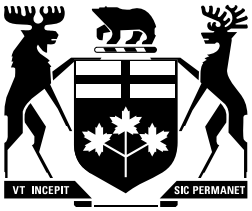

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2009 ELECTRICITY DISTRIBUTION RATES

COLLUS Power Corp. (“COLLUS”)

EB-2008-0226

February 6, 2009

Introduction

COLLUS Power Corp ("COLLUS" or the "Applicant") is a licensed electricity distributor serving approximately 14,500 customers within the Town of Collingwood and the Towns of Thornbury, Stayner and Creemore. COLLUS submitted an application for 2009 electricity distribution rates on August 18, 2008 ("Application"). The Application was based on a future test year cost of service methodology.

On November 28, 2008, COLLUS filed with the Ontario Energy Board (the "Board") its responses to the written interrogatories ("IRs") from Board staff and other parties. On January 8, 2009, COLLUS filed with the Board its responses to the second round of written interrogatories. On January 16, 2009, COLLUS filed further clarification responses and submitted updates to Exhibits 7, 8 and 9 of its Application on January 17, 2009.

In Procedural Order No. 5, the Board determined that this application would proceed by way of a written hearing process, and sought submissions from the Board staff and parties to this proceeding.

The following issues are addressed in these submissions:

- Load Forecasting - Methodology and model
- Capital Expenditures: Magnitude of increases
- Cost of Capital and Capital Structure: Long-term debt rate
- Operating, Maintenance & Administrative Expenses: Magnitude of increase in distribution system maintenance for tree trimming and in labour expenses
- Payments in Lieu of Taxes: Calculation of PILS
- Revenue to Cost Ratios: Ratios of 100% for GS<50 kW and USL customer classes
- Transformer ownership allowance: Calculation of the proposed transformer ownership allowance
- Recovery of low voltage charges: Magnitude of increases

- Deferral and Variance Accounts: Variance accounts for tracking loss of revenue due to potential loss of a large use customer and for tracking costs for IFRS implementation.

These submissions reflect observations and concerns which arise from Board staff's review of the pre-filed evidence and interrogatory responses ("IRRs") made by COLLUS, and are intended to assist the Board in evaluating COLLUS' application and in setting just and reasonable rates.

Load Forecasting
Background

Exhibit 3 of the Application discusses how the customer count and load forecasts are developed. Using the expected growth in customer connections, the 2002-2007 data for the number of customers is used to project both bridge year and test year customer counts by class. The kWh forecast and the kW forecast for appropriate classes are presented by customer class and variance analyses are conducted in support of forecasts.

Table 1 summaries the 2009 forecast proposed by COLLUS:

Table 1 - 2009 Forecast Proposed by COLLUS

Rate Class	2009 Load Forecast As Filed (Exhibit 3/ Tab 2/ Schedule 2/ Page 6/ Table 3)	2009 Number of customers/connections Forecast As Filed (Exhibit 3/ Tab 2/ Schedule 2/ Page 6/ Table 3)
	(kWh)	
Residential	121,128,423	13,011
GS < 50kW	45,443,633	1,588
GS > 50kW	126,855,660	127
USL	455,702	68
Street Lights	2,061,153	3,051
Large User	37,423,367	1

Discussion and Submission

Methodology and Model

COLLUS explained that it first developed the retail normalized average use per customer ("retail NAC") by customer class (Residential, GS<50kW, and GS>50kW) for its weather sensitive load.[1] The retail NAC value by class was based on the 2004 load values that had been weather-normalized for the Applicant by Hydro One. COLLUS further explained that the 2004-based retail NAC was adjusted for ALCOA Wheel Products, which closed in June 2007. The forecasted kWh loads were determined by multiplying the 2004-based retail NAC by the number of forecasted customers in 2008 and 2009. In response to Board staff interrogatories, COLLUS stated that the 2004-based retail NAC provided by the Hydro One model had taken into account thirty years of weather data. COLLUS also submitted that including 2005, 2006, and 2007 data would not have a major impact on the average weather conditions for the purpose of weather normalization.[2]

Board staff asked COLLUS to provide the retail NAC data for 2003 and the period from 2005 to 2007 in order to examine the data. In response to Board staff IRs, COLLUS responded that it expected that the cost to provide the revised forecast would be too high and that in its view this cost would not be prudent.[3]

Board staff is concerned that the methodology chosen utilizes only a single year of weather-normalized historical load to determine the future load. Board staff is unclear whether the retail NAC values would remain unchanged for the period of 2005 to 2009. For example, COLLUS' Application shows that the retail NAC for a typical residential customer is around 9,310 kWh based on 2004 data.[4] If the residential customer consumption decreases over this period due to energy efficiency, energy conservation and customers' consumption behaviour, the retail NAC value for the residential customers would decrease. Board staff submits that using the constant value of 2004, retail NAC would not allow COLLUS to properly account for energy efficiency and energy conservation activities for its forecast during the period from 2005 to 2009. Board staff

[1] Exhibit 3 / Tab 2 / Schedule 2 / Page 3
[2] Board staff interrogatory #6.1(e)
[3] Responses to the Board staff interrogatories # 6.1(c) and #6.1 (d)
[4] Exhibit 3 Tab 2 Schedule 2 Page 4

also submits that the COLLUS methodology could lead to over-estimating the forecasts for the weather sensitive loads and correspondingly cause an underestimation of the required rates.

Board staff invites parties to comment on the methodology and the model used by COLLUS to forecast loads.

Capital Expenditures

Background

COLLUS' application proposed capital expenditures of $3,017,500 in 2009, which represents an increase of approximately 61% compared to the 2008 projected level of $1,869,000, and also an increase of approximately 61% compared to 2007 actual capital expenditures of $1,880,000.

Discussion and Submission

Table 2 below lists the year-over-year percentage change of the capital expenditures from the 2007 actual to the 2009 test year.

Table 2[5]

	2007 Actual	2008 Bridge	2009 Test
Capital Expenditures	$1,880,000	$1,869,000	$3,017,500
% change as compared to the prior year		-0.6%	61.4%

COLLUS' evidence outlined its five-year capital plan. This plan showed capital expenditures projected to be at approximately the $1,900,000 level in 2008, rising to approximately $3,000,000 in the 2009 test year, dropping to $1,300,000 and $1,400,000 in 2010 and 2011, respectively before rising back to the $3,000,000 level in 2012[6].

The Application provided a breakdown of its forecast capital expenditures for the 2009 test year. These indicated that the key areas responsible for the forecast 2009/2008

[5] Based on Exhibit 2/Tab 3/Schedule 1

[6] Board staff interrogatory #3.4

increase in capital expenditures were a $2,200,000 expenditure for construction of a new distribution station and related expenditures to address the overloading of the existing system. These are partially offset by lower expenditures on a CIS software system and vehicle replacement.

The construction of a new MS#9 substation on Sixth Street in Collingwood is estimated to cost $1,900,000 in 2009. COLLUS described this project as covering the cost of a new substation on the corner of Sixth Street and Stewart Road to provide system reliability for the southwest area that has experienced growth and will continue to grow, with the increased capacity to this area providing security in maintenance and inclement weather situations. The related expenditures total $330,000, consisting of $180,000 for the construction of a 44 kV line on Sixth Street from High Street to Stewart Road to feed the new M.S.#9 substation and $150,000 to complete the rebuild of 2nd Street with new poles and 3-phase primary to allow for a tie between substations M.S.#1, M.S. #4 and M.S.#2.[7]

In support of these expenditures, COLLUS provided its own "Distribution System Study Update" dated July 21, 2008, a report by utility consultants Barkley Technologies Inc. called, "Load Growth and Future Station Requirements for Collingwood" dated August 14, 2008 and a cost estimate by Black & McDonald.[8] The COLLUS study noted that COLLUS had had concerns for the past few years that the current system is loaded in a way that could severely hamper its ability to deal with a major problem. COLLUS stated that even trying to perform work on regular maintenance had been difficult and almost impossible without resulting in extended system outages because there had been little excess capacity on some of the stations. Accordingly, the study recommended that $1.9 million be placed in the 2009 capital budget for this project, which was the amount of the Black & McDonald's cost estimate. This recommendation was supported by the Barkley Technologies report. COLLUS stated that it had confidence in the accuracy of the information provided by the contractor, based on its recent completion of the upgrade to MS#5 both on time and on budget.[9]

COLLUS stated that the primary voltage and loading of a distribution system establishes inherent limits to the length of a feeder and that while it had attempted to service the southwest area of Collingwood with feeders from various stations, as loads on these feeders increase, voltage levels tend to drop to a point where customers become affected. COLLUS added that this situation is further exacerbated when the area must

[7] Board staff interrogatory #3.1, Capital Project Specification Worksheets 17040 and 17014
[8] Exhibit 2, Appendices C-1 to C-3
[9] Exhibit 2, Appendix C-4

be fed from a different station as a means of outage restoration, or at times when stations need to be shut down for maintenance.

COLLUS further stated that in regards to its plans for a new substation MS#9, it has implemented a phased approach to the supply needs of the southwest area of Collingwood, as feeders from existing substations have been and continue to be used to supply the area. COLLUS added that all future potential capital projects are reviewed and prioritized in an effort to spread costs over multiple years wherever possible, but distribution planning also requires that reliable power be available when needed by customers.

Board staff invites parties to comment on COLLUS' proposed capital expenditure on the substation and whether the need for this substation to improve system reliability has been demonstrated.

COST OF CAPITAL

Background

COLLUS has provided its proposed Cost of Capital in Exhibit 6. The following table summarizes its proposals in this area:

Table 3

Cost of Capital Parameter	Applicant's Proposal
Capital Structure	Requesting Board approval of a capital structure of 56.7% debt and 43.3% equity. This is to comply with the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors*, issued December 20, 2006 (the "Board Report").
Short-Term Debt	Requesting a 4% short-term debt component with a rate of 4.47% in accordance with the letter from the Board of March 7, 2008 regarding cost of capital updates for 2008 cost of service applications, consistent with the Board's Report
Long-Term Debt	Proposing a weighted debt cost rate for 2009 of 5.79%.
Return on Equity	Proposing a return on equity rate for the 2009 Test year of 8.57% in accordance with the Board's letter of March 7, 2008 regarding cost of capital updates for 2008 cost of service applications consistent with the Board's Report.

Discussion and Submission

Long-term debt

COLLUS has proposed a weighted debt cost rate for 2009 of 5.79%, which is forecasted to consist of two instruments:

- Promissory Note, issued in 2001, with a principal amount of $1,700,000 due to the Town of Collingwood, a proposed rate of 6.25% and no fixed term; and
- Demand Loan, to be issued January 7, 2009, with a principal amount of $1,100,000 due to Infrastructure Ontario, a proposed rate of 5.08% and a 5 year term.

Section 2.2.1 of the Board Report states:

> "**For all variable-rate debt and for all affiliate debt that is callable on demand the Board will use the current deemed long-term**

> **debt rate**. When setting distribution rates at rebasing these debt rates will be adjusted regardless of whether the applicant makes a request for a change." [Emphasis in original]

Board staff notes that COLLUS' 6.25% promissory note is due to an affiliate, the Town of Collingwood. COLLUS was asked in a Board staff interrogatory,[10] to provide a copy of the relevant instrument as well as to state why it believed that a rate of 6.25% should be applied to this debt, as compared to the 6.10% rate contained in the Board's March 7, 2008 letter, as updated in 2009. In its response, COLLUS stated that it was its intention to adjust to the Board's rate, currently 6.1% when final application is made after the Board's Decision on the application. Staff notes that the deemed long-term debt rate for the 2009 rate year is yet to be determined, but may be different than 6.1%. Staff infers from the COLLUS response that it would adjust its rate to the 2009 deemed long-term debt rate.

Where the bank loan to Infrastructure Ontario, to be issued on January 7, 2009, is concerned, COLLUS was asked in a Board staff interrogatory[11], to provide a more detailed explanation as to how the 5.08% assumed rate was determined. In its response, COLLUS provided as evidence the rates that were being advertised by Infrastructure Ontario for lending to local distribution companies as of November 25, 2008. COLLUS stated that it was its intention to adjust to the 25 year serial rate, which was then 5.99%, which would be anticipated to be done when final application is being made.

Board staff notes in this context that COLLUS had stated in its evidence that the demand loan was to be issued on January 7, 2009 with a five-year term. As such, it is unclear to Board staff why COLLUS believes that the 25 year rate at the time final application is made would be the appropriate rate to use, rather than the five year rate applicable on January 7, 2009.

Board staff would invite parties to the proceeding to provide any comments they may have on the rates proposed to be imputed on COLLUS' debt.

[10] Board staff interrogatory #2.1

[11] Board staff interrogatory #2.2

OM&A Costs

Background

COLLUS' summary of operating costs is found at Exhibit 4 Tab 1 Schedule 1 Page 1 of the Application ("Summary"). The 2009 Total Controllable OM&A Expenses forecast is $3,797,848. This represents a 15.6% (or $512,051) increase compared to the 2007 actual level and a 16.9% ($549,775) increase compared to the 2006 actual level.

Discussion and Summary

Using the Applicant's Summary as its base, Board staff created two different tables and asked interrogatories concerning each table to clarify the drivers related to the year over year increase in Total OM&A Expenses.

Table 4 below summarizes the key components of COLLUS' operating costs for the 2006 Board approved and actual, 2007 actual, 2008 bridge, and 2009 test years. Table 5 highlights the significant sources of variance for OM&A expenses:

Table 4

	2006 Board Approved	2006 Actual	2007 Actual	2008 Bridge	2009 Test
Operation	$260,626	$285,179	$245,331	$274,300	$291,300
Maintenance	$1,163,605	$1,263,888	$1,322,165	$1,500,825	$1,628,325
Billing and Collection	$538,249	$592,333	$655,645	$722,109	$762,093
Community Relations	$88,563	$154,243	$157,924	$100,085	$107,389
Administrative and General Expenses	$1,200,627	$952,430	$904,732	$932,991	$1,008,741
Total OM&A Expenses	**$3,251,670**	**$3,248,073**	**$3,285,797**	**$3,530,310**	**$3,797,848**

Table 5

Summary of OMA Expenses	2006 Board Approved	Variance 2006/2006	2006 Actual	Variance 2007/2006	2007 Actual	Variance 2008/2007	2008 Bridge	Variance 2009/2008	2009 Test	Variance 2009/2007	Variance 2009/2006
Operation	260,626	24,553	285,179	-39,848	245,331	28,969	274,300	17,000	291,300	45,969	6,121
		9.4%		*-14.0%*		*11.8%*		*6.2%*		***18.7%***	***2.1%***
Maintenance	1,163,605	100,283	1,263,888	58,277	1,322,165	178,660	1,500,825	127,500	1,628,325	306,160	364,437
		8.6%		*4.6%*		*13.5%*		*8.5%*		***23.2%***	***28.8%***
Billing & Collections	538,249	54,084	592,333	63,312	655,645	66,464	722,109	39,984	762,093	106,448	169,760
		10.0%		*10.7%*		*10.1%*		*5.5%*		***16.2%***	***28.7%***
Community Relations	88,563	65,680	154,243	3,681	157,924	-57,839	100,085	7,304	107,389	-50,535	-46,854
		74.2%		*2.4%*		*-36.6%*		*7.3%*		***-32.0%***	***-30.4%***
Administrative and General Expenses	1,200,627	-248,197	952,430	-47,698	904,732	28,259	932,991	75,750	1,008,741	104,009	56,311
		-20.7%		*-5.0%*		*3.1%*		*8.1%*		***11.5%***	***5.9%***
Total OM&A Expenses	**3,251,670**	**-3,597**	**3,248,073**	**37,724**	**3,285,797**	**244,513**	**3,530,310**	**267,538**	**3,797,848**	**512,051**	**549,775**
		-0.11%		1.16%		7.44%		7.58%		**15.58%**	***16.93%***

COLLUS confirmed the accuracy of each of the tables through its response to a Board staff interrogatory.[12]

To assist in understanding the increases in Total Controllable OM&A expenses identified in Table 5, COLLUS provided a listing of the cost drivers in response to a Board staff interrogatory[13], as shown in Table 6 below. The table starts with the opening OM&A balance of $3,251,670 for 2006 Board approved costs and ends with the proposed closing OM&A balance of $3,797,848 in the 2009 test year.

Table 6

	2006	2007	2008	2009
Opening Balances $	**$3,251,670**	**$3,248,073**	**$3,285,797**	**$3,530,310**
1. Increase in Labour Expense Yearly		**$85,313**	**$167,552**	**$220,261**
2. Change in Contract Services Costs		**$16,112**	**$73,731**	**$35,777**
3. Increase/Reduction in Sub-Station Mtce		**($63,000)**		
4. Net Est. Impact for Power CIS Purchase (Computer Lease)				**($30,000)**
5. Increase/COS Rate App. ($160K/4 yrs)				**$40,000**
6. Misc Expense Variance	**($3,597)**	**($701)**	**$3,230**	**$1,501**
Closing Balances $	**$ 3,248,073**	**$ 3,285,797**	**$ 3,530,310**	**$ 3,797,848**
Total Variance %	0.11%	1.16%	7.40%	7.50%
Total Variance $	**$3,597**	**$37,724**	**$244,513**	**$267,538**

Board staff notes that the majority of the increase in 2009 OM&A expenses compared to 2006 is a result of 2009 rate rebasing costs, distribution system maintenance, and labour expenses.

[12] Board staff Interrogatory #1.2a

[13] Board staff Interrogatory #1.2b

Distribution System Maintenance - Tree Trimming

COLLUS is requesting approval of $100,000 related to 2009 tree trimming activities. Board staff notes that the tree trimming costs for 2007 and 2008 were $77,924 and $115,000, respectively.[14] COLLUS has changed its tree trimming schedule to a cycle of every 3 years instead of 2 years in 2008 to meet Electric Safety Authority (ESA) requirements and improve on the amount of tree trimming. COLLUS states that the costs related to a 3 year cycle are greater than that of a 2 year cycle because of increased brush, disposals, and customer service.[15]

Board staff invites comments from parties to this proceeding regarding this matter.

Labour Expenses

Board staff notes that an examination of Table 6 shows that labour expense contributes to approximately 75.7%, or $387,813 of the proposed increase for 2009 compared to its 2007 actual. This is a result of inflation, employee progression, and the hiring of 3 full-time staff. Board staff submits that costs related to labour changes have significantly increased and invites comments from parties to the proceeding as to whether or not COLLUS has provided adequate justification for this cost increase.

PILs

Background

In the Board's PILs methodology for 2002, 2005 and 2006 EDR applications, the Board approved three blended income tax rates for the application process. One was the minimum, one was the maximum, and the third was an income tax rate that was calculated to represent a utility somewhere towards the middle of the range. For 2009, the published federal and Ontario combined maximum enacted income tax rate is 33%.

[14] Responses to the VECC's Second Round of Interrogatory #36

[15] COLLUS response letter dated January 19, 2009, page 3 regarding Board staff and VECC's clarification requests.

Those businesses eligible for the small business deduction have a combined income tax rate of 16.5%. Thus, the applicable blended income tax rate for a distributor lies between the minimum rate of 16.5% and the maximum rate of 33%. The rate between these limits principally varies based on the company's taxable income.

Applicants filed in 2008 EDR without the assistance of a Board-approved model. This allowed each distributor to calculate an income tax rate specific to its individual regulatory tax situation. Thus, there was no pre-set tax rate between the minimum and the maximum tax rates that were established by the Board.

The Board's established PILs methodology derives regulatory net income as follows: rate base multiplied by equity component multiplied by ROE%. The resulting taxable income from this starting point determines the tax rate to be used in calculating the grossed-up PILs amount. Grossed up PILs are then added back to derive revenue requirement.

Discussion and Submission

COLLUS' evidence[16] contained detailed tax calculations which showed a regulatory income tax amount of $234,628 as payable in the 2009 Test year. This was based on an assumed tax rate of 33%. COLLUS stated that when preparing the present application, it had employed the same practice that the Board had used in previous rate applications, which was stated as simply referring to the general tax rates for federal and provincial income taxes. However, COLLUS stated that this may not be considered the correct approach.

In this context, COLLUS stated that it had decided to review both 2008 and 2009 information submitted and in doing so determined that it would be best to make changes to the calculation of the Ontario income tax. COLLUS outlined these changes which resulted in a revision of the 2009 tax rate from 33% to 28.3% and a reduction in regulatory income tax of $33,000. This amount was reduced by a further $20,439 in COLLUS' Table 1 (Updated Supplementary Jan 15/09) as filed on January 19, 2009; although no updated tax calculations were submitted in support of this revision.

COLLUS seems to have calculated an income tax rate by adding the grossed-up PILs, already computed, to the regulatory net income. COLLUS' methodology results in a higher tax rate. Adding the PILs tax amount to the regulatory net income produces a

[16] Exhibit 4 Tab 3 Schedule 1

higher taxable income. COLLUS' method diverges from the Board's established methodology. Board staff estimates that COLLUS is requesting approximately $25,000 more in PILs using its methodology than would otherwise arise using the Board's established methodology, which is also based on a 24.5% tax rate, taking into account the reduced amount in the update of January 19, 2009. Board staff notes that this amount is less than 0.50% of the annual revenue COLLUS requires to provide electricity distribution.

Parties may wish to comment on the Applicant's methodology, and on the selection of the applicable income tax rate.

Cost Allocation and Rate Design

Revenue to Cost Ratios

Background

COLLUS submitted a cost allocation information filing in January 2007. The revenue to cost ratios from this filing are summarized in column 1 of Table 7. Since that time, COLLUS' largest customer, ALCOA Wheel Products, has ceased operation. Load data were rerun to simulate the situation without ALCOA. These load data were run through the cost allocation model and the revenue to cost ratios were updated as COLLUS decided this would be a better starting point for any consideration of adjustment during the 2009 cost of service rate application process.[17] The revenue for the large use class has declined from $546,816 to $231,042. Data, originally filed on August 15, 2008 were revised to remove the ALCOA portion of transformer allowance, and the data were re-filed on January 9, 2009. The revised revenue to cost ratios are summarized in column 2 of Table 7.

The 2009 revenue to cost ratios proposed by COLLUS, and filed on January 9, 2009 are summarized in column 3 of Table 7.

[17] Exhibit 8 Tab 1 Schedule 2, Page 2

For ease of comparison, the Board's target range is shown in the final column; the ranges are based on the Board's "Report on Application of Cost Allocation for Electricity Distributors". Board staff notes that COLLUS has incorrectly listed the ranges in its application.[18].

Table 7 – COLLUS Revenue to Cost Ratios (%)

Customer Class	(1) Cost Allocation Informational Filing	(2) Updated Cost Allocation – reflecting loss of ALCOA	(3) Application – 2009 Proposed	(4) Board Target Range
Residential	115.98	113.79	109.45	85 – 115
GS < 50 kW	99.1	96.30	100	80 - 120
GS > 50 kW	46.08	42.21	80	80 – 180
Large User	131.61	120.76	100	80 – 115
Street Lights	15.49	15.84	42.92	70 – 120
USL	82.54	82.37	100	80 – 120

Discussion and Submission

Currently, the GS>50 kW, large use and street lighting customer classes are not within the Board's target range. COLLUS' 2009 rate application proposes to move the GS>50 kW and large use customer classes within the Board's target range. The proposed street lighting rates will achieve movement half way to the lower limit of the Board's target range. As noted in evidence filed on January 9, 2009,[19] COLLUS proposes to adjust street lighting revenue to cost ratio to 42.02% in 2009, to 56.37% in 2010 and finally to 70% in 2011.

[18] COLLUS' Application, Exhibit 8 Tab 1 Schedule 2 page 4

[19] Exhibit 8 Tab 1 Schedule 2, Page 5

Board staff notes that the resulting bill impact for the GS>50 kW and large use customer classes is less than 10%.

Board staff also notes that, with respect to the street lighting customer class, COLLUS' proposal is consistent with the Board's decisions in 2008. In its Decision on Guelph Hydro Electric Systems' application for approval of 2008 distribution rates, the Board stated that:

> "Where the revenue to cost ratios in the Informational Filing (Column 1) are below the Board's ranges (Column 3), the rates for 2008 shall be set so that the ratio for these classes shall move by 50% toward the bottom of the Board's target ranges. Only the Street Lighting class (at 42%) is in this situation. The Board directs the Company to raise rates for the Street Lighting class to achieve a revenue to cost ratio of 44% for 2008. The Board expects the Company to reach the 70% Board target range by 2010 in equal increments."[20]

In its Application, COLLUS states that the revenue to cost ratio re-alignment will attempt to move all classes to a 100% ratio.[21] COLLUS proposes to increase the revenue to cost ratio to 100% for GS<50 kW and USL customer classes even though the ratios for these classes are currently within the Board's target range. In its Decision on Wellington North Power Inc.'s application for approval of 2008 distribution rates, the Board stated that:

> "… the Board established the ranges depicted above and mandated the migration of revenue to cost ratios currently outside the ranges to points within the ranges, but not to unity. In short, the ranges reflect a margin of confidence with the data underpinning the report. No point within any of the ranges should be considered to be any more reliable than any other point within the range. Accordingly, there is no particular significance to the unity point in any of the ranges."[22]

Board staff invites comments from parties to the proceeding as to whether or not COLLUS is required to increase the revenue to cost ratio to 100% for GS<50 kW and USL customer classes.

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[20] Board's Decision on Guelph Hydro Electric Systems – EB-2007-0742, Page 25

[21] Exhibit 8 Tab 1 Schedule 2 Page 4

[22] Board's Decision on Wellington North Power Inc. – EB-2007-0693, Page 29.

Transformer Ownership Allowance

Background

Currently, COLLUS applies $0.60 per kW, the long-standing transformer allowance used by most distributors. In response to a Board staff interrogatory, COLLUS filed Sheet O3.1 of the Cost Allocation Model.[23] COLLUS proposes to reduce the current approved transformer ownership allowance to $0.35 per kW. Based on the same cost allocation study, COLLUS proposes that the transformer allowance for the large use class be eliminated. COLLUS states that by virtue of being primary fed, the large use class does not have an allocation of transformation or secondary costs assigned to it.

Discussion and Submission

The data as presented in Sheet O3.1 of the Cost Allocation Model and as filed by COLLUS on November 28, 2008 support COLLUS' calculation of $0.35 per kW. COLLUS' proposal to eliminate the transformer allowance for the large use class is consistent with previous Board decisions where parties agreed that it was appropriate for the transformer ownership credits to be allocated only to those customer classes that receive the credits.[24] However, Board staff's review of the cost allocation information filing indicates some inconsistency in the proportion of GS>50 kW customers with and without line transformer allowance. Sheet I6, Customer Data, indicates that approximately 50% of the kW from the GS>50 kW class is from customers with line transformer allowance. Sheet I8, Demand Data for 4 NCP, indicates that 75% of the kW from the GS>50 kW class is from customers with line transformer allowance. Board staff questions the data inputs used by COLLUS to calculate the proposed transformer ownership allowance of $0.35 per kW and submits that the long-standing rate of $0.60 per kW be retained as a practical alternative to re-doing the cost allocation study.

Parties may wish to comment on the Applicant's methodology, and on the calculation of the proposed transformer ownership allowance.

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[23] Board staff interrogatory #9.1

[24] 2008 EDR Decision on Hydro Ottawa Limited - EB-2007-0713, page 21

Recovery of Low Voltage Costs

Background

In its application, COLLUS proposes to allocate $550,000 of LV costs to each rate class based on the proportion of retail transmission connection revenue collected from each class.[25]

Discussion and Submission

In response to a VECC interrogatory on November 28, 2008, COLLUS provided a summary of monthly load data and charges to support the calculation of $550,000 of LV costs.[26] Board staff submits that the rates applied by COLLUS, an embedded distributor, are higher than the LV rates submitted by Hydro One in its application filed in December 2007[27] and approved by the Board[28].

Deferral and Variance Accounts

Background

In response to a Board staff interrogatory on November 28, 2008, and confirmed on January 9, 2009, COLLUS is not requesting disposition of any deferral or variance accounts.[29]

COLLUS has, however, requested consideration by the Board of providing a variance account that could be used in the event of the loss of COLLUS' remaining large use customer. COLLUS also asked to be advised if the Board was planning to provide a variance account to LDC's for implementation of IFRS. COLLUS estimates that IFRS

[25] Exhibit 9 Tab 1 Schedule 1 Page 8
[26] VECC's interrogatory IR # 14(b)
[27] Hydro One Networks application - EB-2007-0681, Exhibit G2 Tab 94 Schedule 1 Page 2
[28] Hydro One Networks Tariff of Rates and Charges for the Sub-Transmission (ST) Class, Page 2
[29] Board staff interrogatory #7.1

implementation costs will be $100,000 and expects $30,000 per year for operation expense requirements. These costs were not been included in the original application.

COLLUS provided a list of specific approvals requested on January 9, 2009. Included in that list are:

- Approval of a variance account for use in tracking any impact to the large use customer class due to an unexpected closing of business operations during the time period leading up to the next cost of service application process; and
- Approval of a variance account for use in tracking the impact of the implementation cost to conform to the impending requirements of the International Financial Reporting Standards ("IFRS") in conjunction with the Board's accounting and record keeping system.

Discussion and Submission

Variance Account for Tracking Loss of Revenue Due to a Potential Loss of a Large Use Customer

In response to a VECC interrogatory, COLLUS reported that it incurred a materially negative impact when its largest customer, ALCOA Wheel Products closed operations in 2007. [30] COLLUS stated that the option to make a rate application was available, but the cost of the process would have been substantial. In order to avoid a similar impact, COLLUS proposes a variance account that would record the reduction in base revenue only if LOF Glass, the remaining large use customer, ceased operations. COLLUS proposed that the expected revenue would be recorded in the account from that point until the next cost of service application is made.

COLLUS has provided limited information regarding the proposed variance account. Board staff notes that consideration of regulatory principles guides the establishment of new accounts[31]. Board staff submits that requests for new accounts should be considered in light of the four regulatory principles: materiality, prudence, causation, and management's ability to control the event. Also, within the electricity sector, deferral and variance accounts are generally established on a generic basis – not a utility specific basis. Board staff invites comments from parties to the proceeding regarding COLLUS'

[30] VECC interrogatory #35

[31] 2008 EDR Decision on Lakefront Utilities Inc. - EB-2007-0761, Page 29

request for a proposed variance account to record the reduction in base revenue for potential loss of its large use customer.

Variance Account for Tracking Cost for IFRS Implementation

Board staff notes that the Board initiated a consultation on December 23, 2008 to examine issues associated with the transition to IFRS.[32] Board staff submits that the impending requirements of IFRS are best addressed through that process.

Board staff invites parties to provide comment on COLLUS' request for approval of a variance account for use in tracking the impact of the implementation cost related to IFRS.

- All of which is respectfully Submitted -

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[32] Policy Consultation - International Financial Reporting Standards ("IFRS") Consultation - EB-2008-0408