Renfrew Hydro Inc.
EB-2009-0146
Board Staff Submission

INTRODUCTION

The Applicant

Renfrew Hydro Inc. ("Renfrew" or the "Applicant") is a small – 11 staff, $2.0 million Service Revenue Requirement – licensed electricity distributor serving the Town of Renfrew (population 7,846) (the "Town"), an urban area of 13 square km. Renfrew has a customer base of approximately 4,180 and is embedded within Hydro One Networks Inc. ("HONI"); it is not a host distributor to any utility. The Town owns the Applicant and Renfrew Power Generation (which has two 1MW hydroelectric generating units).

The majority of Renfrew's power is obtained from Hydro One[1]. Though no details are provided regarding the age profile or condition of the utility's distribution system, Renfrew portrays its service quality and reliability as very good and provides supporting evidence.

The Application

Renfrew filed an application with the Ontario Energy Board (the "Board") on May 28, 2010, under section 78 of the *Ontario Energy Board Act*, *1998*, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to the rates that Renfrew charges for electricity distribution, to be effective May 1, 2010. The Board assigned the File Number EB-2009-0146 to the application.

In the application, the Applicant showed its requested delivery charges for Residential customers using 800 kWh per month in the summer months to have a 9.5% increase and General Service<50kW customers using 2,000 kWh per month in the summer months to have a 15.8% increase. The total bill impacts were moderated by including deferral and variance account balances that are in a credit position; the application shows a total bill increase of 2.6% ($2.65 per month) for these Residential customers and a 3.7% increase ($8.93 per month) for these General Service<50kW customers.

[1] While the Applicant initially stated (Ex.1.2.1.p1) that the energy which it distributes is obtained from the Hydro One system – specifically through Hydro One's Stewartville transformer – later (Ex.3.1.2.1.p1) it is stated that Renfrew purchases wholesale power from an embedded generator. In response to Board staff interrogatory #4, it was clarified that the output from Renfrew's affiliate's hydroelectric generating units is utilized by Renfrew.

The Process

In Procedural Order No.1, issued on July 19, 2010, the Board made provision for written interrogatories and stated that after review of the responses to the interrogatories, it would determine the next steps. The approved intervenor – the Vulnerable Energy Consumers Coalition ("VECC") – and Board staff filed interrogatories. Renfrew filed responses to the interrogatories on August 13, 2010.

In Procedural Order No.2, issued on August 25, 2010, the Board decided to continue by way of written hearing and ordered Board staff to moderate a teleconference at which Board staff and VECC may request additional information, after which Renfrew would file written responses. The Procedural Order further stated that Board staff and VECC would subsequently file written submissions and the record would close with a reply submission from Renfrew. The teleconference was held on September 9, 2010, at which time supplemental interrogatories were provided. The Applicant provided written responses to these supplemental interrogatories on September 22, 2010. The current document is the Board staff submission referenced in Procedural Order No2.

In response to Board staff supplemental interrogatory #1, Renfrew confirmed that it is relying on the updated values it provided through the interrogatory process and requests approval on that basis.

Effective Date of Rate Change

The Applicant noted that further to the Board's April 20, 2010, letter advising Renfrew that any application for 2010 rates filed after April 30, 2010, should be filed on the basis of a 2nd generation IRM, Renfrew wrote to the Board on April 21, 2010, requesting an extension until May 28, 2010. Renfrew stated it did not receive a reply from the Board. The application requested that the cost of service application be accepted by the Board despite the late filing date. The application also requested that Renfrew's current rates be deemed interim commencing May 1, 2010.

In its Decision and Order on Interim Rates issued on June 24, 2010, the Board noted that in view of Renfrew's late filing, an issue in the proceeding will be the date upon which the new rates should become effective; the Board ordered that Renfrew's current Tariff of Rates and Charges be made interim July 1, 2010.

Discussion and Submission

Board staff notes that:

(a) in its pre-filed evidence (Ex.1.1.3.1.p1) Renfrew stated that it had written to the Board on April 21, 2010, and requested an extension until May 28, 2010, but did not receive a reply from the Board;
(b) in response to Board staff interrogatory #3, the Applicant stated it was not aware of any deadline for filing a cost of service application prior to it

receiving the Board's April 20, 2010, letter by which time it would not have been possible to deliver a quality application within ten days. Renfrew added that its consultant worked with all due intensity and diligence to complete a quality submission by the date specified in its response to the Board's letter; and

(c) in response to VECC interrogatory #1, the Applicant stated that, in its current view, the effective date for the final rates should be July 1, 2010.

Board staff submits that the Board's letter dated April 20, 2010, was clear regarding the April 30 deadline. Nevertheless, by not apparently replying to the Applicant's April 21 letter (which, if the Board had done so promptly, may have permitted Renfrew to file a cost of service application by the deadline – albeit not necessarily a quality application), the Board may wish to be lenient regarding the date when Renfrew's new Tariff of Rates and Charges are made effective. Board staff submits an effective date of July 1, 2010 for setting final rates is reasonable as suggested by Renfrew in response to VECC's interrogatory.

RATE BASE

Overview

In Exhibit 2, Tab 1, the Applicant requested approval of $6.0 million as the 2010 Rate Base; this compares with $5.1 million approved in the 2006 EDR. The Applicant noted (Ex.2.1.1.p1) that slightly more than 40% of the four-year change arose from a higher Working Capital Allowance and that was primarily due to the increase in the Cost of Power. The $6.0 million amount is made up of net fixed assets (i.e. Average Net Book Value) of $4.5 million and a Working Capital Allowance of $1.5 million. The trend in Renfrew's rate base is shown in Table 1.

Table 1 – Rate Base Trend

Year	2006 Actual	2007 Actual	2008 Actual	2009 Projection	2010 Forecast
Total Rate Base	$5.27M	$5.38M	$5.48M	$5.64M	$6.02M

The $6.0 million Rate Base amount is an 18% increase from the Board-approved 2006 amount. Viewed over the longer term (2006 actual to 2010 forecast) the year-over-year increase in rate base is 3.6% per annum For each of these years, the increase in net fixed assets is seen to be lower than the increase in Working Capital Allowance.

The $6.0 million amount in 2010 is a $382k increase (6.8%) from the 2009 actual which, in turn, is a $162k increase (3.0%) from the 2008 actual amount.

Capital Policies and Plan

In discussing its Asset Retirement Policy (Exhibit 2, Tab 2), Renfrew noted that, apart from its legacy meters which will remain in its rate base until the Board approves their disposition, the only other planned asset retirement was for a large vehicle that was reaching the end of its useful life. Later (Ex.2.4.4.p2) in summarizing its investment planning process and strategy, Renfrew stated that large vehicles are typically replaced after 20 years of service. The plan was that this vehicle would be replaced as part of the 2009 capital investments with a new $260k digger/derrick (Ex.2.4.3.pp4-5).

Renfrew showed (Ex.2.4.1.p1 and Ex.2.4.3.1.pp1-2) that the capital expenditures over the past few years have fluctuated in approximately the $300k to $600k range. Renfrew's capital expenditures and accumulated amortization were filed in Exhibit 2, Tabs 3&4. Table 2 below shows the annual expenditures and annual depreciation. Renfrew proposed a capital expenditure of $516,999 for 2010.

Table 2 – Capital Expenditures & Annual Depreciation

Year	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Forecast
Capital Expenditures	$287k	$509k	$368k	$634k*	$517k
Annual Depreciation	$350k	$347k	$369k	$394k	$389k

*Updated in response to Board staff interrogatory #13

The single largest capital expenditure for 2009 is the $260k digger/derrick while, for 2010, it is a $131k distribution station transformer. The remainder of the $517k proposed 2010 capital expenditure was shown as being driven by investments in distribution station equipment, conductors and poles. A similar pattern is evident in previous years including 2006 where the actual expenditure was substantially more than the Board-approved amount (Ex.2.3.3.1.p1).

No investment is included in this application in support of the government's Green Energy initiative.

Discussion and Submission

The Gross Assets for 2009 appeared to be variously stated (Ex.2.3.1.1.p2 and Ex.2.4.3.1.p1) and clarification was thus sought. In response to Board staff interrogatory #13, the Applicant confirmed the 2009 actual capital expenditure was $633,656. In response to Board staff interrogatory #1, the Applicant filed a new set of models in which Gross Assets and the other components of the application were consistently stated.

The 2010 proposed capital expenditure of $517k represents a 19% decrease from 2009 which, in turn, was a 74% increase from 2008. Over the 2006-2010 period, Renfrew's capital expenditures have increased by an average of 20% per annum

Observing the fluctuations in the Applicant's actual annual expenditures and the variations from its budgeted amounts, in Board staff interrogatory #11 and Board staff supplemental interrogatory #3, the accuracy of Renfrew's capital forecasts was probed. The Applicant provided the reasons for the historical anomalies and stated that it does not expect a recurrence of these factors in 2010. The Applicant also provided the drivers for the increase in the rate base for the test year. Nevertheless, Board staff is of the view that the Applicant should provide some additional clarification as described below.

In Board staff interrogatory #12, clarification was sought on whether the Applicant is following a formal strategic investment plan. The Applicant responded that it does not have a formal strategic investment plan but provided the pattern of capital expenditures that reflected its priorities. Considering that over the 2006-2010 period the Applicant's annual expenditures have increased by 80%, Board staff submits that it would be helpful to the Board in judging the prudence of these expenditures if in its reply submission, Renfrew were to file a brief high-level plan with a view to providing a better understanding of asset conditions and reliability, and generally explaining its long-term infrastructure investment strategy.

In discussing its capital contribution policy (Ex.2.2.4.p1), Renfrew stated that it had maintained a legacy practice of recovering incremental costs for system expansion through charges recorded as revenue from jobbing, rather than capital contributions. In response to Board staff interrogatory #10, Renfrew stated that it could not readily determine the precise cumulative impact on its rate base of its legacy policy but the current rate base would be higher if Renfrew had recognized the capital contributions; this would represent an increase of about 1.8% to Renfrew's rate base. Board staff notes that Renfrew's capital contribution policy does not follow the Board's Accounting Procedures Handbook ("APH") where capital contributions ought to be included in the balance sheet Account 1995, and amortized over time. Board staff submits that Renfrew should be ordered to follow this treatment in the future.

Working Capital Allowance

Renfrew's proposed Working Capital Allowance for the 2010 Test Year (Ex.2.5.1.p1) is $1,479K which is based on 15% of the forecast cost of power and controllable distribution expenses.

Discussion and Submission

The method the Applicant used in the pre-filed evidence to calculate the Power Supply Expenses in support of the Working Capital Allowance (Ex.2.5.1.p2, Ex.3.1.3.pp1-2 and Ex.3.1.3.1.pp1-4) was unclear to Board staff. In response to

Board staff interrogatory #7, it was clarified that the different commodity spot price forecasts for RPP and non-RPP volumes were considered in order to derive a weighted average price. In response to VECC's (supplemental) interrogatory #33, the Applicant confirmed that the most up-to-date electricity prices were used. Accordingly, Board staff has no issue with the calculation of the Power Supply Expenses or with the Working Capital aspect of the Applicant's application.

Service Quality and Reliability Performance

Renfrew shows (Ex.2.6.1.1.p1) that its Service Quality Indicators exceed SQI standards.

Details of Renfrew's reliability statistics (Ex.2.6.2.1.p1) are provided in Table 3 below.

Table 3 – Reliability Statistics

YEAR	SAIDI - Annual	SAIFI - Annual	CAIDI - Annual
2007	2.20	1.44	1.53
2008	2.70	2.61	1.04
2009	2.14	2.18	0.98
AVG	2.35	2.08	1.18

Discussion and Submission

Renfrew's service reliability statistics (i.e. SAIDI: System Average Interruption Duration Index and SAIFI: System Average Interruption Frequency Index) paint a picture where the frequency and duration of outages in Renfrew's service area are generally satisfactory. In response to Board staff interrogatory #15, an apparent inconsistency in the results was explained; Board staff has no remaining concerns in this area.

REVENUE

Overview

Renfrew requested (Ex.1.1.2.p1 and updated in response to Board staff interrogatory #1) that it receives approval to recover a Distribution Revenue Requirement of $1,877,960. The Applicant states in its application (Ex.3.2.1.p1) that its "existing volumetric rates include an embedded rate adder for Low Voltage service, and may also include a component to recover allowances for transformer ownership". It further states that these amounts have been deducted in order to arrive at net distribution revenue by customer class.

As a result of the discovery process, the Applicant refined its filing materials. In response to Board staff interrogatory #1, Renfrew confirmed that it seeks approval to recover a Service Revenue Requirement of $2,017,737, a Revenue Offset of $139,777 and the resulting Distribution Revenue Requirement of $1,877,960.

Customer and Load Forecast
Renfrew's customer base has increased minimally (approximately 0.6% per annum) over the past five years. Renfrew requests Board approval (Ex.3.1.1.1.p1) for a test year forecast of 5,376 customers/connections. This represents a 0.4% per annum increase over 2008.

The utility's total kWh load increased slightly in the first few years of the 2005-2010 period and then decreased in the remaining years; the net effect over the period has been zero change in load. Renfrew is seeking Board approval for a 2010 load forecast of 98,720,895 kWh. This represents a 1.2% per annum *decrease* from 2008. The 2003-2008 historical load growth was 2.3% per annum. Renfrew initially developed its load forecast using a multiple regression approach but discarded this in favour of the Normalized Average Consumption (NAC) approach (Ex.3.1.2.p1).

Discussion and Submission
In response to VECC interrogatory #12, Renfrew confirmed that its customer counts are average annual values (as distinct from year-end values). Also, in response to VECC interrogatory #34, the Applicant provided the actual customer counts by customer class for the most recent 2010 month available. Comparing the year-to-date actual values with the year-to-date forecast (i.e. proportional) values, Board staff concluded the customers/connections forecast was reasonable; specifically, an actual total of 5,360 vs. a forecast value of 5,369. Board staff has no issue with the customers/connections count forecast.

While a general statement is made in the application (Ex.3.1.2.p1) that the NAC approach is "the approach which yielded the most reasonable results given the data available", the full meaning of the statement is unclear. It is stated that Elenchus prepared Renfrew's load forecast but, given their expertise in producing multiple regression-based forecasts, the reason for selecting this rear-view-mirror approach rather than the forward-looking approach was unclear. While it was stated in the application that class-specific monthly data was apparently not available for the utility, this has not caused an insurmountable problem for other utilities in the past since monthly system-level data is always available through the IESO/HONI and historical relationships can be used to apportion the load to each of the customer classes. It is stated (Ex.3.1.2.1.p2) that an attempt at a multiple regression approach yielded "unrealistically pessimistic forecasts for the residential class in particular".

In response to Board staff interrogatory #17, Renfrew provided details of the NAC method it had employed, its rationale for ignoring trends in the historical data and, to some extent, clarification of how weather-normalization was handled. In response to Board staff supplemental interrogatory #4c, Board staff understands Renfrew to have *made no mathematical modifications to its actual*

weather readings but to have relied on the historical five-year average to derive the 2010 forecast value. Board staff submits that a load forecast utilizing historical weather-corrected data is potentially more realistic than one using actual unmodified values. Renfrew is invited to correct Board staff's understanding if, in fact, it did make mathematical corrections to its historical actual load readings to arrive at *historical* weather-corrected values.

In response to Board staff interrogatory #18 and Board staff supplemental interrogatory #5, Renfrew provided further information regarding the multiple regression approach it had initially pursued – but ultimately discarded – and which had apparently yielded unrealistically pessimistic forecasts. The responses demonstrated how the multiple regression approach produced for the Residential class, a 2010 load forecast that was 3.2% below the 2008 normalized value whereas the filed forecast (using the NAC method) for the Residential class was 1.5% per annum above the 2008 normalized value. Board staff submits that while it is a questionable strategy to rely on a forecast developed using the rear-view-mirror NAC approach rather than the forward-looking multiple regression approach, it would be unwise to file a forecast that uses a superior approach but produces a result in which the Applicant has no confidence. Moreover, assuming that the under-estimation evidenced for the Residential class is representative of all the classes, then because the NAC-based filed forecast shows a higher load, the Applicant's customers will not be disadvantaged as the resulting rates will be proportionally lower. To assist the Board in accepting the NAC-based forecast in this particular case, the Applicant is invited to confirm that the load for each of the classes is higher using the NAC method than by the multiple regression method by providing a comparison for each class in the format of the response to Board staff interrogatory #18c.

In response to Board staff supplemental interrogatory #4b, Renfrew provided a 2010 forecast for each class incorporating the evident trend in consumption (as distinct from the basic NAC approach the Applicant used to produce the filed forecast which was based on the five-year average usage and took no account of change in consumption over time). This information permitted Board staff to prepare Table 4 that sets out a comparison of the filed forecast for each class (Ex.3.1.1.1.p1), the respective forecasts incorporating trends in consumption (as just noted) and the resulting percentage differences.

Table 4 – Comparison of Class Forecasts

Class	(a) Filed Forecast (kW)	(b) Forecast including Trend (kW)	(c) = ((a) – (b))/(a) Variance
Residential	8,770	9,020	-2.8%
GS<50kW	27,335	27,440	-0.3%
GS>50kW	822,137	840,602	-2.2%
Street Lights	956	955	0
USL	4,761	4,872	-2.3%

It will be observed that except for Street Lights, all the class filed forecasts are lower than they would have been had trends in consumption been included; that is, the resulting rates will be higher if the Applicant's filed forecast is approved. Consequently, assuming the Applicant confirms that the load shown in its response to Board staff interrogatory #18c for its Residential class is indeed representative of the lower load produced by the multivariate approach for all its classes, Board staff submits the Board may wish to accept that the NAC method produces a more realistic forecast in this particular case than the multiple regression approach; however, Board staff also submits that each of the class forecasts should be increased by the percentage values shown in column (c) in Table 4 above.

Throughput, Distribution and Other Revenues

In the application, Renfrew (Ex.3.3.1&4) forecasted the Other Revenues (i.e. Revenue Offsets) for 2010; it variously expressed these as $139,777 (Ex.6.1.2.1.p1) and $141,527 (Ex3.3.1.1.p1).

Discussion and Submission

In response to Board staff interrogatory #20, the Applicant showed the difference in the variously-expressed Other Revenues was attributed to the 50% offset applied to the projection for account 4355 – Gain on Disposition of Utility and Other Property. For the purpose of determining the Revenue Requirement, the Other Revenues are thus $139,777.

Board staff submits that there is no issue regarding Other Revenues; most of the components are reasonably stable over the historical and forecast periods, or have intuitive explanations (e.g. the low interest rates that are now applicable to all investments).

OPERATING COSTS

Overview

Renfrew notes in its application (Ex4.1.1.p1) that the February 17, 2010, Board-issued report "Third Generation Incentive Regulation Stretch Factor Updates for 2010 (EB-2009-0392)" places it in the superior cohort and shows it to be one of the most-efficient electricity distributors in Ontario. In the same reference, the Applicant states that its proposed OM&A for 2010 (excluding one-time items) "reflects only a 2.5% annual growth over its 2008 results".

Discussion and Submission

In response to Board staff interrogatory #1, the Applicant clarified two minor changes in its costs that had emerged through the interrogatory process; specifically, a reduction in the costs emanating from a reduction in the Line Loss Factor and the identification of a tax credit.

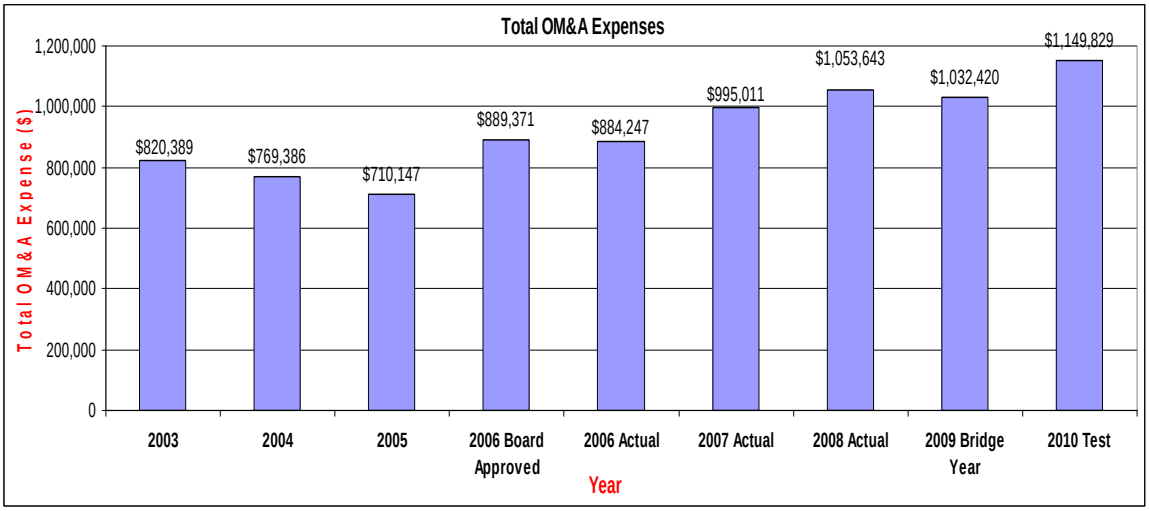
While the proposed OM&A for 2010 exhibits a 2.5% annual growth over the 2008 results when one-time items are excluded, Board staff notes that without excluding the one-time items, the annual growth is actually 4.6% (Ex.4.1.2.p1).

Operations, Maintenance and Administration Expenses

No amount for PST was included in the 2010 spending projections. Renfrew seeks to defer PST amounts actually paid in the first six months of 2010 for future recovery. The PST matter is reviewed later in this submission when discussing deferral and variance accounts.

For the 2010 test year, in its application Renfrew requested approval (Ex.4.1.2.p1) of $1,149,829 for total OM&A expenses (or $1,107,344 excluding impacts for one-time items including rate filing, transition to IFRS and elimination of PST). The historical trend in OM&A is shown in Figure 1.

Figure 1 – Total OM&A Expenses



In addition to the one-time items noted, the increase in the 2010 OM&A amount also includes the recruitment of an apprentice lineman, hiring a temporary employee to assist with winter tree trimming and the testing of transformers for PCB content.

The Applicant provides streetlight and traffic light maintenance services to the Town of Renfrew. The Applicant, in turn, rents garage, lines office and storeroom space from Renfrew Power Generation Inc. The application states that all services and rentals are based on a market-based pricing methodology.

Renfrew has included no provision for LEAP, is not seeking recovery of any cost associated with the Green Energy And Green Economy Act, and makes no charitable donations.

Discussion and Submission
Board staff supplemental interrogatory #7 sought an understanding of the amount of inflation incorporated into Renfrew's 2010 OM&A estimates. The Applicant responded that it had not applied "a specific inflation factor" and instead it had used "a more judgemental approach".

In response to Board staff supplemental interrogatory #8, the Applicant clarified that it has not included any amount to recover late payment penalty litigation costs.

In response to VECC interrogatory #16, the Applicant provided additional information regarding its apprentices.

The unadjusted OM&A amount stated in the application of $1,149,829 is a 4.6% per annum increase from the 2008 actual of $1,053,643; this equivalent annual increase is slightly suppressed since Renfrew's filed OM&A now excludes sales tax. It is unclear how this forecasted increase compares with the unspecified inflation factor inherent in the OM&A estimates. The 2008 OM&A is a 7.5% per annum increase from the 2006 actual.

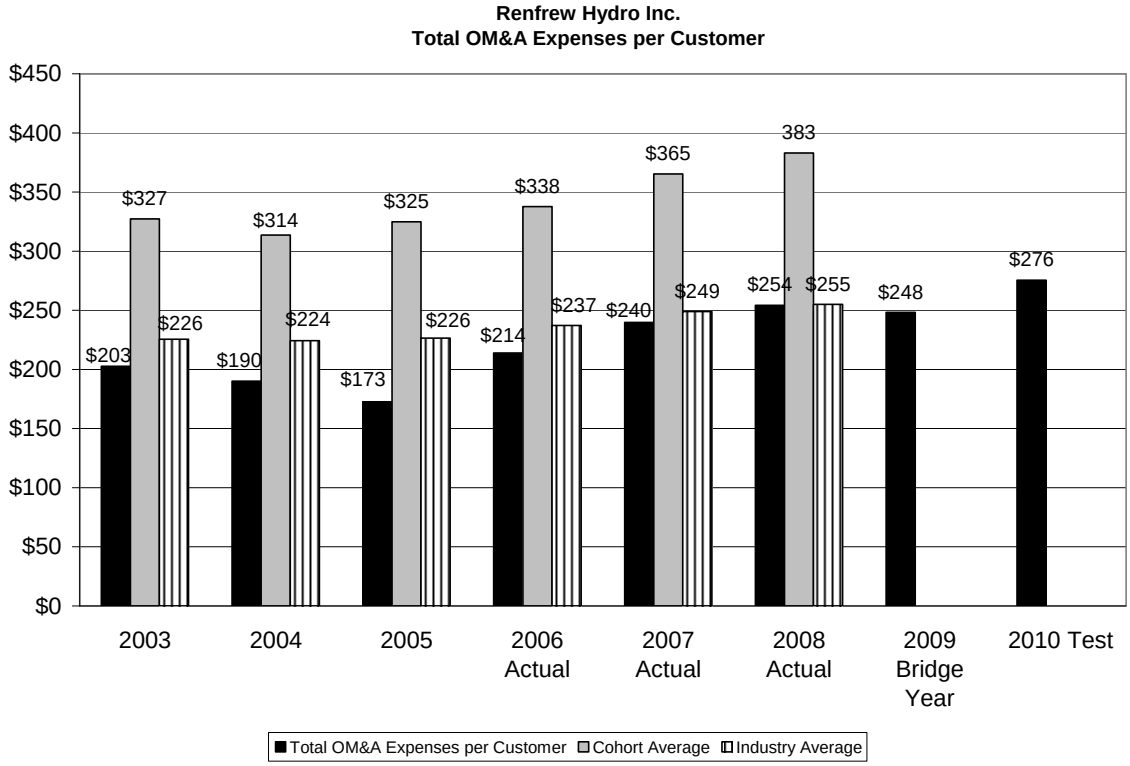
Based on the values contained in the application, the increasing OM&A Expenses per Customer are shown in Table 5. The increases in OM&A Expenses per Customer are in line with the utility's increase in total OM&A. That is, from 2008 to 2010 the increase in OM&A Expenses per Customer is 4.2% per annum compared with 4.6% for the total OM&A; the corresponding percentages for 2008 vs. 2006 are 8.7% per annum vs. 7.5% per annum

Table 5 - Total OM&A Expenses per Customer

Year	2006 Actual	2007 Actual	2008 Actual	2009 Projected	2010 Forecast
OM&A Expenses	$214	$240	$254	$248	$276

The OM&A Expenses per Customer together with the cohort average (reference: OEB Yearbook of Electricity Distributors) and industry average is shown in Figure 2. For each of the historical years reported, Renfrew's expenses are shown to be less than the cohort average and less than the industry average.

Figure 2 – Total OM&A Expenses per Customer Comparisons



From Table 5 Board staff has calculated that, during the 2006-2010 period, the Applicant's OM&A cost per Customer increased by 29% while the total OM&A cost (from Figure 1) increased by 30%; that is, no incremental slippage or improvement in OM&A costs based on customer numbers occurred.

In response to Board staff interrogatory #24, Renfrew clarified its methodology for deciding on its suppliers and contracting amounts. In response to VECC interrogatories #3 and #19 together with VECC supplemental interrogatory #35, Renfrew provided further information regarding the rental agreement the Applicant has with the Town, the basis for its service pricing and the determination of the mark-up. Board staff has no significant issue with the supplier aspects of the application.

Employee Compensation

The Total Compensation per FTE (after clarification of data) is shown in Table 6. The staffing level had been variously expressed in the pre-filed evidence with a headcount of 10 and an FTE count of 12 (Ex4.4.1.p1 and Ex4.2.1.5.p1).

Table 6 - Total Compensation per FTE

Year	2006 Actual	2007 Actual	2008 Actual	2009 Projected	2010 Forecast
Total Compensation	$65,911	$68,070	$69,998	$75, 127	$78,952

Discussion and Submission
In response to Board staff interrogatory #23 which examined the variously-expressed staffing levels, the Applicant clarified that the number of FTEs (on which the average compensation data are based) in the 2010 Test Year is 10.8.

The increases in Total Compensation are consistent with other data in the application.

In the pre-filed evidence (Ex4.4.1.1.p1) the average annual compensation increase for the unionized staff from 2008 to 2010 is seen to be 7.8% per annum; from 2006 to 2008 it was 3.9% per annum. The average annual compensation increase in the pre-filed evidence for management and non-unionized staff was 3.3% per annum throughout the 2006-2010 period.

Board staff interrogatory #22 sought information to better explain the total compensation increase for the unionized staff from 2008 to 2010 of 7.8% per annum. In response, the Applicant filed corrected 2009 data which showed smaller increases than previously filed though no explanation for the magnitude of the increases was given. The new data showed that over the 2008-2010 period, the total two-year increase for all categories of staff was in the order of 10%.

In response to Board staff supplemental interrogatory #6, the Applicant addressed the questionable year-over-year staff compensation increases apparent from earlier evidence. Renfrew provided additional information that showed total compensation was, more accurately, around 3% per annum

Depreciation and Amortization
In discussing its depreciation policy, Renfrew has stated that it used the half year rule "for depreciation retrospectively since the Board-approved balances for the 2006 EDR". (Ex.2.2.3.p1)

Discussion and Submission
In interrogatory #9, Board staff sought clarification of the meaning of Renfrew's half year rule statement. The Applicant provided information that showed it had

used the half year rule consistent with Board instructions; thus, Board staff has no issue.

Income and Capital Taxes
Apart from an omission on tax credits (see below), Renfrew's actual tax calculations appeared to be consistent with Board instructions.

Discussion and Submission
In response to VECC interrogatory #20, Renfrew acknowledged that it had failed to include certain tax credits related to apprentices. As a result, Renfrew re-filed its tax calculations to include a $14,500 annual tax credit amount; Board staff has no remaining issue.

COST OF CAPITAL AND RATE OF RETURN

Overview
Renfrew has three debt instruments (Ex.5.1.2.p1) the main one being a $2.7 million promissory note at 7.25% from the Town of Renfrew; there is also a small RBC variable-rate loan and a small RBC fixed-rate loan. The requested Regulated Return on Capital is $436,576.

Discussion and Submission
Renfrew's treatment of its cost of capital and rate of return appears to be consistent with the Report of the Board on Cost of Capital. Thus, Board staff has no issue.

REVENUE DEFICIENCY OR SUFFICIENCY

Overview
In its application (Ex.6.1.2.1.p1) Renfrew proposed a 2010 Base Revenue Requirement of $1,892,874 which, through the interrogatory process was modified to $1,877,960. Table 7 provides a summary of Renfrew's updated 2010 Revenue Requirement.

Table 7 – Revenue Requirement Components

Revenue Requirement	2010 Test
OM&A	$1,149,829
Amortization	389,051
Return on Capital	436,200
PILs / Capital Taxes	42,656
Service Revenue Requirement	$2,017,137
Revenue Offsets	-$139,777
Base Revenue Requirement	$1,877,960

Renfrew determined (Ex.6.2.1.1.p1) its gross revenue deficiency for the 2010 test year to be $300,431 at current rates. The application explained the primary reason for the deficiency is that the increased rates through the 2007-2009 IRM period failed to keep pace with the increase in OM&A. The secondary reason quoted is the increase in the rate base.

Discussion and Submission
In calculating the utility income (Ex6.2.1.1.p1) the Total Net Revenues, OM&A Expenses and PILs/Income Taxes appeared to be stated differently than elsewhere in the application. In response to Board staff interrogatory #25, the Applicant showed, in fact, that no inconsistencies were present in the calculation of the utility income. Board staff has no issue.

COST ALLOCATION AND RATE DESIGN

Overview

Renfrew noted (Ex.7.1.1.1.p3) that it had used a prospective year cost allocation approach which, since it reflects future load and cost, is more appropriate for the next IRM cycle. Because HONI has no longer the capacity to produce a significant number of Renfrew-specific hourly load profiles, the Applicant stated it was not possible to update the profiles and hence the 2006 hourly load profiles were used.

Renfrew provided its revenue to cost ratios with the rerun, now removing the transformer allowance. Because the gap between the current and proposed ratios is large for Unmetered Scattered Load ("USL") and Street Lighting, it proposed to close the gap in four equal annual steps (rather than to halfway in the first year which is the more usual step) in order to limit the rate increases to 10% per annum. The resulting proposed 2010 revenue to cost ratios were shown to be within the Board's policy range. A reconciliation was presented to verify that the proposed rates at the forecasted load are expected to recover the revenue requirement.

Discussion and Submission
In response to VECC interrogatory #23, the Applicant acknowledged that the Low Voltage adder should not have been included in the calculations while the transformer ownership should have been included. In response to VECC interrogatory #24, the Applicant confirmed that the monthly rates to determine the fixed/variable splits in one of the tables included the smart meter rate adder and acknowledged the adder should have been excluded. In response to VECC interrogatory # 25, the Applicant acknowledged the existing fixed charge rate should not have included the smart meter adder. In response to these interrogatories and Board staff interrogatory #1, Renfrew filed new results. In VECC supplemental interrogatories #37 and #39, the Applicant clarified details of its cost allocation process.

Based on the re-filed results, Board staff has no significant issue with the Applicant's revised cost allocation process or the subsequent calculation of its revenue to cost ratios. Board staff submits that it is appropriate to achieve the intended USL and Street Lighting ratios over a four year period in order to limit rate increases to 10% per annum

Proposed Distribution Rates

The Applicant stated (Ex.8.2.1.p1) that the fixed rates were established by utilizing the guidance provided in the cost allocation model for maximal and minimal values. The fixed charge for Street Lights and USL were set so as to maintain the existing split of base revenue from fixed and variable charges. For Residential and General Service classes, maintaining the fixed/variable split would result in a fixed rate that exceeded the maximum boundary in the cost allocation model; consequently, for these classes the existing Monthly Service Charge rates were maintained. A Smart Meter funding adder was subsequently added to the monthly service charge for the metered customer classes.

Discussion and Submission

The filed reconciliation (Ex.8.2.1.2.p1) confirms the intended fixed/variable split. In response to VECC supplemental interrogatory #38, the Applicant filed the percentage increases in revenue to be recovered from each customer class. This showed a moderation in rate increase for all classes with the overall increase in Base Distribution Revenue falling from a 19.8% increase in the initial filing to an 18.9% increase in the amended application.

In response to Board staff supplemental interrogatory #9, Renfrew confirmed that it has no rates or charges embedded in its Conditions of Service.

Based on the updated results filed in response to Board staff supplemental #1 and VECC supplemental interrogatory #38, Board staff has no issue with respect to the calculation of the proposed distribution rates.

Transmission, Low Voltage and Line Losses

The Applicant provided data (Ex.8.3.1.1.p1) that showed a trend for the past two years of transmission revenues and costs. The trend indicated that Network Service was over-collecting by about 9.5% and Connection Service was very slightly under-collecting. As an embedded distributor, Renfrew pays HONI retail transmission rates and these have recently increased. Renfrew therefore proposes two adjustments to its RTSRs; first, to eliminate the existing variance trend and second, to apply the latest change in wholesale transmission rates.

Renfrew proposes to increases its LV charges by 1.8% and, unlike the existing tariff schedule, it proposes that the LV rate will appear as a distinct line item on the tariff sheet.

The Applicant showed the historical Total Loss Factors and the 2010 proposed value of 1.0856 (Ex.8.3.3.1.p1). While the Total Loss Factors over the past five years have been in the 8%-9% range, the Distribution Loss Factors have generally been around the Board's 5% threshold; the 2010 value is 1.0499. In accordance with the Board's decision on its 2006 EDR application, Renfrew conducted an optimization study that has identified target improvement areas. This Line Loss Study was filed with the current application.

Discussion and Submission
In response to VECC interrogatory #11, Renfrew provided additional information regarding the HONI Transmission Network and Connection charges. Renfrew explained that an apparent mismatch in amounts was actually being recorded in a specific variance account.

In response to Board staff interrogatory #4, the Applicant updated its Total Loss Factor reducing it from the previously-filed value of 1.0856 to a newly-filed value of 1.0802; Renfrew's currently approved Total Loss Factor is 1.0898. Board staff submits that while this is an improvement, Renfrew needs to do more work to reduce the gap between its Total Loss Factor (about 8%) and its Distribution Loss Factor (about 5%). In the long-term infrastructure strategy document that Renfrew may file (as recommended by Board staff earlier in this submission), Renfrew may consider explicitly addressing how further improvement in their Loss Factors will be accomplished in the future.

Bill Impacts
Consistent with its proposed Revenue Requirement, in its application Renfrew identified the summer bill impacts shown in Table 8 to be the expected increases if the application were approved as per the original pre-filed evidence. Other examples of bill impacts were also filed.

Table 8 – Bill Impacts

	Delivery (%)	Delivery ($)	Total Bill %
Residential @ 800 kWh	9.5%	2.92	2.6%
GS<50kW @ 2,000 kWh	15.8%	9.61	3.7%

Also in the pre-filed evidence (Ex.8.4.4.1.pp1-3), the Applicant provided its proposed rate schedule. A new class had been added for microFIT Generator Service. No change in the Specific Service Charges and Allowances was proposed. The proposed Loss Factors reflects the previously-discussed improvement on the currently-approved loss values.

Discussion and Submission
In addressing Board staff and VECC interrogatories, the Applicant identified small changes to its Revenue Requirement, proposed rates and the resulting rate changes. In its response to Board staff supplemental interrogatory #2, the Applicant showed a modified proposed increase in summer bills for Residential customers; specifically, for these customers using 800 kWh per month, the 2.6% proposed increase in the original application had dropped to a 2.4% increase.

DEFERRAL AND VARIANCE ACCOUNTS

Overview

Renfrew listed (Ex.9.1-3) the deferral and variance accounts it is currently using and the amounts in these accounts; these accounts in total, including interest, are in a $1,197,028 credit position. Excluding the Global Adjustment sub-account, the Applicant is proposing a $1,230,750 disposition based on a four-year disposition period.

The Applicant has proposed to dispose of the Global Adjustment sub-account through a separate rate rider which would be charged to non-RPP, non-MUSH customers; this disposition would take place over 12 months.

Since the Applicant's spending projections for 2010 do not include any sales tax, it has requested a new deferral account to record actual amounts of PST paid in the first six months of 2010 before HST comes into effect.

Renfrew stated it had not reached the 50% threshold for deployment of Smart Meters by December 31, 2009, (in fact, it did not start installation until first quarter 2010), thus it does not propose any disposition of these accounts. Renfrew proposes to increase its Smart Meter funding adder from the current generic $0.26 to $2.05 per metered customer per month and to retain this adder until May 1, 2012; supporting calculations were filed.

Discussion and Submission
Board staff interrogatory #28 and Board staff supplemental interrogatory #10 requested additional information regarding a component of the continuity statements of the deferral/variance accounts. As a result of response to these and other interrogatories, Board staff has no issue with the requested deferral and variance account proposals.

In support of its proposed method of handling PST and in response to VECC interrogatory #4, the Applicant stated that it had the capability to track PST amounts paid by utilizing a manual spreadsheet process. Board staff agrees that the proposed treatment is a reasonable approach.

~ All of which is respectfully submitted ~