



Hawkesbury Hydro Inc.
850 Tupper Street
Hawkesbury, ON
K6A 3S7

April 15, 2010

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

Hawkesbury Hydro Incorporated
OEB File No. EB-2009-0186

Enclosed please find Hydro Hawkesbury Hydro (HHI)'s final submission in regard to its Cost of Service Application which was filed on November 5, 2009, followed by Responses to the 1st Round Interrogatories filed February 4, 2010 and 2nd Round Interrogatories filed on March 9th amended on March 29, 2010. Should you require any further information, please do not hesitate to contact Mr. Michel Poulin at the number below.

Yours very truly,

Michel Poulin, General Manager
Hawkesbury Hydro Inc.
850 Tupper Street
Hawkesbury, ON
K6A 3S7
(613)632-6689

Hawkesbury Hydro Incorporated

REPLY SUBMISSION

2010 ELECTRICITY DISTRIBUTION RATES

EB-2009-0186

Submitted April 15, 2010

TABLE OF CONTENT

OVERVIEW	5
SUMMARY OF APPROVALS REQUESTED	7
1.0 RATE BASE	12
1 a) Depreciation	12
1 b) Net Book Value	12
1 c) Working Cash Allowance – Cost of Power	12
1 d) Asset Management	15
2.0 FORECAST	16
2 a) Volumetric Forecast	16
2 b) Customer Forecast	18
2 c) Revenue Offset	19
3.0 OPERATING EXPENSES	20
3 a) Regulatory Expenses	20
3 b) IFRS	24
3 c) Impact of HST	24
4.0 PILS	25
5.0 COST OF CAPITAL	25
6.0 COST ALLOCATION AND RATE DESIGN	26
6 a) Retail Transmission Service	26
6 b) Revenue to Cost Ratio	26
6 c) Starting Point for Revenue to Cost Ratios	26
6 d) Loss Factor	28

6 e) Rate Design	28
6 f) LV Charges	30
7.0 DEFERRAL AND VARIANCE ACCOUNTS	31
7 a) Account 1525	32
7 b) Account 1588 Subaccount Global Adjustment	32
7 c) Account 1590 – Recovery of Reg Assets	32
7 d) Recovery Period	32
SMART METERS	33

Overview

Hawkesbury Hydro Incorporated (“HHI”) 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 Hawkesbury effective May 1, 2010. The Cost of Service Application supporting the proposed 2010 rates (“the Application”) was submitted to the Board on November 5, 2009 based on a forward test year.

The Application was supplemented by HHI’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 Board staff and VECC and were submitted to the Board on January 6, 2010 and January 7th, 2010 respectively. Responses to the second round of interrogatories (2nd IRs) from both of the other parties were submitted on March 9th, 2010.

In its November 5th 2009 application, HHI provided evidence supporting a service revenue requirement of \$1,484,212 with revenue offsets of \$179,998 resulting in a base revenue requirement to be recovered from ratepayers of \$1,304,216. This revenue requirement reflects a revenue deficiency for 2010 of \$394,455 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 November 5, 2009)

OM&A Expenses	965,143
3850-Amortization Expense	175,480
Total Distribution Expenses	1,140,623
Regulated Return On Capital	311,968
PILs (with gross-up)	31,623
Service Revenue Requirement	1,484,214
Less: Revenue Offsets	179,998
Base Revenue Requirement	1,304,216

In its responses to the 1st IRs from Board staff, HHI 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 HHI. As described by VECC, A teleconference call to clarify supplemental interrogatories took place on March 29, 2010. Following the conference call, HHI provided “Amendments to Responses to Board staff Supplemental Interrogatories” and “Amendments to Responses to VECC Supplemental Interrogatories.” The table presented below is consistent with the revised Revenue Requirement Work Form included in HHI’s Amendment to the Supplemental Interrogatories.

Table #2 – Calculation of Base Revenue Requirement

(As filed on March 9th, 2010)

OM&A Expenses	995,643
3850-Amortization Expense	169,798
Total Distribution Expenses	1,165,441
Regulated Return On Capital	321,312
PILs (with gross-up)	31,623
Service Revenue Requirement	1,518,375
Less: Revenue Offsets	179,998
Base Revenue Requirement	1,338,377

Summary of Approvals Requested

Revenue Requirement

In its final submission, HHI has adjusted its OM&A expenses to remove the PST on goods and services as explained at Section 3.c ; has proposed a reduction of its regulatory expenses and costs related to LEAP (see Section 3.a); has updated the cost of capital as per explained at Section 5 . The final change was to rectify an input error in its Revenue Offsets (see Section 2.c). As a result of these changes, HHI is seeking to recover a lower Base Revenue Requirement of \$1,318,040 which includes a Gross Revenue Deficiency in the amount of \$366,848.

HHI seeks approval of the proposed revenue requirement as being just and reasonable.

Table #3 – Calculation of Base Revenue Requirement

(As filed on April 15, 2010)

OM&A Expenses	973,540
3850-Amortization Expense	169,355
Total Distribution Expenses	1,142,895
Regulated Return On Capital	311,414
PILs (with gross-up)	37,150
Service Revenue Requirement	1,491,459
Less: Revenue Offsets	173,420
Base Revenue Requirement	1,318,040

Rate Base

HHI seeks Board approval for a Rate Base of \$4,260,113 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 Cost of Power component of the Working Capital Allowance which is discussed in detail at Section 1.c of this reply submission, neither Board staff nor VECC had any concerns with HHI’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. Neither VECC nor Board staff took issue with HHI’s use of the 15% as it is a Board approved option for determining the Allowance. HHI is therefore requests that the Board approves the Rate Base as presented in the table (Table #4) below.

Table #4 – Calculation of Rate Base

(As filed on April 15, 2010)

<i>Net Capital Assets in Service:</i>	
Opening Balance	2,057,629
Ending Balance	2,243,395
Average Balance	2,150,512
Working Capital Allowance	2,109,601
Total Rate Base	4,260,113

Expenses for Working Capital

<u><i>Eligible Distribution Expenses:</i></u>	
3500-Distribution Expenses - Operation	75,463
3550-Distribution Expenses - Maintenance	171,887
3650-Billing and Collecting	310,969
3700-Community Relations	608
3800-Administrative and General Expenses	386,351
3950-Taxes Other Than Income Taxes	28,262
Total Eligible Distribution Expenses	973,540
3350-Power Supply Expenses	13,090,467
Total Expenses for Working Capital	14,064,007
Working Capital factor	15.0%
Working Capital Allowance	2,109,601

Forecast

As part of this application, HHI 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 HHI's forecasting methodology. After reviewing these submissions, HHI 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. Further details are presented at Section 2 of this submission

Operating Expenses

HHI seeks Board approval for OM&A expenses totalling \$973,540 in the test year. This level of spending represents an increase of \$155,466 over the 2006 EDR OM&A. One of the major cost drivers behind the increase is the cost of the 2010 rebasing filing and ongoing regulatory requirements. The forecasted regulatory cost is projected to be \$291,000 in the test year of which \$280,430 is attributed to the cost of rebasing (amortized over four years). HHI submits that the overall level of OM&A expenditure is required to operate the utility in a safe and reliable manner and to remain in compliance with regulation. Therefore, HHI respectfully requests that proposed expenses be approved. Other aspects of Operating Expenses such as IFRS and impact of HST are discussed further at Section 3 of this reply submission.

PILs

HHI submits the proposed PILs component of the Revenue Requirement presented at Page 3 of this submission reflects the blended Corporate Tax Rate of 16% as proposed by Board staff and accepted by VECC.

Cost of Capital

HHI submits that it has updated its cost of capital to comply with the Boards new cost of capital parameters issued February 24, 2010 as proposed by Board staff and accepted by VECC.

Transmission Rates

HHI submits that the rates proposed in response to the 2st IR were based on the current UTS charges and thus requests that they be approved by the Board. Further details are provided at [Section 6 a](#) of this reply submission

Cost Allocation

HHI 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 required correction to the treatment of the Transformer Ownership Allowance. Board staff had no objections to HHI's realignment of the rates since all of the proposed rates are in the Board approved target range. Submissions addressing VECC's concerns can be found at [Section 6 c](#) of this reply. HHI submits that the propose methodology and the associated results be approved.

Rate Design

HHI is proposing to change the existing (F/V Split) by increasing the fixed component percentage, bringing it closer to the F/V Split used by its cohorts and neighbouring utilities. HHI's submits that its proposed rates fall well within, and is still at the lower end of the Cost Allocation results and the Board's recommended range for service charges. HHI submits that its proposed fixed-variable split is warranted, justified and appropriate and respectfully requests that the Board approves the proposed F/V Split. Further details can be found at [Section 6 b](#) of this reply submission.

HHI has agreed to remove the LV charges/revenue from the determination of the fixed/variable split and submits that this methodology is consistent with the Board's cost

allocation model (which also excludes LV costs). Further details on this matter can be found at Section 6 b of this reply submission.

Deferral and Variance Accounts

HHI seeks to dispose of its balances of Deferral and Variance Accounts in the amount of \$1,858,812 over two years. HHI would like to add that although it is not proposing to change the period, for which it proposing to disposes of its balances over, it is open to the disposal period being 3 or 4 years but only if the Board deems it beneficial to HHI's customers. (Given the size of the balance relative to the size of HHI's customer base, even a two year disposition would expose ratepayers to significant bill increases in year three of the IRM). Further details can be found at Section 7 of this reply submission.

Smart Meters

HHI is described as a smart meter "implementing" utility. At year end 2009, HHI will have deployed and installed 1500 meters and plans to deploy the remainder (3225) during the test year. HHI is requesting a utility specific rate rider of \$1.45¹ for its smart metering infrastructure. Further details can be found at Section 8 of this reply. HHI submits that the propose rate rider be approved.

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

¹ Ref: EB-2009_0186_Bd Staff_Suppl_IR_Amendments_032910 filed March 29th. 2009

1. Rate Base

a. Depreciation

HHI agrees with Board staff in that; in its November 5th 2009 filing, two of its depreciation rates were not in compliance with the Board Approved rates, specifically Account 1925 – Computer Software and Account 1995 - Contributions and Grants. These rates were corrected as part of the responses in the first round of interrogatories and the depreciation was recalculated on that basis. HHI therefore submits that the recalculated depreciation for the 2010 test year, as presented by Board staff, is correct and appropriately derived.

b. Net Book Value

HHI also agrees with Board staff in that the Net Book Value presented as part of the Amendments to Supplemental IRs is in fact accurate and based on approved depreciation rates. HHI's therefore submits that the net book value as presented by Board staff, is correct and appropriately derived for the purposes of determining rates for the 2010 test year.

c. Working Capital Allowance – Cost of Power

As confirmed by Board staff at page 3 of its submission, Hawkesbury estimated its working capital allowance by applying the Board accepted formula which is 15% of OM&A expenses and 15% of the Cost of Power ("COP"). 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. At the same page, Board staff submit that the COP should be determined using the UTRs effective January 1, 2010. HHI submits that the RTS proposed as part of its Responses to 1st IRs, filed February 4th, 2010 were consistent with the January 1, 2010 UTRs². The

² Ref Section 5; Issue 5.1 Rate Design of document entitled: 2009-0186 Bd Staff_IR_Hawkesbury_Responses_20100204)

table (Table #5) below shows the UTRs HHI used to calculate its proposed Retail Transmission Service Rates.

Table #5 – UTR Rates

	<u>Monthly Rate (\$ per kW)</u>
Network Service Rate (PTS-N): \$ Per kW of Network Billing Demand ^{1,2}	2.97
Line Connection Service Rate (PTS-L): \$ Per kW of Line Connection Billing Demand ^{1,3}	0.73
Transformation Connection Service Rate (PTS-T): \$ Per kW of Transformation Connection Billing Demand ^{1,3,4}	1.71

Accordingly, HHI submits that these are the appropriate numbers to use when determining the Working Capital Allowance for the 2010 test year.

Board staff also commented on the significance of Working Cash Allowance associated with Hawkesbury’s COP and suggested that the COP be adjusted to correct for any cost distortion caused by using RPP to estimate the Non-RPP portion of commodity costs.

RPP pricing has previously been used as the common proxy for the commodity price estimate in the WCA calculation in past applications, and has been accepted as such by the Board in both previous and current decisions. Since settlements with the IESO for non-RPP volumes are based on HOEP plus a Global Adjustment not non-RPP costs, it seems reasonable for the Board to continue to use its current approach of allowing distributors to estimate their COP using RPP for all volumes.

On that basis, HHI is of the opinion that a more general review of the WCA methodology is warranted before changes to the Board’s accepted practice are implemented and requests that the Board accept HHI’s energy projections as proposed. Until such a review is completed, HHI does not think it would be fair for it be made to recalculate its WCA in a way that is different than the accepted practice of the Board by recognizing the split between RPP and non-RPP customers

In responses to VECC's comment (2.14) regarding the projected LV cost for 2010, HHI confirms that it has revised its LV cost to reflect a more appropriate derived figure of \$60,500. This revision is reflected in WCA portion of the rate base presented in the overview section of this submission. HHI submits that no further changes are required.

VECC submitted at section 2.15 that a lead-lag study should be conducted and filed as part of its next rebasing. HHI 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. HHI 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. In the Embrun Decision and Order, the Board stated that the Board expects to initiate a generic consultation to examine working capital methodologies in advance of the utility in question's next cost of service filing. Accordingly the Board did not require Embrun to perform its own lead lag study at this time. Therefore, HHI submits that a lead-lag study should not be required from HHI either at this time.

d. Asset Management

With the exception of the unusual high level of hours of outages in comparison to 2007, Board staff and VECC did not raise any concerns with respect to HHI's management of its distribution assets. HHI would like to add that out of the 7121 hours of interruption for 2008, 2633 hours were attributed to damage caused by a racoon in the substation. An incident as such is considered to be beyond the distributor's control and is bound to happen once in a while. In paragraph 2.7 on page 5 of its submission, VECC accepted HHI as a good candidate for minimum inspections requirement given its size. VECC recommended at page 5 of its final submission that a high level "Threshold Study" be conducted. HHI agrees that on occasion, outages due to defective equipment can be higher than normal, but contends that with the exception of 2008, HHI's distribution system is reliable and well maintained. That being said, HHI also agrees with Board staff that a more proactive approach to asset management could help to reduce equipment related outages. HHI therefore submits that it will continue to work diligently towards improving its asset management practices in a cost-efficient manner and will conduct an outage review and report any unusually high outages to the Board in its next cost of service application.

HHI notes that no comments or concerns were raised by VECC with respect to HHI's proposed capital spending, with the exception of the provincial sales tax component. Board staff took no issue with the capital expenditures either.

2. Forecast

a. Volumetric Forecast

Both Board staff and VECC agree that HHI's proposed volumetric forecast of 167,650,331 kWh's provides a reasonable basis for setting the 2010 rates.

Board staff submits that the volumetric forecast of 167,650,331 kWh (as submitted by Hydro Hawkesbury Inc.) is a reasonable forecast.³ This is equivalent to retail billed energy forecast of 161,833,200 kWh (distribution sales, exclusive of losses).

VECC noted that the regression model used to predict total weather normalized purchases has an R-squared value of over 95% and that the coefficients are all statistically significant and intuitively correct. VECC submitted that the model should provide a reasonable forecast for the purposes of setting 2010 rates.⁴

In response to VECC's comment that Hawkesbury's approach to determining the 2010 weather normalized use by class is simplistic, HHI's load forecast expert notes that it is desirable to isolate demand determinants related to individual rate classes, such as residential, commercial, and industrial, since demand determinants and weather sensitivity may be different for each of these classes. However, due to data limitations, specifically, the fact that class specific kWh is available on an annual basis only, this simplifying assumption had to be made.⁵ Full implementation of smart meters and associated data management should preclude the need to do this in future applications.

VECC also states that implicit in using the Residential, GS<50 and GS>50 actual sales as a percentage of total purchases is the assumption that the sales to all

³ Board staff Submission, p.6.

⁴ VECC Final Submissions, p.6.

⁵ Exhibit 3/Tab 1/Schedule 1/Attachment 1 (ERA Report), p.2.

customer classes vary with the weather.⁶ This is incorrect. The variation due to weather in the forecast load is due solely to weather sensitive load. Street lighting and sentinel lighting and USL loads do not fluctuate due to degree day variations and do not contribute to the weather sensitivity of the forecast load.

VECC notes that the recent 2010 Budget delivered by the Provincial Government forecast employment growth of 1.1% in Ontario in 2010. Since this is higher growth than the forecast used in Hawkesbury's application VECC suggests the Board direct Hawkesbury to revise its load forecast for the updated employment projection or alternatively make a "bottom line" adjustment to the existing forecast using a "rough estimate" of the impact.⁷

Hydro Hawkesbury believes VECC's submissions on the employment forecast are incorrect for several reasons. When initially preparing the load forecast, Hawkesbury and its consultant used an average of the most current available forecasts for employment from 4 separate impartial private sector forecasts available to the public (BMO Capital Markets Economics, RBC Economics, Scotia Economics and TD Economics).⁸ The Ontario Provincial Budget documents may be considered a political document with the incentive to overestimate potential economic growth. For example, the 2009 Provincial Budget forecast 2009 employment at -2.0 per cent.⁹ The actual employment for 2009 came in at -2.4 per cent.¹⁰ Furthermore, there are a range of forecasts available and taking an average of these forecasts is a more appropriate approach than relying upon a single forecast. Finally, the Ontario Budget was released on March 26, 2010, long after the majority of this case has concluded. Hawkesbury Hydro and its consultant used the most up-to-date forecasts available at the time of application for the test year. It is in the nature of a future test year application that forecast information could change. It is also unfair to impose a

⁶ VECC Final Submission, p.6.

⁷ VECC Final Submission, p.7.

⁸ Exhibit 3/Tab 1/Schedule 1/Attachment 1 (ERA Report), p.8.

⁹ see Table 5 at <http://www.fin.gov.on.ca/en/budget/ontariobudgets/2009/chpt2.html#secc>.

¹⁰ http://www.fin.gov.on.ca/en/budget/ontariobudgets/2010/ch2c.html#c2_secC_table5.

specific forecast on Hawkesbury that has not been tested before the Board and, which would not be available for any other 2010 test year filer adjudicated before March 26, 2010. For these reasons, we urge the Board to reject VECC's arguments on the employment forecast. We recommend that the Board approve the forecast as proposed by HHI and supported by Board staff's submission that the volumetric forecast put forward is a reasonable forecast.

b. Customer Forecast

Based on actual customer counts for 2009 filed by Hawkesbury in response to VECC Interrogatory #4, Board staff submits that Hawkesbury should revise the customer forecast using 2009 actual customers and apply the average growth rate in the period of 2004 to 2008 to establish the 2010 counts for the residential and general service classes.¹¹ VECC agrees with Board staff's submission.¹²

The economy of eastern Prescott-Russell (Hawkesbury area) has been hit hard by closures and job losses and recent press reports in local media show little optimism for the regional outlook as recently as late March 2010.¹³ In Hawkesbury, there have been several high profile closures reported in the press including the Pittsburg Glass Works (PGW) closure laying off about 160 employees (as high as 545 in 2005)¹⁴, the ECP closure laying off the remaining 40 employees (at one time as high as 200). Montebello packaging in Hawkesbury also announced a layoff of about 75 for an indefinite period of time.¹⁵ Ivaco, a major employer in nearby L'Orignal has also suffered layoffs. In this environment, there is little prospect for continued growth. Several new residential connections that occurred in 2009 are as a result of construction planned in 2008 being completed. It is unrealistic to assume growth that

¹¹ Board staff Submission, p.7.

¹² VECC Final Submissions, p.8.

¹³ <http://thereview.ca/story/%E2%80%98we-built-place-scratch-%E2%80%A6-it-was-sad-tear-it-down%E2%80%99>.

¹⁴ <http://thereview.ca/story/sad-day-workers-pgw-closes-hawkesbury>.

¹⁵ <http://www.reviewbizlist.com/article/outlook-good-for-those-left-jobless.html>.

occurred in mid-decade will continue in 2010. Indeed, there are some GS<50, GS>50 and residential properties that are connected but vacant. There is some small risk that a few of these properties may be abandoned or demolished which could lead to a decrease in connections. Hawkesbury submits that the Board should accept the 2010 customer forecast as filed.

c. Revenue Offset

In HHI's response to a 1st round IR, HHI revised its estimated 2010 revenues and costs related to Merchandising and Jobbing to \$64,902.73 and \$51,480.84 respectively instead of \$45,000 and \$25,000. When updating its model, HHI inputted the \$51,480 as a credit instead of a debit which caused the impact to Revenue Requirement to be unusually high. The revised impact on HHI's revenue requirement is a reduction of approximately \$5,500 (factoring the adjustment to PILs). HHI remarks that this request for clarification could have more appropriately brought up by VECC during the 2nd IR or the conference call as opposed to final submissions.

3. Operating Expenses

a. 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 HHI's cost of service rate application given its limited resources.

The cost of the rebasing application was originally forecast to be \$125,000, which all parties agreed was "optimistically low". The forecast shortfall was quickly identified and updated in the first round of 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 HHI to rely "heavily upon consulting services for accounting and regulatory matters" as pointed on page 7 of Board staff's submission. Additional support services were also needed to address the revisions to minimum filing requirements released on June 30 2010 and the EDVAAR report issued July 31, 2010

Similarly to Embrun's application, a great amount of time, care and effort was also required to complete and submit the application in English rather than in French, the primary language of HHI 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 also a primary objective for HHI and regulatory process is no exception to that objective.

In its submission, Board staff questioned why the numbers in certain tables and calculations were not fully explained and referenced. While HHI agrees that the onus is on the applicant to provide sufficient evidence to support its proposed rates, HHI submits that it would not be cost effective or practical to provide detailed explanations and references for every number filed. The main objective in HHI filing 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, HHI 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.

Again, similarly to Embrun's final submission, HHI 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 for calculations. HHI 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 7 of its submission.

HHI agrees with Embrun in 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.

HHI 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 and likewise appreciates Board staff's recognition that 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. HHI has considered Board staff's recommendation to cap the regulatory costs at 270,000 (\$3,000 more than Embrun) and offers the following comments to explain why the costs were higher in this proceeding.

As pointed out by Board staff, HHI relies entirely on consultants to draft the evidence required to assemble an application that is clear and comprehensive. Hawkesbury Hydro's application was considerably larger than Embrun (by 200 pages), as was the total number of interrogatories and size of the final submissions from Board staff and VECC. All the above caused an increase in the use of external resources. It is also important to point out that HHI also suffered the loss of a large user which in turn

affected a significant portion of the application, especially with respect to the Load Forecast and Cost Allocation.

The percentage of revenue requirement attributed to the cost of regulation and its impact on HHI's customers is not lost on HHI. However, the inability to recover costs causes a greater concern to the company as it could impair its ability to meet its capital requirements and operate the utility in a safe and reliable manner.

In an effort to reduce its forecasted costs, HHI proposes to reduce the IRM component of the regulatory cost to be more in line with Embrun's projections. (3x\$25,000). This reduction cause the \$37,000 gap between the applied for regulatory costs and costs proposed by Board staff to be reduced to \$21,000. HHI therefore respectfully requests that the amount of \$291,000 be approved and assures all parties that subsequent cost of service application will be clearer and better explained. As it was pointed out in Embrun's decision, this year's application should be a learning experience which will enable, in this case Hawkesbury's internal resources, to substantially complete rate applications in subsequent years.

VECC presented several comments on the issue of compounded annual growth rate. HHI agrees with VECC's figure of a compounded annual growth rate of 4.25% and confirms that it calculated the compound rate over 4 periods instead of 3 periods (2006-2009) and that its compounded annual growth rate over the period of 2004 to 2009 is in fact 4.43%. HHI would like to reiterate that with only 5 office employees, which 3 are customer service representatives, this small utility manages to support its services territory, comply with the a significant increase in of government, regulatory and accounting requirements as well if not better than larger utilities. HHI's workforce strives on managing and operating a highly efficient, cost effective, distribution utility serving more customers per FTEE than larger distributors, this without the assistance of shared services and internal resources . HHI's economies are gained through the prudent purchases of necessary outside services such a s regulatory and accounting services. With all of these duties and shared responsibilities, HHI contends that if anything, its employees are underpaid and the costs have been managed prudently.

HHI strongly opposes VECC's recommendation for a review with respect to the control and controllable costs in its next rebasing application. HHI, like any other distribution utility, will be prepared to explain and justify its costs to the Board regardless of whether the increases are above or below the general rate of inflation.

VECC pointed out that in view of the lack of government initiated programs with respect to LEAP, it proposes that the \$2,000 originally projected be removed from the revenue requirements.

HHI fully expects that a government initiative related to LEAP will be announced between the test year and HHI's next cost of service application. Since HHI does not have the internal resources to address issues such as LEAP, it must rely on the assistance of external consultants when matters as such are initiated by government. For this reason, HHI proposes to keep the amount of \$2,000 in its revenue requirement but amortize it over a period of 4 years.

b. IFRS

In its November 5th 2010 application, HHI 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 HHI removing this cost and agreeing with Board staff in that the use of deferral account provides a more appropriate treatment for IFRS costs. HHI proposes to record costs related to IFRS implementation in deferral account and to seek recovery from the Board in its next rebasing application.

c. Impact of HST

As described by Board staff, “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.”

HHI has reviewed both the Board’s recommendation that Hawkesbury reduces its revenue requirement by the PST forecasts for both OM&A and CAPEX and VECC’s recommendation that it would be appropriate to remove the revenue requirement impact of half of this amount in 2010 since the HST will be in effect for half of 2010 and hints that HHI should establish a variance account to track HST savings.

Rather than estimating the expected PST payment for the first half of the test year, HHI proposes to remove any PST in its test year OM&A or capital budgets and use a deferral account to track the actual amount of PST paid by HHI during the first 6 months of 2010. The balance of this deferral account would be reviewed and disposed of in a subsequent application. The advantage of this option is that tracking is limited to a 6-month period and based on all actual PST incurred. The option offered by VECC creates an unnecessary accounting burden by requiring HHI to determine which ITCs related to items that were formerly subject to HST, and continue tracking until the next cost of service application.

4. PILs

As explained by Board staff, 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%." HHI has rectified the error and will use the appropriate blended tax rate in its drafting of the Rate Order. Please note that the appropriate tax rates were used to calculate the Revenue Requirement presented in the Overview section of this reply submission

5. Cost of Capital

HHI's application was filed before the Board issued its memo of February 24, 2010 (Ref: *Cost of Capital Parameter Updates for 2010 Cost of Service Applications.*) HHI plans to update its cost of capital for the Draft Rate Order, to comply with the Boards new cost of capital parameters. Please note that the Revenue Requirement presented in the Overview section of this reply submission reflects the most up to date parameters.

6. Cost Allocation and Rate Design

a. Retail Transmission Services

Board staff requested HHI to recast its comparison using current UTRs (i.e. the UTRs effective July 1, 2009) and RTS revenues 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. Please note that the RTS proposed in HHI's response to the 2nd IRs used the January 21, 2010 parameters. Therefore, RTSs proposed on March 9th and the Revenue Requirement presented, in the Overview section of this reply submission, are correctly derived. VECC offered no objections

b. Revenue to Cost Ratio

As presented by Board staff; the realignment of costs arising from the adjustment to the 2006 cost allocation resulted in significant changes to the R:C ratios. HHI proposes to re-align rates such that all classes are in the target range and as a result, Board staff does not object to the re-alignment as proposed by HHI.

c. Starting Point for Revenue-to-Cost Ratios

In determining the starting point for its proposed 2010 Revenue-to-Cost (RC) ratios, Hawkesbury used the results of the 2006 EDR Cost Allocation model, as adjusted for the treatment of Transformer Allowances and the correction of non-coincident peak data for the GS > 50 kW class.

VECC submitted that the starting point for RC ratios should instead be based on the ratios in the 2010 Cost Allocation model using existing rates, uniformly adjusted to reach an overall RC ratio of 100%.

Hawkesbury submits that the starting point for establishing approved 2010 RC ratios should be reference RC ratios that are consistent with rates, volumes, revenues and costs that have been approved by the Board in a previous rate case. The 2010 RC

ratios that result from uniformly adjusting rates have not been found to be reasonable by the Board. These RC ratios may be skewed by changes in class volumes or costs, for example, to an extent that makes them unreasonable as the starting, or reference, point for establishing target RC ratios.

While the Board did not explicitly approve the RC ratios in the 2006 EDR Cost Allocation model (as adjusted), the resulting ratios were based on Board-approved methodology, rates, costs and load data (the latter through the Board's direction that distributors use the normalized 2004 actual load profiles provided by Hydro One). As such, the results from the 2006 model more closely represent Board-approved ratio values.

On the other hand, as a matter of general principle, the RC ratios derived in any LDC's 2010 Cost Allocation model using existing rates, uniformly adjusted to reach an overall RC ratio of 100% will reflect changes in volumes and costs that may have produced RC ratios that differ significantly from any Board-approved rates.

Furthermore, these ratios may be inconsistent with ratios that the Board would consider acceptable in that they may have crossed the 100% threshold. As compared to the Board-approved RC ratio for any class, they may have moved outside of the approved range for a rate class, or they may have moved either closer to or further away from the Board-approved range limits. In Hawkesbury's submission, it would therefore be inappropriate to use any reference point other than RC ratios based on previous Board approved rates, volumes revenues and costs without explicit consideration of the appropriateness of the alternative reference point.

As such, Hawkesbury submits that the RC ratios based on the ratios in the 2010 Cost Allocation model using existing rates, uniformly adjusted to reach an overall RC ratio of 100%.cannot be considered acceptable reference ratios. Hawkesbury refers the panel to the submission of Coopérative Hydro Embrun on this issue.¹⁶

In the alternative, if the Board does not accept the RC ratios from the adjusted 2006 EDR Cost Allocation model as the starting point for determining 2010 ratios,

¹⁶ Final Reply argument of Coopérative Hydro Embrun [add case number and reference]

Hawkesbury submits that it is necessary for the Board to consider explicitly the reasonableness of using any alternative starting point by examining the specific factors that caused the RC ratios to change since 2006 and whether the resulting RC ratios are appropriate. Hawkesbury notes that there is no evidence on the record addressing the factors that have affected 2010 RC ratios based on existing rates, uniformly adjusted to reach an overall RC ratio of 100%, nor the reasonableness of those rates as the reference point for establishing target RC ratios for 2010 for purpose of rate design.

d. Loss Factor

HHI was merely complying with the Board's direction at pages 22 of the minimum filing requirements when it opted to use a 5 year average. Even though this issue did not come up during any interrogatory from Board staff or VECC due to the fact that the difference between the applied for (4.66%) and the 3 year average (4.46) is diminutive, HHI poses no strong objection to using a 3 year average instead of a 5 year average .

e. Rate Design

As summarized by VECC, HHI's fixed-variable split is more weighted to the "variable" portion than that of comparable utilities. As a result, HHI calculated the average fixed-variable split for its comparator group and proposes to increase its fixed recovery portion 75% towards the average for each class. The only exception is the GS>50 class where adoption of this approach would yield a monthly service charge above the Board's recommended range. For this class, HHI proposes to set the monthly service charge at the upper end of the Board's target range. For all other classes, the results fall within the Board's target range.

In rebuttal to VECC's claim that HHI's monthly service charge was set at the upper end of Board's target range, HHI points out that with respect to the residential class

which affects the two groups VECC represents¹⁷, the minimum board target range is \$4.04. The maximum board target range is \$8.58. The proposed rate is \$5.96.

	Existing Rate	Minimum Fixed Rate	Maximum Fixed Rate	Proposed Rate
	Rate	Rate	Rate	Rate
Residential	\$4.89	\$4.04	\$8.58	\$5.96

As presented in the table above, the rates HHI proposed in its Application dated November 5th, 2009 are not at the upper end of the target range. HHI’s proposed fixed charge for residential customers remains one of the lowest in the province and HHI maintains that as one of the smaller distributors in the province, managing volume risk can be more difficult for HHI than for other distributors with larger more diversified customer bases. As HHI pointed in its responses to the 2nd IRs, when consumption fluctuates due to the changing weather patterns, energy conservation and local economic conditions, HHI needs to be able to rely on the revenues from its fixed rates to ensure the safe and reliable maintenance of its distribution system. As VECC noted in section 9.2, the general approach of the Board appears to be that the choice is within the discretion of the distributor as long as the results fall within the Board’s prescribed range. HHI submits that its proposed fixed-variable split is warranted, justified and appropriate.

¹⁷ The Federation of Metro Tenants Association, The Ontario Coalition of Senior Citizens’ Organizations (OCSCO)

f. LV Charges

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

7. Deferral and Variance Accounts

HHI concurs with Board staff 'summary of the deferral and variance accounts proposed for disposal. HHI is requesting the disposition of the account balances as at December 31, 2008, plus projected interest to April 30, 2010 as shown in the table below. The net balance is a debit balance of \$1,858,812 which HHI proposed to recover from ratepayers over a two year period.

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)

a. Account 1525

HHI agrees with Board staff that since the greater part of the balance in Account 1525 is related to the charges (Secondary Environmental Charge from H1 2005-2006) should be allocated on the basis of distribution revenues. HHI therefore agrees to move amounts that are not related to Ontario Price Credit Rebate Charges where the allocator is distribution revenues. The remainder of the balance in account 1525 will use the board prescribed "number of customers with rebate cheques" as an allocator. HHI agrees to revise its balances accordingly as part of the draft rate order preparation

b. Account 1588 Subaccount Global Adjustment

HHI concurs with Board staff's abridgment of HHI's proposed options and poses no objections to Board staff's recommendation that the GA sub-account, in the amount of \$252,645 be allocated only to the non-RPP customers. HHI also agrees with Board staff that the portion of the GA subaccount, associated with the Large User should be allocated to all remaining non-RPP customers based on non-RPP volumes, making the rate equal for customers of all classes that are non-RPP. HHI proposes to implement these revisions as part of the draft rate order preparation

c. Account 1590 – Recovery of Reg Assets

As explained by Board staff, HHI has revised its balance for Account 1590 – Recovery of Regulatory and is requesting a balance of \$63,003 to be cleared. Board staff did not object to this revision.

d. Recovery Period

Neither VECC nor Board staff raised any objections to 2 year recovery period. HHI requests that the proposed period be approved

8. Smart Meters

HHI confirms that it 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.

HHI 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 HHI makes application to dispose of the account balances in a subsequent proceeding. HHI proposes an increase in its smart meter funding adder from \$1.00 to \$1.45 per month per metered customer.

HHI notes that Board staff took no issue with Hawkesbury applying a funding adder of \$1.49 (please be advised that the proposed smart meter adder as per HHI's amendment to Supplemental IRs is \$1.45) per month per metered customer. VECC did not address this issue in its submission except to mention the initial proposed amount.