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February 20, 2009

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
PO Box 2319, 26th Floor
Toronto ON M4P 1E4

Dear Ms. Walli:

Re: Innisfil Hydro Distribution Systems Limited
EB-2008-0233
Reply Submission
2009 Rate Application

Please find enclosed two (2) copies of Innisfil Hydro's reply to submissions filed by:

Ontario Energy Board Staff
Energy Probe
School Energy Coalition
VECC

Please do not hesitate to contact the undersigned if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "LAC", written over a horizontal line.

Laurie Ann Cooledge, CMA, CPA
CFO/Treasurer

Encls.

Innisfil Hydro Distribution Systems Limited

REPLY SUBMISSION

2009 ELECTRICITY DISTRIBUTION RATES

EB-2008-0233

Submitted February 20, 2009

OVERVIEW

This is the reply submission of Innisfil Hydro Distribution System Ltd. (Innisfil) in respect of its 2009 cost of service application for an order approving just and reasonable rates for the distribution of electricity effective May 1, 2009 (Application). Innisfil's submission is filed in reply to submissions filed by Ontario Energy Board Staff ("OEB Staff") January 29, 2009, and Energy Probe February 6, 2009, and the School Energy Coalition ("SEC") February 4, 2009, and the Vulnerable Energy Consumers Coalition ("VECC") February 7, 2009.

This Introduction makes reference specifically to the Application dated August 15, 2008. However, Innisfil has taken into consideration changes to the Application throughout the review process and has discussed those changes and the impact on the Application in the foregoing sections of this document. Innisfil is providing a Summary of Changes at the end of this document.

Innisfil is the electricity distributor licensed by the Ontario Energy Board (OEB) to service the Town of Innisfil. Innisfil operates an electrical distribution system with a total service area of 292 square kilometers within the Town of Innisfil. Innisfil currently delivers electricity to over 14,000 customers through a network of approximately 500 km of overhead wires, specifically 299 km of 3-phase line and over 200 km of single phase line through 16 sub transmission transformers and 3,100 distribution transformers. There are 9 distribution stations and over 100 km of underground circuit.

Innisfil submitted its Application for 2009 electricity distribution rates on August 15, 2008. The Application was based on a forward test year cost of service methodology. Innisfil submitted its responses to interrogatories from OEB Staff, Association of Major Power Consumers in Ontario (AMPCO), Energy Probe, SEC, and VECC.

Innisfil has requested a revenue requirement of \$8,241,691 with revenue offsets of \$491,257 once applied results in a base revenue requirement to be recovered from rates of \$7,750,434.

1 This revenue requirement reflects a revenue deficiency for 2009 of \$1,071,765 based on existing
2 approved rates. The main contributors to this deficiency are:

- 3 • Projected increases in OM&A costs including depreciation expense for the 2009 Test
4 Year from the 2006 EDR application relating to issues such as inflation, contracted line
5 crew services and staffing; and
- 6 • Projected increases in investments in gross assets due to infrastructure replacement,
7 customer demand resulting from community growth projects, improving reliability
8 performance, installation of additional capacity and addressing aging infrastructure.

9 Through this Application Innisfil sought:

- 10 • Approval of charges and rates effective May 1, 2009 to recover the Revenue Requirement
11 that would include the Revenue Deficiency arising from changes in OM&A expenses and
12 Capital investments;
- 13 • Approval of the proposed capital structure, decreasing Innisfil's deemed common equity
14 component from 46.7% to 43.3% and increasing the debt component from 53.3% to
15 56.7%;
- 16 • Approval of Innisfil's OM&A and Capital programs to allow Innisfil to meet the
17 demands of one of the fastest growing communities in Ontario and for the replacement of
18 an aging infrastructure;
- 19 • Approval to dispose of Deferral and Variance accounts, 1508 – Other Regulatory Assets
20 – OMERS Contributions and 1550 Low Voltage Variance;
- 21 • Approval of Innisfil's proposed approach to Cost Allocation;
- 22 • Approval to maintain Innisfil's existing Retail Transmission Network and Connection
23 rates;
- 24 • Approval of the proposed approach to the transformer allowance;
- 25 • Approval of proposed total loss factors consisting of the supply facilities loss factor and
26 the distribution loss factor;
- 27 • Approval of a fixed/variable split that more closely aligns with the conservation
28 objectives of the Ministry of Energy and the Ontario Power Authority;

- Approval of the proposed Specific Service Charges; and
- Approval to continue the smart meter adder

Innisfil is providing its reply by grouping topics similar to the exhibits submitted within the 2009 Application. Innisfil's detailed replies to the applicable submissions are presented within each topic.

Innisfil would like to provide clarification with an inconsistency filed by the OEB Staff Submission before proceeding to its reply submission. The OEB Staff submission¹ is citing Innisfil is a licensed electricity distributor serving approximately 7,800 customers. Innisfil is submitting it has over 14,000 residential and general service customers as at December 31, 2007 as provided² in the cost of service application.

¹ OEB staff submission page 2

² Application Exhibit 3, Tab 2, Schedule 3

RATE BASE

Capital Expenditures

The OEB staff submission³ invited intervenors to comment on whether Innisfil has adequately justified its proposed increase in the 2009 capital expenditure budget.

SEC submission⁴ stated that it has observed a tendency on behalf of distributors to submit service applications involving large step up work during the rebasing year. Innisfil is concerned that SEC has stereotyped LDCs and therefore their submission with regard to Innisfil's rate application may be biased.

Energy Probe⁵ refers to Innisfil's response to VECC interrogatory that there was an omission of an additional capital reduction in 2008 of \$115,300. Innisfil agrees with Energy Probe of the 2008 capital reduction of \$115,300 was omitted from the summary of changes interrogatory #25. The resulting impact to the revenue deficiency for 2009 is a reduction of \$12,758 and will be included at the end of this report in a schedule summarizing changes to Innisfil's application as determined by interrogatories and Innisfil's reply submission.

Road Widening Project

The OEB staff⁶ and Energy Probe⁷ acknowledge the 2009 budget is increasing over the prior period. Innisfil submits that a key reason for this increase in Innisfil's expenditures in the customer demand category is a road widening project related to an underground relocation and urbanization of Innisfil Beach Road phase one. This is a four phase project which has been scheduled to take place over a four year period beginning in 2008 and Innisfil's application, as filed, contained cost estimates of \$750,000 for 2008 and \$788,800 for 2009. Innisfil stated in the response to Energy Probe interrogatory 26a) that the beginning of the project had been delayed

³ OEB staff submission page 6

⁴ SEC submission page 1 paragraph 3

⁵ Energy Probe submission page 4

⁶ OEB staff submission page 4 paragraph 1

⁷ Energy Probe submission page 5

1 from 2008 until 2009 by other parties and the cost for the first phase had increased from
2 \$750,000 to \$1,050,000.

3 Energy Probe⁸ has submitted Innisfil should be directed to increase the contributions for the 50%
4 labour and equipment costs for the portion of the \$300k increase (\$1,050k - \$750k) to the first
5 phase of the road widening project. Innisfil agrees with Energy Probe's submission and
6 estimates the contributions for this project should increase by \$56,000. The resulting impact to
7 the revenue deficiency for 2009 is a reduction of \$3,240 and will be included at the end of this
8 report in a schedule summarizing changes to Innisfil's application as determined by
9 interrogatories and Innisfil's reply submission. Please note that the gross project cost for 2009
10 phase is \$1,050,000 that will receive approximately \$200,000 in contribution from the road
11 authority.

12 Innisfil explained that Phase One of the project involved utility relocates and that without a
13 completed streetscape design, it had estimated these costs at \$750,000 for 2008 budgetary
14 purposes. However, when the streetscape design was completed in the fall of 2008, the actual
15 engineering design had come in at a cost for the first phase of \$1,050,000 to now begin in 2009.
16 The scope of the project had increased in the streetscape design from the middle of boundary
17 intersections to full intersections plus 60m at each end. This means that some subsequent phases
18 will have smaller scopes than originally anticipated.

19 According to the *Public Service Works on Highways Act, R.S.O 1990, chapter P. 49*, the Road
20 Authority shall be responsible for ½ the labour costs and Innisfil shall be responsible for the
21 other ½ of labour costs and all material costs for this road widening. Failure for Innisfil to take
22 up, remove or change the location of appliances or works by the date specified in a given notice,
23 shall make Innisfil responsible for compensation to the Road Authority for any loss or expense
24 which exposes Innisfil to unlimited liability. Any lack of due diligence on Innisfil's part
25 regarding utility relocation requests would be construed as gross negligence therefore Innisfil
26 deems compliance to be a statutory requirement.

27 *Utility Relocates*

⁸ Energy Probe submission page 5 paragraph 2

1 The OEB staff⁹ submits Innisfil's other significant increase in the customer demand category
2 relates to utility relocates for which Innisfil budgeted \$266,900 in 2009, representing an increase
3 of the same amount over 2008 levels. Please note that this represents gross project costs that will
4 attract approximately \$50,000 in contributions from the road authority. Innisfil stated¹⁰ that
5 these expenditures were due to construction projects on County of Simcoe roads ranging from
6 road widenings to traffic signal installations. Innisfil stated further that two of the five draft
7 plans had been received and reviewed at the time of the application, of which one, located at
8 Innisfil Beach Road and 20th Side Road, had a large scope of work including relocating
9 approximately 8 spans (seven poles) of double 44kV sub-transmission circuits. The second plan
10 consisted of relocating eight poles on the Seventh Line and 20th Side Road. Three of these poles
11 support the 44kV sub-transmission system and the remainder has single and three phase circuits.
12 Innisfil stated that the three remaining plans, although confirmed by the County, had not yet been
13 issued or included in the 2009 Test Year projects.

14 As of Feb 4TH 2009, confirmation of the two listed Simcoe County projects for 2009 have been
15 given the go ahead by the County Planner and a third and fourth plan are near completion. The
16 third plan will require utility relocates in 2009 which costs have not been budgeted for.

17 According to the *Public Service Works on Highways Act., R.S.O 1990, chapter P. 49*, the Road
18 Authority shall be responsible for ½ the labour costs and Innisfil shall be responsible for the
19 other ½ of labour costs and all material costs for this road widening. Failure for Innisfil to take
20 up, remove or change the location of appliances or works by the date specified in a given notice,
21 shall make Innisfil responsible for compensation to the Road Authority for any loss or expense
22 which exposes Innisfil to unlimited liability. Any lack of due diligence on Innisfil's part
23 regarding utility relocation requests would be construed as gross negligence therefore Innisfil
24 deems compliance to be a statutory requirement.

25 *44 kV Feeder*

⁹ OEB staff submission page 4 paragraph 2

¹⁰ Application Exhibit 2 Tab 3 Schedule 2 page 17

1 The OEB staff submits¹¹ the second significant area of increase in the capital budget relates to
2 reliability. Innisfil's reliability expenditures are anticipated to increase from \$495,700 in 2008 to
3 \$730,000 in 2009 for a new 44kV feeder. Innisfil is an embedded distributor within Hydro One.
4 Innisfil is supplied by two main 44kV feeders from Alliston T.S. and one minor 44kV feeder
5 with limited capacity from Barrie T.S. Both transmission stations are approximately 12km
6 outside of Innisfil's boundary. The two main 44kV feeders pose a significant reliability risk due
7 to the vast distance involved and the fact that they are on the same wooden pole line. This new
8 44kV circuit will provide much needed capacity and reliability when the two main 44kV feeders
9 are out of service. This risk was brought to light in June 2008, when a cracked porcelain dead-
10 end insulator, the same style scheduled for replacement as listed below in Infrastructure
11 Replacement and Betterments, failed on the two main feeders and caused a 4 hour interruption to
12 80% of Innisfil customers.

13 Hydro One's Simcoe County Supply Study dated November 2004 had identified 10 year growth
14 related issues from 2004 to 2014. One of the outcomes of this study was to build a new
15 transformer station (Everett TS) which provided 44kV feeder positions and capacity for this
16 project. According to load growth estimates, this new 44kV feeder will provide load growth
17 capacity to Innisfil up to 2016, at that time or sooner, the second 44kV circuit will have to be
18 deployed on the pole line. This is not an accelerated capital project. Innisfil had originally
19 intended this project to start in 2007, but was delayed by a Hydro One resource issue.

20 *Remote Load Interruptors*

21 The OEB staff submits¹² the second key project relating to reliability is the installation of four
22 remote operated load interruptors at an approximate cost of \$291,000. Innisfil stated¹³ that each
23 of these switches would replace two aging and obsolete airbreak switches and two midspan
24 opener locations. The two airbreak switches scheduled for replacement are both approximately
25 40 years old. By performing routine maintenance on these switches, their useful lives have been
26 extended by approximately 15 years each. The switches are of a vintage that spare parts are not
27 available any more.

¹¹ OEB staff submission page 4 paragraph 3

¹² OEB staff submission page 5 paragraph 2

¹³ Application Exhibit 2 Tab 3 Schedule 2 page 23

1 Airbrake switches are designed to break line potential only (no load). The two switches
2 scheduled for replacement are put in potential situations where they should break load or break
3 parallel between different feeders. Innisfil has been denied the operation of these switches
4 during switching schedules from Hydro One for the reason that they are Non Load Break style
5 switches. It is the combination of age and design limitations that warrant the replacement of
6 these two airbreak switches.

7 The two mid span openers that are scheduled for replacement are approximately 30 years old
8 each. They are designed for providing visual isolation to a piece of apparatus. They do not
9 operate under load and they require line crews to set up and remove the jumpers with live line
10 tools. In an effort to improve the switching capabilities to isolate sections of 44kV circuits and
11 improve the reliability of distribution stations, the replacements the two mid span openers with
12 remote operated load interruptors is required. This is not an accelerated capital project, but a
13 replacement of antiquated infrastructure with modern equipment.

14 *M3 Line Extension*

15 The OEB staff submits¹⁴ the third key area of increase in Innisfil's capital budget relates to
16 capacity expenditures for phase two of the Barrie M3 line extension, which Innisfil stated will
17 provide redundancy for both the 44kV Kempenfelt Center station and the Big Bay Point DS
18 44kV station. This is not an accelerated capital expenditure, but the second phase of a two year
19 project. In the first phase, all of the poles were 1960s vintage and were replaced with taller poles
20 to facilitate the 44kV line extension that provides a loop feed for the two 44kV stations and
21 provides the ability for a future 27.6kV circuit required for the new 1,600+ unit Big Bay Point
22 Resort Development starting in 2012. This is an example of good utility practice where end-of-
23 life infrastructure is upgraded to facilitate reliability and growth.

24 *Infrastructure replacement and Betterments*

¹⁴ OEB staff submission page 5 paragraph 3



The OEB staff submits¹⁵ the final key area of increase in the capital budget is infrastructure replacement and betterments. 100 porcelain 27.6kV and 8.32kV distribution class cutout switches are scheduled for replacement. Innisfil has experienced an inordinately high level of failures of these cutouts over the past several years. The porcelain would break and the energized copper tails would create havoc on surrounding hardware, not to mention a significant safety concern for Line Technicians. Photo A depicts a porcelain switch that broke in half on a street-light technician causing a close call when the

energized tail fell down close to the streetlight arm and contacted the exposed neutral wire.

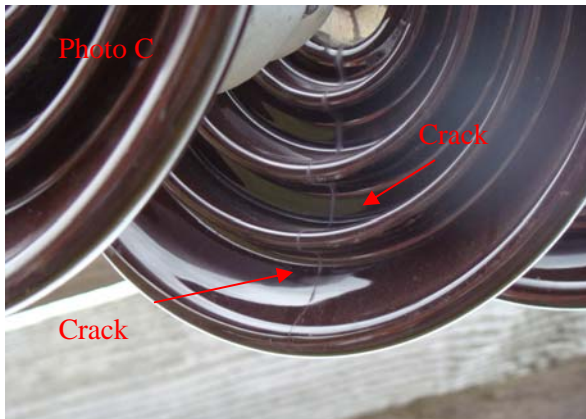
These porcelain cutouts range in age from approximately 20 to 40 years and they have all been visually inspected. Innisfil suspects that there is an inherent design flaw in certain manufacturers of the porcelain cutouts known as ‘cement growth’ and plan to replace them with non-porcelain models.

30 spans of open wire secondary bus are scheduled for replacement in 2009 within a multi-year replacement plan. The open wire

secondary bus is approximately 30 to 40 years old. The insulation has decayed and fallen off exposing the energized copper conductor (See Photo B). In some cases the exposed copper conductor has come in contact with each other in adverse weather conditions creating arcing seen from the street level, resulting in call outs of line personal. Innisfil plans to replace the open wire secondary bus with an insulated aluminum triplex bus.



¹⁵ OEB staff submission page 5 paragraph 4



40 dead-end porcelain insulators are scheduled for replacement in 2009 within a multi-year replacement plan. These porcelain insulators are approximately 30 to 40 years old. At that advanced age, the dead-end porcelain insulators are cracking and tracking to the steel cross-arms resulting in pole fires (See Photo C). Hydro One has issued an industry wide bulletin indicating the danger of

these components. Innisfil has experienced a number of porcelain insulator failures that have contributed to customer interruptions. Innisfil plans to replace porcelain dead-end insulators with oversized non porcelain-strain insulators.

Asset Management

The OEB staff submission¹⁶ invites parties to comment on the extent and timing supporting the proposed capital expenditures. VECC submission¹⁷ cites that the 2009 capital spending is likely overstated due to the revisions Innisfil provided through the interrogatory process. Innisfil strongly disagrees with this statement. As information became available, Innisfil openly communicated the changes within the 2008 and 2009 capital plans as a prudent business manager. This is the adherent risk of doing a forward test year rate application rather than the historical year rate application. Innisfil would like to submit when preparing the 2009 rate application it utilized estimates provided by internal and external resources. At no time did Innisfil indicate it would accept overstatement of those estimates. In the normal course of business a budget is prepared, submitted and approved. Due to the timing between submission and approval of Innisfil's 2009 rate application, Innisfil believes it was and it is the management's responsibility to report the changes to the 2008 and 2009 capital plans accordingly. Innisfil purports the 2009 rate application had at the time the best available information for the entire business plan and as new information became available, that

¹⁶ OEB staff submission page 7

¹⁷ VECC submission #7

1 information was freely communicated. Innisfil strongly objects to being categorized as a Local
2 Distribution Company that supports overstated estimates.

3 VECC¹⁸ submission supports the capital adjustments requested by Energy Probe. Energy Probe
4 submits¹⁹ further reductions are warranted to the 2009 capital expenditures for (i) road widening
5 \$115,300 (ii) metering \$64,000 (iii) general plant \$50,000.

6 Innisfil had communicated this required reduction to the road widening project costs of \$115,300
7 through VECC interrogatory #25, and is in agreement the adjustment should be reflected in the
8 final rate decision.

9 Energy Probe submitted²⁰ Innisfil should reduce the 2009 metering capital of \$144,000 to
10 \$80,000 (\$144,000-\$64,000). Innisfil submits the 2009 metering capital budget represented²¹
11 \$140,000 for 2 wholesale meters and \$4,000 for conventional meters. In response to VECC
12 interrogatory #25 Innisfil had identified a \$70,000 reduction to the 2009 capital metering due to
13 the deferral of one of the two Hydro One feeders. This reduced Innisfil 2009 metering capital
14 budget to \$74,000 (\$144,000-\$70,000) capital metering budget which represents \$70,000 for one
15 wholesale meter and \$4,000 for conventional meters. The conventional meter portion is only
16 \$4,000 due to the pending rollout of the smart meter initiative. Innisfil submits it agrees with
17 Energy Probes request to reduce the 2009 metering capital budget but the budget should be
18 reduced to \$74,000 not \$80,000 as submitted by Energy Probe.

19 Energy Probe submits²² Innisfil should reduce expenditures for general plant to 2008 levels due
20 to the 2009 increase being driven by computer and vehicle expenditures. Innisfil submits the
21 general plant capital is reviewed and determined as outlined in the Asset Management Plan²³.
22 Innisfil is replacing two vehicles in 2009 that are over 10 years old and in excess of 200,000 kms
23 with energy efficient hybrid vehicles as submitted in AMPCO interrogatory #3. Computer
24 Hardware and Software is replaced 3 to 4 years for server hardware, 4 to 5 years for workstations

¹⁸ VECC submission #8

¹⁹ Energy Probe submission page 4 paragraph 3, page 5 paragraph 3 and page 6 paragraph 1

²⁰ Energy Probe submission page 5 paragraph 3

²¹ Exhibit 2 Tab 3 Schedule 1 page 7 and Exhibit 2 Tab 3 Schedule 2 page 16

²² Energy Probe submission page 6 paragraph 1

²³ Application Exhibit 2 Tab 1 Schedule 1 Appendix A Sections 7, 8 and 9

1 and software is reviewed and analyzed ongoing²⁴. Innisfil does not support the unsubstantiated
2 and arbitrary \$50,000 reduction to the general plant capital given the review and analysis already
3 put forward to develop the 2009 capital requirements.

4 Innisfil agrees with OEB staff submission²⁵ where large capital and maintenance programs are
5 required, that undertaking asset condition assessments including diagnostic testing to determine
6 conditions of assets may be the optimal means of identifying, prioritizing, and selecting value-
7 added capital investment and maintenance programs. That is why Innisfil conducts for example,
8 an eight year wood pole testing program, a four year switch and reclosure service and
9 maintenance cycle, a four year substation service and maintenance cycle, annual infra-red
10 scanning and on-going line patrols. All of these asset condition overviews have been
11 documented in the Asset Management Plan which was prepared by Innisfil staff. Innisfil
12 submits that its' staff have intimate and pragmatic knowledge of the distribution assets for the
13 purposes of identifying, prioritizing, and selecting value-added capital investment and
14 maintenance programs. Innisfil also submits that should the OEB deem that an undertaking of an
15 asset condition study from an outside agency is advisable, then the added cost would be
16 permitted within this rate application.

17 Innisfil submits that municipal growth is fueling the need for capital expansion within its rate
18 application. The Town of Innisfil's Official Plan states that the population of Innisfil will
19 increase by 70% (2006-2026) and jobs will increase by 386% (2006-2026). The County of
20 Simcoe's Official Plan states that the population of Innisfil will grow by 100% (2006-2031) and
21 that jobs will grow by 130% (2006-2031). By virtue of the *Oak Ridges Moraine Conservation*
22 *Act, 2001*, growth pressures have leap-frogged past the Holland Marsh into south Simcoe
23 County. The Provincial Government's Inter Government Action Plan (IGAP) Report (2006)
24 indicates that the population of Simcoe County will grow to 667,000 by year 2031.

25 Innisfil acknowledges its obligation as defined in the Distribution System Code:

26 *6.6.1- A distributor shall make every reasonable effort to respond promptly to a customer's*
27 *request for connection. In any event a distributor shall respond to a customer's written request*

²⁴ Application Exhibit 2 Tab 1 Schedule 1 page 6 and page 7

²⁵ OEB staff submission page 6

1 *for a customer connection within 15 calendar days. A distributor shall make an offer to connect*
2 *within 60 day calendar days of receipt of the written request, unless other information is*
3 *required from the load customer before the offer can be made.*

4 Innisfil submits that in order to respond promptly to a customer's request for connection, being
5 mindful for large capital infrastructure lead times, *that* Innisfil's capital plan supports the timing
6 of necessary increases in capital expenditures.

7 **Service Reliability**

8 The OEB staff submission²⁶ invites comments on Innisfil's reliability performance and plans.
9 No Intervenor commented on this topic. Innisfil submits the adequacy of its reliability
10 performance, according to the statistics in the 2007 Yearbook of Electricity Distributors
11 Published by the OEB on August 26, 2008, Innisfil is better than the industry average by 74% for
12 SAIDI and 45% for SAIFA reliability indices. Innisfil's 2008 SAIDI stats indicate that 27% of
13 interruptions were caused by storm related tree contact and 62% were caused by loss of supply.
14 Innisfil submits that storm related tree contact and loss of supply represents 89% of customer
15 interruption minutes and is beyond its control.

16 Innisfil has submitted that it plans to manage these reliability issues by increasing the frequency
17 of tree trimming and building a new 44kV feeder to address system reliability.

18 **Working Capital**

19 *Price of Power*

20 Energy Probe²⁷ and VECC²⁸ submitted that the rate used for the cost of power should be updated
21 to reflect the most recent forecast available and questioned how Innisfil applied the updated rate
22 to all customers. Innisfil has used an updated rate of \$0.0603 per kWh from the OEB's
23 Regulated Price Plan Report (page iii) as this was held forward as the most recent average
24 forecast of the cost of power consistent with the OEB 2008 Rate Decisions. Innisfil's

²⁶ OEB staff submission page 8

²⁷ Energy Probe submission page 3

²⁸ VECC submission #10 and #11

1 understanding is the price is an average and is applied to the total estimated load. Innisfil
2 submits that the methodology used for calculating the cost of power remains appropriate as
3 applied to the current rate application and pending any future direction from the Board on the
4 methodology.

5 *Methodology*

6 Energy Probe²⁹ and VECC³⁰ provided comments for the Board regarding the approach that
7 should be taken by distributors in general to the working capital calculation and the possibility of
8 over statement. Innisfil submits it has utilized the 15% allowance for working capital as
9 provided by the OEB³¹ filing instructions November 14, 2006. Innisfil submits that the
10 methodology used for calculating working capital remains appropriate as applied to the current
11 rate application and pending any future direction from the Board on the methodology.

12 VECC³² and Energy Probe³³ urge the Board to require a lead-lag study with Innisfil's
13 application for rebasing. Innisfil submits lead-lag studies can be expensive and if lead-lag
14 studies become a requirement it would be Innisfil's opinion it should be conducted in a generic
15 sense across the province through a consultation process led by the OEB.

16 *Loss Factor*

17 Innisfil agrees with the statements made by Energy Probe³⁴ about Innisfil corrected loss factor
18 used when calculating working capital. Innisfil notes there were no concerns expressed by any
19 submissions on this topic.

²⁹ Energy Probe submission page 2

³⁰ VECC submission #12

³¹ Filing Requirements EB-2006-0170 dated November 14, 2006 page 15

³² VECC submission #12

³³ Energy Probe submission page 2

³⁴ Energy Probe submission page 3

1 OPERATING REVENUE

2 Throughput Revenue

3 Load Forecast

4 With regard to the submissions made by parties to the load forecast, OEB staff did not make any
5 submissions, SEC only suggested the loss factor should be updated; Energy Probe and
6 VECC raised a number of issues. As a result, Innisfil will be responding to comments made by
7 Energy Probe and VECC which will also address the issue raised by SEC.

8 VECC³⁵ and Energy Probe³⁶ have expressed concern with the load forecasting methodology. In
9 preparing for the 2009 rate application, Innisfil had reviewed the OEB's decision of the 2008 rate
10 applications. Within the area of load forecasting, the method used by many distributors was
11 accepted by the Board. However there were concerns from OEB staff and Intervenors that the
12 method used was too simplistic. In particular there were concerns that the methodology utilized
13 only a single year of weather-normalized historical load (i.e. 2004) to determine the future load.

14 Innisfil noted in the case of Toronto Hydro, the load forecasting methodology used appeared to
15 have a higher level of acceptance with parties. The Board's Decision on the Toronto Hydro case
16 it stated:

17 *"The Board accepts the forecast advanced by the Applicant, as amended throughout the*
18 *process. This provides for a very small increase in load in 2008 of 0.03% and a small*
19 *decrease in 2009 of 0.06% over 2006.*

20 *Going forward, the Board encourages the Applicant to work with OPA, IESO, and perhaps*
21 *others to understand differences in methodology employed by each. Of special interest is the*
22 *development of methodology to account for the specific effects of CDM activities in forecasts.*
23 *The success of LRAM and SSM applications is dependent on fully developed evidence*
24 *respecting the effects of CDM activities on throughput. The Applicant can make a very*
25 *important contribution to the sector by working with stakeholders to bring needed clarity to*
26 *this aspect of forecasting and utility operations."*
27

³⁵ VECC submission #13 to #23

³⁶ Energy Probe submission pages 16 to 21

1 In summary, the Board approved the Toronto Hydro load forecast as proposed but also
2 encouraged Toronto Hydro to work with the OPA, IESO and others to understand the differences
3 in methodology employed by each. Innisfil prepared a load forecast for the 2009 rate application
4 using a similar method based on the outcome of the Toronto Hydro case.

5 Innisfil understands that to a certain degree the process of developing a load forecast for cost of
6 service rate application is an evolving science for electric distributors in the province. Innisfil
7 expects to improve the load forecasting methodology in future cost of service rate applications
8 by taking into consideration comments made by parties to this application as well as other cost of
9 service rate applications for 2009 and onward. However, for the purposes of this application
10 Innisfil submits the load forecasting methodology is reasonable.

11 With regards to the overall process of load forecasting, it is Innisfil's view that the "Toronto
12 Hydro" approach or the top down approach is appropriate. Innisfil knows by month the exact
13 amount of kWhs purchased from the IESO for use by customers of Innisfil. With a regression
14 analysis these purchases can be related to other monthly explanatory variables such as heating
15 degree days and cooling degree days which occur in the same month. To use a bottom up
16 approach in which the monthly billed kWh of a class is related to other monthly variables is
17 problematic for two reasons. Firstly and primarily, the monthly billed amount lags the amount
18 consumed in the month by approximately 3 weeks. The amount billed is a 30 to 31 day meter
19 reading billing cycle schedule whose reading dates occur every business day and not typically at
20 month end. The amount billed could include consumption from the calendar month before or
21 even further back. By using a regression analysis to relate rate class billing data to a variable
22 such as heating degree days, this does not appear to correlate since the resulting regression model
23 would attempt to relate heating degree days in a calendar month to the amount billed in a billing
24 cycle with consumed energy outside of the billed calendar month. In Innisfil's view, variables
25 such as heating degree days impact the amount consumed not the amount billed. Secondly, even
26 if the meter reading dates had been such that the billed amounts matched the consumed monthly
27 amounts, monthly billing data is not available for the early part of the regression period.

1 The process of preparing a proper weather normalized load forecast is a critical component of a
2 cost of service rate application, Innisfil would suggest that from a pure pragmatic perspective it
3 would be advisable for the Board to provide additional details in the filing requirement on how a
4 weather normalized load forecast should be determined. This would serve to reduce the time
5 spent between OEB staff, Intervenor and Distributors in disputing the "theory" of preparing a
6 proper method to determine a weather normalized forecast.

7 The following are the areas Innisfil agrees with other parties

- 8 • Energy Probe submitted³⁷ that the loss factor used to adjust the purchased energy to
9 billed energy should be consistent with the actual loss factor provided in the
10 Application³⁸. This reflects the average loss factor from 2005 to 2007 of 4.77% which
11 better reflects the downward trend in the loss factor. VECC³⁹ agreed the loss factor of
12 5.8% for the 2002 to 2007, which was used in the application, was acceptable. As stated
13 in Energy Probe interrogatory #26a), Innisfil agrees with Energy Probe and proposed the
14 loss factor of 4.77% should be used in the load forecast.
- 15 • In future load forecasting econometric equations, the number of customers should most
16 likely be included as a possible explanatory variable, if the data is available. This would
17 in turn adjust the forecast when customer numbers change. Innisfil would have included
18 numbers of customers in its regression analysis for this application but found that the
19 monthly numbers of customers in each class were not available in the records for a
20 portion of the early part of the period of analysis. In addition, Innisfil noted that the
21 number of customers was not selected as a variable in the model used by Toronto
22 Hydro⁴⁰ which assisted Innisfil in deciding not to include customer numbers in the
23 prediction model.

³⁷ Energy Probe submission page 15 paragraph 5

³⁸ Application Exhibit 4 Tab 2 Schedule 9 Table 1

³⁹ VECC submission #20

⁴⁰ EB-2007-0680, Exhibit K1, Tab 1, Schedule 1, page 4 and Appendix B, Model 9.

1 Energy Probe⁴¹ has suggested that Innisfil should have used the 2003-2007 average usage by
2 class for the Forecast Annual kWh Non-Normalized Usage per Customer/Connection in Table 9,
3 Exhibit 3 Tab 2 Schedule 2 page 7 of the Application. Innisfil would like to reiterate its
4 argument in Exhibit 3 Tab 2 Schedule 2 that a review of the 5-year data and the resulting
5 geometric means did not suggest a consistent pattern that should be projected to 2008 and 2009.
6 Therefore, for the purposes of determining a non-normalized forecast, the 2007 usage per
7 customer/connection was held constant.

8 *Adjustments to the Forecast*

9 In order to assist the Board, Innisfil will summarize the discussion on the proposed adjustments
10 to the forecast suggested by the parties and submit its own position. VECC in their submission
11 suggest that using a 5.88% loss factor would be appropriate. VECC also suggested⁴² that a more
12 recent forecast of Ontario Real GDP should be used in the forecast. In response to VECC
13 IR#14c, Innisfil provided a load forecast that was updated to assume a real Ontario GDP of 0.1%
14 for 2008 and 0.7% for 2009 based on the Ontario Ministry of Finance 2008 Ontario Economic
15 Outlook and Fiscal Review dated October 22, 2008. The resulting forecast for 2009 was
16 226,176,669 billed kWh and this forecast reflected a loss factor of 5.88%. In Innisfil's view this
17 is the forecast that VECC is supporting in their submission. Innisfil also notes that VECC has
18 recognized⁴³ that Innisfil's forecast represents the best information available at this time, and
19 despite its concerns, submits that the OEB should accept the result of the methodology.

20 In Energy Probe's submission⁴⁴ they are suggesting a loss factor of 4.77% should be used in the
21 forecast and the forecast should reflect movement in customer numbers after the Application was
22 submitted. In Innisfil's view, the resulting forecast for 2009 would be the forecast provided in
23 Energy Probe interrogatory 1b of 229,484,568 billed kWh, which reflects a loss factor of 4.77%,
24 plus 4,166,682kWh (i.e. 2,530,901 plus 1,635,781 kWh) to reflect changes in customer

⁴¹ Energy Probe submission page 17

⁴² VECC submission #23

⁴³ VECC submission #28

⁴⁴ Energy Probe submission page 21 paragraph 1

numbers⁴⁵ for a total of 233,651,250 billed kWh. Please note Energy Probe's submission⁴⁶ shows the impact to the annual kWh load due to the change in customer count of 2,530,901 kWh compared to the summary section⁴⁷ which is showing the annual kWh load increase of 2,503,901 kWh for the changed customer count. Energy Probe has transposed the annual kWh load increase in the summary section of the submission and Innisfil submits the 2,530,901 kWh is the kWh Energy Probe is proposing.

It is Innisfil's view that the appropriate and reasonable load forecast to be used for 2009 should be the forecast outlined in Energy Probe 1b of 229,484,568 billed kWh. The following table analyses the various forecasts:

Description	(kWh)	2 year Growth Rate	Annual Average Growth Rate
Innisfil 2007 Actual Billed	224,169,495		
VECC 2009 Forecast Billed	226,176,669	0.9%	0.4%
Energy Probe 2009 Forecast Billed	233,651,250	4.2%	2.1%
Innisfil 2009 Forecast Billed	229,484,568	2.4%	1.2%

Considering a real Ontario GDP of 0.1 % for 2008 and 0.7% for 2009, it would appear the VECC forecast would be the most appropriate but Innisfil believes Energy Probe raises some valid points in their submission. However, to move completely to the Energy Probe forecast would not be prudent in the current economic conditions. In addition, Energy Probe⁴⁸ states the model does not include any type of conservation modeling but Energy Probe has not addressed this in the adjustments it has suggested to be made to the forecast. In other words, Energy Probe

⁴⁵ Energy Probe submission page 24 paragraph 3

⁴⁶ Energy Probe submission page 22 paragraph 4

⁴⁷ Energy Probe submission page 24 paragraph 3

⁴⁸ Energy Probe submission page 19 paragraph 2

1 has only included upward adjustments and no downward adjustments for items such as
2 conservation and changes in the economic conditions. As a result, Innisfil submits that most
3 appropriate forecast that considers the views of all parties is 229,484,568 billed kWh for 2009.

4 *Customer Forecast*

5 Energy Probe⁴⁹ and VECC⁵⁰ submits that Innisfil customer forecast for residential, GS < 50 and
6 GS > 50 should not be accepted.

7 Given the emergence since the load forecast was done of the severe economic downturn that is
8 expected to last through 2009 and beyond, Innisfil would strongly object to an increase in
9 customer numbers. Higher customer numbers would reduce the monthly service charge and
10 could reduce the volumetric charge if the Energy Probes' submission was accepted. This would
11 greatly increase the risk of Innisfil being able to collect the approved distribution revenue
12 requirement in an economic recession. In addition, using the Energy Probe methodology an
13 increase in customer numbers would support the load forecast of 233,651,250 outlined above and
14 would not be sensible at this time.

15 In addition, Innisfil submits that during recessionary times, it would be unreasonable to
16 overestimate the growth of GS<50 customers. It is this customer class that could be expected to
17 actually decline and for their respective write-offs to increase.

18 With regards to GS>50 customers, a slow-down in GDP would reduce production demand and
19 GS>50 customers could drop below the 50kW threshold and or close their business entirely.
20 Innisfil submits that during a recession, it would be more appropriate to use conservative
21 estimates. Innisfil submits that the 2009 customer forecast that supports the billed kWh forecast
22 of 229,484,568 kWh outlined in Energy Probe interrogatory 1b is the most appropriate and
23 considers the views of all parties as well as the current economic conditions.

24 **Other Distribution Revenue**

⁴⁹ Energy Probe submission page 21 to 24

⁵⁰ VECC submission #24 to #27

Specific Service Charges

The OEB staff has noted⁵¹ Innisfil has omitted within the list of specific approvals it is requesting the proposed change in the account set up charge from the current \$15 to \$30. Innisfil concurs with the OEB staff that this request was omitted within Exhibit 1 Tab 1 Schedule 6. Innisfil did include this request throughout the application in following schedules:

- a) Exhibit 1 Tab 1 Schedule 3
- b) Exhibit 1 Tab 1 Schedule 3 Appendix A
- c) Exhibit 3 Tab 2 Schedule 1
- d) Exhibit 3 Tab 3 Schedule 2
- e) Exhibit 9 Tab 1 Schedule 7

Carrying Charge Interest

Energy Probe submits⁵² due to Innisfil's delays and deferrals in capital expenditures partially mitigate the decline in interest income. Innisfil agrees with Energy Probe's observation that \$18,000 should be added to the Interest revenue as revenue offset. This item will be included in the Summary of changes at the end of this submission.

Energy Probe⁵³ and VECC⁵⁴ both submit that carrying charge interest on deferral and variance accounts (DVA) should not be included in the determination of the miscellaneous revenue offsets.

Innisfil agrees with the submission that the carrying charge interest for DVA should not be included in account 4405 as revenue offset. Over time (i.e. when the DVA balances has been disposed of), the total cash collected from customers results in zero interest being collected or paid to customers. Innisfil submits it has included \$28,000 of regulatory asset carrying charges in the 4405 account as a revenue offset and should be removed to avoid double counting. The \$28,000 has been added in the Summary of Changes at the end of this submission.

⁵¹ OEB staff submission page 15

⁵² Energy Probe submission page 25 paragraph 2

⁵³ Energy Probe submission page 25

⁵⁴ VECC submission #30

OPERATING COSTS

General

Innisfil is in agreement with the tables 4 and 5 provided by the OEB staff submission⁵⁵.

Energy Probe⁵⁶, VECC⁵⁷, and SEC⁵⁸ submit Innisfil's OM&A costs should be reduced. Innisfil submits the generalized statements by the parties have not been substantiated and in fact, would be damaging to Innisfil and detrimental to its customers. There is no comparison of Innisfil's OM&A costs per customer to Innisfil's comparator group as provided within the application⁵⁹. Innisfil has the lowest average of the peer group and is the 2nd lowest of the peer group in 2007. SEC is citing⁶⁰ Innisfil's OM&A/per customer in 2009 will be \$273. Comparing the 2009 per customer value of \$273 for Innisfil to its comparator group for 2007 data shows Innisfil will be at the 2007 average for the group and be the 3rd lowest OM&A/per customer rate. Innisfil has incorporated lean operations as can be demonstrated with OM&A comparisons in the PEG report. When Innisfil purchased the assets from Ontario Hydro in 1993, Innisfil had reduced rates to customers 5 times in 6 years. When addressing resource requirements for regulatory hurdles and growth related issues, the hiring of a single new employee has a significantly large proportional impact than that of larger LDCs. Any reduction in OM&A will result in service reductions to Innisfil customers for example by reducing operating and maintenance programs.

Inflation

SEC⁶¹, VECC⁶² and Energy Probe⁶³ submissions make reference to the inflationary factor utilized by Innisfil.

⁵⁵ OEB staff submission page 10 and 11

⁵⁶ Energy Probe submission page 11 paragraph 2

⁵⁷ VECC submission #41

⁵⁸ SEC submission page 6

⁵⁹ Application Exhibit 1 Tab 1 Schedule 2 Appendix A

⁶⁰ SEC submission #6

⁶¹ SEC submission page 6

⁶² VECC submission #33 and #38

⁶³ Energy Probe submission page 8

1 Innisfil submits that the suggested 2009 CPI forecast of 1% is not appropriate. CPI measures
2 among other things, food, recreation, alcohol and tobacco products. While the CPI may be valid
3 for consumers, it is not valid for industrial applications. An industrial price index would be more
4 appropriate but it would be industry specific. In Innisfil's situation, over 60% of OM&A costs
5 are directly attributed to internal labour and external line costs. These are subject to multi-year
6 contracts and collective agreements already in place. Innisfil has submitted a fair and reasonable
7 rate application based upon real and valid assumptions, not the application of inappropriate
8 indexes.

9 **2009 Rebasing Costs**

10 SEC⁶⁴ and Energy Probe⁶⁵ are proposing that the overall rebasing costs should be reduced due to
11 the fact that there is no oral component in this case. Innisfil has estimated \$43,000 for reply
12 submission consulting costs. Innisfil has also estimated \$30,000 in intervenors cost. There is no
13 minimum/maximum cost per Intervenor and there are 4 Intervenor groups and the OEB staff for
14 Innisfil's cost of service application. Innisfil does not accept a reduction to the rebasing costs is
15 warranted at this time. Innisfil is prepared to accept full recovery of the final tabulated actual
16 costs of this rate application.

17 **IFRS costs**

18 Innisfil has submitted it is planning to conduct a study and transition to IFRS based on an
19 estimate total cost of \$100,000 (\$25,000 for 2009). SEC⁶⁶, VECC⁶⁷ and Energy Probe⁶⁸
20 submitted the estimated cost is premature. Innisfil is concerned with the potential IFRS cut over
21 date January 1, 2011 and due to prior period comparisons result in financial reporting in IFRS
22 format January 1, 2010. Innisfil is estimating the project will meet the above deadlines which
23 cause the project to be aggressively pursued in 2009 and the occurrence of associated costs.

⁶⁴ SEC submission page 5

⁶⁵ Energy Probe submission page 6

⁶⁶ SEC submission page 5

⁶⁷ VECC submission #42

⁶⁸ Energy Probe submission page 7

Innisfil does not agree the cost should be removed but is not adverse to utilize a deferral or variance account to track the actual costs.

Payroll

Post Retirement Benefits

Energy Probe⁶⁹ has submitted the onetime setup charge associated with post-retirement benefits should be recovered over a 4 year period rather than a 3 year period. Innisfil is in agreement with this proposal. Innisfil will include this item in the Summary of changes at the end of the reply submission.

Wages and Benefits

The OEB staff submission⁷⁰ invites comments from parties whether or not Innisfil have provided adequate justification for the cost increase.

SEC⁷¹ and VECC⁷² have made comments regarding management salaries. Management salaries have been adjusted in 2008 to bring them from first quartile in the EDA salary survey closer to the median. Innisfil submits that it did not adjust salaries based only on EDA averages. Innisfil used mean and median comparators as well as Innisfil municipal salaries as a comparator. The uses of neighbouring LDC comparators were not used (Hydro One and Barrie) because the salary data was unavailable. Innisfil submits that Innisfil municipal salaries are based on comparator municipalities. They are approved by Council so that there is no incentive for the municipality to increase their non-regulated compensation paid by virtue of a link from utility salaries, contrary to VECC's submission. Hydro salaries are pegged to Town salaries, not the other way around.

⁶⁹ Energy Probe submission page 7

⁷⁰ OEB staff submission page 12

⁷¹ SEC submission page 4

⁷² VECC submission #35 to #37

1 Innisfil submits that its compensation to utility management does not reflect "lost opportunities"
2 for management in unregulated activities. VECC's⁷³ statement of "lost opportunities" is pure
3 conjecture.

4 In response to VECC's submission⁷⁴ regarding overtime, Innisfil does not have any internal line
5 crews. All line work is contracted out. In other LDCs, control room functions for after hours
6 crew dispatch, SCADA operations and coordinating switching with Hydro One is performed by
7 unionized staff. Due to the transient nature of the contract line crews, control room functions are
8 performed by Innisfil management. While unionized employees receive shift premium, standby
9 pay, minimum call out pay and time and one half or double time pay, Innisfil submits that their
10 management staff receive none of this. Innisfil also does not receive bonus pay as is customary
11 throughout the industry

12 Energy Probes submits⁷⁵ the costs recovered from the affiliate should not be recovered from the
13 regulated company. Innisfil's water heater rental company is selling their water heaters because
14 Innisfil is deemed non-compliant according to the latest amendments made to the Affiliate
15 Relationships Code. The water heater affiliate has no employees but has two officers which it
16 shares with Innisfil, the President and the CFO/Treasurer. Billing, collecting and AP services
17 were billed on a per transaction basis. The total revenue billed to the affiliate was recorded as
18 revenue offset. Innisfil submits that management time spent on the affiliate was marginal. It
19 was a sharing of fixed costs. There is no offsetting reduction in personnel costs.

20 **Contracted Line Crew Costs**

21 The OEB staff⁷⁶ invited comments from parties as to whether alternate options were explored.

22 SEC submission⁷⁷ makes reference to troubling circumstances surrounding the increase in the
23 line contractor costs. Innisfil submits it does not appreciate and disputes the disrespectful
24 statement surrounding the increase in line contractor costs by SEC. Innisfil had issued a public

⁷³ VECC submission #37

⁷⁴ VECC submission #39

⁷⁵ Energy Probe submission page 10

⁷⁶ OEB staff submission page 13

⁷⁷ SEC submission page 5

1 line contract tender in the spring of 2008. All known line contractors in the Barrie area and the
2 GTA were contacted directly. An advertisement was placed in the EDA's website. Several
3 responses were received and Innisfil had chosen the lowest cost bid. Innisfil invites SEC to view
4 its file and then retract their disrespectful statement.

5 Innisfil submits that by virtue of going through the exercise of a public tender, it pays market
6 rates for contracted line crew costs. The previous long term relationship with McG Poleline Ltd.
7 indicates that Innisfil was paying less than market rates for contracted line crew costs up to July
8 1, 2008. Innisfil did not have the lead time option to internalize line crews but if it did, would
9 still need line contractors to assist with capital projects, substation maintenance, stand-by and
10 storm related emergency work. Utilizing contract line crews delivers a truly variable cost
11 component to system planning. Other LDCs with line crews have fixed costs where Innisfil can
12 bring in from one to multiple crews as needed from the contractor pool and only pay for the
13 personnel and equipment as needed.

14 The OEB staff is submitting⁷⁸ Innisfil was not consistent in filing its documentation regarding
15 line crew costs. Innisfil is submitting the line crew costs in the application are citing \$72,000 in
16 increase expenses as provided in its application⁷⁹. The 2009 increased to crew costs are
17 identified within the schedule as Item A which is explaining APH operations accounts 5020,
18 5025 and 5085 contains \$10,000 of the increased line crew costs and Item C which is explaining
19 APH maintenance accounts 5114, 5120, 5125, 5130, 5150, 5155 and 5160 contains \$62,000 of
20 the increased line crew costs. These amounts total \$72,000 for increased line crew costs in 2009
21 which has been consistently filed.

22 SEC is submitting⁸⁰ Innisfil may have double counted the impact for the contracted line crew
23 costs. SEC is also citing the total costs for 2008 and 2009 combined are \$144,000 or \$146,000.
24 Innisfil is submitting the increased costs for the contracted line crew is \$74,000 in 2008 and
25 \$72,000 in 2009 equaling a cumulative \$146,000 total increased cost for the contracted line crew
26 for 2008 and 2009 combined.

⁷⁸ OEB staff submission page 13

⁷⁹ Application Exhibit 4, Tab 2, Schedule 3 page 7 of 9

⁸⁰ SEC submission page 4

1 **Loss Adjustment Factor**

2 Energy Probe was the only party to make a submission with regard to the loss adjustment factor.
3 Energy Probe submitted⁸¹ the methodology proposed by Innisfil is appropriate and recommends
4 their adoption. The use of the three year average for the distribution loss factor and the 2007
5 figure for the supply facility loss factor both recognize the decline in these loss factors and
6 reflect a better estimate than using a longer term historical average.

7 **Depreciation & Amortization**

8 *Computer Software*

9 Energy Probe⁸² has noted that:

- 10 • Innisfil uses a 3 year amortization period for computer software (account 1925)
- 11 • The 2006 EDR Handbook does not include a specific rate for this account
- 12 • Other cost of service applications that Energy Probe has reviewed use 5 years and that a
13 consistent approach should be used across distributors.

14 Innisfil submits that due to the rapidity with which software becomes out of date, 3 years is a
15 reasonable amortization period. Also, the CCA rate for Class 12, a software class, is 100%
16 whereby the taxing authorities recognize the limited useful life of software. Class 50, a software
17 class, was moved to a 55% from 45% in the 2008 federal budget and moved to 100% in the 2009
18 federal budget as the taxing authorities continue to recognize the limited useful life. Finally,
19 Innisfil records show that it has used the 3 years life rule consistently and all depreciation rates
20 used have been fully audited. Innisfil submits that an adjustment to reflect a 5 year amortization
21 period is not appropriate.

22 Energy Probe⁸³ also submits that changes to the capital expenditures for 2008 and 2009 should
23 be reflected in changes to the depreciation expense calculated in 2009 test year. Innisfil submits

⁸¹ Energy Probe submission page 15

⁸² Energy Probe submission page 11

⁸³ Energy Probe submission page 12

1 it agrees with Energy Probe and has communicated the applicable changes within Energy Probe
2 interrogatory #26a) Summary of Proposed Changes Table.

3 **Tax Calculations**

4 *Income Tax Rates*

5 Energy Probe⁸⁴ submits that Innisfil should calculate its income and capital taxes using the most
6 recent information available, including 2009 tax rates. Innisfil submits that whenever an
7 adjustment to taxes has been necessary during this rates process, that adjustment has been done.
8 Also, to the best of its knowledge, Innisfil has used the most recent information on 2009 tax
9 rates.

10 Energy Probe⁸⁵ also submits that if the regulatory taxable income is changed as a result of the
11 Board's decision, the income tax calculation should also be updated. Innisfil submits that
12 whenever such an updated tax calculation has been necessary during this rates process, updates
13 have been communicated accordingly.

14 *Capital Tax*

15 Energy Probe⁸⁶ agrees with Innisfil's methodology to calculate capital tax, on the understanding
16 that if the rate base is changed, the calculation would be updated. Innisfil submits that whenever
17 an adjustment to capital taxes has been necessary during this rates process, updates have been
18 communicated accordingly.

19 *Capital Cost Allowance*

20 Energy Probe submits⁸⁷ Innisfil should adjust the CCA associated with the changes in the 2008
21 and 2009 capital expenditures. Innisfil submits it agrees with Energy Probe and has
22 communicated the applicable changes within Energy Probe interrogatory #26a) Summary of
23 Proposed Changes Table.

⁸⁴ Energy Probe submission page 13

⁸⁵ Energy Probe submission page 15

⁸⁶ Energy Probe submission page 12

⁸⁷ Energy Probe submission page 13 paragraph 5

Energy Probe submits⁸⁸ costs were recorded to Class 1 rather than Class 47 in 2005. Innisfil agrees with this submission and the impact to the 2009 CCA for Class 1 and Class 47. Innisfil submits⁸⁹ the adjustment of \$294k should be moved to Class 47 since the adjustment is contributions received on the costs.

Energy Probe has also requested⁹⁰ Innisfil clarify cost and adjustment recorded to CCA class 1 in 2006. Innisfil submits it has subsequently determined the costs of \$1.9m and adjustment of \$0.9m should be recorded to class 47 with a higher CCA rate of 8%. Innisfil further submits the CCA schedule 8 for 2007 should have the \$642,594 adjustment recorded to Class 47 since the adjustment is for contributions received for the cost recorded to Class 47. The following table shows the 2005, 2006 and 2007 CCA adjustments and the estimated impact to 2009:

**Proposed Reclassification Entry from Class 1 to Class 47
December 31, 2008**

Year	Class 1 additions to Reallocate to Class 47 A	Net adj to Reallocate B	Net additions to Reallocate A - B = C	2005 CCA adj - Class 1 C * .5 * 4% = D	2005 CCA adj - Class 1 (C-D) * 4% = E	2005 CCA adj - Class 1 (C-D-E) * 4% = F	2008 portion to Reallocate- T2S(8) C-D-E-F=G	2008 Estimated CCA G * 8% = H	2009 Estimated CCA (G-H) * 8%
2005	1,035,962.00	- 294,138.00	741,824.00	14,836.48	29,079.50	27,916.32	669,991.70	53,599.34	49,311.39
2006	1,852,771.00	- 1,039,780.00	812,992.00	-	16,259.84	31,869.29	764,862.87	61,189.03	56,293.91
2007	-	- 642,594.00	- 642,594.00	-	-	12,851.88	- 629,742.12	- 50,379.37	- 46,349.02
							<u>805,112.45</u>	<u>64,409.00</u>	<u>59,256.28</u>

Notes:

1) The following amounts remained in class 1 since the were additions that related to the building and fixtures and not distribution equipment:

2005	7,923.00
2006	50,036.00
2007	43,036.00

2) Class 1 CCA rate is 4%. Class 47 CCA rate is 8%.

⁸⁸ Energy Probe submission page 14 paragraph 1

⁸⁹ Energy Probe interrogatory 13c) Appendix D

⁹⁰ Energy Probe submission page 14 paragraph 2

The estimated adjustment to the revenue deficiency is included in the Summary of Changes schedule at the end of this document.

Income Tax – Board’s established methodology

The OEB staff submission⁹¹ states Innisfil’s method diverges from the Board’s established methodology. The submission states that parties may wish to comment on Innisfil’s methodology.

Innisfil would respectfully like to submit that:

- i. Innisfil’s methodology has been verified by an Independent Auditor
- ii. Innisfil’s method would appear to be correct using a top-down approach to calculate PILs assuming taxable income before tax, net adjustments and PILs as provided in its application⁹².

Top Down Approach to calculate PILs

	2009	
Return on Equity	894,530	(A)
Net tax adj for 2009 PILs	274,753	(B)
Gross Up PILs	<u>575,915</u>	(C)
Taxable Income before tax for Ministry of Finance purposes	<u>1,745,198</u>	(D) = (A) + (B) + (C)

	Tax rates	
First \$500k before tax	24.50%	122,500 (E) = \$500k * 24.5%
\$500 to \$1,500k before tax	37.25%	372,500 (F) = \$1000k * 37.25%
over \$1,500k before tax	33.00%	80,915 (G) = (D - \$1500k) * 33.0%
Gross Up PILs		<u><u>575,915</u></u> (H) = (E) + (F) + (G)

Effective tax rate	33.0%	(I) = (H) / (D)
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⁹¹ OEB staff submission page 14

⁹² Application Exhibit 7 Tab 1 Schedule 1

creating more than one tax bracket or rate is factored into this methodology. The Board's methodology could be termed as the "Regulatory Gross-up" method. This is a bottom-up approach to calculate PILs assuming taxable income after tax or ROE plus or minus tax adjustment to ROE such as the difference between depreciation and CCA. To the best of Innisfil's understanding, the purpose of the grossed-up PILs is to determine the PILs that would be calculated when the total revenue requirement is known. This means that the PILs calculated from a gross-up method must equal PILs from a top down method once the PILs are known and included in the total revenue requirement. The bottom-up calculation is shown below:

Regulatory Gross Up Method - Bottom Up Approach

	2009	
Return on Equity	894,530	(A) from above
Net tax adj for 2009 PILs	274,753	(B) from above
Taxable Income before tax for regulatory purposes ¹	<u>1,169,283</u>	(L) = (A) + (B)
Tax rates		
First \$377,500 ² after tax	24.50%	92,488 (M) = \$377,500 * 24.5%
\$377,500 to \$1,005,000 ³ after tax	37.25%	233,744 (N) = (\$1,005,000 - \$377,500) * 37.25%
over \$1,005,000 after tax	33.00%	54,213 (O) = (L - \$1,005,000) * 33.0%
Total PILs before Gross-Up		<u>380,445</u> (P) = (M) + (N) + (O)
Gross Up PILs		<u>575,915</u> (Q) = (L) / (1 - (P) / (L))

Proof

First \$377,500 gross-up	24.50%	122,500	$\$377,500 * 24.5\% / (1 - .245)$
\$377,500 to \$1,005,000 gross-up	37.25%	372,500	$\$1,005,000 - \$377,500 * 37.25\% / (1 - .3725)$
over \$1,005,000 gross-up	33.00%	80,916	$(\$1,169,283 - \$1,005,000) * 33.0\% / (1 - .33)$
Total PILs Gross-Up		<u>575,915</u>	

¹Taxable Income before tax for regulatory purposes = Taxable Income before tax for Ministry of Finance purposes less Gross Up PILs

²\$377,500 is the after tax amount of \$500,000 when a tax rate of 24.5% is applied

³\$1,005,000 is the after tax amount of \$1,500,000 when a tax rate of 37.25% is applied

1 The OEB staff has estimated⁹³ that Innisfil is requesting approximately \$31,000 more in PILs
2 than using the Board's methodology. Innisfil is assuming the OEB staff estimate was based on a
3 gross-up calculation as follows:
4

⁹³ OEB Staff submission page 14

1	Taxable Income before PILs for Regulatory Purposes	= \$1,169,283
2	Tax rate	= (((\$500,000 x 24.5%) + (\$669,283 x 37.25%)) / \$1,169,283
3		= 31.798%
4	Tax before gross-up	= 31.798% x \$1,169,283 = \$371,808
5	Tax after gross-up	= \$371,808 / (100% - 31.798%)
6		= \$545,156
7	Innisfil PILs calculation is \$575,915 - \$545,156 = \$30,759, which is approximately the \$31,000	
8	noted above.	

9 Using the OEB staff inferred tax after gross-up figure of \$545,156, then applying a top-down
10 approach:

11	Taxable income including PILs for Ministry of Finance Purposes	
12		= \$894,530 + 274,753 + 545,156 = \$1,714,439
13	Tax on this income	= \$500,000 x 24.5% + \$1,000,000 x 37.25% + \$214,439 x 33%
14		= \$565,765

15 When comparing the value of PILs using the top-down approach (\$565,765) to the gross-up
16 method (\$545,156) there is a flaw in the assumption in the gross-up method since the values
17 differ. It is Innisfil's view the flaw is in the assumed tax rate used for gross-up purposes. The
18 tax rate to be used should be 33.0%. As shown below when this rate is used both approaches
19 produce the same result.

20	Taxable Income before PILs for Regulatory Purposes	= \$1,169,283
21	Tax rate	= 33.0%
22	Tax before gross-up	= 33.0% x \$1,169,283 = \$385,863
23	Tax after gross-up	= (\$385,863) / (100% - 33.0%) = \$575,915

24	Taxable income including PILs for Ministry of Finance Purposes	
25		= \$894,530 + \$274,753 + \$575,915 = \$1,745,198
26	Tax on this income	= \$500,000 x 24.5% + \$1,000,000 x 37.25% + \$245,198 x 33%
27		= \$575,915

28

DEFERRAL AND VARIANCE ACCOUNTS

VECC⁹⁴ and Energy Probe⁹⁵ note that the latest OEB prescribed interest rate should be used. The rate for the 1st quarter of 2009 has been prescribed at 2.45% after the application was submitted. Energy Probe submits that this rate should be used for January 1, 2009 to April 30, 2009. Energy Probe⁹⁶ also submits that the recovery period should be increased from 2 to 4 years to match the 3rd Generation IRM and to mitigate customer impacts. Innisfil agrees with Energy Probe that revised rate riders should be calculated using the 2.45% and 4-year recovery as proposed.

⁹⁴ VECC submission #49

⁹⁵ Energy Probe submission page 26

⁹⁶ Energy Probe submission page 27

COST OF CAPITAL AND RATE OF RETURN

Capital Structure

Innisfil observes that the OEB staff⁹⁷, VECC⁹⁸, and Energy Probe⁹⁹ submissions note that the proposed 2009 structure of 56.67% debt and 43.33% is consistent with the Board report requiring distributors to comply with the report and move to a 60% debt and 40% equity ratio.

Short Term Debt

Innisfil observes that the OEB staff¹⁰⁰, VECC¹⁰¹, and Energy Probe¹⁰² submissions note that the proposal regarding short term debt rate is consistent with the Board report on this matter, on the understanding that the Board will update the rate in early 2009 for rates effective May 1, 2009.

Long Term Debt

Innisfil observes that the OEB staff¹⁰³ Energy Probe¹⁰⁴, VECC¹⁰⁵ and SEC¹⁰⁶ submissions note that the debenture rate of 9.75% does not need to be altered because the debt is not callable and was issued before 2000. Innisfil further submits that the debenture should not be considered affiliate related debt but should be viewed as third party debt since the Town of Innisfil is essentially a pass through point for the payment of the debenture.

Energy Probe¹⁰⁷ submits it agrees with the use of the most recent Infrastructure Ontario debt rate available at the time the OEB sets the deemed long term rate. Innisfil submits it agrees with Energy Probe's observation regarding the 5, 10, 15 and 20 year loan rates and will enter into a shorter term loan and the associated rate.

⁹⁷ OEB staff submission page 8

⁹⁸ VEC submission #43

⁹⁹ Energy Probe submission page 27

¹⁰⁰ OEB staff submission page 8

¹⁰¹ VEC submission #44

¹⁰² Energy Probe submission page 28

¹⁰³ OEB staff submission page 9

¹⁰⁴ Energy Probe submission page 28

¹⁰⁵ VECC submission #46

¹⁰⁶ SEC submission page 2

¹⁰⁷ Energy Probe submission page 29 paragraph 3

COST ALLOCATION

With regard to the submissions made by parties to the cost allocation, OEB staff did not make any submissions. SEC, Energy Probe and VECC raised a number of issues. As a result, Innisfil will be responding to comments made by SEC, Energy Probe and VECC.

Innisfil used a balanced approach to the cost allocation component of its rate application which attempted to treat all customer classes fairly while moving, where possible, customer class revenue-to-cost ratios in a direction toward unity and within the approved bands approved by the Board¹⁰⁸. An exception to this is for the Street lighting and Sentinel Lighting Classes where Innisfil moved their revenue-to-cost ratios in this rate application half way to the lower approved band of 70%.

SEC's submission to move the GS>50kW customer class immediately to ½ way to unity¹⁰⁹ from its current position per the Cost Allocation would result in an offsetting increase to other customer classes. Those offsets could result in moving a class such as the residential class in a direction away from unity. Innisfil attempted to move all classes toward unity as well as getting the revenue to cost ratios within the Board recommended revenue to cost ratio bands while minimizing the impact as much as possible for each customer class.

Innisfil has considered Energy Probe's and VECC's submission of only bringing the GS<50kW customer class to a revenue-to-cost ratio of 120%¹¹⁰ instead of 116.2¹¹¹ as submitted. That change would result in adding approximately \$23K back to the GS<50kW class with the offsetting reduction against the Residential and GS>50kW customer classes, the 2 customer classes having revenue-to-cost ratios exceeding unity. Innisfil was attempting to treat the Street Lighting and Sentinel lighting customer classes in a manner consistent with the Board's 2008 rate application decisions to bring those classes ½ way to the lower 70% band. The Board in its report¹¹² indicated cost allocation calls for the exercise of some judgment and as such Innisfil

¹⁰⁸ Report of the Board – Application of Cost Allocation for Electricity Distributors Nov. 28, 2007

¹⁰⁹ SEC Submission #16

¹¹⁰ Energy Probe Submission Page 31 & VECC Submission #70

¹¹¹ Rate Application Exhibit 8 Schedule 1 Tab 2 Page 2 Table 2

¹¹² Report of the Board – Application of Cost Allocation for Electricity Distributors Nov. 28, 2007

submits a revenue to cost ratio of 120% for the GS<50kW class may not be any more appropriate then the proposed 116.2%.

Although Energy Probe¹¹³ submits that there is no reason to adjust the revenue to cost ratios for the GS> 50 kW class, SEC¹¹⁴ believes the level of over contribution per customer is unacceptable for the GS>50 kW class.

Although some of the rate classes saw an increase in their revenue-to cost ratio, Innisfil felt it is appropriate to move all classes in the direction of unity¹¹⁵ in this rate application according to Board recommended revenue to cost ratio bands.

VECC Interrogatory #20 requested an alternative Cost Allocation run where the Transformer Allowance amounts were removed from Worksheets I3 and I6 of the Cost Allocation model. VECC submits the Cost Allocation results from this alternative run more closely represents the appropriate reference point to use. The following table compares the revenue-to-cost ratios of the Innisfil's original Cost Allocation Informational Filing to the results of an alternative run requested by VECC.

Customer Class	R/C Ratio Original ¹¹⁶	R/C Ratio VECC #20
Residential	101.6	101.75
GS < 50kW	131.0	131.13
GS >50kW	146.6	144.69
Street Lighting	9.5	9.47
Sentinel Lighting	17.0	17.01
Unmetered Scattered Load	78.9	78.88

Innisfil submits if the Board deemed it necessary to make changes to the Cost Allocation Informational Filings, then all LDCs should be directed to update their 2006 filings. In addition, the difference in revenue-to-cost ratios between the alternatives in the table above is slight. If

¹¹³ Energy Probe Submission Bottom of Page 30

¹¹⁴ SEC Submission #16

¹¹⁵ Rate Application Exhibit 8 Schedule 1 Tab 2 Page 2 Table 2

¹¹⁶ Rate Application Exhibit 8 Schedule 1 Tab 2 Page 2 Table 2

1 Innisfil were to adopt the column “R/C Ratio VECC #20”, there would likely be little impact if
2 any on the proposed revenue-to-cost ratios that would result for the allocation of the proposed
3 distribution revenue. Innisfil further submits the Cost Allocation Informational Filing should
4 not be adjusted at this time for reasons cited in sections the Board’s Cost Allocation Report
5 referencing “Data quality, limited modeling experience, Status of current rate classes, and
6 Managing the movement of rates closer to allocated costs¹¹⁷”.

7 VECC’s submission additionally focused on the proportion of revenue allocated to each
8 customer class. Innisfil submits it followed an iterative process of allocating different
9 proportions of revenue to the classes while trying to achieve desirable revenue to cost ratios
10 which would move all classes in the direction toward unity. While it is true the use of a different
11 starting point would obviously result in slightly different results, the reduction of revenue by one
12 class would have to be picked up by the other classes.

13 Innisfil further submits that it approached the Cost Allocation adjustments using a consistent
14 methodology utilized by the 2008 Cost of Service rate filers and subsequently approved by the
15 Board.

16 Innisfil submits that it has applied for rates that were within the guidelines of the OEB Cost
17 Allocation Guidelines. Any approach that is being cited as being more appropriate than that used
18 by the 2008 and 2009 rate filers should be reviewed by the Board and communicated to the
19 applicants for future year filings. Innisfil submits it will apply any changes directed by the
20 Board in its Decision.

21

¹¹⁷ Report of the Board – Application of Cost Allocation for Electricity Distributors Nov. 28, 2007

RATE DESIGN

With regard to the submissions made by parties to the rate design, only VECC made a submission.

Fixed/Variable Charges

Innisfil concurs with VECC's submission that the residential monthly service charge of \$19.24¹¹⁸ is within the range established by the Board.

In response to VECC's argument to maintain the existing Fixed Variable¹¹⁹ split, although Innisfil does not object to maintaining the existing Fixed Variable split, Innisfil submits that it made a conscious effort to move the Fixed Variable split to better align with the Minister of Energy and the Ontario Power Authority conservation objectives as discussed in the rate application¹²⁰.

In addition, Innisfil looks forward to the results of the Ontario Energy Board Rate Review mentioned in the November 28, 2007 Report of the Board on the Application of Cost Allocation for Electricity Distributors which will also examine the role of Rate Design. Both undertakings will undoubtedly have determinative impacts on the fixed/variable ratio policy and address VECC's concerns.

Smart Meters

VECC submission¹²¹ notes Innisfil has asked to continue the rate rider of \$0.28 and VECC has no objection to continue the smart meter adder. Innisfil submits it has requested the smart meter funding adder of \$1.00 through the interrogatories OEB staff 4a) and VECC #25 in response to the OEB guidelines issued October 2008¹²². Innisfil notes there were no other comments from

¹¹⁸ VECC Submission #73

¹¹⁹ VECC Submission #74

¹²⁰ Rate Application Exhibit 9 Schedule 1 Tab 1 Page 3 Lines 7 & 8

¹²¹ VECC submission #3 and #9

¹²² OEB – Guideline, Smart Meter Funding and Cost Recovery

1 the submissions relating to smart meters. Innisfil respectfully request approval from the OEB for
2 the smart meter funding adder of \$1.00 per customer.

3 *Retail Transmission Service Rates (RTSR)*

4 VECC¹²³ has indicated Innisfil's response to a Board Staff interrogatory only included the 11.3%
5 adjustment for the change in Uniform Transmission Rates (UTS) and that it is unclear whether
6 the proposal includes adjustments to address trends in the deferral account balances. Innisfil had
7 originally supplied an incomplete table included in the response to the OEB Staff Interrogatory
8 #10.1. Unfortunately, the complete table was not copied properly from Excel to the Word
9 document.

10 The complete table showing the Board approved UTS adjustments of 11.3% Network and 5.5%
11 Connection as well as the proposed adjustments related to the trend in the deferral account
12 balances is included below:

¹²³ VECC Submission #75 and Board Staff Interrogatory 10.1

Retail Transmission Service Rates Analysis

	May to July 08 Reg variance	May to July 08 Revenue	%
Network	(45,143)	267,602	-16.9%
Connection	50,362	240,401	20.9%
Total	5,220	508,003	1.0%

Retail Transmission Service Rates

RTS Category	Customer class	Unit of measure	2009 Test Year Rates	UTR chges	DVA chges	Proposed 2009 Updated RTSR
Network	Residential	kWh	0.0052	1.113	0.8313	0.0048
	GS<50	kWh	0.0047	1.113	0.8313	0.0043
	GS>50	kW	1.9079	1.113	0.8313	1.7653
	Street Lights	kW	1.4389	1.113	0.8313	1.3313
	Sentinel Lights	kW	1.4462	1.113	0.8313	1.3381
	USL	kWh	0.0047	1.113	0.8313	0.0043
Connection	Residential	kWh	0.0035	1.055	1.2095	0.0045
	GS<50	kWh	0.0032	1.055	1.2095	0.0041
	GS>50	kW	1.2701	1.055	1.2095	1.6207
	Street Lights	kW	0.9818	1.055	1.2095	1.2528
	Sentinel Lights	kW	1.0023	1.055	1.2095	1.2790
	USL	kWh	0.0032	1.055	1.2095	0.0041

VECC¹²⁴ also indicated a more detailed analysis is required to support adjustments to the RTSR's beyond those that can be directly associated with changes in the UTR. Innisfil submits the analysis¹²⁵ consisted of data for the period January 2006 – September 2008. The OEB approved a UTR change for Hydro One effective May 1, 2008. Therefore Innisfil concluded the deferral and variance account balances calculated for the period after May 1, 2008 was the relevant period to determine the deferral account trends. Upon further analysis, Innisfil determined the data for the months of August and September could not be used in the analysis because due to load shifting and timing issues of billing and outstanding credits from Hydro One, the regulatory variances recorded to the deferral and variance accounts in those two months do not reflect the outstanding credits due from Hydro One. Innisfil's regulatory variances from

¹²⁴ VECC Submission #75

¹²⁵ Board Staff Interrogatory Response 10.1 a)

1 May to July 2008 were compared to the revenue collected from customers for the same time
2 period.

3 Innisfil submits the “Proposed 2009 Updated RTSR” in the Table above be approved effective
4 May 1, 2009.

5 **INTERVENOR COSTS**

6 Energy Probe, VECC and SEC have requested awards of costs in the amount of 100% of their
7 reasonable incurred costs in relation to Innisfil rate application review. Innisfil respectfully
8 assumes that the Board’s decision on the intervenor costs request will depend on a review of the
9 actual cost claims by the Board later in this rate process and that Innisfil will have the
10 opportunity to file objections to the claims at that time, if warranted.

11

1 CONCLUSION

2 Innisfil has proposed and accepted a number of adjustments identified of which a Summary of
3 Proposed Changes Table was provided with the interrogatory responses. Innisfil would like to
4 provide the following summary of the impact of the accepted adjustments on the revenue
5 deficiency for the Board's reference:

Innisfil Hydro Distribution Systems Limited Revised Summary of Proposed Changes

IR #	Original Submission August 15, 2008	Revenue Deficiency Impact \$1,071,765
EP 1c)	Loss factor chg to load forecast	-\$25,645
EP 16a)	Loss factor chg to cost of power	\$5,300
EP 16c)	Commodity & RTSR update	\$21,560
OEB 3.1e)	Capital/Amortization/Debt 2008 (\$750.0k), 2009 +\$261.2k	-\$78,266
3.2a)	2009 (\$693.1k)	
3.2b)	2009 (\$898.65k)	
OEB 4a)	Smart Meter Funding Adder (Bill Impact only)	\$0
SEC 1b)	IFRS reporting standards	\$25,347
	Adj Revenue Deficiency after IRs'	\$1,020,061
Reply Submission	Post-retirement recov 4 years	-\$1,884
	2008 capital reduction \$115.3k	-\$12,758
	Road widening add'l contr \$56k	-\$3,240
	Additional interest income	-\$18,000
	Carrying chg interest on reg assets	\$28,000
	2009 CCA class 1 to class 47 chges	-\$13,959
	Revised Revenue Deficiency Impact	\$998,220