Ontario Energy Board | **Commission de l'énergie de l'Ontario**

Ontario

EB-2008-0226

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by COLLUS Power Corp. for an order approving or fixing just and reasonable rates and other charges for the distribution of electricity to be effective May 1, 2009.

BEFORE: Cathy Spoel
Presiding Member

Pamela Nowina
Member and Vice-Chair

DECISION AND ORDER

April 17, 2009

BACKGROUND

COLLUS Power Corp. ("COLLUS" or the "Applicant") filed an application with the Ontario Energy Board on August 6, 2008, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the rates that it charges for electricity distribution to be effective May 1, 2009. COLLUS is the licensed electricity distributor serving the Town of Collingwood and the Towns of Thornbury, Stayner and Creemore.

COLLUS is one of over 80 electricity distributors in Ontario that are regulated by the Board. In 2006, the Board announced the establishment of a multi-year electricity distribution rate-setting plan for the years 2007-2010. In an effort to assist distributors in preparing their applications, the Board issued the *Filing Requirements for Transmission and Distribution Applications* on November 14, 2006. Chapter 2 of that document outlines the filing requirements for cost of service rate applications, based on a forward test year, by electricity distributors.

On January 30, 2008, as part of the plan, the Board indicated that COLLUS would be one of the electricity distributors to have its rates rebased for the 2009 rate year. Accordingly, COLLUS filed a cost of service application based on 2009 as the forward test year.

The Board assigned the application file number EB-2008-0226 and issued a Notice of Application and Hearing dated September 2, 2008. The Board approved four interventions: the Association of Major Power Consumers of Ontario (AMPCO), Energy Probe, School Energy Coalition (SEC), and Vulnerable Energy Consumers Coalition (VECC). Board staff also posed interrogatories and made submissions. The Board determined that this application would be decided by way of a written hearing. COLLUS filed its reply argument on February 25, 2009 ("First Reply Submission"). However, on March 13, 2009, the Board issued Procedural Order No. 6 seeking the data and documents to support COLLUS' calculations related to the proposed revenue to cost ratios provided in COLLUS' reply argument. The Board gave all parties an opportunity to file new submissions on this additional evidence. AMPCO, SEC and Board staff filed submissions. COLLUS filed its reply submissions on March 18, 2009 ("Final Reply Submission").

The full record of this proceeding is available at the Board's offices.

In its original application, COLLUS requested a revenue requirement of $6,134,984 to be recovered in new rates effective May 1, 2009. The resulting requested rate increase was estimated as an approximate 8.5% increase over 2008 on the delivery component of the bill for a residential customer consuming 1,000 kWh per month. In the First Reply Submission, COLLUS agreed with a number of adjustments to its application and revised its revenue requirement to $6,081,546.

The following aspects of COLLUS' application for rates were accepted by all parties:

- Smart meters
- Loss factor for working capital purposes
- Line losses
- Monthly Fixed Charges

The Board accepts the Applicant's evidence on these matters and the resultant rate consequences.

THE ISSUES

The following issues were raised in the submissions filed by one or more of Board staff, Energy Probe, SEC, and VECC and are addressed in the following sections of the Decision:

- Load Forecast
- Other Distribution Revenue
- Operating, Maintenance & Administrative Expenses
- Payments in Lieu of Taxes
- Capital Expenditures and Rate Base
- Long-term Debt Rate
- Cost Allocation and Rate Design
- Deferral and Variance Accounts

LOAD FORECAST

The following issues are addressed in this section:

- Methodology
- Customer forecast

Methodology

In its application, COLLUS explained that it developed its weather normalized load forecast using retail normalized average use per customer ("retail NAC") which was based on its 2004 consumption data.

Board staff noted that COLLUS' methodology utilized only a single year (2004) of weather normalized historical load to establish future load. Board staff submitted that the use of the 2004 retail NAC value would not account for any energy efficiency and energy conservation activities for the period of 2005 to 2009. Energy Probe submitted that there was no evidence to suggest that the normalized average use per customer would remain unchanged at the 2004 level. Given the lack of information, Energy Probe submitted that the Board should accept COLLUS' normalized average use value for the purpose of setting 2009 rates. SEC shared the same view. VECC submitted that given the lack of additional information, there is no basis on which to adjust the 2004 average use values either up or down for 2009 and that the Board should therefore accept COLLUS' normalized average use per customer values for purposes of forecasting 2009 loads.

In the First Reply Submission, COLLUS submitted that 2004 based retail NAC provided using Hydro One Network Inc.'s model had taken into account thirty years of weather data. COLLUS argued that including three additional years of weather data from 2005 through 2007 would not have a major impact on the average weather conditions for the purpose of weather normalization. Furthermore, COLLUS stated that it had taken the estimated impacts of economic effects and the results of conservation and demand management activities into account before it accepted the outcomes of the forecast.

Board Findings

The Board notes that even though the intervenors expressed some concerns related to the methodology, they submitted that the Board should accept COLLUS' forecast values for the purpose of setting 2009 rates. Given the lack of additional weather normalization information, the Board agrees with the intervenors that there is no basis on which to adjust the 2004 average use values either up or down for 2009. The Board accepts COLLUS' submission that the additional three years of data from 2005 to 2007 would not significantly change the proposed load forecast. The Board finds the Applicant's approach for the load forecast is reasonable under the circumstances and that in the future the Applicant should use all the available data to ensure the most accurate results possible. The Board therefore accepts COLLUS' load forecast for the purposes of setting 2009 rates.

Customer Forecast

COLLUS' customer forecast was developed using historical annual growth rate for the period from 2002 to 2007 for residential, GS<50kW and GS>50kW classes. The test year customer count forecast for the street lights class was based on average growth rate for the period from 2002 to 2008, as shown in Table 1.

Table 1

Rate Class	Growth Rate As Filed (Exhibit 3/ Tab 2/ Schedule 2/ Page 1/ Table 1)	2009 Number of customers/connections Forecast As Filed (Exhibit 3/ Tab 2/ Schedule 2/ Page 6/ Table 3)	2009 kWh Load Forecast As Filed (Exhibit 3/ Tab 2/ Schedule 2/ Page 6/ Table 3)
Residential	1.88%	13,011	121,128,423
GS < 50kW	0.63%	1,588	45,443,633
GS > 50kW	2.42%	127	126,855,660
Large User	N/A	1	37,423,367
Streetlights	3.04%	3,051	2,061,153
USL	N/A	68	455,702

In response to a VECC interrogatory[1], COLLUS stated that it does not anticipate any further conversion of USL customers to GS<50kW (beyond the anticipated reduction in the test year from 76 customers to 68 customers). VECC submitted that the customer count for USL should be held constant at 76 for both 2008 and 2009 since COLLUS is not forecasting any transfer of USL customers to GS<50 class. Energy Probe shared the same view.

COLLUS submitted that it would continue with the past industry practice for metering scattered loads and that therefore the 2009 forecast for the USL class should not be adjusted.

Energy Probe submitted that based on its estimate, the 2009 forecast for the 2009 residential class should be 178 customers higher than COLLUS' forecast. SEC concurred.

COLLUS responded that its estimate of fewer customers in 2009 is supported by new dwelling unit data. VECC raised concerns with COLLUS' customer count forecast regarding residential, GS < 50 and GS>50 and stated that it does not share COLLUS' overall outlook of load growth over the next few years and recommends that there should not be any increases to the load forecast.

Board Findings

Regarding the customer forecast for the USL class, it appears to the Board that VECC and EP misinterpreted Collus' response to VECC interrogatory #16. The Board accepts the USL customer forecast as filed by the Applicant.

With respect to the customer forecast of other rate classes, the Board recognizes that COLLUS filed its customer forecast when it filed its application on August 18, 2008. The Board is of the view that forecasts are by their nature imprecise and that the variations identified by intervenors in this case are not material. The Board therefore accepts the Applicant's customer forecast for the purpose of setting 2009 rates.

[1] VECC Interrogatory #16

OTHER DISTRIBUTION REVENUE

In the application,[2] COLLUS indicated that the estimated $68,856 of interest revenue earned due to retained earnings would not be considered as a revenue offset and that this amount was separate from normal operations. In response to Board Staff and intervenor interrogatories,[3] COLLUS changed the request by including the revenue earned due to retained earnings in the revenue offset. Subsequently, in response to a Board Staff supplementary interrogatory,[4] COLLUS reduced the estimated interest revenue to $46,000 due to the expectation of an interest rate reduction. Both Energy Probe and VECC submitted that the reduction of the estimated interest revenue was appropriate.

In the First Reply Submission, COLLUS stated that the revised figure for other distribution revenue should therefore be $372,000.

Board Findings

The Board finds that it is appropriate for COLLUS to adjust the estimated interest revenue and accepts the revision to other distribution revenue as stated in COLLUS' First Reply Submission.

OPERATING, MAINTENANCE and ADMINSTRATIVE EXPENSES ("OM&A")

Operating costs include OM&A expenses, depreciation and amortization expenses, payments in lieu of taxes ("PILs"), and any transformer allowance payments to customers. PILs taxes are proxies for capital and income taxes that, otherwise, would have to be paid if the distributor were not owned by a municipality.

The final PILs tax allowance for ratemaking purposes is determined after the Board makes its findings on other relevant parts of a company's application.

[2] Exhibit 3/ Tab 3/ Schedule 5
[3] Board Staff Interrogatory #6.6, Energy Probe Interrogatory #13c, VECC Interrogatory #19
[4] Board Staff 2nd round of Interrogatory #4.3

Operating costs also include interest charges on the company's debt. These are dealt with in the cost of capital section of the Decision. The Board deals with the following issues below:

- OM&A expenses
- PILs

Table 2 shows the components of the proposed OM&A expenses for 2009 and compares them with previous years.

Table 2 - OM&A Expenses ($)

	2006 Actual	2007 Actual	2008 Forecast	2009 Forecast
Operations	$285,179	$245,331	$274,300	$291,300
Maintenance	$1,263,888	$1,322,165	$1,500,825	$1,628,325
Billing & Collecting	$592,333	$655,645	$722,109	$762,093
Community Relations	$154,243	$157,924	$100,085	$107,389
Administrative & General (excl. LV)	$952,430	$904,732	$932,991	$1,008,741
TOTAL	**$3,248,073**	**$3,285,797**	**$3,530,310**	**$3,797,848**

The test year total OM&A expenses forecast is $3,797,848, an increase of 15.6% or $512,051, from 2007 actual spending.[5] OM&A expenses in 2008 were 7.4% higher than the 2007 actual. The forecast increase from 2007 to 2009 is mainly attributed to 2009 rate rebasing costs, distribution system maintenance, and labour expenses.

[5] Total OM&A excludes PILs and property taxes.

The following OM&A issues listed below are addressed in the following sections of the Decision:

- 2009 rate rebasing costs
- Tree trimming
- Inflation forecast and impact on wages

2009 Rate Rebasing Costs

COLLUS is requesting approval of regulatory costs at an amount of $160,000 for costs associated with the 2009 Cost of Service (“CoS”) application and has amortized the costs over a 4-year period ($40,000/year).

Energy Probe submitted that the evidence provided by COLLUS included costs related to an oral component of the CoS hearing. Energy Probe noted that neither an oral technical conference nor an oral hearing was required for this proceeding. Therefore, it seemed reasonable to eliminate costs associated with the OEB technical conference and the additional cost for the oral component. This results in a total OM&A reduction of $70,000. Furthermore, Energy Probe submitted that it would be reasonable to reduce the budget associated with intervenor costs by $10,000 as it is only aware of four intervenors, not five, that have requested costs in this proceeding. VECC and SEC echoed Energy Probe’s concern.

COLLUS submitted that based on the Application to-date, the estimate is still accurate and that the expectation is that intervenor expenses will exceed the original estimate.

Board Findings

The Board finds it appropriate for the Applicant to recover the costs associated with the preparation of its 2009 rates case over the future period as these are one-time costs which will not be incurred again until the next rebasing. Intervenors should not assume that an oral hearing is more expensive than a written hearing or that their cost estimate is more accurate than that of the Applicant. While there was no oral component to the hearing, there were additional procedural steps such as a second round of interrogatories. In this case, however, the Board finds that COLLUS’ proposed estimate of regulatory expense of $160,000 is high, as compared to the expenses forecasted by similar sized distributors that filed 2009 rate CoS applications. In light of this, the Board will adjust COLLUS' regulatory expense downward to $140,000 to be amortized over 4 years. The Board therefore allows an expense of $35,000 to be reflected in 2009 rates.

Tree Trimming

COLLUS requested approval of $100,000 related to tree trimming activities. Tree trimming costs for 2007 and 2008 were $77,924 and $115,000, respectively. COLLUS noted that it has moved from using both internal and contracted staff to relying entirely on contracted staff for tree trimming.[6] COLLUS explained that in order to meet ESA requirements, lower clearances and the removal of more brush are needed for the first three year cycle.[7] Furthermore, COLLUS indicated that the increase in costs are expected to be reduced once the additional work related to achieving the new clearances are achieved at the end of the first three year term of the project.

Based on COLLUS' evidence, VECC submitted that it would be reasonable to expect tree trimming in 2010 and 2011 to be less than those incurred in 2006 and 2007. VECC noted that contracting out is likely to be cheaper than doing the work internally. VECC submitted that contracting out costs included in the 2009 rates should be reduced by $20,000.

In the First Reply Submission, COLLUS stated that the increased costs are a result of greater amount of clearing that must be done on a regular basis by knowledgeable arborists. COLLUS noted that the spending in 2006 and 2007 of approximately $65,000 for contracted tree-trimming services did not include the work performed by internal staff. Combining both internal and external costs in those years would increase the actual total amount spent on tree-trimming to exceed $100,000. COLLUS submitted that the forecasted expense of $100,000 in the 2009 test year should be maintained.

Board Findings

Based on the evidence filed, the Board approves COLLUS' forecasted tree trimming expense of $100,000. However, the Board notes that since COLLUS is relying strictly on contracted services and not internal staff to perform tree trimming, there is an

[6] Response to VECC's Second Round of Interrogatories #36
[7] COLLUS' January 16, 2009 Supplementary Clarification

approximate amount of $35,000 for the internal staff work-hours that has not been accounted for.

The Board will address the issue regarding the $35,000 of unaccounted for work-hours in the inflation Forecast and Impact on Wages section of this Decision.

Inflation Forecast and Impact on Wages

Labour expenses contribute to approximately 86% or $473,126 of the proposed increase for 2009 compared to its 2006 actual. This is a result of inflation, employee progression, and the addition of three new staff members. In response to a Board Staff interrogatory,[8] COLLUS has indicated that wages, excluding employee progression, have increased 3% per year on average from 2006 to 2009. COLLUS indicated that its total FTEs have increased by approximately three employees since 2006 to a total number of 21.6 FTEs. The additional FTEs include one staff in the electric meter department and two line personnel.

Energy Probe submitted that the inflation percentages used by COLLUS were not consistent with the current economic situation. Energy Probe noted that the 2008 inflation rate for Ontario was 2.3%, as reported by Statistics Canada in January 2009. Energy Probe stated that the BMO Capital Markets is forecasting an inflation of 0.3% for Ontario based on its January 2009 Provincial Economic Outlook. Energy Probe also noted that TD Economics is forecasting an inflation rate 0.5% for Ontario based on its January 2009 Provincial Economic Outlook. Energy Probe submitted that COLLUS should adopt inflation rates for 2008 and 2009 of 2.3% and 0.5%. Therefore, the increase related to 2008 and 2009 should be reduced by $10,860 and $43,020, respectively.[9]

VECC submitted that the level of annual inflation of 3% is excessive and that 2009 rates should reflect an inflationary increase of no more than 2% in 2008 and 1% in 2009. VECC estimates that these lower inflation rates applied to non-union staff would translate into a reduction in total OM&A expenses for 2009 of $40,000. VECC excluded union staff due to the uncertainty of the increases required under their contracts.

[8] Response to Board Staff Interrogatory #1.2c and #1.6a
[9] Energy Probe Submission, Pages 7 and 8

SEC noted that staffing costs are excessive given a 34.7% increase over the period 2006 to 2009. SEC submitted that the increase in FTEs is the primary cost driver, but SEC noted that no details are provided on the rationale for having more FTEs. SEC submitted that the Board should consider reducing the percent change in total compensation from 2006 to 2009 to 19.1% which would reflect a 6% increase per year for that period.

COLLUS submitted that the 3% wage increase has been negotiated and actually implemented for the 2008 and 2009 years. As well, the premium paid for non-unionized staff is for the increase in demands and pressures posed by regulation and government mandates. COLLUS noted that its workload is increasing due to reporting requirements and increased ESA regulations. Furthermore, additional maintenance work-hours are needed to maintain its aging and growing distribution system. COLLUS submitted that these factors have contributed to the requirement to hire additional personnel.

Board Findings

In general, the Board finds the wages and benefits as applied for by COLLUS to be reasonable and approves them accordingly with the following exception. The Board directs COLLUS to reduce the 2009 total staff compensation by $35,000 to address the internal staff work-hours that are not required for tree trimming activities.

To be consistent with the Board’s findings in its December 20, 2006 Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors, the Board will approve the annual percent change in the Implicit Price Index for National Gross Domestic Product (GDP-IPI) for Final Domestic Demand. On March 2, 2009, Statistics Canada published the change for 2008 over 2007 as part of the National Economic Accounts. The percent change is 2.3%. The Board directs COLLUS to adjust its 2009 forecasted inflationary amount, excluding wages and benefits, to reflect this change.

PAYMENTS IN LIEU OF TAXES (PILs)

COLLUS' evidence[10] 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%.

Board staff noted that COLLUS seemed 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 because adding the PILs tax amount to the regulatory net income produces a higher taxable income. Board staff noted that COLLUS' method diverges from the Board's established methodology but that the impact of this divergence is not material. VECC submitted that it would be inappropriate to include such an amount in the revenue requirement absent compelling evidence that such divergence is in the public interest. In the First Reply Submission, COLLUS submitted that its method had been verified by an independent auditor and appeared to be correct as well as consistent with the Board's methodology.

Intervenors observed that the January 27, 2009 federal budget introduced changes that may have an impact on COLLUS' regulatory taxable income in 2009. COLLUS stated that it had utilized current income tax rates as it deemed applicable in completing the income tax calculations. COLLUS noted the introduction of the federal budget, which it acknowledged did indicate some adjustments to be made to the 2009 income tax rates. COLLUS stated that as of the time of the First Reply Submission, it did not believe any of the changes that had been introduced impacted the calculations that had been made. COLLUS stated, however, that it would fully review this matter when completing the final rate order calculations based on the Board's Decision, and make any appropriate adjustments at that time.

Board Findings

The Board directs COLLUS to adhere to the Board's established PILs methodology in its next cost of service rate adjustment filing. As the difference between using COLLUS' methodology and the Board's established methodology is not material the Board will not require COLLUS to adjust its methodology for the purposes of rate-setting in this proceeding.

[10] Exhibit 4 Tab 3 Schedule 1

The Board directs COLLUS to correct all errors that have been identified in its PILs calculations, and to incorporate in its draft rate order any adjustments to regulatory taxable income that arise from this Decision.

The federal budget enacted on February 3, 2009 included an increase in the small business income limit from $400,000 to $500,000 effective January 1, 2009, and a change in the capital cost allowance ("CCA") applicable to certain computer equipment and related system software (CCA class 50) acquired between January 27, 2009 and February 2011. The Board has considered these fiscal changes and determined that the draft rate order should reflect the increase in the federal small business income limit for affected distributors and the change in the CCA.

COLLUS is directed to incorporate any such changes into its draft rate order.

The Board also directs COLLUS to incorporate all other known income and capital tax changes into its PILs calculations for 2009 that have arisen since the application was filed.

RATE BASE

COLLUS is requesting approval of $16.0 million for the 2009 rate base. This amount is a 19.3% increase ($2,593,549) from COLLUS' 2007 actuals and a 22.9% increase ($2,979,913) from its 2006 actuals.[11]

The following issues are addressed in this section:

- Capital Expenditures
- Working capital allowance
- Depreciation rates

[11] Exhibit 2 Tab 1 Schedule 1 – Page 1

Capital Expenditures

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

Table 3 below lists the year-over-year percentage change of the capital expenditures from the 2007 actual to the 2009 test year.

Table 3 – Capital Expenditure for 2007 to 2009[12]

	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.[13]

The Application provided a breakdown of COLLUS' forecast capital expenditures for the 2009 test year. This indicated that the key area responsible for the forecast 2009/2008 increase in capital expenditures was $2,200,000 expenditure for construction of a new distribution station and related expenditures. The purpose of these expenditures was to address the overloading of the existing system.

[12] Based on Exhibit 2 Tab 3 Schedule 1
[13] Board staff interrogatory #3.4

No intervenor opposed the expenditures on this distribution station.

Energy Probe submitted that given the significant and rapidly changing economic developments that have taken place since the latter part of 2008, the Board should direct COLLUS to establish a variance account to track any changes in the revenue requirement, if it is determined that this expenditure can be deferred from 2009 until a future year.

COLLUS submitted that it did not believe the proposed variance account was necessary, as it had full confidence the project would be constructed.

Board Findings

The Board finds that COLLUS' 2009 forecast capital expenditure level of $3,017,500 is reasonable. The Board is satisfied that COLLUS has adequately justified the higher than normal capital expenditures, as these relate to the construction of the new distribution station and related expenditures. The Board also notes that no intervenors opposed the Applicant's proposal.

The Board will not require COLLUS to establish a variance account related to this expenditure, as requested by Energy Probe. The Board is in agreement with SEC that forward test year rate making is not based on approved expenditures being subject to this type of potential adjustment.

Working Capital Allowance

Energy Probe, SEC and VECC all made submissions on COLLUS' proposed working capital allowance. Energy Probe stated that it accepted the approach taken by COLLUS to calculate this allowance with some proposed adjustments.

However, Energy Probe submitted that the 15% methodology may be overstating the required allowance for working capital and recommended the Board direct COLLUS to prepare a lead lag study for its next rebasing application. SEC agreed with Energy Probe.

COLLUS submitted that in the context of this application, the methodology it has used remains appropriate.

Energy Probe submitted that COLLUS' calculation should be adjusted so that its cost of power component reflects the most recent cost of power forecast presented to the Board. Energy Probe further submitted that the cost of power component should reflect the forecast of network and connection transmission services provided by Hydro One Networks Inc. ("HONI").

VECC submitted that it did not appear as if COLLUS had updated its working capital allowance calculation to account for the January 2009 increase in connection charges.

VECC further noted that COLLUS had used the Board's current forecast for the RPP price to determine the cost of power component of working capital, but that it appeared the billing to COLLUS was different as between RPP and non-RPP loads. VECC suggested that, as a result, it may not be appropriate to apply the RPP price to all the Applicant's forecast 2009 purchases. VECC submitted that the Board should work with distributors and the IESO to establish a common approach to determining what elements of the RPP Price Report should be included in the Cost of Power for purposes of determining working capital allowances. Energy Probe and SEC expressed similar concerns.

COLLUS submitted that the methodology used for calculating the cost of power remains appropriate as applied to the current rate application and pending any future direction from the Board on the methodology.

Board Findings

The Board notes that COLLUS has followed the Board's Filing Requirements for Transmission and Distribution Applications dated November 14, 2006 which allows the utility to apply a 15% factor to derive the allowance for working capital. The Board will not require COLLUS to prepare a lead lag study for its next rebasing application. In making this finding, the Board is mindful of the significant costs of such studies to smaller utilities. The Board therefore finds COLLUS' approach of using a 15% factor to derive its working capital allowance is reasonable.

The Board directs COLLUS to update the cost of power used in calculating its working capital allowance to reflect the most recent cost of power forecast presented to the Board by Navigant on April 15, 2009 and to make any other necessary corrections.

The Board will not require COLLUS to reflect the forecast of network and connection transmission services provided by HONI as these amounts have not yet been approved by the Board.

The Board notes VECC's request that the Board should work with distributors and the IESO to establish a common approach to determining what elements of the RPP Price Report should be included in the cost of power for purposes of determining working capital allowances. The Board views this matter as a generic policy issue that is not within the scope of this Decision.

Depreciation Rates

Energy Probe noted that most of COLLUS' accounts have a depreciation expense that appears to be calculated using the half year rule for new additions. Energy Probe, however, expressed concerns as to whether or not depreciation calculations for some accounts had been appropriately undertaken, specifically:

- software expense (account 1925) and substation equipment (account 1820) for additions in 2009;
- substation equipment (account 1820) related to the level of depreciation being claimed in 2009 for a 2001 capital addition; and
- underground conductors and devices (account 1845).

Energy Probe submitted that the depreciation expense should be reduced in total by $49,847 to reflect changes that it believed were necessary to the calculations for these three accounts. SEC agreed with Energy Probe.

COLLUS responded that it currently applies the half year rule only on transportation equipment and this depreciation policy has been consistently applied and accepted by its external auditors. COLLUS accordingly maintained that the depreciation calculations submitted should continue to be used.

Board Findings

The Board accepts the submission of COLLUS that its depreciation policy has been consistently applied and accepted by its external auditors and, on this basis, finds the depreciation rates used.are reasonable.

COST OF CAPITAL and CAPITAL STRUCTURE

Cost of Debt

The Board's guidelines for the cost of capital are set out in its *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation of Ontario's Electricity Distributors* (the "Board Report"), dated December 20, 2006.

COLLUS has proposed a weighted debt cost rate for 2009 of 5.79%, consisting of a promissory note and a demand loan. The promissory note was issued in 2001, with a principal amount of $1,700,000 due to the Town of Collingwood and a proposed rate of 6.25% with no fixed term. The demand loan was to be issued January 7, 2009, with a principal amount of $1,100,000 due to Infrastructure Ontario and a proposed rate of 5.08% and a 5 year term. Parties to the proceeding made submissions on each of these instruments.

Promissory Note

Board staff's submission noted that COLLUS' 6.25% promissory note is due to an affiliate, the Town of Collingwood. Board staff asked COLLUS in an interrogatory[14] 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.

SEC agreed that under the Board's policy, the callable affiliate debt should be at the Board's deemed rate. SEC noted what it described as the incongruity of the Board's deemed rate in this context, stating that market rates are clearly signaled by the government through the Infrastructure Ontario term rates, yet LDCs continue to be

[14] Board staff interrogatory #2.1

allowed to recover from ratepayers interest rates far in excess of market rates for affiliate long term debt. SEC concluded that interest on affiliate debt that is in excess of market rates, as shown in evidence before the Board, should not be recoverable from ratepayers.

SEC submitted that, in this regard, COLLUS has provided evidence that it can borrow at levels that are much cheaper than the affiliate debt rate, likely 5% or less for five years. SEC stated that since the affiliate debt is repayable by the utility at any time without notice or bonus, COLLUS should, if it is acting prudently, repay the $1.7 million promissory note forthwith and replace it with less expensive debt. SEC submitted that the Board should allow in revenue requirement a weighted long term interest rate that reflects the assumption that management will act prudently to keep costs as low as possible. SEC submitted that on this basis the appropriate long term interest rate would be 5%, or less. COLLUS disagreed with SEC's views.

Demand Loan

COLLUS was asked[15] to provide a more detailed explanation as to how the 5.08% assumed rate for its demand loan 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 to Infrastructure Ontario.

Board staff noted 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 was unclear to Board staff why COLLUS believed 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. In the First Reply Submission, COLLUS stated that it had not yet reissued the borrowing after it was temporarily settled on the termination date of January 7, 2009, although its intention was to reestablish the loan in the near future

Energy Probe expressed its agreement in principle with the use of the most recent Infrastructure Ontario debt rate available at the time the Board sets the deemed long

[15] Board staff interrogatory #2.2

term debt rate, as this rate reflects the cost of borrowing in the market. Energy Probe, however, submitted that it was unclear why the 25 year term was the appropriate one to use as lower rates for shorter terms are available from Infrastructure Ontario. Energy Probe, accordingly, submitted that the Board should approve a deemed long term weighted debt rate that includes the current forecast rate of 3.40% for a 5 year term, or the rate for a 5 year term when the Board issues its decision. SEC and VECC agreed with Energy Probe.

COLLUS agreed with the intervenors that, as its intention was to pay down the demand loan over 5 years, a five year rate would be more appropriate to use. COLLUS submitted that it would utilize the current Infrastructure Ontario 5 year serial term rate that is in place when the Board's Decision is made.

Board Findings

As of the completion of the record in this proceeding, the proposed new 5 year loan from Infrastructure Ontario was not in place and therefore the rate on this instrument is unknown. The Board therefore finds that COLLUS should use the Board's current deemed long term debt rate of 7.62% as the imputed rate on its new demand loan in determining its cost of debt for regulatory purposes.

The Board finds that this rate will also be applicable to COLLUS' promissory note as it is callable affiliate debt. The Board notes that all parties agreed that this was the appropriate rate to apply under the Board's policy.

In making these findings, the Board is mindful of SEC's concerns as to whether or not COLLUS could refinance its affiliate debt at a lower cost, but views this matter as a generic policy issue that is not within the scope of this Decision.

The Board directs COLLUS to make all necessary adjustments as a result of applying the deemed long-term rate in its draft rate order.

Table 4 sets out the Board's conclusions for COLLUS' deemed capital structure and cost of capital. It incorporates the Board's recent updated cost of capital parameters.

Table 4 - Board-approved 2009 Capital Structure and Cost of Capital

Capital Component	% of Total Capital Structure	Cost rate (%)
Long-Term Debt	52.7	7.62
Short-Term Debt	4.0	1.33
Equity	43.3	8.01
Weighted Average Cost of Capital		**7.54**

COST ALLOCATION AND RATE DESIGN

The following issues are addressed in this section:

- Revenue to cost ratios
- Rate design - transformer ownership allowance, low voltage charges
- Retail transmission rates

Revenue to Cost Ratios

Table 5 sets out COLLUS' revenue to cost ratios. The Board's target ranges, as established in the Board's *Application of Cost Allocation for Electricity Distributors EB-2007-0667*, are set out in column 3.

Table 5 - Revenue to Cost Ratio (%)

Customer Class	(1) Updated Cost Allocation	(2) Proposed	(3) Board Target Range
Residential	122.6	113.4	85 – 115
GS < 50 kW	103.7	103.7	80 – 120
GS > 50 kW	35.8	57.9	80 – 180
Large User	99.3	99.3	85 – 115
Street Lights	17.3	43.7	70 – 120
USL	87.8	87.8	80 – 120

COLLUS submitted a cost allocation informational filing in January 2007. Since that time, COLLUS' largest customer, ALCOA Wheel Products, has ceased operation. COLLUS updated the previous cost allocation study, as this would be a better starting point for any consideration of adjustments during the 2009 cost of service rate application process.

In response to a VECC interrogatory[16] COLLUS also provided an alternative run of the cost allocation model that reflected the removal of costs and revenues associated with the transformer ownership allowance. In its submission filed in February 2009, VECC stated that it was not clear if COLLUS had completely removed the cost of the transformer allowance associated with ALCOA in response to another VECC interrogatory.[17] VECC invited COLLUS to address the point in reply submission.

VECC also noted that the overall revenue to cost ratio provided by COLLUS in January 2009 was 95.42%. VECC stated that a similar situation arose with Lakefront Utilities Inc. (EB-2007-0761). In that case, the Board agreed with submissions made by VECC

[16] VECC interrogatory #33(c)
[17] VECC interrogatory #47(f)

that it would be appropriate to adjust the ratios for each class so as to yield a 100% revenue to cost ratio overall.

In the First Reply Submission, COLLUS responded to VECC's invitation to address the treatment of the transformer allowance associated with ALCOA. COLLUS stated that, in reviewing the data, the distribution revenue was reduced by $187,730, but should only have been reduced by $115,662. COLLUS provided a further updated set of revenue to cost ratios, adjusted to yield 100% overall, that are reflected in column 1 of Table 5. COLLUS stated that the ratios in column 1 should be the starting point for the application.

In order to complete the evidentiary record, the Board issued Procedural Order No. 6 seeking the data and documents to support the ratios in column 1, and seeking the proposed ratios for 2009 and bill impacts. COLLUS provided the details of its revenue calculations, including allocation of miscellaneous charges. The proposed revenue to cost ratios for 2009 are listed in column 2 of Table 5.

COLLUS proposed to move the GS > 50 kW and street light customer classes half of the way towards the minimum of the Board target range in 2009 and to move these two classes to the minimum of the target range in the following two years. COLLUS proposed to apply the increased revenue from GS > 50 kW and street light classes to reduce residential revenue.

In their final submissions, VECC and Energy Probe agreed that COLLUS' response to Procedural Order No. 6 supported the ratios in column 1 and properly accounted for the removal of ALCOA and transformer ownership allowance costs and revenues. VECC noted that COLLUS' revenue requirement distribution used a slightly different approach from that recommended by VECC, but VECC agreed that COLLUS' approach is reasonable.

VECC and Energy Probe agreed with COLLUS' proposal for the street light class, however, they submitted that the GS > 50 kW class ratio should be moved to the minimum of the Board's target range sooner than three years. Energy Probe noted that COLLUS' proposal results in a bill impact of only 3.22%. SEC did not provide a submission in response to Procedural Order No. 6. However, in its previous submission, SEC proposed that GS > 50 kW and street light customer classes move one-third of the way towards the minimum of the Board's target range in 2009, with the remaining movement in equal steps in 2010 and 2011. SEC's view was that movement half of the way towards the minimum of the range is too drastic, particularly in difficult economic times.

In the Final Reply Submission, COLLUS stated that the GS > 50 kW class is a wide ranging class and that in some cases, customers could incur an impact of approximately 6%. COLLUS also noted that its proposal results in movement of the residential class to within the Board's target range. COLLUS stated that if the residential class had remained outside of the target range, COLLUS' proposal for GS > 50 kW would have been different.

<u>Board Findings</u>

The Board recognizes the limitations in the cost allocation model with respect to treatment of the transformer ownership allowance. The Board is satisfied that the revenue to cost ratios in column 1 of Table 5 correctly account for the transformer ownership allowance and the loss of ALCOA, and are appropriate for the purposes of reviewing the ratios for 2009. The Board notes VECC's commentary and agreement with COLLUS' proposal for the revenue requirement distribution. The Board accepts COLLUS' proposal.

The Board accepts COLLUS' proposal regarding revenue to cost ratios for the street lighting customer class.

VECC and Energy Probe submitted that COLLUS' proposal to move the GS > 50 kW customer class ratios towards the minimum of the Board's target range over 3 years should be expedited while SEC submitted that the movement should be more gradual. The Board notes that COLLUS' proposal results in a total bill impact of 3.22% for GS > 50 kW customers and that the residential customer class ratio falls within the Board target range due to the ratio increases for street lighting and GS > 50 kW. Accordingly, the Board accepts COLLUS' proposal.

Transformer Ownership Allowance

Currently, COLLUS applies $0.60 per kW, the long-standing transformer allowance used by most distributors. In its application, COLLUS proposed to reduce the current approved transformer ownership allowance to $0.35 per kW.

In its submission, Board staff noted some inconsistency in the proportion of GS > 50 kW customers with and without line transformer allowance and therefore questioned the methodology for calculating the $0.35 per kW. COLLUS reviewed Board staff's concern and agreed to retain the allowance of $0.60 per kW.

Board Findings

The Board finds that it is appropriate to maintain the transformer ownership allowance at $0.60 per kW.

Low Voltage Charges

In its application, COLLUS proposed to allocate $550,000 of LV costs to each rate class based on the proportion of retail transmission connection revenue collected from each class. In response to a VECC interrogatory,[18], COLLUS provided monthly load data and charges to support the calculation of the $550,000 of LV costs. Board staff submitted that the rates utilized were outdated. In the First Reply Submission, COLLUS submitted that it will use the updated HONI rates, as approved by the Board on January 28, 2009, to calculate the LV costs.

COLLUS also submitted that consideration must be given to the substantial rate rider credit that HONI will be incorporating into their billing. The rate riders will only be in place for a 2 year period while the 3rd Generation IRM process is a 4 year period of time. The LV costs for 2009 are projected to be $300,000. COLLUS projected that LV costs for future years will be $460,000 when the HONI rate riders are no longer in place. COLLUS submitted that the appropriate annual LV charge amount used for rate approval should be $380,000.

[18] VECC interrogatory #14b

Board Findings

The Board finds that COLLUS' approach is reasonable and that an annual LV charge amount of $380,000 is reasonable.

Retail Transmission Rates

The Board issued a guideline, *Electricity Distribution Retail Transmission Service Rates [G-2008-0001]* on October 22, 2008 indicating the process to be used to adjust retail transmission service rates ("RTSRs") to reflect changes in the Ontario Uniform Transmission Rates ("UTRs"). The changes are outlined in Table 6.

Table 6 – Changes in the Ontario Uniform Transmission Rates ("UTRs")

	Current Rate ($/kW/month)	**Effective rate on January 1, 2009 ($/kW/month)**	**Effective increase**
Network Service Rate (NW)	2.31	2.57	11.3%
Line Connection Service Rate (CN)	0.59	0.70	18.6%
Transformation Connection Service Rate (TN)	1.61	1.62	0.6%

COLLUS provided two years of monthly balance data for the RTSR deferral accounts. As retail transmission rates were revised on May 1, 2008, COLLUS analyzed data for the period May to September 2008.

The analysis indicated that the revenues for network charges for the period May to September 2008 are higher than cost by 11.8%. As the network service rate increased by 11.3% on January 1, 2009, COLLUS proposed no change to retail network transmission service charges.

The variance analysis indicated that the revenues for connection charges for the period May to September 2008 are the same as costs. As the connection transmission rate increased by 5.5% on January 1, 2009, COLLUS proposed a 5.5% increase.

VECC submitted that the Board should accept COLLUS' proposal.

Board Findings

The Board accepts COLLUS' proposal to retain current retail network transmission service charges and to increase retail connection transmission service charges by 5.5%.

DEFERRAL AND VARIANCE ACCOUNTS

Large Use Customer Class

In its application, COLLUS reported that it incurred a materially negative impact when its largest customer, ALCOA Wheel Products closed operations in 2007. In order to avoid a similar impact, COLLUS proposed a new variance account that would record the reduction in revenue only if LOF Glass, the remaining large user customer, ceased operations.

VECC submitted that the scenario appears to qualify for Z-factor consideration. VECC also noted that COLLUS expects new load growth and that the Board should look at overall load levels when adjustments are necessary in the event that the large user customer ceases operation. VECC submitted that the request should not be approved. Energy Probe concurred and stated that a variance account in the test year should not be allowed because it reduces risk to the utility without any reduction in costs to the ratepayers. Energy Probe noted that COLLUS did not see the need to adjust the load or revenue forecast in response to an interrogatory from Board staff.[19] SEC's submission was similar to VECC and Energy Probe.

[19] Response to the Board staff supplemental interrogatory #1

In the First Reply Submission, COLLUS withdrew the request that the Board approve the new variance account.

International Financial Reporting Standards

COLLUS requested approval of a new variance account for use in tracking the impact of the implementation cost to conform to the impending requirements of IFRS in conjunction with the Ontario Energy Board accounting and record keeping system. COLLUS estimated that IFRS implementation costs will be $100,000 and expects $30,000 per year for operation expense requirements. These costs have not been included in the original application projections.

In its submission, VECC referred to the Board's correspondence with Enersource Hydro Mississauga Inc. (EB-2008-0171, December 1, 2008). The Board indicated that the matter of IFRS and requests for variance accounts required a sector-wide approach and would not be dealt with as part of an individual application. VECC submitted that COLLUS' request should not be addressed as part of the application.

Energy Probe requested that COLLUS' proposal be denied. Energy Probe referred to the Board's consultation on the Transition to IFRS (EB-2008-0408) and noted that it has not been established at this point whether the conversion to IFRS is required by all distributors and whether the conversion costs can be minimized. SEC agreed with Energy Probe on this matter. Energy Probe also noted that COLLUS failed to provide any evidence in support of the IFRS costs.

In reply, COLLUS requested equitable treatment on this issue should the Board decide to award estimated cost per individual application, but will accept a variance account as a recording method to track actual costs.

Board Finding

The Board recognizes that a Board initiated consultation on Transition to IFRS and Consequent Amendments to Regulatory Instruments (EB-2008-0408) has begun. One of the issues identified in this consultation is utility impact, including IFRS implementation costs. The Board's generic consideration of IFRS costs will address the issue of deferral and variance accounts. Accordingly, the Board denies COLLUS' request for a variance account to track costs related to IFRS at this time.

Tier 2 Adjustment

In its 2006 Decision, the Board found COLLUS satisfied eligibility and evidentiary requirements to support a Tier 2 adjustment proposal related to incremental capacity requirements. The amount of $200,000 was included as additional distribution substation maintenance to be recovered and expended over a 12 month period. As it was only allowed to be considered income for one year, the income generated over the following two years from distribution revenue has been placed into account #2405, Other Regulatory Credits. COLLUS estimates that approximately $25,000 of carrying charges will have accumulated by May 1, 2009, bringing the total in the account to $425,000.

In its original application, COLLUS requested the approval to transfer the total credit from #2405 into Distribution Service Revenue. Subsequently, COLLUS withdrew the request and stated that it was not requesting disposition of any deferral and/or variance accounts.

Board Findings

The Board's 2006 Decision was clear that the Tier 2 adjustment was to be applied for only the 2006 rate year.

The Board directs COLLUS to refund $425,000, which includes carrying charges of $25,000, by means of a rate rider over a two year period. The rate rider must be reflected in the proposed draft rate order prepared by COLLUS.

IMPLEMENTATION

The Board has made findings in this Decision which change the proposed 2009 distribution rates. These are to be reflected in a Draft Rate Order prepared by COLLUS. This Draft Rate Order is to be developed assuming an effective date of May 1, 2009.

In filing its Draft Rate Order, it is the Board's expectation that COLLUS will not use a calculation of the revised revenue deficiency to reconcile the new distribution rates with the Board's findings in this Decision. Rather, the Board expects COLLUS to file detailed supporting material, including all relevant calculations showing the impact of this Decision on COLLUS' proposed revenue requirement, the allocation of the approved revenue requirement to the classes and the determination of the final rates. Supporting documentation shall include, but not be limited to filing a completed version of the Revenue Requirement Work Form excel spreadsheet. COLLUS should also show detailed calculations of the revised retail transmission rates and variance account rate riders reflecting this Decision.

The Board is concerned with the amount of time and energy that some intervenors are putting into matters of detail that are not matters of principle and are not material. This level of scrutiny has the potential to increase costs to the utility, intervenors and the Board and to increase the overall regulatory burden associated with rate setting, while not meaningfully contributing to the setting of just and reasonable rates.

RATE ORDER

A Rate Order decision will be issued after the processes set out below are completed.

COST AWARDS

The Board may grant cost awards to eligible stakeholders pursuant to its power under section 30 of the *Ontario Energy Board Act, 1998*. When determining the amount of the cost awards, the Board will apply the principles set out in section 5 of the Board's Practice Direction on Cost Awards. The maximum hourly rates set out in the Board's Cost Awards Tariff will also be applied.

All filings with the Board must quote the file number EB-2008-0226**,** and be made through the Board's web portal at www.errr.oeb.gov.on.ca, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must be received by the Board by 4:45 p.m. on the stated date. Please use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.oeb.gov.on.ca. If the web portal is not available you may e-mail your documents to the attention of the Board Secretary at

BoardSec@oeb.gov.on.ca. All other filings not filed via the Board's web portal should be filed in accordance with the Board's Practice Directions on Cost Awards.

THE BOARD DIRECTS THAT:

1. COLLUS shall file with the Board, and shall also forward to AMPCO, Energy Probe, SEC, and VECC, a Draft Rate Order attaching a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision, within 14 days of the date of this Decision. The Draft Rate Order shall also include customer rate impacts and detailed supporting information showing the calculation of the final rates.

2. AMPCO, Energy Probe, SEC, and VECC shall file any comments on the Draft Rate Order with the Board and forward to COLLUS within 7 days of the filing of the Draft Rate Order.

3. AMPCO, Energy Probe, SEC, and VECC shall file with the Board and forward to their respective cost claims within 26 days from the date of this Decision.

4. COLLUS shall file with the Board and forward to AMPCO, Energy Probe, SEC, and VECC responses to any comments on its Draft Rate Order within 7 days of the receipt of any submissions.

5. COLLUS shall file with the Board and forward AMPCO, Energy Probe, SEC, and VECC any objections to the claimed costs within 40 days from the date of this Decision.

6. AMPCO, Energy Probe, SEC, and VECC shall file with the Board and forward to COLLUS any responses to any objections for cost claims within 47 days of the date of this Decision.

7. COLLUS shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

DATED at Toronto, April 17, 2009

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary