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May 15, 2009

**Delivered by E-mail and Courier**

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, Suite 2700  
Toronto, Ontario  
M4P 1E4

Dear Ms. Walli:

**Re: OEB File Nos. EB-2008-0241, EB-2008-0242 and EB-2008-0243  
Peterborough Distribution Inc. 2009 Electricity Distribution Rate  
Application**

We are counsel to Peterborough Distribution Inc. ("PDI") in the above-captioned matter. Please find accompanying this letter two hard copies of PDI's reply submission in this proceeding.

Should you have any questions or require further information, please do not hesitate to contact me.

Yours very truly,

**BORDEN LADNER GERVAIS LLP**

*Original Signed by James C. Sidlofsky*

**James C. Sidlofsky**  
JCS/dp

Encls.

cc: Larry Doran, PDI  
Rob Kent, PDI  
Carol Anne Little, PDI  
John Stephenson, PDI  
Intervenors of Record (By E-mail Only)

Vancouver  
Toronto  
Ottawa  
Montréal  
Calgary

**EB-2008-0241**  
**EB-2008-0242**  
**EB-2008-0243**

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

**AND IN THE MATTER OF** an Application by Peterborough Distribution Inc. for an Order or Orders approving and fixing just and reasonable distribution rates and other charges, effective May 1, 2009.

**PETERBOROUGH DISTRIBUTION INC. ("PDI")**  
**2009 ELECTRICITY DISTRIBUTION RATE APPLICATION**

**REPLY SUBMISSION**

**FILED: MAY 15, 2009**

**Applicant:**

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1867 Ashburnham Drive  
P.O. Box 4125, Station Main  
Peterborough, Ontario K9J 6Z5

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**EB-2008-0241**  
**EB-2008-0242**  
**EB-2008-0243**

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

**AND IN THE MATTER OF** an Application by Peterborough Distribution Inc. for an Order or Orders approving and fixing just and reasonable distribution rates and other charges, effective May 1, 2009.

**PETERBOROUGH DISTRIBUTION INC. REPLY SUBMISSION**

**FILED: MAY 15, 2009**

**Overview**

1. This is the reply submission of Peterborough Distribution Inc. ("PDI") in respect of its 2009 cost of service application for an order approving just and reasonable rates for the distribution on electricity effective May 1, 2009. PDI's submission is filed in reply to submissions from Ontario Energy Board staff and the Vulnerable Energy Consumers Coalition ("VECC") of May 1, 2009.
2. PDI is an electricity distribution company licensed by the Ontario Energy Board (the "Board", or the "OEB") to provide electricity distribution services to customers within the City of Peterborough, the Village of Lakefield and the Town of Norwood.
3. PDI services approximately 30,508 residential customers; 3,642 General Service customers under 50 kW; 366 General Service customers above 50 kW; 2 Large Use customers; 10 USL customers; 432 Sentinel Lighting accounts; and 8,431 Street Lighting connections.
4. PDI is supplied through the Hydro One transmission system at primary voltages of 44.0 kV and 27.6 kV. Electricity is then distributed through PDI's service area

of 63.9 square kilometers, over 162 kilometers of underground cable and 384 kilometers of overhead conductor.

5. On October 10, 2008 PDI submitted a 2009 Distribution Rate Application (the "Application") following the OEB's filing guidelines. The Application has been based on a forward test year cost of service methodology. PDI submitted its responses to interrogatories from OEB Staff and VECC.
6. PDI provided evidence supporting a Service Revenue Requirement of \$15,753,249 with revenue offsets of \$1,618,851 resulting in a base revenue requirement to be recovered from rates of \$14,134,398. This revenue requirement reflects a revenue deficiency of \$1,542,189 based upon existing approved rates.

**Calculation of Base Revenue Requirement**

OM&A Expenses	6,836,846
Amortization Expenses	3,540,000
<u>Total Distribution Expenses</u>	<u>10,376,846</u>
Regulated Return on Capital	3,822,650
PILs (with gross-up)	1,553,753
<b>Service Revenue Requirement</b>	<b>15,753,249</b>
Less: Revenue Offsets	-1,618,851
<b><u>Base Revenue Requirement</u></b>	<b><u>14,134,398</u></b>

7. PDI is also requesting a revised Smart Meter Rate Adder of \$1.00 per metered customer per month and in addition is seeking approval to harmonize rates within the three service areas.
8. PDI has structured this submission in a manner similar to the Board Staff submission of May 1, 2009. PDI notes that in that submission (at pages 3 to 6), Board staff identified certain matters raised by the OEB in its Decisions on the 2006 Electricity Distribution Rate Applications for the three PDI service areas. At

page 6, staff state that “The previously identified outstanding issues from previous Board Decisions and PDI’s specific items are addressed within the respective sections, as necessary.” It appears to PDI that all of those outstanding matters have been addressed in its Application and any relevant interrogatory responses, as staff do not appear to have indicated in the remainder of their submission that any of those outstanding issues remain outstanding. To the extent that those outstanding issues may have been subsumed into staff concerns about specific aspects of this Application, PDI submits that it has addressed them in this reply submission.

## **Rate Base**

### **General**

9. PDI’s 2009 test year rate base of \$54,126,094 excludes any non-distribution assets and is comprised of fixed assets with an average net book value of \$44,685,355 and a working capital allowance of \$9,440,740.
10. Board staff has indicated that they have no issue with the proposed rate base.

### **2009 Capital Expenditures**

11. PDI has been, and continues to be, focused on maintaining the adequacy, reliability, and quality of service to its customers through effective capital spending. To obtain these objectives, PDI has forecasted total 2009 capital expenditures of \$5,506,000, before the adjustment for capital contributions.
12. Board staff indicated that the average annual capital expenditures over the past few years have been relatively stable and that they have no issue with PDI’s proposed capital expenditures, excluding smart meters, of \$5,506,000.

13. VECC also noted the proposed capital expenditures, excluding smart meters, is approximately equal to recent historical actual capital spending and has no concerns with the capital forecast.

### **Asset Management**

14. PDI is an infrastructure-based business with its distribution system assets the key element in the in the delivery of electricity to its existing and new customers. PDI distribution assets range in age from new to over 60 years old.
15. PDI noted in the Application (Exhibit 2 / Tab 3 / Schedule 4 / page 1 of 3, lines 13 to 17) that:

“It is important to note that PDI’s formal Asset Management Plan is in its early development stage. PDI has completed a high level review of current assets and their age and has reviewed current strategies in dealing with maintenance and capital improvements. Also under review are the current and potential future activities expected to form the major parts of the Asset Management Plan in the future.”
16. Board Staff have no issue with PDI’s evidence on Asset Management in the current Application and considered the information as supportive of the proposed capital expenditures. Board staff encourages PDI to undertake efforts to improve asset condition assessment and asset management and suggests that PDI provide a detailed Asset Management Plan at the time of the next Cost of Service application.
17. VECC acknowledged that the Asset Management Plan is in the development stages and that PDI is currently reviewing all aspects of its maintenance programs, capital expenditures and its long term strategy for managing its existing assets, development and capacity for growth, meeting new customer connections and meeting all of its regulatory obligations. VECC submitted that the completion and implementation of this review should not only be a priority for PDI but that it should be concluded by the time that PDI files for rebasing.

18. PDI submits that the completion of the Asset Management Plan and its implementation is a priority and that it will be in place for the next rate rebasing application.

### **Service Quality and Reliability**

19. In keeping with its goals to pursue industry leadership in service reliability, PDI continues to work to improve service reliability and reduce system losses by ensuring that its distribution system is maintained at a high level of quality and reliability.
20. As part of the Asset Management Report, PDI included SAIDI, SAIFI and CAIDI annual and monthly data from the years 2000 to 2007.
21. Board staff commented that the information is consistent with that reported in accordance with section 2.1.5 of the Reporting and Record-keeping Requirements and does not indicate any areas or patterns of concern. Overall, staff take no issue with the evidence provided by PDI.
22. VECC noted that with the exception of three extraordinary years, the 2007 SAIDA and SAIFI reliability indices reflect improvements over the 2005 indices.

### **Working Capital Allowance**

23. PDI's working capital allowance is forecast to be \$9,440,740 and is based on 15% of the sum of cost of power and controllable expenses.
24. Board Staff have no issue with the methodology for calculating the working capital allowance. Board Staff submitted that PDI should update the working capital allowance to reflect any changes in controllable expenses of load forecasts as determined by the Board; to reflect the most current estimate of the RPP commodity price of \$0.06072/kWh; and to reflect current retail transmission prices.

25. VECC has not objected to the use of the “15% rule” for purposes of this proceeding, but has requested that PDI should be required to submit a lead-lag study “with its rebasing application.” It is not clear from the VECC submission, but PDI believes that VECC is referring to PDI’s next rebasing application.
26. PDI will update the working capital allowance for the purposes of determining the revenue requirement based upon the Board Decision and incorporate the changes in the RPP commodity price to \$0.06072/kWh as well as update the current retail transmission rates.
27. In response to VECC’s request in respect of the lead-lag study, PDI submits that a study, if required, would not be completed in time for this Application, but as noted above, PDI believes that VECC is referring to PDI’s next rebasing application. PDI does agree with the VECC request. PDI submits that lead-lag studies can be costly for individual utilities. If the OEB considers that such studies should be required, PDI submits that they should be conducted in a generic manner across the province through a consultation process led by the OEB. PDI submits that the condition requested by VECC for inclusion in the OEB’s Decision in this Application is not appropriate. PDI notes that VECC and at least one other intervenor have made similar requests in other 2009 forward test year cost of service applications, and that the requests have been rejected by the OEB.<sup>1</sup>

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<sup>1</sup> For example, see the OEB’s Decisions in EB-2008-0226 (COLLUS Power Corp., April 17, 2009); EB-2008-0234 (Lakeland Power Distribution Limited, May 8, 2009); and EB-2008-0233 (Innisfil Hydro Distribution Systems Limited, April 6, 2009).

## Operating Revenue

### Forecasting

28. PDI provided customer projections for the number of customers in each class based upon a simple trend growth. Given the slow growth and consistent trend in customer numbers in PDI's service territory over the past five years, PDI expects that the resulting customer forecast is likely not materially different than what would result from using more sophisticated time series techniques.
29. PDI contracted with Hydro One to prepare weather-normalized data as part of its Cost Allocation filing in 2007. The Hydro One model normalized PDI's actual wholesale data for 2004. PDI used the specific weather normalized forecast as the basis for the determination of the 2008 Bridge Year and the 2009 Test Year Forecast.
30. Despite certain reservations regarding the simplicity of the model, Board staff have accepted the approach employed by PDI for establishing load forecast and have submitted that the Board should consider accepting the filed forecast.
31. VECC submitted that there is no basis on which to adjust PDI's 2004 average use values and accepted PDI's normalized average use values for forecasting purposes and had no submission regarding the customer count forecast.
32. PDI submits that the weather normalization methodology used in this Application is appropriate for the purposes of this Application. PDI is aware that that certain Distributors have supplemented the Hydro One work with their own modeling. For future Applications, PDI may initiate an internal project or retain consultants to investigate and track other methods to forecast load and compare them to the current methodology. The use of weather normalization needs to be considered within the parameters of cost effectiveness and prudence.

## Operating Costs

### Operation, Maintenance and Administrative, (OM&A) Expenses

33. PDI has applied for OM&A costs excluding depreciation, property and other taxes of \$6,711,606. OM&A costs represent PDI's integrated set of asset maintenance and customer activity needs to meet public and employee objectives; to comply with the Distribution System Code, environmental requirements and government direction; and to maintain service quality and reliability targeted performance levels. PDI's 3 year average for Total OM&A is \$181 per customer, which is less than the cohort distributor average of \$208.
34. Board Staff submitted that the proposed operating costs seem reasonable for inclusion into the determination of 2009 distribution rates.
35. In response to Board staff Supplemental IR #47, PDI provided a table that outlined major cost drivers from 2006 to 2009 which included, labour and benefits of \$470,000, software & equipment rental of \$117,000, PCB testing of \$100,000 and rate applications of \$100,000. Board staff:
  - a. did not raise any concerns regarding the labour and benefit increase;
  - b. requested additional information regarding the \$117,000 rental increase;
  - c. submitted that the PCB testing cost was reasonable; and
  - d. identified the \$120,000 in regulatory expenses that were explained by PDI in response to OEB staff supplementary IR #51(a), and submitted that on the basis of a comparison with other distributors' applications, those costs also seemed reasonable.

## Software and Equipment Rentals

36. Board staff IR #27 c) requested that PDI prepare a table for OM&A costs to identify the key cost drivers that contribute to the overall increase from 2006 historical cost levels to the 2009 Test Year.
37. PDI provided the table as requested.
38. Board staff developed the following table based on PDI's response to IR #27.

	Col. 1 2006	Col. 2 2007	Col. 3 2008	Col. 4 2009	Col. 5 Total	Col. 6 09/06	Col. 7
1 Opening Balance	5,969,514	6,649,095	6,554,147	6,451,734			
2 Labour & Benefits	155,000	151,000	187,000	-23,000	470,000	470,000	42.4%
3 GIS Tech .5, 2008			30,000	33,000	63,000	63,000	5.7%
4 Storm Damage	437,000	-427,000		29,000	39,000	39,000	3.5%
5 Software & Equipment Rental	59,000		24,000	34,000	117,000	117,000	10.6%
6 Environmental Clean-up		168,000	-53,000	-115,000	0	0	0.0%
7 Unflation & other	29,000				29,000	29,000	2.6%
8 ESA	20,000				20,000	20,000	1.8%
9 Line Reframing		25,000	-25,000		0	0	0.0%
10 Wholesale meter charges		31,000	-31,000		0	0	0.0%
11 SCADA connestions	30,000				30,000	30,000	2.7%
12 Bad Debt		101,000	-98,000	55,000	58,000	58,000	5.2%
13 Conservation and PR		42,000	-50,000	10,000	2,000	2,000	0.2%
14 Failed meter sample group purchases		30,000			30,000	30,000	2.7%
15 PCB testing				100,000	100,000	100,000	9.0%
16 Tree trimming	15,000			15,000	30,000	30,000	2.7%
17 Pole inspections				20,000	20,000	20,000	1.8%
18 Rate Application				100,000	100,000	100,000	9.0%
19 CDM	-66,000	-400,000	-86,000		-552,000		
20 Sum lines 1 - 19	<u>6,648,514</u>	<u>6,370,095</u>	<u>6,452,147</u>	<u>6,709,734</u>		1,108,000	100.0%
21 Closing Balances per Exhibit 4	<b>6,649,095</b>	<b>6,554,147</b>	<b>6,451,734</b>	<b>6,711,606</b>			
22 Difference	581	184,052	-413	1,872			

39. 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.
40. In the above table, the Software and Equipment Rental includes Building rent, and should have been labeled as such.

41. The \$117,000 increase pertains to the total rent expense for both components as illustrated in the table below.

	2005 Actual	2006 Actual	2007 Actual	2008 Bridge Year	2009 Test Year	2009 vs 2005
Software & Equipment Rent	162,652	197,622	191,857	185,000	219,285	56,633
Building Rent	452,298	476,269	482,105	513,377	513,122	60,824
Total Rent	614,950	673,891	673,962	698,377	732,407	117,457

42. The nature of the increase in software and equipment rent is related to necessary investments made in information technology, including billing and financial system upgrades, system security, and backup and recovery systems.

43. The increase in building rent is due to increased operating costs at the Ashburnham Drive Operations Centre that are billed to tenants on a square footage basis.

44. VECC made the following comments with respect to PDI's OM&A expenses:

- a. VECC referred to an additional 3,500 hours or approximately \$264,000 PDI forecasted as part of the 2008 Bridge Year capital program as compared to the 2007 actual capital expenditures. VECC concluded that the 2008 labour charges from PUSI were overstated and that this alleged overstatement will contribute to a smaller perceived increase in operating costs in 2009 over 2008.
- b. VECC requested that PDI provide correct 2008 total labour costs in PDI's submission.
- c. VECC submitted that the 2009 over 2008 total labour increase has not been justified and that the rate base should be reduced by approximately \$100,000 and

- d. Requested that the \$50,000 associated with the current rate application should be amortized over a four-year period.
45. PDI offers the following submissions in response to the VECC comments:
- a. Implied in VECC's submission is that there is a direct correlation between labour and the total capital program. As the mix of resources utilized to achieve the capital program objective may vary from year to year, the correlation suggested by VECC is incorrect. The capital program includes labour, materials, vehicle usage and external resources. The 2008 Bridge Year total capital program has decreased despite an increase in allocated labour. The labour increase has been offset by a reduction in external resources. Therefore, the 2008 Bridge Year labour forecast of \$6,794,926 is correct and not overstated as submitted by VECC, and the increase to the 2009 Test Year amount of \$6,955,552 is also correct.
  - b. In response to VECC IR #33 a) PDI provided the actual labour amount of \$6,494,177 charged by PUSI to PDI in 2008. The labour amount of \$6,794,926 reported in response to VECC IR #35 is the forecasted 2008 Bridge Year amount.
  - c. PDI submits that VECC has not identified any concern with any specific capital or operating program and thus the rate base reduction of \$100,000 is unwarranted.
  - d. PDI cannot agree with VECC's submission that the \$50,000 associated with 2009 Test Year Rate Application costs should be amortized over four years. PDI is in agreement with Board staff that the PDI's total regulatory expenses are reasonable. PDI submits that the \$50,000 estimated costs for this Application and the related proceedings are likely too low, particularly since that estimate was made in the summer of 2008, prior to

the filing of the Application and the establishment of the Board's process for the disposition of this Application (which ultimately included two rounds of interrogatories). Additionally, the costs associated with the rate application may be required during the IRM period for additional studies such as (but not limited to) load forecast, IFRS integration and verification of the costing methodology as well as possible LRAM, SSM and Smart Meter applications. PDI refers the Board to its response to Board staff supplementary IR #51(b) for further discussion in this regard.

### **Corporate Cost Allocation**

46. PDI obtains its management and operating services from its affiliate, Peterborough Utilities Services Inc. ("PUSI") as well as some additional services from Peterborough Utilities Inc. ("PUI"). PUSI allocates costs to the affiliated companies based upon direct activities and an Activity Based Costing model. Cost drivers are reviewed periodically and are adjusted when more efficient and cost effective drivers can be obtained.
47. As noted by Board Staff, PDI, in its response to Board Staff IR #31 appropriately addressed the five principles of outsourcing as referenced in the Board's acceptance of Enbridge's corporate cost allocations (EB-2006-0034).
48. Board staff has suggested that PDI engage a reputable independent third party to review the corporate cost allocation methodology for correctness in regards to allocation principles established by the OEB as part of PDI's next Cost of Service Application.
49. PDI submits that the Activity Based Costing model was developed in conjunction with Corporate Renaissance Group ("CRG"). CRG was established in 1989 and is an independent global provider of innovative solutions and services and has significant expertise in developing cost allocation models. As previously noted,

Board Staff were satisfied that the five cost allocation principles were appropriately addressed with the IR process.

50. PDI submits that the cost allocation model is complex but is required in order to appropriately allocate costs based upon causation. The model has been consistently applied since its inception in 2000. PDI will consider the necessity of reviewing the existing cost allocation model in preparation for its next forward test year cost of service Application.
51. VECC did not comment on the allocation of costs.

#### **Utility Billing Services, UBS**

52. Board staff noted that the elimination of UBS, an unregulated business, resulted in a higher allocation of costs from PUSI to PDI. Board staff have requested that PDI clarify and address whether these higher costs are still in accordance with the Affiliate Relationships Code; namely services are provided at lower or equal to market value. PDI offers the following comments in this regard:
  - a. As PDI has stated in its response to staff IR #28(i), UBS was a product line within Peterborough Utilities Inc. Certain of PUSI's fixed costs were assigned to UBS. PDI submits that the elimination of UBS has no impact on PDI's compliance with the Affiliate Relationships Code.
  - b. PUSI did not incur any additional fixed costs resulting from the provision of services to UBS during the period that UBS operated. During this period, PDI benefited from lower allocated fixed costs from PUSI, because a portion of those costs was borne by UBS. With the cessation of UBS operations, PUSI's fixed costs, by their nature, would not be reduced and would properly be shared with the remaining members of the corporate group of companies, including, among others, Peterborough Utilities Inc. and PDI.

- c. As discussed in OEB IR # 31 a), principle iv) and accepted by OEB staff, the cost to PDI for administrative support would be higher if provided internally by PDI or outsourced as PDI is only being charged a percentage of a full department, and this remains the case following the elimination of UBS.
- d. PDI notes, for example, that billing and collecting costs, excluding bad debts, have risen only \$21,000 or 1.1% from the 2006 Board Approved amount (which reflects 2004 costs) of \$1,875,000 to \$1,896,000 in the 2009 Test Year.

53. VECC had no comment regarding these costs.

#### **Depreciation, Amortization and Depletion**

54. PDI agrees with the Board Staff submission that the annual depreciation expense is relatively flat and that changes are directly related to rate base and capital additions. Board Staff noted two classes of assets that are amortized at rates that are different than the rates documented in Appendix B of the 2006 Electricity Distribution Rate Handbook, (the "2006 EDRH") but that the two deviations offset each other. For all other classes PDI is in compliance with the 2006 EDRH.

55. VECC did not provide any comments.

56. PDI will review its depreciation policies to ensure compliance with the 2006 EDRH.

#### **Loss Adjustment Factors**

57. PDI is proposing an average Distribution Loss Factor of 1.0413 and a Total Loss factor of 1.0487, reflecting a three year average from 2005 – 2007, for the test year 2009.

58. Board Staff has submitted that the evidence provided by PDI is satisfactory and the loss factors are reasonable.
59. VECC has also submitted that the loss factor is reasonable.

### **Payments in Lieu of Taxes (PILs), Calculation of PILs**

60. PDI is requesting PILs in the amount of \$1,553,753 consisting of \$1,439,972 for combined Federal and Provincial Income Taxes and \$113,781 in Capital Taxes. PDI provided detailed tax calculations using the most recent tax rates in its Application.
61. Board Staff have indicated that based upon the Application that there is no issue with PDI's PIL methodology and submitted that the PIL calculation be updated to flow through applicable changes and updates resulting from the Board's Decision.
62. VECC did not comment on the PILs calculation or methodology.
63. PDI will update the PILs calculation based upon changes and updates from the Board's Decision.

### **Smart Meters**

64. In accordance with the London RFP parameters, PDI has agreed to purchase, install and operate Advanced Metering Infrastructure. PDI anticipates full implementation of Smart Meters by mid to late 2009, requiring a capital outlay estimated at \$5,600,000.
65. PDI is seeking a rate adder of \$1.00 per month per metered customer.
66. Board Staff do not oppose the proposed \$1.00 per month per metered customer rate adder.

67. VECC indicated that it had no concerns with PDI's Smart Meter proposal
68. Through the IR process PDI identified approximately \$100,000 for remote controlled disconnects that were not included in the Smart Meter budget as it does not currently meet the minimum functionality guidelines. At the time these costs were also not included in the 2009 capital expenditure budget. Board Staff has asked PDI to clarify the recording of the \$100,000 in its reply submission.
69. PDI submits that it has not yet incurred any costs related to the remote disconnects and as such there has been no cost included in accounts 1555 or 1556 for items that are considered above minimum functionality. However, the \$100,000 costs may be included in accounts 1555 or 1556 in future years. PDI acknowledges that recovery of costs beyond minimum functionality will be reviewed for prudence and PDI will demonstrate the additional benefits to justify the expense.

## **Deferral and Variance Accounts**

70. In the Application as filed, PDI requested only the disposition of the following two Deferral and Variance accounts.
- 1508 – Other Regulatory assets
  - 1550 – Low Voltage Variance Account
71. This request encompassed disposal of the December 31, 2007 balances including interest up to April 30, 2009. PDI had calculated the associated rate riders, assumed to be in effect for three years.
72. PDI responded to several IRs in respect of its proposed treatment of Deferral and Variance accounts.
73. In the course of preparing this reply submission, PDI has determined that there may be an issue with respect to the calculation of its cost of power variance for

the period commencing in May of 2006. The resolution of this issue will require further investigation by PDI, and this will require additional time and resources.

74. In light of the foregoing, PDI respectfully withdraws its request to recover any Deferral and Variance Account balances at this time. PDI will be investigating the cost of power variances as well as other variance accounts in the next few months. PDI anticipates making a separate application to the OEB with respect to its Deferral and Variance Account balances following the completion of its review.

### **Cost of Capital and Capital Structure**

75. PDI originally prepared the Application with a deemed capital structure of 52.7% Long Term Debt, 4% Short Term Debt and 43.3% Equity to comply with the Report of the Board on Cost of Capital and 2<sup>nd</sup> Generation Incentive Regulation for Ontario's Electricity Distributors dated December 20, 2006.

### **Long Term Debt**

76. In the Application as originally filed, PDI proposed a 2009 Test Year Long Term Debt rate of 6.02%. This was the weighted average debt rate reflecting the Shareholder Loan of \$21,657,680 at 6.10% and the City of Peterborough Demand Loan of \$1,500,000 at 4.85%.
77. The Shareholder loan rate of 6.10% reflects the Cost of Capital Parameter Updates for 2008 Cost of Service Applications issued by the OEB on March 7, 2008. The current rate is 6.25% and reflects the 2006 EDR decision that reduced the long term rate from 7.25%.
78. PDI acknowledges that the long term rate was subject to change and in response to OEB IR #53 a) has requested that the long term debt rate be changed to 7.62% to reflect the deemed long term rate recently announced by the Board in

its February 24, 2009 Cost of Capital Parameter Updates for 2009 Cost of Service Applications.

79. PDI's revised long term debt rate for the 2009 Test year is 6.59% consisting of the following:

2009 Test

Debt instrument (description)	Debt holder	Principal (\$)	Debt Rate (%)	Interest Expense
Shareholder Demand Loan	City of Peterborough	21,657,680	7.62%	1,650,315
Demand Loan	City of Peterborough	1,500,000	4.85%	72,750
Demand Loan	TD Bank	6,600,000	4.55%	300,300
New Third Party	To be determined	4,000,000	5.00%	200,000
<b>Total</b>		<b>33,757,680</b>	<b>6.59%</b>	<b>2,223,365</b>

80. Board Staff have submitted that PDI should clarify the debt of \$4 million, with a third party debt rate of 5.00%. Subject to the above, PDI's proposal for cost of capital, as amended, complies with the guidelines documented in the Board Report.
81. VECC submitted that the associated long term debt should be assigned a debt rate of 6.0%.
82. PDI has budgeted for an additional \$4,000,000 of debt for the purposes of achieving adequate working capital levels and a capital structure that is more reflective of the OEB's deemed debt/equity ratio for rate making purposes.
83. As can be seen at Exhibit 1/Tab 3/Schedule 2/Appendix B, page 1 of 9, PDI's 2009 Pro Forma Balance Sheet reflected a year end cash balance of \$3,215,005, which includes the proceeds of the additional budgeted debt of \$4,000,000. The debt issuance is necessary to maintain a positive cash balance.

84. With this additional 3<sup>rd</sup> party debt PDI will be in compliance with the guidelines in the OEB Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors issued December 20th, 2006.
85. PDI submits that the Board should approve the revised long term debt rate of 6.59% including the 7.62% on long term debt as provided by the OEB for use in the 2009 Cost of Service Applications.

### **Short Term Debt**

86. In the Application as originally filed, PDI proposed a 4.47% return on short term debt in accordance with the Cost of Capital Parameter Updates for 2008 Cost of Service Applications issued by the OEB on March 7, 2008. PDI acknowledges that this rate was subject to change and will adopt the 1.33% rate set out by the OEB in its February 24, 2009 Cost of Capital Parameter Updates for 2009 Cost of Service Applications.

### **Return on Equity**

87. In the Application as originally filed, PDI proposed a return on equity of 8.57% in accordance with the Cost of Capital Parameter Updates for 2008 Cost of Service Applications issued by the OEB on March 7, 2008. PDI acknowledges that this rate was subject to change and will adopt the 8.01% rate announced by the Board in its February 24, 2009 Cost of Capital Parameter Updates for 2009 Cost of Service Applications

### **Cost Allocation**

88. PDI filed a cost allocation model with the OEB on February 21, 2007.
89. In preparation of the Application a review of the initial cost allocation filing was conducted and it was discovered that a number of "connections" for residential, GS < 50 KW, GS > 50 KW and Large Use was entered into the initial model

rather than the number of customers. As a result, for the purpose of this Application, the cost allocation model was updated to correct for these oversights. The updated model was also revised to reflect a customer count error in the 2006 EDR model that was corrected and applied to the 2008 rates in accordance with PDI's 2008 Rate Order.

90. In this Application, PDI is proposing to re-align its revenue to cost ratios by adjusting the allocations of revenue among rate classes in order to reduce some of the cross-subsidization. The re-alignment will move the ratios of those classes that are under-contributing upward by amounts representing approximately 50% of the difference between their current ratios and the low end of the OEB's target ratio. As noted in the Application at Exhibit 8, Tab 1, Schedule 2, page 4, lines 10-12, "the additional revenue from the under contributing class will be distributed to those classes that are over contributing in order to reduce the revenue to cost ratio for these classes by the same amount and move them toward 100%."

91. The proposed revenue to cost ratios are provided below:

**PDI's Proposed Revenue to Cost Ratios**

<b>Customer Class</b>	<b>OEB Low</b>	<b>OEB High</b>	<b>PDI Updated Cost Allocation Filing Results</b>	<b>PDI Proposed 2009 Revenue to Cost Ratios</b>
Residential	85%	115%	109.53%	105.92%
GS < 50 kW	80%	120%	98.40%	98.40%
GS >50 kW	80%	180%	114.69%	111.08%
Large Use	85%	115%	70.99%	78.00%
Sentinel Lights	70%	120%	30.76%	50.38%
Street Lighting	70%	120%	19.59%	44.79%
Unmetered Scattered Load	80%	120%	7.13%	43.57%

92. The proposed revenue splits by rate class to achieve the above proposed revenue to cost ratios are provided in the following chart.

<b>Rate Classification</b>	<b>Revenue Split to Achieve Proposed Revenue Cost Ratio</b>
Residential	58.39%
General Service <50 kW	16.85%
General Service 50 to 999 kW	19.69%
Large Use	1.07%
Sentinel Lights	0.25%
Street Lighting	2.49%
Unmetered Scattered Load	1.26%
<b>Total</b>	<b>100.00%</b>

93. Board staff submitted that PDI's strategy to reduce cross-subsidization by re-aligning revenue to cost ratios is appropriate and the resulting ratios are acceptable.
94. In response to VECC IR #7 c), PDI provided a revised version of the cost allocation model that was consistent with PDI's proposed treatment of the Transformer Ownership where:
- Revenues by class are reduced by the transformer ownership where applicable; and
  - The costs allocated exclude the "cost" of the transformer ownership allowance.
95. The above analysis provided the following comparative results as presented in the VECC submission.

**PDI Proposed R/C Ratio Shifts**

	<u>PDI R/C Ratio</u>	<u>VECC's IR 7 c)</u>	<u>Proposed R/C Ratio</u>
Residential	109.53%	111.4%	105.92%
GS<50	98.40%	100.6%	98.40%
GS>50	114.69%	110.0%	111.08%
Large Use	70.99%	40.3%	78.00%
Sentinel Lights	30.76%	31.4%	50.38%
Street Lights	19.59%	20.0%	44.79%
USL	7.13%	7.3%	43.57%

Note:

- 1) PDI R/C Ratio from Exhibit 8/Tab 1/Schedule 2, page 3
- 2) Proposed Ratios from Exhibit 8/Tab 1/Schedule 2, page 3

96. It is VECC's submission that R/C ratios from VECC IR 7 c) should be used as the starting point to move the R/C ratios to the desired level. PDI understands that the OEB has ruled in favour of this proposal in some other 2009 cost of service rate decisions. VECC also submits that it is concerned with the use of the class revenue requirement distribution from the Cost Allocation Informational filing to determine 100% cost responsibility for 2009. VECC has made this same submission in a number of other 2009 cost of service/rebased application and it is PDI's understanding that to date the OEB has not ruled in favour of this proposal. In addition, VECC suggests that PDI should be directed to continue to adjust to cost ratios in 2010 and 2011 for those classes that are under contributing so as to achieve the lower end of the Board's target ranges in 2011.
97. PDI submits that its strategy to adjust the revenue to cost ratios as summarized above is reasonable and consistent with the OEB's Cost Allocation Guidelines.
98. PDI will apply any changes directed by the Board in response to final submissions.

## **Rate Design**

99. PDI has proposed in its Application a total 2009 service revenue requirement of \$15,573,249 less revenue offsets in the amount of \$1,618,851, reducing PDI's total service requirement to a base revenue requirement of \$14,134,398 to be recovered through distribution rates.
100. Board staff have no issue with PDI's methodology for calculating the revenue to be recovered from the customer classes.

## **Monthly Fixed Charge**

101. PDI has determined the revenue to be recovered through the monthly fixed charge by taking the currently monthly charges of the three service territories times the forecasted number of customers by area for 2009 and calculated a percentage of revenue to be recovered from the fixed and variable charge for each of the combined classes.
102. PDI submits that is appropriate to maintain the same fixed/variable proportions assumed in the current rates to all customer classifications.
103. Board Staff submitted that the approach taken and the resulting allocations appear to be reasonable and VECC agrees that the approach is acceptable.

## **Transformer Ownership Allowance**

104. PDI proposes to maintain the current approved Transformer Allowance of \$0.60 per kW.
105. Board Staff have not raised any issues and submitted that the resulting allocations appear to be reasonable.

### **Rate Mitigation**

106. Total bill impact for some low usage Residential customers in the Asphodel-Norwood service area is above 15% resulting from the harmonization of rates.
107. Board staff commented that given the desire for rate harmonization and the movement to more realistic revenue to cost ratios, that there is no need to introduce rate mitigation.
108. VECC also noted that the harmonization of rates across the three service areas is causing low volume Residential customers in the Asphodel-Norwood service area an increase of \$4.45/month and that the Board should limit the increase to 15% and rate mitigation measures should be instituted.
109. PDI responded to VECC IR # 9d) that the bill impact higher than 15% affects only those residential customers in the Asphodel-Norwood service area that consume 100 kWh per month and that this represents 0.49% of PDI's total Residential customers as outlined in the response to VECC IR #12 a).
110. The total bill impact is less than \$4.45 per month and affects only 10 Asphodel-Norwood Residential customers.
111. PDI submits that this is reasonable during the transition to harmonized rates and that the cost to maintain separate rate structures outweighs the impacts on a few customers.

### **Harmonized Retail Transmission Service Rates**

112. PDI is proposing to harmonize the retail transmission rates based upon a weighted average of the current approved retail transmission rates using the proportion of customer numbers by rate class in each service area in 2007. PDI submits that it is reasonable to assume that each customer in the rate class has the same usage within each service area.

113. VECC supplied no response to this topic and Board staff submitted that the methodology is as good as any other and appears reasonable and 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 be accepted.

#### **Unmetered Scattered Load**

114. PDI agrees with the Board staff recommendation that PDI should adopt a per connection monthly service charge for the USL rate class. PDI will address this in the draft rate order to be prepared following the issuance of the Board's Decision.

#### **Low Voltage Charges**

115. PDI will reduce its low voltage costs to \$395,000. PDI will address this in the draft rate order to be prepared following the issuance of the Board's Decision.

#### **Specific Service Charges**

116. Neither Board Staff nor VECC expressed any concerns regarding the Specific Service Charges.

#### **Intervenor Costs**

117. PDI notes that VECC has requested an award of costs in the amount of 100% of its reasonably-incurred fees and disbursements. PDI assumes that the Board's decision on this request will depend on a review of actual cost claims by the Board later in this process and that PDI will have the opportunity to make submissions on the claims at the time, if warranted.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 15<sup>TH</sup> DAY OF MAY, 2009.

Original Signed by James C. Sidlofsky  
James C. Sidlofsky,  
Counsel to Peterborough Distribution Inc.

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