

***Greater Sudbury Hydro Inc./
Hydro du Grand Sudbury Inc.***

500 Regent Street / rue Regent, PO Box 250 / CP 250, Sudbury, ON P3E 4P1
Telephone (705)675-7536 Fax (705)671-1413

June 12, 2009

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
Suite 2700
Toronto, ON M4P 1E4

Ontario Energy Board	
FILE No.	<u>EB-2008-0230</u>
EXHIBIT No.	<u>K1.2</u>
DATE	<u>July 23, 2009</u>
08/99	

**Re: Greater Sudbury Hydro Inc.
File #: EB-2008-0230
Procedural Order # 5**

Dear Ms. Walli:

Greater Sudbury Hydro Inc. has filed a comprehensive application of approximately 1,700 pages in support of its proposed 2009 electricity distribution rates. The company believes that the application supports the tenets as set by the Ontario Energy Board of providing a safe and reliable distribution service at a price that is fair to the rate payer. This application underwent the scrutiny of a comprehensive review by board staff and was subjected to two sets of written interrogatories that totaled an additional 500 pages. We also participated in a transcribed hearing in the form of a technical conference held with Board staff and intervenors. At this conference, GSHi was faced with additional questions by way of undertakings which have all been answered. We believe that it is in the best interest of all parties concerned, particularly those of the rate payer who will ultimately be responsible for footing the costs for this process, that the Ontario Energy Board issue its decision on this application without the burden of an oral hearing. We suggest that this proceeding can be completed by way of written submissions, given the minimal bill impacts resulting from this application and the significant amount of material already on record. We understand that the intervenors are filing letters today with respect to the process to be followed in concluding this proceeding and it is our intention to respond to those letters once they have all been received.

At the technical conference, questions were asked relating to various aspects of the application. There are three areas in relation to which we suggest some further clarification may assist the Board. These are the areas of water billing, depreciation and OM&A. The OM&A discussion is specifically related to a question about a difference between OM&A values provided to our Board of Directors in a budget document and the OM&A values in our application.

WATER BILLING: Greater Sudbury Hydro Plus Inc. (GSHPI) entered into a comprehensive service contract with City of Greater Sudbury on April 1, 2004 with a termination date of March 31, 2012 with a provision that the contract may be terminated with a two (2) year notice period. The consolidation of such services was highly endorsed by the Minister of Energy as an opportunity to improve efficiency and save money. Under the Affiliates Relationship Code, Clause 2.3.3 then in effect the transfer price was to be set as follows: "Where a fair market value is not available (fmv was not available in our circumstances) for any product, resource or service, a utility shall charge no less than a cost-based price and shall pay no more than a cost-based price."

We believe that our transfer pricing as reflected in the water billing contract fully complies with the directives and requirements of ARC, as then in effect. Further we feel that it should be reconfirmed that if this contract is terminated and the City of Greater Sudbury pursues a billing alternative that is or may be available to them the net effect is that billing costs for GSHi distribution customers will increase by approximately \$430,000 per year. For further clarification please refer to GSHi's response to VECC's supplementary interrogatory #34. Our invoicing has been stable since the last rebasing in 2006. Our contract stipulates a cost of living adjustment and meter reading costs are passed through.

DEPRECIATION: On page 84 of the technical conference transcript, undertaking No. 7 on line 17 states, "to provide a comparison by category of depreciation rates compared to the OEB guidelines." Depreciation is an accounting process of allocating the cost of a tangible asset to expense in a systematic and rational manner to those periods expected to benefit from the use of the asset. GSHi's depreciation policy is based on Appendix B of the 2006 Electricity Distribution Rate Handbook. This policy was reviewed by GSHi Board of Directors, and found to continue to be appropriate and has been consistently applied (used) by the corporation since incorporation. Our consistent approach and the fact that our cost structure including depreciation has undergone the scrutiny of prior rate applications our position remains that GSHi's depreciation policy is appropriate.

OM&A (BUDGET vs. RATE FILING): On page 104 of the technical conference transcript, line 20, the following question was posed, "How can you say to this Board it costs \$11.9 million and your own board it costs \$10.5 million?"

We wish to clarify this question. As noted, GSHi's Board of Directors was made aware in October 2008 of our proposed rate submission that suggested a 15.3% increase in OM&A costs over the 2008 budget. Please find attached as Exhibit 4 a GSHi Board motion in support of this position.

Our rate application reflects twelve months of revenues and costs on an annualized basis and essentially reflects May 1 through April 30th operations. Our fiscal budget reflects operations from January 1 through to December 31st.

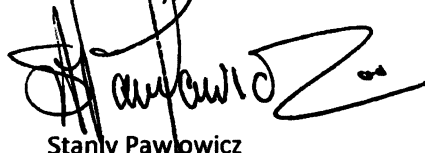
...3/

Our \$11.9 million operating budget is still required. The costs that were submitted are required to effectively run our local distribution company year over year on a go forward basis. Our adjusted submission to our Board merely reflects a deferral of expenditures to match the timing of cash inflows from rates. Essentially, some of those costs submitted in our application to the Board would be deferred until after our rate application is approved. This is merely a time shift of a few months.

Our load profile is such that almost 28% as shown in Exhibit 2 of our revenues occur in the first quarter of the year and 35.8% occur in the first four months. The anticipated start date for new rates is May 1, 2009. A calculation of revenues for the first four months of the year at old rates versus new rates produces a revenue shortfall of \$991,133 (Exhibit 2). Our sensitivity analysis for GSHi's Board of Directors considered various scenarios for timing of approved rates. What was ultimately tabled with our Board was the conservative assumption that rates would be effective July 1, 2009. This two month delay in implementation results in an additional \$424,528 (Exhibit 1) shortfall comparing old rates to new rates. The combined total of revenue shortfall is \$1,415,661 (Exhibit 1).

It would not be prudent for management or practically acceptable to submit a fiscal year budget to our Board that would reflect a net loss of greater than \$1,000,000. Accordingly, it is our position that as a result of timing and operating prudence GSHi was justified in preparing two different budget presentations.

Yours truly,



Stanley Pawlowicz

Vice President – Corporate Services

cc: Mr. Shepherd, SEC
Dr. Higgin, VECC
Ms. Girvan, CCC

Attachments: Exhibit 1
Exhibit 2
Exhibit 3
Exhibit 4

Exhibit 1

Summary of 2009 Distribution Revenues - Combined

	Service Charges	Smart Meters	Distribution Charges	Local Rates	PSA	RAMS/SM	CDM	Total	Total Distn Revenue
Jan	795,004	11,642	1,310,593	11,036	12,145	-	-	2,140,420	2,105,596
Feb	795,004	11,642	1,140,395	9,779	9,579	-	-	1,966,400	1,935,399
Mar	795,004	11,642	1,060,037	9,113	8,521	-	-	1,884,317	1,855,041
Apr	795,004	11,642	896,720	7,741	6,636	-	-	1,717,744	1,691,724
May	919,066	100,545	1,005,918	18,076	-	9,095	55,981	2,108,681	1,924,985
June	919,066	100,545	900,735	16,311	-	7,620	51,095	1,995,372	1,819,802
July	919,066	100,545	967,080	17,428	-	8,439	55,194	2,067,752	1,886,147
Aug	919,066	100,545	903,483	16,440	-	7,815	53,561	2,000,909	1,822,549
Sep	919,066	100,545	906,262	16,531	-	7,802	54,146	2,004,351	1,825,328
Oct	919,066	100,545	965,430	17,347	-	8,839	59,840	2,071,067	1,884,497
Nov	919,066	100,545	1,076,793	19,087	-	10,371	68,342	2,194,204	1,995,859
Dec	921,791	100,545	1,296,929	22,097	-	12,728	86,327	2,440,418	2,218,721
Total:	10,535,272	850,927	12,430,375	180,986	36,882	72,708	484,485	24,591,635	22,965,647

10,535,272
12,430,375
22,965,647

Assumes a May 1, 2009 rate increase

(X) 5,896,036 old rates 1st qtr

(Y) 7,587,760 pre May 1st new rates (1)

from Exhibit 2 Jan-Apr new rates 8,578,893
Jan-Apr old rates (7,587,760) (1)

991,133 (991,133)

from Exhibit 2 May-June new rates 3,744,786
from Exhibit 3 May-June old rates (3,320,258)

424,528 (424,528)

1,415,661 (1,415,661)

2009 Budgeted Revenue:
Less PILs

	Cumulative
Jan	2,105,596
Feb	4,040,996
Mar	5,896,036
Apr	7,587,760
May	9,512,745
June	11,332,547
July	13,218,693
Aug	15,041,242
Sep	16,866,570
Oct	18,751,067
Nov	20,746,926
Dec	22,965,647

Exhibit 2

Summary of 2009 Distribution Revenues - Combined

Service Charge	Smart Meters	Distribution Cost Charge	Low Voltage	RSVA	URAM/SSM	CDM	Total	Total Dist'n Revenue
an	920,060	1,464,037	24,721	-	15,092	94,272	2,618,727	2,384,097
Feb	920,060	1,266,784	22,039	-	12,511	77,449	2,399,388	2,186,845
Mar	920,060	1,175,604	20,574	-	11,343	73,053	2,301,180	2,095,664
Apr	920,060	992,227	17,532	-	9,158	61,582	2,101,104	1,912,287
May	919,066	1,005,918	18,076	-	9,095	55,981	2,108,681	1,924,985
June	919,066	900,735	16,311	-	7,620	51,095	1,995,372	1,819,802
July	919,066	967,080	17,428	-	8,439	55,194	2,067,752	1,886,147
Aug	919,066	903,483	16,440	-	7,815	53,561	2,000,909	1,822,549
Sep	919,066	906,262	16,531	-	7,802	54,146	2,004,351	1,825,328
Oct	919,066	965,430	17,347	-	8,839	59,840	2,071,067	1,884,497
Nov	919,066	1,076,793	19,087	-	10,371	68,342	2,194,204	1,995,859
Dec	919,066	1,288,733	22,097	-	12,728	86,327	2,429,497	2,207,799
Total:	11,032,772	12,913,086	228,183	-	120,813	790,841	26,292,232	23,945,858

Cumulative
Jan
Feb
Mar
Apr
May
June
July
Aug
Sep
Oct
Nov
Dec

qtr 1 6,666,606 27.85%
 qtr 2 5,657,073 23.62%
 qtr 3 5,534,024 23.11%
 qtr 4 6,088,155 25.42%
 23,945,858 100.00%

Rate increase effective January 1, 2009

per rate application
trsf allowance

11,032,772
 12,913,086
 23,945,858
 23,818,357
 132,000
 23,950,357

23,950,356 grossed up for transformer allowance

4,498 difference

(S) assumes new rates quarter 1 6,666,606
 (Y) pre May 1st with new rates \$8,578,893 to Exhibit 1
 (Z) May and June new rates \$3,744,786 to Exhibit 1

Exhibit 3

Summary of 2009 Distribution Revenues - Combined

	Service Charge	Smart Metering	Distribution & Charge	Low Voltage	RS/A	FRAN/SSM	GDM	Total	Total Dist'n Revenue
Jan	795,004	11,642	1,310,593	11,036	11,174	-	-	2,139,448	2,105,596
Feb	795,004	11,642	1,140,395	9,779	8,852	-	-	1,965,673	1,935,399
Mar	795,004	11,642	1,060,037	9,113	7,825	-	-	1,883,621	1,855,041
Apr	795,004	11,642	896,720	7,741	6,004	-	-	1,717,112	1,691,724
May	794,010	11,642	912,384	7,969	5,794	-	411	1,732,211	1,706,394
June	794,010	11,642	819,854	7,167	4,417	-	361	1,637,451	1,613,864
July	919,066	100,545	967,080	17,428	-	8,439	55,194	2,067,752	1,886,147
Aug	919,066	100,545	903,483	16,440	-	7,815	53,561	2,000,909	1,822,549
Sept	919,066	100,545	906,262	16,531	-	7,802	54,146	2,004,351	1,825,328
Oct	919,066	100,545	965,430	17,347	-	8,839	59,840	2,071,067	1,884,497
Nov	919,066	100,545	1,076,793	19,087	-	10,371	68,342	2,194,204	1,995,859
Dec	919,066	100,545	1,288,733	22,097	-	12,728	86,327	2,429,497	2,207,799
Total:	10,282,434	673,121	12,247,763	161,736	44,067	55,993	378,181	23,843,295	22,530,197

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10,282,434
12,247,763
22,530,197

	Cumulative
Jan	2,105,596
Feb	4,040,996
Mar	5,896,036
Apr	7,587,760
May	9,294,154
June	10,908,018
July	12,794,165
Aug	14,616,714
Sept	16,442,042
Oct	18,326,539
Nov	20,322,398
Dec	22,530,197

assumes a July 1, 2009 rate increase

2 May & June old rates 3,320,258 to Exhibit 1

Greater Sudbury Hydro Inc./
Hydro du Grand Sudbury Inc.

MOTION

MOVED BY Ron Vaillancourt No.: 2008-GSHI-1C-09-05
SECONDED BY John Rodriguez Date: October 2, 2008

"THAT the Board of Directors approve a 15.3% increase in Operating, Maintenance and Administrative costs to be included in the 2009 Rate Application."

Carried,

Don Pring