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June 6, 2012

Kirsten Walli
Board Secretary
Ontario Energy Board
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P.O. Box 2319
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OEB File No. EB-2011-0326

Hydro 2000 Inc. presents its final submission in regard to its 2012 Cost of Service Application. Should you require any further information, please do not hesitate to contact Mr. Rene Beaulne at the number below.

Yours very truly,

Rene C. Beaulne (Bone)
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Hydro 2000 Inc. Reply Submission

Hydro 2000 presents its reply submission in following format;

1. Implementation
2. Rate Base and Capital Expenditures
3. Load Forecast
4. Revenue Offsets
5. Operating Expenses
6. Green Energy Plan
7. Cost of Capital
8. Cost Allocation
9. Rate Design
10. Retail Transmission Service Rates
11. Low Voltage Rates
12. Deferral and Variance Accounts
13. Smart Meters/LRAM
14. Recovery of Reasonably Incurred Costs

1 Implementation

Neither Board Staff nor VECC took issue with the proposal for rates to be retroactively effective May 1, 2012

Submission:
Hydro 2000 agrees with both interveners' views on the utility's implementation date.

2 Rate Base and Capital Spending

Board staff commented that the capital expenditures are stable for a small utility, with the exception of smart meters expenditures which are discussed separately. Board Staff had no issue with Hydro 2000's capital expenditures.

VECC agreed with Board Staff's conclusion. VECC also submitted the capital budget for 2012 is reasonable and in line with past spending.

Submission:
Hydro 2000 agrees with Board Staff and VECC's view on the utility's 2012 capital expenditures.

Rate Base

Board staff did not specifically address the proposed Rate Base. VECC had questions surrounding the actual Rate Base being sought and invited Hydro 2000 to clarify the final Rate Base it is seeking for 2012.

Submission:
Please find below the final rate base being sought by Hydro 2000. Hydro 2000 maintains that the Rate Base being sought is just and reasonable.

	As Filed Oct 10, 2011	**As Filed April 10, 2011**
Rate Base	$963,469	$979,044

Working Capital Allowance			
			2012
Eligible Distribution Expenses:	*(1)*		
3500-Distribution Expenses - Operation			12,775
3550-Distribution Expenses – Maintenance			2,050
3650-Billing and Collecting			127,734
3700-Community Relations			717
3800-Administrative and General Expenses			284,790
3950-Taxes Other Than Income Taxes			
Total Eligible Distribution Expenses			428,066
3350-Power Supply Expenses	(2)		2,435,314
Total Expenses for Working Capital			2,863,380
Working Capital Allowance		**15.0%**	**429,507**
-			

-		
TOTAL RATE BASE		
		2012
Net Fixed Assets in Service:	*(3)*	
Opening Balance	448,359	
Closing Balance	650,714	
Average Balance		549,537
Working Capital Allowance		429,507
TOTAL RATE BASE		**979,044**

Working Capital

Board Staff did not comment on the utility's proposed working capital. VECC on the other hand, submitted that Hydro 2000 should be required to use the working capital amount of 13% as outlined in the Board's direction on April 12, 2012.

Submission:

Hydro 2000 is of the view that the Board's direction issued on April 12, 2012 applies to 2013 Rate Year filers. Board policy clearly states that 2012 will be the final year for which the 15% Allowance Approach will be allowed as a default value. It is Hydro 2000's view that it should be allowed to apply the 15% rule to its Working Capital Allowance in accordance with the Board's policy.

3 Load Forecast

Load Forecast Methodology

Board Staff took no issue with any part of the load forecast other than making the submission on the treatment of CDM which. Board Staff state "*Board staff has no concerns with the 2012 customer forecast as proposed by Hydro 2000*" and "*Board staff has no concerns with the proposed test year load forecast"*

VECC expressed concerns with employment-related variable, VECC states "*…while VECC has reservations regarding the load forecast methodology the forecast results for 2012 appear reasonable given that the customer count is only increasing slightly and VECC submits that Hydro 2000's purchase and billed energy forecasts can be used for purposes of setting 2012 rates. However, Hydro 2000 should be encouraged to improve upon its load forecasting methodology for its next cost of service-based application.*"

Hydro 2000 would like to remind VECC and the Board that is has made improvements since the last COS application by using a regression model approaches.

On the topic of employment related variable, it also seems as if VECC may have ignored Hydro 2000 responses to their queries about using the month-to-month difference in employment as a variable. For example:

> *"The observation that purchases in 2012 are lower than in 2011 even though the absolute employment level is higher in 2012 than in 2011 is not necessarily a counter-intuitive outcome; rather, this is a timing issue. Based on actual full-time employment levels reported by Statistics Canada for the Ottawa Economic Region, significant decreases in full-time employment tend to occur in the autumn and winter in this region. Therefore, there are individual months when employment in 2012 is lower than 2011. This affects the timing of consumption, especially when the slower growth in 2012 is taken into account.*

CDM

In regards to the CDM adjustment, Board staff stated that it that distributors include a CDM component in their load forecast to ensure that its customers are realizing the true effects of conservation at the earliest date possible. Board staff submitted it would be appropriate for Hydro 2000 to include 0.208 GWh of CDM activities in its load forecast. VECC echoed Board Staff's recommendations

Submission:

Hydro 2000 does not object to the intervener's recommendation and commits to updating its Load Forecast to reflect 0.208 GWh of CDM activities in its load forecast

4 Revenue Offsets

Board Staff did not comment on the utility's proposed revenue offset. VECC commented on an agreed upon adjustment of $3,000 increasing the total from 20,303 to 23,303

Submission:

Hydro 2000 agrees with VECC's view on the proposed revenue offset and commits to updating the final amount to incorporate the $3,000 adjustment.

5 Operating Cost

Historical One-Time Costs

Board staff expressed concerns with the level of the overall proposed increase in the 2012 Test year, in particular the treatment of historic one-time costs. The Board suggested that historical one-time costs may be embedded in the proposed 2012 OM&A. Board Staff goes on to list one-time cost incurred in 2010 in the amount of $30,000 for hiring a consultant to review the balances of the deferral and variance accounts. And in 2011, a one-time cost of $8,000 for moving expenses for the office relocation and $18,000 for travelling expenses related to training

VECC also echoed Board Staff's concerns that there are one-time OM&A costs embedded in the application.

Submission:

With the exception of a portion of the traveling costs, which is explained further below, Hydro 2000 does not agree with Board Staffs 'inference that historical one-time costs are imbedded in the OM&A. The table below clearly shows that the one- time costs have been removed but are being offset by other on-going expenses.

	2008	VAR	2009	VAR	2010	VAR	2011	VAR	2012
									As per VECC
OM&A costs	244,203		267,844		297,226		348,467		428,066
Variance between each year		23,641		29,382		51,241		79,599	
One time									
Training and travel *		8,000		(8,000)		6,500		(6,500)	
Transition to cash basis				30,000		(30,000)			
Moving						8,000		(8,000)	
IFRS (25%)								15,000	
Condition of services								2,000	
Cost of service								45,668	
Travel Adjustment *						**6,500**		**(6,500)**	
		8,000		**22,000**		**(15,500)**		**48,168**	
Recurring									
Salary adjustments and travel		5,000		8,000		5,000		3,000	
Locates		9,000		(4,500)		4,500			
ESA fees				4,000					
Training and travel						11,500			
Bad debt expense						6,000			
New lease						5,000			
Operations new office						3,500			
Part time employee						13,000			
Conversion to monthly billing						5,800			
Operations						2,500			
Maintenance						2,000			
Telephone						2,000			
Supplies						2,000			
Bank charges						1,500			
Smart meter OM&A								11,150	
P-Sync operator								7,000	
Assistance for RRR reports								5,000	
Subtotal		**14,000**		**7,500**		**64,300**		**26,150**	
Other variances		1,641		(118)		2,441		(337)	
Total variances		**23,641**		**29,382**		**51,241**		**79,599**	
Items highlighted in green represent the items at Table 5 of the Board 'submission									

Submission:

Hydro 2000 recognizes that travel costs in 2012 were somewhat high. This was mainly due to the implementation of time of use. In a regular year, Hydro 2000 expects its travel costs to approximate $11,500. Hydro 2000 offers to remove $6,500 from its 2012 OM&A.

Cost of Service Application

On the topic of the cost of rebasing, Board staff submitted that the revised costs of $180,000 were high and that Hydro 2000 has not provided evidence to support the prudence of the costs for the items identified in its application. Board Staff also suggested that Hydro 2000 that there is no indication as to whether it explored other options. However Board staff did recognize that Hydro 2000 is a very small utility with two full time employees and one part-time employee. As such, its resources for regulatory matters are limited and it relies heavily upon consulting services for regulatory and accounting matters. While the Board expressed concerns with the overall size of the regulatory expense in the previous cost of service application, the Board also recognized that a utility with few internal resources must rely on consulting services. VECC also supports Board Staff's suggestion that regulatory costs could be reduced.

Submission:

With respect to revision of the cost of the submission, the reason why Hydro 2000 did not provide much evidence supporting its regulatory costs is because, even with the proposed update, Hydro 2000's proposed costs seem to be in-line with costs either proposed or incurred by other utilities. (See references at the next page)

The burden of filing a Cost of Service application and meeting the minimum filing requirements is identical whether you're a large utility or a small utility, yet a CLD which employs a full regulatory department, is allowed to recover 900K for their cost of service application.

Utility Name	2009	2010	2011	File #	Comment
Enersource				EB-2012-0033	Appendix 2-H, Exhibit 4, Tab 1, Schedule 1, P7 (note error in the written source proposing $650, be amortized over 4 years), Not covered in Decision
PowerStream				EB-2012-0161	Appendix 2-H, Not covered in Decision
Atikokan Hydro Inc.			200,000	EB-2011-0293	Exhibit 4, T2, S3, P4, Not covered in Decision
Espanola Regional Hydro Distribution Corporation			97,500	EB-2011-0319	E4, T2, S5, P13, Not covered in Decision
Grimsby Power Incorporated			100,000	EB-2011-0273	E4, P32 - Not covered in Decision
Guelph Hydro Electric Systems Inc.			232,000	EB-2011-0123	E4 T2 S5 P6, Not covered in Decision
Halton Hills Hydro Inc.			180,000	EB-2011-0271	E4 T2 S3 P10, Not covered in Decision
Hydro Ottawa Ltd.				EB-2011-0054	Decision referenced argument over regulatory costs, but called for an umbrella reduction to OM&A from $63,891,431 to 61.1M, Ottawa does not differentiate rebasing or One-Time costs source: Exhibit D1, T1, S2, P9
Lakefront Utilities Inc.			188,492	EB-2011-0250	Exhibit 4 P.66, Not covered in Decision
Norfolk Power Distribution Inc.			189,500	EB-2011-0272	Exhibit 4 T1 S1, P8, Not covered in Decision
Oshawa PUC Networks Inc.			400,000	EB-2011-0073	E4 P39 Not covered in Decision
Rideau St. Lawrence Distribution Inc.			121,250	EB-2011-0274	E4 S2, Not covered in Decision, asked for a permanent staff, and bigger on-going cost
Wellington North Power Inc.			135,731	EB-2011-0249	E4, T2, S5 Not covered in Decision
Brant County Power		118,500		EB-2010-0125	In Appendix 2-H, not covered in Decision
Horizon Utilities		960,000		EB-2010-0131	Decision is to amortize over 4 years, not the 3 proposed, amount is in E4, T2, S1, P1
Hydro One Brampton		70,000		EB-2010-0132	In Decision
Kenora Hydro Electric		37,787		EB-2010-0135	Decision, page 21-22
Kingston Electricity Distribution Limited		404,552		EB-2010-0136	In Appendix 2-H, not mentioned in Decision
Milton Hydro		224,500		EB-2010-0137	Exhibit 4, P36, Not covered in Decision
Niagara Peninsula		310,000		EB-2010-0138	Exhibit 4, P57, Not covered in Decision
Parry Sound		176,258		EB-2010-0140	Decision documents this and several other values, including a 2009 withdrawn COS application, which are part of the recovery, 2011 regulatory cost was allowed
St. Thomas		412,400		EB-2010-0141	Exhibit 4, T2, S1, A4, Not covered in Decision
Toronto Hydro				EB-2010-0142	Toronto Hydro has blended one time and ongoing costs into the same accounts, making costs of the COS application difficult to isolate. Table can be found in their Dec 6, 2010 response to board staff IR#30
West Perth		80,000		EB-2010-0121	Decision and Order - approved request, delayed recovery
Woodstock		190,000		EB-2010-0145	Exhibit 4, T2, S3, P32, Not covered in Decision
Cambridge and North Dumfries Hydro Inc.	160,000			EB-2009-0260	E4 P24 Not covered in Decision
Chatham-Kent Hydro Inc.	200,000			EB-2009-0261	Decision to reduce by 80,000 from requested per E4 T2 S3 - Requested

					70,000/yr or 280,000
Clinton Power Corporation	80,000			EB-2009-0262	Per Decision, P3
Cooperative Hydro Embrun Inc.	267,200			EB-2009-0132	Per Decision P11 - expressed displeasure, but allowed given circumstances
Essex Powerlines Corporation	250,000			EB-2009-0143	E4 T2 S2, Not covered in Decision
Festival Hydro Inc.	144,000			EB-2009-0263	Per Decision P17
Haldimand County Hydro Inc.	222,500			EB-2009-0265	E4, T2, S4 Not covered in Decision
Hearst Power Distribution Company Limited	207,649			EB-2009-0266	Per Decision P18
Hydro Hawkesbury Inc.	250,000			EB-2009-0186	Per Decision P11
Hydro One Distribution Inc.				EB-2009-0096	Not presented as a cost of application - Major hearing costs were $2.5m and 1.8m in each of the 2 year test periods
Kitchener-Wilmot Hydro Inc.	228,000			EB-2009-0267	E4 P34 Not covered in Decision
Newmarket-Tay Power Distribution Ltd.	600,000			EB-2009-0269	E4 T1 S2 P22, Not covered in Decision
North Bay Hydro Distribution Limited	160,000			EB-2009-0270	E4 P52, Not covered in Decision
Oakville Hydro Electricity Distribution Inc.	333,752			EB-2009-0271	E4 T2 S5 P8, Not covered in Decision
Orangeville Hydro Limited	140,000			EB-2009-0272	E4 T2 S3 P24, Not covered in Decision
Orillia Power Distribution Corporation	140,000			EB-2009-0273	E4 T2 S1 P10, Not covered in Decision
Ottawa River Power Corporation	118,000			EB-2009-0165	E4 T2 S1 A4 P2, Not covered in Decision
Renfrew Hydro Inc.	122,000			EB-2009-0146	E4 T2 S1 A4, Not covered in Decision
Toronto Hydro-Electric System Limited				EB-2009-0139	Toronto Hydro has blended one time and ongoing costs into the same accounts, making costs of the COS application difficult to isolate.
Veridian Connections Inc.	400,000			EB-2009-0140	E4 T2 S1 A4, Not covered in Decision
Whitby Hydro Electric Company	250,000			EB-2009-0274	E4 Page 225, Not covered in Decision
AVERAGE	**224,900**	**271,272**	**184,447**		

Hydro 2000 workforce consists of 2 employees, one of which does not have sufficient experience to assist with the regulatory requirements of a cost of service application. A large aspect of the application also involves accounting tasks. Hydro 2000 does not have its own internal financial resource and therefore must rely heavily on Deloitte and Touch's expertise during a Cost of Service application. In its final submission, Board Staff states that the utility had not explored other options in an attempt to reduce its regulatory costs. The only other option available to the utility would be to hire a full time regulatory resource and a full time financial resource. This expense would increase Hydro 2000's OM&A by approximately $150,000 per year. Cost-Sharing with surrounding utilities is not feasible due to the physical distance between the utilities and due to the fact that all other neighboring utilities are all scheduled to file their cost of service application in 2014.

Hydro 2000 would like to mention that its regulatory costs would be lower if this proceeding was allowed to be conducted in French, which is the utility's language of operation. Other utilities are able put together a large portion of the application themselves and use consultants to review the application. In the case of Hydro 2000, the evidence is communicated to the consultant in French and the consultant is responsible for drafting the entire application in English. The same process is used for interrogatories and reply submission.

The main reason why the utility had to adjust its regulatory costs is that the General Manager of Hydro 2000 was working on multiple regulatory commitments during that period. Over the past year, he has been heavily involved in the IESO mandatory testing for Time of Use. The table below shows the number of hours that were spent on testing in the period of April 2011 to March 2012.

SIT testing 10 days @ 8hrs/per day	80 hours
UNIT testing 3 months @ 5hrs/per day	325 hours
QT testing 30 days @ 8-10hrs/per day	240 hours
IESO 7.2 testing 6weeks +2 weeks extra @ 8hrs/per day	320 hours
Total	865 hours

The utility had little choice but to use the General Manager to conduct the testing as it requires an in depth understanding of its internal billing setups. In the majority of other utilities, this testing would have been conducted by the utility's IT department. Hydro 2000 does not have its own internal IT department and therefore, the General Manager focused his time and effort on the testing. The timing of the testing is mandated by the IESO and is non-negotiable. The only other option available to the utility was to outsource a larger (than originally planned), portion of the Cost of Service application to outside consultants. This decision was based on the fact that the consultants could do the work quickly and in cost efficient manner. The total cost of $160,000 can easily be converted to 26 full time days at consulting hourly rate of $250/hour; (1 Hour = 0.04167 Days). 26 working days represents a little over a month's work for a proceeding that spans over 15 months. It is the utility's view that using external consultants in this case was a sound business decision and the best option available.

Below are the revised costs related to the cost of service application. Hydro 2000 is projecting roughly 20K for costs associated with VECC and OEB's involvement. Therefore, Hydro 2000 seeks to recover 180,000 over a period of 4 years (or 45,000 in the test year)

Total cost		
	Elenchus (to date)	$133,440.99
	Deloitte Auditors	$25,600.47
	VECC	$
	Board OEB	$
	Elenchus Remaining	$0
	Total	$159,101.46 excluding VECC and OEB.

VECC stated that Bad debt costs are at least $4,000 higher than expected based on past experience and that Travel and Training costs were also high for a utility with only 2 employees.

Submission:

Unlike other utilities the General Manager must performs the function of multiple departments (billing, smart meter installation and implementation, operation, IT are only a few examples). In order to perform all these functions, he must stay on top of new development in all those areas and therefore must be trained accordingly.

Another reason why travel and training costs are high is that every training session and conference is conducted in the Toronto area. Hydro 2000 must incur travel costs if it is to keep abreast of all new regulatory development.

In the interest if exploring other “options”, Hydro 2000 invites the OEB, other regulators and agencies to conduct their future training in conferences in the Ottawa region. This would considerably reduce the utility’s travel expenses.

To address VECC’specific concern surrounding why pre-filing costs are being revised, Hydro 2000 would like to clarify that the “rebasing costs” included in the application file on October 11, 2012 were based on projections and NOT actual costs to-date. It should come as no surprise to the Board that when filing an application, a utility cannot accurately predict how much the entire process will cost therefore it would makes sense that as the process approaches the end, the utility would review its to-date costs and update its application. Hydro 2000 could not have predicted, during the interrogatory process, that intervener would impose an unsupported arbitrary “threshold” of $140,000 and as a result, did not emphasize the evidence surrounding the increase. Hydro 2000 believes that the Board should set a materiality threshold with respect to regulatory costs related to filing a Cost of Service application. This way, utilities would know when a cost will be a source of contention or not.

VECC commented that the regulatory costs are unreasonably high, and that the Board’s process in this application was such that it should have lowered the initial forecast of regulatory costs.

Again, as explained above, the reason why Hydro 2000 found itself in a position where it had to rely more heavily on external consultants was the unavailability of the General Manager and its commitment to yet another regulatory burden imposed by the government. Hydro 2000 also disagrees that the Board’s process in this application should have resulted in lower regulatory costs.

Hydro 2000 could have opted to employ the services of an outside firm to conduct the 865 hours of IESO testing and allocate those costs to “smart meters”. However, it is clear that the 80 supplemental hours or $20,000 of additional costs that were allocated to the cost of service application were deemed to be a more prudently incurred expense.

It’s also important to mention that the countless hours spent by the General Manager of Hydro 2000 on gathering information of the cost of service application have <u>not</u> been included in this application. It’s also important to mention that while the General Manager was working concurrently on both the application and the IESO testing, he also managed to support the entire utility and its 1500 customers.

As part of its submission, VECC introduced its “expected cost growth” approach. This method starts with the last Board approved OM&A (2008). The increases in costs since that time are related primarily to inflation and customer growth. To the expected cost for these factors are added costs for incremental utility responsibilities and unavoidable activities. VECC's approach uses customer growth to determine an expected OM&A of $298,108. To this range VECC adds any reasonable incremental costs.

Submission:
Hydro 2000 strongly dismisses VECC's approach as it does not seem to take into consideration the increase in government mandated regulatory requirements, for which the utility must incur either travel costs or costs associated with the use of external consultants in order to meet these requirements. Hydro 2000 submits that costs associated with regulatory compliance are completely independent and unrelated to the number of customers in a utility.

In addition, the flaw with VECC's, and the OEB's metrics for that matter, assume that costs are dynamic while the reality is that a large portion of a utility's costs are in fact static. A cost of a computer is the same whether you're a Toronto Hydro or a Hydro 2000. The cost of a plane ticket and hotel accommodation is the same whether you're a Toronto Hydro or a Hydro 2000. Consulting fees are more or less standard across Ontario.

VECC also suggested a removal of $17,618 in one-time costs and $5,000 (the amortized value) in amended regulatory costs.

Submission:
It is not clear to Hydro 2000 how this amount was derived. Either way, the suggestion should be dismissed based on the earlier table that shows that one-time costs were in fact removed from the 2012 test year.

Overall Costs

Both Board Staff and VECC raised concerns that Hydro 2000's proposed 2012 OM&A is high. Board Staff submitted that with the ongoing increases as identified in Table 5, Hydro 2000 has adequately supported its proposed cost levels for the test year. VECC on the other hand felt that Hydro 2000 had not provided sufficient evidence to support the prudence of some of these costs.

Submission:

Hydro 2000 maintains that the increase in OM&A is attributed to "unavoidable costs' and as can be seen in the table below, Hydro 2000's OM&A is reasonable, if not low, in comparison to utilities of the same size.

As per 2010 Yearbook of Electricity Distributors issued August 29,2011											**As per requested**
	Atikokan	Chapleau	Clinton Power	Coop Embrun	Hearst	Sioux Lookout	West Perth	Hydro 2000	Avg		**Hydro 2000**
Number of customers	1663	1306	1639	1958	2734	2754	2049	1196	1912.38		**1210**
Total Expenses											
Operating	332,111	203,961	6,827	20,827	91,992	493,191	68,320	-	152,154		**12,775**
Maintenance	51,665		47,326	36,633	292,585	116,678	45,440	4,446	84,968		**2,050**
Admin	615,874	335,034	505,034	415,300	434,979	563,578	856,041	291,902	502,218		**412,524**
Other		9,588		2,350			892	2,000	3,708		**717**
	999,650	548,583	559,187	475,110	819,556	1,173,447	970,693	298,348	730,572		**428,066**
OM&A/Customer	601	420	341	243	300	426	474	249	382		**354**

6 <u>Green Energy Act Plan (GEA Plan)</u>

As explained by Board Staff, in its application, Hydro 2000 requested an exemption from filing a GEA Plan. Hydro 2000 stated that it requires more knowledge, experience and expertise, before it can invest the necessary resources to complete and file such a plan. Hydro 2000 proposed to record incremental costs in the appropriate Board-approved deferral accounts, when the costs arise.

Board staff recognizes that Hydro 2000 is a small utility with a very limited workforce, and may in fact benefit from additional time to gain knowledge, experience, and possibly increased cost-efficiency as a result of harmonizing the GEA Plan activities that it is undertaking or might elect to undertake in the future with other utilities. Board staff also recognizes that additional connection applications may materialize in the future, and it may be more efficient for Hydro 2000 to update the Board on a larger set of initiatives all at once.

As Hydro 2000 is embedded in Hydro One's service territory, Hydro 2000 expressed concerns in interrogatory responses relating to its ability to provide suitable documentation. Board staff notes that Hydro 2000 should engage in appropriate discussions with the host distributor.

For these reasons, Board staff submits that Hydro 2000 should be permitted to postpone the filing of its GEA Plan until a future application and not later that with Hydro 2000's next cost of service application.

Submission;

Hydro 2000 has not received any new requests for micro-fit and does not anticipate any applications in the near future. Hydro One Networks Inc. is only allowing Micro-Fit generation less than 10KW. Hydro One Networks Inc. has refused a small Fit application of 99KW. Depending on the size of the Fit Generation application and where it is located Hydro 2000 has no choice but to follow Hydro One recommendations.

Hydro 2000 has attempted on many occasions to engage in discussion with Hydro One with little success. That being said, Hydro 2000 commits to filing a GEA Plan no later than its next cost of service application.

7 Cost of Capital/Capital Structure

Both VECC and Board Staff accepted the evidence as filed and on the assumption that Hydro 2000 will update its cost of capital parameters to the level allowed by the Board in its letter of March 2, 1012.

Submission:

Hydro 2000 agrees with VECC's view and commits to updating its cost of capital to the following parameters.

Cost of Capital Parameter	Updated Value for 2012 Cost of Service Applications for rates effective May 1, 2012
Return on Equity (ROE)	9.12%
Deemed Long -Term Debt rate	4.41%
Deemed Short-Term Debt rate	2.08%

8 Cost Allocation

Cost Allocation Methodology

The following table sets out the results of Hydro 2000's most up to date proposed cost allocation.

REVENUE TO COST RATIOS – 2012 Updated Results	
Customer Class	**2012 Revenue to Cost Ratios**
Residential	79.55%
GS<50	189.11%%
GS>50	192.12%%
Street Lights	101.21%
USL	103.11%
Total	100.0%

VECC's expressed issue with Hydro 2000's updated cost allocation is the weighting factors used for Services. Subject to any clarification that Hydro 2000 can provide VECC submits that the 2012 weighting factors for Services should be set at the default values per OEB Staff IR #15 b) and the cost allocation should be updated accordingly.

Board Staff also shares its views on default weighting factors in that default weighting factors should be utilized only in exceptional circumstances and that a utility must demonstrate that they are appropriate given their specific circumstances.

Board Staff states that Hydro 2000 has followed the Board's requirement and provided its own weighting factors for Services and for Billing and Collecting. In its response to a Board staff interrogatory, Hydro 2000 explained that the reason for the increase in the Collecting component of its Billing and Collecting weighting for the Residential class is that the billing clerk needs to spend more time on Residential customers who pay their bills directly at Hydro 2000's office. For the Billing component, the operation is done by a third party at a uniform cost regardless of the customer class. With this explanation, Board staff concurs that the factors used by Hydro 2000 are appropriate.

Submission:

Hydro 2000 agrees with Board Staffs assessment and opinion.

9 Rate Design

Revenue to Cost Ratio

As explained by Board Staff, Hydro 2000 proposes to re-balance its class revenues as a result of its cost allocation results. The revenue-to-cost ratios of both General Service classes are above the Board's policy range with the current rates, and the residential class is the only one whose ratio is less than 100%. Compared to the current rate structure, residential rates will increase more than other classes, and both General Service classes will increase less than other classes.

The first table compiled by the Board provides Hydro 2000's 2008, current and proposed revenue-to-cost ratios and the Board's target ranges, as established in the Board's *Review of Electricity Distribution Cost Allocation Policy EB-2010-0219*. The second table presents the proposed changes to Revenue to Cost Ratios.

Customer Class	Column 1 2008 Approved Ratios	Column 2 Current Ratios	Column 3 Proposed Ratios for Test Year	Column 4 Board Target Range
Residential	104.2%	79.6%	85.0%	85% - 115%
GS < 50 kW	100.0%	189.1%	160.0%	80% - 120%
GS > 50 to 4,999 kW	100.0%	192.1%	180.0%	80% - 120%
Street Lighting	71.8%	101.2%	110.0%	70% - 120%
Unmetered Scattered Load	27.9%	103.1%	103.0%	80% - 120%

Proposed Changes to Revenue-to-Cost Ratio

Customer Class	2011	2012	2013	2014
Residential	85%	85%	90%	95%
GS < 50 kW	189%	160%	140%	120%
GS > 50 to 4,999 kW	192%	180%	160%	120%

In its final submission, Board staff took no issue in the proposed revenue-to-cost ratios proposed by Hydro 2000.

Submission:
Hydro 2000 agrees with Board Staffs assessment and opinion.

Monthly Service Charges ("MSC")

Again, as summarized by Board Staff, Hydro 2000's current and proposed monthly service charges are presented in the table below:

Table 13

	Monthly Service Charges	
Rate Classes	**Current**	**Proposed***
Residential	$8.53	$12.87
GS < 50 kW	$24.61	$29.50
GS > 50 to 4,999 kW	$120.73	$120.73
Street Lighting	$0.05	$1.16
Unmetered Scattered Load	$12.31	$14.75

In its Application, Hydro 2000 explained that maintaining the same fixed/variable proportions would cause the proposed MSC for the GS < 50 kW class to exceed the ceiling of the MSC as indicated in the cost allocation model. And for the Residential and USL classes, maintaining the same fixed/variable proportions would also cause MSC increases of approximately 93% and 79% respectively as compared to the existing MSC. As such, Hydro 2000 proposed changes to the existing fixed/variable proportions to minimize the impact to the customer classes. As a result, the MSCs proposed by Hydro 2000 are all below the ceiling, except for the GS > 50 to 4,999 kW class. The MSC for the GS > 50 to 4,999 kW remains unchanged.

Board staff noted that although the proposed MSC for the GS > 50 to 4,999 kW class exceeds the upper bound of the MSC, in past decisions the Board has noted that it will not require utilities to lower the existing MSC if they are above the ceiling. Board staff submitted that Hydro 2000's proposal to maintain its MSC for GS > 50 to 4,999 kW class unchanged is reasonable and that since all the MSCs are below the ceiling amount for their respective classes, Board staff had no concerns with the proposed MSC.

VECC noted that for the other three classes the reduction in the fixed portion appears to be based on bill impact considerations and that even with a lower monthly service charge, the bill impacts for low use Residential customers are approaching 10%. .

Submission:
Hydro 2000 agrees with Board Staffs assessment and opinion.

Loss Factors

Both VECC and Board staff noted their concerns regarding the increase in the proposed loss factor. Board staff had no concerns with respect to Hydro 2000's proposed loss factors for 2012, but encouraged Hydro 2000 to continue to monitor the condition of the assets, and address any persistent increase of the DLF in the next cost of service application by developing and filing a plan to reduce losses.

VECC submits that the Board should adopt Hydro 2000's proposed loss factor. However, Hydro 2000 should be "put on notice" that the loss factor issue will be followed-up on in its next cost of service proceeding, particularly if higher loss factors continue to be experienced.

Submission:

Hydro does not object to the intervener's views and commits to continue to address the issue of the increases in DLF.

10 Retail Transmission Service Rates

Board staff has examined the revised RSTR work form provided by Hydro 2000 and submitted that two adjustments were

1) Removal of "Hydro One Sub-Transmission Rate Rider as the rate rider expired on December 31, 2011.
2) Inclusion of the loss factor for Residential, GS < 50 kW and Unmetered Scattered Load classes which were inadvertently. Board Staff recalculated the RTSRs in the following table.

Rate Classes	RTSR Network	RTSR Connection
Residential ($/kWh)	$0.0056	$0.0044
GS < 50 kW ($/kWh)	$0.0051	$0.0044
GS > 50 to 4,999 kW ($/kW)	$2.0933	$1.7491
Unmetered Scattered Load ($/kWh)	$0.0051	$0.0044
Street Lighting ($/kW)	$1.5786	$1.3521

Submission:
Hydro 2000 has reviewed the RTSR model and agrees with Board Staffs recommended revisions and proposed results.

11 Low Voltage Rates

In its original Application Hydro 2000 forecast LV costs for 2012 to be $100,429. In its IR responses Hydro 2000 indicated that the value was based on 2011 charges (combination of actual and forecast) and revised the value to $128,226. VECC submits that the Board should accept this revised LV cost and the resulting rates by class. Board Staff states that it has no concerns with the LV costs proposed by the Applicant.

Submission:

Based on that statement, Hydro 2000 agrees with Board Staffs assessment and opinion. On the recommendation that Hydro 2000 should explore alternatives that could lead to a reduction in LV Costs, Hydro 2000 maintains that this is an issue that the utility has struggled with for years but that ultimately, as a distributor fully embedded in Hydro One, LV charges are out of the utility’s control. Hydro 2000 invites the Board to address the issue with Hydro One.

12 Deferral and Variance Accounts

Hydro 2000 proposed to dispose Group 1 and Group 2 deferral and variance account balances as of December 31, 2010, and interest forecast to April 30, 2012.

The allocation factors used by Hydro 2000 for the volumetric rate rider calculation are in accordance with the EDDVAR report (EB-2008-0046).The proposed amounts for disposition are presented below:

Account #	Account Description	Disposition Amount[33]
1521	Special Purpose Charge Assessment Variance Account	$998
1550	LV Variance Account	($45,088)
1562	Deferred Payments in Lieu of Taxes	($26,060)
1580	RSVA – Wholesale Market Service Charge	($41,667)
1584	RSVA – Retail Transmission Network Charge	($28,583)
1586	RSVA – Retail Transmission Connection Charge	($22,567)
1588 - Pwr	RSVA – Power (excluding Global Adjustment)	($25,428)
1588 - GA	RSVA – Power – Sub account -Global Adjustment	$33,659
1592 - ITC	PILs/Taxes Variance, Sub-account HST/OVAT Input Tax Credit	($198)
	Total Proposed for Disposition	**($154,934)**

The credit balance of $154,934 indicates that this amount is to be refunded to the customers over a two year period.

Board staff submitted that when preparing the draft Rate Order, Hydro 2000 should ensure that the approved balances for account 1562 and account 1592 are combined with the remaining deferral and variance account rate riders (except for the balances associated with smart meter costs).

Submission:

Hydro 2000 agrees with Board Staff's recommendation above.

With respect to 2008 balances, Hydro 2000 maintains that the 2008 Group 1 account balances have been reviewed by Deloitte and Touche, and that no changes are required to be made to the 2008 account balances that were disposed on an interim basis.

13 Smart Meters/LRAM

Smart Meter Disposition Rate Rider (SMDR)

1. Disposition of all capital and operating costs to the end of 2010;
2. a 24 month smart meter disposition rate rider ("SMDR") of $1.09/month[44] to dispose of the smart meter variance accounts which will recover the difference between the revenue requirement and the actual revenue collected to the end of April 2012;
3. A stranded meter rate rider ("SMRR") of $0.0002/kWh over a 4 year period.

VECC accepted as reasonable the smart meter program costs but argued that the approach is not in accordance with recent Board policy. VECC goes on to quote 2 accepted methods. The first being the "proxy methods" used by PowerStream and accepted by Board in the Board's Decision and Order in respect of PowerStream (EB-2010-0209) a similar proxy allocation was accepted in the recent Ottawa Decision EB-2011-0054 and in respect to Guelph in the recent EB-2011-0123. VECC

VECC submitted that Hydro 2000 should be required to file a class specific SMDR under one of the methods approved by the Board.

Board staff observed that the above total per meter costs are reasonable as compared to the costs the Board has seen for the most utilities and that the corresponding capital costs have been included in rate base. Board staff also reviewed the calculation of the SMDR and had no concerns.

Submission:

Hydro 2000 agrees with Board Staffs assessment and opinion.

Stranded Meters

Board Staff states in its submission that Hydro 2000 provided the Net Book Value by class for the stranded meters, as such Hydro 2000 should be able to provide class-specific monthly fixed SMRRs. Board staff has no other concerns with the stranded meter proposal.

Submission;
Hydro 2000 commits to providing class-specific monthly fixed SMRRs based on the Net Book Value by class for the stranded meters as part of its draft rate order.

LRAM

Hydro 2000 seeks to recover a total LRAM claim of $13,510.13. The lost revenues include the effect of CDM programs implemented from 2006-2010. Hydro 2000 has requested approval of these savings persisting until April 30, 2012. Hydro 2000 has requested the recovery of an LRAM amount that includes lost revenues for 2006, 2007, 2008, 2009, and 2010 CDM programs from January 1, 2006 to April 30, 2012.

Board staff stated in its submission that it supports the recovery of the requested LRAM amounts in 2006, 2007, 2008, 2009, and 2010 noting that it is consistent with what the Board noted in its decision on applications from PUC (EB-2011-0101), PowerStream (EB-2011-0005) and Brantford (EB-2011-0147).

Submission:
Hydro 2000 agrees with Board Staffs assessment and opinion.

2011 and 2012 lost revenues

Board staff submits that it is premature to consider any lost revenues persisting in 2011 or 2012.

Board staff requests that Hydro 2000 provide an updated LRAM amount and subsequent rate riders that only includes lost revenues from 2006 to 2010 CDM programs from 2006 to 2010. VECC supported the submissions of Board Staff in respect to LRAM. Specifically we agree that it is premature to consider recover of lost revenues persisting in 2011 or 2012. VECC agrees with Staff that Hydro 2000 should modify its request to include estimates of lost revenues for the period 2006 to 2010.

Submission:

Hydro 2000 does not object to interveners' recommendations and commits to updating its models accordingly.

14 Recovery of Reasonably Incurred Costs

Hydro 2000 has no issue with awarding 100% of VECC's costs.