Ontario Energy Board

Commission de l'énergie de l'Ontario

EB-2009-0186

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

AND IN THE MATTER OF applications by Hydro Hawkesbury Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2010.

BEFORE: Cathy Spoel
Presiding Member

DECISION

May 10, 2010

BACKGROUND

Hydro Hawkesbury Inc. ("Hawkesbury" or the "Applicant") is a licensed distributor of electricity providing service to consumers in its licensed service territory, the town of Hawkesbury. Its sole shareholder is the Town of Hawkesbury. Hawkesbury filed an application with the Ontario Energy Board (the "Board") on November 5, 2009 under section 78 of the *Ontario Energy Board Act*, *1998*, S.O. 1998, c. 15, (Schedule B) (the "Act"), seeking approval for changes to the rates that Hawkesbury charges for electricity distribution, to be effective May 1, 2010.

Hawkesbury is one of over 80 electricity distributors in Ontario 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, as amended on May 27, 2009, outlines the filing requirements for cost of service rate applications, based on a forward test year, by electricity distributors.

On January 29, 2009, the Board indicated that Hawkesbury would be one of the electricity distributors to have its rates rebased for the 2010 rate year. Accordingly, Hawkesbury filed a cost of service application based on 2010 as the forward test year.

The Board assigned the application file number EB-2009-0186 and issued a Notice of Application and Hearing on November 25, 2009. The Board approved intervenor status and cost eligibility for the Vulnerable Energy Consumers Coalition ("VECC"). No letters of comment were received by the Board.

Procedural Order No.1 was issued on December 18, 2009. The Board made provision for written interrogatories and indicated that it would determine the next steps upon review of the interrogatory responses. Interrogatory responses were received by February 4, 2010.

On February 19, 2010 the Board issued Procedural Order No. 2 which made provision for supplemental interrogatories of a clarifying nature on the existing interrogatory responses. Responses were received on March 9, 2010.

A conference call with all of the parties was held on March 25, 2010 in order to further clarify some of the evidence. As a result of the call, on March 29, 2010, Hawkesbury provided further written “Amendments to Responses to Board Staff Supplemental Interrogatories” and “Amendments to Responses to VECC Supplemental Interrogatories” (collectively the “Amendments”)

Procedural Order No. 3 was issued on March 30, 2010 making provision for submissions. Hawkesbury’s Final Submission (the “Reply”) was received on April 16, 2010.

The full record is available at the Board’s offices. The Board has summarized the record to the extent necessary to provide context to its findings.

THE ISSUES

A number of the issues that arose in this proceeding related to correcting or updating the nature of the evidence. The Board has reviewed the revised evidence submitted by the Applicant and accepts and approves the following:

Depreciation: The 2010 depreciation expense of $169,798 which is based on Hawkesbury correcting depreciation rates to reflect Board Policy,[1] and the justification of rate levels for computer software and for contributions and grants;

Net Book Value: The revised net book value of $ 2,155,830 that arises from using the correct depreciation rates;

Uniform Transmission Rates: The revision to the cost of power and Retail Transmission Sales Rates for the Uniform Transmission Rates which became effective January 1, 2010;[2]

Low Voltage Rates: The updated LV estimate of $60,500, which now better reflects the loss of the large user customer;

Revenue Offsets: The revision to the revenue offsets for merchandising and jobbing contract revenues to $64,902.73 and $51,480 respectively, which now better reflects the costs;

Conversion to International Financial Reporting Standards: The removal of the $60,000 amortized over four years, which is $15,000 for 2010, for conversion to

[1] *2006 Electricity Distribution Rate Handbook,* May 11, 2005
[2] *Ontario Transmission Rate Schedules EB-2008-0272,* January 5, 2010

International Financial Reporting Standards and the use of a deferral account as an alternative which now reflects Board policy;[3]

Low-Income Energy Assistance Program: The removal of $2,000 for Low-Income Energy Assistance Program which reflects Board policy established in its letter of September 8, 2009;

Payment in Lieu of Taxes: The use of the blended Corporate Tax Rate of 16% and Capital Tax Rate of 0.150%, which better reflect new tax rates beginning July 1, 2010;

Cost of Capital: The update of the cost of capital parameters to reflect the Board's February 24 parameter updates[4] which are to be used in the 2010 rate applications;

Smart Meters: The smart meter rate adder of $1.45, which reflects the corrections to the cost of capital and tax rates used in the calculation;

Account 1588 – Subaccount Global Adjustment: The Global Adjustment balance of $252,664.61 now being prospectively recovered from those responsible for the balance, which is the non-RPP customers. Since the MUSH sector (municipalities, universities, schools and hospitals) was not responsible for any of the December 31, 2008 balance in Account 1588 – Subaccount Global Adjustment, it has been excluded from this disposition.

Account 1590 – Recovery of Regulatory Assets: The corrected balance of $63,300 for Account 1590 to reconcile with the audited financial statements; and

Deferral and Variance Account Disposition Period: The proposed two year disposition period to return a credit of $1,858,812, to which there were no objections.

The remaining issues are discussed in detail below.

[3] *Report of the Board Transition to International Financial Reporting Standards,* EB-2009-0408, July 28, 2009

[4] Memo, Re: *Cost of Capital Parameter Updates for 2010 Cost of Service Applications,* February 24, 2010

RATE BASE

Of the rate base components the following issues required further consideration by the Board:

- Non-RPP Commodity Cost Estimate for Cost of Power and Working Capital Allowance,
- Lead Lag Study, and
- Asset Management.

Non-RPP Commodity Cost Estimate for Cost of Power and Working Capital Allowance

In determining the commodity cost of the COP, Hawkesbury used the RPP price as a proxy to estimate the non-RPP portion of commodity costs. Considering the magnitude of the non-RPP customer loads (90,992,416 kWh out of a total of 161,833,200 kWh is for non-RPP deliveries), Board staff submitted that the COP be adjusted to correct for any cost distortion by determining the Non-RPP portion of commodity based on estimated non-RPP costs. VECC concurred with Board staff.

Hawkesbury pointed out that RPP has been previously used as the common proxy for estimating the non-RPP commodity cost and has been accepted by the Board in past and current decisions. It also pointed out that settlements with the IESO are based on the HOEP plus the Global adjustment, and not based on non-RPP costs. Therefore Hawkesbury submitted that it seems reasonable to continue using the RPP price for all commodities. Hawkesbury was of the opinion that if a change is warranted, then a more general review should be held.

Board Findings

The Board notes that there is a general shift by applicants away from using the RPP price for estimating the non-RPP component in the cost of power and using a forecast for non-RPP customers. However, no evidence has been filed in support of a determination of the cost of power for the non-RPP component other than using the RPP price as proposed by Hawkesbury. The Board will accept Hawkesbury's estimate for the purposes of determining the 2010 rates, but expects Hawkesbury to address estimating the non-RPP component in its next cost of service application.

As a result of this finding the Board approves the rate base filed in the Amendments of $4,270,262, which reflects Hawkesbury's proposed estimate for the COP.

Lead-lag Study

VECC submitted that a lead-lag study should be filed with Hawkesbury's next rebasing application to assess the appropriateness of the 15% approach. VECC stated that the lead-lag study might show that the 15% bears no relationship to actual costs or working capital requirements.

Hawkesbury submitted that the same conclusion could be made with respect to a working capital allowance determined by a lead lag study since the actual costs are not known until they are incurred. Hawkesbury also stated that it would not be prudent for a small utility to incur the significant cost of conducting a lead lag study when the Board has determined that using the 15% allowance is acceptable for ratemaking purposes.

Board Findings

The Board expects to initiate a generic consultation to examine working capital methodologies in advance of Hawkesbury's next cost of service filing. Accordingly the Board will not require Hawkesbury to perform its own lead lag study at this time.

Asset Management

In 2008 Hawkesbury experienced 7,121 customer hours of interruption for defective equipment and foreign interference.[5] Hawkesbury has stated that it maintains the system to the *Minimum Inspections Requirement of the Distribution System Code*, and pointed to its Project/Program Classification document as a good description of its asset management practices.[6] Hawkesbury, however, has indicated that it has no asset management strategy, nor does it have performance targets.[7]

Board staff pointed out that 7,121 customer hours of interruption is high compared to 2007, when only 1,432 customer hours of interruption for defective equipment and foreign interference occurred.[8] Board staff also pointed out that the Board has recently commented on the adequacy, reliability and quality of electricity service. Board staff further noted that the Board in its Decision in the Coopérative Hydro Embrun proceeding, the Board required that Embrun demonstrate at its next cost of service proceeding that it has developed a programmatic and proactive approach to ensuring

[5] Board staff Interrogatory 7
[6] Board staff Interrogatory 6
[7] Exhibit 2 Tab 4 Schedule 5 *Review of Asset Management Practices of Ontario Electricity Distributors*
[8] Ibid

reliability of its system.[9] Board staff submitted that Hawkesbury should develop a more proactive approach.

VECC submitted that Hawkesbury appears to be a good candidate for a “minimum inspections requirement” regarding its distribution assets due to its small size. VECC questioned whether Hawkesbury should investigate the extent to which outages could be reduced through a more active asset management approach and whether a more active approach is economically justified. VECC submitted that Hawkesbury should undertake and file at the next COS application a “threshold study” regarding the appropriateness of increasing its asset management activity, at least at a high level focusing on the costs and benefits of reduced outages,.

Hawkesbury replied by pointing out that a single unusual foreign interference that occurred in 2008 which caused 2,633 hours of interruption. Hawkesbury contended that with the exception of 2008, its distribution system is a reliable and well maintained system. However Hawkesbury did agree that a more proactive approach could help to reduce equipment related outages. Further, Hawkesbury indicated that it will continue to work diligently towards improving its asset management practices in a cost-efficient manner and will conduct an outage review and report any unusually high outages to the Board in its next cost of service application.

Board Findings

The Board, in carrying out its responsibilities under the Act, is concerned about protecting the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service. As such, a fundamental obligation of the distributor is to ensure that electricity is delivered in a safe and reliable manner. Hawkesbury has indicated that it has a reliable and well maintained system. The Board sees merit in Hawkesbury’s proposal to conduct an outage review. The Board also sees merit in VECC’s suggestion to consider whether a more active approach is economical. The Board therefore directs Hawkesbury to perform an outage review and determine whether there is an economical means to be more proactive to lower outages and further increase safety and reliability of its system. . The Board directs Hawkesbury to file a report in its next COS application. In performing this study, the Board does not expect Hawkesbury to incur any significant additional costs.

[9] *Decision Coopérative Hydro Embrun*, EB-2009-0132, March 19, 2010

FORECASTS

Volumetric Forecasts

Hawkesbury has used a regression model developed by Elenchus Research Associates ("ERA") to forecast its demand and energy levels for 2009 and 2010.[10] The model is a multivariate regression of monthly wholesale deliveries to Hawkesbury against six variables; heating degree days ("HDD") and cooling degree days ("CDD") which are both from Dorval Airport near Montréal, full time employment in the Ottawa area, peak days, and two dummy variables to explain an unusual change in energy use in May 2005 and for non-holiday weekday consumption.

Board staff, through an interrogatory, tested the model and submitted that the volumetric forecast was a reasonable forecast.

VECC pointed out some limitations of the methodology. It stated that the approach to the modelling is simplistic in that it assumes all weather sensitive customer rate classes have the same degree of weather sensitivity. VECC also stated that there is a disconnect between the methodology used for the weather sensitive customer classes (residential, GS<50 kW and GS>50 kW) and the smaller customer classes (USL, street lighting, and sentinel lighting) which are not weather sensitive. VECC suggested an alternative approach, but concluded that because the loss factors implicit in the Hawkesbury's approach are not materially different from historical values, Hawkesbury's approach was reasonable for 2010.

In its Reply, Hawkesbury stated that the approach used in developing the forecast is necessarily simplistic due to data limitations. Hawkesbury however indicated that the full implementation of smart meter and associated data management should improve the robustness of its volumetric forecast in future applications.

VECC also had concerns about the full time employment forecast used in the model. Hawkesbury used a change in full time employment from 2008 to 2010 of -2.2%. It pointed out that the forecast growth in employment contained in the 2010 Budget delivered by the Provincial Government over the 2008-2010 period was -1.3%. VECC also noted that this forecast was more recent than Hawkesbury's estimates. VECC submitted that the change was material and should be reflected in the load forecasting model. VECC suggested two alternatives to adjust for this new employment forecast; the model could be re-run, or a "bottom line" adjustment could be made.

[10] Weather Normalized Distribution System Load Forecast – 2010 Test Year

Hawkesbury argued that the new Ontario Government employment forecast is a "political" forecast which may be optimistic, and has not been tested in this application. It stated that it used 4 separate private sector forecasts and taking the average of a range of forecasts is more appropriate than relying on a single forecast.

Board Findings

The Board acknowledges the stated limitations of the Applicant's methodology with respect to its inability to differentiate between the classes' responses to weather and employment. However, the Board does not consider that deficiency to be significant enough to undermine the forecast. With respect to the forecast growth in employment, the Board is mindful of the fact that the Provincial forecast is an average for the entire province, which may not be applicable in any particular part of the Province. The Board accepts Hawkesbury's proposed volumetric forecast, as it is based on regional projections, which seems to the Board to be an appropriate approach.

Customer Forecast

Hawkesbury has forecast residential connections in 2009 to be 1.1% lower than in 2008, and growth going into 2010 that is equal to the average growth in the period of 2004 to 2008. For both general service classes, Hawkesbury has forecast a decline in 2009 and 2010 equivalent to the decline experienced in 2008. Hawkesbury had a large user that ceased operating in November 2009.

Based on an interrogatory response Board staff pointed out that rather than a decline of 52 residential customers in 2009, there was an increase of 57 customers, and submitted the forecast should be revised to reflect the actual 2009 count.[11] VECC supported Board staff's position.

Hawkesbury, in Reply, pointed to the continuing tenuous nature of the local economy. It also noted that some of the properties connected to the distribution system are vacant, and as such there is a small risk that a few of the properties may be abandoned. Hawkesbury submitted that the Board should accept the 2010 customer forecast as filed.

Board Findings

The Board is aware that actual customer counts typically vary from the forecast for customer counts. The Board considers the variance to be small and within reasonable bounds of acceptability. Therefore the Board accepts Hawkesbury's forecast.

[11] VECC Interrogatory #4

OPERATING EXPENSES

Included in the operating expenses are the costs for operating and maintaining the distribution system and the administrative and general costs of the distributor. The following issues arose through reviewing these expenses:

- Regulatory costs, and
- Introduction of the HST.

Regulatory Costs

Hawkesbury originally applied for regulatory costs of $125,000 and proposed to amortize the costs over 4 years at $31,250 per year. This cost was later updated to $216,000.[12] Hawkesbury stated that the drafting of the application and the interrogatory process required more resources than first expected. Hawkesbury further increased its regulatory costs by $91,500 to include the forecast costs of its Incentive Regulation Mechanism ("IRM") applications for the next three years. In total Hawkesbury's revised regulatory costs was $307,500.[13] Amortized over a four year period the regulatory costs become an annual expense of $76,875.

Board staff noted that the $307,500 proposed was high compared to the average regulatory costs approved by the Board in the 2009 cost of service applications of approximately $130,000. It also pointed out that the regulatory expenses approved in another small distributor's 2010 COS application, Coopérative Hydro Embrun, was $267,000.[14] Board staff submitted that an amount no greater than $270,000 would seem appropriate for Hawkesbury. VECC agreed with Board staff and suggested that $270,000 was very generous.

Hawkesbury pointed out that the original forecast of $125,000 was optimistically low, and that the detail required in this cost of service application and the diligence of the parties required Hawkesbury to rely heavily upon consulting services for accounting and regulatory matters. Additional support services were also needed to address the revisions to minimum filing requirements released on June 30 2010 and the EDVAAR report[15] issued July 31, 2009. It stated that a great amount of time, care and effort was required to complete and submit the application in English rather than in French, the primary language used by Hawkesbury staff and its Board of Directors.

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[12] Board staff Interrogatory 11

[13] Ibid

[14] *Decision Coopérative Hydro Embrun*, EB-2009-0132, March 19, 2010

[15] *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative*, July 31, 2010

Hawkesbury pointed out that Board staff proposed to cap the regulatory expenses only $3,000 higher than that for Coopérative Hydro Embrun. It states that its costs are higher because of a number of factors. In Reply, Hawkesbury proposed to reduce the IRM component of the regulatory cost which would result in a final regulatory cost of $291,000.

Board Findings

The Board is concerned about the level of Hawkesbury's regulatory costs. It is incumbent upon all involved, including consultants retained to assist applicants with their filings, to understand the complexities of an application as the components of it relate to each other and as they are influenced by policy. It is also important to present the material required in an application through clear cohesive evidence. While the Board realizes that there are always matters that will need updating during the proceeding, such as for the test year cost of capital parameters which are not released until well after applications are filed, such updates should be limited. In this case many of the interrogatories were attempts to help clarify information that should have been properly presented from the start. It is the Board's view that it would be inappropriate to approve the estimated $291,000 for this application as proposed by Hawkesbury. The Board finds that Hawkesbury should reduce its regulatory costs to $250,000 which is to be amortized over 4 years.

Introduction of the HST

The Ontario provincial sales tax ("PST") (currently at 8%) and the Federal goods and services tax ("GST") (currently at 5%) will be harmonized effective July 1, 2010, at 13%, pursuant to Ontario Bill 218 which received Royal Assent on December 15, 2009. In response to an interrogatory, Hawkesbury estimated that the level of the PST included in the Application was approximately $11,079 for OM&A and $16,603 for capital expenditures ("CAPEX").[16]

Board staff submitted that it would be appropriate and consistent with other findings of the Board in 2010 COS applications that contained reasonable forecasts, to direct Hawkesbury to reduce its revenue requirement by the PST forecasts for both OM&A and CAPEX.

VECC submitted that $5,500, which is half of the PST contained in the OM&A estimates, should be removed since the HST will only be in effect for the last half of the year, and that a variance account be established to keep all parties whole.

[16] VECC Interrogatory 17

In Reply, Hawkesbury proposed to remove any PST in its test year OM&A and capital expenses and use a deferral account to track the actual amount of PST paid by Hawkesbury during the first 6 months of 2010. Hawkesbury stated that the advantage of this proposal is that the deferral account would only need to be tracked for 6 months. Hawkesbury further argued that VECC's proposal would create an unnecessary accounting burden.

Board Findings

Hawkesbury has stated that its PST estimate in their OM&A budget for 2010 is $11,079. The Board accepts this amount as reasonable for the PST considering Hawkesbury's level of expenditures. The Board directs Hawkesbury to remove one half of $11,079 from its expenses to recognize that the PST will cease to be levied on July 1, 2010. The Board finds that no deferral account is required.

COST ALLOCATION AND RATE DESIGN

Hawkesbury filed four cost allocation models. These models were filed in order to provide a trail of the changes made to the original 2006 Cost Allocation Informational Filing ("CIAF") model to the model proposed for the 2010 cost allocations. The changes made to the CIAF model were for Board directed changes to the transformer ownership allowance allocation and for correcting the non-coincident peaks for the GS 50 – 4,999 kW class. No parties challenged the models or the changes to the models.

Revenue-to-Cost Ratios

Calculating Revenue-to-Cost Ratios

VECC expressed concerns over the fact that Hawkesbury calculates its revenue-to-cost ("R:C") ratios in a manner that is not consistent with the Board approved method found in the cost allocation model. The approved method compares the allocated service revenue requirement and the revenues which collect the service revenue requirement. The method used by Hawkesbury is based on the allocated base revenue requirement and the revenues which collect the base revenue requirement.

The service revenue requirement approach contains costs that include costs that are for the provision of services by the distributor that are not included in the delivery rates, and revenues that include the revenues from distribution rates and the revenues from other service charges. The base revenue requirement approach is based on only the costs to deliver electricity, and the revenues that are based on the distribution rates designed by Hawkesbury.

Setting the New Ratios

Hawkesbury has proposed to set the 2010 R:C ratios by starting with the R:C ratios from the adjusted 2006 CIAF. Hawkesbury's proposal is to move the R:C ratios of those classes below the minimum of the target range to the minimum, and move the Sentinel Lighting down to the top of the range. This results in R:C ratios for 2010 that fall at or within the Board accepted boundaries.

VECC submitted an alternative for a starting point. VECC submitted that Hawkesbury should use the R:C ratios determined by increasing uniformly the class revenues flowing from 2009 rates to the level of the 2010 service revenue requirement. Hawkesbury is to calculate the R:C ratios by comparing the grossed-up class revenues to the allocated service revenue requirement by class found in the 2010 cost allocation model.

Board staff provided the following table drawn from the Application and interrogatories which shows the R:C ratios from the various scenarios. Column 1 contains the R:C ratios from the 2006 cost allocation. Column 2 contains the R:C ratios for 2006 adjusted for Board directed changes to the transformer ownership allowance allocation and for corrected non-coincident peaks. Column 3 contains the VECC requested R:C ratios derived from uniformly increasing the 2009 rates for any deficiency, and column 4 are the proposed R:C ratios. The Board target ranges for each class is found in Column 5.

Revenue-to-Cost Ratios

	Col. 1	*Col. 2*	*Col. 3*	*Col. 4*
	2006	**2009**	**2010**	**Target**
Residential	128	141	112	85-115
GS < 50 kW	111	119	111	80-120
GS 50 4,999 kW	27	29	80	80-180
Large User	141	0	0	85-115
Street Lighting	26	36	70	70-120
Sentinel Lighting	148	197	120	70-120
USL	8	198	80	80-120

References:

Column 1: HHI-2006C2 Sheet O1
Column 2: VECC IR #9
Column 3: Exhibit 8 Tab 2 Schedule 1 Attachment 1 page 2
Column 4: Report of the Board, Application of Cost Allocation for Electricity Distributors, EB2007-0067

Board staff did not object to Hawkesbury's proposal for re-aligning the rates.

VECC agreed to Hawkesbury's approach for revenue re-distribution for setting rates which result in the R:C ratios being in the approved range. In this approach, excess revenues from classes being brought down into the approved range are first used to reduce the residential class ratio to 119%, the same as that for GS<50 kW, and then the ratios for both classes are reduced in tandem.

Board Findings

The Board has set a policy through the application of the cost allocation methodology that the R:C ratios should be based on the service revenue requirement by class. The Board directs Hawkesbury to set the ratios accordingly when preparing the draft rate order.

The Board accepts the company's proposals for the respective R:C ratios by class since they are within the Board's approved ranges.

Loss Factors

Hawkesbury filed for loss factors based on Appendix 2-Q of the filing requirements. The methodology in that table develops loss factors based on an average of the previous five years.

VECC noted that overall the loss factor is trending downward and that a loss factor based on three years would be more appropriate.

Hawkesbury had no strong objection to basing loss factors on 3 rather than 5 years. The result from this change is a Total Loss Factor of 1.0446 rather than 1.0466.

Board Findings

The Board accepts that the lower losses of more recent years are a better reflection of the current system and therefore directs Hawkesbury to use a three year average.

Monthly Service Charge

Hawkesbury stated that its percentage variable component of the fixed-variable split is greater than that of comparable utilities. It has calculated the average variable portion of the split for its comparator group and has proposed to increase its fixed recovery portion to 75% of the average by rate class of the comparator group. The only exception is the GS>50 class where adoption of this approach would result in the fixed component giving rise to a monthly service charge above the Board’s recommended range. For this class, Hawkesbury has proposed to set the monthly service charge at the upper end of the Board’s target range. For all other classes, the results would fall at or within the Board’s target range.

VECC noted that the Board in past situations where the monthly service charge is within the Board’s range, the general approach of the Board appears to be that the choice is within the discretion of the distributor. However, VECC submitted that it is inappropriate for a distributor to pick and choose whether it prefers to increase, leave the same, or decrease the monthly service charge. Except for bill impact considerations, VECC submitted that when the resulting service charge for a customer class is within the R:C ratio range, the distributor should be required to maintain its existing fixed-variable split. VECC concluded that Hawkesbury’s proposed fixed-variable split for all it customer classes should reflect the existing 2009 fixed-variable split, with the exception of GS>50 kW. For GS>50 kW the monthly service charge should be set at the upper limit.

In Reply, Hawkesbury pointed out that the monthly service charge for its residential class is not near the upper boundary of the range. It also pointed out that as one of the smaller distributor in the province, managing volume risk can be more difficult than other distributors with more diversified customer base. Hawkesbury added that their fixed rate for residential customers is one of the lowest in the province. Hawkesbury reiterated VECC by stating that the general approach by the Board appears to leaves discretion with the distributor.

With regards to the determination of the fixed-variable split, VECC also pointed out an inconsistency with the Board’s cost allocation model. Hawkesbury has included LV charges in the determination of the fixed-variable split and the Board’s model does not.

Hawkesbury agreed to revise its fixed-variable split calculation to be consistent with the Board’s cost allocation model.

Board Findings

The Board is satisfied that Hawkesbury’s proposal results in monthly service charges that are at or within the acceptable range of the Board. The Board is, however, of the opinion that the derivation of the fixed-variable split, which gives rise to the level of the monthly service charge, should not include the low voltage rate. The Board directs Hawkesbury to exclude the LV charges from the fixed-variable split.

Introduction of MicroFIT Generator Service Classification and Rate

Ontario's Feed-In Tariff (FIT) program for renewable energy generation was established in the Green Energy and Green Economy Act, 2009. The program includes a stream called MicroFIT, which is designed to encourage homeowners, businesses and others to generate renewable energy with projects of 10 kilowatts (kW) or less.

In its EB-2009-0326 Decision and Order, issued February 23, 2010, the Board approved the following service classification definition, which is to be used by all licensed distributors:

> "microFIT Generator: This classification applies to an electricity generation facility contracted under the Ontario Power Authority's microFIT program and connected to the distributor's distribution system."

On March 17, 2010, the Board approved a province-wide fixed monthly charge of $5.25 for all electricity distributors effective September 21, 2009.

As part of its draft Rate Order, Hawkesbury is to identify the MicroFIT Generator service classification on its Tariff of Rates and Charges and include the currently approved monthly service charge of $5.25.

DEFERRAL AND VARIANCE ACCOUNTS

Hawkesbury has applied to clear the following deferral and variance accounts. These balances are the December 31, 2008 principal balances and associated interest to April 31, 2010.

Deferral and Variance Account Balances to be Cleared

	$
Account 1508 - Other Regulatory Assets	46,700
Account 1518 - RCVA Retail	2,193
Account 1525 - Miscellaneous Deferred Debits	272,863
Account 1548 - RCVA STR	10,630
Account 1550 - LV Variance Account	146,492
Account 1580 - RSVA WMS	($319,467)
Account 1582 - RSVA One Time	$13,436
Account 1584 - RSCA Network	($234,322)
Account 1586 - RSVA Connection	($1,463,352)
Account 1588 - RSVA Power - excluding GA Sub -Account	($144,324)
Account 1588 - RSVA Global Adjustment Sub-Account	($252,664)
Account 1590 - Recovery of Regulatory Asset Balances	$63,003
Total	($1,858,812)

The Board has reviewed these proposed deferral and variance account balances and subject to the specific findings in this Decision, approves the balances for disposition. The Board has also reviewed the means of disposition and subject to the specific findings in this Decision is satisfied that they comply with the Board's policy on their disposition.[17]

Account 1525 – Miscellaneous Deferred Debits

Hawkesbury has applied to clear the following charges from Account 1525 – Miscellaneous Deferred Debits as of December 31, 2008:

	$
Ontario Price Credit Rebate charges	3,428
Secondary Env. Charge from Hydro One year 2005-2006	237,727
Carrying Charges up to April 30, 3010-01-12	31,708
Total	272,863

The Board has specified that this account be allocated to rate classes in proportion to the recovery share of the cheques as established when the rate riders were implemented.[18]

Board staff pointed out that the Secondary Environmental Charge from Hydro One was allocated on the basis of distribution revenues as found in the regulatory asset model in the 2006 EDR and submitted that the Secondary Environmental Charge should be so allocated. [19]

VECC pointed out that the Board approved the Hydro One Network Inc's ("HONI") allocation of these costs based on distribution revenues to HONI's retail customers and LV revenues for HONI's embedded customers and submitted that a similar method be employed for Hawkesbury. VECC also pointed out that only a small portion of the balance is related to the rebate cheques and so it would be reasonable to allocate the entire balance using this approach.

[17] *Report of the Board on Electricity Distributors' Deferral and variance Account review Initiative (EDDVAR), July 31, 2009*

[18] *Report of the Board on Electricity Distributors' Deferral and variance Account review Initiative (EDDVAR), July 31, 2009*

[19] *Amended Decision and Order Hydro Hawkesbury Inc.* RB-2005-0020/EB-2005-0379 June 23, 2006

Hawkesbury in Reply stated that it would allocate the Ontario Price Credit Rebate Charges on the basis of number of customers with rebate cheques and the Secondary Environmental Charge from Hydro One on the basis of distribution revenues.

Board Finding

Based on past practices for allocating the Secondary Environmental charges from HONI, the Board directs Hawkesbury to use the distribution revenue to allocate this balance with its respective carrying costs.

With respect to the Provincial Rebate cheques, the Board is of the opinion that the costs associated with the cheques should be a cost of those receiving the cheques, and so directs Hawkesbury to allocate these costs to rate classes in proportion to the recovery share of the cheques as established when the rate riders were implemented.

IMPLEMENTATION AND COST AWARDS

Implementation

The Board has made numerous findings in this Decision which change the revenue deficiency and change the deferral and variance account balances and means for those balances' disposition. These are to be appropriately reflected in a Draft Rate Order prepared by Hawkesbury. This Draft Rate Order is to be developed assuming an effective date of May 1, 2010.

The rates are to be implemented on May 1, 2010. However, the Rate Order will not be issued in time to be implemented on May 1, 2010. Practically, the rates will be applied to the bills on June 1, 2010. Any revenue deficiency arising from the difference between the existing rates and the 2010 rates for the period May 1, 2010 to May 31, 2010 inclusive, shall be collected from Hawkesbury's customers using a foregone revenue rate rider which will be in effect for the eleven months from June 1, 2010 to April 30, 2011 inclusive.

A final Rate Order will be issued after these steps have been completed.

Cost Awards

The Board may grant cost awards to eligible stakeholders pursuant to its power under section 30 of the Ontario Energy Board Act, 1998. When determining the amount of the cost awards, the Board will apply the principles set out in section 5 of the *Board's*

Practice Direction on Cost Awards. The maximum hourly rates set out in the Board's Cost Awards Tariff will also be applied.

All filings with the Board must quote the file number EB-2009-0186, and be made through the Board's web portal at www.errr.oeb.gov.on.ca, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must be received by the Board by 4:45 p.m. on the stated date. Please use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.oeb.gov.on.ca. If the web portal is not available you may e-mail your documents to the attention of the Board Secretary at BoardSec@oeb.gov.on.ca. All other filings not filed via the Board's web portal should be filed in accordance with the Board's *Practice Directions on Cost Awards*.

The Board Directs That:

1. Hydro Hawkesbury Inc. shall file with the Board, and shall also forward to VECC, a Draft Rate Order attaching a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision, within 14 days of the date of this Decision.

2. VECC shall file any comments on the Draft Rate Order with the Board and forward to Hydro Hawkesbury Inc. within 7 days of the date of filing of the Draft Rate Order.

3. Hydro Hawkesbury Inc. shall file with the Board and forward to VECC responses to any comments on its Draft Rate Order within 7 days of the date of receipt of intervenor submissions.

4. VECC shall file with the Board, and forward to Hydro Hawkesbury Inc., their respective cost claims within 30 days from the date of this Decision.

5. Hydro Hawkesbury Inc. shall file with the Board and forward to VECC any objections to the claimed costs within 44 days from the date of this Decision.

6. VECC shall file with the Board and forward to Hydro Hawkesbury Inc. any responses to any objections for cost claims within 51 days of the date of this Decision.

DATED at Toronto, May 10, 2010

ONTARIO ENERGY BOARD

Original Signed By

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Cathy Spoel
Presiding Member