Ontario Energy Board
P.O. Box 2319

Commission de l'énergie de l'Ontario

Ontario

EB-2013-0139

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 Hydro Hawkesbury Inc. for an order approving rates and other charges for the distribution of electricity to be effective January 1, 2014.

BEFORE: Ellen Fry
Presiding Member

Allison Duff
Member

DECISION AND ORDER
January 30, 2014

Hydro Hawkesbury Inc. ("Hydro Hawkesbury") has filed an application with the Ontario Energy Board ("the Board") under section 78 of the *Ontario Energy Board Act, 1998* (the "Act") seeking approval for the rates and other charges that Hydro Hawkesbury charges for electricity distribution, to be effective January 1, 2014.

The Vulnerable Energy Consumers Coalition ("VECC") was granted intervenor status. The Board granted Hydro Hawkesbury's request not to hold a settlement conference and to proceed by written hearing. VECC and Board staff filed interrogatories and written submissions. Hydro Hawkesbury filed interrogatory responses and written submissions in addition to the evidence included in its application.

Hydro Hawkesbury originally submitted a base revenue requirement of $1,633,225 to be recovered in rates effective January 1, 2014. In response to interrogatories, Hydro

Hawkesbury revised its base revenue requirement to $1,627,681. Based on this updated revenue requirement, Hydro Hawkesbury's proposed rates would recover a revenue deficiency of $280,667.

The following issues are addressed below in considering Hydro Hawkesbury's application:

- Alignment of Rate Year with Fiscal Year;
- Effective Date for Rates;
- Operating Revenue (Customer Forecast, Load Forecast and Other Distribution Revenue);
- Operating, Maintenance & Administration Expenses;
- Depreciation;
- Rate Base and Capital Expenditures (Incremental Capital Module, Working Capital Allowance and Green Energy Plan);
- Cost of Capital;
- Cost Allocation and Rate Design (Cost Allocation, Monthly Service Charges, Retail Transmission Service Rates, Low Voltage Charges, Loss Factors and Specific Service Charges);
- Deferral and Variance Accounts; and
- Implementation.

ALIGNMENT OF RATE YEAR WITH FISCAL YEAR

Hydro Hawkesbury requested an alignment of its fiscal and rate years to both start on January 1, in order to reduce administrative and accounting cost burdens, improve budget planning and align rates with costs. Neither VECC nor Board staff made any submissions on this issue.

The Board approves Hydro Hawkesbury's request to align its fiscal and rate years.

EFFECTIVE DATE FOR RATES

Hydro Hawkesbury applied for rates effective January 1, 2014. In Procedural Order No. 2 and Order for Interim Rates, the Board declared Hydro Hawkesbury's current rates interim effective January 1, 2014.

VECC submitted that Hydro Hawkesbury's rates should be effective January 1, 2014

only if the regulatory process is completed in sufficient time. Board staff made no submission on this matter.

In a letter dated December 11, 2012, the Board established a target date of April 26, 2013 for applications with rates effective January 1, 2014. Hydro Hawkesbury filed its initial application on May 30, 2013 and a revised application on June 13, 2013. On June 24, 2013 the Board informed Hydro Hawkesbury that its application was incomplete. On July 24, 2013 Hydro Hawkesbury filed a revised and complete application that addressed the areas of incompleteness identified by the Board.

In light of the fact that Hydro Hawkesbury ultimately filed a complete application on July 24 rather than April 26, the Board has determined that Hydro Hawkesbury's new rates will become effective March 1, 2014.

OPERATING REVENUE

Customer Forecast

Hydro Hawkesbury forecast 6,923 customers and connections (including street lighting and sentinel lights connections) for 2014. The forecast was derived by applying the class-specific historic annual growth rate for 2013 and 2014. VECC submitted that the forecast customer counts by class for 2014 were reasonable. Board staff agreed and submitted that the customer forecast proposed by Hydro Hawkesbury was consistent with the 0.8% average annual customer growth experienced during the 2010 to 2012 period.

The Board accepts Hydro Hawkesbury's proposed customer forecast for 2014.

Load Forecast

Hydro Hawkesbury's load forecast was developed in four steps. First, Hydro Hawkesbury developed a multivariate regression model that incorporates historical load and weather data from January 2004 to December 2012. Second, Hydro Hawkesbury produced 2013 bridge year and 2014 test year weather normalized purchased energy forecasts, using 9-year heating degree days and cooling degree days as inputs. Third, Hydro Hawkesbury derived the billed load forecasts from the purchased forecast and then allocated purchases to each rate class based on its shares of the historic billing trends. Fourth, Hydro Hawkesbury adjusted the 2014 forecast to account for impact of Conservation and Demand Management ("CDM") activity.

Hydro Hawkesbury's proposed load forecast for 2014 is as follows, after incorporating changes made in response to interrogatories:

Table 1: Load Forecast

Rate Class	kWh
Residential	53,488,924
GS < 50 kW	19,235,278
GS 50 to 4,999 kW	80,703,727
Street Lighting	1,136,738
Sentinel Lights	104,646
Unmetered Scattered Load	220,649
TOTAL	**154,889,963**

VECC submitted that Hydro Hawkesbury should not have used a 10 year employment level average in its model; instead, it should have used an economic conditions variable as at the close of 2012. Hydro Hawkesbury submitted that an employment level average is more reflective of the economic uncertainty in its region, and provided figures indicating a downward trend in labour force and employment. Hydro Hawkesbury indicated that it tested a 5-year rather than a 10-year average of the economic conditions variable, but it had the effect of increasing its revenue requirement.

Board staff submitted that while the proposed load forecast increase over two years is significant, it did not have any concerns as the difference is driven mostly by weather normalization. Board staff did not express any concerns with Hydro Hawkesbury's regression model.

The Board accepts Hydro Hawkesbury's argument that its economic conditions variable is appropriate given the economic uncertainty in the region and accepts its regression model as reasonable.

Hydro Hawkesbury initially made the CDM adjustment to its load forecast on the basis of gross energy savings rather than net savings, and included 2011 and 2012 CDM savings in the adjustment. In response to an interrogatory, Hydro Hawkesbury provided a revised calculation of the CDM adjustment, using net rather than gross savings, not deducting 2011 CDM savings, and deducting 50% rather than 100% of the 2012 CDM savings.

Both VECC and Board staff submitted that using net rather than gross CDM savings is the appropriate approach, consistent with the Board's decision in EB 2012-0113 concerning Centre Wellington Hydro. Hydro Hawkesbury submitted that it is agreeable to applying the net approach, but that the net approach is not reflected in the Board's July 2013 Filing Requirements.

The Board notes that Appendix 2-I of the Board's Filing Requirements refers to the decision in the Centre Wellington case, but indicates the possibility that a utility could provide support to the Board for applying a CDM adjustment on a gross basis. The Board notes that Hydro Hawkesbury has not advanced any convincing reason to use gross rather than net CDM savings in this proceeding. Accordingly, the Board has determined that, consistent with the Centre Wellington decision, that Hydro Hawkesbury should use net CDM savings.

VECC submitted that the CDM adjustment should exclude the 2011 and 2012 CDM savings because they are already captured in the historical data used Hydro Hawkesbury to develop its load forecast model. VECC submitted there should be no adjustment for 50% of the 2012 CDM program because the Board has denied the inclusion of such an adjustment in its Sioux Lookout Hydro decision (EB-2012-0165). Board staff agreed with Hydro Hawkesbury's revised calculation of the CDM adjustment, in which 50% of the 2012 CDM savings was deducted.

The Board agrees with VECC that the savings from both the 2011 and 2012 CDM programs should be excluded from the CDM adjustment. It is clear that the savings from the 2011 CDM program and from activity in 2012 under the 2012 CDM program have been embedded in the 2012 historical data and incorporated into the regression model. Concerning Hydro Hawkesbury's 2012 CDM program, the information on the record does not indicate that there was any new activity in 2013 under the 2012 CDM program.

VECC submitted that there were two errors in Hydro Hawkesbury's load forecast calculation. First, VECC submitted that Hydro Hawkesbury should have used the 2014 forecast customer count rather than the actual 2012 customer count to determine the average use per customer to apply to the increase in customers between 2013 and 2014. The Board agrees. Second, VECC submitted that in calculating the 2014 load forecast, Hydro Hawkesbury has added the new customer forecast for 2014 but omitted

to add the new customer forecast for 2013. The Board agrees. The Board requires Hydro Hawkesbury to correct these two errors in the calculations for its draft Rate Order.

Other Distribution Revenue

Hydro Hawkesbury forecast total other distribution revenue of $157,139 for 2014. During the interrogatory process, Hydro Hawkesbury confirmed that the revenues from interest and dividends that were included in the forecast for other distribution revenue included carrying charges on its Retail Settlement Variance Account ("RSVA"). VECC submitted that these carrying charges should not be included in other distribution revenue, but instead should be recorded and dealt with via the RSVA. Board staff did not make submissions on this issue.

The Board agrees with VECC, and requires Hydro Hawkesbury to make this change in the calculations for its draft Rate Order.

OPERATIONS, MAINTENANCE & ADMINISTRATION ("OM & A")

Hydro Hawkesbury's proposed 2014 OM & A of $1,126,665 represents an 11.9% increase over the actual 2012 OM & A and a 19.1% increase over the 2010 Board approved OM & A. Smart meter costs comprise 50% of the overall increase in proposed OM & A. Board staff noted that Hydro Hawkesbury's average annual OM & A increase would be 2.3% if costs associated with smart metering were excluded.

VECC submitted that if Hydro Hawkesbury's 2010 OM & A was adjusted only for customer growth, inflation and incremental responsibilities it would be expected to increase by between $60,738 and $66,191, rather than the $181,073 increase proposed by Hydro Hawkesbury. VECC submitted that there were several elements in Hydro Hawkesbury's proposed OM & A budget that could be reduced without causing "undue hardship". However VECC submitted that specific reductions in the OM & A budget should be left to the discretion of Hydro Hawkesbury's management. Board staff submitted that Hydro Hawkesbury's proposed 2014 OM & A level was reasonable.

Hydro Hawkesbury submitted that even with two new transformer stations included in its proposed 2014 OM & A budget, it would still have rates at the lowest in Ontario. It submitted that its proposed 2014 OM & A budget produced one of the lowest OM & A costs per customer, a cost lower than the 2010 level for its cohort utilities.

The Board agrees with Hydro Hawkesbury that despite the increase reflected in its proposed 2014 OM & A budget, its proposed OM & A cost per customer in 2014 would still be lower than the 2010 level for other utilities of a similar size. Taking this into consideration, the Board approves Hydro Hawkesbury's proposed 2014 OM & A of $1,126,665.

DEPRECIATION

Hydro Hawkesbury proposed a depreciation expense of $222,217 in 2014. In calculating depreciation, it proposed useful lives and asset componentization in accordance with the Board's *Depreciation Study for Electricity Distributors – Transition to International Financial Reporting Standards* (EB-2010-0178).

VECC made no submissions on the proposed amount of the depreciation expense. Board staff submitted that it had no concerns with the proposed depreciation expense.

The Board approves the proposed depreciation expense of $222,217 for 2014, subject to the Board's findings in the ICM section below.

RATE BASE AND CAPITAL EXPENDITURES

Hydro Hawkesbury proposed a rate base of $7,099,556, which would represent an 87% increase from the 2012 actual amount and a 66.6% increase from the 2010 Board approved amount. Hydro Hawkesbury stated the proposed increase was primarily due to the inclusion of capital expenditures previously approved in its 2012 Incentive Regulation Mechanism ("IRM") application (EB-2011-0273) and smart meter application (EB-2012-0198).

Hydro Hawkesbury proposed capital expenditures of $272,300 in 2014. The major capital expenditure projects include pole and conductor replacement and transformer repair and exclude expenditures related to the previously approved ICM and smart meters.

Board staff submitted that Hydro Hawkesbury's capital expenditures were relatively stable and that Hydro Hawkesbury had provided sufficient support for the capital program. VECC noted that the average non-ICM expenditure was $210,000 between 2010 and 2012, lower than the average of $278,000 between 2013 and 2014. VECC submitted that Hydro Hawkesbury had increased its spending on pole replacement,

similar to other Ontario electric distribution utilities, and that its capital budget was reasonable.

The Board approves capital expenditures of $272,300 and rate base of $7,099,556 in 2014, subject to the Board's findings in the following ICM section.

ICM

Hydro Hawkesbury's 2012 Incentive Regulation Mechanism ("IRM") application (EB-2011-0273) included an ICM for two projects: replacement of a 44 kV distribution transformer at a capital cost of 712,919 (the "44 kV project") and replacement of two transformers at the 110 kV substation at a capital cost of $1,517,813 (the "110 kV project"). In its decision, the Board approved the two projects and allowed Hydro Hawkesbury to recover the associated annual revenue requirement through a rate rider to start on May 1, 2012.

As part of this application, Hydro Hawkesbury filed a Fixed Asset Continuity Schedule that included $790,136 for the 44 kV project and $1,517,813 for the 110 kV project as 2013 additions.

In interrogatory responses and a letter to the Board dated January 9, 2014, Hydro Hawkesbury clarified that the 44 kV project was in service as of May 2012 as indicated in its ICM application. However, it indicated that the actual cost of the project was $790,137, which was higher than forecast. For financial reporting purposes, Hydro Hawkesbury recorded the assets in 2013 rather than 2012, as it was too late to include the assets in its 2012 audited financial statements. Hydro Hawkesbury decided to add the actual costs and accumulated depreciation to its Fixed Asset Continuity Schedule in 2013 to maintain consistency between its audited financial statements and regulatory reporting.

Hydro Hawkesbury has indicated that the increased cost for the 44 kV project was necessary in order to build a stable foundation for the transformer given poor soil conditions. VECC did not make a submission on this matter. Board staff submitted that it had no concerns with the increased costs for the 44 kV project.

Hydro Hawkesbury's IRM application indicated the 110 kV project would be in service in 2012 and would cost $1,517,813. In this proceeding, Hydro Hawkesbury indicated that

the in-service date is now expected to be March 2014 with a total forecast cost $1,547,900. Hydro Hawkesbury forecast that $1,200,000 would be spent by the end of 2013 and $347,900 would be spent in 2014. However, Hydro Hawkesbury added $1,547,900 to its Fixed Asset Continuity Schedule in 2013, with accumulated depreciation.

The Board requires that Hydro Hawkesbury's 2014 rates be calculated on a set of accurate and consistent assumptions and inputs. The Fixed Asset Continuity Schedule must reflect the year in which assets go into service and are used and useful. It is important that Hydro Hawkesbury's draft Rate Order and supporting schedules include the actual dates and dollars associated with the ICM projects in order to establish just and reasonable rates.

The Board directs Hydro Hawkesbury to update its Fixed Asset Continuity Schedule as part of its draft Rate Order, to record the actual costs in the years the 44 kV and 110 kV projects are in service, with the associated accumulated depreciation. The Board notes that the cost of the two projects should include the cost of capitalized interest during the construction phases of the projects before they are placed in service. The Board directs Hydro Hawkesbury to include the capitalization of the interest during construction using the Board's prescribed Construction Work In Progress ("CWIP") interest rates posted on the Board's website (the DEX Mid Term Corporate Bond Index Yield) in the costs of these assets, if applicable, and to update the asset values in all applicable schedules. The impact of any changes would also require the updating of the balances in the subaccounts of Account 1508 for "Incremental Capital Expense" and the associated accumulated depreciation. These accounts are discussed below in the ICM-Related Variance Sub-Account section.

Accordingly, the actual 44 kV project cost is to be recorded in 2012 with accumulated depreciation and the net book value added to the 2014 rate base as of January 1, 2014.

The forecast 110 kV project cost of $1,547,900 is to be added to the 2014 rate base using the half-year rule, as it is expected to be in service in April 2014.

The Board understands that as a result of these changes Hydro Hawkesbury's regulatory and corporate financial reporting may not align. However these changes are necessary to correctly calculate the net addition to rate base in 2014 and match the

timing of ICM-related charges and expenses. The Board's findings with respect to the ICM-related deferral accounts are in the Deferral and Variance Account section of this decision.

Working Capital Allowance

Hydro Hawkesbury proposed a $2,282,270 Working Capital Allowance based on the Board's default rate of 13%.

VECC submitted that a rate of 12% would be more appropriate because Hydro Hawkesbury bills its customers on a monthly basis. VECC submitted that the Board's default rate was established when most utilities offered bi-monthly billing and that monthly billing utilities have a lower need for cash than bi-monthly utilities. VECC referred to a lead-lag study completed by London Hydro, a monthly billing utility, which indicated a lower working capital requirement close to 11%. Board staff took no issue with Hydro Hawkesbury's proposal.

Hydro Hawkesbury submitted that the 13% default rate was consistent with the Board's requirements. Hydro Hawkesbury submitted that it is often forced to borrow against its line of credit in peak months to meet its obligations to Hydro One and the IESO. Hydro Hawkesbury submitted that it would be incorrect to use an arbitrary proxy as proposed by VECC rather than evidence resulting from an actual Hydro Hawkesbury lead-lag study.

The Board accepts Hydro Hawkesbury's proposal to use a 13% working capital allowance, consistent with Board policy. The Board finds no compelling reason to depart from its default rate. The Board does not consider it appropriate to adopt the results of a lead-lag study from another utility without a thorough analysis concluding that the two utilities are comparable.

Green Energy Act Plan

Hydro Hawkesbury applied for approval of its Green Energy Act Plan ("GEA Plan"). Given the low uptake of the Feed-in Tariff ("FIT") and micro-FIT programs in its service area, Hydro Hawkesbury proposed no capital investments or OM & A expenditures in its GEA Plan and did not seek any recovery of associated costs in this application. Hydro Hawkesbury sought an exemption from the Board's filing requirement that a distributor must submit its GEA Plan to the Ontario Power Authority (the "OPA") for comment prior

to filing the plan with the Board. Hydro Hawkesbury indicated that it did not consider an OPA review to be warranted.

VECC did not make any submissions on Hydro Hawkesbury's GEA Plan. Board staff submitted that Hydro Hawkesbury's GEA Plan provided a comprehensive view of the capabilities of its distribution system. However, Board staff submitted that in the absence of an OPA review, the Board has no ability to verify the information that is typically verified by the OPA. Therefore, Board staff submitted that the Board should not grant Hydro Hawkesbury an exemption and should not approve Hydro Hawkesbury's GEA Plan. In its reply submission, Hydro Hawkesbury agreed to file its GEA Plan with the OPA and to file the letter of comment from the OPA when it becomes available.

The Board directs Hydro Hawkesbury to file its GEA Plan with the OPA as soon as possible and to file a copy of the OPA's response with the Board when received.

COST OF CAPITAL

Hydro Hawkesbury's original application included the following cost of capital parameters:

Table 2: Proposed Cost of Capital Parameters

Cost of Capital Parameter	Hydro Hawkesbury's Proposal
Capital Structure	60.0% debt (composed of 56.0% long-term debt and 4.0% short-term debt) and 40.0% equity
Short-Term Debt	2.07%
Long-Term Debt	3.94%
Return on Equity (ROE)	8.98%
Weighted Average Cost of Capital	5.88%

On November 25, 2013, the Board issued a letter with the updated cost of capital parameters to be used in 2014 cost of service applications for rates effective January 1, 2014. These are summarized in the following table:

Table 3: Updated Cost of Capital Parameters

Cost of Capital Parameter	Updated Value for 2014 Cost of Service Applications for rates effective January 1, 2014
Return on Equity	9.36%
Deemed Long-term Debt Rate	4.88%
Deemed Short-term Debt Rate	2.11%

Board staff submitted that Hydro Hawkesbury should update its 2014 cost of capital calculation with the new rates, except for the cost of long-term debt. Board staff agreed with Hydro Hawkesbury's proposal to use its Infrastructure Ontario debt cost of 3.94% rather than the default long-term debt rate. VECC agreed with Board staff's submission. Hydro Hawkesbury agreed to update its cost of capital parameters as submitted by Board staff as part of its draft Rate Order.

The Board finds that it is appropriate for Hydro Hawkesbury to use the Board's deemed rate of 9.36% for equity and 2.11% for short-term debt. The Board approves a long-term debt rate of 3.94% based on Hydro Hawkesbury's actual Infrastructure Ontario debt cost. As indicated in the December 2009 *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities*, the Board's default rate for long-term debt should only be used in the absence of third-party loans. Where there are third party loans, the actual interest rates should be used.

COST ALLOCATION AND RATE DESIGN

Cost Allocation

Hydro Hawkesbury updated its cost allocation model in accordance with the Board's *Review of Electricity Distribution cost Allocation Policy EB-2010-0219*. Hydro Hawkesbury used its own weighting factors, replacing the default values used in its previous cost of service application. In addition, Hydro Hawkesbury proposed to move the revenue-to-cost ratios to 100% for all rate classes. The following table summarizes Hydro Hawkesbury's current and proposed revenue-to-cost ratios compared to the Board's target range for each customer class.

Table 4: Revenue-to-Cost Ratios

Customer Class	2010 Board Approved %	Cost Allocation Model %	Proposed 2014 %	Board Target Range %
Residential	111.0	101.8	100.0	85 – 115
GS < 50 kW	111.0	107.8	100.0	80 - 120
GS 50 to 4,999 kW	80.0	87.4	100.0	80 - 120
Street Lighting	70.0	167.7	100.0	70 - 120
Sentinel Lights	120.0	147.0	100.0	80 - 120
Unmetered Scattered Load	80.0	104.3	100.0	80 - 120

VECC submitted that Hydro Hawkesbury's cost allocation model and methodology had not improved sufficiently to justify moving its revenue to cost ratios to 100%. In particular, VECC submitted that Hydro Hawkesbury had not updated the kW values for load profiles and had allocated over 50% of the distribution plant fixed assets on the basis of demand, which was "a serious flaw". VECC submitted that Hydro Hawkesbury should simply adjust the ratios to be within the Board-approved ranges. VECC referred to the Board's findings in the Toronto Hydro 2011 rates proceeding (EB-2010-0142) and the Horizon 2011 rates proceeding (EB-2010-0131) in which the Board adjusted the revenue-to-cost ratios to be within the Board-approved ranges and did not approve adjustments to 100%. VECC proposed that the revenue-to-cost ratios for the Street Lighting and Sentinel Lighting should be reduced to the upper end of the Board's approved range, that the GS>50 ratio should be increased to maintain revenue neutrality and that the other class ratios should remain unchanged.

Board staff submitted that Hydro Hawkesbury's evidence provided a good foundation for its proposed revenue re-balancing. Board staff deferred to Hydro Hawkesbury's knowledge of its own situation and did not disagree with the proposed weighting factors. However, Board staff identified an anomaly for the Unmetered Scattered Load ("USL") class. Because the USL class has no connections to the distribution system, no service costs were allocated to the USL rate class. Board staff submitted that the discrepancy was minor; however, Hydro Hawkesbury should correct the data in its cost allocation model. Hydro Hawkesbury agreed to make this change.

Board staff supported Hydro Hawkesbury's cost allocation proposal as it was designed to match revenue with the revenue requirement for each rate class. However, Board

staff submitted that the proposed cost allocation changes were substantial and quite different from what the Board approved in the previous rates case. Board staff submitted that while the distribution rate increase for Residential and GS 50 to 4,999 kW was quite large, the total bill impact was attenuated or even reversed by the other components of the customer bill.

Hydro Hawkesbury submitted that its cost allocation study provided the opportunity to restore inequities and eliminate any cross subsidization that may have been in place since its last cost of service proceeding. Hydro Hawkesbury acknowledged that its load profile data may be slightly outdated, based on 2006 data, but submitted it was the best information available. Using 2006 load profile data was not a sufficient reason to leave the resulting ratios unchanged within the target range, in Hydro Hawkesbury's submission.

Hydro Hawkesbury termed its proposal an "unusually aggressive adjustment", but submitted the rate increase would not be as noticeable to customers as in other circumstances as it would be offset by a drop in the revenue requirement resulting from new capitalization policies.

The Board accepts the results of Hydro Hawkesbury's cost allocation study using utility-specific data. The results of the study indicate inequities among the rate classes in terms of cost recovery. The Board agrees that it is desirable to reduce the degree of cross subsidization, but is reluctant to move revenue-to-cost ratios to 100% for each rate class. The Board is aware that there are data limitations inherent in cost allocation models, and notes that as a practical matter, there may be little difference between a revenue-to-cost ratio of near 100% and the theoretical ideal of 100%.

The Board agrees with VECC's proposal and directs Hydro Hawkesbury to reduce the revenue-to-cost ratios for the Street Lighting and Sentinel Lighting to 120%, which is the upper end of the Board-approved range. To offset this, the Board directs Hydro Hawkesbury to increase the ratio of the GS 50 to 4,999 kW, to fully recover its costs from all rate classes.

Monthly Service Charges ("MSC")

Hydro Hawkesbury proposed to move the proportions of fixed and variable costs for all customer classes closer to 50% fixed and 50% variable (a "50/50 split"). The proposed

MSC are below the Board's ceiling rates, except for the GS 50 to 4,999 kW class. Hydro Hawkesbury's current and proposed MSC and the applicable Board ceilings are as follows:

Table 5: Current and Proposed Monthly Service Charges

Rate Class	Monthly Service Charges		
	Current	Proposed	Board Ceiling
Residential	$5.99	$10.00	$13.33
GS < 50 kW	$13.84	$15.00	$20.38
GS 50 to 4,999 kW	$97.35	$97.35	$26.50
Street Lighting	$0.62	$1.00	$1.55
Sentinel Lights	$1.63	$1.00	$2.99
Unmetered Scattered Load	$6.39	$8.50	$12.11

VECC disagreed with Hydro Hawkesbury's proposal and submitted that the current fixed/variable split should be maintained for each rate class, even though the current GS 50 to 4,999 kW MSC exceeds the Board ceiling. VECC agreed with the Hydro Hawkesbury proposal to maintain the current fixed charge of $97.35 for GS 50 to 4,999 kW for 2014 as it was consistent with Board policy to maintain the current rate even if the ceiling was exceeded. VECC noted that the Board has initiated a project (EB-2012-0410) regarding revenue decoupling for electricity distributors and submitted that the Board should not adopt Hydro Hawkesbury's proposed changes until the project is complete as it would establish a precedent.

Board staff submitted that the rationale for a 50/50 split is arbitrary and therefore should not be used as a reference point for rate design. Board staff further submitted that if Hydro Hawkesbury's proposal is approved by the Board, the proposed increase in the MSC for the Residential Class should be phased in over a 2-year period to reduce the total bill impact in 2014 below 10%. Applying this approach, the 2014 MSC for Residential customers would be $8.00.

In reply submission, Hydro Hawkesbury agreed with the Board staff recommendation to set its Residential MSC initially at $8.00 and phase in the proposed MSC of $10.00 over two years.

The Board does not find Hydro Hawkesbury's arguments compelling to justify a change in its rate design to a 50/50 split. The Board directs Hydro Hawkesbury to maintain its existing fixed/variable split for each customer class with the exception of the GS 50 to 4,999 kW class, as the monthly service charge already exceeds the ceiling.

Retail Transmission Service Rates ("RTSR")

Hydro Hawkesbury proposed RTSRs to reflect the Uniform Transmission Rates ("UTR") and the host distributor rates of Hydro One effective January 1, 2013. Electricity distributors are charged the UTRs at the wholesale level and subsequently pass these charges on to their distribution customers through the RTSRs. As a partially embedded distributor whose host is Hydro One, Hydro Hawkesbury is also charged Sub-Transmission rates by Hydro One. The proposed RTSRs are as follows:

Table 6: Proposed RTSRs

Rate Class	Hydro Hawkesbury Updated Proposal	
	RTSR Network	RTSR Connection
Residential ($/kWh)	$0.0070	$0.0032
GS < 50 kW ($/kWh)	$0.0064	$0.0028
GS 50 to 4,999 kW ($/kW)	$2.5888	$1.1437
Street Lighting ($/kW)	$1.9526	$0.8842
Sentinel Lighting ($/kW)	$1.9532	$1.8053
Unmetered Scattered Load ($/kWh)	$0.0064	$0.0028

Since the filing of Hydro Hawkesbury's application, the Board has issued its Rate Order for Hydro One Transmission (EB-2012-0031) which adjusted the UTRs effective January 1, 2014. The Board has also approved new rates for Hydro One Sub-Transmission class RTSRs effective January 1, 2014 (EB-2013-0141).

VECC submitted that Hydro Hawkesbury's revised RTSRs should be approved by the Board. Board staff submitted that Hydro Hawkesbury should update its RTSRs to reflect the new UTR's and Sub-Transmission rates.

The Board directs Hydro Hawkesbury to revise its RTSRs to incorporate the new UTRs and host distributor rates of Hydro One effective January 1, 2014, as part of its draft Rate Order. In accordance with standard practice, Variance Accounts 1584 and 1586 will continue to capture timing differences and differences in the wholesale transmission

service and host distributor rates paid by Hydro Hawkesbury compared to the retail rate Hydro Hawkesbury is authorized to charge its customers.

Low Voltage Charges

Hydro Hawkesbury proposed to increase its Low Voltage ("LV") rates by 50% to 77%, depending on the class of customers, to recover its forecast LV costs of $99,595. Hydro Hawkesbury based its LV forecast on the average of its 2011 and 2012 costs and adjusted upward to reflect the projected load growth. Based on Hydro Hawkesbury's response to interrogatory 8.0-Staff-28, the average shortfall with current LV rates is $38,102 and $47,720 in those years.

Board staff submitted that Hydro Hawkesbury has justified the need for the increased LV costs in 2014 based on its actual experience in 2011 and 2012. VECC submitted that while the forecast could be refined, the cost was reasonable.

The Board approves the LV costs of $99,595 for recovery in 2014.

Loss Factors

The Distribution Loss Factor ("DLF") measures energy losses that occur within the distributor's distribution system by comparing the wholesale energy with the retail energy delivered by distributor. Similarly, the Supply Facilities Loss Factor ("SFLF") measures energy losses that occur at the point of supply, upstream of the distributor's distribution system. The Total Loss Factor ("TLF") measures the totality of these losses and is equal to the product of the DLF and SFLF. Hydro Hawkesbury applied for a TLF of 1.0541 for secondary metered customers < 5,000 kW, which is based on an underlying DLF of 1.0480 and SFLF of 1.0058. The proposed DLF and SFLF are based on the average of five historical years from 2008 to 2012. The current approved TLF for secondary metered customers < 5,000 kW is 1.0446.

VECC submitted that distribution loss factors had been declining over the last five years and it would be more appropriate for Hydro Hawkesbury to base its calculation on a three year average. VECC did not support Board staff's submission for a lower SFLF as the issue was not explored in the proceeding and there was no information on the record regarding the actual loss factors billed to Hydro Hawkesbury. As a result, VECC submitted that it was not apparent the 1.0058 proposed by Hydro Hawkesbury was inappropriate.

Board staff had no concerns with the proposed DLF, but took issue with the proposed SFLF. Board staff indicated that it appeared that Hydro Hawkesbury received approximately half of its required power through Hydro One, and that accordingly the SFLF should be adjusted to approximately to 1.02 to reflect the default SFLF for a fully embedded distributor of 1.034.

Hydro Hawkesbury maintained that its SFLF should be approved; provided more details of its 2012 SFLF; and indicated the actual percentage is 1.0055, not 1.02 as suggested by Board staff.

The Board accepts the proposed TLF of 1.0541 for secondary metered customers < 5,000 kW as submitted by Hydro Hawkesbury. The Board finds no compelling reason to accept Board staff's submission for a higher SFLF.

Specific Service Charges

Hydro Hawkesbury proposed to increase four of its specific service charges. The changes are shown in the following table.

Table 7: Existing and Proposed Specific Service Charges

Specific Service Charge	Existing Charge	Proposed Charge
Change of Occupancy	$30	$40
Disconnect/Reconnect at Meter – after regular hours	$130	$170
Install/Remove Load Control Device – after regular hours	$130	$170
Service Call – after regular hours	$130	$170

Hydro Hawkesbury provided the actual costs of providing the above services and submitted that the existing charges were not sufficient to fully recover the actual costs.

VECC agreed that the existing charges are insufficient. VECC agreed with the proposed charge of $40 for a change of occupancy, but disagreed with Hydro Hawkesbury's proposed charges for the other service rates. VECC submitted that since the actual costs related to services after regular hours were only $162.50, the charges to Disconnect/Reconnect at Meter, Install/Remove Load Control Devise and provide a Service Call should be $165 rather than $170. Board staff submitted that it had no concerns with Hydro Hawkesbury's proposal.

Hydro Hawkesbury agreed to VECC's proposed change. The Board approves Hydro Hawkesbury's revised specific service charges of $40 and $165.

DEFERRAL AND VARIANCE ACCOUNTS

Balances Proposed for Disposition

Hydro Hawkesbury is requesting disposition of the Group 1 and Group 2 deferral and variance account principal balances as at December 31, 2012 and the forecasted interest to December 31, 2013, over a one year period.

Table 8: Proposed Group 1 and 2 Account Balances for Disposition

Account #	Account Description	Disposition Amount[1]
1550	LV Variance Account	$48,843
1580	RSVA – Wholesale Market Service Charge	($116,610)
1584	RSVA – Retail Transmission Network Charge	($7,433)
1586	RSVA – Retail Transmission Connection Charge	($21,499)
1588 – Pwr	RSVA – Power (excluding Global Adjustment)	$117,602
1589 – GA	RSVA –Global Adjustment	$271,751
1595	Disposition and Recovery/Refund of Regulatory Balances (2008)	($195,709)
1508	Other Regulatory Assets – Incremental Capital Charges	$3,359
1518	Retail Cost Variance Account – Retail	$1,857
1535	Smart Grid OM&A Deferral Account	$1,901
1548	Retail Cost Variance Account – STR	$9,591
1568	LRAM Variance Account	$5,265
1576	Accounting Changes Under CGAAP Balances plus Return component	($25,155)
	Total Proposed for Disposition excluding Global Adjustment	**($177,988)**
	Total Proposed for Disposition	**$93,763**

VECC had no comments on the proposed disposition amount and period. Board staff had no concerns with Hydro Hawkesbury's updated proposed balances and disposition period.

[1] Debit amounts are recoverable from Hydro Hawkesbury's customers and credit amounts are refunded by Hydro Hawkesbury back to its customers.

BOARD FINDINGS

The Board approves the Group 1 and 2 deferral and variance accounts balances, to be disposed over a 10-month period given the implementation of rates on March 1, 2014, subject to any approved rate mitigation plan as required under Implementation, below.

Stranded Meters

Hydro Hawkesbury is requesting recovery of the net book value of $61,500 of meters removed from service when they were replaced with smart meters. Hydro Hawkesbury proposed recovery from all customer classes through stranded meter rate riders ("SMRRs"), over a two-year period. Hydro Hawkesbury requested the SMRRs shown in the table below.

Table 9: Proposed Stranded Meter Rate Riders

Rate Class	SMRR ($/month)
Residential	$0.46
GS < 50 Kw	$1.64

VECC supported Hydro Hawkesbury's proposal for recovery of stranded meter costs. Board staff made no submissions on this issue.

The Board approves the recovery of the stranded meter cost of $61,500 to be collected over a 10 month period to reflect the implementation of rates on March 1, 2014, subject to any approved rate mitigation plan as required under Implementation below.

ICM-RELATED VARIANCE SUB-ACCOUNT

Initially, Hydro Hawkesbury did not propose to dispose of the variance sub-account balances in Account 1508 related to its ICM rate rider, ICM 44 kV project costs and 110 kV project costs.

VECC submitted that Hydro Hawkesbury has clearly over collected the amount required by the current ICM rate rider as the 110 kV project was not in service in 2012 as planned. VECC was in agreement with Board staff's submission that variances in ICM riders and actual in-service amounts should be subject to reconciliation.

Board staff submitted that as the incremental revenue recovery began on May 1, 2012, a true-up calculation should take place, to reconcile the revenue recovered from

ratepayers to the actual costs and in-service dates of the 44 kV and 110 kV projects. Board staff submitted that the difference should be refunded to customers by way of a rate rider.

In its reply submission, Hydro Hawkesbury agreed to true-up the difference in the revenue requirement provided it was permitted to transfer the balances from Account 1508 to Account 4080 Distribution Services Revenue. Hydro Hawkesbury requested guidance from the Board regarding the specific accounting treatment to perform the true-up.

The Board's objective is to finalize the balances in the ICM-related deferral accounts in order to dispose of the balances and close the accounts in this proceeding.

The Board directs Hydro Hawkesbury to determine the actual ICM rate rider amount collected from May 1, 2012 to February 28, 2014 associated with the 110 kV project (the "110 kV rate rider refund amount"). The Board appreciates that the rate rider balance as at December 31, 2013 is not audited and does not include amounts collected from January 1, 2014 to February 28, 2014. As a result, Hydro Hawkesbury must forecast the amount collected for two months, January and February 2014.

Once the 110 kV rate rider refund amount is determined, Hydro Hawkesbury is directed to include it in its draft Rate Order for the purpose of refunding the 110 kV rate rider refund amount to customers. The refund would occur over a 10-month period, subject to any approved rate mitigation plan as required under implementation below. In order to allow for the clearance of the rate rider collected in relation to the 44 kV project and its recognition as distribution revenue, the residual balance in Account 1508 "Incremental Capital Charge – Rate Rider" will be deemed to relate to the 44 kV project and transferred to Account 4080 Distribution Services Revenue.

In order to clear the recorded capital expenditures for the ICM projects, Hydro Hawkesbury should transfer the balances in Account 1508 "Incremental Capital Expense – Sub 110 kV Expenses" and the associated accumulated depreciation to the applicable fixed asset accounts on the completion of the project in 2014. In addition, Hydro Hawkesbury should transfer the "Incremental Capital Expense – Sub 44 kV Expenses" and the associated accumulated depreciation to the applicable fixed asset accounts as at December 31, 2013. As a result, the Board expects the balances in the

three sub-accounts within Account 1508 related to the ICM projects will be cleared, resulting in zero balances and the accounts will be closed.

These accounting adjustments allow for the transfer of the approved balances from the deferral accounts to their respective operating accounts on the income statement and balance sheet.

IMPLEMENTATION

The Board has made findings in this decision which change the proposed 2014 revenue requirement and therefore change the distribution rates from those proposed by Hydro Hawkesbury. In filing its draft Rate Order, the Board expects Hydro Hawkesbury to file detailed supporting material, including all relevant calculations showing the impact of this decision on Hydro Hawkesbury's revenue requirement, the allocation of the approved revenue requirement to the classes of customer 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. If as a result of these calculations the total bill increase for any customer class would exceed 10%, the Board requires Hydro Hawkesbury to file a mitigation plan as contemplated by the Board's Filing Requirements.

The Board will issue a Rate Order after the steps set out below are completed.

1. Hydro Hawkesbury shall file with the Board, and serve on VECC, a draft Rate Order attaching a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision within **14 days** of the date of the issuance of this Decision.

2. VECC and Board staff shall file any comments on the draft Rate Order with the Board and serve them on the parties within **7 days** of the date of filing of the draft Rate Order.

3. Hydro Hawkesbury shall file with the Board and serve on VECC responses to any comments on its draft Rate Order within **4 days** of the date of receipt of VECC's and Board staff's comments.

COST AWARDS

1. The Board may grant cost awards to eligible parties pursuant to its power under section 30 of the Act. In this proceeding VECC is eligible for a cost award. In determining the amount its cost award, the Board will apply the principles set out in section 5 of the Board's *Practice Direction on Cost Awards* and the maximum hourly rates set out in the Board's Cost Awards Tariff. VECC shall file with the Board and serve on Hydro Hawkesbury, its cost claim within **7 days** from the date of issuance of the final Rate Order.

2. Hydro Hawkesbury shall file with the Board and serve on VECC any objections to the claimed costs within **14 days** from the date of issuance of the final Rate Order.

3. VECC shall file with the Board and serve on Hydro Hawkesbury any responses to any objections for cost claims within **21 days** of the date of issuance of the final Rate Order.

4. Hydro Hawkesbury 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-2013-0139, and be made through the Board's web portal at www.pes.ontarioenergyboard.ca/eservice/, 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.

DATED at Toronto, January 30, 2014

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary