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April 24, 2009

VIA MAIL and E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: Innisfil Hydro Distribution Systems Limited
Application for 2009 Electricity Distribution Rates
Board File No. EB-2008-0233

Please find enclosed a Notice of Motion for a Review and Vary of the Board's decision dated April 6, 2009. The motion is filed on behalf of VECC, with the support and input of Energy Probe and the School Energy Coalition, all three of which were registered intervenors in the original rate application.

The motion for review and vary is with respect to the discrete issue of the Board's use of the deemed long term debt rate (7.62%) as the rate for forecast 3rd party non-variable debt to be issued in 2009, as opposed to the applied for rate of 5.08% as forecasted by the applicant.

To that end, we note that the decision of the Board in Collus Power Corp. (EB-2008-0226) makes similar use of the deemed long term rate in place of the forecast rate; it is VECC's intention to request a review and variance of the Collus decision on essentially identical grounds. Accordingly we would ask that the Board consider providing for a combined proceeding wherein this discrete issue can be heard once for both utilities.

Additionally, we note that the effective date of the Rate Order in this application is fast approaching. Accordingly we would ask that the Board make provision for either a stay of the Decision or for deferral account treatment of the revenue requirement impact of the requested change in the debt rate, as requested in the Notice of Motion.

Yours truly,

Michael Buonaguro

Counsel for VECC
Encl.

EB-2008-0233

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

AND IN THE MATTER OF an Application by Innisfil Hydro Distribution Systems Limited for an Order or Order setting just and reasonable rates commencing May 1, 2009.

AND IN THE MATTER OF the Board's Decision With Reasons dated April 6, 2009.

MOTION RECORD OF THE

VULNERABLE ENERGY CONSUMERS COALITION

For a Review of the Board's Decision Dated April 6, 2009

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E-Mail: lauriec@innisfilhydro.com

AND TO: All Intervenors

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

AND IN THE MATTER OF an Application by Innisfil Hydro Distribution Systems Limited an Order or Ordersetting just and reasonable rates commencing May 1, 2009.

AND IN THE MATTER OF the Board's Decision with Reasons dated April 6, 2009.

NOTICE OF MOTION

TAKE NOTICE that the Vulnerable Energy Consumers Energy Coalition ("VECC") will make a motion to the Ontario Energy Board, 26th Floor, 2300 Yonge Street, Toronto, Ontario.

PROPOSED METHOD OF HEARING: The motion is proposed to be heard orally.

THE MOTION IS FOR:

a. A review and variance of the Board's Decision With Reasons dated April 6, 2009, substituting the Board's use of the deemed long term debt rate of 7.62% for a long term debt rate of 5.08% with respect to the applicant's forecasted rate for new, 3rd party, non-variable debt to be issued in 2009, with a corresponding reduction in the applicant's revenue requirement.

b. An order staying the operation of the Board's Decision dated April 6, 2009 pending the resolution of this motion, or alternatively an order allowing the revenue requirement impact of the motion to be tracked and refunded to ratepayers if the motion is successful, and have the applicants' base rates adjusted prior to any subsequent IRM adjustment.

c. An order allowing VECC to recover its costs of this motion.

THE GROUNDS FOR THE MOTION ARE:

1. The applicant, Innisfil Hydro Distribution Systems Limited, applied for rates effective May 1, 2009. The Filing Requirements for Transmission and Distribution Applications dated November 14, 2006 specifies that applicants are to provide forecast test year costs for the cost of capital components. In applying for cost of capital parameters, the applicant provided evidence with respect to its forecasted issuance of new, 3rd party, non-variable debt in 2009.

2. The Report of the Board dated December 20, 2006, outlines the Board's policy that with respect to new, 3rd part debt that is not variable, the rate to be incorporated in the determination of an applicant's cost of capital is the contracted debt rate.

3. The applicant forecasted the issuance of new, 3rd party, non variable debt in 2009 through the Infrastructure Ontario program at a rate of 5.08%.

4. Through the interrogatory process, the applicant requested that the interest rate used for the purpose of a rate order effective May 1, 2009 be the Infrastructure Ontario rate available to it at the time the Board calculated its deemed long term rate for 2009 rate applicants.

5. In reply submissions, the applicant agreed that it could and would enter into an Infrastructure Ontario loan at a shorter term then 25 years, allowing it to take advantage of lower interest rates.

6. At the time the Board calculated its long-term deemed debt rate for 2009 rate application, the Infrastructure Ontario rate available to the applicant, at a shorter than 25 year term, was less than the applied for 5.08%.

7. All the intervenors accepted the applicant's forecasted issuance of new, third party, non-variable long term debt at 5.08% for 2009 as reasonable.

8. Neither the applicant nor any party suggested, nor was there any evidence with respect to the appropriateness of applying the Board's deemed long term debt rate as the forecast of the applicants new, third party, non variable long term debt, as opposed to the relying on the applicant's forecasted rate.

9. Despite the evidence of the loan the applicant was going to enter into, and despite the rate that loan was forecasted to attract, the Board decided that the loan would be assessed at the deemed long term rate of 7.62%.

10. The failure of the Board to incorporate a long term debt rate based on the evidence of the forecasted long term debt rate is a reviewable error in fact.

11. The Board's use of the deemed long term debt rate calculated in accordance with the Report of the Board dated December 20, 2006 in the context of forecasted, 3rd party, non-variable, new debt to be issued in the relevant rate year is a reviewable mistake in fact with respect to the applicability of the Board's Cost of Capital policies and, in particular, the role of the Board's deemed long-term debt rate.

12. The issue of the appropriate use of the Board's deemed long term debt rate is an important point of principle, in that

a) it will have application across all similar applicants,

b) the spread between the deemed long term rate and the actual rate available from third parties to a utility can be, as shown in the evidence in this case, significant,

c) the debt rate that is ultimately incorporated into rates on rebasing will be embedded in rates over the full Incentive Regulation Mechanism term, such that variations between the actual rates available to utilities and the deemed rate are compounded over the IRM term.

13. The Board, has recently released a second, essentially identical decision (Collus Power Corp. EB-2008-0226) in which the forecast evidence of the applicant was supplanted by the Board's deemed long term rate, which decision is to be the subject of a similar review and vary motion and which VECC submits should be heard simultaneously with the current motion.

14. VECC also relies upon:

i. Rules 42-44 of the Board's *Rules of Practice and Procedure*; and

ii. such further grounds as counsel may advise and this honourable tribunal may permit.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the motion:

(a) The Board's Decision With Reasons dated April 6, 2009,

(b) EB-2008-0233, Exhibit 6 with respect to the Applicant's Cost of Capital,

(c) The Report of the Board dated December 20, 2006 with respect to Cost of Capital.,

(d) Filing Requirements for Transmission and Distribution Applications (OEB EB-2006-0170), November 14, 2006

(e) Interrogatory Response 2.1 to Board Staff,

(f) Interrogatory Response 25 to VECC,

(g) The Submissions of Board Staff,

(h) The Submissions of SEC,

(i) The Submissions of VECC,

(j) The Submissions of Energy Probe,

(k) The Reply Submissions of the Applicant.

Date: April 24, 2009

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E-Mail: lauriec@innisfilhydro.com

AND TO: All Intervenors

Ontario Energy Board

Commission de l'énergie de l'Ontario

EB-2008-0233

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 Innisfil Hydro Distribution Systems Limited 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 6, 2009

BACKGROUND

Innisfil Hydro Distribution Systems Limited ("Innisfil" or the "Applicant") filed an application with the Ontario Energy Board on August 15, 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. Innisfil is the licensed electricity distributor serving the Town of Innisfil.

Innisfil 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 Innisfil would be one of the electricity distributors to have its rates rebased for the 2009 rate year. Accordingly, Innisfil filed a cost of service application based on 2009 as the forward test year.

The Board assigned the application file number EB-2008-0233 and issued a Notice of Application and Hearing dated September 2, 2008. The Board approved four interventions: the Association of Major Power Consumers 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. The hearing closed with Innisfil filing its reply argument on February 20, 2009.

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

In its original application, Innisfil requested a revenue requirement of $8,241,691 to be recovered in new rates effective May 1, 2009. The resulting requested rate increase was estimated as a 16.9% increase over 2008 on the delivery component of the bill for a residential customer consuming 1,000 kWh per month.

The following aspects of Innisfil's Application for rates were accepted by all parties:

- Loss adjustment factor
- Capital projects related to utility relocates, 44 kV feeder, remote load interruptors, and M3 line extension
- Service reliability
- Smart meters
- Cost of capital and capital structure except long-term debt rate

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 Board staff, Energy Probe, SEC, and VECC and are addressed in this 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 and model
- Customer forecast

Methodology and Model

In its Application, Innisfil explained that it developed its weather normalized load forecast using a total system weather normalized purchased energy forecast based on a multifactor regression model that incorporated historical load, weather, and economic data.

The intervenors raised a number of concerns about the use of this model.

Energy Probe argued that using a single multifactor regression model falsely assumed all rate classes were influenced by the same set of variables to the same degree. Energy Probe also argued that adding an additional independent variable based on the number of customers would establish a more accurate relationship to the total system purchased energy forecast. VECC agreed.

Innisfil agreed that the number of customers should be included in the regression analysis, but noted that the monthly numbers of customers by class data were not available in Innisfil's records for the early years of the historical data.

Innisfil agreed to use the loss factor adjusted based on the average for the period 2005 to 2007, which is 1.0477 instead of 1.058, as suggested by Energy Probe.

Energy Probe submitted that the load forecasting methodology used by the Applicant also assumed the weather adjustment was proportional to each weather sensitive class, but that the three weather sensitive classes (residential, GS < 50kW, and GS > 50kW) would be expected to have different levels of sensitivity to the weather.

Energy Probe and VECC submitted that the methodology demonstrated no relationship between customer count forecast and the total weather normalized billed energy forecast. For future forecasts, Energy Probe recommended the Board direct Innisfil to develop the forecast for each rate class to include the number of customers and the normalized average use according to an econometric estimation. VECC submitted that similar to the OEB direction provided in the Toronto Hydro case[1], the Board should direct Innisfil to work with other distributors to develop a more comprehensive and integrated approach to load forecasting.

[1] Toronto Hydro Decision, EB-2007-0680, Pages 32-33

Innisfil explained that its data has a number of limitations which led it to use the single multifactor regression model for all classes. The billing cycle meter reading schedules were not at month-end which was required in order for consumption data to match the heating degree days used in the regression model, and the monthly billing data was not available for a large part of the regression period even though the billing data period matched the monthly consumption data. However, Innisfil stated that it does have the monthly amount of the kWh purchased from the IESO.

Innisfil acknowledged that the development of a load forecast model and methodology for electricity rate cost of service ("CoS") applications is evolving in the electricity industry. Innisfil stated that it expects to improve its load forecasting methodology in future CoS applications by taking into consideration comments made by parties to this proceeding as well as to other CoS applications in 2009 and beyond.

Board Findings

Given that Innisfil does not have adequate information related to monthly numbers of customers and monthly billing data to forecast load by customer class, the Board finds that the Applicant's approach for the load forecast is reasonable. The Board therefore accepts the Applicant's load forecast for the purpose of setting 2009 rates. The Board notes that in its submissions Innisfil stated that it expects to improve its load forecasting methodology in future rebased cost of service applications.

Customer Forecast

Innisfil's customer forecast was developed using the historical annual growth rate for the period from 2002 to 2007, as shown in Table 1. Innisfil used the historical annual growth rate to forecast customer connections for all classes, except for the Unmetered Scattered Load class, for which no historical data was available.

Table 1

Rate Class	2009 Number of customers/connections Forecast As Filed (Exhibit 3/ Tab 2/ Schedule 3/ Page 7/ Table 8)	As per Energy Probe Interrogatory 1 (b)
		(kWh)
Residential	13,512	155,528,870
GS < 50kW	827	31,359,068
GS > 50kW	72	40,258,708
Streetlights	2,810	1,652,371
Sentinel Lights	193	123,512
Unmetered Load	85	562,039

Energy Probe submitted that the forecasts for residential, GS<50kW, and GS>50kW classes were too low. Energy Probe also submitted that the 2009 customer forecast for the residential class should be calculated using the weighted monthly approach. Energy Probe stated that the 2009 customer forecast for GS<50kW should be based on Innisfil's December 2008 forecast, and the 2009 customer forecast for GS>50kW should be based on the September 2008 number. VECC also shared a similar view to that of Energy Probe; however SEC had no comments on the customer forecast.

In its reply submission, Innisfil objected to an increase in the customer forecast given the severe economic downturn that was expected to continue in 2009 and beyond. Innisfil submitted that the growth of GS<50kW could be expected to decline. With regards to GS>50kW, customer load could drop below the 50kW threshold due to the reduction of the production demand. Innisfil further submitted that the 2009 customer forecast that supported the billed kWh forecast of 229,484,568 kWh was the most appropriate and considered the views of all parties and the current economic conditions.

Board Findings

The Board recognizes that Innisfil filed its customer forecast when it filed its application on August 15, 2008. The Board is of a view that forecasts are by their nature imprecise. The Board is also of the view that the variations identified by intervenors are not material. The Board therefore accepts the Applicant's customer forecast for the purposes of setting 2009 rates.

OTHER DISTRIBUTION REVENUE

Energy Probe submitted that the amount in the Interest and Dividend Income account ($18,000) should be added back to reflect the delay in going from a cash position to a debt position and a reduction in the magnitude of the debt position.
Energy Probe and VECC submitted that the 2009 forecast for Interest and Dividend Income should remove the amount associated with deferral and variance accounts because the interest costs were effectively double counted.

In its reply submission, Innisfil submitted that it agreed with Energy Probe's observation that $18,000 should be added to the interest revenue as a revenue offset. Innisfil further submitted that it will remove $28,000 of regulatory asset carrying charges from account 4405 to avoid double counting.

Board Findings

The Board approves the changes in the Interest and Dividend income account as proposed by the Applicant in its 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 are proxies for capital and income taxes that otherwise would have to be paid if the Applicant 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 the Applicant's application.

Operating costs also include interest charges on the Applicant's debt. These are dealt with in the cost of capital section of the Decision.

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 Bridge	2009 Test
Operations	$ 600,374	$ 639,277	$ 733,700	$ 778,575
Maintenance	$ 416,921	$ 489,578	$ 580,100	$ 657,080
Billing & Collecting	$ 829,894	$ 923,175	$ 950,950	$ 1,010,600
Community Relations	$ 60,213	$ 49,890	$ 10,600	$ 11,700
Administrative & General (excl. LV)	$ 989,218	$ 1,071,420	$ 1,237,175	$ 1,463,165
Additional Request: IFRS				$ 25,000
TOTAL	**$ 2,896,620**	**$ 3,173,340**	**$ 3,512,525**	**$ 3,946,120**

The 2009 total OM&A expenses forecast is approximately $3,946,120, an increase of 24.4% or $772,780, from 2007 actual spending. [2] OM&A expenses in 2008 were 10.7% higher than the 2007 actual. The forecast increase from 2007 to 2009 is mainly attributed to inflation, wages and staff changes, 2009 rate rebasing costs, International Financial Reporting Standards (IFRS), and distribution system maintenance.

The following issues are addressed in this section:

- 2009 rate rebasing costs
- International Financial Reporting Standards (IFRS)
- Inflation
- Management wages and overtime
- Post Retirement Benefits
- Contracted line crews

[2] Total OM&A excludes PILs and property taxes

2009 Rate Rebasing Costs

Innisfil is requesting approval of regulatory costs of $148,000 for costs associated with the 2009 CoS application and has amortized the costs over a 4-year period ($37,000/year). The costs include preparation and review of application and interrogatories ($75,000), intervenor costs ($30,000), and legal costs ($43,000).

Energy Probe submitted that the evidence provided by Innisfil included costs related to an oral component of this proceeding and that since none was required, these costs should be reduced from the forecasted level of $148,000 to $134,000. SEC echoed Energy Probe's concern and submitted that $43,000 should be removed from the forecast.

Innisfil replied that it had estimated $43,000 for reply submission consulting costs and $30,000 for intervenor costs. Given that there are 4 intervenor groups and no minimum or maximum cost per intervenor, Innisfil submitted that it did not accept the proposal of reducing its rebasing costs as proposed by Energy Probe and SEC.

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. While there was no oral component to the hearing, there were additional procedural steps such as a second round of interrogatories. The Board accepts the proposed expense of $148,000 to be amortized over 4 years. The Board therefore allows an expense of $37,000 to be reflected in 2009 rates.

IFRS

Innisfil is requesting $100,000 for costs associated with the transition to IFRS and has proposed to amortize the costs over a 4-year period ($25,000/year). In response to SEC's interrogatory, Innisfil stated that it is planning to conduct a study to identify and assess the potential impacts on its reporting systems to transition to the IFRS reporting standards.[3] In response to Energy Probe's interrogatory, Innisfil stated that it may incur additional yearly operational expenses, but it has not included an estimate for these costs. Innisfil had stated that it has begun the planning stage for the conversion from GAAP to IFRS and will require an understanding of the OEB requirements versus the IFRS presentation of its financial records to better estimate any additional costs.[4]

Energy Probe submitted that the Board has yet to determine if all distributors will be required to convert to IFRS, the degree to which changes may be required and whether conversion costs can be minimized through a joint effort through either the Board or EDA. Energy Probe also notes that Innisfil's request is premature and should be rejected, as the Board has initiated a consultation on Transition to IFRS and Consequent Amendments to Regulatory Instruments (EB-2008-0408).

VECC submitted that an appropriate treatment for Innisfil's request will be determined by the Board's ultimate decision with respect to IFRS costs.

SEC echoed Energy Probe's response and added that the amount requested by Innisfil does not appear to be justified by any particular analysis and should be removed from its 2009 OM&A total.

Innisfil replied that the total cost includes conducting a study and transitioning to IFRS. It also stated that it was concerned with the potential IFRS transition date of January 1, 2011, and that it would be aggressively pursuing the project in 2009. Therefore, Innisfil submitted that it does not agree that the cost should be removed, but it is not opposed to utilizing a deferral or variance account to track the actual costs.

Board Findings

The Applicant has provided a forward-based forecast budget related to IFRS costs. The Board recognizes that a consultation on Transition to IFRS and Consequent Amendments to Regulatory Instruments (EB-2008-0408) has begun, but this does not mean that reasonably incurred IFRS costs should not be considered for recovery. The Board finds that amount of IFRS costs requests by the Applicant is reasonable. The Board approves the costs related to Innisfil's transition to IFRS. However, the Board will

[3] Response to SEC Interrogatory #1b
[4] Response to Energy Probe's second set of Interrogatories, Page 4, #26a

not approve a deferral account for the tracking of actual costs at this time. The Board's generic consideration of IFRS costs will address the issue of deferral accounts.

Inflation

Innisfil is requesting $214,401 for costs associated with inflation. The inflationary amounts for 2008 and 2009 were $110,506 (3.5%) and 103,895 (2.9%), respectively. Innisfil noted that the inflationary forecasts are based on forecasted inflationary increase by banking institutions and the forecasted cost of living being communicated by government agencies via newspapers and business journals.

Energy Probe submitted that the inflation percentages used by Innisfil 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 BMO Capital Markets is forecasting an inflation rate 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 of 0.5% for Ontario based on its January 2009 Provincial Economic Outlook. Energy Probe submitted that Innisfil should adopt inflation rates for 2008 and 2009 of 2.3% and 1%, respectively. Therefore, the increase related to 2008 and 2009 should be reduced by $37,888 and $38,826, respectively.[5]

SEC echoed Energy Probe's submission stating that an inflationary adjustment of 1% would be more appropriate for 2009 given that CPI forecasts for 2009 are under 1%.

VECC submitted that Innisfil's 2009 forecasted inflation rate was significantly over-forecasted and that it would be appropriate to take into account the current economic situation. Furthermore, a more recent forecast of inflation would be far below the 2.9% used by Innisfil.

In its reply submission, Innisfil stated that a 2009 CPI forecast of 1% is not appropriate. Innisfil argued that the CPI is not valid for industrial applications as it measures, among other things, food, recreation, alcohol and tobacco products and that an industry specific price index is more appropriate. Innisfil submitted that over 60% of OM&A costs are

[5] Energy Probe Submission, Pages 8 and 9

directly attributed to internal labour and external line costs that are subject to multi-year contracts and collective agreements.

Board Findings

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% and the Board directs Innisfil to adjust its 2009 forecasted inflationary amount to reflect this change.

Management Wages and Overtime

In its evidence, Innisfil has forecasted an 8% increase in average yearly base wages for management, from $84,218 in 2008 to $90,994 in 2009.[6] The main items driving the increase are:

i. Bringing management salaries in line with the average salaries published by the EDA and in line with the Town of Innisfil comparable management positions (2.4%).
ii. Up until 2009, Innisfil was providing management, billing and collecting, and Accounts Payable services to Innisfil Energy Services Ltd. (IESL). As of January 2009, Innisfil is no longer providing services to IESL. Therefore, management salaries were increased by 2.4% as time will no longer be spent on energy management issues.
iii. The President is a full-time employee for Innisfil (0.8%).
iv. Inflationary increases (2.5%).

In addition, Innisfil is requesting an average yearly management overtime budget of $4,505 per FTE.

Energy Probe submitted that even though Innisfil will eliminate services to IESL, no reductions in costs have been considered to reflect that management time, billing and collecting services, and accounts payable services are no longer required for IESL.

[6] Exhibit 4, Tab 2, Schedule 7, Page 1

Energy Probe estimated that the change in management services offered to IESL accounts for 2.4% of the 8% increase in the average yearly base wages for management. Energy Probe then submitted that the average management base wage increase should be reduced by 2.4% for a total reduction of $16,480.

Energy Probe has also requested that average management overtime be reduced by $1,000 for a total reduction of $8,000 for a management complement of 8 FTEs because Innisfil's management would no longer be required to provide any services to IESL. Energy Probe argued that the costs that were recovered for work performed for an affiliate should not be automatically recovered from customers of the regulated company. Energy Probe submitted that the inter-company revenues for management services ranged between $26,000 and $31,000 and by increasing management salaries and overtime, Innisfil is essentially recovering those lost management revenues.

VECC submitted that it is not appropriate to increase salaries paid by utilities that are below the averages published by the EDA unless utilities whose salaries are above average are systematically reduced. Furthermore, VECC noted that the compensation to utility management should be based on services provided to ratepayers and not reflect lost opportunities for management in unregulated activities. In addition, VECC submitted that the embedded inflationary rate of 2.5% should be reduced and brought in line with a more recent forecast of inflation. Lastly, VECC suggested that the Board consider whether salaried management should be eligible for any overtime payments.

SEC submitted that the increase in management salaries does not appear to have been driven by any particular need. It also stated that the increase in allocation as a result of the sale of water heaters appears to result in an increase in cost to Innisfil without any offsetting reduction in personnel costs.

In its reply submission, Innisfil stated its affiliate water rental company is selling its water heaters because Innisfil is deemed non-compliant according to the latest amendments made to the Affiliate Relationships Code (ARC). Innisfil explained that its water heater affiliate does not have any employees and that Innisfil shares the time for two of its management employees, the President and the CFO/Treasurer, with its affiliate company. Innisfil stated that the billing, collection, and AP services were billed on a per transaction basis and the management time spent on the affiliate was marginal.

Furthermore, Innisfil stated that it did not adjust salaries based on EDA averages alone and that it used mean and median comparators as well as municipal salaries as comparators. In addition, Innisfil submitted that its compensation to utility management does not reflect lost opportunities for management in unregulated activities.

With respect to overtime, Innisfil noted that it does not have any line crews. Innisfil explained that its control room functions are performed by Innisfil's management, and not by unionized staff as is the case in other utilities. Innisfil stated that the work done by contract line crews is of a transient nature. Innisfil submitted that its management performs control room functions for after hours crew dispatch, SCADA operations and coordinating switching with Hydro One to support the work performed by contract line crews. Innisfil stated that its management does not receive shift premiums, standby pay, minimum call out pay or time and one half or double time pay that are usually paid to unionized staff. Furthermore, it stated that its management does not receive bonus pay that is common practice throughout the industry. Innisfil therefore submitted that there should not be any offsetting reduction in employee costs.

Board Findings

The Board finds that Innisfil's approach in setting wages for its management is appropriate based on its use of wage comparators and its practical judgment. Based on Innisfil's rationale, the Board will accept the wage increase for management. In regards to overtime, the Board finds that it is appropriate for Innisfil's management, and not the Board, to determine the overall compensation scheme of the company.

Post Retirement Benefits

Energy Probe submitted that the onetime setup charge of $22,604 associated with the post-retirement benefits should be recovered over a 4 year period rather than a 3 year period.

In its reply submission, Innisfil agreed with Energy Probe and stated that it would make the necessary changes to the recovery period for the post retirement benefits.

Board Findings

The Board accepts the proposed 4 year amortization period as was agreed by Innisfil in its reply submission.

Contracted Line Crew

Innisfil is requesting approval of a $146,000 increase related to the increased costs of its contracted line crew. The 2008 and 2009 increases are $74,000 and $72,000 respectively that suggest a 20% increase in line crew costs. In response to a Board staff interrogatory,[7] Innisfil stated that in January 2008 the non-union line contractor McG Poleline Ltd. that had been utilized for the past several years was being sold to K Line Maintenance and Construction Ltd ("K Line"). In March 2008, Innisfil issued a tender for overhead and underground hydro utility line works to any interested contractors. The contract was awarded to K Line because it provided the lowest price.

Board staff invited parties to comment on whether Innisfil had adequately explored alternate options to contracting line work as opposed to accepting a significant increase in costs. While SEC stated that it does not suggest that the RFP was carried out improperly, it questioned the quality of Innisfil's RFP process and inquired why there were not more attractive offers submitted. SEC suggested that Innisfil needs to start developing an alternative to the current service provider.

In its reply submission, Innisfil stated that it had issued a public line contract tender in the spring of 2008 and all known line contractors in the Barrie area and GTA were contacted directly. In addition, an advertisement was placed on the EDA's website. Innisfil stated that several responses were received and the lowest bid was chosen. Innisfil submitted that by purchasing services from K Line that were established through a public tender process, it pays market rates for contracted line crew costs. Innisfil then stated that because of its previous long term relationship with McG Poleline Innisfil was paying less than market rates for the contracted crew services up to July 1, 2008.

In its reply submission, Innisfil further explained that it did not have the lead time to pursue the option of internalizing line crews. In any event, it would still need line contractors to assist with the capital and maintenance projects if it had established its

[7] Response to Board Staff Interrogatory #1.2c

own internal crew operation. Finally, Innisfil submitted that it has been advantageous to control its variable costs by deploying contract line crews from a contractor pool and paying for the personnel and equipment as needed.

Board Findings

The Board finds that Innisfil undertook the tender process appropriately and with the requisite due diligence and that it was appropriate to have chosen the lowest bid. The Board accepts Innisfil's request of a $146,000 increase related to the costs of its contracted line crew.

PAYMENTS IN LIEU OF TAXES (PILs)

Innisfil's evidence contained detailed tax calculations which showed a regulatory income tax amount of $575,915 as payable in 2009. This was based on an assumed tax rate of 33%.

Board staff noted that Innisfil seemed to have calculated an income tax rate by adding the grossed-up PILs, already computed, to the regulatory net income. Board staff submitted that Innisfil's methodology resulted in a higher tax rate, as adding the PILs tax amount to the regulatory net income produces a higher taxable income. Board staff stated that Innisfil's method diverges from the Board's established methodology. Board staff noted that the impact of this divergence is immaterial. 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. Innisfil submitted that its method had been verified by an independent auditor and appeared to be correct.

Energy Probe raised a concern regarding misclassification of amounts in certain CCA accounts and submitted that appropriate adjustments to correct any misclassifications should be made for the calculation of the 2009 CCA amount. Innisfil agreed with Energy Probe's submission on this matter.

Intervenors observed that the January 27, 2009 federal budget introduced changes that may have an impact on Innisfil's regulatory taxable income in 2009.
Innisfil stated that whenever an adjustment or an update to income or capital taxes had been necessary during the present rates process, that adjustment or update had been done.

<u>Board Findings</u>

The Board directs Innisfil to adhere to the Board's established PILs methodology in its next cost of service rate adjustment filing. Due to the relative non-materiality of the differential between Innisfil's methodology and the Board's established methodology, the Board will not require Innisfil to adjust its methodology for the purposes of rate-setting in the present proceeding.

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

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

The Board directs Innisfil 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

Innisfil is requesting approval of $23.0 million for the 2009 rate base. This amount is a 14.7% increase ($2,952,345) from Innisfil's 2007 actuals and a 17.0% increase ($3,342,467) from its 2006 actuals.

The following issues are addressed in this section:

- Capital expenditures
    - Road Widening Project
    - Proposed reductions in Other Capital Expenditures
- Working capital allowance
- Computer software depreciation

Capital Expenditures

Innisfil's original application proposed capital expenditures of $6,497,892 in 2009, which Innisfil subsequently reduced to $5,167,342 through responses to interrogatories, particularly the response to VECC's second round interrogatory #25 ("the Update").[8] This revised figure represents an increase of approximately 100% compared to the 2008 projected level of $2,577,260 and an increase of approximately 275% compared to 2007 actual capital expenditures of $1,485,248.

Table 3 lists the percentage change in capital expenditures from 2007 actuals to the 2009 Test year.

Table 3T[9]

	2007 Actual	**2008 Bridge**	**2009 Test**
Capital Expenditures	$1,485,248	$2,577,260	$5,167,342
% change as compared to the prior year		73.5%	100.5%

Innisfil's five-year capital plan showed capital expenditures projected to be at approximately the $2.6 million level in 2008, rising to approximately $5.2 million in the 2009 Test year and in the range of $3.9 to $4.3 million in the 2010 to 2012 period.[10]

The following issues are addressed in this section:

- Capital expenditures – Road Widening Project
- Proposed reductions in Other Capital Expenditures
  - Customer connections and metering
  - General plant expenditures

[8] VECC Second Round Interrogatory Response #25 (the Update)
[9] Based on Exhibit 2/Tab 3/Schedule 1 and the Update
[10] Board staff Interrogatory Response #3.3

Road Widening Project

Innisfil's application provided a breakdown of its forecast capital expenditures for the 2009 Test year, as revised in the Update. A key area responsible for the $2.6 million forecast 2009/2008 increase in capital expenditures was in the area of customer demand.

Innisfil's expenditures in the customer demand category, increased from approximately $950,000 in 2008 to $2.3 million in 2009, or an increase of $1.35 million, based on the information provided in the Update. This increase is significantly related to a road widening project to allow for an underground relocation and urbanization of Innisfil Beach Road. This project had been scheduled to take place over a four year period beginning in 2008 and Innisfil's application, as originally filed, contained cost estimates of $750,000 for 2008 and $788,800 for 2009 for this project.

Innisfil stated in the Update that the beginning of the project had been delayed from 2008 until 2009 and the cost for the first phase had increased from $750,000 to $1,050,000. The overall effect of the Update on the costs of this project was a decrease of $750,000 in 2008, due to the one-year delay and an increase in 2009 from the originally budgeted level of $788,800 to $1,050,000.

Energy Probe submitted that if the Board was to allow this increase, it should also require some increase in the contributions that offset the increase in capital expenditures. Energy Probe submitted that the Board should direct Innisfil to increase the contributions that offset capital expenditures to reflect higher contributions related to the $300,000 increase in the cost of this project. VECC supported Energy Probe's submission.

In its reply submission, Innisfil stated that it agreed with Energy Probe's submission and estimated that the contributions for this project should increase by $56,000.

<u>Board Findings</u>

The Board finds that Innisfil has adequately justified the proposed expenditure level on this project. The Board also notes that no parties objected to the Applicant's proposal.

The Board accepts Innisfil's estimate that contributions for this project should increase by $56,000.

Proposed Reductions in Other Capital Expenditures

Energy Probe noted that Innisfil had made significant changes to its forecast of capital expenditures in both 2008 and 2009 from the levels originally filed. Energy Probe stated that it accepted the net impact of these changes. However, it referred to Innisfil's response to a VECC interrogatory indicating that there was an additional reduction in 2008 capital expenditures of $115,300.[11] In its reply submission, Innisfil agreed with Energy Probe.

Customer Connections and Metering

Energy Probe submitted that Innisfil should be required to make two further reductions in its forecast 2009 capital expenditures. First, Energy Probe noted that Innisfil was forecasting an increase in capital expenditures related to customer connections and metering from a level of $80,000 in 2008 to $144,000 in 2009.[12] Energy Probe requested a reduction of $64,000 in 2009 capital expenditures related to this item, which was supported by VECC. Innisfil agreed with the intervenors, but submitted that the budget should be reduced to $74,000, not $80,000 as proposed by Energy Probe.

General Plant Expenditures

Energy Probe's second proposed area of reduction was in the area of general plant expenditures, which Energy Probe submitted should be maintained at 2008 levels in 2009 resulting in a proposed reduction of $50,000. This was also supported by VECC. Innisfil disagreed with this proposal characterizing it as unsubstantiated and arbitrary, given the review and analysis already put forward to develop the 2009 capital requirements.

[11] VECC Interrogatory Response #25
[12] Energy Probe Interrogatory Response #23

Board Findings

The Board finds that Innisfil has adequately justified the remainder of its capital program and approves it. The Board accepts Innisfil's proposed downward adjustment to customer connections and metering capital expenditures of $80,000.

Working Capital Allowance

Energy Probe and VECC both made submissions on Innisfil's proposed working capital allowance. Energy Probe stated that it accepted the approach taken by Innisfil to calculate the allowance with some proposed adjustments. Energy Probe continued to believe the 15% methodology may be overstating the required allowance for working capital. Therefore, it recommended the Board direct Innisfil to prepare a lead lag study for its next rebasing application. VECC supported Energy Probe's position. In its reply submission, Innisfil stated that in the context of this application, the methodology it has used remains appropriate.

Energy Probe submitted that Innisfil's calculation should be adjusted so that its cost of power component reflects the most recent cost of power forecast presented to the Board. VECC supported Energy Probe's position. Innisfil stated that it had used an updated rate of $0.0603 per kWh from the Board's Regulated Price Plan Report.

Energy Probe also 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 noted that some other distributors are not billed by the IESO for all components of the RPP price and are billed for different components for non-RPP customers.[13] 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 also expressed concern over the methodology used by Innisfil to calculate the commodity component of the cost of power.

[13] VECC Interrogatory Response #43 - COLLUS Power (EB-2008-0226),

Energy Probe submitted that Innisfil had used an incorrect loss factor in the calculation of the energy quantities used in the calculation of the cost of power portion of the working capital component of rate base. Energy Probe submitted that the impact on working capital was an increase of $57,322 and that this increase was appropriate. Innisfil agreed with Energy Probe.

Board Findings

The Board notes that Innisfil 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 Innisfil to prepare a lead lag study for its next rebasing application. In making this finding, the Board is mindful of the significance of the costs of such studies to smaller utilities. The Board therefore finds that Innisfil's approach of using a 15% factor to derive its working capital allowance is reasonable.

The Board notes that Innisfil has stated that it has used the updated rate of $0.0603 per kWh from the Board's Regulated Price Plan. The Board directs Innisfil to make any other corrections to these calculations that may be necessary.

The Board will not require Innisfil 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.

Computer Software Depreciation

Energy Probe stated that Innisfil was depreciating computer software over three years, whereas it submitted that this depreciation expense should be based on a five year period. In its reply submission, Innisfil submitted that the use of a 5 year amortization period is not appropriate and that due to how quickly software becomes out of date, 3 years is a reasonable amortization period.

Board Findings

The Board accepts Innisfil's arguments for the use of its proposed three year amortization period for computer software and finds the three year period to be reasonable based on the evidence presented.

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.
Innisfil has proposed a weighted debt cost rate for 2009 of 6.93%, consisting of three instruments, which are a note payable to an affiliate at an interest rate of 3.35%, a debenture payable to the Town of Innisfil at a 9.75% rate, and a bank loan to be obtained in 2009 at a 5.08% rate. Parties to the proceeding made submissions on each of these instruments.

Bank Loan

Energy Probe noted that as a result of the reduction in forecast capital expenditures made by Innisfil since its application had originally been filed, the amount of this bank loan had been reduced from $4.0 million to $1.9 million.[14] Energy Probe submitted that it accepted this reduction as reasonable.

Energy Probe noted that Innisfil had forecast a rate of 5.08% on this bank loan based on a 25 year rate for a serial loan from Infrastructure Ontario which had increased to 6.17% as of October 31, 2008.[15] Energy Probe added that Innisfil had proposed that the debt rate to be used for the bank loan be based on an Infrastructure Ontario rate when the Board set the deemed long term debt rate.
Energy Probe made two submissions on Innisfil's proposal. First, it agreed in principle with the use of the proposed Infrastructure Ontario rate, noting that this rate had fallen from 6.17% to 5.47%, as of January 30, 2009. Energy Probe stated, however, that it was unclear why the proposed 25 year term is the appropriate one to use. Energy

[14] Exhibit 6, Tab 1, Schedule 3, Page 2 and VECC Revised Interrogatory Response #25
[15] Board staff Interrogatory Response #2.1 and Board staff submission pages 8-9

Probe noted that lower rates are available from Infrastructure Ontario for shorter terms and that these rates were lower than the originally forecast 25 year 5.08% rate. Energy Probe submitted that the Board should approve a deemed long term weighted debt rate that includes the original forecast rate of 5.08%, as Innisfil has access to rates in this order of magnitude and lower for terms less than 25 years.

In its reply submission, Innisfil stated that it agreed with Energy Probe's observation regarding the term of the debt and would enter into a shorter term loan with the corresponding lower rate.

Board Findings

The Board finds that Innisfil should use the Board's current deemed long term debt rate of 7.62% as the imputed rate on its new bank loan in determining its cost of debt for regulatory purposes rather than its proposed rate of 5.08%, since as of the completion of the record for this proceeding, Innisfil has not issued its new bank loan and as such, the rate on this instrument is unknown.

The table below sets out the Board's conclusions for Innisfil's 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	7.81
Short-Term Debt	4.0	1.33
Equity	43.3	8.01
Weighted Average Cost of Capital		**7.64**

COST ALLOCATION AND RATE DESIGN

The following issues are addressed in this section:

- Line losses
- Cost allocation and revenue to cost ratios
- Rate design - monthly fixed charges
- Retail transmission rates

Line Losses

Innisfil proposes a total loss factor (“TLF”) of 1.0746 for secondary metered customers and 1.0638 for primary metered customers.

The TLF is based on:

- A three year average (2005 to 2007) distribution loss factor (“DLF”), which Innisfil has determined to be 1.0477 and 1.0372 for secondary and primary metered customers, respectively; and
- The 2007 supply facility loss factor (“SFLF”), which Innisfil has determined to be 1.0257.

In choosing a three year average for DLF, Innisfil has eliminated some anomalous data from previous years. The proposed SFLF is lower than the typical factor. Energy Probe supported Innisfil’s proposal.

Board Findings

Innisfil’s proposal to use a three year average of distribution loss factors and to use the 2007 supply facility loss factor is reasonable. The Board therefore finds the total loss factor for secondary metered customers is 1.0746 and for primary metered customers is 1.0638. The Board directs Innisfil to incorporate the necessary corrections into its draft rate order.

Cost Allocation and Revenue to Cost Ratios

Table 5 sets out Innisfil's current and proposed revenue to cost ratios. The ratios from the Cost Allocation Informational Filing submitted by Innisfil in January 2007 are listed in column 1. The proposed ratios are in column 3. 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 4.

Table 5 - Revenue to Cost Ratio (%)

Customer Class	(1) Informational Filing	(2) Column 1 Revised (Transformer Ownership Allowance)	(3) Application: Exhibit 8 / Tab 1 / Schedule 2 / p. 2	(4) Board Target Range
Residential	101.6	101.75	101.2	85 – 115
GS < 50 kW	131.0	131.13	116.2	80 – 120
GS > 50 kW	146.6	144.69	135.8	80 – 180
Street Lights	9.5	9.47	40.0	70 – 120
Sentinel Lights	17.0	17.01	43.0	70 – 120
USL	78.9	78.88	80.0	80 – 120

In its submission, VECC noted the following concerns with Innisfil's cost allocation informational filing:

- Innisfil's cost allocation informational filing treated the revenue reduction from the transformer ownership allowance as a "cost" and allocated it to all customer classes. At the same time the revenues for the GS > 50 kW class were reported based on no adjustment for transformer ownership.
- Innisfil used the class revenue requirement distribution from the Cost Allocation Informational Filing to determine 100% cost responsibility for 2009. VECC noted that a number of other utilities have reassessed the ongoing validity of their cost allocation informational filing as part of their 2009 rate application.[16]

[16] Westario Power (EB-2008-0250), COLLUS Power (EB-2008-0226), and Bluewater Power (EB-2008-0221).

In response to a VECC interrogatory,[17] Innisfil provided an alternate run of the cost allocation model that reflects the removal of costs and revenues associated with the transformer ownership allowance. The resulting revenue to cost ratios are listed in column 2.

VECC submitted that the ratios in column 2 more closely represent the appropriate reference point to determine the allocation of the distribution revenue requirement that would yield 100% cost responsibility for each class. VECC noted that in the Horizon Utilities decision (EB-2007-0697), the Board accepted a similar adjustment to the cost allocation model.

In reply, Innisfil stated that the difference in columns 1 and 2 is slight and that there would be little impact, if any, on the proposed revenue to cost ratios. With respect to VECC's concern about class revenue requirement to determine 100% cost responsibility for 2009, Innisfil submitted that it followed an iterative process of allocating proportions of revenue to the classes. Innisfil further submitted that it approached the cost allocation adjustment using methodology utilized in the 2008 cost of service applications.

According to the informational filing shown in Table 5 (column 1 or column 2), the ratios for four customer classes, GS < 50 kW, street lights, sentinel lights and USL are currently outside the Board's target range.

As listed in column 3, Innisfil is proposing to move in the direction of 100% for all classes. Innisfil proposed to move the ratio for street lighting and sentinel lighting customer classes half of the way towards the lower band of 70% in this application. Innisfil further proposed to move these two classes to 70% over the following two years to reduce the rate impact. The USL customer class is marginally outside the range and Innisfil proposed moving the ratio to 80% in 2009. Energy Probe and VECC stated that these proposals were reasonable.

Energy Probe did not support adjustment of ratios for the residential and GS > 50 kW customer classes as these ratios are already within the Board's target range. Instead, Energy Probe recommended that the revenue from adjusting street light, sentinel light and USL customer classes offset the revenue to cost ratio of the GS < 50 kW class to

[17] VECC interrogatory #20

120%. Any additional revenue should be applied in tandem to the GS < 50 kW and GS > 50 kW customer classes. VECC made a similar submission regarding adjustment of ratios. SEC on the other hand stated that both GS customer classes are subsidizing the other customer classes. SEC recommended that the revenue to cost ratio for the GS < 50 kW customer class move to 100% over the IRM period and that the ratio for the GS > 50 kW customer class move half of the way to 100% in 2009.

Innisfil stated that it attempted to move all customer classes toward unity while minimizing the impact as much as possible for each customer class. Innisfil noted that the Board's report on cost allocation indicated that the cost allocation process calls for the exercise of some judgement. Innisfil submitted that a revenue to cost ratio of 120% for the GS < 50 kW class may not be more appropriate than the proposed ratio of 116.2%.

Board Findings

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 2 of Table 5 are appropriate for the purposes of reviewing the ratios for 2009. Accordingly, the Board's findings on revenue to cost ratio are made with respect to the ratios in column 2. The Board also acknowledges VECC's position relating to the ongoing validity of the cost allocation informational filing. Innisfil has not provided an updated cost allocation and is ordered to do so as part of its next cost of service application.
The Board accepts Innisfil's proposal regarding revenue to cost ratios for street lighting and sentinel lighting. The proposal is consistent with 2008 Board decisions. Innisfil's proposal to adjust the USL customer class to 80% is reasonable and accepted by the Board.

The Board concurs with both SEC and Innisfil regarding the over contribution by the GS customer classes, but finds that the impact of SEC's proposal on the other customer classes would be too significant. The Board accepts Innisfil's proposed reallocation in order to achieve unity and to reduce cross-subsidization. The Board finds that while it is not required to do so, it is within the utility's discretion to move towards revenue to cost ratios of unity as long as the impact can be borne by affected rate classes.

Rate Design - Monthly Fixed Charges

In its application, Innisfil proposed to change the current fixed/variable proportion from 57:43 to 50:50. Innisfil stated that it is appropriate for 2009 to shift the weighting of fixed vs. variable to increase the variable proportion to be aligned with the conservation movement.[18]

VECC was the only party to comment on this proposal. VECC submitted that Innisfil's current residential monthly fixed charge of $19.24 is within the range established by the Board's November 2008 Guidelines. As a result, VECC submitted that the current residential fixed/variable split should be maintained. In its reply submission, Innisfil stated that it does not object to maintaining the existing fixed/variable proportion. However, Innisfil submitted that it made a conscious effort to move the fixed/variable split to align with the Minister of Energy and the Ontario Power Authority conservation objectives, as discussed in its rate application.

<u>Board Findings</u>

The Board notes Innisfil's intentions to assist conservation as well as the limited comment from intervenors on monthly fixed charges. It is the Board's view that both fixed/variable proportions of 57:43 and 50:50 are acceptable, and that the proportion is within the utility's discretion. The Board therefore approves the Applicant's proposal.

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.

[18] Exhibit 9, Schedule 1, Tab 1, Page 3

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%

In response to a Board staff interrogatory, Innisfil stated that it was applying for an increase of 11.3% to network rates and 5.5% to connection rates.[19] VECC noted that Innisfil also stated that it is applying for rate changes of -16.9% and 20.9% for the network and connection charges, respectively based on the trend in deferral account balances. VECC submitted that the RTSR proposal was unclear. Further, VECC stated that the deferral account trends were based on only three months of data and more analysis is required to support adjustments to the RTSRs. VECC submitted that the Board should limit the adjustment to 11.3% and 5.5 % for the network and connection rates, respectively.

In its reply submission, Innisfil stated that its reply to interrogatories was incomplete. Innisfil confirmed that it is applying for UTR adjustments of 11.3% and 5.5% for the network and connection rates, respectively, and proposed adjustments of -16.9% to network rates and 20.9% to connection rates associated with the trend in the deferral account balances. Innisfil's reply submission provided its complete response to interrogatories including a table summarizing proposed RTSRs reflecting UTR adjustments and adjustments to address trends in deferral account balances.

Innisfil clarified that it performed the deferral account trend analysis for the period of January 2006 to September 2008. Innisfil also explained that the Board approved a UTR change in May 2008 and that the data for August and September 2008 were unusual. Hence the deferral account trend analysis is limited to data from the months of May to July 2008.

[19] Board staff Interrogatory #10.1

Board Findings

The Board agrees with VECC that Innisfil's deferral account balance trend analysis is based on limited data. However, the net impact of Innisfil's proposal on customer RTSRs, network and connection combined, is minor and the proposal may mitigate trends in the balances in the RTSR deferral accounts. Accordingly, the Board accepts Innisfil's proposal.

DEFERRAL AND VARIANCE ACCOUNTS

Table 7 sets out the account balances (as of December 31, 2007 with interest forecast to April 30, 2009) which Innisfil proposes to clear for disposition. Innisfil used an interest rate of 3.35% for the January 1, 2009 through April 30, 2009 period in the calculation of the interest carrying costs. Innisfil proposed to collect these balances over 2 years.

Table 7 – Innisfil Proposed Deferral and Variance Accounts for Disposition

ACCOUNT #	ACCOUNT NAME	BALANCE - $
1508	Other Regulatory Assets • Sub-Account – OEB Cost Assessments • Sub-Account – Pension Contributions	 $ 51,949 $123,237
1550	LV Variance	$247,804
TOTAL		**$422,990**

VECC and Energy Probe submitted that the interest rates to determine the accrued interest should be based on the Board's latest prescribed interest rate of 2.45%. Energy Probe also submitted that Innisfil's 2 year recovery period should be extended to 4 years to match the length of the 3rd Generation IRM plan and mitigate customer impacts. In its reply submission, Innisfil agreed with the intervenors that the revised rate riders should be calculated using the 2.45% interest rate and a 4 year recovery period.

Board Findings

The Board notes Innisfil's agreement with the intervenors to dispose of the balances in Account 1508 and 1550 over the period of 4 years. The Board accepts Innisfil's change in recovery period of accounts balances from 2 years to 4 years. The amounts to be disposed of are the principal balances as of December 31, 2007 and interest forecast to April 30, 2009, based on the Board's prescribed interest rate.

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 Innisfil. 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 Innisfil 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 Innisfil to file detailed supporting material, including all relevant calculations showing the impact of this Decision on Innisfil's proposed revenue requirement, the allocation of the approved revenue requirement to the classes and the determination of the final rates. Innisfil should also show detailed calculations of the revised retail transmission rates and variance account rate riders reflecting this Decision.

Innisfil should also provide a detailed breakdown of its capital expenditure and rate base calculations for both 2008 and 2009 which would demonstrate that all adjustments proposed by Innisfil in the Update and approved by the Board have been included and that no items have been omitted, or double counted.

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 regarding the Draft Rate Order as 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-2008-0233**,** 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. Innisfil 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 Innisfil 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. Innisfil 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. Innisfil 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 Innisfil any responses to any objections for cost claims within 47 days of the date of this Decision.

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

DATED at Toronto, April 6, 2009

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary

OVERVIEW:

The purpose of this evidence is to summarize the method and cost of financing Innisfil Hydro's capital requirements for the 2009 test year.

Deemed Capital Structure:

Innisfil Hydro has a current a current deemed capital structure of 53.3% debt, 46.7%, and a return on equity of 9.00%, consistent with the capital structure and return specified in the OEB's Decision in EB-2007-0845, dated 21st April, 2008. Innisfil Hydro is requesting Board approval of a capital structure of 56.67% debt, 43.33% equity including an equity return of 8.57%.

Innisfil Hydro is requesting this change in capital structure and associated return on equity primarily to comply with the Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario Electricity Distributors dated August 15, 2006. That Report requires all licensed Ontario electricity distributors to move toward a 60% debt/40% equity ratio. Details are provided in Exhibit 6, Tab 1, Schedule 2. Innisfil Hydro believes the requested capital structure and equity return will provide continued access to long-term debt at reasonable rates.

Return on Equity:

Cost of Debt:

The details of Innisfil Hydro's forecast long-term debt cost of 6.27% for 2009 is provided in Exhibit 6 Tab 1, Schedule 3. Long-term debt cost information for the 2006 Board Approved, 2006 and 2007 Actual, 2008 Bridge Year are also provided in Exhibit 6, Tab 1, Schedule 3.

Return on Equity:

Innisfil Hydro is requesting an equity return for the 2009 Test year of 8.57% in accordance with the cost of capital study filed at Exhibit 6, Tab 1, Schedule 3. Innisfil Hydro understands that the OEB will be finalizing the return on equity for 2009 rates based on January 2009 market interest rate information. Innisfil Hydro's use of an ROE of 8.57% is without prejudice to any revised ROE that may be adopted by the OEB in early 2009.

DEEMED CAPITAL STRUCTURE

Table 1

2006 Board Approved

Description	$	% of Rate Base	Rate of Return	Return
Long Term Debt	9,799,359	50.00%	9.19%	900,561.09
Unfunded Short Term Debt				
Total Debt	9,799,359	50.00%		900,561.09
Common Share Equity	9,799,359	50.00%	9.00%	881,942.31
Total equity	9,799,359	50.00%		881,942.31
Total Rate Base	19,598,718	100%	9.10%	1,782,503.40

2006

Description	$	% of Rate Base	Rate of Return	Return
Long Term Debt	9,850,618	50.00%	9.15%	901,104.73
Unfunded Short Term Debt				
Total Debt	9,850,618	50.00%		901,104.73
Common Share Equity	9,850,618	50.00%	9.00%	886,555.64
Total equity	9,850,618	50.00%		886,555.64
Total Rate Base	19,701,236	100%	9.07%	1,787,660.37

2007

Description	$	% of Rate Base	Rate of Return	Return
Long Term Debt	10,045,679	50.00%	9.11%	915,396.67
Unfunded Short Term Debt				
Total Debt	10,045,679	50.00%		915,396.67
Common Share Equity	10,045,679	50.00%	9.00%	904,111.11
Total equity	10,045,679	50.00%		904,111.11
Total Rate Base	20,091,358	100%	9.06%	1,819,507.78

2008 Bridge Year

Description	$	% of Rate Base	Rate of Return	Return
Long Term Debt	11,152,815	53.33%	8.00%	892,761.09
Unfunded Short Term Debt				
Total Debt	11,152,815	53.33%		892,761.09
Common Share Equity	9,760,020	46.67%	9.00%	878,401.81
Total equity	9,760,020	46.67%		878,401.81
Total Rate Base	20,912,835	100%	8.47%	1,771,162.91

2009 Test Year

Description	$	% of Rate Base	Rate of Return	Return
Long Term Debt	12,687,869	52.67%	6.27%	795,168.50
Unfunded Short Term Debt	963,575	4.00%	4.47%	43,071.79
Total Debt	13,651,444	56.67%		838,240.29
Common Share Equity	10,437,922	43.33%	8.57%	894,529.95
Total equity	10,437,922	43.33%		894,529.95
Total Rate Base	24,089,366	100%	7.19%	1,732,770.24

RETURN ON EQUITY

The calculations used to determine the ROE and the debt are determined in accordance with the OEB's "Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors" issued August 15, 2006.

The following Cost of Debt table provides the details of Innisfil Hydro's historical, current and projected debt requirements.

COST OF DEBT

Weighted Debt Cost

Description	Debt Holder	Affliated with LDC?	Date of Issuance	Principal	Term (Years)	Rate%	Year Applied to	Interest Cost
Note payable	Town of Innisf	Yes	December 31, 2003	2,107,444	4	7.25%	2006	152,790
				2,107,444		7.25%	2007	152,790
			December 31, 2007	2,107,444	2	3.35%	2008	70,599
				2,107,444		3.35%	2009	70,599
Debentures	Town of Innisf	No	April 1, 1995	6,640,000	20	9.75%	2006	647,400
				6,155,000		9.75%	2007	600,113
				5,621,000		9.75%	2008	548,048
				5,032,000		9.75%	2009	490,620
Bank Loan	Infastructure C	No	May 1, 2009	3,950,000	25	5.08%	2009	133,773
								0
								0
								0
								0
								0
								0
								0
								0
								0
								0
								0
								0
								0
								0

Total Long Term Debt Outstanding at end of 2006	8,747,444	**Total Interest Cost for 2006**	800,190
		Weighted Debt Cost Rate for 2006	9.15%
Total Long Term Debt Outstanding at end of 2007	8,262,444	**Total Interest Cost for 2007**	752,902
		Weighted Debt Cost Rate for 2007	9.11%
Total Long Term Debt Outstanding at end of 2008	7,728,444	**Total Interest Cost for 2008**	618,647
		Weighted Debt Cost Rate for 2008	8.00%
Total Long Term Debt Outstanding at end of 2009	11,089,444	**Total Interest Cost for 2009**	694,993
		Weighted Debt Cost Rate for 2009	6.27%

Debt Rate Calculations:

Innisfil Hydro's calculations of its debt rate for the years 2006 to 2009 are as follows:

	2006 Board Approved	2006	2007	2008 Bridge	2009 Test
Debt Service Costs	900,562	800,190	752,902	618,647	694,993
Average Debt Outstanding	9,586,444	8,747,444	8,262,444	7,728,444	11,089,444
Effective Debt Rate-LT -Short Term	**9.19%**	**9.15%**	**9.11%**	**8.00%**	**6.27% 4.47%**

2009 Return on Equity

	Deemed Portion	Effective Rate	Rate of Return
Cost of Capital-Long Term	56.67%	6.27%	3.30%
Cost of Capital-Short Term	4.00%	4.47%	0.18%
Equity	43.33%	8.57%	3.71%
Return on Equity			**7.19%**

Ontario Energy Board

Report of the Board

on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors

December 20, 2006

2.1.2 Equity Component

Policy and Rationale

The Board has determined that distribution rates shall reflect 40% **common equity. There will be no adjustment for a preferred share component of equity in rates, although distributors can, if they choose to do so, use preferred shares within their financing structure**.

Issues and Options Raised in Consultations

One distributor suggested that preferred shares be treated as debt, so that the deemed capital structure would be 40% common equity, up to 4% preferred shares, and the remainder as long- and short-term debt. It was argued that common and preferred shares are different.

The Board is of the view that while common and preferred shares differ, preferred shares and debt also differ. The Board is not persuaded that preferred shares should be treated as debt in the deemed capital structure for ratemaking purposes. The fact that there is no requirement for the actual debt and equity structure of a distributor to match the deemed amount in rates means that distributors can use preferred shares at their discretion.

2.2 Debt Rates

2.2.1 Long-term debt

Long-term debt is a major component of a distributor’s capital structure. As noted previously, for ratemaking purposes the term of the debt should be assumed to be compatible with the life of the asset. With electricity distributors, the asset life can extend beyond 30 years. Typically, debt is incurred at the time when assets are put in service and the cost of that debt is at the prevailing market rate. This means that a distributor may be holding long-term debt at rates that differ according to when the debt was incurred. This is often called "embedded debt."

In Ontario, distributors have two main sources of debt financing: affiliates (including owners); and third parties, such as commercial banks.

Policy and Rationale

For rate-making purposes, the Board considers it appropriate that further distinctions be made between affiliated debt and third party debt, and between new and existing debt.

The Board has determined that for embedded debt the rate approved in prior Board decisions shall be maintained for the life of each active instrument, unless a new rate is negotiated, in which case it will be treated as new debt.

The Board has determined that the rate for new debt that is held by a third party will be the prudently negotiated contracted rate. This would include recognition of premiums and discounts.

For new affiliated debt, the Board has determined that the allowed rate will be the lower of the contracted rate and the deemed long-term debt rate. This deemed long-term debt rate will be calculated as the Long Canada Bond Forecast plus an average spread with "A/BBB" rate corporate bond yields. The Long Canada Bond Forecast is comprised of the 10-year Government of Canada bond yield forecast (*Consensus Forecast*) plus the actual spread between 10-year and 30-year bond yields observed in Bank of Canada data. The average spread with "A/BBB" rate corporate bond yields is calculated from the observed spread between Government of Canada Bonds and "A/BBB" corporate bond yield data of the same term from Scotia Capital Inc., both available from the Bank of Canada.

For all variable-rate debt and for all affiliate debt that is callable on demand the Board will use the current deemed long-term debt rate. When setting distribution rates at rebasing these debt rates will be adjusted regardless of whether the applicant makes a request for the change.

The deemed long-term rate will be calculated using data available three full months in advance of the effective date of the distribution rate change. The method that the Board will use to update this rate is detailed in Appendix A.

The approach to setting the rate for embedded debt at its prior approved rate is based on the fact that those rates have already been reviewed in previous cases and been determined to be appropriate.

The approach to setting the rate for new debt differs as between third party and affiliate lenders, so as to recognize that in affiliate transactions there is an opportunity for terms to be negotiated at less than “arm’s length”, which could result in less favourable terms and conditions. When a distributor is financed by a third party, however, it is expected that the distributor will obtain commercial terms and conditions, including market rates.

Distribution rates will be adjusted for embedded debt only when the distributor is rebased and only up to the maximum allowed by the approved capital structure and at the weighted average cost of the embedded debt. During the incentive period, deemed debt rates will remain unchanged.

Issues and Options Raised in Consultations

Dr. Lazar and Dr. Prisman proposed that the deemed long-term debt rate be determined as the riskless rate plus the average spread between a sample of “A/BBB” rated corporate bonds of 5, 10 and 20 year maturities and the corresponding Government of Canada bonds. The riskless rate would be approximated by averaging estimates of the

5-, 10- and 15-year zero-coupon Government of Canada bond yields from publicly available data (e.g. from the Bank of Canada).

A concern was expressed that the 5- 10- and 15-year zero-coupon bond yields do not adequately match the life of the distribution assets. Stakeholders suggested that the bond yields should include longer terms up to 30 years. The Lazar/Prisman proposal and the method that the Board has adopted do include 30-year bond yields in the calculation of the deemed long-term debt rate.

The Board is of the view that while the Lazar/Prisman method has merit, the approach is materially more complicated and is also unfamiliar to stakeholders. In addition, the current method produces a similar result to that which arises from the Lazar/Prisman method. Maintaining the current method provides continuity and consistency for distributors, and the Board concludes that there is no compelling reason to change the method for setting the deemed long-term debt rate.

2.2.2 Short-term debt

"Short-term debt" normally denotes demand notes or debt that has a term of one year or less. On November 28, 2006, the Board issued a letter communicating its approved method for calculating interest rates for regulatory accounts. This provides a method to compute a short-term rate which is acceptable for short term debt.

Policy and Rationale

The Board has determined that the deemed short-term debt rate will be calculated as the average of the 3-month bankers' acceptance rate plus a fixed spread of 25 basis points. This is consistent with the Board's method for accounting interest rates (i.e. short-term carrying cost treatment) for variance and deferral accounts. The Board will use the 3-month bankers' acceptance rate as published on the Bank of Canada's

Ontario Energy Board

Commission de l'énergie de l'Ontario

Ontario

EB-2006-0170

Ontario Energy Board

Filing Requirements for Transmission and Distribution Applications

November 14, 2006

- Balance and detailed method of recovery of existing accounts proposed to be cleared as part of the main rates case including bill impacts and rate design implications.

2.7 Exhibit 6. Cost of Capital and Rate of Return

If the applicant is proposing any changes to its Board approved capital structure then the utility should provide a detailed filing supporting that change.

1. Capital Structure – Amounts & Ratios

The elements of the capital structure required are shown below and must be detailed with the required schedules of: 1) Current Board Approved, 2) Historical Year's Actual, and 3) Test Year:

- Long-Term Debt
- Short-Term/Unfunded Debt (to equate total capitalization with rate base)
- Preference Shares
- Common equity

Justification for proposed capital structure is required. Explanation of changes including:

- Non-scheduled retirement of debt or preference shares and buy back of common shares
- Long-Term Debt, preference shares and common shares offering

2. Component Costs

<u>Historic Year, Bridge Year & Test Year</u>

- Calculation of cost of each item from Test Year
- Justification of forecast costs by item including key economic assumptions
- Profit or loss on redemption of debt and or preference shares
- Consensus Forecasts – Utilities must provide the latest interest rate forecast based on a selection of forecasters that are common to the utilities, e.g., the major banks and the Bank of Canada.

3. Calculation of Return on Equity and Debt

The requirements for cost of capital will be developed and brought into effect through the Board initiated Cost of Capital (EB-2006-0088), 2nd Generation Incentive Regulation Mechanism (EB-2006-0089).

2.8 Exhibit 7. Calculation of Revenue Deficiency or Surplus

This exhibit should include the following net of energy costs and revenues:

- Determination of Net Utility Income
- Statement of Rate Base
- Actual utility return on rate base
- Indicated Rate of Return
- Requested Rate of Return

Board Staff Interrogatories
2009 Electricity Distribution Rates
Innisfil Hydro Distribution Systems Ltd.
EB-2008-0233

1 OPERATING COSTS

1.1 General – Historical OM&A Expenses Data

Ref: http://www.oeb.gov.on.ca/OEB/_Documents/EB-2006-0268/Comparison_of_Distributors_with_2007_data.xls

The figures in Table 1 below are taken directly from the public information filing of Innisfil in the Reporting and Record-keeping Requirements ("RRR") initiative of the OEB. The figures are available on the OEB's public website.

Table 1

	2003	2004	2005
Operation	$489,610	$494,923	$616,202
Maintenance	$371,329	$452,465	$401,407
Billing and Collection	$664,946	$778,884	$842,374
Community Relations	$18,086	$10,841	$43,853
Administrative and General Expenses	$835,138	$919,729	$790,623
Total OM&A Expenses	**$ 2,379,109**	**$ 2,656,841**	**$ 2,694,458**

Please confirm Innisfil's agreement with the numbers for Total OM&A Expenses that are summarized in Table 1. If Innisfil does not agree with any figures in Table 1, please explain why not and provide amended tables with a full explanation of all changes.

Response #1.1

The following table reflects the total OM&A Expenses for 2003 to 2005 as provided by Innisfil Hydro in Exhibit 4/Tab 2/Schedule 1 Total OM&A before Amortization:

1.9 Corporate Cost Allocation

Ref: EB-2005-0001 Decision with Reason for Enbridge Gas Distribution Inc. Chapter 10 p.69-91

The five principles listed below formed the basis of the Board's acceptance of Enbridge's corporate cost allocations in EB-2005-0001.

1. The service is specifically required by the utility;
2. The level of service provided is required by the utility;
3. The costs are allocated based on cost causality and cost drivers;
4. The cost to provide the service internally would be higher and the cost to acquire the service externally on a stand-alone basis would be higher; and
5. There are scale economies.

Please provide information as to how Innisfil's corporate cost allocation policy meets each of these principles.

Response #1.9

Innisfil Hydro does not participate with any corporate cost allocation with its shareholder, the Town of Innisfil or its affiliate Innisfil Energy Services Limited.

2 COST OF CAPITAL - CAPITAL STRUCTURE AND WEIGHTED AVERAGE COST OF CAPITAL

2.1 Long Term Debt Rate

Ref: Exhibit 6/Tab 1/Schedule 3/ p.2

Innisfil includes a new bank loan to be issued on May 1, 2009 with a rate of 5.08%.

Please provide a more detailed explanation of how this rate was determined including the relevant calculations.

Response #2.1

Innisfil Hydro has registered in the pre-application process with Infrastructure Ontario, IO. IO is a Crown corporation dedicated to building and renewing public infrastructure.

IO provides the following benefits:

a) affordable borrowing rates

b) all capital expenditures are eligible for financing

c) long terms up to 40 years

d) no extra fees or need to refinance

e) hassle-free access to capital market financing if necessary

Innisfil Hydro requested a quote on a 25 year serial loan for $3,950,000 and IO supplied a rate of 5.08% as of May 16, 2008. Attached is the web based calculator schedule supplied by IO, detailing the principle and interest payments in the file Appendix A responses to OEB IR Q 2.1 Infrastructure Ontario debt 2009. Innisfil Hydro utilized this calculation within its rate application based on the reasonableness of the estimate as of the end of May 2008. As of October 31, 2008 the 25 year rate for a serial loan is 6.17% per the Infrastructure Ontario web site quotes for LDCs'.

At the time final rates are determined, Innisfil Hydro proposes the debt rate to be used for the 25 year serial loan would be set based on the debt rate quoted by Infrastructure Ontario when the OEB sets the deemed long term debt rate, the deemed short term debt rate and the rate of return of equity for 2009 cost of service/rebased applicants.

3 RATE BASE AND CAPEX

3.1 Capital Program Increase

Ref: Exhibit 2/Tab 3/Schedule 1/ p. 8

Innisfil is proposing a substantial increase in its capital program which is envisaged to rise from a 2007 actual level of $1.5 million to a $3.4 million level in the 2008 Bridge Year to $6.5 million in the 2009 Test Year:

Ontario

INFRASTRUCTURE ONTARIO

Serial Debenture Schedule

Organization Name	**Innisfil Hydro Distribution Systems Limited**
Principal Amount	**$3,950,000.00**
Annual Interest Rate	**5.08%**
Loan Term (Year)	**25**
Debenture Date (m/d/yyyy)	**5/1/2009**
Maturity Date (m/d/yyyy)	**5/1/2034**
Payment Frequency	**Semi Annual**
Loan Type	**Serial**

Payment Date	Total Payment	Principal Amount	Interest Amount	Principal Balance
11/2/2009	$180,704.38	$79,000.00	$101,704.38	$3,871,000.00
5/3/2010	$177,054.02	$79,000.00	$98,054.02	$3,792,000.00
11/1/2010	$175,052.92	$79,000.00	$96,052.92	$3,713,000.00
5/2/2011	$173,051.82	$79,000.00	$94,051.82	$3,634,000.00
11/1/2011	$171,556.49	$79,000.00	$92,556.49	$3,555,000.00
5/1/2012	$169,049.61	$79,000.00	$90,049.61	$3,476,000.00
11/1/2012	$168,016.07	$79,000.00	$89,016.07	$3,397,000.00
5/1/2013	$164,574.62	$79,000.00	$85,574.62	$3,318,000.00
11/1/2013	$163,969.89	$79,000.00	$84,969.89	$3,239,000.00
5/1/2014	$160,594.40	$79,000.00	$81,594.40	$3,160,000.00
11/3/2014	$160,803.31	$79,000.00	$81,803.31	$3,081,000.00
5/1/2015	$155,756.57	$79,000.00	$76,756.57	$3,002,000.00
11/2/2015	$156,295.33	$79,000.00	$77,295.33	$2,923,000.00
5/2/2016	$153,040.79	$79,000.00	$74,040.79	$2,844,000.00
11/1/2016	$151,435.51	$79,000.00	$72,435.51	$2,765,000.00
5/1/2017	$148,653.76	$79,000.00	$69,653.76	$2,686,000.00
11/1/2017	$147,785.15	$79,000.00	$68,785.15	$2,607,000.00
5/1/2018	$144,673.54	$79,000.00	$65,673.54	$2,528,000.00
11/1/2018	$143,738.96	$79,000.00	$64,738.96	$2,449,000.00
5/1/2019	$140,693.33	$79,000.00	$61,693.33	$2,370,000.00
11/1/2019	$139,692.78	$79,000.00	$60,692.78	$2,291,000.00

Innisfil Hydro Distribution Systems Limited (IHDSL)

2009 RATE APPLICATION

VECC Round 2 IRs

Question #18

Reference: Energy Probe IR #2 d) and #4

a) Energy Probe #4 shows that the September 2008 customer count for the Residential and GS<50 customer classes exceeds IHSDL's 2008 year-end forecast. Please update the 2008 and 2009 customer count forecast for these two classes and update the overall 2009 load forecast by customer class provided in response to Energy Probe # 2 d) accordingly.

Response

Innisfil Hydro is further clarifying Exhibit 3/Tab 2/Schedule 3 page 2 of 2 the Customers (Year end) column reference should read as (Annualized).

Innisfil Hydro is also clarifying the table headings within Exhibit 3/Tab 2/Schedule 3 page 6 to page 9 for table 6 to table 12 in **Bold** as follows:

- Table 6 Historical **Year end** Customer/Connection Data
- Table 7 Growth Rate in **Year end** Customer/Connections
- Table 8 **Annualized** Customer/Connection Forecast
- Table 9 Historical Annual Usage per **Year end** Customer/Connection
- Table 10 Growth Rate in Usage per **Year end** Customer/Connection
- Table 11 Forecast Annual kWh Usage per **Annualized** Customer/Connection
- Table 12 Non-normalized Weather Billed Energy Forecast for **Annualized** Customers

Question #25

Reference: IHDSL's Interrogatory Responses

a) In its interrogatory responses IHDSL has identified a number of revisions required to its Application. Please add an additional column to Exhibit 7, Tab 1, Schedule 1 (page 2) to reflect the impact of the revisions IHSDL has acknowledged as being required and for each line item that has changed provide a cross reference to the appropriate IR responses.

Response

Innisfil Hydro is further clarifying the capital changes provided in the Summary of Proposed Changes under the OEB staff IRs' 3.1e), 3.2a) and 3.2b) with the following table:

Innisfil Hydro is further providing updates to Exhibit 6/Tab 1/Schedule 3 Cost of Debt table due to the $2,080,550 delays in capital expenditures noted in the above table. The 2008 delay of the road widening project of $750,000 results in an increase of cash on hand at the end of 2008 and further decreases the loan requirements in May 2009 by ($750,000). The increase cost for the 2009 phase of the road widening project will increase the loan requirements in May 2009 by $261,200. The delay of the voltage conversion and extension for the Lefroy project will decrease the loan requirements in May 2009 by ($898,650). The delay of one of the Hydro One feeders will decrease the loan requirements in May 2009 by ($693,100).

The estimated Bank Loan May 1, 2009 has decreased from $3,950,000 to $1,869,450 and the weighted Debt Cost from 6.27% to 6.93% as reflected in the following Weighted Debt Cost table:

Debt & Capital Cost Structure

Weighted Debt Cost

Description	Debt Holder	Affliated with LDC?	Date of Issuance	Principal	Term (Years)	Rate%	Year Applied to	Interest Cost
Note payable	Town of Innisf	Yes	December 31, 2003	2,107,444	4	7.25%	2006	152,790
				2,107,444		7.25%	2007	152,790
			December 31, 2007	2,107,444	2	3.35%	2008	70,599
				2,107,444		3.35%	2009	70,599
Debentures	Town of Innisf	No	April 1, 1995	6,640,000	20	9.75%	2006	647,400
				6,155,000		9.75%	2007	600,113
				5,621,000		9.75%	2008	548,048
				5,032,000		9.75%	2009	490,620
Bank Loan	Infastructure C	No	May 1, 2009	1,869,450	25	5.08%	2009	63,312
								0
								0
								0
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								0
								0
								0

Total Long Term Debt Outstanding at end of 2006	8,747,444	Total Interest Cost for 2006	800,190
		Weighted Debt Cost Rate for 2006	9.15%
Total Long Term Debt Outstanding at end of 2007	8,262,444	Total Interest Cost for 2007	752,902
		Weighted Debt Cost Rate for 2007	9.11%
Total Long Term Debt Outstanding at end of 2008	7,728,444	Total Interest Cost for 2008	618,647
		Weighted Debt Cost Rate for 2008	8.00%
Total Long Term Debt Outstanding at end of 2009	9,008,894	Total Interest Cost for 2009	624,531
		Weighted Debt Cost Rate for 2009	6.93%

Innisfil Hydro updated calculations of its average debt outstanding for 2009 reduced by $2,080,550 and the related effective debt rate for 2009 increasing by 0.66%. The updated Exhibit 6/Tab1/Schedule 3 page 3 of 3 is as follows:

	2006 Board Approved	**2006**	**2007**	**2008 Bridge**	**2009 Test**
Debt Service Costs	900,562	800,190	752,902	618,647	624,531
Average Debt Outstanding	9,586,444	8,747,444	8,262,444	7,728,444	9,008,894
Effective Debt Rate-LT -Short Term	**9.19%**	**9.15%**	**9.11%**	**8.00%**	**6.93% 4.47%**

Innisfil Hydro updated calculations of its 2009 Return on Capital per Exhibit 6/Tab 1/Schedule 3 page 3 of 3 due to the reduction of the average debt outstanding decreasing by $2,080,550 and the cost of capital-long term increasing from 6.27% to 6.93% is as follows:

	Deemed Portion	**Effective Rate**	**Rate of Return**
Cost of Capital-Long Term	56.67%	6.93%	3.65%
Cost of Capital-Short Term	4.00%	4.47%	0.18%
Equity	43.33%	8.57%	3.71%
Return on Capital			**7.54%**

Innisfil Hydro is providing an updated deemed capital structure per Exhibit 6/Tab1/Sch 2 with an updated rate of return of 7.54% compared to the 7.19% originally submitted as follows:

CAPITAL STRUCTURE

2006 Board Approved

Description	$	% of Rate Base	Rate of Return	Return
Long Term Debt	9,799,359	50.00%	9.19%	900,561.09
Unfunded Short Term Debt				
Total Debt	9,799,359	50.00%		900,561.09
Common Share Equity	9,799,359	50.00%	9.00%	881,942.31
Total equity	9,799,359	50.00%		881,942.31
Total Rate Base	19,598,718	100%	9.10%	1,782,503.40

2006

Description	$	% of Rate Base	Rate of Return	Return
Long Term Debt	9,850,618	50.00%	9.15%	901,104.73
Unfunded Short Term Debt				
Total Debt	9,850,618	50.00%		901,104.73
Common Share Equity	9,850,618	50.00%	9.00%	886,555.64
Total equity	9,850,618	50.00%		886,555.64
Total Rate Base	19,701,236	100%	9.07%	1,787,660.37

2007

Description	$	% of Rate Base	Rate of Return	Return
Long Term Debt	10,045,679	50.00%	9.11%	915,396.67
Unfunded Short Term Debt				
Total Debt	10,045,679	50.00%		915,396.67
Common Share Equity	10,045,679	50.00%	9.00%	904,111.11
Total equity	10,045,679	50.00%		904,111.11
Total Rate Base	20,091,358	100%	9.06%	1,819,507.78

2008 Bridge Year

Description	$	% of Rate Base	Rate of Return	Return
Long Term Debt	10,956,827	53.33%	8.00%	877,072.66
Unfunded Short Term Debt				
Total Debt	10,956,827	53.33%		877,072.66
Common Share Equity	9,588,508	46.67%	9.00%	862,965.71
Total equity	9,588,508	46.67%		862,965.71
Total Rate Base	20,545,335	100%	8.47%	1,740,038.37

2009 Test Year

Description	$	% of Rate Base	Rate of Return	Return
Long Term Debt	11,965,253	52.67%	6.93%	829,477.66
Unfunded Short Term Debt	908,696	4.00%	4.47%	40,618.71
Total Debt	12,873,949	56.67%		870,096.36
Common Share Equity	9,843,448	43.33%	8.57%	843,583.49
Total equity	9,843,448	43.33%		843,583.49
Total Rate Base	22,717,397	100%	7.54%	1,713,679.86

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Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2009 ELECTRICITY DISTRIBUTION RATES

Innisfil Hydro Distribution Systems Ltd.

EB-2008-0233

January 29, 2009

CAIDI: "Customer Average Interruption Duration Index" measured as "Hours per Interruption"

Innisfil stated further that the majority of power interruptions in its service territory are caused by tree contact and loss of supply. Innisfil stated that in response to this, it had increased the frequency of tree trimming and is planning to build two new 44kV feeders to address these primary issues and improve reliability, as has been outlined in the capital expenditures section of this submission. Innisfil stated, however, that a formal plan related to service reliability had not been created.

Board staff invites parties to comment on the adequacy of Innisfil's reliability performance and on its plans to address system reliability in the stated absence of a formal plan related to service reliability as well as the linkage of service reliability to asset management.

COST OF CAPITAL

Background

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

Table 3

Cost of Capital Parameter	**Applicant's Proposal**
Capital Structure	Requesting Board approval of a capital structure of 56.67% debt and 43.33% equity. This is to comply with the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors*, issued December 20, 2006 (the "Board Report").
Short-Term Debt	Requesting a 4% short-term debt component with a rate of 4.47% in accordance with the letter from the Board of March 7, 2008 regarding cost of capital updates for 2008 cost of service applications, consistent with the Board's Report
Long-Term Debt	Proposing a weighted debt cost rate for 2009 of 6.93%.
Return on Equity	Proposing a return on equity rate for the 2009 Test year of 8.57% in accordance with the Board's letter of March 7, 2008 regarding cost of capital updates for 2008 cost of service applications consistent with the Board's Report.

Discussion and Submission

Long-term debt

Innisfil has proposed a weighted debt cost rate for 2009 of 6.93%, which is forecasted to consist of three instruments:

- Note payable, issued in 2007, with a principal amount of $2.1 million due to the Town of Innisfil, a proposed rate of 3.35% and a two year term;
- Debentures, issued in 1995, with a principal amount of $5.0 million due to the Town of Innisfil, a proposed rate of 9.75% and a 20 year term; and
- A bank loan, to be issued May 1, 2009, with a principal amount of $1.87 million due to Infrastructure Ontario, a proposed rate of 5.08% and a 25 year term.

Section 2.2.1 of the Report of the Board on Cost of Capital and 2nd Generation incentive Regulation for Ontario's Electricity Distributors dated December 20, 2006 states:

> "**For all variable-rate debt and for all affiliate debt that is callable on demand the Board will use the current deemed long-term debt rate**. When setting distribution rates at rebasing these debt rates will be adjusted regardless of whether the applicant makes a request for a change." [Emphasis in original]

Board staff notes that Innisfil's 9.75% debentures are due to an affiliate, the Town of Innisfil; however, this debt was issued before 2000 requiring the use of the actual debt rate for rate-making purposes, rather than the lower of the actual and deemed rates.

Where the bank loan to be issued May 1, 2009 to Infrastructure Ontario is concerned, Innisfil was asked in a Board staff interrogatory, to provide a more detailed explanation as to how the 5.08% assumed rate was determined. Innisfil stated that it has registered in the pre-application process with Infrastructure Ontario, which Innisfil stated is a Crown Corporation dedicated to building and renewing public infrastructure. Innisfil stated that Infrastructure Ontario offered the following benefits: (1) affordable borrowing rates, (2) all capital expenditures are eligible for financing, (2) long terms up to 40 years, (4) no extra fees, or need to refinance and (5) hassle-free access to capital market financing if necessary.

Innisfil stated that it had requested a quote on a 25 year serial loan for $3,950,000 (subsequently revised down to $1,869,450 in the Update) and had received a rate of 5.08% as of May 16, 2008. Innisfil stated that it had utilized this calculation within its rate application based on the reasonableness of the estimate as of the end of May 2008. Innisfil noted, however, that as of October 31, 2008, the 25 year Infrastructure Ontario rate for a serial loan was 6.17%.

Innisfil proposed that at the time final rates were determined, the debt rate to be used for the 25 year serial loan would be set based on the debt rate quoted by Infrastructure Ontario at the time the Board sets the deemed long and short term debt rates and rate of return on equity for 2009 cost of service/rebased applicants.

Board staff invites parties to the proceeding to provide any comments they may have on the rates proposed to be imputed on Innisfil's debt.

OM&A Costs

Background

Innisfil's Summary of Operating Costs is found at Exhibit 4 Tab 1 Schedule 1 Page 1 of the Application ("Summary"). The 2009 Total Controllable OM&A Expenses forecast is $3,946,120. This represents a 24.4% (or $772,780) increase compared to the 2007 actual level and a 36.2% ($1,049,500) increase compared to the 2006 actual level.

Discussion and Summary

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

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

EB-2008-0233

IN THE MATTER of the *Ontario Energy Board Act 1998*, Schedule B to the *Energy Competition Act*, 1998, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Innisfil Hydro Distribution Systems Ltd. for an Order or Orders approving just and reasonable rates and other service charges for the distribution of electricity, effective May 1, 2009.

SUBMISSIONS

OF THE

SCHOOL ENERGY COALITION

Overview

1. These are the submissions of the School Energy Coalition in the application by Innisfil Hydro Distribution Systems Ltd. ("IHDS") for an order fixing just and reasonable rates for the distribution of electricity effective May 1, 2009.

2. IHDS' requested Service Requirement for 2009 represents a substantial increase- 18%- over 2008 and previous years [see SEC IR#2]. The resulting distribution increases are, in SEC's submission, unacceptable.

3. SEC has observed in several distribution rate applications for the 2009 test year a tendency on behalf of distributors to submit a cost of service application involving a large step

up in work during the rebasing year with a resultant large increase in distribution rates. In SEC's view, these increases, if accepted, will undermine the goals that are central to the incentive regulation framework adopted by the Board: to provide more efficient operations and stable prices for electricity customers.

Load Forecast

4. In response to interrogatories, Innisfil has agreed to reduce the distribution loss factor in calculating the load forecast to be consistent with the methodology used to compute the distribution loss factor as set out at Exhibit 4, Tab 2, Schedule 9. The result is a slight increase in the 2009 load forecast. SEC believes that adjustment is appropriate. [see Energy Probe IR#1(b), SEC IR#6].

Cost of Capital

5. In response to an interrogatory from SEC, IHDS indicated that it had not listed debentures issued to the Town of Innisfil as affiliate debt because they "were issued to various bond holders for the hydro expansion" [SEC 7(c)] It does appear, however, that the debt was issue by IHDS to the Town of Innisfil, which in turn issued the debentures. In SEC's submission, this would still qualify as affiliate debt. Nonetheless, as the notes are embedded

debt and do not appear to be callable on demand, SEC does not believe the cost of embedded debt needs to be altered.

OM&A

6. IHDS' OM&A costs are increasing at an unacceptable rate: a 36% increase in 2009 over 2006 actual. As a result, IHDS' OM&A per customer has increased dramatically since 2006:

IHDS OM&A/Customer, 2006-2009

	2006	2007	2008	2009**
OM&A	2,906,371	3,183,319	3,522,825	3,956,720*
# of Customers*	13,832	14,120	14,307	14,496
OM&A/customer	$210	$225	$246	**$273**
% Change (yr/yr)		7.2%	9.3%	10.9%
Index of OM&A/customer (2006=100)		107.15	117.14	130.0

* Excluding Streetlighting/Sentinel lighting connections.
** 2009 OM&A is as-filed amount, $3,931,720, plus $25,000 per IHDS' requested adjustment due to IFRS costs.
Source: SEC IR#14.

7. As can be seen from the above table, IHDS' 2009 OM&A per customer has increased by 30% over than 2006.

8. About three quarters of the increases ($748,401) occur in 2008 and 2009:

IHDS OM&A Increases -2007, 2008, 2009

	Total	Total:

EB-2008-0233

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Sch.B, as amended;

AND IN THE MATTER OF an Application by Innisfil Hydro Distribution System Ltd. pursuant to section 78 of the *Ontario Energy Board Act* for an Order or Orders approving just and reasonable rates for the delivery and distribution of electricity.

FINAL SUBMISSIONS

On Behalf of The

VULNERABLE ENERGY CONSUMERS COALITION (VECC)

February 7, 2009

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45. VECC submits that the total capital requirements (debt and equity) should reflect the reductions to 2009 capital expenditures referred to above.

46. With respect to long-term debt, the forecasted blended rate is 6.93% consisting of (i) a $2.1M two-year note payable issued to the municipality in 2007 with a 3.35% interest rate, (ii) $5.0M of 20-year debentures issued to the municipality in 1995 with a rate of 9.75%, and (iii) a $1.87M 25-year loan to be issued in May 2009 with an interest rate of 5.08%.

47. In its submissions, Board staff invited parties to comment on IDSL's proposed long-term debt rate of 6.93%.[32]

48. VECC submits that the amounts borrowed from the municipality constitute affiliate debt. However, if the debentures are not callable, VECC does not object to use of the blended rate that uses the interest rates proposed and as properly adjusted.[33]

Deferral and Variance Accounts

49. VECC has no submissions regarding IDSL's proposal to dispose of the December 31, 2007 balances (plus interest to April 30, 2009) in Accounts #1508 and #1550 other than to note that the interest rates used to determine the accrued interest up to April 30, 2009 should be based on the Board's prescribed values.

Payments in Lieu of Taxes

Comments on Methodology and Tax Rate

50. The OEB Staff Submission noted that the approach taken by IDSL in calculating PILs "produces a higher taxable income. Innisfil's method diverges from the Board's established methodology. Board staff estimates that Innisfil is requesting approximately $31,000 more in PILS using its methodology than would otherwise arise using the Board's established methodology. Board staff notes that this amount

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[32] Staff Submission, January 29, 2009,p. 10

[33] That is to reflect the capital expenditure reductions for 2009.

EB-2008-0233

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 **Innisfil Hydro Distribution Systems Limited** for an order approving just and reasonable rates and other charges for electricity distribution of electricity to be effective May 1, 2009.

ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")

ARGUMENT

February 6, 2009

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of Capital and 2nd Generation Incentive Regulation for Ontario Electricity Distributors dated December 20, 2006.

c) Short Term Debt Rate

Innisfil has requested a short term debt rate of 4.47% in the test year (Exhibit 6, Tab 1, Schedules 2 & 3). This reflects the OEB's March 7, 2008 letter regarding the cost of capital updates for the 2008 cost of service applications. Innisfil is silent on whether or not this short term debt rate should be updated by the Board in early 2009 for rates effective May 1, 2009. Energy Probe submits that it should be updated to be compliant with the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario Electricity Distributors* dated December 20, 2006 and consistent with the approach taken related to the return on equity.

d) Long Term Debt Rate

Innisfil has three sources of long term debt for the 2009 test year, as shown in Exhibit 6, Tab 1, Schedule 3, page 2. These three sources include a note payable to an affiliate at an interest rate of 3.35%, a debenture payable to the Town of Innisfil at a rate of 9.75% and bank loan to be obtained in 2009 at a rate of 5.08%. Innisfil has indicated that it does not view the debenture payable to the Town of Innisfil to be an affiliate debt instrument (Energy Probe Interrogatory # 15b).

The debenture payable to the Town of Innisfil at a rate of 9.75% does not appear to be callable, nor is the interest rate variable. As a result, Energy Probe does not believe there would be any impact on the deemed cost of long term debt of whether or not the debenture is with an affiliate or not.

The note payable to the affiliate is at an interest rate lower than the Board deemed rate, and as such should be accepted as forecast.

The bank loan to be obtained in 2009 was originally forecast to be for an amount of $3.95 million (Exhibit 6, Tab 1, Schedule 3, page 2). However, as a result of the reduction in forecasted capital expenditures, this amount has fallen to $1.86945 million (Revised response to VECC Interrogatory # 25a). Energy Probe accepts this reduction as reasonable.

Innisfil had forecast a rate for the bank loan of 5.08%. This rate was based on information from Infrastructure Ontario as indicated in the response to Board Staff Interrogatory # 2.1. In that response Innisfil indicated that as of October 31, 2008, the 25 year rate for a serial loan had increased to 6.17%. Further Innisfil proposed that the debt rate to be used for the bank loan would be based on the debt rate quoted by Infrastructure Ontario for a 25 year serial loan when the OEB sets the deemed long term debt rate.

Energy Probe has two submissions on this proposal. First, Energy Probe agrees in principle with the use of the most recent Infrastructure Ontario debt rate available at the time the OEB sets the deemed long term debt rate as this rate reflects the cost of borrowing in the market. In this regard, Energy Probe notes that the 25 year serial loan rate from Infrastructure Ontario has fallen from 6.17% to 5.47%, as of January 30, 2009.

Second, it is unclear to Energy Probe why the 25 year term is the appropriate term to use. Lower rates for shorter terms are available from Infrastructure Ontario, currently ranging from 3.27% for a 5 year serial loan, to 4.35% for a 10 year serial loan, to 4.92% for a 15 year serial loan, to 5.27% for a 20 year serial loan. In this respect, Energy Probe notes that the original forecast rate of 5.08% for a 25 year loan is higher than the current rates for a shorter term loan. Energy Probe submits that the Board should approve a deemed long term weighted debt rate that includes the original forecast rate of 5.08%. Innisfil has access to rates in this order of magnitude and lower for terms less than 25 years.

Innisfil Hydro Distribution Systems Limited

REPLY SUBMISSION

2009 ELECTRICITY DISTRIBUTION RATES

EB-2008-0233

Submitted February 20, 2009

COST OF CAPITAL AND RATE OF RETURN

Capital Structure

Innisfil observes that the OEB staff[97], VECC[98], and Energy Probe[99] 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 staff[100], VECC[101], and Energy Probe[102] 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 staff[103] Energy Probe[104], VECC[105] and SEC[106] 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 Probe[107] 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.

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[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