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Ontario

BY E-MAIL

June 25, 2012

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St. 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Board Staff Submission
Comments on Draft Rate Order
Halton Hills Hydro Inc.
Board File Number EB-2011-0271

Please find the attached Board staff submission in the above proceeding. The submission has been sent by e-mail to the list below.
Sincerely,

Original Signed By

Neil Mather
Project Advisor, Applications & Regulatory Audit

Cc:
Arthur Skidmore, President and CEO, Halton Hills Hydro Inc.
David Smelsky, Chief Financial Officer, Halton Hills Hydro Inc.
Richard King, Norton Rose LLP, Counsel to Halton Hills Hydro Inc.
Intervenors of Record

Attachment

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Halton Hills Hydro Inc.
2012 Distribution Rate Application
EB-2011-0273

Board Staff Comments on Draft Rate Order

On August 26, 2011, Halton Hills Hydro Inc. ("HHH") filed an application with the Ontario Energy Board (the "Board") seeking approval for changes to the rates that HHH charges for electricity distribution, to be effective May 1, 2012. HHH and the intervenors in the procedure filed a Partial Settlement Agreement (the "Partial Agreement"), dated February 28, 2012. An oral hearing was convened on March 22, 2012, on the issues that were not settled in the Partial Agreement, and the Board announced at the oral hearing that it accepted the Partial Agreement. HHH filed its argument-in-chief on the unsettled issues on March 30, 2012. The intervenors and Board staff submitted their arguments on April 13, 2011, and HHH submitted its reply argument on April 25, 2012.

The Board issued its Decision and Order ("the Decision") on June 14, 2012, with distribution rates to be effective May 1 and implemented on July 1, 2012. Pursuant to the Board's Order, HHH filed its Draft Rate Order ("DRO") on June 20, 2012. The following are Board staff's comments on the DRO.

Distribution Revenue Requirement:

Operating Expenses

Board staff notes that Operating Costs have been revised in the DRO to $5,900,000, inclusive of property taxes, which is consistent with the Decision at p. 17. Board staff concurs that this is the appropriate amount.

Depreciation and Amortization

Depreciation has been reduced as a result of the Decision from $1,390,193 to $1,319,049, an adjustment of $71,144. Three factors would affect Depreciation since the Partial Agreement was filed:

- reducing the amortization period of the Deferred PP&E balance from proposed 20 years to 4 years,

- reducing the first year of depreciation of the Green Energy Initiative due to its reduced investment,
- reducing the amortization of the PP&E balance due to reducing the balance from $1,462,823 to $836,717.

The latter adjustment will be the subject of a review by Board Regulatory Audit & Accounting following completion of HHH's financial audit, and rates are approved on an interim basis in the meantime.

Board staff submits that it would be helpful if HHH were to provide a breakdown of its adjustment to depreciation into the three components above.

Return on Unamortized Deferred PP&E Balance

HHH has included a reduction in its revenue requirement of $50,956, which is the return portion of the adjustment for the unamortized Deferred PP&E balance. Board staff concurs with this adjustment.

Return on Rate Base

HHH has submitted its calculation of the return on rate base, amounting to $2,583,417, in Table 7 of the DRO. Board staff submits that this calculation is correct, and accurately reflects the Board's current rate of return on equity as well as the Board's decision on HHH's cost of long-term debt.

Board staff notes that HHH has included a return on rate base in Appendix C 'Capitalization/Cost of Capital' (DRO, p. 61) of $2,634,332. This amount is included in HHH's calculation of its revenue requirement in the subsequent table 'Revenue Requirement', and from there to Table 8 'Revised Revenue Requirement' (DRO, p. 15).

The difference is an apparent attempt to reflect the impact of the return portion of the deferred PP&E balance. Board staff submits that the adjustment to the return on rate base is not warranted, as the return on rate base for the deferred PP&E balance is adjusted against 2012 HHH's revenue requirement. Board staff agrees with Energy Probe's submission (June 22, 2012, p. 2) that the effect is to cancel the adjusted return due to the deferred PP&E balance.

Summary

The DRO shows a Service Revenue Requirement of $9,831,576, at Table 8, and a Base Revenue Requirement (net of Miscellaneous Revenue) of $8,672,530. Board staff submits that both amounts should be reduced by $50,956, to reflect the correct return on HHH's rate base.

Cost Allocation

HHH filed with the Partial Agreement an updated Cost Allocation study consistent with a Service Revenue Requirement of $10,570,702, pending the Board's Decision on the unsettled issues. The quantity and allocation of Miscellaneous Revenue is unchanged by the Board's Decision. However, the Decision necessitates a change in the accounts that included the Green Energy Initiative and an OM&A account.

Board staff acknowledges that the allocation of the Base Revenue Requirement amongst the classes would be little changed, in percentage terms, by the Decision on the unsettled issues, and that the revenue-to-cost ratio of each class could be derived approximately from information filed in the DRO. Nevertheless, Board staff submits that it would be helpful to the Board to receive an updated Cost Allocation study consistent with the Service Revenue Requirement of $9,831,576, less the correction described in the previous section of this submission. The updated study would show clearly the allocated revenue requirement for each class. From this information, the base revenue requirement for distribution rates of each class would be derived in a straight-forward way.

Board staff recognizes that the Board's existing cost allocation model does not provide for the adjustments of deferred PP&E, and is currently revising the model for use in future rate applications. Staff suggests that the effects can be reflected reasonably in the existing model by entering the updated depreciation (as discussed above) in Worksheet I-3, account 5705, (cell D429) updated for all of the factors listed above, and appropriate changes to interest expense (cell F12) and target net income (cell F10). Either interest or net income could be reduced by the amount of $50,956 from the amount that be normally be used in the absence of the deferred PP&E adjustment, because both of these items are allocated identically in the model.

Board staff suggests that a full cost allocation model in an Excel format should be filed with HHH's reply comments.

Rate Design

Board staff notes that Table 9 of the DRO starts off with a "Total Net Revenue Requirement" of $8,621,575. Staff agrees with this calculation, notwithstanding its earlier comments on the Distribution Revenue Requirement, and suggests that the amount could have been referred to as Base Revenue Requirement. The columns titled Total Fixed Revenue and Total Variable Revenue appear to be correct. The column titled Gross Distribution Revenue is a useful step toward calculating distribution rates because it adds in the "cost" of transformer ownership allowance for the purpose of calculating volumetric rates gross of the allowance for the affected rate classes. Board staff does not consider it useful to include LV & Wheeling Charges in Table 9, and addresses this subject in the following section.

For all rate classes except Residential, Board staff agrees with the Fixed:Variable proportions that result from the distribution rates submitted by HHH in Appendix A, because they continue with the existing proportions as agreed at p. 19 of the Partial Agreement. While accepting the proportions, Board staff has doubts about the rates themselves, as explained later in this section.

Board staff does not agree that the Residential rates in Appendix A would result in Fixed:Variable proportions of 54.4% Fixed, 45.6% Variable as suggested in Table 10, and has calculated that the Residential rates in Appendix A would yield a fixed:variablesplit of 63%:37%. The rates of $14.67 per month and $0.0095 per kWh appear to be the outcome of a miscalculation that Board staff has not been able to replicate.

The fixed charge of $12.23 (found in the final column of Table 10) would yield 54% of the class's base revenue requirement, if accompanied with the corresponding adjustment to the kWh rate. Staff has not verified that this rate or the other calculated amounts in the final column of Table 10 would be the correct monthly fixed charges, given the Base Revenue Requirement and the re-balancing that was agreed in the Partial Agreement.

Board staff notes that its attempts to replicate HHH's revenue calculations were not successful. The load forecast together with the rates in Appendix A would yield revenue that does not match the total amount in Table 9. Board staff would prefer to see, in HHH's reply comments, a complete re-calculation of the distribution rates, starting from updated cost allocation results, and omitting LV costs.

Recovery of Foregone Revenue

Board staff expects to see a rate rider that would recover the negative "foregone revenue" that results from the difference between the approved rates and those actually charged by HHH during May and June 2012, the period between the effective date and implementation date approved in the Board's Decision. Staff recognizes that both rates are interim. However, Board staff believes it would be useful to calculate rate riders that would be in effect for 10 months, July 2012 - April 2013 inclusive, to return to customers the difference between the existing interim rates and those that will be approved for implementation on July 1, 2012.

To the extent possible, the rate riders should be calculated for both Monthly Service Charges and for the respective volumetric rates. In the event that a volumetric rate rider is rounded to $0.0000, the volumetric rate rider may be omitted and an additional increment added to the fixed rate rider for the same class.

LV Charges

The forecast of LV costs was agreed at $608,992, and rates were agreed as documented in the Partial Agreement at p. 20. The kWh rates for the affected classes have been revised upward in the DRO Appendix A, though not kW rates for the remaining classes. Staff notes that the proposed LV rates are little changed from the existing rates, so there is little if any effect arising from the interim rates that have been charged during May and June 2012, and notes also that any effect would be captured in the variance account 1550. Board staff therefore suggests that the rates listed in the Partial Agreement should be approved as final, effective May 1, 2012, and that there is no need for recovery of any foregone revenue.

Deferral and Variance Accounts and Rate Riders

Table 14 of the DRO shows rate riders that are larger (in absolute terms) than those in HHH's application (Exhibit 9, Tables 9-12 and 9-13). The latter were agreed to in the Partial Agreement, except for the period of disposition which was subsequently approved as applied for in the Decision. Board staff notes that the balance would be disposed of if the rate riders in Table 14 were to be applied over 22 months instead of 24 months as assumed in the original application. Board staff submits that the rate riders should be approved as found in Table 14, and that the tariff sheet should note the effective date of July 1, 2012 along with the sunset date of April 30, 2014.

Board staff suggests that one of the entries in Table 14 may be a typographical error, being the Global Adjustment rate rider to be charged to Sentinel Lighting customers. The error does not have any consequence, in likelihood, but it appears to be out of proportion.

Other Rates and Charges

Board staff believes the other rates and charges in Appendix A are consistent with the Board's Decision.

Update of Appendix B "Revised Bill Impacts"

It is helpful to have a full range of bill impact calculations such as HHH has provided as Appendix B to the DRO, in order to understand the combined effect of the various components of the new rate structure. It is unlikely that the update will be substantially different due to the various topics in this commentary, but the concerns about the fixed:variable proportions under Rate Design could have an effect on small versus large customers within a class. In general, Board staff notes that, if the fixed:variable proportions are to remain unchanged, then the percentage change of the Monthly Service Charge and the corresponding volumetric rate will be equal for any given customer class in its impact tables.

If possible an updated Appendix should be provided with HHH's reply comment.

Respectfully submitted.
June 25, 2012