUI to HCHI - all except the audit fee amount of \$6,600.	\$( 47,400)
One-Time Cost – Pole Replacement Program	Reduce expense by spreading the initial pole cycle one-time cost over the 4 year rate period. $(\$51,780 / 4 * 3)$	\$( 38,835)
Tree Trimming Costs	Reduce tree trimming costs with an adjustment to the hourly rate used for the subcontractor. Base the hourly rate on an average from 2005 to 2009 historical rates multiplied by 2010 hours for annual contract costs and reduce general tree trimming costs by same % reduction.	\$( 89,822)
Meter Reading Costs	Reduce meter reading costs in 2010 for cost of conventional meter reads assuming replacement with automated meter reading costs after 2011. Normalize over the 4 year rate period.  $(\$168,000 / 4 * 2)$	\$( 84,000)
<b>Depreciation</b>		

Depreciation Expense	Adjust depreciation in application to reflect the ½ year rule (Board Policy).	\$( 115,034)
<b>Non-Distribution Revenue</b>		
Gain / Loss on Disposals	Disposition of two vehicles but have not shown a gain or loss in the original application. Estimated value of \$12,500 gain (\$0 NBV) for each of the two trucks to be sold in 2010 per historical truck disposals. Board policy from 2006 EDR that rate payers should benefit by 50% for gains or losses. (\$12,500*2*50%)	\$( 12,500)
Norfolk Power Distribution Inc. Wheeling Service Revenue	Adjust revenue amount included in original rate application as revenue offset of \$42,207 to update per Board Staff IRR#14. Adjusted revenue to be included as revenue offset normalized over the 4 year rate period. (\$14,068 / 4 = \$3,517)	\$ 38,690
<b>PIL's / Tax Provision</b>		\$(176,556)
Adjust Taxable Income	Increase for true-up of "Previous Year's Federal Tax Credits" estimated at \$6,000 reduced to \$4,000 actual; and decrease for removal of regulatory asset account balances net change of \$113,048	
Apprenticeship Training Tax Credit ("ATTC") and Cooperative Education Tax Credit ("CETC")	Recalculation due to 2009 Ontario Budget changes recently enacted. \$44,342 versus \$15,000.	
"New" CCA Class 52 – Computer Systems Software (post Jan.27/09 to Feb/11)	Utilize new CCA class 52 – reduction of CCA in 2010 of \$4,302	

Ontario Surtax Claw-back	Elimination of Ontario Surtax Claw-back, effective July 1, 2010 due to 2009 Ontario Budget Changes recently enacted for tax savings in the amount of \$20,341.	
Changes as a result of the OM&A amounts as agreed to by the Parties	OM&A decrease of \$260,057.	
<b>Cost of Capital and Capital Structure</b>		\$ (98,190)
	Recalculation of interest cost and rate on account of debenture with Haldimand County.	
	Recalculation of 2010 debenture issues with OIPC interest rates as at January 5, 2010.	
	As a result of the above two changes, weighted long term debt cost reduces to 5.13% from the 5.58% in original application.	
	Increase to cost of capital (return on equity) due to increase in rate base as a result of adopting the ½ year depreciation rule	
<b>Net change to Revenue Requirement</b>		<b>\$ (623,647)</b>
<b>3. Revenue Requirement – Revised per Settlement</b>		<b>\$12,199,995</b>



## APPENDIX C

### Rate Base Calculation

#### Summary of Rate Base

	2010 Test Year	2010 Test Year
Description	Original Per Application	Revised Per Settlement
Fixed Assets Opening Balance 2010	\$ 34,449,446	\$ 34,449,446
Fixed Assets Closing Balance 2010	\$ 34,829,661	\$ 34,944,694
Average Fixed Asset Balance for 2010	\$ 34,639,553	\$ 34,697,070
Working Capital Allowance	\$ 5,457,502	\$ 5,460,259
Rate Base	\$ 40,097,055	\$ 40,157,330
Regulated Rate of Return	6.38%	6.13%
Regulated Return on Capital	\$ 2,559,770	\$ 2,461,580
Deemed Interest Expense	\$ 1,275,060	\$ 1,174,940
Deemed Return on Equity	\$ 1,284,710	\$ 1,286,641

## APPENDIX D

### Working Capital Calculation

#### Summary of Working Capital

	2010 Test Year	2010 Test Year
Description	Original Per Application	Revised Per Settlement
<b>Distribution Expenses:</b>		
Distribution Expenses - Operation	\$ 1,437,648	\$ 1,418,231
Distribution Expenses - Maintenance	\$ 2,802,733	\$ 2,693,493
Billing and Collecting	\$ 1,403,423	\$ 1,319,423
Community Relations	\$ 46,836	\$ 46,836
Administrative and General Expenses	\$ 1,961,330	\$ 1,913,930
Taxes Other than Income Taxes	\$ 72,270	\$ 72,315
Less: Capital Taxes within 6105	\$ 18,823	\$ 18,868
<b>Total Eligible Distribution Expenses</b>	<b>\$ 7,705,417</b>	<b>\$ 7,445,359</b>
Power Supply Expenses	\$ 28,677,930	\$ 28,956,370
<b>Total Working Capital Expenses</b>	<b>\$ 36,383,347</b>	<b>\$ 36,401,729</b>
Working Capital Allowance rate of 15%	\$ 5,457,502	\$ 5,460,259

## APPENDIX E

### Depreciation Calculation with Half-Year Rule Applied

Summary - Accumulated Depreciation		2010 Test Year Original Per Application			2010 Test Year Revised Per Settlement		
As at December 31, 2010							
OEB	Description	Opening Balance	Additions to Depreciation	Closing Balance	Opening Balance	Additions to Depreciation	Closing Balance
1820	Distribution Station Equipment - Normally Primary below 50 kV	\$ 232,918	\$ 20,994	\$ 253,911	\$ 232,918	\$ 20,994	\$ 253,911
1830	Poles, Towers and Fixtures	\$ 6,717,138	\$ 822,082	\$ 7,539,220	\$ 6,717,138	\$ 807,554	\$ 7,524,692
1835	Overhead Conductors and Devices	\$ 2,701,339	\$ 438,670	\$ 3,140,010	\$ 2,701,339	\$ 427,211	\$ 3,128,551
1840	Underground Conduit	\$ 87,407	\$ 38,532	\$ 125,939	\$ 87,407	\$ 31,233	\$ 118,641
1845	Underground Conductors and Devices	\$ 2,708,694	\$ 315,275	\$ 3,023,969	\$ 2,708,694	\$ 310,985	\$ 3,019,679
1850	Line Transformers	\$ 3,351,731	\$ 450,681	\$ 3,802,412	\$ 3,351,731	\$ 440,374	\$ 3,792,105
1855	Services	\$ 538,582	\$ 101,129	\$ 639,711	\$ 538,582	\$ 97,209	\$ 635,791
1860	Meters	\$ 960,978	\$ 114,290	\$ 1,075,269	\$ 960,978	\$ 112,535	\$ 1,073,513
1906	Land Rights	\$ 194,727	\$ 17,775	\$ 212,502	\$ 194,727	\$ 17,775	\$ 212,502
1908	Buildings and Fixtures	\$ 318,071	\$ 48,015	\$ 366,086	\$ 318,071	\$ 48,015	\$ 366,086
1915	Office Furniture and Equipment	\$ 175,453	\$ 30,760	\$ 206,213	\$ 175,453	\$ 30,493	\$ 205,946
1920	Computer Equipment - Hardware	\$ 427,821	\$ 50,799	\$ 478,620	\$ 427,821	\$ 48,932	\$ 476,752
1925	Computer Software	\$ 1,155,006	\$ 388,778	\$ 1,543,784	\$ 1,155,006	\$ 345,871	\$ 1,500,878
1930	Transportation Equipment	\$ 1,022,873	\$ 177,370	\$ 1,200,243	\$ 1,022,873	\$ 160,270	\$ 1,183,143
1940	Tools, Shop and Garage Equipment	\$ 278,135	\$ 29,086	\$ 307,222	\$ 278,135	\$ 27,120	\$ 305,255
1955	Communication Equipment	\$ 66,282	\$ -	\$ 66,282	\$ 66,282	\$ -	\$ 66,282
1995	Contributions and Grants	\$ (534,082)	\$ (112,150)	\$ (646,232)	\$ (534,082)	\$ (109,518)	\$ (643,600)
	<b>Total Accumulated Depreciation</b>	<b>\$ 20,403,075</b>	<b>\$ 2,932,087</b>	<b>\$ 23,335,161</b>	<b>\$ 20,403,075</b>	<b>\$ 2,817,053</b>	<b>\$ 23,220,128</b>

## APPENDIX F

### Taxable Income and PILs/Tax Provision Calculations

Table 1 – Taxable Income

	2010 Test Year	2010 Test Year
	Original Per Application	Revised Per Settlement
<b>Income Before PILs/Taxes</b>	<b>\$ 1,284,710</b>	<b>\$ 1,286,641</b>
<b>Additions:</b>		
Amortization of tangible assets	\$ 2,932,087	\$ 2,817,053
Loss on disposal of assets	\$ -	\$ -
Taxable Capital Gains	\$ -	\$ -
Non-deductible meals and entertainment expense	\$ 9,647	\$ 9,647
Financing fees deducted in books	\$ 3,235	\$ 3,235
Prior year apprenticeship job creation tax credit	\$ 6,000	\$ 4,000
Ontario Specified Tax Credits	\$ 15,000	\$ 44,342
Regulatory Assets - Opening Balance	\$ 4,457,505	\$ -
<b>Total Additions</b>	<b>\$ 7,423,473</b>	<b>\$ 2,878,277</b>
<b>Deductions:</b>		
Gain on disposal of assets per financial statements	\$ -	\$ 25,000
Capital cost allowance from Schedule 8	\$ 2,667,679	\$ 2,663,377
Cumulative eligible capital deduction from Schedule 10 CEC	\$ 19,314	\$ 19,314
Regulatory Assets - Closing Balance	\$ 4,344,457	\$ -
<b>Total Deductions</b>	<b>\$ 7,031,450</b>	<b>\$ 2,707,691</b>
<b>REGULATORY TAXABLE INCOME</b>	<b>\$ 1,676,733</b>	<b>\$ 1,457,226</b>

**Table 2 – PILs/Tax Provision Calculations**

	2010 Test Year	2010 Test Year
	Original Per Application	Revised Per Settlement
<b>Taxable Income</b>	<b>\$ 1,676,733</b>	<b>\$ 1,457,226</b>
Combined Tax Rate		
Ontario Tax Rate	13.00%	11.48%
Federal tax rate	18.00%	18.00%
Combined tax rate	<u>31.00%</u>	<u>29.48%</u>
Total Income Taxes	\$ 519,787	\$ 429,581
Tax Credits		
Investment Tax Credits	\$ 6,000	\$ -
Miscellaneous Tax Credits	\$ 15,000	\$ 44,342
Total Tax Credits	<u>\$ 21,000</u>	<u>\$ 44,342</u>
Income Tax Provision	\$ 498,787	\$ 385,239
Income Tax Provision Gross Up	<u>69.00%</u> \$ 224,093	<u>70.52%</u> \$ 161,040
<b>Income Tax (grossed-up)</b>	<b>\$ 722,880</b>	<b>\$ 546,279</b>
<b>Ontario Capital Tax (not grossed-up)</b>	<b>\$ 18,823</b>	<b>\$ 18,868</b>
<b>PILS/TAX PROVISION FOR YEAR</b>	<b>\$ 741,703</b>	<b>\$ 565,147</b>
<b>Ontario Capital Tax</b>		
Rate Base	\$ 40,097,055	\$ 40,157,330
Less: Exemption	\$ 15,000,000	\$ 15,000,000
Taxable Capital	<u>\$ 25,097,055</u>	<u>\$ 25,157,330</u>
OCT Rate	<u>0.075%</u>	<u>0.075%</u>
Ontario Capital Tax	\$ 18,823	\$ 18,868

## APPENDIX G

### Weighted Long Term Debt Cost

#### 2010 Test Year – Original per Application

Description	Debt Holder	Date of Issuance	Principal	Term (Years)	Interest Rate %	Year Applied To	Interest Cost \$
Debenture	Haldimand County	May 1, 2000	\$ 2,556,667	10	9.75%	2010	\$ 249,275
Term Loan	CIBC	December 21, 2001	\$ 300,000	10	4.52%	2010	\$ 13,548
Debenture	Infrastructure Ontario	December 1, 2009	\$ 911,867	5	4.45%	2010	\$ 40,554
Debenture	Infrastructure Ontario	December 1, 2009	\$ 254,144	10	4.41%	2010	\$ 11,201
Debenture	Infrastructure Ontario	December 1, 2009	\$ 3,911,111	15	4.98%	2010	\$ 194,691
Debenture	Infrastructure Ontario	December 1, 2009	\$ 5,016,038	25	5.53%	2010	\$ 277,310
Debenture	Infrastructure Ontario	May 1, 2010	\$ 4,415,326	25	4.14%	2010	\$ 182,878
		<b>Total - 2010</b>	<b>\$ 17,365,152</b>				<b>\$ 969,456</b>
						<b>Weighted Debt Cost Rate - 2010</b>	<b>5.58%</b>

#### 2010 Test Year – Revised per Settlement

Description	Debt Holder	Date of Issuance	Principal	Term (Years)	Interest Rate %	Year Applied To	Interest Cost \$
Debenture	Haldimand County	May 1, 2000	\$ 2,556,667	10	6.50%	2010	\$ 166,183
Term Loan	CIBC	December 21, 2001	\$ 300,000	10	4.52%	2010	\$ 13,548
Debenture	Infrastructure Ontario	February 1, 2010	\$ 854,875	5	3.04%	2010	\$ 25,998
Debenture	Infrastructure Ontario	February 1, 2010	\$ 235,522	10	4.12%	2010	\$ 9,707
Debenture	Infrastructure Ontario	February 1, 2010	\$ 3,611,111	15	4.67%	2010	\$ 168,689
Debenture	Infrastructure Ontario	February 1, 2010	\$ 4,617,805	25	5.17%	2010	\$ 238,807
Debenture	Infrastructure Ontario	May 3, 2010	\$ 4,415,326	25	5.17%	2010	\$ 228,148
		<b>Total - 2010</b>	<b>\$ 16,591,305</b>				<b>\$ 851,079</b>
						<b>Weighted Debt Cost Rate - 2010</b>	<b>5.13%</b>

## APPENDIX H

### Bill Impacts

Customer Class	2010 Test Year								
	Original Per Application (ROE of 8.01%)			Revised Per Settlement (ROE of 8.01%)			Revised Per Settlement (ROE of 9.75%)		
	Distribution Impact Change (%)	Total Bill Impact Change (\$)	Total Bill Impact Change (%)	Distribution Impact Change (%)	Total Bill Impact Change (\$)	Total Bill Impact Change (%)	Distribution Impact Change (%)	Total Bill Impact Change (\$)	Total Bill Impact Change (%)
<b>Residential (Harmonized)</b>									
250 kWh	46.55%	\$ 10.12	23.09%	12.03%	\$ 2.93	6.61%	15.43%	\$ 3.63	8.22%
800 kWh	16.75%	\$ 7.85	6.97%	10.88%	\$ 5.57	4.90%	14.33%	\$ 6.92	6.08%
1,000 kWh	11.79%	\$ 7.02	5.11%	10.69%	\$ 6.54	4.70%	14.14%	\$ 8.11	5.83%
<b>General Service &lt; 50 kW</b>									
2,000 kWh	13.25%	\$ 12.10	4.85%	6.11%	\$ 7.28	2.88%	9.71%	\$ 9.73	3.85%
15,000 kWh	(4.11)%	\$ 7.69	0.44%	(10.43)%	\$ (16.01)	(0.91)%	(7.26)%	\$ (4.01)	(0.23)%
<b>General Service 50 to 4999 kW (non-interval)</b>									
75,000 kWh / 100 kW	(4.27)%	\$ 56.71	0.79%	(1.84)%	\$ 74.30	1.02%	1.16%	\$ 94.38	1.30%
<b>General Service 50 to 4999 kW (interval)</b>									
250,000 kWh / 500 kW	(14.05)%	\$ (84.71)	(0.33)%	(10.69)%	\$ 27.12	0.10%	(7.88)%	\$ 117.09	0.45%
<b>Unmetered Scattered Load</b>									
500 kWh	5.67%	\$ 2.01	2.99%	(1.41)%	\$ 0.48	0.70%	2.05%	\$ 1.23	1.81%
<b>Street Lighting</b>									
2,845 Connections / 200,000 kWh / 535 kW	127.55%	\$ 8,959.19	36.40%	113.73%	\$ 8,020.22	32.17%	122.79%	\$ 8,637.75	34.64%
<b>Sentinel Lights</b>									
1 Connection / 76.70 kWh / 0.21 kW	301.41%	\$ 8.63	89.22%	284.05%	\$ 8.14	83.11%	297.73%	\$ 8.53	87.06%