ONTARIO ENERGY BOARD

STAFF SUBMISSION

2009 ELECTRICITY DISTRIBUTION RATES

GREATER SUDBURY HYDRO INC. (“Greater Sudbury”)

EB-2008-0230

September 10, 2009

Introduction

Greater Sudbury Hydro Inc. (“Greater Sudbury” or the “Applicant”) is owned by Greater Sudbury Utilities Ltd. which is in turn owned by the City of Greater Sudbury. Greater Sudbury filed its 2009 rebasing Application on December 22, 2008. Greater Sudbury serves approximately 41,700 Residential customers, 4,000 smaller General Service customers and 550 larger General Service customers in the municipalities of Greater Sudbury and West Nipissing.

Greater Sudbury acquired West Nipissing in 2008. This is the first rate application for the joined utilities. West Nipissing had approximately 3,200 customers and net fixed assets of $1.6 million, about 2.3% of the net fixed assets of Greater Sudbury.

In Procedural Order No. 6, the Board decided to hold an oral hearing on a limited number of issues. The Board held a two day oral hearing on July 23 and 24, 2009. As per Procedural Order No. 7, the Board sought submissions from Board staff and parties after the Applicant filed its Argument-in-Chief.

The following issues are addressed in these submissions:

- Load and Revenue Forecast
- Other Distribution Revenue
- Rate Base and Capital Expenditures
- Cost of Capital and Capital Structure
- Operating, Maintenance & Administrative Expenses
- Cost Allocation
- Rate Design (Monthly Fixed Charges, Unmetered Scattered Load, Low Voltage rates, Retail Transmission Service Rates)
- Deferral and Variance Accounts

These submissions reflect observations and concerns which arise from Board staff’s review of the pre-filed evidence, proceedings from the oral hearing, interrogatory and undertaking responses (“IRs”) as well as the Applicant’s Argument-in-Chief. The submission is intended to assist the Board in evaluating Greater Sudbury’s application and in setting just and reasonable rates.

Load and Revenue Forecast

Background

The Applicant discussed the development of its customer/connection count forecast and load forecast in Exhibit 3 of its December 22, 2008 filing. It determined the 2008 Bridge Year and 2009 Test Year customer/connection count by class by utilizing historical data. It also determined the kWh forecast and the kW forecast for appropriate classes by customer class and presented variance analyses in support of the forecasts.

The Applicant provided additional information in response to two rounds of Board staff and Vulnerable Energy Consumers Coalition ("VECC") interrogatories. Further load forecasting information was provided at the June 2, 2009 technical conference and on July 24, 2009 at the oral hearing.

Discussion and Submission

<u>Methodology and Model</u>

The forecast for the number of customers/connections by rate class was determined using time-series analysis. The weather-normalized load forecast was developed in a four-step process. First, a total system weather-normalized *purchased* energy forecast was developed based on a multifactor regression model that incorporated historical load, weather, economic data, population and calendar factors. Second, Conservation and Demand Management ("CDM") adjustments were made to the 2008 and 2009 purchased energy forecasts. Third, the weather-normalized CDM-adjusted purchased energy forecast was adjusted by an historical loss factor to produce a weather-normalized *billed* energy forecast. Finally, the forecast of *billed energy by rate class* was developed based on a forecast of customer/connection numbers and their historical usage patterns. For each of the rate classes with weather-sensitive load, forecasted billed energy was adjusted to ensure that the total of the billed energy forecast by rate class was equivalent to the previously-obtained total weather-normalized billed energy. For those rate classes that use kW for the distribution volumetric billing determinant, the kWh forecast was modified by applying a conversion factor to the class energy forecast based on the historical relationship between kW and kWh.

Results

The customer/connection count historical growth was 0.3% per annum which is the same value as the forecast. The 2009 forecasted customer/connection count is 56,751. The kWh historical growth was 0.8% per annum which is also the same value as the forecast. The 2009 forecasted load is 973.5 GWh.

Analysis

While the Applicant's methodology is a conventional load forecasting approach, Board staff submits that the resulting forecast is problematic. The evidence initially suggested that there is a data integrity issue. However, it is Board staff's contention that the real issue is that the Applicant's forecasting model is fundamentally flawed as is demonstrated below.

In its pre-filed evidence, the Applicant used out-of-date economic data and knowingly excluded more up-to-date data. Specifically, the Ontario real Gross Domestic Product ("GDP") monthly index[1] that was used to produce the filed forecast is the *precise* index value used by Toronto Hydro in its *2007* application (at time of filing, Greater Sudbury's economic data were some 18 months old).

In Board staff interrogatory #12, the Applicant was asked why it had used an out-of-date economic forecast instead of more current data. The Applicant explained: "Before the application was filed, Greater Sudbury reviewed the option of using the updated Ontario real GDP values in the forecast but it produced a higher forecast for 2009 than the original forecast." The alternate forecast provided in response to the interrogatory was 1.8% higher than the filed forecast.

Later, in response to Board staff supplemental interrogatory #2, the Applicant provided a further alternative forecast using still more up-to-date data. This forecast (1,002.2 GWh), is 2.9% higher than the original forecast. The Applicant stated in the interrogatory response that it was continuing to rely on the original forecast for its rate application.

On page 8 of the June 2, 2009 Technical Conference transcript and on page 139 of the July 24, 2009 oral hearing transcript, the Applicant continued to express its confidence in its original forecast despite the identified shortcomings. That is, the Applicant expressed confidence in the model's forecasting accuracy using out-of-

[1] Exhibit 3, Tab 2, Schedule 1, page 6, lines 16 and 17

date data but did not have confidence with the same model using current data from the same source.

At the centre of this apparently contradictory contention is the multiple regression model developed by the Applicant. Specifically, the developed model includes a negative correlation between economic activity and load (Exhibit 3, Tab 2, Schedule 1, page 6, line 4). Thus, using Greater Sudbury's model (with its negative economic/load correlation) and current economic data (with decreasing activity due to the current global economic slowdown), a *higher* load forecast was produced which in Board staff's opinion is not a logical outcome.

In the July 24, 2009 oral hearing, page 137, Greater Sudbury noted that the negative correlation was an automatic outcome of running the multiple regression analysis and was brought about by a "roller coaster effect" where increases and decreases in load were experienced in successive years. The Applicant further explained how the negative correlation may be related to employment at the local mines. The Applicant continued: "What this means when you do a regression analysis, there is an underlying decline in your forecast.[2]" However, Board staff notes that the explanation and postulated decline are *not supported* by historical data. As shown in the pre-filed evidence (Exhibit 3, Tab 2, Schedule 1, Page 1, Table 1), from 2002 to 2007, the load has *increased* at an average 0.8% per annum.

Board staff submits that the kWh result obtained through the Applicant's load forecasting analysis is totally inconsistent with the data. Board staff also submits that the results of all statistical analyses should be verified by actual data. Where a sophisticated technique produces a result that does not align with reality, an alternative – perhaps more basic technique such as the Average Use methodology could be used.

In Undertaking J2.10 of the oral hearing, Greater Sudbury acknowledged that it had included a greater reduction in its forecast due to future CDM activities than can be supported by the data. The kWh reduction is not specified.

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[2] Testimony of Mr. Bruce Bacon on behalf of Greater Sudbury Hydro at oral hearing – Transcript, July 24, 2009, page 137

In response to Board staff interrogatory #9, Greater Sudbury further noted that it had made an error in the Heating Degree Days (HDD) and Cooling Degree Days (CDD) values; the corrected forecast was 0.4% lower but the Applicant proposed to maintain the higher forecast as a rate mitigation strategy.

In the same interrogatory, the Applicant showed that the effect of using a 10-year period as the definition for normal weather –rather than the conventional 30-year period – was to lower its load forecast by approximately 1%. In recent rate applications, reducing the period for defining normal weather from 30-years to 10-years has had the effect of *increasing* the load forecast slightly rather than, as here, lowering the load forecast. Greater Sudbury did not provide an explanation for this abnormality.

Board staff submits that because of the model's negative correlation and the out-of-date data used in the model, no confidence can be placed in the forecasting method used and the subsequent forecast developed. Moreover, despite the proposed mitigation resulting from the HDD/CDD error, the CDM assumption and definition of normal weather have put further downward pressure on the load forecast.

In spite of this lack of confidence in the forecasting process employed, Board staff notes that the Applicant's forecast shows the same 0.8% per annum increase as that actually experienced in the 2002 to 2007 period. Considering the composition of the Applicant's customer base and the current economic situation, the Applicant's kWh forecast does not appear to be understated. Hence, despite Board staff's already-noted major reservations and solely to assist the Board in its selection of an appropriate load forecast for setting 2009 rates, Board staff recommends that the Board accept Greater Sudbury's 2009 forecasted customer/connection count of 56,751 and its 2009 forecasted load of 973.5 GWh. Board staff recommends, however, that for future rate applications the Board urge the Applicant to prepare and file a load forecast that is supported by both historical load data and the most currently-available economic data.

Other Distribution Revenue

Background

Greater Sudbury projected its revenue offset at $1,697,880[3]. In its Argument-in-Chief, Greater Sudbury acknowledges that a reduction of $50,000 is warranted, which is the forecast amount of Retail Settlement Variance Accounts ("RSVA") carrying charges[4]. A detailed description of the original projection has been provided in response to Undertaking J2.14, and the revised projection in response to Undertaking J2.16.

Most components of Miscellaneous Income have been estimated by averaging three years of actual data for the respective accounts. However, an exception is Account 4405 Interest Earned, for which the three year average is $499,421, and the 2008 reforecast is $386,672, but the forecast for 2009 is $165,000.

One component of Account 4405 is "intercompany interest". The amount projected is $93,212[5], which is the three-year average of 2006 and 2007 actual amounts and 2008 "reforecast". The reforecast 2008 amount its self is $161,824. An earlier forecast, provided in May 2009 in response to the Consumers Council of Canada ("CCC") supplementary interrogatory # 3, was $179,174.

Discussion and Submission

Board staff agrees with the proposed reduction of $50,000 in the Revenue Offset, and submits that the Board's established approach to interest income of this nature is to deal with it along with the variance and deferral accounts when calculating regulatory asset rate riders.

Board staff agrees with Greater Sudbury's method of forecasting most of the components of Miscellaneous Income, based on a three year average of actual amounts. Staff is not aware of why column C in Undertaking J2.14 is labelled "2008 Reforecast", as it was submitted nearly eight months after the end of the year, but notes that most of the items are in line with the actual amounts of the previous years.

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[3] Exhibit 9 / Tab 1 / Schedule 1 / Table 1(a)
[4] Greater Sudbury Argument-in-Chief August 31, 2009, page 10
[5] Undertaking J2.14 Note 5

Staff noted above that the forecast of Account 4405 Interest Earned is far lower than recent experience, whether the three-year average or the most recent year. An item in Exhibit J2.14 (marked as “note # 7”) is $165,000, and is apparently intended to be a forecast of the sub-account “Interest Earned” within account 4405. The column is labelled as the average of the three previous years, but in fact the average of the three previous years is $499,421. The discrepancy is offset partially by a new component in the forecast, Account 4390 Miscellaneous Non-operating Income, projected at $187,236. Staff submits that Greater Sudbury should revise its Miscellaneous Income upward (including the non-operating item) to better reflect its experience in recent years which has been nearly $500,000 per year. Alternatively, Greater Sudbury should provide in its Reply Submission some reassurance to the Board that the combined projection of approximately $250,000 ($165,000 in Interest Earned + $187,236 in account 4390) is a more accurate forecast than would be obtained from the average of recent years or even the 2008 experience alone.

Board staff also submits that the simple three-year average may not be most accurate means of projecting Account 4405 Intercompany Interest. As noted above, the three-year average is $93,212 because the amount in 2006 was quite low, but two “forecasts” of 2008 alone are some $70,000 - $85,000 higher. Staff submits that Greater Sudbury should revise its Miscellaneous Income upward to better reflect its experience in recent years, or alternatively to provide in its Reply Submission some reassurance to the Board that the projected amount is an accurate projection of Greater Sudbury’s dealings with its affiliates.

Rate Base

Greater Sudbury Hydro Inc. is requesting approval of $77.5 million for the 2009 rate base. This amount is a 5.0% increase ($3,688,970) from the Applicant’s 2007 actuals and an 8.0% increase ($5,741,786) from its 2006 actuals[6].

Capital Expenditures

Background

In the Application, Greater Sudbury had proposed 2009 capital expenditures of $10,868,524. However, in its Argument-in-Chief, this number has been revised to

[6] Revised Exhibit 2/Tab 1/Schedule 2 – Page 1

$10,549,192. This represents an increase of approximately 69% compared to the 2008 projected level of $6,247,968 and a 118% increase over 2007 actual capital expenditures of $4,832,251.

Discussion and Submission

Table 1 lists the percentage change of the capital expenditures from the 2007 actual to the 2009 Test year.

Table 1[7]

	2007 Actual	2008 Bridge	2009 Test
Capital Expenditures	$4,832,251	$6,247,968	$10,549,192
% change as compared to the prior year		29.3%	68.8%

In its Application and at the hearing, Greater Sudbury expressed concern about its level of capital expenditure and its ability to maintain the integrity of its distribution system under its current capital spending program.

In its Application, Greater Sudbury referred to years of inadequate investment resulting in backlogs of capital projects and emphasized the need to “ramp up” its capital expenditures. According to an independent review of Greater Sudbury’s Capital Spending Plan[8] by METSCO Inc., Greater Sudbury will need to ramp up its capital investments into asset renewal and replacement to a level of approximately $11 million annually, for the next 10 years.

The Company has therefore proposed capital expenditures of $10.4 million in 2009, up from $5.7 million in 2006, an increase of 122%. The budgeted amount for 2009 is 66% higher than 2008’s capital budget ($6.2 million).

The Company has provided detailed information on each material expenditure. Some of the key expenditures for 2009 include:

a) Major repairs to substations - $ 750,716
b) Land for Centennial Relocation - $ 400,000
c) SCADA miscellaneous upgrades - $ 393,000
d) Hillsdale Lakeview Rebuild - $ 610,000

[7] Based on Exhibit 2/Tab 3/Schedule 2
[8] METSCO critique of Capital Asset Management Report, Exhibit 2, Tab 1, Schedule 1, Appendix B

e) Vehicles - $ 613,000
f) ERP Software - $540,000
g) Porcelain Insulator Replacement - $ 604,000
h) 44 kV Tie between 28M4 and 9M4 - $ 725,000
i) SAP Billing Software - $ 2,100,000

Two major IT projects during the Test Year include the new Customer Information System and the Enterprise Resource Planning software. Greater Sudbury acquired the Advanced Utility System (AUS) Customer Information System (CIS) in 2002. In June 2006 Harris Computer Systems ("Harris") purchased AUS. On January 31, 2007, Harris announced that they would be discontinuing the AUS CIS solution in Ontario, effective December 31, 2008.

Some of the utilities impacted by Harris's decision to discontinue supporting AUS CIS formed a group known as CODAC to explore alternatives and to procure the best CIS solution at the most competitive price. In March 2007 a Request for Proposal (RFP) was issued to all known CIS vendors active in the Ontario market.

On September 13, 2007 all current members of the Group signed a Memorandum of Understanding with SAP as the provider of the group CIS solution. Greater Sudbury and other utilities entered into a hosting agreement with London Hydro whereby the hardware required for the new system was owned and managed by London Hydro while the license to operate the SAP module is owned by the individual utilities. As part of this arrangement Greater Sudbury pays an annual hosting fee to London Hydro. In its Application, Greater Sudbury is seeking $2.1 million in capital costs for this initiative which includes access to software, licensing and other costs.

According to Greater Sudbury's evidence, the new system will not only benefit Greater Sudbury ratepayers but also the City that pays for water billing services to the utility. Under the current arrangement, the City pays Greater Sudbury a flat fee adjusted for inflation plus the directly attributable water meter reading costs. Greater Sudbury also sends water bills to a number of customers who are not the customers of the electric utility. Greater Sudbury's evidence is that the City will not, however, be contributing any monies towards the acquisition cost of the new CIS system. Board staff is concerned that Greater Sudbury Hydro ratepayers are bearing a disproportionate burden of the system acquisition costs. It is a generally accepted regulatory practice that customers share the cost of facilities over their useful life and that there are no free riders. It is clear that water customers will receive a benefit as a result of the implementation of the new CIS system and should therefore contribute towards the acquisition of the system.

Board staff submits that only a portion of the $2.1 million should be allocated to Greater Sudbury electricity ratepayers. At the oral hearing, the Applicant confirmed that roughly the same number of customers receive water and/or electricity bills.[9] Considering that calculating electricity bills is more complicated than calculating water bills, Board staff submits that Greater Sudbury electricity ratepayers should bear a higher proportion of the CIS system costs.

In response to Undertaking J2.7 Greater Sudbury calculated the total water billing costs borne by the City divided by the utility's total Operating, Maintenance and Administration costs associated with billing. This is similar to what Tilsonburg Hydro Inc. ("Tilsonburg") used as an allocation methodology in its rate case (EB-2008-0246) to determine ongoing support costs and the proportion which the Board later used in its decision to allocate the purchase costs of Tilsonburg's new CIS system. Greater Sudbury came up with a 20% ratio as compared to Tilsonburg's 28.3%. Although Greater Sudbury responded to the Undertaking, it did not support this basis for allocating costs to the City. Greater Sudbury argued that the principle of causality should be given primacy and the City should not be committed to contribute towards the capital costs of the CIS system.

Board staff submits that the 20% ratio seems low and the reason for this could be that the water billing costs borne by the City of Greater Sudbury are not attributed on a fully allocated basis. Moreover, in Tilsonburg's case, the City adds another 5% as a management fee. In the absence of a reasonable cost allocation methodology, the 20% ratio could be used as the starting point with an additional 5% to come up to 21.04% ($729,678 + 36,484[10] = $766,162 divided by $3,642,204[11] = 21.04%). This works out to $441,840. Using the above methodology, Board staff submits that Greater Sudbury should be permitted to recover the reduced amount of $1,658,160 from electricity ratepayers.

Capital Expenditures booked to rate base in 2008 and 2009

At the oral hearing, Greater Sudbury was asked to provide a list of projects and costs for 2008 and 2009 that were booked to rate base but were not "used and

[9] Volume 1 Transcript, Pg.145
[10] 5% of $729,678
[11] Greater Sudbury's total Operating, Maintenance and Administration costs associated with billing

useful". In response to Undertaking J1.2 and J1.3, Greater Sudbury provided a list of projects and costs that show an estimated amount of $293,906 booked to rate base in 2008 and an amount of $2,162,992 booked to rate base in 2009 that were either not used and useful or not expected to be used and useful.

Greater Sudbury submitted that they should receive approval of spending the $2.16 million in 2009 because such a delay in timing was normal when dealing with a backlog of aging infrastructure and because priorities need to be changed at times to deal with unforeseen safety hazards or legacy related job planning problems. Greater Sudbury submitted that it must increase the level of spending on plant renewal.

The Board's conventional practice is that capital expenditures should be booked to rate base when they are in service and used and useful. Similarly, rate base for a test year should only include capital expenditures for projects that will be placed in service during the test year. Otherwise, expenditures for projects made in the test year with in-service dates beyond the test year attract an allowance for funds during construction.

Board staff submits that Greater Sudbury should not be permitted to book the $296,906 to rate base reflecting 2008 expenditures that are not used and useful. To do so would be contrary to Board practice. Greater Sudbury should, however be permitted to book 2008 projects that do become used and useful in 2009 to the rate base of the Test Year.

Similarly, Greater Sudbury should not be permitted to book proposed capital expenditures of $2.16 million to the rate base of 2009 as these projects will not be used and useful in the Test Year.

Depreciation

Greater Sudbury is proposing a recovery of $5,597,110 as depreciation for the 2009 Test Year. As noted in the oral proceeding, Greater Sudbury has assumed that all new additions to rate base occurred in the beginning of 2009 and accordingly included full depreciation in the first year[12]. This is contrary to directions issued in the 2006 Electricity Distribution Rate Handbook of May 11, 2005 that states in Section 3.2.2 that the additions or subtractions to rate base should be presumed to occur mid year and the depreciation impact should be recorded accordingly. The Board is clear on the half-year rule and all subsequent electricity cost of service

[12] Oral hearing transcript July 23, 2009, page 55

applications have been processed using this method. Greater Sudbury has not followed the guidelines based on the 2006 EDR Handbook.

In response to an Undertaking J1.4, the Applicant calculated the difference between using its methodology in the Application and the half-year rule. The evidence indicates that the depreciation number for 2009 is greater by $405,558 using Greater Sudbury's methodology.

Board staff submits that Greater Sudbury should use the Board directed methodology and accordingly reduce its depreciation amount for 2009 by $405,558.

Cost of Debt

Background

Greater Sudbury has provided its proposed Cost of Capital in Exhibit 6. The following table summarizes its proposals in this area:

Table 3

Cost of Capital Parameter	Greater Sudbury's Proposal
Capital Structure	Requesting Board approval of a capital structure of 56.67% debt and 43.33% equity. This is to comply with the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors*, issued December 20, 2006 (the "Board Report").
Short-Term Debt	Requesting a 4% short-term debt component with a rate of 1.33% in accordance with the letter from the Board of February 24, 2009 regarding cost of capital updates for 2009 cost of service applications, consistent with the Board's Report
Long-Term Debt	Proposing a long term debt rate for 2009 of 7.01%
Return on Equity	Proposing a return on equity rate for the 2009 Test year of 8.01% in accordance with the Board's letter of February 24, 2009 regarding cost of capital updates for 2009 cost of service applications consistent with the Board's Report.

Discussion and Submission

Capital Structure

Greater Sudbury is requesting Board approval of a capital structure of 56.67% debt and 43.33% equity. It is requesting this change primarily to comply with the Board

Report which requires all licensed Ontario electricity distributors to move toward a 60% debt and 40% equity ratio. Greater Sudbury believes the requested capital structure and the proposed cost of capital will continue to provide appropriate financing of the utility's capital and operating plans at reasonable rates.

Board staff notes that Greater Sudbury's proposal is consistent with the Board Report.

Short Term Debt

Greater Sudbury has included a 4% short-term debt component as part of its proposed capital structure and is proposing a short-term debt rate for the 2009 Test year of 1.33% in accordance with the letter from the Board of February 24, 2009 regarding cost of capital updates for 2009 cost of service applications.

Board staff notes that Greater Sudbury's proposal is consistent with the Board Report.

Long Term Debt

Greater Sudbury has proposed a long term weighted debt cost of 7.01% for 2009 consisting of a Promissory Note to the City for an amount of $48.6 million and $12.6 million of new debt that the utility intends to add. Greater Sudbury's Application indicates a rate of 6.10% for the new debt based on its initial consultation with its banker.

The Promissory Note as established by the transition board dealing with the amalgamation of the City of Greater Sudbury is in fact held by Greater Sudbury Utilities Inc. which functions as a holding corporation. Greater Sudbury Utilities Inc. has a mirror promissory note with its shareholder the City of Greater Sudbury.

At the oral hearing the Applicant was asked whether it has considered the possibility of adding additional third-party debt at a lower rate than the rate of the Promissory Note. The Applicant did consider this option but confirmed that this decision was outside the scope of management since according to the terms of the Note, the utility does not have the option to pay back any of the principal amount.

In other words, the Applicant has a perpetual note at a high interest rate with no option to pay back principal. This is despite the fact that the Applicant has been able to get additional debt at a much lower rate than the rate being paid on the Note.

Board staff would invite parties to the proceeding to comment upon whether or not they view Greater Sudbury's proposed 7.01% long term average weighted debt rate to be appropriate.

Common Equity

Greater Sudbury is proposing a return on equity ("ROE") rate for the 2009 Test year of 8.01%, in accordance with the Board's letter of February 24, 2009 regarding cost of capital updates for 2009 cost of service applications.

Board staff notes that Greater Sudbury's proposal is consistent with the Board Report.

Smart Meters

Background

As part of this rate application, Greater Sudbury is applying for a Utility-Specific Smart Meter Funding Adder, in accordance with OEB Guideline G-2008-0002. Greater Sudbury is a participant in the London RFP process and is requesting a smart meter funding adder of $1.94 per month per metered customer. The Company has provided supporting evidence including the Smart Meter Addendum Model as provided by the OEB.

The Company anticipates installing a total of 46,018 smart meters by the end of 2009 at an installed cost of $152.00 per smart meter.

Greater Sudbury has confirmed that its Smart Meter Plan does not include costs to support functionality that exceeds the minimum functionality adopted in Ontario Regulation 425/06 and has not incurred or does not expect to incur any costs associated with functions for which the Smart Metering Entity has the exclusive authority to carry out pursuant to Ontario Regulation 393/07.

Discussion and Submission

The Board's Smart Meter Funding and Cost Recovery Guideline (G-2008-0002) provides for a standard $1.00 smart meter funding adder. Greater Sudbury has however requested a much larger smart meter adder. Although the Applicant has provided sufficient evidence supporting its request, a rate adder of $1.94 results in a significant bill impact for certain classes and consumption types. In Board staff supplemental interrogatory #17, the Applicant was asked to provide bill impacts assuming a rate rider of $1.00.

The Applicant was also asked at the oral hearing to provide an estimate of the additional financing required if the smart meter funding adder was restricted to $1.00. In response to Undertaking J2.15 Greater Sudbury indicated that it would require additional financing of $499,963 per year if the smart meter funding adder was $1.00 per month per metered customer.

Board staff submits that should the Board require Greater Sudbury to implement a rate mitigation mechanism, then reducing the smart meter rate adder to the standard $1.00 per month or a lower amount than $1.94 could be considered. The additional financing required by Greater Sudbury to cover the difference between the requested amount and the standard rate adder is not significant and unlikely to cause any financial hardship to the utility.

In response to Board staff supplemental interrogatory # 17, Greater Sudbury provided bill impacts using a smart meter rate adder of $1.00. Results showing the percentage impact on total bill for residential customers are presented in the following table:

Area	kWh Usage	Original with SM adder of $1.94	SM adder of $1.00
Sudbury	250	10.67%	8.67%
West Nipissing	250	10.11%	7.93%
Sudbury	1,000	5.47%	4.71%
West Nipissing	1,000	3.40%	1.56%

As can be seen from the above table, the decline in the impact is significant for residential consumers consuming less than 250 kWh per month as a result of using the standard smart meter rate adder of $1.00 per month.

Operating, Maintenance and Administrative Expenses

Background

Operating costs are defined as the costs of operating, maintaining and administering the distribution system including billing and collections. They are generally viewed as costs within the direct control of management, and therefore exclude depreciation, PILs and other taxes. Greater Sudbury has requested operating costs of $11,874,546 for the 2009 rate year, May 1, 2009 to April 30, 2010.

During the course of the hearing, it became clear that a different level of costs and revenues were presented by Greater Sudbury to its Board of Directors as indicated in SEC interrogatory # 9 (c). An explanation for the difference was sought from the Applicant at the oral hearing. Essentially, the Applicant's explanation was that the difference is due to the rate year and fiscal year being different, or regulatory lag. The costs and revenues presented and approved by the Board of Directors was for the fiscal year of January 1, 2009 to December 31, 2009, while costs and revenues in the test year are for the rate year, May 1, 2009 to April 30, 2010. Board staff notes that the costs and revenues for the Test Year should also be from January 1 to December 31, 2009. The Applicant attempted to explain the shortfall as a difference in timing between the calendar year and rate year. Board staff is concerned about the difference in the presentations to the Greater Sudbury Board of Directors and the Application to the Board.

In Board staff interrogatory 18 a) Sudbury confirmed that the following table is correct.

Greater Sudbury Hydro Inc.

		Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	Col. 9	Col. 11
		2006		2006		2007		2008		2009	
		Board Approved	Variance 2006/2006	Actual	Variance 2007/2006	Actual	Variance 2008/2007	Bridge	Variance 2009/2008	Test	Variance 2009/2006
1	**Operation**	2,984,821	-159,061	2,825,760	230,385	3,056,145	-102,366	2,953,779	697,458	3,651,237	825,477
2			*-5.3%*		*8.2%*		*-3.3%*		*23.6%*		***29.2%***
3	**Maintenance**	789,686	567,660	1,357,346	369,589	1,726,935	-132,461	1,594,474	150,624	1,745,098	387,752
4			*71.9%*		*27.2%*		*-7.7%*		*9.4%*		***28.6%***
5	**Billing & Collections**	2,150,141	68,658	2,218,799	-35,095	2,183,704	72,111	2,255,815	259,543	2,515,358	296,559
6			*3.2%*		*-1.6%*		*3.3%*		*11.5%*		***13.4%***
7	**Community Relations**	3,327	214,974	218,301	65,503	283,804	-264,304	19,500	187,236	206,736	-11,565
8			*6461.5%*		*30.0%*		*-93.1%*		*960.2%*		***-5.3%***
9	**Administrative and General Expenses**	4,578,945	-1,656,402	2,922,543	6,082,084	9,004,627	-5,531,382	3,473,245	282,872	3,756,117	833,574
10			*-36.2%*		*208.1%*		*-61.4%*		*8.1%*		***28.5%***
11	**Total OM&A Expenses**	**10,506,920**	**-964,171**	**9,542,749**	**6,712,466**	**16,255,215**	**-5,958,402**	**10,296,813**	**1,577,733**	**11,874,546**	**2,331,797**
			-9.2%		70.3%		-36.7%		15.3%		***24.4%***
	Combined O&M (lines 1 & 3)	3,774,507	408,599	4,183,106	599,974	4,783,080	-234,827	4,548,253	848,082	5,396,335	1,213,229
			10.8%		*14.3%*		*-4.9%*		*18.6%*		***29.0%***

This table contains actual results for 2006, and 2007. The figures provided for 2008 are estimates and for 2009 are the requested test year costs. The trend is somewhat distorted due to an accounting adjustment in the 2007 actuals of $5,912,439 for future retirement benefits. In its evidence Greater Sudbury indicated that when this adjustment is taken into account and compared to other midsize northern distributors on a per customer basis, its OM&A costs per customer are

$217 compared to the average of $221 for the specific cohort grouping[13]. The requested $11,874,546 is 2,331,797 or 24.4% greater than 2006 actuals.

Tree Trimming

For the 2009 test year, Greater Sudbury has budgeted $544,880 for tree trimming. This is consistent with that expended in 2006 and 2007, as well as that expected for 2008 as seen in Table 2 of Exhibit 4/Tab 2/Schedule 3 page 6. This cost for trimming has increased significantly from the amounts expended prior to 2005.

In the technical conference Greater Sudbury explained that it uses a four year cycle for trimming, and the extent to which it cuts its trees is not as aggressive as Hydro One's[14]. In response to SEC interrogatory # 15(a), Greater Sudbury also pointed out that the tree planting programme of the 1970's and 1980's has resulted in now mature trees requiring more attention. Board staff accepts this explanation. However, in response to the same interrogatory, Greater Sudbury also stated that additional costs are incurred because the City insisted on not just trimming trees,

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[13] Exhibit 1/Tab 2/Schedule 1 Appendix B

[14] Technical Conference Transcript page 11-12

but shaping them as well. Board staff submits that Greater Sudbury ratepayers should not bear the costs of beautifying the City. Tree trimming is an essential cost to maintain the integrity of the distribution system but tree shaping is not.

While Board staff understands that specific bill itemization may not be possible from the tree trimming contractor, Board staff submits that an estimate based on sound allocation principles and average costing could be made to develop a charge to the City for this service and that in any case, that amount should be deducted from the Applicant's OM&A budget. Staff requests Greater Sudbury to provide a reasonable estimate for these additional costs.

Regulatory Expenses

In response to Undertaking J2.8, the Applicant provided a forecast of costs over the expected IRM period of four years. Going forward into 2010 to 2012, Greater Sudbury has added costs associated with the implementation of the *Green Energy and Green Economy Act* of $43,000 for 2010, and a 2% forecasted increase for the remaining years. While the cost projections look reasonable, there is no rationale or breakdown provided for the initial $43,000. Similarly, while Hearing Assessments show an annual increase of 2% over the same period, there is no rationale provided for the type and level of costs for IRM related proceedings.

Auditors' Expenses

During the technical conference,[15] Greater Sudbury confirmed that the utility's financial statements were reviewed by three auditors and just not one at a cost of $100,000 for the Test Year. The witness further confirmed that special audit work and International Financial Reporting Standards (IFRS) are both budgeted at $50,000 each.

Board staff does not understand or support the need for rate payers to pay for three audit firms, FCR, KPMG, and Collins Barrow, when the work of only one is sufficient. The only explanation provided by the Applicant was that the use of the three firms was a legacy undertaking from 2000. Board staff suggests that the $100,000 for three auditors be reduced by two thirds and Greater Sudbury should be allowed to recover only a third or $33,000 from ratepayers.

With respect to IFRS related costs, Board staff refers Greater Sudbury to the recently released Report of the Board on Transition to International Financial

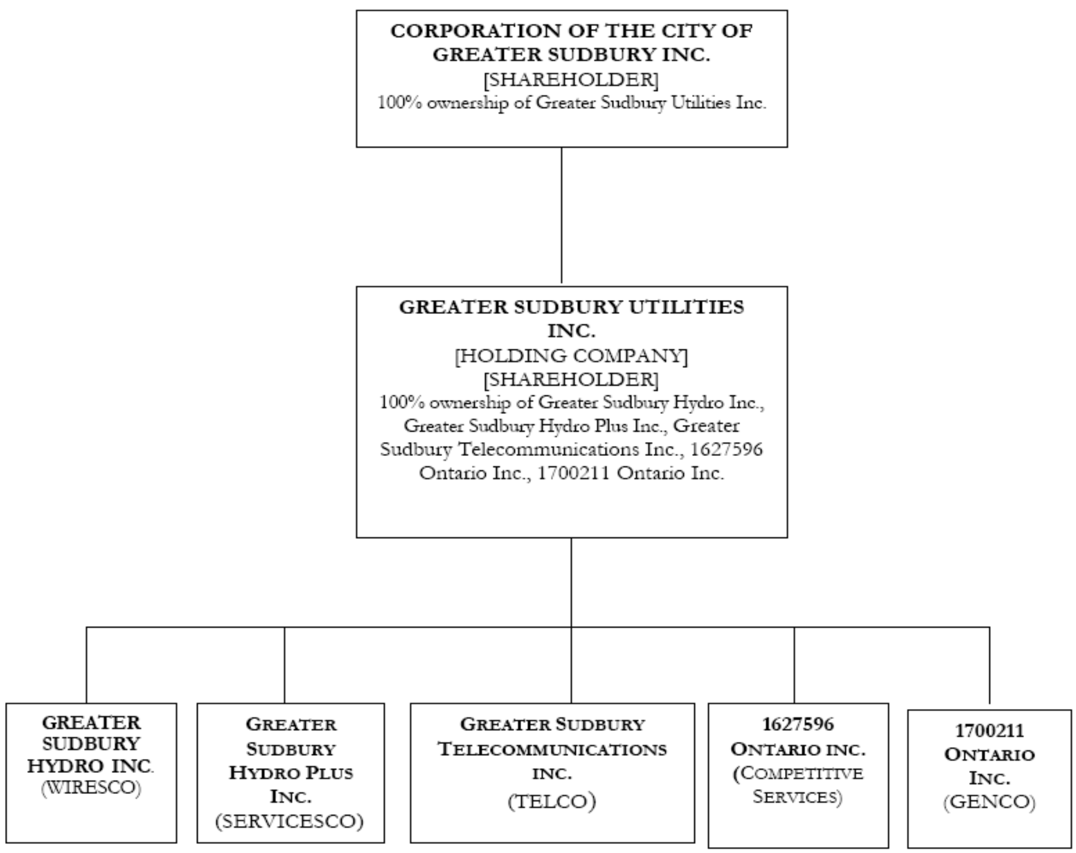
[15] Transcript pages 79 – 80.

Reporting Standards (EB-2008-0408 released on July 28, 2009). The Report on page 43 specifically states that the Board will establish a deferral account for distributors for incremental one-time administrative costs related to the transition to IFRS. Board staff submits that Greater Sudbury record IFRS related costs in a deferral account for review at the time of future disposition.

Board staff is also not clear on costs related to special audit work. Board staff invites Greater Sudbury to provide greater clarity and rationale for expenses under this category.

Shared Services

Greater Sudbury Plus Inc. (the "Plus Company")) provides all services to Greater Sudbury with the exception of CDM. A significant portion of the Plus Company's costs are only for Greater Sudbury. However, the Plus Company also serves other affiliates and the shareholder. The following chart[16] provides the corporate relationships.



[16] Exhibit 1, Tab 1, Schedule 13

At the oral hearing Greater Sudbury admitted that it was not in full compliance with the Affiliate Relationships Code[17] (ARC). Currently, the Plus Company provides water billing services to the City. Under the current arrangement, the City pays the Plus Company a flat fee adjusted for inflation plus the directly attributable meter reading costs. According to section 2.3.3.6 of the ARC, the transactions should be priced at no less than the greater of the market price and the utility's fully allocated cost of providing the service.

Greater Sudbury has indicated in its Argument-in-Chief that it is committed to undertaking a transfer pricing study. In response to the hearing panel's suggestion of holding a limited scope hearing to address the outcome of the study, Greater Sudbury submitted that the appropriate time to consider the results of the study is during the next rebasing. Greater Sudbury submitted that this would allow adequate time for the completion of the study and the implementation of any conclusions and recommendations that may flow from the study. Greater Sudbury indicated that this would be especially true if one of the outcomes of the study was a requirement to restructure the utility and its corporate family.

Board staff submits that as an alternate to holding a limited scope hearing to address the outcome of the transfer pricing study, the Board could direct Greater Sudbury to record the financial outcome of the study in a deferral account (savings or additional costs to ratepayers) and the balances could later be reviewed as part of the next cost of service application.

Cost Allocation

Background

In response to VECC interrogatory # 24, Greater Sudbury submitted the results of an updated cost allocation study along with updated 2009 proposed ratios[18]. These amounts are shown in columns 1 and 2 of Table 1 (below).

In response to Transcript Undertaking # 4 at the technical conference, Greater Sudbury submitted an alternate version of the cost allocation study, which corrects the treatment of the transformer ownership allowance that affected the earlier study.

[17] "Affiliate Relationships Code" establishes the standards and conditions for the interaction between electricity distributors or transmitters and their respective affiliated companies

[18] Exhibit 8/Tab 1/Schedule 2/ Appendix A

The ratios are shown in column 3. In its Argument-in-Chief, Greater Sudbury has pointed out that the differences between the ratios in column 1 and column 3 are nominal.

Greater Sudbury confirmed that the cost allocation results are based on the Sudbury portion of Greater Sudbury's service area and do not include revenue or costs from the West Nipissing portion[19].

Greater Sudbury proposes that the ratios in Undertaking # 4 should be used as the starting point for any re-balancing, and it indicates that it will address new ratios (in lieu of those proposed in column 2) following the Board's Decision[20]. As indicated in response to Board staff interrogatory # 52(a), Greater Sudbury proposes to move the Street Lighting and Sentinel Lighting ratios to 70% in subsequent years.

For convenience, the Board's policy range for each class is shown in column 4.

Table 1

Greater Sudbury Revenue to Cost Ratios

	1	2	3	4
Class	Informational Filing (Exh 8 / 1 / 2 / Appendix A)	Proposed Ratios (Exhibit 8)	Transcript Undertaking # 4	Policy Range
Residential	94.61%	96.95%	95.17%	85% - 115%
GS < 50 kW	117.22%	110.00%	117.97%	80% - 120%
GS > 50 kW	121.08%	113.88%	118.91%	80% - 180%
Street Lighting	6.53%	41.10%	6.60%	70% - 120%
Sentinel Lighting	18.28%	54.03%	18.45%	70% - 120%
Unmetered Scattered Load	221.57%	119.31%	223.05%	80% - 120%

[19] Oral Hearing Transcript, July 24, 2009, page 183

[20] Greater Sudbury Argument-in-Chief August 31, 2009, page 26

Discussion and Submission

Staff submits that the cost allocation study provided in response to Undertaking # 4 makes the appropriate adjustments to the original study, and that the ratios provide the appropriate starting point. Staff submits that the ratios proposed by Greater Sudbury for 2009 are reasonable, and that its proposal to adjust the ratios for Street Lighting and Sentinel Lighting to 70% in equal steps in 2010 and 2011 is also reasonable.

Staff suggests that the additional revenue generated in this way could be used to decrease the ratios for GS< 50 kW, GS > 50 kW, and USL by equal percentages, because these classes will have similar ratios above 100%.

Rate Design

Fixed-Variable Ratios

Background

Greater Sudbury has calculated the existing fixed-variable ratios for each class, based on combined revenues in the Sudbury and West Nipissing service areas. The harmonized rates will retain the same fixed-variable ratios[21].

During the first year Greater Sudbury proposes small adjustments to the fixed-variable ratios for West Nipissing customers to mitigate impacts during the harmonization period[22]. For example, the existing proportion of Residential revenue is 60.30% fixed versus 39.70% variable, and Greater Sudbury is proposing that this be changed in 2009 to 57.24% fixed versus 42.76% variable.

Discussion and Submission

Staff submits that Greater Sudbury's proposal to maintain fixed-variable ratios at their current levels is reasonable, and that its proposal to make minor exceptions during the harmonization period is also reasonable.

Board staff also notes that Greater Sudbury proposes to maintain its Specific Service Charges unchanged from those currently approved, and to maintain its

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[21] Exhibit 9 / Tab 1 / Schedule 1 / p. 7)
[22] Exhibit 9 / Tab 1 / Schedule 1 / p. 7

monthly allowance unchanged at $0.60 per kW. Staff submits that Greater Sudbury's proposal is reasonable.

Harmonization of West Nipissing Rates

Background

Greater Sudbury proposes to charge uniform rates across its service territory in 2010, with a one year phase-in from the existing approved distribution rates. Other charges such as the Smart Meter adder and Retail Transmission Service Rates would be uniform as of 2009.

The fully harmonized rates resemble the current rates in the Sudbury part of the service area because it is much larger than the West Nipissing part. During the first year, rates will generally be lower in the West Nipissing area than in the Sudbury area, owing to the fact that the rates have not been updated in West Nipissing in previous years.
Greater Sudbury has provided bill impact calculations for representative customers in each class in the West Nipissing service area. The most recent version is found in response to Board staff interrogatories # 56 (impacts of hypothetical full harmonization in 2009) and # 58 (impacts of the proposed rates with partial harmonization).

Discussion and Submission

Staff notes that some of the existing approved rates are quite different as between the two parts of the service territory, while others are quite similar. Greater Sudbury is proposing the same harmonization formula for all classes[23].

As perhaps an extreme example, a GS > 50 kW customer in Sudbury currently pays $178.96 per month and $4.67 per kW, whereas the counterpart in West Nipissing pays $30.32 per month and $0.55 per kW. Harmonizing these bills in one step would entail a bill impact for the latter customer of nearly 30%, which staff submits would be excessive even if considering that the initial rates are unrealistically low. In Greater Sudbury's proposal, the bill impact is 16% in the first year, followed presumably by a similar impact in the second year.

[23] Exhibit 9 / Tab 1 / Schedule 1 / p. 3

On the other hand, Residential rates are quite similar in both the Sudbury and West Nipissing parts of the service territory, and full harmonization in 2009 would entail a bill impact on a customer using 1000 kWh per month in West Nipissing of less than 5%[24]. Under the harmonization formula, the bill impact in West Nipissing is 2.72%, whereas the bill impact in Sudbury is 6.08% even though its existing approved distribution rates are higher[25].

Board staff submits that harmonization of rates is warranted in all classes. Further, staff submits that Greater Sudbury has used an identical formula for all rate classes, whereas it need not have done so. Rather, Greater Sudbury could have harmonized some rate classes in the first year itself avoiding the inconsistent movement in rate impacts i.e., increase in first year followed by a decrease in the second year. Nonetheless, staff submits that Greater Sudbury's proposal to harmonize the rates of all classes over two years is not unreasonable.

Rate Impacts and Mitigation

Background

Various parties including Board staff requested impact calculations based on lower overall fixed charges, in particular by assuming a lower Smart Meter rate adder. As would be expected, lowering the overall fixed charge results in a lower bill impact on smaller customers and a larger bill impact on larger customers. Impact calculations are found in the responses to Board staff supplementary interrogatory # 17 and CCC supplementary interrogatory # 6.

Discussion and Submission

Staff submits that it would be reasonable in this situation to adjust the base rates to compensate for the effect of the rate adder that affects only the fixed cost, by lowering base fixed charges and increasing base volumetric charges. The scenarios provided by Greater Sudbury include decreasing the Smart Meter adder to $1.00 per month[26], and changing the fixed-variable split by lowering fixed charge[27].

[24] Response to Board staff interrogatory # 56
[25] Exhibit 1 / Tab 2 / Schedule 1 / revised January 9, 2009)
[26] Response to Staff Supplemental Interrogatory #17
[27] Response to CCC Supplemental Interrogatory #6

The disparity between smaller and larger customers will be exacerbated if the Board orders disposition of deferral and variance account balances, assuming that the rate rider is in the form of a volumetric rebate as discussed later in this section.

Board staff submits that should the Board require a rate mitigation strategy, it could consider reducing the individual rate adders.

Low Voltage Rate Adder

Background

Greater Sudbury applied for rate adders that would yield revenue of $160,000[28]. The cost estimate is revised from an earlier amount, and is based on the 2007 combined actual costs for West Nipissing and Sudbury. The allocation of the cost to classes is proportional to Retail Transmission Connection Service Rate revenues.

Discussion and Submission

Board staff submits that the application is acceptable except that the cost estimate should be updated to match the current Hydro One Sub-transmission class rates that apply to Greater Sudbury (EB-2008-0187). This cost can be expected to be considerably lower than the $160,000 amount cited in the Argument-in-Chief[29].

Staff also points out that the Board has approved Low Voltage (LV) adders in other Decisions that reflect 50% of the Hydro One Rate Rider #4. A case in point is the COLLUS distribution rates Decision (EB-2008-0226), at page 26.   In this Application, COLLUS submitted that consideration must be given to the substantial rate rider credit that Hydro One will be incorporating into their billing. The rate riders will only be in place for a 2 year period while the 3rd Generation IRM process uses a 4 year time horizon. COLLUS proposed an annual LV charge amount that took into consideration the disparity between the two time periods. Staff submits that Greater Sudbury should provide a forecast of its annual LV cost with and without Rate Rider # 4, and should propose appropriate LV rate adders similar to those approved for COLLUS.

[28] Response to Board Staff interrogatory # 61(b)
[29] Greater Sudbury Argument-in-Chief August 31, 2009, page 30

Retail Transmission Service Rates ("RTSR")

Background

Greater Sudbury submitted a detailed cost forecast, based on 2007 monthly quantities and Uniform Transmission Rates that became effective January 1, 2009. In response to Board staff interrogatory # 63(b) the utility included in a summary format the annual cost of transmission passed through by the host distributor, Hydro One, at the embedded delivery points. The RTSRs that would recover the cost are provided in response to Board staff interrogatory # 62.

Discussion and Submission

Staff submits that Greater Sudbury's methodology is valid with respect to its IESO costs. Staff notes that the updated Uniform Transmission Service Rates have been approved (EB-2008-0272) effective July 1, 2009, and submits that Greater Sudbury update their transmission costs accordingly.

The revised transmission costs as well as updated LV costs should also be reflected in the working capital allowance calculation.

Loss Factors

Greater Sudbury has applied for approval of Total Loss Factors listed at Exhibit 1/Tab 1/Schedule 2/Appendix A/p.3, including a factor of 1.0527 for secondary-metered customers with loads less than 5000 kW. In response to Board staff interrogatory # 72, it provided a detailed explanation of the derivation of the factors, including the Supply Facilities Loss Factor that reflects its situation as partially embedded. Staff submits that the Total Loss Factors requested by the Applicant are reasonable.

Deferral and Variance Accounts

Background

Greater Sudbury proposes not to dispose of any deferral or variance account balances in 2009. In response to Board staff interrogatory # 66(b) Greater Sudbury has suggested that disposition might begin in 2010.

The Applicant provided continuity tables of its deferral and variance accounts for Sudbury, West Nipissing, and the two areas combined. The balances at Dec 31, 2007 plus interest forecast to April 2009 were provided in response to Board staff interrogatory #67, and the balances at December 31, 2008 plus interest to April 30, 2009 were provided in response to Board staff supplemental interrogatory # 22.

The following table shows the 2008 balances (plus interest to April 30, 2009). The accounts have been grouped together for convenience of the discussion that follows.

Table 2
Deferral and Variance Accounts

	Acct. Number	Account Description	Total ($)
1	1508	Other Regulatory Assets – Sub-Account – OEB Cost Assessments	136,014
2	1508	Other Regulatory Assets – Sub-Account – Other	2809
3	1525	Miscellaneous Deferred Debits	12,177
4	1550	LV Variance Account	148,667
5	1570	Qualifying Transition Costs	219,324
6	1571	Pre-Market Opening Energy Variances	63,474
		Sub-Total (rows 1 - 6)	**582,465**
7	1580	RSVA – Wholesale Market Service Charge	(2,530,339)
8	1584	RSVA – Retail Transmission Network Charge	(424,919)
9	1586	RSVA – Retail Transmission Connection Charges	438,047
10	1588	RSVA – Power (including Global Adjustment)	(90,433)
11	1590	Recovery of Regulatory Asset Balances	(566,082)
		Sub-Total (rows 7 – 11)	**(3,173,726)**
		Sub-Total (rows 1 – 11)	(2,591,261)
12	1588	RSVA – Power Sub-account (Global Adjustment)	506,551
		Total (rows 1 – 12), excluding Global Adjustment	**(3,097,812)**
Other Accounts			
13	1555	Smart Meter Capital and Recovery Offset	(388,280)
14	1556	Smart Meter OM&A Variance	154,167
15	1565	CDM Expenditures and Recoveries	(98,039)

Greater Sudbury provided hypothetical rate riders that would recover the regulatory assets in two scenarios, one in which the aggregate positive amount in rows 1 - 6 would be recovered from customers, and one in which the aggregate negative amount in rows 1- 12 would be rebated to customers. It provided the calculations for the 2007 balances and for the 2008 balances that are shown in the Table 2.[30] The rate riders or rebates provided by the Applicant would be uniform to each class across the Greater Sudbury service area, and in each case have been calculated to recover or refund the balance in one year.

Recovery of regulatory assets has continued unchanged since 2005 in West Nipissing. In response to Board staff supplemental interrogatory #19(c), Greater Sudbury indicated an amount of approximately $93,000 that has been recovered from the different customer classes there.

In the technical conference, Greater Sudbury provided a cumulative estimate of the savings to customers in West Nipissing due to the fact that their rates had not been increased during the same period. That estimate is approximately $250,000 over four years[31].

Discussion and Submission

Staff submits that the Board has three options for regulatory asset disposition and rate riders:

- approve Greater Sudbury's application for no disposition in 2009 and no rate riders;
- direct Greater Sudbury to implement rate riders (rebates), uniform across the Greater Sudbury territory, designed to dispose of balances over a one or two year period;
- direct Greater Sudbury to implement rate riders that would differ between the Sudbury and West Nipissing areas, designed to recover deferral and variance account balances that have accumulated separately with the customers in those areas.

These options are further discussed below.

[30] Board staff interrogatory # 71 and supplemental interrogatory #22
[31] Technical Conference Transcript page 42

No disposition

Staff notes that the aggregate balance (with interest to April 30, 2009) as at December 2007 of the accounts in rows 1 – 12 of the table was slightly more than $1 million[32] , and as at December 31, 2008 it was approximately $3.1 million[33] . Staff submits that the annual growth in the aggregate balance will be less in future if, as discussed earlier in this submission, the Board approves the LV adder and RTSRs for which Greater Sudbury has applied. Even so, staff submits that the aggregate balance is sizeable and notes that the Board has directed other distributors to implement rebates in similar situations. It would be reasonable to begin rebates to Greater Sudbury's customers sooner rather than later.

Staff submits that the issue of disposition and rate riders would have to be added into an IRM proceeding, perhaps in 2010, if it is not dealt with in this proceeding.

Uniform rate riders

The hypothetical rate riders that Greater Sudbury has provided illustrate this option. Staff notes that these illustrative rate riders appear to be based on a single allocation to the classes based on 2009 forecast kWh. While this was satisfactory for the interrogatory responses, staff submits that the various allocators approved for the respective deferral and variance accounts should be used to design actual rebates.

Staff submits that the 2008 balances shown in Table 2 should be disposed of, which means that each class would receive a rebate. For example, the single-year Residential rebate would be ($0.00318) per kWh[34]. This rebate would be 24% of the proposed volumetric rate. Staff submits that a rebate designed to recover the balances over two years would be reasonable, because the size of the rebate would be approximately half the single-year amount provided in the calculation.

Rate riders that differ between Sudbury and West Nipissing

The submissions concerning the previous option apply to this option as well.

Staff submits that, while a uniform set of rate riders would be convenient, it is not obvious that they would be fair. In particular, residential and small General Service

[32] Response to Board staff interrogatory # 71

[33] Response to Board Staff Supplemental Interrogatory # 22

[34] Response to Board staff supplementary interrogatory # 22

customers in West Nipissing have paid a regulatory asset recovery rate rider for a number of years, while the GS>50 kW customers have received a rebate[35]. If there had been a revision of the rate riders in 2006, this would have been reversed[36]. If uniform rate riders were to be implemented at this time, the GS> 50 kW customers in West Nipissing would apparently continue to receive a rebate.

Board staff submits that most customers in West Nipissing may have paid a rate rider for longer than they would have if their distributor had re-based its rates more promptly, but at the same time they enjoyed lower distribution rates than they would have paid. As a result, there is no compelling case for a separate West Nipissing regulatory rate rider. The exception to this generalization is the GS > 50 kW class in the West Nipissing part of Greater Sudbury's service territory.

Board staff invites comments from other parties on how long the regulatory asset recovery period ought to be under the third option.

Request for Capital Interest Deferral Account

Background

Greater Sudbury is requesting approval to establish a deferral account to accumulate the interest carrying charges associated with its enhanced capital program and the smart meter program, until such assets are incorporated into the utility's rate base.

Discussion and Submission

Greater Sudbury submitted that it would be responsible for the interest carrying charges on capital projects outlined in the multi-year plan which are over and above the one year time horizon that was incorporated in the 2009 rate base. Based on the magnitude of the required capital investments this would be a financial burden that the Applicant could not absorb[37].

Board staff submits that Greater Sudbury's request for the capital interest deferral account should be denied as the utility has not provided justification for this account based on the regulatory principles that govern regulatory assets: materiality,

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[35] Technical Conference Transcript page 40
[36] Response to Board Staff Supplemental Interrogatory # 21(b)
[37] Board Staff Interrogatory #65 (b)

prudence, causation and inability of management to control. The Board has a set of approved deferral accounts to capture such expenses, i.e. Construction Work in Progress – Electric (Account 2055), Allowance for Other Funds Used During Construction – Credit (Account 6042) and the Smart Meter Capital and Recovery Offset Variance Account (Account 1555). These accounts may help to mitigate any potential financial exposure associated with Greater Sudbury's capital investments.

Board staff submits that Greater Sudbury has not fully justified the need for a specific capital interest deferral account and has not adequately demonstrated its inability to absorb the stated financial burden.

If the Applicant believes that it will expose itself to significant risk as a result of incurring large interest expenses, it could apply to the Board for recovery of capital expenditures during the IRM period under the Incremental Capital Module.

- All of which is respectfully submitted -