Ontario Energy Board

Commission de l'énergie de l'Ontario

Ontario

EB-2007-0696

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

AND IN THE MATTER OF an application by Halton Hills Hydro Inc. for an order approving or fixing just and reasonable rates and other charges for the distribution of electricity to be effective May 1, 2008.

BEFORE: Gordon Kaiser
Presiding Member

Cynthia Chaplin
Member

DECISION

Background

Halton Hills Hydro Inc. ("Halton Hills") filed an application with the Ontario Energy Board (the "Board"), received on August 15, 2007, under section 78 of the *Ontario Energy Board Act*, *1998*, seeking approval for changes to the rates that Halton Hills charges for electricity distribution, to be effective May 1, 2008.

Halton Hills operates within the municipal boundaries of the Town of Halton Hills and serves approximately 18,000 residential customers and 1,600 general service customers as well as street lighting and sentinel lighting loads.

Halton Hills is one of over 80 electricity distributors in Ontario that are regulated by the Board. In 2006, the Board announced the establishment of a multi-year electricity distribution rate-setting plan for the years 2007-2010. In an effort to assist distributors in preparing their applications, the Board issued the *Filing Requirements for Transmission and Distribution Applications* on November 14, 2006. Chapter 2 of that document outlines the filing requirements for cost of service rate applications, based on a forward test year, by electricity distributors.

On May 4, 2007, as part of the plan, the Board indicated that Halton Hills would be one of the electricity distributors to have its rates rebased in 2008. Accordingly, Halton Hills filed a cost of service application based on 2008 as the forward test year.

Halton Hills requested a revenue requirement of $10,446,283 to be recovered in new rates effective May 1, 2008. The application indicated that the existing rates would produce a revenue deficiency of $1,549,873 for 2008. The resulting requested rate increase was estimated as 18.5% on the distribution component of the bill for a typical residential customer consuming 1,000 kWh per month.

The Board assigned file number EB-2007-0696 to the application and issued a Notice of Application and Hearing dated September 20, 2007. The School Energy Coalition ("Schools") and the Vulnerable Energy Consumers Coalition ("VECC") intervened in this proceeding. The application was dealt with by the Board by way of a written hearing. Board staff and intervenors were permitted two rounds of written interrogatories. Board staff and intervenors filed written submissions on January 18, 2008 and January 23, 2008 respectively. Halton Hills filed reply argument on February 8, 2008.

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

Issues

The following issues were raised in the submissions filed by Board staff, Schools and or VECC:

- Load Forecast
- Operating, Maintenance & Administrative Expenses

- Payments in Lieu of Taxes
- Capital Expenditures and Rate Base
- Cost of Capital
- Cost Allocation and Rate Design
- Smart Meter Rate Rider
- Deferral and Variance Accounts
- Shared Savings and Lost Revenue Adjustment Mechanisms
- Rate Impacts

Load Forecast

Halton Hills initially used the 2004 weather normalized values provided by Hydro One for purposes of forecasting customer usage. However, when these values were extrapolated to 2006, the method produced a load that was 8.1% higher than the 2006 actual level. On this basis, Halton Hills rejected its use of weather normalization for load forecasting. Board staff expressed concern with this approach and suggested that weather normalized data could have been used.

Halton Hills instead developed a forecast based on 2006 actual load (and the forecast customer count), which Board staff submitted was unsubstantiated. Schools submitted that the fact that normalized results are greater or lower than actual in a given year is not a sufficient justification for not using weather-normalized consumption to forecast load. Schools submitted that Halton Hills' forecast should be weather normalized and that there was insufficient evidence to support Halton Hills' forecast. VECC questioned the use of one year's weather normalized data for the purposes of generating a forecast, but submitted that there was no better information available.

Halton Hills forecast customer numbers for 2007 and 2008 using a simple trend growth based on data for 2004, 2005 and 2006. Board staff expressed concern that customer numbers changed significantly in some cases from year to year.

Halton Hills
Customer Number Forecast

	2004	2005	2006	2007 forecast	2008 forecast
Residential[1]	17,008	17,684 4.0%	18,203 2.9%	18,337 0.7%	18,902 3.1%
General Service: <50 kW	1,154	1,533 32.8%	1,482 (3.3%)	1,550 4.6%	1,600 3.2%
General Service: 50 kW to 999 kW	153	172 12.4%	178 3.5%	179 0.6%	180 0.6%
General Service: 1000 kW to 4,999 kW	10	10 0%	12 20%	12 0%	12 0%
Un-metered Scattered Load	141	137	136	136	136
Sentinel Lighting	121	177	178	179	179
Street Lighting	3,944	4,144	4,289	4,444	4,450

Notes: 1. includes Residential TOU customers.

Board staff submitted that the forecast rate of total customer growth for 2006 to 2008 is not consistent with the historic period: 4.3% is the historic growth; 2% is the forecast growth. Similarly, while the kWh average load growth from 2004 to 2006 was 6.6%, the forecast is for load growth of 3.2% annual average. Board staff noted that this comparison also includes variations due to weather.

Schools submitted that the load forecast was inconsistent with the capital budget in that projects are identified as being driven by growth in the general service 1000 – 4999 kW class, but no new customers are forecast for that rate class. Schools also agreed with Board staff that the customer growth forecast is not consistent with the historic period, and cited residential and GS>50 classes as two examples.

VECC also submitted that Halton Hills should justify the forecast level of residential customer additions for 2008 and suggested that the residential customer additions should be reduced to the three year historic average and the load, revenue and capital forecasts should be adjusted accordingly.

Halton Hills responded that there was sufficient evidence on the record to support its forecast. It pointed out that if the forecast were weather normalized, the result would be a higher volumetric rate for residential customers and a lower volumetric rate for the GS < 50kW class. Halton Hills did acknowledge a need to develop a methodology for producing weather normalized data, and committed to doing so in time for the next rebasing application.

Board Findings

The evidence shows that the annual growth in customer numbers varied quite substantially between 2004 and 2006, and therefore it is difficult to conclude that there is any particular trend to customer growth, particularly given the limited period examined.

The Board concludes that Halton Hills' forecast of 2008 residential customer numbers is reasonable. The level of growth between 2007 and 2008 is approximately the average of the growth experienced between 2004 and 2006. The Board finds that the number of customers in the GS 50-999 kW rate class for 2008 will be raised from 180 to 185. This class experienced high growth in 2005 and more moderate growth in 2006, although virtually no growth is forecast for 2007. The Board concludes that a level of 185 for 2008, which is 3.5% higher than the 2007 forecast, better reflects the historical experience but still incorporates the low growth expected in 2007. The Board will raise the GS < 50 kW 2008 forecast to 1,621 customers. This level represents a continuation of the level of growth forecast for 2007. The Board will make no further adjustments to the customer number forecast.

In the Board's view, the alternative forecast proposed by Halton Hills is fundamentally flawed in that it is not weather normalized, which Halton Hills implicitly acknowledges through its stated intention to develop its own weather normalization methodology for the next rebasing application.

The Board finds that Halton Hills should base its rates on a weather normalized forecast. The Board concludes that the most appropriate approach is to use the historical average of the weather normalized average use for the residential and GS < 50 kW rate classes over the period 2002 through 2006. For residential customers, that average weather normalized use is 11,111kWh/customer; for the GS < 50 kW class, the average weather normalized use is 39,946 kWh/customer. (This latter consumption level will be applied to the revised higher customer number forecast of 1,621.)

For the GS 50 – 999 kW class, the forecast consumption per customer contained in the evidence (700,730 kWh[1]) will be applied to the revised higher customer number forecast of 185.

The load forecasts for the other rate classes will remain unchanged.

Operating, Maintenance & Administration ("OM&A") Expenses

The test year total controllable OM&A expenses (Operations, Maintenance, Billing & Collection and Administration & General Expenses) forecast is $5.319 million, an increase of 16% from 2006 actual spending. Actual controllable OM&A expense in 2006 was 14.4% higher than the Board approved level. A further 3.8% increase is forecast for 2007. The forecast increase from 2007 to 2008 is 11.8%.

Board staff submitted that the 11.7% increase in labour costs between 2007 and 2008 is mainly due to annual salary increases of 3%, three staff additions, financing for an MBA program and staff development and training.

Schools submitted that the increases in total compensation appear to be excessive; in Schools estimation, the average annual increase is 6% since 2004 – not including the impact of the additional three staff – and that most of the increase appears in the difference between 2006 Board Approved and 2006 actual. Schools took the position that the increases were not well substantiated and submitted that a number of adjustments should be made for a total reduction of $286,746. With these adjustments, the OM&A budget of $5,032,254 would still represent a 5.7% increase over 2007 and a 9.8% increase over 2006 actual.

[1] Total forecast consumption for the class is 126,131,349 kWh. This consumption divided by the forecast customer number of 180 results in an average customer forecast of 700,730 kWh.

VECC also expressed concern about the increases in controllable expenses between 2006 and 2008 and noted that the increase in total compensation is one of the main drivers. VECC suggested that the Board require Halton Hills to benchmark its total compensation and OM&A cost on per customer and per kWh distributed from 2000 to 2008 and to file this information with its next rate application. VECC submitted that OM&A expense should be reduced by $56,000 which is 10% of the claimed increase over 2007 and approximates the level of unexplained difference in year over year cost changes between 2006 and 2008.

VECC also expressed concern with the senior management incentive plan. VECC submitted that the Board should require time dockets or time estimates to support the allocation of time and cost between Halton Hills and its affiliates for the President, Vice President and CFO.

Halton Hills responded that the 11.7% increase from 2007 to 2008 was due to two main factors: the addition of three staff positions and compensation increases arising from staff movement through salary grids and the implementation of management incentives in the areas of safety and financial performance. Halton Hills submitted that non-utility incentive payments had no rate impact because they are handled through inter-company charges. Halton Hills submitted that when total compensation (including capitalized compensation) is compared year over year, the increase between 2006 actual and 2008 is 11.8% or an average of 5.9% per year.

Board Findings

The Board does not find that the average increase in total compensation of 5.9% per year between 2006 and 2008 is excessive given the evidence regarding the staff additions and compensation increases. The Board is satisfied with the explanations Halton Hills has advanced for these increases. The Board will make no adjustment for the non-utility portion of the management incentive payments as Halton Hills has submitted that these charges are removed for purposes of determining the revenue requirement. However, the Board finds that the evidence for this adjustment should be more clearly presented in future applications.

In response to VECC’s submission regarding benchmarking, the Board notes that cost comparisons are being discussed in the context of the next generation of incentive ratemaking for electricity distributors.

Shared Services Costs

VECC submitted that the details of Halton Hills affiliate pricing should be filed in reply submission or later as a letter to the Board's Compliance Office. VECC submitted that the Affiliate Relationships Code ("ARC") requires that the transfer price for internally provided services to be fully allocated costs of the service provider, including a return on the capital employed at the approved weighted average cost of capital.

Board Findings

The ARC requires the use of fully allocated costs for the pricing of shared corporate services. Services provided by the utility to an affiliate must be at no less than market price. The Board is satisfied that the information provided by Halton Hills substantiates its claim that these services are being provided at market prices.

Payments in lieu of Taxes ("PILs")

Halton Hills forecast its PILs using a combined Ontario and federal income tax rate of 34.5% for 2008.

Board staff questioned whether Halton Hills' PILs allowance should be recalculated to reflect the elimination of interest expense additions and deductions, adjustments to depreciation and CCA that might result from a change in rate base, and a new combined tax rate of 33.5%. Board staff noted that Halton Hills had agreed that its treatment of interest expense was not in accordance with prior Board guidance.

Schools submitted that Halton Hills' PILs calculation should be adjusted to take account of changes in federal corporate income tax rate, the provincial capital tax, and the federal capital cost allowance rates. Schools also opposed Halton Hills' proposed treatment of interest expense. In Schools' view, Halton Hills has credited ratepayers with the deemed interest expense rather than its actual expense, which appears to be due to the difference between the actual capital structure and the deemed capital structure. Schools submitted that the proposed adjustment to interest expense should be denied because allowing the company to enjoy the tax advantage of having higher than deemed debt would "provide too great an incentive to utilities to have actual debt components in excess of that determined by the Board to be an appropriate capital structure."

Halton Hills responded that it would make the adjustment to interest expense and recalculate PILs using the most recent tax legislation.

Board Findings

The Board finds Halton Hills' proposal with respect to interest expense and the determination of PILs using the most recent tax legislation to be appropriate.
In calculating the PILs provision, the Board directs Halton Hills to reflect in its Draft Rate Order the new federal income tax rate (reduced to 19.5%, yielding a combined federal and Ontario income tax rate for 2008 of 33.5%), the change in the Ontario capital tax exemption amount to $15 million from $12.5 million, and the new CCA class rates applicable.

Capital Expenditures and Rate Base

The following table summarizes Halton Hills' rate base and capital expenditures for 2006, 2007 and 2008:

Halton Hills
Rate Base, Capital Expenditures & Construction Work in Progress

$ thousands	**2006**	**2007**	**2008**
Rate Base	32,208	34,723	37,954
Capital Budget	3,276.5	4,641.7	5,131
Construction Work in Progress	796.5	200	700
Total Capital Expenditures	4,074	4,842	5,831

Board staff identified the following cost drivers for the 47% increase in the 2008 capital budget compared to the 2006 budget:

- Customer additions and load growth
- New transformer station
- Load transfer eliminations.

Board staff expressed some concerns regarding expenditures related to load transfer eliminations and invited Halton Hills to address a number of specific issues regarding the costs and timing of projects. Schools took the position that the capital budget was generally well supported by the evidence.

VECC noted that the capital additions for 2008 were above historical levels and expressed concern that there did not appear to be a comprehensive asset management plan and that while Halton Hills had provided information on most projects, there was minimal information on the capital costs for Property Purchases. Halton Hills replied that the three land purchases were all for municipal substations and were therefore expected to cost the same, namely $100,000.

In reply, Halton Hills referred to evidence to the effect that the “Winston Churchill Blvd. – Steeles to Norval Metering Point” project was primarily a road widening project, not a load transfer elimination project, although load transfers were included in the design of the project as an additional efficiency. Further, Halton Hills removed the expenditures related to load transfers because “the cost of assets that will be transferred between utilities will not be known until all assets comprising the load transfers are verified and a monetary assessment is conducted.”

Board Findings

The Board finds that Halton Hills has substantiated the proposed test year capital expenditures based on system needs and asset assessment. The budget is accepted for purposes of determining rates or 2008.

The Board notes that Halton Hills does not yet know the asset values involved in the remaining load transfer projects and that therefore no amounts related this have been included in rate base for 2008.

Service Reliability Indices

Service reliability indices measure the performance of the system from the customer perspective. SAIDI and SAIFI measure the duration and frequency of customer interruptions; CAIDI represents the average duration of an interruption.

Halton Hills did not provide reliability performance data for 2007. Although performance in 2006 was better than in 2003 and 2005, for SAIDI and SAIFI, performance in 2004 was better than in 2006. The statistics are set out in the following table:

Halton Hills
Service Reliability Indices

	2003	2004	2005	2006	2007 forecast	2008 forecast
SAIDI	3.4253	1.1234	1.8462	1.193	1.2	1.2
SAIFI	1.8774	1.2190	1.7034	1.534	1.6	1.6
CAIDI	1.8200	0.9200	1.0838	0.780	0.8	0.8

Board staff submitted that the evidence was unclear regarding performance for 2007 and that there did not appear to be a target for 2008. In the absence of this information, Board staff submitted that it was not possible to evaluate how Halton Hills would sustain or enhance its reliability. VECC made similar submissions. Halton Hills replied that its forecast of reliability for 2007 and 2008 is relatively stable and that a number of its capital projects are designed to maintain or enhance reliability.

Board Findings

Halton Hills' forecast of reliability remains within historical levels of performance. In addition, Halton Hills has identified a number of capital projects which will maintain or enhance reliability. The Board is satisfied with this approach.

The Board is undertaking a separate consultation on Electricity Service Quality Regulation which will look at these issues on an industry-wide basis. The Board concludes that no adjustment to the capital budget is required.

Assessment of Asset Condition and Asset Management Plan

Halton Hills did not file a formal asset management plan. It did provide information regarding internal assessments which had been conducted.

Board staff submitted that without an asset management plan, it is not clear how Halton Hills prioritizes its work on a short and long term basis in order to maintain its assets. Board staff questioned whether an independent assessment of asset condition should be done and whether a formal asset management plan should be developed. Schools agreed that an asset plan was necessary to have a more transparent understanding of Halton Hills plans, but Schools was not convinced that the expense of an independent assessment of the asset condition was warranted and noted that the IRC Building Sciences Group report was commissioned by Halton Hills after identifying the problem internally. Schools concluded that this type of approach was appropriate for a utility the size of Halton Hills. Halton Hills agreed with Schools that this was the appropriate approach for a utility of its size.

Board Findings

The Board finds that Halton Hills' approach to project prioritization and asset management is sufficient for purposes of substantiating the 2008 capital budget.

Working Capital

VECC submitted that the 15% for purchased power is too high and should be 12% based on the Toronto Hydro and Hydro One lead lag studies and that working capital should be further reduced to reflect the decrease in transmission charges to be in effect for 2008.

Board Findings

The Board finds that there is insufficient evidence to apply the results of other lead lag studies to Halton Hills' determination of working capital.

The Board concludes that the most accurate data should be used in the calculation of working capital. For this reason, Halton Hills is directed to recalculate working capital using the new lower transmission rates, including Hydro One's proposed rates. (This adjustment is further described below in the section Retail Transmission Rates.) The Board also directs Halton Hills to update the cost of power to reflect the November 1, 2007 RPP rate representing the all in supply cost of $0.054/kWh.

Conclusion

The Board accepts the capital budget forecast and rate base forecast for purposes of determining rates.

Cost of Capital

The Board has established a methodology for the determination of the cost of capital. This methodology is set out in the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors*, dated December 20, 2006. The Board's Report sets out the formulas to be used to determine the return on equity and the deemed costs of long term and short term debt and sets out the process by which these figures will be updated.

Halton Hills provided indicative amounts, but proposed that the rates be adjusted in the Decision to reflect updated amounts, in accordance with the Board's methodology. Halton Hills indicated that its cost of long-term debt is the weighted average of 5.78% for new third-party debt and 6.25% for municipally held long-term debt. VECC submitted that the cost rate for the third party long-term debt might not be firm at 5.78% and suggested that Halton Hills confirm the exact nature of the cost.

Board Findings

The Board finds that the evidence is sufficient to substantiate the cost of 5.78% for new long-term debt. The Board also approves the capital structure as proposed.

The Board finds that the cost of capital will be set in accordance with the cost of capital methodology in the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors*. The cost of long term debt will be the weighted average of the affiliate debt at the new deemed rate of 6.1% and the new third party debt at 5.78%, for a total cost of 6.00%. The final approved levels are set out in the table below.

Halton Hills
Board-approved 2008 Capital Structure and Cost of Capital

Capital Component	% of Total Capital Structure	Cost Rate (%)
Short-Term Debt	4.00%	4.47%
Long-Term Debt	49.30%	6.00%
Equity	46.70%	8.57%
Preference Shares	--	
Total	**100%**	**7.14%**

Cost Allocation and Rate Design

The following issues are dealt with in this section:

- Revenue to Cost Ratios
- Line Losses
- Charges to Hydro One
- Retail Transmission Service Rates
- Monthly Charges
- Residential Time of Use Class
- Smart Meter Rate Rider
- Rate Impacts

Revenue to Cost Ratios

Revenue to Cost ratios measure the relationship between the revenues expected from a class of customers and the level of costs allocated to that class. The Board has established, as a matter of policy, target revenue to cost ratios for Ontario electricity distributors in its report *Application of Cost Allocation for Electricity Distributors,* dated November 28, 2007. The following table sets out Halton Hills' revenue to cost ratios from its Informational filing and its proposed ratios for 2008 (based on interrogatory responses):

Halton Hills
Revenue to Cost Ratios

Customer Class	Informational Filing Run 2	Proposed Ratios Contained in Interrogatory Responses	Board Target Ranges
Residential	88.34	94.60	85 – 115
GS < 50 kW	81.75	94.44	80 – 120
GS 50 – 999 kW	156.93	134.81	80 – 180
GS 1000 – 4999	164.17	131.92	80 – 180
Street Lights	15.14	24.27	70 – 120
Sentinel Lights	36.74	53.43	70 – 120
USL	106.77	103.37	80 -- 120

The proposed ratios are within the ranges set by Board policy, with the exception of Street Lights and Sentinel Lights, which both remain substantially below the Board's minimum target level of 70%.

Schools submitted that although the ratios for the GS>50 and GS 1000 – 4999 rate classes are within the Board range, they are still too high, while the Street Lighting is still below the minimum. In Schools' view, there is no justification for a Street Lighting ratio less than 100%, especially given that the Street Lighting ratepayer is a Halton Hills affiliate.

VECC submitted that the ratios had not been correctly determined and offered alternative ratios. VECC submitted that the ratio for the Street Lighting and Sentinel Lighting classes should be increased but that the ratio for the GS>50 kW should be decreased further.

Halton Hills replied that it was committed to continuing to move to 100% in future rate applications, but took the position that to move the Street Lighting and Sentinel Lighting classes to the level of the Board guidelines would result in rate shock for these customers.

Board Findings

The Board finds that Halton Hills should adjust the rates for Street Lights so that the ratio moves to 33%, which is about one third of the way between the historical level and the target minimum of 70%. While this represents a large increase for this class in percentage terms, the Board finds that the increase in absolute terms (which is approximately $63,000 in additional revenue) is acceptable and necessary in order to make significant progress toward bringing the class into the appropriate range. The Board directs that the additional revenue from this adjustment be applied to further reduce the over-recovery from the GS classes.

The Board finds that the proposed ratio for Sentinel Lights is acceptable, as it represents movement about half way to the target minimum of 70%.

The Board notes Halton Hills' stated commitment to move the ratios to 100%. The Board therefore directs Halton Hills to file a proposal as part of its 2009 IRM application for how all classes will be moved to revenue to cost ratios of 100% within the term of the IRM plan.

Line Losses

Halton Hills requested a total loss factor of 4.99% for the test year. Halton Hills' approved total loss factor from 2006 was 1.0368.

The table below sets out the historical and forecast distribution loss factors.

Halton Hills
Distribution Loss Factors

	Actual				
	2002	**2003**	**2004**	**2005**	**2006**
Distribution Loss Factor	1.0207	1.0365	1.0509	1.0637	1.0357

Halton Hills stated that the 2006 distribution loss factor was incorrect, and that the historic figures were lower than actual because of less accurate data gathering and an increase in un-metered power. Board staff noted the inconsistency in the reporting of 2006 results and the increase from 2004 to 2005. Board staff questioned whether there was a need to reduce the distribution loss factor.

Schools submitted that Halton Hills has not provided sufficient evidence to demonstrate why past line loss estimates were incorrect or that the un-metered power issue will significantly increase Halton Hills' distribution line losses. In addition, the proposed level would be quite high. VECC agreed with Board staff that there should be further explanation for why the 2008 loss factor should not be set at the historic level. In the alternative, if there is not an estimation problem, then VECC expressed concern with the high level of losses and the lack of evidence that Halton Hills is taking appropriate actions to reduce losses.

Halton Hills agreed that the distribution loss factor is high and indicated that it has initiated a process to review the loss factor. Halton Hills proposed that the Board approve the level for one year and require Halton Hills to report in writing on the results of the process underway and propose any necessary modification to the loss factor for implementation in May 2009.

Board Findings

The Board will accept the proposed total loss factor of 4.99% for 2008. However, the Board is concerned that Halton Hills is forecasting such a high level of distribution loss factors and will accept the company's proposal to report on its review process so that any necessary modifications may be made to the 2009 rates.

The Board notes that two activities are identified its *2007-2010 Business Plan* related to line losses: audit reviews on utility performance improvement in line losses and a study of potential incentives associated with line loss reductions.

The Board has recently completed the information gathering phase of the first activity and a summary report will be released shortly which will help inform policy development in this area.

Charges to Hydro One

Although Halton Hills is a host distributor for Hydro One Distribution, it did not apply for a Wheeling rate. Instead, Halton Hills made changes to its distribution system so as to treat Hydro One Distribution as a customer in the GS 1000-4999 kW class.

Board staff submitted that there was no evidence as to what changes were made to the system related to this proposal. Board staff also submitted that a distributor does not have the authority to change the status of an embedded distributor to that of a load customer, and that Halton Hills should have shown an embedded class in its Informational Cost Allocation study.

Halton Hills responded that it changed Hydro One from an embedded distributor to a commercial retail customer at the request of Hydro One and that a metering change was made after which Halton Hills took ownership of the metering unit.

Board Findings

The Board is satisfied with Halton Hills' explanation and finds that the arrangement with Hydro One is acceptable for current purposes. The Board notes that this issue has arisen in the context of the Board's work on the design of distribution rates. The Board expects Halton Hills to keep itself informed as to potential developments through that process. The Board also expects Halton Hills to reflect this change in its future cost allocation filings.

Retail Transmission Service Rates

In response to interrogatories, Halton Hills proposed to adjust its retail transmission rates, but by less than the change in wholesale transmission charges. Halton Hills noted that new charges have not been approved for Hydro One Distribution, and Halton Hills takes delivery from Hydro One at five delivery points.

Board staff pointed out that the new wholesale transmission rates apply to two of Halton Hills' delivery points. Board staff submitted that the new retail transmission rates do not appear to have been calculated correctly.

Halton Hills responded that it receives much of its power through embedded delivery points and that the rate adjustments proposed by Hydro One Distribution are smaller in percentage terms than the corresponding decreases approved for wholesale transmission rates. Halton Hills reported that Hydro One has indicated that proposed rates for retail network transmission service and retail line connection and transformation service will be $2.02/kW and $1.90/kW respectively. Halton Hills responded that its proposed retail transmission rates take account of three factors: the recent change in wholesale transmission rates; the expected change in retail transmission rates for Hydro One's embedded distributors; Halton Hills' current rates are over-collecting.

Board Findings

The Board finds Halton Hills' approach to be acceptable.

Monthly Charges

Board staff noted that the proposed increases in the monthly charges for the GS < 50 kW and Un-metered Scattered Load classes are lower than the increases in the volumetric rates and that the resulting charges are above the 2006 levels, which in turn are above the upper range of the Information Cost Allocation Filing.

Schools supported the changes in the fixed charges for the GS<50 and GS>50 rate classes. VECC submitted that the appropriate way to determine the fixed/variable split is to calculate the total 2008 revenue for each customer class using 2008 billing quantities and 2007 rates, excluding the smart meter and LV rate adders. Halton Hills responded that proposed monthly charges are the direct result of cost allocation strategies and maintained that the charges are fair and equitable.

Board Findings

The Board finds Halton Hills' approach to the setting of monthly charges to be acceptable.

Residential Time of Use Class

Halton Hills proposed to retain its residential time of use class for 2008, with two customers. The rates would be lower than the current rates for the class and lower than the regular residential rates. The rates for these two classes were the same until 2005.

In 2006 different rates were set, although identical rates had been part of the application. The necessary manual adjustment was not made, and these separate rates continued as part of the IRM formula approach. Board staff submitted that there is no evidence as to whether the proposed rate is cost-based, because the class does not appear as a separate entity in the Information Cost Allocation filing.

Halton Hills replied that this rate class should have the same distribution rates as the residential class and indicated that it was prepared to make this adjustment.

Board Findings

The Board finds Halton Hills' proposal that both these classes have the same rates is acceptable.

Smart Meter Rate Rider

Halton Hills currently has a smart meter rate adder of $0.28 per metered customer per month. Halton Hills proposed a rate adder of $1.18 per metered customer/month and cited its Smart Meter Investment Plan, which had originally been filed with the Board in December 2006.

Board staff pointed out that Halton Hills originally proposed a rate adder of $1.18 in its 2007 EDR application and that the Board denied that request on the basis that Halton Hills was not named by Regulation 153/07 as being authorized to undertake smart meter activity. Schools and VECC both submitted that the proposed rate adder should be rejected. Halton Hills responded that it is not requesting a rate rider of $1.18 until it can submit a more comprehensive plan based on clarification of the Ministry of Energy's intentions but that it is requesting a continuation of the current rate rider.

Board Findings

The smart meter rate adder will remain unchanged at $0.28 per metered customer/month. Halton Hills is not authorized to undertake smart meter activity at this time. If Halton Hills receives authorization to undertake smart meter activity, then it may consider applying for a new smart meter rate adder.

Rate Impacts

VECC noted that 43% of Halton Hills' residential customers are below the 750 kWhs per month consumption level and submitted that the proposed volumetric distribution rate increases for these customers were unacceptably high – at almost 24%.

Board Findings

The Board finds the level of proposed increase is not so high that rate impact mitigation measures are required. While acknowledging that the volumetric rate rider was changed from a charge to a refund, the pre-filed evidence indicates increases for residential customers on a total bill basis are 7.4% for customers consuming 100 kWh per month and 2.9% for customers consuming 500 kWh per month. The Board would also note that the residential class still maintains a revenue to cost ratio of less than 100%.

Deferral and Variance Accounts

Halton Hills proposed to dispose of the following deferral and variance account balances as at April 30, 2008:

Account Number	Account Name	Balance
1508	Other Regulatory Assets	$241,783
1518	RCVA – Retail	$12,228
1525	Miscellaneous Deferred Debits	$59,814
1548	RCVA – STR	($3,102)
1550	LV Variance	$21,164
1562	Deferred Payments in Lieu of Taxes	($115,260)
1570	Qualifying Transition Costs	($2,038)
1571	Pre-market Opening Energy Variances	($20,603)
1580	RSVA – Wholesale Market Service Charge	$251,077
1582	RSVA – One-Time WMS	$54,703
1584	RSVA – Retail Transmission Network Charges	$19,766
1586	RSVA – Retail Transmission Connection	($579,951)

	Charges	
1588	RSVA – Power	$1,654,427[2]
1590	Recovery of Regulatory Asset Balances	$130,533[2]
	Total	$1,724,601

Halton Hills proposed to recover these amounts over three years using a rate rider.

Accounts 1518, 1548, 1580, 1582, 1584, 1586, 1588

Account 1588 (RSVA Power) is part of the Board's ongoing "Bill 23" process. The Board has recently announced (by letter dated February 19, 2008) that it intends to launch an initiative for the review and disposition of Account 1588 and that it will consider the use of "disposition triggers". The Board also indicated it will consider whether to extend this initiative to all of the RSVA and RCVA accounts.

The Board finds that it would be more appropriate to await developments in that process than to dispose of these accounts at this time.

Account 1590 (Recovery of Regulatory Asset Balances)
Halton Hills proposed to dispose of Account 1590 before the final balance has been determined. Board staff questioned whether this was a proper "true-up" as envisaged by the Board in its Phase 2 Decision in the Review and Recovery of Regulatory Assets[3]. Halton Hills is forecasting a residual balance of $130,533 and submitted in its reply argument that it is appropriate to forecast the principal balance.

Board Findings

The Board finds that it is not appropriate to forecast the principal balance in this account or to dispose of this account at this time. The current rate riders for regulatory assets were designed to recover the approved amounts over two years. Those rate riders expire on April 30, 2008, after which Halton Hills will be able to accurately determine the residual balance.

[2] Includes forecasted principal balance beyond December 31, 2006

[3] RP-2004-0117, RP-2004-0118, RP-2004-0100, RP-2004-0069, RP-2004-0064 December 9, 2004 *Decision With Reasons, Recovery of Regulatory Assets - Phase 2*, Section 9.019

Account 1508

Halton Hills reported that it was using an interest rate of 3.88% for both sub-accounts in Account 1508, OEB Cost Assessments and OMERS Pension Contributions for the period January 1, 2005 to April 30, 2006. However, the Board's letter of December 20, 2004, established 5.75% as the interest rate for the OEB Cost Assessments for the period January 1, 2005 through April 30, 2006. Board staff pointed out that the difference would be immaterial.

Board Findings

Halton Hills has been applying the correct interest rate since May 1, 2006. The Board will not require any further adjustment to this account. This account shall be disposed of as proposed.

Account 1570 (Qualifying Transition Costs) and Account 1571 (Pre-Market Opening Energy Variances)

Halton Hills is proposing to dispose of these two accounts with a refund to customers. Board staff pointed out that these accounts were given final disposition and closed in the 2006 EDR Decision. Halton Hills explained that in the case of account 1570, approved recoveries exceeded actual which resulted in a "small non-material credit balance". For account 1571, a credit balance exists due to "back-billings" to customers in 2006 to the pre-market opening period for charges that were neither billed nor accrued to the pre-market opening period.

Board Findings

It appears that Halton Hills discovered that the amounts applied for in the 2006 EDR were overstated for these two reasons, and is attempting to refund the balance to customers. Given the circumstances, namely that the amounts are not large, that the result is a refund to customers and that Halton Hills has initiated the adjustment, the Board will allow for the balances in these two accounts to be rolled into account 1590 to be cleared along with the true up of the residual balance of this account, and not refunded to ratepayers via a rate-rider at this time.

Account 1562

The Board will not dispose of this account as part of this proceeding. The Board, by letter dated March 3, 2008, has announced that it will initiate a combined proceeding to determine the methodology that should be used for the calculation and disposition of account 1562.

Conclusion

The Board finds that accounts 1508, 1525, 1550, 1570, and 1571 should be disposed in accordance with Halton Hills' proposals, with the adjustments set out above.

Shared Savings Mechanism ("SSM") and Lost Revenue Adjustment Mechanism ("LRAM")

Halton Hills requested approval for an LRAM amount of $8,721 and an SSM amount of $33,583. Halton Hills proposed that the LRAM and SSM rate riders be combined into, and recovered through, a single distribution rate rider and requested a one year recovery period.

Board staff, Schools and VECC filed supplementary Interrogatories in relation to Halton Hills' LRAM and SSM claim. The supplementary Interrogatories mainly focused on the filing requirements set out in the Board's November 14, 2006 *Filing Requirements for Transmission and Distribution Applications,* and consistency with the Board's Decision (EB-2007-0096) regarding Toronto Hydro-Electric System Limited's LRAM and SSM claim for 2005 and 2006.

Halton Hills, as a result of the supplementary Interrogatories and the EB-2007-0096 Decision, has recalculated the LRAM and SSM amounts. The LRAM amount has been revised to $7,981 and the SSM amount to $21,454.

Board Findings

The Board finds that Halton Hills has satisfied the Board's filing requirements and that its claim for LRAM and SSM is consistent with the Board's Toronto Hydro decision. The Board approves an LRAM amount of $7,981 and an SSM Amount of $21,454. The amounts will be cleared through a rate rider over one year as proposed by Halton Hills.

Implementation

The Board has made findings in this Decision which change the revenue deficiency and change the deferral and variance account balances for disposition, and therefore the proposed 2008 distribution rates. These are to be properly reflected in a Draft Rate Order incorporating an effective date of May 1, 2008 for the new rates.
In filing its Draft Rate Order, it is the Board's expectation that Halton Hills will not use a calculation of a revised revenue deficiency to reconcile the new distribution rates with the Board's findings in this Decision. Rather, the Board expects Halton Hills to file detailed supporting material, including all relevant calculations showing the impact of this Decision on Halton Hills' proposed revenue requirement, the allocation of the approved revenue requirement to the classes and the determination of the final rates. Halton Hills should also show detailed calculations of the revised retail transmission rates and variance account rate riders reflecting this Decision

A Rate Order and a separate cost awards decision will be issued after the processes set out below are completed.

The Board Therefore Orders That:

1. Halton Hills Hydro Inc. shall file with the Board, and shall also forward to VECC and SEC, a Draft Rate Order attaching a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision, within 14 days of the date of this Decision. The Draft Rate Order shall also include customer rate impacts and detailed supporting information showing the calculation of the final rates.

2. VECC and SEC shall file any comments on the Draft Rate Order with the Board and forward to Halton Hills Hydro Inc. within 20 days of the date of this Decision.

3. VECC and SEC shall file with the Board and forward to Halton Hills Hydro Inc. their respective cost claims within 26 days from the date of this Decision.

4. Halton Hills Hydro Inc. may file with the Board and forward to VECC and SEC responses to any comments on its Draft Rate Order within 26 days of the date of this Decision.

5. Halton Hills Hydro Inc. may file with the Board and forward to VECC and SEC any objections to the claimed costs within 40 days from the date of this Decision.

6. VECC and SEC may file with the Board and forward to Halton Hills Hydro Inc. any responses to any objections for cost claims within 47 days of the date of this Decision.

7. Halton Hills Hydro Inc. shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

DATED at Toronto, March 27 2008
ONTARIO ENERGY BOARD

Original signed by

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Gordon Kaiser
Presiding Member

Original signed by

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Cynthia Chaplin
Member