Ottawa River Power Corp.
EB-2009-0165
Board Staff Submission
Dated November 15, 2010

INTRODUCTION

The Applicant

Ottawa River Power Corporation ("Ottawa River" or the "Applicant") is a relatively small licensed electricity distributor in that it has 27 staff and an approximately $4.0 million Distribution Revenue Requirement. Ottawa River serves the City of Pembroke, the Township of Whitewater (Beachburg only), the Town of Mississippi Mills (Almonte Ward only) and the Township of Killaloe, Haggarty & Richards (Killaloe only). Ottawa River has a customer/connection base of approximately 13,371 and its total service area is approximately 35.6 square km. The application does not provide population data. Ottawa River is embedded within Hydro One Networks Inc. ("HONI"); it is not a host distributor to any utility. The parent municipalities, the City of Pembroke, the Township of Whitewater, the Town of Mississippi Mills and the Township of Killaloe, Haggarty & Richards are the sole shareholders of Ottawa River. Ottawa River has an affiliate company - Ottawa River Energy Solutions ("ORES"). The business activities of ORES include hot water tank rentals, sentinel light rentals, meter reading services and a fibre optic network.

Ottawa River purchases wholesale energy from Hydro One and also from several embedded generators.

The Application

Ottawa River filed an application with the Ontario Energy Board (the "Board") on June 30 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 Ottawa River charges for electricity distribution, to be effective May 1, 2010. The Board assigned the File Number EB-2009-0165 to the application.

Ottawa River's application indicates that the requested distribution charges for Residential customers using 800 kWh per month in the summer months would have a 19.9% increase and General Service<50kW customers using 2,000 kWh per month would have a 15.3% increase. Delivery charges for Residential customers using 800 kWh per month in the summer months would have a 24.3% decrease and General Service<50kW customers using 2,000 kWh per month would have a 11.9% decrease. The main driver for these differences is the inclusion in the delivery charges of deferral and variance account balances that are in a credit position. The impact on the total bill is a decrease of 12.0%

($10.83 per month) for Residential customers and a 7.3% decrease ($15.84 per month) for General Service<50kW customers. Subsequently, in response to Board Staff interrogatory #1, the total bill impacts were updated to show a decrease of 12.4% for Residential customers and a decrease of 7.1% for General service<50kW customers.

The Process

In Procedural Order No.1, issued on August 16, 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. Ottawa River filed responses to the interrogatories on September 15, 2010.

In Procedural Order No.2, issued on September 17, 2010, the Board ordered Board staff to moderate a teleconference at which Board staff and VECC would present supplemental interrogatories for discussion with the applicant, after which Ottawa River 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 Ottawa River. The teleconference was held on October 12, 2010, at which time supplemental interrogatories were provided. The Applicant provided written responses to these supplemental interrogatories on October 22, 2010.

In response to Board staff supplemental interrogatory #1, Ottawa River 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

Ottawa River requested that current rates be declared interim as of May 1, 2010. In its Decision and Order on Interim Rates issued on July 19, 2010, the Board noted that in view of Ottawa River's late filing, an issue to be addressed in the proceeding will be the date upon which the new rates should become effective. The Board determined that Ottawa River's current Tariff of Rates and Charges be made interim as of August 1, 2010 but also stated that it has the authority to make the final rates effective as of that date, but is not required to do so.

Discussion and Submission

Board staff notes that:

(a) in its pre-filed evidence (Ex.1.1.3.1.p1), Ottawa River stated that in response to the Board's April 20, 2010 letter, it had written to the Board on April 26, 2010 requesting an extension until June 30, 2010, but did not receive a reply from the Board; and

(b) in response to Board staff interrogatory #3, the Applicant stated:

i. While the Board's letter of March 5, 2009 stated that applicants were encouraged to file no later than August 28, 2009, it did not refer to August 28, 2009 as a 'closing date' for 2010 cost-of-service applications.

ii. It was not aware of the April 30, 2010 deadline for filing a cost of service application prior to it receiving the Board's April 20, 2010, letter. Ottawa River added that ORPC and 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.

(c) The Board's letter of Match 5, 2009 referenced above stated "applicants are encouraged to file applications for 2010 as soon as possible, and no later than August 28, 2009 for rates to become effective May 1, 2010.

Board staff submits that the Board's letter of March 5, 2009 was clear regarding the initial filing deadline of August 28, 2009 in order for rates to be effective May 1, 2010. Board staff further submits that the Board's letter dated April 20, 2010, was clear regarding the April 30 deadline. However, since the Board did not reply to the April 26 letter requesting an extension, Ottawa River may have been left with the impression that the extension request was not denied. In the circumstances, Board staff submits that an effective date of August 1, 2010 to coincide with the date that current distribution rates were declared interim would be reasonable.

RATE BASE

Overview

In the application, the Applicant requested approval of $11,518,294 as the 2010 Rate Base (Ex.2.1.1.1.p.1). In response to Board staff interrogatory #1, this amount was amended to $11,523,862. This compares with $10.8 million approved in the 2006 EDR. The Applicant noted (Ex.2.1.1.p1) that slightly more than 60% 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 $11.5 million amount is made up of net fixed assets (i.e. Average Net Book Value) of $8.7 million and a Working Capital Allowance of $2.8 million. The trend in Ottawa River's rate base is shown in Table 1 below.

Table 1 – Rate Base Trend

Year	2006 Actual	2007 Actual	2008 Actual	2009 Projection	2010 Forecast
Total Rate Base	$11.1M	$10.9M	$10.9M	$11.0M	$11.5M*

*Updated from $11,518,294 in application to $11,523,862 in response to Board staff interrogatory #1

The $11.5 million Rate Base amount is a 7.1% 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 0.9% per annum. For each of these years, the increase in net fixed assets is seen to be significantly lower than the increase in Working Capital Allowance.

The $11.5 million amount in 2010 is a $571k increase (5.2%) from the 2009 projection which, in turn, is a $64k increase (0.6%) from the 2008 actual amount.

Capital Policies and Plan

In discussing its Asset Retirement Policy (Ex.2.2.2.p1), Ottawa River 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 vehicle reaching the end of its typical useful life. In response to Board Staff interrogatory #8, Ottawa River confirmed that they plan to retire and replace a radial boom digger/direct truck which was purchased in 1992 and is currently at end-of-life as indicated by their mechanic. In response to Board Staff interrogatory #11, Ottawa River stated that this type of vehicle is normally operated and maintained for 15 to 20 years. The plan was that this vehicle would be replaced as part of the 2010 capital investments with a new $302k digger/derrick truck (Ex.2.4.3.p14).

In Exhibit 2, Tab 4 Ottawa River showed that the capital expenditures over the last few years have steadily increased. Ottawa River's capital expenditures and accumulated amortization were filed in Exhibit 2, Tabs 3&4. Table 2 below shows the annual expenditures and annual depreciation. Ottawa River proposed a capital expenditure of $1,167,330 for 2010.

Table 2 – Capital Expenditures & Annual Depreciation

Year	**2006 Actual**	**2007 Actual**	**2008 Actual**	**2009 Actual**	**2010 Forecast**
Capital Expenditures	$563k*	$801k	$900k	$1,014k	$1,167k
Annual Depreciation	$350k	$347k	$369k	$394k	$389k

*Updated in response to Board staff interrogatory #10

The single largest capital expenditure for 2009 is $479k for distribution stations and in 2010, it is $302k for the digger/derrick truck. The remainder of the $1,167k proposed 2010 capital expenditure was shown as being driven by investments in line transformers, distribution stations, poles and towers.

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

Discussion and Submission

Based on the Applicant's response to Board staff interrogatory #10, Board staff observes wide variations between the Applicant's actual annual capital expenditures and budgeted amounts over the 2006 to 2009 period. The primary factor for these variances was the delay of building a new substation in the Almonte service area which is now completed. Board staff notes that Ottawa River's last cost of service application was for the 2006 rate year which was based on 2004 historical costs. The discrepancies between actual and budgeted capital expenditures over the 2006 to 2009 period would therefore not have accrued to the benefit of Ottawa River.

In Board staff interrogatory #11, clarification was sought as to 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 107%, Board staff submits that it would have been helpful to the Board in assessing the prudence of these expenditures if Ottawa River had filed at least a high-level plan to providing a better understanding of asset conditions and reliability and to generally explain its long-term infrastructure investment strategy.

Working Capital Allowance

Ottawa River's proposed Working Capital Allowance for the 2010 Test Year (Ex.2.1.1.1.p1) is $2,812K which is based on 15% of the forecast cost of power and eligible 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.pp 1-2, 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. 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

Ottawa River showed (Ex.2.6.1.p1) that its Service Quality Indicators ("SQI") met the minimum standards for all SQIs each year.

Details of Ottawa River's reliability statistics are provided in Table 3 below.

Table 3 – Reliability Statistics

YEAR	SAIDI - Annual	SAIFI - Annual	CAIDI - Annual
2006	4.99	4.37	1.14
2007	2.19	3.00	0.73
2008	6.56	5.77	1.14
2009	3.00	2.87	1.08
AVG	4.19	4.00	1.02

Discussion and Submission

Ottawa River's service reliability statistics (i.e. SAIDI: System Average Interruption Duration Index and SAIFI: System Average Interruption Frequency Index) indicate that the frequency and duration of outages in Ottawa River's service area appear to be generally satisfactory. In response to Board staff interrogatory #14, Ottawa River provided an explanation on an apparent inconsistency in the results. Therefore, Board staff has no remaining concerns in this area.

REVENUE

Overview

Ottawa River requested (Ex.1.1.2.p1 and updated in response to Board staff interrogatory #1) approval to recover a Distribution Revenue Requirement of $3,955,284 which is based on a Service Revenue Requirement of $4,323,252, and a Revenue Offset of $367,968.

Customer and Load Forecast

Board staff notes that Ottawa River's customer/connection base has increased minimally (approximately 0.5% per annum) over the 2006-2010 period. Ottawa River requests Board approval (Ex.3.1.1.1.p1) for a test year forecast of 13,371 customers/connections. This represents a 0.4% per annum increase from 2008 to 2010.

The utility's total kWh load fluctuated during the 2006 to 2010 period. The net effect over the period has been a 0.4% per annum increase in kWh load. Ottawa River is seeking Board approval for a 2010 load forecast of 198,108,544 kWh. This represents a 0.45% per annum *decrease* from 2008. Load growth during the 2006 to 2010 period was 0.4% per annum. Ottawa River notes that its load forecast was developed using a multiple regression approach (Ex.3.1.2.p1).

Discussion and Submission

In response to VECC interrogatory #5, Ottawa River provided the actual customer counts by customer class for the most recent 2010 month available. Board staff concluded that the customers/connections forecast was reasonable; specifically, an actual total of 13,014 as opposed to a forecast value of 13,371. Board staff has no issue with the customers/connections count forecast.

With respect to its load forecast methodology, Ottawa River stated that the multiple regression approach relates historical monthly wholesale kWh usage to monthly historical heating and cooling degree days to predict wholesale consumption. It further noted that historical monthly full-time employment levels are also used to account for regional economic patterns that may influence consumption of electricity within the distributor. Further, the application noted that weather normalization is possible only at the wholesale level owing to limitations imposed by the fact that class level retail consumption is available on an annual basis only. The report also noted that the approach taken is appropriate and yields reasonable results because the majority of Ottawa River's load is comprised of weather sensitive classes (residential, GS<50, GS>50). Further, the report noted a similar approach has been successfully employed in other distributor rate rebasing proceedings. Board staff has no concerns about the mechanics of this type of load forecast methodology.

In response to Board staff interrogatory #18, the two unusable variables, i.e. number of peak days and the number of days in the month were explained. Board staff has no remaining concerns in this area.

Other Revenues

Other Revenues (i.e. Revenue Offsets) for 2010 was variously expressed in Ottawa River's application ($362,788 at Ex.3.3.1.1.p1 and $377,968 at Ex.6.1.2.1.p1).

Discussion and Submission

In response to Board staff interrogatory #20, the Applicant showed that 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. Further, in response to Board staff interrogatory #1, the Applicant made amendments resulting in a small change in Other Revenues. For the purpose of determining the Revenue Requirement, the Other Revenues are thus $367,968 and this was confirmed by the Applicant in its response to Board staff supplemental IR #4.

Board staff has no issue regarding Ottawa River's forecast for Other Revenues.

OPERATING COSTS

Overview

Board staff notes that the February 17, 2010, Board-issued report "Third Generation Incentive Regulation Stretch Factor Updates for 2010 (EB-2009-0392)" places Ottawa River in the middle cohort and ranks it slightly below median efficiency compared to other electricity distributors in Ontario. In the application (Ex.4.1.1.p1), the Applicant states that its proposed OM&A for 2010 (excluding one-time items) "reflects a 6.2% annual growth over its 2008 results".

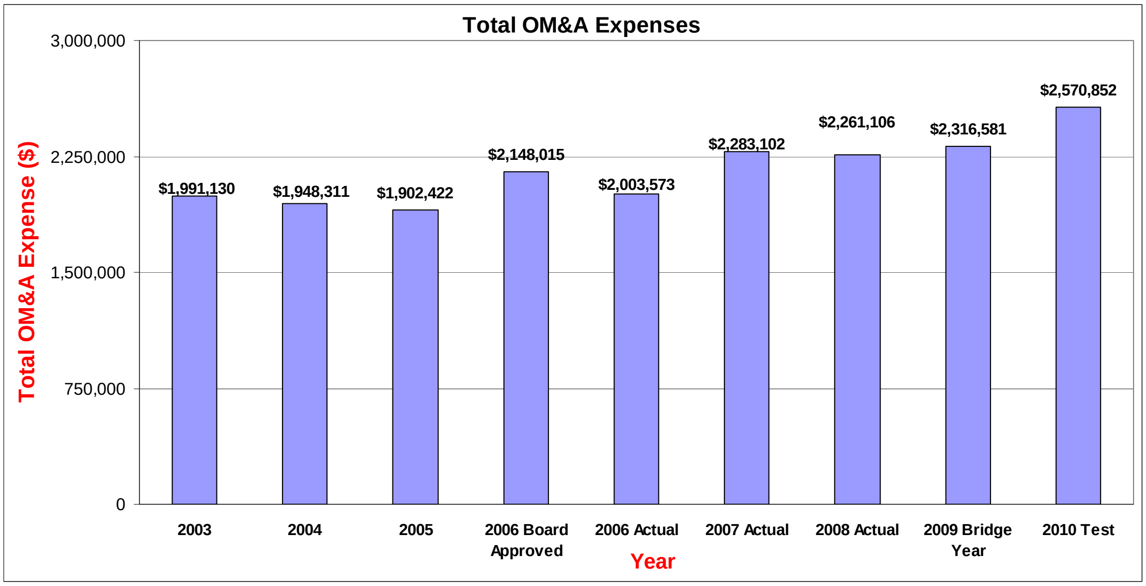
While the proposed OM&A for 2010 exhibits a 6.2% annual growth over the 2008 results when one-time items are excluded, Board staff notes that without excluding the one-time items, the annual growth is 6.8% (Ex.4.1.1.1.p1).

Operations, Maintenance and Administration Expenses

The application states (Ex.1.4.5.2.p.1) that no amount for PST was included in the 2010 spending projections. Ottawa River seeks to defer PST amounts actually paid in the first six months of 2010 for future recovery. This matter is reviewed later in this submission when discussing deferral and variance accounts.

For the 2010 test year, Ottawa River requested approval (Ex.4.1.2.p1) of $2,570,853 for total OM&A expenses. In determining this amount, Ottawa River considered one-time adjustments such as incremental rate application costs, transition costs to IFRS, and the elimination of the PST. Ottawa River proposed to include for ratemaking purposes, a quarter of the incremental rate application costs and transition costs to IFRS. Ottawa River also fully included the effect of the elimination of the PST since it is proposing to include these costs in a deferral account. The historical trend in OM&A is shown in Figure 1 below.

Figure 1 – Total OM&A Expenses



In addition to the one-time items noted above, the increase in the 2010 OM&A amount also includes the recruitment and training of trade apprentices to address recent and expected staff retirements and salary adjustments to bring compensation levels of management and administrative levels in line with those of cohorts.

Ottawa River included no provision for LEAP and 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 interrogatory #21 sought an understanding of the inflation rate used for Ottawa River's 2010 OM&A forecast. The Applicant responded that the inflation rate used for the labour component was 3% and "other inflation assumptions were based on management's judgement of the general expectation for inflation".

In response to Board staff interrogatory #4, the Applicant clarified that it has not included any amount to recover late payment penalty litigation costs. Board staff submits that this is appropriate since the Board has commenced a proceeding on its own motion to address this issue.

Board staff was concerned that Ottawa River's recruitment and training of trade apprentices to address recent and expected staff retirements may not be an on-going expense. In response to Board staff interrogatory #21, the Applicant explained that because of the size and age of its workforce, these costs will be incurred over the next number of years. Ottawa River calculated the costs of having additional staff during the apprentices' learning stages, as well as their education and training costs over four years. An annual average cost of $119,000 was added to the OM&A for 2010. As a result of the information provided by Ottawa River, Board staff has no remaining issues on this matter.

The unadjusted OM&A amount stated in the application of $2,570,853 is a 6.8% per annum increase from the 2008 actual of $2,261,106; this equivalent annual increase is slightly suppressed since Ottawa River's filed OM&A now excludes sales tax. It is unclear how this forecasted increase compares with the unspecified inflation factor inherent in the non-labour component of OM&A estimates. The 2008 OM&A is a 6.4% per annum increase from the 2006 actual.

Based on the values contained in the application, the OM&A expenses per customer are shown in Table 5. The increases in OM&A cost per customer are in line with the distributor's increase in total OM&A; i.e. from 2008 to 2010 the increase in OM&A Expenses per Customer is 6.5% p.a. compared with 6.8% for the total OM&A; the corresponding percentages for 2008 vs. 2006 are 5.6% p.a. vs. 6.4% p.a.

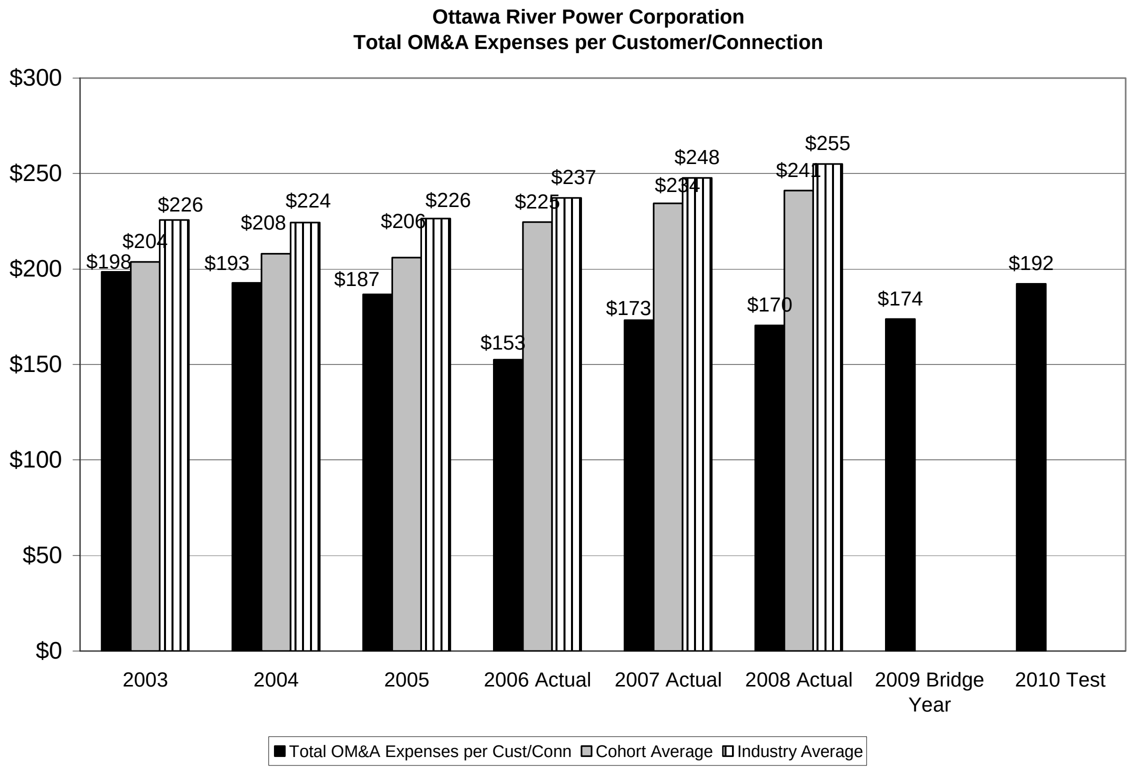
Table 5 - Total OM&A Expenses per Customer

Year	2006 Actual	2007 Actual	2008 Actual	2009 Projected	2010 Forecast
OM&A Expenses	$153	$173	$170	$174	$192

The OM&A expenses per customer together with the cohort average (reference: PEG Report[1]) and industry average is shown in Figure 2. For each of the historical years reported, Ottawa River's expenses are shown to be less than the cohort average and less than the industry average.

[1] Benchmarking the Costs of Ontario Power Distributors – Pacific Economics Group, March 20 2008

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 25% while the total OM&A cost (from Figure 1) increased by 28%; that is, a small incremental improvement in OM&A costs based on customer numbers occurred.

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 26 and an FTE count of 27 (Ex.4.4.1.p2 and Ex.4.2.1.5.p1 respectively).

Table 6 - Total Compensation per FTE

Year	2006 Actual	2007 Actual	2008 Actual	2009 Projected	2010 Forecast
Total Compensation	$66,832	$66,958	$71,603	$72,357	$74,877

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 27.

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

In the pre-filed evidence (Ex.4.4.1.1.p1) the average annual compensation increase for the unionized staff from 2008 to 2010 is seen to be 5.9% per annum; while for 2006 to 2008 it was 3.5% per annum. The average annual compensation increase in the pre-filed evidence for management and non-unionized staff was 7.5% from 2008 to 2010; and 3.8% from 2006 to 2008.

Board staff interrogatory #22 sought information to explain the circumstances that have led to a higher increase in employee costs for the 2008 to 2010 period compared to the 2006 to 2008 period. In response, the Applicant explained that the hiring of additional staff to mitigate planned retirements as well as a third year contract adder for unionized staff were the reasons for the increased percentage in the 2008 to 2010 period versus the 2006 to 2008 period. Additionally, the Applicant explained that the percentage increase in the management and non-union total compensation was due to staff replacements and new hiring triggered by sickness and retirements. A second factor was cited to account for the changes in management and non-union compensation; salaries were re-aligned in accordance with the MEARIE management survey and local comparators.

While Board staff acknowledges that the increase in OM&A is larger than inflation, Board staff nonetheless is satisfied with the justifications provided by Ottawa River. Board staff recognizes Ottawa River's incremental recruitment and training costs triggered by planned retirement and sickness and salary re-alignment to match staff compensation with industry prevailing comparators. Board staff also notes that the OM&A cost per customer/connection is comparable to 2004 and is below the cohort and industry averages.

Depreciation and Amortization

In discussing its depreciation policy, Ottawa River 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 Ottawa River'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 further concerns with respect to this issue.

Income and Capital Taxes

Apart from an omission on tax credits (see below), Ottawa River's actual tax calculations appeared to be consistent with Board instructions.

Discussion and Submission
In response to Board staff interrogatory #21, Ottawa River acknowledged that it had omitted to include certain tax credits related to apprentices. As a result, Ottawa River re-filed its tax calculations to include a $27,750 annual tax credit amount and Board staff has no remaining issue with that aspect of the application.

COST OF CAPITAL AND RATE OF RETURN

Overview

Ottawa River has four debt instruments (Ex.5.1.2.p1) comprised of promissory notes from the City of Pembroke, the Village of Beachburg, the Town of Mississippi Mills and the Township of Killaloe, Haggarty & Richards, the main one being a $4.4 million promissory note at 7.25%. The Applicant stated that the notes have a fixed term of 20 years and are not callable. The Applicant further stated that the 7.25% interest rate is identical to the Board's deemed debt rate at the time the Notes were issued. The Applicant requested $931,001 for the Regulated Return on Capital (Ex.6.1.2.1.p1); this was amended to $931,451 in the response to Board staff interrogatory #1.

Discussion and Submission

Ottawa River's treatment of its cost of capital and rate of return is consistent with the Report of the Board on Cost of Capital and Board staff is satisfied with that aspect of the application.

REVENUE DEFICIENCY OR SUFFICIENCY

Overview

In its application (Ex.6.1.2.1.p1) Ottawa River proposed a 2010 Base or Distribution Revenue Requirement of $3,972,542, which through the interrogatory process (Board staff interrogatory #1) was modified to $3,955,284. Table 7 below provides a summary of Ottawa River's updated 2010 Revenue Requirement.

Table 7 – Revenue Requirement Components

Revenue Requirement	2010 Test
OM&A	$2,570,853
Amortization	791,805
Return on Capital	931,451
PILs / Capital Taxes	29,143
Service Revenue Requirement	$4,323,252
Revenue Offsets	-$367,968
Base Revenue Requirement	$3,955,284

Ottawa River determined (Ex.6.2.1.1.p1) its gross revenue deficiency for the 2010 test year to be $417,801 under current rates. The Applicant explained (Ex.6.2.2.p1) that the primary reason for the deficiency is the increased OM&A expenses for 2010. The secondary reason quoted is the increase in rate base.

Discussion and Submission

In calculating the utility income (Ex.6.2.1.1.p1) the OM&A Expenses and PILs/Income Taxes for 2010 appeared to be stated differently than elsewhere in the application. In response to Board staff interrogatory #24, the Applicant showed that no inconsistencies were present in the calculation of the utility income and Board staff is satisfied with the response.

COST ALLOCATION AND RATE DESIGN

Overview

Ottawa River noted (Ex.7.1.1.1.Report) 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. They further stated that the hourly load profiles provided by Hydro One for all of the classes for the 2006 model were considered to be appropriate for use in the 2010 models. The applicant also stated that Hydro One prepared load profiles for the 2006 cost allocation models for all distributors including Ottawa River. Because Hydro One no longer has the capacity to produce a significant number of Ottawa River-specific hourly load profiles, the Applicant stated it was not possible to update the profiles and hence the 2006 hourly load profiles were used.

Ottawa River provided its revenue to cost ratios with the correction for the treatment of transformer allowances. The ratios for Unmetered Scattered Load ("USL"), Sentinel Lighting and Street Lighting are currently below the Board's policy range. The Applicant proposes to move these ratios to the applicable floor boundary. For Street Lighting, it proposes to close the gap in four equal annual steps (rather than the usual move to halfway in the first year) in order to limit the rate increases to 10% p.a. The Applicant proposed that the increased revenue from these customer rate classes be used to reduce the revenue from the Residential class. The resulting proposed revenue-to-cost ratio for the Residential class will decrease from 1.11 to 1.07 in four equal annual steps. A reconciliation was presented to verify that the proposed rates applied to forecasted load would recover the revenue requirement.

Discussion and Submission

In response to VECC interrogatory #12b, the Applicant acknowledged that the proposed revenue-to-cost ratios were set with reference to the ratios resulting from the 2006 EDR cost allocation model, and not with reference to revenue proportions from existing rates. Further in response to VECC interrogatory #11a, the Applicant acknowledged that the 2010 Cost allocation model utilized in the application used data from an outdated version of the load forecast and pursuant to Board staff interrogatory #1 a corrected model was submitted. In response to Board staff Supplemental interrogatory #2, the Applicant provided updated revenue-to-cost ratios; these ratios were however unchanged from those provided in the application in Table 3 of Ex.7.1.2.p2.

Based on the re-filed results, Board staff has no significant issue with the Applicant's revised cost allocation model or the subsequent calculation of its revenue-to-cost ratios**.** With respect to the proposed four year phase-in period to increase the revenue-to-cost ratios for the Street Lighting rate class to the bottom of the range, the Board may wish to accelerate this transition in order to minimize the inter class cross-subsidization between this rate class and the residential class.

Proposed Distribution Rates

The Applicant stated (Ex.8.2.1.pp1-2) that the proposed fixed rates were established by utilizing the guidance provided in the cost allocation model for maximum and minimum values. The fixed charges for USL, Sentinel Lighting and Street Lighting were set so as to maintain the existing fixed/variable splits. For the GS>50 rate class, maintaining the existing fixed/variable split would result in a fixed charge below the minimum boundary indicated in the cost allocation model; consequently, the minimum boundary from the cost allocation model was used for the fixed charge. For the GS<50 rate class, maintaining the existing fixed/variable split would result in a fixed charge that exceeded the maximum boundary indicated in the cost allocation mode. Consequently, the maximum boundary from the cost allocation model was used for the fixed charge.
For the Residential rate class, maintaining the existing fixed/variable split would result in a fixed rate that exceeded the maximum boundary indicated in the cost allocation model; since the existing fixed charge also exceeded this boundary, the existing fixed charge was maintained

Discussion and Submission

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.pp1-2) 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 8.8% and Connection Service was over-collecting by about 59.1%. As an embedded distributor, Ottawa River pays Hydro One wholesale transmission rates, which were recently increased. Ottawa River also pays transmission charges to Brookfield Energy Management Inc. (“BEMI”), which are treated as Network Service charges, and which were recently increased. Ottawa River therefore proposed adjustments to its retail transmission service rates (“RTSRs”) to align its retail transmission revenue with its wholesale transmission costs. In order to eliminate the existing variance trend and to apply the latest change in transmission supply rates, the Applicant proposes to increase its RTSRs for Network Service by 7.44% and to decrease its RTSRs for Connection Service by 56%.

Ottawa River proposes to increases its LV charges by 0.3% and, unlike the existing tariff schedule, the LV rate will appear as a distinct line item on the tariff sheet (Ex.8.3.2.p1).

The Applicant showed the Total Loss Factor for the past five years (Ex.8.3.3). The Total Loss Factor ("TLF") is 3.9%, representing a significant decrease from their currently approved TLF of 5.7%. The underlying Distribution Loss Factor is 2.9%, which is below the Board's 5% threshold.

Discussion and Submission

In response to VECC interrogatory #14, Ottawa River provided additional information to explain the increase in the transmission charges paid to BEMI.

Board staff has no issue with respect to these elements.

Bill Impacts

Ottawa River identified the summer bill impacts shown in Table 8 underpinning its original pre-filed evidence (Ex.8.4.4.2.pp1-4). Other examples of bill impacts were also filed.

Table 8 – Bill Impacts

	Delivery (%)	Delivery ($)	Total Bill %
Residential @ 800 kWh	-24.3%	-$7.28	-12.0%
GS<50kW @ 2,000 kWh	-11.9%	-$6.98	-7.3%

Ottawa River also provided its proposed rate schedule (Ex.8.4.4.1.pp1-3). A new class was added for microFIT Generator Service. No change in the Specific Service Charges and Allowances was proposed. The proposed Loss Factors show an 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, and the resulting rate changes. In its response to Board staff interrogatory #5 and supplemental interrogatory #3, the Applicant showed a modified proposed increase in summer bills for Residential customers. For residential customers using 800 kWh per month, the proposed decrease had changed to a 12.4% instead of 12.0%.

DEFERRAL AND VARIANCE ACCOUNTS

Overview

Ottawa River listed (Ex.9.1.2.1.p7) the deferral and variance accounts it is currently using and the amounts in these accounts; these accounts in total, including interest, are in a $4,480,047 credit position. The Applicant is proposing a $4,845,967 disposition (Ex.9.2.1.1.p1). This amount includes projected interest to April 30, 2010 and the residual amount in the Recoveries account 1590 of $126,222. The application stated that all balances selected for disposition are as at December 31, 2009. Ottawa River proposes a four-year disposition period with the exception of the global adjustment sub-account.

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. Ottawa River proposed a one-year disposition period.

Ottawa River 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. The Applicant's spending projections for 2010 do not include any sales tax.

Since Ottawa River had not reached the 50% threshold for deployment of Smart Meters by December 31, 2009, and therefore did not propose any disposition of its smart meter related deferral accounts. The Applicant proposes to increase its Smart Meter funding adder (Ex.9.3.2) from the current standard adder of $1.00 per metered customer per month to $1.54 and to retain this adder until May 1, 2012.

Discussion and Submission

Board staff has no issue with the requested deferral and variance account proposals.

~ All of which is respectfully submitted ~