



February 8, 2008

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
26th Floor/ P.O. Box 2319  
2300 Yonge St.  
Toronto, ON M4P 1E4

Halton Hills Hydro Inc. EB-2007-0696  
2008 Rate Application - Submission

Dear Ms. Walli:

Please find enclosed the Halton Hills Hydro's submission as per Procedural Order No. 2 dated December 20, 2007. We have included two paper copies and a electronic copy as per the Procedural order and will be filing our submission through the RESS system today.

If you have any questions, please give me a call.

Yours truly,

Arthur A. Skidmore CMA  
Corporate Vice-President  
Chief Financial Officer

c. Mr. Daniel Guatto, P.Eng President

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## **Halton Hills Hydro Inc. Submission**

2008 Electricity Distribution Rates

EB-2007-0696

February 8, 2008

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## **1. Introduction**

Halton Hills Hydro Inc. is an electricity distributor operating within the municipal boundaries of the Town of Halton Hills. Halton Hills Hydro Inc. currently serves approximately 18,300 residential customers, 1,500 general service customers less than 50kW, 180 general service customers from 50kW to 999kW and 12 general service customers from 1000kW to 4999kW.

Halton Hills Hydro Inc. self-nominated on March 22, 2007 to be included in the 2008 rebasing year selection for the Multi-year Electricity Distribution Rate Setting Plan. Halton Hills Hydro Inc. filed its 2008 Rate Application on a forward test year basis, on August 15, 2007. In its application, Halton Hills Hydro Inc. forecasts a revenue requirement of \$10,446,283 for 2008 and a revenue deficiency of \$1,549,973 based on current rates. As a result, Halton Hills Hydro Inc. seeks a rate increase to allow it to recover its revenue requirement. Two intervenors responded to the application, School Energy Coalition (SEC) and Vulnerable Energy Consumers Coalition (VECC). Halton Hills Hydro Inc. responded to two rounds of interrogatories from Board Staff, SEC and VECC.

Through this Application, Halton Hills Hydro Inc. seeks:

- To recover:
  - Revenue Deficiency arising from changes in OM&A, Amortization, Rate of Return, and PILS
  - Deferral and Variance Account balances
- To change:
  - Distribution Loss Factor
  - Retail Transmission Rates
- To continue:
  - Current Smart Metering Rate Rider
  - Current Specific Service Charges
- Approval of:
  - Just and reasonable distribution rates applied for in accordance with the Ontario Energy Board Filing Requirements for Distribution Rate Applications

The following submission addresses the various components of Halton Hills Hydro Inc.'s application and responds to submissions from Board Staff, SEC and VECC.

## **2. Operations, Maintenance & Administration (OM&A)**

### **2.1 Overview**

The OM&A costs proposed in this rate application represent Halton Hills Hydro Inc.'s integrated approach to asset maintenance and customer needs to ensure public and employee safety; complying with the Distribution System Code, environmental requirements and Government direction; and maintaining distribution business service quality and reliability at targeted performance levels. These are the costs Halton Hills Hydro Inc. will incur to provide safe and reliable distribution service to its customers and to meet the service levels stipulated in the Standard Supply Service Code and the Retail Settlement Code.

The proposed OM&A cost expenditures for the 2008 test year result from a rigorous business planning and work prioritization process that reflects risk-based decision making to ensure that the most appropriate, cost effective solutions are put in place.

### **2.2 Issues**

Board Staff, VECC, and SEC each provided comments on the OM&A component in the Halton Hills Hydro Inc. rate application. Board Staff reviewed and asked Interrogatories in both Round 1 and Round 2 to gain a more thorough understanding of the OM&A costs. In the Board Staff Submission, a cost driver table was prepared to assist in reviewing the OM&A costs. Board Staff have not identified any issues in relation to those cost drivers. Another part of the OM&A discussion is Employee Compensation and Benefits. Board Staff also noted that Halton Hills Hydro Inc. has requested an 11.7% in OM&A labour costs [2007 to 2008] and invited submissions from intervenors on the reasonableness of the increase. However, Board Staff did not identify any issues or concerns in relation to labour costs.

VECC, in its Submission, in sections 3.1 and 3.2, made comments similar to those made by Board Staff. However, VECC proposed a \$56,000 reduction in OM&A, and made various comments on Halton Hills Hydro Inc's incentive plan in sections 3.5 to 3.8.

In its Submission, SEC provided comments on OM&A on pages 1-5. On page 5, SEC proposes a \$286,746 decrease in OM&A costs.

### **2.3 Discussion and Submission**

During the interrogatory process, Halton Hills Hydro Inc. provided additional information to assist in the clarification of the OM&A costs. The intervenor submissions center primarily on staff compensation.

Board Staff have requested more information on the increase in labour costs associated with this rate submission, although Board Staff have not expressed concern about the reasonableness of the increases.

Halton Hills Hydro Inc.'s proposed compensation levels are not excessive and do not require reduction.

Halton Hills Hydro Inc. is proposing an increase in OM&A labour costs that represents a one year increase of 11.7% from the 2007 Bridge Year to the 2008 Test Year. There are two elements that contribute to this increase:

- a) Halton Hills Hydro Inc. has identified three new staffing positions that are necessary for the Utility to fulfill its distributor obligations. The need for these additional positions has been set out the prefiled evidence and has not been challenged by any intervenor. There is no evidence before the Board to suggest that these new positions are inappropriate or unreasonable.
- b) The staff compensation increases are comparable to CPI (Consumer Price Increases) and cannot, in any way, be deemed excessive. There are increases in cost resulting from the normal movement of employees through a salary grid and from the implementation of management incentive plans, which are in place in many LDCs. Offering management incentives to achieve safety targets and financial performance ultimately benefits the ratepayer by avoiding costly safety claims, and ensuring the Utility operates in a financially prudent manner. Halton Hills Hydro Inc. has affiliates and as discussed in Board Staff Phase 1 Interrogatory Response 2, Halton Hills Hydro Inc. wants to emphasize that any non-LDC incentive payments are handled through inter-company charges and therefore there is no rate impact from these payments. Halton Hills Hydro Inc. has properly allocated these costs among the affiliated companies and VECC's submission on this point has no validity.

A review of total compensation rather than just the OM&A portion of compensation provides the most comprehensive information for the purpose of assessing the reasonableness of the OM&A portion, given that OM&A labour cost will depend on how much of the total compensation cost is capitalized . In this analysis, the difference between 2006 Actual and 2008 Test is \$478,800 or 11.8% over two years, an average increase of 5.9% per year compared to the 11.8% one year increase for OM&A labour cost. Total compensation is broken down as follows:

Compensation	\$325,118
Pension and Benefits	\$144,424
Incentive	\$9,258
Total	\$478,800

As stated above, the compensation increases are comprised of CPI increases and three staffing additions and represent reasonable costs incurred in providing distribution services.

## **2.4 Conclusion**

Any reduction to the OM&A cost, as proposed by VECC and SEC, would be purely arbitrary in nature and jeopardize the ability of Halton Hills Hydro Inc. to fulfill its distributor obligations, to the detriment of ratepayers. Neither VECC nor SEC have pointed to any evidence that would justify a reduction in the OM&A cost.

### **3. Capital Expenditures**

#### **3.1 Overview**

The Capital Expenditures in this rate application represents Halton Hills Hydro Inc.'s integrated approach to asset replacement and additions to ensure that Halton Hills Hydro Inc. continues to provide current and future customers with safe, reliable and cost effective distribution of electricity.

The table below lists the 2008 Capital projects as found in Exhibit 2, Tab 3, Schedule 1, Page 6 of Halton Hills Hydro Inc.'s original 2008 Rate application, summarized by project type.

<u>Projects in service:</u>	
OH upgrade	1,320,000
Tx upgrade	590,000
OH upgrade	337,000
UG upgrade	337,000
Service upgrade	140,500
UG upgrade	84,000
Distribution station upgrade	1,313,240
Land acquisition	300,000
Contributed capital	-700,330
Computer equipment upgrade	337,000
Building upgrade	285,000
Truck replacements	280,000
System supervisory equipment upgrade	152,800
Metering upgrade	139,400
Computer software upgrade	83,700
Office furniture upgrade	82,000
Tool replacements	49,700
<u>Construction in progress:</u>	
New transformer station	700,000

#### **3.2 Issues**

Board Staff described accurately the four cost drivers for the increase in Capital Expenditure. These cost drivers are Customer/Load increases, new transformer station, building rehabilitation and load transfer elimination. Subject to Board Staff's request for further clarification of the proposed load transfer elimination, which is discussed further below, Board Staff and all intervenors are satisfied with the proposed capital expenditures.

Board Staff have asked for further clarification relating to the "Load Transfer Elimination".

Board Staff, SEC and VECC all commented on the lack of a formal "Assessment of Asset Condition and Asset Management Plan". However, SEC also stated "SEC is not convinced that an independent asset condition assessment is required."



VECC seeks further clarification regarding the proposed property purchases.

SEC stated that “the Capital expenditures proposed by the applicant are generally well-supported by the evidence”.

### **3.3 Discussion and Submission**

#### **3.3.1 Load Transfer Elimination**

Through the Interrogatory and Submission process, there appears to be some confusion concerning the Load Transfer Elimination and the Winston Churchill Blvd. to 5 Sideroad project in particular.

In order to assist the Board in understanding this project, it is first important to understand that the project is a road widening project and not designed to resolve load transfer issues. Halton Hills Hydro Inc. is submitting a revised Table 3 for Board Staff Round 2 Interrogatory 10. The revised table has three distinct changes as follows:

1. **Removal of Winston Churchill Blvd-Steeles to Norval Metering Point**

The Road Widening project of Winston Churchill Blvd from Steeles Avenue to the Norval Metering point was started in 1996 with an Environmental Assessment. In 2002, the Road Widening project encountered a delay when the acquisition of easements was challenged by a commercial property owner. Recently, the parties involved came to an agreement on the issue of easements and the Road Widening project began immediately.

Halton Hills Hydro Inc. has divided the Winston Churchill Blvd-Steeles to Norval Metering Point project into two phases:

Phase 1-Winston Churchill –Steeles to 5 Sideroad

Phase 2-Winston Churchill Blvd. – 5 Sideroad to Norval Metering point

To construct Phase 1 of the project, an economic decision was made to work together with Hydro One Brampton to share the costs of a joint pole line instead of each utility building its own line down each side of the road. Halton Hills Hydro Inc. budgeted \$810,481 and \$111,740 for 2007 and 2008 respectively, to cover the costs associated with Phase 1 of the project which will be completed in 2008.

Again, Halton Hills Hydro Inc. wants to stress that the project is not a load transfer solution, but instead, a Road Widening project. The efforts of both LDC's to include the elimination of load transfers within the design and execution of this project, provides this additional benefit at no additional cost to customers of either LDC.

Winston Churchill Blvd – Steeles to Norval Metering point has been removed from Table 3 as a result of the project being a Road Widening project for greater clarity.

2. Modification of estimated expenditure amounts

For the projects that remain in Table 3, all data in column #7, titled “Expenditure needed to eliminate arrangement”, has been modified from the original information to ‘Not Available’ for all projects. The expenditures are not available due to unknown asset costs. The cost of assets that will be transferred between utilities will not be known until all the assets comprising the load transfers are verified and a monetary assessment is conducted.

3. Clarified meaning of N/A

Column #9 in Table 3 refers to “Arrangement influenced by perception of growth”. The N/A listed in column #9 represents Not Applicable or, in other words, the arrangement is not influenced by the perception of growth.

In addition to the changes to Table 3, Halton Hills Hydro Inc. notes that the Winston Churchill – Steeles to 5 Sideroad Road Widening project is the only project that includes sharing of costs with another Local Distribution Company. None of the projects in the revised Table 3 involve cost-sharing with another LDC and they do not raise any load transfer approval issues.

**Revised Table 3, Board Staff Round 2 Interrogatory #10**

<b>Load Transfer Arrangement</b>	<b>Geographic Supplier</b>	<b>Physical Supplier</b>	<b>Number of customers</b>	<b>Nature of load</b>	<b>Amount of Load (kWh) - Sum of Highest kWh in 12 month period</b>	<b>Expenditure needed to eliminate arrangement (Rough Cost Estimate)</b>	<b>Method of Elimination</b>	<b>Arrangement influenced by perception of growth</b>
Winston Churchill Blvd 17 SDRD through Old Pine Crest Rd.	HOB	HHHI	11	Residential	Not Available	Not Available HOB Customers	Not Available	Not Applicable
Winston Churchill Blvd 17 SDRD through Wanless Dr.	HHHI	HONI	6	Resid. & Comm.	64831	Not Available	Retail metering installation at 17sdrd & Winston Churchill Blvd - become retail customer of Hydro One	Not Applicable
Winston Churchill Blvd 32 Sideroad to 17 SDRD	HHHI	HONI	40	Residential	139922	Not Available	HHH customer to Hydro One	Not Applicable
5 SDRD	HHHI	MILTON	4	Residential	12035	Not Available	Joint use pole line built approximately 15 years ago.	Not Applicable
Townline	HHHI	MILTON	3	Residential	8265	Not Available	Customers to Milton	Not Applicable
9th Line (O/H)	HHHI	HONI	20	Residential	113353	Not Available	Pole line already built	Not Applicable
10th Line (U/G)	HHHI	HONI	7	Residential	54244	Not Available	Built underground primary to join HHH to HONI Feeder.	Not Applicable
32nd Sideroad Winston Churchill Blvd. to Town Line	HHHI	HONI	9	Residential	17882	Not Available	HO customers become HHHI customers	Not Applicable

HHHI	Halton Hills Hydro Inc.
HOB	Hydro One Brampton
HONI	Hydro One Networks Inc.
MILTON	Milton Distribution

### **3.3.2 Assessment of Asset Condition and Asset Management Plan**

Halton Hills Hydro Inc. has a robust and effective asset management plan in place. Each department prepares its own plan and these are then reviewed, amalgamated and prioritized by Senior Management. The flow chart shown in Appendix A shows the decision making process in relation to Asset Management. This approach enables the business planning and budget process to accurately reflect infrastructure requirements on a priority basis. Halton Hills Hydro Inc. agrees with SEC that this is an appropriate approach for a smaller utility which has worked well to date.

### **3.3.3 Property Acquisition**

VECC seeks clarification of the proposed property acquisitions included in the capital budget. There are three pieces of property that Halton Hills Hydro Inc. needs to acquire for three Municipal Substations. The footprint of the Municipal Substations are essentially the same size and are therefore expected to have similar market prices, estimated to be \$100,000 for a total of \$300,000. Two of the properties will be purchased from non-related owners. The third will be purchased from the municipality at a similar estimated market price.

### **3.4 Conclusion**

Board staff and the intervenors have not taken issue with Halton Hills Hydro Inc.'s proposed capital budget. With the additional information provided above, the Board has an appropriate basis upon which to accept the capital budget.

## **4. Service Reliability Indices**

### **4.1 Overview**

Halton Hills Hydro Inc. has conducted a detailed review of operating and capital expenditures, as set out in this rate application. The Service Reliability indices have a direct correlation to the proposed OM&A and Capital Expenditures proposed by Halton Hills Hydro Inc. It is submitted that the rates proposed by Halton Hills Hydro Inc. are just and reasonable and are designed to ensure Service Reliability will be maintained and enhanced.

### **4.2 Issues**

Board Staff, VECC, and SEC each provided comments on the Service Reliability Indices provided by Halton Hills Hydro Inc.

Board Staff have asked for clarification of the correlation and impact of its 2008 capital expenditure projects with the performance targets. VECC, in its Submission, has concerns similar in nature to those of the Board Staff. SEC, in its Submission, had no comments related to this issue.

### **4.3 Discussion and Submission**

Halton Hills Hydro Inc.'s forecast of reliability is relatively stable for 2007 and 2008. In order to maintain these indices, capital expenditures are required to ensure a safe and reliable distribution system.

The definition of the service quality indicators (SQI) are as follows:

*SAIDI* is an indicator of system reliability that expresses the length of outage customers experience in the year on average. All planned and unplanned interruptions of one minute or more should be used to calculate this index. It is defined as the total hours of power interruptions normalized per customer served.

*SAIFI* is an indicator of the average number of interruptions each customer experiences. All planned and unplanned interruptions of one minute or more should be used to calculate this index. It is defined as, the number of interruptions normalized per customer served

*CAIDI* is an indication of the speed at which power is restored. All planned and unplanned interruptions of one minute or more should be used to calculate this index. It is defined as the average duration of interruptions in the year

Exhibit 2, Tab 3, Schedule 1, page 6 and 7 of Halton Hills Hydro Inc.'s original rate application listed the total capital expenditures in 2008. The projects listed below directly relate to the reliability of our distribution system.

PROJECTS	PROJECT COST
<u>HYDRO &amp; CUSTOMER DIRECTED PROJECTS</u>	
WINSTON CHURCHILL - 5SDRD TO STEELES	652,400
27 SDRD - 8TH LINE TO 32 SDRD - NEW 3 PHASE CIRCUIT	165,809
POLE CHANGEOUT PROGRAM	123,820
ACTON REAR YARD POLE REPLACEMENT PROGRAM	123,040
8TH LINE - 27TH SDRD TO BALLINAFAD MS - 3 PHASE 8 KV CIRCUIT INSTALL	85,000
LIGHTNING ARRESTOR ON 44 KV FEEDERS	57,736
8TH LINE - 27TH SDRD TO GLEN WILLIAMS MS - 3 PHASE FEEDER TIE	50,480
PROJECTS <50,000 EACH	609,755
<u>SUBSTATION CAPITAL</u>	
CROSS STREET SUBSTATION - NEW SWITCHGEAR	541,520
RIVER SUBSTATION - NEW TRANSFORMER	528,100
BALLINAFAD SUB - REPLACE KYLE RECLOSURES WITH VIPERS	145,520
MOUNTAINVIEW SUB. - NEW 44 KV UNDERGROUND CABLE	98,100
<u>PROPERTY PURCHASES</u>	
NEW SUBSTATION - DUBLIN LANE - PROPERTY PURCHASE	100,000
NEW SUBSTATION - 10TH LINE AND MAYFIELD RD. - PROPERTY PURCHASE	100,000
NEW TRAFALGAR RD STATION - TOWN YARD	100,000
<u>TRUCK REPLACEMENTS</u>	
SINGLE BUCKET TRUCK	250,000
<u>CONSTRUCTION IN PROGRESS</u>	
NEW TS. - STEELES AVE. - HORNBY & TRAFALGAR RD. AREA	700,000

#### **4.4 Conclusion**

All of the projects listed in the above table are expected to maintain or enhance Halton Hills Hydro Inc.'s current Service Quality Indicators of SAIDI, SAIFI and CAIDI.

### **5. Cost of Capital**

#### **5.1 Overview**

Halton Hills Hydro Inc.'s Cost of Capital has been calculated in accordance with the Cost of Capital methodology contained in the Board's report on cost of capital. With modifications provided through interrogatories, the calculations for the Cost of Capital are:

	<b>Deemed Portion of Capital Structure (A)</b>	<b>Effective Rate (B)</b>	<b>(A) x (B)</b>
<b>Debt</b>			
Long-term Debt	49.30%	6.14%	3.027%
Short-term Debt	4.00%	6.00%	0.240%
<b>Equity</b>			
Common Equity	46.70%	8.93%	4.170%
Preferred Shares	n/a		
<b>Cost of Capital</b>	100.00%		7.437%

#### **5.2 Issues**

Board Staff, VECC, and SEC each provided comments on the Cost of Capital provided by Halton Hills Hydro Inc. Board Staff have indicated that Halton Hills Hydro Inc. is "generally compliant with the Cost of Capital methodology in the Board Report" and has provided and updated Weighted Average Costs of Capital table.

VECC, in its Submission raises a question regarding Halton Hills Hydro Inc.'s debt calculation and no comments on the cost of equity.

SEC, in its Submission, "believes Halton Hills has complied with the Board Guidelines with respect to cost of capital".

### **5.3 Discussion and Submission**

Halton Hills Hydro Inc. agrees with Board Staff's updated Weighted Average Costs of Capital Table. As stated in the Board Staff submission, "It is recognized that the applicant agrees that these numbers will be updated based on January 2008 Consensus Forecasts and Bank of Canada data in accordance with the Cost of Capital methodology documented in the Board Report".

### **5.4 Conclusion**

Halton Hills Hydro Inc. has complied with the Board's guidelines and methodology relating to cost of capital.

## **6. Customer and Load Forecast**

### **6.1 Overview**

As set out in its application and discussed further in interrogatory responses, Halton Hills Hydro Inc. has relied on a load forecast that does not use weather normalized data. This was done because of concerns about the reasonableness of the results Halton Hills Hydro Inc. obtained when using weather normalized data.

### **6.2 Issues**

Board Staff, VECC, and SEC each provided comments on the Load Forecast provided by Halton Hills Hydro Inc. in the 2008 Rate Application. Much has been written by all parties on this issue and Halton Hills Hydro Inc. will summarize the submitted results. Board Staff reviewed and asked Interrogatory questions in both Round 1 and Round 2 to gain a more thorough understanding of the process Halton Hills Hydro Inc. undertook when developing the load forecast. Board Staff have identified concerns in the customer count forecast developed by Halton Hills Hydro Inc. Furthermore, Board Staff have identified a concern with the fact that the load forecast is not weather normalized.

VECC, in its Submission, commented on the methodologies used in developing forecasts. VECC notes that "However, at this point in time, it is VECC's view that there is no evidence or rationale to support a change in the average use values adopted by HHHI". VECC requests that the customer additions in 2008 be reduced to a three year average of 443 and that the load forecast, revenue forecast and capital budget be adjusted accordingly.

SEC, in its Submission, commented on the forecasted consumption for the General Service 1,000 to 4,999 kW class and lack of customer increases to support the growth in consumption. Furthermore, they commented on the lack of weather normalized information.



## 6.3 Discussion and Submission

### 6.3.1 Customer Numbers

Shown below is Halton Hills Hydro Inc.'s Customer Count Forecast Table as found in Exhibit 3, Tab 2, Schedule 4, Page 1:

	2004	2005	2006	2007	2008
<b>Residential</b>	17,006	17,682	18,201	18,335	18,900
<i>Per cent chg</i>		4.0%	2.9%	.7%	3.1%
<b>Residential Time of Use</b>	2	2	2	2	2
<i>Per cent chg</i>		0	0	0	0
<b>General Service less than 50 kW</b>	1,154	1,533	1,482	1,550	1,600
<i>Per cent chg</i>		32.8%	(3.4)%	4.6%	3.2%
<b>General Service 50 kW to 999 kW</b>	153	172	178	179	180
<i>Per cent chg</i>		12.4%	3.49%	0.6%	0.6%
<b>General Service 1,000 kW to 4,999 kW</b>	10	10	12	12	12
<i>Per cent chg</i>		0	20%	0	0
<b>Un-metered Scattered Load</b>	141	137	136	136	136
<i>Per cent chg</i>		(2.8%)	0	0	0
<b>Sentinel Lighting</b>	121	177	178	179	179
<i>Per cent chg</i>		46.2%	0.5%	0.5%	0
<b>Street Lighting</b>	3,944	4,144	4,289	4,444	4,450
<i>Per cent chg</i>		5.1%	3.5%	3.5%	1.4%

It is important to note that these forecasts were completed in May of 2007 and represented the best available information. Halton Hills Hydro Inc. has forecasted the customer additions as stated in our interrogatory responses from subdivision occupancy and residential "in fill" projections.

Halton Hills Hydro Inc. maintains the customer forecast is as accurate as possible and we have no further information that would result in changing the forecast.

In the residential class, it has already been stated that new customer growth is capped due to municipal constraints. In the General Service classes, Halton Hills Hydro Inc. is more concerned with ensuring the load growth is captured versus customer growth. It is difficult to project whether Halton Hills Hydro Inc. will see consumption increases from one customer with a 4000 kW load or 4 customers at 1000 kW and at what point in the year these customers are connected.

### 6.3.2 Load Forecast

Shown below is Halton Hills Hydro Inc. Load Forecast as found in Exhibit 3, Tab 2, Schedule 2, Page 2 of the original rate application.

		Historical Board Approved	Historical Actual	Bridge Year Forecast	Test Year Forecast
Year		2006	2006	2007	2008
<b>Customer Class</b>					
<b>Residential</b>	#	17,006	18,201	18,335	18,900
	kWh	188,015,331	208,116,543	214,360,040	220,790,841
<b>Residential Time of Use</b>	#	2	2	2	2
	kWh	58,679	55,028	71,500	72,000
<b>General Service less than 50 KW</b>	#	1,154	1,482	1,550	1,600
	kWh	54,999,273	54,412,911	56,045,299	58,287,111
<b>General Service 50 to 999 kW</b>	#	153	178	179	180
	kWh	111,923,177	120,056,489	123,658,184	126,131,349
	kW	489,420	442,181	444,000	454,000
<b>General Service 1,000 to 4,999 kW</b>	#	10	12	12	12
	kWh	95,926,614	87,641,451	90,270,695	94,784,230
	kW	257,863	257,481	306,000	316,000
<b>Un-metered Scattered Load</b>	#	141	136	136	136
	kWh	920,340	979,473	1,008,857	1,018,946
<b>Sentinel Lights</b>	#	121	178	179	179
	kWh	343,839	313,546	322,952	323,275
	kW	956	768	800	800
<b>Street Lighting</b>	#	3944	4289	4444	4450
	kWh	2,495,616	2,535,532	2,611,598	2,689,946
	kW	6794	6808	7400	7500

If we add to this table, the information provided in Board Staff Round 2 Interrogatory 17 Table 18 (a weather normalized forecast), we obtain the results shown in the following table. As stated in the interrogatory, the only classes that are subject to weather normalization are Residential, Residential TOU and General Service less than 50kW.

		Test Year Forecast as submitted	Test Year Forecast - Normalized	Variable Rates as Proposed	Variable Rates using Normalized Load Forecast
<b>Year</b>		<b>2008</b>	<b>2008</b>		
<b>Customer Class</b>					
<b>Residential</b>	#	18,900	18,900	\$0.0130	\$0.0137
	kWh	220,790,841	209,993,762		
<b>Residential Time of Use</b>	#	2	2		
	kWh	72,000	55,452		
<b>General Service less than 50 KW</b>	#	1,600	1,600	\$0.0114	\$0.0104
	kWh	58,287,111	63,913,050		
<b>General Service 50 to 999 kW</b>	#	180	180		
	kWh	126,131,349	126,131,349		
	kW	454,000	454,000		
<b>General Service 1,000 to 4,999 kW</b>	#	12	12		
	kWh	94,784,230	94,784,230		
	kW	316,000	316,000		
<b>Un-metered Scattered Load</b>	#	136	136		
	kWh	1,018,946	1,018,946		
<b>Sentinel Lights</b>	#	179	179		
	kWh	323,275	323,275		
	kW	800	800		
<b>Street Lighting</b>	#	4450	4450		
	kWh	2,689,946	2,689,946		
	kW	7500	7500		

## 6.4 Conclusion

Halton Hills Hydro Inc. is committed to its load forecast and is confident that sufficient evidence has been provided, in the original rate application and subsequent interrogatories, to support its load forecast. Halton Hills Hydro Inc. recognizes that it is taking on the revenue risk that could occur if the volumes in the load forecast do not materialize. It should be noted that if the Board requests that the weather normalized forecast be used, the variable rates for the residential class will increase and the General Service less than 50kW variable rate will decrease.

As a result of this application, Halton Hills Hydro Inc. recognizes the need to develop a methodology for producing weather normalized data for that can be relied upon for future rate applications. Halton Hills Hydro Inc. is committed to developing internal processes to ensure a weather normalized forecast is available for the next rebasing rate application.

## **7. Cost Allocation and Rate Design**

### **7.1 Overview**

Halton Hills Hydro Inc. has proposed to implement cost allocation in the rate design, as set forth in the 2008 Rate Application, that allows just and reasonable rates to be calculated.

### **7.2 Issues**

Board Staff, VECC, and SEC each provided comments on the Cost Allocation and Rate Design provided by Halton Hills Hydro Inc. Board Staff identified the following areas as requiring further discussion:

- Host Distributor
- Residential Time Of Use Class
- Revenue to Cost Ratios
- Monthly Service Charges
- Retail Transmission Service Rates
- Low Voltage charges

VECC in its Final submission notes in section 11.5 that there are two exceptions to Halton Hills Hydro Inc.'s compliance to Board guidelines; specifically the Street Lighting and Sentinel Lighting classes.

In its submission, SEC states "the new revenue to cost ratios are a marked improvement over the existing rates. All rate classes move in the proper direction". They share the same concerns as VECC with regard to the Street Lighting and Sentinel Lighting classes.

### **7.3 Discussion and Submission**

#### **7.3.1 Host Distributor**

It was at the request of Hydro One Networks Inc. that the change from embedded distributor to commercial retail customer took place. A metering change occurred at which time Halton Hills Hydro Inc. took ownership of the metering unit.

#### **7.3.2 Residential Time Of Use Class**

Halton Hills Hydro Inc. submits that this rate class should have the same distribution rates as the residential class and is prepared to make this adjustment.

#### **7.3.3 Revenue to Cost Ratios**

Halton Hills Hydro Inc.'s application was filed before the release of the Board's report. Halton Hills Hydro Inc. used the information produced from their Cost Allocation informational filing in 2006 to set Revenue to Cost ratios in the 2008 Rate Application. It was a strategic decision by

Halton Hills Hydro Inc. to begin the movement towards revenue to cost ratios of 100 percent. This is consistent with the subsequently released Board Report.

The Cost Allocation adjustments took all customer classes into consideration and the resulting proposed adjustments in the rate application are fair and equitable to all classes. The Street Lighting and Sentinel Lighting classes are below Board guidelines. However, the nature of any extreme adjustment to those classes would constitute rate shock for those customers. The fixed rate charge in the Street Lighting class has already been increased by 100% in the Rate Application. Halton Hills Hydro Inc. is committed to continuing the movement toward revenue to cost ratios of 100% in subsequent rate applications.

#### **7.3.4 Monthly Service Charges**

The proposed monthly charges are a direct result of the strategies undertaken in cost allocation. The methodology employed by Halton Hills Hydro Inc. was to adjust Monthly Service Charges and the resulting volumetric rates were used to attain the desired Revenue to Cost ratios. In Halton Hills Hydro's opinion, the Monthly service charges proposed in our application are fair and equitable for all customer classes.

#### **7.3.5 Retail Transmission Service Rates**

The currently approved Retail Transmission Service Rates were not adjusted in 2006, and in the initial Halton Hills Hydro Inc. application they were again proposed to remain constant. In response to Board Staff Round 1 Interrogatories 55 and 56, a new set of proposed rates was provided. In response to Board Staff Round 2 Interrogatory 24, another set of proposed rates was put forward, which are lower than those provided in the Round 1 interrogatories.

Board Staff notes that the first proposed adjustments were minimal changes from the status quo, considerably smaller than the percentage changes in the wholesale charges.

The response to the Round 2 interrogatory points out that Halton Hills Hydro Inc. receives much of its power through embedded delivery points. New rates have not yet been approved for Hydro One Networks Inc. which would determine the cost of transmission service through these five points. The proposed adjustments by Hydro One distribution are smaller in percentage terms than the corresponding decreases approved for wholesale transmission rates.

Board Staff submits that the proposed adjustment in Retail Transmission Service Rates would be affected by the blending of the wholesale charge and the embedded delivery charge. The already approved wholesale transmission charge applies to two delivery points and Hydro One rates apply to the other five. The percentage adjustments provided in Tables 24 and 25 in the Round 2 Interrogatory 24 response appear to be greater than the higher of the two upstream adjustments, and so the proposed adjustments cannot be revenue neutral.

Board Staff notes that the final sentence of the response is the applicant's intention to revise the rates once the rates applicable to the embedded delivery points are approved. In the meantime, Board Staff submits that the illustrative rates do not appear to have been calculated correctly, and would welcome an explanation in the Applicant's reply submission.

It is Halton Hills Hydro Inc.'s view that the revised retail transmission rates have been calculated correctly. The revised rates address three issues which benefits the customer. The issues are:

1. the recent change in wholesale transmission rates for customers directly connected to the transmission grid;
2. the expected change in retail transmission rates from Hydro One to those distributors who are embedded; and
3. current Halton Hills Hydro Inc. retail transmission rates are over collecting.

A review of costs and revenues, from May 1, 2006 to September 30, 2007, for retail transmission service provided to Halton Hills Hydro Inc. customers indicates network transmission costs have been 70% of the retail network transmission revenue. Connection transmission costs have been 67% of the retail connection transmission revenue. This outlines the current level of over collection which is the biggest contributor to the proposed change in the retail transmission rates.

In addition, Halton Hills Hydro Inc. has two points directly connected to the transmission grid. When the cost of transmission associated with these points is changed to reflect the new wholesale transmission rates, the network transmission costs become 68% of retail network transmission revenue. The connection transmission costs remain at 67% of the retail connection transmission revenue since the change in wholesale connection transmission rates has very little impact on connection transmission costs to Halton Hills Hydro Inc.

Finally, Halton Hills Hydro Inc. has five supply points that are connected to the Hydro One low voltage system. Hydro One has indicated to Halton Hills Hydro Inc. that the proposed rate for retail network transmission service and retail network connection service will be \$2.02/kW and \$1.90/kW, respectively, for these five supply points. When these rates are applied to the cost of transmission from Hydro One, the network transmission costs become 56% of the retail network transmission revenue. The connection transmission costs become 61% of the retail connection transmission revenue. As a result, the proposed Halton Hills Hydro Inc. retail network transmission rates are 56% of the current rates and the proposed Halton Hills Hydro Inc. retail connection transmission rates are 61% of the current rates.

### **7.3.6 Low Voltage Charges**

Board Staff have noted that the proposed charges are approximately equal and therefore no further discussion on this issue is required.

## **7.4 Conclusion**

Halton Hills Hydro Inc. is confident that the cost allocation and modified rate design put forth provides ratepayers with just and reasonable rates.

## **8. Line Losses**

### **8.1 Overview**

Halton Hills Hydro Inc. has requested a Distribution Loss Factor of 4.99%.

### **8.2 Issues**

Board Staff, VECC, and SEC each provided comments on the Line Loss calculations provided by Halton Hills Hydro Inc. in the 2008 Rate Application. Board Staff reviewed and asked Interrogatory questions in both Round 1 and Round 2. Board staff has identified concerns relating to the sharp increase in Distribution Loss Factor and whether there is a need to decrease the Distribution Loss Factor (DLF) during the test year or longer.

VECC, in its Submission, notes historic loss factors and comments on the estimates used for determination of the loss factor.

In its Submission, SEC's comments are similar in nature to those of Board Staff and VECC.

### **8.3 Discussion and Submission**

Halton Hills Hydro Inc. agrees that the DLF is high and has initiated a process to review the DLF. Halton Hills Hydro Inc. submits that the increase in line loss is influenced by both technical and non-technical factors which make the remedy to the situation difficult to ascertain. The DLF does not impact the revenue of Halton Hills Hydro, but can positively or negatively affect working capital and commodity variance.

### **8.4 Conclusion**

To assist the OEB in its review of the DLF, Halton Hills Hydro Inc. proposes a one year approval of 4.99% with the requirement for a written submission by Halton Hills Hydro Inc. to report on the results of the process underway and propose any necessary modification to the DLF in time to be implemented effective May 1, 2009.

## **9. Deferral and Variance Accounts**

### **9.1 Overview**

Halton Hills Hydro Inc. has requested rate riders for all customer classes to dispose of its Deferral and Variance account balance as forecasted in the application.

## **9.2 Issues**

Board Staff, VECC and SEC each provided comments on the Deferral and Variance Accounts calculated by Halton Hills Hydro Inc. Board Staff have commented on the accounting for variance accounts in general and specific comments regarding accounts 1562, 1570, 1571 and 1590.

VECC, in its Submission, has no specific comments regarding Halton Hills Hydro Inc's proposal.

SEC, in its submission, has no comments related to this issue.

## **9.3 Discussion and Submission**

Halton Hills Hydro Inc. accounts for Deferral and Variance accounts in a diligent and professional manner.

Halton Hills Hydro Inc. has applied for 2008 rates on a forward test year basis and has forecast its Deferral and Variance accounts in the same manner. While forecasting of principal and interest on Deferral and Variance accounts has not been implemented in the electricity utility sector, Halton Hills Hydro Inc. believes that this is the appropriate means to dispose of these balances. If the proposed Deferral and Variance account rate over/under recovers then it is held in the variance account for disposition at the time of the next rate application. It should be noted that the adoption of International Financial Reporting Standards by Ontario Local Distribution Companies should make the disposition of these accounts a more urgent matter.

Halton Hills Hydro Inc. has correctly calculated the amounts of the Deferral and Variance accounts. Differences highlighted by Board staff can be easily corrected by a journal entry.

## **9.4 Conclusion**

It is the opinion of Halton Hills Hydro Inc. submits that the impact with the applied for rates is relatively small. For example, in the residential class the proposed rate is \$.001/kWh, therefore, on a 1,000kWh monthly consumption the cost is \$1.00.

# **10. Payments in Lieu of Taxes**

## **10.1 Overview and Issues**

Board Staff, VECC, and SEC each provided comments on the PILs calculation carried out by Halton Hills Hydro Inc. Board Staff are seeking comments relating to:

- 1.) The elimination of interest expense additions and deductions
- 2.) Any adjustment to depreciations and CCA that might result from a change in rate base
- 3.) The new combined tax rate of 33.5%



VECC, in its Submission, stated they will rely on the Board Staff Submission for clarification.

SEC, in its submission, “believes Halton Hills distribution rates should reflect the most current tax legislation”. The proposed interest expense adjustment should be denied.

## **10.2 Discussion, Submission and Conclusion**

Halton Hills Hydro Inc. will make the adjustment to interest expense and will recalculate Payment in Lieu of Taxes with the most recent tax legislation.

## **11. Smart Metering**

### **11.1 Overview**

Halton Hills Hydro Inc. is not a utility named in the EB-2007-0063 proceeding. However, Halton Hills Hydro Inc. supports the direction of the Provincial government with respect to the implementation of the smart meter program.

Halton Hills Hydro Inc. has not proposed a change in rates for implementation of smart meters on the basis that it is expected that the Ministry of Energy and Board will be developing a process for implementation in due course. Halton Hills Hydro Inc. will implement a smart meter program for delivery to its residential customers, according to a plan that will be developed in full, once more certainty is available with respect to how the smart meter roll out will take place in the balance of the Province.

Halton Hills Hydro Inc. has proposed a continuation of the current rate rider in the meantime.

### **11.2 Issues**

Board Staff, VECC, and SEC each provided comments on the Smart Metering component in the Halton Hills Hydro Inc. rate application. Board Staff reviewed previous decisions of the Board that resulted in Halton Hills Hydro Inc. being approved for a smart meter rate rider in the amount of \$0.30 per residential customer (March 21, 2006 Generic Decision EB-2005-0529). Board Staff (Page 24, Board Staff Submission) posed the question of whether the utility should be enabled to apply for Smart Meter implementation costs expenditure authorization to the Board if this Rate Order did not support the incremental cost of \$1.18 as identified in the December 15, 2006 “Smart Meter Investment Plan” submitted in response to Round 1 interrogatories.

VECC indicated its concern that the resubmission of a smart metering plan that included a recovery rate rider of \$1.18 per residential customer was “unacceptable” because the program for implementation of smart meters in the utility’s franchise area is dormant although it notes that the “Government” has mandated that all residential customers have smart meters by 2010. (Pages 6 and 7, VECC Submission, subsections 2.10) VECC argues (Page 7, VECC

Submission, sub-section 2.11) that Halton Hills Hydro Inc. should seek a separate authorization for smart meter costs subsequent to the delivery of the Board's Rate Order.

SEC submits (Page 13, SEC Submission) that a more detailed investment plan is required and should be submitted for the Board's review in a separate process.

VECC has expressed a concern about the ability of Halton Hills Hydro Inc. to respond to the Provincial initiative, in a timely way, and to meet the 2010 implementation deadline identified by the Provincial government. (Page 7, VECC Submission, subsection 2.11)

### **11.3 Discussion and Submission**

Halton Hills Hydro Inc.'s original 2008 Rate Application filing states in Exhibit 1, Tab 1, Schedule 6, Page 1 that:

"In the rate application, Halton Hills Hydro Inc. has not included any costs related to Smart Metering. In decision EB-2007-0536 dated April 12th, 2007, Halton Hills Hydro Inc. applied for \$1.18 to embark on its Smart Metering Investment Plan filed with the Ontario Energy Board December 15th, 2006. However, the Ontario Energy Board only approved \$0.26 due to Regulation 153/07. At the present time, it is unclear how Smart Metering costs will be recovered and therefore we request to be included in any provincial mandate of Smart Metering Costs recovery."

During the interrogatory process, Halton Hills Hydro Inc. was requested to submit a plan for smart meter installation. For the reasons noted above, with respect to the uncertainty around the program, Halton Hills Hydro Inc. resubmitted its December 15, 2006 plan. In that plan, a request for a \$1.18 rate rider per residential customer is identified. The rate rider is requested given the expectation that more clarity from the Province with respect to the delivery of the smart meter program is anticipated in 2008.

However, Halton Hills Hydro Inc. also notes the concerns expressed by VECC with respect to the "rapidly approaching deadline" for full roll out of smart meters (Page 7, VECC Submission, sub-section 2.11). Halton Hills Hydro Inc. is prepared to respond to provincially mandated initiatives in a timely and effective way. To appropriately do so, Halton Hills Hydro Inc. will benefit from an extension beyond April 1, 2008, of its current rate rider, as approved in EB-2007-0536 which states:

"However, the Board has approved an amount of \$0.28 per month per metered customer to be collected through a smart meter rate adder. This nominal funding amount was calculated using the Board's model for inactive distributors, as described in the Smart Metering Rates Addendum to the Report. The amount collected through the smart meter rate adder will be booked into the existing variance accounts, and retained in those accounts, to help fund future smart meter activity. As the notice of this application indicated, the Board will be holding a combined proceeding to consider, among other things, appropriate recovery of smart meter costs".

#### **11.4 Conclusion**

Halton Hills Hydro Inc. recognizes the importance of comprehensive planning for smart meter implementation, and recognizes the need to reconsider its planning and costing for implementation of smart meters given a full year has passed since December 15, 2006. Halton Hills Hydro is not requesting a rate rider of \$1.18 per residential customer until it can verify costs and resubmit a more comprehensive plan based on clarification of the intentions of the Ministry of Energy over the next two to three year period but requests the current rate rider remain unchanged.

#### **12. Summary of Submission**

Halton Hills Hydro Inc.'s 2008 rate application proposes a 2008 Revenue requirement of \$10,446,283, from which just and reasonable Distribution Rates have been calculated. The application is supported by a substantial record that includes pre-filed evidence and responses to two rounds of interrogatories. No other party filed evidence and submissions were received from Board Staff and the two intervenors, VECC and SEC.

Halton Hills Hydro Inc. has focussed its submission primarily on those issues identified by Board Staff and the intervenors, on the assumption that all other aspects of the application that have not been addressed in their submissions are acceptable for the purposes of setting rates. Halton Hills Hydro Inc. has been responsive to all of the issues raised by the parties and Board Staff and has provided additional information where requested by Board Staff and the intervenors in their submissions.

Halton Hills Hydro Inc. asks that the Board approve the rates as applied for, subject to the changes that Halton Hills Hydro Inc. has proposed or agreed to in this submission.

All of which is respectfully submitted,

*(original signed)*

Arthur A Skidmore, CMA  
Corporate Vice President, Chief Financial Officer

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# Appendix A

Asset Management Plan

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# HALTON HILLS HYDRO INC. ASSET MANAGEMENT FLOW CHART

