Ontario Energy Board

Commission de l'énergie de l'Ontario

EB-2011-0326

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

AND IN THE MATTER OF an application by Hydro 2000 Inc. for an order approving or fixing just and reasonable rates and other charges for the distribution of electricity to be effective May 1, 2012.

BEFORE: Paula Conboy
Presiding Member

Cynthia Chaplin
Vice Chair

DECISION AND ORDER
July 5, 2012

Hydro 2000 Inc. ("Hydro 2000") filed a cost of service application with the Ontario Energy Board on October 12, 2011. The Application was filed under section 78 of the *Ontario Energy Board Act, 1998* seeking approval for changes to the rates that Hydro 2000 charges for electricity distribution to be effective May 1, 2012. The Board assigned the application file number EB-2011-0326.

The Board issued a Notice of Application and Hearing on November 3, 2011. The Vulnerable Energy Consumers Coalition ("VECC") applied for and was given intervenor status and cost eligibility.

The Board issued Procedural Order No.1 on November 29, 2011. The Board made provision for Hydro 2000 to file responses to all interrogatories no later than January 20, 2012.

By way of a letter dated January 23, 2012, Hydro 2000 advised the Board that it would not be able to file its interrogatory responses by the deadline of January 20, 2012. The Board issued Procedural Order No. 2 on January 27, 2012 and stated that, in the event that Hydro 2000 was unable to submit its responses by February 3 and to avoid further procedural orders extending the deadline the Board determined that it would extend the deadline for filing interrogatory responses to February 10, 2012. Hydro 2000 filed responses to the interrogatories on February 16, 2012. Additional responses to the interrogatories were filed on April 2 and 10, 2012.

On April 19, 2012, the Board issued Procedural Order No.3 and Order for Interim Rates establishing dates for parties to provide submissions and declaring the current rates interim as of May 1, 2012. Board staff filed its written submission on May 8, 2012 and VECC filed its written submission on May 11, 2012. Reply argument, which was due on May 25, 2012, was filed by Hydro 2000 on June 4, 2012.

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

ISSUES

Board staff and VECC made submissions on the following issues, which are addressed in this Decision:

- Operating Revenue;
- Operating, Maintenance & Administration Expenses ("OM&A");
- Rate Base and Capital Expenditures;
- Cost of Capital;
- Cost Allocation and Rate Design;
- Deferral and Variance Accounts;
- Smart Meters;
- Lost Revenue Adjustment Mechanism ("LRAM"); and
- Implementation.

OPERATING REVENUE

The following issues are addressed in this section:

- Load Forecast;
- Customer Forecast; and

- Other Distribution Revenue.

Load Forecast

Hydro 2000's load forecast was developed in three steps. First, the Applicant developed a multivariate regression analysis that incorporates historical load, weather, and employment data from January 2007 to March 2011. Second, the 2011 Bridge and 2012 Test Year forecast were estimated by the model for weather normalization, using 10-year heating degree days and cooling degree days. Third, forecast total use for Residential, GS < 50 kW and GS > 50 to 4,999 kW classes was developed using the average historic share of actual system purchases applied to the 2011 Bridge and 2012 Test Year forecast. The 2011 Bridge and 2012 Test Year forecast for Street Lighting and Unmetered Scattered Load were based on the 2010 actual consumption for these classes.

Hydro 2000's proposed load forecast for 2012 is as follows:

Load and Demand Forecast

Rate Class	kWh	kW
Residential	14,703,667	
GS < 50 kW	4,712,132	
GS > 50 to 4,999 kW	4,672,203	11,949
Street Lighting	346,706	967
Unmetered Scattered Load	18,486	
TOTAL	**24,453,194**	

VECC and Board staff raised issues related to load forecast methodology and CDM adjustments.

Methodology

VECC raised a concern about Hydro 2000's use of employment data in the regression model. VECC's concern was that the employment data used is based on the change in employment from the previous month and due to the fact that the load forecast for the month is based on a linear equation that multiplies the change in employment by a coefficient, the results are counter-intuitive. Specifically, VECC argued that if the increase in employment observed in the given month is less than the increase experienced in the previous month, even though the total employment level had increased the load forecast for the given month would be less than the previous month.

VECC observed that Hydro 2000 had provided an alternative using the absolute level of employment but that those results were also counter-intuitive as the coefficient for the employment data was negative.

While VECC had reservations with respect to the methodology, it submitted that Hydro 2000's purchased and billed energy forecasts could be used for purposes of setting 2012 rates. VECC suggested that Hydro 2000 be encouraged to improve its load forecasting methodology for its next cost of service application.

Board staff made no submission on the methodology used by Hydro 2000.

In reply, Hydro 2000 defended its use of employment data in the regression model, and referred to explanations provided in responses to VECC interrogatories to support its position. Hydro 2000 also noted that by using a regression model approach, it had already made improvements in methodology from its previous cost of service application.

CDM Adjustments

Hydro 2000 did not incorporate a CDM adjustment in its 2012 load forecast. Both Board staff and VECC submitted that, consistent with other distributors, Hydro 2000 should include a forecast for CDM impacts and recommended that the company use 20% or 0.208 GWh of their CDM targets. This would help ensure that customers realize the true effects of conservation at the earliest date possible and would also help minimize the variance between forecast and actual CDM impacts. VECC submitted that the CDM adjustment would need to be allocated to customer classes in order to facilitate the tracking of CDM savings variance by class.

VECC also submitted that since the load forecast model is based on historical data up to March 31, 2011, the data used in the load forecast would reflect CDM savings from programs (including 2011 programs) implemented up to that date. As a result, any future LRAM adjustment for the year of 2012 should recognize that the load forecast had already incorporated CDM savings up to March 31, 2011.

In its reply submission, Hydro 2000 responded that it had no objections to updating its load forecast to reflect 0.208 GWh of CDM activities.

BOARD FINDINGS

The Board has indicated that distributors will generally be expected to include a CDM component in their load forecast in cost of service proceedings to ensure that its customers are realizing the true effects of conservation at the earliest date possible date and to mitigate the variance between forecasted revenue losses and actual revenue losses[1]. The Board accepts Hydro 2000's proposed load forecast, with an adjustment for 20% of its CDM target, or 0.208 GWh, for the purpose of setting 2012 rates.

The Board agrees with VECC that the CDM adjustment should be allocated by customer class. This will enable the amount of the forecast CDM to be compared to the actual CDM results at the rate class level (which will ultimately be verified by an independent third party for each year of the CDM program in accordance with the CDM Code). The variance calculated from this comparison should be recorded as a credit or a debit to the Hydro 2000 ratepayers at the customer rate class level in the LRAMVA Account 1568 as outlined in Appendix B to the CDM Guidelines (EB-2012-0003). Hydro 2000 can then apply for the disposition of the balance in the LRAMVA in a subsequent rate application.

Finally, the Board agrees with VECC that any CDM savings from programs implemented up to March 31, 2011 are assumed to be included in Hydro 2000's load forecast.

Customer Forecast

Hydro 2000's Test Year customer forecast is 1,589 customers/connections (including Unmetered Scattered Load and Street Lighting connections). The forecast for the Residential class was derived by applying a 1.3% annual growth rate for the Bridge and Test Years. For the GS < 50 kW, GS > 50 to 4,999 kW, Street Lighting, and Unmetered Scattered Load classes, the customer/connection numbers remained constant at the 2010 level. Board staff and VECC each submitted the forecast was reasonable.

[1] Guidelines for Electricity Distributor Conservation and Demand Management (EB-2012-0003) issued April 26, 2012.

BOARD FINDINGS

The Board accepts Hydro 2000's customer forecast for the purpose of setting 2012 rates.

Other Distribution Revenue

Hydro 2000 forecasted total Other Distribution Revenue of $20,303 for the 2012 Test Year.

VECC stated that in response to a VECC interrogatory, Hydro 2000 acknowledged that $3,000 of revenue was omitted from the revenue offsets. Therefore, VECC submitted that the 2012 revenue offset should be adjusted to $23,303 for rate setting purpose.

In reply, Hydro 2000 agreed with VECC's submission on revenue offsets and committed to incorporating the $3,000 adjustment.

BOARD FINDINGS

The Board approves a revenue offset of $23,303 for the purpose of setting 2012 rates.

OPERATIONS, MAINTENANCE & ADMINISTRATION ("OM&A")

Hydro 2000 is proposing a Test Year OM&A of $428,066 which represents a 22.8% increase over 2011 and a 63.1% increase over the 2008 Board approved OM&A. VECC and Board staff both expressed concerns with the overall level of the proposed 2012 OM&A and recommended reductions the following areas:

- Regulatory Costs;
- One-time Costs; and
- Overall Increase in OM&A.

Regulatory Costs

Hydro 2000 originally forecasted $140,000 for the 2012 cost of service application and proposed to amortize $35,000 annually over 4 years commencing in 2012. Through the interrogatory responses, Hydro 2000 revised its costs to reflect the increased use of external consultants. The cost for the application was increased to $180,000 which Hydro 2000 proposed to amortize over 4 years.

Both VECC and Board staff submitted that the revised regulatory costs were high and that Hydro 2000 had not provided evidence to support that the costs were appropriate. However, Board staff recognized that Hydro 2000 is a very small utility that relies heavily upon consulting services for regulatory and accounting matters.

VECC submitted that the Board should reject the increase of $40,000 in regulatory costs since there was no evidence provided to justify the increase. VECC noted that this amount is twice the amount Hydro 2000 allocated for all intervenor costs, a budget that VECC does not anticipate approaching. VECC observed that the amended cost related to responding to less than 100 interrogatories is $30,000 (versus an original estimate of $20,000). VECC calculated that the increase would represent two full weeks of work based on the Board's maximum allowable consulting rate and submitted that the estimate is excessive. VECC also noted that it is not clear why the cost of the pre-filed evidence was updated from the original filing by $20,000. In VECC's view the Board's process in this application was such that the regulatory costs should have been lowered from the original forecast.

Hydro 2000 responded that it provided limited supporting rationale for the increase in regulatory costs to $180,000 as its revised costs appear to be in line with the costs of other utilities. Hydro 2000 argued that the burden of filing a cost of service application is similar regardless of utility size, and the external costs depend on the size of the utility's regulatory department.

In response to VECC interrogatory 11, Hydro 2000 stated that the reason for the increase in regulatory consulting costs was that its General Manager was working on multiple regulatory commitments including IESO mandatory TOU testing during the period that the application was being prepared. Due to his knowledge of internal billing setups, and the utility's lack of IT resources, the General Manager spent 865 hours on TOU testing in the period April 2011 to March 2012. Hydro 2000 determined that outsourcing to consultants a larger portion of the cost of service application than what was originally planned was the best option available to address the demands on the General Manager's time.

BOARD FINDINGS

The Board acknowledges that Hydro 2000 is a very small utility which relies on limited staff resources and extensive consulting resources. The Board will not opine on this mix of resources, as the evidence analyzing this mix was limited and was provided mostly through reply argument. Unless an issue is not contentious, the Board will not rely on evidence filed after intervenor arguments, because that evidence has not been tested by the parties. The Board concludes that the additional $40,000 has not been adequately supported through evidence and therefore will be disallowed. This results in a $10,000 reduction to the OM&A.

One-time Costs

Board staff expressed concern regarding the treatment of historic one-time costs and noted that one-time costs incurred in one particular year are not expected to recur in the following year. Board staff invited Hydro 2000 to confirm whether the following OM&A costs should be removed from the proposed 2012 OM&A:

- $30,000 incurred in 2010 related to hiring a consultant to review the balances of the deferral and variance accounts;
- $8,000 incurred in 2011 related to moving expenses; and
- $18,000 related to training and traveling expenses incurred in 2011.

VECC agreed with Board staff and estimated that $17,618 in one-time costs are included in the 2012 OM&A forecast. VECC also submitted that the travel and training costs were high for a utility with only 2 employees.

Hydro 2000 disagreed with Board staff's submission on one-time costs. Hydro 2000 asserted that the $30,000 related to consultant review of account balances and $8,000 related to moving expenses have been removed from the OM&A forecast. Of the $18,000 spent on training and travel, much of the expense was related to training conducted in Toronto. Lower travel costs are expected in 2012 and Hydro 2000 offered to remove $6,500 from the forecast. Hydro 2000 submitted that it was not clear how VECC determined that there were $17,618 of one-time expenses in the forecast.

BOARD FINDINGS

The Board accepts Hydro 2000's explanation that the past one-time costs have not been embedded in the 2012 forecast. The Board also accepts Hydro 2000's proposal to reduce travel costs by $6,500.

Overall Increase in OM&A

VECC submitted that Hydro 2000's OM&A should be set at $404,000 which amounts to an approximate 6% decrease from the amount requested.

VECC conducted its "expected cost growth" analysis in assessing the reasonableness of Hydro 2000's overall OM&A proposal. VECC's methodology adjusts the last Board approved OM&A by inflation, customer growth and allows for incremental utility responsibilities and unavoidable activities. In VECC's submission, the inflation and customer growth adjustment would yield a factor ranging between 13.5% and 15% and therefore an expected OM&A between $298,108 and $302,048. VECC's submission then provided for incremental increases of:

- The original $35,000 applied for regulatory costs;
- The amortized IFRS costs of $15,000;
- ongoing smart meter costs of $20,000; and
- An estimate of $35,000 costs for one additional part-time position.

With the total incremental costs of $105,000, VECC stated that the resulting expected OM&A costs would be between $403,108 and $407,048. VECC further stated that due to the fact that Hydro 2000 had spent 7% less than the Board approved OM&A in 2008 the lower end of this range should be applied.

Board staff noted that the proposed 2012 OM&A represented an annual average increase of approximately 16% as compared to the 2008 Board Approved OM&A and an annual average increase of approximately 19% as compared to 2008 actual OM&A. In 2010, the OM&A level represented an average annual increase of 6.6% as compared to the Board Approved 2008 level. Board staff submitted that if the Board reduced Hydro 2000's OM&A for the historical one-time costs identified in Board staff's submission, the 2012 OM&A would be $372,066, and would represent an approximate 11% annual increase from 2008 Board Approved. While the increase of the reduced

2012 OM&A is still higher than Hydro 2000's historic increase, Board staff submitted that Hydro 2000 had adequately supported this level of costs. Board staff's position results in an overall decrease of 13% from the amount requested by Hydro 2000.

A table summarizing data from the 2010 Yearbook of Electricity Distributors was provided in Hydro 2000's reply submission. Hydro 2000's 2010 OM&A/customer was $249 compared with its 2012 request of $354. The 2010 average result of seven comparable sized utilities was $382. It is Hydro 2000's view that, based on this comparison, the requested OM&A is reasonable.

BOARD FINDINGS

The Board finds that VECC's approach has merit as part of the assessment of whether the overall year over year increases are reasonable. However, the Board notes that VECC used $35,000 for the part-time position, whereas the evidence indicates $13,000, and VECC used the original proposed $35,000 for regulatory costs, instead of just the incremental amount over what was already in rates, namely $14,000[2]. Adjusting for those changes would result in an OM&A ranging from $360,108 to $ 364,048.

In addition to providing evidence to support increases in specific areas, it is important for utilities to address the magnitude of overall increases. This is particularly important when the increases are of the magnitude forecast by Hydro 2000. While the Board acknowledges that the utility faces new obligations and requirements, the company provided little analysis of the options which could be considered to manage and control costs – these might include changes to other aspects of the business or arrangements with other utilities. There may well be other options available. The Board concludes that Hydro 2000 has not demonstrated that the magnitude of overall increase is reasonable.

The Board has already reduced the allowed OM&A by $16,500, which reduces the total OM&A to $411,566. In light of these reductions, the Board concludes that a further reduction of $10,000 to $401,566 is warranted. The last Board approved level of OM&A was $262,651 for 2008. Hydro 2000's forecast OM&A was $428,066, so the annual average increase since 2008 is 15.7% under the company's proposal. Although Hydro

[2] In the Board's decision (EB-2007-0704), page 6, the Board allowed an amount of $21,000 related to regulatory costs in 2008 rates. As such the incremental amount related the regulatory costs should be $14,000 ($35,000 - $21,000).

2000 is a small utility, the Board expects it to seek efficiencies in its operations so as to achieve cost control which results in an overall level of increase which is reasonable for customers. By approving $401,566 for 2012 OM&A, the Board is approving a level of expenditure that is equivalent to an average annual increase of 13% since 2008. Although this rate of increase is substantially higher than inflation, the Board concludes it is reasonable in the circumstances given Hydro 2000's requirements.

PAYMENTS IN LIEU OF TAXES ("PILs")

Hydro 2000 provided an updated provision for PILs of $1,290 in response to interrogatories. Board staff and VECC made no submissions on the calculation as filed.

BOARD FINDINGS

The Board notes that the level of PILs will be updated on the basis of the Board's findings regarding the rate base and operating expenditures. The draft Rate Order should provide sufficient details of the calculations.

DEPRECIATION

Hydro 2000 proposed a total depreciation expense of $76,703 in 2012. Board staff and VECC made no submissions on the proposed amount as filed.

BOARD FINDINGS

The Board approves a total depreciation expense of $76,703 for the purpose of setting 2012 rates.

RATE BASE AND CAPITAL EXPENDITURES

Hydro 2000 requested approval of a rate base of $963,469[3] in this Application, which represented a 37.1% increase from 2010 actual and a 31.1% increase from 2008 Board approved.

The following areas are addressed in this section:

- Rate Base / Capital Expenditures;
- Working Capital Allowance; and

[3] Exhibit 2/ Tab 1/ Schedule 1/ page 1

- Green Energy Act Plan.

Rate Base / Capital Expenditures

Hydro 2000 proposed capital expenditures of $56,000 in 2012 excluding $223,058 in smart meter expenditures. Board staff and VECC both observed that the capital expenditures, excluding smart meter costs, are in line with past spending and stable for a small utility and had no concerns. VECC concurred with the conclusion of Board staff and submitted that the capital expenditures for 2012 are reasonable.

However, VECC noted that the proposed 2012 Rate Base was presented inconsistently in various areas of the application and invited the Hydro 2000 to clarify the final Rate Base sought for 2012 in its reply argument.

In its reply submission, Hydro 2000 clarified that the rate base it is seeking for 2012 is $979,044, as filed on April 10, 2012.

BOARD FINDINGS

The Board approves Hydro 2000's proposed capital expenditures in 2012 noting that the significant growth in rate base between 2011 and 2012 is due largely to the introduction of smart meters.

The Board reminds Hydro 2000 that applicants must be cognizant of the need for accuracy and consistency of the information or data presented in their applications. It is incumbent on Hydro 2000 to ensure that information and data is consistent across all exhibits, appendices and models.

Working Capital Allowance

Hydro 2000 calculated its Working Capital Allowance using the 15% allowance approach and proposed $413,932 as the Working Capital Allowance for 2012. Board staff made no submission on working capital allowance. VECC submitted that Hydro 2000 should be required to use the working capital amount of 13% as outlined in the Board's letter dated April 12, 2012. VECC argued that the default value of 15% is excessive to the needs of most utilities which had been borne out by various lead-lag studies submitted before the Board over the past two years.

Hydro 2000 replied that Board policy clearly states that 2012 will be the final year in which a default 15% working capital allowance will be allowed.

BOARD FINDINGS

The Board notes that, in the absence of a lead-lag study, the default for Working Capital Allowance for 2012 cost of service applicants is 15%. The Board will therefore approve a Working Capital Allowance factor of 15%, as identified in Chapter 2 of the Filing Requirements for Transmission and Distribution Applications issued June 22, 2011.

Green Energy Act Plan

Hydro 2000 requested approval to file a Green Energy Act Plan ("GEA Plan") at another time. Hydro 2000 explained that it required more knowledge, experience and expertise, before it could invest the resources to complete and file the GEA Plan.

Board staff noted that the *Filing Requirements: Distribution System Plans – Filing under Deemed Conditions of Licence* (EB-2009-0397) originally issued on March 25, 2010 contains an exemption provision, but also provides for a deferral to file such plan[4]. Board staff further submitted that Hydro 2000 may benefit from additional time to gain knowledge and experience on the GEA Plan activities that other utilities have undertaken.

Hydro 2000 is embedded in Hydro One Networks Inc.'s ("Hydro One") service territory and as such, Hydro 2000 indicated that it is required to follow Hydro One's recommendations. The reply submission noted that to date, Hydro One has only made allowances for microFIT generation projects. Hydro 2000 indicated that it has not received nor does it anticipate receiving any new requests for microFIT in the near future however the company indicated its commitment to filing a GEA Plan no later that its next cost of service application.

BOARD FINDINGS

The updated *Filing Requirements: Distribution System Plans – Filing under Deemed Conditions of Licence* (EB-2009-0397)[5] indicate that the Board would permit a

[4] Filing Requirements: Distribution System Plans Filing under Deemed Conditions of Licence (EB-2009-0397), dated March 25, 2010 , p.5 (version that was in effect at the time of Board staff's submission)
[5] Revised May 17, 2012

distributor to defer the filing of a GEA Plan provided that it included detailed explanation of why the deferral has been requested, and a proposal for when the GEA Plan will be filed. The Board would make its determination regarding the request for deferral based on a consideration of the number of renewable generator connection applications that the distributor has received, and such other factors that the Board may deem appropriate.

The Board accepts Hydro 2000's assertion that it does not anticipate receiving any new requests for microFIT in the near future. The Board directs Hydro 2000 to file a GEA Plan no later that it's next cost of service application.

COST OF CAPITAL

On March 2, 2012, the Board issued a letter documenting the updated Cost of Capital parameters to be used in the 2012 cost of service applications for rates effective May 1, 2012. These are summarized in the following table:

Cost of Capital Parameter	Updated Value for 2012 Cost of Service Applications for rates effective May 1, 2012
Return on Equity	9.12%
Deemed Long-term Debt Rate	4.41%
Deemed Short-term Debt Rate	2.08%

VECC and Board staff had no concerns with the evidence as filed and submitted that Hydro 2000 should update its Cost of Capital parameters to reflect the Board's letter issued on March 2, 2012. Hydro 2000 replied that it would update the cost of capital parameters.

BOARD FINDINGS

The Board directs Hydro 2000 to update its cost of capital parameters for the purpose of setting 2012 rates to reflect those the Board provided in its letter of March 2, 2012.

COST ALLOCATION AND RATE DESIGN

The following issues are addressed in this section:

- Cost Allocation;
- Monthly Service Charges (“MSC”);
- Retail Transmission Service Rates (“RTSR”);
- Low Voltage Charges; and
- Loss Factors.

Cost Allocation

The following table sets out Hydro 2000’s approved 2008, current and proposed revenue-to-cost ratios and the Board’s targets, as established in the Board’s *Review of Electricity Distribution Cost Allocation Policy* (EB-2010-0219).

Revenue-to-Cost Ratios

Customer Class	2008 Approved Ratios	Current Ratios	Proposed Ratios for Test Year	Board Target Range	2013	2014
Residential	104.20%	79.55%	85.00%	85% - 115%	90.00%	95.00%
GS < 50 kW	100.00%	189.11%	160.00%	80% - 120%	140.00%	120.00%
GS > 50 to 4,999 kW	100.00%	192.12%	180.00%	80% - 120%	160.00%	120.00%
Street Lighting	71.80%	101.21%	110.00%	70% - 120%	110.00%	110.00%
Unmetered Scattered Load	27.90%	103.11%	103.00%	80% - 120%	103.00%	103.00%

In its cost allocation study, Hydro 2000 followed the Board’s requirement and provided its own weighting factors for Services and for Billing and Collecting. Board staff noted that the revenue-to-cost ratios would be impacted by the change in weighting factors. Board staff concurred that the factors used by Hydro 2000 are appropriate.

VECC however had concerns with the weighting factors for Services. VECC stated that the weighting factor of 1.0 for all classes proposed by Hydro 2000 was based on restoration during outages. The costs in the Services account should represent the assets related to providing service to each customer. VECC submitted that the 2012 weighting factors for Services should be set at the default values[6] and the cost allocation model should be updated.

[6] Default values for Service per Board staff interrogatory 15 (b)

Board staff had no concerns with the revenue-to-cost ratio proposal. VECC agreed with Hydro 2000's approach subject to the previous weighting factors adjustment.

In reply, Hydro 2000 did not provide comment on VECC's submission relating to weighting factors for Services.

BOARD FINDINGS

The Board agrees with VECC's comments concerning the weighting factors for Services. The weighting factors are applied to Account 1855 – Services, in other words, to the net book value of assets owned by Hydro 2000 that are booked in that account. The weighting factors apply to Operations and Maintenance expenses only indirectly, as such costs are allocated in proportion to the related asset classes. Hydro 2000's emphasis on restoring power would be valid, to the extent that Account 1855 is affected by the necessity to replace its capital assets when they are severely damaged.

The Board will not require Hydro 2000 to re-do its cost allocation model with Services weighting factors different than what it has submitted in the pre-filed evidence. The Board notes that Account 1855 is approximately $70,000, less than 7% of Hydro 2000's distribution assets, so an adjustment to the weighting factors will not produce a large change in the respective class revenue requirements. Furthermore, the outcome of applying Services weighting factors based correctly on asset values would likely be to decrease slightly the revenue-to-cost ratios of the General Service classes, both the status quo ratios and the ratios based on proposed rates. The ratios for the General Service classes would remain substantially above 100% regardless of the Services weighting factors.

The Board approves Hydro 2000's proposal to move the ratios during IRM years so as to achieve the target ranges for each class.

Monthly Service Charges ("MSC")

Hydro 2000 proposed changes to its existing fixed/variable proportions for all the classes in order to minimize the impact to the customer classes. The proposed MSC are all within the Board's policy range, except for the GS > 50 to 4,999 kW class. Hydro 2000's current and proposed MSCs are presented in the following table:

Rate Class	Monthly Service Charges	
	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

Board staff and VECC acknowledged that the MSC for GS > 50 to 4,999 kW class exceeds the Board's policy range; however they supported that the MSC should be maintained unchanged since it is consistent with the Board's policy outlined in the November 2007 *Report of the Board – Application of Cost Allocation for Electricity Distributors* (EB-2007-0667) and past decisions.

BOARD FINDINGS

The Board approves the proposed percentage split between fixed and variable rates on the grounds that maintaining the existing proportions (with the exception of GS > 50 to 4,999 kW class) would result in adverse bill impacts.

The Board acknowledges that the MSC for GS > 50 to 4,999 kW class exceeds the policy range but recognizes that it has indicated that distributors that are currently above this value are not required to make changes to their current MSC to bring it to or below this level at this time.

Retail Transmission Service Rates ("RTSR")

In response to a VECC interrogatory, Hydro 2000 corrected its proposed RTSRs for all classes. The revised RTSRs represented an approximately 5% increase in the network service rate and 2% increase in the connection service rate.

Board staff examined the revised RTSR work form provided by Hydro 2000 and submitted that (1) the Hydro One Sub-Transmission Rate Rider 6A should be excluded from the calculation and (2) the loss factor for Residential, GS < 50 kW and Unmetered Scattered Load classes should be included in the RTSR work form. Board staff recalculated the RTSRs in the following table. VECC agreed with these adjustments.

Rate Class	Hydro 2000 Amended Proposal		Board Staff Recalculation	
	RTSR Network	RTSR Connection	RTSR Network	RTSR Connection
Residential ($/kWh)	$0.0060	$0.0046	$0.0056	$0.0044
GS < 50 kW ($/kWh)	$0.0055	$0.0046	$0.0051	$0.0044
GS > 50 to 4,999 kW ($/kW)	$2.2437	$1.8199	$2.0933	$1.7491
Unmetered Scattered Load ($/kWh)	$0.0055	$0.0046	$0.0051	$0.0044
Street Lighting ($/kW)	$1.6920	$1.4068	$1.5786	$1.3521

Hydro 2000 agreed with Board staff's recommended revisions and proposed results.

BOARD FINDINGS

Upon filing its draft Rate Order, Hydro 2000 should revise its RTSR work form with the adjustments noted by Board staff.

Low Voltage Charges

In its original application, Hydro 2000 forecasted its Low Voltage ("LV") costs to be $100,429. In response to a Board staff interrogatory, Hydro 2000 corrected its LV costs to $128,226 and indicated that the value was based on the actual costs incurred in 2011.

VECC submitted that the Board should accept this revised LV costs and the resulting class-specified rates. Board staff had no concerns with the proposed costs. However since the proposed LV costs are approximately 23% of the proposed based revenue requirement, Board staff submitted that Hydro 2000 should explore any alternatives that could lead to a reduction of the LV costs in the future.

In reply, Hydro 2000 agreed that it should explore alternatives to reduce LV costs, and noted that it has struggled with this issue for years. Hydro 2000 commented that as it is fully embedded within Hydro One Networks Inc., LV charges are beyond its control. Hydro 2000 invited the Board to address the issue with Hydro One.

BOARD FINDINGS

The Board approves the LV costs of $128,226 and recognizes Hydro 2000's argument that these costs are largely beyond its control. Nevertheless, Hydro 2000 is encouraged to explore any alternatives to reduce LV costs given their proportional magnitude.

Loss Factors

Hydro 2000 applied for a Total Loss Factor ("TLF") of 1.0772 (for secondary metered customers < 5,000 kW). The proposed TLF is based on the average of five historical years from 2006 to 2010. The current approved TLF for secondary metered customers < 5,000 kW is 1.0660. The following table summarizes Hydro 2000's historic Distribution Loss Factor ("DLF") and TLF[7]:

	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual
Distribution Loss Factor	1.0378	1.0337	1.0324	1.0304	1.0535
Total Loss Factor	1.0731	1.0689	1.0675	1.0760	1.1002

Board staff had no concerns with the proposed 2012 loss factors. However Board staff had a concern with the high level of DLF in 2010 of 1.0535 and submitted that Hydro 2000 should monitor the condition of its assets and address any persistent increases in the next cost of service application. VECC shared the same view and stated that the loss factor issue should be followed-up in the next cost of service proceeding, if higher loss factors continue to be experienced.

Hydro 2000 replied that it did not object to the submissions of Board staff and VECC. The Applicant committed to continuing to address the issue of the increases in DLF.

BOARD FINDINGS

The Board accepts the proposed Total Loss Factors of 1.0772 (for secondary metered customers < 5,000 kW) and encourages Hydro 2000 to monitor the condition of its assets and address any persistent increases in the next cost of service application.

[7] Exhibit 8/ Tab 3/ Schedule 5/ Attachment 1/ Table C1

DEFERRAL AND VARIANCE ACCOUNTS

The following issues are addressed in this section:

- Balances Proposed for Disposition; and
- Review and Disposition of Account 1562: Deferred Payments in Lieu of Taxes.

Balances Proposed for Disposition

Hydro 2000 is requesting disposition of the Group 1 and Group 2 deferral and variance account principal and interest balances as at December 31, 2010 and the forecasted interest through April 30, 2012 over a two year period.

Account Balances for Disposition

Account #	Account Description	Disposition Amount
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)**

Board staff noted that the balances as of December 31, 2010 are consistent with Hydro 2000's RRR filings, except for account 1562. Board staff also noted that Hydro 2000 proposed to dispose of its Global Adjustment over a one year period and the remaining accounts over a two year period. Board staff submitted that the balances should have a consistent disposition period, and as such a two year disposition period is appropriate.

VECC supported Board staff's submission and Hydro 2000 agreed in its reply.

<u>The 2008 Balances</u>

In its submission, Board staff stated that in the Board's decision on Hydro 2000's 2010 IRM application (EB-2009-0229), the Board had approved the disposition of the December 31, 2008 Group 1 account balances and projected interest to April 30, 2010 on an interim basis. The disposition amount was $85,697. Board staff also noted that in the Board's decision on Hydro 2000's 2011 IRM application (EB-2010-0089), the Board had approved the balances as of December 31, 2009, but had not ordered a final disposition of the amounts that were disposed in EB-2009-0229 on an interim basis. The 2008 amounts disposed on an interim basis in Hydro 2000's 2010 IRM application were transferred to the control account 1590 for tracking any residual balances following the end of the recovery period.

Board staff noted that Hydro 2000 addressed this matter in response to a Board staff interrogatory[8] by stating that Deloitte and Touche had reviewed the original 2008 balances and had confirmed their accuracy. No evidence was filed to support this claim. In response to a Board staff interrogatory, Hydro 2000 indicated that there is no specific report drafted or issued by Deloitte and Touche in this regard. Board staff submitted that if the Board accepted Hydro 2000's affirmation of the Deloitte and Touche review, the Board may wish to declare the disposition of the 2008 Group 1 account balances final or to continue the 2008 balances on an interim basis and that the Board's Audit group conduct an audit.

VECC submitted that the Deloitte and Touche review constituted sufficient verification of accounts 1590 and 1595. However, in the absence of a statement of findings provided by the consultants, VECC submitted that a review by the Board's Audit group is warranted.

Hydro 2000 maintained in its reply submission that the Group 1 account balances have been reviewed by Deloitte and Touche and no changes are required to be made to the 2008 account balances.

BOARD FINDINGS

The Board disposed the December 31, 2008 Group 1 account balances and projected interest to April 30, 2010 on an interim basis. The Board is satisfied with Hydro 2000's affirmation of the Deloitte and Touche review and will declare the balances final.

The Board approves the disposition of the Group 1 and Group 2 deferral and variance account principal amounts as at December 31, 2010 and the forecasted interest through April 30, 2012 over a two year period.

[8] Response to Board staff interrogatory # 27

Review and Disposition of Account 1562: Deferred Payment in Lieu of Taxes

In 2001, the Board approved a regulatory payments in lieu of taxes proxy approach for rate applications coupled with a true-up mechanism filed under the RRR to account for changes in tax legislation and rules and to true-up between certain proxy amounts used to set rates and the actual amount of taxes paid. The variances resulting from the true-up were tracked in Account 1562 for the period 2001 through April 30, 2006.

On November 28, 2008, pursuant to sections 78, 19 (4) and 21 (5) of the Act, the Board commenced a Combined Proceeding (EB-2008-0381) on its own motion to determine the accuracy of the final account balances with respect to Account 1562 Deferred Payments in Lieu of Taxes (“Deferred PILs”) (for the period October 1, 2001 to April 30, 2006) for certain electricity distributors that filed 2008 and 2009 distribution rate applications.

The Notice in the Combined Proceeding included a statement of the Board’s expectation that the decision resulting from the Combined Proceeding would be used to determine the final account balances with respect to Account 1562 Deferred PILs for the remaining distributors. In its decision and order, the Board stated that: “Each remaining distributor will be expected to apply for final disposition of account 1562 with its next general rates application (either IRM or cost of service).”[9]

After revisions made in the interrogatory stage to comply with the decision in the Combined Proceeding, Hydro 2000 applied to refund to its customers a credit balance of $26,060 consisting of a principal amount of $19,274 pus related carrying charges of $6,786.

In its submission, Board staff noted that Hydro 2000 followed the regulatory guidance and the decisions issued by the Board in determining the amounts in its Account 1562 Deferred PILs account to be refunded to its customers. Board staff supported Hydro 2000’s proposal as revised.

Hydro 2000 confirmed the credit balance of $26,060 in its reply submission on deferral and variance accounts.

[9] Decision and Order on Account 1562 Deferred PILs Combined Proceeding (EB-2008-0381), p. 28

BOARD FINDINGS

The Board approves the disposition of a revised credit balance of $26,060, representing principal and interest to April 30, 2012, in Account 1562 on a final basis, over a two year period. The Board finds that the approved amount to be repaid to customers is consistent with previous regulatory guidance and past decisions of the Board.

For accounting and reporting purposes, the balance of Account 1562 shall be transferred to the applicable principal and interest carrying charge sub-accounts of Account 1595 pursuant to the requirements specified in Article 220, Account Descriptions, of the Accounting Procedures Handbook for Electricity Distributors. The date of the journal entry to transfer the approved account balances to the sub-accounts of Account 1595 is the date on which disposition of the balances is effective in rates, which generally is the start of the rate year (e.g. May 1). This entry should be completed on a timely basis to ensure that these adjustments are included in the June 30, 2012 RRR data to be filed with the Board by August 31, 2012.

SMART METERS

Hydro 2000 is requesting the approval of its smart meter capital and OM&A costs on a final basis to the end of December, 2011, a 24 month smart meter disposition rate rider (“SMDR”) of $1.09/month to recover the residual balance in the smart meter variance accounts, and a 48 month stranded meter rate rider (“SMRR”) of $0.0002/kWh to recover the net book value of the removed from service stranded meters.

Prudence of Smart Meter Costs

In its evidence, Hydro 2000 stated that it followed the London RFP Procurement process and completed the installation of smart meters in 2010. Based on the evidence as of the close of the discovery phase, Board staff documented Hydro 2000’s smart meter costs and the cost per installed smart meter as $209.10.

Board staff submitted that the per meter costs are reasonable as compared to the costs the Board has seen for most utilities. Hydro 2000 included $12,121 of capital costs for beyond minimum functionality expenses, which included TOU rate implementation, CIS upgrades and web presentment. Board staff also noted that the corresponding capital costs had been included in rate base. VECC also accepted that the smart meter costs are reasonable.

BOARD FINDINGS

The Board finds that Hydro 2000 has procured and implemented its Smart Meter program in a reasonable and prudent manner and notes that no party takes issue with the costs as they relate to the smart meters including those capital costs for beyond minimum functionality expenses.

Smart Meter Disposition Rate Rider

Hydro 2000 is requesting a 24 month SMDR of $1.09/month to recover the remaining revenue requirement for the 2009 to 2011 period of smart meters installed up to the end of 2010. The SMDR takes into account the actual revenue collected to the end of April 2012 through the Smart Meter Funding Adder. The net result is a recovery amount of $31,633 that would be recovered over the May 1, 2012 to April 30, 2014.

Board staff had no concerns with the proposed SMDR.

VECC submitted that a class uniform SMDR is not in accordance with recent Board policy. VECC also submitted that the recovery of the smart meter costs should be done by a class-specific rate rider to reflect the cost for each customer class. VECC stated that Hydro 2000 should be required to file a class-specific SMDR by using the “proxy methods” accepted by the Board in PowerStream (EB-2010-0209) or full cost causality accepted by the Board in PowerStream (EB-2011-0128).

In reply, Hydro 2000 agreed with Board staff’s assessment and opinion, and provided no reply on VECC’s submission on class-specific riders.

BOARD FINDINGS

The Board finds that Hydro 2000 has procured and implemented its Smart Meter program in a reasonable and prudent manner and notes that no party takes issue with the costs it seeks to recover as they relate to the smart meters including those capital costs for beyond minimum functionality expenses. The Board directs Hydro 2000 to calculate the SMDR on a class-specific basis as the methodology is consistent with Board policy set out in the Board’s *Guideline: Smart Meter Funding and Cost Recovery* (G-2008-0002).

Stranded Meters

Hydro 2000 is requesting to recover the net book value of the removed from service stranded meters through an SMRR over a 4 year period. Board staff had no concerns with the proposed amount of $18,242 and the recovery period. However, Board staff noted that the proposed uniform volumetric SMRR does not comply with the Board's Smart Meter Guidelines and stated that Hydro 2000 should be able to provide class-specific monthly fixed SMRRs based on the evidence already filed in this proceeding.

VECC supported Board staff's proposal.

In reply, Hydro 2000 committed to providing class-specific SMRRs based on net book value by class for the stranded meters as part of the draft Rate Order.

BOARD FINDINGS

The Board approves the cost of $18,242 to recover the net book value of the removed from service stranded meters over a 4 year period.

The Board directs Hydro 2000 to calculate the SMRR on a class-specific basis as the methodology is consistent with Board policy set out in the Board's *Guideline: Smart Meter Funding and Cost Recovery* (G-2008-0002).

LOST REVENUE ADJUSTMENT MECHANISM ("LRAM")

Hydro 2000 is seeking LRAM recovery of $13,510.13 for legacy programs to be recovered over a one year period. The lost revenues included the effect of CDM programs implemented from 2006 to 2010 for the period 2006 to 2012.

Board staff supported the recovery of the required LRAM amounts in 2006, 2007, 2008, 2009, and 2010. However, Board staff submitted that it is premature to consider recovery of lost revenues persisting in 2011 or 2012, as such Board staff requested that Hydro 2000 provide an updated LRAM amount and subsequent rate riders that included lost revenues from 2006 to 2010 CDM programs during the 2006 to 2010 period only.

VECC supported Board staff's proposal on the LRAM adjustments.

Hydro 2000 replied that it did not object to the recommendations and committed to updating its models accordingly.

BOARD FINDINGS

The Board will approve an LRAM claim representing the effect of CDM programs implemented from 2006 to 2010 for the period 2006 to 2010. Upon filing its draft Rate Order, Hydro 2000 should update its models accordingly.

The Board will not approve recovery of persistence from 2006 to 2010 programs in 2011 and 2012, as it is premature to do so and inconsistent with the LRAM Guidelines. The LRAM is a retrospective adjustment, which is designed to account for differences between the forecast revenue loss embedded in rates and the actual revenue loss.

EFFECTIVE DATE

Hydro 2000 applied for rates effective May 1, 2012. In Procedural Order No. 3 and Order for Interim Rates, the Board declared Hydro 2000's current rates interim, which allows for an effective date as early as May 1, 2012.

VECC took no issue with the proposal for rates to be retroactivity effective May 1, 2012. Board staff made no submission on this matter.

BOARD FINDINGS

The Board is concerned that some applicants do not consider seriously the timelines prescribed by the Board for filing applications. The Board's letter of March 1, 2011 clearly indicated that distributors must file no later than August 26, 2011 for rates to become effective on May 1, 2012. Hydro 2000 has not met the Board's expectations regarding the filing of the application, the responses to interrogatories, or the filing of argument. As a result, the Board has determined that Hydro 2000's new rates will become effective the closest month following the issuance of this Decision, that is, July 1, 2012.

IMPLEMENTATION

The Board has made findings in this Decision which change the 2012 revenue requirement and therefore change the distribution rates from those proposed by Hydro 2000. In filing its draft Rate Order, the Board expects Hydro 2000 to file detailed supporting material, including all relevant calculations showing the impact of this Decision on Hydro 2000's revenue requirement, the allocation of the approved revenue requirement to the classes and the determination of the final rates. Supporting documentation shall include, but not be limited to, filing a completed version of the Revenue Requirement Work Form excel spreadsheet, which can be found on the Board's website.

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

1. Hydro 2000 shall file with the Board, and shall also forward to VECC, a draft Rate Order attaching a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision within **7 days** of the date of the issuance of this Decision. The draft Rate Order shall also include customer rate impacts and detailed supporting information showing the calculation of the final rates including the Revenue Requirement Work Form in Microsoft Excel format.

2. Board staff and VECC shall file any comments on the draft Rate Order with the Board and forward to Hydro 2000 within **7 days** of the date of filing of the draft Rate Order.

3. Hydro 2000 shall file with the Board and forward to VECC responses to any comments on its draft Rate Order within **4 days** of the date of receipt of Board staff and VECC comments.

COST AWARDS

The Board may grant cost awards to eligible parties pursuant to its power under section 30 of the *Ontario Energy Board Act, 1998*. When determining the amount of the cost awards, the Board will apply the principles set out in section 5 of the Board's *Practice Direction on Cost Awards*. The maximum hourly rates set out in the Board's Cost Awards Tariff will also be applied.

1. VECC shall file with the Board and forward to Hydro 2000 their respective cost claims within **7 days** from the date of issuance of the final Rate Order.

2. Hydro 2000 shall file with the Board and forward to VECC any objections to the claimed costs within **14 days** from the date of issuance of the final Rate Order.

3. VECC shall file with the Board and forward to Hydro 2000 any responses to any objections for cost claims within **21 days** of the date of issuance of the final Rate Order.

4. Hydro 2000 shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

All filings with the Board must quote the file number EB-2011-0326, and be made through the Board's web portal at www.errr.ontarioenergyboard.ca, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must be received by the Board by 4:45 p.m. on the stated date. Parties should use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.ontarioenergyboard.ca. If the web portal is not available, parties may e-mail their documents to the attention of the Board Secretary at BoardSec@ontarioenergyboard.ca.

DATED at Toronto, July 5, 2012

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary