



February 10, 2015

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
27th Floor/ P.O. Box 2319
2300 Yonge St.
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: 2015 Price Cap IR Application
Reply Submission
Halton Hills Hydro Inc.,
OEB Proceeding: EB-2014-0079**

Halton Hills Hydro Inc. ("HHHI") hereby submits its Reply Submission in relation to HHHI's 2015 Price Cap IR Application to the Ontario Energy Board ("the Board") for rates effective May 1, 2015.

The reply submission has been filed through RESS and two (2) copies have been couriered to the Board office. A copy of the reply submission has also been electronically mailed to the Board Secretary, Board Counsel, the Case Manager and all intervenors on file in proceeding EB-2014-0211.

In the event of any additional information, questions or concerns, please contact David Smelsky, Chief Financial Officer, at dsmelsky@haltonhillshydro.com or (519) 853-3700 extension 208, or Tracy Rehberg-Rawlingson, Regulatory Affairs Officer, at tracyr@haltonhillshydro.com or (519) 853-3700 extension 257.

Sincerely,

(Original Signed)

David J. Smelsky, CPA, CMA
CFO

Cc: Arthur A. Skidmore, CPA, CMA, President & CEO
Interested Parties in proceeding EB-2014-0079
Richard King, Counsel, HHHI

ONTARIO ENERGY BOARD

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

AND IN THE MATTER OF an application by Halton Hills
Hydro Inc. for an order approving just and reasonable rates and
other charges for electricity distribution to be effective May 1,
2015.

Reply Submission of Halton Hills Hydro Inc. (“HHHI”)

Introduction

Halton Hills Hydro Inc. (“HHHI”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”) on October 20, 2014, seeking approval for changes to the rates that HHHI charges for electricity distribution, to be effective May 1, 2015. The Application is based on the 2015 Price Cap IR option.

This document is being submitted in response to the Board Staff and Vulnerable Energy Consumers Coalition (“VECC”) submissions, dated January 30, 2015.

Rate Generator Model

HHHI thanks Board Staff for making the required revisions to the Rate Generator Model.

Disposition of Group 1 Deferral and Variance Accounts

Board Staff stated in their submission that they have no issue with HHHI’s request to dispose of the Group 1 Deferral and Variance over one (1) year. HHHI and Board Staff are in agreement of the Group 1 Deferral and Variance Account balance, including interest calculated to April 30, 2015, of \$ \$1,607,685 including the balance of \$19,597 in Account 1589-Global Adjustment (applicable only to Non-RPP customers). HHHI continues to request a one (1) year disposition for the Group 1 Deferral and Variance accounts.

Return on Equity

In the course of proceeding EB-2014-0079, both Board Staff and VECC filed interrogatories and Submissions regarding HHHI’s past level of earnings.

Board Staff submitted that HHHI’s level of earnings in 2012, 2013, and the expected level of earning in 2014, warrants a review to determine if HHHI’s choice of the Price Cap IR rate setting option balances the interests of both ratepayers paying just and reasonable rates, and of the utility in earning a financial return commensurate with its business risks. Board Staff submitted that the

evidence suggests that HHHI's rates have consistently recovered revenues that lead to excessive earnings and that it would be appropriate for the Board to refrain from approving any upward adjustments to HHHI's rates until the rates are reset through a cost of service proceeding.

HHHI is not in agreement with the Board Staff submission. HHHI rates have not consistently led to excessive earnings. The fact remains that the 'one-time' adjustments for income tax refund and LRAM have resulted in the required reporting of an elevated achieved ROE.

In its submission, VECC suggests that HHHI provide a normalized calculation of its 2012 and 2013 achieved ROE.

In response to VECC's suggestion, HHHI has provided a normalized ROE for 2012 and 2013. The normalized calculation excludes the LRAM revenue recovery and the one-time tax savings. The detailed calculations are provided in Appendix A and summarized in the table below:

HHHI Summary of Normalized Return on Equity

Year	Board Approved Return on Equity	NORMALIZED Return on Equity	Achieved Return on Equity
2012	9.12%	11.03%	13.30%
2013	9.12%	9.97%	14.97%

Thus, the one-time tax refund and the recognition of LRAM are not permanent or sustained earnings and as such, HHHI believes that it is reasonable for the Board to approve an increase of 1.6% to HHHI's base rate in accordance with the submitted stretch factor of 0%, productivity of 0% and inflation of 1.6%.

Board Staff concluded their submission by stating "that the Board could consider a declaration of interim rates should Halton Hills Hydro seek to defer its cost of service application or report delays in meeting the Board's deadlines". On January 30, 2015 HHHI confirmed its intention to file a 2016 Cost of Service Application under the 4th Generation Incentive Rate setting method (now named Price Cap IR), for rates effective May 1, 2016. HHHI will submit the application on or before August 28, 2015. Based on the fact that HHHI will be submitting a Cost of Service application, HHHI requests the Board issue a final Tariff of Rates and Charges effective May 1, 2015.

Respectfully submitted,

(Original signed)

David J. Smelsky, CPA, CMA
CFO
Halton Hills Hydro Inc.

APPENDIX A

HHHI Normalized ROE – 2012 & 2013

(Intentionally Blank)

Halton Hills Hydro Inc. - NORMALIZED Calculation of 2012 ROE based on 2012 COS Deemed Equity 40% & Debt 60%

Regulated net income, as per OEB Trial Balance		\$ 2,490,960	A
Adjustment to interest expense - for deemed debt		67,198	B
Adjustment to future/deferred taxes expense (recovery)		36,575	
Non-rate regulated items		(345,315)	
LRAM recognized as revenue		(384,800)	
NORMALIZED regulated net income		<u>\$ 1,864,618</u>	C
Rate Base:			
Cost of Power		\$ 45,746,999	
Operating Expenses		<u>\$ 5,916,990</u>	
Total		\$ 51,663,989	
Working Capital Allowance %		15%	
Total Working Capital Allowance		<u>\$ 7,749,598</u>	
Fixed Assets			
Opening Balance	\$ 30,441,969		
Closing Balance	<u>\$ 38,621,640</u>		
Average	<u>\$ 34,531,805</u>	\$ 34,531,805	
Total Rate Base - 2012		<u>\$ 42,281,403</u>	D
Regulated Deemed Equity (40%)		\$ 16,912,561	E
Regulated Deemed Debt (60%)		\$ 25,368,842	F
NORMALIZED Regulated Rate of Return on Deemed Equity		11.03%	G = C/E
ROE% from most recent Cost of Service application	2012 COS	9.12%	
Difference - maximum deadband 3%		1.91%	
<u>Interest adjustment on deemed debt:</u>			
Regulated Deemed Debt - as above	\$ 25,368,842		
Weighted Average Interest Rate	4.07%		
	\$ 1,032,004		
Interest expense as per the OEB trial balance	1,111,528		
	(79,524)		
Utility Tax rate	15.50%		
Tax effect on interest expense	12,326		
	<u>\$ (67,198)</u>	B	
Non-rate regulated items			
USoA Acct No. 4375	(940,788)		
USoA Acct No. 4380	634,338		
USoA Acct No. 4385	(38,865)		
	<u>(345,315)</u>		

**Halton Hills Hydro Inc. - NORMALIZED Calculation of 2012 ROE based on 2012 COS
Deemed Equity 40% & Debt 60% (cont'd)**

WORKING CAPITAL ALLOWANCE FOR 2012

Distribution Expenses	
Distribution Expenses - Operation	797,619
Distribution Expenses - Maintenance	1,905,957
Billing and Collecting	1,072,259
Community Relations	4,875
Administrative and General Expenses	2,036,642
Taxes Other than Income Taxes	99,638
Less: Capital Taxes within 6105	
Total Eligible Distribution Expenses	5,916,990
Power Supply Expenses	45,746,999
Total Working Capital Expenses	51,663,989
Working Capital Allowance rate of 15%	7,749,598

RATE BASE CALCULATION FOR 2012

Fixed Assets Opening Balance 2012	30,441,969
Fixed Assets Closing Balance 2012	38,621,640
Average Fixed Asset Balance for 2011	34,531,805
Working Capital Allowance	7,749,598
Rate Base	42,281,403

Long-Term Debt	56%	4.21%	996,826
Short-Term Debt	4%	2.08%	35,178
Return On Equity	40%	9.12%	1,542,426
Regulated Return on Capital			2,574,430

Halton Hills Hydro Inc. - NORMALIZED Calculation of 2013 ROE based on 2012 COS
Deemed Equity 40% & Debt 60%

Regulated net income, as per OEB Trial Balance		\$ 3,623,607	A
Adjustment to interest expense - for deemed debt		(342,805)	B
Adjustment to future/deferred taxes expense (recovery)		(16,609)	
Non-rate regulated items		(333,372)	
Income tax recovery (2010, 2011, 2012)		(977,797)	
NORMALIZED regulated net income		<u>\$ 1,953,024</u>	C
Rate Base:			
Cost of Power		\$ 50,626,400	
Operating Expenses		\$ 5,177,619	
Total		\$ 55,804,019	
Working Capital Allowance %		15%	
Total Working Capital Allowance		<u>\$ 8,370,603</u>	
Fixed Assets			
Opening Balance	\$ 38,621,640		
Closing Balance	\$ 42,550,613		
Average	<u>\$ 40,586,126</u>	\$ 40,586,126	
Total Rate Base - 2013		<u>\$ 48,956,729</u>	D
Regulated Deemed Equity (40%)		\$ 19,582,692	E
Regulated Deemed Debt (60%)		\$ 29,374,037	F
NORMALIZED Regulated Rate of Return on Deemed Equity		9.97%	G = C/E
ROE% from most recent Cost of Service application	2012 COS	9.12%	
Difference - maximum deadband 3%		0.85%	
<u>Interest adjustment on deemed debt:</u>			
Regulated Deemed Debt - as above	\$ 29,374,037		
Weighted Average Interest Rate	4.07%		
	\$ 1,194,936		
Interest expense as per the OEB trial balance	789,250		
	\$ 405,686		
Utility Tax rate	15.50%		
Tax effect on interest expense	(62,881)		
	<u>\$ 342,805</u>		B
Non-rate regulated items			
USoA Act No. 4375	(804,580)		
USoA Act No. 4380	504,893		
USoA Act No. 4385	(33,685)		
	<u>(333,372)</u>		

**Halton Hills Hydro Inc. - NORMALIZED Calculation of 2013 ROE based on 2012 COS
Deemed Equity 40% & Debt 60% (cont'd)**

WORKING CAPITAL ALLOWANCE FOR 2013	
Distribution Expenses	
Distribution Expenses - Operation	800,456
Distribution Expenses - Maintenance	742,555
Billing and Collecting	1,210,087
Community Relations	2,980
Administrative and General Expenses	2,331,334
Taxes Other than Income Taxes	90,207
Less: Capital Taxes within 6105	
Total Eligible Distribution Expenses	5,177,619
Power Supply Expenses	50,626,400
Total Working Capital Expenses	55,804,019
Working Capital Allowance rate of 15%	8,370,603

RATE BASE CALCULATION FOR 2013			
Fixed Assets Opening Balance 2013		38,621,640	
Fixed Assets Closing Balance 2013		42,550,613	
Average Fixed Asset Balance for 2013		<u>40,586,127</u>	
Working Capital Allowance		<u>8,370,603</u>	
Rate Base		<u><u>48,956,729</u></u>	
Long-Term Debt	56%	4.21%	1,154,204
Short-Term Debt	4%	2.08%	40,732
Return On Equity	40%	9.12%	<u>1,785,941</u>
Regulated Return on Capital			<u><u>2,980,877</u></u>