

Innisfil Hydro Distribution Systems Limited
Terms of Reference
VECC Appeal Deferral/Variance Accounts

Background

- A. On July 6, 2009 the Board heard submissions and made its decision (the “Decision”) in respect of two notices of motion filed by the Vulnerable Energy Consumers Coalition (“VECC”) to review and vary two Board Decisions and Orders dated April 6, 2009 and April 17, 2009 (the “Original Decisions”, and each an “Original Decision”) with respect to applications by Innisfil Hydro Distribution Systems Limited (“Innisfil”) and COLLUS Power Corp. (“COLLUS”), respectively, for just and reasonable rates for distribution services effective May 1, 2009. The Board assigned EB 2009-0130 to the motions.
- B. The following are the terms of reference for two separate but related deferral/variance accounts created by Innisfil pursuant to the Decision. Interest carrying charges will apply to the monthly opening balances in both of these accounts at the Board's prescribed interest rate.

Account 2425 – Other Deferred Credits – Interest Rate Differential – VECC Appeal

1. This variance account shall track the difference in distribution rates between those rates provided in Appendix A (being the Innisfil rates effective May 1, 2009 pursuant to the Original Decision) and Appendix B (being the Innisfil rates effective May 1, 2009 revised to reflect the Board's July 6, 2009 Decision) times the actual monthly billing determinants for distribution charges from May 1, 2009 to April 30, 2010. The difference in revenue requirement is \$7,627,198 minus \$7,563,824, totalling \$63,374 and reflecting the 5.08% on a forecast of \$1,869,450 of unissued third party debt.
2. This account shall be treated as a one-time variance account created as a result of the Decision to be settled as part of Innisfil's 2010 3rd GIRM rate filing. The rates provided in Appendix B will be used as the input rates into the 2010 3rd GIRM rate filing.
3. Fixed and Variable rate tables have been attached to show how revised rates are calculated.

Account 2425 – Other Deferred Credits – Hearing Preparation and Support Costs – VECC Appeal

4. In the Decision the Board approved the establishment of a deferral account to track for future recovery, subject to the Board's standard prudence review, any and all incremental cost arising solely as a result of the VECC motion to review the Original Decisions (including, as applicable, any board staff costs or intervenor costs and prudently incurred incremental costs related to Innisfil's participation in the review motion). This account shall be treated as a one-time deferral account created as a result of the Decision to be settled as part of Innisfil's 2010 3rd GIRM rate filing.

**Innisfil Hydro Distribution Systems Limited (“Innisfil”)
Response to Energy Probe (“EP”) Comments
Terms of Reference
VECC Appeal Deferral/Variance Accounts**

August 4, 2009

Question #1

Question:

Both utilities should include a schedule showing the calculation of the resulting reduction in the revenue requirement to verify the figures provided.

Response:

The following table provides the calculation of the resulting reduction in the revenue requirement for Innisfil:

| | | Original Decision | Revised Decision | Difference |
|---|--------------|--|---------------------|------------|
| Forecasted 2009 Long Term Debt | Amount | Rate of Return | | |
| Note payable with the Town of Innisfil | \$2,107,444 | 3.35% | 3.35% | 0.00% |
| Debentures with the Town of Innisfil | \$5,032,000 | 9.75% | 9.75% | 0.00% |
| Bank Loan with Infrastructure Ont | \$1,869,450 | 7.62% | 5.08% | (2.54%) |
| Total | \$9,008,894 | 7.81% | 7.28% | (0.53%) |
| | | | | |
| Approved Rate Base | \$22,869,990 | | | |
| Deemed Long Term Debt Component at 52.67% | \$12,045,624 | Return on Deemed Long Term Debt Component of Rate Base | | |
| | | \$940,750 | \$877,376 | (\$63,374) |

Question #2

Reference: Paragraph 4 in the Terms of Reference

Question:

I would suggest changing the wording "any and all cost arising as a result of the VECC motion" to "any and all incremental cost arising solely as a result of the VECC motion".

Response:

Innisfil finds this wording change acceptable, provided the incremental costs prudently incurred by Innisfil to participate in the motion continues to be eligible for recovery. The Terms of Reference accompanying this response have been revised as applicable.

Question #3

Question:

For COLLUS, which made changes to both the fixed and variable charges (which is appropriate), verification from COLLUS that it used the same percentages for cost allocation purposes in determining the new rates in Appendix B as were used to determine the original rates in Appendix A.

Response:

Innisfil declines to comment on this matter as it relates strictly to COLLUS.

Question #4

Question:

For Innisfil, which only made changes to the variable charges (which is not appropriate), should follow the methodology used by COLLUS (i.e. changes to both the fixed and variable charges) and that verification should be provided that it used the same percentages for cost allocation purposes in determining the new rates in Appendix B as were used to determine the original rates in Appendix A.

Response:

Innisfil Hydro confirms it used the same percentages for cost allocation purposes in determining the new rates in Appendix B as were used to determine the original rates in Appendix A.

With respect to service charges, in its application, Innisfil proposed to change the current fixed/variable proportion from 57:43 to 50:50. Innisfil stated that it is appropriate for 2009 to shift the weighting of fixed vs. variable to increase the variable proportion to be aligned with the conservation movement.

Board Findings

The Board notes Innisfil's intentions to assist conservation as well as the limited comment from intervenors on monthly fixed charges. It is the Board's view that both fixed/variable proportions of 57:43 and 50:50 are acceptable, and that the proportion is within the utility's discretion. The Board therefore approves the Applicant's proposal.

The tables attached on the following page represent the fixed and variable rates for 2008, 2009 Cost of Service application, the Board's decision and Innisfil's proposed rates reflecting the Decision on VECC's motion.

From the Board's Decision it is Innisfil's view that the Board allowed Innisfil Hydro some level of discretion as long as the resulting overall fixed/variable proportions fell between 57:43 and 50:50. The overall fixed/variable split from the original decision was 50.5% fixed and 49.5% variable. The overall fixed/variable split from the decision resulting from the VECC motion is 50.9% fixed and 49.1%. Both results are within the range approved by the Board. In addition, for Residential and General Service < 50 kW classes, Innisfil has lowered the monthly service charges from 2008 values when the approved 2009 revenue assigned to these classes increased. For the General Service > 50 kW class the monthly service has been maintain at the 2008 level. In any case, if the original decision had reflected the outcome of the VECC motion decision, Innisfil would have set the service charges as outlined in the table below in accordance with the Decision of the Board on the allowed fixed/variable split.

| 2008 Distribution Rates (excluding smart meter rider) | Fixed | Variable | |
|---|--------------|-----------------|------------------------|
| Residential | 19.24 | 0.0140 | |
| GS<50 | 36.49 | 0.0107 | |
| GS>50 | 359.80 | 2.8045 | |
| Street Lights | 0.67 | 4.3696 | |
| Sentinel Lights | 1.34 | 6.6447 | |
| USL | 18.25 | 0.0106 | |
| | | | |
| | | | |
| 2009 Cost of Service Rates (excluding smart meter rider & LV) | Fixed | Variable | |
| Residential | 19.24 | 0.0196 | |
| GS<50 | 34.00 | 0.0101 | |
| GS>50 | 359.80 | 3.4070 | |
| Street Lights | 3.00 | 21.9540 | |
| Sentinel Lights | 4.50 | 22.1992 | |
| USL | 23.24 | 0.0413 | |
| | | | |
| | | | |
| 2009 Board Decision (excluding smart meter rider & LV) | Fixed | Variable | |
| Residential | 19.00 | 0.0189 | |
| GS<50 | 33.00 | 0.0099 | |
| GS>50 | 359.80 | 3.4063 | |
| Street Lights | 3.00 | 21.2512 | |
| Sentinel Lights | 4.50 | 21.0781 | |
| USL | 23.24 | 0.0402 | |
| | | | |
| | | | |
| 2009 Board Decision reflecting motion (excluding smart meter rider & LV) | Fixed | Variable | Variable change |
| Residential | 19.00 | 0.0186 | (0.0003) |
| GS<50 | 33.00 | 0.0098 | (0.0001) |
| GS>50 | 359.80 | 3.3384 | (0.0679) |
| Street Lights | 3.00 | 20.7772 | (0.4740) |
| Sentinel Lights | 4.50 | 20.4954 | (0.5827) |
| USL | 23.24 | 0.0392 | (0.0010) |

**Innisfil Hydro Distribution Systems Limited (“Innisfil”)
Response to Vulnerable Energy Consumers Coalition (“VECC”) Comments
Terms of Reference
VECC Appeal Deferral/Variance Accounts**

August 4, 2009

Question #1

Question:

The company should include the details of the calculation of the reduction in revenue requirement.

Response:

Please review our response to Question #1 of Energy Probe’s Comments.

Question #2

Question:

Innisfil calculated the fixed/variable split for each customer class by maintaining the fixed charge as approved by the Board and reducing the variable charge. This approach is not consistent with its original application and the Board's approval both of which established the split based on a proposed/approved percentage of the costs for each class being fixed. The "new" rates should be calculated using the same fixed/variable %'s for each class as in the final approved rate order.

Response:

Please review our response to Question #4 of Energy Probe's Comments.

Question #3

Question:

The wording for Account 2425 – Hearing Preparation and Support Costs should be revised to clarify that it's only incremental costs incurred that qualify. We suggest revising the first sentence to read as follows:

In the Decision the Board approved the establishment of a deferral account to track for future recovery, subject to the Board's standard prudence review, any and all incremental costs arising solely as a result of the VECC motion to review the Original Decisions (including, as applicable, any board staff costs or intervenor costs).

Response:

Innisfil finds this wording change acceptable, provided the incremental costs prudently incurred by Innisfil to participate in the motion continue to be eligible for recovery. Specifically, we accept the following:

In the Decision the Board approved the establishment of a deferral account to track for future recovery, subject to the Board's standard prudence review, any and all incremental cost arising solely as a result of the VECC motion to review the Original Decisions (including, as applicable, any board staff costs or intervenor costs and prudently incurred incremental costs related to Innisfil's participation in the review motion).

The Terms of Reference accompanying this response have been revised as applicable.

**Innisfil Hydro Distribution Systems Limited (“Innisfil”)
Response to Board Staff (“Staff”) Comments
Terms of Reference
VECC Appeal Deferral/Variance Accounts**

August 4, 2009

Question #1

Question:

Staff is in general agreement with the comments of intervenors on the draft terms of reference for both the COLLUS and Innisfil matters. In particular, staff agrees that the details of the calculations should be shown and that the charge determination methodologies used should be consistent with those of the Decisions. Board staff also agrees with the proposed changes in wording related to the descriptions of the accounts.

Response:

Please review our responses to the Energy Probe and VECC Comments.

Question #2

Question:

In addition, it is staff's view that that the Interest Rate Differential account should be characterized as a variance account rather than a deferral account, since it is tracking a Board approved variance in recoverable debt costs. It is staff's view that a deferral account would be used to track a cost or revenue until a future date for possible recovery from ratepayers, as is the case with the hearing preparation and support costs. Staff would also be of the view that interest carrying charges would apply at the Board prescribed interest rate on the monthly opening balances in both these accounts. The wording in the terms of reference should reflect these factors.

Response:

Innisfil finds this change acceptable. The Terms of Reference accompanying this response have been revised as applicable.

Question #3

Question:

Finally, it is staff's view that once the draft terms of reference are formally submitted to the Board, it will be necessary that an order of the Board be issued containing the approved May 1, 2010 rate schedules for use in the respective distributors' 3GIRM applications, as well as the approved wording for the establishment of the relevant deferral and variance accounts.

Response:

Innisfil agrees with this approach.

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