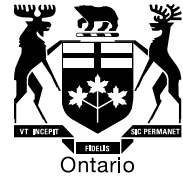


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BY E-MAIL

December 2, 2013

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

Dear Ms. Walli:

**Re: Hydro Hawkesbury Inc. ("Hydro Hawkesbury")
2014 Distribution Rate Application
Board Staff Submission
Board File No. EB-2013-0139**

In accordance with Procedural Order #2, please find attached Board Staff's submission in the above noted proceeding. The Hydro Hawkesbury and the Vulnerable Energy Consumers Coalition has been copied on this filing.

Yours truly,

Original Signed By

Silvan Cheung
Advisor – Applications & Regulatory Audit

Encl.

2013 ELECTRICITY DISTRIBUTION RATES

Hydro Hawkesbury Inc.

EB-2013-0139

STAFF SUBMISSION

December 2, 2013

INTRODUCTION

Hydro Hawkesbury Inc. (“Hydro Hawkesbury” or the “Applicant”) is a licensed electricity distributor serving the Township of Hawkesbury, which has approximately 5,500 customers. Hydro Hawkesbury filed its 2014 rebasing application (the “Application”) on July 24, 2013. Hydro Hawkesbury requested approval of its proposed distribution rates and other charges effective January 1, 2014. The Application was based on a future test year cost of service methodology.

The Vulnerable Energy Consumers’ Coalition (“VECC”) was granted intervenor status. The proceeding has been conducted through a written hearing.

This submission reflects observations and concerns which have arisen from Board staff’s review of the pre-filed evidence and interrogatory responses provided by Hydro Hawkesbury, and are intended to assist the Board in evaluating Hydro Hawkesbury’s application and in setting just and reasonable rates.

THE APPLICATION

In its original application, Hydro Hawkesbury requested a service revenue requirement of \$1,790,364 (or a base revenue requirement of \$1,633,225¹). On November 6, 2013, Hydro Hawkesbury filed its responses to interrogatories and its service revenue requirement was adjusted to \$1,784,820 (or a base revenue requirement of \$1,627,681). Board staff has drafted this submission with the understanding that this latest number is the final requested service revenue requirement for 2014 rates. The proposed rates are set to recover a revenue deficiency of \$280,667. The following is a breakdown of Hydro Hawkesbury’s 2014 test year revenue requirement from its November 6, 2013 updated evidence:

¹ Base revenue requirement is the service requirement less revenue offset of \$157,139.

Table 1
2014 Test Year Revenue Requirement

	As Filed July 24, 2013	As Updated November 6, 2013
OM&A Expenses	\$1,126,665	\$1,126,665
Amortization/Depreciation	\$ 222,854	\$ 222,217
Income Taxes (Grossed up)	\$ 18,280	\$ 18,399
Return		
Deemed Interest Expense	\$ 168,828	\$ 162,523
Return on Deemed Equity	\$ 253,737	\$ 255,016
Service Revenue Requirement	\$1,790,364	\$1,784,820
Revenue Offsets	\$ 157,139	\$ 157,139
Base Revenue Requirement	\$1,633,225	\$1,627,681

LOAD FORECAST

Background

Hydro Hawkesbury is seeking Board approval for a test year forecast of 154,889,963 kWh² or 154.89 GWh. This forecast has been updated through the response to interrogatories. The forecast³ represents a 3.8% increase from 2012 actual.

To develop its load forecast, Hydro Hawkesbury used a multifactor regression model to determine the relationship between historical load with weather data and calendar related events. Hydro Hawkesbury presented the comparison of the results of the model with actual system load for the period from 2004 to 2012. This evidence indicates that the absolute percentage error between the model estimate and actual load ranged from -2.4% to +4.8% over the regression range. The mean absolute percentage error of the annual estimates for the period from 2004 to 2012 is 2.16%.

The following were used as the inputs for the model to generate the weather-normalized system purchases for 2013 and 2014:

- 9 year average (2004 – 2012) Heating Degree Days (“HDD”) and Cooling

² Updated Cost Allocation Model, dated Nov.6, 2013, Response to Board staff interrogatory 3.0-Staff-15

³ Response to Staff interrogatory 3.0-Staff-15

- Degree Days (“CDD”), Ottawa Macdonald-Cartier International Airport; and
- Calendar information related to the spring/fall flag (binary variable).

The allocation of the weather-normalized system purchases to each class is calculated based on each class’ 2012 share of actual consumption of the actual system purchases. The share was then applied to the weather-normalized system purchases to calculate the class-specific forecast for Residential, GS < 50 kW, and GS 50 to 4,999 kW. Furthermore, Hydro Hawkesbury adjusted the forecast for Residential and GS < 50 kW classes to include the consumption for new housing development.

The forecast for non-weather sensitive classes (Street Lighting and Sentinel Lights) is based on a simple average of 2004 to 2012 consumption per connection and the forecasted number of connections for 2014. Since USL did not have any connections prior to 2008, the forecast for USL is based on a simple average of 2008 to 2012 consumption.

Hydro Hawkesbury made further adjustments to account for CDM totaling 2,519,317 kWh⁴ to the 2014 test year forecast. The class-specific forecasts are summarized in the following table:

Table 2

2014 Test Year Load Forecast (Response to Staff interrogatory 3.0-Staff-15)	
Rate Classes	kWh
Residential	53,488,924
GS < 50 kW	19,235,278
GS 50 to 4,999 kW	80,703,727
Street Lighting	1,136,738
Sentinel Lights	104,646
Unmetered Scattered Load	220,649
Total	154,889,963

Discussion and Submission

Hydro Hawkesbury is forecasting a 1.9% average annual load growth from the 2012 Actual Year to the 2014 normalized test year. Board staff notes that the HDD forecast,

⁴ Ibid

that is used as an input variable is expected to increase in the test year. The test year weather forecast of 4,233 HDDs (based on a 9 year average) is approximately 5% higher than the actual 4,023 HDDs for 2012.

While a 3.8% increase in forecasted load over two years is significant, Board staff observes that this is driven mostly by weather normalization, for which staff has reviewed the methodology and has no concerns.

In regards to the CDM adjustment, Board staff is of the view that the revised CDM adjustment provided by Hydro Hawkesbury reflects the Board's recent cost of service decision⁵ that established the appropriate manner to reflect a CDM adjustment. The Board determined that the CDM adjustment to the load forecast should be based on the "net" savings as documented in the OPA report. Board staff submits that the inclusion of 2,519,317 kWh for the CDM adjustment to the 2014 test year forecast is appropriate and that Hydro Hawkesbury has provided the impacts on a class specific basis.⁶

Board staff has no concerns with the overall load forecast proposed by Hydro Hawkesbury, in response to interrogatories.

Customer Forecast

Background

Hydro Hawkesbury is seeking Board approval for a test year customer forecast of 6,923 customers/connections. The test year forecast is approximately 1.7% higher (or 114 customers/connections) than the 2012 actual. The forecast is derived by applying the class specific historic annual growth rate for the bridge and test years. Hydro Hawkesbury made further manual adjustments to Residential, GS < 50 kW, and Street Lighting classes to reflect the additional increases based on new housing development. For Sentinel Lights and Unmetered Scattered Load ("USL") classes, Hydro Hawkesbury expects that the connection numbers will remain the same as 2012. The following table summarizes customers/connections forecast for 2014:

⁵ EB-2012-0113, Decision and Order, Centre Wellington Hydro's 2013 Cost of Service rate application

⁶ Response to Staff interrogatory 3.0-Staff-15

Table 3

Customer Count Forecast 2014 Test Year Customer Count Forecast (Exhibit 3/ Tab 1/ Schedule 2/ Table 1)	
Rate Classes	No. of Customers/Connections
Residential	4,950
GS < 50 kW	634
GS 50 to 4,999 kW	98
Street Lighting	1,215
Sentinel Lights	21
Unmetered Scattered Load	5
Total	6,923

Discussion and Submission

Board staff notes that Hydro Hawkesbury's customer forecast shows a 0.8% annual average growth from the 2012 actual Year to 2014 test Year. This is consistent with the 0.8% average annual customer growth experienced during the 2010 to 2012 period. Board staff has no concerns with the 2014 customer forecast as proposed by Hydro Hawkesbury.

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

Background

For the 2014 test year, Hydro Hawkesbury is requesting Board approval of \$1,126,665 in OM&A expenses excluding taxes and amortization expenses. This represents an 11.9% increase over the 2012 actuals and a 19.1% increase over 2010 Board Approved. The 2014 OM&A also includes \$65,400 for regulatory costs. The following table summarizes Hydro Hawkesbury's OM&A expenses by year.

Table 4

	2010 Approved	2010 Actual	2011 Actual	2012 Actual	2013 Bridge	2014 Test
Operation	\$75,463	\$75,104	\$71,031	\$74,387	\$85,250	\$96,550
Maintenance	\$171,887	\$131,509	\$147,634	\$178,745	\$189,700	\$205,700
Billing and Collecting	\$327,572	\$325,519	\$339,942	\$347,731	\$390,190	\$426,315
Community Relations	\$108	\$100	\$225	\$0	\$200	\$200
Administrative and General	\$370,562	\$335,456	\$352,659	\$405,557	\$467,400	\$397,900
Total OM&A	\$945,592	\$867,689	\$911,491	\$1,006,420	\$1,132,740	\$1,126,665
Year to year % change			5.0%	10.4%	12.6%	-0.5%
% change as compared to 2010 Approved		-8.2%	-3.6%	6.4%	19.8%	19.1%

Discussion and Submission

Overall Increase

As shown in Table 4, the proposed 2014 OM&A represents a 19.1% increase as compared to 2010 Board Approved OM&A. This represents an annual average increase of approximately 4.8%. However, in 2012, the OM&A amount represents an increase of 6.4% as compared to 2010 Board Approved OM&A. On an annual basis, this represents an average increase of 3.2%.

In its pre-filed evidence,⁷ Hydro Hawkesbury explained that the major increase attributed to the ongoing costs is associated with supporting smart metering. The total costs attributed to smart metering are in the amount of \$92,921, which accounts for 50% of the overall increase (\$181,073) for the period between 2010 and 2014.

Board staff notes that based on the above information provided by Hydro Hawkesbury, the annual average OM&A increase excluding costs associated with smart metering would be 2.3%.

⁷ Exhibit 4/ Tab 1/ Schedule 1 and Table 2 (a) and 2 (b)

Board staff also notes that Hydro Hawkesbury's OM&A cost per customer is forecasted to be higher than 2010. However, compared to utilities of a similar size, the proposed OM&A cost per customer is still lower than its cohort utilities at their 2010 level.⁸ As such Board staff submits that Hydro Hawkesbury's proposed cost level for the test year is reasonable.

Depreciation

Hydro Hawkesbury has documented its depreciation rates in its Application⁹ and stated that it has adopted Kinectrics proposed useful lives and componentization. Board staff has no concerns with the proposed depreciation expense.

RATE BASE

Background

Hydro Hawkesbury is requesting approval of \$7,099,556 for the 2014 rate base. This amount represents a 66.6% increase from its approved 2010 rate base. Changes in rate base from 2010 to 2014 are shown in following table.

Table 5

	2010 Approved	2010 Actual	2011 Actual	2012 Actual	2013 Bridge	2014 Test
Rate Base	\$4,261,956	\$3,613,170	\$3,582,113	\$3,797,088	\$6,232,140	\$7,099,556
% change as compared to prior column		-15.2%	-0.9%	6.0%	64.1%	13.9%

Hydro Hawkesbury explained that the considerable increase in 2014 is mainly attributed to the inclusion of capital expenditures previously approved in an Incremental Capital Module ("ICM") application¹⁰ and a Smart Meter application.¹¹ More details related to the capital expenditures will be discussed in the following section.

⁸ Response to VECC interrogatory 4.0-VECC-30 (b)

⁹ Exhibit 4/ Tab 5

¹⁰ EB-2011-0173, Decision and Order, Hydro Hawkesbury Inc.'s 2012 IRM application

¹¹ EB-2012-0198, Decision and Order, Hydro Hawkesbury Inc.'s Smart Meter application

Capital Expenditures

Background

Hydro Hawkesbury is projecting 2014 capital expenditures of \$272,300. The major capital expenditure projects include pole and conductor replacement and transformers repair.

In 2012, Hydro Hawkesbury filed its 2012 IRM application (EB-2011-0273) with an ICM for two projects: replacement of two transformers at the 110 kV substation and replacement of a 44 kV distribution transformer. The Board approved the two projects and allowed Hydro Hawkesbury to recover the associated incremental revenue requirement starting May 1, 2012.

Discussion and Submission

Table 6 lists the percentage change in the capital expenditures from 2010 to the 2014 test year, including and excluding ICM and Smart meter capital expenditures.

Table 6

	2010 Actual	2011 Actual	2012 Actual	2013 Bridge	2014 Test
Capital Expenditures	\$226,655	\$188,179	\$861,989	\$2,603,100	\$272,300
% change as compared to prior year		-17%	358%	202%	-89%
Capital Expenditures (excl. ICM and Smart meters)	\$226,655	\$188,179	\$216,450	\$285,287	\$272,300
% change as compared to prior year		-17%	15%	32%	-5%

Board staff observes that the capital expenditures excluding ICM and Smart meters are relatively stable. Board staff is of the view that Hydro Hawkesbury has adequately supported its test year capital program and has no concerns with respect to the 2014 capital expenditures.

In its response to a Board staff interrogatory,¹² Hydro Hawkesbury provided an update of the projects for the 44kV and 110 kV substation projects. The approved amount for the 44kV project was \$712,909, but the actual spending is \$790,136. The project was completed in 2013. The approved amount for the 110 kV project was \$1,517,813, but the actual year-to-date spending is only \$376,006. The total expected expenditures will be \$1,241,254 by the end of this year but the total budget remains unchanged. The estimated in service date has been updated to April 2014 from November 2013.

Board staff notes that the ICM projects have been approved by the Board in a previous proceeding. The 110kV project is still targeted to meet its budgeted cost, but the 44kV project went over budget by approximately 10%. In response to part (b) of Board staff interrogatory 2.0-Staff-4, Hydro Hawkesbury explained that the increased cost for the 44kV project was due to extra work needed to build a foundation that addressed the stability issue caused by poor soil condition. Board staff has no concerns with the increased costs for this project.

In its application, Hydro Hawkesbury proposes that the amount of \$790,136 for the 44kV project and \$1,517,813 for the 110kV project be incorporated into the bridge year's rate base. Board staff understands that this proposal reflected the original filing of the current application but that Hydro Hawkesbury has since updated the forecasted in-service date for the 110kV project to April 2014, but has not revised its rate base continuity schedules to reflect this. Staff submits that the applicant should incorporate this update at the time of the draft Rate Order. Board staff has no concerns with the 44kV project being included in the 2013 Bridge Year rate base as this reflects the actual in service date.

Chapter 3 of the *Filing Requirements for Transmission and Distribution Applications* states that "at the time of the next rebasing, the distributor will file a calculation of the amounts to be incorporated in rate base. At that time the Board will make a determination on the treatment of any difference between forecast and actual capital spending during the IRM plan term. Any overspending or underspending will be reviewed at the time of rebasing."

Due to a delay in completing both projects, Board staff submits that the recovery of the costs to date should be trued up to take into account that the 44kV project went into

¹² Response to Board staff interrogatory 2.0-Staff-4

service one year later than expected, and the 110kV project is scheduled to go into service two years later than expected.

Board staff refers to a prior Board decision in Guelph Hydro's 2008 cost of service application. Board staff and intervenors questioned the appropriateness of including in 2008 rate base, capital expenditures associated with the new Rockwood Distribution Substation when the in-service date appeared to be in the spring of 2009. In its decision,¹³ the Board stated:

The Board's conventional practice is that the rate base for a test year shall only include capital expenditures for projects that will be placed in service during the test year. Otherwise, expenditures for projects made in the test year with in-service dates beyond the test year attract an allowance for funds during construction, or AFUDC. Therefore, the capital expenditure of \$933,903 associated with the Rockwood Substation and related feeders, is to be excluded from determining rate base for the 2008 test year.

Likewise, Board staff submits that the ICM is intended to proxy a cost of service application and calculate a revenue requirement impact assuming that assets are in rate base for the year that is the subject of the IRM application. Clearly, this means that in order for a project to be in rate base, it must be in service for that year.

Therefore, given that incremental revenue requirement recovery began on May 1, 2012 for both projects, Board staff submits that a true-up should take place to address the fact that Hydro Hawkesbury was receiving incremental revenue for a period in which the assets were not in service. Board staff submits that the revenue requirement associated with the 44kV project for 2012 that was recovered from ratepayers, and the revenue requirement associated with the 110kV project for 2012 and 2013 that was recovered from ratepayers, should be refunded to customers by way of a rate rider, effective January 1, 2014.

Green Energy Plan (GEA Plan)

Hydro Hawkesbury is requesting Board approval for its Green Energy Plan (the "Plan") that was filed pursuant to the Board's *Filing Requirements: Distribution System Plans – Filing under Deemed Condition of Licence, dated May 17, 2012* ("DSP Filing

¹³ Board Decision on Guelph Hydro (EB-2007-0742), page 4 - 5

Requirements"). Hydro Hawkesbury is not proposing any new capital investments or OM&A expenditures during the term of the Plan and has therefore submitted a "Basic" Plan. Hydro Hawkesbury states that since the launch of the Feed-in-Tariff ("FIT") program, it has connected only 4 micro-FIT generators and one generator under the FIT program. Hydro Hawkesbury does not expect to connect any generators under the FIT program during the Plan term.

Given the low uptake of the FIT and micro-FIT programs there are no capital investments or OM&A expenditures proposed in the Plan. However, in keeping with the DSP Filing Requirements, Hydro Hawkesbury has provided information on the current state of its distribution system, a description of efforts to enable the connection of renewable generation and of future plans to accommodate new connections. Based on Hydro Hawkesbury's assessment, its current system is adequately equipped to accommodate requests for renewable generation connections under the FIT and micro-FIT programs. Hydro Hawkesbury further concluded that there are no known barriers within its system that could pose a problem for new connections.

Section 3.2.1 of the DSP Filing Requirements state that a distributor must submit its Green Energy Plan to the Ontario Power Authority (the "OPA") for comment prior to filing the plan with the Board. The requirement specifically states:

Each distributor is required to submit its GEA Plan to the OPA for comment prior to filing. The OPA comment letter **must be filed** with the GEA Plan, and any response to the letter from the distributor must be included in the application or reflected in the GEA plan as filed. [Emphasis Added.]

Hydro Hawkesbury did not submit its Plan to the OPA for review and therefore did not submit the OPA Comment Letter referenced above. Accordingly, Hydro Hawkesbury is requesting that the Board exempt it from filing the OPA Comment Letter. As its reason for not submitting its Plan for OPA review, Hydro Hawkesbury states:

... HHI will reiterate that the HHI only has 4 microFIT in place and anticipates little or none in future years. As such, it was decided that the utility would file a very basic plan for the single purpose of satisfying the Board's requirements. Having the OPA review a basic generic GEA

application which reflects a lack of interest in Hawkesbury' service area was deemed unnecessary.¹⁴

Discussion and Submission

In Board staff's view, Hydro Hawkesbury's Plan provides a comprehensive view of the capabilities of its distribution system. The Plan provides an assessment of Hydro Hawkesbury's current distribution system and constraints within the system. The Plan also provides the number of applications that have been connected under the micro-FIT program and Hydro Hawkesbury's five year forecast of connections under the program. Similarly, the Plan also provides an assessment of connections under the FIT program and Hydro Hawkesbury has confirmed that it has only connected one FIT generator and that no new connections under the FIT program are expected during the term of the Plan.

While Hydro Hawkesbury has prepared a reasonable Plan and has covered the areas that are noted in the DSP Filing Requirements, it did not submit its Plan to the OPA for review and did not submit the OPA Comment Letter. Hydro Hawkesbury stated that given the low interest in FIT and micro-FIT programs in its service area, it did not feel an OPA review was warranted. Board staff has concerns with Hydro Hawkesbury's decision to not submit its Plan for OPA review and notes the following for the Board's consideration.

The requirement to submit a green energy plan for OPA review is not driven by the level of interest in FIT or micro-FIT programs. Rather it is intended to assist the Board in validating certain information that is contained in a plan. In this regard, Board staff notes that the OPA's review entails evaluating a distributors' plan to ensure that assumptions with respect to FIT and micro-FIT connections are consistent with the applications the OPA has received, system constraints have been accurately considered, and that planning and the resultant plan is integrated with other regional plans and the system as a whole. The OPA review is an integral part in the development of plans to facilitate the connection of renewable generators. Therefore, in the absence of an OPA review, the Board has no way of confirming whether the assumptions in Hydro Hawkesbury's Plan with respect to the above noted areas are reasonable.

Board staff also notes that in staff interrogatory 2.0-Staff- 8(b), the Applicant was invited to provide additional evidence that would allow the Board to make a determination with

¹⁴ Hydro Hawkesbury's letter to the Board dated July 22, 2013, p. 2

respect to the matters typically covered as part of the OPA review. However, the Applicant did not provide any additional evidence and reiterated its already stated position.

Board staff also notes that the process of submitting a green energy plan for OPA review is a streamlined process that has been in place for some time now and requires that a distributor submit its plan to the OPA 30 days prior to filing it with the Board.

Third, Board staff submits that coordinated planning is critical to achieving the goals of the *Green Energy Act* and as stated in the DSP Filing Requirements. The Board has an expectation “that distributors will consult with embedded and host distributors, upstream transmitters and the OPA when preparing their green energy plans”. The Board also states that “discussions with the OPA should be a valuable source of information for distributors”.¹⁵ Therefore, in the absence of an OPA review there is always a risk that opportunities for integrated planning solutions may have been missed or overlooked in Hydro Hawkesbury’s Plan.

While Hydro Hawkesbury’s Plan appears reasonable, Board staff does not have the ability to verify the information that is typically verified by the OPA as part of its review. Therefore, for the reasons noted above, Board staff is of the view that the Board should not grant the exemption and should not approve Hydro Hawkesbury’s Plan. As no investments are proposed in the Plan, there will be no impact on distribution rates. Further, even without an approved Plan, Hydro Hawkesbury is not restricted in any way from undertaking investments to facilitate the connection of renewable generators as it is required to do pursuant to legislation.

Board staff notes that the Board has now amended the requirements related to distribution system plans and notes that stand alone green energy plans are no longer required under the new requirements. Under the new requirements, *Green Energy Act* plans are expected to be integrated into the distributor’s overall distribution system plans. This is a further reason that approval of Hydro Hawkesbury’s Plan is not critical.

¹⁵ DSP Filing Requirements, page 10

Working Capital Allowance

Hydro Hawkesbury has used the default 13% formula approach for its Working Capital Allowance (“WCA”) calculation. Board staff takes no issue with Hydro Hawkesbury’s proposal; however Board staff submits that it should update its WCA to reflect any changes of the cost of power and OM&A as directed by the Board in its draft Rate Order filing.

COST OF CAPITAL

Background

In response to an interrogatory,¹⁶ Hydro Hawkesbury revised its proposed test year Cost of Capital. The revised proposal has been summarized in the following table.

Table 7 – Cost of Capital

Cost of Capital Parameter	Hydro Hawkesbury’s Proposal
Capital Structure	60.0% debt (composed of 56.0% long-term debt and 4.0% short-term debt) and 40.0% equity
Short-Term Debt	2.07%
Long-Term Debt	3.94%
Return on Equity (ROE)	8.98%
Weighted Average Cost of Capital	5.88%

In its pre-filed evidence,¹⁷ Hydro Hawkesbury indicated that its calculation of the Cost of Capital has followed the Board’s Cost of Capital dated November 15, 2012 for the allowed return on equity and the appropriate debt. Hydro Hawkesbury confirmed that the ROE and the appropriate debt parameters will be updated based on the new parameters for 2014.

On November 25, 2013, the Board issued a letter identifying the updated Cost of Capital parameters to be used in the 2014 rate year cost of service applications for rates effective January 1, 2014. These are summarized in the following table:

¹⁶ Response to VECC interrogatory 5.0-VECC-37

¹⁷ Exhibit 5/ Tab 1/ Schedule 1

Table 8

Cost of Capital Parameter	Updated Value for 2014 Cost of Service Applications for rates effective January 1, 2014
Return on Equity (ROE)	9.36%
Deemed Long -Term Debt rate	4.88%
Deemed Short-Term Debt rate	2.11%

Discussion and Submission

As of December 31, 2012 Hydro Hawkesbury was holding two long-term debt instruments with Town of Hawkesbury and Infrastructure Ontario. In its evidence, Hydro Hawkesbury indicated that the promissory note with the Town of Hawkesbury will be paid in full by the end of 2013, and thus does not factor into its debt costs for the 2014 test Year. No other new long-term debt has been identified. The Infrastructure Ontario debt is third-party with a fixed rate; as such Board staff submits that Hydro Hawkesbury's proposal to use the Infrastructure Ontario debt cost for the long-term debt rate in this Application for setting its 2014 revenue requirement and distribution rates is compliant with the Board's policy and practice as documented in the *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities* (EB-2009-0084), issued December 11, 2009.

Board staff also has no concerns with Hydro Hawkesbury's proposal for all other components of the Cost of Capital.

Board staff submits that Hydro Hawkesbury should update Appendix 2-OA for 2014, the RRWF, and its revenue requirement and rates to reflect the Return of Equity and Deemed Short-Term debt rate documented above as issued in the Board's Cost of Capital letter issued on November 25, 2013, in filing its draft Rate Order.

COST ALLOCATION AND RATE DESIGN

Cost Allocation

Background

Hydro Hawkesbury provided responses to a number of interrogatories about its cost allocation and filed an updated cost allocation model. Board staff will comment on several assumptions that affect the class revenue requirements.

Discussion and Submission

Board staff submits that Hydro Hawkesbury's cost allocation evidence provides a good foundation for the revenue re-balancing and distribution rate design that it is proposing.

Hydro Hawkesbury has made some significant changes in its cost allocation model since its previous cost of service application. The changes are responses to the Board's *Review of Electricity Distribution Cost Allocation Policy EB-2010-0219* requiring distributors to provide their own weighting factors in place of the default values used previously by most distributors including Hydro Hawkesbury.

Hydro Hawkesbury has used weighting factors that are more uniform across the customer classes, which tends to shift the allocated costs away from those classes that previously had weighting factors larger than the residential factor of 1.0. Overall, the Residential class revenue requirement is 59.3% of total revenue requirement in this application, compared to 51.6% in the previous cost of service application, while the residential share of total energy consumption has increased only slightly from 33.1% to 34.5%.

Hydro Hawkesbury has applied a Billing Weighting Factor of 1.0 for all customer rate classes, whereas in its previous rebasing (EB-2009-0186) Hydro Hawkesbury used the default weighting factors that were permitted by the Board at that time. Board staff notes that billing and collecting expenses comprise approximately 48% of Hydro Hawkesbury's operations and maintenance expenditures, which gives the weighting factors a large influence on class revenue requirements. Further, administrative and general costs are allocated in proportion to the underlying O&M costs, which magnifies the effect of these weighting factors.

Hydro Hawkesbury has applied weighting factors of 1.0 to Services, except for a factor of 2.0 for the General Service < 50 kW class and a factor of 0 to Street Lighting, whereas in the previous cost of service filing the weighting factors were the default values. One of the effects of this change in weighting factors is to increase the proportion of account 1855 and related overhead costs that are allocated to the Residential class (78% in this application versus 64% in the previous one).

Board staff defers to Hydro Hawkesbury's knowledge of its own situation and does not disagree with Hydro Hawkesbury's proposed weighting factors. As required in the Filing Requirements, Hydro Hawkesbury has provided an explanation of its weighting factors at Exhibit 7/ Tab 1/ page 5-6.

Board staff has noted one anomaly in Hydro Hawkesbury's cost allocation model as filed. The discrepancy is minor, inasmuch as it affects the revenue requirement of the USL class which is quite small, and so there is very little effect on the revenue requirements of the other classes. The anomaly is that the class is shown as having no connections to the distribution system. Because the allocation of Services (Account 1855) is the product of the weighting factor (equal to 1.0) and the number of connections, the result is that USL is allocated no share of account 1855. In turn this causes a lower share of various overhead burdens. Staff submits that Hydro Hawkesbury should correct its data input in the cost allocation model (worksheet I 6.2) for the total number of connections of its five USL customers. If Hydro Hawkesbury wishes to continue with its proposed revenue to cost ratio of 100%, this would necessitate an adjustment in at least some of the rate design.

With substantial changes in the cost allocation study since the previous rebasing, the result is that status quo revenue-to-cost ratios will turn out to be different from the ratios that were approved previously. In Hydro Hawkesbury's case, Street Lighting is allocated a lower proportion of distribution cost and the revenue-to-cost ratio based on status quo revenue turns out to be 167.7% whereas the approved ratio for 2010 rates (and for the subsequent years of IRM adjustment) was 70%. Similarly, the ratio for Sentinel Lights turns out to be 147% compared to 80% approved. Less dramatic is the change of the GS>50 kW class ratio, which is 87.4% compared to 80% approved.

Revenue-to-Cost Ratios

Background

Hydro Hawkesbury proposes to re-balance its class revenues as a result of its cost allocation results. The revenue-to-cost ratios of both Street Lighting and Sentinel Lights classes are above the Board's policy range with the current rates, and the GS 50 to 4,999kW class is the only one whose ratio is less than 100%. Compared to the current rate structure, Street Lighting and Sentinel Lights rates will decrease more than other classes.

Table 9 displays Hydro Hawkesbury's 2010, 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*.

Table 9
Revenue-to-Cost Ratios¹⁸

Customer Class	2010 Board Approved %	Cost Allocation Model %	Proposed 2014 %	Board Policy Range %
Residential	111.0	101.8	100.0	85 – 115
GS < 50 kW	111.0	107.8	100.0	80 – 120
GS 50 to 4,999 kW	80.0	87.4	100.0	80 – 120
Street Lighting	70.0	167.7	100.0	70 – 120
Sentinel Lights	120.0	147.0	100.0	80 – 120
Unmetered Scattered Load	80.0	104.3	100.0	80 – 120

The percentage change to distribution rates of each class is shown in the following table. The calculations are based on HHI's calculations in Chapter 2 Appendix 2-W (sub-total A), combining the fixed and variable charges at the typical monthly volumes for each class. Board staff has adjusted the calculation of the distribution changes to exclude the effects of the Incremental Capital rate rider and disposition of the balance in Account 1576, which apply temporarily or only over a short period.

¹⁸ Response to Board Staff interrogatory 7.0-Staff-24 and response to VECC interrogatory 7.0-VECC-42

Table 10
Distribution rate changes
(% change from current approved distribution rates)

Rate Class	Rate Change %
Residential	24.5
GS < 50 kW	8.0
GS 50 to 4,999 kW	18.4
Street Lighting	(29.4)
Sentinel Lights	(35.2)
Unmetered Scattered Load	11.4

Source: Appendix 2-W, Sub-total A filed November 6, 2013

The rate changes shown in Table 10 achieve HHI's proposed revenue to cost ratios of 100% for each class. Board staff notes that the wide variation amongst the distribution rate impacts shown in Table 10 is attenuated or even reversed by the other components of the customer bill, as shown in Table 11.

Table 11
Total Bill changes
(% change from current approved total bill rates)

Rate Class	Total Bill Change %
Residential	2.55
GS < 50 kW	(0.93)
GS 50 to 4,999 kW	(9.63)
Street Lighting	(29.80)
Sentinel Lights	(15.88)
Unmetered Scattered Load	0.77

Source: Appendix 2-W, filed November 6, 2013

Discussion and Submission

Hydro Hawkesbury proposes distribution rates that will achieve a revenue-to-cost ratio of 100% for each class. Because the starting points are quite diverse, in two cases starting from outside the Board's policy range, Hydro Hawkesbury is proposing a significant rebalancing of its distribution rates. While the increases to some distribution rates are quite large, particularly for the Residential and General Service > 50 kW classes, the overall bill impacts are quite small or significant reductions for all classes. Board staff does not disagree with rates that are designed to equate revenue with the respective class revenue requirements.

Monthly Service Charges (“MSC”)

Background

Hydro Hawkesbury is proposing to increase its Monthly Service Charges for four of its six classes. The exceptions are the GS 50 to 4,999 kW class whose fixed charge would stay constant, and the Sentinel Light class whose fixed charge decreased along with the volumetric rate, both by approximately 40%. For the Residential class and for Street Lighting, increased MSCs are proposed along with decreased volumetric rates.

The preferred reference point for MSC design is worksheet O-2 in the Cost Allocation model, in which customer-related costs are presented under alternative definitions of per-customer cost. The highest of these calculations is based on the Minimum System assumptions. This calculation is treated as an upper bound for the MSC, except for instances where the existing approved charge is already above the reference point.¹⁹

Table 12 shows the current and proposed fixed charges for each class, along with the ceiling values.

Table 12
Monthly Service Charge

Rate Classes	Current	Proposed	Ceiling
Residential	\$5.99	\$10.00	\$13.33
GS < 50 kW	\$13.84	\$15.00	\$20.38
GS 50 to 4,999 kW	\$97.35	\$97.35	\$26.50
Street Lighting (per connection)	\$0.62	\$1.00	\$1.55
Sentinel Lights	1.63	\$1.00	\$2.99
Unmetered Scattered Load (per customer)	\$6.39	\$8.50	\$12.11

Discussion and Submission

Board staff submits that the proposed charges are consistent with Board policy, as it relates to the reference point calculated in the Cost Allocation model. The proposed MSCs shown in Table 12 conform to Board policy, except for the Residential class.

¹⁹ Report of the Board, Application of Cost Allocation for Electricity Distributors (EB-2007-0667), page 12-13

There is a total bill impact of 10.9% on customers using 250 kWh per month. Hydro Hawkesbury has indicated that it has 700 Residential customers at the 250kWh consumption range.²⁰ The reason for this large impact is the proposed 67% increase in the fixed charge, which is not adequately offset by the proposed decrease in the volumetric charge in the case of the smallest consumers.

Hydro Hawkesbury explains that a 50:50 split of fixed and variable revenue is a reasonable target for Residential class; however Board staff submits that the rationale of a 50/50 split is arbitrary and should not be used as a reference point for rate design. Board staff further submits that the increase in the Residential MSC should be phased in over two years, such that the total bill impact in the first year will be less than 10%. Given that the proposed charge is lower than the Minimum System ceiling, a reasonable rate for 2014 would be \$8.00 and the proposed MSC plus whatever percentage change would be approved as the IRM adjustment for 2015.

As noted in the previous section, the bill impacts that result from revenue rebalancing are reasonable at the level of the whole class. The uneven distribution of impacts could be mitigated within the Residential class by a decrease in the proposed MSC along with a corresponding increase in the proposed volumetric rate.

Retail Transmission Service Rates (“RTSR”)

Background

Hydro Hawkesbury filed its updated RTSR model on November 6, 2013. The current and forecast wholesale cost is calculated using the Uniform Transmission Rates together with host distributor’s rates all of which became effective January 1, 2013.

Discussion and Submission

Board staff takes no issue with the proposed RTSR’s as stated below. However, Board staff submits that Hydro Hawkesbury should update its RTSRs in its draft Rate Order based on any new Uniform Transmission Rates that may be approved in advance of Hydro Hawkesbury filing its draft Rate Order.

²⁰ Response to Board staff interrogatory 8.0-Staff-25

Table 13

Rate Classes	RTSR Network	RTSR Connection
Residential (\$/kWh)	\$0.0070	\$0.0032
GS < 50 kW (\$/kWh)	\$0.0064	\$0.0028
GS 50 to 4,999 kW (\$/kW)	\$2.5888	\$1.1437
Street Lighting (\$/kW)	\$1.9526	\$0.8842
Sentinel Lights (\$/kW)	\$1.9532	\$1.8053
Unmetered Scattered Load (\$/kWh)	\$0.0064	\$0.0028

Low Voltage (“LV”) Charges

Background

Hydro Hawkesbury has proposed to increase its LV rates by percentages ranging from 50% to 77%. The proposal is based on Hydro Hawkesbury’s forecast LV cost of \$99,595, based on the average of 2011 and 2012 costs, and Hydro Hawkesbury’s evidence that the average shortfall with current LV rates was \$38,102 and \$47,720 in those years.²¹

The Applicant allocated the LV costs to each class based on the projected Transmission-Connection revenue for each class. The following LV charges for each class are determined by volumes derived from the 2014 load forecast.

Table 14²²

Rate Classes	Allocation to classes	Proposed LV Charges
Residential	\$38,122	\$0.0007/kWh
GS < 50 kW	\$11,881	\$0.0006/kWh
GS 50 to 4,999 kW	\$48,741	\$0.2423/kW
Street Lighting	\$602	\$0.1874/kW
Sentinel Lights	\$112	\$0.3825/kW
Unmetered Scattered Load	\$136	\$0.0006/kWh

²¹ Response to Board staff interrogatory 8.0-Staff-28 (a)

²² Response to VECC interrogatory 8.0-VECC-45

Discussion and Submission

Board staff is of the view that Hydro Hawkesbury as justified the need for the increased costs and has no concerns with the rates proposed by Hydro Hawkesbury in its response to VECC interrogatory 8.0-VECC-45, which are replicated above.

Loss Factors

Background

Hydro Hawkesbury is proposing a Total Loss Factor (“TLF”) of 1.0541 for secondary metered customers < 5,000 kW. The proposed TLF is based on the average of five historical years 2008 to 2012. Hydro Hawkesbury’s actual TLF for the 2008 to 2012 period has fluctuated from a low of 1.0398 to a high of 1.0658. The currently approved TLF for secondary metered customers < 5,000 kW is 1.0446.

Discussion and Submission

Hydro Hawkesbury is applying for the TLF of 1.0541 based on an underlying Distribution Loss Factor (“DLF”) of 1.0480 and Supply Facility Loss Factor (“SFLF”) of 1.0058. Board staff has no concerns with the proposed DLF. However, the SFLF would be appropriate for a totally non-embedded distributor. Based on the data for wholesale transmission costs in the RTSR model, it appears that Hydro Hawkesbury gets approximately half of its required power through the host distributor (Hydro One), and the default SFLF factor for a fully embedded distributor is 1.034. As such, the SFLF should be about half-way of 1.034, which is approximately 1.02. Multiplying this factor by the DLF 1.048 (five year average) or 1.04 (representative of the most recent three years, shown at Exhibit 8 / Tab 6 / Schedule 2), the outcome would be 1.069 based on five years or 1.061 based on three years. Board staff submits that the TLF should be closer to one of these amounts rather than 1.0541 as proposed by Hydro Hawkesbury.

Specific Service Charges

Background

Hydro Hawkesbury requested approval of increases for four specific service charges to recover the actual costs.²³ The existing charge for Change of Occupancy is at the

²³ Exhibit 8/ Tab 3/ Schedule 1

default amount established in 2006, and the increase is supported by Hydro Hawkesbury in its pre-filed evidence. The other three existing charges are well below the 2006 default amounts and the proposed charges are still below the 2006 amounts.

Discussion and Submission

Board staff has no concerns with Hydro Hawkesbury's proposal to increase the charges, as shown in the following table.

Table 15

Specific Service Charge	Existing Charge	Proposed Charge
Change of Occupancy	\$30	\$40
Disconnect/Reconnect at meter - after regular hours	\$130	\$170
Install/Remove Load Control Device – after regular hours	\$130	\$170
Service Call – after regular hours	\$130	\$170

DEFERRAL AND VARIANCE ACCOUNTS

Balances Proposed for Disposition

Hydro Hawkesbury proposed to dispose Group 1 and Group 2 deferral and variance account balances as of December 31, 2012, and interest forecast to December 31, 2013.

The allocation factors used by Hydro Hawkesbury for the volumetric rate rider calculation are in accordance with the EDDVAR report (EB-2008-0046).²⁴

The proposed amounts for disposition are presented below:

²⁴ *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)*, EB-2008-0046, July 31, 2009

Table 16

Account #	Account Description	Disposition Amount²⁵
1550	LV Variance Account	\$48,843
1580	RSVA – Wholesale Market Service Charge	(\$116,610)
1584	RSVA – Retail Transmission Network Charge	(\$7,433)
1586	RSVA – Retail Transmission Connection Charge	(\$21,499)
1588 - Pwr	RSVA – Power (excluding Global Adjustment)	\$117,602
1589 - GA	RSVA – Global Adjustment	\$271,751
1595	Disposition and Recovery/Refund of Regulatory Balances (2008)	(\$195,709)
1508	Other Regulatory Assets – Incremental Capital Charges	\$3,359
1518	Retail Cost Variance Account - Retail	\$1,857
1535	Smart Grid OM&A Deferral Account	\$1,901
1548	Retail Cost Variance Account - STR	\$9,591
1568	LRAM Variance Account	\$5,265
1576	Accounting Changes Under CGAAP Balance plus Return component	(\$25,155)
	Total Proposed for Disposition	\$93,763

The debit balance of \$93,763 indicates that this amount is to be recovered from the customers over a one-year period.

Board staff has no concerns with the disposition of Group 1, Group 2 and Account 1576 deferral and variance accounts, except the LRAM Variance Account (account 1568). More details will be discussed in the following section.

LOST REVENUE ADJUSTMENT MECHANISM (“LRAM”)

Background

The Board’s *Guidelines for Electricity Distributor Conservation and Demand Management* (the “CDM Guidelines”) issued on April 26, 2012 outline the information that is required when filing an application for LRAMVA.

²⁵ Exhibit 9, Table 9.2.1, Response to Board staff interrogatory # 30, 31

Hydro Hawkesbury has requested recovery of an updated LRAMVA amount based on its interrogatory responses to Board staff of \$5,264.65 which includes \$76.27 in carrying charges. The LRAMVA is comprised of lost revenues in 2011 from 2011 CDM programs and persisting lost revenues in 2012 from 2011 CDM programs.

In response to Board staff interrogatory part (d) of 9.0-Staff-32, Hydro Hawkesbury provided an updated rate rider table reflecting its LRAMVA balance.

Hydro Hawkesbury has also requested recovery of \$1,423 in residual LRAM balances from its previous LRAM rate rider. Hydro Hawkesbury was approved to recover an LRAM rate rider over one-year in its 2012 IRM Board Decision (EB-2011-0173) of a total amount of \$33,950.05. Hydro Hawkesbury's LRAM amount consisted of lost revenues from CDM programs delivered between 2006 and 2009.

Discussion and Submission

LRAMVA Disposition

Board staff submits that Hydro Hawkesbury has appropriately relied on its final 2011 results as calculated by the Ontario Power Authority for calculating its LRAMVA balance in relation to 2011 CDM program savings in 2011 and persisting savings in 2012. Board staff supports the recovery of Hydro Hawkesbury's requested LRAMVA balance of \$5,266, including carrying charges, over a one-year period and the updated rate riders found at the response to staff interrogatory part (d) of 9.0-Staff-32.

Residual LRAM Rate Rider Balances

Hydro Hawkesbury stated that it is of the view that the LRAMVA was created to capture the difference between the amount it charged and the actual amounts collected. Board staff submits that this interpretation of the LRAMVA is incorrect. As found at Section 13.2 of the CDM Guidelines, the LRAMVA was established to capture, at the customer rate-class level, the difference between the results of actual, verified CDM savings and the level of CDM program savings included in the distributor's load forecast.

Board staff notes that with respect to the LRAM rate riders for pre-2011 CDM activities, those which Hydro Hawkesbury is seeking recovery of the residual balances, the accounting treatment is to recognize the LRAM amount arising from the riders billed to customers as distribution revenue. Board staff submits that there was no mechanism requiring any true-up after the LRAM riders expire. In the absence of a Board-prescribed

LRAM true-up procedure, it is Board staff's view that the utility takes the risk for recovery of the LRAM amount. Consequently, by its ratemaking design, the LRAM amount derived from the rider (i.e. revenue) is treated as any other item comprising a distributor's revenue requirement. Board staff notes that this issue was discussed in the Board's Accounting Procedures Handbook FAQs, July 2012. At Question #14 it states with respect to LRAM:

Q.14 What should be the accounting treatment for the tax sharing and the LRAM rate riders that were authorized in the distributor's rate order?

With respect to the LRAM rate riders approved for the pre-2011 CDM programs (i.e., prior to 2011 OPA-Contracted Province-Wide CDM Programs or 2011 Board-Approved CDM Programs), there was no Board-approved deferral or variance account (such as, Account 1568, LRAM Variance Account) authorized in which to record the LRAM amounts. There was also no required LRAM true-up procedure for these prior years. Distributors typically filed LRAM claims to recover LRAM amounts in applications and not through the disposition of LRAM balances recorded in a Board-approved deferral or variance account. Accordingly, the normal accounting treatment, as discussed above, using Accounts 1100 and 4080 should apply for recording the LRAM rate rider recoveries associated with the pre-2011 CDM programs.

Board staff submits that on a go-forward basis, the disposition of Account 1568 LRAMVA balance comprising the accounting variances for 2011-2014 CDM programs, the approved LRAMVA account balance should be recorded in Account 1595. The recovery/refund of the 1568 account balance tracked in Account 1595 may result in a residual balance after expiration of the rider which would then be subject to disposition (via disposition of Account 1595 balance).

Board staff submits that this procedure is different from that of the pre-2011 CDM activities derived LRAM amount, of which Hydro Hawkesbury is seeking recovery of residual balances because the lost revenues in this latter case is a LRAMVA account balance recorded in a Board-approved variance account which requires the use of Account 1595 on disposition of its balance. Board staff submits that it because the Board did not establish a formal account and true-up mechanism for recovery of lost revenues from pre-2011 CDM activities, it is inappropriate for Hydro Hawkesbury to recover the requested residual balances from its pre-2011 LRAM rate riders.

- All of which is respectfully submitted -