October 25, 2010

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

Dear Ms. Walli,

Renfrew Hydro Incorporated

OEB File No. EB-2009-0146

Enclosed please find Renfrew Hydro Incorporated ("RHI")'s final submission in regard to its Cost of Service Application which was filed on May 31, 2010. Should you require any further information, please do not hesitate to contact Mr. Thomas Freemark at the number below.

Yours very truly,

J. Thomas Freemark

J. Thomas Freemark
President
Renfrew Hydro Inc
613-432-4884

Overview

Renfrew Hydro Inc. ("RHI") 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 Renfrew effective July 1, 2010. The Cost of Service Application supporting the proposed 2010 rates ("the Application") was submitted to the Board on May 31, 2010 based on a forward test year.

The Application was supplemented by RHI'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 preliminary round of interrogatories (Preliminary IRs) from Board staff and VECC and were submitted to the Board on August 13, 2010 and responses to the supplemental round of interrogatories (Supplemental IRs) from both of the other parties were submitted on September 15, 2010.

As indicated by VECC in the opening section of its submission, in its May 31, 2010 application, RHI provided evidence supporting a service revenue requirement of $2,032,651 with revenue offsets of $139,777 resulting in a base revenue requirement to be recovered from ratepayers of $1,892,874. This revenue requirement reflected a gross revenue deficiency for 2010 of $300,431 based on existing approved rates. The following table (Table #1) provides a breakdown of the components of the Base Revenue Requirement as requested in the May 31, 2010 application.

Table #1 – Calculation of Base Revenue Requirement

(As filed on May 31, 2010)

OM&A Expenses		1,149,829
3850-Amortization Expense		389,051
Total Distribution Expenses		1,538,880
Regulated Return On Capital		436,576
PILs (with gross-up)		57,195
Service Revenue Requirement		**2,032,651**
Less: Revenue Offsets		139,777
Base Revenue Requirement		**1,892,874**

In its responses to the Preliminary IRs from Board staff and VECC, RHI proposed changes to the Application. These changes were reflected in a set of models and revenue requirement worksheets filed in conjunction with the responses. The table presented below is consistent with the revised Revenue Requirement Work Form included in RHI's Responses to Preliminary Interrogatories.

Table #2 – Calculation of Base Revenue Requirement

(As filed on September 22, 2010)

OM&A Expenses	*from sheet D1*	1,149,829
3850-Amortization Expense	*from sheet E2*	389,051
Total Distribution Expenses		1,538,880
Regulated Return On Capital	*from sheet D3*	436,201
PILs (with gross-up)	*from sheet E4*	42,656
Service Revenue Requirement		**2,017,737**
Less: Revenue Offsets	*from sheet C9*	139,777
Base Revenue Requirement		**1,877,960**

A teleconference call to clarify supplemental interrogatories took place on September 16, 2010. Following the conference call, RHI provided Responses to Board staff and VECC Supplemental Interrogatories". The Revenue Requirement was not revised during the Supplemental IRs. Final submissions from VECC and Board Staff were received on October 7th, 2010. This document presents RHI's final submission on OEB File No. EB-2009-0146.

The following sections summarizes RHI's final request for approval.

SUMMARY OF APPROVALS REQUESTED

Revenue Requirement

In its final submission, RHI confirms that it seeks approval to recover a Service Revenue Requirement of $2,017,737, a revenue offset of $139,777 and a Base revenue requirement of $1,877,960. RHI attests that all components of the revenue requirement were prudently incurred and appropriately derived. Thus, RHI submits that its proposed revenue requirement is just and reasonable and should be approved.

Table #3 – Calculation of Base Revenue Requirement

(As filed October 25, 2010)

OM&A Expenses	*from sheet D1*	1,149,829
3850-Amortization Expense	*from sheet E2*	389,051
Total Distribution Expenses		1,538,880
Regulated Return On Capital	*from sheet D3*	436,201
PILs (with gross-up)	*from sheet E4*	42,656
Service Revenue Requirement		**2,017,737**
Less: Revenue Offsets	*from sheet C9*	139,777
Base Revenue Requirement		**1,877,960**

Rate Base

RHI seeks Board approval for a Rate Base of $6,016,657 in the 2010 test year. This amount is composed of Net Fixed Assets plus a Working Capital Allowance ("the Allowance") determined using the Board approved percentage of 15%.

Board Staff and VECC's comments can be found at section 2 of this reply.
RHI submits that this level of rate base is required to operate the utility in a safe and reliable manner and that the proposed rate as presented in the table below (Table #4) be approved.

Table #4 – Calculation of Rate Base

(As filed on October 25, 2010)

Net Capital Assets in Service:		
Opening Balance		4,427,307
Ending Balance		4,658,667
Average Balance		4,542,987
Working Capital Allowance	*(see below)*	1,473,670
Total Rate Base		**6,016,657**

Expenses for Working Capital

Eligible Distribution Expenses:	
3500-Distribution Expenses - Operation	235,909
3550-Distribution Expenses - Maintenance	171,718
3650-Billing and Collecting	328,238
3700-Community Relations	1,000
3800-Administrative and General Expenses	434,729
3950-Taxes Other Than Income Taxes	-21,765
Total Eligible Distribution Expenses	1,149,829
3350-Power Supply Expenses	8,674,639
Total Expenses for Working Capital	9,824,468
Working Capital factor	15.0%
Working Capital Allowance	**1,473,670**

Load Forecast

As part of its May 31, 2010 application, RHI proposed 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 RHI's forecasting methodology. After reviewing these submissions, RHI 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 3 of this reply submission

Operating Expenses

RHI seeks Board approval for OM&A expenses totalling $1,149,829 in the test year. This level of spending represents an increase of less than 3% over 2009. The major cost driver behind the increase is the cost of the 2010 rebasing filing at $49,250, IFRS implementation at $15,000 (both to be amortized over four years), Recruitment of Linesman Apprentice for Succession - $34,000 and PCB Testing of Transformers - $12,000. RHI also proposes to remove the PST in the amount of $21,765 and recover it through a deferral account at a later date.

If RHI were to normalize its 2010 OM&A by removing the one-time costs, this would result in a total cost of 1,107,334 which is comparable to OM&A costs of $1,053,643 in 2008 and $1,032,421 in 2009. RHI submits that this level of expenditure is required to operate the utility in an efficient, safe and reliable manner and that accordingly the proposed expenses should be approved.

Cost of Capital

RHI submits that all components of the Capital Structure reflect the Board approved equity, long term debt, and short term debt in accordance with the Board's recent Cost

of Capital Report. Thus, RHI proposes that its capital structure be approved by the Board.

Transmission Rates

RHI attests that the proposed RSTR rates presented in its application were calculated in accordance to the Electricity Distribution Retail Transmission Service Rates report ("G-2008-0001"). RHI submits that the rates, as presented in the table below, are just, reasonable and that they be approved by the Board.

Table #5 – Proposed 2010 RTSR

(As filed on October 25, 2010)

	2010 Rates	
Customer Class Name	**Network**	**Connection**
Residential	$0.0048	$0.0028
General Service Less Than 50 kW	$0.0044	$0.0026
General Service 50 to 4,999 kW	$1.7961	$1.0060
Unmetered Scattered Load	$0.0044	$0.0026
Street Lighting	$1.3546	$0.7776

Cost Allocation

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

For the purposes of this application, a "Prospective Year CA Study" approach was used. This approach ensures compliance with the Board's direction in the Filing Requirements that the CA Study" should reflect future loads and cost". The proposed 2010 Cost Allocation also addresses the correction to the treatment of the Transformer Ownership Allowance. Submissions from VECC can be found at section 7 of this reply. RHI submits that the proposed methodology and the associated results be approved.

Rate Design

As pointed out by VECC, the 2009 fixed monthly charges for Residential, GS<50 and GS>50 were all above the maximum per Board Guidelines. In all three cases, RHI's approach to rate design has been to maintain the existing fixed charge. Comments on VECC and Board Staff's approval of RHI's approach can be found at section 8 of this reply.

Deferral and Variance Accounts

RHI seeks a disposal of balances of Deferral and Variance Accounts in the amount of $1,230,750 over a period of 4 years, as proposed in the "*Board's Report on Electricity Distributors' Deferral and Variance Account Review Initiative"* issued on the 31st of July 2009. The summary of the balances being request for disposal/recovery are presented in Table #6 below and details can be found at section 9 of this reply.

Table #6 – DVA

(As filed on October 25, 2010)

Deferral / Variance Account	**Total Recovery Amount**
1508-Other Regulatory Assets	58,956
1518-RCVARetail	2,154
1525-Miscellaneous Deferred Debits	5,131
1548-RCVASTR	3,329
1550-LV Variance Account	49,030
1555-Smart Meters Capital Variance Account	
1556-Smart Meters OM&A Variance Account	
1562-Deferred Payments in Lieu of Taxes	
1565-Conservation and Demand Management Expenditures and Recoveries	
1566-CDM Contra Account	
1580-RSVAWMS	-454,979
1582-RSVAONE-TIME	2,286
1584-RSVANW	-330,621
1586-RSVACN	-490,256
1588-RSVAPOWER	-164,593
1590-Recovery of Regulatory Asset Balances	88,815
1598-1588 Global Adjustment sub-acct	
Sub-Total for Recovery	**-1,230,750**

1590-Recovery of Regulatory Asset Balances (residual)	
Total Recoveries Required	**-1,230,750**
Annual Recovery Amounts # years:	**-307,687**

Smart Meters

RHI started deploying its smart meters in the first quarter of 2010. The filled evidence supported an increase from a current $0.26/month/metered customer to a justified $2.05/month/metered customer. Neither VECC nor Board Staff took issue with proposed smart meter rate adder therefore RHI requests that this utility specific rate adder be approved by the Board.

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

REPLY SUBMISSION

1- General

Effective date

The issue of RHI's effective date was raised by both Board Staff and VECC during the preliminary IRs. In its responses to VECC's Preliminary IRs, RHI submitted that its final rates should be effective July 1, 2010.

In its final submission, Board staff stated the following; "... by not replying to RHI's April 21 letter, the Board *may wish to be* lenient when determining the date at which rates are made effective. Board staff therefore suggests that it would be reasonable for the Board to make rates effective July 1, 2010 as suggested by Renfrew in VECC interrogatory #1."

In its final submission, VECC stated that based on the fact that RHI had not provided a real reason for not filing in August 2009, as distributors with Cost of Service Applications were directed to do, the effective date should be sometime after July 1 2010.

The reason why RHI has not provided a real reason for not filing in August 2009 is because the question was not specifically asked. During the Preliminary IRs, Board Staff asked RHI to explain the four week delay between the April 30,2010 closing date and the May 31st filing date while VECC asked RHI to comment an it's view of an appropriate effective date.

RHI offers the following comments on the issue.

Back in 2009, after researching and considering the cost of using external consultants to help with the application and meet the filing deadline, RHI opted to put together as much of the minimum filing requirements ("MFR") using their own internal resources.

This is a dilemma that management in smaller utilities are often faced with; use internal resources and save the customer the increase in costs OR hire consultants to do the work.

The drawbacks of doing more in-house is that staff must find a way to manage their day to day workload as well as the extraordinary time and effort it take to compile the information required to meet the MFRs. In the case of RHI, this exercise proved to be a bigger endeavour than first expected and resulted in a delayed filing.

The upside of RHI's approach was that it managed to maintain the "Rebasing Costs" to a level that VECC has considered in past submissions to be "Optimistically low". [1] RHI's projected cost of this rebasing application is considerably less than utilities of similar size and workforce.

When RHI opted to undertake more of the work internally, it acted on best possible interest of its customers. RHI is forever looking for the most appropriate cost-effective solutions and the regulatory process is no exception to that objective.

For that reason, RHI asks that the board not further penalise the utility and, as Board Staff points out, that the Board shows leniency by allowing RHI to implement its rates effective July 1, 2010. To delay the recovery of its 2010 revenue requirement, for a period of 4 months, as suggested by VECC causes great 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.

RHI appreciates VECC's and 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 apologises for the inconvenience that the delay may have caused. RHI hopes that this experience will enable the utility to manage future applications in a manner that will allow them complete them in a reasonable timeframe.

Recovery of Reasonably Incurred Costs

RHI agrees with VECC in that it believes that interrogatories and submissions were focused and responsible. RHI poses no objections to reimbursing reasonably-incurred fees as long as they are in line with proceedings of similar complexity and utilities of comparable size.

[1] Section 4.6 of VECC submission in p

2- Rate Base

Capital Spending

Board Staff expressed concerns with respect to RHI's capital forecasts and submits that filing a "brief high-level plan" of asset conditions and reliability, as part of its reply submission, would help the Board judging the prudence of the proposed spending. Board staff further submits that such plan should also explain RHI's long-term infrastructure investment strategy.

Board staff was particularly concerned with the fluctuation in year over year capital expenditure and quoted an 80% increase from 2006 to 2010.

2006	2007	2008	2009	2010
$888,013.00[2]	**$508,785.00**	**$308,204.00**	**$633,656.00[3]**	**$516,999.00**

As can be seen in the table above, the increase from 2007 to 2010 is 1.6%. As for fluctuations such as the one in 2009, when a utility with an average capital expenditure of approximately 450K spends 260K on a new digger truck, the fluctuation can appear excessive.

As stated in Ex. 2/4/4, RHI does not maintain a formal asset management policy but does follow sound business practices to ensure that investments are carried out prudently and support key objectives including safety, reliability and efficiency. And as further stated in the response to Board staff interrogatory #12, although RHI does not have a formal strategic investment plan in place, it does apply a pattern of prioritisation to its capital expenditures. RHI is a small utility and as such, it is very well informed on the condition of its assets. RHI submits that it does not feel that an official asset management plan is required at this time. The time and/or cost required from

[2] Amount represents ½ of 2004 + 2005 + 2006
[3] Includes 260K for the replacement of a digger/derrick

management to create and implement and report such a plan cannot be justified or would not be in the best interest of RHI's customers.

RHI notes that VECC agreed to RHI's approach of prioritization of its capital spending as a form of asset management.

VECC found RHI's capital expenditure for 2010 of $517K to be reasonable and agreed with RHI's decision to exclude the amount of $20,382 in PST.

Furthermore, VECC found RHI to have provided adequate justification for the increase in capital expenditure relating the new transformer for Renfrew's MS2 and therefore found RHI's proposed capital spending for 2010 to be reasonable.

Net Fixed Asset

In its submission VECC questioned RHI's treatment of incremental Cost recovery for system expansion as "revenue from jobbing" rather than "Capital Contribution." As RHI indicated in its May 31 application[4], although adopting this process causes an absence of credit balance for contributions which would normally lower the value of the rate base, the net revenues from jobbing are included in the other revenues that fully offset the base revenue requirement.

Board staff noted that RHI's capital contribution policy does not follow the Board's Accounting Procedures Handbook (APH) where such contributions are recorded in Account 1995 and amortized over time. Board staff submits that RHI be ordered to comply with the APH.

RHI believes that it will never engage in a level of expansion where this approach will have any material impact on its revenue requirement or proposed rates. That being said, it is RHI's intention to comply with Board policy and guidelines and therefore, RHI accepts to revise its accounting procedures if the Board deems it necessary

[4] Exhibit 2/Tab 4/Schedule 4/page 1

On the subject of Depreciation, as explained in the May 31 application[5] VECC points out that RHI had never applied the ½ year rule in its depreciation calculation. For rate-setting purposes, depreciation was recalculated as though the half-year rule was in effect starting in 2005, in order to derive the rate base and annual expense on that basis. RHI believes that the retroactive adjustment it presented in its application is consistent with the manner in which neighbouring utilities[6] that were not incompliance with the half year rule applied their revisions. RHI support Board Staff's comments that the utility used the half year rule consistent with Board instructions and therefore Board Staff took no issue with RHI's depreciation methodology.

Working Cap Allowance

RHI reiterates VECC' observations that it used the 15% rule to calculate its 2010 WCA and that it took into account both the RPP and non-RPP volumes in deriving a weighted average commodity price. Neither VECC nor Board Staff objected to RHI's determination of the WCA therefore, RHI suggest that Board approves it WCA for 2010.

Service Quality and Reliability Performance

Board staff has no concern with regards to RHI's reliability statistics. VECC made no mention of the issue in their submission.

[5] Exhibit 2/Tab 2/Schedule 3/page 1
[6] Hawkesbury Hydro

3- Revenue

Load Forecast

RHI developed a weather normalized load forecast using a normalized average use per customer, or "NAC" approach. The NAC is based on the average actual use per customer for each customer class averaged over the 5 years 2005 to 2009 inclusive. This approach was used due to the fact that class specific monthly data was not available to develop class specific weather normalization, and the monthly wholesale data was overly influenced by declining commercial volumes that are not seen in the non-commercial classes. Monthly data is necessary to develop multiple regression based models for weather normal load forecasting.

VECC submitted that, for the purposes of setting 2010 rates, the Board should accept RHI's load forecasting methodology. On the other hand, Board Staff submitted that 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 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.

RHI submits that Board Staff is incorrect to suggest that it is unclear why the regression approach was rejected in favour of the NAC approach. As previously referenced, the application explained that the decline in commercial class volumes affected wholesale volumes which would bias the residential class forecast, in particular, to be too low. In addition, the Elenchus Report outlined the experience of the consultant in finding methods to deal with the lack of class specific monthly data; for example, the use of monthly wholesale data, and why these approaches did not work with RHI.

Renfrew Hydro purchases wholesale energy from an embedded generator and also from Hydro One Networks (Renfrew Hydro is an embedded LDC) and does have monthly purchases available for the LDC back to 2002. Using this monthly data combined with monthly weather observations from Ottawa and monthly economic data, it is possible to construct a reasonable multiple regression analysis that estimates weather normal wholesale purchases. In some LDCs, this can be an effective workaround to the problem of missing monthly class data. However, in some LDCs, where the historical and expected future class consumption patterns are different from the overall wholesale trend, this approach may not be practical. This is the situation faced by Renfrew Hydro. Using a wholesale forecasting approach and allocating normalized wholesale consumption based on class historical shares yields unrealistically pessimistic forecasts for the residential class in particular. There are some potential solutions to this problem as well. One solution, tried successfully in other LDC load forecasts, is to derive a "net system" load by subtracting interval metered customer data from the wholesale data. This approach was investigated but did not alleviate the problem.

During the course of the proceeding, RHI provided detailed information on regression models considered including regression equation and forecast results, to illustrate why RHI decided to adopt the NAC approach.

RHI also disagrees with Board Staff's description of NAC as a "rear-view-mirror approach" compared to "multiple regression-based" forecasts which Board Staff describes as "forward-looking". RHI submits that both regression analysis and normalized average use per customer (NAC) as utilized in RHI's forecast use actual historical data from the utility. RHI submits that neither approach is more "rear-view-mirror" or "forward-looking" than the other. Both use historical data to provide forecasts for future periods.

Board Staff also makes issue of the fact that RHI "made no mathematical modifications to its actual weather readings…Board staff submits that a load forecast utilizing historical weather-corrected data is potentially more realistic than one using actual unmodified values." RHI submits that any "modifications" to actual weather readings

without strong justification, presumably from Environment Canada, would be tantamount to tampering with historical data and should be strongly discouraged by the Board. RHI calculated weather-corrected average use per customer based on the five-year historical average, similar to the weather normalized degree days used in regression based forecasting models. These weather-corrected or weather-normalized average uses per customer figures were used to derive RHI's weather-normalized consumption forecasts.

Board Staff also references trend forecasts for average use provided in response to Board Staff supplemental interrogatory #4(b). From these trend forecasts, Board Staff prepared a table which calculates a percentage variance between the filed NAC and the trend average use. Board Staff then submits that each of the class forecasts should be increased by the percentage variances. RHI submits that Board Staff are incorrect in their submissions on this issue. Trend in average use does not necessarily correspond to trend in total kWh throughput, unless the number of customers stays constant. This is not the case for RHI and Board Staff have accepted that RHI's customer forecast is appropriate. Some utilities have experienced decreasing average use in a class, but experience increased total kWh throughput. Likewise, some utilities may have class average use that has increased, but total class throughput that has decreased (for example, the loss of several smaller customers). Furthermore, RHI points the Board to caveats provided in the response to Board Staff supplemental interrogatory # 4(b):

A linear trend does not in any way reflect a "normalization" process. It assumes that the value is somehow related to the passage of time. While a small portion of energy consumption per customer may be time related (in the sense of increased conservation, etc.), the overwhelming variation is due to weather, which is why we "weather normalize". Simple linear trending does not do this. Also of concern is the fact that the starting point for the trend line asked for is 2005, which happens to be the warmest year on record. In RHI's view, a more appropriate method is to use an arithmetic mean where the probability of each of the 5 years occurring is weighted equally.

RHI submits that a linear trend of average use per customer is not an appropriate forecast and the NAC method as filed is more appropriate and is the method that should be used.

Revenue Offset

VECC did not note any observations or objections to Renfrew's 2010 forecast for Other Revenues.

4- Operating Costs

OM&A

Taking into consideration various one-time costs, VECC considered RHI's 2010 forecasted OM&A expenses of $1,149,829 to be reasonable. In their submission, Board Staff examined details of RHI's proposed OM&A and also summarized historical trends in various charts and tables. Although Board Staff did not specifically object to the amount being requested nor did Board Staff suggest that the 2010 OM&A be reduced, they did bring into question RHI reputation of being one of the most-efficient electricity distributors in Ontario. This was done by questioning the unadjusted annual growth of 4.6% from 2008 and its total increase from 2006 to 2010. RHI believes that the year over year variances as explained at Exhibit 4 Tab 3 were either necessary, justified or were beyond the utility's control (i.e. rebasing application). All costs are prudently incurred. RHI reinforces that as presented in Figure - 2[7], RHI is well below the Cohort Average and below the Industry Average. RHI also notes that it calculated the Compounded Annual Growth Rate for the Cost per Customer presented at the same table to be 3.77% over a period of 2003-2010(adjusted). RHI also concurs with VECC's statement that a less than 3% increase over 2009 is reasonable.

IFRS

On the topic of IFRS, RHI has expressed a strong preference to the approach of including one-quarter of the projected $60K this in the current test year track the difference between the forecast and actual cost of IFRS implementation in a variance account. As explained in the responses to the Preliminary IRs, as a small utility, RHI must pay particular attention to its financial position and cash flow. Most of RHI's cash balance of $2.4 million will be returned to ratepayers through its proposed rate riders for deferral/variance account dispositions. RHI reminds the board this approach follows a similar practice with respect to smart meters, in that case through funding adders. RHI's proposed approach reduces inter-generational inequity, by providing for a more

[7] Table entitled "Figure – 2 Total OM&A Expenses per Customer Comparisons at page 12 of Board Staff Submission.

timely recovery of IFRS transition costs from ratepayers, leaving only the variance for future disposition rather than 100% of RHI's eligible costs for the IFRS transition. VECC states that 15K is not material but to a small utility such as RHI, that is cost conscientious, this amount can make a significant difference.

VECC is asking clarification on the total amount of compensation charged to OM&A in 2010. RHI confirms that the amount is in fact $655,454 and therefore the amount of OM&A does not require further adjustment.

Affiliate Transactions

As indicated in its responses to supplemental IR's[8], RHI does not currently have a written services agreement with the Town for streetlight and traffic light maintenance. RHI confirms that it has initiated discussions with Town officials to establish such an agreement, and intends to have an agreement completed before May 1, 2011. RHI agrees to provide the Board with a copy of the agreement as soon it is in place.

Depreciation and Taxes

Other than pointing out that RHI revised its PILs to reflect the inclusion of the Apprentice Tax Credit, VECC did not take issue with either the proposed 2010 Depreciation Expense or the proposed PILs.

[8] Question 19 to Responses to VECC's Preliminary Interrogatories filed 26 July, 2010

5- Cost of Capital and Rate of Return

RHI has reviewed Report of the Board on the Cost of Capital for Ontario's Regulated Utilities and acknowledges that the report states that the 5.87% should be viewed as the ceiling rather than requirement. RHI echoes VECC's comments that the difference of 0.87% on RHI's cost of debt is trivial and therefore requests that they be allowed to apply the deemed 5.87% on the grounds that it is reasonable and in line with other utilities. RHI notes that Board Staff took no issue with RHI's proposed Regulated Return on Capital.

6- Revenue Deficiency or Sufficiency

Board Staff took no issue with the calculation of the revenue deficiency presented in the "Summary of Approvals Requested" of this submission. VECC did not mention the issue in their submission.

7- Cost Allocation

Use of the Cost Allocation Study Results in Setting 2010 Rates

While Board staff made no comment on RHI's cost allocation results, VECC raised two concerns.

The first is that RHI used ratios from its 2006 cost allocation model as the starting point for proposed revenue to cost ratio adjustments rather than the 2010 cost allocation study with a uniform increase to existing rates.[9]

RHI believes that the ratios in its 2006 cost allocation model constitute an appropriate reference point for determining proposed revenue to cost ratios for the test year. RHI also notes that the same concern was raised in Coopérative Hydro Embrun (CHE, Board file EB-2009-0132).

In its submission to the Board,[10] CHE provided an example that RHI deems appropriate to reproduce here:

[...] the revenue-to-cost ratio for an LDCs residential class were 95% in 2006 but increased to 105% under a hypothetical uniform rate increase for the test year, CHE believes that it would not be appropriate to propose rates that resulted in a revenue-to cost ratio in excess of 100% for the test year. It is the revenue-to-cost ratio that resulted from the last non-IRM rate setting process (95%) that would be most appropriate to use as the reference point for determining the just and equitable revenue-to-cost ratio for the test year. In other words, if the ratio was below 100% in 2006 it should remain so for the test year.

[9] VECC Final Submission, p. 9.
[10] EB-2009-0132, CHE Final Submission, February 26, 2010, p. 22.

RHI further notes that the Board did not direct or otherwise raised concerns in its final decision regarding CHE's use of 2006 results as a starting point for revenue to cost ratios. (Decision, March 19, 2010, p. 15 and p. 17)

Renfrew is of the view that relevant insight can be gained both from examining the differences between the test year revenue to cost ratios at proposed rates as compared to previously approved revenue to cost ratios and the difference between the test year revenue to cost ratios at proposed rates as compared to test year revenue to cost ratios with a uniform rate increase. The necessary information for making both sets of comparison is on the record in this proceeding.

RHI notes that the starting point that is selected will have an impact on the target revenue to cost ratios through the IRM period: using the 2010 ratios at uniform rates will result in higher target ratios for the Street Lighting class and lower target ratios for the USL class. While the result would be slightly different if a different reference point were used, RHI does not accept that the rates that result would be more just and reasonable.

Accordingly, RHI submits that it is appropriate to approve the propose rates for the Street Lighting and USL classes which are derived specifically using the adjusted 2006 revenue to costs ratios as the "starting point". For all other classes, the proposed rates are consistent with either "starting point".

The second concern raised by VECC has to do with the fact that RHI increased total revenues (i.e., distribution revenue plus miscellaneous revenues) for each class by the same percentage as opposed to only increasing distribution revenues and that a correction to this error would lead to different revenue to cost ratios.[11]

Increasing the total revenue by 17.4% resulted in the revenue to ratios previously filed, and set out in column B. Holding Miscellaneous revenue fixed, and only increasing distribution revenue by 18.9%, has resulted in the revenue to cost ratios set out in column C.

[11] VECC Final Submission, p. 9.

Customer Class	2006 (TOA Adjusted) (A)	2010 Cost Allocation (Uniform Increase) (B)	2010 Cost Allocation (Distribution Revenue Uniform Increase) (C)
Residential	124.48%	121.77%	122.14%
GS < 50	95.90	91.03	91.06
GS > 50	74.22	79.97	79.39
Street Lighting	28.60	32.22	31.65
USL	57.56	40.99	40.16
Total	100.0	100.0	100.0

RHI notes that both VECC and Board staff have no substantial comments on its targeted revenue to cost ratios. VECC did however raised that RHI should give consideration to increasing the ratio of GS>50 class before increasing that of the GS<50 class.[12] VECC's rationale is that the GS<50 is already close to 90% while that of the GS>50 class is closer to its lower boundary.

Board staff and VECC consider RHI's proposal to achieve the intended revenue to cost ratios of the USL and Street Lighting classes over four years to be appropriate.[13]

[12] VECC Final Submission, pp. 11-12.
[13] Board staff Submission, p. 16 and VECC Final Submission, p. 11.

8- Rate Design

Proposed Distribution Rates

Board Staff reviewed and summarized RHI's approach to rate setting and concluded that it had no issue with respect with the calculation of the proposed rates. After commenting on the appropriateness of maintaining the same fixed charge for Residential, GS<50 and GS>50, VECC determined that RHI's approach was consistent with Board guidelines and that it was a reasonable approach.

Retail Transmission Service Rates, Low Voltage and Line Losses

RHI updated and filed its RTSR in accordance with Board guidance and proposed to first eliminate the existing variance and then apply the wholesale transmission rates. Neither VECC nor Board Staff took issue with RHI's approach and proposed RTSR.

Neither VECC nor Board Staff took issue with a proposed increase of 1.8% in LV Charges.

VECC accepted RHI's proposed loss factor as being reasonable while Board Staff noted that the decrease in the proposed loss factor was seen as a slight improvement however, Board Staff recommended addressing this issue sometime at a future date. RHI agrees that there is room for improvement and agrees to adopt a more proactive approach to managing its losses through the measures[14] and agrees to report its findings and progress in the next cost of service application.

- Continuing the cross phase testing on three phase meter installations
- Maintaining an ongoing process to convert 2.5 elements to 3 element installations, in accordance with Measurement Canada recommendations. New three phase installations are also cross phase tested.
- Revisiting the System Analysis, to input changes in load configurations that have occurred since the optimization study was completed

[14] Exhibit 8, Tab 3, Schedule 3 page 1of2

Bill Impact

Board staff commented a reduction in Residential bill impact following a revision to the revenue requirement as part of RHI's responses to Preliminary IRs. With the exception of the one comment, Board Staff appeared not to take issue with RHI's bill impacts.

9- Deferral and Variance Accounts

Proposed new Deferral/Variance Accounts

As noted in the section entitled "Summary of Approvals Requested", RHI is seeking approval for a deferral account to record the actual amount of PST paid in the first 6 months of 2010 to be recovered at a future date. Neither VECC nor Board Staff opposed this request.

Account Balances Proposed for Disposition

VECC examined and summarized and ultimately accepted RHI's request to dispose of the balances of Group 1 over a period of 4 years while recovering the balance of the Global Adjustment over a period of 1 year. Board Staff agreed with the proposed approach as it is consistent with the EDVAAR report.

VECC also accepted RHI's proposal to dispose of 4 of the accounts in Group 2 over the same period of time.

Smart Meters

Neither VECC nor Board Staff posed any objections to RHI's proposal of a smart meter adder of $2.05/month/metered customer.

~All of which is respectfully submitted~