

EXHIBIT 7 – COST ALLOCATION

2024 Cost of Service

Hawkesbury Hydro Inc.
EB-2023-0029

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7.1 COST ALLOCATION STUDY REQUIREMENTS

7.1.1 Overview of Cost Allocation

HHI is submitting cost allocation informational filing consistent with the HHI’s understanding of the Directions and Policies in the Board’s Reports of November 28, 2007, Application of Cost Allocation for Electricity Distributors, and March 31, 2011, Review of Electricity Distribution Cost Allocation Policy (EB-2010-0219) (the “Cost Allocation Reports”) and all subsequent updates.

The main objectives of the original informational filing in 2006 were to provide information on any apparent cross-subsidization among a distributor’s rate classifications and to support future rate applications. HHIs information is updated to reflect new parameters and inputs and then used to adjust any cross-subsidization in the proposed rates.

HHI notes that it is not requesting to eliminate existing or introduce new classes.

7.1.2 Previously Approved Cost Allocation

The Previously Board Approved ratios are presented as a reference point to the proposed 2025 ratios. As part of its last Cost of Service Rate Application, HHI updated the cost allocation revenue to cost ratios with 2018 base revenue requirement information. The revenue to cost ratios from the 2018 application are presented below. HHI notes that there have been no changes in its class composition since 2018.

Table 1 – Previously Approved Ratios vs Proposed Ratio (2018 CoS)

Particulars			
Customer Class Name		Previously Approved Ratios (2018)	Proposed Ratios
Residential		98%	98.35 %
GS<50		99%	98.28 %
GS 500-4999kW		106%	106.46 %
USL		91%	90.81 %
Sentinel Lighting		98%	119.99 %
Street Lighting		81%	96.48 %

7.2 PROPOSED COST ALLOCATION (2025)

The Cost Allocation Study allocates the 2025 test year costs to the various customer classes using allocators based on the forecast class loads (kW and kWh) by class, customer counts, etc.

HHI has used the most up to date 2025 OEB-approved Cost Allocation Model and followed the instructions and guidelines issued by the OEB to enter the, historical where application and 2025 data into HHIs model.

7.2.1 Inputs to the Cost Allocation Model

Sheet I3, Trial Balance Data

HHI populated the information on Sheet I3, Trial Balance Data with the 2025 forecasted data, Target Net Income, PILs, long-term debt interest, and the targeted Revenue Requirement and Rate Base.

Table 2 – Cost Allocation Integrity Check against RRWF (Sheet I3 TB Data)

Particulars	Previously Approved Particulars (2018)	Proposed Particulars
Return on Deemed Equity	\$307,020	\$299,443
Income Taxes (Grossed up)	\$10,538	\$10,479
Deemed Interest Expense	\$166,848	\$183,665
Service Revenue Requirement	\$1,958,356	\$2,468,759
Revenue Requirement to be Used in HHIs model (\$)	\$1,958,356	\$2,468,759
Rate Base (\$)	\$8,528,333	\$8,128,199
Rate Base to be Used in CA model (\$)	\$8,528,333	\$8,128,199

Table 3 – 2025 Grouped Accounts (Sheet I3 TB Data)

Grouped Accounts	2018 Balance	2025 Balance	Variance
Land and Buildings	\$54,280	\$54,280	\$0
TS Primary Above 50	\$3,960,936	\$4,140,106	\$179,170
DS	\$1,352,740	\$1,368,146	\$15,406
Poles, Wires	\$1,247,474	\$2,439,818	\$1,192,344
Line Transformers	\$238,190	\$680,830	\$442,640
Services and Meters	\$602,580	\$942,164	\$339,584
General Plant	\$677,821	\$682,266	\$4,445
Equipment	\$59,050	\$55,570	-\$3,480
IT Assets	\$123,109	\$159,741	\$36,632
CDM Expenditures and Recoveries	\$0	\$0	\$0
Other Distribution Assets	\$0	\$0	\$0
Contributions and Grants	-\$342,664	(\$951,575)	-\$608,911
Accumulated Amortization	-\$923,622	(\$2,836,543)	-\$1,912,921
Non-Distribution Asset	\$0	\$0	\$0
Unclassified Asset	\$0	\$0	\$0
Liability	\$0	\$0	\$0
Equity	-\$307,020	(\$299,443)	\$7,577
Sales of Electricity	\$0	\$0	\$0
Distribution Services Revenue	\$0	\$0	\$0
Late Payment Charges	-\$29,740	(\$30,667)	-\$927
Specific Service Charges	-\$65,270	(\$48,049)	\$17,221
Other Distribution Revenue	-\$30,777	(\$25,946)	\$4,831
Other Revenue - Unclassified	-\$71,114	\$0	\$71,114
Other Income & Deductions	-\$17,315	(\$139,330)	-\$122,015
Power Supply Expenses (Working Capital)	\$18,519,668	\$16,892,567	-\$1,627,101
Other Power Supply Expenses	\$0	\$0	\$0
Operation (Working Capital)	\$92,648	\$208,000	\$115,352
Maintenance (Working Capital)	\$198,496	\$232,800	\$34,304
Billing and Collection (Working Capital)	\$410,905	\$541,330	\$130,425
Community Relations (Working Capital)	\$0	\$0	\$0
Community Relations - CDM (Working Capital)	\$0	\$0	\$0
Administrative and General Expenses (Working Capital)	\$414,755	\$636,599	\$221,844
Insurance Expense (Working Capital)	\$4,245	\$6,500	\$2,255
Bad Debt Expense (Working Capital)	\$52,065	\$31,000	-\$21,065
Advertising Expenses	\$0	\$0	\$0
Charitable Contributions	\$0	\$0	\$0
Amortization of Assets	\$281,068	\$289,138	\$8,070
Other Amortization - Unclassified	\$0	\$0	\$0
Interest Expense - Unclassified	\$166,848	\$183,665	\$16,817
Income Tax Expense - Unclassified	\$10,538	\$10,479	-\$59
Other Distribution Expenses	\$19,768	\$29,805	\$10,037
Non-Distribution Expenses	\$0	\$0	\$0
Unclassified Expenses	\$0	\$0	\$0
Total	\$26,699,661	\$25,253,252	-\$1,446,409

Sheet I4 BO Assets,

In sheet I4, Break-out of Assets, HHI reviewed its primary and secondary assets to ensure that the model uses the most up-to-date information. The table below shows the HHI's updated breakout between primary and secondary from its last cost of service in 2018.

Table 4 – Breakout of Assets (Sheet I4 BO Assets)

Account	Description	BREAK OUT (%) 2018 CoS	BREAK OUT (%) 2025 CoS
1565	Conservation and Demand Management		
1805	Land		
1805-1	Land Station >50 kV		
1805-2	Land Station <50 kV	100.00%	100.00%
1806	Land Rights		
1806-1	Land Rights Station >50 kV		
1806-2	Land Rights Station <50 kV	100.00%	100.00%
1808	Buildings and Fixtures		
1808-1	Buildings and Fixtures > 50 kV		
1808-2	Buildings and Fixtures < 50 kV	100.00%	100.00%
1810	Leasehold Improvements		
1810-1	Leasehold Improvements >50 kV		
1810-2	Leasehold Improvements <50 kV	100.00%	100.00%
1815	Transformer Station Equipment - Normally Primary above 50 kV		
1820	Distribution Station Equipment - Normally Primary below 50 kV		
1820-1	Distribution Station Equipment - Normally Primary below 50 kV (Bulk)	0.00%	0.00%
1820-2	Distribution Station Equipment - Normally Primary below 50 kV Primary)	100.00%	100.00%
1820-3	Distribution Station Equipment - Normally Primary below 50 kV (Wholesale Meters)	0.00%	0.00%
1825	Storage Battery Equipment		
1825-1	Storage Battery Equipment > 50 kV		
1825-2	Storage Battery Equipment <50 kV	100.00%	100.00%
1830	Poles, Towers and Fixtures		
1830-3	Poles, Towers, and Fixtures - Sub transmission Bulk Delivery	0.00%	0.00%
1830-4	Poles, Towers and Fixtures - Primary	65.00%	65.00%
1830-5	Poles, Towers, and Fixtures - Secondary	35.00%	35.00%
1835	Overhead Conductors and Devices		
1835-3	Overhead Conductors and Devices - Sub transmission Bulk Delivery	0.00%	0.00%
1835-4	Overhead Conductors and Devices - Primary	65.00%	65.00%
1835-5	Overhead Conductors and Devices - Secondary	35.00%	35.00%
1840	Underground Conduit		
1840-3	Underground Conduit - Bulk Delivery	0.00%	0.00%
1840-4	Underground Conduit - Primary	33.00%	33.00%
1840-5	Underground Conduit - Secondary	67.00%	67.00%
1845	Underground Conductors and Devices		
1845-3	Underground Conductors and Devices - Bulk Delivery	0.00%	0.00%
1845-4	Underground Conductors and Devices - Primary	36.00%	36.00%
1845-5	Underground Conductors and Devices - Secondary	64.00%	64.00%
1850	Line Transformers		
1855	Services		
1860	Meters		

Sheet I5 Misc Data

In Sheet I5.1, Miscellaneous data, HHI updated the deemed equity component of rate base, the kilometers of roads in the service area, working capital allowance, the proportion of pole rental revenue from secondary poles, and the monthly service charges.

Table 5 – Miscellaneous Data (Sheet I5 Misc Data)

	2018 CoS	2025 CoS
Structure KM (kms of Roads in Service Area that have distribution line)	66	71
Deemed Equity Component of Rate Base (ref: RRWF 7. cell F24)	40%	40%
Working Capital Allowance to be included in Rate Base (%)	7.5%	7.5%
A portion of pole leasing revenue from Secondary - Remainder assumed to be Primary (%)	35%	35%

As instructed by the Board, in Sheet I5.2, Weighting Factors, HHI has used LDC-specific factors rather than continue to use OEB-approved default factors. The HHI has applied service and billing & collecting weightings for each customer classification.

These weightings are based on a review of time and costs incurred in servicing its customer classes; the details are shown at the next page and results shown below.

Table 6 –2018 Board Approved Weighting Factors (Sheet I5.2 Weighting Factors)

	1	2	3	7	8	9
	Residential	GS <50	GS 50 to 4,999 kW	Streetlight	Sentinel	Unmetered Scattered Load
Insert Weighting Factor for Services Account 1855	1.0	2.0	1.0	1.0	1.0	1.0
Insert Weighting Factor for Billing and Collecting	1.0	1.0	3.7	0.7	3.3	3.3

Table 7 – 2025 Board Approved Weighting Factors (Sheet I5.2 Weighting Factors)

	1	2	3	7	8	9
	Residential	GS <50	GS 50 to 4,999 kW	Streetlight	Sentinel	Unmetered Scattered Load
Insert Weighting Factor for Services Account 1855	1.0	2.0	1.0	1.0	1.0	1.0
Insert Weighting Factor for Billing and Collecting	1.0	1.05	1.21	0.97	0.97	0.97

Table 8 – Determination of billing and collecting weighting factors.

Accounts 5305 - 5340	2025
5305-Supervision	-
5310-Meter Reading Expense	-
5315-Customer Billing	340,000.00
5320-Collecting	167,300.00
5325-Collecting- Cash Over and Short	-
5330-Collection Charges	-
5340-Miscellaneous Customer Accounts Expenses	-
	507,300.00

	Residential	GS < 50 *	GS > 50	USL	Sentinel	Street Lighting	
2025 Projected # of Customers (load forecast)	4938	607	85	17	1	1	5,649.00
# bills (per tab I6.2 of CA model)	59256	7284	1020	204	12	12	67,788.00
Bill	0.87	0.11	0.02	0.00	0.00	0.00	1.00
Time allocation	0.90	0.08	0.01	0.00	0.00	0.00	1.00

Examples of Expenses		Total	Residential	GS < 50 *	GS > 50	USL	Sentinel	Street Lighting	Total Annual Cost
5315 - Customer Billing	Per Bill	\$340,000	\$297,207	\$36,534	\$5,116	\$1,023	\$60	\$60	\$340,000
5320 - Collecting	Time allocation	\$147,754	\$129,157	\$15,877	\$2,223	\$445	\$26	\$26	\$147,754
5330 - Returned Cheques	Actual per class	\$19,546	\$14,288	\$4,515	\$743	\$0	\$0	\$0	\$19,546

507,300.00	440,651.83	56,925.46	8,082.19	1,467.84	86.34	86.34	507,300.00
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Total	7.44	7.82	7.92	7.20	7.20	7.20
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Weighting (Residential set as standard)	1.00	1.05	1.07	0.97	0.97	0.97
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Sheet I6.1 Revenue

HHI has populated the I6.1 Revenue Tab with the 2025 proposed load forecast. The HHI confirms that the revenue sufficiency/deficiency reconciles with the RRWF, as does the Miscellaneous Revenues.

2025 Board Approved existing rates were entered at rows 33 to 37 of the table.

Table 9 – Revenue Inputs to the CA Model (I6.1 Revenues)

Total kWhs from Load Forecast	143,234,789
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Total kW from Load Forecast	189,044
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Deficiency/sufficiency (RRWF 8. cell F51)	- 343,147
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Miscellaneous Revenue (RRWF 5. cell F48)	243,992
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			1	2	3	7	8	9
	ID	Total	Residential	GS <50	GS 50 to 4,999 kW	Street Light	Sentinel	Unmetered Scattered Load
Billing Data								
Forecast kWh	CEN	143,234,789	50,447,580	18,034,273	73,757,579	524,794	49,171	421,393
Forecast kW	CDEM	189,044			186,745	1,445	855	
Forecast kW, included in CDEM, of customers receiving line transformer allowance		186,745			186,745			
Optional - Forecast kWh, included in CEN, from customers that receive a line transformation allowance on a kWh basis. In most cases this will not be applicable and will be left blank.		-						
KWh excluding KWh from Wholesale Market Participants	CEN EWMP	143,234,789	50,447,580	18,034,273	73,757,579	524,794	49,171	421,393
Existing Monthly Charge			\$19.41	\$17.15	\$112.00	\$0.65	\$1.84	\$7.89
Existing Distribution kWh Rate				\$0.0078				\$0.0047
Existing Distribution kW Rate					\$2.3315	\$7.1000	\$4.3209	
Existing TOA Rate					\$0.60			
Additional Charges								
Distribution Revenue from Rates		\$1,993,667	\$1,150,099	\$265,647	\$549,593	\$20,153	\$4,589	\$3,585
Transformer Ownership Allowance		\$112,047	\$0	\$0	\$112,047	\$0	\$0	\$0
Net Class Revenue	CREV	\$1,881,620	\$1,150,099	\$265,647	\$437,546	\$20,153	\$4,589	\$3,585

Sheet I6.2 Customer Data

HHI has populated the I6.2 Customer Data with the required information using the 2025 proposed customer forecast to determine the number of customers, devices, and bills. The HHI confirms using a three-year historical average to calculate the late payment charges and bad debt by class.

Table 10 – Customer Inputs to the CA Model (I6.2 Customer Data)

	ID	Total	Residential	GS <50	GS 50 to 4,999 kW	Street Light	Sentinel	Unmetered Scattered Load
Billing Data								
Bad Debt 3 Year Historical Average	BDHA	\$32,361	\$29,935	\$2,426	\$0	\$0	\$0	\$0
Late Payment 3 Year Historical Average	LPHA	\$29,230	\$26,979	\$2,251				
Number of Bills	CNB	67,787	59,253	7,287	1,020	12	12	203
Number of Devices	CDEV					1,269	41	
Number of Connections (Unmetered)	CCON	1,309				1,269	41	
Total Number of Customers	CCA	5,649	4,938	607	85	1	1	17
Bulk Customer Base	CCB	-						
Primary Customer Base	CCP	5,704	4,938	607	85	56	1	17
Line Transformer Customer Base	CCLT	5,704	4,938	607	85	56	1	17
Secondary Customer Base	CCS	5,649	4,938	607	85	1	1	17
Weighted - Services	CWCS	7,563	4,938	1,215	85	1,269	41	17
Weighted Meter -Capital	CWMC	2,259,697	1,646,738	510,119	102,840	-	-	-
Weighted Meter Reading	CWMR	5,647	4,938	607	102	-	-	-
Weighted Bills	CWNB	68,216	59,253	7,652	1,091	12	12	197

Bad Debt Data

Historic Year:	2021	31,000	28,613	2,387				
Historic Year:	2022	30,000	27,690	2,310				
Historic Year:	2023	36,083	33,503	2,580				
Three-year average		32,361	29,935	2,426	-	-	-	-

Street Lighting Adjustment Factors

NCP Test Results	4 NCP
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Class	Primary Asset Data		Line Transformer Asset Data	
	Customers/ Devices	4 NCP	Customers/ Devices	4 NCP
Residential	4,938	45,856	4,938	45,856
Street Light	1,269	523	1,269	523

Street Lighting Adjustment Factors	
Primary	22.5431
Line Transformer	22.5431

Sheet I7.1 Meter Capital

HHI has updated the meter capital to reflect current and accurate costs per meter.

Table 11 – Meter Capital inputs to the CA Model (I7.1 Meter Capital)

Meters	Cost Installed
Smart Meters (single phase 400Amps)	\$840.00
Smart Meters (single phase 200Amps)	\$333.50
Smart Meters 3-phase	\$1,069.50
Meter Demand - 115KV IESO	\$4,362.00

Sheet I7.2 Meter Reading

HHI has updated the meter capital to reflect current and accurate costs per meter. HHI notes that there have been no changes to its meter reading factors since its last cost of service in 2018.

Table 12 – Meter Reading Inputs to CA Model (I7.2 Meter Reading)

Meter Details	
Smart Meter	1.00
Smart Meter with Demand	1.00
Interval	1.20
LDC Specific 5	1.20
LDC Specific 6	1.00

Sheet I8 Demand Data

In the previous cost of service rate applications, HHI relied on load profiles produced by Hydro One Networks Inc. in 2006 using data from 2004 (HONI method). The process involved scaling the initial cost allocation informational filing, using the ratio of the Test Year load forecast to the base year load for each rate class.

The filing requirements outlined in Section 2.1.7 of Chapter 2; distributors stipulate that utilities are to make every effort to update the load profiles of all classes with the most recent data available. Unfortunately, HHI has not conducted any load profiles that are specifically designed to meet the HHI requirements of this application. Instead, HHI proposes to keep using the Hydro One scaling method of updating the load profiles. The primary justification for continuing to use the Hydro One scaling approach is that there has been minimal to no change in the composition of HHI consumers and their respective load per class since the initial load profiles were established in 2004.

The second reason is that HHI operates at a minimal cost. HHI considered analyzing and modifying its load profiles using the USF methodology, which has been implemented and

approved by a small number of utilities. However, it was determined that the USF technique is a resource-intensive and laborious procedure and, after an examination of the effort and resources required to implement it, HHI determined it would not be in the best interests of the current staff and customers.

7.2.2 Outputs to the Cost Allocation Model

The tables below show the output of the Cost Allocation Study.

Table 13 –Outputs to the CA model (O1 Revenue to Cost|RR)

Total	1	2	3	7	8	9	
	Residential	GS <50	GS 50 to 4,999 kW	Street Light	Sentinel	Unmetered Scattered Load	
Distribution Revenue at Existing Rates	\$1,150,099	\$265,647	\$437,546	\$20,153	\$4,589	\$3,585	
Miscellaneous Revenue (mi)	\$243,992	\$184,613	\$30,176	\$2,263	\$184	\$510	
Miscellaneous Revenue Input equals Output							
Total Revenue at Existing Rates	\$2,125,612	\$1,334,713	\$295,823	\$463,793	\$22,416	\$4,773	\$4,095
Factor required to recover deficiency (1 + D)	1.1824						
Distribution Revenue at Status Quo Rates	\$1,359,841	\$314,092	\$517,341	\$23,828	\$5,426	\$4,239	
Miscellaneous Revenue (mi)	\$243,992	\$184,613	\$30,176	\$2,263	\$184	\$510	
Total Revenue at Status Quo Rates	\$2,468,759	\$1,544,454	\$344,268	\$543,587	\$26,091	\$5,610	\$4,749
Expenses							
Distribution Costs (di)	\$398,300	\$200,620	\$62,010	\$122,732	\$11,357	\$752	\$829
Customer Related Costs (cu)	\$614,830	\$530,047	\$72,481	\$10,662	\$87	\$87	\$1,467
General and Administration (ad)	\$672,904	\$475,829	\$90,094	\$97,341	\$7,567	\$559	\$1,514
Depreciation and Amortization (dep)	\$289,138	\$147,214	\$49,292	\$89,012	\$2,945	\$224	\$452
PILs (INPUT)	\$10,479	\$4,662	\$1,625	\$4,055	\$108	\$9	\$20
Interest	\$183,665	\$81,704	\$28,474	\$71,071	\$1,894	\$163	\$359
Total Expenses	\$2,169,317	\$1,440,075	\$303,975	\$394,873	\$23,957	\$1,794	\$4,642
Direct Allocation	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Allocated Net Income (NI)	\$299,443	\$133,209	\$46,423	\$115,872	\$3,088	\$266	\$585
Revenue Requirement (includes NI)	\$2,468,759	\$1,573,284	\$350,398	\$510,746	\$27,045	\$2,060	\$5,228
Revenue Requirement Input equals Output							
Rate Base Calculation							
Net Assets							
Distribution Plant - Gross	\$9,597,044	\$4,427,368	\$1,527,802	\$3,518,290	\$97,801	\$8,128	\$17,655
General Plant - Gross	\$925,878	\$413,583	\$143,967	\$356,174	\$9,537	\$818	\$1,798
Accumulated Depreciation	(\$2,836,543)	(\$1,405,107)	(\$475,990)	(\$920,561)	(\$28,180)	(\$2,163)	(\$4,541)
Capital Contribution	(\$951,575)	(\$439,221)	(\$151,525)	(\$348,555)	(\$9,717)	(\$808)	(\$1,750)
Total Net Plant	\$6,734,804	\$2,996,623	\$1,044,255	\$2,605,348	\$69,442	\$5,975	\$13,162
Directly Allocated Net Fixed Assets	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cost of Power (COP)	\$16,892,567	\$5,964,635	\$2,126,436	\$8,684,302	\$61,790	\$5,789	\$49,615
OM&A Expenses	\$1,686,034	\$1,206,495	\$224,585	\$230,736	\$19,010	\$1,398	\$3,810
Directly Allocated Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal	\$18,578,602	\$7,171,130	\$2,351,021	\$8,915,038	\$80,800	\$7,188	\$53,425
Working Capital	\$1,393,395	\$537,835	\$176,327	\$668,628	\$6,060	\$539	\$4,007
Total Rate Base	\$8,128,199	\$3,534,458	\$1,220,581	\$3,273,975	\$75,502	\$6,514	\$17,169
Rate Base Input equals Output							
Equity Component of Rate Base	\$3,251,279	\$1,413,783	\$488,232	\$1,309,590	\$30,201	\$2,606	\$6,867
Net Income on Allocated Assets	\$299,443	\$104,379	\$40,293	\$148,714	\$2,134	\$3,816	\$107
Net Income on Direct Allocation Assets	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Income	\$299,443	\$104,379	\$40,293	\$148,714	\$2,134	\$3,816	\$107

RATIOS ANALYSIS							
REVENUE TO EXPENSES STATUS QUO%	100.00%	98.17%	98.25%	106.43%	96.47%	272.36%	90.84%
EXISTING REVENUE MINUS ALLOCATED COSTS	(\$343,148)	(\$238,571)	(\$54,575)	(\$46,953)	(\$4,629)	\$2,713	(\$1,133)
	Deficiency Input equals Output						
STATUS QUO REVENUE MINUS ALLOCATED COSTS	(\$0)	(\$28,830)	(\$6,130)	\$32,841	(\$954)	\$3,550	(\$479)
RETURN ON EQUITY COMPONENT OF RATE BASE	9.21%	7.38%	8.25%	11.36%	7.07%	146.46%	1.55%

Table 14 –Outputs to the CA model (O2 Fixed Charge|Floor|Ceiling)

<u>Summary</u>	Residential	GS <50	GS > 50 to 4999 kW	Street Light	Sentinel	Unmetered Scattered Load
Customer Unit Cost per month - Avoided Cost	\$9.03	\$11.94	\$14.25	\$0.01	\$0.18	\$7.21
Customer Unit Cost per month - Directly Related	\$14.58	\$18.48	\$22.01	\$0.01	\$0.30	\$11.97
Customer Unit Cost per month - Minimum System with PLCC Adjustment	\$18.42	\$22.60	\$25.16	\$1.55	\$4.04	\$15.03
Existing Approved Fixed Charge	\$19.41	\$17.15	\$112.00	\$0.65	\$1.84	\$7.89

7.3 ALLOCATION OF REVENUE REQUIREMENT TO EACH CLASS

7.3.1 Class Revenue Analysis

Table 15 below shows the results of the cost allocation. These results compare and analyze the distribution costs and help the HHI determine its 2025 proposed ratios.

Table 15 - Results of the Cost Allocation Study

<u>Cost Allocation Results</u>		REVENUE ALLOCATION (sheet O1)					
Customer Class Name	Service Rev Req (row40)		Misc. Revenue (mi) (row19)		Base Rev Req		Rev2Cost Expenses %
Residential	1,573,284	63.73%	184,613	75.66%	1,388,671	62.42%	98.17%
GS<50	350,398	14.19%	30,176	12.37%	320,222	14.39%	98.25%
GS 500-4999kW	510,746	20.69%	26,246	10.76%	484,499	21.78%	106.43%
USL	5,228	0.21%	510	0.21%	4,718	0.21%	90.84%
Sentinel Lighting	2,060	0.08%	184	0.08%	1,876	0.08%	272.36%
Street Lighting	27,045	1.10%	2,263	0.93%	24,782	1.11%	96.47%
TOTAL	2,468,759	100.00%	243,992	100.00%	2,224,767	100.00%	

Table 16 below shows the allocation percentage and base revenue requirement allocation under existing rates, cost allocation results, and proposed 2025 proposed allocation.

Table 16- Base Revenue Requirement Under 3 Scenarios

Proposed Base Revenue Requirement %						
Customer Class Name	Cost Allocation Results		Existing Rates		Proposed Allocation	
Residential	62.42%	1,388,670	61.12%	1,359,841	61.25%	1,362,729
GS<50	14.39%	320,222	14.12%	314,092	14.12%	314,188
GS 500-4999kW	21.78%	484,499	23.25%	517,341	23.26%	517,496
USL	0.21%	4,718	0.19%	4,239	0.19%	4,238
Sentinel Lighting	0.08%	1,876	0.24%	5,426	0.10%	2,288
Street Lighting	1.11%	24,782	1.07%	23,828	1.07%	23,830
TOTAL	100.00%	2,224,767	100.00%	2,224,767	100.00%	2,224,767

Table 17 below shows the revenue offset allocation which resulted from the Cost Allocation Study (Sheet O1).

Table 17 - Revenue Offset Allocation as per Cost Allocation Study

Customer Class Name	Revenue Offsets	
	%	\$
Residential	75.66%	184,613
GS<50	12.37%	30,176
GS 500-4999kW	10.76%	26,246
USL	0.21%	510
Sentinel Lighting	0.08%	184
Street Lighting	0.93%	2,263
TOTAL	100.00%	243,992

Table 18 shows the allocation of the service revenue requirement under the same three scenarios.

Table 18 - Service Revenue Requirement Under 3 Scenarios

Customer Class Name	Service Revenue Requirement \$		
	Existing Rates	Cost Allocation	Proposed Allocation
Residential	1,544,454	1,573,284	1,547,342
GS<50	344,268	350,398	344,364
GS 500-4999kW	543,587	510,746	543,742
USL	4,749	5,228	4,747
Sentinel Lighting	5,610	2,060	2,472
Street Lighting	26,091	27,045	26,093
TOTAL	2,468,759	2,468,759	2,468,759

7.4 REVENUES-TO-COST RATIOS

7.4.1 Adjustment to Revenue to Cost Ratios

* Ratios highlighted in pink fell outside of the floor to ceiling range.

The proposed Revenue to Cost ratio is adjusted by changing the allocation percentage for each class. The HHI reviews and assesses the bill impacts for each class before adjusting the Revenue to Cost ratios.

All classes, except for the USL and Sentinel Lights, fell within the acceptable ranges.

Regarding the USL and Sentinel Lights, the shortage/overage is offset against each other by adjusting them to their corresponding floor or ceiling levels. The shortage/overage is deemed quite insignificant, hence HHI recommended changing it within one year instead of spreading the adjustments over multiple years.

Table 20 on the next page shows Appendix 2-P of the Board Appendices, while Table 19 below shows the HHI’s proposed ratios. The Appendix provides information on previously approved ratios and proposed ratios. The section following Appendix 2-P addresses the method and logic used to update the ratios from the Cost Allocation study to the proposed ratios.

Table 19 – Proposed Revenue Allocation

Customer Class Name	Calculated R/C Ratio	Proposed R/C Ratio	Variance	Shortfall Allocation
Residential	0.98	0.98	0.00	-2,887.7
GS<50	0.98	0.98	0.00	-95.6
GS 500-4999kW	1.06	1.06	0.00	-155.1
USL	0.91	0.91	0.00	1.4
Sentinel Lighting	2.72	1.20	1.52	3,138.6
Street Lighting	0.96	0.96	0.00	-1.6

* Ratios highlighted in pink fell outside of the floor to ceiling range.

The proposed Revenue to Cost ratio is adjusted by changing the allocation percentage for each class. The HHI reviews and assesses the bill impacts for each class before adjusting the Revenue to Cost ratios.

All classes, except for the USL and Sentinel Lights, fell within the acceptable ranges.

Regarding the USL and Sentinel Lights, the shortage/overage is offset against each other by adjusting them to their corresponding floor or ceiling levels. The shortage/overage is deemed quite insignificant, hence HHI recommended changing it within one year instead of spreading the adjustments over multiple years.

Table 20 - OEB Appendix 2-P

A) Allocated Costs				
Classes	Costs Allocated from Previous Study	%	Costs Allocated in Test Year Study (Column 7A)	%
Residential	\$1,017,397		\$1,573,283.69	63.73%
GS<50	\$241,185		\$350,397.97	14.19%
GS 500-4999kW	460,397		\$510,745.65	20.69%
USL	2,627		\$5,227.57	0.21%
Sentinel Lighting	2,065		\$2,059.87	0.08%
Street Lighting	20,469		\$27,044.69	1.10%
Total			\$2,468,759.44	100.00%

B) Calculated Class Revenues				
	(from CA - O1 row 18)			
	Column 7B	Column 7C	Column 7D	Column 7E
Classes (same as previous table)	Load Forecast (LF) X current approved rates	L.F. X current approved rates X (1 + d)	LF X proposed rates	Miscellaneous Revenue
Residential	\$1,150,099.38	\$1,359,840.99	\$1,362,728.54	\$184,613.13
GS<50	\$265,646.54	\$314,092.04	\$314,187.62	\$30,176.21
GS 500-4999kW	\$437,546.34	\$517,340.90	\$517,495.95	\$26,246.17
USL	\$3,585.13	\$4,238.95	\$4,237.57	\$509.76
Sentinel Lighting	\$4,589.49	\$5,426.47	\$2,287.87	\$183.75
Street Lighting	\$20,152.90	\$23,828.15	\$23,829.73	\$2,262.92
Total	\$1,881,619.79	\$2,224,767.50	\$2,224,767.27	\$243,991.94

C) Rebalancing Revenue-to-Cost (R/C) Ratios				
Class	Previously Approved Ratios	Status Quo Ratios	Proposed Ratios	Policy Range
	Most Recent Year: 2018	(7C + 7E) / (7A)	(7D + 7E) / (7A)	
	%	%	%	%
Residential	98.35%	98.17	98.35	85 - 115
GS<50	99.12%	98.25	98.28	80 - 120
GS 500-4999kW	106.25%	106.43	106.46	80 - 120
USL	91.10%	90.84	90.81	80 - 120

Sentinel Lighting		97.67%	272.36	119.99	80 - 120
Street Lighting		81.44%	96.47	96.48	80 - 120

D) Proposed Revenue-to-Cost Ratios					
Class	Proposed Revenue-to-Cost Ratios			Policy Range	
	2025	2026	2026		
	%	%	%	%	
Residential	98.35			85 - 115	
GS<50	98.28			80 - 120	
GS 500-4999kW	106.46			80 - 120	
USL	90.81			80 - 120	
Sentinel Lighting	119.99			80 - 120	
Street Lighting	96.48			80 - 120	

- Note that certain ratios that are going down by fractions are due to rounding.