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BY E-MAIL

May 1, 2009

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Board Staff Submission on Peterborough Distribution Inc.'s 2009 Electricity Distribution Rate Application (EB-2008-0241)

Further to the Board's Procedural Order No. 5 in this proceeding, please find attached the Board Staff Submission regarding the rate application from Peterborough Distribution Inc.

Please forward the attached to Peterborough Distribution and all intervenors in this proceeding.

Yours truly,

Original Signed By

Lee Harmer
Case Manager

Enclosure

ONTARIO ENERGY BOARD

STAFF SUBMISSION

PETERBOROUGH DISTRIBUTION INC.

2009 ELECTRICITY DISTRIBUTION RATES

EB-2008-0241

May 1, 2009

Introduction

Peterborough Distribution Inc. (PDI) is an Ontario business corporation, 100% owned by the Town of Peterborough through City of Peterborough Holdings Inc. (COPHI). PDI has no employees and purchases services under a Services Agreement with its affiliate Peterborough Utilities Services Inc., which is also an Ontario business corporation, 100% owned by the Town of Peterborough through COPHI.

In 2008, in its three service areas, PDI currently provides service to approximately 34,960 customers (30,508 residential (87.3%), 3,642 energy billed General Service (10.4%), 366 demand billed General Service less than 5,000 kW (1.0%), 2 Large Use customers, 10 USL, 432 Sentinel Lighting accounts (1.2%) and Street Lighting (8,431 connections – not included in above). Its service territories are identified in its Distribution Licence and include the former Village of Norwood as of December 31, 1997 (now in the Township of Asphodel-Norwood) including one additional property outside the Village, the former Village of Lakefield as of December 31, 2000 including 27 locations outside the Village; and, the City of Peterborough as of January 1, 1997, including three locations outside the City and excluding 2 locations inside the City (which are serviced by Hydro One Networks Inc.).

PDI is a Registered Market Participant for the purposes of settlement with the IESO. However, it is considered a partially “embedded” distributor because it receives some of its electricity from Hydro One Network’s low voltage distribution system.

The Vulnerable Energy Consumers Coalition (“VECC”) and the Association of Major Power Consumers in Ontario (“AMPCO”) were granted intervention status in this proceeding. AMPCO have not been an active participant in the review of the application.

The Application

In its application filed with the Board on October 10, 2008, PDI is seeking approval of $15,753,249 as the 2009 revenue requirement it requires to provide electricity distribution services (Ref. Ex 1 Tab 1 Schedule 5). On an equivalent basis, this compares with a Board-approved level of $14,651,426 for 2006, the last year the rates were reviewed on a cost of service basis. During the interim period, the Board has approved adjustments to distribution rates effective May 1, 2007 and May 1, 2008 through an Incentive Regulation Mechanism (IRM) process.

The application also seeks approval to implement rate riders that dispose of the balances recorded in certain variance and deferral accounts as of December 31, 2007 and to include a revised Smart Meter Rate Adder of $1.00/metered customer per month.

In addition, PDI is seeking approval to harmonize the rates it charges within its three service areas.

PDI indicates that if the application is approved as filed, residential customers consuming 1,000 kWh per month would experience varying increases in their current delivery charges depending on where they reside as follows:

- In the Asphodel-Norwood service area, an approximate 9.6% increase in their current delivery charges. This is a $3.05 per month increase on their total bill.
- In the Lakefield service area, an approximate 11.3% increase in their current delivery charges. This is a $3.53 per month increase on their total bill.
- In the Peterborough service area, an approximate 4.7% increase in their current delivery charges. This is a $1.57 per month increase on their total bill.

Similarly, general service customers consuming 2,000 kWh per month and having a monthly demand of less than 50 kW would experience varying increases in their delivery charges depending on where they are located as follows:

- In the Asphodel-Norwood service area, an approximate 13.6% increase in their current delivery charges. This is a $7.83 per month increase on their bill.
- In the Lakefield service area, an approximate 8.0% increase in their current delivery charges. This is a $4.85 per month increase on their bill.
- In the Peterborough service area, an approximate 11.2% increase in their current delivery charges. This is a $6.54 per month increase on their bill.

Outstanding Issues from Previous Board Decisions

2006 Rate Applications (RP-2005-0020/EB-2005-0406/EB-2005-0407/EB-2005-0408)

In the Board's Decision regarding the 2006 Rate application for the Peterborough service area, the Board included the following section on the adequacy of the information provided in support of the Application.

> "PDI acquires all of its services from an affiliate. The Board notes that the Application did not include any information on staff compensation levels paid by

> PDI. The response to an interrogatory on this subject provides an average cost but does not break the information down by group of employees. In response to other interrogatories, PDI did provide the Service Level Agreement that governs PDI's costs, and data on the assignment of costs to PDI and to its regulated and unregulated affiliates. While the data provided was voluminous, it did not assist the Board in its deliberations.
>
> This is not a finding that the costs are necessarily unreasonable, and in this case, the Board will approve the costs claimed by PDI. However, the Board reminds the Applicant that the burden of demonstrating reasonableness of costs rests with an applicant, including costs associated with transactions with affiliates. **In its next rate case, the Applicant must provide detailed financial information on its operations, and details of costs incurred by its affiliates in providing services to the applicant.** (emphasis added)
>
> The Applicant can refer to the Board's decision on rates for Enbridge Gas Distribution Inc. dated December 13, 2002 (RP-2001-0032) for an indication of the information that the Applicant should provide in its next application for rate approval. In that decision, the Board found that, while it is not inherently opposed to unregulated affiliates profiting from their relationship with the regulated affiliate, it is essential that the applicant utility be able to establish that outsourcing arrangements also provide tangible benefits to the applicant utility and its ratepayers. The Board also stated that the applicant must demonstrate not only that the arrangements will not harm ratepayers, but also that there will be a significant and tangible benefit to ratepayers."

In the Board's Decisions regarding the 2006 Rate applications for the Asphodel-Norwood (ANDI) service area, the Board included the following section on the loss adjustment factor.

> "The Applicant provided information on its Distribution Loss Factor in accordance with the Handbook, and calculated a value of 1.0454. However, ANDI also applied for a Total Loss Factor of the same amount, despite revising the data on the Supply Facilities Loss Factor in its resubmission in March 2006.
>
> The Board is not confident that the information provided by ANDI for its Distribution or Total Loss Factors is correct. In these circumstances, the Board will deem a Total Loss Factor of 1.05 for ANDI.

> **The Board directs the Applicant to provide detailed information about both the Supply Facilities Loss Factor and updated data on the Distribution Loss Factor with its next application for approval of rates.**" (emphasis added)

Similarly, in the Board's Decisions regarding the 2006 Rate applications for the Lakefield service area, the Board included the following section on the loss adjustment factor.

> "The Applicant provided information on its Distribution Loss Factor in accordance with the Handbook, Schedule 10-5, and calculated a value of 1.0323. It applied for a Total Loss Factor (for customers less than 5000 kW with metering on the secondary system) at the same amount. This part of the application was unchanged, despite revising the data on the Supply Facilities Loss Factor in its resubmission in March 2006 from a value of 1.0323 down to 1.0045. The Board is not confident that the Total Loss Factor is appropriate in either version, particularly since the Applicant is an embedded distributor. In the absence of a reliable loss factor calculation, the Board will deem a Total Loss Factor of 1.05 for Lakefield. **The Board directs the Applicant to provide detailed information about both the Supply Facilities Loss Factor and updated data on the Distribution Loss Factor with its next application for approval of rates.** (emphasis added)

PDI has requested the following specific items (Exhibit 1 Tab 1 Schedule 5):

- Approval to charge rates effective May 1, 2009 to recover a service revenue requirement of $15,753,249;
- Approval of the harmonization of PDI's distribution rates across the three service areas;
- Approval of the proposed change in capital structure consistent with the Board's report on Cost of Capital dated December 20, 2006;
- Approval of revised Low Voltage Rates;
- Approval of a rate rider of $1.00 per customer per month to fund Smart Meter activities;
- Approval of revised loss adjustment factors (both DLF and TLF); and,
- Approval to continue with the existing approved Specific Service Charges.

On January 30, 2009 and February 4, 2009, PDI filed with the Board its responses to the written interrogatories from VECC and Board Staff respectively. On March 25, 2009, PDI filed with the Board its responses to a second round of written interrogatories.

In Procedural Order No. 5, the Board determined that this application would proceed by way of a written hearing process, and directed Board staff and intervenors to file their submissions on the application no later than Friday May 1, 2009.

This submission reflects observations and concerns which arise from Board staff's review of the pre-filed evidence and both rounds of interrogatory responses made by PDI. It is intended to assist the Board in evaluating PDI's application and in setting just and reasonable rates.

For the most part, the structure of this submission follows PDI's evidentiary Exhibit format. For completeness of the record, this submission includes a discussion of all of the identified areas, regardless of whether Board staff has a specific issue with components of the area.

The previously identified outstanding issues from previous Board Decisions and PDI's specific items are addressed within the respective sections, as necessary.

Board staff notes that the data provided by PDI are consolidated from the three service areas and the application has been prepared on the basis of a single entity. Board staff considers that the matter of rate harmonization among the three service areas is reduced to an examination of any rate mitigation matters that might be required as a result of the impacts of the resulting rates as compared to the current rates within the three service areas.

Rate Base

General

Background

PDI has documented its rate base in Table 1 in E2/T1/S1. This is summarized in the following table, which also includes working capital and accumulated depreciation and annual depreciation expense. Board staff has also added annual percentage changes and other statistics to better understand and demonstrate PDI's capital asset management over time.

Summary of PDI's Rate Base, Depreciation and Working Capital Allowance

	2006 EDR	2006 Actual	2007 Actual	2008 Bridge	2009 Test	
Summary of Rate Base						
Gross Fixed Assets	$ 51,844,518	$ 59,418,093	$ 64,788,300	$ 68,410,300	$ 72,653,300	
Accumulated Depreciation	$ 10,751,587	$ 17,703,004	$ 20,852,125	$ 24,076,445	$ 27,616,445	
Net Fixed Assets	$ 41,092,931	$ 41,715,089	$ 43,936,175	$ 44,333,855	$ 45,036,855	
Average Net Book Value	$ 41,092,310	$ 41,724,155	$ 42,825,632	$ 44,135,015	$ 44,685,355	
Working Capital	$ 58,098,979	$ 67,120,913	$ 69,773,498	$ 62,909,935	$ 62,938,264	
WCA Factor	15%	15%	15%	15%	15%	
Working Capital Allowance	$ 8,714,847	$ 10,068,137	$ 10,466,025	$ 9,436,490	$ 9,440,740	
Rate Base	$ 49,807,157	$ 51,792,292	$ 53,291,657	$ 53,571,505	$ 54,126,095	
Percentage Changes						**3-year annual average**
Gross Fixed Assets		14.61%	9.04%	5.59%	6.20%	6.93%
Accumulated Depreciation		64.65%	17.79%	15.46%	14.70%	15.98%
Net Fixed Assets		1.51%	5.32%	0.91%	1.59%	2.59%
Average Net Book Value		1.54%	2.64%	3.06%	1.25%	2.31%

Discussion and Submission

PDI's physical assets are confined to the distribution plant required to receive and deliver power and energy. It does not own, operate or have any responsibility for such activities as IT, telecommunications, office and related assets and infrastructure, which are made available to PDI through a Service Agreement with an affiliate, Peterborough Utilities Services Inc. (PUSI).

PDI's rate base shows small increases, averaging 1.5% per annum from 2006 to 2009 test year. Both average Net Fixed Assets and Working Capital Allowance show similar overall trends.

PDI is proposing increases to capital expenditures to rehabilitate parts of its network. Board staff submits that the record supports PDI's proposal, although Board staff makes further comments on PDI's long-term capital planning under Capital Expenditures, Asset Management, and Cost of Capital.

Beyond the comments made above and elsewhere in this submission, Board staff takes no issue with PDI's proposed rate base.

2009 Capital Expenditures

Background

PDI has documented its capital expenditures in E2/T3/S2, and provided further explanation of capital projects in E2/T3/S3. Further explanation was also provided in PDI's Asset Management Report, provided in E2/T3/S4/Appendix A, which Board staff will discuss below. Clarification on certain capital expenditures was sought through interrogatory responses by Board staff and intervenors.

Board staff has summarized PDI's historical and forecasted capital expenditures in the following table:

Capital Expenditures by Year

	2006 Actual	2007 Actual	2008 Bridge	2009 Test
Capital Expenditures (excluding Smart Meters)	$ 4,618,302	$ 6,108,641	$ 5,370,000	$ 5,506,000
Contributions and Grants	-$ 1,735,908	-$ 738,434	-$ 1,748,000	-$ 1,263,000
Capital Expenditures less Contributions and Grants	$ 2,882,394	$ 5,370,207	$ 3,622,000	$ 4,243,000

Source: E2/T3/S2, E2/T2/S1,and Response to Board staff IR #2

The 2009 gross capital investments focus on customer demand ($1,863,000 or 34%), renewal ($2,175,000 or 40%), security ($100,000 or 2%) and general projects ($1,368,000 or 25%). By comparison, the 2008 values are customer demand ($2,385,000 or 44%), renewal ($1,275,000 or 24%), capacity ($325,000 or 6%) and general projects ($1,260,000 or 24%).

Discussion and Submission

Responses to certain interrogatories reveal the PDI uses a different accounting treatment for internal purposes, but adheres to the Board's regulatory accounting practices for rate-making purposes. Responses to Board staff IRs #3-6 provide indications of different treatment. For example, the response to Board staff IR #3 indicates that PDI has, to date, factored depreciation expense credits associated with Account 1995 into the depreciation expense of the individual asset accounts. While the outcome is the same, this does not comply with the Accounting Procedures Handbook, and PDI, in the interrogatory response, indicated that it will change its accounting treatment on a going forward basis.

It appears that the average annual capital expenditures over the past few years have been relatively stable and this is carried forward into the 2009 amount. Given this and the material contained in the Asset Management Report (discussed below), Board staff does not take issue with PDI's proposed capital expenditures of $5,506,000 for 2009.

Asset Management

Background

PDI has completed a high level review of its current assets and has reviewed current strategies in dealing with maintenance and capital improvements. PDI has provided its most recent Asset Management Report, (AMR) dated September 8, 2008 in E2/T3/S4/ Appendix A in support of its activities in this matter. The AMR provided information on historical capital spending, and on its asset management approach in the short and the long-term. While more detail pertains to short-term targets and projects, the AMR covers a forecast horizon of 50 years, covering up to complete replacement of PDI's 2008 electricity distribution system (i.e. in place today and ignoring growth).

Discussion and Submission

Board staff views PDI's AMR as supporting evidence to PDI's proposals for rate base and capital and operating expenditures in its 2009 application.

Board staff considers that PDI is still implementing its asset management program. Clarification of material documented in the AMR was requested by Board staff IRs #9 to

13 and VECC IR #21. Staff observed that there are some inconsistencies and errors in this report, which appears to be PDI's first efforts in this realm. For example, as explained in the response to VECC IR #21, the age of stations, as documented in the AMR, is consistently understated by 7 years. PDI's response to Board staff IR #10 also indicated that Table 13 at the end of the AMR is more reliable than are earlier tables.

PDI's response to Board staff IR #13 indicates that PDI is forecasting a budget of $73K per annum to assess the condition of its assets.

Board staff takes no issue with PDI's evidence on Asset Management in the current application, and considers that the documentation is supportive of PDI's proposed capital expenditures in its application for 2009 distribution rates. However, staff notes the following areas where the AMR could be improved. Board staff would encourage PDI to undertake efforts to improve asset condition assessment and asset management, and suggests that PDI provide its then current and detailed Asset Management Plan at the time of its next Cost of Service application to rebase distribution rates.

Service Quality and Reliability

Background

As part of its AMR, the applicant has included tables for annual 2000 through 2007 and monthly for 2007 for SAIDI, SAIFI and CAIDI data. No issues of degraded service quality or reliability were apparent.

Discussion and Submission

Board staff observes that PDI's service quality and reliability, as reported to the Board in accordance with section 2.1.5 of the Reporting and Record-keeping Requirements, are consistent with the evidence on the record in this application, and do not indicate any areas or patterns of concern. Overall, Board staff takes no issue with the evidence provided.

Working Capital Allowance

Background

PDI provided its proposed Working Capital Allowance ("WCA") and derivation in E2/T1/S1 and E2/T4/S1, with a proposed WCA for 2009 of $9,440,740. PDI is using the standard Board methodology of 15% of the forecasted 2009 cost of power of $56,101,419, (based on the November 2008 forecasted RPP price of $0.0545/kWh and existing retail transmission rates) and the forecasted controllable expenses of $6,786,846.

Discussion and Submission

Board staff observes that there is a difference of $50,000 in the 2009 working capital base, which can be traced to Admin & General Expenses ($1,328,334 versus $1,378,334). In turn, this can be traced to account 5630 – Outside Services Employed, which is shown as $210,021 in E2/T4/S1 but $260,021 under operating expenses. In response to Board staff IR #14, PDI confirmed that the correct amount is $260,021, with the corrected WCA being $9,440,740.

Board staff takes no issue with PDI's methodology for calculating the WCA. However, Board staff submits that PDI should update the WCA in determining the revenue requirement and associated distribution rates to recover it in preparing its draft Rate Order, to reflect any changes in controllable expenses of load forecasts as determined by the Board in its Decision, as well as to reflect the most current estimate of the RPP commodity price of $0.06072/kWh, from the Board RPP Report of April 15, 2009, as well as updates to reflect current retail transmission prices.

Operating Revenue

Forecasting

Background

In Exhibit 3 of its October 9, 2008 filing, PDI discussed the development of its customer count forecast and its load forecast. It determined the 2008 Bridge Year and 2009 Test

Year customer count. The Applicant also determined the kWh forecast – and the kW forecast for appropriate classes – by customer class and presented variance analyses in support of the forecasts.

The Applicant provided additional information in response to two rounds of Board staff and VECC forecasting interrogatories.

Discussion and Submission

Methodology and Model

For all customer classes, the annual average growth in the number of customers during the 2002-2007 period was assumed to continue for 2008 and 2009.

For the Residential, GS<50kW and GS>50kW classes (i.e. the weather sensitive classes), PDI developed the load forecast using the Normalized Average Consumption (NAC) approach. For each of the weather-sensitive classes, PDI based its forecast on the 2004 weather-corrected load data that had been prepared by Hydro One as part of the Applicant's 2006 Cost Allocation Informational Filing. For each of the non-weather sensitive classes, the 2004 unmodified load data were used.

A NAC (i.e. kWh per customer) value was established by PDI for each customer class by dividing the 2004 load (weather-corrected or unmodified as appropriate) by the number of customers. For the weather-sensitive classes, the number of customers was the 2004 count for that class in that year; for the non-weather sensitive classes it was the 2002-2007 average for the class. PDI determined the forecast loads for 2008 and 2009 by multiplying the NAC value by the forecasted number of customers in that class. The kW demand forecast was established by using the ratio of historical billed kW to historical retail kWh by class.

Results

Both the historical and forecasted customer count growths are +1.0% p.a. The 2009 forecasted customer count is 43,841. The historical kWh growth was +0.4% p.a.; the forecasted growth is zero. The 2009 forecasted load is 793.1 GWh.

Analysis

There were numerous interrogatories from Board staff and VECC; the vast majority of which were aimed at correcting errors and clarifying ambiguities.

In reply to Board staff IR #20, PDI acknowledged that its load forecast does not take into consideration broader economic effects that would affect the Province as a whole nor does it include any energy consumption changes that may result because of CDM. Board staff submits that these omissions may cause the load forecast to be higher than expected.

In Board staff IR #23, the Applicant was asked to develop an alternate forecast that would be more comprehensive than the filed forecast, which used only a single year (2004) of historical data for the weather-sensitive classes. Board staff's concern was that customer usage may have changed since 2004 and the data that had been utilized may be no longer representative. In its response, the Applicant developed a load forecast utilizing 2002 to 2007 data. The alternate forecast was 2.5% higher than the filed forecast.

Board staff observes that PDI's methodology takes no account of future conditions and is essentially a rear-view mirror approach. Also, the methodology is substantially based on 2004 data which may be no longer representative as was demonstrated by the alternative forecast discussed. Board staff submits that the Applicant's methodology is too simplistic to confidently provide an accurate load forecast.

Nevertheless, Board staff notes that a number of the 2008 EDR applicants used the NAC method to forecast their load forecasts. In the absence of load forecasts based on econometric analyses, the Board accepted – reluctantly in some cases – forecasts from those distributors based on the NAC method provided the results were reasonable. Therefore, despite Board staff's reservations about the limitations of the methodology employed, given the minimal growth experienced over the 2002-2007 period in the utility, Board staff regards the approach employed as adequate for establishing the load forecast in this case. Board staff submits that the Board should consider accepting the filed forecast on this occasion.

Operating Costs

Operation, Maintenance & Administrative (OM&A) Expenses

Background

PDI has applied for OM&A expenses excluding depreciation, and property and other taxes for 2009 of $6,711,606, which is $259,872 greater than for the 2008 bridge year, $157,160 greater than 2007 and $62,512 greater than the 2006 actual. In E1/T2/S1/ Appendix A, PDI provided a Comparison chart with their cohort distributors, which shows that PDI's 3 year average for Total OM&A is $181 per customer. The cohort distributor average is $208.

Peterborough Distribution Incorporated

	2006 Board Approved	Variance 2006/2006	2006 Actual	Variance 2007/2006	2007 Actual	Variance 2008/2007	2008 Bridge	Variance 2009/2008	2009 Test	Variance 2009/2006
Operation	554,522	190,955	745,477	164,634	910,111	37,208	947,319	9,198	956,517	211,040
		34.4%		*22.1%*		*4.1%*		*1.0%*		***28.3%***
Maintenance	1,596,006	799,575	2,395,581	-145,824	2,249,757	-74,506	2,175,251	174,801	2,350,052	-45,529
		50.1%		*-6.1%*		*-3.3%*		*8.0%*		***-1.9%***
Billing & Collections	2,098,572	-227,678	1,870,894	44,374	1,915,268	67,278	1,982,546	44,157	2,026,703	155,809
		-10.8%		*2.4%*		*3.5%*		*2.2%*		***8.3%***
Community Relations	0	485,827	485,827	-399,839	85,988	-85,988	0	0	0	-485,827
		#DIV/0!		*-82.3%*		*-100.0%*		*#DIV/0!*		***-100.0%***
Administrative and General Expenses	1,129,188	22,127	1,151,315	241,707	1,393,022	-46,404	1,346,618	31,716	1,378,334	227,019
		2.0%		*21.0%*		*-3.3%*		*2.4%*		***19.7%***
Total OM&A Expenses	**5,378,288**	**1,270,806**	**6,649,094**	**-94,948**	**6,554,146**	**-102,412**	**6,451,734**	**259,872**	**6,711,606**	**62,512**
		23.63%		-1.43%		-1.56%		4.03%		***0.94%***

The following table from Board Staff IR #27 tracks the changes from 2006 actual:

Discussion and Submission

In general, Board staff submits that subject to the clarification regarding the reallocation of costs associated with the Utility Services business unit addressed below, PDI's total proposed Operating Costs seem reasonable for inclusion into the determination of its 2009 distribution rates.

In Board Staff IR #27, Board Staff requested the identification of the cost drivers underpinning these year over year changes. These drivers were revised in response to

Board Staff Supplemental IR #47. The following table outlines the major cost drivers as identified by PDI.

	2006 Actual to 2009 Change	
Cost Driver	**($)**	**(%)**
Labour & Benefits	470,000	42.4
Software & Equipment Rentals	117,000	10.6
PCB Testing	100,000	9.0
Rate Applications	100,000	9.0

Labour & Benefits

PDI is a virtual utility with its labour related costs sourced in PUSI. Total compensation, which is the combination of labour, benefits, incentive pay and overtime as outlined in Board Staff IR # 33 e) has risen by $1,043,956 or 37.1% to $6,952,581 for the 2009 test year from $5,213,183 for the 2006 Board Approved.

In response to VECC IR #15, PDI provided a breakdown of the components that comprised this increase. In the response, Wage increases accounted for $936,282 or 18% and Benefits accounted for $334,456 or 6.4% of the overall increase over the 2004 to 2009 period.

Software & Equipment Rentals

Board staff was unable to ascertain the nature of the cost increases through the interrogatory process for Software and Equipment Rentals due to confusion with respective lines between tables. As a result, Board staff submits that PDI address the $117,000 increase for Software and Equipment Rentals by explaining the increases with references to the record.

PCB Testing

In response to Board staff supplemental IR #47 d), PDI described that the costs represented in this category would be better described as maintenance of line transformers, and that $75,000 of this increase is for PCB Testing. It also stated that

2009 is the first of three years of testing 300 transformers per year. Board staff submits that this is a reasonable explanation.

Rate Applications

In response to Board staff supplemental IR #51 a), PDI provided details of its total regulatory expenses. The expenses are broken down as:

OEB Hearing Assessments	$20,000
Legal Costs	$30,000
Consultants	$50,000
Other Regulatory Matters	$20,000

Board staff submits that on the basis of a comparison with other distributors' applications, these costs seem reasonable.

Corporate Cost Allocation

Background

In the Board's Decision on PDI's 2006 EDR application (RP-2005-0020/EB-2005-0406), the Board stated that "In its next rates case the applicant must provide detailed financial information on its operations, and details of costs incurred by affiliates improvising services to the applicant."

In that same Decision on page 5 the Board also stated that it is essential that the applicant utility be able to establish that outsourcing arrangements also provide tangible benefits, and that the arrangements will not harm rate payers.

In regards to the "no harm" concern from PDI's 2006 EDR Decision, PDI state in response to Board staff IR #28 h) & i) that increased cost allocations in 2008 over 2007 resulted from the elimination of a related business; namely, Utility Billing Services (UBS). This business unit was part of the Peterborough Group of companies, and so shared in Customer Service allocations from PUSI.

Discussion and Submission

Board staff submits that although the accounting details of the budget and historical costs were provided and a high level description of the corporate cost allocation was also provided, it was difficult to follow due to its complexity and lack of an actual model being filed.

To address the issue that the outsourcing provides benefits, Board staff asked IR #31 to address the five principles based on the Enbridge EB-2006-0034 findings. Board staff submits that PDI's response has appropriately addressed the five principles.

With respect to the elimination of a related business, Board staff believes PDI's position to be that the elimination of UBS would have left those costs allocated through PUSI to UBS stranded if they were not reallocated to the remaining business units. It appears to Board staff that as a result of the elimination of UBS, an unregulated business, the costs reflected in PUSI services have not reduced by the amount recovered from UBS and therefore PUSI has made a reallocation that results in PDI having to pay more of the PUSI costs. Notwithstanding the issue of whether PDI should be required to assume more costs as a result of the elimination of an unregulated business, at issue is whether the higher costs are still in accordance with the Affiliate Relations Code; namely, the services are provided at lower or equal to market value. Board staff suggests that PDI clarify and address this matter in its Reply submission.

Due to the overall complexity of the relationships within the operation of Peterborough Utilities, Board staff suggests that PDI engage a reputable independent third party to review the corporate cost allocation methodology for correctness in regards to allocation principles and the five principles established by the Board to be included as part of its next Cost of Service based rate application.

Depreciation, Amortization and Depletion

Background

PDI has documented its accumulated depreciation expense in E2/T2/S4 and E4/T2/S7. Board staff has summarized the annual depreciation expense as shown on the Continuity Schedules in E2/T2/S1 below:

Accumulated Depreciation and Depreciation Expense

	2006 EDR Board-approved	2006 actual	2007 actual	2008 bridge	2009 test
Accumulated Depreciation	$ 10,751,587	$ 17,703,004	$ 20,852,125	$ 24,076,445	$ 27,616,445
Depreciation Expense		$ 2,900,526	$ 3,149,121	$ 3,224,320	$ 3,540,000

Source: Continuity Schedules, Exhibit 2 / Tab 2 / Schedule 1

In response to a Board staff IR #15, PDI provided further information on PDI's depreciation rates.

Discussion and Submission

Board staff observes that PDI's annual depreciation expense is relatively flat, and changes are directly relatable to rate base and capital additions.

In its response to Board staff IR #15, PDI indicated that, for buildings and fixtures (account 1808), PDI uses an expected life of 40 years rather than 50 years as documented in Appendix B of the 2006 Electricity Distribution Rate Handbook (the "2006 EDRH"). Similarly, for substations equipment (account 1820), PDI uses an expected life of 35 years, in contrast with 30 years as documented in Appendix B of the 2006 EDRH. For all other asset classes, PDI complies with the Board's policies and uses the depreciation rates as documented in Appendix B of the 2006 EDRH.

The two deviations would tend to offset each other, and the overall impact is, in Board staff's estimation, not material. While the two deviations from the Board's Guidelines are offsetting and were not contested in this proceeding, Board staff suggest that PDI consider revising its asset life determinations going forward to reflect the Board's Guidelines. Board staff takes no issue with PDI's proposed methodology for calculating its depreciation expense.

Loss Adjustment Factors

Background

In response to Board staff IR #36, PDI reaffirmed that the proposed Distribution Loss Factor (DLF) of 1.0413 is based on an averaging of actual DLFs for the 3 year period 2005 to 2007.

PDI is a partially embedded distributor whereby a portion of PDI's distribution system is embedded within the service territory of host distributor Hydro One. It affirmed that its proposed Supply Facilities Loss Factor (SFLF) of 1.0071 is inclusive of losses incurred within Hydro One's distribution system and is a weighted average of 1.0045 (associated with distributors directly connected to the IESO controlled grid) and 1.0340 (associated with distributors fully embedded within host distributor Hydro One). PDI's proposed TLF for 2009 is 1.0487 as compared to the currently approved TLFs of 1.0500 for Asphodel-Norwood and Lakefield and 1.0350 for Peterborough service areas.

Discussion and Submission

PDI's actual DLF has fluctuated during the 3-yr period from 2005 to 2007 as shown in the table below. PDI believes the 2006 DLF is particularly low and is concerned with adopting it as the DLF for the test year 2009.

Year	2005	2006	2007
Actual DLF	1.0462	1.0319	1.0457

Board staff submits that the evidence provided by PDI on its proposed DLF and TLF is satisfactory and the resulting values of 1.0413 for the DLF and 1.0487 for the TLF are reasonable.

Payments in Lieu of Taxes (PILs): Calculation of PILs

Background

PDI provided its proposed PILs allowance in E4/T3/S1, showing 2006 Board-approved, 2008 bridge and 2009 test year. In response to Board staff IR #37, Peterborough provided a revised table also showing 2006 and 2007 actuals. This is summarized below.

Summary of Actual and Proposed PILs

Description	2006 Board Approved	2006 Actual	2007 Actual	2008 Bridge	2009 Test
Income Taxes	$ 1,026,692	$ 1,699,821	$ 1,260,613	$ 931,749	$ 1,439,972
Large Corporation Tax	$ -	$ -	$ -		
Ontario Capital Tax	$ 119,514	$ 121,712	$ 124,820	$ 103,858	$ 113,781
Total Taxes / PILs	$ 1,146,206	$ 1,821,533	$ 1,385,433	$ 1,035,607	$ 1,553,753

Source: Exhibit 4 / Tab 3 / Schedule 1 and reponses to Board staff IRs 37 and 38

The proposed PILs allowance for 2009 is $1,553,753, composed of $1,439,972 for combined Federal and Provincial Income Taxes and $113,781 in Capital Taxes.

Further clarifying information on PILs was sought through discovery.

Discussion and Submission

As with other areas, PDI's PILs is affected in 2008 bridge and 2009 test years by recent changes in PDI's rate base and operations. However, based on the record, Board staff takes no issue with the methodology by which PDI has estimated its PILs allowance that should be recoverable in its 2009 distribution rates.

Board staff notes that other changes to PDI's revenue requirement will be required, due to updating of the Cost of Capital parameters and the Board's decision on rate base, and capital and operating expenditures, and that these will have a flow-through effect of the PILs allowance that should be recoverable in rates. In addition, the recently-passed Federal Budget has provisions which may impact on a corporation's tax liability for 2009.

Board staff submits that PDI should flow through applicable changes and update the PILs allowance to determine the revenue requirement and rates resulting from the Board's Decision.

Smart Meters

Background

PDI is not a distributor explicitly named in regulation as being previously authorized to deploy smart meters. However, on June 25, 2008, the Government enacted O. Reg. 238/08 amending O. Reg. 427/06.

In its original application, PDI proposed to increase the smart meter funding adder, currently approved at $0.26 per month per metered customer in Peterborough and Asphodel-Norwood and $0.25 in Lakefield, to $1.00, and stated that it was becoming authorized under the amended regulation pursuant to and in compliance with the London Hydro RFP process. It stated that it expected to become scheduled for full implementation in mid- to late-2009, and to incur smart meter capital expenditures of $5.6 million.[1]

On October 22, 2008, the Board issued *Guideline G-2008-0002: Smart Meter Funding and Cost Recovery* (the "Smart Meter Guideline") to establish guideline policies and filing requirements on cost tracking and applications for cost recovery in light of the amended regulations.

In the responses to Board staff IR #16 and VECC IR #14, PDI filed supporting documentation in accordance with section 1.4 of the Smart Meter Guideline. PDI stated that it plans on starting smart meter deployment in 2009, and that it intends to deploy 30,000 smart meters this year, representing full deployment to residential and small General Service customers. PDI estimated that smart meter capital expenditures in 2009 will be $5,787,868, with an estimated average installation cost of $172 per installed smart meter.

However, PDI is not seeking approval for capital and operating costs incurred to date or in 2009, but will track actual costs, and revenues received by way of the funding adder, in established deferral accounts for review and disposition in a subsequent application.

Discussion and Submission

Board staff notes that PDI forecasts about $100,000 for remote controlled disconnects, a capability beyond minimum functionality, but stated that these costs have not been factored into its 2009 capital expenditures or in the smart meter costs above. Board staff interprets PDI's statements to indicate that these costs for beyond minimum functionality are still being recorded in accounts 1555 and 1556 for subsequent review and disposition, and suggests that PDI should clarify this in its reply submission. Board staff also notes that expenditures beyond minimum functionality will be reviewed for prudence and will need to demonstrate additional benefits to justify the expense.

Board staff submits that PDI has complied with the policies and filing requirements of the Smart Meter Guideline and is becoming authorized under regulation. Further, as PDI is not seeking recovery of amounts invested in or expensed with respect to smart meter implementation in this application; all such costs will be reviewed and disposed of for recovery in a future application, in accordance with the Smart Meter Guideline.

[1] Exhibit 9/Tab 1/Schedule 1/p. 8 l. 4 to p. 9 l. 17

Hence, Board staff does not oppose PDI's proposal to increase the smart meter funding adder to $1.00 per month per metered customer.

Deferral and Variance Accounts

Background

PDI is requesting only the disposition of the following two Deferral and Variance accounts.

- 1508 – Other Regulatory assets
- 1550 – Low Voltage Variance Account

This encompasses disposal of the December 31, 2007 balance including interest up to April 30, 2009. PDI calculated the associated rate riders, assumed to be in effect for three years, as shown in the following table.

Deferral and Variance Account Rate Riders Disposition of accounts 1508 and 1550						
Residential ($/kWh)	GS<50kW ($/kWh)	GS>50kW ($/kW)	Large User ($/kW)	USL ($/kWh)	Sentinel Lighting ($/kW)	Street Lighting ($/kW)
(0.0001)	(0.0001)	(0.0564)	(0.0755)	(0.0001)	(0.0663)	(0.0484)

In response to Board staff IR #39 a), PDI provided information on all of its deferral and variance accounts that have account balances as of December 31, 2007. This information is provided in the table below. The balances shown include interest up to December 31, 2007.

Regulatory Asset Account Balances at December 31, 2007		
Account Description	Account #	Total ($)
Other Regulatory Assets - OEB Cost Assessments	1508	81,505
RSVA - One-time Wholesale Market Service	1582	49,729
Smart Meter Capital and Recovery Offset	1555	518,268
Deferred Payments in Lieu of Taxes	1562	(1,036,843)
Deferred PILs Contra Account	1563	1,036,843
CDM Expenditures and Recoveries	1565	24,012
CDM Contra Account	1566	(24,012)
Recovery of Regulatory Asset Balances	1590	269,853
Low Voltage Variance Account	1550	(370,531)

RSVA - Wholesale Market Service Charge	1580	(1,603,124)
RSVA - Retail Transmission Network Charge	1584	(182,420)
RSVA - Retail Transmission Connection Charge	1586	(395,152)
RSVA Power (including Global Adjustment)	1588	1,052,187
RSVA Power - Sub-account Global Adjustment	1588	632,681
Total		**(579,685)**

Board staff posed interrogatories, which included a request for hypothetical rate riders under two scenarios to allow the Board to evaluate the reasonableness of disposing certain of the remaining accounts. In response to the first scenario (Board staff IR #39 d)), PDI provided a set of rate riders associated with the disposition of accounts 1508, 1518, 1525, 1548, 1570, 1571, 1572, 1574, 1582, 1592 and 2425. This encompasses disposal of the December 31, 2007 balance including interest up to April 30, 2009. The resulting riders were assumed to be in effect for three years.

In response to the second scenario (Board staff IR #39 part e)), PDI provided a set of rate riders associated with the disposition of all deferral and variance accounts except accounts 1555, 1556, 1562, 1563, 1565, 1566, 1590, and 1592. This encompasses disposal of the December 31, 2007 balance including interest up to April 30, 2009. The resulting rate riders were assumed to be in effect for three years.

Discussion and submission

With respect to a subsequent response to Board staff supplementary IR #52 (Appendix B), Board staff notes that the allocator used to allocate dollar amounts to account 1588 sub-account global adjustment is shown as kWh. This sub-account relates to non-RPP customers only. In the distribution tariff, such customers are typically billed by kW rather that kWh, hence Board staff seeks clarification from PDI as to why kWh has been used as the allocator in this instance and whether this should be corrected.

Board staff notes that the separate initiative that the Board has undertaken for the disposition of commodity account 1588 (RSVA power) and other related RSVAs has not yet been finalized. In this regard however, a Board Staff Discussion Paper "Electricity Distributors' Deferral and Variance Account Review Initiative" (EB-2008-0046), issued on April 1, 2009, proposes that a distributor be required to file an application to dispose of all account balances (with a few exceptions such as PILs and CDM) as part of a cost-of-service application.

Board staff submits that notwithstanding the fact that this matter has not yet been finalized as Board policy, the Board might order disposition of all of the above stated deferral and variance account balances (under the second scenario) despite the fact that PDI has requested disposition only of accounts 1508 and 1550.

Since it would appear that the disposition would be a credit rate rider, Board staff submits that a period shorter than three years might be more appropriate.

Cost of Capital and Capital Structure

Background

The Cost of Capital pertains to cost to compensate investors and lenders for the monies provided to fund the assets that the firm uses to produce the goods and services to its customers. It compensates for the opportunity cost for the time that the money is invested until recovery as well as relating to risk of recovering their investments, based on the business risk of the firm in its market(s) relative to the risks of investing elsewhere. The Cost of Capital relates to the return on the rate base of the regulated firm. There are several parameters that comprise the cost of capital for the Board's rate-making purposes:

1) Capital structure (the proportion of rate base financing through debt (long- or short-term) or equity (common shares or preferred shares);
2) Long-term debt rate;
3) Short-term debt rate;
4) Return on Equity ("ROE"); and
5) Return on preferred shares.

These components combine together to determine the weighted average cost of capital ("WACC"). Multiplied by the rate base, this produces the net income, relating to the expected profitability of the firm, and also influences directly the tax or PILs expense borne by the firm and to be recovered in rates.

The Board has documented its guideline Cost of Capital methodology in the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* (the "Board Report"), issued December 20, 2006. The Board Report is a guideline, but departures from the methodology in the Board Report are expected to be adequately supported.

In Exhibit 6 of its Application, PDI has proposed its requested Cost of Capital and Capital Structure. This is summarized in the following table.

Cost of Capital Parameter	**PDI's Proposal**
Capital Structure	56.7% debt (composed of 52.7% long-term debt and 4.0% short-term debt) and 43.3% equity
Short-Term Debt	4.47%, but to be updated in accordance with section 2.2.2 of the Board Report.
Long-Term Debt	6.02%, as a weighted average of 6.10% on affiliated debt of $21,657,680 and $4.85% of $1,500,000 with the City of Peterborough.
Return on Equity	8.57%, but to be updated in accordance with the methodology documented in Appendix B of the Board Report.
Return on Preference Shares	Not applicable
Weighted Average Cost of Capital	7.06% as proposed, but subject to change as the short-term debt rate is updated per the Board Report at the time of the Board's Decision.

PDI has affirmed that the deemed Short-term and Long-term Debt Rates and the ROE would be updated based on Bank of Canada, *Consensus Forecasts*, and TSX data for January 2009 in accordance with the methodologies documented in the Board Report.

On February 24, 2009, the Board issued a letter to all distributors announcing the updated Cost of Capital parameters to be used for rate-setting in 2009 Cost of Service electricity distribution rate applications. These updated parameters are:

Return on Equity:	8.01%
Deemed Long-term Debt Rate:	7.62%
Deemed Short-term Debt Rate:	1.33%

Discussion and Submission

Board staff submits that PDI's proposed Cost of Capital, covering capitalization and the cost of debt and equity financing, complies with the policies of the Board Report. However, Board staff wishes to make further comments on PDI's long-term debt.

As proposed, PDI's long-term debt is composed of two debt instruments:

- A long term loan payable to the City of Peterborough with a principal of $21,657,680, established January 1, 2000 but payable on demand and with no fixed term. Initially established at a rate of 6.00%, PDI indicated in response to

Board staff IR #40 a) that it was subsequently mutually agreed with the lender that the debt would attract the deemed long-term debt rate as prescribed by the Board; and

- Two Demand Notes, with a combined principal of $1,500,000, established on September 28, 2001 and bearing interest at the Prime Rate less 1.25%.

In its original application, PDI used a rate of 6.10% for the long term loan and a rate of 4.85% for the two Demand Notes, to calculate a weighted-average cost of long-term debt of 6.02%.

All debt is affiliated. The Board has previously determined that the long-term loan of $21,657,680, being affiliated and without fixed term, should be treated as a demand note callable on demand and subject to the Board's updated deemed debt rate:

> PDI's capital structure includes a loan from its shareholder in the amount of $21,657,680, dating from January 1, 2000. The loan is included in the Long Term Liabilities in PDI's financial statement. However, the Board notes that it is a demand loan from an affiliate, and it does not have a fixed term. The Board finds that the deemed debt rate in the previous Handbook (March, 2000) does not apply to a demand note because such an instrument cannot be considered embedded debt with an enduring interest rate; the note can be called at any time. Therefore, the Board finds that the deemed debt rate in the current Handbook of 6.25% should be used for this loan. PDI will be allowed for ratemaking purposes a debt rate of 6.04%, being the weighted average of this $21.7 million loan at 6.25% and a $1.5 million loan at 3.00%. The Board has adjusted PDI's revenue requirement accordingly.[2]

In its response to Board staff IR #40 a), PDI provided copies of the two Demand Notes. As noted in the above quotation, these were approved a rate of 3.00% in PDI's 2006 distribution rate applications. However, PDI has proposed rates of 4.85% in this application. Further, Board staff observes that these two notes are also affiliated notes that are callable and without fixed term; strict application of the guidelines in the Board Report would treat these as callable demand notes that would attract the deemed long-term debt rate. In making this submission, Board staff should not be seen as condoning

[2] Ontario Energy Board Decision and Order, RP-2005-0020/EB-2005-0406, April 27, 2006, p. 4

these types of arrangements which, in Board staff's view, are artificial. Debt arrangements without fixed term or repayment requirements are not normal commercial arrangements; PDI should be encouraged to arrange new and replacement debt as commercial arrangements at arm's length, and with fixed maturity and repayment options.

Finally, Board staff notes that PDI indicated, in its response to Board staff IR #40 d) and e), that it incurred additional third party debt in December 2008, noting this as a 10-year credit facility with the Toronto-Dominion Bank at a rate of 4.55%. PDI indicated that this is to address its Smart Meter and general capital requirements. In response to Board staff supplemental IR #53, PDI provided an update to its actual and forecasted long-term debt. Board staff has replicated this in the following table, and notes that PDI's proposed long-term debt is 6.59%.

Long-term Debt for 2009 (Updated)

		Amount	**Rate**	**Interest Expense**
Long-term Loan with City of Peterborough		$ 21,657,680	7.62%	$ 1,650,315
Demand Loans	City of Peterborough	$ 1,500,000	4.85%	$ 72,750
Demand Loan	TD Bank	$ 6,600,000	4.55%	$ 300,300
Demand Loan	Third Party	$ 4,000,000	5.00%	$ 200,000
		$ 33,757,680	6.59%	$ 2,223,365

Source: Response to Board staff supplemental IR #53

However, Board staff observes that PDI has included a new forecasted debt of $4 million, with a third party and at a rate of 5.00%. Board staff is unable to find any explanation for this debt elsewhere on the record. Board staff submits that PDI should clarify its proposed long-term debt to be recovered in 2009 distribution rates in its reply submission. Such clarification should explain the reasonableness of the debt and how it complies with the guidelines in the Board Report. Board staff reminds PDI that the evidentiary phase of the proceeding has closed and therefore its submissions should not introduce new evidence at this stage.

Subject to the comments above, Board staff submits that PDI's proposal for Cost of Capital, as amended through discovery, complies with the guidelines documented in the Board Report.

Cost Allocation

Background

PDI's proposed revenue to cost ratios (R/C ratio) for each rate class for 2009 are shown in the table below. The table also shows the R/C ratios per the updated informational filing and the Board policy range.

	Revenue to Cost Ratio		
	Updated Informational Filing	Proposed 2009	Board Policy Range
Residential	109.53%	105.92%	85% - 115%
GS < 50 kW	98.40%	98.40%	80% - 120%
GS > 50 kW	114.69%	111.08%	80% - 180%
Large User	70.99%	78.00%	85% - 115%
Sentinel Lights	30.76%	50.38%	70% - 120%
Street Lights	19.59%	44.79%	70% - 120%
USL	7.13%	43.57%	80% - 120%

Discussion and submission

The proposed R/C ratios for the Large User, Sentinel Lights, Street Lights and USL rate classes are outside the Board Policy range. However these ratios have moved towards 100% by half of the difference between the updated informational filing value and the low end of the Board's target ratio, which is consistent with other distributors' 2008 rate Decisions. The beneficiaries of this action are the Residential and GS > 50 kW rate classes where the ratios would decline. These moves are in accordance with PDI's stated plan to re-align its R/C ratios going forward in order to reduce some of the cross-subsidization that is occurring.

Board staff submits that PDI's strategy to reduce cross-subsidization by re-aligning revenue to cost ratios is appropriate and the resulting R/C ratios are acceptable.

Rate Design

Overview

Background

PDI has taken its proposed total 2009 service revenue of $15,753,249 less the revenue offsets of $1,618,851 to obtain a base revenue requirement of $14,134,398 to be recovered through the distribution rates. This amount is allocated to the customer classes using the revenue split to achieve the proposed R/C ratios.

Discussion and submission

Board staff takes no issue with PDI's methodology for calculating the revenue to be recovered from the customer classes.

Monthly Fixed Charges

Background

In determining the basis for the revenue to be recovered through the monthly fixed charges, PDI has taken the current monthly charges for each of the classes in the three service areas times the forecasted number of customers by service area for 2009 and has calculated a percentage of revenue recovered from the fixed charge and variable charge for each of the combined rate classes. It submits that this approach makes no change to its existing fixed/variable proportions of its rates.

Discussion and submission

Board staff submits that the approach taken and the resulting allocations appear to be reasonable.

Transformer Ownership Allowance

Background

PDI has applied to continue its currently approved allowance of $0.60 per kW for those customers in the General Service >50 kW class that provide their own transformation. The costs associated with this allowance have been included in the volumetric charge for the GS >50 kW class, which adds $0.2052/kW to the rate. In addition, based on the results of the cost allocation study, PDI proposes to eliminate the transformer allowance for the Large Use class.

Discussion and submission

Board staff submits that the approach taken and the resulting allocations appear to be reasonable.

Rate Mitigation

Background

PDI submits that the bill impacts resulting from the implementation of the harmonized rates are reasonable and therefore no rate mitigation measures are being proposed. However, it identifies the following groups that might experience bill impacts greater than 10%:

- low usage residential customer in the Asphodel-Norwood service area,
- street lighting,
- sentinel lighting, and
- USL

It justifies not implementing any mitigation for the low volume residential customers in Asphodel-Norwood on the grounds that the dollar impact is less than $4.45 per month and this is reasonable during the transition to harmonized rates. With respect to the other three groups, the impacts result from the revisions to the R/C ratios to bring them more in line with the Board’s target range. Mitigation would mean that the movement in the R/C ratios in a manner similar to other distributors in 2008 would not be possible.

PDI also mentions that although it appears that there is a bill impact greater than 10% in the General Service > 50 kW class for a 4,000 kW customer in Lakefield, there is in fact no customer with that load profile in Lakefield.

Discussion and submission

Given the desire for rate harmonization and the movement to more realistic R/C ratios, Board staff submits that there is no need to introduce rate mitigation measures.

Harmonized Retail Transmission Service Rates

Background

In a decision rendered on July 15, 2008, the Board approved PDI's request to decrease both its transmission network service rates and line and transformation connection service rates by 12%. This was against a backdrop of an 18% decrease and 5% decrease respectively in the uniform transmission rates for Ontario transmitters effective November 1, 2007. This recent history is tabulated below. Hence with respect to network, PDI's decrease was less than the wholesale decrease, and with respect to connection, PDI's decrease was greater than the wholesale decrease.

Recent history		
	Change in PDI's rates per decision dated July 15, 2008	Change in uniform transmission rates for Ontario transmitters effective November 1, 2007
Network	12% decrease	18% decrease
Connection	12% decrease	5% decrease

In response to Board staff IR #43, PDI provided quarterly balances for 2006 and 2007 in its deferral accounts related to retail transmission network charge (#1584) and retail transmission connection charge (#1586). The balances in the latter have steadily trended downwards from ($2,362,173) in Q1 2006 to ($317,190) in Q4 2007.

PDI has proposed an increase of 11.3% in its network rate and an increase of 5.5% in its connection rate, both in concert with the increase in the uniform transmission rates for Ontario transmitters effective January 1, 2009.

In addition, PDI has proposed to harmonize the currently different rates for each service area into a single set of rates based on the weighted average of the current approved rates using the proportion of customer numbers by rate class in each service area. It has provided a summary table of this calculation.

Discussion and submission

With respect to the basis and determination of "harmonized" rates, Board staff submits that the methodology is probably as good as any other and appears to be reasonable. In the absence of deferral account balances for 2008 related to accounts #1584 and #1586, Board staff submits that PDI's proposed increase related to the network and connection rates in concert with the increase in the uniform transmission rates for Ontario transmitters effective January 1, 2009 is also acceptable.

Unmetered Scattered Load

Background

In response to Board staff IR #41, PDI has provided the customer/connections profile for the USL rate class being as follows.

- Total number of customers 10
- Average number of connections 419
- Lowest number of connections 1
- Highest number of connections 4,104

The proposed change in the monthly service charge for the USL rate class on a per customer basis is shown in the table below.

	Monthly Service Charge			
	Peterborough Service Area - 2008	Lakefield Service Area - 2008	Asphodel-Norwood Service Area - 2008	Harmonized – 2009
USL	$26.15	$28.71	$20.22	$292.53

Discussion and submission

In interrogatory response, PDI has explained that the need for the significant increase in the monthly service charge was driven by the move of the R/C ratio halfway to the minimum target of 80% and the unchanged fixed/revenue split.

An analysis of the customer/connection profile indicates it is extremely skewed, in that one customer has 4,104 connections, one customer has one connection, and the remaining eight customers have on average approximately 10 connections.

Board staff submits that PDI's strategy to increase the monthly fixed cost would be acceptable if the customer/connection profile was less skewed. However, given the extremely skewed profile, Board staff submits that PDI should adopt a per connection monthly service charge for the USL rate class.

Specific Service Charges

Background

PDI has indicated that it will consolidate its currently approved Specific Service Charges to be applicable to all its service areas.

Discussion and submission

Board staff submits that the approach taken is reasonable.

All of which is respectfully submitted