Ontario Energy Board

Commission de l'énergie de l'Ontario

Ontario

EB-2010-0136

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 Kingston Hydro Corporation for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2011.

BEFORE: Paula Conboy
Presiding Member

Ken Quesnelle
Member

DECISION AND ORDER

Background

Kingston Hydro Corporation ("Kingston Hydro") filed its 2011 distribution rate rebasing application (EB-2010-0136) on August 23, 2010. Kingston Hydro is the licensed electricity distributor for the City of Kingston, serving approximately 27,000 customers.

Kingston Hydro is one of 80 electricity distributors in Ontario whose rates are regulated by the Board. 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 June 28, 2010, outlines the filing requirements for cost of service rate applications by electricity distributors based on a forward test year.

On March 5, 2009, the Board informed Kingston Hydro that it would be one of the electricity distributors to have its rates rebased for the 2011 rate year. This was confirmed in the Board's letter of April 20, 2010. Accordingly, Kingston Hydro filed a cost of service application based on 2011 as the forward test year.

The Board issued a Notice of Application and Hearing (the "Notice") on September 14, 2010. The Board approved three interventions: the Energy Probe Research Foundation ("Energy Probe"); the School Energy Coalition ("SEC"); and the Vulnerable Energy Consumers Coalition ("VECC"). The Board also determined that these intervenors were eligible to apply for an award of costs under the Board's *Practice Direction on Cost Awards*.

Kingston Hydro indicated that if the application was approved as filed, residential customers consuming 800 kWh per month would experience an increase of approximately 26.5% in their delivery charges with an increase of $7.17 per month on their total bill. General Service customers consuming 2,000 kWh per month and having a monthly demand of less than 50 kW would experience an increase of approximately 16.5% in their delivery charges with an increase of $9.78 per month on their total bill.

As a result of the publication of the Notice, the Board received 8 letters of comment, all registering ratepayer concerns with the rate increases proposed.

Procedural Order #1 in this proceeding was issued on October 12, 2010 and set the dates for two rounds of interrogatories, as well as a Settlement Conference. The Settlement Conference was held on December 15 and 16, 2010.

During the course of the Settlement Conference, partial settlement was achieved, and Kingston Hydro filed the Partial Settlement Agreement with the Board on January 12, 2011 (attached as Appendix "A"). In the Partial Settlement Agreement, Kingston Hydro indicated it would file a short evidence update with an additional capital project proposed for 2011: Substation #3 ($920,500, see the Capital Expenditure chapter below) and increased OM&A costs ($90,933, see the OM&A chapter below).

Procedural Order #2 was issued on January 18, 2011, accepting the Partial Settlement Agreement and setting dates for the evidence update, interrogatories on the update and the dates for the oral hearing.

The bill impacts were revised in the evidence update of February 4, 2011, Appendix C (which also incorporated the Partial Settlement Agreement). The residential impact for a customer using 800 kWh showed an increase of 31.7% in delivery charges with an increase of $9.14 per month on the total bill. General Service customers consuming 2,000 kWh per month and having a monthly demand of less than 50 kW would experience an increase of 17.4% in delivery charges with an increase of $9.90 per month on the total bill.

The evidence update was filed on February 4, 2010; Board staff and intervenors filed interrogatories on February 11, 2011 and responses from Kingston Hydro were received on February 18, 2011. A one day oral hearing took place on February 28, 2011. Kingston Hydro submitted its Argument-in-Chief on March 10, 2011.

Board staff filed final submissions on March 29, 2011 and intervenors filed their final submissions on April 1, 2011. Kingston Hydro filed reply submissions on April 15, 2011. On April 26, 2011, the Board issued an Order declaring rates interim as of May 1, 2011.

The Partial Settlement Agreement documented all of the settled issues in this proceeding. However, 7 issues were not settled and became the subject of the oral hearing. The unsettled issues were listed in Procedural Order #2 and are listed below:

1. Is it appropriate to use the half-year rule for depreciation for the years 2005-2010 as proposed by Kingston Hydro in its application?

2. Should the cost of power estimate for the determination of working capital allowance be based on the most current values (November, 2010 to October, 2011) as proposed by Kingston Hydro in the application, or the most current projected values (May, 2011 to April, 2012)?

3. Are the 2011 capital expenditures proposed by Kingston Hydro in the application appropriate?

4. Is the proposed interest income earned on funds held in the City of Kingston's bank account appropriate as proposed by the Kingston Hydro in the application?

5. Are the 2011 Operating, Maintenance and Administrative (OM&A) expenses as proposed by Kingston Hydro in the application appropriate?

6. Is the PILs Schedule 1 adjustment for future benefit liabilities as proposed by Kingston Hydro in the application appropriate?

7. Is the interest rate of 7.25% for the long-term debt instrument held by the City of Kingston as proposed by Kingston Hydro in the application appropriate for the purpose of setting rates?

Issue #1 Is it appropriate to use the half-year rule for depreciation for the years 2005-2010 as proposed by Kingston Hydro in its application?

Kingston Hydro’s pre-filed evidence stated that for financial statement purposes, it uses full year amortization in the year of acquisition which is acceptable within Canadian Generally Accepted Accounting Principles (CGAAP). However, Kingston Hydro stated that in order to comply with regulatory accounting for ratemaking purposes, the amortization expense calculated in the year of acquisition should follow the half-year rule. Accordingly, Kingston Hydro adjusted the amortization expense for the historical years 2005 through to 2009 to reflect the half-year amortization rule.

Amortization expense for assets added in 2004 was calculated based on full year methodology, and this was included in the 2006 revenue requirement. This was due to the historical test year approach to setting 2006 electricity distribution rates.

At the oral hearing, Kingston Hydro witness Mr. Murphy indicated that Kingston Hydro had followed the Board’s filing requirements, issued June 28th, 2010, specifically Section 2.5.7 that,

> “…the Board’s general policy for electricity distribution rate setting is that capital additions would normally attract six months (i.e. half-year) of depreciation expense in the

> year that they enter service. The applicant should identify its historical practice and its proposal for the test year. Variances from this "half-year" rule must be documented with supporting rationale." [1]

Kingston Hydro submitted that the half-year rule was appropriately applied for the years 2005-2011 for rate making purposes in accordance with these Board instructions. Mr. Murphy also confirmed that Kingston Hydro's RRR filing with the Board was based on full-year depreciation as permitted by financial statement reporting.[2]

Two previous Board decisions were cited by Kingston Hydro; Ottawa River Power (EB-2010-0165) and Renfrew Hydro (EB-2010-0146) which they purported dealt with this issue. Mr. Murphy stated:

> "…in both of those decisions, Board Staff indicated that Ottawa River and Renfrew Hydro had followed the guidelines and they had no issue with what those applicants had done. As well, in both of those decisions, the Board ruled that the half-year rule was appropriately applied for ratemaking purposes, as opposed to financial statement purposes, which is what we have done. The issues are identical."[3]

Had Kingston Hydro used the full-year depreciation on assets purchased in the 2005-2010 period instead of half-year depreciation, the rate base in the test year was estimated to be $433,960 lower.

Positions of Parties

Intervenors and Board staff submitted that Kingston Hydro should not be permitted to restate its regulatory financial statements for the purpose of setting 2011 rates. Energy Probe, supported by VECC and SEC, argued that it was not appropriate to use a different set of books for regulatory purposes than what is used for Financial Statements and RRR Reporting. Doing this would result in Kingston Hydro ratepayers paying twice for the same assets. Full-year amortization was built into the rate base for setting 2006 rates, which were subsequently used as a base for the IRM adjustments each year from 2007 to 2010. Had the half-year rule been used in 2006, rates would have been lower for each of the next four years.

[1] TR February 28, 2011, page 19
[2] TR February 28, 2011, page 21
[3] TR February 28, 2011, page 23

Energy Probe calculated that the impact on revenue requirement was $42,000, which it characterised as a material amount which differentiates this case from the Renfrew Hydro decision (EB-2009-0146) referenced by Kingston Hydro. It submitted that in the Renfrew Hydro decision the Board allowed the restatement using the half-year rule, *"…given that the amount is not material."* Energy Probe also submitted that this was also the case in the Ottawa River Power decision (EB-2009-0165).

With regard to the quoted filing requirements, Energy Probe argued that the intent of this policy was to determine the depreciation expense for the test year and not to require (or allow) distributors to go back in time and restate their historical schedule of assets, resulting in the need for separate sets of books for regulatory purposes and financial accounting purposes. If this change is permitted ratepayers have paid for depreciation in rates through the full year methodology and are now being asked to pay a return on assets that are being added back into rate base.

SEC submitted that it is the Board's longstanding requirement that utilities obtain Board approval, either in a rate case or by way of accounting order, for any change in their regulatory accounting methods or policies. Kingston Hydro did not obtain an accounting order or other approval in this case. SEC also submitted that it knew of no principle of regulation or practice of the Board that would allow a utility to change its historical data on a retroactive basis to increase current rate recovery of past costs, concluding that this would likely be retroactive ratemaking and would undermine the regulatory process.

Board staff submitted that the restatement of historical rate base should not be permitted, and that rates should be set on a consistent basis over time. It is not appropriate to retroactively adjust rate-determining inputs to set future rates. The filing requirements cited are forward looking and are meant for future test years, not to retroactively adjust past years. With regard to the Renfrew Hydro decision, the Board itself determined that the amount in that case was not material, and in the Ottawa River Power case, Board staff submitted that there was no 'specific' finding on this issue. Board staff cited the Kitchener-Wilmot Hydro 2010 rates decision (EB-2009-0267) as an example of the appropriate application of the filing requirements.

In reply, Kingston Hydro argued that the filing requirements showed that using the half year rule is the general rule and that other utilities have interpreted it this way, specifically Renfrew Hydro, Ottawa River Power and many others. For this reason Kingston Hydro submitted that its interpretation of this policy is widely held. The guidelines show no differentiation between the method to be used in the test year and additions made between cost-of-service applications.

Kingston Hydro asserted that the Kitchener-Wilmot decision cited by Board staff dealt only with test years, not past years and therefore did not apply in this case. It also asserted that Board staff was inconsistent with its current submission when compared to its submission in the Renfrew Hydro and Ottawa River Power cases because staff had stated that it had ‘no issue’ with this change in both these cases.

Kingston Hydro addressed the Energy Probe issue of double paying by arguing that ratepayers are not paying twice, as the assets in question (from 2005 to 2010) have not been in rate base until now and therefore were not included in the rates paid by ratepayers in that time period.

As for the issue of two sets of financial statements, Kingston Hydro pointed out that the Board’s RRR filings assume and allow different sets of books for regulatory purposes.

With regard to SEC’s assertion that advanced approval is required for this type of accounting change, Kingston Hydro asserted that there is no such requirement by the Board that advance approval is required.

Kingston Hydro concluded with the argument that the shareholder will never be able to recover $433,960 of legitimate assets if this change is not permitted. This is contrary to fair ratemaking principles and the Board’s regulatory construct of not being able to true-up rate base during the term of IRM.

Board Findings

No party contested the use of the half-year depreciation for the 2011 test year. However, intervenors and Board staff submitted that Kingston Hydro should not be permitted to restate its regulatory financial statements since its last rebasing for the purpose of setting 2011 rates.

The Board agrees with the submissions of intervenors and Board staff and finds that restatement of historical rate base is not appropriate for cost of service applications. The Board accepts the submissions of Board staff in this case, that the application filing requirements are forward looking and are meant to outline the rate setting methodology for future test years, not to be used to retroactively adjust past years. The Board recognizes the potentially ambiguous nature of the words used in the filing requirements however, the underlying principle is clear. The half-year rule was implemented to capture the fact that not all capital assets are put into service on January 1 of the test year. The half-year rule is a tool used for the prediction for the future – the test year, not as a adjustment to past depreciation expense.

The Board is in agreement with the arguments of Energy Probe in that full-year amortization was built into the rate base for setting 2006 rates, which were subsequently used as a base for the IRM adjustments each year from 2007 to 2010. Had the half-year rule been used in 2006, rates would have been lower for each of the next four years. The Board rejects the argument made by Kingston Hydro that forbidding the retrospective application of the half-year rule is confiscatory. The rate base for 2011 will be set using the actual assets of Kingston Hydro as at December 31, 2009 as reflected in both Kingston Hydro's financial statements and regulatory RRR filings (plus appropriate capital additions for 2010 and 2011 and a working capital allowance). This is an appropriate rate base value on which Kingston Hydro should earn a return.

Therefore, the Board finds that using the half-year rule to restate the rate base for past years will not be permitted when determining rate base for the test year.

Issue #2 Should the cost of power estimate for the determination of working capital allowance be based on the most current values (November, 2010 to October, 2011) as proposed by Kingston in the Application, or the most current projected values (May, 2011 to April, 2012)?

Kingston Hydro's pre-filed application shows that it based its application on the Board's April 15, 2010 Regulated Price Plan ("RPP") Report. This yields an average commodity price of $0.06679/kWh.[4] Kingston Hydro updated its cost of power forecast with the Board's October 18, 2010 RPP report.

This specific issue was discussed at length in the oral hearing with extensive cross examination from Energy Probe. Kingston Hydro witness, Ms. Taylor agreed that the best information available should be used to forecast the cost of power.[5]

In its Argument-in-Chief, on page 4, Kingston Hydro maintained:

> "… that the 12 months November 1, 2010 to October 31, 2011 were used in the most recent calculation of RPP and non-RPP pricing. Projections for the six months beyond November 1, 2010 to April 30, 2011 are very likely to be subject to change. "

Kingston Hydro maintained that the most current estimates should be used to forecast the cost of power and applied to the period from November 1, 2010 to October 31, 2011, as opposed to the alternative of using the rate year of May 1, 2011 to April 30, 2012.

Positions of Parties

Energy Probe (supported by VECC) maintained that the best information be used and agreed with Board staff that the Board should use the forecast cost of power values that would pertain to the rate year, from May 1, 2011 to April 30, 2012.

Energy Probe argued that the load-weighted price for RPP consumers is an adjustment to the HOEP (or the forecast wholesale electricity price) to reflect the usage patterns of RPP consumers, and that these patterns do not change materially from year to year.

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[4] Exhibit 3/Tab1/Sch 3

[5] TR February 28, 2011, pages 28 - 29

Energy Probe pointed out that the ratio of the load-weighted price to the wholesale price is 1.0746877, previously 1.0777414, a difference of less than 0.3% from the October ratio. In addition, the RPP prices are dependent on four main components: the forecast wholesale electricity price or HOEP, the load-weighted price for RPP consumers, the Global Adjustment and the net impact of two other adjustments.

Energy Probe submitted that the forecast wholesale electricity price is available through to April 2012 and that given the stable relationship between the forecast price and the load-weighted priced for RPP consumers, this component of the price forecast can be calculated through to April 2012. Energy Probe argued that this proposal, while not perfect, reflects the use of better information that matches the cost of power with the rate year. The impact is a rate base reduction of $350,000.

Energy Probe also submitted that in the alternative, the calendar year period should be used as the forecast period for the RPP and non-RPP prices. In its submission, this would have the effect of reducing rate base by approximately $107,000.

SEC disagreed with the Board staff/Energy Probe rate year approach and argued that it would be more appropriate to use test year prices.

Board staff also noted that if the timing of the Rate Order in this proceeding will allow, the pending April 2011 report should be used for the 2011 rate year.

Kingston Hydro suggested that the Kitchener-Wilmot 2010 rates decision (EB-2009-0267) should be followed and that the most recent information that pertains to the November 2010 to October 2011 period, which is the Board's October 18, 2010 report, be used.

Kingston Hydro pointed out that the Global Adjustment forecast does not apply beyond October 2011 and that the Global Adjustment amount typically increases when the HOEP declines. The forecast in the October 18, 2010 report of the Board is that the HOEP will decline over the six quarters that are forecast resulting in the lowest energy price being forecast for the second quarter of 2012. The Global Adjustment that would offset this lower energy price is not available in the October 18, 2010 report.

Kingston Hydro disagreed with Energy Probe’s assertion that adjustments to components that represent in total 38-40% of the total price are insignificant and stated that the argument to use a lower hourly energy price in the absence of matching that price with a higher Global Adjustment value is opportunistic. Kingston Hydro argued that it was its understanding that the RPP calculation that is approved by the Board uses the HOEP forecast for the 12 months from the implementation date of the new RPP rates, that is, typically May 1 and November 1 and the 12 month period from November 1, 2010 to October 31, 2011 was used in the most recent calculation of RPP and non-RPP pricing. Kingston Hydro stated that projections for the six months beyond April 30, 2011 are very likely to be subject to change and submitted that the most recent in-effect 12 month projections are the appropriate numbers to use in the calculation of the cost of power.

Board Findings

The Board finds that it is appropriate for Kingston Hydro to use the most current values available at the time the application is under consideration by the Board to establish the cost of power estimate for the determination of working capital allowance. The filing requirements are clear that the most recent Board-approved RPP and an estimate for non-RPP (at the time of filing) is to be used for the electricity commodity price. The Board is of the view that a consistent basis for determining the commodity price be used for all applications in this subject area.

Specifically, this would have meant using the October 18, 2010 RPP forecast which is applied to the November, 2010 to October, 2011 period as originally proposed by Kingston in the application. The October 18, 2010 RPP forecast was the most current forecast available as the time the original application was before the Board. However, more current forecasts are now available, and Kingston Hydro is directed to update its calculations using the current estimate of the RPP commodity prices provided in the April 19, 2011 Regulated Price Plan Price Report.

Issue #3 Are the 2011 capital expenditures proposed by Kingston in the Application appropriate?

Kingston Hydro's historical and proposed Capital Expenditures are shown in the table below:

Year	Capital Expenditures
2008 Actual	$3,757,159
2009 Actual	$3,637,113
2010 Settlement	**$3,215,025**
2011 Update	**$5,433,500**

The pre-filed evidence included capital expenditures of $4,446,000 for 2010, which were revised through the course of the proceeding to $4,318,177 and eventually settled at the level of $3,215,025.

For 2011, in the pre-filed evidence, the original capital expenditure amount was $4,513,000 which was subsequently updated to $5,433,500 after the 2010 amount was settled. The update included the addition of the Substation #3 project which was added after Hydro One Networks Inc. changed its requirement for a 2010 capital contribution from a payment of $609,000 to a refund of $121,000, leaving Kingston Hydro with $730,000 unanticipated surplus capital.

In its evidence, Kingston Hydro provided significant information on the historical state of its assets and included a number of asset condition studies. Kingston Hydro witness Mr. Keech testified that Kingston Hydro has historically had priorities of keeping rates low and a run-to-the-end-of-life, or run-to-failure approach to system investment. This has resulted in historical under-investment in Kingston Hydro's service infrastructure and the need to increase investment to renew the system.[6]

Kingston Hydro witnesses testified to the use of a top-down approach to capital budgeting with projects selected on the basis of need and the availability of funds. In 2010, as funds became available due to lower capital needs, the Substation #3 project ($968,000) was added to the 2011 capital plan. This

[6] TR February 28, 2011, pages 11 - 17

project had already been previously identified in an interrogatory response as the next most likely project that Kingston Hydro would add in the test year if more capital funding were to be available.

Positions of Parties

Board staff submitted that the capital budget proposed by Kingston Hydro for 2011 was appropriate, while acknowledging the high percentage increase in capital spending from the Bridge to the Test year. Staff accepted Kingston Hydro's argument that the late 2010 change in capital contribution to Hydro One was unforeseeable and views this as a valid reason justifying the high percentage increase. While Board staff submitted that it did not believe that just because additional money becomes available, it should be spent; Board staff was of the view that the additional spending on the substation due to available funds was justified in the evidence.

In accepting the Capital Expenditure forecast, Board staff cautioned that the capital expenditure forecast may be affected if the Board accepted the staff submission on OM&A as it contained recommendations for reduced staffing that would affect capital levels in the test year.

Energy Probe submitted that the revised 2011 capital expenditures are too great an increase over historical amounts, noting that 2011 levels were 69% over 2010 actual and 46% over 2007-2010 actuals.

Energy Probe asserted that Kingston Hydro proposed to spend whatever it could for 2011 and this is not appropriate. Kingston Hydro should be spending whatever it needs to spend in 2011 as part of a long term plan that includes relatively stable additions, recognizing that that some projects may be required periodically at significant cost, such as distribution stations. However, there were no such large projects included in Kingston Hydro's 2011 forecast.

Energy Probe also submitted that the Board should follow the reasoning in the Burlington Hydro Decision (EB-2009-0259) issued March 1, 2010 where the Board focused on the concept that capital programs should generally be stable over time to ensure overall rate stability, and that if an overall increase is required then that should be planned for on a staged basis in a way which smoothes the rate effects.

In conclusion, Energy Probe submitted that the 2011 capital expenditures should be approved as the originally filed amount of $4,513,000, 3.4% over the modified average of the last three years and 14.7% over modified actual in 2010.

SEC supported the overall top-down budgeting approach of Kingston Hydro. However, SEC disagreed with using the money not spent or saved in the bridge year to do additional work in the test year. SEC maintained that Kingston Hydro should continue following its original plan. SEC submitted that the Substation #3 project ($968,000) be removed from the 2011 budget to arrive at the level of $4,465,000.

VECC argued along lines similar to SEC and Energy Probe in that the Board should allow 2011 capital expenditures in line with the capital budget proposed by Kingston Hydro in its original filing, and should disallow the proposed higher capital budget and related impacts sought in the updated evidence.

In making its submissions, VECC did not propose that the Board should specifically require Kingston Hydro to either pursue or not pursue specific projects in the test year, including the “Substation No. 3” project. VECC’s submission was that the appropriate level of capital spending for 2011 is $4,465,000, and that the requested increase in the amount and the related rate impacts are unjustified by the argument that the “Substation No. 3” Project be brought forward.

In reply, Kingston Hydro argued that Hydro One’s unforeseen inaccurate estimate resulted in a lower 2010 capital expenditure. Kingston Hydro maintained that Energy Probe’s calculation of ‘modified’ or ‘normalized’ capital expenditures did not normalize the 2011 amount. When this is done, the number for 2011 is $4,703,500 not $5,433,500 yielding an increase of only 20% not 38% as quoted by Energy Probe.

Kingston Hydro submitted that this 20% variance is the appropriate variance for consideration by the Board, if the Board’s deliberations were to be driven by a simple year over year comparison. However, Kingston Hydro suggested a year over year comparison is too simplistic given the unique circumstances in this case.

Kingston Hydro presented evidence in support of its contention that historical underfunding has led to lower rates but has also taken a toll on the system's operational integrity. Kingston Hydro noted that support was shown by Board staff and SEC for the top down approach to planning. The basis for the top-down approach is that the re-investment that is needed is greater than the funds available to spend. If more funds become available, then under the top-down approach the incremental funds should be spent on needed projects.

Kingston Hydro maintained that Substation #3 has always been needed in the test year, but could not be afforded (until funds were made available due to the Hydro One change). Evidence of this need was presented in the hearing and evidence update. Kingston Hydro did not have the funds to pursue this project but would have done so if funds were available.

Kingston Hydro differentiated the circumstances in the Burlington Hydro case by pointing out that for Kingston Hydro, one particular project is involved, while in the Burlington proceeding, the issue was a number of projects and expenditures.

Board Findings

The Board will approve the revised capital budget proposed by Kingston Hydro which includes the Substation #3 project in the test year. The Board accepts Kingston Hydro's evidence concerning its top-down approach to investment planning and how the historical run-to-failure practice has resulted in additional investment needs. The Board is of the view that the need for the Substation investment has been substantiated and that this is more of a timing and availability-of-funds decision. The Board acknowledges the circumstances that allowed additional projects to be completed as additional funding became available as a result of the change in the capital contribution obligation to Hydro One.

The Board accepts Kingston Hydro's position that it has been operating at a historic run-to-end-of-life or run-to-failure philosophy and that the company is attempting to move from a reactive to proactive management approach with this application. Kingston Hydro has adequately demonstrated that underperformance of system reliability indices (particularly in 2009) can be attributed to defective equipment and a requirement for an increase in capital investment beyond what can currently be accommodated with exiting revenue. However in examining capital expenditure needs, the Board must find an appropriate balance between the impact on customer rates and the need for a stable, on going replenishment of the system.

While the Board will approve the additional capital expenditure required to fund Substation #3, it notes that the advancement of this project should help Kingston Hydro find reductions in its maintenance costs that would otherwise have been required to keep the older assets in operation.

Issue #4 Is the proposed interest income earned on funds held in the City of Kingston's bank account appropriate as proposed by the Kingston Hydro in the application?

Kingston Hydro's application included a specific revenue offset; revenue earned on funds held in a City of Kingston bank account. The original amount reported for this interest income was $17,050 but this was corrected in the evidence update of February 4, 2011 to $75,321.

The average amount of Kingston Hydro funds in the City's bank account for 2011 is $5,579,323.[7] Response to Energy Probe IR #53 on the evidence update indicated that the amount planned to be in the bank account plus the amount of accounts receivable collected in a month, is needed to pay for the following month's IESO invoice plus any current expenditures coming due.

Based on the $5,579,323 amount, Kingston Hydro expects to earn $75,321 or 1.35% (prime rate of 3.00% less 1.65%). Response to SEC IR 2b) indicated that the actual interest paid by the City of Kingston to Kingston Hydro is calculated at a rate consistent with the rate the TD Bank pays on the City's general bank account.

Kingston Hydro's evidence provided in responses to IRs and in oral testimony,[8] also showed that the average balance held by the City of Kingston has been $4,392,256 in 2009, $3,640,693 in 2010 and, $5,579,323 in 2011.

[7] Exhibit 1/Tab 4/Sch 6/Attachment 1
[8] TR February 28, 2011, page 160

Kingston Hydro witness, Mr. Murphy, indicated that it is Kingston Hydro's practice to keep this level of funds in its bank account to pay the next month's expenses. Mr. Murphy used as an example, Kingston Hydro's December, 2010 IESO bill due January, 17, 2011 which was $6.2 million. In addition, approximately $500,000 of operating expenses were due in January, 2011. With approximately $6.7 million of invoices due in mid-January, Kingston Hydro believes that the $5.5 million amount cited for this account was appropriate.[9]

Kingston Hydro indicated that it had forecast the prime rate for the first two quarters of 2011 to be 3% and for the third and fourth quarters at 3.5% and 4% respectively.[10]

Positions of Parties

Parties focused on two issues: The projected prime rate of 3.0% for 2011 and whether the funds held by Kingston Hydro in this account are in excess of its needs and if these amounts should be used to pay down long-term debt owed to the City of Kingston.

Projected 2011 Prime Rate

Energy Probe submitted that based on the information presented, the prime rate forecast for 2011 should be revised from 3.0% to 3.375%, the average of 3.0% in the first two quarters of the year, 3.5% in the third quarter and 4.0% in the fourth quarter. This would result in an interest rate payable on the bank balance of 1.725% (3.375% less the 165 basis points) in place of the 1.35% used in the application. The resulting interest income would increase from $75,321 to $96,243, representing $20,000 or 27.8% higher.

VECC supported the Energy Probe submissions and Board staff provided similar submissions.

In reply, Kingston Hydro indicated that the most appropriate prime interest rate to utilize is the one currently in effect and that has been in effect since the 3rd quarter of 2010. Kingston Hydro maintained that previous forecasts for higher

[9] TR February 28, 2011, page 43
[10] TR February 28, 2011, page 42

interest rates for the balance of 2011 from current levels are increasingly doubtful, given the recent federal election, the catastrophe in Japan, the political unrest in other parts of the world, and the continuing debt challenges faced by countries in Europe. As a result, the prime rate could be maintained at its current level or could even decrease in the 2nd, 3rd and 4th quarters of 2011.

Therefore, Kingston Hydro submitted that the Board should find that on balance, the current 3.0% prime rate reflected in the application is an acceptable forecast for purposes of setting rates.

Board Findings

The Board finds that the 3.0% prime rate currently in effect and reflected in Kingston Hydro evidence is acceptable for rate setting purposes.

Level of Funds in the Account and Paying down Debt

Energy Probe submitted that the level of excess funds held in the City's bank account should be $2.7 million, not $5.5 million. This submission was based on the $5.5 million bank balance plus the $4.0 million in accounts receivable, which total $9.5 million. Subtracting the $6.8 million in IESO invoice and current expenditures leaves an average excess in funds of $2.7 million. Energy Probe noted that Kingston Hydro has a line of credit which it has not utilized which could be used if more cash is required.

Energy Probe submitted that the remaining $2.7 million should be used to reduce the amount of long term debt held by the City of Kingston. Energy Probe then showed that the reduction in the amount of the long term debt held by the affiliate reduces the weighted average cost of long term debt from 5.60% to 5.41%, a reduction in interest costs of approximately $46,000.

Energy Probe submitted that this reduction is appropriate as it represents a prudent use of the excess funds that Kingston Hydro has forecast for 2011. Kingston Hydro has made payments on its affiliate debt to reduce the amount of the outstanding principle in the past and there are no restrictions to stop this now. This shift of funds from the City’s interest bearing account would reduce interest income from $96,000 to about $49,000.

VECC agreed with Energy Probe's submission but also added that while the revenue requirement impact of the reduction in debt of $2.7 million is immaterial in conjunction with an increase in the forecast interest costs, it remains important for the Board to examine the relationship between Local Distribution Companies (LDCs) and their affiliates with respect to the exchange of affiliate debt. This is important to ensure that the Board's policies, in this case with respect to deemed capital structures, are not being inappropriately exploited.

VECC maintained that in the present case, the effect of maintaining in excess of $10 million in affiliate debt at an interest rate of 7.25% while at the same time loaning back to the same affiliate an average balance of $5.5 million at an interest rate of 1.35% appears inappropriate, in that it inflates the weighted average cost of capital while at the same time recovering, *prima facie*, an unreasonably low interest rate from an affiliate in exchange.

VECC argued that this situation resembles the facts in the recent Natural Resource Gas Ltd. (NRG) decision EB-2010-0018, (December 6, 2010) where the Board disallowed the impact of a compensating balance amount issued by the utility to its bank in the form of a GIC. The borrowing of excess long term debt from the bank, and then the loan of the money back to the bank in the form of a GIC had the effect of artificially inflating the weighted average long term debt of the LDC. VECC argued that the present case is similar, with the exception that in EB-2010-0018, the LDC did not need access to the GIC funds in any way for operating purposes.

SEC argued that with the application of appropriate cash management tools, the amount held in the bank account could be reduced by $5 million and applied to long term debt costs. SEC provided an Excel model, using data from Undertaking J1.9, to demonstrate this technique indicating that keeping the excess $5 million in the City bank account is not prudent cash management. Under the SEC model, interest costs are reduced by $359,429.

SEC noted that this proposal, reducing City debt by $5 million, reduces the weighted average cost of debt from 4.54% to 4.48%, reducing debt interest costs. SEC indicated that this would be more than offset by a reduction in interest income of $96,243 on the City bank account funds.

SEC proposed that the applicant's proposal for funds in the City bank account and the interest income of $96,243 as suggested by Board staff and Energy Probe, should be accepted by the Board.

In addition, under the SEC proposal with respect to the rate of interest on the City debt, the amount recovered for long term debt would decrease by $252,281. In total, these two proposals lower the deficiency by $348,524. SEC argued that its proposal would work to bring the applicant back to the same cash position as they proposed (and more), and even allows them to pay 7.25% on the remainder of the City debt, without eroding their cash position.

In reply, Kingston Hydro argued against linking the amount projected to be held in the bank account with the level of long-term debt owing to the City of Kingston.

Kingston Hydro argued that the Board's regulatory construct is to deem the level of long-term debt for electricity distributors for ratemaking purposes. The issue raised is not how the utility's deemed debt compares to the actual debt or how to reduce the actual level of debt from the deemed amount by linking it to bank cash balances. The costs of the utility's long-term debt should stand on its own.

Kingston Hydro argued that it follows certain financial principles: long-term debt is used to finance capital assets and short-term funds, such as cash on deposit with the City of Kingston, is used to pay the following month's expenses. Kingston Hydro submitted that each utility's management and board of directors should make that determination based on utility specific needs, and each utility's individual appetite for risk.

In addition, Kingston Hydro submitted that this matter should not be a part of a particular utility's rates proceeding, but rather a generic hearing, project or study on the appropriate mix of short term cash, capital assets, short-term debt and long-term debt.

Kingston Hydro maintained that it provided adequate evidence to show that the amounts in the City account are required to pay the next month's expenses. It rejected the model submitted by SEC as it is untested, was not brought before the Board in a hearing and therefore should be dismissed by the Board.

Kingston Hydro also asserted that it is not the place of intervenors to determine how a utility should be managing its cash balances.

With regard to the VECC reference to the NRG Decision, referenced above, whereby NRG specifically borrowed money to invest as a condition of its financing, Kingston Hydro submitted that the facts in this proceeding are entirely different. The money borrowed by Kingston Hydro has been outstanding since incorporation and was not borrowed to invest. The notes payable to the City of Kingston were issued on incorporation in exchange for capital assets transferred to Kingston Hydro.

Board Findings

While the Board recognizes that LDCs may operate at an actual debt structure that differs from deemed structure, it has maintained that for rate making purposes the deemed structure is 60% debt and 40% equity. The Board agrees with the submissions of Kingston Hydro and finds that in this instance the level of funds that Kingston Hydro holds in its bank account is an operational decision that should be made by the utility's management. The Board will not require Kingston Hydro to use funds it has collected in its bank account to pay down a debt the proportion of which has been deemed to be appropriate.

The Board agrees that the issue here is not how the utility's deemed debt compares to the actual debt or how to reduce the actual level of debt from the deemed amount by linking it to bank cash balances. The costs of a utility's long-term debt should stand on its own and will be addressed below in the finding under Issue #7.

Issue #5 Are the 2011 Operating, Maintenance and Administrative (OM&A) expenses as proposed by Kingston Hydro in the application appropriate?

The historical Operations, Maintenance and Administration (OM&A) expenses for Kingston Hydro from 2006 to the test year are shown in the table below which includes the percentage change from year to year.

Operations, Maintenance & Administration Expenses
Kingston Hydro
2006 to 2011, in dollars

	2006	2007	2008	2009	2010 Bridge	2011 Test
Operations	978,901	1,237,794	1,857,541	2,284,260	2,502,904	2,627,053
		26.4%	50.1%	23.0%	9.6%	5.0%
Maintenance	898,832	991,615	850,416	776,254	930,012	1,093,763
		10.3%	-14.2%	-8.7%	19.8%	17.6%
Billing and Collections	831,733	729,219	666,337	434,268	622,503	643,543
		-12.3%	-8.6%	-34.8%	43.3%	3.4%
Community Relations	159,120	261,138	156,184	200,686	240,014	413,492
		64.1%	-40.2%	28.5%	19.6%	72.3%
Admin & General	1,750,166	1,576,034	1,669,824	1,579,504	1,716,984	2,149,653
		-9.9%	6.0%	-5.4%	8.7%	25.1%
TOTAL	**4,618,752**	**4,795,800**	**5,200,302**	**5,274,972**	**6,012,417**	**6,927,504**
		3.8%	8.4%	1.4%	14.0%	15.2%

The information in the table is found at Exhibit 4/Tab2/Sch2/page 2 in Kingston Hydro's pre-filed evidence and includes the changes that were provided in the evidence update, (Outside Services Employed, Property Insurance and Employee Pensions and Benefits). The table also includes the reduction of Administration and General costs to reflect the removal of the Late Payment Penalty amount of $26,138 as a result of the EB-2010-0295 Decision.

As shown in the table, OM&A costs increase by 14% in the bridge year and by over 15% in the test year. Inflation in the test year is forecast to be in the range of 2%.

Kingston Hydro indicated that much of the increase in OM&A costs is linked to increases in staff count, increasing complexity of the industry, linked to capital expenditures and the need for renewal of infrastructure at Kingston Hydro.[11] Kingston Hydro's OM&A costs have increased significantly over inflation in this period.

[11] TR February 28, 2011, page 15 - 16

In its Argument-in-Chief, Kingston Hydro pointed out that their analysis of the increase in OM&A over the 2006 to 2010 period is 6.9% and not 8.5% as claimed in the Energy Probe compendium (Exhibit K1.1), page 19.

Customers per employee FTEs drop steadily from 675 in 2006 to 443 in 2011, a 34% decrease over this period.

During the oral hearing, Board staff noted that the OM&A cost per customer for the test year is $254, compared to an OM&A per customer value of $197 in 2009. Staff pointed out that this would change the Kingston Hydro OM&A per customer comparison with its cohort distributors from 10th highest to 5th highest (using the data shown at response to Energy Probe IR #19). Kingston Hydro's response to this was to say that,

> "…our OM&A expenses were significantly lower than they should be to keep the system in the condition that it needs to be for a number of years. And we view this as an opportunity to catch up."[12]

Kingston Hydro indicated that its OM&A per customer was significantly lower than its cohort companions since 2006, saying its expenses were $24 to $37 lower than the average of its cohorts. For 2009, Kingston Hydro is 11% lower than the average of their cohort distributors at $221 per customer. At the proposed OM&A level of $254 per customer, Kingston Hydro jumps to 15% above the 2009 cohort average.

A significant portion of the increase in OM&A is the test year increase in staffing to 61 FTEs, an increase of 13 positions from 2010. In addition, in 2010, four positions were added. In its Argument-in-Chief, Kingston Hydro argued that the proposed OM&A increases are driven largely by the need to hire workers which are also linked to capital expenditures.

> "This need is driven by a combination of preparing for upcoming retirements, returning staffing levels in the technical trades to what existed, striving to be proactive in Kingston Hydro's operating and maintenance practices, and addressing the requirements of other regulatory bodies impacting our industry to a level beyond that which has been historically the case."[13]

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[12] TR February 28, 2011, page 161
[13] Kingston Hydro Argument-in-Chief, page 10

Positions of Parties

Board staff accepted part of Kingston Hydro's evidence and arguments regarding the historical low costs, under-investment and resulting low staffing levels, but submitted that the increase in OM&A requested in this application is too high and has not been fully justified. Staff pointed out that historical increases for OM&A have been in excess of inflation by a meaningful amount. In terms of OM&A cost per customer, the evidence shows that Kingston Hydro was not at the bottom of its distributor cohort from 2006 to 2009, but between the middle and bottom third. For the test year, Kingston Hydro proposed to increase this from $197 per customer to $254 per customer, an increase of 29%.

Some specific areas where Board staff felt increases were too large were in staffing increases related to retirement projections, which Board staff characterized as not credible. In this regard, staff recommended approval of only 3 of 5 Powerline Technicians and only 1 of 2 Engineering Technologists.

Board staff took the position that the evidence showed that the requested additional positions are on top of current positions, not replacements. Kingston Hydro confirmed that it does not expect that the level of positions will be maintained going forward. The effect of this is that while these additional positions are funded by ratepayers into the future, the positions will not remain after retirements occur.

Board staff also argued that the CDM Advisor should not be funded by ratepayers, but that Kingston Hydro should make efforts to have this position funded by the OPA. In addition, staff submitted that the fulltime community relations person should be reduced to half time. Board staff submitted that the Administration and General cost increase was too high and recommended a reduction of $50,000.

In total, Board staff recommended a reduction of $306,000 for 2011, which would bring the total OM&A per customer to $243, 10% over 2010. The total increase in OM&A from 2010 is then also 10%.

Energy Probe focused on the increase in OM&A costs over the previous periods, calculating that there has been an 8.5% average annual increase in OM&A cost from 2006 through 2011. This was compared to the average annual increase in the Ontario inflation rate from 2006 to 2011 period (1.8%) and concluded that the increase in OM&A costs over this five year period is projected to be 4.7 times the inflation rate. Energy Probe also pointed out that total OM&A cost increase between the last year of actual data, 2009 and the 2011 test year was 31.8%.

This increase was compared to the Board's findings in the Burlington Hydro rates case where the requested OM&A costs for 2010 test year represented an average annual increase from 2006 through 2010 of 5.19% (page 8 of the EB-2009-0259 Decision and Order dated March 1, 2010). The increase from the last year of actual data (2008) to the 2010 test year was 13.4%. Energy Probe pointed out that the Board concluded, in Burlington Hydro, that:

> "...the total level of OM&A for 2010 is excessive. At an overall level, the Board finds that the increase of 13.4% in total controllable OM&A from 2008 actual is excessive in light of prevailing conditions, updated expectations for 2009, and reasonable expectations regarding cost control."

The Board went on to list a number of specific cost items where adjustments were warranted and then reduced the total by $450,000 to arrive at a 10% increase over the last actual year.

Energy Probe submitted that at an overall increase of 31.8% in Kingston Hydro OM&A from 2009 actual is excessive in light of the prevailing conditions and reasonable expectations regarding cost control. These are unchanged from those when the Burlington Hydro Decision was issued.

If the Board allowed a 10% increase over the 2009 actual expenditures for Kingston Hydro, the 2011 OM&A expense would be reduced to $5,802,469 ($5,274,972 x 1.10). However, the actual level of expenses recorded by Kingston Hydro in the 2010 bridge year were $5,976,724, 13.3% higher than 2009.

Energy Probe submitted that in light of these substantial increases in 2010 costs, there should be a reasonable expectation of cost control for 2011. The 2011 forecast of $6,953,641 represents an increase in OM&A costs of $976,917, or 16.3% over the 2010 actual expense of $5,976,724. Energy Probe submitted that this is excessive and that the increase should be limited to 5%, resulting in an OM&A expense of $6,275,560, a reduction of approximately $678,000.

Energy Probe submitted that an increase of 5% in 2011, following an increase of more than 13% in 2010 should be more than sufficient to allow the distributor to operate within the resulting level of increased expenditures.

In support of the argument that OM&A costs were too high, Energy Probe highlighted a number of other specific points:

1. Over the 2006 - 2010 period, the average annual decline in the number of customers per FTE was about 3.6% and that for the test year, the 2011 decline is more than 24%.

2. Non-union wage increases are substantially higher than union wage increases. Reported non-union staff increases were 4.8% in 2007, 5.3% in 2008, 4.1% in 2009, 3.8% in 2010 and forecast at 4.0% in 2011. Non-union increases were substantially higher than the union increases. Energy Probe submitted that the non-union increase should be decreased by half to 1.9% in 2010 and to 2.0% in 2011, for an estimated OM&A saving of $29,228.

3. Kingston Hydro reduced its estimate of audit fee increases from $58,000 to $17,500 as a result of delaying the adoption of IFRS until 2012. Energy Probe submitted that this amortization should not be allowed by the Board for the 2011 test year as Kingston Hydro is attempting to recover a potential 2012 cost in the 2011 test year.

4. $2,286 of Board of Director costs for the affiliate Utilities Kingston should not be recovered from ratepayers as the OEB has indicated in several previous decisions that the costs associated with the Board of Directors of affiliate or parent companies are not recoverable from ratepayers.

VECC supported the argument of Energy Probe, saying the OM&A budget should be reduced to $6,275,560 for the test year. VECC noted that Board staff's submissions appeared to focus more on the increases from 2010 to 2011, implying acceptance of the level of 2010 OM&A as reasonable.

Noting the difference of $226,157 between the Energy Probe and Board staff proposals, VECC submitted that the 2010 OM&A budget, as the culmination of budgetary changes between 2006 and 2010, is too high, by approximately $225,000.

VECC supported the Energy Probe argument that the $17,500 audit fee expense and the Board of Director costs ($2,286) not be allowed for 2011. VECC added to the Board staff proposals on reducing staffing costs by proposing that an additional $100,000 be removed to reflect the evidence that showed that certain positions have not been filled and/or other positions where retirement was expected, but did not materialize.

SEC voiced concerns over the high OM&A increases in the Bridge and Test Years, driven largely by FTE increases. SEC also expressed concerns over the 'virtual utility' structure employed by Kingston Hydro and how this structure prevented a clear view or complete picture of the utility's cost of operation.

SEC submitted that benchmarking based on OM&A per customer in the Kingston Hydro cohort was the appropriate way to set OM&A levels for the Test Year. SEC acknowledged Kingston Hydro's historic status as a low cost utility and advocated that it move into the range of an average utility. SEC argued that the $221 cohort average OM&A per customer, escalated for inflation to 2011, is $230 per customer and therefore translates to an OM&A budget for the Applicant of $6,273,000, a reduction of $655,000 from the applied for level, an 18.9% increase over two years from 2009.

In reply, Kingston Hydro reiterated that it is a low cost utility with rates that are 76th lowest of 83 LDCs. As low operating costs have an impact on system performance and safety, this cost of service rate application is an appropriate mechanism to correct a historical deficit. The proposed increases in OM&A expenses are linked to capital expenditures and are largely driven by the need to hire workers.

Kingston Hydro rejected the SEC assertion that as a result of its virtual utility status, there is insufficient information on the record to determine appropriate OM&A costs. Kingston Hydro maintained that it had prepared comprehensive evidence resulting in a full record that will allow the Board to make an informed OM&A decision. Kingston Hydro rejected the assertion that benchmarking should be used to determine appropriate OM&A costs.

With regard to the Energy Probe arguments, Kingston Hydro pointed out that there was an error in the table presented for the bridge year OM&A, and submitted that comparing OM&A increases to increases in inflation is not determinative of the reasonableness of OM&A expenses in the test year. Kingston Hydro quoted a Hydro One Transmission Decision (EB-2008-0272) where the Board determined that trend analysis was not appropriate for rate setting.

Kingston Hydro also rejected the concept that the Burlington Hydro Decision (EB-2009-0259), should be used as a precedent in this case. Kingston Hydro pointed out that although the Board found that OM&A increases should not exceed 10%, it did find specific instances of excessive spending. Kingston Hydro submitted that these circumstances do not exist in the present case.

Kingston Hydro's Argument-in-Chief reflected the removal $26,138 in late payment penalty costs.

Kingston Hydro also responded to a number of specific issues as raised by Intervenors and Board staff. Kingston Hydro:

1. Rejected the submission of Board staff in recommending that only 3 of the 5 requested Journeyperson Powerline Technicians be approved. Kingston Hydro asserted that its plans for additional staff were driven by more than just retirements, but by the need to introduce preventative proactive maintenance programs. It was also pointed out that it takes four years for certification of these technicians.

2. Also rejected the submission of Board staff in recommending that only 1 of the 2 requested Journeyperson Substation Technicians be approved. Kingston Hydro underlined the fact that it expects these 2 positions to be maintained going forward and the four year certification process.

3. Reasserted the need to expand its current .23 FTE OPA funded position as a CDM advisor to a .77 FTE position. Kingston Hydro submitted that it did not know the basis for Board staff's assertion that funding for this position is available through the Global Adjustment. It would be prudent to

fund this FTE from rates until such time as sufficient funding from the OPA or OEB approved programs can be guaranteed.

4. Pointed out that, with regard to the Community Relations position and Board staff's assertion that this position be reduced to a half time position, the important duties required to be done, such as new media communications, improved search capabilities, online bill calculators, improved website organization and content review. Kingston Hydro questioned the basis for Board staff's submission that a full time position is not appropriate for a utility of Kingston's size.

5. Argued that the increases in Administration and General were well defended in the evidence, quoting the descriptions of each of the 7 partial FTE positions. Kingston Hydro urged the Board to reject the staff assertions regarding reductions in OM&A costs in the test year.

With regard to the Energy Probe argument on the excessive increase in FTEs, Kingston Hydro urged the Board to consider the decrease in customers per FTE in the light of the historic circumstances that led to an artificially low FTE complement. While customers per FTE can be an informative metric, it should not be determinative of a test year FTE budget.

Kingston Hydro rejected Energy Probe's analysis on non-union wage increases, questioning the calculation itself, the materiality of the amount ($29,228) and asserting that there is no requirement the non-union wages need to match union wage increases. Non–union wages are performance based and combine inflationary and progression increases.

Kingston Hydro submitted that the $17,500 of IFRS related audit fees represent the amortized portion of the additional IFRS cost over the IRM period. It is appropriate to recognize this expense up to the next rebasing. The Board should not accept the Energy Probe argument that Kingston Hydro is "trying to recover a potential 2012 cost in the 2011 test year." Kingston Hydro also requested guidance as to whether this amount may be eligible for the IFRS related deferral account. Kingston Hydro agreed that the Utilities Kingston Board of Director costs of $2,286 should not be recoverable form ratepayers.

Board Findings

While the Board agrees with Kingston Hydro that trend analysis may not be a basis for disallowing certain costs, it has previously indicated that trend projections are useful as a potential trigger for an examination of changing circumstances. In this case, the increases sought by Kingston Hydro of 14% and 15% in 2010 and 2011 respectively are substantial, and warrant specific attention. The Board accepts that Kingston Hydro may have been operating at lower costs as a result of historical political decisions and an operating philosophy that has resulted in a system that has deteriorated. However, customers should not be unduly impacted by historic mismanagement. A graduated approach to restoring the system to a more robust state must be taken to mitigate the rate shocks that the customer would be forced to endure otherwise.

In recent decisions the Board has approved a total amount, commonly referred to as the “envelope” to support the Company’s OM&A activities. In this way, the Board provides the Company with the funding it believes has been supported by the evidence, without specifically directing the Company as to how the funds should be allocated among the various categories of OM&A spending. It is the Board's view that this approach allows for the ongoing management of the company leaving the priority setting in response to daily ongoing responsibilities to those charged with that responsibility.

The Board finds that Kingston Hydro has not adequately controlled its overall costs, nor has it controlled the rate at which those costs are increasing over the period. As such the Board has determined that it will reduce the OM&A by a total of $700,000. The resulting level of OM&A of $6,227,504 represents a more reasonable increase over the 2010 bridge year actual of 3.6% and an 18% increase over 2009 levels. The Board also notes that these reductions will bring the OM&A per customer down from $254 to $228, reducing the increase from 2009 to a more reasonable 16% rather than the 29% increase at applied-for levels.

The Board notes that this reduction to the overall OM&A costs leaves Kingston Hydro to determine which specific areas could be reduced from an operations standpoint. That being said, the Board has however noted a number of specific areas that Board staff and Intervenors have brought forward as areas where reductions could be accommodated. These include the following:

1. CDM position – The CDM position contemplated by Kingston Hydro are more appropriately excluded from the 2011 revenue requirement and included as staffing costs in the OPA Tier One Programs.

2. Board of directors – All parties to the proceeding agree that the costs associated with the Board of Directors should not be recoverable from ratepayers.

3. Audit fees resulting from IFRS –Distributors should not increase the test year revenue requirement to accommodate costs that may be incurred after the test year within the IRM years. The board has identified the nature of costs that can be included in the IFRS deferral account in its *Report of the Board: Transition to International Financial Reporting Standards* (July 28, 2009).

4. Increase in FTEs – While the Board accepts Kingston Hydro's argument that training requirements of new employees implies that FTEs can not immediately replace current positions and that there are other demands to increase FTEs. However, the Board also finds that the growth of FTEs of 45.94 in 2010 to 60.91 in 2011 is excessive and that Kingston Hydro should be able to find efficiencies to enable more reasonable staff additions.

5. Decrease in maintenance as s result of Substation #3 – With the approval of Substation #3 in Kingston Hydro's 2011 capital program, the Board finds that Kingston Hydro should likely be able to reduce the planned 2011 maintenance budget.

Issue #6 Is the PILs Schedule 1 adjustment for future benefit liabilities as proposed by KH in the Application appropriate?

Kingston Hydro is a virtual utility affiliated with the City of Kingston and Utilities Kingston. Kingston Hydro does not directly employ any people and as a result did not issue federal government T4s in 2009[14] and 2010[15]. The services agreement that sets out the employment relationship between Kingston Hydro and Utilities Kingston does not specifically identify that liability for post-employment benefits be maintained in the records of the regulated utility, Kingston Hydro.

The income tax PILs expense calculation begins with the determination of regulatory net income. Book to tax additions and deductions are incorporated into the calculation of regulatory taxable income. Kingston Hydro included additions and deductions to regulatory taxable income for changes in post-employment benefit liabilities. The net adjustment of these liabilities results in an increase to 2011 regulatory taxable income of $290,099. Board staff estimated that the income tax effect of the changes in liabilities for post-employment benefits in this application increases the income tax PILs to be recovered from ratepayers in the test year by approximately $114,220 (on a grossed up basis).

This net adjustment was reflected in Kingston Hydro's original application of a grossed-up PILs expense of $692,764[16] in its 2011 revenue requirement. As a result of the evidence update and the accepted Partial Settlement Agreement, the updated 2011 PILs provision was adjusted to $691,812[17]. There were no changes to the amounts of future post-employment benefit liabilities included in the calculation of the updated 2011 PILs provision.

Kingston Hydro provided a calculation of the test year PILs expense excluding the addition and deduction of book to tax adjustments related to future post-employment benefit liabilities[18]. Excluding these adjustments, the grossed-up PILs expense for the test year is calculated to be $578,544.

[14] Board Staff Second Round Interrogatory #9 a)
[15] Board Staff Supplemental IR on Evidence Update #4 b)
[16] Exhibit 4/Tab 8/Schedule 1/Page 1
[17] February 4, 2011 Evidence Update, Appendix D, Updated PILs Model
[18] Response to Board Staff Supplementary IR #9 d)

Positions of Parties

Energy Probe argued that Kingston Hydro should not be allowed to recover the PILs impact associated with the future benefit liabilities. Kingston Hydro failed to provide any evidence that the PILs Schedule 1 adjustment for future benefit liabilities is appropriate and, in Energy Probe's submission, there is no evidence that Kingston Hydro has to pay Utilities Kingston for these liabilities. As such, Energy Probe concludes that the Board should not require customers to pay for these uncertain amounts.

Energy Probe also submitted that Kingston Hydro should be directed to account for any tax credits associated with the Co-op Education Tax Credit, the Apprenticeship Training Tax Credit and the Federal Tax Credit, in particular those associated with hiring new apprentices.

VECC supported Energy Probe's arguments.

Board staff also submitted that the PILs Schedule 1 adjustment for future benefit liabilities as proposed is not appropriate.

Board staff quoted the settlement agreement from the EB-2008-0381 Deferred PILS combined proceeding (the "Combined Proceeding") specifically Issue #7 that was accepted by the Board on December 23, 2010 --- parties agreed that the future post-employment benefit liabilities and obligations should be shown in the records of the company that directly employs the people. Board Staff interpreted this principle to mean that these costs should not be included in a LDC's calculation of the income tax PILs expense if there are no directly employed people.

Kingston Hydro indicated in Supplementary Board Staff IR 9f) that the post-employment benefit cost is not included in the billed cost of labour charged by Utilities Kingston to Kingston Hydro. Board staff submitted that if Kingston Hydro hired a third party contractor to provide services, Kingston Hydro would not accrue a liability or future obligation for post employment benefits. Rather, it would be part of the burden rate in the price for the labour billed to Kingston

Hydro. If no liability or future obligation for post employment benefits was accrued there would be no impact of such liabilities on the PILs provision.

SEC agreed with the submissions of Energy Probe and Board staff.

In reply, Kingston Hydro maintained that the PILs Schedule 1 adjustment as submitted was appropriate and to not allow this PILs Schedule 1 adjustment would mean Kingston Hydro would be discriminated against because of how it has organised its structure.

With regard to the Combined Proceeding Settlement Agreement, Kingston Hydro pointed out that none of the distributors party to that settlement were virtual utilities, so the interests of virtual utilities in regard to this issue in the PILs case were not canvassed. Kingston Hydro argued that an exception should be recognized by the Board for virtual utilities and pointed out that the Settlement Agreement included a provision that other distributors are not bound by the positions stated in the agreement.

Kingston Hydro asserted that these liabilities are in fact liabilities of Kingston Hydro as they are responsible for these expenses and liabilities in accordance with the Kingston Hydro and Utilities Kingston service level agreement.

Board Findings

The additions and deductions to taxable income of future post-employment benefit liabilities shall not be included in Kingston Hydro's calculation of the PILs provision for its 2011 revenue requirement.

In consideration of all the submissions the Board finds that the determinative points are as follows.

Kingston Hydro has no employees. Kingston Hydro fulfils the responsibilities of a licensed distributor through a service agreement with an affiliated entity, Utilities Kingston. The terms and conditions of the service agreement do not transfer Utility Kingston's business costs associated with its future post-employment benefit liabilities to Kingston Hydro.

The Board observes that the Board accepted Combined Proceeding Settlement Agreement contains the parties' agreement that the future post-employment benefit liabilities and obligations should be shown in the records of the company that directly employs the people. The Board's findings here do not rely on this element of the accepted agreement nor are they in conflict with it. The Board's findings here are based on a general expectation of sufficiency of evidence and transparency and while in this instance they are in reference to the PILs adjustment, in general application these findings could apply to other types of costs.

The setting of just and reasonable rates necessitates the review of the costs that underpin and drive the concomitant revenue requirement. In the case of a virtual utility that has no employees and therefore relies to the fullest extent possible on an external service provider, the service agreement between the virtual utility and the service provider is of significant importance with regard to the review of utility costs. The terms of the service agreement form the basis on which the utility's proposed revenue requirement is established.

Kingston Hydro claims that it would be discriminated against because of how it has organised its structure if it were not allowed to make its proposed PILs Schedule 1 adjustment. The Board disagrees. The effectiveness of the Board's review of a utility's costs should not be impaired by the corporate structure that that utility operates within. Kingston Hydro's evidence must be presented in such a way as to substantiate its revenue requirement. It is clear to the Board that the record does not support its claim that it will rightfully incur the cost it seeks to include in its revenue requirement. In the absence of any explicit language in the service agreement dealing with this issue, Kingston Hydro has adopted an interpretation of the service agreement that favours the service provider, Utilities Kingston, over itself. It proposes that its liability, which results from its interpretation, be passed on to its ratepayers. The Board does not accept this proposal.

For the reasons stated above the Board expects that service agreements leave no doubt as to cost responsibilities and transfer pricing. This is especially important when the service agreement is between a virtual utility and affiliated entity. Kingston Hydro has a responsibility to substantiate its revenue requirement. The Board does not consider it discriminatory to expect this of Kingston Hydro.

The Board agrees with Energy Probe that tax credits associated with the Co-op Education Tax Credit, the Apprenticeship Training Tax Credit and the Federal Tax Credit should be included in Kingston Hydro's PILs provision, if any are expected to be received in 2011 from hiring new apprentices.

The Board directs Kingston Hydro to recalculate the level of income tax PILs expense on the basis of the Board's findings in this Decision, and to include sufficient details of the calculations to ensure the accuracy of the PILs calculation.

Issue #7 Is the interest rate of 7.25% for the long-term debt instrument held by the City of Kingston as proposed by Kingston in the Application appropriate for the purpose of setting rates?

Kingston Hydro's evidence on its capital structure and cost of capital is summarized in the table below:

Weighted Average Cost of Debt

DEBT OUTSTANDING IN 2011

Description	Amount	Issue Date	Term Date	Interest Rate	Annual Cost
City of Kingston	10,880,619	1-Jan-00		7.25%	$ 788,845
TD Cap. Loan	2,452,652	20-May-09	20-May-19	3.25%	$ 79,711
TD Smart Meters	6,000,000	1-Dec-10	31-Dec-20	4.50%	$ 270,000
TD 2009 Cap. Loan	2,213,216	1-Dec-10	1-Dec-30	4.84%	$ 107,120
TD 2010 Cap. Loan	2,557,493	1-Dec-10	1-Dec-30	4.84%	$ 123,783
TD 2011 Cap. Loan	2,167,550	30-Jun-11	30-Jun-31	5.00%	$ 108,378
	26,271,530			**5.65%**	

In the Partial Settlement Agreement, parties agreed that the TD Bank 2009 Capital Loan and the TD Bank 2010 Capital Loan would be set at 4.64% and that the TD Bank 2011 Capital Loan would be set at 4.78%.[19]

[19] Partial Settlement Agreement, January 12, 2011, page 11 of 17

This issue is primarily one of the long term debt instrument issued to Kingston Hydro by its affiliate, the City of Kingston and the applicable interest rate of 7.25%. Initially, on January 1, 2000 the principal amount of this loan was $12,380,619. At December 31, 2004, Kingston Hydro received repayment of $3,000,000 of its loan to an affiliate, Utilities Kingston. The proceeds of this repayment were used to repay debt of $1,500,000 in a loan to its shareholder, the City of Kingston and the other $1,500,000 was used as a dividend payment to the City of Kingston, the only dividend payment made from 2000 through 2006.

This resulted in the original affiliate loan payable to be reduced from $12,380,619 to $10,880,619, which remained outstanding at December 31, 2009, and will remain outstanding until at least 2012. The interest rate remains at 7.25%, the originally issued interest rate.

During the oral hearing, Board staff entered into evidence Exhibit K1.5, the Decision and Order for Erie Thames Powerlines Corporation, EB-2007-0928, dated October 27, 2008. In this decision, the Board found that the deemed long term debt rate at that time, 6.1% should apply to the shareholder debt, not the original 7.25%.

In response to Board staff cross examination on this issue, Mr. Murphy, the Kingston Hydro witness, indicated that Kingston Hydro had used the instructions provided in the Board's most current cost of capital report:

> "However, when we looked at the cost-of-capital report of the Board, December 11th, 2009, in preparing our application, page 54 of the second bullet point was followed by Kingston Hydro, in that:
>
> > "For debt that is callable on demand, the deemed long-term debt rate will be a ceiling on the rate that is allowed."
>
> And it goes on to say that:
>
> > "Debt that is callable but not within the period to the end of the test year will have its debt considered as if it is not callable."
>
> So our debt is not callable in the test year, so we proceeded with the original embedded debt rate of 7.25 percent."[20]

Mr. Murphy indicated that there was nothing stopping Kingston Hydro from repaying this city note and that they could repay it at any time. It addition, Mr.

[20] TR February 28, 2011, page 187

Murphy also indicated that Kingston Hydro did not consider whether a lower rate could be renegotiated and did not consider paying the note off and borrowing the money elsewhere.[21]

Positions of Parties

Energy Probe argued that the interest rate on long term debt should be reduced from 7.25% to 5.32%, which would lower costs by $198,000. Energy Probe maintained that this note is callable on demand, with no fixed term.

Energy Probe submitted that in the Board's December 11, 2009 Cost of Capital report, the Board indicated that for affiliate debt with a fixed rate, the deemed long term debt rate at the time of issuance would be used as a ceiling on the rate allowed for that debt. The Board also indicated that for debt that was callable on demand within the test year period, the deemed long term debt rate would be the ceiling. Debt that was callable, but not within the period to the end of the test year, would have its cost considered as if it was not callable.

Energy Probe added that Kingston Hydro reliance on a City of Kingston resolution dated July 7, 2010 to confirm that this debt is not callable within the test year should be ignored as:

1. the resolution did not change the actual debt instrument. That debt instrument remains as a Note Payable with no fixed terms of repayment and no restriction imposed on the notice required for repayment.

2. the resolution can be overturned by the City of Kingston municipal council so the debt can still be called within the test year by the City of Kingston.

3. Kingston Hydro has demonstrated that it has the capability to obtain significant amounts of third party financing at competitive rates and also has access to Infrastructure Ontario funding.

4. the original debt instrument meets the criteria established by the Board in the Report related to debt that is callable on demand within the test year. The resolution passed by the City of Kingston is an obvious attempt to protect its revenue from a rate that is well above market rates available from third party lenders.

[21] TR February 28, 2011, page 139-140

Energy Probe noted that the Board had already dealt with a similar circumstance in the EB-2007-0928 Decision and Order for Erie Thames where the Board found that the Section 2.2.1 of the *Report of the Board* was

> "designed to ensure that interest costs for variable rate debt is deemed at a rate that is reasonable, and not subject to strategic adjustments according to the circumstances of the parties, especially where the interest rate applied is high." (page 23)

Energy Probe maintained that the Report ensures that interest costs for callable debt is deemed at a rate that is reasonable and not subject to strategic adjustments (i.e. a resolution that adjustment the loan agreement to change the time when it is callable, while at the same time does not change the rate to reflect market realities) that provide a benefit to the debt holder at the expense of ratepayers.

VECC agreed with Energy Probe that the interest rate should be reduced to 5.32%. VECC's position was that the Shareholder Resolution was nothing more than a unilateral set of decisions by the shareholder and that the debt remains callable and the terms of the debt unchanged. The shareholder and Kingston Hydro would have had to actually engage in negotiations over the terms of the debt; and in doing so Kingston Hydro would have been under an obligation to protect the interests of its ratepayers in the process.

SEC also supported the arguments of Energy Probe, and pointed out that Kingston Hydro took the position that the City of Kingston has, by resolution, determined that it will not call this loan prior to 2012. SEC argued that the date of the Resolution indicates the debt should be at 5.87%, the deemed rate at that time. This debt should have been replaced much earlier at a lower market-based rate, which the evidence shows to be between 3.25% and 4.87% so 4.87% should be used for Kingston Hydro's long term debt as these are the 'best terms available'.

Board staff submitted that the appropriate interest rate that should apply to Kingston Hydro's affiliate debt is the Board's current deemed long term debt rate of 5.32% for rates effective May 1, 2011, as documented in the Board's letter of March 3, 2011.

Board staff maintained that it is clear that this debt does not have a fixed rate for a finite term, it does not appear to have to be re-paid according to a finite schedule and also appears to be convertible. In addition, it appears that this debt instrument was renewed, but what is not renewed is the interest rate of 7.25%. If Kingston Hydro was seeking the lowest cost debt for its ratepayers, it would commit to lowering its cost of debt as shown in its 20 year TD Bank debt at much lower rates.

Board staff quoted sections of the Board's December 11, 2009 Cost of Capital report on page 54 regarding the onus being on the utility "…*to establish the need for and prudence of its actual and forecasted debt, including the cost of such debt*" and on page 59, that "…f*or new affiliated debt, the deemed long-term debt rate will be a ceiling on the allowed rate. The onus will be on the utility to demonstrate that the applied for rate and terms are prudent and comparable to a market-based agreement and rate on arms-length commercial terms*."

Board staff submitted that Kingston Hydro had not established that the cost of this affiliated debt is prudent or comparable to a market based agreement and rate on arms-length commercial terms. Therefore, consistent with the EB-2007-0928 Erie Thames Decision, this debt should carry the Board's current deemed long term debt rate of 5.32%.

In reply, Kingston Hydro indicated that while intervenors argued that there was no shareholder resolution, it did provide a copy of its 2011 shareholder resolution confirming that this debt is not callable during the Test Year. Kingston Hydro submitted that it did not attempt any "strategic adjustments" for the purposes of this rate application and, as illustrated by Kingston Hydro's financial statements, this debt has been historically classified as long-term debt.

Kingston Hydro highlighted other cases where the Board had rejected intervenor arguments that affiliate debt should be refinanced by third-party debt (Burlington Hydro Decision, EB-2009-0259 and Greater Sudbury Utilities Decision, EB-2008-0230).

Kingston Hydro differentiated the debt in the Erie Thames case from the debt at issue here, as the Erie Thames case dealt with debt that had no fixed rate for a fixed term. In the case of Kingston Hydro's debt, there is a fixed rate and a term that is fixed beyond the test year period.

Kingston Hydro urged the Board to find that the existing interest rate of 7.25% is appropriate for this debt instrument. Should the Board not be persuaded to find so, Kingston Hydro submitted that VECC suggested a rate of 5.87% rather than the 5.32% and indicated that 5.87% was also a rate that is acceptable to SEC.

Board Findings

In its Report, the Board determined that for embedded debt the rate approved in prior Board decisions would be maintained for the life of each active instrument, unless a new rate was negotiated, in which case it would be treated as new debt. The approach to setting the rate for embedded debt at its prior approved rate was based on the fact that those rates had already been reviewed in previous cases and been determined to be appropriate.

The Board made a further distinction between affiliated debt and third party debt to recognize that in affiliate transactions there is an opportunity for terms to be negotiated at less than "arm's length", which could result in less favourable terms and conditions. When a distributor is financed by a third party, however, it is expected that the distributor will obtain commercial terms and conditions, including market rates. The intent of the Board's policy on deemed affiliate debt rates is to protect ratepayers from paying above market rates for debt provided by an affiliate.

Kingston Hydro provided evidence that a resolution of its Board of Directors was made on July 6, 2010 that the affiliated debt would not be callable prior to 2012. The Board would have also expected to be provided with evidence that the holder of the debt was in agreement with this approach. Irrespective, the Board finds that it was not reasonable for Kingston Hydro to retain an above market debt rate at the time it made its resolution on long term affiliated debt. Kingston Hydro should have understood that the affiliated debt rate should have attracted the deemed debt rate that was in place at the time of its resolution. As such, the Board will not approve a debt rate of 7.25% for rate making purposes. Rather, Kingston Hydro is ordered to use 5.87%, the deemed debt rate that was in place at the time of its resolution.

LATE PAYMENT PENALTY LITIGATION COST

In its application, Kingston Hydro requested the recovery of a one time expense of $104,031.09 related to the late payment penalty ("LPP") costs and damages resulting from a court settlement that addressed litigation against many of the former municipal electricity utilities in Ontario.

On February 25, 2011, Kingston Hydro filed its rate riders as outlined in the LPP Decision. There were no comments or submissions received on these riders. The Board approves these monthly class specific rate riders as filed.

IMPLEMENTATION

The Board has approved the Kingston Hydro Partial Settlement Agreement and has also made findings in this Decision which change the 2011 revenue requirement and therefore change the distribution rates from those proposed by Kingston Hydro.

Kingston Hydro has requested an effective date of May 1, 2011. To this end, the Board issued an Order declaring Rates Interim as of May 1, 2011 on April 26, 2011. The Board approves an effective date of May 1, 2011 and an implementation date of August 1, 2011. The Board orders Kingston Hydro to address any revenue deficiency arising from this Decision for the period of May 1, 2011 to the implementation date. Accordingly, Kingston Hydro is directed to calculate class specific rate riders that will recover from customers the stub period amount over a period of 10 months. Kingston Hydro should also provide the detailed calculations of the rate riders in its draft Rate Order. The current interim rates are in effect until the Board approves the final Rate Order.

In filing its draft Rate Order, it is the Board's expectation that Kingston Hydro will not use a calculation of the revised revenue sufficiency to reconcile the new distribution rates with the Board's findings in this Decision. Rather, the Board expects Kingston Hydro to file detailed supporting material, including all relevant calculations showing the impact of this Decision on Kingston Hydro's revenue requirement, the allocation of the approved revenue requirement to the classes and the determination of the final rates. Supporting documentation shall include, but not be limited to, filing a completed version of the Revenue Requirement Work Form excel spreadsheet, which can be found on the Board's website.

A Rate Order will be issued after the steps set out below are completed:

1. Kingston Hydro shall file with the Board, and shall also forward to intervenors, a draft Rate Order attaching a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision within **10 days** of the date of the issuance of this Decision. The draft Rate Order shall also include customer rate impacts and detailed supporting information showing the calculation of the final rates including the Revenue Requirement Work Form in Microsoft Excel format.

2. Intervenors shall file any comments on the draft Rate Order with the Board and forward to Kingston Hydro within **7 days** of the date of filing of the draft Rate Order.

3. Kingston Hydro shall file with the Board and forward to intervenors responses to any comments on its draft Rate Order within **4 days** of the date of receipt of intervenor comments.

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*. The Board will determine eligibility for costs in accordance with its *Practice Direction on Cost Awards*. 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.

1. Intervenors shall file with the Board and forward to Kingston Hydro their respective cost claims within **7 days** from the date of issuance of the final Rate Order.

2. Kingston Hydro shall file with the Board and forward to intervenors any objections to the claimed costs within **21 days** from the date of issuance of the final Rate Order.

3. Intervenors shall file with the Board and forward to Kingston Hydro any responses to any objections for cost claims within **28 days** of the date of issuance of the final Rate Order.

4. Kingston Hydro shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

All filings with the Board must quote the file number EB-2010-0136, and be made through the Board's web portal at www.errr.ontarioenergyboard.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. Parties should use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.ontarioenergyboard.ca. If the web portal is not available, parties may e-mail their documents to the attention of the Board Secretary at BoardSec@ontarioenergyboard.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*.

DATED at Toronto, June 23, 2011
ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary

KINGSTON HYDRO CORPORATION
EB-2010-0136

APPENDIX A

TO

DECISION AND ORDER

June 23, 2011

EB-2010-0136
Kingston Hydro Corporation
Proposed Settlement Agreement
January 12, 2011

This settlement agreement (the "Settlement Proposal" or "Settlement Agreement") is for the consideration of the Ontario Energy Board (the "Board") in its determination of the Electricity Distribution Rate Application (the "Application") by Kingston Hydro Corporation ("Kingston" or "KH"), EB-2010-0136, for 2011 electricity distribution rates. KH's Application was received by the Board on August 23, 2010.

Pursuant to Procedural Order No. 1, dated October 12, 2010, a Settlement Conference was scheduled for December 14, 2010 through December 16, 2010. Due to a scheduling conflict, the Board, on November 4, 2010, changed the Settlement Conference date to commence December 15, 2010. The Settlement Conference was duly convened in accordance with Procedural Order No. 1 with Mr. Chris Haussmann as the facilitator. The Settlement Conference concluded on December 16, 2010. Kingston and the following intervenors (the "Intervenors" and collectively including Kingston, the "Parties") participated in the Settlement Conference:

Energy Probe Research Foundation ("Energy Probe")
School Energy Coalition ("SEC")
Vulnerable Energy Consumers Coalition ("VECC")

The role adopted by the Board Staff in the Settlement Conference is set out on page 5 of the Board's Settlement Conference Guidelines (the "Guidelines"). Although Board Staff is not a party to this Settlement Agreement, as noted in the Guidelines, the Board Staff who did participate in the Settlement Conference are bound by the same confidentiality standards that apply to the Parties to the proceeding.

These settlement proceedings are subject to the rules relating to confidentiality and privilege contained in the Guidelines. The Parties understand this to mean that the documents and other information provided, the discussion of each issue, the offers and counter-offers, and the negotiations leading to the settlement – or not – of each issue during the Settlement Conference are strictly confidential and without prejudice. None of the foregoing is admissible as evidence in this proceeding, or otherwise, with one exception: the need to resolve a subsequent dispute over the interpretation of any provision of this Settlement Proposal.

This Agreement represents a full settlement of all matters with the exception of the seven unsettled issues set out below. It is acknowledged and agreed that none of the Parties will withdraw from this Agreement under any circumstances, except as provided under Rule 32.05 of the Board's Rules of Practice and Procedure. The Parties explicitly request that the Board consider and accept this Settlement Agreement as a package. None of the matters in respect of which a settlement has been reached is severable. Numerous compromises were made by the Parties with respect to various matters to arrive at this comprehensive Settlement Agreement. The distinct issues addressed in this proposal are intricately interrelated, and reductions or increases to the agreed-upon amounts may have financial consequences in other areas of this proposal which may be unacceptable to one or more of the Parties. If the Board does not accept the Settlement Agreement in its entirety, then there is no settlement unless the Parties agree that those portions of the Settlement Agreement that the Board does accept may continue as a valid settlement.

The parties agree that the following seven unsettled issues will be addressed by way of an oral hearing for determination by the Board:

1. Is it appropriate to use the half-year rule for depreciation for the years 2005-2010 as proposed by Kingston in its Application?
2. Should the cost of power estimate for the determination of working capital allowance be based on the most current values (November, 2010 to October, 2011) as proposed by Kingston in the Application, or the most current projected values (May, 2011 to April, 2012)?
3. Are the 2011 capital expenditures proposed by Kingston in the Application appropriate?

4. Is the proposed interest income earned on funds held in the City of Kingston's bank account appropriate as proposed by the Kingston in the Application?
5. Are the 2011 Operating, Maintenance and Administrative (OM&A) expenses as proposed by Kingston in the Application appropriate?
6. Is the PILs Schedule 1 adjustment for future benefit liabilities as proposed by KH in the Application appropriate?
7. Is the interest rate of 7.25% for the long-term debt instrument held by the City of Kingston as proposed by Kingston in the Application appropriate for the purpose of setting rates?

For the purpose of settling all issues except the seven outstanding issues, the Parties agree that any issues not expressly dealt with in this Settlement Proposal are acceptable as proposed in the Application, pre-filed evidence, interrogatory responses, and other evidence in this proceeding. Appendix "B" to this Agreement is a Revenue Requirement Work Form that sets out the result of all issues expressly agreed in this Settlement Proposal, and all other issues on which the Parties have accepted the Applicant's evidence as filed.

Notwithstanding the settled issues contained herein, and the acceptance by the Parties of the Application as filed for other issues, any decision by the Board on any of the seven unsettled issues will have the natural consequences of such decision, including any natural consequences on settled or accepted issues. By way of example only, the Board's decision with respect to depreciation in years 2005 through 2010 may affect opening rate base in the Test Year. Notwithstanding the acceptance by the Parties of the Application as filed, any such change to opening rate base resulting from the Board's decision on the issue will be applied in the determination of rate base for the Test Year. Similarly, a decision by the Board with respect to 2011 OM&A expenses may affect the cost allocation in Appendix "A", and thus the revenue to cost ratios that result.

It is also agreed that this Settlement Agreement is without prejudice to any of the Parties re-examining these issues in any subsequent proceeding and taking positions inconsistent with the resolution of these issues in this Settlement Agreement. However, none of the Parties will in any subsequent proceeding take the position that the resolution therein of any issue settled in this Settlement Agreement, if contrary to the terms of this Settlement Agreement, should be applicable for all or any part of the 2011 Test Year.

References to the evidence supporting this Agreement on each issue are set out in each section of the Agreement. Those references do not represent an agreement by the Parties as to the evidence relevant to each issue, and other evidence in this proceeding may also be relevant to those issues. The Applicant has used its best efforts to include such evidence as it believes is applicable in each such reference.

The Parties agree that this Settlement Agreement, Appendix "A" and Appendix "B" form part of the record in EB-2010-0136. Appendix "A" and Appendix "B" were prepared by the Applicant. The Intervenors are relying on the accuracy and completeness of Appendix "A" and Appendix "B" in entering into this Agreement. There is no approved issues list for this proceeding. However, for the purposes of organizing this Settlement Agreement, and without prejudice to the positions of the Parties with respect to the issues that might otherwise be considered in this proceeding, the Parties have followed the issues listed within this Settlement Agreement.

Appendix "A" attached to this Settlement Agreement is sheet O1, 2011 Cost Allocation Model arising from this Settlement Agreement. Appendix "B" attached to this Settlement Agreement is the Revenue Requirement Work Form reflecting all changes set out in this Settlement Agreement.

Settlement Terms by Issue

1. Administration (Exhibit 1)

1a. Is the proposed effective date of May 1, 2011 appropriate?

Complete Settlement: For the purpose of obtaining a complete settlement with the exception of the seven outstanding issues, the Parties accept a May 1, 2011 effective date using rates for the distribution of electricity determined on the basis of the 2011 revenue requirement.

Evidence: Exhibit 1, Tab 1, Schedule 2.

Supporting parties: KH, SEC, Energy Probe and VECC

Parties taking no position: None

Opposing parties: None

2. Rate Base (Exhibit 2)

2a. Is it appropriate to use the half-year rule for depreciation for the years 2005 through 2010 as proposed by Kingston in the Application?

No Settlement: The Parties agree to go to an oral hearing on this issue for determination by the Board.

Evidence: Exhibit 2, Tab 1, Schedule 3; Exhibit 2, Tab 3, Schedule 2; Exhibit 2, Tab 3, Schedule 3; Response to Energy Probe IRs #2 and #5, Response to SEC IR #8

2b. Are the proposed 2010 capital expenditures appropriate?

Complete Settlement: For the purpose of obtaining a complete settlement with the exception of the seven outstanding issues, the Parties agree with the proposed 2010 capital expenditures of $3,215,025. This is detailed in VECC Interrogatory 45 a) made up of the $4,318,177 less an adjustment for $730,000 for Hydro One, $285,652 for transportation equipment, $25,000 for Princess Street assessment, less $62,500 for Enterprise Asset Management Software totaling $3,215,025.

Evidence: Exhibit 2, Tab 1, Schedule 1, Exhibit 2, Tab 3, Schedule 1, Exhibit 2, Tab 4, Schedule 1, Exhibit 2, Tab 4, Schedule 2, VECC IR #45

Supporting parties: KH, SEC, Energy Probe and VECC

Parties taking no position: None.

Opposing parties: None

2c. Should the cost of power estimate for the determination of working capital allowance be based on the most current values (November, 2010 to October, 2011) as proposed by Kingston in the Application, or the most current projected values (May, 2011 to April, 2012)?

No Settlement: The Parties agree to go to a hearing on this issue for determination by the Board.

Evidence: Exhibit 3, Tab 1, Schedule 1; Response to Energy Probe IR #13

2 d. Are the 2011 capital expenditures proposed by Kingston in the Application appropriate?

No Settlement: The Parties agree to go to an oral hearing on this issue for determination by the Board.

Evidence: Exhibit 2, Tab 4, Schedule 1; Exhibit 2, Tab 4, Schedule 7; Response to VECC IRs #22, #23, #24, #45; Response to SEC IRs #11, #12, #15b, #8 (second round), #9 (second round); Responses to Energy Probe IRs #6, #7, #8, #33, #36, #37; Responses to Board Staff IRs #29, #30, #31

3. Operating Revenue (Exhibit 3)

3a. Is the Customer and Load Forecast appropriate?

Complete Settlement: For the purpose of obtaining complete settlement of all issue with the exception of the seven outstanding issues, the Parties accept Kingston's proposed customer and load forecast as updated in Kingston's response to Energy Probe interrogatory #12h which incorporated updated economic forecasts and a correction to the large use class.

Evidence: Exhibit 3, Tab 2, Schedule 1, response to Energy Probe interrogatory 12h.

Supporting parties: KH, SEC, Energy Probe and VECC

Parties taking no position: None

Opposing parties: None

3 b. Is the forecast interest income earned on funds held in the City of Kingston's in bank account appropriate as proposed by the Kingston in the Application?

No Settlement: The Parties agree to go to an oral hearing on this issue for determination by the Board.

Evidence: Exhibit 3, Tab 3, Schedule 2; Exhibit 2, Attachment 2 and Exhibit 3, Tab 3, Tab 5; Responses to SEC IRs #2, #1 (second round); Energy Probe IRs #15, #44

3c. With the exception of the proposed interest income earned on funds held in the City of Kingston's bank account set out in 3b above, is the forecast of other revenues appropriate?

Complete Settlement: For the purpose of obtaining complete settlement of all issue with the exception of the seven outstanding issues, the Parties accpet Kingston's forecast of other revenues.

Evidence: Exhibit 3, Tab 3, Schedule 3.

Supporting parties: KH, SEC, Energy Probe and VECC

Parties taking no position: None.

Opposing parties: None

4. Operating Costs (Exhibit 4)

4a. Are the 2011 Operations, Maintenance and Administration (“OM&A”) expenses as proposed by Kingston in the Application appropriate?

No Settlement: The Parties agree to go to an oral hearing on this issue for determination by the Board.

Evidence: Exhibit 4, Tab 2, Schedule 1; Exhibit 4, Tab 2, Schedule 2; Exhibit 4, Tab 2, Schedule 3; Exhibit 4, Tab 2, Schedule 5; Responses to VECC IRs #27, #28, #29, #30, #31, #32, #33, Responses to SEC IRs #14, #15, #16, #17, #18, #3 (second round), #10 (second round), #12 (second round), #14 - #18 (second round), #24 (second round), #28 (second round); Board Staff IRs #9 - #28, #3 - #7 (second round)

4 b. Is the PILs Schedule 1 adjustment for future benefit liabilities as proposed by KH in the Application appropriate?

No Settlement: The Parties agree to go to an oral hearing on this issue for determination by the Board.

Evidence: Exhibit 4, Tab 4, Schedule 1; Exhibit 4, Tab 8, Schedule 1; Responses to Board Staff IRs #44 and second round #9; Response to SEC IR #19 (second round)

5. Cost of Capital and Rate of Return (Exhibit 5)

5a. Is the Capital Structure appropriate?

Complete Settlement: For the purpose of obtaining complete settlement of all issues with the exception of the seven outstanding issues, the Parties accept the proposed capital structure of 60% debt and 40% equity.

Evidence: Exhibit 5, Tab 1, Schedule 1,

Supporting parties: KH, Energy Probe, SEC and VECC

Parties taking no position: None

Opposing parties: None

5b. With the exception of the debt instrument held by the City of Kingston, is the proposed cost of debt proposed by KH appropriate?

Complete Settlement: For the purpose of obtaining complete settlement of all issues with the exception of the seven outstanding issues, the Parties agree that for the purpose of setting rates the “TD Bank Capital Loan” shall be at 3.25%, the “TD Bank Smart Meters” shall be at 4.5%, the “TD Bank 2009 Capital Loan” and the “TD Bank 2010 Capital Loan” shall be at 4.64% and the “TD Bank 2011 Capital Loan” shall be at 4.78%.

Evidence: Exhibit 5, Tab 1, Schedule 1, Attachment 2

Supporting parties: KH, Energy Probe, SEC and VECC

Parties taking no position: None

Opposing parties: None

5c. Is the interest rate of 7.25% for the long-term debt instrument held by the City of Kingston as proposed by Kingston in the Application appropriate for the purpose of setting rates?

No Settlement: The Parties agree to go to an oral hearing on this issue for determination by the Board.

Evidence: Exhibit 5, Tab 1, Schedule 1; Response to Energy Probe IR #31; Responses to SEC IR #19 and second round #11

6. Cost Allocation (Exhibit 7)

6a. Is the Cost Allocation proposed by KH appropriate?

Complete Settlement: For the purpose of obtaining complete settlement of all issues with the exception of the seven outstanding issues, the Parties agree that the 2011 Cost Allocation Model will be revised such that the 2011 distribution of base revenue will reflect the 2011 Customer and Load Forecast and the 2010 Board Approved distribution rates, EB-2009-0201. The Parties further agree that the revenue to cost ratio for the classes above their Board Approved Ranges after the revision, namely the GS<50 and USL classes, will be moved down to the top of their respective ranges. Under the revised approach to the Cost Allocation Model only the LU class and the Residential Class are below a revenue to cost ratio of 1.0; accordingly the Parties agree that the revenue shifted from the GS<50 and USL classes will be recovered first from the LU class (as the class most under a revenue to cost ratio of 1.0 and the only class below its' Board Approved Range) until the LU class revenue to cost ratio is equal to the Residential Class' revenue to cost ratio, and then from both the LU and Residential Classes, maintaining similar, and if possible, identical revenue to cost ratios for both.

Evidence: Exhibit 7, Tab 2, Schedule 2

Supporting parties: KH, SEC, Energy Probe and VECC

Parties taking no position: None.

7. Rate Design (Exhibit 8)

7 a. Should the percentages between fixed and variable monthly charges be adjusted for 2011 rates?

Complete Settlement: For the purposes of obtaining complete settlement of all issues with the exception of the seven outstanding issues, the Parties agree that the Applicant shall increase the fixed charge for each class by the same percentage as the percentage increase to the variable charge for that class.

Evidence: Exhibit 8, Tab 2, Schedule 1

Supporting parties: KH, SEC, Energy Probe and VECC

Parties taking no position: None.

Opposing parties: None

7 b. Are the total loss factors appropriate?

Complete Settlement: For the purposes of obtaining complete settlement of all issues with the exception of the seven outstanding issues, the Parties accept the loss factors proposed by KH.

Evidence: Exhibit 8, Tab 3, Schedule 3

Supporting parties: KH, SEC, Energy Probe and VECC

Parties taking no position: None.

Opposing parties: None

8. Deferral and Variance Accounts (Exhibit 9)

8 a. Is the disposition and recovery of the deferral and variance accounts as proposed by KH appropriate?

Complete Settlement: For the purposes of obtaining complete settlement of all issues with the exception of the seven outstanding issues, the Parties agree to the disposition of the balances selected for disposition over a two year recovery period.

Evidence: Exhibit 9, Tab 1, Schedule 1; Exhibit 9, Tab 1, Schedule 2; Exhibit 9, Tab 2, Schedule 1; Exhibit 9, Tab 2, Schedule 2

Supporting parties: KH, SEC, Energy Probe and VECC

Parties taking no position: None.

Opposing parties: None

8 b. Should KH be granted the three new deferral and variance accounts it proposed?

Complete Settlement: For the purpose of obtaining complete settlement of all issues with the exception of the seven outstanding issues, the Parties agree that KH should be granted Account 1595 Sub-Account Disposition of December 31, 2009 Balances; further the Parties agree that KH should not be granted the Variance Account for Smart Meter Entity Charges (“SMCs”) from the Independent Electricity System Operator (“IESO”) and the Deferral Account for expenses related to the implementation of the Energy Consumer Protection Act, 2010 as these issues are common to all electricity distributors and should be dealt with by way of a generic Board process.

Evidence: Exhibit 9, Tab 1, Schedule 1;

Supporting parties: KH, SEC, Energy Probe and VECC

Parties taking no position: None.

Opposing parties: None

9. Lost Revenue Adjustment Mechanism (Exhibit 10)

9. Is the Lost Revenue Adjustment Mechanism Claim proposed appropriate?

Complete Settlement: For the purposes of obtaining complete settlement of all issues with the exception of the seven outstanding issues, the Parties agree to the Lost Revenue Adjustment mechanism claim.

Evidence: Exhibit 10, Tab 1, Schedule 1

Supporting parties: KH, SEC, Energy Probe and VECC

Parties taking no position: None.

Opposing parties: None

APPENDIX A

Ontario

Sheet O1 Revenue to Cost Summary Worksheet - Second Run

Class Revenue, Cost Analysis, and Return on Rate Base

KEDL 2011 CA_Model - Settlement - Jan 12

			1	2	3	6	7	9
Rate Base Assets		**Total**	**Residential**	**GS <50**	**GS>50-Regular**	**Large Use >5MW**	**Street Light**	**Unmetered Scattered Load**
crev	Distribution Revenue (sale)	**$9,545,865**	$5,250,414	$1,812,632	$2,017,014	$322,389	$97,504	$45,911
mi	Miscellaneous Revenue (mi)	**$625,325**	$394,575	$106,837	$98,245	$15,454	$3,764	$6,451
	Total Revenue	**$10,171,190**	**$5,644,989**	**$1,919,469**	**$2,115,259**	**$337,843**	**$101,267**	**$52,363**
	Expenses							
di	Distribution Costs (di)	**$3,270,515**	$1,853,137	$458,997	$736,604	$175,024	$35,969	$10,785
cu	Customer Related Costs (cu)	**$1,093,842**	$820,562	$170,713	$86,703	$1,271	$3,213	$11,381
ad	General and Administration (ad)	**$2,616,549**	$1,597,337	$377,286	$499,604	$105,787	$23,785	$12,750
dep	Depreciation and Amortization (dep)	**$1,992,032**	$1,203,537	$287,601	$407,911	$66,427	$20,428	$6,128
INPUT	PILs (INPUT)	**$699,800**	$413,778	$100,327	$147,992	$28,517	$7,066	$2,120
INT	Interest	**$1,379,167**	$815,473	$197,725	$291,663	$56,201	$13,927	$4,179
	Total Expenses	**$11,051,905**	**$6,703,823**	**$1,592,648**	**$2,170,477**	**$433,226**	**$104,388**	**$47,343**
	Direct Allocation	**($75,900)**	**($1,423)**	**($8,197)**	**($66,280)**	**$0**	**$0**	**$0**
NI	Allocated Net Income (NI)	**$1,686,917**	$997,440	$241,846	$356,745	$68,742	$17,034	$5,111
	Revenue Requirement (includes NI)	**$12,662,923**	$7,699,840	$1,826,297	$2,460,942	$501,968	$121,422	$52,454
		Revenue Requirement Input equals Output						
	Rate Base Calculation							
	Net Assets							
dp	Distribution Plant - Gross	**$45,171,040**	$26,967,184	$6,502,849	$9,425,113	$1,681,349	$457,286	$137,259
gp	General Plant - Gross	**$4,378,048**	$2,588,650	$627,661	$925,858	$178,405	$44,209	$13,265
accum dep	Accumulated Depreciation	**($16,932,434)**	($10,270,272)	($2,454,410)	($3,453,284)	($530,629)	($172,138)	($51,701)
co	Capital Contribution	**$0**	$0	$0	$0	$0	$0	$0
	Total Net Plant	**$32,616,654**	**$19,285,562**	**$4,676,100**	**$6,897,688**	**$1,329,125**	**$329,357**	**$98,823**
	Directly Allocated Net Fixed Assets	**($929,128)**	**($17,422)**	**($100,342)**	**($811,363)**	**$0**	**$0**	**$0**
COP	Cost of Power (COP)	**$61,450,550**	$16,947,486	$8,107,425	$22,608,458	$13,238,608	$350,450	$198,124
	OM&A Expenses	**$6,980,906**	$4,271,035	$1,006,995	$1,322,911	$282,082	$62,967	$34,916
	Directly Allocated Expenses	**$0**	$0	$0	$0	$0	$0	$0
	Subtotal	***$68,431,456***	***$21,218,521***	***$9,114,420***	***$23,931,368***	***$13,520,690***	***$413,417***	***$233,040***
	Working Capital	**$10,264,718**	**$3,182,778**	**$1,367,163**	**$3,589,705**	**$2,028,103**	**$62,013**	**$34,956**
	Total Rate Base	**$41,952,244**	**$22,450,919**	**$5,942,920**	**$9,676,029**	**$3,357,228**	**$391,369**	**$133,779**
		Rate Base Input equals Output						
	Equity Component of Rate Base	**$20,976,122**	**$11,225,459**	**$2,971,460**	**$4,838,015**	**$1,678,614**	**$195,685**	**$66,889**
	Net Income on Allocated Assets	**($804,816)**	**($1,057,411)**	**$335,018**	**$11,062**	**($95,383)**	**($3,120)**	**$5,020**
	Net Income on Direct Allocation Assets	**($33,999)**	**($638)**	**($3,672)**	**($29,690)**	**$0**	**$0**	**$0**
	Net Income	**($838,815)**	**($1,058,049)**	**$331,346**	**($18,628)**	**($95,383)**	**($3,120)**	**$5,020**
	RATIOS ANALYSIS							
	REVENUE TO EXPENSES %	**80.32%**	73.31%	105.10%	85.95%	67.30%	83.40%	99.83%
	EXISTING REVENUE MINUS ALLOCATED COSTS	**($2,491,733)**	($2,054,851)	$93,172	($345,683)	($164,125)	($20,155)	($91)
	RETURN ON EQUITY COMPONENT OF RATE BASE	-4.00%	-9.43%	11.15%	-0.39%	-5.68%	-1.59%	7.50%

Adjusted Distribution Revenue	$12,037,598	$6,633,321	$2,282,863	$2,535,209	$405,154	$122,312	$58,739
Adjusted Revenue	$12,662,923	$7,027,895	$2,389,700	$2,633,454	$420,608	$126,076	$65,191
Adjusted Revenue to Expenses %	100%	91.27%	130.85%	107.01%	83.79%	103.83%	124.28%
Adjusted Revenue Minus Allocated Costs	$0	($671,944)	$563,403	$172,512	($81,360)	$4,654	$12,736
Adjusted Distribution Rev Req't	**$12,037,598**						
Adjusted Dist'n Revenue	**$12,037,598**	$6,620,916	$2,285,779	$2,543,511	$406,542	$122,955	$57,896
	$12,662,923	$7,015,491	$2,392,616	$2,641,755	$421,995	$126,719	$64,347
		91.11%	131.01%	107.35%	84.07%	104.36%	122.67%

APPENDIX B

Revenue Requirement Work Form

Name of LDC:	Kingston Hydro Corporation	(1)
File Number:	EB-2010-0136	
Rate Year:	2011	Version: 2.11

Table of Content

Sheet	Name
A	Data Input Sheet
1	Rate Base
2	Utility Income
3	Taxes/PILS
4	Capitalization/Cost of Capital
5	Revenue Sufficiency/Deficiency
6	Revenue Requirement
7A	Bill Impacts -Residential
7B	Bill Impacts - GS < 50 kW

Notes:

(1) Pale green cells represent inputs

(2) Pale yellow cells represent drop=down lists

(3) ***Please note that this model uses MACROS. Before starting, please ensure that macros have been enabled.***

(4) ***Completed versions of the Revenue Requirement Work Form are required to be filed in working Microsoft Excel format.***

Revenue Requirement Work Form

Version: 2.11

Name of LDC: Kingston Hydro Corporation
File Number: EB-2010-0136
Rate Year: 2011

Data Input (1)

		Initial Application		Adjustments	Settlement Agreement	(7)	Adjustments	Per Board Decision	
1	**Rate Base**								
	Gross Fixed Assets (average)	$49,850,935		($1,230,975)	$ 48,619,960			$48,619,960	
	Accumulated Depreciation (average)	($16,983,278)	(5)	$50,844	-$ 16,932,434			($16,932,434)	
	Allowance for Working Capital:								
	Controllable Expenses	$6,980,907		$ -	$ 6,980,907			$6,980,907	
	Cost of Power	$61,518,323		($67,773)	$ 61,450,550			$61,450,550	
	Working Capital Rate (%)	15.00%			15.00%			15.00%	
2	**Utility Income**								
	Operating Revenues:								
	Distribution Revenue at Current Rates	$9,540,655		$10,120	$9,550,775				
	Distribution Revenue at Proposed Rates	$12,174,156		($136,557)	$12,037,599				
	Other Revenue:								
	Specific Service Charges	$268,031		$0	$268,031				
	Late Payment Charges	$37,901		$0	$37,901				
	Other Distribution Revenue	$105,546		$0	$105,546				
	Other Income and Deductions	$213,847		$0	$213,847				
	Operating Expenses:								
	OM+A Expenses	$6,850,907		$ -	$ 6,850,907			$6,850,907	
	Depreciation/Amortization	$2,042,875		($50,843)	$ 1,992,032			$1,992,032	
	Property taxes	$130,000		$ -	$ 130,000			$130,000	
	Capital taxes	$0			$0				
	Other expenses								
3	**Taxes/PILs**								
	Taxable Income:								
	Adjustments required to arrive at taxable income	$188,000	(3)		$216,948				
	Utility Income Taxes and Rates:								
	Income taxes (not grossed up)	$497,058			$491,987				
	Income taxes (grossed up)	$692,764			$685,696				
	Capital Taxes	$ -	(6)		$ -	(6)			(6)
	Federal tax (%)	16.50%			16.50%				
	Provincial tax (%)	11.75%			11.75%				
	Income Tax Credits	$ -			$ -				
4	**Capitalization/Cost of Capital**								
	Capital Structure:								
	Long-term debt Capitalization Ratio (%)	56.0%			56.0%				
	Short-term debt Capitalization Ratio (%)	4.0%	(2)		4.0%	(2)			(2)
	Common Equity Capitalization Ratio (%)	40.0%			40.0%				
	Prefered Shares Capitalization Ratio (%)								
		100.0%			100.0%				
	Cost of Capital								
	Long-term debt Cost Rate (%)	5.65%			5.60%			5.60%	
	Short-term debt Cost Rate (%)	2.07%			2.07%			2.07%	
	Common Equity Cost Rate (%)	9.85%			9.85%			9.85%	
	Prefered Shares Cost Rate (%)								

Notes:

(Rate Base through Revenue Requirement), except for Notes that the utility may wish to use to support the data. Notes should be put on the applicable pages to explain numbers shown.

(1) All inputs are in dollars ($) except where inputs are individually identified as percentages (%)
(2) 4.0% unless an Applicant has proposed or been approved for another amount.
(3) Net of addbacks and deductions to arrive at taxable income.
(4) Average of Gross Fixed Assets at beginning and end of the Test Year
(5) Average of Accumulated Depreciation at the beginning and end of the Test Year. Enter as a negative amount.
(6) Not applicable as of July 1, 2010
(7) Select option from drop-down list by clicking on cell M10. This columnallows for the application update reflecting the end of discovery or Argument-in-Chief. Also, the outsome of any Settlement Process can be reflected.

Revenue Requirement Work Form

Version: 2.11

Name of LDC: Kingston Hydro Corporation
File Number: EB-2010-0136
Rate Year: 2011

Rate Base

Line No.	Particulars		Initial Application	Adjustments	Settlement Agreement	Adjustments	Per Board Decision
1	Gross Fixed Assets (average)	(3)	$49,850,935	($1,230,975)	$48,619,960	$ -	$48,619,960
2	Accumulated Depreciation (average)	(3)	($16,983,278)	$50,844	($16,932,434)	$ -	($16,932,434)
3	Net Fixed Assets (average)	(3)	$32,867,657	($1,180,131)	$31,687,526	$ -	$31,687,526
4	Allowance for Working Capital	(1)	$10,274,885	($10,166)	$10,264,719	$ -	$10,264,719
5	**Total Rate Base**		$43,142,542	($1,190,297)	$41,952,245	$ -	$41,952,245

	(1) Allowance for Working Capital - Derivation						
6	Controllable Expenses		$6,980,907	$ -	$6,980,907	$ -	$6,980,907
7	Cost of Power		$61,518,323	($67,773)	$61,450,550	$ -	$61,450,550
8	Working Capital Base		$68,499,230	($67,773)	$68,431,457	$ -	$68,431,457
9	Working Capital Rate %	(2)	15.00%	0.00%	15.00%	0.00%	15.00%
10	Working Capital Allowance		$10,274,885	($10,166)	$10,264,719	$ -	$10,264,719

Notes

(2) Generally 15%. Some distributors may have a unique rate due as a result of a lead-lag study.
(3) Average of opening and closing balances for the year.

Revenue Requirement Work Form

Version: 2.11

Name of LDC: Kingston Hydro Corporation
File Number: EB-2010-0136
Rate Year: 2011

Utility income

Line No.	Particulars		Initial Application	Adjustments	Settlement Agreement	Adjustments	Per Board Decision
	Operating Revenues:						
1	Distribution Revenue (at Proposed Rates)		$12,174,156	($136,557)	$12,037,599	$ -	$12,037,599
2	Other Revenue	(1)	$625,325	($1,250,650)	$625,325	$ -	$625,325
3	Total Operating Revenues		$12,799,481	($1,387,207)	$12,662,924	$ -	$12,662,924
	Operating Expenses:						
4	OM+A Expenses		$6,850,907	$ -	$6,850,907	$ -	$6,850,907
5	Depreciation/Amortization		$2,042,875	($50,843)	$1,992,032	$ -	$1,992,032
6	Property taxes		$130,000	$ -	$130,000	$ -	$130,000
7	Capital taxes		$ -	$ -	$ -	$ -	$ -
8	Other expense		$ -	$ -		$ -	
9	Subtotal (lines 4 to 8)		$9,023,782	($50,843)	$8,972,939	$ -	$8,972,939
10	Deemed Interest Expense		$1,401,176	($49,806)	$1,351,371	$ -	$1,351,371
11	Total Expenses (lines 9 to 10)		$10,424,958	($100,649)	$10,324,309	$ -	$10,324,309
12	**Utility income before income taxes**		$2,374,523	($1,286,558)	$2,338,614	$ -	$2,338,614
13	Income taxes (grossed-up)		$692,764	($7,067)	$685,696	$ -	$685,696
14	**Utility net income**		$1,681,759	($1,279,491)	$1,652,918	$ -	$1,652,918

Notes

(1)

Other Revenues / Revenue Offsets	Initial Application	Adjustments	Settlement Agreement	Adjustments	Per Board Decision
Specific Service Charges	$268,031	$ -	$268,031		$268,031
Late Payment Charges	$37,901	$ -	$37,901		$37,901
Other Distribution Revenue	$105,546	$ -	$105,546		$105,546
Other Income and Deductions	$213,847	$ -	$213,847		$213,847
Total Revenue Offsets	$625,325	$ -	$625,325	$ -	$625,325

Revenue Requirement Work Form

Version: 2.11

Ontario

Name of LDC: Kingston Hydro Corporation
File Number: EB-2010-0136
Rate Year: 2011

Taxes/PILs

Line No.	Particulars	Application		Settlement Agreement		Per Board Decision	
	Determination of Taxable Income						
1	Utility net income before taxes	$1,699,816		$1,652,918		$1,652,918	
2	Adjustments required to arrive at taxable utility income	$188,000		$216,948		$188,000	
3	Taxable income	$1,887,816		$1,869,866		$1,840,918	
	Calculation of Utility income Taxes						
4	Income taxes	$497,058		$491,987		$491,987	
5	Capital taxes	$ -	(1)	$ -	(1)	$ -	(1)
6	Total taxes	$497,058		$491,987		$491,987	
7	Gross-up of Income Taxes	$195,706		$193,709		$193,709	
8	Grossed-up Income Taxes	$692,764		$685,696		$685,696	
9	PILs / tax Allowance (Grossed-up Income taxes + Capital taxes)	$692,764		$685,696		$685,696	
10	Other tax Credits	$ -		$ -		$ -	
	Tax Rates						
11	Federal tax (%)	16.50%		16.50%		16.50%	
12	Provincial tax (%)	11.75%		11.75%		11.75%	
13	Total tax rate (%)	28.25%		28.25%		28.25%	

Notes

(1) Capital Taxes not applicable after July 1, 2010 (i.e. for 2011 and later test years)

Revenue Requirement Work Form

Version: 2.11

Name of LDC: Kingston Hydro Corporation
File Number: EB-2010-0136
Rate Year: 2011

Capitalization/Cost of Capital

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
	Initial Application				
		(%)	($)	(%)	($)
	Debt				
1	Long-term Debt	56.00%	$24,159,823	5.65%	$1,365,454
2	Short-term Debt	4.00%	$1,725,702	2.07%	$35,722
3	**Total Debt**	60.00%	$25,885,525	5.41%	$1,401,176
	Equity				
4	Common Equity	40.00%	$17,257,017	9.85%	$1,699,816
5	Preferred Shares	0.00%	$ -	0.00%	$ -
6	**Total Equity**	40.00%	$17,257,017	9.85%	$1,699,816
7	**Total**	100.00%	$43,142,542	7.19%	$3,100,992

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
	Settlement Agreement				
		(%)	($)	(%)	($)
	Debt				
1	Long-term Debt	56.00%	$23,493,257	5.60%	$1,316,634
2	Short-term Debt	4.00%	$1,678,090	2.07%	$34,736
3	**Total Debt**	60.00%	$25,171,347	5.37%	$1,351,371
	Equity				
4	Common Equity	40.00%	$16,780,898	9.85%	$1,652,918
5	Preferred Shares	0.00%	$ -	0.00%	$ -
6	**Total Equity**	40.00%	$16,780,898	9.85%	$1,652,918
7	**Total**	100.00%	$41,952,245	7.16%	$3,004,289

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
	Per Board Decision				
		(%)	($)	(%)	($)
	Debt				
8	Long-term Debt	56.00%	$23,493,257	5.60%	$1,316,634
9	Short-term Debt	4.00%	$1,678,090	2.07%	$34,736
10	**Total Debt**	60.00%	$25,171,347	5.37%	$1,351,371
	Equity				
11	Common Equity	40.00%	$16,780,898	9.85%	$1,652,918
12	Preferred Shares	0.00%	$ -	0.00%	$ -
13	**Total Equity**	40.00%	$16,780,898	9.85%	$1,652,918
14	**Total**	100.00%	$41,952,245	7.16%	$3,004,289

Notes

(1) 4.0% unless an Applicant has proposed or been approved for another amount.

Revenue Requirement Work Form

Version: 2.11

Name of LDC: Kingston Hydro Corporation
File Number: EB-2010-0136
Rate Year: 2011

Ontario

Revenue Sufficiency/Deficiency

Line No.	Particulars	Initial Application		Settlement Agreement		Per Board Decision	
		At Current Approved Rates	At Proposed Rates	At Current Approved Rates	At Proposed Rates	At Current Approved Rates	At Proposed Rates
1	Revenue Deficiency from Below		$2,702,081		$2,537,347		$2,537,347
2	Distribution Revenue	$9,540,655	$9,472,075	$9,550,775	$9,500,252	$9,550,775	$9,500,252
3	Other Operating Revenue Offsets - net	$625,325	$625,325	$625,325	$625,325	$625,325	$625,325
4	**Total Revenue**	$10,165,980	$12,799,481	$10,176,100	$12,662,924	$10,176,100	$12,662,924
5	Operating Expenses	$9,023,782	$9,023,782	$8,972,939	$8,972,939	$8,972,939	$8,972,939
6	Deemed Interest Expense	$1,401,176	$1,401,176	$1,351,371	$1,351,371	$1,351,371	$1,351,371
	Total Cost and Expenses	$10,424,958	$10,424,958	$10,324,309	$10,324,309	$10,324,309	$10,324,309
7	**Utility Income Before Income Taxes**	($258,978)	$2,374,523	($148,209)	$2,338,614	($148,209)	$2,338,614
8	Tax Adjustments to Accounting Income per 2009 PILs	$188,000	$188,000	$216,948	$216,948	$216,948	$216,948
9	**Taxable Income**	($70,978)	$2,562,523	$68,738	$2,555,562	$68,738	$2,555,562
10	Income Tax Rate	28.25%	28.25%	28.25%	28.25%	28.25%	28.25%
11	**Income Tax on Taxable Income**	($20,051)	$723,913	$19,419	$721,946	$19,419	$721,946
12	**Income Tax Credits**	$ -	$ -	$ -	$ -	$ -	$ -
13	**Utility Net Income**	($238,927)	$1,681,759	($167,628)	$1,652,918	($167,628)	$1,652,918
14	**Utility Rate Base**	$43,142,542	$43,142,542	$41,952,245	$41,952,245	$41,952,245	$41,952,245
	Deemed Equity Portion of Rate Base	$17,257,017	$17,257,017	$16,780,898	$16,780,898	$16,780,898	$16,780,898
15	Income/Equity Rate Base (%)	-1.38%	9.75%	-1.00%	9.85%	-1.00%	9.85%
16	Target Return - Equity on Rate Base	9.85%	9.85%	9.85%	9.85%	9.85%	9.85%
17	Sufficiency/Deficiency in Return on Equity	-11.23%	-0.10%	-10.85%	0.00%	-10.85%	0.00%
18	Indicated Rate of Return	2.69%	7.15%	2.82%	7.16%	2.82%	7.16%
19	Requested Rate of Return on Rate Base	7.19%	7.19%	7.16%	7.16%	7.16%	7.16%
20	Sufficiency/Deficiency in Rate of Return	-4.49%	-0.04%	-4.34%	0.00%	-4.34%	0.00%
21	Target Return on Equity	$1,699,816	$1,699,816	$1,652,918	$1,652,918	$1,652,918	$1,652,918
22	Revenue Deficiency/(Sufficiency)	$1,938,743	($18,057)	$1,820,546	($1)	$1,820,546	($1)
23	**Gross Revenue Deficiency/(Sufficiency)**	$2,702,081 **(1)**		$2,537,347 **(1)**		$2,537,347 **(1)**	

Notes:
(1) Revenue Sufficiency/Deficiency divided by (1 - Tax Rate)

Revenue Requirement Work Form

Name of LDC: Kingston Hydro Corporation
File Number: EB-2010-0136
Rate Year: 2011

Version: 2.11

Line No.	Particulars	Revenue Requirement					
		Application		Settlement Agreement		Per Board Decision	
1	OM&A Expenses	$6,850,907		$6,850,907		$6,850,907	
2	Amortization/Depreciation	$2,042,875		$1,992,032		$1,992,032	
3	Property Taxes	$130,000		$130,000		$130,000	
4	Capital Taxes	$ -		$ -		$ -	
5	Income Taxes (Grossed up)	$692,764		$685,696		$685,696	
6	Other Expenses	$ -					
7	Return						
	Deemed Interest Expense	$1,401,176		$1,351,371		$1,351,371	
	Return on Deemed Equity	$1,699,816		$1,652,918		$1,652,918	
8	Distribution Revenue Requirement before Revenues	$12,817,538		$12,662,924		$12,662,924	
9	Distribution revenue	$12,174,156		$12,037,599		$12,037,599	
10	Other revenue	$625,325		$625,325		$625,325	
11	**Total revenue**	$12,799,481		$12,662,924		$12,662,924	
12	**Difference (Total Revenue Less Distribution Revenue Requirement before Revenues)**	($18,057)	(1)	($1)	(1)	($1)	(1)

Notes

(1) Line 11 - Line 8

Revenue Requirement Work Form

Version: 2.11

Name of LDC: Kingston Hydro Corporation
File Number: EB-2010-0136
Rate Year: 2011

Residential

Consumption 800 kWh

		Charge Unit	Current Board-Approved Rate ($)	Current Board-Approved Volume	Current Board-Approved Charge ($)	Proposed Rate ($)	Proposed Volume	Proposed Charge ($)	Impact $ Change	Impact % Change
1	Monthly Service Charge	monthly	$ 10.1200	1	$ 10.12	$ 13.0900	1	$ 13.09	$ 2.97	29.35%
2	Smart Meter Rate Adder	monthly	$ 1.0000	1	$ 1.00	$ 1.0000	1	$ 1.00	$ -	0.00%
3	Service Charge Rate Adder(s)			1	$ -		1	$ -	$ -	
4	Service Charge Rate Rider(s)			1	$ -		1	$ -	$ -	
5	Distribution Volumetric Rate	per kWh	$ 0.0124	800	$ 9.92	$ 0.0160	800	$ 12.80	$ 2.88	29.03%
6	Low Voltage Rate Adder	per kWh	$ 0.0002	800	$ 0.16	$ 0.0007	800	$ 0.56	$ 0.40	250.00%
7	Volumetric Rate Adder(s)			800	$ -		800	$ -	$ -	
8	Volumetric Rate Rider(s)			800	$ -		800	$ -	$ -	
9	Smart Meter Disposition Rider			800	$ -		800	$ -	$ -	
10	LRAM & SSM Rate Rider	per kWh		800	$ -	$ 0.0010	800	$ 0.80	$ 0.80	
11	Deferral/Variance Account Disposition Rate Rider	per kWh	-$ 0.0031	800	-$ 2.48	-$ 0.0031	800	-$ 2.48	$ -	0.00%
12	Deferral/Variance Acct (2011) Rate	per kWh			$ -	$ 0.0010	800	$ 0.80	$ 0.80	
13	GA Rate Rider (2010) Non-RPP	per kWh	$ 0.0015		$ -	$ 0.0015		$ -	$ -	
14	GA Rate Rider (2011) Non-RPP	per kWh			$ -	$ 0.0012		$ -	$ -	
15					$ -			$ -	$ -	
16	**Sub-Total A - Distribution**				**$ 18.72**			**$ 26.57**	**$ 7.85**	**41.93%**
17	RTSR - Network	per kWh	$ 0.0055	830	$ 4.57	$ 0.0057	827.52	$ 4.72	$ 0.15	3.33%
18	RTSR - Line and Transformation Connection	per kWh	$ 0.0046	830	$ 3.82	$ 0.0050	827.52	$ 4.14	$ 0.32	8.37%
19	**Sub-Total B - Delivery (including Sub-Total A)**				**$ 27.10**			**$ 35.42**	**$ 8.32**	**30.70%**
20	Wholesale Market Service Charge (WMSC)	per kWh	$ 0.0052	830	$ 4.32	$ 0.0052	827.52	$ 4.30	-$ 0.01	-0.30%
21	Rural and Remote Rate Protection (RRRP)	per kWh	$ 0.0013	830	$ 1.08	$ 0.0013	827.52	$ 1.08	-$ 0.00	-0.30%
22	Special Purpose Charge	per kWh	$ 0.0003725	830	$ 0.31		827.52	$ -	-$ 0.31	-100.00%
23	Standard Supply Service Charge	monthly	$ 0.2500	1	$ 0.25	$ 0.2500	1	$ 0.25	$ -	0.00%
24	Debt Retirement Charge (DRC)	per kWh	$ 0.0070	830	$ 5.81	$ 0.0070	827.52	$ 5.79	-$ 0.02	-0.30%
25	Energy	per kWh	$ 0.0650	830	$ 53.95	$ 0.0650	827.52	$ 53.79	-$ 0.16	-0.30%
26					$ -			$ -	$ -	
27					$ -			$ -	$ -	
28	**Total Bill (before Taxes)**				**$ 92.82**			**$ 100.63**	**$ 7.82**	**8.42%**
29	HST		13%		$ 12.07	13%		$ 13.08	$ 1.02	8.42%
30	**Total Bill (including Sub-total B)**				**$ 104.88**			**$ 113.72**	**$ 8.84**	**8.43%**
31	**Loss Factor (%)**	**Note 1**	3.75%			3.44%				

Notes:

Note 1: Enter existing and proposed total loss factor (Secondary Metered Customer < 5,000 kW) as a percentage.

This bill impact includes the Special Purpose Charge and Standard Supply Service Administrative Charge whereas bill impacts provided in the Application Exhibit 8 Tab 4 Schedule 4 Attachment 2 do not include these charges. Furthermore, in this bill impact the loss factor has been applied to the volume used in the calculation for Debt Retirement Charge however the loss factor should not be applicable for this charge.
Existing Total Loss Factor = 1.0375 and Proposed Total Loss Factor = 1.0344
This bill impact is for an RPP customer in Winter.

Ontario

Revenue Requirement Work Form

Version: 2.11

Name of LDC: Kingston Hydro Corporation
File Number: EB-2010-0136
Rate Year: 2011

General Service < 50 kW

Consumption 2000 kWh

			Current Board-Approved			Proposed			Impact	
		Charge Unit	**Rate ($)**	**Volume**	**Charge ($)**	**Rate ($)**	**Volume**	**Charge ($)**	**$ Change**	**% Change**
1	Monthly Service Charge	monthly	$ 23.3900	1	$ 23.39	$ 26.8600	1	$ 26.86	$ 3.47	14.84%
2	Smart Meter Rate Adder	monthly	$ 1.0000	1	$ 1.00	$ 1.0000	1	$ 1.00	$ -	0.00%
3	Service Charge Rate Adder(s)			1	$ -		1	$ -	$ -	
4	Service Charge Rate Rider(s)			1	$ -		1	$ -	$ -	
5	Distribution Volumetric Rate	per kWh	$ 0.0097	2000	$ 19.40	$ 0.0111	2000	$ 22.20	$ 2.80	14.43%
6	Low Voltage Rate Adder	per kWh	$ 0.0002	2000	$ 0.40	$ 0.0006	2000	$ 1.20	$ 0.80	200.00%
7	Volumetric Rate Adder(s)			2000	$ -		2000	$ -	$ -	
8	Volumetric Rate Rider(s)			2000	$ -		2000	$ -	$ -	
9	Smart Meter Disposition Rider			2000	$ -		2000	$ -	$ -	
10	LRAM & SSM Rider	monthly		2000	$ -	$ 0.0004	2000	$ 0.80	$ 0.80	
11	Deferral/Variance Account Disposition Rate Rider	per kWh	-$ 0.0020	2000	-$ 4.00	-$ 0.0020	2000	-$ 4.00	$ -	0.00%
12	Deferral/Variance Acct (2011) Rate	per kWh			$ -	$ 0.0003	2000	$ 0.60	$ 0.60	
13	GA Rate Rider (2010) Non-RPP	per kWh	$ 0.0015		$ -	$ 0.0015		$ -	$ -	
14	GA Rate Rider (2011) Non-RPP	per kWh			$ -	$ 0.0012		$ -	$ -	
15					$ -			$ -	$ -	
16	**Sub-Total A - Distribution**				**$ 40.19**			**$ 48.66**	**$ 8.47**	**21.07%**
17	RTSR - Network	per kWh	$ 0.0050	2075	$ 10.38	$ 0.0052	2068.8	$ 10.76	$ 0.38	3.69%
18	RTSR - Line and Transformation Connection	per kWh	$ 0.0042	2075	$ 8.72	$ 0.0046	2068.8	$ 9.52	$ 0.80	9.20%
19	**Sub-Total B - Delivery (including Sub-Total A)**				**$ 59.28**			**$ 68.93**	**$ 9.65**	**16.29%**
20	Wholesale Market Service Charge (WMSC)	per kWh	$ 0.0052	2075	$ 10.79	$ 0.0052	2068.8	$ 10.76	-$ 0.03	-0.30%
21	Rural and Remote Rate Protection (RRRP)	per kWh	$ 0.0013	2075	$ 2.70	$ 0.0013	2068.8	$ 2.69	-$ 0.01	-0.30%
22	Special Purpose Charge	per kWh	$ 0.0003725	2075	$ 0.77		2068.8	$ -	-$ 0.77	-100.00%
23	Standard Supply Service Charge	monthly	$ 0.2500	1	$ 0.25	$ 0.2500	1	$ 0.25	$ -	0.00%
24	Debt Retirement Charge (DRC)	per kWh	$ 0.0070	2075	$ 14.53	$ 0.0070	2068.8	$ 14.48	-$ 0.04	-0.30%
25	Energy	per kWh	$ 0.0714	2075	$ 148.13	$ 0.0714	2068.8	$ 147.66	-$ 0.46	-0.31%
26					$ -			$ -	$ -	
27					$ -			$ -	$ -	
28	**Total Bill (before Taxes)**				**$ 236.44**			**$ 244.77**	**$ 8.33**	**3.52%**
29	HST		13%		$ 30.74	13%		$ 31.82	$ 1.08	3.52%
30	**Total Bill (including Sub-total B)**				**$ 267.18**			**$ 276.59**	**$ 9.41**	**3.52%**
31	**Loss Factor**	**Note 1**	3.75%			3.44%				

Notes:
Note 1: See Note 1 from Sheet 1A. Bill Impacts - Residential

This bill impact includes the Special Purpose Charge and Standard Supply Service Administrative Charge whereas bill impacts provided in the Application Exhibit 8 Tab 4 Schedule 4 Attachment 2 do not include these charges. Furthermore, in this bill impact the loss factor has been applied to the volume used in the calculation for Debt Retirement Charge however the loss factor should not be applicable for this charge.
Existing Total Loss Factor = 1.0375 and Proposed Total Loss Factor = 1.0344
This bill impact is for an RPP customer.

Kingston Hydro Corporation
EB-2010-0136
Exhibit: 1
Tab: 4
Schedule: 10
Attachment: 1

MODIFIED: Loss Factor not applied to volume used to calculate Debt Retirement Charge

Customer Class: **Residential (RPP customer Winter)**

Consumption **800** **kWh**

		Current Board-Approved			Proposed			Impact	
	Charge Unit	**Rate ($)**	**Volume**	**Charge ($)**	**Rate ($)**	**Volume**	**Charge ($)**	**$ Change**	**% Change**
Monthly Service Charge	monthly	$ 10.1200	1	$ 10.12	$ 13.0900	1	$ 13.09	$ 2.97	29.35%
Smart Meter Rate Adder	monthly	$ 1.0000	1	$ 1.00	$ 1.0000	1	$ 1.00	$ -	0.00%
Service Charge Rate Adder(s)			1	$ -		1	$ -	$ -	
Service Charge Rate Rider(s)			1	$ -		1	$ -	$ -	
Distribution Volumetric Rate	per kWh	$ 0.0124	800	$ 9.92	$ 0.0160	800	$ 12.80	$ 2.88	29.03%
Low Voltage Service Rate	per kWh	$ 0.0002	800	$ 0.16	$ 0.0007	800	$ 0.56	$ 0.40	250.00%
Volumetric Rate Adder(s)			800	$ -		800	$ -	$ -	
Volumetric Rate Rider(s)			800	$ -		800	$ -	$ -	
Smart Meter Disposition Rider			800	$ -		800	$ -	$ -	
LRAM Rate Rider (2011)			800	$ -	$ 0.0010	800	$ 0.80	$ 0.80	
Deferral/Variance Account Disposition Rate Rider (2010)	per kWh	-$ 0.0031	800	-$ 2.48	-$ 0.0031	800	-$ 2.48	$ -	0.00%
Deferral/Variance Account Disposition Rate Rider (2011)	per kWh			$ -	$ 0.0010	800	$ 0.80	$ 0.80	
Rate Rider Global Adjustment Sub-Acct Disposition (2010) Non-RPP customers only	per kWh	$ 0.0015	0	$ -	$ 0.0015	0	$ -	$ -	
Rate Rider Global Adjustment Sub-Acct Disposition (2011) Non-RPP customers only	per kWh	$ -	0	$ -	$ 0.0012	0	$ -	$ -	
				$ -			$ -	$ -	
Sub-Total A - Distribution				**$ 18.72**			**$ 26.57**	**$ 7.85**	**41.93%**
RTSR - Network	per kWh	$ 0.0055	830	$ 4.57	$ 0.0057	827.52	$ 4.72	$ 0.15	3.33%
RTSR - Line and Transformation Connection	per kWh	$ 0.0046	830	$ 3.82	$ 0.0050	827.52	$ 4.14	$ 0.32	8.37%
Sub-Total B - Delivery (including Sub-Total A)				**$ 27.10**			**$ 35.42**	**$ 8.32**	**30.70%**
Wholesale Market Service Charge (WMSC)	per kWh	$ 0.0052	830	$ 4.32	$ 0.0052	827.52	$ 4.30	-$ 0.01	-0.30%
Rural and Remote Rate Protection (RRRP)	per kWh	$ 0.0013	830	$ 1.08	$ 0.0013	827.52	$ 1.08	-$ 0.00	-0.30%
Special Purpose Charge	per kWh	$ 0.0003725	830	$ 0.31	$ -	827.52	$ -	-$ 0.31	-100.00%
Standard Supply Service Charge	monthly	$ 0.2500	1	$ 0.25	$ 0.2500	1	$ 0.25	$ -	0.00%
Debt Retirement Charge (DRC)	per kWh	$ 0.0070	800	$ 5.60	$ 0.0070	800	$ 5.60	$ -	0.00%
Energy	per kWh	$ 0.0650	830	$ 53.95	$ 0.0650	827.52	$ 53.79	-$ 0.16	-0.30%
				$ -			$ -	$ -	
				$ -			$ -	$ -	
Total Bill (before Taxes)				**$ 92.61**			**$ 100.44**	**$ 7.83**	**8.46%**
HST		13%		$ 12.04	13%		$ 13.06	$ 1.02	8.46%
Total Bill (including Sub-total B)				**$ 104.65**			**$ 113.50**	**$ 8.85**	**8.46%**
Loss Factor (%)		3.75%			3.44%				

Notes:

Modified Revenue Requirement Work Form Tab 7A. Bill Impacts - Residential: re: No loss factor applied for Debt Retirement Charge
This bill impact includes SPC and SSS charges whereas Exhibit 8 Tab 4 Schedule 4 Attachment 2 detailed impact does not includes these charges.
Furthermore, this bill impact includes Low Voltage Service Rate in Sub-Total A Distribution whereas Exhibit 8 Tab 4 Schedule 4 Attachment 2 bill impact includes Low Voltage Service Rate in Delivery however not in Distribution.
Existing Total Loss Factor = 1.0375 and Proposed Total Loss Factor = 1.0344

Kingston Hydro Corporation
EB-2010-0136
Exhibit: 1
Tab: 4
Schedule: 10
Attachment: 1

MODIFIED: Loss Factor not applied to volume used to calculate Debt Retirement Charge

Customer Class: **GS < 50 kW (RPP customer)**

Consumption **2000** **kWh**

		Current Board-Approved			Proposed			Impact	
	Charge Unit	**Rate ($)**	**Volume**	**Charge ($)**	**Rate ($)**	**Volume**	**Charge ($)**	**$ Change**	**% Change**
Monthly Service Charge	monthly	$ 23.3900	1	$ 23.39	$ 26.8600	1	$ 26.86	$ 3.47	14.84%
Smart Meter Rate Adder	monthly	$ 1.0000	1	$ 1.00	$ 1.0000	1	$ 1.00	$ -	0.00%
Service Charge Rate Adder(s)			1	$ -		1	$ -	$ -	
Service Charge Rate Rider(s)			1	$ -		1	$ -	$ -	
Distribution Volumetric Rate	per kWh	$ 0.0097	2000	$ 19.40	$ 0.0111	2000	$ 22.20	$ 2.80	14.43%
Low Voltage Service Rate	per kWh	$ 0.0002	2000	$ 0.40	$ 0.0006	2000	$ 1.20	$ 0.80	200.00%
Volumetric Rate Adder(s)			2000	$ -		2000	$ -	$ -	
Volumetric Rate Rider(s)			2000	$ -		2000	$ -	$ -	
Smart Meter Disposition Rider			2000	$ -		2000	$ -	$ -	
LRAM Rate Rider (2011)			2000	$ -	$ 0.0004	2000	$ 0.80	$ 0.80	
Deferral/Variance Account Disposition Rate Rider (2010)	per kWh	-$ 0.0020	2000	-$ 4.00	-$ 0.0020	2000	-$ 4.00	$ -	0.00%
Deferral/Variance Account Disposition Rate Rider (2011)	per kWh			$ -	$ 0.0003	2000	$ 0.60	$ 0.60	
Rate Rider Global Adjustment Sub-Acct Disposition (2010) Non-RPP customers only	per kWh	$ 0.0015	0	$ -	$ 0.0015	0	$ -	$ -	
Rate Rider Global Adjustment Sub-Acct Disposition (2011) Non-RPP customers only	per kWh	$ -	0	$ -	$ 0.0012	0	$ -	$ -	
				$ -			$ -	$ -	
Sub-Total A - Distribution				**$ 40.19**			**$ 48.66**	**$ 8.47**	**21.07%**
RTSR - Network	per kWh	$ 0.0050	2075	$ 10.38	$ 0.0052	2068.8	$ 10.76	$ 0.38	3.69%
RTSR - Line and Transformation Connection	per kWh	$ 0.0042	2075	$ 8.72	$ 0.0046	2068.8	$ 9.52	$ 0.80	9.20%
Sub-Total B - Delivery (including Sub-Total A)				**$ 59.28**			**$ 68.93**	**$ 9.65**	**16.29%**
Wholesale Market Service Charge (WMSC)	per kWh	$ 0.0052	2075	$ 10.79	$ 0.0052	2068.8	$ 10.76	-$ 0.03	-0.30%
Rural and Remote Rate Protection (RRRP)	per kWh	$ 0.0013	2075	$ 2.70	$ 0.0013	2068.8	$ 2.69	-$ 0.01	-0.30%
Special Purpose Charge	per kWh	$ 0.0003725	2075	$ 0.77	$ -	2068.8	$ -	-$ 0.77	-100.00%
Standard Supply Service Charge	monthly	$ 0.2500	1	$ 0.25	$ 0.2500	1	$ 0.25	$ -	0.00%
Debt Retirement Charge (DRC)	per kWh	$ 0.0070	2000	$ 14.00	$ 0.0070	2000	$ 14.00	$ -	0.00%
Energy	per kWh	$ 0.0714	2075	$ 148.13	$ 0.0714	2068.8	$ 147.66	-$ 0.46	-0.31%
				$ -			$ -	$ -	
				$ -			$ -	$ -	
Total Bill (before Taxes)				**$ 235.92**			**$ 244.29**	**$ 8.38**	**3.55%**
HST		13%		$ 30.67	13%		$ 31.76	$ 1.09	3.55%
Total Bill (including Sub-total B)				**$ 266.58**			**$ 276.05**	**$ 9.47**	**3.55%**
Loss Factor (%)		3.75%			3.44%				

Notes:

Modified Revenue Requirement Work Form Tab 7B. Bill Impacts GS _LT_50 re: No loss factor applied to Debt Retirement Charge
This bill impact includes SPC and SSS charges whereas Exhibit 8 Tab 4 Schedule 4 Attachment 2 detailed bill impact does not include these charges.
Furthermore, this bill impact includes Low Voltage Service Rate in Sub-Total A Distribution whereas Exhibit 8 Tab 4 Schedule 4 Attachment 2 bill impact includes Low Voltage Service Rate in Delivery however not in Distribution.
Existing Total Loss Factor = 1.0375 and Proposed Loss Factor = 1.0344