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June 4, 2009

Ontario Energy Board  
2300 Yonge Street, Suite 2701  
Toronto, ON M4P 1E4

Attn: Ms. K. Walli, Board Secretary  
Re: EB-2008-0246

Dear Ms. Walli

Please find enclosed Tillsonburg Hydro Inc.'s Reply Argument in the above named proceeding. This document has been emailed to all intervenors of record.

Sincerely

A handwritten signature in black ink, appearing to be "S. T. Lund", written in a cursive style.

S. T. Lund  
General Manager

cc. EB-2008-0246 All Intervenors of Record  
Mr. L. Harmer, Board Staff

**Tillsonburg Hydro Inc.**

**EB-2008-0246**

**2009 Electricity Rate Rebasing Application**

**Reply Argument**

Filed: June 4<sup>th</sup>, 2009

## Executive Summary

1  
2 Tillsonburg Hydro Inc. ("THI") seeks Board authorization to charge changed distribution rates  
3 and other regulated rates and charges that will recover its proposed 2009 TY service revenue  
4 requirement of \$3,339k<sup>1</sup>. THI proposes that the authorized rates be set using the 2009 TY load  
5 forecast provided at E10/T1/S37/p2. THI also proposes to adjust its currently authorized  
6 distribution rates so that over a two year period it will achieve Revenue:Cost ratios for all  
7 customer classes that are consistent with Board authorized ranges. In addition to the requested  
8 authorization to charge revised distribution rates THI also seeks Board authorization to charge  
9 rate riders that will dispose of the balances recorded in the majority of deferral and variance  
10 accounts as of December 31, 2007 plus carrying costs up to and including April 30, 2009 and to  
11 charge a rate rider that will recover THI's Lost Revenue Adjustment Mechanism and Shared  
12 Savings Mechanism as of December 31, 2007 plus carrying costs up to and including April 30,  
13 2009 from residential customers. THI seeks authorization to charge a Smart Meter Rate Adder  
14 of \$1.00/metered-customer/month. THI seeks authorization to apply revised distribution loss  
15 factors. And finally, THI seeks to recover the uncollected revenue requirement for the period  
16 between May 1, 2009 and the effective date when the Board's order is implemented through a  
17 rate rider that could, for example, operate over the 12 month period from November 1, 2009  
18 until October 31, 2010.

19  
20 The arguments in support of these proposals follow and are organized according to the issue  
21 topics of the application.

22

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<sup>1</sup> Derivation:

OM&A	\$2,129k
Depreciation	\$ 491k
PILs	\$ 62k
Return	\$ 657k

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1 **Load Forecast**

2

3 THI's proposed 2009TY load forecast is provided at E10/T1/S37/p2. In its May 26, 2009  
4 submission Board Staff acknowledge that: "THI has developed a sophisticated load forecasting  
5 model. Backcasting tests showed that the model has the potential to produce a very accurate  
6 load forecast for the weather-sensitive classes."

7

8 Intervenors and Board Staff raised the following issues in connection with THI's 2009 TY load  
9 Forecast:

10

- 11 • The need for more detailed explanations of how changes were determined;
- 12 • Concerns with specific customer class' load forecast and specific customer class shares;
- 13 • Concerns over variables excluded from and included in the regression equation;
- 14 • How losses were incorporated in the analysis;
- 15 • THI's proposed adjustment for CDM.

16

17 **Explanations of Changes to the Load Forecast**

18

19 THI notes that page 8 of its April 14, 2009 submission identified the following changes related to  
20 the load forecast:

21

22 "The reclassification of one of THI's customers who will cease commercial  
23 operations and be idle as of April 2009";

24 "to apply the correctly computed loss factors"

25

26 No other changes to the Load Forecast were identified. Consolidated changes (eg., to the load  
27 forecast) were relied on so that commercially sensitive information was not made publicly  
28 available. THI confirms that no other changes were made. THI confirms that it's proposed 2009  
29 TY Load Forecast is 181.7 GWh of delivered energy. This amount is different from the  
30 throughput quantified at E10/T2/S28/p1 because the latter reference reflects the removal of  
31 DDM from the proposed General Service > 1,500 kW customer class but does not reflect its  
32 proposed reclassification into the General Service 50 – 499 kW customer class. THI confirms

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1 that the proposed 2009 TY load forecast has been prepared using a Board approved  
2 methodology which has been appropriately updated to adjust for known changes in customer's  
3 need for electricity.

4  
5 **Issues Related to Specific Customer Class' Load Forecast and Customer Class Shares**  
6

7 Energy Probe ("EP") argued that certain adjustments should be made to the load forecast as  
8 filed and updated – specifically, that THI should update the forecast for kW for 2009 for this  
9 class to reflect the most recent information available. THI's kW forecast for the GS 500-4999  
10 kW class is based on the kW/kWh ratio for 2006. This treatment is considered appropriate  
11 because a large customer came on-line in late 2006 and then ceased operations in 2007.

12  
13 There are several flaws in EP's argument for this adjustment. First of all, the ratio of 0.00237 as  
14 proposed by EP is 'out of line' versus the historical value of this ratio and it does not  
15 appropriately reflect THI's experience. The historic data provided at E10/T3/S18/part(r) shows  
16 that this ratio has fluctuated between 0.00203 and 0.00207 from 2003 to 2005. In 2006 the  
17 value was 0.00218 and in 2007 it was 0.00224. EP proposes to use the 2008 value of 0.00237  
18 which is even more of an outlier than is the 2007 ratio. It is important to note that both 2007 and  
19 2008 were unusual years. In 2007 a large customer, which started operation in late 2006,  
20 shutdown. In 2008, the largest customer in THI's service territory began to wind down  
21 operations and subsequently announced complete idling of the facility, effective April 2009.  
22 During 2008 this customer announced layoffs and its load factor deteriorated. This in turn  
23 increased the kW/kWh ratio. However, this customer has now fully idled. Much of the remaining  
24 load in this customer class faces unprecedented risk of further deterioration due to the crisis in  
25 manufacturing in the Province, particularly in the automotive sector, to which THI is significantly  
26 exposed. Rather than increasing kW billing in 2009, THI faces unprecedented downside risk to  
27 its larger customers, at a level not seen in many decades. EP's suggestion that kW billing  
28 should be increased based on information from an anomalous year is inappropriate for rate  
29 making purposes and should be rejected by the Board.

30  
31 EP raised concerns with the methodology used by THI to forecast the volumes for each rate  
32 class. EP's main concern with THI's approach is that it implies that each of the three weather

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1 sensitive rate classes (residential, GS<50 kW and GS 50 – 499 kW) is equally impacted by  
2 changes in degree days (heating and cooling) and economic variables which it considers  
3 unlikely.

4  
5 THI has acknowledged that class specific forecasts would be more desirable. However, data  
6 availability precluded this type of analysis. EP also had the opportunity to examine the data and  
7 propose an alternative methodology, but has not done so. THI also notes that Board Staff's  
8 submission states that tests showed that the THI model has the potential to produce a very  
9 accurate load forecast for the weather-sensitive classes. Until such time as more accurate  
10 consumption data from smart meters are available, THI submits that the load forecast that its  
11 expert has filed is appropriate.

12  
13 The Vulnerable Energy Consumers Coalition ("VECC") has expressed reservations about using  
14 the 2007 (non-weather normalized) class shares to establish the 2009 TY class' share of  
15 weather normalized total sales. VECC argues that doing so assumes that the weather  
16 adjustment factor would be the same for both the Residential and GS<50 classes. VECC  
17 acknowledges that there may be no other approach to use at this point, given the limited data  
18 THI has to work with.

19

## 20 **Concerns Over the Variables Excluded from and Included in the Regression Equation**

21

22 VECC argued that it is important that there be some connection between the forecast of total  
23 load and the forecast customer count so that independently produced forecasts of a utility's total  
24 sales and its projected customer count do not lead to anomalous projections of per customer  
25 use in the test year. In an interrogatory response (E10/T3/S18/p2), THI cited the statistical  
26 problems and counterintuitive results that may arise if number of customers is included in the  
27 model. For these reasons THI disagrees with VECC's submission. THI's load forecasting  
28 model is considered the best possible - given the constraints of data – and is appropriate for  
29 rate making purposes. Board Staff have acknowledged that the THI model has the potential to  
30 produce a very accurate load forecast for the weather sensitive classes. THI submits that this is  
31 more important and relevant than preconceived notions about what the exogenous variables of  
32 the model should be.

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1 With respect to the forecasts for the various General Service customer classes, VECC submits  
2 that THI's load forecast "double counts" the impact of the economic downturn. VECC notes that  
3 THI's econometric equation relies on a declining employment assumption and that it has  
4 explicitly removed the loads of customers who are idling or exiting the system. THI submits that  
5 this is not the case. THI's load forecasting equation was originally prepared in August 2008 -  
6 prior to the crisis that has developed in the automotive and parts fabricating and assembly  
7 industries manufacturing sector of the last few months. The employment forecast for 2009 for  
8 THI's service area was based on a no-growth assumption for 2009. In the present economic  
9 environment, this assumption is considered overly optimistic and a potential source of downside  
10 risk for the 2009 TY load forecast.

11

#### 12 **How Losses Were Incorporated in the Analysis and the Load Forecast**

13

14 THI provided a full explanation of its treatment of system losses for load forecasting purpose  
15 (E10/T1/S14/part(d)). Board Staff misinterpreted that "all the system losses were assumed to  
16 be associated with the weather-sensitive classes and no losses associated with the remaining  
17 classes". THI has not allocated any losses to any distribution rate class in its load forecast - to  
18 do so would materially harm the LDC as it would inflate the class throughput to a level that is not  
19 recoverable through meter readings that, by definition, are exclusive of system losses.  
20 Furthermore, the table provided at E10/T1/S14/part3 shows that losses are not associated with  
21 any classes. This is the appropriate treatment when determining load for the purposes of setting  
22 distribution rates. THI's load forecast for each specific load class is "exclusive of losses" as is  
23 shown at E3/T2/S1/AttA/p.10, dated November 4, 2008. All distribution billing data used in THI's  
24 load forecast to apportion the weather sensitive load to specific classes is as measured at the  
25 distribution meter and is exclusive of distribution losses.

26

#### 27 **THI's proposed adjustment for CDM**

28

29 VECC raised two specific issues with THI's CDM adjustment. First, VECC submits that the  
30 2009 load forecast produced by THI's regression models includes a growing trend in CDM  
31 activity that will capture effects over and above the 2007 OPA programs. As a result, VECC  
32 submits that there will be some double counting in THI's CDM adjustment – which removes the

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1 full impact of 2008 and 2009 initiatives. Also, VECC notes that the 2.62% reduction calculated  
2 from the OPA forecast applies to summer peak demand and not average monthly demands.  
3 Since virtually half of the OPA peak reduction programs focus on summer peak VECC believes  
4 that it is inappropriate to assume this same factor can be applied to all months of the year.  
5 THI submits that the 2007 load data reflects observed CDM in that period and does not  
6 incorporate the effects of changed and increased CDM achievements in 2008 and 2009. For  
7 this reason THI submits that its CDM adjustment does not result in any double counting. THI  
8 concurs with VECC's submission that half of the OPA peak reduction programs are focused on  
9 summer peak. THI notes however that its customers can be expected to seek all economic  
10 CDM, that half of the peak savings are expected to be achieved through ongoing CDM  
11 initiatives and that the OPA data relied on to estimate the impact of CDM is the average  
12 achievement forecast for south western Ontario.

13

14 THI notes that no party proposed an alternative 2009 TY load forecast and reminds the Board  
15 that Board staff recognized that THI's proposed model is considered very accurate. THI  
16 submits that its 2009TY load forecast should be relied on for rate making purposes.

17

18

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1 **2009 TY Revenues**

2

3 THI estimates that it will recover:

4

- 5 • \$2,400k<sup>2</sup> through distribution rates;
- 6 • \$124.7k through the application of other Regulated Rates and Charges; and
- 7 • \$6k in interest income.

8

9 The above summary reflects THI's revised estimate of the revenues recovered through Other  
10 Regulated Rates and Charges to include \$24.3k of previously unrecognized revenue; this is  
11 discussed in the following paragraph. THI submits that these amounts have been estimated  
12 based on the best available information.

13

14 THI notes that EP correctly identifies that THI has not fulfilled an undertaking to correct its  
15 Miscellaneous Service Revenue for the 2009 TY. The required adjustment will correctly reflect  
16 that THI expects to recover \$24.3k due to the application of the After Hours Service Call  
17 Charge, Regular Hours Service Call Charge and Collection Call Charge. This adjustment and  
18 all consequential changes will be made in THI's Draft Rate Order.

19

20 THI submits that, upon making the above described correction, its 2009 TY forecast of other  
21 regulated revenues, Specific Service Charge revenue and Interest income are appropriate for  
22 rate making purposes.

23

24

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<sup>2</sup> Derivation: Revenues from Services \$2,431k  
less Retailer Charges Revenues \$ 9k  
less SSS Administration Revenues \$ 22k

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1 **Rate Base**

2

3 THI's proposed 2009 TY rate base is \$8,714k (Attachment B.1/p1 April 2009 Update).

4

5 THI notes that no party took issue with THI's proposed 2009 TY capital budget or 2009 TY Rate  
6 Base. EP anticipated that consequential adjustments (e.g. changes related to changes to  
7 capitalized expenses) may need to be made to some of THI's data. Party's comments related  
8 to changes to capitalized Operations, Maintenance and Administration expense are considered  
9 elsewhere in this argument.

10

11 THI agrees that it will be necessary to revise its proposed Working Cash Allowance based on  
12 the revised Regulated Rate Plan prices authorized by the Board effective May 1, 2009. This  
13 adjustment will be incorporated in THI's Draft Rate Order.

14

15

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1 **Period Expenses**

2

3 **OM&A**

4

5 THI seeks to recover \$2,129k through rates in 2009 related to its forecast Operations,  
6 Maintenance and Administration (“OM&A”) costs; this reflects a \$7k reduction to labour costs  
7 (described on page 13 of this Argument) that reduces the previously proposed level of OM&A  
8 being \$2,136k (Attachment B.2/p1 April 2009 Update). Board staff and Intervenors have argued  
9 that this proposed level of costs is too high, versus prior expenditures, and that the Board  
10 should authorize the recovery through rates of a lower amount. THI submits that the proposed  
11 2009 TY OM&A costs are required and will be incurred to provide distribution service at an  
12 appropriate quality of service, have been prudently incurred and should be recovered through  
13 rates. THI notes that if its three most significant 2009 OM&A cost changes had occurred  
14 individually in three separate years that a relatively smooth pattern of cost changes would have  
15 been observed. THI submits that it has demonstrated sound cost control in past periods that  
16 will continue to be applied in the 2009 TY to the ongoing benefit of rate payers.

17

18 Board staff’s submission and intervenor’s arguments deal with the following issues:

19

- 20 • Management Fee
- 21 • Paper and Postage costs
- 22 • Change in capitalized Operating expenses
- 23 • Labour cost changes
- 24 • Treatment of costs of the new CIS
- 25 • Costs of the 2009 EDR
- 26 • The overall level of cost changes

27 Each issue is considered below.

28

29 **Management Fee**

30

31 THI pays a Management Fee (“MF”) to the Town of Tillsonburg (‘Town’) to contribute to the  
32 recovery of:

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- 1       • indirect costs;
- 2       • the return on and of Town capital made available to THI; and
- 3       • unidentified direct costs.

4  
5 These recoveries through the MF were described in the August 2008 filing at E4/T2/S6/p2, in  
6 the March 2009 responses to interrogatories at E10/T1/S26/p2 and in the May 2009 responses  
7 to supplementary interrogatories at E10/T2/S35/p1.

8  
9 If the MF is not applied then THI's costs are not fully burdened with THI's fair share of the  
10 operating and capital costs; in this scenario THI would be inappropriately cross-subsidized by  
11 the Town.

12  
13 THI notes that Board staff had little concern with the level of the MF in the 2009 TY (Staff  
14 submission p19).

15  
16 With respect to the Management Fee, Board staff and intervenors raised the following issues:

- 17
- 18       • Whether some costs will be double recovered;
- 19       • Whether the MF should be applied as a variable or fixed charge;
- 20       • Which costs were appropriately eligible for MF;
- 21       • Whether the amount paid through the MF resulted in a windfall gain to the Town.

22  
23 THI submits that the application of the MF does not result in the double recovery of any costs.  
24 As stated previously, the MF contributes to the recovery of indirect costs, the return on and of  
25 Town capital used to support THI and the recovery of unidentified costs. Some parties have  
26 argued that the application of the MF inappropriately double recovers costs, such as the costs of  
27 the Town's AP clerk. THI pays the Town for AP services, including the costs of the AP clerk as  
28 a line item of the Master Service Agreement ("MSA"). The application of the MF to the new  
29 CIS's costs does not double recover AP costs – rather it contributes to the recovery of incurred  
30 indirect costs, the return of and on Town capital and unidentified costs. THI agrees that a cost  
31 study would help in documenting costs and demonstrating the appropriateness of the MF.  
32 However, THI does not currently have the in-house expertise to complete such as study and

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1 would in all likelihood require external resources to complete this work. Should the Board order  
2 THI to conduct a cost study it will seek to record the costs of that study in the appropriate  
3 deferral account and seek disposition of the balance in a future proceeding.

4  
5 THI submits that it is not appropriate to treat the MF as a fixed charge. THI notes that the MSA  
6 (E1/T2/S1/AttA) is structured as a package which balances the payment of variable charges  
7 with the risks incurred. If it were appropriate to treat the MF paid by THI to the Town as a fixed  
8 charge, it would also be appropriate to amend the risk sharing in the MSA to reflect the change  
9 in treatment. THI submits that the variable MF charge results in greater contributions to the  
10 recovery of the Town's costs in those years when the Town performs greater levels of services  
11 and vice versa. THI submits that if the MF were treated as a fixed charge that this cost causality  
12 relationship would be lost. THI comments that for rate making purposes the amount authorized  
13 for recovery through rates as a result of this application will not be adjusted as a standalone line  
14 item under the Board's IRM and that it will, implicitly, be treated as a fixed cost for rate making  
15 purposes. The actual cost of the MF will continue to fluctuate with the level of service provided  
16 but on average is expected to reflect the amount proposed for recovery in rates.

17  
18 THI submits that the costs eligible for MF under the MSA are appropriate so that the Town does  
19 not subsidize THI. Some parties have argued that the MF should only apply to labour costs.  
20 Under this approach the MF would contribute to the partial recovery of indirect costs but would  
21 not contribute to the recovery of the return on and of capital or to the recovery of unidentified  
22 costs. THI submits that if the MF is applied to labour costs exclusively that the Town will  
23 explicitly subsidize THI and that THI's distribution rates will not be consistent with the stand  
24 alone principle which requires that rates recover all the costs incurred to provide service. THI  
25 submits that this would result in rates that are not just and reasonable and not comparable to  
26 rates charged by similar utilities.

27  
28 THI submits that applying the MF to all third party costs is appropriate because it captures the  
29 level of the Town's activity on behalf of THI and acts to allocate costs accurately and fairly. THI  
30 notes that the MF contributes to the recovery of indirect costs, the return of and on the Town's  
31 capital and unidentified costs. THI submits that when its third party costs increase that the  
32 Town must conduct greater levels of support activity on THI's behalf – and that a greater portion

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1 of its costs are allocable to THI. Applying the MF to third party costs results in THI assuming its  
2 fair share of the responsibility for these costs. THI also submits that not applying the MF to 3rd  
3 party costs will result in THI being inappropriately subsidized by the Town and that the stand  
4 alone and cost causality principles will not be satisfied.

5  
6 THI submits that is speculative and incorrect to conclude that the payment of the MF to the  
7 Town will result in a windfall gain to the Town. As stated in THI's evidence, the amount  
8 recovered through the MF is less than the expected costs of providing the support services  
9 covered by the MF (E10/T2/S14/p4). THI has access to the costs incurred by the Town in the  
10 previous period and these costs are used to determine the amounts to be paid under the MSA  
11 and that the MF operates so that THI contributes its fair share to the recovery of indirect costs,  
12 the return on and of capital and to the recovery of unidentified costs.

13  
14 For all the above reasons THI submits that the MF provides a just and reasonable sharing of the  
15 costs for recovery through rates.

### 17 **Paper and Postage Costs**

18  
19 THI submits that it is appropriate for THI to recover through rates its share of the Town's directly  
20 incurred costs of paper and postage and the associated MF through rates.

21  
22 Board staff submitted that this cost was addressed in the MSA and that authorizing recovery  
23 through rates would result in double recovery. The MSA does identify that Paper and Postage  
24 costs are recoverable from THI. The legitimacy of this distribution service is not in question.  
25 The issue, however, is that the costs associated with this line item have not been recovered in  
26 prior years. THI submits that this cost is incurred to provide distribution service and is therefore  
27 eligible for recovery through rates. If the Board does not authorize recovery through rates  
28 taxpayers will inappropriately subsidize THI.

29  
30 THI further notes that in previous periods, the costs of paper and postage – being an  
31 unidentified cost - would have qualified for recovery through the MF. THI submits that the  
32 identification and recovery of Paper and Postage costs on a line item basis reduces the amount

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1 of unidentified direct costs but not sufficiently to warrant a reduction in the MF. THI points out  
2 that although the MF is expected to be lower than the sum of the Town's indirect costs and  
3 capital costs there is still sufficient expectation of unrecorded or unidentified costs that a  
4 reduction in the MF is not justified.

### 6 **Changes in Capitalized Operating Costs**

8 THI submits that its proposed expensing of operating costs that were capitalized in previous  
9 periods is appropriate for rate making purposes. The increase in operating costs is the result of  
10 reallocation of labour to operating activities caused by the projected reduction in capital  
11 spending. This is a normal outcome when capital work is reduced and resources being  
12 employed in operational activities.

14 THI notes that the Town provides a fixed staff complement (E1/T2/S4/AttA/p1) and fixed fleet  
15 assets. Its labour costs and fleet costs are allocated to either Operations costs or Capital  
16 investment. As the level of capital spending changes from year to year the allocable Operations  
17 labour costs and allocable fleet costs change as well.

19 THI notes that appropriate accounting treatment permits the capitalization of operating costs  
20 associated with capital expenditures and requires the expensing of all other period costs. The  
21 proposed change in OM&A due to changes in capitalized Operating costs reflects this  
22 accounting convention as it applies to the reduction of capital projects. THI submits that there is  
23 no basis for treating operational costs as capital.

25 Over the long run, THI notes that the only difference in the two treatments is that the amount  
26 recovered through rates from increased depreciation expense and increased cost of capital and  
27 associated PILs expense is expected to be equivalent to the proposed expensing in the 2009  
28 TY. THI notes that its proposed capital spending in the 2009 TY is the lowest of any year since  
29 2004 (E10/T1/S1/p3). Adopting the flawed reversal promoted by intervenors and the Board staff  
30 will act to increase the 2009 capital spending to a level closer to the historical average  
31 (E10/T1/S1). Financially there is no impact to THI, however, there is no accounting justification  
32 for the adjustment MF proposed by the intervenors.

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1 THI notes that no party has argued that the Board ought to deny this amount; all they have  
2 argued is how to recover it through rates. THI recommends that the Board approve its  
3 approach as it is the only one supported by an appropriate accounting treatment.

4

### 5 **Changes in Labour Costs**

6

7 THI submits that its proposed changes in labour costs are recoverable through rates. The  
8 changes are due to:

9

- 10 • Cost of living changes;
- 11 • Incremental positions;
- 12 • Board of Directors cost changes.

13

14 THI originally proposed a 2% Cost of Living increase to labour costs (E10/T1/S21/p1) that  
15 amounts to a \$27k increase (April 2009 Update p14). As the Town recently authorized a 1.5%  
16 Cost of Living adjustment, the associated impact in THI's proposed 2009 TY costs is a \$6.75k  
17 reduction. THI plans to apply this reduction to its 2009 TY costs.

18

19 THI has recently recruited two apprentice linesmen and plans to recruit an Operating Regulatory  
20 Account Manager ("ORAM") in the 2009 TY. Some parties questioned the need for and timing  
21 of recruiting two apprentices and the need for an ORAM.

22

23 THI submits that the recruitment of two apprentice linesmen in 2008 was required to ensure the  
24 safe and efficient operation of the utility and therefore was prudent. They will provide THI with  
25 an appropriately skilled and experienced workforce, make appropriate provision for succession  
26 planning and appropriately manages the apprenticeship period and knowledge transfer with  
27 available resources. THI notes that it has an appropriately sized field staff for its scale of  
28 operations and number of customers. The existing field staff has differing years of service and  
29 two experienced linesmen are eligible to retire (E4/T1/S2/p13). THI is unable to forecast  
30 retirement dates – these are decisions beyond its control that it must be appropriately resourced  
31 to cope with. THI undertakes to advise the Board as retirement dates are made known to it.

32

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1 THI has taken steps to co-ordinate the 4 year apprenticeship period within these uncertain  
2 schedules. THI notes the apprenticeship period requires obtaining skills and experiences under  
3 the supervision of appropriately qualified staff. For succession planning purposes alone THI  
4 submits that it could have legitimately recruited the 2 apprentice linesmen 4 years in advance of  
5 the earliest anticipated retirement date. THI submits that it has taken prudent action to recruit  
6 these apprentices at an appropriate time and that this recruitment will result in THI having an  
7 appropriately skilled and experienced work force to support the ongoing provision of distribution  
8 service to the inhabitants of the Town of Tillsonburg.

9  
10 THI submits that it is appropriate to recover the costs of the proposed Operations Regulatory  
11 Affairs manager ("ORAM") through rates. THI notes it has enjoyed, on an FTE basis, 0.73 of  
12 the Finance Regulatory Affairs Manager ("FRAM") on an ongoing basis, pursuant to the MSA.  
13 THI also notes that despite the availability of the FRAM there are a number of unaddressed  
14 regulatory related initiatives. THI submits that the FRAM and the ORAM are not substitutable  
15 positions, that there are no overlapping duties and that recruiting the ORAM (or procuring  
16 appropriate consulting services) will not either eliminate or diminish its need for the FRAM. THI  
17 also notes that the Board's Chief Regulatory Auditor observed that THI "has difficulty keeping  
18 current of Ontario Energy Board (OEB) Decisions and Guidance, as well as meeting the filing  
19 and other requirements of the OEB on a timely basis." (E5/T1/S2/AttB). THI understands  
20 parties' concerns that it is inappropriate to authorize the recovery through rates of the  
21 annualized costs of the ORAM when that position has not been filled as of the beginning of the  
22 Test Period. THI undertakes to inform the Board of its successful recruitment of an ORAM or of  
23 the procurement of consulting services. If a material reduction in the proposed expenditure is  
24 expected, THI will seek authorization to record any avoided cost in an appropriate deferral  
25 account and to seek disposition of that credit balance in a future application.

26  
27 THI submits that its forecast 2009 TY Board of Director costs are appropriate and are eligible for  
28 recovery through rates (E10/T3/S37/p2). Parties have submitted that THI's Board is  
29 inappropriately large based on the number of customers it serves and that the resulting costs  
30 are too high.

31

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1 Board Staff suggest that the Board's decision on Erie Thames Powerlines Corporation's  
2 ("ETPC") recovery of Board of Director costs is an appropriate precedent. THI disagrees.  
3 ETPC sought to recover \$104k through rates for the costs of its increased Board. ETPC's 2007  
4 costs were \$84.2k; this amount is comparable to the level of costs that THI proposes to recover  
5 through rates in the 2009 TY for its Board of Directors. THI also notes that ETPC's Board was  
6 increased from 7 to 11 members. THI's Board has 9 members, two fewer than ETPC's.

7

8 THI submits that the need for good governance is independent of the number of customers  
9 served, the size of the rate base or the workforce complement. THI submits that its Board  
10 provides good governance and that the costs incurred are not inappropriately high. For these  
11 reasons THI submits that its proposed costs are appropriate for recovery through rates.

12

### 13 **Costs of the New CIS**

14

15 THI submits that the proposed recovery through rates of the costs of the new Customer  
16 Information System ("CIS") is appropriate and that the proposed 4 year amortization period is  
17 not unreasonable because THI is uniquely responsible for the need to replace the former CIS  
18 and the proposed amortization period smoothes the recovery through rates of all eligible costs.  
19 Board staff and intervenors questioned the proposed full recovery of the capital costs from THI,  
20 the appropriateness of applying the MF and the proposed amortization period.

21

22 THI submits that it is appropriate to recover 100% of the capital costs of the new CIS through  
23 distribution rates due to cost causality. THI's evidence is that the new CIS is required because  
24 the vendor of the existing CIS has withdrawn the provision of support for changes to the existing  
25 CIS related to electricity market changes and would have continued supporting the water and  
26 sewer modules (E4/T1/S2/p9). THI submits that the Town's Water and Sewer operations did  
27 not contribute in any way to the need to replace the CIS. THI acknowledges that Water and  
28 Sewer will rely on the new CIS and will share in the associated support costs but that since the  
29 need for a new CIS was completely driven by the withdrawal of support for the electricity  
30 component of the CIS no capital cost recovery from Water and Sewer is proposed. This choice  
31 is premised on the cost causality principle (E10/T4/S25/p2). THI notes that the sharing of  
32 ongoing support costs is consistent with the cost causality principle and reduces the costs

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1 recoverable from THI's customers (E10/T4/S26/p1). However, should the Board see fit to  
2 authorize a sharing of capital costs an appropriate allocator would need to be determined. THI  
3 notes that the drivers relied on to determine the sharing of ongoing support costs are not  
4 appropriate drivers to support the sharing of incurred capital costs. The Water and Sewer billing  
5 could be continued using the existing CIS with no incremental capital cost being required, but  
6 this would adversely impact THI's ratepayers.

7

8 THI notes that if the Town dedicates the existing CIS to Water and Sewer and dedicates the  
9 new CIS to THI that THI's annual costs would increase by at least \$45.2k<sup>3</sup> It is likely that other  
10 costs will be incurred to bill THI ratepayers, such as increased labour costs, and that other  
11 shared costs (eg., data input) and that rather than being shared these will instead become THI's  
12 sole responsibility

13

14 THI submits that it is appropriate to apply the MF to the costs of the new CIS. As stated  
15 previously, the MF contributes to the recovery of indirect costs, the return of and on Town  
16 capital and unidentified costs. The MF has also been structured and applied consistent with the  
17 terms of the MSA that achieves an appropriate risk sharing between the Town and THI. Altering  
18 the application of the MF without addressing the risk sharing of the MSA or the contribution to  
19 the recovery of these costs is inappropriate.

20

21 THI acknowledges that amortizing the proposed costs over 5 years will result in the full recovery  
22 through rates of the costs incurred. Fundamentally, THI considers it inappropriate to apply the  
23 same amortization period to software costs as is applied to hardware costs. THI further notes  
24 that the majority of the CIS capital costs are software related – they achieve the conversion of  
25 the existing data from the existing system to the new system – and are not hardware related;  
26 this was clearly disclosed at E10/T3/S27/p2. THI cannot suggest that the depreciable life of  
27 software is the same as that of hardware – it is generally accepted that software's depreciable  
28 life is much shorter (for example, software's capital cost allowance rate is 100% in the first year  
29 for corporate tax purposes). From a rate making perspective, the proposed 4 year life achieves

---

<sup>3</sup> 100% allocation of Paper and Postage \$31.5k  
100% allocation of CIS Support Costs \$13.7k  
Total \$45.2k

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1 rate smoothing. THI also observes that its proposed 4 year amortization period aligns with the  
2 Board's intended IRM period. For these reasons THI submits that its proposed 4 year  
3 amortization period is appropriate for rate making purposes.

4

5 **2009 EDR costs**

6

7 THI submits that its proposed costs of the subject application are appropriate and should be  
8 recovered through rates.

9

10 Staff and intervenors raised three issues related to the consulting fees, the accuracy of the  
11 costs and the application of the MF.

12

13 THI submits that Board staff's analysis of the incurred costs is reasonable if it had been able to  
14 retain an ORAM it would have incurred lower consulting fees. The level of consulting fees  
15 reflects the amount of time and work required to prepare a rebasing application. Additional fees  
16 were required because of THI's proposed partitioning of the existing General Service 500 –  
17 4,999 kW customer class and because of the numerous updates filed to appropriately reflect  
18 changes in throughput and customer composition, among other things. THI also notes that Erie  
19 Thames Power's 2008 EDR was projected to cost approximately \$210,000. THI submits that in  
20 comparison, the costs of its 2009 EDR application are reasonable.

21

22 THI submits that the projected total costs are appropriate for recovery through rates. Some  
23 parties have argued that because the Board's costs are likely to be less than \$25k that this  
24 provision should be reduced. THI submits that it is more important to evaluate the costs of the  
25 project and observes that its provision for Board costs is expected to be applied to the  
26 unanticipated costs of the supplementary interrogatory process and to the potential for  
27 increased intervenor costs (eg., arising from the updates) (E10/T1/S47/p2). The  
28 appropriateness of applying the MF to 3<sup>rd</sup> party costs is addressed elsewhere in this Reply  
29 Argument.

30

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1 **Overall Cost Increases**

2

3 EP submitted that THI's OM&A cost increases should be limited to 5% annually. THI submits  
4 that it is inappropriate to link cost increases to the size of past OM&A spending. The proposed  
5 level of spending in the Test Period should be evaluated based on the need to incur the cost  
6 and the prudence of the costs incurred. The fact that a utility has prudently managed its costs  
7 and deferred expenditures should not be used to justify a disallowance of the same costs when  
8 they are eventually incurred. THI also notes that after taking inflation into account this rough rule  
9 would permit very few cost increases and if followed slavishly could impair the level of service  
10 provided to customers and risk the safety of its employees. Clearly this is inappropriate and  
11 unacceptable. Finally, if the baseline year's costs were inappropriately low or were kept at an  
12 appropriate level while the shareholder sacrificed achieving a fair return on invested capital – as  
13 is the case for THI - then the proposed level of spending risks being constrained unduly. For all  
14 these reasons THI submits that EP's annual limit of a 5% cost increase proposal should be  
15 rejected.

16

17 In summary, THI submits that it has demonstrated both the need to incur the proposed  
18 incremental OM&A costs and the prudence of these costs. THI submits that the proposed  
19 OM&A is eligible for recovery through rates.

20

21 **PILs**

22

23 All parties accepted THI's PILs methodology.

24

25 THI is not aware that it may be eligible for the apprentice tax credit. THI notes that because it is  
26 a virtual utility the recently hired apprentices are Town employees.

27

28 THI undertakes to re-estimate its 2009 TY PILs expense through the Draft Rate Order for  
29 applicable changes resulting from the Board's Decision and for applicable changes in tax  
30 legislation.

31

32

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1    **Depreciation**

2

3    No party took issue with THI's proposed 2009 TY depreciation expense

4

5    THI undertakes to re-estimate its 2009 depreciation expense through the Draft Rate Order for  
6    applicable changes resulting from the Board's Decision.

7

8

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1 **Disposition of Variance and Deferral Account Balances Through Rate Riders**

2  
3 THI seeks to recover the balances recorded in account 1508 and 1525, as of December 31,  
4 2007, through rate riders. THI also seeks to recover a Lost Revenue Adjustment Mechanism  
5 (“LRAM”) award and a Shared Savings Mechanism (“SSM”) award through a rate rider to be  
6 charged to the residential customer class only. THI proposed rate riders that would operate over  
7 two years and balance the impact on customer’s bills against the desire to collect the amounts  
8 from the customers who originally caused the costs to be incurred. THI does not propose to  
9 dispose of the balances recorded in accounts 1555, 1556, 1565 and 1566 whether any balance  
10 or a nil balance is recorded.

11  
12 THI notes that the appropriate LRAM/SSM rate rider is \$0.0005/kWh and is computed as  
13 follows:

14

15	Proposed LRAM/SSM award	\$52,436
16	Annual Amount Proposed to be Recovered	\$26,218
17	2009 TY Residential kWh	49,583,434
18	LRAM/SSM award per residential kWh	\$0.0005/kWh

19

20 THI provides the detailed calculation of the LRAM/SSM award using Board authorized carrying  
21 charges rather than Board authorized short term debt rates at Appendix A. THI also provides  
22 revised proposed rate riders as follows:

- 23  
24
- 25 • Attachment B.1 provides rate riders that dispose of the balances recorded in account  
26 1508 and 1525, plus carrying charges, over a two year period;
  - 27 • Attachment B.2 provide rate riders that dispose of the balances recorded in all variance  
28 and deferral accounts other than accounts 1555, 1556, 1565 and 1566, plus carrying  
29 charges over a two year period.
- 30

31 THI notes that the rate riders proposed in Attachment B.2 differ from those provided with the  
32 May 15, 2009 Argument in Chief. They are different because a portion of the balance recorded

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1 in account 1590 was disposed of through the rate riders filed with the Argument in Chief while  
2 Attachment B.2 provides rate riders that dispose of the entire balance as of December 31, 2007  
3 plus associated carrying costs up to and including April 30, 2009.

4  
5 Board staff posed several interrogatories on the variance and deferral account balances as of  
6 different dates, and the disposition of different combinations of accounts through rate riders with  
7 varying lives. THI provided the requested information to the best of its ability. THI continues to  
8 strive to balance the impact on customer's bills against the wish to recover the balances from  
9 the customers who originally caused the balances to be incurred.

10  
11 THI confirms that the balances in the table provided in the OEB argument (P 26) includes the  
12 December 31, 2007 balance plus carrying charges to April 30, 2009. THI submits that it is  
13 appropriate for it to be eligible to recover the accrued carrying charges as of the date that the  
14 Board's order is implemented on these balances.

15  
16 THI submits that if the Board finds it appropriate to dispose of the balances recorded in  
17 accounts 1562, 1580, 1582, 1584, 1586 or 1588 that it also authorize disposition of the balance  
18 recorded in account 1590. The balance recorded in account 1590 as of December 31, 2007,  
19 including associated carrying costs, was \$846,234. As the rate rider related to this account  
20 continued in effect until April 2008, the principal was reduced by a further \$161,091, resulting in  
21 a balance recorded in account 1590 as of December 31, 2008, including associated carrying  
22 costs of \$709,227. Adding the associated carrying costs up to and including April 30, 2009 at  
23 the prescribed rates on this account results in a balance of \$713,109. Clearing all these  
24 account balances as of December 31, 2007, with the associated carrying costs and subsequent  
25 1590 collections to April 30, 2009, is expected to result in a negative rate rider that may, all  
26 other things being equal, mitigate the impact of the recovery of the Board authorized gross  
27 revenue deficiency. Computed carrying charges will be revised to align with the implementation  
28 date ordered by the Board.

29  
30 THI notes that the detailed reconciliation of account 2425 that staff seeks will not be necessary  
31 if the stand alone LRAM/SSM rate rider is authorized. This is because the proposed balance to

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1 be disposed of is the LRAM award and the SSM award and the associated carrying costs. To  
2 be clear, no other amounts have been recorded in this account.

3

4 THI continues to prefer to dispose of the account balances over a relatively short period of time,  
5 two years, in an effort to reasonably match the customers who caused the recorded balances  
6 with the customers who receive or remit these balances.

7

8

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1 **Cost of Capital and Capital Structure**

2  
3 THI submits that its cost of capital should be determined using:

- 4
- 5 • the Board approved methodology from the Report of the Board on Cost of Capital and
  - 6 2<sup>nd</sup> Generation Incentive Regulation for Ontario Electricity Distributors dated December
  - 7 20, 2006 (“the Board’s Cost of Capital Report”);
  - 8 • the most current cost of capital parameters (rates) approved by the Board on February
  - 9 24, 2009; and
  - 10 • a deemed capital structure compliant with the Board’s Cost of Capital Report.
- 11

12 Board Staff agreed with THI’s position on cost of capital and confirmed that the proposed capital  
13 structure and rates, including the long-term debt (“LTD”) rate of 7.62%, comply “with the  
14 guidelines documented in the Board Report” (page 30 of Staff’s submission). VECC and EP  
15 proposed an alternative approach to the Board’s updated cost of Long Term Debt. School  
16 Energy Coalition (“SEC”) supported EP’s submission but provided no further justification for its  
17 position. THI contends that the appropriateness of changing the accepted Board methodology  
18 and using an alternative LTD rate was not tested during the hearing and that it should be  
19 rejected.

20 At paragraph 6.2 of its Argument, VECC notes that THI’s August 2008 application proposed a  
21 LTD rate of 6.10%. EP made a similar observation. Both parties’ submissions ignore the fact  
22 that this rate was updated and that as per the Board’s methodology the LTD rate must be  
23 updated concurrently with the other two costs of capital components. Instead of following the  
24 Board’s accepted practice, VECC and EP argue that THI should continue to rely on the  
25 originally proposed 6.10% LTD rate for 2008 and combine that rate with the lower Board  
26 authorized Return on Equity (“ROE”) and a short-term debt (“STD”) rate for 2009. THI contends  
27 that this untested approach is a misrepresentation of its evidence and a misapplication of the  
28 Board’s cost of capital methodology.

29  
30 The approved cost of capital rates in August 2008, when THI filed its application were  
31 considerably different than the 2009 Board approved cost of capital rates currently in place. The  
32 2008 cost of capital was based on ROE at 8.57%, STD at 4.47% and LTD at 6.10%. These

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1 were subsequently updated to ROE at 8.01%, STD at 1.33% and LTD at 7.62% to match the  
2 rates approved by the Board for the 2009 rebasing applications. Since the latter rates reflect  
3 the most current market conditions, THI contends that it is not appropriate to change them  
4 independently as proposed by VECC and EP. Under the Board's methodology, the decline in  
5 the ROE and STD rates from 2008 to 2009 (47 and 314 basis points respectively) was partially  
6 offset by a 152 basis point increase in the LTD rate resulting in a weighted average cost of  
7 capital ("WACC") of 7.54% for all utilities rebasing in 2009 with similar cost of capital  
8 parameters. By advocating a unilateral back-dating of the LTD rate for THI, EP and VECC are  
9 asking the Board to set THI's WACC at 6.74%, 80 basis points lower than it would be under the  
10 Board's approved methodology.

11  
12 THI notes that the Board's policy on cost of capital and capital structure does not explicitly deal  
13 with regulated entities that are 100% equity financed, but agrees with the Board's previous  
14 decision on THI's cost of capital that the appropriate treatment of its 100% affiliate financing  
15 should be based on the deemed capital structure set by the Board and the Board approved  
16 rates as if the utility was funded with affiliate debt and equity. THI submits that the Board's  
17 policy is designed to deal with those situations where a rate regulated utility relies on debt  
18 financing that is not sourced through the competitive market. THI submits that the Board's  
19 policy provides test conditions to establish whether a utility's debt financing can be priced at a  
20 fixed rate approved by the Board for embedded debt, a competitive market rate negotiated for  
21 third party financing, or a default value deemed by the Board to be appropriate for the cost of  
22 debt financed by an affiliate. THI submits that because it is financed 100% by affiliate funds, a  
23 negotiated or embedded rate would not be appropriate and that its cost of capital should be set  
24 using the Board's deemed capital structure and the current default cost of debt.

25  
26 THI submits that there is no evidence to support VECC's and EP's proposed 'commingling' of  
27 2008 and 2009 cost of capital values. THI submits that the proposed LTD rate adjustment is  
28 contrary to the Board's Cost of Capital Report and to the uniform application of the Report in  
29 rate rebasing decisions issued to date. In support of its submission, THI notes that ratepayers  
30 are not adversely impacted by equity financing since under the Board's cost of capital  
31 methodology they pay the same cost of capital and the same amount of PILs that they would  
32 pay if the utility utilized affiliate debt and made interest payments to the Town because the same

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1 deemed capital structure and the same deemed rates would apply. Rather than gaining from  
2 the current arrangement, THI pays more in actual PILs (because there are no interest  
3 payments) than it receives in its revenue requirement (which presumes that interest payments  
4 are made for tax purposes), with no recourse to the variance account. Since there is no  
5 adverse impact on the ratepayer, THI submits that VECC and EP's proposal to reduce THI's  
6 cost of capital by applying a lower LTD rate is not justified or fair.

7  
8 THI respectfully requests that the Board apply its standard cost of capital methodology to THI  
9 using the most recent Board approved rates and its proposed deemed capital structure of  
10 43.33% equity, 4.00% STD and 52.67% LTD. THI notes that EP did not contest THI's deemed  
11 capital structure and, in fact, agreed with Board Staff that THI's deemed capital structure (i.e.,  
12 deemed equity and deemed debt) are in compliance with the Board's Cost of Capital Report (p.  
13 21). VECC did not question the capital structure either. However, both parties used the lack of  
14 actual debt to support their claims that the cost of long term debt should be lower than the  
15 Board's recently determined value. THI could not find anything in the Board's Cost of Capital  
16 Report to indicate that a different rate would be applied to the deemed LTD portion of the capital  
17 structure if the utility was fully financed by equity. THI further notes that its 2006 cost of capital  
18 (which was based on a deemed LTD rate and a deemed capital structure for rate making  
19 purposes when THI was 100% equity financed) was approved by the Board. It is THI's  
20 submission that nothing has changed since that time to warrant the position promoted by VECC  
21 and EP.

22  
23 VECC speculates in section 6.3 of its submission that any relevant evidence that could be  
24 provided would indicate a lower rate. EP makes a similar point at page 24 of its argument  
25 where it compares THI's proposed rate to the LTD rate approved for two other LDCs and the  
26 rate from Infrastructure Ontario. These rates are based on or include third party debt. THI is  
27 fully funded by affiliate financing and therefore it does not have any third party debt.  
28 Consequently, in THI's opinion the appropriate equity and debt costs are the rates set by the  
29 Board's cost of capital methodology. In THI's view it is inappropriate for VECC and EP to  
30 suggest that the posted cost of debt obtained by other utilities under different circumstances is  
31 appropriate for rate making purposes for THI's 100% equity financing. THI's position is that the  
32 Board's methodology and the cost of debt determined through its application are appropriate for

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1 rate making purposes and that the cost of debt from specific debt providers such as  
2 Infrastructure Ontario should not be applied to THI or any other utility using affiliate financing.

3

4 At page 23 of its submission, EP refers to a Hydro One Remotes decision (EB-2008-0232) in  
5 support of EP's position that THI's "deemed long term debt should not have the deemed long  
6 term debt rate applied to it." In the quoted finding, the Board concluded that the deemed LTD  
7 rate is intended to apply where the rates are not market determined, such as affiliate or variable  
8 debt situations. THI submits that its application is distinguishable from HORCI's. In the HORCI  
9 application the Board found that the utility's cost of market placed embedded debt should be  
10 applied to any notional or deemed debt. This would not apply to THI since it has no embedded  
11 debt and no embedded debt rate set at market prices.

12

13 For all these reasons, THI respectfully submits that the Board should continue to use its  
14 approved methodology and apply the most recently authorized cost of capital values when  
15 determining THI's cost of capital eligible for recovery through rates.

16

17

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1 **THI's Proposed 2009 TY Gross Revenue Deficiency**

2

3 THI seeks Board authorization to adjust its distribution rates to recover a Gross Revenue  
 4 Deficiency of \$808k. This amount has been estimated as follows:

5

6	Revenues recovered at current rates	\$2,531 k
7	OM&A	\$2,129 k
8	Depreciation	\$ 491 k
9	Achieved Return on Capital	\$ (89) k

10

11	Rate Base	\$8,714 k
12	Return on Rate Base	(1.02)%
13	Cost of Capital	7.54 %
14	Deficiency	( 8.56)%

15

16	Net Revenue Deficiency	\$ 746k
17	PILs expense	\$ 62k
18	Gross Revenue Deficiency	\$ 808k <sup>4</sup>

19

20

---

<sup>4</sup>

Previously Proposed Gross Revenue Deficiency	\$818 k
Reduction in Labour Expense	\$ 7k
Additional SSC Revenue	\$ (25)k
Reduction in Interest Income	<u>\$ 22 k</u> (April 2009 Update/p9/lines18-20)
Revised Proposed Gross Revenue Deficiency	\$808 k Cost Allocation

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1 **Cost Allocation**

2

3 THI proposed changes to its existing customer classes to deal with issues of heterogeneity and  
4 homogeneity. THI submits that its computed Revenue:Cost ratios based on treating Street  
5 Lighting using the number of connections and using the Board approved Transformer  
6 Ownership Allowance corrections meet the Board's guidelines and therefore are appropriate for  
7 rate making purposes. THI proposes to adjust distribution rates over a two year period to  
8 mitigate the rate impacts while achieving the Board authorized Revenue:Cost ratio ranges. THI  
9 notes that these positions are expected to result in THI's rate being determined in a just and  
10 reasonable manner consistent with the determination of other distributors' rebased rates.

11

12 THI agrees with parties' submissions that Street Lighting should be treated on a connection  
13 basis, that the Board's correction for Transformer Ownership Allowance payments should be  
14 incorporated and that no customer class should experience a Revenue:Cost ratio that diverges  
15 further from the upper or lower limit of the Board authorized range, as is applicable.

16

17 THI takes issue with the following issues raised by parties:

18

- 19 • that 2009 TY charge parameters may be sufficiently different from 2004 charge  
20 parameters that adjustments to base revenue requirement shares are appropriate;
- 21 • that an exception to the two year transition to the Board authorized ranges should be  
22 permitted for a specific customer class to achieve appropriate bill impact mitigation;
- 23 • that some customer class' rates should be adjusted over a period longer than two years  
24 to achieve the ceiling or floor of the Board approved Revenue:Cost ratio range;
- 25 • that different Revenue:Cost ratio adjustments should be made to the residential and  
26 general Service <50 kW customer classes.

27

28 THI has provided summary results of runs of its Cost Allocation Review – Informational Filing  
29 that treat Street Lighting on a connection basis and that incorporate the Transformer Ownership  
30 Allowance correction (E10/T3/S40). THI concurs that setting rates that correctly reflect these  
31 treatments will result in its distribution rates being set on the same methodology as are other

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1 rebased or rebasing LDC's rates. THI notes that the Board has accepted this approach in a  
2 number of recent decisions.

3  
4 THI acknowledges that since DDM announced its decision to idle its Tillsonburg operations  
5 THI's 2009 charge parameters are not as well aligned with its 2004 charge parameters as they  
6 were before the idling. THI submits that it is appropriate to rely on the results of the CAR-IF for  
7 rate making purposes for the reasons set out at E8/T1/S1/p3. THI also observes that it is  
8 unusually exposed to the restructuring of the North American automobile industry. Until that  
9 restructuring is reasonably complete THI will not have access to reliable charge parameter data.  
10 Without that data any changes to the CAR-IF or to Base Revenue Requirement share data will  
11 be premature. THI also notes that concurrent with the automobile industry's restructuring  
12 Ontario's electricity market will undergo further evolution and innovation that may also impact  
13 THI's charge parameters (eg., due to compliance with the Green Energy Act). Finally, THI is  
14 concerned that it may not be cost effective for it to undertake a specific Cost Allocation study or  
15 other study on Base Revenue Requirement shares. THI will follow the Board's evolving  
16 guidance on this issue.

17  
18 THI notes that SEC has argued for a more lenient treatment of the General Service > 50 kW  
19 customer class. SEC's argument is incomplete because it does not address the impact to other  
20 customer classes of this more lenient treatment. THI has not promoted specific rate or bill  
21 mitigation for this or any other customer class out of concerns for the impact to other customer  
22 classes and because THI considers it appropriate to progress to rates that:

- 23
- 24 • recover the ongoing costs incurred to provide distribution service; and
  - 25 • that achieve appropriate Revenue:Cost ratios.
- 26

27 THI notes that both these objectives would be delayed or frustrated by according a specific  
28 customer class a unique treatment as suggested by SEC.

29  
30 For these reasons THI has not proposed to adjust rates so that the ceiling or floor of the Board  
31 approved Revenue:Cost ratio range is achieved over a period longer than two years. THI is  
32 concerned that it is inappropriate to suggest that a customer class that has historically paid

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1 inappropriately low distribution rates should continue to enjoy those low rates and conversely  
2 that the customer class that has paid higher than appropriate distribution rates should continue  
3 to do so. THI anticipates that accurate pricing of distribution service through rates that both  
4 recover the ongoing costs incurred to provide distribution service and permit an opportunity to  
5 earn a fair rate of return as well as achieve a Revenue:Cost ratio within the Board approved  
6 ranges are in the public interest and that such rates will support appropriate decisions with  
7 respect to conservation, demand management and investment in generation.

8  
9 THI accepts the reasonableness of adjusting rates so that the computed Revenue:Cost ratios  
10 are preserved or converge to unity and that they specifically not diverge further from their  
11 current levels. THI's rate making model is sufficiently flexible to support the determination of  
12 rates that achieve this outcome.

13  
14 THI notes that no party opposed its proposed partitioning of its existing GS 500 – 4,999 kW  
15 customer class into 2 classes: a GS 500 – 1,499 kW customer class and a GS > 1,500 kW  
16 customer class. No party supported THI's proposed merging of its Sentinel Lighting and  
17 Unmetered Scattered Load customer classes. THI relied on its Load Forecast for the 2009 TY  
18 estimate of energy consumption by this proposed customer class and proposes that the monthly  
19 service charge be applied on a connection basis. THI continues to seek to merge these  
20 customer classes because these customers require similar services, are considered  
21 homogeneous and to reduce the complexity of THI's rates (E8/T1/S1/p8).

22  
23 In the absence of evidence supporting an alternative approach, THI recommends that the Board  
24 approve the proposed class consolidation.

25  
26 **Rate Design**

27  
28 THI seeks authorization to charge distribution rates that preserve the existing fixed charge and  
29 appropriately adjust the variable charge so that the resulting rates recover the revenue  
30 requirement and a reasonably high proportion of its revenue requirement is recovered through  
31 fixed distribution rates. THI has not proposed changes to any of its Specific Service Charges.

32

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1 Parties took issue with the following aspects of THI's rate design positions:

2

- 3 • THI's inappropriate characterization of the need for additional review as Board's policy;
- 4 • That some customer classes are expected to experience distribution bill impacts greater
- 5 than 10%;
- 6 • That the Board should not allow individual LDCs to establish the appropriate proportion
- 7 of the revenue requirement to be recovered through fixed charges and through variable
- 8 charges.

9

10 THI accepts that the Board has provided guidance on how to establish an appropriate fixed  
11 charge.

12

13 THI notes that some of its customer classes are expected to experience a bill impact greater  
14 than 10%. This is due to the combined effect of the proposed recovery of a gross revenue  
15 deficiency that is approximately 35% of distribution revenues recovered under existing rates and  
16 because of the proposed transition over a two year period from rather low Revenue:Cost ratios  
17 to the floor of the Board approved range. In combination, these adjustments act to increase the  
18 distribution revenue recovered from the proposed General Service > 1,500 kW customer class  
19 by 35% and 65% respectively (under THI's original proposal); assuming that distribution  
20 charges represent 25% of the total bill this is a >10% increase. As noted in the previous  
21 section, THI does not believe that it is just and reasonable for customers who have  
22 inappropriately paid low distribution rates to continue to enjoy lower rates at the expense of  
23 other customers who must continue to pay higher than appropriate distribution rates.

24

25 THI is open to an examination of the merits of a public process that would result in guidance on  
26 the appropriate proportional recoveries through fixed and variable charges. THI is also aware  
27 that the Board recently suspended its distribution rate design initiative and suggest that this  
28 issue be considered as an element of that initiative when it recommences.

29

30

Filed: June 4<sup>th</sup>, 2009

1    **Standby Rate**

2

3    THI notes that the only reference to standby rates are in its Draft Issues List.  THI notes that no  
4    party made submissions on this issue.  THI makes no submission.

5

6    **Smart Meter Rate Adder**

7

8    THI seeks authorization to charge a SMRA of \$1.00/metered-customer/month in 2009.  THI is  
9    actively seeking approval from its Board of Directors to deploy Smart Meters throughout its  
10   service area.

11

12   Parties raised three issues with THI's proposal related to compliance with the Board's Guideline,  
13   conditional approval and the effective date.

14

15   THI submits that until it has successfully obtained Board of Director approval to install Smart  
16   Meters it is inappropriate for THI to file any documentation of its plans.  As the staff recognize in  
17   their submissions, THI has stated consistently that it will file the plan but only after it has been  
18   approved by THI's Board of Directors.  THI confirms its commitment to meeting the Board's  
19   Guideline once it has received Board of Director approval and it sees no reason to require  
20   conditional approval to increase the SMRA to the accepted industry level as proposed by Board  
21   Staff.

22

23   THI completely disagrees with VECC's submission that it is appropriate to tie the effective date  
24   of the Board's Order to the filing of the documentation required under the Board's guideline.  
25   THI notes that this spurious link lacks fairness and is proposed without any consideration of  
26   whether doing so would result in just and reasonable rates.  THI submits that it is inappropriate  
27   and irresponsible for VECC to propose that just and reasonable rates could be delayed for the  
28   sake of filing documents on compliance with a government initiative when there is no evidence  
29   to suggest that THI will not comply – especially when the subject LDC has documented chronic  
30   underearning that has resulted in the its shareholder foregoing a fair return on invested capital.

31

Filed: June 4<sup>th</sup>, 2009

1 THI therefore supports that conditional approval could be granted requiring that THI file the  
2 documentation required by the Board's Guideline.

3

4 **Distribution Loss Factor**

5

6 THI proposes a distribution loss factor of 4.20%. No party took issue with this proposal.

7

8

Filed: June 4<sup>th</sup>, 2009

1 **Interim Rates**

2

3 In its August 2008 application THI requested that the Board authorize its rates on an interim  
4 basis effective May 1, 2009 if necessary. Subsequently, THI sought to have the Board  
5 authorize its proposed rates on an interim basis. The Board did not grant that subsequent  
6 application and issued an order declaring THI's existing rates on an interim basis effective May  
7 1, 2009.

8

9 SEC submitted that the effective date should not be May 1, 2009 but some later date because  
10 the application, in SEC's submission, was effectively 4 months late.

11

12 THI submits that it is inappropriate to make rates effective on any day other than May 1, 2009.  
13 THI filed its application on August 22, 2008. It provided a comprehensive Update on December  
14 15, 2008. The Update was not a delayed submission; it was filed to provide the Board and  
15 intervenors with the most current information on a significant change in circumstances. THI had  
16 no other prudent choice but to inform the Board of this material change. If the Board makes  
17 rates effective as of a date after May 1, 2009 it will penalize THI, continue THI's underearning  
18 and will effectively discourage and disincenent other LDCs from relying on the best available  
19 information to support their rates applications – in short rates will not satisfy the just and  
20 reasonable standard.

21

22 **Recovery of Uncollected Revenues**

23

24 THI has proposed that it recover the uncollected revenue requirement for the period between  
25 May 1, 2009 and when the Board's order is implemented through a rate rider that will operate  
26 over the 12 month period (for example, from November 1, 2009 until October 31, 2010). THI  
27 proposed this approach so that it would be held financially whole and to mitigate bill impacts to  
28 its customers. Please see E10/T2/S32/p2.

29

30

Filed: June 4<sup>th</sup>, 2009

1    **Mitigation**

2

3    In its application, THI proposed to recover variance and deferral account balances over a two  
4    year period as a form of rate mitigation.  THI submits that its cost control of past periods  
5    provided rate mitigation.  In 2009 THI submits that it is in the public interest to authorize the  
6    proposed rates without any rate of bill impact mitigation so that THI's customers have better  
7    information on the costs incurred to provide service and can make sound decisions on energy  
8    issues.

9

10   **Intervenor Costs**

11

12    THI has included a provision for \$31k of intervenor costs in its estimate of the costs of its 2009  
13    EDR application.  THI submits that if the Board authorizes cost awards to intervenors that  
14    exceed this amount that it authorize THI to record any excess in a deferral account that will be  
15    disposed of in a future application.

16

17

18    All of which is respectfully submitted.

19

20    June 4<sup>th</sup>, 2009

Tillsonburg Hydro Inc.  
 Lost Revenue Adjustment Mechanism and Shared Savings Mechanism Claims

**Lost Revenue Adjustment Mechanism**

Program	Savings			Average Monthly Savings			Variable Distribution Rates			Lost Revenue			
	2005	2006	2007	2005	2006	2007	2005	2006	2007	2005	2006	2007	TOTAL
<b>Eligible Programs - 2005</b>													
Program 1 - savings in kWh	119,897	119,897	119,897	9,991.42	9,991.42	9,991.42	0.014	0.0158	0.0159	\$1,119	\$1,822	\$1,902	\$4,844
Years of savings	4												
Benefitting class	Residential												
<b>Eligible Programs - 2006</b>													
Program 1 - savings in kWh		162,151	162,151	0.00	13,512.58	13,512.58	0.014	0.0158	0.0159		\$2,465	\$2,573	\$5,037
Years of savings	4												
Benefitting class	Residential												
Program 2 - savings in kWh		16,397	16,397	0.00	1,366.42	1,366.42	0.014	0.0158	0.0159		\$249	\$260	\$509
Years of savings	4												
Benefitting class	Residential												
Program 3 - savings in kWh		1,039,727	1,039,727	0.00	86,643.92	86,643.92	0.014	0.0158	0.0159		\$15,804	\$16,497	\$32,301
Years of savings	4												
Benefitting class	Residential												
<b>Eligible Programs - 2007</b>													
Program 1 - savings in kWh									0.0159		\$0		\$0
Years of savings	4												
Benefitting class	Residential												
<b>TOTAL</b>	<b>119,897</b>	<b>1,338,172</b>	<b>1,338,172</b>							<b>\$1,119</b>	<b>\$20,340</b>	<b>\$21,232</b>	<b>\$42,692</b>

**Shared Savings Mechanism**

Program	Net Benefits			SSM Factor		
	2005	2006	2007	2005	2006	2007
<b>Eligible Programs - 2005</b>						
Program 1	\$60,332			5%		
Benefitting class	Residential					
<b>Eligible Programs - 2006</b>						
Program 2		\$19,534		5%		
Benefitting class	Residential					
Program 3						
Benefitting class	Residential					
<b>TOTAL</b>	<b>\$60,332</b>	<b>\$19,534</b>				
Carrying Charges	<b>Eligible Amount</b>			<b>Rate</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
	\$4,136	\$21,317	\$21,232	7.25%	4.44%	4.73%

Shared Savings Mechanism			
2005	2006	2007	TOTAL
\$3,017			\$3,017
	\$977		\$977
<b>\$3,017</b>	<b>\$977</b>		<b>\$3,993</b>
\$4,136	\$21,317	\$21,232	\$46,685

Carrying Charges				
2005	2006	2007	2008	April 30 2009
300	946	2,208	1,858	439

TOTAL

<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>April 30 2009</b>
<b>\$4,435</b>	<b>\$22,563</b>	<b>\$24,687</b>	<b>\$51,997</b>	<b>\$52,436</b>

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## C7 Rate Riders

Deferral / Variance Account	Total Recovery Amount	Allocation Basis	Residential	General Service < 50 kW	General Service >50 kW, <500 kW	General Service >500 kW, <5,000 kW
1505-Unrecovered Plant and Regulatory Study Costs						
1508-Other Regulatory Assets	90,204	Distribution Revenue (existing rates)	58,093	15,739	6,451	
1510-Preliminary Survey and Investigation Charges		Distribution Revenue (existing rates)				
1515-Emission Allowance Inventory						
1516-Emission Allowances Withheld						
1518-RCVARetail						
1520-Power Purchase Variance Account						
1525-Miscellaneous Deferred Debits	14,768	Customers / Connections	12,983	1,392	153	
1530-Deferred Losses from Disposition of Utility Plant						
1540-Unamortized Loss on Reacquired Debt						
1545-Development Charge Deposits/ Receivables						
1548-RCVASTR						
1550-LV Variance Account						
1555-Smart Meters Capital Variance Account						
1556-Smart Meters OM&A Variance Account						
1560-Deferred Development Costs						
1562-Deferred Payments in Lieu of Taxes						
1563-Account 1563 - Deferred PILs Contra Account						
1565-Conservation and Demand Management Expenditures and Recoveries						
1566-CDM Contra Account						
1570-Qualifying Transition Costs						
1571-Pre-market Opening Energy Variance						
1572-Extraordinary Event Costs						
1574-Deferred Rate Impact Amounts						
1580-RSVAWMS						
1582-RSVAONE-TIME						
1584-RSVANW						
1586-RSVACN						
1588-RSVAPOWER						
1592-2006 PILs/Taxes Variance						
2425-Other Deferred Credits						

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## C7 Rate Riders

Deferral / Variance Account	Total Recovery Amount	Allocation Basis	Sentinel Lighting	Street Lighting	Unmetered Scattered Load	General Service >500 kW, <1,500 kW
1505-Unrecovered Plant and Regulatory Study Costs						
1508-Other Regulatory Assets	90,204	Distribution Revenue (existing rates)		1,197	727	4,957
1510-Preliminary Survey and Investigation Charges		Distribution Revenue (existing rates)				
1515-Emission Allowance Inventory						
1516-Emission Allowances Withheld						
1518-RCVARetail						
1520-Power Purchase Variance Account						
1525-Miscellaneous Deferred Debits	14,768	Customers / Connections		2	214	17
1530-Deferred Losses from Disposition of Utility Plant						
1540-Unamortized Loss on Reacquired Debt						
1545-Development Charge Deposits/ Receivables						
1548-RCVASTR						
1550-LV Variance Account						
1555-Smart Meters Capital Variance Account						
1556-Smart Meters OM&A Variance Account						
1560-Deferred Development Costs						
1562-Deferred Payments in Lieu of Taxes						
1563-Account 1563 - Deferred PILs Contra Account						
1565-Conservation and Demand Management Expenditures and Recoveries						
1566-CDM Contra Account						
1570-Qualifying Transition Costs						
1571-Pre-market Opening Energy Variance						
1572-Extraordinary Event Costs						
1574-Deferred Rate Impact Amounts						
1580-RSVAWMS						
1582-RSVAONE-TIME						
1584-RSVANW						
1586-RSVACN						
1588-RSVAPOWER						
1592-2006 PILs/Taxes Variance						
2425-Other Deferred Credits						

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## C7 Rate Riders

Deferral / Variance Account	Total Recovery Amount	Allocation Basis	General Service >1,500 kW	General Service > 500 kW, <3,000 kW	General Service >3,000 kW
1505-Unrecovered Plant and Regulatory Study Costs					
1508-Other Regulatory Assets	90,204	Distribution Revenue (existing rates)	3,040		
1510-Preliminary Survey and Investigation Charges		Distribution Revenue (existing rates)			
1515-Emission Allowance Inventory					
1516-Emission Allowances Withheld					
1518-RCVARetail					
1520-Power Purchase Variance Account					
1525-Miscellaneous Deferred Debits	14,768	Customers / Connections	7		
1530-Deferred Losses from Disposition of Utility Plant					
1540-Unamortized Loss on Reacquired Debt					
1545-Development Charge Deposits/ Receivables					
1548-RCVASTR					
1550-LV Variance Account					
1555-Smart Meters Capital Variance Account					
1556-Smart Meters OM&A Variance Account					
1560-Deferred Development Costs					
1562-Deferred Payments in Lieu of Taxes					
1563-Account 1563 - Deferred PILs Contra Account					
1565-Conservation and Demand Management Expenditures and Recoveries					
1566-CDM Contra Account					
1570-Qualifying Transition Costs					
1571-Pre-market Opening Energy Variance					
1572-Extraordinary Event Costs					
1574-Deferred Rate Impact Amounts					
1580-RSVAWMS					
1582-RSVAONE-TIME					
1584-RSVANW					
1586-RSVACN					
1588-RSVAPOWER					
1592-2006 PILs/Taxes Variance					
2425-Other Deferred Credits					

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## C7 Rate Riders

Deferral / Variance Account	Total Recovery Amount	Allocation Basis	Residential	General Service < 50 kW	General Service >50 kW, <500 kW	General Service >500 kW, <5,000 kW
<b>Sub-Total for recovery</b>	<b>104,973</b>		<b>71,076</b>	<b>17,131</b>	<b>6,604</b>	
1590-Recovery of Regulatory Asset Balances (residual)		kWh's				
<b>Total Recoveries Required (2 years)</b>	<b>104,973</b>		<b>71,076</b>	<b>17,131</b>	<b>6,604</b>	
<b>Annual Recovery Amounts</b>	<b>52,486</b>		<b>35,538</b>	<b>8,565</b>	<b>3,302</b>	
Annual Volume			49,583,434	24,428,744	101,127	
<b>Proposed Rate Rider</b> per			<b>\$0.0007</b> kWh	<b>\$0.0004</b> kWh	<b>\$0.0327</b> kW	<b>kW</b>

<sup>1</sup> per sheet C6

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## C7 Rate Riders

Deferral / Variance Account	Total Recovery Amount	Allocation Basis	Sentinel Lighting	Street Lighting	Unmetered Scattered Load	General Service >500 kW, <1,500 kW
<b>Sub-Total for recovery</b>	<b>104,973</b>			1,199	941	4,974
1590-Recovery of Regulatory Asset Balances (residual)		kWh's				
<b>Total Recoveries Required (2 years)</b>	<b>104,973</b>			1,199	941	4,974
<b>Annual Recovery Amounts</b>	<b>52,486</b>			600	471	2,487
Annual Volume				3,783	546,778	53,192
<b>Proposed Rate Rider</b> per				<b>\$0.1585</b> kW	<b>\$0.0009</b> kWh	<b>\$0.0468</b> kW

<sup>1</sup> per sheet C6

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## C7 Rate Riders

Deferral / Variance Account	Total Recovery Amount	Allocation Basis	General Service >1,500 kW	General Service > 500 kW, <3,000 kW	General Service >3,000 kW
<b>Sub-Total for recovery</b>	<b>104,973</b>		<b>3,046</b>		
1590-Recovery of Regulatory Asset Balances (residual)		kWh's			
<b>Total Recoveries Required (2 years)</b>	<b>104,973</b>		<b>3,046</b>		
<b>Annual Recovery Amounts</b>	<b>52,486</b>		<b>1,523</b>		
Annual Volume			88,121		
<b>Proposed Rate Rider</b>			<b>\$0.0173</b>		
per			kW	kW	kW

<sup>1</sup> per sheet C6

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## C7 Rate Riders

Deferral / Variance Account	Total Recovery Amount	Allocation Basis	Residential	General Service < 50 kW	General Service >50 kW, <500 kW	General Service >500 kW, <5,000 kW
Allocators	Data Source	2009 Projection Total	Residential	General Service < 50 kW	General Service >50 kW, <500 kW	General Service >500 kW, <5,000 kW
Customers / Connections	C1	6,759	5,942	637	70	
kWh's	C1	181,711,351	49,583,434	24,428,744	35,624,529	
Distribution Revenue (existing rates)	C4	2,485,244	1,600,529	433,629	177,747	
Distribution Revenue (proposed rates)	F4	3,868,388	1,976,817	582,477	294,861	625,240
Transmission Connection Revenue	C2	811,324	234,428	104,754	160,119	
Approved Recoveries	C5	100.0%	47.5%	10.4%	13.7%	27.6%

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## C7 Rate Riders

Deferral / Variance Account	Total Recovery Amount	Allocation Basis	Sentinel Lighting	Street Lighting	Unmetered Scattered Load	General Service >500 kW, <1,500 kW
Allocators	Data Source	2009 Projection Total	Sentinel Lighting	Street Lighting	Unmetered Scattered Load	General Service >500 kW, <1,500 kW
Customers / Connections	C1	6,759		1	98	8
kWh's	C1	181,711,351		1,310,738	546,778	24,500,614
Distribution Revenue (existing rates)	C4	2,485,244		32,986	20,027	136,572
Distribution Revenue (proposed rates)	F4	3,868,388	3,564	29,666	25,269	142,542
Transmission Connection Revenue	C2	811,324		4,919	2,345	114,716
Approved Recoveries	C5	100.0%	0.1%	0.2%	0.5%	

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## C7 Rate Riders

Deferral / Variance Account	Total Recovery Amount	Allocation Basis	General Service >1,500 kW	General Service > 500 kW, <3,000 kW	General Service >3,000 kW
Allocators	Data Source	2009 Projection Total	General Service >1,500 kW	General Service > 500 kW, <3,000 kW	General Service >3,000 kW
Customers / Connections	C1	6,759	3		
kWh's	C1	181,711,351	45,716,514		
Distribution Revenue (existing rates)	C4	2,485,244	83,754		
Distribution Revenue (proposed rates)	F4	3,868,388	187,953		
Transmission Connection Revenue	C2	811,324	190,045		
Approved Recoveries	C5	100.0%			

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## C7 Rate Riders

Deferral / Variance Account	Total Recovery Amount	Allocation Basis	Residential	General Service < 50 kW	General Service >50 kW, <500 kW	General Service >500 kW, <5,000 kW
1505-Unrecovered Plant and Regulatory Study Costs						
1508-Other Regulatory Assets	90,204	Distribution Revenue (existing rates)	58,093	15,739	6,451	
1510-Preliminary Survey and Investigation Charges		Distribution Revenue (existing rates)				
1515-Emission Allowance Inventory						
1516-Emission Allowances Withheld						
1518-RCVARetail						
1520-Power Purchase Variance Account						
1525-Miscellaneous Deferred Debits	14,768	Customers / Connections	12,983	1,392	153	
1530-Deferred Losses from Disposition of Utility Plant						
1540-Unamortized Loss on Reacquired Debt						
1545-Development Charge Deposits/ Receivables						
1548-RCVASTR						
1550-LV Variance Account						
1555-Smart Meters Capital Variance Account						
1556-Smart Meters OM&A Variance Account						
1560-Deferred Development Costs						
1562-Deferred Payments in Lieu of Taxes	-63,093	Approved Recoveries	-29,970	-6,562	-8,672	
1563-Account 1563 - Deferred PILs Contra Account						
1565-Conservation and Demand Management Expenditures and Recoveries						
1566-CDM Contra Account						
1570-Qualifying Transition Costs						
1571-Pre-market Opening Energy Variance						
1572-Extraordinary Event Costs						
1574-Deferred Rate Impact Amounts						
1580-RSVAWMS	-415,993	kWh's	-113,512	-55,925	-81,555	
1582-RSVAONE-TIME	161	kWh's	44	22	32	
1584-RSVANW	-130,239	kWh's	-35,538	-17,509	-25,533	
1586-RSVACN	-10,262	kWh's	-2,800	-1,380	-2,012	
1588-RSVAPOWER	-469,675	kWh's	-128,160	-63,142	-92,080	
1592-2006 PILs/Taxes Variance						
2425-Other Deferred Credits						

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## C7 Rate Riders

Deferral / Variance Account	Total Recovery Amount	Allocation Basis	Sentinel Lighting	Street Lighting	Unmetered Scattered Load	General Service >500 kW, <1,500 kW
1505-Unrecovered Plant and Regulatory Study Costs						
1508-Other Regulatory Assets	90,204	Distribution Revenue (existing rates)		1,197	727	4,957
1510-Preliminary Survey and Investigation Charges		Distribution Revenue (existing rates)				
1515-Emission Allowance Inventory						
1516-Emission Allowances Withheld						
1518-RCVARetail						
1520-Power Purchase Variance Account						
1525-Miscellaneous Deferred Debits	14,768	Customers / Connections		2	214	17
1530-Deferred Losses from Disposition of Utility Plant						
1540-Unamortized Loss on Reacquired Debt						
1545-Development Charge Deposits/ Receivables						
1548-RCVASTR						
1550-LV Variance Account						
1555-Smart Meters Capital Variance Account						
1556-Smart Meters OM&A Variance Account						
1560-Deferred Development Costs						
1562-Deferred Payments in Lieu of Taxes	-63,093	Approved Recoveries		-132	-335	-6,558
1563-Account 1563 - Deferred PILs Contra Account						
1565-Conservation and Demand Management Expenditures and Recoveries						
1566-CDM Contra Account						
1570-Qualifying Transition Costs						
1571-Pre-market Opening Energy Variance						
1572-Extraordinary Event Costs						
1574-Deferred Rate Impact Amounts						
1580-RSVAWMS	-415,993	kWh's		-3,001	-1,252	-56,089
1582-RSVAONE-TIME	161	kWh's		1	0	22
1584-RSVANW	-130,239	kWh's		-939	-392	-17,560
1586-RSVACN	-10,262	kWh's		-74	-31	-1,384
1588-RSVAPOWER	-469,675	kWh's		-3,388	-1,413	-63,327
1592-2006 PILs/Taxes Variance						
2425-Other Deferred Credits						

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## C7 Rate Riders

Deferral / Variance Account	Total Recovery Amount	Allocation Basis	General Service >1,500 kW	General Service > 500 kW, <3,000 kW	General Service >3,000 kW
1505-Unrecovered Plant and Regulatory Study Costs					
1508-Other Regulatory Assets	90,204	Distribution Revenue (existing rates)	3,040		
1510-Preliminary Survey and Investigation Charges		Distribution Revenue (existing rates)			
1515-Emission Allowance Inventory					
1516-Emission Allowances Withheld					
1518-RCVARetail					
1520-Power Purchase Variance Account					
1525-Miscellaneous Deferred Debits	14,768	Customers / Connections	7		
1530-Deferred Losses from Disposition of Utility Plant					
1540-Unamortized Loss on Reacquired Debt					
1545-Development Charge Deposits/ Receivables					
1548-RCVASTR					
1550-LV Variance Account					
1555-Smart Meters Capital Variance Account					
1556-Smart Meters OM&A Variance Account					
1560-Deferred Development Costs					
1562-Deferred Payments in Lieu of Taxes	-63,093	Approved Recoveries	-10,864		
1563-Account 1563 - Deferred PILs Contra Account					
1565-Conservation and Demand Management Expenditures and Recoveries					
1566-CDM Contra Account					
1570-Qualifying Transition Costs					
1571-Pre-market Opening Energy Variance					
1572-Extraordinary Event Costs					
1574-Deferred Rate Impact Amounts					
1580-RSVAWMS	-415,993	kWh's	-104,659		
1582-RSVAONE-TIME	161	kWh's	40		
1584-RSVANW	-130,239	kWh's	-32,767		
1586-RSVACN	-10,262	kWh's	-2,582		
1588-RSVAPOWER	-469,675	kWh's	-118,165		
1592-2006 PILs/Taxes Variance					
2425-Other Deferred Credits					

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## C7 Rate Riders

Deferral / Variance Account	Total Recovery Amount	Allocation Basis	Residential	General Service < 50 kW	General Service >50 kW, <500 kW	General Service >500 kW, <5,000 kW
<b>Sub-Total for recovery</b>	<b>-984,128</b>		<b>-238,860</b>	<b>-127,365</b>	<b>-203,216</b>	
1590-Recovery of Regulatory Asset Balances (residual)	713,109	kWh's	194,586	95,868	139,805	
<b>Total Recoveries Required (2 years)</b>	<b>-271,019</b>		<b>-44,274</b>	<b>-31,497</b>	<b>-63,411</b>	
<b>Annual Recovery Amounts</b>	<b>-135,509</b>		<b>-22,137</b>	<b>-15,748</b>	<b>-31,706</b>	
Annual Volume			49,583,434	24,428,744	101,127	
<b>Proposed Rate Rider</b>			<b>(\$0.0004)</b>	<b>(\$0.0006)</b>	<b>(\$0.3135)</b>	
per			kWh	kWh	kW	kW

<sup>1</sup> per sheet C6

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## C7 Rate Riders

Deferral / Variance Account	Total Recovery Amount	Allocation Basis	Sentinel Lighting	Street Lighting	Unmetered Scattered Load	General Service >500 kW, <1,500 kW
<b>Sub-Total for recovery</b>	<b>-984,128</b>			-6,333	-2,482	-139,922
1590-Recovery of Regulatory Asset Balances (residual)	713,109	kWh's		5,144	2,146	96,150
<b>Total Recoveries Required (2 years)</b>	<b>-271,019</b>			-1,189	-336	-43,772
<b>Annual Recovery Amounts</b>	<b>-135,509</b>			-595	-168	-21,886
Annual Volume				3,783	546,778	53,192
<b>Proposed Rate Rider</b>				<b>(\$0.1572)</b>	<b>(\$0.0003)</b>	<b>(\$0.4115)</b>
per			kW	kW	kWh	kW

<sup>1</sup> per sheet C6

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## C7 Rate Riders

Deferral / Variance Account	Total Recovery Amount	Allocation Basis	General Service >1,500 kW	General Service > 500 kW, <3,000 kW	General Service >3,000 kW
<b>Sub-Total for recovery</b>	<b>-984,128</b>		<b>-265,949</b>		
1590-Recovery of Regulatory Asset Balances (residual)	713,109	kWh's	179,410		
<b>Total Recoveries Required (2 years)</b>	<b>-271,019</b>		<b>-86,539</b>		
<b>Annual Recovery Amounts</b>	<b>-135,509</b>		<b>-43,270</b>		
Annual Volume			88,121		
<b>Proposed Rate Rider</b>			<b>(\$0.4910)</b>		
per			kW	kW	kW

<sup>1</sup> per sheet C6

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## C7 Rate Riders

Deferral / Variance Account	Total Recovery Amount	Allocation Basis	Residential	General Service < 50 kW	General Service >50 kW, <500 kW	General Service >500 kW, <5,000 kW
Allocators	Data Source	2009 Projection Total	Residential	General Service < 50 kW	General Service >50 kW, <500 kW	General Service >500 kW, <5,000 kW
Customers / Connections	C1	6,759	5,942	637	70	
kWh's	C1	181,711,351	49,583,434	24,428,744	35,624,529	
Distribution Revenue (existing rates)	C4	2,485,244	1,600,529	433,629	177,747	
Distribution Revenue (proposed rates)	F4	3,868,388	1,976,817	582,477	294,861	625,240
Transmission Connection Revenue	C2	811,324	234,428	104,754	160,119	
Approved Recoveries	C5	97.9%	46.5%	10.2%	13.5%	

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## C7 Rate Riders

Deferral / Variance Account	Total Recovery Amount	Allocation Basis	Sentinel Lighting	Street Lighting	Unmetered Scattered Load	General Service >500 kW, <1,500 kW
Allocators	Data Source	2009 Projection Total	Sentinel Lighting	Street Lighting	Unmetered Scattered Load	General Service >500 kW, <1,500 kW
Customers / Connections	C1	6,759		1	98	8
kWh's	C1	181,711,351		1,310,738	546,778	24,500,614
Distribution Revenue (existing rates)	C4	2,485,244		32,986	20,027	136,572
Distribution Revenue (proposed rates)	F4	3,868,388	3,564	29,666	25,269	142,542
Transmission Connection Revenue	C2	811,324		4,919	2,345	114,716
Approved Recoveries	C5	97.9%		0.2%	0.5%	10.2%

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## C7 Rate Riders

Deferral / Variance Account	Total Recovery Amount	Allocation Basis	General Service >1,500 kW	General Service > 500 kW, <3,000 kW	General Service >3,000 kW
Allocators	Data Source	2009 Projection Total	General Service >1,500 kW	General Service > 500 kW, <3,000 kW	General Service >3,000 kW
Customers / Connections	C1	6,759	3		
kWh's	C1	181,711,351	45,716,514		
Distribution Revenue (existing rates)	C4	2,485,244	83,754		
Distribution Revenue (proposed rates)	F4	3,868,388	187,953		
Transmission Connection Revenue	C2	811,324	190,045		
Approved Recoveries	C5	97.9%	16.9%		