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Ontario

BY EMAIL

April 1, 2010

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Board Staff Submission for Hydro Hawkesbury Inc; EB-2009-0186

Further to the Board's Procedural Order No. 3, dated March 30, 2010, please find attached Board staff's submission. Please forward the attached to Hydro Hawkesbury Inc. and all intervenors in this proceeding.

Yours truly,

Original Signed By

Christie Clark P. Eng.
Case Manager

Enclosure

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2010 ELECTRICITY DISTRIBUTION RATES

Hydro Hawkesbury Inc.

EB-2009-0186

April 1, 2010

Board Staff Submission
Hydro Hawkesbury Inc.
EB-2009-0186

Introduction

Hydro Hawkesbury Inc. ("Hawkesbury" or the "Applicant") is a licensed distributor of electricity providing service to consumers in its licensed service territory. Hawkesbury filed an application with the Ontario Energy Board (the "Board") on November 5, 2009 under section 78 of the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, (Schedule B) (the "Act"), seeking approval for changes to the rates that Hawkesbury charges for electricity distribution, to be effective May 1, 2010 (the "Application").

In Procedural Order No. 3, the Board ordered Board staff to file any submissions that it may have on the Application by Thursday April 1, 2010. This document provides Board staff's submission on the following broad issues:

1. Rate Base
2. Forecast
3. Operating Expenses
4. PILs
5. Cost of Capital
6. Cost Allocation and Rate Design
7. Deferral and Variance Accounts
8. Smart Meters

Rate Base

The rate base is composed of the net book value of Hawkesbury's fixed assets and the working capital allowance. The level of the net book value is set recognizing investments, retirements and depreciation. The working capital is based on the level of operation, maintenance, and administrative and general costs (“OM&A”) and the cost of power (“COP”). Board staff reviewed the levels of these costs and has submissions on Hawkesbury’s depreciation, net book value, and cost of power used for determining the working capital allowance.

Depreciation

Hawkesbury’s Application had depreciation rates that were not in compliance with those set by the Board.[1] Hawkesbury corrected the rates to those specified by the Board and provided rates for two accounts that were not specified.[2] The following are the two accounts and the proposed depreciation rates for the accounts not specified by the Board:

	Amortization	
Account	**Period**	**Rate**
1925 – Computer Software	5	20%
1995 – Contributions and Grants	25	4%

Hawkesbury pointed out that the computer software’s amortization period is the same as for new computer hardware, and that the amortization period for contributions and grants was the same as for the assets to which they apply.

Board staff submits that Hawkesbury has appropriately corrected depreciation rates and that the proposed rates for Account 1925 – Computer Software and Account 1995 - Contibutions and Grants are reasonable and the calculated depreciation based on these rates is appropriate.

Net Book Value

Board staff also was concerned about the application of the depreciation to derive the net book value. The correction to the rates not only affects the depreciation in the test year, but the depreciation in the historical years and the bridge year. Hawkesbury provided new net book values for the historical, bridge and test years by refilling the Capital Assets Continuity Statements in response to a Board staff interrogatory.[3] Hawkesbury, in its amendments to specific

[1] *2006 Electricity Distribution Rate Handbook, May 11, 2005*
[2] Response to Board staff Interrogatory 1
[3] Board staff Supplemental Interrogatory 1

supplemental interrogatories filed on March 29, 2010 proposed a new net book value for the purposes of establishing rate base.

Board staff submits that the net book value of $2,155,830 now proposed is appropriately derived.

Working Capital Allowance – Cost of Power

Hawkesbury estimated its working capital allowance by applying the Board accepted formula which is 15% of OM&A expenses and 15% of the COP.[4] The estimate of the COP component is based on the proposed rates for transmission, low voltage, regulatory charges and energy costs to forecasted class volumes including losses. Board staff requested that the COP be updated for the Uniform Transmission Rates ("UTRs") effective July 1, 2009. The COP from that calculation is $12,763,363.[5] On January 1, 2010, new UTRs came into effect as discussed in the section below on Retail Transmission Sales rates. Board staff submit that the COP should be determined using the UTRs effective January 1, 2010.

The Working Cash Allowance associated with Hawkesbury's COP is significant. Calculating the percentage of rate base from the amended statement of rate base, the working cash requirement for the COP is about 46% of rate base ($13,100,567 x 15% ÷ $4,270,262).[6] The determination of the COP is based on deliveries to Hawkesbury for all customers.[7] Hawkesbury provided the non-RPP kWh forecast to be delivered in 2010.[8] In total, 90,992,416 kWh out of a total of 161,833,200 kWh is for non-RPP deliveries. In determining the commodity cost of the COP, Hawkesbury costed the Non-RPP customers at the RPP rate. Considering the magnitude of the non-RPP customer loads, Board staff submits that the COP be adjusted to correct for any cost distortion by determining the Non-RPP portion of commodity based on estimated non-RPP costs.

[4] Exhibit 3 Tab 1 Schedule 2
[5] Board staff Interrogatory 5
[6] Exhibit 2 Tab 5 Schedule 1 Amended March 29, 2010
[7] Board staff Supplemental Interrogatory 2
[8] VECC Interrogatory #27 amended March 29, 2010

Asset Management

Hawkesbury is a small utility with three outside staff to serve about 5,300 customers over approximately 66 km of circuits. Hawkesbury experienced 7,121 customer hours of interruption for defective equipment and foreign interference in 2008.[9] This is high compared to 2007, when only 1,432 customer hours of interruption for defective equipment and foreign interference occurred.[10] While there is not a detailed history to note whether the performance measures for 2008 are unusually high or not, the response to a Board staff interrogatory indicates that performance in 2008 is considerably worse than the average of the previous three years.[11]

Hawkesbury has stated that it maintains the system to the Minimum Inspections Requirement of the Distribution System Code, and pointed to its Project/Program Classification document as a good description of its asset management practices.[12] Hawkesbury, however, has indicated that it has no asset management strategy, nor does it have performance targets.[13] The Board has recently commented on the adequacy, reliability and quality of electricity service. In the Coopérative Hydro Embrun Decision the Board stated that Embrun is to demonstrate at its next cost or service proceeding that it has developed a programmatic and proactive approach to ensuring reliability of its system.[14] While Board staff does not expect Hawkesbury to engage a consultant specifically, Board staff submits that Hawkesbury also should develop a more proactive approach.

[9] Board staff Interrogatory 7
[10] Ibid
[11] Ibid
[12] Board staff Interrogatory 6
[13] Exhibit 2 Tab 4 Schedule 5Review of Asset Management Practices of Ontario Electricity Distributors
[14] Decision Coopérative Hydro Embrun, EB-2009-0132, March 19, 2010

Forecasts

Volumetric Forecast

Hawkesbury has used a regression model developed by Elenchus Research Associates (“ERA”) to forecast its demand and energy levels for 2009 and 2010.[15] The model is a multivariate regression of monthly wholesale deliveries to Hawkesbury against six variables; heating degree days (“HDD”) and cooling degree days (“CDD”) which are both from Dorval Airport near Montréal, full time employment in the Ottawa area, peak days, and two dummy variables to explain an unusual change in energy use in May 2005 and for non-holiday weekday consumption. The period modeled was January 2004 to December 2008. The model was tested by back casting and comparing the model’s results to actual deliveries for the years 2003 to 2008 inclusive. The model’s predictive ability was measured through this back casting and the result is a mean absolute percent error of 0.9 %.

Board staff tested the model to determine if the model would perform any better with different HDDs and CDDs. The results were not significantly different from the proposed forecast. Board staff submits that the volumetric forecast of 167,650,331 kWh’s is a reasonable forecast.

Customer Forecast

Hawkesbury has forecast residential connections in 2009 to be 1.1% lower than in 2008, and growth going into 2010 that is equal to the average growth in the period of 2004 to 2008.[16] For both general service (”GS”) classes, Hawkesbury has forecast a decline in 2009 and 2010 equivalent to the decline experienced in 2008.[17] Hawkesbury had a large user that ceased operating in November 2009.[18]

[15] Weather Normalized Distribution System Load Forecast – 2010 Test Year
[16] Weather Normalized Distribution System Load Forecast – 2010 Test Year
[17] Ibid
[18] VECC Interrogatory 1 a)

In response to a VECC interrogatory Hawkesbury updated its customer count forecast for 2009 with the actual average for 2009.[19] The following table shows the difference between the forecast and the actual average for 2009:

		Col. 1	*Col. 2*	*Col. 3*	*Col. 4*	*Col. 5*
		2008	**2009 Forecast**	**2009 Actual**	**Forecast Change**	**Actual Change**
1	Residential	4,724	4,672	4,781	-52	57
2	GS<50	569	569	586	0	17
3	GS>50	79	79	81	0	2
4	Large User	1	1	1	0	0
5	Sentinal Lights	21	21	21	0	0
6	Street Lighting	1,158	1,158	1,158	0	0
7	USL	4	4	4	0	0
8	Total	6,556	6,504	6,632	-52	76

As can be seen from this table, for the residential class, Hawkesbury had an actual increase of 57 customers rather than a decline of 52 Customers as forecasted. Un-forecasted increases are seen in the general service classes as well. Board staff submits that Hawkesbury should revise the customer forecast using the 2009 actual annual average and apply to those counts the average growth rate in the period of 2004 to 2008 to establish the 2010 counts for the residential and general service classes.

Operating Expenses

Included in the operating expenses are the costs for operating and maintaining the distribution system and the administrative and general costs of the distributor. Below Board staff sets out its submissions on regulatory costs, costs incurred for the transition to international financial reporting standards ("IFRS"), and the impact for the Harmonized Sales Tax ("HST").

Regulatory Costs

Hawkesbury applied for regulatory costs of $125,000 and proposed to amortize the costs over 4 years at $31,250 per year. This cost was updated to

[19] VECC Interrogatory 4

$216,000.[20] Hawkesbury stated that the drafting of the application and the interrogatory process required more resources than first expected. In addition, Hawkesbury increased regulatory costs by $91,500 to correct for not forecasting the costs of IRM for the next three years. In total Hawkesbury is now claiming $307,500.[21] Amortized over a four year period the regulatory costs become an annual expense of $76,875. Hawkesbury noted that they are willing to remove any costs that are forecasted but may not be incurred at the end of this Application's process.[22]

Hawkesbury has relied heavily on consulting services for accounting and regulatory matters. Hawkesbury has provided sufficient details supporting the regulatory costs for both this COS application and for IRM applications for the next three years to test the estimate for reasonableness. The $76,875 represents about 6% of Hawkesbury's 2010 revenue requirement.

Board staff however notes that the evidence was not as robust as it could have been to allow clearer and easier understanding of the evidence. For example; tables and calculations were provided with little or no explanation of their derivations and references at times were internal to Elenchus' RateMaker model and had no relevance to the Exhibit numbering of the Application. Although intuitively the exhibits could be understood, this lack of explanation relating exhibits and tables, together with a lack of details for calculations slowed analysis and impaired the efficacy of the Application.

Board staff notes that the $307,000 proposed is high compared to the average regulatory costs approved by the Board in the 2009 cost of service applications of approximately $130,000. The regulatory expenses approved in a recent decision on Coopérative Hydro Embrun's 2010 COS application is $267,000.[23] Board staff submits that an that an amount no greater than $270,000 would seem appropriate for Hawkesbury.

[20] Board staff Interrogatory 11
[21] Ibid
[22] Ibid
[23] Decision Coopérative Hydro Embrun, EB-2009-0132, March 19, 2010

IFRS

Hawkesbury applied for $60,000 for IFRS conversion amortized over four years at $15,000 per year. Hawkesbury is now proposing to remove these costs and use a deferral account as stated on page 27 in the *Report of the Board Transition to International Financial Reporting Standards, EB-2009-0408, July 28, 2009.*[24] Board staff submits that this is appropriate.

Impact of the HST

The Ontario provincial sales tax ("PST") (currently at 8%) and the Federal goods and services tax ("GST") (currently at 5%) will be harmonized effective July 1, 2010, at 13%, pursuant to Ontario Bill 218 which received Royal Assent on December 15, 2009.

The PST is currently an incremental cost applied to the price of goods purchased by an electricity distributor and is included in a distributor's OM&A expenses and capital expenditures. The PST is therefore included in the distributor's revenue requirement and is recovered from ratepayers through the application of distribution rates.

When the PST and GST are harmonized, distributors will pay the HST on purchased goods and service but will now claim an input tax credit for the 8% that replaced the PST portion. The mechanics of HST as a value added tax means that the distributor will no longer incur that portion of the tax that was formerly applied as PST (i.e. the 8%) on goods purchased. However, the current rates as applied will continue to effect cost recovery as if the PST was still in place. If no action is taken, the distributor will realize a savings in the cost of goods purchased while applying rates which do not reflect those savings.

In response to an interrogatory, Hawkesbury estimated that the level of the PST included in the Application was approximately $11,079 for OM&A and $16,603 for capital expenditures ("CAPEX").[25] Board staff submits that it would be appropriate and consistent with other findings of the Board in 2010 COS applications that contained reasonable forecasts, to direct Hawkesbury to reduce its revenue requirement by the PST forecasts for both OM&A and CAPEX.

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[24] Board staff Interrogatory 12
[25] VECC Interrogatory 17

PILs

Hawkesbury's Application did not incorporate the blended tax rate reflecting the Corporate Tax Rate change for July 1, 2010 of 16% and it did not use a Capital Tax Rate of 0.150%.[26] Hawkesbury, however, has stated that it will incorporate the correct rates into its PILs calculation.[27] Board staff submits that Hawkesbury's proposal is appropriate.

Cost of Capital

Hawkesbury's Application was filed before the Board issued its memo of February 24, 2010 Re: *Cost of Capital Parameter Updates for 2010 Cost of Service Applications.* Board staff submits that Hawkesbury is to update its cost of capital to comply with the Boards new cost of capital parameters.

Cost Allocation and Rate Design

Retail Transmission Service

Hawkesbury applied for Retail Transmission Service ("RTS") Rates that were developed by adjusting the current RTS by a ratio that compares historical costs and RTS revenues from the period January 2008 to June 2009.[28] Since historical costs were used, Board staff submits that this adjustment would not bring the RTS in line with current provincial UTRs. Board staff requested Hawkesbury to recast its comparison using current UTRs (i.e. the UTRs effective July 1, 2009) and RTS revenues.[29]

Based on the Decision and Rate Order of the Board in the EB-2008-0272 proceeding, a Rate Order issued January 21, 2010 revised the UTRs effective January 1, 2010 as follows:

[26] Exhibit 4 Tab 8 Schedule 1
[27] Board staff Interrogatory 17
[28] Exhibit 8 Tab 3 Schedul1 Attachment 1
[29] Board staff Interrogatory 23

- Network Service Rate has increased from $2.66 to $2.97 per kW per month, an 11.7% increase over the July 1, 2009 level or 15.6% over the rate in effect prior to July 1, 2009;
- Line Connection Service Rate has increased from $0.70 to $0.73 per kW per month; and
- Transformation Connection Service Rate has increased from $1.57 to $1.71 per kW per month, for a combined Line and Transformation Connection Service Rates increase of 7.5% over the July 1, 2009 level or 5.2% over the rate in effect prior to July 1, 2009.

As a result of these changes in the UTRs Board staff submits that the applicant's proposed rates and working capital requirement be revised to reflect the January 1, 2010 values.

Revenue to Cost Ratios

Hawkesbury is proposing to change revenue-to-cost ("R:C") ratios from those approved in 2006. To illustrate the movement in the ratios, Hawkesbury first adjusted the allocated 2006 approved revenue requirement to reflect the change to the cost allocation model for the treatment of the transformer ownership allowance and correcting for incorrectly computed non-coincident peaks for 2006. This resulted in amended R:C ratios for 2006. Hawkesbury claims that by making these adjustments to the 2006 cost allocation model, the 2006 ratios are computed on the same basis as the 2010.

Column 1 in the following table contains the R:C ratios from the 2006 cost allocation. Column 2 are the R:C ratios for 2006 adjusted as described above. VECC requested the R:C ratios derived from uniformly increasing the 2009 rates for the deficiency, and column 4 are the proposed R:C ratios. The Board target ranges for each class is found in Column 5.

Revenue-to-Cost Ratios

	Col. 1	*Col. 2*	*Col. 3*	*Col. 4*	*Col. 5*
	2006	**2006 Adj.**	**2009 Incr.**	**2010**	**Target**
Residential	121	128	141	112	85-115
GS < 50	105	111	119	111	80-120
GS 50 4,999	42	27	29	80	80-180
Large User	160	148			85-115
Street Lighting	22	26	36	70	70-120
Sentinel Lighting	127	148	197	120	70-120
USL	6	8	198	80	80-120

The realignment of costs arising from the adjustment to the 2006 cost allocation results in significant changes to the R:C ratios, as can be seen in comparing Columns 1 and 2. The three years of IRM, in which R:C ratios are not reviewed, has resulted in most classes being out of range as seen in Column 3. Comparing Column 4 and 5 it can be seen that Hawkesbury is proposing to re-align rates such that all classes are in the target range. Board staff does not object to the re-alignment as proposed.

Deferral and Variance Accounts

Hawkesbury has applied to clear the following deferral and variance account. These balances are the December 31, 2008 principal balances and associated interest to April 31, 2010.

Deferral and Variance Account Balances to be Cleared

	$
Account 1508 - Other Regulatory Assets	46,700
Account 1518 - RCVA Retail	2,193
Account 1525 - Miscellaneous Deferred Debits	272,863
Account 1548 - RCVA STR	10,630
Account 1550 - LV Variance Account	146,492
Account 1580 - RSVA WMS	($319,467)
Account 1582 - RSVA One Time	$13,436
Account 1584 - RSCA Network	($234,322)
Account 1586 - RSVA Connection	($1,463,352)
Account 1588 - RSVA Power - excluding GA Sub -Account	($144,324)
Account 1588 - RSVA Global Adjustment Sub-Account	($252,664)
Account 1590 - Recovery of Regulatory Asset Balances	$63,003
Total	($1,858,812)

Board staff has reviewed these balances and has the following submissions:

Account 1525

Hawkesbury has applied to clear the following charges from Account 1525 – Miscellaneous Deferred Debits as of December 31, 2008:

	$
Ontario Price Credit Rebate charges	3,428
Secondary Env. Charge from Hydro One year 2005-2006	237,727
Carrying Charges up to April 30, 3010-01-12	31,708
Total	272,863

The Board has specified that this account be allocated to rate classes in proportion to the recovery share of the cheques as established when the rate riders were implemented.[30] Board staff submits that that is only appropriate for the Ontario Price Rebate Cheque and associated interest. The Secondary Environmental Charge from Hydro One was allocated on the basis of distribution revenues as found in the regulatory asset model in the 2006 EDR.[31] Board staff submits that distribution revenues is the appropriate allocator.

Account 1588 Subaccount Global Adjustment

In response to a Board staff interrogatory, Hawkesbury provided the portion of the balance that is from the Global Adjustment ("GA") sub-account and pointed out two options to dispose of this sub-account balance.[32] The first option allocates the GA to classes based on the non-RPP customers in each class, but then determines a single rate for each class which all customers, RPP and non-RPP are charged. The second option allocates the GA balance in the same manner as the first option but a separate rider is determined for non-RPP customers only. Hawkesbury is proposing the first option.

From a perspective of cost causality, Board staff submits that the GA sub-account should be collected from only the non-RPP customers. Hawkesbury allocated the costs to the classes and of the $252,645 balance in the GA sub-account, $183,295 is allocated to the GS 50 – 4,999 class.[33] Hawkesbury is forecasting that 97.9% of the volumes delivered to this class is for non-RPP volumes.[34] For all intents and purposes, this class is essentially all non-RPP customers. Board staff submits that the proposal of allocating this $183,295 to all customers would be an undue burden for the almost 4,800 residential customers.

However, an issue that arises in allocating the GA balance to only non-RPP customers is that the Large User is responsible for $54,995, and that customer

[30] *Report of the Board on Electricity Distributors' Deferral and variance Account review Initiative (EDDVAR), July 31, 2009*

[31] Amended Decision and Order Hydro Hawkesbury Inc. RB-2005-0020/EB-2005-0379 June 23, 2006

[32] Board staff Interrogatory 26

[33] Ibid

[34] VECC Interrogatory 27 Amended March 29, 2010

has stopped operating. In this specific circumstance, Board staff submits that it would be appropriate to allocate the $54,995 to all remaining non-RPP customers based on non-RPP volumes, making the rate equal for customers of all classes that are non-RPP.

Account 1590 – Recovery of Regulatory Assets

Hawkesbury's Application for Account 1590 – Recovery of Regulatory Assets was for a December 31, 2008 balance plus interest to April 30, 2010 of $26,217. In response to an interrogatory, Hawkesbury is now requesting a balance of $63,003 to be cleared. Board staff submits that this is the appropriate balance.

Recovery Period

Hawkesbury is proposing the clearing of these deferral and variance account balances over two years. The total is a credit of $1,858,812. The revenue requirement originally requested in the Application is $1,304,216. Considering the effect on rates if the accounts were cleared in one year, Board staff submit that the proposed 2 years is appropriate.

Smart Meters

Hawkesbury requested to replace the smart meter rate adder of $1.00 with a new adder of $1.51 per month per metered customer. Board staff reviewed the calculation of the adder and found the cost of capital and tax rates were incorrect. Through an interrogatory, Hawkesbury re-submitted the calculation, correcting the costs of capital costs and tax rates.[35] The rate rider now being requested is $1.48.

Hawkesbury filed evidence in accordance with section 1.4 of the *Guideline G-2008-0002: Smart Meter Funding and Cost Recovery (the "Smart Meter Guideline")*, issued October 22, 2008.[36] Hawkesbury is authorized for smart meter deployment under the amended Regulation pursuant to and in compliance with the London Hydro RFP process.

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[35] Board staff Supplemental Interrogatory 6
[36] Exhibit 9 Tab 3 Schedule 1

Hawkesbury 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.

Board staff submits that Hawkesbury has complied with the policies and filing requirements of the Smart Meter Guideline. Actual smart meter expenditures will be subject to review when Hawkesbury makes application to dispose of the account balances in a subsequent proceeding. Hence, Board staff takes no issue with Hawkesbury's proposal to increase its smart meter funding adder to $1.49 per month per metered customer.

All of which is respectfully submitted.