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April 28, 2009

VIA MAIL and E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
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Dear Ms. Walli:

Re: Collus Power Corp.
Application for 2009 Electricity Distribution Rates
Board File No. EB-2008-0226

Please find enclosed a Notice of Motion for a Review and Vary of the Board's decision dated April 17, 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 debt to be issued in 2009, as opposed to the applied for rate of 5.08% as forecasted by the applicant.

VECC has filed another motion for review and vary, in EB-2008-0233, on an identical issue, and has asked in both this motion and that one that they be heard together. We are in receipt of a letter from counsel to Innisfil dated April 27, 2009 in relation to the other motion, and would like to make some comments in response.

With respect to counsel for Innisfil's comments on the implementation of the pending rate orders, VECC is content, as indicated in both its' notices of motion, that a deferral account be allowed in both cases to track the potential change in the debt rate so that a) any credits can be returned to ratepayers through a rider, and b) adjustments to the utilities base rates can be made prior to their respective IRM adjustments for 2010.

With respect to counsel for Innisil's comments on the threshold question, VECC submits that it is clear on the face of the decision that the 7.62% rate is factually wrong when the evidence that was actually before the Board is considered, in that:

a) Both Innisfil and Collus filed, in their original application, for forecasted debt based on their respective intentions to borrow from Infrastructure Ontario at 5.08%,
b) Both Innisfil and Collus submitted that they would be entering into loans with terms shorter than 25 years; in the case of Collus, their intent to enter into a 5 year loan was included explicitly in their original filing,
c) Both Innisfil and Collus asked the Board to augment their forecast only to the extent that the available Infrastructure Ontario rates be updated; in the case of Innisfil, the requested update was to coincide with the Board's yearly update of the cost of capital parameters, and in the case of Collus, the requested update was to coincide with the release of the Board's Decision.
d) The Long Term Debt Rate in question is with respect to a 3rd party, not an affiliate.

This last point is of special importance, in that counsel for Innisfil appears to believe that VECC is seeking to have the Board deviate from is Cost of Capital Policy. In actual fact, VECC is seeking to have the Board follow its Cost of Capital Policy.

The deemed long term debt rate only has application under the Board's policy with respect to affiliate debt. In these two cases the 2009 forecasted debt in question is not affiliate debt, it is 3rd party debt. The Board's policy with respect to 3rd party debt is to allow the contracted debt rate. Both Innisfil and Collus clearly understood their obligation to apply for a debt rate based on a forecast of the 3rd party debt as opposed to the deemed long term debt rate, as they both, from the outset, forecasted a rate based on what they anticipated to be the actual rate available; it is only now, after their respective Board decisions have allowed them the deemed long term debt rate, that Innisfil and Collus have, apparently, decided to accept and defend the windfall represented by the deemed debt rate as opposed to including their forecast 3rd party borrowing costs.

To put it simply, whereas counsel for Innisfil suggests that the Board had all the relevant facts in front of it and made its decision based on those facts, it is VECC's submission that while the Board had all the relevant facts in front of it, the Board did not consider any of those facts in making its Decision. Counsel for Innisifil is suggesting that there is no such thing as a forecast of 3rd party debt for ratemaking purposes, such that if there is no instrument in place then the deemed debt rate applies to all forecast debt; that is, in VECC's submission, clearly not the case. Accordingly VECC submits that the threshold for a motion to review and vary has been met.

Counsel for Innisfil complains that this issue is being raised for the first time in the case of these two utilities as opposed to some other time in relation to all the other rebased utilities on a generic basis. With respect, VECC is unaware of a situation similar to the current one for these two utilities, where the Board has entirely ignored the evidence with respect to the forecasted 3rd party debt put forward by an applicant and tested through the hearing process. Obviously the Board routinely applies the deemed long term debt rate, but it does so in accordance with the Board's Cost of Capital Guidelines with respect to affiliate debt, not in the context of forecasted 3rd party debt. In VECC's submission, these Notices of Motion represent a request that the Board apply its' existing Cost of Capital Guidelines; it is not, as counsel for Innisfil appears to suggest, a request to change the Cost of Capital Guidelines.

Counsel for Innisifil further complains that the reference to shorter than 25 year term rates is inconsistent with the Board's Report. While an assumption of longer terms may be appropriate when dealing with the use of the deemed debt rate for affiliate debt, the applicable Board Policy in these cases is the use of the contracted for 3rd party rate. Again, in the case of both Innisfil and Collus, it was their position that they would be entering into shorter term loans, and it was also their position that the shorter terms should be reflected in the forecasted 3rd party debt rates. By using the deemed debt rate, which is based on longer term rates, as opposed to the forecasted rates based on the applicants' evidence, the Board has specifically and incorrectly moved away from the applicants' forecasted rates, as opposed to trying to incorporate as accurate a forecast as possible.

Lastly, we note that counsel for Innisfil quotes the Board's April 6, 2009 decision in suggesting that at that time Innisfil had not entered into a loan, but does not provide the actual status of Innisfil's loan. Counsel then asserts, without supporting evidence, its understanding that Collus has not entered into its loan either.

Rather than relying on the Board's understanding of Innisfil's loan status as of April 6, 2009 and counsel's understanding of Collus' loan status without supporting evidence, VECC respectfully submits that it would be appropriate to require both utilities to file updated evidence as to the status of their respective loans with Infrastructure Ontario. To be clear, however, the issues raised by VECC in both motions do not relate to or require actual loan agreements; in each case VECC's request is that the Board incorporate the appropriately forecasted 3rd party debt rate into the applicants' respective cost of capital parameters.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

EB-2008-0226

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 Collus Power Corp. for an 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 17, 2009

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AND TO: All Intervenors

Index

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 Collus Power Corp. for an Order setting just and reasonable rates commencing May 1, 2009.

AND IN THE MATTER OF the Board's Decision with Reasons dated April 17, 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 17, 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 17, 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, Collus Power Corp., 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 party debt, 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, 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 when "Final Application is being made". Although the applicant's evidence was that it intended to enter into a 5 year loan, the applicant stated in its IR response its intent to apply the available Infrastructure Ontario 25 year rate at the time of the Board's final decision.

5. In their submissions Board Staff questioned whether the 25 year rate was appropriate given the reality that the applicant was going to enter into a 5 year loan. All the intervenors accepted the applicant's forecasted issuance of new, third party, non-variable long term debt at either the actual 5 year rate (if obtained prior to the Board's decision) or at the available 5 year rate at the time of the Board's decision.

6. In reply submissions, the applicant agreed with Board Staff and all the intervenors that an appropriate forecast of its third party debt rate would be the 5-year Infrastructure Ontario rate available to it at the time of the Board's final decision.

7. 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 applicant's new, third party debt, as opposed to the relying on the applicant's forecasted rate based on its intention to enter into a 5 year loan with Infrastructure Ontario.

8. 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%.

9. 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.

10. 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.

11. 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.

12. The Board, has recently released another, essentially identical decision (EB-2008-0233) in which the forecast evidence of the applicant was supplanted by the Board's deemed long term rate, which decision is the subject of a similar review and vary motion and which VECC submits should be heard simultaneously with the current motion.

13. 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 17, 2009,

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

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

(d) EB-2008-0226, Exhibit 6 with respect to the Applicant's Cost of Capital,

(e) Interrogatory Response 2.1, 2.2, and 2.3 to Board Staff,

(f) Supplementary Interrogatory Response 1 to Board Staff,

(g) The Submissions of Board Staff,

(h) The Submissions of Energy Probe,

(i) The Submissions of VECC,

(j) The Submissions of SEC,

(k) The Reply Submissions of the Applicant.

Date: April 28, 2009

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E-Mail: dvaiciunas@collus.com

AND TO: All Intervenors

Ontario Energy Board

Commission de l'énergie de l'Ontario

Ontario

EB-2008-0226

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

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

BEFORE: Cathy Spoel
Presiding Member

Pamela Nowina
Member and Vice-Chair

DECISION AND ORDER

April 17, 2009

BACKGROUND

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

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

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

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

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

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

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

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

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

THE ISSUES

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

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

LOAD FORECAST

The following issues are addressed in this section:

- Methodology
- Customer forecast

Methodology

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

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

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

Board Findings

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

Customer Forecast

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

Table 1

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

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

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

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

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

<u>Board Findings</u>

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

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

[1] VECC Interrogatory #16

OTHER DISTRIBUTION REVENUE

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

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

Board Findings

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

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

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

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

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

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

- OM&A expenses
- PILs

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

Table 2 - OM&A Expenses ($)

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

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

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

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

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

2009 Rate Rebasing Costs

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

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

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

<u>Board Findings</u>

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

Tree Trimming

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

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

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

Board Findings

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

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

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

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

Inflation Forecast and Impact on Wages

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

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

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

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

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

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

Board Findings

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

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

PAYMENTS IN LIEU OF TAXES (PILs)

COLLUS' evidence[10] contained detailed tax calculations which showed a regulatory income tax amount of $234,628 as payable in the 2009 Test year. This was based on an assumed tax rate of 33%.

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

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

Board Findings

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

[10] Exhibit 4 Tab 3 Schedule 1

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

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

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

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

RATE BASE

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

The following issues are addressed in this section:

- Capital Expenditures
- Working capital allowance
- Depreciation rates

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

Capital Expenditures

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

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

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

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

COLLUS' evidence outlined its five-year capital plan. This plan showed capital expenditures projected to be at approximately the $1,900,000 level in 2008, rising to approximately $3,000,000 in the 2009 test year, dropping to $1,300,000 and $1,400,000 in 2010 and 2011, respectively before rising back to the $3,000,000 level in 2012.[13]

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

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

No intervenor opposed the expenditures on this distribution station.

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

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

Board Findings

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

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

Working Capital Allowance

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

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

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

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

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

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

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

Board Findings

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

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

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

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

Depreciation Rates

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

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

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

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

Board Findings

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

COST OF CAPITAL and CAPITAL STRUCTURE

Cost of Debt

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

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

Promissory Note

Board staff's submission noted that COLLUS' 6.25% promissory note is due to an affiliate, the Town of Collingwood. Board staff asked COLLUS in an interrogatory[14] to state why it believed that a rate of 6.25% should be applied to this debt, as compared to the 6.10% rate contained in the Board's March 7, 2008 letter, as updated in 2009. In its response, COLLUS stated that it was its intention to adjust to the Board's rate, currently 6.1% when final application is made after the Board's Decision on the application.

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

[14] Board staff interrogatory #2.1

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

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

Demand Loan

COLLUS was asked[15] to provide a more detailed explanation as to how the 5.08% assumed rate for its demand loan was determined. In its response, COLLUS provided as evidence the rates that were being advertised by Infrastructure Ontario for lending to local distribution companies as of November 25, 2008. COLLUS stated that it was its intention to adjust to the 25 year serial rate, which was then 5.99%, which would be anticipated to be done when final application is being made to Infrastructure Ontario.

Board staff noted in this context that COLLUS had stated in its evidence that the demand loan was to be issued on January 7, 2009 with a five-year term. As such, it was unclear to Board staff why COLLUS believed that the 25 year rate at the time final application is made would be the appropriate rate to use, rather than the five year rate applicable on January 7, 2009. In the First Reply Submission, COLLUS stated that it had not yet reissued the borrowing after it was temporarily settled on the termination date of January 7, 2009, although its intention was to reestablish the loan in the near future

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

[15] Board staff interrogatory #2.2

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

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

Board Findings

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

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

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

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

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

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

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

COST ALLOCATION AND RATE DESIGN

The following issues are addressed in this section:

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

Revenue to Cost Ratios

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

Table 5 - Revenue to Cost Ratio (%)

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

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

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

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

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

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

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

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

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

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

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

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

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 1 of Table 5 correctly account for the transformer ownership allowance and the loss of ALCOA, and are appropriate for the purposes of reviewing the ratios for 2009. The Board notes VECC's commentary and agreement with COLLUS' proposal for the revenue requirement distribution. The Board accepts COLLUS' proposal.

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

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

Transformer Ownership Allowance

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

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

Board Findings

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

Low Voltage Charges

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

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

[18] VECC interrogatory #14b

Board Findings

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

Retail Transmission Rates

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

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

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

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

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

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

VECC submitted that the Board should accept COLLUS' proposal.

Board Findings

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

DEFERRAL AND VARIANCE ACCOUNTS

Large Use Customer Class

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

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

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

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

International Financial Reporting Standards

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

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

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

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

Board Finding

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

Tier 2 Adjustment

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

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

Board Findings

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

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

IMPLEMENTATION

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

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

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

RATE ORDER

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

COST AWARDS

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

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

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

THE BOARD DIRECTS THAT:

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

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

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

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

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

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

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

DATED at Toronto, April 17, 2009

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary

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

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

OVERVIEW:

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

Capital Structure:

COLLUS Power Corp has a current capital structure of 53.3% debt, 46.7% equity, and a return on equity of 9.00%, consistent with the capital structure and return specified in the OEB's Decision in EB-2007-0856, dated 14th March, 2006. COLLUS Power Corp is requesting Board approval of a capital structure of 52.7% Long-Term and 4% Short-Term debt, 43.3% equity including an equity return of 8.57%.

COLLUS Power Corp 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 as to the impact on 2009 Test Year structure. COLLUS Power Corp believes the requested capital structure and equity return will provide continued access to long-term debt at reasonable rates.

Return on Equity:

COLLUS Power Corp is requesting an equity return for the 2009 Test year of 8.57% in accordance with the information filed at Exhibit 6, Tab 1, Schedule 4. COLLUS Power Corp understands that the OEB will be finalizing the return on equity for 2009 rates based on January 2009 market interest rate information. COLLUS Power Corp'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.

Cost of Debt:

Exhibit 6, Tab 1, Schedule 3 provides the details of COLLUS Power Corp's forecasted long-term debt cost of 5.79% for 2009. Long-term debt cost information for the 2006 Board

Approved, 2007 Actual, 2008 Bridge Year and 2009 Test Year periods are also filed at Exhibit 6, Tab 1, Schedule 2 (Table 1). The Exhibit 6, Tab 1, Schedule 2 also provides the details of the short-term debt cost of 4.47% regarding the 2009 Test Year calculation.

Part of the calculation in Exhibit 6, Tab 1, Schedule 3 (Table 2) COLLUS Power Corp has incorporated the intention to replace the current CIBC loan. When the loan comes due on January 7, 2009, at an estimated principal balance of $790,000, a new loan of $1,100,000 for a 5 year term will be issued. The calculations anticipate an equal monthly principal payment of $18,333.33 for 60 months.

To determine the appropriate interest rate of this new loan, information was located from Infrastructure Ontario regarding their OSIFA Loan Program for Municipal Corporations. The loan interest rate has been forecasted as 5.08% based on OSIFA information. This has been incorporated into the overall Long-term debt rate calculations for the 2009 test year.

TABLE 1

DEEMED CAPITAL STRUCTURE

2006 EDR Approved

Description	$	% of Rate Base	Rate of Return	Return
Long Term Debt	6,455,989	50.00%	5.88%	379,866.09
Unfunded Short Term Debt				
Total Debt	6,455,989	50.00%		379,866.09
Common Share Equity	6,455,989	50.00%	9.00%	581,038.97
Total equity	6,455,989	50.00%		581,038.97
Total Rate Base	12,911,977	100%	7.44%	960,905.05

2007 Actual

Description	$	% of Rate Base	Rate of Return	Return
Long Term Debt	6,686,244	50.00%	6.25%	418,039.00
Unfunded Short Term Debt				
Total Debt	6,686,244	50.00%		418,039.00
Common Share Equity	6,686,244	50.00%	9.00%	601,761.94
Total equity	6,686,244	50.00%		601,761.94
Total Rate Base	13,372,488	100%	7.63%	1,019,800.95

2008 Bridge

Description	$	% of Rate Base	Rate of Return	Return
Long Term Debt	7,606,818	53.30%	6.26%	475,917.07
Unfunded Short Term Debt				
Total Debt	7,606,818	53.30%		475,917.07
Common Share Equity	6,664,885	46.70%	9.00%	599,839.67
Total equity	6,664,885	46.70%		599,839.67
Total Rate Base	14,271,703	100%	7.54%	1,075,756.74

2009 Test

Description	$	% of Rate Base	Rate of Return	Return
Long Term Debt	8,414,101	52.70%	5.79%	487,346.49
Unfunded Short Term Debt	638,641	4.00%	4.47%	28,547.27
Total Debt	9,052,743	56.70%		515,893.76
Common Share Equity	6,913,294	43.30%	8.57%	592,469.29
Total equity	6,913,294	43.30%		592,469.29
Total Rate Base	15,966,037	100%	6.94%	1,108,363.05

TABLE 2

COST OF DEBT

Debt & Capital Cost Structure

Weighted Debt Cost

Description	Debt Holder	Affliated with LDC?	Date of Issuance	Principal at end of 2004	Term (Years)	Rate%	Year Applied to	Interest Cost
1.Demand Loan	CIBC	No	February 7, 2002	2,315,654	7	5.47%	2009	126,666
2. Promissory Note	Town Cwood	Yes	1-Nov-01	**1,710,170**	None	6.25%	None	**106,886**
3. Debenture	Usborne & H	No	June 5 1992	86,000	15	9.75%	2006	8,385
4. Demand Loan(renew 1)	OSIFA	No	January 7, 2009	**1,100,000**	5	5.08%	2013	**55,880**
								0
								0

Total Long Term Debt Outstanding at end of 2004 used for 2006 EDR calc 4,111,824 **Total Interest Cost in 2004 for 06 calc** 241,937

not 297,817 from 2006 this is the 04 balance

Weighted Debt Cost Rate from 2006 EDR 5.88%

Total Long Term Debt Outstanding 2007 3,151,736 **Total Interest Cost for 2007** 197,054

Weighted Debt Cost Rate for 2007 6.25%

Total Long Term Debt Outstanding 2008 2,827,522 **Total Interest Cost for 2008** 176,903

Weighted Debt Cost Rate for 2008 6.26%

Total Long Term Debt Outstanding 2009 **2,810,170** **Total Interest Cost for 2009** **162,766**

(Long Term Debt Outstanding at end of 2009 expected to have $220,000 reduction of starting debt noted above for prinicipal payments on re-newed Debt)

Weighted Debt Cost Rate for 2009 5.79%

RETURN ON EQUITY:

The calculations used to determine the ROE and the return on debt are consistent with the returns approved in the recent 2008 cost of service applications and are consistent 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.

Debt Rate Calculations:

COLLUS Power Corp's calculations of its Long-Term debt rate for the years 2006 to 2009 are as follows:

TABLE 3

SUMMARY of LONG_TERM DEBT DATA

Long-Term Debt Cost

	2006 EDR	2007	2008	2009
Debt Service Costs	241,937	197,054	176,903	162,766
Long Term Debt	4,111,824	3,151,736	2,827,522	2,810,170
Effective debt rate	5.88%	6.25%	6.26%	5.79%

Deemed ROE Calculation:

COLLUS Power Corp has followed the OEB deemed ROE as follows:

Return on Equity	**8.57%**

End of Exhibit 6 (Cost of Capital and Rate of Return)

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.1
Ref: Exhibit 1/Tab 3/Schedule 1/ Appendix A" Audited Financial Statements at December 31, 2007", Note 5, page 9.
Ref: Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors December 20, 2006, page 14 http://www.oeb.gov.on.ca/documents/cases/EB-2006-0088/report_of_the_board_201206.pdf

A debt rate of 6.25% is shown as applicable to affiliated debt payable to the Town of Collingwood.

Note 5 of COLLUS' 2007 Audited Financial Statements makes reference to the following debt:

> "*7.25% note payable to the Town of Collingwood, no set terms of repayment*."

Section 2.2.1, the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors*, which deals with Long-Term Debt, states, in part:

> "**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]

a) Please provide a copy of the long-term note payable instrument.

b) Based on the terms of the long-term note payable and the guidelines in the Board Report, please state why COLLUS believes that a rate of 6.25% should be applied to this debt, as compared to the 6.10% rate contained in the Board's March 7, 2008 letter, as updated in 2009. In this context, please specifically comment on the absence of fixed terms of repayment for this debt and why, in the Applicant's view, the rate for this debt should not be determined as per Section 2.2.1 of the guidelines.

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COLLUS Response: IR # 2.1

(a) Attached to the COLLUS response to this question are Schedules OEB IR # 2.1 - 1 & 2 pertaining to the Town of Collingwood Promissory Note .

(b) It is the intention of COLLUS Power to adjust to the OEB rate, currently 6.1%, when final application is made after the Board's Decision on the application.

^^^

2.2 Debt Cost Rate

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

COLLUS states that "*To determine the appropriate interest rate of this new loan, information was located from Infrastructure Ontario regarding their OSIFA Loan Program for Municipal Corporations. The loan interest rate has been forecasted as 5.08% based on OSIFA information*."

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

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COLLUS Response: IR # 2.2

COLLUS Power provides as evidence of the borrowing rates of a new loan the attached Schedule OEB IR # 2.2 - 1. This is the latest set of rates that are being advertised by Infrastructure Ontario in regard to Lending Rates: Local Distribution Companies. It is the intention of COLLUS Power to adjust to the current 25 year serial rate (as per the attached currently @ 5.99%), anticipated to be done when Final Application is being made.

When considering our borrowing requirements, inquiry was made with banking institutions and the findings were that obtaining funds from a commercial lender source would result in a higher rate by approximately 50 basis points. Therefore it is expected that the banking institutions will not be able to offer a rate that is lower than IO's.

^^

2.3 Long-Term Debt

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

For each of the amounts of Total Long Term Debt Outstanding at the end of 2006, 2007, 2008 and 2009:

a) Please provide a breakdown of the debt and amounts that constitute the total.

b) Please provide a similar breakdown and calculations for Total Interest Cost and Weighted Debt Cost Rate.

c) Please discuss the reasons for the differentials between the total 2009 Long Term Debt Outstanding of $2,810,170 in Table 2 and the total debt of $9,052,743 for 2009 from the evidence provided in Exhibit 6/Tab 1/Schedule 2/Table 1 of the application.

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COLLUS Response: IR #2.3

(a) COLLUS Power has provided in the COS application Exhibit 6 Tab 1 Schedule 3 Page 1 of 1 that includes this information.

(b) The page referred to in response to (a) includes this information.

(c) In regards to this request for discussion in regard to the reasons for the differentials Sch OEB IR #2.3(c) – 1 is provided with this response.

^^

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Lending Rates

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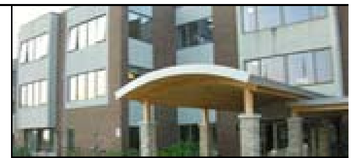
Lending Rates: Local Distribution Companies

Indicative Lending Rates as of November 25, 2008**

Term	Construction	Serial	Amortizer
1 Month	2.76%	-	-
5 Year	-	4.12%	4.22%
10 Year	-	5.04%	5.14%
15 Year	-	5.50%	5.60%
20 Year	-	5.80%	5.90%
25 Year	-	5.99%	6.09%
30 Year	-	6.06%	6.16%
35 Year	-	6.10%	6.20%
40 Year	-	6.13%	6.23%

Please Note. Our online lending rates are updated frequently as we track the movement of our cost of borrowing in the capital markets. Rates on debentures are fixed for the entire life of the loan once the debenture is issued. Rates on construction loans float throughout the term of the loan until they are replaced by a debenture.

**These interest rates are the all-in cost for loans of the term and type selected.



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Loan Payment Calculator

Five-year, $30 billion strategic investment plan

ReNew Ontario

Five principles guiding all infrastructure projects

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COLLUS Power Response to OEB IR (Sch OEB #2.3c – 1)

As noted in this question the 2009 projected Actual Long-Term Debt Outstanding at $2,810,710 is substantially lower than the Deemed Debt Amount used for rate setting purposes of $9,052,743. The reasons for this centralize around the factors that are considered by COLLUS Power as drivers in determining an appropriate debt level.

In 2001 COLLUS Power was undergoing the shift from their position as the Public Utilities Commission serving the customers of the Town of Collingwood for their water and hydro needs, and going through the registration process with the Electricity Market as the newly incorporated Local Distribution Company. During this time, the municipality was approached by 2 bordering smaller Municipalities regarding the sale of their Distribution assets. The Town of Collingwood as the sole Shareholder of COLLUS Power with the support of the newly formed COLLUS Power Board decided to complete these transactions. The shareholder recognized that third party debt would need to be obtained and agreed that COLLUS Power could borrow with the stipulation that the debt to equity ratio not exceed 50/50 debt to equity ratio. The Shareholder established this debt to equity ratio based on the guidelines used by the OEB for rate setting purposes for LDC's and they felt it was a prudent debt level.

The shareholder further recognized that it would be in the best interest of the customers to not remove any funds out of COLLUS Power. Therefore, instead of authorizing COLLUS Power to acquire all third party debt to move to the 50% debt level, it accepted the establishment of a Promissory Note for the difference of a 50% debt amount and the LDCs purchase requirement.

During its years of operation COLLUS Power has advised and the shareholder has agreed that the level of risk for LDCs within the Ontario Electricity market requires careful consideration in regards to third party debt. Generally, as the marketplace has operated over these past 7 years, COLLUS Power has experienced increased risk factors and therefore has chosen to lower its actual third party debt amounts. This has been supported by the municipal shareholder by maintaining their original philosophy not to remove funds from the company to prevent the need for taking on further debt.

These decisions link back to the customer focused philosophy of the former Collingwood Public Utilities Hydro Company existence when the utility was basically operating as a "Non-Profit' entity, completely debt-free and providing high quality distribution service to the municipality's customers. That customer focused philosophy underlines the basic principle adopted by the shareholder who considers the customers to be actual shareholders of COLLUS Power.

As noted earlier, there are a number of contributing factors which have increased financial risk for COLLUS Power. Some of the major contributing factors are presented below in a chronological order:

1. The Board's initial rate setting decision to impose a floor of $0 for 1999 Net Income during the setting of rates. The imposed floor reduced the ability of COLLUS Power to earn a full market based rate of return. A negative impact of approximately $1.4M was identified and recognized by the OEB in the 2006 EDR process.

2. The Utilities long history of low customer rates at the outset of the "unbundling" process meant a lower return starting point.

3. The Board regulated a staged increase in rates to reach the Full Market Based Rate of Return.

4. The Board decision to not accept COLLUS Power's request that the 2002 acquisition of other "potential" distributor assets be considered part of the rate base. In spite of COLLUS Powers' best efforts, the initial confusion surrounding the de-regulated electricity market caused a lengthy negotiation process for COLLUS Power with Collingwood's private condominium corporations. While it was successful the negotiation process with multiple Condominium Boards took a long time and as a result when the agreements were signed and the distribution assets were placed on COLLUS Power's financial records the corresponding Contributed Capital entry was made after 2001. The OEB would not accept COLLUS Power's argument that these assets should be part of the rate base, even though these assets were in place well before 2001. The prime reason the assets were not assumed earlier was tied to the PUC historical practice of assuming Hydro and Water Distribution assets at the same time that the Municipality assumed the roads and right-of-ways. Now as a result of the decision the future replacement cost to replace these assets will have to come from earnings. This increases the risk of having borrowing capacity when required.

5. The Board's position that since the distributor manages customer collections it **assumes** the risk of uncollectible amounts. This is underlined by the fact that the LDC must pay Retailers for invoices issued even if customers have not or may not pay on those invoices.

6. Regulatory requirements of COLLUS Power and all LDC's, especially those of the Board, have increased costs of operation and created a risky environment of uncertainty.

7. The Ministry of Energy's decision to place the requirement on all LDCs to provide Smart Meters to their customers. This legislated requirement coupled by the regulators cost recovery process imposes a requirement on the LDC to upfront the substantial capital cost of the installation. This will substantially impact COLLUS Power's decisions regarding debt.

8. There is uncertainty in regards to how the Deferral and Variance accounts including PILs will be dealt with in the future.

9. There is uncertainty regarding the impact of the Ministry of Energy's extensive Conservation & Demand Management initiatives. It is unclear if extensive adoption of conservation resulting in significantly reduced consumption will affect the ability of COLLUS Power to earn the approved Rate of Return given that the rates used to collect Operational Revenues are so heavily tied to levels of consumption.

10. The escalating uncertainty of the impact of the electricity retail market on COLLUS Power Corp. There have already been substantial costs incurred, well in excess of the approved charge, to provide the regulated service to retailers. All consumers, even those that have chosen not to sign retailer contracts have been subsidizing the Retailer marketplace. Those customers that have signed contracts have been complaining constantly as evidenced in repeated newspaper articles on the issue. The impact on the cost of energy (roughly 45% greater than the RPP cost at this point in time) on former RPP customers that have signed a retail contract may eventually result in another class action suit against the electricity industry participants.

11. There is uncertainty regarding the outcome of the class action suit against LDC's and former hydro utility companies regarding the former 5% late penalty charge.

The factors noted above are all outside the general control of COLLUS Power however they cannot be ignored when reviewing the overall financial stability of the LDC. Throughout the responses to the various interrogatories as well as within the 2009 Cost of Service rate application COLLUS Power has demonstrated many cost management initiatives which have been adopted in response to the various internal and external cost drivers. Continued infrastructure investment to manage new growth and a focus on customer service are keys to maintaining the integrity of the distribution system. Our customers are important and rely upon their local distributor to look after their electricity supply needs. Once our rate approval is granted COLLUS will continue use the revenue requirement to maintain and where possible, improve the high quality level of service our customers demand.

In closing then COLLUS Power will continue to use careful consideration when deciding about borrowing. This consideration will continue to successfully ensure that customer rates truly reflect the financial position of their LDC COLLUS Power.

COLLUS Power Corp Responses to the Board Staff Second Round Interrogatories 2009 Electricity Distribution Rates COLLUS Power Corp (“COLLUS”) EB-2008-0226

1 COST OF CAPITAL (CAPITAL STRUCTURE AND WEIGHTED AVERAGE COST OF CAPITAL)

Ref: Exhibit 6/Tab 1/Schedule 2/ p. 1/Table 1
Ref: Exhibit 6/Tab 1/Schedule 3/ p. 1/Table 2
Ref: Response to Board staff interrogatory #2.3 (parts “a” and “b”)

Board staff interrogatory questions 2.3 (parts “a” and “b”) asked COLLUS to provide, for each of the amounts of Total Long Term Debt Outstanding at the end of 2006, 2007, 2008 and 2009, a breakdown of the debt amounts that constitute the total and a similar breakdown and calculations for Total Interest Cost and Weighted Debt Cost Rate.

In its response, COLLUS stated that this information was provided in Exhibit 6/ Tab 1/Schedule 3/Page 1. However, the information in Table 2 of this evidence does not provide a breakdown by year showing the individual debt issues and the applicable interest costs that make up these amounts.

Please provide tables for each of the years 2006 to 2009, similar in format to that used in Exhibit 6/Tab 1/Schedule 3/Page 1/Table 2 that would provide a breakdown of the calculation by year of the Total Long Term Debt Outstanding and the Weighted Debt Cost Rate.

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COLLUS Power Corp Response:

We believe Sch PO #4 BoardS IR #1 incorporates the information that is being requested. It provides historical information regarding debt levels at the beginning of each of the years with the associated annual principal and interest payments. Please note in the Principal and Interest Table the total Principal paid from 2005 thru 2008 is $1,301,654 which is the difference between the end of 2004 balance of $4,111,824 and the beginning of 2009 amount of $2,810,170.

As with the 2006 EDR Board issued debt rate calculation method the interest paid in a given year is used along with the beginning of the year debt level to calculate the annual actual debt rate. Thus for 2009 the estimated cost of $162,766 is divided by the beginning of the year debt level of $2,810,170.

^^

2 RATE BASE AND CAPEX

2.1 Service Quality and Reliability

Ref: Response to Board staff interrogatory #3.7
Ref: Exhibit 1/Tab 2/Schedule 1/p.2/Table 1.2.1-1

In response to Board staff interrogatory 3.7, COLLUS provided 2008 and 2009 reliability improvement targets for the SAIDI, SAIFI and CAIDI indicators. These indicators show that for SAIDI the 2007 Actual value is 2.23, while the 2004 to 2006 actual was in the range of 1.09 to 1.38. However, the 2008 and 2009 Target levels are higher than the actual level achieved in the 2004 to 2006 period at 1.46 and 1.44 respectively. The SAIFI indicators are similar with 2007 being the high year and the 2008 and 2009 targets lower than 2007, but significantly higher than what was actually achieved in the 2002 to 2006 period. Where CAIDI is concerned the 2008 and 2009 targets are higher than the 2007 actual level, but lower than what was achieved in the 2002 to 2006 period.

a) Please state how the 2008 and 2009 reliability improvement targets were determined and provide the assumptions and calculations used for setting these targets.

b) Please provide an explanation of these reliability improvement targets in the context of the historic performance noted above.

(Sch PO#4 BoardS IR #1)

Debt & Capital Cost Structure

Weighted Debt Cost

Description	Debt Holder	Affliated with LDC?	Date of Issuance	Principal at end of 2004	Term (Years)	Rate%	Year Applied to	Interest Cost
1.Demand Loan	CIBC	No	February 7, 2002	2,315,654	7	5.47%	2009	126,666
2. Promissory Note	Town Cwood	Yes	1-Nov-01	**1,710,170**	None	6.25%	None	**106,886**
3. Debenture	Usborne & H	No	June 5 1992	86,000	15	9.75%	2006	8,385
4. Demand Loan(renew 1)	OSIFA	No	January 7, 2009	**1,100,000**	5	5.08%	2013	**55,880**
								0
								0

Total Long Term Debt Outstanding at end of 2004 used for 2006 EDR calc 4,111,824 — **Total Interest Cost in 2004 for 06 calc** 241,937

The numbers used here are not 297,817 principal or 215,921 interest from 2006 this is the 04 balance

Weighted Debt Cost Rate from 2006 EDR 5.88%

Total Long Term Debt Outstanding Beginning of 2007 3,490,972 — **Total Interest Cost for 2007** 197,054

Weighted Debt Cost Rate for 2007 5.64%

Total Long Term Debt Outstanding Beginning of 2008 3,151,762 — **Total Interest Cost for 2008** 176,903

Weighted Debt Cost Rate for 2008 5.61%

Total Long Term Debt Outstanding Beginning of 2009 **2,810,170** — **Total Interest Cost for 2009** **162,766**

(Long Term Debt Outstanding at end of 2009 expected to have $220,000 reduction of starting debt noted above for prinicipal payments on re-newed Debt)

Weighted Debt Cost Rate for 2009 5.79%

PRINCIPAL AND INTEREST PAYMENTS 2005-9

CIBC Feb 2002 $3,040,000; $1,117,352 end 08

					$ 1,100,000 (5yr @ 5.08%)
		Principal Payments 2005-09			
	2005	2006	2007	2008	2009
CIBC	$ 275,780	$ 291,070	$ 307,210	$ 341,592	$ 220,000
UH	$ 26,000	$ 28,000	$ 32,000		
			Total Principal 2005-8	**$ 1,301,654**	
		Interest Payments			
CIBC	$ 109,176	$ 103,185	$ 87,048	$ 70,017	$ 55,880
UH	$ 8,385	$ 5,850	$ 3,120		
Town of Collingwood	$ 106,886	$ 106,886	$ 106,886	$ 106,886	$ 106,886
Total Annual Interest Exp.	$ 224,447	$ 215,921	$ 197,054	$ 176,903	$ 162,766

OEB approved 2006 EDR based on the formula used in first WDCR calc section. Therefore use same approach for others.

$1.1M loan at IO OISFA rate 5.08% (Estimated using June 2008 current rates)

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2009 ELECTRICITY DISTRIBUTION RATES

COLLUS Power Corp. (“COLLUS”)

EB-2008-0226

February 6, 2009

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

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

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

COST OF CAPITAL

Background

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

Table 3

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

Discussion and Submission

Long-term debt

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

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

Section 2.2.1 of the Board Report states:

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

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

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

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

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

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

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[10] Board staff interrogatory #2.1
[11] Board staff interrogatory #2.2

EB-2008-0226

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

AND IN THE MATTER OF an application by **COLLUS Power Corp.** for an order approving 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 13, 2009

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b) Return on Equity

COLLUS has requested a return on equity of 8.57% in the 2009 test year (Exhibit 6, Tab 1, Schedule 1). COLLUS also states that the OEB will update the return on equity rate based on January 2009 market interest rate information for rates effective May 1, 2009. Energy Probe accepts this position because it is compliance with the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario Electricity Distributors* dated December 20, 2006.

c) Short Term Debt Rate

COLLUS has requested a short term debt rate of 4.47% in the test year (Exhibit 6, Tab 1, Schedule 2). This reflects the OEB's March 7, 2008 letter regarding the cost of capital updates for the 2008 cost of service applications. COLLUS acknowledges that the cost of short term debt will also be updated by the Board in early 2009 for rates effective May 1, 2009 (Energy Probe Interrogatory #22). Energy Probe submits that this update is required 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

COLLUS has two sources of long term debt for the 2009 test year, as shown in Exhibit 6, Tab 1, Schedule 3, Table 2. These two sources include a promissory note for $1,710,170 payable to an affiliate at an interest rate of 6.25% and a demand loan for $1,100,000 at a rate of 5.08%. The weighted average cost of this long term debt is shown in Table 3 of Exhibit 6, Tab 1, Schedule 4 and is 5.79% for the 2009 test year.

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 that:

> "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 promissory note payable to an affiliate is callable on demand (Energy Probe Interrogatory #23b). Therefore Energy Probe submits that this debt should have its rate adjusted from the 6.25% currently being used to the deemed long term rate as determined by the Board based on January 2009 market interest rate information. Based on the response to Board Staff Interrogatory #2.1b, COLLUS agrees with the adjustment of the rate from 6.25% to the Board deemed rate.

COLLUS has forecast a rate for the demand loan of 5.08%. This rate was based on information from Infrastructure Ontario as indicated in the response to Board Staff Interrogatory # 2.2. In that response COLLUS indicated it intended to update the 25 year rate for a serial loan to 5.99%. This rate was based on the Infrastructure Ontario rate as of November 25, 2008. COLLUS proposes 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.

However, COLLUS indicated in their evidence that the demand loan was to be issued on January 7, 2009. If this demand loan has been issued, then the actual rate, assuming it is from Infrastructure Ontario, should be used. However, as noted in the following paragraph, there is a discrepancy between using a 25 year term rate when the term for the new loan has been clearly identified to be 5 years. Energy Probe, therefore submits that the debt rate that is used if COLLUS has issued the debt should be the rate for a 5 year term available from Infrastructure Ontario on the appropriate date.

The discrepancy noted above is between the rate of 5.99% associated with the 25 year rate for a serial loan as reported by COLLUS based on the November 25, 2008 information from Infrastructure Ontario (Board Staff Interrogatory #2.2) and the evidence provided at Exhibit 6, Tab 1, Schedule 3, Table 2. In this table, COLLUS has shown this demand loan as item number 4 with a date of issuance of January 7, 2009 and at a rate of 5.08%, as originally forecast. However, the term shown is for 5 years, not 25. The written evidence on page 2 of Exhibit 6, Tab 1, Schedule 1 also clearly states that as of

January 7, 2009 "a new loan of $1,100,000 for a 5 year term will be issued". COLLUS has not provided any rationale for now proposing the use of a 25 year term rate when the loan to be issued is clearly for a 5 year term. The response to Board Staff Interrogatory #2.2 shows that the 5 year term rate from Infrastructure Ontario as of November 25, 2008 was 4.12%, significantly lower than the 25 year rate of 5.99%.

In the event that COLLUS has not yet issued the demand loan, then Energy Probe has two submissions on their 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.

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 3.40% for a 5 year serial loan, to 4.59% for a 10 year serial loan, to 5.17% for a 15 year serial loan, to 5.49% for a 20 year serial loan. In this respect, Energy Probe once again notes that the evidence clearly states that COLLUS would be issuing the debt based on a 5 year term. Energy Probe submits that the Board should approve a deemed long term weighted debt rate that includes the current forecast rate of 3.40% for a 5 year term, or the rate for a 5 year term when the Board issues its Decision.

COST ALLOCATION & RATE DESIGN

COLLUS proposes to adjust the revenue to cost ratios for all rate classes. COLLUS proposes to reduce the revenue to cost ratios for the residential and large use rates, with increases for GS < 50 kW, GS > 50 kW, street lighting and unmetered scattered load classes.

Based on the 2006 cost allocation informational filing, the street lighting and GS > 50 kW classes are below the revenue to cost range identified as appropriate in the Board's "Report on Application of Cost Allocation for Electricity Distributors" dated November 28, 2007. The large use class is below the range. All of the other rate classes are within the range. These figures are shown in Table 3 of Updated Exhibit 8. It should be noted

EB-2008-0226

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 COLLUS Power Corp. 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 13, 2009

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COLLUS in each year. VECC estimates that apply these lower inflation rates to the non-union staff[36] would translate into a reduction in total OM&A expenses for 2009 of $40,000[37].

4.7 Based on the foregoing comments, VECC submits that COLLUS total OM&A costs for 2009 should be reduced by $80,000.

5 Losses

5.1 COLLUS' proposed Total Loss Factor is 1.0750 for secondary metered customers. This value is based on a Supply Facility Loss Factor of 1.034 and a Distribution Loss Factor of 1.0397. This later value is calculated using data for 2005-2007 so as to capture the most recent impact of it largest customer ceasing operations[38]. VECC submits that the Board should accept COLLUS' proposal.

6 Cost of Capital/Capital Structure

6.1 COLLUS' proposed capital structure is consistent with the Board's December 2006 Report and should be accepted by the Board. VECC notes that COLLUS has also acknowledged that both the cost of short-term debt and the cost equity will be updated in accordance with the Board's Guidelines[39].

6.2 In response to a Board Staff interrogatory, COLLUS has acknowledged that the interest rate on the promissory note payable to the Town of Collingwood will be adjusted when the Board sets the 2009 deemed rate for long-term debt[40].

6.3 COLLUS' forecast long-term debt for 2009 also includes a demand loan to be

[36] Union staff was excluded due to uncertainty as to the increases required under their contracts.
[37] Based on the difference in the 2009 average annual wage for each employee group assuming an escalation of 2% in 2008 and 1% in 2009 versus assuming 4% in each year applied to the 2009 staff count.
[38] Exhibit 4/Tab 2/Schedule 7, page 1
[39] Energy Probe Round 1 - #22
[40] Board Staff Round 1 - #2.1

issued in January 2009 with a 5-year term at a projected rate of 5.08%[41]. COLLUS has indicated that the 5.08% is based on the rates quoted for the OSIFA Loan Program for Municipal Corporations[42] and that they intend to adjust it to the available 25-year rate when the final Rate Order is being made.

6.4 VECC agrees with the submissions of Energy Probe that, in the event the loan has been issued then the appropriate rate is the one obtained from Infrastructure Ontario. Otherwise, the Board should use the 5-year rate (consistent with the planned term of the loan) published by Infrastructure Canada as of the date of the Board's Decision.

7 Deferral and Variance Accounts

7.1 COLLUS is not requesting the disposition of any deferral or variance accounts as part of the current Application[43].

7.2 However, COLLUS is requesting a new variance account that could be used in the event of the loss of its other Large Use customer. The Applicant has also raised the issue of how costs associated with the implementation of IFRS will be managed during 2009 and the balance of the 3GIRM period[44].

7.3 With regards to IFRS, VECC notes that in response to other utilities who have requested variance accounts to address the issue, the Board has indicated that the matter requires a "sector-wide approach" and would not be dealt with as part of an individual application[45]. As a result, VECC submits that the treatment of COLLUS' IFRS-related costs should not be addressed as part of this Application.

7.4 With respect to the requested variance account to address the possible loss of COLLUS' Large Use customer, VECC submits that this request should not be approved.

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41 Exhibit 6/Tab 1/Schedule 3, page 1
42 Board Staff Round 1 - #2.2
43 VECC #25 c)
44 November 28, 2008 cover letter to the Round 1 Interrogatory Responses.
45 EB-2008-0171, Board's Letter of December 1, 2008.

EB-2008-0226

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 COLLUS Power Corp. pursuant to the *Ontario Energy Board Act* for an Order or Orders approving just and reasonable rates for the delivery and distribution of electricity.

FINAL ARGUMENT ON BEHALF OF THE SCHOOL ENERGY COALITION

February 16, 2009

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5 COST OF CAPITAL INCLUDING PILS

5.1 *Long Term Debt*

5.1.1 We note that the Applicant has two components to their long term debt, a commercial demand loan with an arm's length third party for $1,100,000, and a promissory note due to an affiliate, payable on demand, with a stated interest rate of 7.25% and a principal amount of $1,700,000.

5.1.2 With respect to the commercial demand loan, COLLUS originally proposed a rate based on the five year Infrastructure Ontario rate, 5.08%, but has subsequently proposed to change to a much higher 25 year rate. In fact, in January the Infrastructure Ontario five year rate was significantly lower still.

5.1.3 On this rate, we have read the submissions of Energy Probe, and agree with them that, if the loan was obtained in January, it is the January five year rate that should apply. If it has not yet been obtained, it is the current five year rate that should be used. In either case, it would be significantly lower than the 5.08% originally proposed. There would appear to us to be no credible argument in favour of the last minute change by the Applicant to propose the higher 25 year rate.

5.1.4 With respect to the affiliate debt, we agree with Board Staff that under the Board's policy the callable affiliate debt should be at the Board's deemed rate, which is currently 6.10%.

5.1.5 We note the incongruity of the Board's deemed rate in this context. Market rates are clearly signalled by the government through the Infrastructure Ontario term rates, yet LDCs continue to be allowed to recover from ratepayers interest rates far in excess of market rates for affiliate long term debt. We believe that interest on affiliate debt that is in excess of market rates as shown in evidence before the Board should not be recoverable from ratepayers.

5.1.6 In this regard, it is submitted that the Applicant has provided evidence that it can borrow at levels that are much cheaper than the affiliate debt, likely 5% or less for five years. Since the affiliate debt is repayable by the utility at any time without notice or bonus [Schedule OEB IR#2.1-1], it is submitted that the utility should, if it is acting prudently, repay this $1.7 million promissory note forthwith and replace it with less expensive debt. This Board should allow in revenue requirement a weighted long term interest rate that reflects the assumption that management will act prudently to keep costs as low as possible. That long term interest rate, it is submitted, will be 5% or less.

COLLUS Power Corp (“COLLUS”)

2009 Electricity Distribution Rates

EB-2008-0226

Final Submission

SECTION 5: COST OF CAPITAL / RATE OF RETURN

Long-term Debt:

As noted by Board staff in their FS (9 – 1) COLLUS agrees that the Application's 6.25% rate for this instrument be replaced by the current 6.1%. It is noted that there is an expectation that a new long-term debt rate will be determined in early 2009 that will replace the 6.1% approved by the Board on March 7, 2008. The applicable rate will be utilized with the $1,700,000 Town of Collingwood debt to calculate a final Weighted Debt Cost Rate as part of the Cost of Capital calculation. EP(22 – 1), SEC(10 – 5.1.4) and VECC(8 – 6.2) submitted their agreement with the use of 6.1% or an updated Board rate if issued before the final Board decision on this application.

Further on the promissory note SEC(10 – 5.1.6) submits an opinion suggesting COLLUS may not be acting prudently. SEC does not need to provide comments on the prudency of COLLUS business decisions. When considering current debt levels COLLUS bears in mind that the commercial lending sector does not include in its consideration shareholder debt. The shareholder is not interested in increasing commercial debt exposure which would limit options for managing their holdings in a prudent manner. Also currently the shareholder wants to keep funds generated by COLLUS within the municipal electricity sector. COLLUS submits that it is prepared to accept the Board's direction in it's Decision on approved Rate of Return on rate base.

Board staff FS(9 – 2) correctly notes that COLLUS identified the intent to use the most recent 25 year rate available from Infrastructure Ontario for the Demand Loan of $1,100,000 once the OEB Final Decision is issued. Since the intention is to pay down the loan over a 5 year period COLLUS agrees that the 5 year rate would be more appropriate. Currently COLLUS has not reissued the borrowing after it was temporarily settled on the termination date of Jan. 7/09. The intention is to re-establish the loan in the near future.

COLLUS will utilize the current Infrastructure Ontario 5 year serial term rate that is in place when the Board's Decision is made and the FS is made for 2009 DSR rates. EP(22 – 2), SEC(10 – 5.1.2) and VECC(8 – 6.3) submitted agreement on this.

Return on Equity:

COLLUS has utilized the 8.57% Board approval ROE but will update to the applicable rate upon completion of the FS of 2009 DSR rates. EP, SEC and VECC did not note any form of disagreement with the process COLLUS had used to calculate ROE.