

December 19, 2013
Ontario Energy Board
PO Box 2319 27th Floor
2300 Yonge Street
Toronto Ontario M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary
Regarding: EB-2013-0139-2014 Cost of Service Application
Reply Submission

Dear Ms. Walli,

Please find attached Hydro Hawkesbury Inc. ("HHI")'s reply submission in the above noted proceeding

We would be pleased to provide any further information or details that you may require relative to this application.

Yours truly,



Michel Poulin, General Manager
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Hawkesbury, ON
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Introduction

Hydro Hawkesbury Inc. (“HHI” or the “Applicant”) filed its 2014 rebasing application (the “Application”) on June 14, 2013. HHI 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 written discovery.

The herein submission reflects HHI’s views on Board Staff and VECC ’submission. The views expressed in this reply submission are also intended to assist the Board in evaluating HHI’s application and in setting just and reasonable rates.

Exhibit 2 - Rate Base

Capital Expenditures

As summarized by Board Staff, Hydro Hawkesbury is requesting approval of \$7,099,556 for the 2014 rate base which represents a 66.6% increase from its approved 2010 rate base. As also explained by Board Staff, much of the increase in Rate Base can be attributed to the inclusion of capital expenditures previously approved in an Incremental Capital Module (“ICM”) application and a Smart Meter application. Capital expenditures of \$272,300 are projected for 2014 which can be attributed to asset management and the repair of a transformer.

In its Discussion and Submission, Board Staff noted that capital expenditures excluding ICM and Smart meters are 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.

VECC concurred with Board Staff that the existing rate base growth and the proposed capital programs were in line with past spending.

With respect to ICM Board Staff summarized HHI’s case as such;

The capital projects for the 44kV as approved amount for the 44kV project was \$712,909, but the actual spending is \$790,136. The approved amount for the 110 kV project was \$1,517,813, with a total expected year end expenditures of \$1,241,254. The remainder is scheduled to be spent by April 2014. As explained by Board Staff the 44kV project went over budget due to extra work needed to build a foundation that addressed the stability issue caused by poor soil condition. Board staff noted that it had no concerns with the increased costs for this project.

Board Staff did express concern about adding the additions for the 110kV in the bridge year instead of the test year. Board Staff went on to quote Chapter 3 of the *Filing Requirements for Transmission and Distribution Applications* which state that any overspending or underspending will be reviewed at the time of rebasing.”

Board Staff suggested that HHI should true up to take into account that the 44kV project went into service one year later than expected, and the 110kV project is scheduled to go into service two years later than expected.

Board staff then quoted a 6 year old decision which stated 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.

On that basis, Board staff submitted 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.

In their submission, VECC agreed with Board Staff in that any costs related to the 110kV transformer project should not be included in the bridge year since the project would only be in useful in 2014.

VECC implied that Board Staff’s suggestion about true up was unclear in the absence of a prior established variance accounts. That said, VECC agreed with the substance of Board Staff’s argument in that HHI has clearly over collected the anticipated amount required of the ICM rider.

Discussion and Reply Submission

Firstly, HHI deems it necessary to correct Board Staff's statement that the 44kV project went into service one year later than expected, and the 110kV project is scheduled to go into service two years later than expected.

As indicated in the ICM application, the 44kW was schedule to be in service in May of 2012 and was in fact in service in May of 2012. As for the 110kW, the in service date was scheduled for November 2013 and is now schedule to be in service in April of 2014. The combined delay of the two sizeable capital projects is only 4 months (Dec 2013, Jan 2014, Feb 2014and Mar 2014).

Both VECC and Board Staff viewed HHI's projected 2014 capital expenditures of \$272,300 as being in line with past spending and therefore reasonable.

With respect to the revenues related to ICM rate rider due to expire December 31, 2013 HHI stated in its original application that;

“Due to the lack of instructions regarding the treatment of ICM related variance accounts, HHI is not seeking at this time disposition of the December 31, 2012 audited balance, plus the forecasted interest through December 30, 2013 for the 3 sub-account of 1508. Instead, HHI seeks clarification from the Board on how to treat these balances. It is still unclear as to what the Board's accounting treatment of ICM revenue is. “

During the technical conference, Board Staff was asked for guidance in this matter but the question was left unanswered. VECC recommended that the amount collected from the ICM rate rider should in some way be deducted from Rate Base

Guidance and direction regarding specific accounting treatment is still unclear however after having reviewed Oakville Hydro's application currently before the Board, HHI proposes to true up the difference in revenue requirement due to the change in final

spending vs projected as well as factoring in the “in-service date” of the two projects. HHI agrees to do this as long as the “trued-up” revenues from the ICM rate rider can be transferred from account 1508 into 4080 – Distribution Revenues.

Service Reliability

In their submission, VECC noted the declining value of outage time indices related to scheduled outages and defective equipment as an indication that HHI maintains its distribution system in a prudent and sustainable fashion.

Discussion and Reply Submission

HHI’s top priority is the reliability and overall health of its distribution system. HHI appreciates that VECC has taken notice of its efforts to properly manage its distribution assets and system.

Green Energy Plan (GEA Plan)

Board Staff provided a concise and well written summary of HHI’s Green Energy Plan. In an effort to avoid duplication of time and effort, HHI has replicated the summary below.

“...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."

As expressed in the both the application and IRs, HHI is seeking exemption from the filing requirement which states 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.

Discussion and Reply Submission

Similarly to Cooperative Hydro Embrun's reply submission, after reviewing VECC and Board Staff's submission, HHI has come to the realization that there is little point arguing this issue since it has very little to do with LDCs and the determination of just and reasonable rates. This requirement is a data gathering exercise for the OEB and OPA. Board Staff claims that the 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. Who better to determine these issues than the existing collaboration between HHI, its municipality (or region) and Hydro One?

HHI will comply with this filing requirement and will obtain the letter of approval from the OPA. HHI will refile its plan along with the letter of approval as it becomes available. Please note that the OPA still requires a minimum of 30 days to review and approve a Green Energy Plan.

Working Capital Allowance

For the purpose of determining its working capital allowance, HHI proposes to use the 13% of controllable costs default methodology set out by the Board. VECC submitted that a rate of 12% of controllable costs would be more appropriate based on London Hydro's lead-lag studies which showed lower working capital requirements nearer to 11% of controllable costs. VECC expressed no concern about HHI's use of the Board Approved 13%.

Discussion and Reply Submission

HHI is entirely opposed to VECC's pursuit to further reduce utilities' working capital allowance; especially since the working capital allowance was reduced by 2% only 2 years ago. VECC claims that the default value is based on aged population of electric distribution utilities that had previously billed on a bi-monthly basis. Over the past four years and with the introduction of smart metering and time-of-use rates billing frequency has changed from bi-monthly to predominantly monthly billing.

It is HHI's view that the default value of 15% which was in effect four years ago (or prior to the implementation of smart meters) has already been reduced to reflect the effects of predominantly monthly billing.

While HHI certainly commends London Hydro for their ability to manage their working cash at a rate of 11%, it is also true that HHI is often forced to borrow against a line of credit during peak months in order to meet its obligations to Hydro one or the IESO.

VECC's stated that the current default value of 13% is based on no specific evidence and contrary to evidence reviewed and accepted by the Board in other proceeding. VECC also believes that it is incorrect to use an arbitrary proxy rather than tested evidence which is the result of actual lead-lag studies. Interestingly, VECC goes on to propose a 12% rate without any tested evidence, report, study to support this.

HHI's response to VECC's proposal of a 12 % rate is that "it is incorrect to use an arbitrary proxy rather than tested evidence which is the result of actual lead-lag studies".

To arbitrarily reduce the working capital allowance, without any study or consultation process for that matter, would be unfair and the ramifications could be detrimental to the utility's ability to pay their bills as they come due.

On the subject of lead lag study, the cost of undertaking a Lead Lag studies ranges anywhere from \$15,000 to \$80,000. While it is the best known method of determining a utility specific working capital allowance, HHI and other smaller utilities simply cannot afford to undertake such studies.

In the end, HHI followed the direction from the Board letter dated April 12, 2012, and ultimately adopted the 13% in compliance with Board policy. For that reason, Board should reject VECC's proposal to reduce the working capital allowance to 12% and accept HHI's working capital allowance rate of 13%.

Exhibit 3 - Customer Forecast and Load Forecast.

HHI is seeking Board approval for a CDM adjusted test year forecast of 154,889,963 kWhs or 154.89 GWh and is also seeking Board approval for a test year customer forecast of 6,923 customers/connections. The forecast represents a 3.8% increase from 2012 actual and a 1.9% average annual load growth from the 2012.

Both VECC and Board Staff presented well written and concise summaries of HHI's approach to determining its 2014 load forecast. In an effort to avoid work duplication, please refer to Board Staff "Background" section of its submission and section 3.3 to 3.9 of VECC's submission. .

Customer Forecast

Board staff noted 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 expressed no concerns with the 2014 customer forecast as proposed by Hydro Hawkesbury. Overall, VECC submitted that HHI's forecast customer counts by class for 2014 are reasonable and should be adopted by the Board but did show concerns about the GS<50 class which VECC did not propose an alternate resolution.

Volume Forecast (Prior to CDM Adjustments)

Board staff had no concerns with the overall load forecast proposed by HHI, VECC initially commented that the regression model to be fairly robust with a reasonably high Adjusted R Square.

During the interrogatory process both Board Staff and VECC requested that HHI test alternative regression models.

- Board Staff requested that HHI develop a model that excluded the employment variable. The resulting model yielded a slightly lower Adjusted R Square.
- VECC requested an alternative specification using Residential customer count in lieu of employment.

VECC noted several counter intuitive result in each proposed method. VECC also commented that HHI used the 2014 values for the seasonal variables but used the average of the historical employment levels over the 2003-2012. HHI would like to clarify that seasonal variables are static so using the 2014 vs a 2003-2012 average would made no difference.

VECC describes HHI's adjustment process as such;

“For the second phase, the preceding results were used to determine an average use per customer for each of the major customer classes²⁶. These values were then multiplied by the increase in customers for each class to determine the increase in load from new customers added between 2012 and 2014 and added to the each of the retail class’ energy values determined earlier. “

This method was applied to the weather sensitive classes. Other non-weather sensitive classes were adjusted in accordance with previously accepted methods.

VECC found the overall approach to be reasonable with the following caveat; As long as the forecast 2014 purchases determined in phase 1 reflect the purchases HHI could expect in 2014 assuming no growth in customers after 2012, and that the customer additions used in the second phase account for all forecast customer growth between 2012 and 2014.

VECC stated that as a result, the economic conditions used to determine the 2014 forecast should be those in place at the close of 2012 and not be based on average employment levels over the past 10 years as proposed by HHI. VECC also noted that employment growth currently forecast for 2013 and 2014 should not be included in the determination of 2014.

VECC who originally described HHI's methodology as robust goes on to say that the regression equation estimated by HHI is flawed but that the flaws are minimized when the equation is used to estimate 2014 purchases assuming no further change in employment levels.

VECC states that using 2012 economic conditions place at the close of 2012 would result in (162.73 GWh) which is fairly similar to the 163.41 GWh projection using the regression equation without any employment variable developed in response to Board Staff interrogatories.

VECC also notes that HHI only used the new customers forecasted be added in 2014 and omitted those added in 2013 which, as part of its responses to IRs, HHI agreed to rectify during the Draft Rate Order.

Discussion and Reply Submission

Although HHI had a little difficulty interpreting VECC's arguments and position, HHI believes that the main issue up for discussion is whether HHI should use the

economic growth variable and if so, whether to use the 2012 year end value or a 10 year average. HHI is of the opinion that accurately predicting the economic growth in Hawkesbury may prove to be speculative given the difficulty the town has had bouncing back from the 2009 economic downfall. HHI fully expects that the employment in the region has and will continue to fluctuate over the upcoming years and for that reason, using 2012 year end economic values, as proposed by VECC, is in HHI's view short-sighted. HHI believes that an average is more reflective of the economic uncertainty in the region. HHI has provided a table at the next page presenting the impact of various scenarios on the load forecast. HHI strongly believes that the much like other variables, the economic growth should be averaged over 10 years. As can be seen below, HHI did test a 5 year average instead of a 10 year average however, the result caused the revenue requirement to increase therefore HHI maintains that a 10 year average is appropriate in this case.

Various proposed scenarios and their impacts of Rate Base and Revenue Requirement

	Note	2014 adjusted purchases	Rate Base	change from RB originally filed	Revenue Req	change from RR originally filed
as filed	10 year average 2005-2014	164,694,601	7,063,936		1,633,224	
scenario 1	10 year average 2003-2012 (proposed by HHI)	164,659,241	7,063,496	-\$439.10	1,633,198	-\$26.27
scenario 2	5 year average 2008-2012	165,123,237	7,069,251	\$5,315.00	1,633,542	\$317.94
scenario 3	2012 year end values (proposed by VECC)	162,728,099	7,039,557	-\$24,378.57	1,631,766	-\$1,458.33
scenario 4	remove growth variable (proposed by BS)	163,411,598	7,048,029	-\$15,906.40	1,632,273	-\$951.52

Volume Forecast (Including CDM Adjustment) – Discussion and Reply Submission.

VECC presented an in depth summary of HHI's approach to its CDM adjustment to

its 2014 load forecast.

In its initial Application, HHI applied the results for all years so that they reflected gross (as opposed to net) CDM savings. The resulting CDM adjustment was 6,782,178.05 kWh. During the interrogatory process HHI acknowledged that, in accordance with the Board's Guidelines, the 2011 and 2012 CDM savings should not be included in the manual adjustment as they are already captured in the 2003-2012 historical.

VECC stated that HHI is not proposing to alter its CDM adjustment and load forecast accordingly since the Board Guidelines were issued after its Application was filed. HHI stated that it would not make changes unless explicitly directed to do so by the Board.

While there is some truth to VECC's statement, HHI's view, as expressed in the response to IRS, remains that although past precedents are often used to shape Board policies, the Board did not include direction on this matter in its July 2013 filing requirements (which were issued well after both Center Wellington and Sioux Lookout decisions were issued).

For the most part, HHI makes every effort to comply with Board policy and firmly believes that decisions on these matters should come directly from the Board and not interveners. Let it be said that HHI does not object to updating its load forecast to comply with Board policy if such is the case, what HHI objects to VECC adopting the role of regulator on this issue.

In response to Board Staff #15 a), HHI has provided a CDM adjustment calculation that includes the impact in 2014 based on $\frac{1}{2}$ of the 2012 program savings, the full impact of 2013 program savings and $\frac{1}{2}$ of the 2014 program savings for a total of

2,519,317 kWh. Board staff submitted 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.

VECC submits there should be no ½ year adjustment of 342,623.5 kWh for 2012 programs. The resulting manual CDM adjustment would be 2,176,693.5 kWh.

Exhibit 4 - OM&A

As indicated by Board Staff, Hydro Hawkesbury is requesting Board approval of \$1,126,665 in OM&A expenses for the 2014 test year. This amount represents an 11.9% increase over the 2012 actuals and a 19.1% increase over 2010 Board Approved.

HHI submitted that cost is associated with supporting smart metering account for \$92,921 or 50% of the overall increase between 2010 and 2014. Board staff noted that OM&A increase excluding costs associated with smart metering would be 2.3%

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. As such Board staff submits that Hydro Hawkesbury's proposed cost level for the test year is reasonable.

Discussion and Reply Submission

In their submission, VECC shared the results of their enigmatic "expected growth test" which VECC seem to apply to most, if not all cost of service application. VECC provided a high level description of its calculations, however HHI could not verify the results since neither the model, or details were provided to the utility for review. For example, HHI has not had to opportunity to question why VECC did not use the 2014 value of the inflation factor for rates effective in 2014 of 1.7% as indicated in the Report of the Board "*Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors*" Issued on November 21, 2013 and as corrected on December 4, 2013.

Based on the fact that HHI did not have the opportunity to test this evidence, HHI is of the opinion that this evidence should not be relied on.

That said, HHI feels compelled to dispute VECC position.

In their submission, VECC suggested that HHI's OM&A increase should be \$1,083,704 (945,592 + 66,191 + 71,921) based on a starting point of 2010 Board Approved; or \$1,000,348 (867,689 + 60,738 + 71,921) if based on 2010 actual spending. VECC used a simple average of its calculated floor and ceiling reduction to determine a proposed reduction of \$85,000 which VECC views as a modest reduction.

HHI strongly disagrees with VECC's view that \$85,000 represents a modest reduction and that HHI would not be subject to undue hardship. In actuality, \$85,000 represents a reduction of 47% from HHI's proposed increase over the 2010 Board Approved which is nothing short of a sizeable cut. VECC's suggested reduction of \$85,000 would result in a mere increase of \$96,000 over the last Board Approved OM&A, a 8% reduction over 2013 and a less than 3% increase over 2012.

HHI is concerned that VECC deems it financially and operationally sensible to cut nearly 50% of its proposed 2014 increase therefore suggesting that HHI should maintain its OM&A costs at 2012 levels for the next 4 possibly 5 years. Contrary to what VECC believes, the proposed cut is in fact very significant for a small utility such as HHI.

HHI's is also opposed to VECC's generalistic approach to cutting OM&A costs. A great deal of time and effort goes into preparing a utility specific test year budget. HHI's proposed 2014 OM&A costs are based on a thorough analysis of past trends, followed by a thorough analysis of what HHI deems necessary to continue running its operations in a just and prudent manner. HHI's proposed budget undergoes a

thorough review by its management and Board of Directors before it is submitted as part of the application. VECC's "one-size fits all" approach to cutting OM&A costs fails to take into account contingencies, size of the utility, economic conditions, costs which are considered static across the province, changes in policy such as Distribution System Planning including integration of regional consideration, conversion to full IFRS accounting standards is a few years, benchmarking and other Board initiated initiatives which all contribute to year over year increases in OM&A.

Even with two new transformer stations, and its proposed 2014 OM&A, HHI will have managed to keep its rates at the lowest in Ontario, all while maintaining one of the lowest OM&A cost per customers in the province and, as Board Staff mentioned, at a cost per customer still lower than its cohort utilities at their 2010 level. For that reason, HHI strongly believes that its proposed 2014 OM&A a reasonable and should be approved by the Board.

A quick note on two issues which VECC raised in its submission, the first being EDA fees and the second being compensation.

With respect to EDA fees, VECC noted that such "shareholder "lobbying" fees should not be recoverable from ratepayers. **Lobbying** is defined as *"the act of attempting to influence decisions made by officials in the government, most often legislators or members of regulatory agencies"* which begs the question, in what way are "lobbying fees" different from "intervener fees"? If the Board is contemplating disallowing EDA fees from being recovered through rates, than clearly intervener fees should also be disallowed for recovery through rates.

On the topic of compensation, VECC noted that HHI proposes to increase management compensation by 17% as between 2012 and 2014 whereas union staff compensation will only increase by 6%. HHI notes that union staff is bound to a contract and as such,

are non-negotiable.

It is no secret that management personnel in small utilities are undercompensated for the roles that they perform on a day to day basis. For example, the general manager not only oversees the day to day running of the utility but also adopts the role of operations, engineering. The assistant manager and CFO also adopts many roles such as regulatory accounting, controller and billing supervisor. Management in smaller utilities earn a fraction of the income earned for similar roles in medium and larger size utilities. Even with the proposed increase in compensation, both management staff is still under-compensated.

It is true that HHI did not file the MEARIE Group Management Salary Study, however, VECC who is familiar with the study, since it's been filed in a previous proceeding, could have easily asked for the study during the IRs but chose not to.

Exhibit 5 – Cost of Capital

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

Cost of Capital – as filed in May of 2013

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%

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.

Discussion and Reply Submission

Neither VECC nor Board Staff expressed concerns with respect to the proposed cost of capital. As indicated in its Application, HHI committed to update its cost of capital parameters as new information become available. On November 25, 2013, the Board issued new cost of Capital Parameter Updates for 2014 Cost of Service Applications. The new parameters are shown in the table below.

Cost of Capital Parameter	Value for 2014 Cost of Service Applications for rate changes in 2014
ROE	9.36%
Deemed LT Debt rate	4.88%
Deemed ST Debt rate	2.11%

HHI commits to updating, as part of its Draft Rate Order, its rate base to reflect the above parameters.

Exhibit 7 – Cost Allocation

Both Board Staff and VECC summarized HHI's approach to Cost Allocation and Rate Design. In its submission, Board staff submitted that Hydro Hawkesbury's cost allocation evidence provided a good foundation for the revenue re-balancing and distribution rate design that it is proposing.

After a thorough summary of the proposed weighting factors, Board staff deferred to Hydro Hawkesbury's knowledge of its own situation and did not disagree with Hydro Hawkesbury's proposed weighting factors. Board Staff submitted that HHI used weighting factors that are more uniform across the customer classes, which shifted the allocated costs away from those classes. Board Staff concluded that HHI's proposed weighting factors were determined and applied as required in the Filing Requirements and that HHI had provided an explanation of its weighting factors in its application.

Board staff correctly noted that the use of utility specific weighting factors resulted in a shift in revenue to cost ratios, as can be expected. The Board stated "*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.*"

Board Staff indicated that while proposing a significant rebalancing of its distribution rates, Board staff does not disagree with rates that are designed to equate revenue with the respective class revenue requirements

VECC acknowledged that while most electricity distributors continue to rely on the load profiles developed by Hydro One for their 2006 informational filings, HHI had not updated its load data and instead used the same kW values as in forecast for 2010 in its EB-2009-0186 Application.

In their submission, VECC also expressed concerns over HHI's proposal to move its revenue to cost ratios to 100%. Based on that assessment, VECC submitted that the methodology/model was not sufficiently improved to justify the moving the revenue to cost ratio closer to 100% than is currently required by the March 2011 Report the Board ("Review of Distributor Cost Allocation", EB-2010-0219).

In support of its disapproval of proposed 100% revenue to cost ratios, VECC then quoted multiple decisions and policies which support a phase in approach when large increases are required.

VECC submits that the ratios for Street Lighting and Sentinel Lights should be reduced – but only to the upper end of the Board's respective policy range for each class. Furthermore, apart from increasing the GS>50 ratio so as to maintain revenue neutrality, the ratios for the other classes should remain unchanged and not moved to 100% as proposed by HHI.

Discussion and Reply Submission

On the topic of load profile, VECC is correct in observing that most electricity distributors continue to rely on the load profiles developed by Hydro One for their 2006 informational filings. The main reason for this is that there is little to no documentation or mechanism in place that will assist utilities in updating their load profile data.

Back in 2006, the Board coordinated the initial load profile through Hydro One which made it easy to acquire this information. Hydro One found this task to be onerous and no longer gather load profiling data on behalf of utilities. Updating the load profile is a complex and time-consuming task and only a select few consultants have gained expertise over the past years through trial and error. The limited number of resources which have the expertise to update this information makes it difficult for utilities to find cost efficient ways of updating this information.

HHI admits that the foundation for its 2010 cost allocation which originates from the original 2006 data may be slightly outdated but in HHI's case, it is still the best information available. To hire an external resource to update the load profile information would mean that the utility would incur additional OM&A costs to do so.

The cost allocation study is a dynamic, progressive and continuously changing process. HHI anticipates that the cost allocation process will most likely be refined in the future and hopefully, so will the task of updating the load profiles.

In the meantime, HHI will continue to make its best efforts to comply with cost allocation policies, when it is deemed operationally and economically viable to do so.

On the topic of determining the revenue to cost ratios, HHI views the cost allocation study is an opportunity to restore inequities that may have been in place since the last cost of service. In other words, eliminate any cross subsidization that may have been identified through the results that may result from the study. HHI's view is that the fact that HHI did not update its load profile is not a good enough reason for the revenue to cost ratios that are within the floor to ceiling to remain unchanged.

It's also important to mention that the reason behind HHI proposal of an unusually aggressive adjustment is mainly due to the fact that rates increases are being offset by a drop in revenue requirement from the adoption of new capitalization policies. Part of HHI's rationale was that this adjustment would not be as noticeable to the customer as it would in a normal cost of service application.

As mentioned above, HHI is committed to rectifying any cross-subsidization between classes that result from the cost allocation study. As mentioned by Board Staff, the overall bill impacts are quite small or represent reductions for all classes.

With respect to the anomaly pointed out by Board Staff, HHI will correct its data input in the cost allocation model (worksheet I 6.2) for the total number of connections of its five USL customers.

Exhibit 8 – Rate Design

Monthly Service Charges (“MSC”)

Board Staff stated that in the case of the Residential class, HHI’s proposal to increase its Residential fixed charge recovery from 45% to 64% runs counter to its stated definition of fairness and appears to be based solely on “ensuring a level of revenue stability for the utility”. Instead, Board Staff stated 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.

VECC suggested that unless the MSC falls outside of the floor and ceiling range, the current fixed / variable split should be maintained. In VECC’s view, the changes (and supporting rationale) proposed by HHI should not be adopted by the Board until the issues of changes that are more properly considered as part of the Board’s pending Rate Review. This rationale would apply to all classes except for the GS>50 class where the current fixed charge (\$97.35) is materially higher than the maximum value calculated by the Cost Allocation model⁷⁶ (\$26.50). HHI proposed to maintain the fixed charge at this level for 2014 which is consistent with the Board’s stated policy.

Discussion and Reply Submission

Board Staff submitted 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%. Board Staff suggests that the residential class should be \$8.00 and the proposed MSC plus whatever percentage change would be approved as the IRM adjustment for 2015.

HHI has reviewed Board Staff recommendations and find them to be very sensible. HHI agrees with Board Staff in that the proposed solution is more mindful of residential bill

impacts than the option originally suggested by HHI. HHI agrees with Board Staff and proposes to set its Residential rate at \$8.00 and phase in the proposed MSC of \$10.00 over two years.

In response to VECC's suggestion regarding maintaining the USL, Sentinel Lights and Street Lights at the current split, HHI is of the view that at a minimum, an adjustment is warranted for the Street Lights class. As can be seen in the table below, the revenues from the fixed variable at the existing split are very low. That said, HHI also recognizes that by selecting a rounded MSC of \$1.00, the fixed component results in a slightly higher percentage than the variable split. Therefore HHI suggests a rate of \$0.89 which is in HHI's view, more equitable. (The table below entitled *Revised Fixed to Variable Split* shows the resulting revenues under this newly proposed rate)

Revenues from the USL and Sentinel Lights are small therefore the change to the fixed to variable split virtually unnoticeable.

Existing Fixed to Variable Split

	Total Revenue	Revenues from Fixed	Revenues from Variable	Rate	Fixed	Variable
Unmetered Scattered Load	\$975	442	534	\$6.39	45.28%	54.72%
Sentinel Lighting	\$1,325	403	922	\$1.63	30.35%	69.65%
Street Lighting	\$25,809	7,582	18,227	\$0.62	29.36%	70.64%

Proposed Fixed to Variable Split

	Total Revenue	Revenues from Fixed	Revenues from Variable	Rate	Fixed	Variable
Unmetered Scattered Load	\$975	\$510	\$465	\$8.50	52.30%	47.70%
Sentinel Lighting	\$1,325	\$756	\$569	\$3.00	57.05%	42.95%
Street Lighting	\$25,809	\$14,580	\$11,229	\$1.00	56.49%	43.51%

Revised Fixed to Variable Split

	Total Revenue	Revenues from Fixed	Revenues from Variable	Rate	Fixed	Variable
Unmetered Scattered Load	\$975	\$510	\$465	\$8.50	52.30%	47.70%
Sentinel Lighting	\$1,325	\$756	\$569	\$3.00	57.05%	42.95%
Street Lighting	\$25,809	\$12,976	\$12,833	\$0.89	50.28%	49.72%

Retail Transmission Service Rates (“RTSR”)

During the interrogatory process HHI provided an updated version of the Board’s RTSR Model to incorporate the latest Uniform Transmission Rates and Hydro One Sub-Transmission Rates. VECC submitted that these revised rates should be approved by the Board. Board Staff accepted the RTSR provided that the utility is using the most up to date model.

Discussion and Reply Submission

HHI agrees with both interveners and has no issues with their submissions.

Low Voltage (“LV”) Charges

Hydro Hawkesbury’s proposed LV rates are based on Hydro Hawkesbury’s forecast LV cost of \$99,595, based on the average of 2011 and 2012 costs. HHI allocated the LV costs to each class based on the projected Transmission- Connection revenue for each class.

VECC stated that while the forecast could be refined the value is reasonable for rate setting given any differences will be captured in a variance account. Board staff stated

that HHI had justified the need for the increased costs and expressed no concerns with the rates proposed by HHI

Discussion and Reply Submission

HHI has no issues VECC and Board Staff 'submissions.

Loss Factors

As summarized by Board Staff, 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.

Board Staff stated that since HHI 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, therefore the SFLF should be about half-way of 1.034, which is approximately 1.02. Board staff submits that the TLF should be closer to one of these amounts rather than 1.0541 as proposed by HHI.

VECC reviewed Board Staff's proposal and noted that this issue was not explored during the interrogatory process and there is no information on the record as to what the actual loss factors used by Hydro One Networks in billing HHI were. VECC noted that as a result, it was not immediately apparent that the 1.0058 factor was inappropriate. However, VECC noted that the distribution loss factors have been declining over the five year and that as a result, a shorter period such as three years would be more appropriate.

Discussion and Reply Submission

The determination of the loss factor is a very mechanical process and HHI's intent is to comply with the filing requirement. As noted by VECC, the issue of supply facility loss factor was not argued nor contested during the IRs therefore HHI maintains that its SFLF should be approved. In the interest of clarifying the record, HHI's calculates its SFLF based on both its Hydro One and IESO power bills. HHI shows its determination of its SFLF for 2012 in the table below.

2012 Determination of Supply Facility Loss Factor

	H1		IESO		TOTAL NON ADJUSTED	TOTAL ADJUSTED
	LOSS ADJ	NON ADJ	LOSS ADJ	NON ADJ		
JANUARY	6,731,447	6,716,285	9,997,831	9,924,591	16,640,876	16,729,278
FEBRUARY	6,287,682	6,270,925	8,559,059	8,497,313	14,768,238	14,846,741
MARCH	6,026,985	6,009,292	7,796,713	7,739,995	13,749,287	13,823,698
APRIL	5,446,579	5,429,346	6,485,838	6,437,829	11,867,175	11,932,417
MAY	7,021,409	6,993,746	4,616,736	4,576,372	11,570,118	11,638,145
JUNE	7,007,491	6,981,000	4,870,160	4,828,403	11,809,403	11,877,651
JULY	5,271,374	5,256,901	6,792,042	6,739,638	11,996,539	12,063,416
AUGUST	5,356,649	5,340,978	6,548,860	6,498,191	11,839,169	11,905,509
SEPTEMBER	4,993,755	4,977,556	5,739,294	5,694,490	10,672,046	10,733,049
OCTOBER	5,336,787	5,319,218	6,157,037	6,109,601	11,428,818	11,493,823
NOVEMBER	5,788,077	5,771,897	7,539,677	7,485,083	13,256,980	13,327,753
DECEMBER	5,681,610	5,671,054	9,107,133	9,041,432	14,712,486	14,788,743
					-	-
TOTAL	70,949,844	70,738,197	84,210,379	83,572,938	154,311,135	155,160,223
LOSSES	211,647		637,441		849,089	
%	0.2983%		0.7570%		0.5472%	

As mentioned above, the determination of the SFLF is a very mechanical and non-arbitrary calculation. HHI maintains that its SFLF should be based on the loss the utility is being charged by its providers.

Specific Service Charges

Board Staff summarized and ultimately submitted that it had no concerns with Hydro Hawkesbury's proposal to increase the charges, as shown in the table presented in their submission and replicated below

Changes to Specific Service Charges

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

VECC noted that for those three changes relating to services provided after regular hours the cost is \$162.50 in each case. Based on this cost, VECC submits it would be more appropriate to set the new charge for each of these services at \$165.

Discussion and Reply Submission

HHI had rounded the charge up to \$170 taking into consideration that these will be in place for the next 4-5 years. Ultimately, HHI has no issue with the charges proposed by VECC.

Exhibit 9 – Deferral and Variance Account

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 proposed amounts for disposition are presented below (replicated from Board Staff submission)

Account #	Account Description	Disposition Amount
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

Board Staff submitted that it had no concerns with the disposition of Group 1, Group 2 and Account 1576 deferral and variance accounts, except the LRAM Variance Account (account 1568). In response to IRs, HHI provided an updated rate rider table reflecting its LRAMVA balance.

HHI requested in its original application, recovery of \$1,423 in residual LRAM balances from its previous LRAM rate rider. In its submission, Board staff submitted 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, Board staff stated that the utility takes the risk for recovery of the LRAM amount and that 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.

Discussion and Reply Submission

HHI's intent is to comply with policy on this matter. If Board deems it inappropriate to recover residual LRAM amounts, HHI suggests excluding them out of the proposed balances sought for recovery. As a note, HHI does not feel that it is appropriate for a utility to be financially disadvantaged as a result of government initiated CDM programs and that maybe a true-up procedure should be considered.

Please note that the table above, submitted as part of the IRs (as replicated from Board Staff' submission) does not include the \$1,423 in residual balances.

Recovery of Reasonably Incurred Costs

VECC submits that its participation in this proceeding has been focused and responsible. Accordingly, VECC requests an award of costs in the amount of 100% of its reasonably-incurred fees and disbursements.

Discussion and Submission

HHI has no objection to VECC's costs provided that they are reasonable.