Ontario Energy Board

Commission de l'énergie de l'Ontario

Ontario

EB-2009-0146

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Renfrew Hydro Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2010.

BEFORE: Cynthia Chaplin
Vice Chair and Presiding Member

Marika Hare
Member

DECISION

BACKGROUND

Renfrew Hydro Inc. ("Renfrew" or the "Applicant") 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. Renfrew is a licensed electricity distributor serving approximately 4,180 customers in the Town of Renfrew.

Renfrew is one of over 80 electricity distributors in Ontario regulated by the Board. In 2006, the Board announced the establishment of a multi-year electricity distribution rate-setting plan for the years 2007-2010. In an effort to assist distributors in preparing their applications, the Board issued the *Filing Requirements for Transmission and Distribution Applications* on November 14, 2006, amended May 27, 2009.

On January 29, 2009, the Board informed Renfrew that it would be one of the electricity distributors to have its rates rebased for the 2010 rate year. On May 28, 2010, Renfrew filed a cost of service application based on 2010 as the forward test year.

The Board assigned the application file number EB-2009-0146 and issued a Notice of Application and Hearing dated June 24, 2010. The Board approved the Vulnerable Energy Consumers Coalition ("VECC") as an intervenor. No letters of comment were received by the Board.

In Procedural Order No.1, issued on July 19, 2010, the Board made provision for written interrogatories. VECC and Board staff filed interrogatories on July 26, 2010. 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 a teleconference at which Board staff and VECC could request additional information, after which Renfrew would file written responses; Board staff and VECC would then subsequently file written submissions and the record would close with a reply submission from Renfrew. The teleconference was held on September 9, 2010. The Applicant provided written responses to the supplemental interrogatories on September 22, 2010. On October 7, 2010, Board staff and VECC filed their submissions. On October 25, 2010, Renfrew filed its reply submission.

Renfrew originally requested a Distribution Revenue Requirement of $1,892,874. The proposed rates were set to recover a revenue deficiency of $300,431. The resulting requested rate increase was estimated to be 9.5% on the delivery component of the bill for a residential customer consuming 800 kWh in the summer months. The total bill impacts were moderated by the inclusion of deferral and variance account balances that are in a credit position; as a result, the application shows a total bill increase of 2.6% ($2.65 per month) for these Residential customers.

In its reply submission, Renfrew proposed a reduction to its revenue requirement to $1,877,960 reflecting adjustments to the Return on Capital and PILs. These adjustments reflected corrections and clarifications arising from responses to interrogatories.

The full record is available at the Board's offices. The Board has chosen to summarize the record to the extent necessary to provide context to its findings.

THE ISSUES

The following issues were raised in the submissions of Board staff and the intervenor, and are addressed in this Decision:

- Effective date for new rates
- Rate Base and Capital Expenditures
- Load Forecast and Revenues
- Operating Costs
- Cost of Capital and Rate of Return
- Cost Allocation and Rate Design
- Deferral and Variance Accounts

EFFECTIVE DATE FOR NEW RATES

Renfrew noted in its application[1] 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 applicant also requested that Renfrew's current rates be declared 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 would 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.

In an interrogatory response[2], Renfrew stated its current view is that final rates should be effective July 1, 2010.

[1] Exhibit 1, Tab 1, Schedule 3, Attachment 1, Page 1
[2] VECC Interrogatory #1

VECC submitted that the effective date should be after July 1, 2010. VECC reasoned that:

- Renfrew provided no real reason for not filing in August 2009 as distributors with Cost of Service applications were directed to do[3];

- Renfrew had acknowledged[4] that its 2010 rates would not necessarily become effective May 1, 2010 if its application were filed after August 2009 and, since Renfrew's application was filed 9 months after the August 2009 deadline, then based simply on the delay in filing one could set an effective date of February 1, 2011;

- Based on the Board's performance metrics for written proceedings to be completed within approximately 6 months after an application is filed, an effective date of December 1, 2010, would be a reasonable expectation; and

- Based on actual review time, it appears that the Rate Order is likely to be approved in November 2010 with implementation no earlier than December 1, 2010.

Consequently, VECC submitted that the effective date should be no earlier than November 1, 2010, and considered this to be generous. Noting the disruptions caused to the workload of the Board and interested parties as a result of filing delays by various utilities, VECC stated that the Board needs to send a clear message that, without sound rationale, there are material consequences for not filing on time.

In its submission, Board staff noted that:

- in its pre-filed evidence[5] 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;

- in an interrogatory response[6], the Applicant stated it was not aware of any deadline for filing a cost of service application prior to it receiving the Board's

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[3] Board staff Interrogatory #3
[4] *ibid*
[5] Exhibit 1, Tab 1, Schedule 3, Attachment 1, Page 1
[6] Board staff Interrogatory #3

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

- in another interrogatory response[7], the Applicant stated that, in its current view, the effective date for the final rates should be July 1, 2010.

Board staff submitted 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), Board staff suggested that the Board may wish to be lenient regarding the date when Renfrew's new Tariff of Rates and Charges are made effective. Board staff submitted that an effective date of July 1, 2010 for setting final rates would be reasonable as suggested by Renfrew in response to VECC's interrogatory.

In its reply submission, Renfrew stated it had initially opted to satisfy as much of the minimal filing requirements as possible using its own internal resources in order to save its customers the cost of consultants (a dilemma, it noted, smaller utilities are often faced with) but since the regular day-to-day work still had to be accomplished, the exercise proved to be a bigger endeavour than first expected and resulted in a delayed filing. It noted it had nevertheless managed to retain the rebasing costs to a level that VECC had considered in the past to be "optimistically low"[8] and which, Renfrew suggested, is considerably less than utilities of a similar size and workforce. Renfrew apologized for the inconvenience caused and asked the Board not to further penalize it but requested the leniency mentioned by Board staff. Renfrew noted that to delay the effective date for a period of four months as suggested by VECC would cause the company great concern as it could impair its ability to meet its capital requirements and to impair the safe and reliable operation of the utility.

[7] VECC Interrogatory #1
[8] Section 4.6 of VECC's submission in Proceeding EB-2009-0132.

Board Findings

In its Decision and Order on Interim Rates issued on June 24, 2010, the Board determined that in view of Renfrew's late filing, an issue in the proceeding would be the date upon which the new rates would become effective and ordered Renfrew's rates to be made interim effective July 1, 2010. The Board also stated that by making rates interim as of July 1, 2010, the Board preserves the ability to make the final rates effective as of that date, but not the requirement to do so.

VECC submitted that the effective date for the new rates should be after July 1, 2010, and provided rationale for an effective date ranging from November 1, 2010, to February 1, 2011. Board staff advocated leniency and recommended a July 1, 2010, effective date. In its reply submission, the Applicant reiterated its request for a July 1, 2010, effective date.

The Board is concerned that some applicants do not consider seriously the timelines prescribed by the Board for filing applications. The Board notes that Renfrew was required to file its 2010 cost-of-service rates application by August 27, 2009 in order to have rates effective May 1, 2010. The Board set this date so that Renfrew would be fully aware of the time required to process an application and could therefore plan accordingly. Further in its letter dated April 20, 2010, the Board advised Renfrew that if it did not file its cost-of-service application by April 30, 2010, then its application should be filed on the basis of a 2nd generation IRM. The fact is that Renfrew was nine months late in filing its application and not one month as suggested by Renfrew. In addition, the Board considers that the explanation furnished by Renfrew for the delay in filing its rate application was not adequate, and does not justify an effective date of July 1, 2010. The preparation and filing of a cost of service rebasing application is a core activity for a distributor – the setting of rates is the foundation upon which the distributor conducts its business. Further, customers are entitled to expect that rates will be set on a prospective basis, with limited recourse to the collection of revenue deficiencies accumulated during the period of interim rates. Moreover, the Board notes that Renfrew has provided no evidence to support its assertion that to delay the effective date for a period of four months could impair the safe and reliable operation of the utility.

The Board has therefore determined that Renfrew's new rates will become effective at the beginning of the month following the issuance of this Decision; that is, December 1, 2010.

RATE BASE AND CAPITAL EXPENDITURES

The following issues are addressed in this section:

- Capital Policies and Plan
- Working Capital Allowance
- Service Quality and Reliability Performance

Renfrew originally requested approval[9] for a 2010 Rate Base of $6,021,836 and updated this amount in its Reply Submission to $6,016,657; this compares with $5,084,626 approved in the 2006 EDR. Renfrew noted[10] 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 below.

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

In its submission, Board staff noted that 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. 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.

In its reply submission, Renfrew reiterated its request for approval of a Rate Base of $6,016,657 in the 2010 test year noting that the amount is composed of Net Fixed Assets (average balance for 2010 of $4,542,987) plus a Working Capital Allowance ($1,473,670) determined using the 15% Board-approved value. Renfrew submitted that this level of rate base is required to operate the utility in a safe and reliable manner.

[9] Exhibit 2, Tab 1
[10] Exhibit 2, Tab 1, Schedule 1, page 1

Capital Policies and Plan

In discussing its Asset Retirement Policy[11] in its pre-filed evidence, 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[12] 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[13].

Renfrew showed[14] that the capital expenditures over the past few years have fluctuated in approximately the $300k to $600k range and proposed a capital expenditure of $517k for 2010. Table 2 below shows the annual expenditures and annual depreciation[15].

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 was 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.

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

In discussing its capital contribution policy[16] in its application, 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.

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[11] Exhibit 2, Tab 2
[12] Exhibit 2, Tab 4, Schedule 4, page 2
[13] Exhibit 2, Tab 4, Schedule 3, pages 4-5
[14] Exhibit 2, Tab 4, Schedule 1, page 1 and Exhibit 2, Tab 4, Schedule 3, Attachment 1, pages 1-2
[15] Exhibit 2, Tabs 3 and 4
[16] Exhibit 2, Tab 2, Schedule 4, page 1

Renfrew subsequently stated[17] 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 have represented an increase of about 1.8% to Renfrew's rate base.

VECC noted in its submission that while Renfrew does not have a formal strategic plan, the assets are inspected on a three-year cycle and the capital spending subsequently prioritized. VECC argued that this is a reasonable basis for establishing the 2010 capital spending.

VECC noted that the 2010 increase to $517k is due to the proposed purchase and installation of a new transformer for Renfrew's MS#2 station and that, in response to its interrogatories, Renfrew had provided adequate justification for that expenditure. In considering further the projected capital expenditures for 2010, VECC noted that if one removes the 2010-unique spending, the remaining amount is comparable to the 2007-2009 spending levels. VECC submitted that overall, it finds the proposed level of capital spending for 2010 to be reasonable.

In their respective submissions, both VECC and Board staff noted 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. VECC and Board staff submitted that Renfrew should be directed to conform with the APH in the future.

Board staff noted that over the 2006-2010 period, Renfrew's capital expenditures had increased from $287k to $517k, i.e. by an average of 20% per annum. Board staff observed the fluctuations in the Applicant's actual annual expenditures and the variations from its budgeted amounts, and probed the accuracy of Renfrew's capital forecasts[18]. Board staff noted that Renfrew provided the reasons for the historical anomalies, stated that it does not expect a recurrence of these factors in 2010, and that Renfrew provided the drivers for the increase in the rate base for the test year.

Board staff stated that it had sought clarification[19] through the interrogatory process on whether the Applicant is following a formal strategic investment plan. Renfrew responded that it does not have a formal strategic investment plan but provided the

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[17] Board staff interrogatory #10
[18] Board staff Interrogatory #11 and Board staff Supplemental Interrogatory #3
[19] Board staff Interrogatory #12

pattern of capital expenditures that reflected its priorities. Board staff submitted that, considering that over the 2006-2010 period the Applicant's annual expenditures have increased by 80%, it would be helpful to the Board in judging the prudence of Renfrew's expenditures if, in its reply submission, Renfrew were to file a brief high-level plan with a view to providing a better understanding of its asset conditions and reliability, and generally explaining its long-term infrastructure investment strategy.

In its reply submission, Renfrew countered Board staff's observation that capital expenditures had increased by 80% from *2006* to 2010 by noting the increase from *2007* to 2010 was 1.6%. Regarding the year-to-year fluctuations such as that in 2009, Renfrew pointed out that when a utility with an average capital expenditure of approximately $450k spends $260k on a new digger truck, the fluctuations can appear excessive.

Renfrew also commented on Board staff's suggestion that it would be helpful if Renfrew filed a brief high-level plan on its infrastructure investment strategy. Renfrew explained that it does not maintain a formal asset management policy but it does follow sound business practices to ensure that investments are carried out prudently and that they support key objectives including safety, reliability and efficiency. It reiterated[20] that although it does not have a formal strategic plan in place, it does apply prioritization to its capital expenditures and, as a small utility, it is very well informed on the condition of its assets. Renfrew submitted that it does not feel that an official asset management plan is required at this time; further, the time and/or cost required from management to create, implement and report such a plan cannot be justified nor would be in the best interests of Renfrew's customers.

Renfrew noted VECC's agreement with Renfrew's approach to prioritization of its capital spending as a method of asset management. It also noted that VECC found the 2010 expenditure of $517k to be reasonable, that it had provided adequate justification for the new MS2 transformer and that it agreed with the decision to exclude $20,382 in Provincial Sales Tax (PST).

In response to Board staff and VECC's submissions that Renfrew's treatment of capital contribution should conform to the APH, Renfrew noted that the net revenues from jobbing are included in Other Revenues that fully offsets the Base Revenue Requirement. Renfrew also stated that while it will never engage in a level of expansion

[20] *ibid*

where its approach will have any material impact on its revenue requirement or proposed rates, it will revise its accounting procedures if the Board deems it necessary.

Working Capital Allowance

Renfrew's original proposed Working Capital Allowance for the 2010 Test Year[21] was $1,478,849 (subsequently updated[22] to $1,473,670) which was based on 15% of the forecast cost of power and controllable distribution expenses.

VECC noted in its Final Submission that Renfrew had appropriately taken into account both the RPP and non-RPP volumes in deriving a weighted average commodity price and had also used the most recent report as the basis for the inputs.

Board staff submitted that it had no issue with the calculation of the Power Supply Expenses or with the Working Capital aspect of the Applicant's application.

Renfrew replied that since neither VECC nor Board staff objected to its determination of the Working Capital Allowance, the Board should approve its requested 2010 amount.

Service Quality and Reliability Performance

Renfrew showed[23] that its Service Quality Indicators ("SQI") exceed SQI standards.

Details of Renfrew's reliability statistics[24] 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

Board staff submitted that it had no remaining concerns in this area.

[21] Exhibit 2, Tab 5, Schedule 1, page 1
[22] Renfrew's Reply Submission
[23] Exhibit 2, Tab 6, Schedule 1, Attachment 1, page 1
[24] Exhibit 2, Tab 6, Schedule 2, Attachment 1, page 1

Renfrew noted that Board Staff had no concern regarding the reliability statistics and that VECC made no mention of the issue in its submission.

Board Findings

The $6,016,657 Rate Base proposed by Renfrew for 2010 is a 6.8% increase from the 2009 projected value and an average 3.6% increase over the 2006 to 2010 period. The Board notes that $131,173 of the $516,999 proposed 2010 capital expenditure is to replace the M.S.2 station transformer which is over fifty years old, undersized and has critical deterioration; the remainder of the requested amount is shown as being driven by investments in distribution station equipment, conductors and poles. VECC submitted that overall, the proposed 2010 capital spending is appropriate. Board staff did not raise any objections to the amount being requested. The Board considers the requested 2010 capital expenditures to have been justified and reasonable. The capital expenditures and rate base amounts are approved as requested.

Renfrew maintains a legacy practice of recovering incremental costs for system expansion through charges recorded as revenue from jobbing rather than charging as capital contributions. Renfrew stated that had it adhered to the Board policy, the rate base would have been modified by approximately 1.8%. Board staff and VECC submitted that Renfrew should be directed to adhere to the Board’s APH for future capital contributions, and Renfrew expressed its willingness to do so if the Board deemed it necessary. The Board agrees with Board staff and VECC that Renfrew’s practice does not follow the Board’s APH where capital contributions are to be included in the balance sheet Account 1995, and amortized over time. For the purpose of establishing 2010 rates, the Board will accept Renfrew’s current calculation method but directs Renfrew to adhere to the APH in the future.

Board staff submitted that it would be helpful to the Board in judging the prudence of Renfrew’s expenditures if Renfrew were to file a brief high-level plan with a view to providing a better understanding of its asset condition and reliability, and generally explaining its long-term investment strategy. Renfrew countered that it is already very well informed on the conditions of its assets and such a plan would not be cost-justified. The Board accepts Renfrew’s assertion regarding its understanding of the condition of its assets. Nevertheless, the Board suggests that Renfrew should file in its next cost-of-service rate application an overview of its long-term investment strategy as it will provide valuable corroborating evidence to support its capital budget request.

Renfrew requested a Working Capital Allowance (WCA) for the 2010 test year of $1,473,670 which was based on 15% of the forecast cost of power and controllable expenses. The Board notes that neither VECC nor Board staff objected to the WCA requested. The Board approves the WCA as requested.

CUSTOMER / LOAD FORECAST AND REVENUES

The following issues are addressed in this section:

- Customer and Load Forecasts
- Throughput, Distribution and Other Revenues

Customer and Load Forecast

Renfrew initially developed its load forecast using a multiple regression approach but discarded this in favour of the Normalized Average Consumption (NAC) approach[25] when the former yielded "unrealistically pessimistic forecasts for the Residential class in particular".

Renfrew's NAC load forecasting methodology consisted of the following steps[26]:

- First, for each customer class, the actual average use per customer was determined for the years 2005 to 2009 inclusive. Using these results, a five-year average was calculated and used as the normalized average use per customer;

- Second, the number of customers in each class for 2010 was forecast for Residential, GS<50 and Street Lighting using the annual average growth from 2005-2009. In the case of the GS>50 and USL classes, the year-end 2010 customer count was assumed to be the same as for 2009: and

- Finally, the 2010 retail sales by class were forecast using the results from the previous two steps.

[25] Exhibit 3, Tab 1, Schedule 2, page 1
[26] Exhibit 3, Tab 1, Schedule 2, Attachment 1, pages 4-6

Renfrew's customer base has increased minimally (approximately 0.6% per annum) over the past five years[27]. Renfrew requested Board approval[28] for a test year forecast of 5,376 customers/connections. This represents a 0.4% per annum increase over 2008.

While the 2003-2008 historical load growth was 2.3% per annum, in the 2005-2010 period the utility's total kWh load increased slightly in the first few years and then decreased in the remaining years; the net effect over the 2005-2010 period has been zero change in load[29]. 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.

VECC noted Renfrew's ready acknowledgement that the NAC approach is not the preferred approach to load forecasting but that Renfrew did explore a number of alternatives including multiple regression analysis using wholesale purchases. Ultimately however, VECC noted, Renfrew found the results using the multiple regression analysis approach to be unreasonable. VECC submitted that the Board should accept Renfrew's load forecasting methodology. However, VECC also submitted that the Board should encourage Renfrew to continue to explore alternative approaches to load forecasting.

VECC also noted that based on actual customer counts to date for 2010, the forecast count for Residential is likely to be too low whereas the forecast for the General Service classes is likely to be too high. VECC further noted that since Renfrew had not updated its year end projections, "… there is a limited evidentiary basis on which to determine an alternative customer count forecast for 2010."

Board staff noted that [30] 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 values, Board staff concluded the customers/connections forecast was reasonable; specifically, an actual total of 5,360 vs. a (proportional) forecast value of 5,369. Board staff stated it had no issue with the customers/connections count forecast.

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[27] Exhibit 3, Tab 1, Schedule 2, Attachment 1, page 5
[28] Exhibit 3, Tab 1, Schedule 1, Attachment 1, page 1
[29] *ibid*
[30] VECC Interrogatory #34

In reviewing Renfrew's decision not to use its multiple regression-based forecast because it yielded "unrealistically pessimistic forecasts", Board staff noted that while class-specific monthly data was apparently not available for the utility to prepare an alternate regression-based forecast, this has not caused an insurmountable problem for other utilities in the past since monthly system-level data is always available and historical relationships could be used to apportion the load to each of the customer classes.

In considering Renfrew's NAC-based load forecast (i.e. its filed forecast), Board staff postulated that a load forecast utilizing historical weather-corrected data is potentially more realistic than one using actual unmodified values; further, Board staff stated it understood that Renfrew made no weather corrections to its load data. Board staff invited Renfrew 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.

Board staff noted that interrogatory responses[31] showed how the multiple regression approach produced a 2010 load forecast for the Residential class 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 submitted that it would be unwise to utilize 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 was representative of all the classes, then the Applicant's customers would not be disadvantaged by the NAC-based forecast values since the resulting rates would be proportionally lower. To assist the Board in accepting the NAC-based forecast in this particular case, Board staff invited the Applicant to confirm, by providing a comparison for each class in the format of the response to Board staff Interrogatory #18c, that the load for each of the classes is higher using the NAC method than by the multiple regression method.

Board staff also noted that in an interrogatory response[32], Renfrew provided a 2010 forecast for each class incorporating the 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). Utilizing this information, Board staff prepared and filed Table 4 below that provides a

[31] Board staff Interrogatory 18c)
[32] Board staff Supplemental Interrogatory #4b

comparison of the filed forecast for each class[33], 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 (kWh)	(b) Forecast including Trend (kWh)	(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%

Board staff observed that except for Street Lights, the filed forecasts for all classes are lower than they would have been had trends in consumption been included. Board staff stated that assuming Renfrew 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, then Board staff submitted 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 submitted that each of the class forecasts should be increased as shown in Table 4 above.

In its reply submission, Renfrew stated that after reviewing Board staff and VECC's submissions, it 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.

Renfrew noted that VECC had submitted that, for the purposes of setting 2010 rates, the Board should accept Renfrew's approach whereas Board staff was not supportive and had stated it was unclear why the multiple regression approach was discarded in favour of the NAC approach. Renfrew submitted that Board staff was incorrect to suggest that it was unclear why the regression approach was rejected in favour of the NAC approach. Renfrew explained that the application had made clear that the multiple regression approach had to be discarded due to the fact that class-specific monthly data was not available to develop class-specific weather normalization and the monthly wholesale data (that may have provided an alternate approach) was overly influenced by declining commercial volumes that were not seen in the non-commercial

[33] Exhibit 3, Tab 1, Schedule 1, Attachment 1, Page 1

classes. It noted that the decline in the commercial class volumes would bias the Residential class forecast, in particular, to be too low. Also, it was reiterated that Renfrew had investigated alternate methods of dealing with the data issue but this did not alleviate the problem.

Renfrew disagreed with Board staff's description of the NAC method as a "rear-view mirror approach" and submitted that neither approach is more "rear-view mirror" or "forward-looking" than the other.

Renfrew also noted that Board staff was concerned that no weather correction had apparently been made to the data used in the NAC method used. Renfrew submitted that any modifications to actual weather readings without strong justification, "would be tantamount to tampering with historical data and should be strongly discouraged by the Board."

Regarding the use of trend data and Board staff's submission that each of the class forecasts should be increased to reflect the change in average consumption over time, Renfrew submitted that Board staff was incorrect in its submission on this issue in that a trend in average use does not necessarily correspond to a trend in total kWh throughput unless the number of customers stays constant – and this is not the case for Renfrew. It noted that: "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'". In Renfrew's view, the more appropriate method is to use an arithmetical mean. Renfrew submitted 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.

Renfrew did not expressly respond to the invitation in Board staff's submission with respect to whether weather correction had been used to "make mathematical corrections to its historical actual readings to arrive at *historical* weather-corrected values." Nor did Renfrew respond to Board staff invitation to show that Renfrew's customers in general would not be disadvantaged by using the forecast obtained through the NAC approach rather than through the multiple regression approach.

Throughput, Distribution and Other Revenues

In the application, Renfrew forecasted its Other Revenues (i.e. Revenue Offsets) for 2010; it variously expressed these as $139,777[34] and $141,527[35]. The Applicant showed[36] the difference was attributed to the 50% offset applied to the projection for account 4355 – Gain on Disposition of Utility and Other Property; thus for the purpose of determining the Revenue Requirement, the Other Revenues are $139,777.

VECC made no submissions regarding Renfrew's 2010 forecast for Other Revenues.

Board staff submitted 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).

Board Findings

Renfrew requested approval for a 2010 test year forecast of 5,376 customer/connections (a 0.4% per annum increase over 2008) and a load forecast of 98,720,895 kWh (a 1.2% decrease per annum from 2008).

Renfrew attempted unsuccessfully to use a multiple regression model to determine its load forecast but ultimately used a version of the Normalized Average Consumption (NAC) approach. VECC acknowledged the need to use the latter approach in the circumstances and found the load values not unreasonable. Board staff conceded on using the average consumption approach because of the failure of the multiple regression approach to generate reasonable results but argued that inadequate weather normalization took place and that the trend in usage should have been taken into consideration. The inclusion of the trend would have increased the customer class load forecasts by up to 3%. Renfrew did not accept the use of trends in average consumption forecasting.

The Board acknowledges that despite an applicant's best attempt, sometimes because of lack of data or models that do not produce supportable results, the results from the

[34] Exhibit 6, Tab 1, Schedule 2, Attachment 1, Page 1
[35] Exhibit 3, Tab 3, Schedule 1, Attachment 1, Page 1
[36] Response to Board staff interrogatory #20

multiple regression approach are not always meaningful and the applicant is forced to use a less sophisticated forecasting technique; such was the case here. While Renfrew claimed it used the Normalized Average Consumption approach, the evidence suggests that Renfrew did not introduce any weather normalization into its filed model (as is usually the case with the NAC approach) but relied on the range in weather experienced over the selected five year data-period chosen to effectively “average out” variations in weather or, as Renfrew claimed, to effectively “weather-normalize” the data. While this argument may hold in certain circumstances when data over a long period is utilized, the Board does not accept the Applicant’s apparent suggestion that adequate weather normalization has been included over the five-year period selected.

The Board is sympathetic to the argument that trending of average consumption data may produce a more meaningful load forecast but notes, in this case, if trending were to be accepted by the Board, the load forecast would increase by up to 3% for some customer classes. Given the continuing economic uncertainty and the anticipated impact of conservation and demand management initiatives, the Board is reluctant to increase the load forecast and rejects Board staff’s recommendation in this regard.

The Board notes that no party expressed significant concern with the customers/connections forecast and that VECC was ultimately supportive of the load forecast; Board staff’s concerns with the load forecast have already been addressed. The Board approves the 2010 test year forecast of 5,376 customer/connections and 98,720,895 kWh.

It is noted that no party expressed reservations regarding the Revenue Offset. The Board approves the Revenue Offset of $139,777.

OPERATING COSTS

The following issues are addressed in this section:

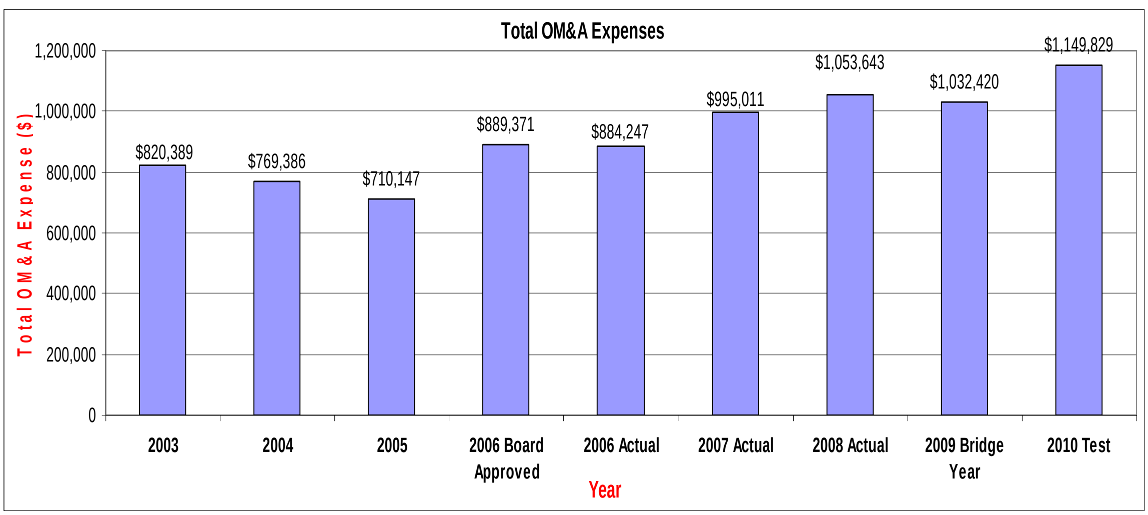
- Operating, Maintenance and Administration Expenses
- Employee Compensation
- Depreciation and Amortization
- Income and Capital Taxes
- Affiliate Transactions

Operations, Maintenance and Administration (OM&A) Expenses

Renfrew noted[37] in its pre-filed evidence 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 expenses for 2010 (excluding one-time items) reflects only a 2.5% annual growth over its 2008 results.

For the 2010 test year, Renfrew requested approval[38] of $1,149,829 for total OM&A expenses which equates to $1,061,344[39] excluding impacts for one-time items (i.e. rate filing, transition to IFRS, the elimination of PST, the recruitment of an apprentice lineman, the hiring a temporary employee to assist with winter tree trimming and the testing of transformers for PCB content). The historical trend in OM&A is shown in Figure 1.

Figure 1 – Total OM&A 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.

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[37] Exhibit 4, Tab 1, Schedule 1, Page 1
[38] Exhibit 4, Tab 1, Schedule 2, Page 1
[39] Per ccorrection provided in Renfrew’s November 10, 2010, e-mail to Board Secretary

Renfrew 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.

VECC noted that in preparing its application, Renfrew revised its initial cost projections for 2010 capital spending in order to exclude PST and removed $20,382 in line with the PST paid on capital spending in the previous years. In VECC's view, no further adjustments need to be made to the 2010 capital spending account for the introduction of the Harmonized Sales Tax.

VECC noted Renfrew's explanation that the material increase in 2010 is due to a number of one-time factors which, together with the off-setting adjustment for the elimination of PST, resulted in the OM&A increase for 2010 over 2009 being less than 3%; this, VECC stated, is reasonable.

VECC noted that Renfrew is forecasting the total cost of converting to IFRS will be $60,000 and that Renfrew has included one-quarter of this total in the current application. VECC also noted that Renfrew proposes to track the difference between the forecast and actual cost of IFRS implementation in a variance account. VECC went on to note that the Board Report on IFRS[40] directed distributors that did not have any "approved" IFRS costs already included in their rates (such as Renfrew), to record the cost in a deferral account for future recovery. Renfrew, VECC noted, had expressed preference for its proposed approach on the basis that it is a small utility and is concerned regarding its cash position. However, VECC stated in its view, $15,000 is not material in terms of Renfrew's total Revenue Requirement and the Board should exercise caution in creating precedents for departure from its established approach to accounting for IFRS costs.

Board staff noted that the historical change in OM&A (i.e. 2006 to 2008) is a 7.5% per annum increase while the 2010 OM&A amount (unadjusted for one-time expenses) of $1,149,829 is a 4.6% per annum increase[41] from the 2008 actual of $1,053,643; the annual increase, it was noted, is slightly suppressed since Renfrew's filed OM&A now excludes sales tax. Board staff further noted it is unclear how this forecasted increase compares with the unspecified inflation factor inherent in the OM&A estimates.

[40] EB-2008-0408, page 43
[41] Exhibit 4, Tab 1, Schedule 2, Page 1

Board staff filed Table 5 below comparing the OM&A Expenses per Customer over the 2006-2010 period and noted that the increases 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% per annum 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

Referencing data from the OEB Yearbook of Electricity Distributors, Board staff presented data that showed Renfrew's OM&A Expenses per Customer for the period 2003 to 2008; this showed Renfrew's per customer expense to be consistently well below the industry average and consistently – though with a closing margin – below the cohort average. Board staff made no submission regarding Renfrew's OM&A costs.

Board staff noted that Renfrew had not included any amount to recover late payment penalty litigation costs[42].

Board staff also noted that Renfrew had clarified[43] its methodology for deciding on its suppliers and contracting amounts, and that it had provided further information[44]; specifically, the rental agreement it has with the Town of Renfrew, the basis for its service pricing and the determination of the mark-up. Board staff stated it had no significant issue with the supplier aspects of the application.

In its reply submission, Renfrew requested the Board's approval of its OM&A expenses totaling $1,149,829 for the 2010 test year. It noted that the major cost drivers behind the increase are the cost of the 2010 rebasing at $49,250 and IFRS implementation at $60,000 (both to be amortized over four years), together with recruitment of a linesman apprentice for succession at $34,000 and PCB testing of transformers at $12,000.

[42] Board staff Supplemental Interrogatory #8
[43] Board staff Interrogatory #24
[44] VECC Interrogatories #3 and #19, and VECC Supplemental Interrogatory #35

Renfrew also noted that it proposes to remove the PST from the revenue requirement and defer its recovery to a later date.

Renfrew noted further that if it were to normalize its 2010 OM&A expenses by removing the one time costs, this would result in a total cost of $1,061,344 [45]compared with $1,053,643 and $1,032,421 in 2008 and 2009 respectively. Renfrew submitted that the 2010 level of expenditure is required to operate the utility in an efficient, safe and reliable manner and that the proposed expenses should be approved accordingly. Renfrew noted that the adjusted (i.e. after removal of one-time costs) level of spending represents an increase of less than 3% over 2009.

Renfrew further noted that VECC considered Renfrew's 2010 forecasted OM&A expenses to be reasonable and that Board staff, while not specifically objecting to the amount being requested nor suggesting that the 2010 OM&A be reduced, questioned the unadjusted annual growth of 4.6% per annum increase from 2008 and its total increase from 2006 to 2010. Renfrew reiterated that the year-over-year increases were either necessary, justified or were beyond the utility's control (i.e. the rebasing application) and that Renfrew's costs are below those of its peers.

Addressing IFRS specifically, Renfrew reiterated its preference for including one-quarter of the projected $60k for each of the next four years and tracking any differences in a variance account. Renfrew noted that its proposed approach reduces inter-generational inequality through a timely recovery of IFRS transition costs from ratepayers and reminded the Board that its preferred approach follows a similar practice with respect to smart meters through funding adders. Noting VECC's statement that $15k is not material, Renfrew countered that to a small utility such as Renfrew that is cost conscientious, this amount can make a significant difference.

Employee Compensation

The total compensation per FTE is shown in Table 6. The staffing level had been variously expressed in the application with a headcount of 10 and an FTE count of 12[46] but subsequently clarified[47] that the number of FTEs (on which the average compensation data is based) is 10.8 in the 2010 Test Year.

[45] Per ccorrection provided by Renfrew's November 9, 2010 e-mail to Board Secretary
[46] Exhibit 4, Tab 4, Schedule 1, Page 1 and Exhibit 4, Tab 2, Schedule 1, Attachment 5, Page 1
[47] Board staff Interrogatory #23

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

VECC stated that in response to interrogatories[48], Renfrew had revised the information in its original application regarding the compensation charged to OM&A in 2010 from $675,101 to $655,454 (i.e. a $19,647 reduction), and that Renfrew had stated in its interrogatory responses that the former amount was a preliminary figure which was revised prior to the filing of the original application. VECC stated that its interpretation of this statement to be that the compensation details reported in Exhibit 4, Tab 4, Schedule 1 were incorrect and that the OM&A costs reported in Exhibit 4, Tab 2, Schedule 1 (and used in determining the overall revenue requirement) reflected the correct amount of compensation costs (i.e. $655,454). VECC invited Renfrew to confirm in its reply submission that this is the case; otherwise, VECC argued, a reduction of $19,647 is required to the 2010 OM&A costs.

Board staff noted that in the pre-filed evidence[49], the average annual compensation increase for the unionized staff from 2008 to 2010 is shown as 7.8% per annum while from 2006 to 2008 it was 3.9% per annum. Board staff further noted that the average annual compensation increase for management and non-unionized staff was 3.3% per annum throughout the 2006-2010 period.

Board staff also noted Renfrew filed corrected 2009 data[50] which showed smaller increases than previously filed for the total compensation increase for the unionized staff from 2008 to 2010, though no explanation for the magnitude of the increases was given. The new data, it was also noted, showed that over the 2008-2010 period, the average increase for all categories of staff was in the order of 5% per annum; subsequently[51], this was corrected and reported to be around 3% per annum.

[48] Board staff Interrogatory #22 and VECC Interrogatory #36
[49] Exhibit 4, Tab 4, Schedule 1, Attachment 1, Page 1
[50] Board staff Interrogatory #22
[51] Board staff Supplemental Interrogatory #6

In response to VECC's request for clarification, Renfrew stated that it had confirmed that the total amount of compensation charged to OM&A is $655,454; Renfrew thus concluded that the amount of OM&A does not require further adjustment.

Depreciation and Amortization

Renfrew stated[52] that it had applied the half year rule "for depreciation retrospectively since the Board-approved balances for the 2006 EDR".

VECC stated that Renfrew's usage of the half year rule suggests that Renfrew's 2006 rates were set using financial results that did not reflect the half year rule and, if this is the case, VECC submitted that the net fixed assets (up to December 31, 2009) used in the determination of the rate base should be calculated on the same basis and the half year rule adjustment introduced only starting in 2010; i.e. the year for which the new rates are to be approved. VECC invited Renfrew to comment, in its reply submission, on the materiality of such a change. VECC stated that it had no submission regarding Renfrew's proposed 2010 depreciation expense.

Board staff noted that clarification had been provided[53] on the half-year rule which showed Renfrew had used the half year rule consistent with Board instructions; thus, Board staff stated it had no issue.

In its reply submission, Renfrew addressed VECC's concern that the half year rule had been inappropriately used in its retroactive adjustment. Renfrew responded that it believes the retroactive adjustment it presented was "consistent with the manner in which neighbouring utilities that were not in compliance with the half year rule applied their revisions." Renfrew noted Board staff's concurrence of its usage of the half year rule.

In its Reply Submission, Renfrew did not respond to VECC's invitation to comment on the materiality of changing Renfrew's utilization of the half year rule.

[52] Exhibit 2, Tab 2, Schedule 3, Page 1
[53] Board staff Interrogatory #9

Income and Capital Taxes

As part of the interrogatory process, Renfrew acknowledged[54] that it had failed to include certain tax credits related to apprentices; it re-filed its tax calculations to include a $14,500 annual tax credit amount.

VECC noted that Renfrew had revised its PILs calculations to include Apprenticeship Tax Credits and hence VECC had no further submission to make on the matter.

Apart from the omission of tax credits which had now been corrected, Board staff stated that Renfrew's actual tax calculations appeared to be consistent with Board instructions and therefore Board staff had no remaining issue.

Renfrew noted in its reply submission that other than pointing out that Renfrew had revised its PILs calculations 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.

Affiliate Transactions

Renfrew noted that it 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 stated that all services and rentals are based on a market-based pricing methodology.

VECC noted that Renfrew identified its business dealings with its affiliates; specifically, it rents space from Renfrew Generation (for which there is a rental agreement in place) and provides lighting maintenance services to the Town of Renfrew (for which no service agreement is in place)[55]. It noted that Renfrew reported that it had initiated discussions with the Town to establish a service agreement and expects to have one completed before May 1, 2011. VECC submitted that the Board should ensure that an appropriate agreement is in place by directing Renfrew "to file a copy of the completed Service Agreement and/or having its compliance staff pursue the matter directly with Renfrew."

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[54] VECC interrogatory #20
[55] VECC interrogatory #19 and Exhibit 1, Tab 3, Schedule 4, Attachment 1

In its reply submission, Renfrew reiterated that it does not currently have a written service agreement with the Town of Renfrew for streetlight and traffic light maintenance. Renfrew confirmed that it had initiated discussions with Town officials to establish such an agreement and intends to have an agreement completed before May 1, 2011; the Board will then be provided with a copy of the agreement.

Board Findings

Renfrew has requested approval of $1,149,829 for total OM&A expenses which, after adjustment for one-time costs, equates to less than a 3% increase from 2009 to 2010. VECC considered Renfrew's 2010 forecasted OM&A as reasonable and Board staff expressed no objection. The Board approves the total OM&A expenses as requested.

No amount for PST was included in the 2010 revenue requirement. Renfrew sought to defer PST amounts actually paid in the first six months of 2010 for future recovery. No party raised any objection to Renfrew's proposal. The Board approves Renfrew's treatment of the PST matter as proposed.

Renfrew is forecasting that the total cost of converting to IFRS will be $60,000 and has included one quarter of this total in the current application. Renfrew further proposed to track the difference between the forecast and actual cost of IFRS implementation in a variance account. The Board notes that the policy on IFRS is to include the forecast amount in the calculation of revenue requirement with no variance account, or if nothing is to be included in the revenue requirement then to use a deferral account. The Board approves Renfrew including the $15,000 IFRS annualized expenditure in its revenue requirement for four years but does not approve the requested variance account. This is but one of many items used in the forecast of OM&A expenses for which variance accounts are not utilized. The Board expects Renfrew to manage this amount in the same way as all other forecast OM&A expenses.

VECC expressed concern that Renfrew's usage of the half year rule may not be appropriate and if so, the net assets should be recalculated. VECC invited Renfrew to comment, in its reply submission, on the materiality of such a change. Renfrew did not respond to VECC's invitation. The Board will accept Renfrew's calculations for the purpose of determining its 2010 rates, given the amount is not material. The Board directs Renfrew to adhere in the future to the Board's policy on the half year rule.

Renfrew has initiated discussions with the Town of Renfrew to establish a Service Agreement and indicated that it anticipates that it would be completed by May 1, 2011. The Board directs Renfrew to develop a Service Agreement by May 1, 2011, and to notify the Board by that date confirming that such an agreement has been finalized.

COST OF CAPITAL AND RATE OF RETURN

Renfrew reported[56] it has three debt instruments, the primary one being a $2.7 million demand note at 7.25% from the Town of Renfrew; it also has a small RBC variable-rate loan and a small RBC fixed-rate loan. The requested Regulated Return on Capital is $436,576.

VECC noted that while the cost of the variable rate loan is forecast to be 5% for 2010, Renfrew is proposing to use the Board's deemed cost of long term debt (i.e. 5.87%) based on its interpretation of the Board's 2009 Cost of Capital report[57]. VECC submitted that Renfrew misinterpreted the Report in that it directs utilities to use the deemed rate as a ceiling; thus, Renfrew should have used a 5% value. While noting that the variable rate note is less than 1% of the total debt and the difference between 5% and 5.87% is such that the impact on Renfrew's average cost of debt is not material, VECC was nevertheless concerned with the precedent that would be established should the Board approve the use of the Board's deemed rate in this instance. VECC stated it had no other submissions regarding Renfrew's proposed cost of capital or capital structure.

Board staff noted that Renfrew's treatment of its cost of capital and rate of return appeared to be consistent with the Report of the Board on Cost of Capital; thus, Board staff had no issue.

In its reply submission, Renfrew submitted that all the components of the Capital Structure reflected the Board-approved equity, long-term debt and short-term debt in accordance with the Board's Cost of Capital report and thus, Renfrew proposed its capital structure should be approved by the Board. Renfrew acknowledged that the Board's policy states that the 5.87% deemed long-term debt rate should be viewed as

[56] Exhibit 5, Tab 1, Schedule 2, Page 1
[57] *ibid*

the ceiling rather than requirement. Renfrew stated it echoed VECC's comment that the effect on Renfrew's cost of debt is trivial and therefore requested that it be allowed to apply the deemed 5.87% rate on the grounds that it is reasonable and in line with other utilities; it noted that Board staff took no issue on the rate.

Board Findings

The Board's policy is that for long-term debt that has a variable rate, the deemed long-term debt rate will be a ceiling on the rate allowed for that debt, and otherwise, the actual percentage applies. This applies whether the debt holder is an affiliate or a third-party. The Board finds that no compelling reason has been provided to depart from this policy and therefore directs Renfrew to use 5% as the interest rate for its variable-rate loan.

Renfrew has requested approval of its proposed capital structure consisting of a deemed common equity component of 40% and a deemed debt component of 60%. No party expressed any objection. The Board approves the 40%/60% capital structure.

COST ALLOCATION AND RATE DESIGN

The following issues are addressed in this section:

- Cost Allocation Methodology
- Proposed Distribution Rates
- Transmission, Low Voltage and Line Losses

Renfrew noted[58] that it filed a cost allocation model that reflects load and costs underpinning the 2010 test year. Renfrew further noted 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 had prepared load profiles for the 2006 cost allocation models for all distributors including Renfrew. Because Hydro One no longer has the capacity to produce a significant number of specific hourly load profiles, Renfrew stated it was not possible to update the profiles and hence the 2006 hourly load profiles were used.

[58] Exhibit 7, Tab 1, Schedule 1, Attachment 1, Page 3

Renfrew provided its revenue to cost ratios with the correction for the treatment of transformer allowances. 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 as 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.

Renfrew proposed a four-year transition for its revenue-to-cost ratios as depicted in Table 7 below:

Table 7 – Proposed Changes to Revenue-to-Cost Ratios

	2006 EDR	2010 EDR	2011	2012	2013
Residential	1.24	1.17	1.16	1.15	1.14
GS<50kW	0.96	1.00	1.00	1.00	1.00
GS 50-2,999 kW	0.74	0.80	0.80	0.80	0.80
USL	0.58	0.64	0.69	0.75	0.80
Street Lighting	0.29	0.39	0.50	0.60	0.70

Cost Allocation Methodology

VECC noted that Renfrew prepared its 2010 cost allocation using 2010 costs and scaled the various loads used in the 2006 Cost Allocation study to match the change in load forecast for each customer class between 2006 and 2010. VECC also noted Renfrew used 2010 revenues by customer class based on 2009 rates which resulted in an overall revenue-to-cost ratio of approximately 85% rather than 100%. The initial model also included the smart meter funding adder. In response to interrogatories from VECC and Board staff, Renfrew updated its model [59] to reflect the revised revenue requirement, the exclusion of the smart meter funding adder, and determined the revenue-to-cost ratios that would result if the 2010 revenue deficiency had been addressed through a uniform rate increase to all customer classes.

VECC presented a table (Table 8 below) that showed, for each customer class, the revenue-to-cost ratios that resulted from:

[59] VECC interrogatory #37 and Board staff interrogatory #1 – Revised CA Model – Sheet 01

- the 2006 Cost Allocation model after the Transformer Ownership Allowance ("TOA') adjustment had been made (this formed the "starting point" for Renfrew's application); and
- applying a uniform rate increase to all customer classes.

Table 8 - Revenue-to-Cost Ratios (%)

Customer Class	(a) 2006 Cost Allocation (TOA adjusted)	(b) 2010 Cost Allocation (Uniform Increase)	(c) 2010 Proposed
Residential	124	122	117
GS<50	96	91	100
GS>50	74	80	80
Street Lighting	29	32	39
USL	58	41	64
Total	100.0	100.0	100

VECC expressed the view that the correct "starting point" for considering changes in the revenue-to-cost ratios is the ratios that would arise from adopting a uniform increase in rates across all customer classes for 2010 (i.e. column (b) values in Table 8) as opposed to the 2006 Cost Allocation results used by Renfrew (i.e. column (a) values). VECC noted that a uniform-increase approach was widely used by distributors throughout Ontario.

VECC expressed further concern with the determination of the revenue responsibility using existing rates. VECC noted that Renfrew initially included the smart meter funding adder, the Low Voltage rate adder and the TOA. VECC noted that Renfrew acknowledged all these items should be excluded[60] .

VECC went on to observe that in using the 2006 Cost Allocation results as its starting point, Renfrew is proposing to move the revenue-to-cost ratios to the applicable floor boundary by 2013 for those customer classes whose (2006) ratio is below the Board's prescribed range; for some classes the boundary is achieved in 2010 whereas for others a four-year period is required in order to mitigate rate increases. It noted that to achieve the proposed ratios, Renfrew increased the GS<50 ratio (though this was already over 90%) but held the GS>50 ratio constant at 80%.

VECC submitted that:

[60] VECC interrogatory #21b) and #23

- it takes no issue with Renfrew's targeted revenue-to-cost ratios with the exception of that for the GS<50 class, provided the "starting points" are based on the "uniform-increase" approach,
- the ratios for the GS>50, USL and Street Light classes should be increased to their respective lower boundaries over the next 4 years based on a timetable that is mindful of year-over-year impacts; and
- the increased 2010 revenues should be used to reduce the revenue-to-cost ratio for Residential – the only class currently over 100% – and currently over its upper boundary limit. If required in order to achieve the upper boundary limit for Residential, the Board should give consideration first to further increase the GS>50 ratio (since this is already close to its lower boundary and the impacts should be manageable) before adjusting the GS<50 ratio which is already over 90%.

Board staff noted that as a result of the interrogatory process[61], Renfrew had clarified details of its cost allocation methods and made appropriate corrections. Based on the refiled results, Board staff stated it had no significant issue with the Applicant's revised cost allocation process or the subsequent calculation of its revenue-to-cost ratios. Board staff submitted 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.

In its reply submission, Renfrew requested approval of its proposed 2010 forward-test-year cost allocation methodology and maintained that it had included an appropriate cost allocation study for its cost of service application. Noting that it had used a "prospective year CA study" incorporating future loads and costs, Renfrew stated its approach ensured compliance with the Board's direction in the Filing Requirements and also corrects the treatment of the Transformer Ownership Allowance. Renfrew submitted that its proposed methodology and associated results should be approved. Renfrew observed that while Board staff made no comment on Renfrew's cost allocation results, VECC had raised two concerns.

In addressing VECC's first point, Renfrew noted that it had 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 uniform increase in rates. Renfrew stated that it believes it has used the appropriate reference point and noted the

[61] VECC Interrogatories #23, #24, #25, #37 & #39; Board staff Interrogatory #1

same concern had been raised in the Cooperative Hydro Embrun (CHE), EB-2009-0132, proceeding. In summarizing CHE's Submission, Renfrew noted that CHE stated that "if the ratio was below 100% in 2006 it should remain so for the test year." Renfrew noted that the Board did not direct or otherwise raise concerns in its Decision regarding CHE's use of 2006 results as a starting point for revenue-to-cost ratios. Renfrew referenced the record in this proceeding as a means to gain relevant insight and noted that the starting point that is selected will have an impact on the target ratios throughout the IRM period; that is, 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, and while slightly different results would be obtained, Renfrew does not accept that these alternate rates would be more just and reasonable. Accordingly, Renfrew submitted that it is appropriate to approve the proposed rates for the Street Lighting and USL classes which are derived specifically using the adjusted 2006 ratios as the starting point; for all other classes the proposed rates are consistent with either starting point.

Renfrew stated that VECC's second concern was that Renfrew had increased the total revenue (i.e. distribution revenue plus miscellaneous revenues) for each class by the same percentage as opposed to only increasing the distribution revenues, and that a correction of this error would lead to a different result. In response, Renfrew provided a table that showed that the ratios resulting for each method differed by less than 1%.

Renfrew noted that both VECC and Board staff had no substantial comments on its targeted revenue-to-cost ratios though VECC did suggest that consideration be given to increasing the ratio of the GS>50kW class before increasing that of the GS<50kW class since the GS<50kw class value is already close to 90% while that of the GS>50kW is closer to its lower boundary.

Renfrew stated that Board staff and VECC considered Renfrew's proposal to achieve the intended revenue-to-cost ratios for Street Lighting and USL classes over four years to be appropriate.

Board Findings

Renfrew prepared its 2010 cost allocation using 2010 costs and scaled the various loads used in the 2006 Cost Allocation study to obtain its proposed revenue-to-cost ratios. VECC submitted that this process was flawed and advocated a "uniform increase" approach as the starting point for making future ratio changes. Renfrew filed evidence that showed the two methods resulted in ratios that differed by 1% and quoted other cases where its approach had been accepted by the Board. For the purpose of determining Renfrew's 2010 rates and since the difference in ratios is not material, the Board accepts Renfrew's revenue-to-cost calculation method.

Renfrew increased the GS<50kW revenue-to-cost ratio which was already over 90% but held the GS>50kW ratio constant at 80% over the 2010-2013 period. VECC argued that consideration should be given to first adjusting the GS>50kW ratio. The Board agrees there should be further adjustment to the GS>50kW ratio. The Board directs that the GS>50kW revenue-to-cost ratio be increased progressively over the 2010-2013 period; specifically, from 80% in 2010, to 84% in 2011, to 87% in 2012 and to 90% in 2013. However, the GS>50kW upward progression just specified should only continue until the Residential class reaches a limit of 100%. The revenue-to-cost ratios for the GS<50kW, Unmetered Scattered Load (USL) and Street Lighting classes are approved as proposed by Renfrew as shown in Table 7 of this Decision.

Proposed Distribution Rates

Renfrew stated[62] 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 maximal 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.

VECC submitted that Renfrew's proposal to maintain the same fixed charge for 2010 for Residential, GS<50 and GS>50 which are all above the maximum per the Board's guidelines[63], is reasonable and consistent with Board guidelines.

Board staff noted the Applicant filed[64] the percentage increases in revenue to be recovered from each customer class and this showed a moderation in rate increase for all classes with the overall increase in Base Distribution Revenue falling from a 19.8%

[62] Exhibit 8, Tab 2, Schedule 1, Page 1
[63]Exhibit 8, Tab 2, Schedule 1, Page 1 & Attachment 1, and VECC Interrogatory #25a)
[64] VECC Supplemental Interrogatory #38

increase in the initial filing to an 18.9% increase in the amended application. Based on updated results[65], Board staff stated it had no issue with respect to the calculation of the proposed distribution rates.

Board staff noted Renfrew's confirmation[66] that it has no rates or charges embedded in its Conditions of Service.

In its reply submission, Renfrew noted VECC's observation that the 2009 fixed monthly charges for Residential, GS<50 and GS>50 were all above the maximum per the Board's guidelines. In all three cases, Renfrew noted, its approach had been to maintain the existing fixed charge. It also noted that VECC had determined that Renfrew's approach was consistent with Board guidelines and that it was a reasonable approach. It noted that Board staff had no issue with respect to the calculation of the rates.

Transmission, Low Voltage and Line Losses

In its pre-filed evidence, Renfrew provided data[67] that showed a trend for the past two years in the relevant deferral and variance accounts. The trend indicated that Network Service was over-collecting by about 9.5% and Connection Service was very slightly under-collecting. Renfrew noted, as an embedded distributor, it pays HONI wholesale transmission rates and these have recently increased. Renfrew therefore proposes two adjustments to its Retail Transmission Service Rates; first, to eliminate the existing variance trend and second, to apply the latest change in wholesale transmission rates.

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

Renfrew showed the historical Total Loss Factors and also showed the 2010 proposed value of 1.0856[68]. 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. Renfrew's 2010 Distribution Loss Factors value is 1.0499. In accordance with the Board's decision on its 2006 EDR application, Renfrew conducted

[65] Board staff Supplemental Interrogatory #1 and VECC Supplemental Interrogatory #38
[66] Board staff Supplemental Interrogatory #9
[67] Exhibit 8, Tab 3, Schedule 1, Attachment 1, Page 1
[68] Exhibit 8, Tab 3, Schedule 3, Attachment 1, Page 1

an optimization study that identified target improvement areas. This Line Loss Study was filed in the current application.

VECC submitted that the proposed rates should be accepted by the Board. VECC stated that it considers as reasonable, Renfrew's proposal to increase the LV charges by 1.8% and to allocate them to customer classes based on each class' share of the test year's transmission connection revenue[69].

Acknowledging that Renfrew had revised its proposed loss factors to reflect the fact that the Supply Facilities Loss Factor (SFLF) should not apply to energy purchases from embedded generators, VECC submitted that Renfrew's proposed loss factors are now reasonable.

Board staff noted that Renfrew updated[70] its Total Loss Factor, reducing it from the previously-filed value of 1.0856 to a newly-filed value of 1.0802; its currently approved Total Loss Factor is 1.0898. Board staff submitted 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%). Board staff also noted that in the long-term infrastructure strategy document that Renfrew may file (as recommended by Board staff in its Submission), Renfrew may consider explicitly addressing how further improvement in its Loss Factors may be accomplished in the future.

In its reply submission, Renfrew attested that the proposed RSTR rates presented in its application "were calculated in accordance with the Electricity Distribution Retail Rates report ("G-2008-0001")". Renfrew submitted that the rates (see Table 9 below) are just and reasonable and that they should be approved by the Board.

Table 9 – Proposed 2010 RTSR

	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

[69] Exhibit 8, Tab 3, Schedule 2
[70] Board staff Interrogatory #4

Renfrew noted that neither VECC nor Board staff took issue with Renfrew’s approach and the proposed RTSR.

Renfrew observed that neither VECC nor Board staff took issue with the proposed 1.8% increase in LV Charges.

Regarding its proposed loss factor, Renfrew noted that VECC accepted the proposed values whereas Board staff suggested that Renfrew may consider explicitly addressing how further improvement in its loss factors will be accomplished in the future. Renfrew agreed that there is room for improvement and agreed to adopt a more proactive approach to managing its losses. It further agreed to report the findings and progress in the next cost of service application, and identified specific improvements it would make.

Board Findings

Neither VECC nor Board staff took issue with Renfrew’s approach to calculating the proposed Retail Transmission Service Rates (RTSR); they similarly took no issue with the resulting values. The Board approves the RTSR as requested.

Neither VECC nor Board staff took issue with the proposed increase in Low Voltage (LV) charges. The Board approves the LV charges as requested.

Renfrew filed with its application, the Line Loss Study report which the Board had directed in its Decision on Renfrew’s 2006 rate application. The Board had directed Renfrew “to conduct the optimization study and to file the study and results with the Board as soon as they are available”. The consultant’s January 2007 report recommended various improvements that Renfrew might, or should, make to its distribution system. With respect to the proposed loss factors in the current application, VECC stated that it considers the loss factors to be reasonable while Board staff, in noting the proposed loss factors to be an improvement on the current situation, submitted that Renfrew needs to do more work to reduce the gap between its Total and Distribution loss factors. Renfrew agreed there is room for improvement and agreed to take a more proactive approach to managing its losses. It also agreed to report the findings and progress in the next cost of service application, and identified the specific improvements it would make. The Board approves the loss factors revised as a result of the interrogatory process. Considering the passage of time from the Board issuing its optimization study directive and the filing of the report with the Board, and noting that a status report on improvements does not appear to be included in the current application, the Board directs Renfrew to file by letter to the Board by January 14, 2011, a progress report on meeting the recommendations contained in the Line Loss Study. The Board also directs Renfrew to meet its commitments just noted, not later than when it files its next cost of service rates application.

Renfrew asked for Board approval for the continuance of certain charges and allowances as approved in EB-2008-0208, Decision and Order: specifically:

- Wholesale Market Service charge,
- Rural Rate Protection Charge,
- Specific Service Charges, and
- Transformer Allowance.

No party objected to the continuance of any of these charges. The Board approves these charges as requested.

DEFERRAL AND VARIANCE ACCOUNTS

Renfrew listed[71] in its pre-filed evidence the deferral and variance accounts it is currently using and the amounts in these accounts. The principal as of December 31, 2008 for these accounts including interest up to April 30, 2010 is a credit of $1,197,028. Renfrew proposed a disposition period of four-year for all account balances with the exception of the global adjustment sub-account balance.

For the global adjustment sub-account, the balance as of December 31, 2008 and interest up to April 30, 2010 is a debit of $108,400. Renfrew proposed to dispose of this debit balance through a separate rate rider that would apply to non-RPP, and non-MUSH customers. Renfrew proposed a disposition period of one year.

Since Renfrew’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 (i.e. before the HST came into effect).

[71] Exhibit 9, Tabs 1-3

Renfrew stated it had not reached the 50% threshold for the deployment of smart meters by December 31, 2009, thus did not propose any disposition of accounts 1555 and 1556. Renfrew proposed 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. Renfrew filed the supporting calculations for the proposed smart meter funding adder.

VECC noted that Renfrew is requesting a deferral account to record the actual amounts of PST paid in the first six months of 2010 and to seek recovery subsequently[72]. While observing that Renfrew's approach is different from the standard approach used by most utilities rebasing in 2010, VECC stated it had no objections to Renfrew's proposal. VECC reiterated its concern regarding Renfrew's intention to use a variance account to track the difference between the $60,000 it proposes to include in rates (over 2010-2013) and the actual cost of IFRS implementation.

In reviewing Renfrew's plan to dispose of its Group 1 accounts over a four-year period and the single-year disposal of the Global Adjustment sub-account from non-RPP/non-MUSH customers[73], VECC observed that the proposed allocation to customer classes is in accordance with the Board's EDDVAR Report of July 2009. VECC made a similar observation with respect to the proposal to dispose of the four Group 2 accounts which are netted against the Group 1 accounts recovery. VECC stated that it had no issue with the amounts proposed for disposition or the allocation method though it did have some reservations regarding the proposed 4-year disposition period; however, since a shorter period could well result in a reduction in the effective variable rate for 2010 relative to 2009, VECC accepted Renfrew's proposal.

VECC stated that it has no submission regarding Renfrew's proposed smart meter funding adder of $2.05 per month per metered customer.

With clarification received[74] regarding a component of the continuity statements of the deferral/variance accounts, Board staff stated in its Final Submission it had no issue with the requested deferral and variance account proposals.

[72] Exhibit 9, Tab 1, Schedule 1, Page 3
[73] Exhibit 9, Tab 2, Schedules 1 and 2
[74] Board staff Interrogatory #28 and Board staff Supplemental Interrogatory #10

In support of Renfrew's proposed method of handling PST[75], Board staff noted that Renfrew had stated that it had the capability to track PST amounts paid. Board staff agreed that the proposed treatment is a reasonable approach.

Board Findings

Renfrew has requested a new deferral account to record the actual amounts of PST paid in the first six months of 2010. VECC noted this has not been the standard approach taken by utilities in this matter but it offered no objection; likewise, Board staff offered no objection. The Board approves the new deferral account as requested.

Renfrew also requested approval for a Smart Meter Adder of $2.05 per metered customer per month until May 1, 2012. No party offered any objection to the requested adder. The Board approves the Smart Meter Adder as requested.

Given the concern over intergenerational inequity, the Board is of the view that the disposition period for Renfrew's Group 1 accounts should be shorter than four years. The Board approves the disposal of the subject accounts over a 29 month period, which would end on April 30, 2013.

The Board has already addressed and rejected Renfrew's request to set up a variance account to track the difference between the forecast and the actual cost of IFRS implementation.

Renfrew requested approval to use Account 1595 – Disposition and Recovery of Regulatory Balances and sub-accounts to record the disposition and recovery of Deferral and Variance account balances. No party objected. The Board approves the request and directs Renfrew to transfer to Account 1595 the balances approved for disposition as soon as possible but no later than December 31, 2010, so that the Reporting and Record-keeping Requirements (RRR) data reported in fourth quarter of 2010 reflect these adjustments.

Renfrew also requested Board approval to capture costs in connection with the *Green Energy and Green Economy Act* as described in accounts 1531, 1532, 1534 and 1535. The Board notes that its current policy already allows distributors to record certain activities relating to the connection of renewable generation or the development of the

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[75] VECC Interrogatory #4

smart grid in the deferral accounts established by the Board. Therefore, no approval is necessary in this application.

IMPLEMENTATION OF RATES

The Board has made findings in this Decision which change the 2010 Revenue Requirement and, together with other changes, modify the distribution rates from those proposed by Renfrew. In filing its Draft Rate Order, it is the Board's expectation that Renfrew will file detailed supporting material, including relevant calculations showing the impact of this Decision on Renfrew's Revenue Requirement, the allocation of the approved Revenue Requirement to the classes and the determination of the final rates. Supporting documentation shall include, but not be limited to, filing a completed version of the Revenue Requirement Work Form Excel spreadsheet which can be found on the Board's website.

Renfrew applied for rates effective May 1, 2010. The Board approves a December 1, 2010, effective date. Renfrew shall provide the intended implementation date in its Draft Rate Order; this date should be as early as possible.

COST AWARDS

The Board may grant cost awards to eligible stakeholders pursuant to its authority under section 30 of the *Ontario Energy Board Act, 1998*. The Board will determine cost awards in accordance with its Practice Direction on Cost Awards. When determining the amounts of the cost awards, the Board will apply the principles set out in section 5 of the Board's Practice Direction on Cost Awards. The maximal hourly rate set out in the Board's Cost Awards Tariff will also be applied.

VECC submitted that its participation in this proceeding had been focused and responsible, and accordingly requested a 100% award of its reasonably-incurred fees and disbursements.

In its reply submission, Renfrew stated it agreed with VECC in that it believes the interrogatories and submissions were focused and responsible. Renfrew continued that it posed no objections to reimbursing reasonably-incurred fees as long as they were in line with proceedings of similar complexity and for utilities of comparable size.

A cost awards decision will be issued after the following steps have been completed.

1. VECC shall file with the Board, and forward to Renfrew, its cost claims within 24 days from the date of this Decision.

2. Renfrew shall file with the Board and forward to VECC, any objections to the claimed costs within 31 days from the date of this Decision.

3. VECC shall file with the Board and forward to Renfrew any responses to any objections for cost claims within 38 days of the date of this Decision.

A Rate Order will be issued after the steps set out below are completed.

THE BOARD DIRECTS THAT:

1. Renfrew shall file with the Board, and shall also forward to VECC, a Draft Rate Order attaching a proposed Tariff of Rates and Charges and other filings reflecting the Board's findings in this Decision within 14 days of the date of this Decision.

2. Board staff and VECC shall file any comments on the Draft Rate order with the Board and forward them to Renfrew within 7 days of the date of filing of the Draft Rate Order.

3. Renfrew shall file with the Board and forward to VECC, responses to any comments on its Draft Rate Order within 7 days of the date of receipt of intervenor submissions.

DATED at Toronto, November 25, 2010

ONTARIO ENERGY BOARD

Original Signed By

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Cynthia Chaplin
Vice Chair and Presiding Member

Original Signed By

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Marika Hare
Member