February 26, 2010

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

Dear Ms. Walli,

Cooperative Hydro Embrun

OEB File No. EB-2009-0132

Enclosed please find Cooperative Hydro Embrun (CHE)'s final submission in regard to its Cost of Service Application which was filed on September 17, 2009, followed by 1st Round Interrogatories filed December 22, 2009 and 2nd Round Interrogatories filed on January 27, 2010. Should you require any further information, please do not hesitate to contact Mr. Benoit Lamarche at the number below.

Yours very truly,

Benoit Lamarche
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Cooperative Hydro Embrun

REPLY SUBMISSION

2010 ELECTRICITY DISTRIBUTION RATES

EB-2009-0132

Submitted February 26, 2010

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OVERVIEW

Cooperative Hydro Embrun ("CHE") is seeking an order from the Ontario Energy Board ("the Board") approving just and reasonable rates for the distribution of electricity in the Town of Embrun effective May 1, 2010. The Cost of Service Application supporting the proposed 2010 rates ("the Application") was submitted to the Board on September 17, 2009 based on a forward test year.

The Application was supplemented by CHE's responses to two rounds of interrogations with clarification provided to Board Staff and VECC ("the other parties") in a technical conference call. Responses to the first round of interrogatories (1st IRs) from VECC and Board Staff were submitted to the Board on December 9 and December 22, 2009 respectively. Responses to a second round of interrogatories (2nd IRs) from both of the other parties were submitted on January 27, 2010.

The Application provided evidence supporting a service revenue requirement of $807,951 with revenue offsets of $41,371 resulting in a base revenue requirement to be recovered from ratepayers of $766,580. This revenue requirement reflects a revenue deficiency for 2010 of $151,359 based on existing approved rates. The following table (Table #1) provides a breakdown of the components of the Base Revenue Requirement:

Table #1 – Calculation of Base Revenue Requirement

(As filed on September 17, 2009)

OM&A Expense	$474,505
Amortization Expense	$ 134,231
Total Distribution Expenses	$ 608,736
Regulated Return on Capital	$180,857
PILS (with gross-up)	$18,358
Service Revenue Requirement	$807,951
Less: Revenue Offsets	($41,371)
Base Revenue Requirement	$766,580

In its responses to the 1st IRs from Board Staff, CHE agreed to certain changes to the Application and summarized these changes in an Appendix entitled "Summary of Proposed Updates" which listed the proposed updates and the related impacts on the revenue requirement.

During the 2nd IR process, recommendations for further changes proposed by Board Staff and VECC were made by CHE. These included adding the full year impact of PST on goods and services. The breakdown of the impacts on the Base Revenue Requirement is provided in the following table (Table #2) as shown in the "Summary of Final Submission Changes" and revised Revenue Requirement Work Form included in CHE's 2nd IR responses.

Table #2 – Calculation of Base Revenue Requirement

(As filed on January 27, 2010)

OM&A Expense	$ 513,326
Amortization Expense	$ 131,266
Total Distribution Expenses	$ 644,594
Regulated Return on Capital	$182,301
PILS (with gross-up)	$17,813
Service Revenue Requirement	$844,706
Less: Revenue Offsets	($41,371)
Base Revenue Requirement	$803,335

These results were adjusted a third time to remove the PST cost as shown in the following Summary of Approvals Requested.

SUMMARY OF APPROVALS REQUESTED

Revenue Requirement

In its final submission, CHE has adjusted its OM&A expenses to remove the PST on goods and services as explained in Section 7 and shown in Table #3 below. As a result of this change, CHE is seeking to recover a lower Base Revenue Requirement of $783,497 which includes a Revenue Deficiency in the amount of $158,151. CHE seeks approval of the proposed revenue requirement as being just and reasonable.

Table #3 – Calculation of Base Revenue Requirement

(As filed on February 26, 2010)

OM&A Expense	$ 493,727
Amortization Expense	$ 131,266
Total Distribution Expenses	$ 624,993
Regulated Return on Capital	$182,080
PILS (with gross-up)	$17,795
Service Revenue Requirement	$824,868
Less: Revenue Offsets	($41,371)
Base Revenue Requirement	$783,497

Rate Base

CHE is seeking Board approval for a Rate Base of $2,422,438 in the 2010 test year which is composed of Net Fixed Assets plus a Working Capital Allowance ("the Allowance") determine using the Board approved percentage of 15%. With the exception of an input error (Board Staff 1st IR Issue 1.2) which CHE agreed to rectify, neither Board Staff nor VECC had any concerns with CHE's capital expenditures or the non-working capital components of the rate base, i.e. gross fixed assets in service, accumulated depreciation and contributed capital. Board Staff questioned CHE's derivation of the cost of power, but concluded that the resulting Allowance using the 15% was acceptable. VECC took issue with CHE's use of the 15% despite the fact that this is a Board approved option for determining the Allowance. Since neither party provided any substantive evidence to justify changing the Allowance, CHE has applied for Board approval of the Rate Base as presented in the table (Table #4) below.

Table #4 – Calculation of Rate Base

(As filed on February 26, 2010)

		2010 Projection
Net Capital Assets in Service:		
Opening Balance		1,936,516
Ending Balance		2,017,915
Average Balance		1,977,215
Working Capital Allowance	*(see below)*	445,223
Total Rate Base		**2,422,438**

Expenses for Working Capital

Eligible Distribution Expenses:	
3500-Distribution Expenses - Operation	33,860
3550-Distribution Expenses - Maintenance	37,425
3650-Billing and Collecting	155,247
3700-Community Relations	3,000
3800-Administrative and General Expenses	264,195
3950-Taxes Other Than Income Taxes	
Total Eligible Distribution Expenses	493,727
3350-Power Supply Expenses	2,474,427
Total Expenses for Working Capital	2,968,154
Working Capital factor	15.0%
Working Capital Allowance	**445,223**

Return on Equity

In preparing its filing, CHE used a return on equity of 8.01% consistent with the rate of return on equity approved by the OEB for 2010 cost of service applications. CHE understands the Board will be finalizing the return on equity for 2010 rates based on January 2010 market interest rate information and the recent Cost of Capital Report. CHE proposes to change its ROE when preparing the draft rate order as directed by the Board's decision in this proceeding.

Load Forecast

As part of this application, CHE proposes a weather normal load forecast. Weather normalization involves removing the year-to-year variations in consumption due to weather. This is achieved by estimating a statistical relationship between observed monthly weather and observed monthly consumption. Both VECC and Board Staff have made comments regarding CHE's forecasting methodology (see sections 5 and 6). After reviewing these submissions, CHE submits that the load forecast prepared by the company's expert does not need to be changed and should be approved as proposed in the Application.

Operating and Maintenance Costs

CHE seeks Board approval for OM&A expenses totalling $493,727 in the test year. This level of spending represents an increase of $122,296 over the 2006 EDR OM&A. The major cost driver behind the increase is the cost of the 2010 rebasing filing and ongoing regulatory requirements. The forecasted regulatory cost is projected to be $66,800 in the test year of which 61,500 is attributed to the cost of rebasing (amortized over four years). CHE submits that this level of expenditure is required to operate the utility in a safe and reliable manner and that accordingly the proposed expenses should be approved.

Smart Meter Infrastructure

All of CHE's smart meters have been procured and installed in 2009 as expected when the 2010 rebasing application was prepared. Until the actual cost of installation is confirmed, CHE is requesting a utility specific rate rider of 1.33 for its smart metering infrastructure. Submissions of the various parties can be found at section 13 of this reply. CHE submits that the propose rate rider be approved.

Transmission Rates

As explained in section 11 of this reply, CHE agrees with Board Staff's recommendations in that its rates should be recalculated using current UTS charges. CHE proposes to revise its transmission rates accordingly. CHE submits that the rates proposed in response to the 1st IR be approved by the Board.

Disposal of Deferral and Variance Accounts

CHE seeks a disposal of balances of Deferral and Variance Accounts in the amount of $ 28,241 over a single year, as proposed in the "*Board's Report on Electricity Distributors' Deferral and Variance Account Review Initiative* "issued on the 31st of July 2009. Details of this amount can be found at section 14 of this reply

Cost Allocation

CHE seeks approval of its proposed cost allocation methodology and maintains that it is an appropriate cost allocation study for its 2010 cost of service rate application. In the context of a cost of service rate application based on a 2010 forward test year, the primary purpose of the cost allocation study is to determine the proportions of a distributor's total revenue requirement that are the "responsibility" of each rate class.

For the purposes of this application, a "Prospective Year CA Study" approach was used. This approach ensures compliance with the Board's direction in the Filing Requirements that the CA Study" should "reflect future loads and cost". The proposed 2010 Cost Allocation also addresses the correction to the treatment of the Transformer Ownership Allowance. Submissions from VECC can be found at section 12 of this reply. CHE submits that the propose methodology and the associated results be approved.

Rate Design

As pointed out by VECC, with the exceptions of the Residential, GS>50 classes and the USL class, CHE's general approach to rate design has been to maintain the existing fixed variable split. In its submission, VECC stated that it agrees with CHE's overall approach to setting the fixed monthly charge for each class.

Following VECC's recommendation to remove the LV charges/revenue from the determination of the fixed/variable split, CHE has agreed that VECC's proposed methodology is consistent with the Board's cost allocation model (which also excludes LV costs). CHE agrees to revise its fixed/variable split accordingly as part of the draft rate order preparation.

The following sections of CHE's submission deal with specific issues raised by Board Staff and VECC and follow the presentation sequence used in Board Staff's submission.

RATE BASE

1. Working Capital Allowance

In page 2 of its submission, Board Staff notes that while Embrun based its cost of power on a forecast of class volumes rather than a forecast of demand and energy being delivered to Embrun the resulting cost consequences provide "an acceptable estimate for working capital purposes. CHE agrees with Board Staff that this is a reasonable approach and notes that using the alternative approach was not possible since it does not have forecasted delivery demands to make such a forecast. Instead CHE developed its forecasted upstream costs by applying the proposed rates and adders for transmission, low voltage, regulatory charges and energy costs to forecasted class volumes including losses. This approach is consistent with both past and current applications before the Board.

VECC did not comment on the cost of power forecast method used by CHE but took issue with the Board approved method of estimating the working capital allowance using the 15% option rather than filing a lead-lag study as permitted in the Board's Filing Requirements for Transmission and Distribution Applications. CHE strongly objects to VECC's submission that a lead-lag study should be filed simply because the 15% option might not reflect the actual working capital requirements. CHE submits that the same conclusion could be made with respect to a working capital allowance determined by a lead lag study since the actual costs are not known until they are incurred. More importantly, it would not be prudent for a small utility to incur the significant cost of conducting a lead lag study when the Board has determined that using the 15% allowance is acceptable for ratemaking purposes. CHE notes that Board Staff did not question the use of the 15% standard allowance.

Board Staff's submissions on the loss adjustment factor and uniform transmission rates are addressed below in sections 10 and 11 respectively. Subject to the Board making any changes to these two factors, CHE submits that the Board should approve the working capital allowance as proposed since neither Board Staff or VECC provided any substantive evidence to bring into question the total amount or any component of the allowance.

2. Asset Management

As mentioned by Board Staff at page 2 of its final submission, CHE is a small utility and as such, it is very well informed on the condition of its assets. CHE stated at E2, T4, S5 that it does not feel that an official asset management plan is required at this time, nor that the cost required to implement such a formal plan can be justified or would be in the best interest of CHE's customers. Board Staff referenced evidence at E2, T6, S1 stating that in 2007, 13 out of 25 outages were caused by defective equipment. CHE would like to call attention to the total interruptions for 2006 and 2008, presented in the same schedule. CHE did not report any interruptions due to defective equipment in 2006 and 2008. In fact, CHE only reported 4 interruptions in all of 2008. CHE fully expects that on occasion, outages due to defective equipment are bound to happen, but contends that the total outages for 2008 demonstrate that overall CHE's distribution system is reliable and well maintained. However, CHE agrees with Board Staff that a more proactive approach to asset management could help to reduce equipment related outages and the company is committed to working towards improving its asset management practices in a cost-efficient manner.

CHE notes that no other comments or concerns were raised by VECC with respect to asset management and that neither VECC nor Board Staff questioned CHE's proposed capital spending, with the exception of the provincial sales tax component. CHE further notes that VECC accepts the "forecasted non-Working Capital Allowance portion of the rate base for the Test Year" and did not provide an alternative allowance amount to the one determined by the Board approved working capital allowance percentage. Since the only rate base component that VECC does not accept is the Board approved 15% working capital allowance and since Board Staff did not take a position on rate base (with the exception of the HST) or question CHE's capital spending, CHE contends that there is no evidence to support a change in the rate base proposed by the Company. Accordingly, CHE requests that the Board approve its total rate base of $2,422,438 forecast for the 2010 Test Year subject to any decision the Board may make on PST and HST recognition.

REVENUES

3. Energy Forecast

In its submission on pages 3 and 4, Board Staff discusses two concerns regarding CHE's energy forecast before concluding that "these differences are not sufficient to warrant changing the forecast". The first concern relates to data availability which staff acknowledges is a limitation that can be alleviated in the future by the introduction of smart meters. Since CHE has completed the deployment of smart meters (100%), class specific consumption data on a monthly basis will no longer be a problem.

The second concern relates to the model constant, which Board Staff pointed out has a low t-statistic. Board Staff try to link this result with the definition of heating degree days and cooling degree days. In its submission, Board Staff refer to the fact that the UK National Weather Service uses 15.5 degrees Celsius as a degree day definition. However, as CHE has already submitted in response to Board Staff IR 3, in North America, degree days are calculated based on 18 degrees Celsius. This definition is used throughout Canada by Environment Canada and a similar definition is used by the US National Weather Service throughout the USA.

Furthermore, the Board's Minimum Filing Requirements do not direct LDCs to use a degree day definition that is different from that which is generally accepted for use in Canada. Board Staff suggested a different set of degree day definitions in an interrogatory to CHE (Board Staff IR 3 (c)), namely 14 degrees Celsius for heating degree days and 23 degrees Celsius for cooling degree days. In response to this request, CHE demonstrated that its model provided very stable results with a difference from the original forecast on the order of one-tenth of one per cent. CHE believes that this should give the Board confidence in the load forecast CHE presented in its application.

CHE agrees with Board Staff's conclusions that there is no justification to change the current forecast and that future forecasts using monthly class specific information will be possible when monthly class data is readily available following the smart meter implementation.
In its submission, VECC incorrectly states in paragraph 3.1 that CHE used population in its multifactor regression equation. CHE's load forecast did not use population as an explanatory variable. VECC submits in paragraph 3.3 of its submission that there is room for improvement as pointed out by Board Staff, but it comes to the same conclusion that "the model's results provide a reasonable forecast for purposes of setting 2010 rates." CHE acknowledged that the

methodology it chose was constrained by data limitations. CHE agrees with VECC and Board Staff that the model CHE has relied on provides a reasonable forecast for the purpose of setting 2010 rates.

VECC goes on to point out what it considers a potential disconnect between the methodologies used to determine the weather normal consumption of weather sensitive classes and the other smaller classes (i.e., street lighting and USL). However, VECC does not highlight that these classes are not weather sensitive and that it is appropriate that the forecasting methodology for non-weather sensitive classes to be different than for weather sensitive classes.

In paragraph 3.5, VECC indicates that a more appropriate way to determine customer class shares would be to exclude street light and sentinel light consumption from the weather normalized wholesale forecast. VECC correctly points out that this would result in slightly higher shares for each of the weather sensitive classes. However, VECC incorrectly assumes this would "result in a slightly higher forecast of 2010 sales for these customer classes." This assumption is incorrect as the higher shares would be applied to a lower wholesale forecast for which street light consumption and USL consumption has been removed.

CHE did not remove the consumption of these 2 small classes as consumption on a monthly basis was not available. This is compensated for by the slightly lower class shares. However, CHE would like to point out that in 2008, combined consumption of the street lighting and USL classes comprised about 1.6 per cent of wholesale purchases, a percentage that is lower than distribution losses.

Based on these submissions, CHE submits that the load forecast prepared by the company's expert should be approved as proposed in the Application.

4. Customer Forecast

CHE has reviewed Board Staff's comments regarding its customer's forecasting methodology and agrees with Board Staff that the customer forecast presented in its application is reasonable.

COSTS

5. International Financial Reporting Standards

In its September 17th 2010 application, CHE applied for funding in the amount of $60,000 to be amortized over a period of 4 years. Recommendation made by both Board Staff and VECC in the first round of IRs resulted in CHE removing this cost and agreeing with Board Staff in that the use of deferral account provides a more appropriate treatment for IFRS costs.

6. Regulatory Costs

As stated in the Application and recognized by the other parties, while the proposed regulatory costs represent a significant component of the expected revenue deficiency and are the main driver of the revenue deficiency, they are necessary expenditures to prepare and file CHE's cost of service rate application given its limited resources.

The cost of the rebasing application was originally forecast to be $120,000, which VECC concluded (para. 4.6) and CHE agrees was "optimistically low". The forecast shortfall was quickly recognized and updated in the second round or IRs to include 3 years of IRM costs and to reflect the additional work required to deal with "the detail required in this cost of service application, and the diligence of the parties" and the need for CHE to rely "heavily upon consulting services for accounting and regulatory matters" as pointed on page 5 of Board Staff's submission. Additional support costs were also needed to address the revisions to minimum filing requirements released on June 30 2010 and the EDVAAR report issued July 31, 2010.

Additional care and effort was also required to complete and submit the application in English rather than in French, the primary language of CHE and its Board of Directors. This was done in an effort to save costs and facilitate the review of the Application by other parties and the Board. Cost saving is a primary objective for CHE. As a cooperative which is owned and operated by the people who use its services, CHE is constantly looking for the most appropriate cost-effective solutions and the regulatory process is no exception to that objective.

CHE does not agree with Board Staff's conclusion that a second round of interrogatories was required because the Application was "sometimes inconsistent". While there were a few inconsistencies requiring updating as there are in most applications of this size, the main reason for the supplemental IRs was to clarify what was being asked by the other parties in the first

round of IRs. CHE contends that the lack of detail and clarification in the initial responses was the result of, and occurred in direct proportion to, the vagueness and lack of specifics in the initial questions themselves.

In its submission, Board Staff also questioned why the numbers in certain tables and calculations were not fully explained and referenced. While CHE agrees that the onus is on the applicant to provide sufficient evidence to support its proposed rates, CHE submits that it would not be cost effective or practical to provide detailed explanations and references for every number filed. The main objective in CHE filling a succinct application supported by a detailed ratemaking model was to minimize the rebasing costs and assist the other parties without jeopardizing the quality of the evidence. In this regard, CHE made every effort to comply with the Board's minimum filing requirements, to provide clear complete evidence and to respond cooperatively to questions raised by the other parties.

CHE is concerned that the Board may be misled by Board Staff's comment that "the efficacy of the Application" was impaired by the lack of details and inconsistencies. CHE does not understand how Board Staff could conclude that analysis could be slowed or the application delayed to any great extent when "intuitively the exhibits could be understood" as staff acknowledged in the same paragraph on page 8 of its submission. Without belabouring the point, CHE notes that the efficiency of any regulatory proceeding is a shared responsibility and that there were areas in this proceeding where all parties could have been clearer and where their efforts could have been more material, efficient and accurate. Having said that, CHE appreciates the efforts of Board Staff and VECC to work cooperatively with CHE and its advisors and agrees with Board Staff that clearer well explained evidence should be provided in its future cost of service applications.

CHE appreciates Board Staff's understanding of the burden that a cost of service application can have on human and financial resources of such a small utility. Board Staff recognized that because CHE is operated by only 3 staff with "little internal resources to plan, develop, prepare, file and defend an application…considerable time is required by a consultant to aggregate and understand the appropriate information for a filing" of this nature (page 8). CHE also appreciates the fact that Board Staff did not recommend a reduction in the requested regulatory costs and that VECC concluded that "an increase in these costs was justified" and that the only issue was the amortization of the $246,000 total (para 4.7).

In response to VECC's comment on whether $61.5K or $67,224 was the appropriate level of regulatory costs to recover in the test year (para. 4.7), CHE confirms that the higher amount with an adjustment to remove the PST is the correct amount. Accordingly CHE is requesting that the Board approve regulatory costs of $66,800 in the Test Year and in each of the 3 consecutive years of the expected IRM term.

VECC's arithmetic is correct as "$246K over four years implies a cost of $61.5K" but this does not include the annual Board assessment of $5,300. So the appropriate annual cost without PST is $66,800 (61,500 + 5,300). The $67,224 figure includes PST on the Board assessment so $67.2K = 61.5 + (5.3 x 1.08). The $246K is made up of the $171,000 in revised rebasing costs and the $75,000 in IRM costs (3 years at $25,000).

Other Issues

In response to a VECC interrogatory (#11), CHE agreed with VECC that the OM&A charges for employee costs as shown in the Employee Cost Table (ref E4. T4. S1.A1) were unusually high for the 2010 Test Year. As a result, CHE agreed to reduce its projected employee costs for 2010 by an amount of $8208. When making this change, CHE confirmed that the cost shown in the table was not included in its 2010 Total OM&A Expenses and therefore was not include in its proposed revenue requirement. Consequently, there is no need to adjust the employee costs and CHE is seeking approval of the revenue requirement presented at Table #3 (ref page 6).

7. Impact of the Implementation of the HST

CHE has reviewed the Board's overview and interpretation of the HST implementation impacts and is seeking direction from the Board in this proceeding on the best way to conform to these requirements. Rather than estimating the expected PST payment for the first half of the test year and creating a deferral account to recover the differences during IRM term, CHE is proposing to not include any PST in its test year OM&A or capital budgets. This will result in a CHE forgoing approximately $750 in OM&A expenses and $7,643 in its capital budget, but avoiding the cost of maintaining a deferral account using external accounting services.

The alternative as suggested by VECC would be to include one half of the expected PST in the 2010 OM&A and increase the rate base by an appropriate amount with the differences between these amounts and the PST in the subsequent years recorded in a deferral account with the excess collection refunded to ratepayers when the account was cleared in a subsequent proceeding. CHE believes that its proposal to removal all of the PST is much more efficient and that ratepayers will be better off since they will pay less PST than they otherwise would.

Some clarification of the numbers is required to explain why the appropriate level of PST to be applied in the first half of the test year is only $1498. This is the amount of PST that would be paid on goods which is the comparable amount to the payments made in the previous years.

In response to a VECC interrogatory (#22), CHE estimated that $19,599 would be paid as PST on goods and services in 2010 and that this amount was included in its OM&A budget. This was incorrect as there was no PST in the original budget, and if there had been it would have applied only to goods. The majority of the $19,599 estimate was related to payments on services which would be included only under the HST regime. This is why the $19,599estimate of PST was so much higher than the PST paid previously which averaged $1714 over the last four years.

Unfortunately this oversight was not identified until after CHE updated its OM&A budget following the 2nd IRs and included the $19,599. The OM&A expanse shown in Table #3 has been revised to remove all of the PST. No adjustment was required to the 2010 capital budget or rate base as these numbers were filed without PST and were not updated to include PST following the 2nd IRs.

In their final submissions, VECC and Board Staff both took the position that the PST should be removed from the revenue requirement. VECC argued that half of the OM&A estimate should be removed and that a $7,643 reduction should be applied to the capital expenditures based on the $15,286 four-year average. Board Staff recommended that the PST on both the capital and operating budgets should be removed.

CHE agrees that the PST should be removed for both types of expenditure and that the appropriate removal amount would be based on the payments made in the latter half of 2010 with 50% being a reasonable estimate for the OM&A expenses and 25% for rate base to reflect the half-year rule. However, to simplify matters and ensure that ratepayers will not overpay, CHE proposes to remove 100% of the PST for both capital and operating expenses in the test year. This has the added benefit of eliminating the need for a variance account and subsequent disposition of excess payments.

8. Depreciation

CHE acknowledges that an amount of $4,320 was included in account 1810 (Leasehold Improvements) for two truck trailer boxes which are being used for the storage of equipment. CHE agree with Board Staff in that a more appropriate account to use for this purpose would be account 1935 - Stores Equipment. CHE would like to clarify that these trailer boxes are not fully depreciated. These expenses were incurred in 2004 and 2006 respectively whenthe appropriate lease period was determined to be 10 years. The details of the depreciation are presented in Table #5 below. CHE therefore agrees to move this balance as well as depreciation expense from 1810 to 1935.

Table #5 – Depreciation detail of Storage Equipment

Truck Trailer Boxes - asset life 10 yrs.													
YEAR													
CHANGE	Acquisition	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
2004	2808	281	281	281	281	281	281	281	281	281	281		
2005	0		0	0	0	0	0	0	0	0	0	0	
2006	1512			151	151	151	151	151	151	151	151	151	151
2007	0				0	0	0	0	0	0	0	0	0
2008						0	0	0	0	0	0	0	0
2009							0	0	0	0	0	0	0
2010													
2011													
2012													
2013													
Annual depreciation		281	281	432	432	432	432	**432**	432	432	432	151	151
Accumulated depreciation			562	994	1426	1858	2290						
Net book value			3759	3327	2895	2463	2031						

Throughout both rounds of interrogatories, CHE's depreciation expense calculations were brought into question. CHE found this strange since the expense calculations complied with the minimum filing requirements and used the Appendix 2-N of Chapter 2 of the Filing Requirements for Transmission and Distribution Applications. In the 1st IRs, Board Staff indicated that it was unable to reconcile the depreciation expense calculations and provided CHE with a different variation of the table to fill out. CHE populated the second table provided by Board Staff and provided numbers that match both the application and 1st IRs. CHE was

informed by Board Staff that there was an error in their calculations and that therefore staff would accept the evidence presented in the responses to the 1st IR.

As a result, CHE confirms the following table as its 2010 depreciation expense and seeks approval of this amount for the purpose of determining its 2010 revenue requirement. The details of the depreciation are presented in Table #6 below.

Table #6 – 2010 Depreciation Expense

			1	2	3	4	5					
Account Description - 2010	**Accumulated Amortisation**	**Amortisation Expense**	**Opening Balance**	**Retirements**	**Additions**	**Gross Assets**	**1/2 of 2010 A&R**	**Adjusted Gross Assets**	**Years**	**Depreciation Expense**		**Closing Balance**
1805 - Land			50,000.00	-		50,000.00	-	50,000.00				50,000.00
1810-Leasehold Improvements	2105	5705	4,320.00	-		4,320.00	-	4,320.00	10.00	**432.00**		4,320.00
1820-Distribution Station Equipment - Normally Primary below 50 kV	2105	5705	197,522.00	-		197,522.00	-	197,522.00	30.00	**6,584.07**		197,522.00
1825-Storage Battery Equipment	2105	5705	-	-		-	-	-	25.00	**-**		-
1830-Poles, Towers and Fixtures	2105	5705	470,477.00	-	36,000.00	506,477.00	18,000.00	488,477.00	25.00	**19,539.08**		506,477.00
1835-Overhead Conductors and Devices	2105	5705	555,174.00	-	19,500.00	574,674.00	9,750.00	564,924.00	25.00	**22,596.96**		574,674.00
1845-Underground Conductors and Devices	2105	5705	1,075,271.00	-	205,000.00	1,280,271.00	102,500.00	1,177,771.00	25.00	**47,110.84**		1,280,271.00
1850-Line Transformers	2105	5705	627,087.00	-	35,000.00	662,087.00	17,500.00	644,587.00	25.00	**25,783.48**		662,087.00
1855-Services	2105	5705	165,673.00	-	28,165.00	193,838.00	14,082.50	179,755.50	25.00	**7,190.22**		193,838.00
1860-Meters	2105	5705	79,072.00	-		79,072.00	-	79,072.00	25.00	**3,162.88**		79,072.00
1915-Office Furniture and Equipment	2105	5705	30,964.00	-	4,000.00	34,964.00	2,000.00	32,964.00	10.00	**3,296.40**		34,964.00
1920-Computer Equipment - Hardware	2105	5705	21,392.00	-	4,000.00	25,392.00	2,000.00	23,392.00	5.00	**4,678.40**		25,392.00
1925-Computer Software	2105	5705	77,843.00	-	1,000.00	78,843.00	500.00	78,343.00	5.00	**15,668.60**		78,843.00
1945-Measurement and Testing Equipment	2105	5705	4,281.00	-		4,281.00	-	4,281.00	10.00	**428.10**		4,281.00
1995-Contributions and Grants - Credit	2105	5705	(570,099.00)	-	(120,000.00)	(690,099.00)	- 60,000.00	(630,099.00)	25.00	**(25,203.96)**		(690,099.00)
			2,788,977.00	-	212,665.00	3,001,642.00	106,332.50	2,895,309.50		**131,267.07**		3,001,642.00

COST OF CAPITAL

9. Cost of Capital

CHE reviewed board staff's comments on the Capital Structure and attests that all components of the Capital Structure will be updated to reflect the Board approved equity, long term debt, and short term debt as determined in the Board's Decision in this Application in accordance with the Board's recent Cost of Capital Report.

VECC did not object to the cost of capital calculations used in CHE's application. It concurred that the appropriate rate for use in ratemaking is the Board's deemed long-term rate for 2010.

10. Loss Adjustment Factor

CHE agrees with Board Staff's outline of the 5 year average loss factor applied for in its September 17th filing, and its subsequent revision to a more reasonable 3 year average. CHE agrees with Board Staff's calculations and recommendation of 3 year average and thus proposes a loss factor of 1.0579 as presented at page 10 of Board Staff 's submissions.

11. Retail Transmission Service Rates

CHE has complied with Board Staff's recommendation that CHE recast its rate comparison using current UTS charges (i.e. the UTRs effective July 1, 2009) and RTS revenues. CHE agrees with Board Staff and submits that the rates proposed in response to the 1st IR be approved by the Board.

COST ALLOCATION

12. Revenue to Cost Ratios

While Board Staff did not comment on the Cost Allocation methodology used by CHE, VECC raised two concerns regarding CHE's approach to Cost Allocation. The first was that CHE uses ratios from its 2006 cost allocation model as the starting point for proposed revenue to cost ratio adjustments, rather than the 2010 cost allocation study with an uniform change to existing rates to achieve a 100% overall ratio. The second was that the calculation of CHE's proposed revenue to cost ratios did not include miscellaneous revenues, which is inconsistent with the approach used in the Cost Allocation model.

On the first concern, CHE believes that the ratios in its 2006 cost allocation model constitute the most appropriate reference point for determining proposed revenue to cost ratios. Chapter 2 of the Filing Requirements for Transmission and Distribution Applications provides the following direction to distributors.

> ***2.8.3 Revenue to Cost Ratios***
> *The applicant must file a table showing the following three sets of revenue to cost ratios for each customer class from:*
> - *the initial cost allocation model;*
> - *the initial cost allocation model revised with the adjusted transformer ownership allowance (where applicable); and*
> - *the updated cost allocation model (including the adjustment for the transformer ownership) proposed for the Test Year.*
>
> *The applicant must complete both tables in Appendix 2-P.*

CHE believes there is a good reason for filing the 2006 revenue to cost ratios and using them as the reference point for adjusting the revenue to cost ratios for the test year – the impact of "changes in load patterns and allocated costs between 2006 and 2010" should not be reflected in the reference point used to identify the changes in the revenue-to-cost ratios that are appropriate. If, for example, the revenue-to-cost ratio for an LDCs residential class were 95% in 2006 but increased to 105% under a hypothetical uniform rate increase for the test year, CHE believes that it would not be appropriate to propose rates that resulted in a revenue-to-cost ratio in excess of 100% for the test year. It is the revenue-to-cost ratio that resulted from the last non-IRM rate setting process (95%) that would be most appropriate to use as the reference point for determining the just and equitable revenue-to-cost ratio for the test year. In other words, if the ratio was below 100% in 2006 it should remain so for the test year.

Whatever reference point is used, it must be applied in a consistent and symmetrical manner. CHE believes that the only acceptable reference point is one that resulted from previous Board-approved rates. The revenue-to-cost ratio that results from a simple uniform increase that is neither proposed nor approved by the Board does not provide a suitable reference point for just and reasonable rates or revenue-to cost ratios.

On the second concern, CHE agrees in principle with VECC's reasoning but submits the issue is immaterial, as miscellaneous revenues constitute a very small portion of the total service revenue requirement. The following table (Table #7) shows the proposed 2010 revenue to cost ratio calculations, both excluding and including miscellaneous revenues:

Table #7 – Calculation of Base Revenue Requirement

	Base Revenue Requirement			Misc.	Service Revenue Requirement		
	Allocated Revenue (A)	Cost Allocation (B)	RC Ratio (C)	Revenues (D)	Allocated Revenue (E)	Cost Allocation (F)	RC Ratio (G)
Residential	558,783	541,451	1.03	29,331	588,114	570,783	1.03
General Service Less Than 50 kW	123,535	135,753	0.91	6,508	130,043	142,261	0.91
General Service 50 to 4,999 kW	94,320	78,418	1.20	3,201	97,521	81,619	1.19
Unmetered Scattered Load	10,981	21,520	0.51	1,403	12,384	22,923	0.54
Street Lighting	15,716	26,193	0.60	928	16,644	27,121	0.61

(A) RateMaker model sheet F4 (Rate Application - Allocated Revenue)
(B) = (F) - (D)
(C) = (A) / (B)
(D) 2010 Cost Allocation model, sheet O1 (mi)
(E) = (A) + (D)
(F) 2010 Cost Allocation model, sheet O1 (Revenue Requirement)
(G) = (E) / (F)

There are no significant difference between the ratios calculated excluding miscellaneous revenues (column C) compared to those calculated including miscellaneous revenues (column G). Indeed, a difference greater than 1% appears in only one class (Unmetered Scattered Load). CHE therefore submits its approach is reasonable and appropriate, even though it is not entirely consistent with the approach used in the cost allocation model.

RATE DESIGN

13. Smart Meter Adder

To reiterate Board Staff’s views, CHE confirms that is not seeking approval for capital and operating costs incurred to date or in 2010 in this Application, but will track actual costs and revenues received from the funding adder, in the established deferral accounts for review and disposition in a subsequent application.

CHE echoes Board Staff’s comments and confirms that it has complied with the policies and filing requirements of the Smart Meter Guideline. Actual smart meter expenditures will be subject to review when Embrun makes application to dispose of the account balances in a subsequent proceeding. CHE proposes an increase it its smart meter funding adder from $1.00 to $1.33 per month per metered customer. CHE attests that all of the smart meters in Embrun’s service territory have been installed.

DEFERRAL AND VARIANCE ACCOUNTS

14. Appropriateness of Proposed Deferral and Variance Account Balances for Disposition

In its submission, Board Staff states the following "In response to a request for Board staff's specific continuity schedule in the first round of interrogatories, Embrun provided a different set of deferral and variance account balances and these balances were again revised in a supplemental interrogatory."

In the first round of IRs, Board Staff questioned the inclusion of account 1563 and as a result, CHE removed this account from its list of accounts proposed for disposal. Board Staff also pointed out that the interest rates used by CHE did not conform to those published on the Board's website. CHE was required to revise their balances.

CHE agrees with Board Staff's in that its balances no longer reconcile with those of the audited account balances. However, CHE would like to highlight that they were not asked to provide reconciliation to specific exhibits of the application as part of the interrogatories. That being said, CHE commits to provide a detailed reconciliation of the balances proposed for disposal with the audited balances.

In Board Staff's table (presented at page 14 of Board Staff's final submission), CHE has determined that the information presented in the table is incorrect. For example, CHE did not apply to dispose of account 1555, 1556, 1565 and 1566 in its original application nor in any reply to interrogatories. In fact, E9.T3.S1 of CHE's application states the following; "CHE is not proposing to dispose of deferral accounts 1555 & 1556 until they have been audited as part of its regular annual audit in the spring of 2010." CHE also applied to dispose of account 1590 which does not appear in Board Staff's table.

CHE also questions the integrity of the numbers presented in the table. For example, the account balances for 1555 ($-16,074) and 1556 ($-16,070) presented in thetable are not the balances presented in the original application. In fact the amount of $16,074 does not appear anywhere in the Application. In addition, it appears that Board Staff did not include interest in their recovery amount in its table.

CHE's intentions with respect to the treatment of Deferral and Variance Account (DVA) are to dispose of these accounts in accordance and compliance with the EDVAAR report or any Board directive or policy that supersedes the EDVAAR report. Unless directed otherwise, CHE

proposes to comply with the EDVAAR report that states at page 13 of the report: *(<u>Board's Policy and Rationale</u>: The Board agrees that at the time of rebasing, all Account balances should be disposed of unless otherwise justified by the distributor or as required by a specific Board decision or guideline.*) and dispose of both Group1 on and Group 2, with the exception of account 1562. (*The Board has indicated that the results of the proceeding to review PILs, EB-2008-0381, will inform its policies on the disposition of balances in the PILs accounts 1562, 1563 and 1592.*). Details of these balances are provided in the table (Table #8) below.

Table #8 – Proposed DVA Balance Recoveries

(As filed on February 26, 2010)

Line	Group	Deferral / Variance Account	Recover Balance as at?	Additional Interest to 30 Apr/10?	Balance for Recovery [1]	Additional Interest for Recovery	Total Recovery Amount
1	2	1508-Other Regulatory Assets	31 Dec/08	YES	3,410	38	3,448
2	2	1518-RCVARetail	31-Dec-08		0	0	0
3	2	1525-Miscellaneous Deferred Debits	31-Dec-08		0	0	0
4	2	1548-RCVASTR	31-Dec-08		0	0	0
5	1	1550-LV Variance Account	31-Dec-08	YES	11,460	143	11,603
6	2	1565-Conservation and Demand Management Expenditures and Recoveries	31-Dec-08		8,971	0	8,971
7	2	1566-CDM Contra Account	31-Dec-08		-8,971	0	-8,971
8	1	1580-RSVAWMS	31-Dec-08	YES	10,242	112	10,355
9	2	1582-RSVAONE-TIME	31-Dec-08		0	0	0
10	1	1584-RSVANW	31-Dec-08	YES	-27,509	-349	-27,858
11	1	1586-RSVACN	31-Dec-08	YES	-44,777	-565	-45,342
12	1	1588-RSVAPOWER	31-Dec-08	YES	90,311	958	91,269
13	1	1598-1588 RSVAPOWER sub-acct GA	31-Dec-08	YES	8,454	96	8,550
14	2	2425-Other Deferred Credits			0	0	0
15		**Sub-Total for Recovery**					**52,025**
16	1	1590-Recovery of Regulatory Asset Balances (residual)	31-Dec-08	YES	-23,471	-313	-23,784
17		**Total Recoveries Required**					**28,241**
18		**Annual Recovery Amounts # years:**	**1**				**28,241**
19					Total Group 1		24,793
20					Total Group 2		3448
21					Commodity		29,503,388
22					Group 1 $/kWh		0.00084034
23					Group 2 $/kWh		0.0001166

VECC stated in its submission that it had reviewed Board Staff’s submissions on the deferral account and that it supports those submissions. CHE submits that this review must have been cursory, otherwise VECC would have noted the same inconsistencies that CHE found..

15. Deferred PILs Account

As mentioned in the reply to *14. Appropriateness of Proposed Deferral and Variance Account Balances for Disposition*, CHE proposes to remove this account from the list of accounts to be cleared at this time.

16. Account 1588

CHE agrees with Board Staff's recommendations and will comply with the Board's final decision regarding the treatment of account 1588 and its GA sub-account.

In the event that a distinct rate rider is ordered to dispose of the GA sub-account balance, the Board may wish to consider that CHE be permitted to track any incremental costs for implementing the new rate rider in a sub-account of 1508. At the time its application was submitted, CHE could not have reasonably foreseen a requirement to implement a distinct rate rider which would apply to non-RPP customers only, nor has it had the opportunity to estimate the incremental costs associated with implementing such a rate rider, thus it would be much more appropriate and fair to use a deferral account so the utility can recover the incremental costs at a later date.

All of which is respectfully submitted by CHE for the consideration of the Board.