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March 5, 2010

Delivered by E-mail and Courier

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

Re: Haldimand County Hydro Inc. – 2010 Cost of Service Electricity Distribution Rate Application – Board File No.EB-2009-0265

We are counsel to Haldimand County Hydro Inc. ("HCHI") in the above captioned matter.

Please find accompanying this letter HCHI's Reply Submission in this proceeding.

Should you have any questions or require further information, please do not hesitate to contact me.

Yours very truly,
BORDEN LADNER GERVAIS LLP

Original Signed by James C. Sidlofsky

James C. Sidlofsky
JCS
Encl.

cc. Theodore Antonopoulos, Ontario Energy Board
Khalil Viraney, Ontario Energy Board
Lloyd Payne, Haldimand County Hydro Inc.
Jackie Scott, Haldimand County Hydro Inc.
Intervenors of Record

EB-2009-0265

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 Haldimand County Hydro Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2010.

HALDIMAND COUNTY HYDRO INC.
REPLY SUBMISSIONS ON UNSETTLED MATTERS

FILED MARCH 5, 2010

INTRODUCTION:

1. Haldimand County Hydro Inc. ("HCHI") owns and operates the electricity distribution system in its licensed service area of Haldimand County, serving approximately 20,843 customers. HCHI's service area is 1,252 km^2, and consists of a rural area of 1,216 km^2 and six communities: Caledonia, Cayuga, Dunnville, Hagersville, Jarvis and Townsend. HCHI is both an embedded and host distributor in relation to Hydro One Networks Inc., and is a host distributor in relation to Norfolk Power Distribution Inc.

2. HCHI filed an application (the "Application") with the Ontario Energy Board (the "Board") on August 28, 2009 under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to the rates that HCHI charges for electricity distribution, to be effective May 1, 2010. The Board assigned the File Number EB-2009-0265 to the Application. Four parties requested and were granted intervenor status: Energy Probe Research Foundation ("EP"); the School Energy Coalition ("SEC"); the Vulnerable Energy Consumers Coalition ("VECC"); and Lisa Pryor.

3. The Board issued Procedural Order No. 1 on October 14, 2009. Board staff filed interrogatories on October 27, 2009, and all registered intervenors filed interrogatories by October 30, 2009. Following receipt of an extension to the original

November 16, 2009 filing deadline from the Board, HCHI filed responses to interrogatories on November 30, 2009. The Board issued Procedural Order No. 3 on December 11, 2009. That Procedural Order provided for supplemental interrogatories and a Settlement Conference. HCHI responded to supplemental interrogatories from Board staff and certain of the intervenors on January 13, 2010 and January 19, 2010. The evidence in this proceeding (referred to here as the "Evidence") consists of the Application and HCHI's responses to both the initial and supplemental rounds of interrogatories.

4. The Settlement Conference was conducted on January 21 and 22, 2010, at the Board's offices, with George Dominy acting as facilitator. Representatives of the Applicant and all intervenors, with the exception of Ms. Pryor, participated in the Settlement Conference, and Board staff participated in accordance with their role as set out in the Board's Settlement Conference Guidelines.

5. The parties that participated in the Settlement Conference reached a partial settlement in this proceeding, and the Settlement Agreement was filed on Friday, February 12, 2010. By a Decision dated February 18, 2010, the Board approved the Settlement Agreement.

6. The following matters remain outstanding (as summarized in the Board staff submission of February 19, 2010):

    1. Load forecast
    2. Lead-Lag Study – the appropriateness of a lead-lag study for Haldimand's next rebasing application
    3. Harmonized Sales Tax
    4. Return on Equity and Capitalization
    5. RSVA Account 1588 – Sub-account Global Adjustment (separation by RPP/Non-RPP)

7. Board staff noted that "although the parties reached a settlement on Deferral and Variance Accounts, the proposal provided for Board staff to make a submission on the narrow issue of RSVA Account 1588 (Sub-account Global Adjustment)."[1]

8. HCHI has received submissions from Board staff, EP, SEC and VECC, and will respond to those submissions here. HCHI has arranged its submission in the order set out above.

LOAD FORECAST

9. HCHI has used an econometric model based on a regression analysis to generate the 2010 billed load forecast of 343.1 GWh excluding Hydro One Networks Inc. ("HONI") as an embedded distributor. The 2010 proposed forecast including HONI is 426.3 GWh. For the purposes of this reply submission HCHI will concentrate its discussion on the 343.1 GWh as it is this amount which is contentious among the parties. Board staff and intervernors made no submissions with regard to suggested changes to the proposed HONI forecast of 83.2 GWh. HCHI submits the HONI forecast has been accepted by all parties and should be approved by the Board.

10. The load forecasting method used by HCHI is outlined in detail in Exhibit 3, Tab 2, Schedule 2 of the Application and summarized by Board staff, EP and VECC in their submissions. SEC did not make any comments on the load forecast in their submission.

- **The positions of Board staff and intervenors:**

11. Board staff and intervenors have identified two specific concerns with the load forecasting methodology used by HCHI. The first concern relates to the negative coefficient for the "population" and "Ontario GDP" variable, resulting from the regression analysis, which Board staff and intervenors suggest is conceptually counter-intuitive because it implies that load decreases as population or the

[1] Board staff submission, at p.3

Ontario GDP increases. The second concern relates to including variables such as "Number of Peak Hours" and the "Blackout Flag" in the regression analysis that do not have statistical significance. In other words, these variables are not contributing significantly in producing a better forecasting model.

12. In order to address these concerns, Board staff, EP and VECC provided three different alternatives to forecast the 2010 load for HCHI. The following table provides a summary of the load forecast for these three proposed alternatives along with the proposed 2010 load forecast as originally submitted in the Application:

	2010 Purchased Forecast (kWh)	2010 Billed Forecast (kWh)
Board staff	374,541,204	350,694,011
EP	379,319,799	355,168,351
VECC(*)		360,079,668
HCHI	366,436,804	343,105,621

(*) Billed amount only provided

13. Board staff and EP both base their proposals using the response to EP interrogatory #12(b). This response assumes the regression equation reflects the removal of the variables that have counter-intuitive signs (i.e. Ontario Real GDP & Population) and variables with coefficients that are not statistically significant (i.e. Number of Peak Hours & Blackout Flag). The 2010 purchased load forecast from this response is 373.4 GWh and the 2009 value is 374.5 GWh. Board staff have adopted the 2009 amount as the 2010 purchased load forecast as it is their position the 0.3% decrease from 2009 to 2010 is not warranted. EP has used the 2008 weather normalized purchased amount from EP interrogatory #12(b) of 390.1 GWh and made adjustments which are discussed below to arrive at a 2010 purchased load forecast of 379.3 GWh.

14. HCHI submits that even though the resulting load forecasting equation from EP interrogatory #12(b) may have better statistical outcomes it is not appropriate to use the equation since the predicted actual amount (i.e. not weather normalized) for 2008 of 385.6 GWh is unreasonably higher than the 2008 actual amount of 376.4 GWh. This represents a 2.4% variation between predicted and actual which is significantly higher than the same measured variation for any year from the load forecasting equation proposed in the Application. The following table outlines the variation analysis for the forecasting equation used in the Application based on information provided in Exhibit 3, Tab 2, Page 14 of 24, Table 13 – Total System Purchases:

Year	Actual kWh	Predicted kWh	% Variation
2001	355,113,677	355,495,365	0.11%
2002	377,889,868	379,556,929	0.44%
2003	377,328,535	373,668,716	(0.97%)
2004	382,256,439	379,761,179	(0.65%)
2005	397,949,707	399,017,639	0.27%
2006	378,534,757	381,188,764	0.70%
2007	385,126,910	383,524,291	(0.42%)
2008	376,481,614	378,468,624	0.53%

15. In the EP proposal, EP further adjusts the 2008 weather normalized purchased amount from EP interrogatory #12(b) of 390.1 GWh. On page 20 of its submission EP explains the adjustment as follows:

> "However, as shown in the response to VECC Interrogatory #8 (j), there is evidence on the record in this proceeding that provides a direct comparison of the change in the normalized energy purchases by HCHI to the Ontario wide figures provided by the IESO from 2003 through 2008. A review of the table provided shows that the change in the HCHI normalized figures was greater than the Ontario wide numbers in 2004, 2005, 2006 and 2008. In only one year, 2007, was the growth at HCHI less than that of Ontario. In particular, the average growth rate over the 2004 through 2008 period for normalized energy purchases at HCHI was 0.47%. The corresponding figure for Ontario was (0.30%). The difference between these growth rates, 0.77%, is a significant difference over this 5 year period.
>
> Energy Probe submits that the adjustment applied to the 2008 normalized energy purchases should reflect this historical difference between HCHI and Ontario. In particular, the 4.0%

> reduction forecast for 2009 should be reduced by 0.77% to 3.23% and the 0.3% reduction forecast for 2010 should be changed to an increase of 0.47%. Energy Probe notes that growth at HCHI in 2010 when the province is forecasted to decline is not unreasonable. Indeed, that is exactly what happened in 2008. Ontario volumes dropped 1.77%, while HCHI experienced growth of 0.68%, for a difference of nearly 2.5%."

16. HCHI refutes the validity of the analysis conducted by EP as it is using information provided in response to VECC interrogatory #8(j) to draw its conclusion. HCHI agrees the information provided in VECC interrogatory #8(j) is weather normal information for HCHI and weather corrected for the IESO data. However, there are a number of weather normalization techniques used in the province by various parties and it is highly unlikely the methodology used by the IESO would be the same as that used by HCHI. In order to properly conduct the analysis on the annual growth rate between HCHI and IESO data, the same weather normalization/correction would need to be used. In other words, the analysis is not correct. Based on the above discussion HCHI submits the Board should not consider Board staff's or EP's proposed 2010 purchased load forecast.

17. With regard to the VECC proposal, this is an updated version of the Normalized Average use per Customer ("NAC") approach used by a number of 2008 and a few 2009 cost of service/rebased rate applications. Particularly in the case of the 2008 applications, the Board, Board staff and intervenors, including VECC, had concerns with this approach in that it was not using the correct year of data for the forecast (i.e. 2004 data was used for 2008) and it only represented one year of data. HCHI submits that this is still the issue with the approach being proposed by VECC in that 2008 data is used to forecast 2010 and only one year of data is being used. To use 2008 data as the basis for the forecast and not adjust for the decline in the Ontario GDP of negative 1.5% from 2008 to 2010 and not reflect the results of CDM is not suitable. The impacts of CDM could be in the range of 1% to 2% per year in 2009 and 2010. When the GDP and CDM impacts are applied to the VECC forecast the resulting forecast is in line with the HCHI 2010 billed forecast of 343.1 GWh.

18. With regard to the discrepancy outlined in paragraph 4.10 of VECC submission, this was addressed and reconciled in response to HCHI's Board staff interrogatory #12.

- **HCHI submissions:**

The Recent History of Load Forecasting in Distribution Rate Applications

19. HCHI would like to begin by reminding the Board of the relatively recent history of steps that distributors have taken to provide a weather normalized load forecast in their cost of service rate applications in a manner that is transparent and cost effective. Prior to 2008, distributors did not conduct weather normalization load forecasting studies within their companies. Any weather normalization requirements were generally provided by HONI for the distributors but the HONI methodology was not transparent and was quite expensive.

20. In 2008 HCHI observed that in order to control expenses, cost of service applicants generally used the NAC approach to prepare the weather normalized load forecast. Board staff, intervenors and to a certain degree the Board expressed concerns during the 2008 EDR process regarding the use of the NAC approach as it focused on one year of data from 2004. In response to this concern, HCHI observed that a number of 2009 cost of service applicants adopted a regression analysis approach to produce a weather normalized load forecast for system purchases. The system purchased load forecast was adjusted by a historical loss factor to derive the system wide billed energy forecast. The system-wide billed energy forecast was allocated to a rate class using a forecast of customer numbers and historical usage per customer. Again, Board staff, intervenors and to a certain degree the Board expressed concerns during the 2009 EDR process regarding the use of the regression analysis approach as applicants did not conduct the regression analysis on a individual rate class basis.

21. In response to the concerns raised during the 2009 EDR process, some 2010 cost of service applicants attempted to improve the regression analysis approach by

conducting the analysis on an individual rate class basis but the statistical results of this exercise were not acceptable. As a result, HCHI used a regression analysis approach similar to the 2009 cost of service applications but also reflecting the results of work completed by the IESO in its 18-month outlook. Board staff and intervenors are concerned that the negative coefficient on some variables is counter-intuitive. While HCHI acknowledges this concern, HCHI submits that a negative coefficient does not, in and of itself, invalidate the results of the regression analysis, particularly where the negative coefficient can be adequately explained (as detailed further below) and particularly where the regression analysis produces forecasts that are much more accurate and transparent than the alternative models proposed by Board staff and the intervenors.

22. HCHI submits that load forecasting is a common element to all applications, and one in which the Board ultimately has to select a preferred approach. With that in mind, HCHI believes that it would assist the industry, and all parties to the rate-making process, if the Board established a process – whether through a consultation, a generic hearing, or otherwise – to review the various models in a disciplined way, and reach conclusions on which approach or approaches are acceptable in electricity distribution rate applications. HCHI believes it is now time to establish standards, considering that in this proceeding alone there are at least four different proposals on how to determine the load forecast for the test year (i.e. one from each of Board staff, EP and VECC as well as the Application itself). Having established standards will improve the overall quality of rate applications, provide consistency across distributors, and save substantial amounts of time and money. HCHI submits that any proposed standard should produce a load forecast methodology that is transparent and not overly costly to customers.

23. On a positive note it appears to HCHI that at this point in the evolution of load forecasting for electricity distributors, the current issues are around "fine tuning" the methodology to ensure items such as counter-intuitive negative coefficients and variables that are statistically insignificant are addressed prior to future

applications. HCHI would expect that the next step in the evolution of load forecasting will be to agree on the appropriate dependent variables to be used in the regression analysis and the assumptions used to allocate the total system billed energy forecast to rate class.

HCHI Submissions

24. For the reasons outlined below, HCHI submits that a 2010 billed load forecast of 343.1 GWh is a reasonable forecast for purposes of designing rates in this Application.

25. As stated in the evidence (for example, see HCHI's responses to Board staff interrogatories #8, #9 and #10; Board staff supplemental interrogatories #3 and #6; EP interrogatories #11 and #12; and VECC interrogatory #8)**,** HCHI was aware of the negative coefficient on population and Ontario GDP and attempted to take steps to address the situation. However, when HCHI took these steps it did not produce a result that reasonably reflected the impact of CDM programs and the recent economic downturn for HCHI's service area. As a result, HCHI concluded that the negative coefficient on these two variables was an acceptable result because it addressed the results of various CDM programs and to a certain degree the additional economic downturn specific to the HCHI service area that was not captured in the provincial GDP values.

26. For 2009, the bridge year, HCHI's load forecasting methodology proposes a billed load forecast of 344.1 GWh on a weather normalized basis. The following table outlines HCHI's actual 2009 purchased and billed results on a weather actual and weather normal basis. The predicted values and the weather normal values were determined in the same manner as equivalent information in the Application.

	2009 Bridge Year (KWh's)	2009 Bridge Year (kWh's)
Actual	358,618,608	338,528,028
Predicted Predicted Weather Normalized	361,067,733 370,639,243	(*) 347,040,490

(*) Predicted billed amount is not determined by the load forecasting model.

27. In HCHI's Application, the 2009 forecasted billed weather normalized amount is 344.1 GWh. The predicted weather normalized amount based on actual historical data is 347.0 GWh. The difference between actual and forecasted data is 0.8% which would not be achieved by any of the approaches proposed by Board staff and the intervenors.

28. The load forecasting method used in HCHI's rate application to forecast billed load for 2009 is consistent with the method used for 2010. Since the 2009 weather normal results reflecting actual data (i.e. 347.0 GWh) is similiar to the 2009 weather normal forecasted amount this suggests that the weather normal 2010 billed load forecast would be more consistent with actual 2010 weather normal results than the proposals from Board staff and intervenors. As a result, HCHI submits that the proposed 2010 billed load forecast amount of 343.1 GWh is reasonable for purposes of designing rates in this Application.

29. With regard to the negative coefficient on population and Ontario GDP, HCHI understands that a similar issue was addressed in the recent Burlington Hydro Inc. application.[2] In its Decision, the Board stated that this indicated the regression analysis used by Burlington Hydro is not sufficiently robust to use for the purposes of deriving rates. HCHI understands the Board's concerns and has addressed this issue in response to Board staff supplemental interrogatory #3(a). HCHI developed a revised load forecast that was based on a regression model that excludes Ontario Real GDP and Population and includes a CDM flag. The CDM

[2] EB-2009-0259

flag is an increasing number from 1 to 36 starting in January 2006 through to December 2008. The actual number has been cubed which means Jan 06 is 1, Feb 06 is 8 (i.e. 2^3), Mar 06 is 27 (i.e. 3^3) ….. Dec 08 is 46,656 (i.e. 36^3). This produces a regression analysis that does not have any independent variables with a negative coefficient that are counter-intuitive. HCHI submits that this indicates that the CDM activity in HCHI is growing exponentially by the power of 3. Considering HCHI is a very active participating distributor in CDM programs, this assumption in HCHI's view is reasonable. It is also reasonable to start the flag in January 2006 as this was essentially the time period that third tranche funded CDM programs began.

30. HCHI has actively participated in OPA conservation programs designed for LDCs since their inception in 2006/2007 and has registered for all such programs currently available for 2010. The EnerSpectrum Group report contained in Exhibit 10, Tab 1, Appendix A notes that *"Haldimand County Hydro Inc. maintains a long-term commitment to Conservation and Demand Management (CDM) for the benefit of its customers and community."* The table entitled Attachment A on page 8 of that report notes the 2006 impact of 2,091,508 kWh and 2007 impact of 3,407,305 kWh for a year over year increase of 62.9%. The same table indicates ongoing impacts from these programs for 2008 and 2009, excluding the effect of programs operated during these two years because the OPA results were unavailable at the time. Clearly CDM is having a significant effect on the future load for HCHI.

31. For example, the following is a summary list of CDM programs and activities in which HCHI has participated during 2005 to 2009:

- Lighten Your Electricity Bill and Cold Water Wash Coupon Campaigns;
- *Conserver Joe* handbook, bill inserts and website (joint participation with NEPA);
- *Conserver Family* online game;
- Holiday Greeting Card contest, incorporating a CDM message;

- LED Christmas Light exchanges, donations and contributions to community light-up committees;
- Low-income CDM kits distributed to communities through food banks and local events;
- Large User Energy Seminar and Audit Program; and
- OPA programs, including: Every Kilowatt Counts/Summer Savings; Great Refrigerator Roundup; Electricity Retrofit Incentive Program; Peaksaver; Power Savings Blitz

32. With the passing of the *Green Energy and Green Economy Act, 2009*, distributors will have to achieve prescribed CDM targets included in their distributor licence conditions. As a result, the emphasis on CDM will continue if not increase. Based on the above discussion, HCHI submits that it would be reasonable to expect to achieve a growth rate of 62.9% per year in CDM results. This means that the 3.4 GWh achieved in 2007 could grow to 14.7 GWh in 2010.

33. In its submission, VECC has suggested that the impact of the CDM flag in 2008 is over 12 GWh. Since the weather normalization method would not impact the CDM flag, the amount included in the 2008 weather normalization forecast would also be over 12 GWh. Considering the 2010 forecast reflects the 2008 weather normalized amount reduced by 4.0% in 2009 and a further 0.3% in 2010, the impact of the CDM flag in the 2010 forecast could be 12 GWh minus 4.3% which is approximately 11.5 GWh. Based on the discussion above this amount could be 14.7 GWh which provides justification for the CDM flag.

34. The revised regression analysis resulted in a 2010 weather normal billed forecast of 343.1 GWh in 2010 as compared to 343.1 GWh in the Application. The resulting regression analysis does have variables that could be classified as being statistically insignificant but are not causing the forecast to be reduced. The above exercise produced a load forecast that may have better overall statistical results,

but the resulting forecast it produces is the same forecast proposed in the Application.

35. In summary, HCHI submits that the 2010 forecast of 343.1 GWh provided for in the Application is reasonable since:

- It is consistent with the 2009 actual result; and
- When the regression analysis is updated to address the negative coefficient issue and a CDM flag is added the resulting forecast is the same.

- **Customer Forecast:**

36. The following table outlines the 2010 customer/connection forecast from HCHI's Application (Exhibit 3/Tab 2/Schedule 2/page 5):

2010 Test Year Customer/Connection Count Forecast	
Rate Class	**Customers/Connections**
Residential	18,534
GS<50 kW	2,357
GS 50 to 4999 kW	143
Sentinel Lights	589
Street Lighting	2,879
Unmetered Scattered Load	84
TOTAL	**24,586**

37. Board staff and intervenors made no submissions with regard to suggested changes to the 2010 customer/connection forecast. HCHI submits that the 2010 customer/connection forecast has been accepted by all parties and should be approved by the Board.

LEAD-LAG STUDY – THE APPROPRIATENESS OF A LEAD-LAG STUDY FOR HCHI'S NEXT REBASING APPLICATION:

38. There is no issue among the parties with respect to the current calculation of the working capital allowance – the only issue is with respect to what should be done for HCHI's next rebasing.

39. Chapter 2 of the Board's Filing Requirements for Transmission and Distribution Applications, issued May 27, 2009, provides that applicants may take one of two approaches in calculating the allowance for working capital: (i) either the 15% allowance approach or (ii) filing of a lead lag study. The Filing Requirements do not establish any threshold that may influence the choice, nor do they indicate when a lead lag study would be appropriate. HCHI did not complete a lead-lag study as part of the Application – the Board did not require applicants to complete lead-lag studies as part of their applications.

- **The positions of Board staff and intervenors:**

40. Board staff suggest that "there have generally been concerns about the appropriateness of the standard 15% formulaic approach, which dates back to the prior regulation of the municipal utilities by the former Ontario Hydro." Staff note that "15% may be appropriate at this time, but submits that new evidence should be required at HCHI's next rebasing application to support the requested working capital allowance. Board staff is planning to conduct a generic lead-lag study which is anticipated to be completed by March 2012. Board staff intends to include participation of electricity distributors in this study. Board staff submits that HCHI should either adopt the outcome of the generic study or submit its own study at the time of its next rebasing."

41. EP and VECC, supported by SEC, submit that HCHI should be required to prepare a lead-lag study for its next cost of service application, or if not a full lead-lag study, a study related to the cost of capital component of the working capital allowance.

- **HCHI's submission:**

42. In its rate applications to date, including the current Application, HCHI has complied with the Board's policies with respect to the calculation of its working capital allowance. This includes the use of the "15% formulaic approach".

43. HCHI believes that if there is to be any change in the use of this accepted approach, it should be the result of a generic consultation by the Board, and not the result of determinations made on a random, application-by-application basis. To date, HCHI is not aware of any Board policy that would suggest that an individual lead-lag study is warranted for a distributor of HCHI's size, and submits that it should not be required to incur the expense associated with a utility-specific study.

44. HCHI submits that the Board's findings in its June 1, 2009 Decision in the Peterborough Distribution Inc. cost of service distribution rate application (EB-2008-0241) remain appropriate. In that proceeding, as in others in the 2008-2010 cycle of rebasing applications, VECC was asking the Board to require a utility-specific lead-lag study, and in that Decision, as in others, VECC's request was denied. In its Decision, the Board found:

> "VECC did not object to the use of the "15% rule" for purposes of this proceeding, but submitted that PDI should be required to submit a lead-lag study in the future.
>
> …
>
> In response to VECC's request for a lead-lag study, PDI submitted that lead-lag studies can be costly for individual utilities. If the OEB considers that such studies should be required, they should be conducted in a generic manner across the province through a consultation process led by the Board. PDI noted that VECC and at least one other intervenor have made similar requests in other 2009 applications by distributors, and that these requests have been rejected by the Board.
>
> **Board Findings**
>
> …
>
> The Board will not direct PDI to undertake a lead-lag study at this time. It might not be the most cost effective way for testing the reasonableness of the current default provision for working capital, which is used by all, except two, electricity distributors."

45. HCHI submits that, particularly where Board staff have advised that a generic proceeding is to be undertaken, it would be inappropriate to require HCHI to

undertake a utility-specific lead-lag study as part of its Decision in the current cost of service proceeding. It would be equally inappropriate to impose a requirement at this time that HCHI either use the results of the generic study at the time of its next rebasing or submit its own study at the time of its next rebasing. HCHI suggests that such a requirement prejudges the options that may come out of the generic proceeding. HCHI expects that if a generic proceeding takes place, any policies that flow from it will be reflected in the Board's Filing Requirements, with which HCHI will be required to comply at the time of its next rebasing application. HCHI submits that the reasonable approach to this matter is for the generic proceeding to take its course.

46. Moreover, HCHI suggests that its position in this regard is consistent with the Board's findings in its March 1, 2010 Decision in Burlington Hydro Inc.'s 2010 cost of service application. There, the Board found:

> "The Board agrees with Board staff that further work on the formulaic WCA approach is warranted. The Board expects to initiate a generic proceeding / consultation on determining a new working capital methodology in advance of Burlington's next cost of service filing. The Board will not direct Burlington to conduct an independent lead-lag study at this time."[3]

47. HCHI notes that Burlington Hydro has almost four times as many customers as HCHI.

48. If, notwithstanding the Board's Decision in the Burlington application; the upcoming generic proceeding; and the lack of any particular reason for requiring a utility-specific lead-lag study for HCHI where it has not been required for other distributors the Board determines that it is appropriate at this time to require HCHI to prepare a study, HCHI wishes to express its concern about the cost of such a study and notes that it has not included the costs of a lead-lag study in its forecast. If the Board requires HCHI to complete such a study prior to its next rebasing application, HCHI requests that it be permitted to track the costs of the study in a deferral account to reflect the unexpected and incremental nature of the expense,

[3] EB-2009-0259, Decision and Order dated March 1, 2010, at p.23

with the balance to be disposed of at its next rebasing application, at the same time that it files its completed lead-lag study.

HARMONIZED SALES TAX:

49. As discussed in response to EP interrogatory #1 and Board staff supplemental interrogatory #11, HCHI has not made adjustments to its 2010 OM&A and capital expenditure forecasts to reflect the elimination of the 8% PST and the implementation of the Harmonized Sales Tax ("HST"). HCHI is also not able to provide the amounts of PST paid historically or forecast in respect of its OM&A and capital expenditures.

50. HCHI clearly explained why it could not provide those amounts in its response to EP Interrogatory #1(c), in which it stated:

> "Haldimand County Hydro is not able to provide the amount of provincial sales tax paid in either of the historic actual or forecast OM&A expenses and capital expenditures. Provincial sales tax paid is part of the landed cost of materials allocated from inventory and direct purchases allocated to these expenses, so tracking this component of costs has never been required. It would be a considerable and time consuming task to determine the component of provincial sales tax embedded within the actual or estimated OM&A expenses and capital expenditures for any given year. Further with respect to the 2010 OM&A and capital forecasts, the impact of the component of provincial sales tax embedded in the landed cost of inventory on hand at the beginning of the test year would need to be carefully considered – as further explained in response to part (h) below."

51. In its response to EP interrogatory #1(h), HCHI explained why a deferral account would not be appropriate:

> "Haldimand County Hydro is unable to quantify the impact of the removal of the provincial sales tax – as noted in response to (c) above. Haldimand County Hydro would be concerned with the additional administrative process of determining and tracking the resulting savings in a deferral account, presumed savings which wouldn't begin to occur until after the implementation of the HST, which is proposed to not be effective until July 1, 2010. Inventory (i.e. materials issued to both OM&A expenses and capital expenditures) will be on hand at the beginning of 2010 at a landed cost; that is, inclusive of the provincial sales tax originally paid. Haldimand County Hydro's inventory is valued on the weighted average cost basis, so receipts of goods that do not include the provincial sales tax portion subsequent to July 1, 2010 will simply reduce the average cost of each item and it won't be until over time that the full effect of the savings from the provincial sales tax portion will be realized. The administrative burden of determining the actual provincial tax savings during this time would be unreasonable. Haldimand County Hydro is also unclear on how to recognize the savings generally for non-inventory items. You could not just assume that the 8% now claimed as input tax credits is equal to savings. For example, on a supply and install contract which currently incorporates the vendor's provincial sales tax, one is to expect that their new contract price should first be reduced to exclude the provincial sales tax before adding on the new HST, and there is no way to determine that the expected reduction is exactly 8%."

52. In its response to Board staff supplemental interrogatory #11, HCHI advised that it "does not accept that accurate amounts using reasonable effort could be determined for entering into a deferral account if it were established."

- **The positions of Board staff and intervenors:**

53. In their submission,[4] Board staff noted that "the provincial sales tax ("PST") and goods and services tax ("GST") will be harmonized effective July 1, 2010 pursuant to Bill 218 which received Royal Assent on December 15, 2009. Unlike the GST, the PST is currently included as an OM&A expense and is also included in capital expenditures. When the GST and PST are harmonized, corporations will realize a reduction in OM&A expenses and capital expenditures that has not been reflected in the current application for 2010 rates."

54. Board staff suggest, based on government pronouncements, that there could potentially be significant savings from harmonization of the GST and PST. Board staff submit that the administrative burden and costs of harmonization are at odds with these pronouncements; and suggest that tracking of the costs and savings is warranted at this point, and that "the Board may wish to consider establishing a variance account to track any savings that may arise."

55. EP suggests either a deferral account or an arbitrary deduction of approximately $90,000 from HCHI's revenue requirement, based not on any information specific to HCHI, but rather, based on calculations by Burlington Hydro (in EB-2009-0259) of its PST-related expenses. EP appears to prefer the arbitrary reduction because "this approach provides reasonable estimates of the reduction to both OM&A expenses and capital expenditures in 2010. It does not require the administrative burden and uncertainty associated with a deferral or variance account."

56. SEC and VECC support the establishment of a deferral account.

[4] Board staff submission, at p.9

- **HCHI's submission:**

57. HCHI requests that the Board reject EP's submission with respect to an arbitrary deduction from its revenue requirement. In effect, EP would have the Board penalize HCHI in the arbitrary amount of approximately $360,000 over the Test Year and IRM period for not being able to determine now, in advance of HST implementation, what if any savings will be created from harmonization. HCHI submits that while no deductions or variance accounts are appropriate at this time, this arbitrary approach is definitely not appropriate. The fact that a particular utility has attempted to make that determination and arrived at a revenue requirement reduction that it can accept should not be determinative of the Board's treatment of other distributors.

58. HCHI submits that the appropriate treatment of HST is a matter that requires a sector-wide approach. It should not be addressed on a case-by-case basis, but instead should be the subject of a generic consultation in which a variety of possible approaches is considered.

59. HCHI submits that one difficulty with a deferral account is that not only is the cost impact of the switch from PST to HST unknown at this time, but it may never be accurately determined. The cost impact will consist of the (effective) removal of an 8% tax component on both capital goods and other operating supplies and services, offset by the fact that depending on market conditions for each of these goods and services, prices will increase as suppliers fail to pass through the full tax reduction in prices. Information on the degree to which prices fail to reflect the full tax change will necessarily be speculative and in all probability could not form the basis for accounting entries. HCHI questions whether accurate entries could be made in a deferral or variance account if it were established, since that assumes that pricing will stay constant and that only the tax component of the total cost of the good or service will change as a result of the move to HST – HCHI submits that this is not necessarily a reasonable assumption. HCHI submits that the next

rebasing may be an appropriate time to consider what, if any, savings or additional costs can be ascribed to the move to HST.

60. In the event that the Board directs all electricity distributors to capture the reductions in OM&A and capital expenditures resulting from the change to HST in variance accounts, HCHI would follow the Board's directions in this regard. However, HCHI submits that any variance account that does not account for incremental costs related to HST in addition to any savings is incomplete. HCHI submits that the variance account, if adopted by the Board, should also provide for the inclusion of costs related to the implementation and collection of HST and the tracking of savings.

61. In this regard, HCHI submits that the recording of differences stemming from PST and GST harmonization would require a substantial effort on the part of HCHI and administrative costs would increase significantly. In addition to HCHI's comments in its interrogatory responses reproduced above, HCHI notes that where invoices are not currently analyzed with respect to sales taxes, the determination of variances between invoices that included PST and those that contain HST would require tracking each individual line item from every invoice where harmonized taxes were paid. The ultimate tracking of inventory items would be highly complex and would require additional staff time and training, since staff currently do not carry out analysis of this kind, which would include application of both PST and GST rules in order to deal with (for example) expenses that were previously PST exempt but will be subject to the full HST under the new rules. Most LDCs with annual taxable sales in excess of $10 million would be unable to claim input tax credits, applicable only to the provincial portion of the tax, for the first 5 years on certain inputs, including telecommunication services other than internet access or toll-free numbers and road vehicles weighing less than 3,000 kilograms (and parts and certain services) and fuel to power those vehicles. Accordingly, a variance account, if and when established, should only record the difference between any

expenses incurred for which PST would have been paid and for which the LDC is now eligible for an HST input tax credit.

RETURN ON EQUITY AND CAPITALIZATION:

62. In the Application, HCHI proposed a debt/equity ratio of 60% debt/40% equity for rate making purposes, with 4% of the debt portion of its deemed capital structure being short term debt. This deemed structure is in compliance with the Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario Electricity Distributors dated December 20, 2006 (the "December 2006 Report").

63. HCHI used values of 8.01% for its Return on Equity ("ROE") and 1.33% for short term debt, which reflected the deemed rates for 2009 cost of service applications (the Parties have settled on HCHI's long term debt rate, and this was addressed in the Settlement Agreement – it is not among the unsettled matters). HCHI advised in its Application[5] that it understood that the Board would be finalizing the return on short-term debt and the ROE for 2010 cost of service applications in early 2010 for rates effective May 1, 2010. The values used in the Application were effectively placeholders for the updated values. HCHI also acknowledged in the Application that the Board had "initiated a proceeding to review its policy regarding the cost of capital and any changes to policy made as a result of this review will apply to the setting of rates for the 2010 rate year...."

64. On December 11, 2009, during the course of this proceeding, the Board issued its revised Cost of Capital methodology in the *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities* under EB-2009-0084 (the "December 2009 Report"). The December 2009 Report is a guideline, but departures from the methodology in the report are expected to be adequately supported. While the December 2009 Report was issued subsequent to this Application, the report states that the revised guidelines apply to applications for rates effective in 2010 or later and determined through review of cost of service applications. Thus the

[5] See Ex.5, Tab 1, Schedule 1, page 2

December 2009 Report supplements the guidelines documented in the December 2006 Report and both reports apply to this Application.

65. On February 24, 2010, the Board issued its Cost of Capital Parameter Updates for 2010 Cost of Service Applications (the "2010 Updates"). The Updates provide as follows (in part):

> "On December 11, 2009 the Board issued its *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities*. The Report sets out the Board's approach to the cost of capital, and the methods the Board will use to determine the values for the ROE and the deemed LT and ST debt rates (collectively, the "Cost of Capital parameters") for the purpose of setting utility rates. At the time of that Report, the ROE formula was reset resulting in a base ROE of 9.75%.
>
> Based on the methods set out in that Report, the Board has determined that the updated Cost of Capital parameters for 2010 cost of service rate applications are summarized in the table below. The 10 basis point increase in the ROE reflects rising bond yields in the market since the issuance of the Report. The Board considers these Cost of Capital parameter values and the relationships between them reasonable and representative of market conditions at this time and for the 2010 rate year.

Cost of Capital Parameter	**Value for 2010 Cost of Service Applications** (assuming May 1, 2010 implementation date for rate changes)
ROE	9.85%
Deemed LT Debt rate	5.87%
Deemed ST Debt rate	2.07%

> These values will be applied by the Board in its consideration of 2010 electricity Cost of Service applications."

66. Based on the December 2006 Report, the December 2009 Report and the 2010 Updates, the deemed capital structure for 2010 cost of service applications is 56% long term debt, 4% short term debt and 40% equity, and the ROE is 9.85%.

67. HCHI will be updating its Application to reflect the 2010 Updates in the draft Rate Order that will follow the Board's Decision on the unsettled matters.

- **The positions of Board staff and intervenors:**

68. With respect to short term debt, Board staff advise at page 9 of their submission that HCHI:

> "...has included a 4% short-term debt component as part of its proposed capital structure and is proposing as a place holder, the short-term debt rate for the 2009 Test year of 1.33% in accordance with the letter from the Board of February 24, 2009 regarding cost of capital updates for 2009 cost of service applications. Haldimand's use of a short-term debt rate of 1.33% is without prejudice to any revisions that may be adopted by the Board in early 2010.
>
> Board staff notes that the short-term debt rate will be updated by the Board in early March and submits that Haldimand should use the updated number in its draft Rate Order."

69. With respect to ROE, Board staff advise (also at page 9) that:

> "Haldimand is proposing a return on equity ("ROE") rate for the 2010 Test year of 9.75% in accordance with the *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities* issued on December 11, 2009. As noted in page 37 of the Report, the 9.75% rate assumes a forecast long term Government of Canada bond yield of 4.25%. The Board will be updating the Return on Equity in early March and this may result in a change to the rate (9.75%) proposed in the December 11, 2009 Report.
>
> Board staff submits that Haldimand should use the updated number in its draft Rate Order."

70. As noted above, HCHI confirms that it will use these updated numbers in its draft Rate Order.

71. EP made submissions on two aspects of HCHI's proposed capital structure – the appropriate percentage of short term debt; and the allowable ROE.

72. VECC supports EP's submissions, and makes additional submissions on ROE. SEC made no submissions with respect to capital structure, and supports the EP submission on ROE.

- **Short Term Debt**

73. Notwithstanding that the 56% long term debt/4% short term debt/40% equity deemed capital structure was established over three years ago and that this is the third year of rebasing applications in which it has been used, EP is now taking the position, in individual applications in which it is involved, that the Board should depart from its well-established approach to capital structure to effect an increase in the deemed short-term debt component of HCHI's capital structure.

74. At page 6 of what appears to be a generic submission, EP suggests that there is an inappropriate "mismatch" between the level of deemed short-term debt and the

working capital level included in HCHI's rate base. The implication is that the Board's well-established policy is not appropriate in HCHI's case.

75. EP relies on the Board's commentary at page 13 of the December 2009 Report, included in response to specific concerns regarding the scope of outcome from the Board's consultation process, as authority for its argument. The relevant portion of the December 2009 Report provides:

> "The final "product" of this process, of course, is a Board policy. This was not a hearing process, and it does not - indeed cannot - set rates. The Board's refreshed cost of capital policies will be considered through rate hearings for the individual utilities, at which it is possible that specific evidence may be proffered and tested before the Board. Board panels assigned to these cases will look to the report for guidance in how the cost of capital should be determined. Board panels considering individual rate applications, however, are not bound by the Board's policy, and where justified by specific circumstances, may choose not to apply the policy (or a part of the policy)."

- **HCHI's submission:**

76. HCHI submits that EP has failed to raise circumstances sufficient to justify the Board departing from its well established policy on Cost of Capital. At page 49 of the December 2009 Report, the Board states that (emphasis added):

> "**The Board's current policy with regard to capital structure for all regulated utilities continues to be appropriate.** As noted in the Board's draft guidelines, capital structure should be reviewed only when there is a significant change in financial, business or corporate fundamentals."

77. The Board's current policy is articulated in the Board's December 2006 Report, where the Board adopted a single deemed capital structure for all distributors for rate-making purposes – fixing a split of 60% debt, 40% equity for all distributors and including a short-term debt amount fixed at 4% of rate base. The Board has been rightfully hesitant in past proceedings to depart from its policy on deemed capital structure. The policy is the result of a broad ranging public consultation process and it has created much-needed certainty for both distributors and intervenors in the Board's rate setting process.

78. The Board justified its deemed short-term equity amount at page 9 of the December 2006 Report, noting (emphasis added):

> Based on filings of distributors pursuant to the Board's Electricity RRR and in 2006 rate applications, it is clear that many distributors use short-term debt. The actual average for the

industry is about 4%. Some distributors use it extensively as a substitute for long-term debt. **This may be advantageous in a period characterized by low inflation and interest rates, but such a practice exposes the distributor – and its customers – to inordinate risk if rates climb.**

79. To take advantage of the low interest rates currently applicable to short-term debt, EP argues that the Board should abandon its well-established policy and increase the short-term debt component of HCHI's capital structure beyond the deemed amount of 4%.

80. The Board has previously considered and rejected as problematic an approach that would use the actual short-term debt of a distributor to determine the appropriate percentage of the distributor's capital structure. Specifically, page 11 of the December 2006 Report states (emphasis added):

> Although using a distributor's actual short term debt component may seem to be a more accurate approach, **it may be problematic.** Short-term debt is optimally used as an interim solution for managing a firm's financing requirements. It may fluctuate, although generally within a limited range. **Using a firm's actual short-term debt component would be administratively challenging given the number of electricity distributors and the associated volume of data that would need to be reported and verified.**

81. HCHI submits that the EP approach is similarly problematic. Specifically, if the Board accepts EP's argument the Board will create a tremendous administrative challenge as it opens the floodgates to numerous parties making a wide variety of arguments to change the deemed capital structure based upon a mix of evidence of a distributor's current capitalization rates and other evidence drawn from elsewhere in the rate application which has no direct relationship to the capital structure of the utility. Indeed, EP does not make reference to HCHI's actual short-term debt to suggest that the deemed rate is inappropriate. Instead, it makes a tremendous leap in logic to imply that the working capital component of HCHI's rate base is somehow equivalent to what HCHI's actual short-term debt amount should be.

82. HCHI submits that its proposed working capital allowance was prepared strictly for the purposes of contributing to the rate base component of the Application. The working capital allowance has no real correlation to HCHI's actual level of short-term debt nor should it be used as a proxy for the level of short-term debt the

Board will use for rate setting purposes. HCHI submits that its proposed capital structure, including the short-term debt component, complies with the December 2009 Report and is appropriate for rate setting purposes.

83. In the alternative, HCHI submits that EP has erred in suggesting that all working capital should be financed through short-term debt. HCHI submits that this is simply not the case, and that EP's argument equating working capital to short-term debt is misleading in this regard.

84. At page 10 of its December 2006 Report, the Board states that (emphasis added):

> "As a general principle for ratemaking purposes, the Board believes that the term of the debt should be assumed to be similar to the life of the assets that are to be acquired with that debt. This suggests that, in theory, for an industry with long-lived assets, the majority of debt should be long-term. However, in reality, some short-term debt is a suitable tool to help meet **fluctuations** in working capital levels."

85. It is a well understood principle of corporate finance that firms need both a long-term (or permanent) investment in working capital and a short-term or cyclical one. The permanent working capital investment provides an ongoing positive net working capital position, that is, a level of current assets that exceeds current liabilities. This allows HCHI to operate with a comfortable financial margin and minimizes the risk of being unable to pay its employees, vendors, lenders, or the government (for taxes). To have a continuous positive net working capital, a company must finance part of its working capital on a long-term basis.

86. Beyond this permanent working capital investment, HCHI also needs seasonal or cyclical working capital. Since the demand for power and HCHI's controllable expenses vary over the course of a year, HCHI needs to finance these costs to prepare for its peak sales period and accounts receivable until cash is collected. HCHI acknowledges that cyclical working capital can sometimes be financed by short-term debt since the seasonal build-up of assets to address seasonal demand will be reduced and converted to cash to repay borrowed funds within a short predictable period. However, HCHI does not accept the suggestion that the

cyclical portion of working capital should be used as a proxy for the short-term debt applicable to a utility's capitalization structure.

87. For illustration purposes only, HCHI has conducted a simplified month-by-month analysis of the fixed and variable components of its 2009 working capital requirement and has found that approximately 83% of its monthly working capital needs remain constant over the year while about 17% exhibits a seasonal variation that changes over the course of the year (the seasonal change is primarily due to changes in the cost of power).

88. HCHI submits that, in light of the foregoing, EP has failed to raise circumstances sufficient to justify the Board departing from its well established policy on Cost of Capital.

89. Moreover, HCHI submits that if there is any need for the Board to consider departing from its policy (and HCHI submits that there is not), the appropriate manner is not through an *ad hoc* process in which individual cost of service applications are adjusted depending on whether a particular intervenor has decided to take an interest in the proceeding.

90. The Board's policy was developed after a lengthy consultative process conducted by the Board; HCHI submits that any possible changes to the Board's policy should be approached in a similar way.

91. HCHI acknowledges that the foregoing submissions are similar to those of Burlington Hydro's response to EP's generic submission in its 2010 cost of service application. As in the case of ROE, the Board rejected EP's generic submission on short term debt in that proceeding.

92. At pages 29-30 of its Decision, the Board found:

> **"Board Findings**
>
> The Board will make no adjustment to the deemed capital structure of 56% long-term debt and 4% short-term debt. As acknowledged by all parties, the Board's uniform deemed capital structure and uniform approach to setting the WCA have both been in place for considerable time. The Board is

not prepared to depart from these policies on the basis of the record in this proceeding. Energy Probe has asserted that the WCA should align to short-term debt in the capital structure, but it has not provided any evidence to support this contention, theoretically or practically; nor has Burlington had the opportunity to respond with rebuttal evidence. However, as indicated earlier, the Board may review the formula approach to determining the WCA. In the context of that review it may be appropriate to examine the levels of WCA across utilities and consider whether any refinement to the deemed capital structure is warranted."

93. In that case, the Board confirmed that its established capital structure of 56% long term debt, 4% short term debt at the 2010 deemed rate of 2.07%, and 40% equity should apply. HCHI respectfully submits that this is the appropriate approach in the current case as well.

- **ROE:**

94. The issue with respect to ROE relates to 0.5% (or 50 basis points) of the total 9.85% established by the Board as the ROE for 2010 cost of service applications. EP acknowledges that for almost 20 years, the Board has included an implicit 50 basis points for transactional costs, and that this is a long-standing practice with other regulators across North America. Now, however, again on an *ad hoc* basis, EP would have the Board remove 50 basis points from the ROE of those distributors in whose 2010 cost of service applications EP has chosen to intervene. VECC supports the EP submission.

- **HCHI's submission:**

95. EP suggests that HCHI should not qualify for the 9.75% (now updated to 9.85% as a result of the 2010 Update) ROE figure on the basis that the 50 basis point transactional or "floatation" costs are not appropriate for HCHI. HCHI submits that EP is recommending a dramatic departure from Board's policy in respect of ROE. The Board has never before asked distributors to produce evidence of its flotation and transaction costs to support recovery the full allowable ROE – not in the Board's 2000 Distribution Rate Handbook; not in the Board's 2006 Distribution Rate Handbook; not in the December 2006 Report; and not in December 2009 Report, all of which were developed through extensive hearing and/or consultation

processes. There is also no such requirement in the Board's Filing Requirements with respect to these applications.

96. HCHI submits that EP's approach creates an entirely new, unexpected and unprecedented burden of proof that would open the floodgates to numerous arguments about all aspects of the allowable ROE – requiring utilities to hire costly consultants to justify a proposed ROE and subjecting the Board to lengthy administratively cumbersome proceedings on disputed ROE allowances. HCHI submits that the Board should reject EP's approach and affirm HCHI's use of a 9.85% ROE in compliance with the December 2009 Report.

97. As with short term debt, HCHI submits that if there is any need for the Board to consider departing from its policy (and HCHI submits that there is not), the appropriate manner is not through an *ad hoc* process in which individual cost of service applications are adjusted depending on whether EP has decided to take an interest in the proceeding.

98. HCHI notes that in its March 1, 2010 Decision on Burlington Hydro's 2010 cost of service application, the Board rejected an identical submission from EP. The Board's discussion of the cost of capital-related matters can be found at pages 23-30 of that Decision. At pages 26-28 of that Decision, the Board found:

> "The issue is whether the Board should apply the policy or whether it should adjust the application of the policy for the specific circumstances of Burlington. The Board concludes that the policy should be applied unadjusted.
>
> In its 2009 Report the Board established an initial ROE for purposes of resetting the formula. Energy Probe suggests the ROE should be adjusted downward to remove the implicit 50 basis points for flotation costs to reflect the specific circumstances of Burlington, namely that it does not intend to issue equity in the test year. Burlington is not unique in not issuing equity; very few of Ontario's regulated entities issue equity even indirectly and even those who have would not necessarily have done so in every year. This is true for both the gas industry and the electricity industry. This situation has existed for considerable time, even before 2000 in the gas industry, and would have been understood throughout the evolution of the Board's approach to setting the ROE for electricity utilities. The Board has never differentiated the ROE awarded on the basis of whether an entity issued equity.
>
> Energy Probe's adjustment would have the Board make an adjustment to one component of an empirical methodology based on a specific fact situation as it applies to a specific component. As has already been noted, experts have included this component in their estimates, including Dr. Booth, without qualifying it as being only applicable to entities with equity issues in the test period.

> In addition, the adjustment has been characterized in a variety of ways, including as an allowance for "financial flexibility", which suggests that the allowance is not limited to consideration of specific transactions. The Board finds that it would be inappropriate to adjust the operation of the formula without evidence as to the appropriateness of such an adjustment in terms of the overall methodology in the context of Burlington's circumstances. This evidence would need to address, for example, whether such an adjustment for Burlington is appropriate under the "stand alone" utility principle and whether the allowance is related only to specific transactional costs or whether it has broader application.
>
> It might be suggested that the applicant has some onus to provide evidence to support the new ROE policy, and indeed Energy Probe has suggested that Burlington, and presumably other distributors, would need to provide evidence of actual transaction costs to support a claim for the full ROE allowed under the new policy. The Board does not agree. The 2009 Report makes clear that the existing filing requirements remain valid and that the need for supporting evidence is specifically relevant if the applicant seeks a treatment which differs from the established Board policy."

99. HCHI submits that EP's submissions with respect to ROE should be similarly rejected in the current case.

RSVA ACCOUNT 1588 – SUB-ACCOUNT GLOBAL ADJUSTMENT (SEPARATION BY RPP/NON-RPP)

100. As noted in the Settlement Agreement (at pages 19-20), Board staff have inquired as to whether HCHI's billing system is capable of assigning the balance in the Account 1588 RSVA Power Account – Global Adjustment Sub-Account only to non-RPP customers. The parties took no position in this regard, although HCHI noted, as it did in response to Board staff supplemental interrogatory #18, that its billing system is not capable of creating distinctions among members of the same class with respect to rate riders. The parties mentioned the matter in the Settlement Agreement in order to ensure that Board staff would have an opportunity to comment on it in the submissions that would follow the Board's approval of the Settlement Agreement. As noted in the Settlement Agreement, this was a severable issue, in that the Board's determination of this matter would not affect the settlement among the parties.

- **The positions of Board staff and intervenors:**

101. At page 11 of their submission, Board staff write:

> "Recovering the Global Adjustment sub-account balance solely from non-RPP customers more appropriately recovers the under-collection from those customers that were undercharged in the first place. Board staff takes no issue with Haldimand's responses on the applicability or and practicality of excluding MUSH sector customers from any specific Global Adjustment sub-account rate rider.
>
> Haldimand has confirmed that its billing system does not have the capability of applying the associated rate rider only to non-RPP customers. Board staff requests Haldimand to confirm from its vendor if this is a limitation of the billing system or if the purchase of additional software or modules could provide Haldimand the capability to apply a rate rider to non-RPP customers. In the event that the billing system can be modified, Haldimand is requested to provide the costs of modifying the system in its Reply Submission."

102. EP expresses concern that the costs of implementing a separate rate rider for the non-RPP customers may outweigh the benefits. EP suggests that the Board direct HCHI to investigate the cost of being able to have different rate riders for different customers within a rate class, and that the Board initiate a consultative process to review who can and cannot dispose of that balance to non-RPP customers only, and the likely costs and benefits to those distributors who cannot adopt that approach, and to their rate payers.

103. SEC makes the following comment:

> "Whether or not having a separate rate rider for non-RPP customers is the best solution in principle, SEC notes that this is strictly a cost allocation issue, the resolution of which will not provide efficiencies or savings for ratepayers as a whole. SEC believes therefore that it would only be beneficial to make the change requested if the efficiencies of doing so- in term of a better allocation among ratepayers- outweigh the costs. Since it is not known what the cost of updating HCHI's billing system would be to accommodate a separate rate rider (or if that is even possible), SEC believes it is not possible to make that determination at this point."

104. VECC has similar concerns about costs, and suggests (at para.5.6 of its submission) that "a viable and possibly attractive solution to address the current billing system deficiency might be to ensure that the next billing system that HCHI acquires has the required functionality to generate rate riders to non-RPP customers within a rate class." VECC goes on to submit that the Board should direct HCHI to address the current system deficiency and provide the estimated costs of alternative solutions in its next filing.

- **HCHI's submission:**

105. As discussed in its response to Board staff supplemental interrogatory #18, HCHI agrees in principle that Residential and General Service<50 kW rate class that pay RPP should not be responsible for the recovery of the variance in RSVA Account 1588 (sub-account Global Adjustment).

106. In response to the request by Board staff for additional information, HCHI sent a letter dated February 26, 2010 (a copy of which accompanies this submission as Attachment A) to N. Harris Computer Corporation and received an informal reply on March 2, 2010. The reply confirmed that the current billing system at HCHI is technically capable of having a rate rider which would only apply to non-RPP customers within the various rate classes. It does not require additional software or modules; however, HCHI staff will be required to perform extensive and time consuming setup in order to accomplish this.

107. HCHI is also concerned about potential customer confusion related to the application of different rate riders within a single rate class and its communication to customers, including which rate rider will apply for bill impact calculations.

CONCLUSION:

108. For all of the foregoing reasons, HCHI respectfully requests that the Board:

    a. Approve HCHI's 2010 billed load forecast amount of 343.1 GWh and its customer/connection count as originally submitted in its Application;
    b. Not require HCHI to prepare a lead-lag study for its next cost of service application;
    c. Deal with the shift to HST on a consistent industry-wide basis through an appropriate consultation process;
    d. Confirm that HCHI's deemed debt capitalization will be 4% of short term and 56% of long term debt and that its ROE for rate making purposes will be 9.85% in accordance with the Board's December 2006 Report and December 2009 Report; and
    e. Direct that the rate rider for the disposition of the Global Adjustment Sub-Account be applied uniformly across all customers within a rate class.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 5TH DAY OF MARCH, 2010:

BORDEN LADNER GERVAIS LLP
Per:

Original signed by James C. Sidlofsky

James C. Sidlofsky
Counsel to Haldimand County Hydro Inc.

::ODMA\PCDOCS\TOR01\4304993\5

Attachment A

HCHI Letter to N. Harris Computer Corporation

dated February 26, 2010

Haldimand County Hydro

HALDIMAND COUNTY HYDRO INC.
1 Greendale Drive
Caledonia, ON
N3W 2J3
Tel: (905) 765-5344
Toll Free: (877) 872-2570
Fax: (905) 765-5316

February 26, 2010

Mr. Mike Foley
Account Manager
N. Harris Computer Corporation
1 Antares Drive, Suite 400
Ottawa ON K2E 8C4

Dear Mr. Foley:

Haldimand County Hydro Inc currently has a Cost of Service Rate Application before the Ontario Energy Board and the following request was presented in the Board staff submission dated February 18, 2010 with response due before March 5, 2010:

> *"Haldimand has confirmed that its billing system does not have the capability of applying the associated rate rider only to non-RPP customers. Board staff requests Haldimand to confirm from its vendor if this is a limitation of the billing system or if the purchase of additional software or modules could provide Haldimand the capability to apply a rate rider to non-RPP customers. In the event that the billing system can be modified, Haldimand is requested to provide the costs of modifying the system in its Reply Submission."*

The complete item contained in the Board staff submission is included as Appendix A to this letter for reference.

In order to most appropriately apply the disposition of deferral accounts, Haldimand would need to apply 4 separate rate riders through its billing system distinguished as follows:

1. Rate riders 1, 2, and 3 would apply to all customer classes <u>and</u> to all customers within each rate class
2. Rate rider 4 would apply to all customer classes <u>except that</u> within the Residential, GS < 50 kW, GS > 50 kW, and the Sentinel Light classes it will only apply to non-RPP customers. Such non-RPP customers would essentially be those who are signed with a retailer at the time of issuing each bill.

Both rate riders would apply for 12 months commencing May 2010.

These rate riders would be accumulated into the "Delivery" item on the bill print so there is no bill print change required. However statistical reports will be required to track the accumulation of each rate rider separately.

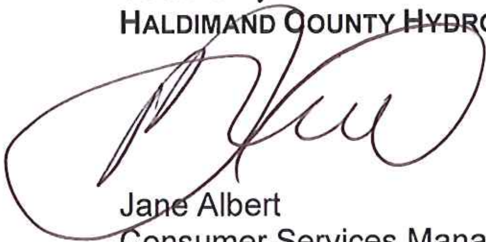
Can you please provide answers to the following questions about your NorthStar billing system version 6.2.9 installed at Haldimand County Hydro in order that we may respond to the OEB staff submission:

1. Can you please confirm whether this billing system is currently capable of having 4 separate distribution rate riders apply to all classes and all customers with each class.
2. Can you please confirm whether this current billing system is capable of *"…applying the associated rate rider only to non-RPP customers".*
3. If the answer to question 2 is no, can you please advise *"… if this is a limitation of the billing system or if the purchase of additional software or modules could provide Haldimand the capability to apply a rate rider to non-RPP customers".*
4. *"In the event that the billing system can be modified,…"* can you please *"… provide the costs of modifying the system".*

Please let me know if any clarification of this request is required or beneficial.

In order to meet our deadline to reply to the Ontario Energy Board your response by end of day Tuesday, March 2, 2010 would be appreciated.

Yours truly
HALDIMAND COUNTY HYDRO INC.



Jane Albert
Consumer Services Manager

RJA: nm

Appendix A

Extract from OEB staff Submission February 18, 2010 to Haldimand County Hydro

Deferral and Variance Accounts

As noted in the Settlement Agreement, the parties have agreed to Haldimand's proposal to dispose of the December 31, 2008 balances in the deferral accounts together with carrying charges calculated to April 30, 2010, over a single year.

The Agreement allowed Board staff to make a submission on the appropriate disposition of the balance in the RSVA Account 1588 – sub-account global adjustment. In Board staff supplemental interrogatory No. 18, staff inquired whether Haldimand had the capability in its billing system to exclude MUSH ("Municipalities, Universities, Schools and Hospitals") sector customers to which the separate rate rider for the disposition of the account 1588 sub-account Power (Global Adjustment) balance would apply.

Although Haldimand agreed in principle that Residential and General Service<50 kW rate class that pay RPP should not be responsible for the recovery of the variance in RSVA Account 1588 (sub-account Global Adjustment), Haldimand clarified that it did not have the capability in its billing system to apply the separate rate rider to only of the non-RPP customers.

Discussion and Submission

The Board must decide whether the disposition of the balance of the Global Adjustment sub-account of Account 1588 should be subject to a separate rate rider, or, as proposed by Haldimand, be included in the single rate rider per class applicable to all customers in that class. Recovering the Global Adjustment sub-account balance solely from non-RPP customers more appropriately recovers the under-collection from those customers that were undercharged in the first place. Board staff takes no issue with Haldimand's responses on the applicability or and practicality of excluding MUSH sector customers from any specific Global Adjustment sub-account rate rider.
Haldimand has confirmed that its billing system does not have the capability of applying the associated rate rider only to non-RPP customers. Board staff requests Haldimand to confirm from its vendor if this is a limitation of the billing system or if the purchase of additional software or modules could provide Haldimand the capability to apply a rate rider to non-RPP customers. In the event that the billing system can be modified, Haldimand is requested to provide the costs of modifying the system in its Reply Submission.