EB-2008-0230

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

AND IN THE MATTER OF an application by Greater Sudbury Hydro Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2009.

REPLY ARGUMENT OF GREATER SUDBURY HYDRO INC.

DELIVERED SEPTEMBER 29, 2009

A. INTRODUCTION

1. On December 22, 2008 Greater Sudbury Hydro Inc. ("Sudbury Hydro", or "Greater Sudbury") submitted an Application to the Ontario Energy Board (the "OEB") seeking an order approving just and reasonable distribution rates and other charges for electricity distribution to be effective May 1, 2009.

2. Sudbury Hydro's Application, before the OEB for approval, will provide the revenue requirement necessary to sustain its capital, operating and maintenance programs in a manner that continues to provide safe and reliable distribution of electricity in Sudbury and West Nipissing.

3. Sudbury Hydro filed comprehensive, detailed and thorough pre-filed evidence. The Application was followed in March and May of this year by responses to approximately 170 interrogatories from OEB staff and intervenors, delivered in two rounds. Sudbury Hydro also participated in a transcribed Technical Conference and a Settlement Conference, although no settlement was reached. Sudbury Hydro responded to 31 Undertakings that arose from a two day oral hearing on a limited number of issues, conducted on July 23 and 24, 2009.

4. Most recently, Sudbury Hydro delivered its Argument-in-Chief which addressed the Issues List appended to Procedural Order No. 5. Board Staff and intervenor submissions, totaling over 100 pages, were delivered on Thursday, September 10th (Staff), Friday, September 11th (CCC and VECC) and Saturday, September 12th (Schools).

5. Sudbury Hydro repeats and relies upon its submissions in its Argument-in-Chief, subject to any modifications set out in this reply. Sudbury Hydro maintains that its proposed revenue requirement, subject to certain adjustments set out in this reply submission, has been determined appropriately; that its proposed capital and OM&A programs for the 2009 Test Year are reasonable and supported by the evidence in this proceeding; and that the resulting distribution rates are just and reasonable, with minimal customer bill impacts. Sudbury Hydro reiterates its submission that in approving this Application, the OEB will have met its objective, set out in section 1 of the *Ontario Energy Board Act, 1998*, as amended, "to protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service."

B. RELIEF SOUGHT

The relief sought by Sudbury Hydro will result in just and reasonable rates effective May 1, 2009.

6. Sudbury Hydro filed an Application for just and reasonable rates to be effective on May 1, 2009. Subject to changes in the OEB-approved Return on Equity ("ROE"), PILs rates and Retail Transmission Rates, Sudbury Hydro requested that the OEB approve the following items in this Application (see Exhibit 1, Tab 1, Schedule 5):

   a) Approval to charge rates effective May 1, 2009 to recover a revenue deficiency of $2,645,783 as set out in Exhibit 7, Tab 1, Schedule 1 (Sudbury Hydro's proposed 2009 base revenue requirement was $23,818,357 (please note that a typographical error in the Argument-in-Chief incorrectly showed this value as $28,818,357). The schedule of proposed rates was set out in Exhibit 1, Tab 1, Schedule 2, Appendix A and Exhibit 9, Tab 1, Schedule 6 of the Application. In the event that the OEB was unable to provide a Decision and Order in this Application for implementation by Sudbury Hydro as of May 1, 2009, Sudbury Hydro requested that the OEB issue an interim Order approving the proposed distribution rates and other charges, effective May 1, 2009, which may be subject to adjustment based on its final Decision and Order;

   b) Approval to recover the costs of a new customer information system which Sudbury Hydro was forced to implement based on circumstances beyond its control (see Exhibit 2, Tab 3, Schedule 1, Appendix C, section 1 – Executive Summary);

c) Approval to establish a deferral account to accumulate the interest carrying charges associated with the (required) enhanced capital program, and the smart meter program until such assets are incorporated into Sudbury Hydro's rate base;

d) Approval to harmonize the distribution rates of the former WNES with Sudbury Hydro rates over a two year period;

e) Approval of an enhanced capital program required to expedite the catch up of an identified infrastructure deficit while deferring the finance carrying charges for subsequent disposition (pursuant to Exhibit 2, Tab 1, Schedule 1, Appendices A and B);

f) Approval of Sudbury Hydro's smart meter program on the basis of the utility specific charge while undertaking to defer the interim finance carrying charges for subsequent disposition (pursuant to Exhibit 2, Tab 3, Schedule 2);

g) Approval to transfer the regulatory assets of the former WNES to the amalgamated utility's account 1590;

h) Approval of the default rates for services provided by Sudbury Hydro and accounted for as revenue offsets;

i) Approval of Sudbury Hydro's proposed retail transmission rates;

j) Approval of Sudbury Hydro's loss factor; and

k) Approval of Sudbury Hydro's proposed Conservation and Demand Management ("CDM")-related Lost Revenue Adjustment Mechanism ("LRAM") and Shared Savings Mechanism ("SSM") adjustments through appropriate riders to be added to Sudbury Hydro's proposed electricity distribution rates over a two-year period.

7. The following table summarizes the adjustments to the requested relief arising out of the final submission process. These adjustments are close approximations and will be finalized and reflected in the draft rate order that Sudbury Hydro anticipates the OEB will direct it to prepare. As can be seen in the table, Sudbury Hydro is proposing a total

reduction of approximately $539,744 in its proposed Service Revenue Requirement, for a revised 2009 Service Revenue Requirement of $24,926,492 and a revised Base Revenue Requirement of $23,278,513. The revised revenue deficiency is $2,151,428.

Original base revenue requirement		$23,818,257.00
Add back removal of RSVA interest from revenue offset	$50,000.00	
IFRS deferral	$(50,000.00)	
Deferral of regulatory costs	$(43,000.00)	
Changes to amortization to reflect reduced 2009 capital	$(45,390.00)	
Changes to regulated return on capital as a result of a) updated cost of capital to reflect 1.33% short term and 8.01 ROE b) restated 2008 closing rate base (adjusted by 293,906 - 12,000 amortization) c) restated 2009 closing rate base reflecting revised net capital and change in amortization	$(334,438.00)	
Net rate base went from 66,515,477 to 65,426,105		
Change to PILs calculations as result of changes above	$(116,916.00)	
	$(539,744.00)	$(539,744.00)
Revised base revenue requirement		$23,278,513.00

8. As confirmed at paragraph 8 of its Argument-in-Chief, Sudbury Hydro intends to complete capital projects with a value of $10,549,192 in 2009, and its OM&A expenditures are expected to be as set out in the Application, notwithstanding that Sudbury Hydro has not had its rate order approved as of May 1st. Sudbury Hydro filed the Application on December 22, 2008, for rates effective May 1st, 2009. As Sudbury Hydro's current rates were declared interim as of May 1, 2008, there will be a difference between the revenue collected under the existing rates and the revenue that would have been collected if the new rates were implemented May 1, 2009. Sudbury Hydro reiterates its request that the Board find that the new rates shall be set so as to recover the annualized revenue requirement over the remaining period of the 2009 rate year. For example, if Sudbury Hydro will be able to implement the new rates on November 1, 2009, the new rates should reflect the fact that there will be only 6 months to April 30,

2010. Sudbury Hydro acknowledges that for the 2010 rate year, adjustments will have to be made to adjust the rates so that the revenue requirement will then be recovered over 12 months.

C. SUMMARY OF EVIDENCE AND ISSUES

9. The submissions that follow have been organized according to the areas addressed in the Board Staff submissions. These are as follows:

    1. Load and Revenue Forecast
    2. Other Distribution Revenue
    3. Rate Base and Capital Expenditures
    4. Cost of Capital and Capital Structure
    5. Smart Meters[1]
    6. Operating, Maintenance & Administrative Expenses
    7. Cost Allocation
    8. Rate Design (Monthly Fixed Charges, Unmetered Scattered Load, Low Voltage rates, Retail Transmission Service Rates)
    9. Deferral and Variance Accounts

10. Sudbury Hydro will also be addressing the following matters, which were not specifically addressed in the Staff submission but which were addressed in intervenor submissions:

    10. LRAM/SSM
    11. Effective Date of Rate Order

D. SUDBURY HYDRO SUBMISSIONS

1. LOAD AND REVENUE FORECAST

Board Staff Submission:

11. Board Staff acknowledge (at page 4 of their submission) that the Sudbury Hydro methodology is a conventional load forecasting approach, but suggest that the resulting load forecast is problematic. More particularly, Staff suggest that it is "fundamentally

[1] While this is not included in the list on page 2 of the Staff submission, Staff address Smart Meters as a separate item at pages 15-16 of their submission, following the section on Cost of Debt.

flawed", in that Sudbury Hydro used out of date economic data and knowingly excluded more up-to-date data. Staff note that the data used was the same as that used by Toronto Hydro in an application filed in 2007, so that at the time of filing, Sudbury Hydro's economic data was 18 months old.

12. However, in spite of Staff's lack of confidence in the forecasting process employed by Sudbury Hydro, Staff note that Sudbury Hydro's forecast shows the same 0.8% annual increase as that actually experienced in the 2002-2007 period. The forecast does not appear to be understated, and therefore Staff recommend that the OEB approve the forecasted customer/connection count and the 2009 forecast load.

13. For future rate applications, Staff request that the OEB urge Sudbury Hydro to prepare and file a load forecast supported by both historical load data and the most currently available economic data.

Intervenor Submissions:

14. CCC acknowledges that the methodology is relatively consistent with that used by many other LDCs, and therefore CCC has no issue with the overall approach. However, CCC supports the VECC request to increase the purchased load forecast by at least 1% and to reduce the impact of CDM on the forecast.

15. VECC suggests that it has numerous concerns with the Sudbury Hydro methodology. VECC acknowledges that the OEB has approved forecasts based on methodology similar to Sudbury Hydro's, but submits that there should be two adjustments:

    (a) First, VECC observes that Sudbury Hydro had indicated that correcting for newer GDP data would increase with the negative coefficient between load and GDP (that is, load would increase while GDP declines). Accordingly, using the up-to-date data would increase the forecast. VECC acknowledges that Sudbury Hydro advised[2] that it had incorrectly addressed Heating Degree Days and Cooling Degree Days in its forecast, and that correcting that error would reduce the forecast. However, VECC submits that the weather correction would only reduce the forecast by less than 0.5%, while updated GDP data would increase the

[2] Tr. Vol.2, at page 141

forecast by 1.8% or 2.9% depending on which updated GDP data was used. The two corrections do not offset each other. Therefore, it is reasonable (to VECC) that the purchased forecast be increased by at least 1.0% for 2009.

(b) Second, the adjustment to the forecast for the impacts of Conservation and Demand Management ("CDM") activities should be reduced from 4,043,652 kWh to 1,556,530 kWh, otherwise the impact of CDM would be overstated. VECC notes that Sudbury Hydro already reduced the CDM impact from 4,043,652 kWh to 3,782,928 kWh.

16. VECC concludes that it is appropriate for the OEB to accept the Sudbury Hydro forecast subject to increasing the purchase forecast by 1.0% and reducing the CDM adjustment, provided that this is not viewed as an acceptance of Sudbury Hydro's load forecast methodology.

17. Schools seeks an increase of 1.8% in the forecast to reflect the updated GDP data used in response to the first round Staff Interrogatory No. 12, with a reduction of by 0.4% to correct Sudbury Hydro's error in the application of heating and cooling degree days, for a net increase of 1.4%, together with a reduction in the impact of CDM as proposed by VECC.

Sudbury Hydro Submissions:

18. Sudbury Hydro acknowledges that the methodology for LDC load forecasting is still evolving. Sudbury Hydro spoke to this specifically at paragraph 36 of its Argument-in-Chief, as follows:

> "Sudbury Hydro understands that to a certain degree the process of developing a load forecast for cost of service rate application is an evolving science for electric distributors in the province. Sudbury Hydro expects to include additional improvements to the load forecasting methodology in future cost of service rate applications by taking into consideration data provided by smart meters and how others are conducting load forecasts in future cost of service rate applications."

19. Sudbury Hydro anticipates that the load forecasting methodology for Ontario LDCs may have to be revisited for future cost of service applications. However, the issue for the OEB in this Application is what the appropriate forecast is for the 2009 Test Year.

20. Sudbury Hydro submits that the Staff approach is the most reasonable one. It reflects the fact that notwithstanding the allegedly flawed methodology, the resulting increase of 0.8% is consistent with the last 5 years of data – that is, the 2002-2007 period, and the use of a consistent increase is a reasonable approach. As discussed during the oral hearing,[3] it is not entirely clear why the negative coefficient between GDP and load exists in this case – Sudbury Hydro's witnesses provided a possible explanation (when the economy declines people stay home and use more electricity), but this is not necessarily the correct one.

21. Sudbury Hydro is concerned that the intervenors are attacking the Sudbury Hydro methodology but then requesting that the Board force Sudbury Hydro to use that same methodology to increase the forecast by 1-1.8% because it means lower rates. Sudbury Hydro submits that the intervenors ought not to be able to have it both ways. If the methodology is flawed – and Sudbury Hydro acknowledges that there are concerns with respect to the methodology – then the reasonable approach is to consider the historical increases, as Staff have done. It is not reasonable to compound the problem by making arbitrary changes simply for the purpose of increasing the forecast in a manner that is not consistent with Sudbury Hydro's historical record.

22. With respect to CDM-related adjustments to the forecast, Staff do not speak to this matter. However, all of the intervenors submit that the impact of CDM is overstated and the forecast should therefore be increased. Sudbury Hydro prepared its calculations with respect to the Lost Revenue Adjustment Mechanism (the "LRAM", discussed later in this submission), which are also relevant to the forecast, in accordance with the OEB's requirements. However, Sudbury Hydro acknowledges that the Ontario Power Authority (the "OPA") has prepared updated figures with respect to electricity savings resulting from the use of compact fluorescent lights ("CFLs"), and Sudbury Hydro accepts that it is appropriate to use those updated figures. Sudbury Hydro's original load forecast for 2009 was 1,024,808,191 kWh. With the CDM adjustment for the CFLs, the new load forecast is 1,027,426,385 kWh, and Sudbury Hydro proposes that the OEB approve this forecast. This represents a reduction of 2,618,194 kWh in the impact of CDM (or a corresponding increase in the forecast), which is greater than the reduction of 2,487,122

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[3] Tr. Vol. 2, at pages 139-140

kWh (4,043,652 kWh – 1,556,530 kWh) in the impact of CDM (or corresponding increase in the forecast) proposed by VECC. This takes into account the updated CFL calculations (also used in Sudbury Hydro's LRAM calculations). It also reflects the use of an 80% factor as discussed in Sudbury Hydro's response to Undertaking J2.10. In Sudbury Hydro's original load forecast, Sudbury Hydro recognized the full kWh savings from CDM but also stated that the 2006 and 2007 savings were reflected in its actual load forecast. This represents two years of Sudbury Hydro's ten year history. As such, based on ten years of history and eight of those ten years (80%) not reflecting CDM savings, Sudbury Hydro applied the 80% factor to the updated CFL figure. Sudbury Hydro agrees with the Staff submission regarding the reasonableness of a 0.8% increase in the load forecast for 2009 consistent with the historical trend, but even accepting that approach, Sudbury Hydro agrees that it is appropriate to make certain CDM-related adjustments. Sudbury Hydro notes, though, that even with these adjustments, the increase from 2008 to 2009 still approximates the Staff proposal of an increase corresponding to the historical average of 0.8%. Sudbury Hydro maintains that the use of the historical trend remains the appropriate approach in this case.

2. OTHER DISTRIBUTION REVENUE

Board Staff Submission:

23. Board Staff agree[4] with Sudbury Hydro's proposed $50,000 reduction of its total revenue offset of $1,697.880. That reduction reflects the forecast amount of Retail Settlement Variance Account ("RSVA") carrying charges. Board Staff also agree with Sudbury Hydro's method of forecasting most of the components of miscellaneous income, based on a three year average of actual amounts.

24. However, Staff indicate that they are concerned about the significant reduction in interest earned. According to Board Staff, Sudbury Hydro's three year average is approximately $500,000, but Sudbury Hydro appears to be forecasting $165,000 plus a new item in Account 4390 for $187,236. Staff have requested that Sudbury Hydro revise its miscellaneous income upward to the $500,000 range, or provide some reassurance to the OEB that the combined projection of $250,000 (the Staff calculation) is a more

[4] Board Staff submission, September 10, 2009, at pp. 7-8

accurate forecast than would be obtained from the average of recent years or even from 2008 alone. Sudbury Hydro notes that there may be a typographical error in the Staff submission, as the result is approximately $350,000 and not the $250,000 mentioned in the Staff submission.

Intervenor Submissions:

25. CCC has one paragraph on this point – paragraph no. 10. CCC supports the 2009 calculation of other distribution revenue subject to its comments on water billing (addressed elsewhere in this submission), as the decline in revenue is "primarily related to interest rate implications."

26. VECC does not appear to speak to this as a discrete issue – VECC's concerns relate to the shared services (primarily water billing) part of its submission, and there is no apparent discussion of matters such as intercompany interest.

27. Schools (see p.31) suggests that the staff comments result in an increase of $220,000 in other revenues, and Schools wants to see that adjustment made to Sudbury Hydro's revenue requirement.

Sudbury Hydro Submissions:

28. Sudbury Hydro suggests that it is not appropriate to combine the forecast of $165,000 in interest income with $187,236 in Account 4390. The sum of $187,236 represents an offset against Sudbury Hydro's CDM expenditures, for a net balance of nil. Sudbury Hydro only spends money on CDM if there is funding for the corresponding CDM programs. In a given year, the figures in that account could be higher, but any increase in revenues will be offset by expenses.

29. With respect to the forecast amount of $165,000 in interest income, Sudbury Hydro submits the reduced forecast is, as contemplated by CCC, attributable to lower interest rates. Moreover, this estimate is likely high in light of current interest rates. Sudbury Hydro earned over $400,000 in 2008,[5] but the applicable interest rates (based on the variable rate Sudbury Hydro's bank applies on the average daily balance in its account)

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[5] See Sudbury Hydro's response to OEB Staff supplementary Interrogatory 3(b)

(Rates have declined since then. In order to respond to the Staff request, Sudbury Hydro has reviewed its records and can confirm that interest earned through the end of August is averaging $9,500 monthly compared to a $33,000 monthly average in 2008.

30. With respect to the intercompany interest charged on intercompany balances the projection is again based on current rates. This interest is calculated by applying the Bank of Canada prime interest rate for the applicable month applied against the monthly outstanding balance. The rates for 2008 ranged from 3.5% to 5.75% with the average rate for 2008 being 4.73%; the rates for 2009 are currently at 2.25%. As another example of how drastically rates have declined in 2009, one can look at the OEB's prescribed rates applied on variance accounts for 2009 which are currently less than 1%.

31. Notwithstanding that the forecast of 2009 interest income is likely high, Sudbury Hydro does not proposed to reduce it, but Sudbury Hydro submits that it would be entirely inappropriate to increase it. Sudbury Hydro hopes that these comments have provided the requested reassurance to the OEB that its projected interest income is a more accurate forecast than would be obtained from the average of recent years or even from 2008 alone.

32. In light of the foregoing, Sudbury Hydro submits that the only appropriate change in its other revenue is the removal of $50,000 from its revenue offset with respect to interest on RSVA/regulatory balances.

3. RATE BASE AND CAPITAL EXPENDITURES

Board Staff Submission:

33. Staff do not appear to have concerns generally with Sudbury Hydro's proposed increase in capital spending (from $6,247,968 in the 2008 Bridge Year to $10,549,192 in the 2009 Test Year), and they note[6] that Sudbury Hydro has "provided detailed information on each material expenditure".

[6] Staff Submission, at page 9

34. The Staff concerns instead appear to relate to the lack of allocation of a portion of the cost of the new SAP CIS system to the City, and the Staff submission contains a comment[7] to the effect that the evidence confirms (although there is no reference) that the new system will benefit the City. Staff are suggesting the assignment of a 21.04% share to the City[8], which would reduce the allocation of the CIS to electricity ratepayers by $441,840, or to $1,658,160 from the proposed $2.1 million. Sudbury Hydro will address the suggestion by Staff that "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" below, but in short, Sudbury Hydro requests that the OEB reject this suggestion.

35. Staff also submit that Sudbury Hydro should not be permitted to book 2008 projects that are not used and useful to the 2008 rate base, although they can be booked to the Test Year rate base if used and useful in 2009. Staff submit that capital expenditures of $2.16 million should not be booked to the 2009 rate base as these projects will not be used and useful in 2009. Finally, Staff do not support Sudbury Hydro's approach to depreciation, and suggest that because Sudbury Hydro does not apply the half-year rule, depreciation is overstated by $405,558 using Sudbury Hydro's methodology.

Intervenor Submissions:

36. CCC submits that the starting point for capital expenditures should be $8.2 million, based on the calendar year forecast given to the Sudbury Hydro Board of Directors. CCC seeks rate base adjustments to reflect the fact that certain 2008 projects did not go into service in that year, and that certain 2009 projects will not be used and useful in calendar year 2009.

37. VECC seeks[9] three items – a reduction in approved capital expenditures to the $9.1 million approved by Sudbury Hydro's Board of Directors; a reduction in meter capital to $50,000 (which Sudbury Hydro had already proposed); and a lead-lag study for Sudbury Hydro's next rebasing. VECC suggests[10] that Sudbury Hydro's assertion as to its ability

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[7] Staff Submission, at page 10
[8] Staff Submission, at page 11
[9] VECC submission, at page 7
[10] VECC submission, at paragraph 21

to complete $11.2 million in capital projects in 2009 is not credible given that only 40% of those were completed as of the end of June.

38. Schools sets out its concerns with this aspect of the Application at paragraph 3.1.2 of its submission.[11] Items (a)-(e) in that paragraph are dealt with in the rate base section of the Schools submission. These include:

- suggestions that Sudbury Hydro's capital budget figure of $10,549,192 is not net of contributions, and a request that Sudbury Hydro, in its reply submissions, (a) confirm that none of the new projects set out in J1.5 include contributions or, if they do, the amount of those contributions; and (b) advise if the contributions expected for any of the Board of Directors approved projects have changed in the "new" budget;
- a concern that the capital budget program for which OEB approval was originally sought was approximately $1.8 million higher than the capital spending Sudbury Hydro plans and has approval from its own Board of Directors to incur in the test year;
- concerns that Sudbury Hydro has included in its opening rate base projects that were not used and useful at the end of 2008 and has included in its closing rate base projects that are not expected to be used and useful at the end of the test year; and
- an allegation that Sudbury Hydro's primary justification for the significant increase in capital spending in the test year "is underinvestment in plant renewal in past years, apparently due to prioritizing interest payments to the shareholder instead of needed capital spending on their system."

39. CCC and Schools also express concern about Sudbury Hydro's approach to depreciation, submitting that Sudbury Hydro should be required to use the half-year rule.

Sudbury Hydro Submissions:

- **Water Billing**

40. Sudbury Hydro will also be addressing water billing-related matters in the context of transfer pricing, but will take this opportunity to address the Staff comments related to the allocation of the capital cost of the new SAP CIS system. As noted above, Board Staff argue that Greater Sudbury water customers will derive some benefit from the implementation of the new CIS. This position is adopted by all of the intervenors[12]. The

[11] Schools submission, at page 6
[12] For example, see CCC paras. 25 – 29; VECC paras. 78-90; and Schols paras. 4.4.5 – 4.4.8

notion of benefit, however is not supported in the evidence in this proceeding, as there is no suggestion made by Board Staff or any of the intervenors that the water billing process is enhanced in any respect by the new CIS beyond the service provided on the current system. The existing Advanced Utility System ("AUS") software remains an option for providing water billing services and will continue to be supported by the vendor for that purpose. The only service that the vendor has discontinued on the former AUS platform is ongoing support for the deregulated Ontario Electricity Market based on the complexity of the process. Support for water billing continues from Harris on the current system. [13]

41. Secondly, Board Staff argue that the regulatory principle of "no free riders" is offended by the current arrangement. Sudbury Hydro respectfully disagrees, as the City is not receiving any new or improved services as a result of the new system. The evidence is that the City did pay its original share of capital[14] for converting Water Billing data to the AUS system, and the City continues to pay for the service at a rate that in Sudbury Hydro's submission is reasonable and just, although this will be among the matters addressed in Sudbury Hydro's transfer pricing study. Sudbury Hydro submits that the City is not a "free rider" in respect of the new CIS system and that Sudbury Hydro's request for cost recovery related to billing system capital is just and reasonable.

42. Finally on this point, Sudbury Hydro wishes to reiterate the evidence of its witness panel[15] that as a result of the arrangement between the City and Greater Sudbury Hydro Plus Inc., there is a reduction in costs to electricity rate payers. For greater clarity, in the absence of this arrangement, the electricity rate payer would face significant additional costs for billing and collecting services – more particularly, an increase of $429,627 as discussed in Sudbury Hydro's response to VECC Supplementary Interrogatory No. 34.

- **The "Board of Directors Budget" vs. the "Application" budget**

43. As the OEB is aware, the intervenors have submitted that the OEB's starting point for the consideration of Sudbury Hydro's capital expenditures for the 2009 Test Year should be the amount presented to its Board of Directors and shown at Appendix 9© to Sudbury

[13] Tr. Vol.1, page 173, line 126 to page 174
[14] Tr. Vol. 2, page 25, lines 22-26
[15] Tr. Vol. 2, page 120

Hydro's responses to Schools' Interrogatories, and at Undertaking J1.6. Sudbury Hydro respectfully disagrees. Sudbury Hydro submits that it has established the appropriateness of expenditures totaling $10,540,192 that will be used and useful in the 2009 Test Year, and that this is the value that should be approved by the OEB. As Sudbury Hydro would expect would be the case with any utility, it will be advising its Board of Directors as to OEB's Decision in this proceeding following its issuance, and adjustments to both capital and OM&A budgets may be required at that time. This is consistent with Sudbury Hydro's annual practice of advising its Board of Directors later in a budget year as to the status of the projects covered in the budget. As was clear from its response to Procedural Order No.5, Sudbury Hydro's Board of Directors approved the OM&A costs as filed in the Application, reflecting an overall 15.3% increase over 2008 costs.

44. With respect to paragraphs 3.2.19-3.2.25 of the Schools submission, Sudbury Hydro reiterates that the record in this proceeding supports 2009 Test Year capital expenditures with a gross value of $10,549,192, less applicable contributions. The amount of capital expenditures ultimately approved by the OEB will be reviewed by Sudbury Hydro staff with its Board of Directors following the issuance of the Decision.

- **The Revised Capital Expenditure Amount**

45. With respect to Schools' requests regarding the revised capital expenditure figure of $10,540,192, specifically that Sudbury Hydro (a) confirm that none of the new projects set out in J1.5 include contributions or, if they do, the amount of those contributions; and (b) advise if the contributions expected for any of the Board of Directors approved projects have changed in the "new" budget, Sudbury Hydro offers the following comments. The original capital budget included gross capital expenditures of $11,828,109 with contributions of $959,585 resulting in a net capital budget of $10,868,524 (see Sudbury Hydro's response to Undertaking J1.6). The response to Undertaking J1.5 does not include contributions – rather, it shows a gross projected budget of $10,549,192. The corresponding projected contributions amount to $815,380 for a net budget of $9,733,812. The contributions are based on a percentage of the gross project expenditures and because the projected gross expenditures decreased the contributions decreased accordingly.

46. The basis for the revised capital expenditure figure, arrived at by removing those projects that will not be used and useful in the 2009 Test Year and including certain other projects that will be used and useful in the 2009 Test Year, is set out in Sudbury Hydro's response to Undertaking J1.5. The other projects are described in Sudbury Hydro's response to Undertaking J1.3 Sudbury Hydro submits that its 2009 capital expenditures, including those set out in its response to Undertaking J1.5, have been fully supported and should be approved by the OEB. Sudbury Hydro also notes, with respect to Schools' comments at paragraph 3.2.22, that the projects shown in the response to Undertaking J1.3 as having been removed are not still proceeding as planned – they are not being performed in 2009. Accordingly, the $10,549,192 gross (or $9,733,812 net) is an accurate figure – there is no additional capital spending being done in respect of the removed projects.

47. As noted above, Staff have submitted that Sudbury Hydro should not be permitted to book 2008 projects that are not used and useful to the 2008 rate base, although they can be booked to the Test Year rate base if used and useful in 2009; and that capital expenditures of $2.16 million should not be booked to 2009 rate base as these projects will not be used and useful in 2009. CCC and Schools express similar concerns. With respect to items previously booked to rate base in 2008 that were not used and useful in that year, Sudbury Hydro confirms that capital expenditures valued at $293,906 were not used and useful in 2008. Therefore, Sudbury Hydro agrees that there would be a minimal adjustment to the 2009 opening (2008 closing) rate base in the amount of $293,906. Sudbury Hydro will be restating its opening rate base to reflect the WIP figure of $293,906. In response to Schools' question at paragraph 3.3.5 of the Schools submission, the $293,906 was not included in the revised capital budget set out in Sudbury Hydro's response to Undertaking J1.5. It will be in Sudbury Hydro's closing rate base. However, while Sudbury Hydro agrees that it will make this adjustment, the amortization impact is less than $12,000 per year, and the rate base impact is $293,906 less $12,000 for a net reduction in rate base of $281,906.

48. As noted above, Sudbury Hydro submits that its net capital expenditures for the 2009 Test Year are $9,733,812, reflecting a revised gross capital budget (set out in Sudbury Hydro's response to Undertaking J1.5) of $10,549,192. The corresponding projected contributions amount to $815,380 for a net budget of $9,733,812. Sudbury Hydro has

confirmed that this capital plan can and will be completed and put into service prior to December 31, 2009. The revised capital budget calculations are summarized in the following table:

Gross capital budget (as per original submission in Application)	$11,828,109
Projects removed	(2,161,192)
Project substitutions	2,161,587
Original projects with estimate refinements	(1,278,312)
Revised capital contributions	815,380
Net capital requested in rate base	$9,733,812

- **Schools' Allegations with respect to debt servicing vs. spending on distribution plant**

49. At item (e) of paragraph 3.1.2, and at paragraph 5.4.5 of the Schools submission, Schools alleges that the historical underinvestment in plant renewal is attributable to prioritizing interest payments to Sudbury Hydro's shareholder rather than making needed capital expenditures. Sudbury Hydro rejects this assertion, and has the following comments in this regard:

i As Sudbury Hydro's witness panel testified, Sudbury Hydro's debt/equity ratio is approximately 70%.[16] It would rise to 80% if money were to be borrowed from a third party, but that has not happened.[17].

ii The servicing of Sudbury Hydro's debt is an obligation, as it would be were the debt to be monetized and payable to a third party. However, Sudbury Hydro did not make its full interest payments for three years after its incorporation, and the unpaid amount is still owing.[18]

iii While Schools speaks about debt servicing and ignores the equity side of the ratio, the fact is that Sudbury Hydro has never paid a dividend.[19]

iv As all parties are aware, rate regulated distributors are permitted to recover in rates costs related to the operation and maintenance of their systems, as well

[16] Tr. Vol.1, at p.80
[17] Tr. Vol.2, at page 132
[18] Tr. Vol. 1, at page 87
[19] Tr. Vol. 1, at pages 50-51

as returns on equity and debt. In the initial process of unbundling distribution rates, the difference between 1999 returns and the returns permitted by the OEB in its initial Distribution Rate Handbook were embodied in the Market Adjusted Revenue Requirement (the "MARR"). Not only did Sudbury Hydro not pay dividends, but its initial Board of Directors determined that it would not even apply for the MARR that all rate regulated distributors were permitted to request in their initial unbundled distribution rate applications, and that the vast majority of distributors did request and receive (subject to phasing in over a three year period, although that period was extended due to the province's rate freeze). This decision was made by the Sudbury Hydro Board of Directors in order to keep rates down. Instead of applying for rate increases, Sudbury Hydro reduced staff but took on more distribution plant, resulting in Sudbury Hydro's resources becoming very stretched. Additionally, while the policy of not applying for the MARR was in place, rates were frozen by the provincial government following the opening of the wholesale electricity markets.[20]

v The facts do not support an assertion that Sudbury Hydro has starved its system in order to flow money up to its shareholder. Rather, Sudbury Hydro has, in its efforts to keep rates down, underinvested in its plant. Sudbury Hydro must address this historic underinvestment, or as described by Sudbury Hydro's witness panel, this "slow, steady rot on the system".[21]

vi That having been said, the facts also support the conclusion that Sudbury Hydro has been increasing its spending on capital over time.[22] Sudbury Hydro has not simply waited for a cost of service application in order to increase capital spending. However, it is also clear that significant amounts

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[20] Tr. Vol. 1, at page 86
[21] Tr. Vol. at page 83
[22] See the table and graph at Ex. 1, Tab 1, Schedule 1, Appendix A, at page 11 of 35. Note that the values shown on that page for 2009 do not include items discussed at Tr. Vol. 1, pages 27-28 – reduction of scope of porcelain insulator replacement, and CIS and ERP projects.

of additional work are required.[23] Sudbury Hydro is attempting to increase its capital spending in a levelized fashion.[24]

50. At paragraph 3.4.6 – 3.4.9 of its submission, Schools cites SQIs, and particularly SAIFI as support for its contention that Sudbury Hydro does not have sufficient reason to increase its capital as the system is not currently suffering. Sudbury Hydro submits that this is not borne out by the evidence in this proceeding, given the characteristics of the Sudbury Hydro distribution system. Sudbury Hydro submits that the system from its inception has been designed to include reasonable layers of redundancy. When these layers begin to fail, the impacts will not necessarily be seen immediately in poorer SQI results. To use an analogy, it is possible to drive a car using its temporary spare tire. One can carry on in that fashion for a while, but at some point it will leave the driver stranded, as it will fail. While the need for significant increases in spending may not always be reflected in current SAIDI and SAIFI indicators (and the evidence is that Sudbury Hydro has had up and down years for these indicators[25]), continued underfunding of the system will contribute to failures.

51. The record in this proceeding, including Sudbury Hydro's responses to Interrogatories and TC and hearing undertakings, supports Sudbury Hydro's submissions with respect to the need for increased capital spending on the distribution system. As noted at paragraph 16 of its Argument-in-Chief, Sudbury Hydro has supported its proposed capital budget in at least four ways in this proceeding, including the Capital Asset Management Plan; the August 2008 Costello Associates Asset Condition Report on municipal substations; the METSCO 3rd party review of the CAMP; and the project justifications prepared by Sudbury Hydro and provided in the record of this proceeding.

52. Sudbury Hydro respectfully submits that the OEB should reject the Schools submission[26] that "if the Board finds that there is a material infrastructure deficit in this utility, the responsibility for correcting it should be shared between the ratepayers and the shareholder…." As discussed above, Sudbury Hydro's approach for a number of years after its initial establishment under the *Energy Competition Act, 1998* was to not apply

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[23] Tr. Vol. 1, pages 83-84
[24] Tr. Vol. 1, pages 27-28
[25] Tr. Vol. 1, at page 89
[26] Schools submission, para. 3.4.12

for the MARR that otherwise would have been recoverable through rates. Dividends were not paid, debt was not fully serviced and rates were lower than they would have been had MARR been requested. Accordingly, Sudbury Hydro submits that its rate payers have already benefited from historical underinvestment in infrastructure. The capital spending proposed for the Test Year by Sudbury Hydro is necessary, supported by the evidence, will be completed in 2009 and can be performed with minimal impacts on its rate payers. While Schools suggests that the need to address whether the shareholder should bear some of the cost is reduced if the capital budget proposed by Schools is approved, that budget is significantly less than the amount necessary to perform the projects for which Sudbury Hydro has provided support in the Application and subsequent filings in this proceeding. Put simply, if the OEB agrees with Schools' request to remove millions of dollars from the capital budget, the sharing issue goes away in Schools' view – the difficulty with this is that the result is several more years of underfunding of Sudbury Hydro's infrastructure.

- **The VECC request for a reduction in meter capital**

53. With respect to the VECC request for a reduction in Sudbury Hydro's meter capital to $50,000, Sudbury Hydro notes that it has already proposed this.[27] Sudbury Hydro maintains that it is prepared to make this adjustment.

- **The VECC request for a lead-lag study**

54. As noted above, VECC has requested that the OEB direct Sudbury Hydro to prepare a lead-lag study for its next rebasing application. In this regard, Sudbury Hydro submits that in preparing the current Application, it has complied with the OEB's Filing Requirements for forward test year cost of service applications and has adopted the OEB's standard 15% approach to the working capital allowance. Sudbury Hydro submits that the determination of an appropriate alternative to this standard approach is more appropriately addressed by way of a generic proceeding in order to avoid passing on to rate payers the costs associated with a multitude of individualized studies. Sudbury Hydro notes that there are numerous 2009 rebasing applications (at least ten) in which the OEB has not required lead-lag studies, suggesting that such an

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[27] Sudbury Hydro response to Undertaking J1.5

individualized approach may not be the most cost effective way to test the reasonableness of the current default provision for working capital. These include, among others, Thunder Bay Hydro Electricity Distribution (EB-2008-0245); Peterborough Distribution Inc. (EB-2008-0241); COLLUS Power Corp. (EB-2008-0226); and Innisfil Hydro Distribution Systems Limited (EB-2008-0233). At page 6 of the Peterborough Decision, for example,[28] the Board wrote: "The Board will not direct PDI to undertake a lead/lag study at this time. It might not be the most cost effective way for testing the reasonableness of the current default provision for working capital, which is used by all, except two, electricity distributors."

- **Depreciation**

55. At paragraphs 61 and 62 of its Argument-in-Chief, Sudbury Hydro made the following submissions:

> "61. Finally, at page 21 of the OEB's Accounting Procedures Handbook, the OEB states:
>
> "Consistent with the CICA Handbook, this APHandbook does not provide prescriptive guidance in terms of the amortization methods to be used, the asset categories, the estimated useful lives or amortization rates. Instead, it is expected that in the absence of an objective study to support changes to the current methods, lives or rates, utilities will continue to use methods, lives or rates consistent with past practice. Note that the Board may review the selected amortization methods, estimated useful lives and amortization rates, as it considers necessary."
>
> 62. Sudbury Hydro submits that its depreciation expense and the calculation of that expense are appropriate."

56. Sudbury Hydro maintains that it has continued its methods consistent with past practice, in accordance with the OEB's APH, which in turn is consistent with the CICA Handbook. Sudbury Hydro submits that it remains appropriate to continue with this approach. The reference to the half-year rule cited by Board Staff relates to Tier 1 Adjustments (Rate Base) in the 2006 electricity distribution rate making process. Tier 1 Adjustments referred to matters such as retirements without replacement and non-routine/unusual adjustments.[29] Such is not the case here. Sudbury Hydro is not aware of a requirement that LDCs must apply the half-year rule for depreciation.

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[28] http://www.oeb.gov.on.ca/OEB/_Documents/2009EDR/dec_PDI_20090601.pdf
[29] See section 3.2.2 of the OEB's 2006 Electricity Distribution Rate Handbook, available at: http://www.oeb.gov.on.ca/documents/edr_final_ratehandbook_110505.pdf At page 14, the OEB states: "The additions or subtractions should be presumed to occur midyear."

57. Sudbury Hydro submits that the OEB does not apply the half-year rule in all circumstances. For example, in dealing with applications for approval of incremental capital modules under 3rd generation incentive regulation, the OEB allows depreciation on the full value of the approved incremental capital asset(s) beginning with the year in which they go into service. In its Supplemental Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors dated September 17, 2008 (EB-2007-0673), the OEB wrote: "*The incremental capital for which the Board may provide rate relief is the new capital sought in excess of the materiality threshold. The proceeding to consider an eligible distributor's application for rate relief would examine the reasonableness of the distributor's increased spending plan. If the application is approved, a rate rider would be established to reflect an amount sufficient to accommodate the portion of the approved incremental spending that exceeds the threshold amount.* ***In calculating the rate relief, the Board has determined not to apply the half-year rule so as not to build in a deficiency for subsequent years in the term of the plan.***" [Sudbury Hydro's emphasis] Sudbury Hydro submits that it should be permitted to continue its similar approach to depreciation.

58. Sudbury Hydro submits that it has historically used the full year of amortization in the year of acquisition. Of particular concern in the context of requests that Sudbury Hydro apply the half-year rule is the fact that Sudbury Hydro would be significantly affected by the application of the half-year rule in respect of its acquisition of new CIS software. To apply the half-year rule to this asset, which is fully depreciated for accounting purposes over five years, would in effect cause Sudbury Hydro to under-recover in excess of $840,000 over the life of the asset, as only 50% of depreciation would make it to rate base in the Test Year. This problem is illustrated in the table below. Under the half year rule, instead of recovering one-fifth of the value of the asset in depreciation each year (an amount equal to $420,000), Sudbury Hydro will only recover one-tenth of the value (or $210,000), not only for the 2009 Test Year, but for the three IRM years that follow. Even with an asset that has a longer accounting life, one-half of the depreciation value will have been lost for the Test Year and the following IRM years. However, with the CIS software, there is only one more year left in the life of the asset for accounting purposes by the time of Sudbury Hydro's next rebasing in 2013 and the impact of the rule is huge. The result is that following the half-year rule on this particular asset would result in an

$840,000 under collection of the asset value. With minimal net book value at the time of the next rebasing, that $840,000, or over one-third of the value of the asset, is lost.

Year	**Regulatory Period**	**Cost**	**Depreciation (current method)**	**Depreciation (1/2 year rule)**	**Difference**
2009	Test Year	$2,100,000	(420,000)	(210,000)	(210,000)
2010	IRM Period		(420,000)	(210,000)	(210,000)
2011	IRM Period		(420,000)	(210,000)	(210,000)
2012	IRM Period		(420,000)	(210,000)	(210,000)
Total:			$(1,680,000)	$(840,000)	$(840,000)

59. Should the OEB direct Sudbury Hydro to move to the half year rule for asset amortization, Sudbury Hydro respectfully requests that the that the amortization of the new CIS be excluded from this requirement and that Sudbury Hydro instead be permitted to amortize it on the basis of its full value in the year of acquisition.

4. COST OF CAPITAL AND CAPITAL STRUCTURE

60. In the interest of clarity, Sudbury Hydro has divided this item into two parts – capital structure, ROE and short term debt; and long term debt.

- **Capital Structure, ROE and short term debt:**

Board Staff Submission:

61. At page 13 of their submission, Board Staff set out Sudbury Hydro's proposed capital structure. Staff take no issue with the 56.67%/43.33% proposed Debt to Equity ratio, and confirm that it, Sudbury Hydro's proposed short term debt rate and its ROE of 8.01%, are consistent with the Board's Cost of Capital Report.

Intervenor Submissions:

62. CCC supports Sudbury Hydro's use of the updated cost of capital parameters.

63. VECC confirms that the deemed structure, short term debt and ROE conform to the OEB's updated parameters.

64. Schools has no submissions on short term debt or ROE. However, at page 29 (section 5.4) of its submission, Schools takes issue with Sudbury Hydro's 80% actual debt ratio (in fact, as noted previously, Sudbury Hydro's actual debt ratio is currently approximately 70%[30]) for the reasons set out in paragraphs 5.4.1-5.4.3. Alleged overrecovery of PILs is also discussed here, the suggestion being that by overleveraging itself, Sudbury Hydro is obtaining a windfall profit equal to the alleged PILs overrecovery. Schools is not suggesting changes to the revenue requirement in this application, but wants an analysis presented as part of Sudbury Hydro's next application with respect to its capital structure and the impact of overleveraging.

Sudbury Hydro Submissions:

65. As Board Staff and all intervenors support Sudbury Hydro's proposed capital structure, ROE and short term debt rate, Sudbury Hydro submits that these should be approved by the OEB.

66. With respect to Schools' comments regarding the alleged overrecovery of PILs, the Schools submission is essentially moot as it does not affect this Application. However, Sudbury Hydro respectfully requests that the OEB reject Schools' request for an analysis in respect of Sudbury Hydro's capital structure as part of its next rebasing application. To Sudbury Hydro's knowledge, the OEB has not prevented distributors from having actual capital structures that differ from the capital structures deemed by the OEB for rate making purposes. This is consistent with Schools' observation at paragraph 5.5.3 of its submission that the OEB has not stepped in to prevent LDCs from overleveraging. Sudbury Hydro submits that if there is an issue here, it is one that goes far beyond Sudbury Hydro's capital structure and is instead a generic issue that should be dealt with by the OEB in the context of a generic proceeding (such as the OEB's Consultation Process on Cost of Capital Review [EB-2009-0084] or the OEB's proceeding on Rate Design for Recovery of Electricity Distribution Costs [EB-2007-0031]). Similarly, the

[30] Tr. Vol.1, at page 80

OEB should not be dealing with generic issues in the context of a single distributor's rate proceeding as it could be a matter of concern for many if not all distributors.

- **Long Term Debt:**

Board Staff Submission:

67. Staff invite parties to comment on whether a weighted average long term debt rate of 7.01% is appropriate, apparently in light of Sudbury Hydro's "perpetual note at a high interest rate with no option to pay back principal", despite the fact that Sudbury Hydro has been able to get additional debt at a lower rate than the rate being paid on the note.

Intervenor Submissions:

68. No intervenor has suggested that the weighted average debt rate for Sudbury Hydro's long term debt should be lower than 7.01%. CCC accepts Sudbury Hydro's calculation of the cost of debt as appropriate but suggests that the note with the parent is not the most cost-effective way for Sudbury Hydro to obtain financing. CCC suggests that Sudbury Hydro should be encouraged to look to other options.

69. VECC supports rates of 7.25% for the affiliate debt and 6.1% for $12,000,000 for rate making purposes.

70. Schools supports the blended rate of 7.01%, but requests that the OEB direct Sudbury Hydro to seek alternate debt financing arrangements at market rates in time for its next rebasing, and to bring that evidence forward along with a new proposed cost of debt.

71. Accordingly, the intervenors appear to unanimously support the use of 7.25% on the affiliate note, and 6.10% on the $12 million referred to in the Application as a loan from the TD Bank, although there has been no loan obtained from the TD Bank. As noted in the Argument-in-Chief[31], Sudbury Hydro has only one debt instrument, a promissory note payable to its parent, Greater Sudbury Utilities Inc. ("GSUI") in the amount of $48,645,458 (referred to as the "Promissory Note").

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[31] Argument-in-Chief, at page 23, para. 77

Sudbury Hydro Submissions:

72. Sudbury Hydro has a number of concerns with the Staff and intervenor submissions. First, it is not clear why Staff have a concern with the use of 7.25% for the Promissory Note when, under the OEB's own rules, if the note is variable or callable, it will attract the OEB's deemed rate which for 2009 is 7.62% – higher than what Sudbury Hydro has requested. As discussed above in the context of the capital structure, if there are issues here, relating for example to concerns that the OEB's deemed interest rate is too high or that LDCs should not be parties to promissory notes with their municipal shareholders when those notes date back to the initial restructuring of local hydro commissions under the *Electricity Act, 1998*, these are issues that go far beyond Sudbury Hydro's own debt rate established at the time of its restructuring under the *Energy Competition Act, 1998*, and are instead generic issues that should be dealt with by the OEB in the context of a generic proceeding, since many of Ontario's electricity distributors have affiliate debt that is callable on demand and/or that has a variable rate; and once again, Sudbury Hydro submits that the OEB should not be dealing with generic issues in the context of a single distributor's rate proceeding as it could be a matter of concern for many if not all distributors. Staff and Schools should not be attempting to change rules that are applicable to all LDCs in the context of a single LDC's rate application.

73. Sudbury Hydro's second concern is that in speaking of a weighted average long term debt rate of 7.01%, no-one – neither staff nor the intervenors – has addressed Sudbury Hydro's submissions with respect to how the affiliate debt is to be treated. At pages 24 and 25 of the Argument-in-Chief, Sudbury Hydro made the following submissions:

> "For rate making purposes, the Promissory Note has been subject to a rate of 7.25% since Sudbury Hydro's initial unbundled distribution rates were established in 2001, in accordance with the deemed debt rate contained in the OEB's initial (2000) Electricity Distribution Rate Handbook for distributors with rate bases the size of Sudbury Hydro's. During the hearing,[32] Sudbury Hydro indicated that it considered the Promissory Note to be embedded debt at 7.25%, as it had been approved by the OEB in all previous Sudbury Hydro rate applications. For embedded debt, the OEB's Cost of Capital Report provides[33] that "the rate approved in prior Board decisions shall be maintained for the life of each active instrument, unless a new rate is negotiated, in which case it will be treated as new debt." Sudbury Hydro maintains that the Promissory Note should

[32] See Tr. Vol.2, page 156, lines 2-5
[33] At page 13

> be considered embedded debt, and therefore subject to the 7.25% rate for 2009 and in subsequent rebasing proceedings. Sudbury Hydro's witness panel confirmed that it is seeking a rate of 7.25% on the Promissory Note.
>
> …
>
> Sudbury Hydro has given further consideration to the matter of the rate applicable to the Promissory Note, and wishes to address the following concern with the OEB: If Sudbury Hydro's approach – that is, that the Promissory Note represents embedded debt that bears interest at 7.25% – is accepted, then the 7.25% interest rate will remain in place for the life of the instrument. If, however, the OEB determines that the Promissory Note represents affiliate debt that is callable on demand, then it would be subject to the OEB's deemed debt rate, which will presumably change with each rebasing application. That rate is currently 7.62% for 2009 rebasing applications, but will in all likelihood be a different value in four years when Sudbury Hydro is next before the OEB with a cost of service application. In Sudbury Hydro's submission, it would not be reasonable for the OEB to determine both that the Promissory Note is callable affiliate debt *and* that the rate should be limited to 7.25%. If the OEB were to make such determinations, then in subsequent rebasing applications, Sudbury Hydro would expect to face arguments that if the deemed rate is lower than 7.25%, then the lower rate should apply, but that if the deemed rate is higher than 7.25%, then Sudbury Hydro's rate in respect of the Promissory Note should be limited to 7.25%.
>
> Sudbury Hydro submits that this would clearly not be a fair and reasonable outcome, nor would it be consistent with the Cost of Capital Report. In summary, Sudbury Hydro submits that, consistent with the OEB's policy, the Promissory Note represents embedded debt at a rate of 7.25% for the life of the instrument. In the alternative, if the OEB determines that the Promissory Note represents callable affiliate debt that would be subject to the deemed debt rate in accordance with the Cost of Capital Report, then the appropriate debt rate for rate making purposes in this Application is 7.62%."

74. Sudbury Hydro requests that the OEB confirm that the Promissory Note represents embedded debt. Failing this, if the OEB determines that the Promissory Note represents variable rate debt or affiliate debt that is callable on demand, Sudbury Hydro requests that the OEB assign its deemed debt rate of 7.62% to the Promissory Note for the purposes of this Application in accordance with the Cost of Capital Report.

5. SMART METERS

Board Staff Submission:

75. Board Staff confirm that Sudbury Hydro has applied for a Utility-Specific Smart Meter Funding Adder in accordance with OEB Guideline G-2008-0002; that Sudbury Hydro is requesting a smart meter funding adder of $1.94 per month per metered customer; that

Sudbury Hydro has provided supporting evidence for its request including the OEB's Smart Meter Addendum Model; and that Sudbury Hydro has confirmed that its Smart Meter Plan does not include costs associated with functions that the Smart Metering Entity has the exclusive authority to carry out pursuant to O.Reg. 393/07.[34]

76. Staff acknowledge that Sudbury Hydro has provided sufficient evidence to support its request, but expresses a concern that the resulting rate adder results in a significant bill impact for certain classes and consumption types. Staff acknowledge Sudbury Hydro's response to Undertaking J2.15 in which Sudbury Hydro confirms 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.

77. Staff do not oppose the proposed $1.94 adder, but submit that should the OEB require Sudbury Hydro to implement a rate mitigation mechanism, then the smart meter adder could be reduced to $1.00 or some amount less than the proposed $1.94.

Intervenor Submissions:

78. It appears that only VECC has addressed this issue. While VECC represents residential customers that would be most affected by the proposed $1.94 adder, VECC does not oppose the Sudbury Hydro request. VECC accepts Sudbury Hydro's submission in its Argument-in-Chief (at paras. 104-105) that the 2009 adder should be revised in order to allocate net revenue equally in 2009, 2010 and 2011 resulting in a 2009 adder of $1.94 rather than the adder of $2.17 as originally proposed.

Sudbury Hydro Submissions:

79. Sudbury Hydro submits that the OEB should approve its proposed rate adder of $1.94. In addition to the fact that it is supported by the evidence and unopposed, Sudbury Hydro submits that reducing the adder now would only increase the adder in subsequent years and result in additional costs to customers related to carrying charges. As Sudbury Hydro explained in its Argument-in-Chief, the proposed adder of $1.94 for 2009 reflects a smoothing of the net revenue related to smart meters. In the absence of such an approach, the adder would fluctuate significantly over the three year period, which

[34] Staff submission, at page 15

does not benefit Sudbury Hydro or its customers. Sudbury Hydro also notes that, while mitigation measures are not necessary, it has proposed to dispose of its 2008 Deferral and Variance Account balances (discussed later in this submission), which represent a credit to customers. Accordingly, Sudbury Hydro submits that there is clearly no need to reduce the proposed smart meter rate adder of $1.94.

6. OPERATING, MAINTENANCE & ADMINISTRATIVE EXPENSES

80. Sudbury Hydro has organized its submissions in this area according to the following themes:

- The “Board of Directors Budget” vs. the “Application” budget;
- Tree Trimming;
- Regulatory Expenses;
- Audit Expenses;
- Other Individual Expense Items (Schools); and
- Shared Services

- **The “Board of Directors Budget” vs. the “Application” budget;**

81. This matter has been addressed above in the context of Sudbury Hydro’s 2009 capital expenditures, but it has also been raised in the context of OM&A, and Sudbury Hydro has further submissions below.

Board Staff Submissions:

82. The Staff submission includes[35] a copy of the table provided by Sudbury Hydro in response to Staff interrogatory No. 18(a), containing actual OM&A expenses for 2006 and 2007, estimated expenses for 2008 and requested 2009 Test Year costs. Staff advise that Sudbury Hydro has confirmed that the information in that table is correct. Staff express their concern about the difference between the amount of 2009 expenses and revenues presented to Sudbury Hydro’s Board of Directors (net expenses of approximately $10.5 million) and the amount proposed for recovery in the Application ($11,874,546), which Staff suggest is for the rate year of May 1, 2009 to April 30, 2010.

[35] Staff submission, at page 18

83. Staff note[36] that "the costs and revenues for the Test Year should also be from January 1 to December 31, 2009." Staff do not, however, comment on the specific amount that should be approved by the OEB.

Intervenor Submissions:

84. CCC argues that the 2009 OM&A level should be no more than the Board of Directors-approved amount, since the Board of Directors determined that $10.5 was an appropriate forecast for the year to operate the utility, and Sudbury Hydro should not have the opportunity to ramp up spending simply to reflect the timing difference between the calendar year and the test year.

85. VECC argues for the Board of Directors amount as the starting point, and submits that a $33/customer increase in OM&A based on the $11.9 million request is unprecedented and is not justified on the basis of a tangible link to service quality.[37] Further, VECC submits that Sudbury Hydro did not identify any offsetting savings that could avoid this level of increase. VECC alleges that while the intent of the OEB Filing Guidelines is that all forecast data used be consistent and based on a calendar year, Sudbury Hydro is trying to obfuscate that in order to justify higher capital and OM&A requests[38] and suggests that Sudbury Hydro is requesting that the OEB intentionally approve an overstated budget.[39] While Sudbury Hydro will have further comments on this theme below, Sudbury Hydro denies any suggestion that it has attempted to have the OEB approve an overstated budget. Sudbury Hydro submits that the record supports its proposed OM&A expenses for the 2009 Test Year in the amount of $11,874,546.

86. In section 4.1 of its submission,[40] Schools sets out the areas it will be covering with respect to OM&A. As for the budget issue, the submission is similar to that of VECC. That is, the starting point should be $10.5 million. At paragraphs 4.2.16 and 4.2.17 of the submission, Schools suggests that whereas, on the capital expenditure side, Sudbury Hydro tried to come up with new projects to replace the ones that wouldn't be used or useful in calendar 2009, Sudbury Hydro made no similar attempt for OM&A,

[36] Staff submission, at page 17
[37] VECC submission, page 12, para. 54
[38] VECC submission, at para. 59
[39] VECC submission, at paras. 63-64
[40] Schools submission, at page 16

indicating instead that it plans to (and are capable of) spending 60% of the OM&A budget in the second half of the year. Schools suggests that damages Sudbury Hydro's credibility, and taints the application with the attitude of "if you don't ask, you don't get".

Sudbury Hydro Submissions:

87. In short, Sudbury Hydro submits that it has justified its 2009 Test Year OM&A expenditures of $11,874,546 in the Application. VECC argues that this amount should be rejected because the year over year increase of 15% or $33/customer is too high, but these amounts are supported by Sudbury Hydro's evidence. With respect to the relationship between Sudbury Hydro's OM&A costs per customer and those of other utilities in its cohort, Sudbury Hydro expects that other utilities' OM&A costs per customer will also be increasing at the time of rebasing. Sudbury Hydro submits that it should not be subject to arbitrary reductions in justified costs, as appears to be suggested by VECC.

88. Schools suggests that new hires will not be in place until late in 2009 but full year expenses are claimed, and that with vacancies, Sudbury Hydro has the money to cover new hires. Sudbury Hydro submits that these costs will be in place for the next four years and that it is essential that it recover the full amount necessary to operate the utility through that period. It would be unreasonable for the utility to be required to bear those costs (and essentially forgo them, as it will not be able to recover them retroactively) until its next rebasing. If the OEB determines that any adjustment to OM&A is required in this regard to reflect that the costs are not being fully incurred during 2009, the adjustment should allow for the normalization of these costs over the IRM period, in order to ensure that Sudbury Hydro recovers the amounts necessary to offset the costs associated with these new staff members until Sudbury ydro's next rebasing.

89. As noted above, Schools suggests that Sudbury Hydro management did not have the approval of their Board of Directors for the OM&A budget requested in this Application. However, this is not correct. Sudbury Hydro provided evidence to the contrary in its response to Procedural Order #5 (a copy of which was filed during the oral hearing as Exhibit K1.2). Attached to that response was a copy of the motion of the Sudbury Hydro

Board of Directors approving a budget that included the full OM&A costs as outlined in the Application, reflecting a 15.3% increase over 2008 costs. As discussed previously, as Sudbury Hydro would expect would be the case with any utility, it will be advising its Board of Directors as to OEB's Decision in this proceeding following its issuance, and adjustments to both capital and OM&A budgets may be required at that time. This is consistent with Sudbury Hydro's annual practice of advising its Board of Directors later in a budget year as to the status of the expenditures covered in the budget.

90. Schools, at paragraph 4.2.17 of its submission, expresses concern and doubt about Sudbury Hydro's ability to complete its OM&A plans and further challenges the efficacy of any commitment to that effect . Sudbury Hydro respectfully submits that Schools is incorrect. It is the intention of Sudbury Hydro to complete the planned OM&A program before December 31, 2009.[41] The fact that 40% of the OM&A expenditures were made as of June 30, 2009 should not be taken to mean that Sudbury Hydro is incapable of completing its OM&A budget by December 31, 2009. The business does not operate on a purely linear cash flow. While projects do take place in the winter, as Sudbury Hydro's witness panel indicated, the construction season ramps up in April to May of each year when the weather gets warm.[42] It is therefore not unexpected that spending (both on capital and OM&A) would be higher in the second half of the year, and Sudbury Hydro expects that all of the tree trimming, pcb mitigation, station maintenance and other maintenance activities will be completed prior to the end of 2009, reflecting the increased pace of expenditures in the second half of this calendar year.

91. As Sudbury Hydro's Board of Directors has approved the proposed increase, it is likely unnecessary to address Schools' comments at paragraph 4.2.5 of its submission to the effect that any extra money earned beyond the amount set out in the "Board of Directors Budget" simply becomes profit. However, Sudbury Hydro is concerned about the suggestion inherent in this comment that Sudbury Hydro is simply attempting in this Application to obtain inflated sums in order to flow money up to its shareholder. First, this comment makes little sense given that the Application clearly explains the expenditures to which the requested revenue requirement will be applied. Second, Sudbury Hydro wishes to make it clear that at no time has it intended or attempted to

[41] See Sudbury Hydro's response to Undertaking J1.10
[42] Tr. Vol. 1, pages 50-51

mislead the OEB as to how the funds to be recovered through this Application would be applied. As Mr. Reeves, Sudbury Hydro's former President, confirmed during the hearing, Sudbury Hydro has never paid a dividend to its shareholder.[43] In fact, as discussed previously, Sudbury Hydro historically sought less in rates than it could have, in order to maintain lower rates for its rate payers.

92. Another Schools comment that requires a response is at paragraphs 4.2.16 and 4.2.17 of its submission. As noted above, Schools suggests that whereas, on the capital side, Sudbury Hydro tried to come up with new projects to replace the ones that would not be used/useful in calendar 2009, but Sudbury Hydro made no similar attempt for OM&A, indicating instead that it plans to (and is capable of) spending 60% of its OM&A budget in the second half of the year. Schools suggests that that damages Sudbury Hydro's credibility, and taints the application with the attitude of "if you don't ask, you don't get". First, Sudbury Hydro did not simply make up projects on the capital side – the projects set out in Sudbury Hydro's response to Undertaking J1.5 are justified and will be used and useful in calendar year 2009. Second, on the OM&A side, leaving aside the fact that the Board of Directors approved the 15.3% OM&A increase underlying the Application, Sudbury Hydro's evidence is that the requested OM&A monies will be spent as described in the Application, and in the 2009 calendar year.

- **Tree Trimming:**

Board Staff Submissions:

93. Staff accept Sudbury Hydro's explanation for increases in tree trimming costs since prior to 2005. Staff acknowledge that the budgeted costs are consistent with 2006 and 2007 expenditures and expected expenditures for 2008, and that it uses a four year cycle for trimming; the extent to which it cuts trees is not as aggressive as HONI's approach; and that its tree planting programme of the 1970s and 1980s has resulted in now mature trees requiring more attention.

94. However, Staff submit that the City has insisted that Sudbury Hydro shape trees in addition to trimming them, and Staff submit that rate payers should not bear the costs of beautifying the City. While tree trimming is accepted by Staff as an essential cost of

[43] Tr. Vol. 1, at pages 50-51

maintaining the integrity of the distribution system, tree shaping is not. Staff submit that a charge to the City could be developed for this service and that, in any event, the amount should be deducted from Sudbury Hydro's OM&A budget. Staff have asked Sudbury Hydro to provide a reasonable estimate for shaping costs.[44]

Intervenor Submissions:

95. All of the intervenors request reductions in the amount claimed for tree trimming so that tree shaping costs are not borne by electricity rate payers.

96. Schools questions Sudbury Hydro's move from a seven year cycle to a four year cycle[45] and suggests that there is no evidence to support this. Schools mischaracterizes Sudbury Hydro's comments about replanting activities in the 1970s and 1980s as aggressive local tree planting in the 90s – Board Staff, on the other hand, understand Sudbury Hydro's evidence that these activities took place in the '70s and '80s, leading to mature trees that require more attention.

97. Schools' solution is to reduce Sudbury Hydro's tree trimming expenditures by $213,696, a figure that Schools derives from the Board of Directors budget, but which would result in a significant reduction (over 1/3) from their recent historical levels by applying the "Board of Directors" budget.

Sudbury Hydro Submissions:

98. Much has been made of the characterization of Sudbury Hydro's forestry maintenance practice as "tree shaping". At both the Technical Conference[46] and in response to Schools Interrogatory No. 15, Sudbury Hydro attempted to explain the difference between forestry maintenance in an urban setting such as Sudbury versus a primarily rural setting as is the case for Hydro One. First, an urban utility does not have the option of cutting trees to the ground as may be in the case in a rural right of way. The trimming of trees and shaping of trees in Sudbury Hydro's submission is one and the same term and the only increase in costs has related to increased frequency of trimming. Sudbury Hydro does not undertake ornamental shaping of its vegetation; tree shaping is a

[44] Staff submission, at pages 18-19
[45] Schools submission, at page 21
[46] TC transcript, at pages 11-12

common industry practice that allows them to retain their integrity. To Sudbury Hydro's knowledge, distributors' tree trimming practices in urban environments are similar, and Sudbury Hydro submits that any adjustment for the incremental cost of "shaping" activity would be arbitrary and punitive to Sudbury Hydro. As noted above, Schools (at paragraph 4.3.10 of its submission) incorrectly identified a tree planting program in the "90s" as being a cost driver, when in fact Sudbury Hydro's evidence in its response to SEC IR 15 is that the re-greening of Sudbury occurred in large part in the 1970s and 80s. Accordingly, Sudbury Hydro must address the trimming of a significant volume of mature vegetation.

- **Regulatory Expenses:**

Board Staff Submissions:

99. Staff submit that the Sudbury Hydro cost projections appear reasonable, but there is no rationale or breakdown for the $43,000 related to the *Green Energy and Green Economy Act, 2009* (the "GEGEA") in 2010. Staff also suggest that there is no rationale for the annual increase of 2% for hearing assessments.

Intervenor Submissions:

100. CCC submits that Sudbury Hydro's legal and consulting costs for applications and other regulatory costs should be consistent with levels approved for similar sized LDCs.

101. Schools wants the OEB to use Sudbury Hydro's Board of Directors budget, but would add $30,000 per year for four years for legal costs.

Sudbury Hydro Submissions:

102. With respect to costs related to the GEGEA, Sudbury Hydro submits that based on the scope of the legislation and the anticipated new regulations, it considered $43,000 to be a reasonable estimate of the costs associated with training staff and implementing the new requirements that will be placed on distributors. A large number of staff will be involved from various departments within Sudbury Hydro to ensure its compliance with this initiative. Costs associated with their time and travel (since most training seminars

are held in Toronto) were estimated and this was the amount that Sudbury Hydro determined was appropriate for a project of this size.

103. However, Sudbury Hydro acknowledges that incremental costs associated with the GEGEA are more appropriately accounted for using the newly created Account 1532 – Renewable Connection OM&A, and Account 1535 – Smart Grid OM&A deferral accounts. Accordingly, Sudbury Hydro withdraws its request for recovery of $43,000 in GEGEA-related costs.

104. The proposed 2% increase for hearing assessments was based on inflation. As this was an accepted methodology used in other expense areas, it appeared reasonable to Sudbury Hydro that it be used here as well. Sudbury Hydro's portion of the 2008 OEB cost assessments was approximately $146,000, and are approximately $153,000 for 2009, for an increase of 4.79%. Sudbury Hydro submits that the proposed 2% increase is justified.

105. With respect to application costs and CCC's submission that they be consistent with levels approved for other similar sized Utilities, Sudbury Hydro submits that it has gone through an extensive rate application process, and is one of few distributors to have had two rounds of interrogatories, a Technical Conference, a Settlement Conference and an oral hearing. As this was Sudbury Hydro's first rebasing application based on a forward test year cost of service approach, Sudbury Hydro initially tried to use in-house resources as much as possible. As it moved further into the process, Sudbury Hydro determined that it needed to seek the assistance of external professionals to assist it with this process. This has increased Sudbury Hydro's application-related costs. Sudbury Hydro knows that the final tally of expenses incurred in relation to its Application will be well above the amount budgeted for legal and incremental labour and costs associated with the Application. Sudbury Hydro is not seeking to increase the amount set out in the Application, but submits that it is not reasonable to reduce it. Sudbury Hydro submits that the $30,000 figure proposed by Schools is not reasonable in the context of an Application that has been the subject of this extensive process.

106. Other regulatory costs also include OEB Annual Assessments and other Section 30 cost awards, and Sudbury Hydro's review of the trend associated with these costs leads to the conclusion that they are increasing year over year.

- **Audit Expenses:**

Board Staff Submissions:

107. Staff submit that the $100,000 audit cost should be reduced to $33,000, as Staff do not support the use of three auditors. With respect to IFRS, Staff submit that this $50,000 should be removed as the OEB has established a deferral account for this.

Intervenor Submissions:

108. While CCC concurs with Staff that the $100,000 audit cost should be reduced to $33,000, Schools suggests that a higher amount, $50,000, is more reasonable for an LDC of Sudbury Hydro's size. CCC and Schools agree with the Staff submission regarding the removal of $50,000 related to IFRS.

Sudbury Hydro Submissions:

109. With respect to the audit costs, as Sudbury Hydro indicated at the Technical Conference,[47] concurrent with the amalgamation of the City of Greater Sudbury the Transition Board issued a tender for audit services and the three audit firms formed a joint venture or combined bid to provide those services. The actual audit work was split so that KPMG and Collins Barrow attend to the City audit requirements and FCR was solely responsible for the Sudbury Hydro audit and associated services. Under the provisions of the audit firms' arrangements, the three firms sign the audit opinion resulting in the appearance that Sudbury Hydro is over-audited . Sudbury Hydro confirms that is not the case, and the fees set out in the Application are only for the services as provided by FCR Chartered Accountants. Sudbury Hydro submits that no adjustment to the costs of audit and associated services is warranted.

[47] TC Transcript, at page 79

110. As the OEB has established a deferral account related to IFRS expenditures, Sudbury Hydro agrees that it would be appropriate to remove the $50,000 related to IFRS implementation from Sudbury Hydro's revenue requirement.

- **Other Individual Expense Items (Schools):**

Schools Submission:

111. Schools mentions two additional items at page 22 of its submission – incremental costs related to Sudbury Hydro's 24/7 control room; and ERP maintenance costs that will not be incurred until 2010. With respect to the former, Schools suggests that the reason Sudbury Hydro went to the 24/7 control room was in order to pursue non-distribution revenue opportunities, and that when that venture was unsuccessful, the costs were moved to the regulated utility starting in 2009. Schools submits that Sudbury Hydro should not be able to pass the cost of a failed venture on to its distribution customers. With respect to ERP maintenance, Schools suggests that those costs should not be in the 2009 OM&A budget.

Sudbury Hydro Submissions:

112. With respect to the control room, Sudbury Hydro submits that the comments of its witness panel in this regard[48] make it clear that the recovery of costs related to the move from a 24/5 control room operation to a 24/7 operation is not an attempt to pass the costs of a failed business venture onto its customers. Sudbury Hydro initially had a 24/7 operation, until it lost an operator during a lengthy strike in 2004. It dropped to 24/5 until 2006, when it returned to a 24/7 control room. While Sudbury Hydro acknowledges that it had hoped that there would be opportunities to share those costs with other utilities, those did not materialize. However, as discussed by its witness panel, Sudbury Hydro submits that it sound, accepted and recommended utility practice for a urban utility of Sudbury Hydro's size and service territory complexity to operate under the operating control of a 24/7 control room staffed by qualified personnel. It allows for quicker responses to trouble calls at all times, which in turn assists in the improvement of SAIDI statistics. Sudbury Hydro submits that the return in 2006 to 24/7 control room operation contributes to the quality and reliability of distribution service to its customers.

[48] Tr. Vol. 2, at pages 33-35

- **Shared Services:**

Board Staff Submission:

113. Staff suggest that Sudbury Hydro admitted in the hearing that it is not in full compliance with the ARC, although they provide no reference for that statement. Staff confirm Sudbury Hydro's commitment to the Transfer Pricing Study as confirmed in the Argument-in-Chief, and they do not appear to be advocating for a limited scope hearing prior to Sudbury Hydro's next rebasing, but they recommend as an alternative that the financial outcome be recorded in a deferral account with balances to be reviewed as part of Sudbury Hydro's next cost of service application.

Intervenor Submissions:

114. Unlike Staff, CCC does not suggest that it is settled that Sudbury Hydro is non-compliant with the ARC. Rather, CCC suggests[49] that there remain questions. However, CCC submits that Sudbury Hydro should be required to obtain a consultant as soon as possible to conduct a comprehensive review of its corporate structure, transfer pricing methodologies and corporate cost allocation.

115. CCC submits that Sudbury Hydro should work with Staff to finalize the terms of reference and proceed as soon as possible. CCC submits that the cost should be borne by the shareholders and that Sudbury Hydro should be required to rebase on the basis of the study in 2011.

116. CCC also requests[50] that the overall billing costs be split equally between Sudbury Hydro and the City, so that the $3.642 million included in rates would be reduced to $1.8 million; and that costs related to the new CIS should be split on a 50/50 basis.

117. Among its submissions, VECC submits[51] that the first issue is whether the current shared services model is appropriate for the situation in Sudbury, and that ARC compliance is a major concern. VECC argues that increases in shared services costs are excessive and should be reduced. Another issue is how the costs are allocated to

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[49] CCC submission, at paras. 23-24
[50] CCC submission, at para. 28
[51] VECC submission, at page 15

the affiliates under GSUI and GSHPI. Allocations are 90% or higher in all categories, and VECC argues that there is no formal allocation model, nor does the evidence show how the allocation is made. Additionally, VECC submits that the allocations are not in Sudbury Hydro's control, and that this is a fundamental structural issue in terms of the shared services model. Similar to CCC, VECC proposes a 50/50 split of fully allocated billing costs, or at least a 33% water/66% electricity split if the OEB accepts that there is a difference in CIS-related fixed costs due to the complexity of electricity billing. VECC suggests that the OEB accept the "Board of Directors" budget of $10.5 million subject to the studies referred to in paragraph 100 of its submission and the deeming of an additional amount of 2009 revenue related to billing services – either approximately $1 million or $460,000. VECC considers the allocation of an additional $460,000 for 2009 would be fair pending the results of the fully allocated costs study for water.

118. Schools (at paragraph 4.4.3) argues that no analysis has been done to determine proper cost allocation between various users of the shared services. Schools submits[52] that the Chief Compliance Officer advised Sudbury Hydro in 2006 that it was in violation of the ARC and was to undertake a transfer pricing study, and Sudbury Hydro has continued to delay. Schools ignores the fact that Sudbury Hydro has not been subject to any compliance order from the OEB, and that the Chief Compliance Officer did not, and could not, speak for the OEB. Schools also dismisses two years of ARC-related proceedings and reviews as having nothing to do with transfer pricing, notwithstanding that these proceedings (the Electricity Distributors Association application and the OEB's ARC review that led to ARC amendments that came into force in August of 2008), to which the material in Exhibit K2.2 relates, involved matters such as permitted activities for electricity distributors and eventually resulted in amendments to the ARC related to, among other things, transfer pricing.

119. With respect to water billing, Schools alleges[53] (although there is no reference to the record) that Sudbury Hydro has confirmed that the water billing side benefits from the new CIS as well, but that it is not allocating anything to the City for capital or incremental operating costs related to the CIS.

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[52] Schools submission, paras. 4.4.9-4.4.10
[53] Schools submission, at paragraph 4.4.6

120. Schools requests that Sudbury Hydro be ordered to carry out a transfer pricing study forthwith (Sudbury Hydro has indicated that it intends to do so in any event), and that in the interim, water and electricity billing costs be split on a 50/50 basis, to be adjusted later through the use of a Transfer Pricing Deferral Account.

Sudbury Hydro Submissions:

121. Sudbury Hydro's position on shared services is clearly set out in its Argument-in Chief,[54] and Sudbury Hydro does not propose to repeat it in detail here. Sudbury Hydro has explained its methodologies to allocate corporate and shared services, including the allocation of costs related to billing services, in its Application[55] and subsequent filings,[56] and during the oral hearing. Sudbury Hydro's evidence is that its shared services costs are fully allocated. Sudbury Hydro maintains that its corporate and shared services allocations are appropriate, but Sudbury Hydro is committed to undertaking the transfer pricing study. Sudbury Hydro submits that the appropriate time to deal with the transfer pricing study is on its next rebasing.

122. According to CCC, that rebasing should come in 2011. Sudbury Hydro disagrees. At paragraph 55 of its Argument-in-Chief, Sudbury Hydro explained why the concept of a limited scope hearing to consider the results of the transfer pricing study would not be appropriate. Among the concerns raised by Sudbury Hydro were that dealing with transfer pricing study at the time of rebasing (that is, in the context of an application made in 2012 for implementation of rates in 2013) would allow adequate time for the completion of the study and the implementation of its findings; and as a related matter, that because the preparation of a rebasing application usually begins many months before the filing deadline, a 2012 application for 2013 rebasing will likely begin in the late summer or early fall of 2011. By that time, Sudbury Hydro can reasonably expect to have completed and implemented the study, and to address it in the rebasing application. Preparation of an application for rebasing effective in 2011 would be commencing now, with filing to take place in August 2010. Sudbury Hydro submits that it would be impossible to complete and implement a transfer pricing study and

[54] See pages 14-19, under issue 4.3.
[55] See Exhibit 4, Tab 2, Schedule 4
[56] See Sudbury Hydro's addendum to its response to VECC Supplementary Interrogatory 35, filed through the RESS in May 2009 (reference no. 5143), including without limitation its response to Interrogatory 35(c).

incorporate it into a 2011 rebasing application, particularly in the event that structural changes are required within the Sudbury Hydro corporate family. Sudbury Hydro also notes that since the current arrangement for water billing is scheduled to end in 2012, Sudbury Hydro may not know what the City's plans are for the future provision of those services until after 2011. Accordingly, Sudbury Hydro's anticipated 2012 application for rebasing in 2013 remains the most appropriate forum for the consideration of the transfer pricing study.

123. No party has advocated for a limited scope proceeding between now and the next rebasing, and Sudbury Hydro agrees that there should not be one, for the reasons set out in its Argument-in-Chief. However, Board Staff and the intervenors have differing views with respect to what to do with the electricity/water allocation in advance of the next rebasing. Staff suggest a transfer pricing deferral account with balances to be reviewed as part of Sudbury Hydro's next cost of service application. There is no suggestion that the allocation would change at this time.

124. As mentioned above, CCC has proposed that both billing and CIS costs be split on a 50/50 basis between Sudbury Hydro and the City. VECC advocates a similar 50/50 split, or at least a reduction in the electricity share to 2/3 of the total (representing an additional allocation of $460,000 to water), pending the transfer pricing study. Sudbury Hydro understands these submissions to mean that CCC and VECC are asking the OEB to reallocate immediately as between electricity and water billing with no subsequent adjustment (although this is slightly less clear in the VECC submission), and on a basis that exceeds even the approach used by the OEB in its Tillsonburg proceeding.

125. At paragraph 4.4.22 of its final argument, Schools suggests that there are three options for setting the interim allocation of billing costs, of which Schools supports the third:

> "(a) Review the evidence and determine the likeliest appropriate allocation. In our view, there is insufficient evidence to do this, which is why a transfer pricing study is so necessary.
>
> (b) Leave the status quo, and adjust later.
>
> (c) Split all billing and collection costs 50/50 between electric and water, and adjust later."

126. The submissions on what to do in the period between the current and the next rebasing raise a number of concerns, which Sudbury Hydro will address here.

127. The suggestions of CCC and VECC that the OEB immediately adopt a new allocation based on a 50/50 split are entirely without foundation, and clearly prejudge the outcome of the transfer pricing study. Sudbury Hydro submits that there is no basis for an immediate reallocation. All that this would accomplish is taking funds away from other necessary capital and OM&A expenditures.

128. Additionally, the CCC/VECC suggestion, and even the Schools suggestion of a 50/50 split subject to adjustment later, ignore the most likely outcome of an immediate change in the allocation of billing and collection costs, that being a termination of the arrangement between the City and Greater Sudbury Hydro Plus Inc.[57] Sudbury Hydro submits that this will immediately increase customer costs by approximately $429,677 due to the loss of current cost sharing. Sudbury Hydro submits that in this matter the City is a third party purchaser of a service. As noted above, under the current arrangement the electricity rate payer enjoys significant financial advantage; in the event of a termination of the agreement all costs for billing will fall to rates. Sudbury Hydro submits that the Schools approach of immediately moving to a 50/50 sharing of billing and collection costs subject to adjustment later prejudges the transfer pricing study and may result in actions being taken that render the question of an appropriate share for the City moot. If there is a different allocation that is more appropriate than the current approach, the determination of that allocation requires the completion of the transfer pricing study, to which Sudbury Hydro is committed. Accordingly, Sudbury Hydro submits that the appropriate approach for 2009 rates is to maintain the status quo.

129. One of Sudbury Hydro's concerns with the various submissions on what to do in the interim is their punitive nature. All submissions assume either immediate adjustments or retroactive adjustments in the electricity/water allocation, and that in turn implies (although as noted above, the suggestions are in fact explicit) that Sudbury Hydro has contravened the ARC and should have made changes some time ago, and is trying to benefit from further delay. This view is perhaps best expressed by Schools, with its "delay, delay, delay" theme. Schools goes on to suggest[58] that Sudbury Hydro's questioning of issues raised by the Chief Compliance Officer,[59] its attempt to obtain

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[57] Tr. Vol.2, p.91, lines 14-24
[58] Schools submission, para. 4.4.10
[59] See the revised response to Undertaking J1.15

further information from the Chief Compliance Officer after receiving his letter of July 13, 2006,[60] the EDA Application with respect to the ARC, the OEB's consultation with respect to the ARC and Sudbury Hydro's outstanding request for clarification with respect to certain aspects of the ARC, all of which have spanned at least two years (2006-2008), has nothing to do with transfer pricing. With respect, the Schools comment in this regard is inexplicable. The hearing panel confirmed that it is well aware of the events surrounding the EDA application and the subsequent ARC review, and Sudbury Hydro will not revisit them here, except to note that transfer pricing has been an issue throughout this progression of proceedings. Transfer pricing was clearly an issue in the OEB's ARC review (EB-2007-0662), as can be seen in a multitude of documents on the public record in that review, beginning with the staff research paper delivered at the commencement of the proceeding[61]; continuing through stakeholder comments (including those of Schools, which addressed transfer pricing) on the research paper and later on the OEB's proposed amendments to the ARC; and culminating with the ARC amendments that took effect in August of last year, which replaced sections 2.3.1-2.3.4 of the former ARC with an extensive set of new transfer pricing rules.

130. Sudbury Hydro did make certain changes to its operations in response to the Chief Compliance Officer's letter of July 13, 2006.[62] Sudbury Hydro respectfully submits that it should not be faulted for not having made more extensive changes when it would be at least two more years before issues related to transfer pricing became more settled. As noted previously, Sudbury Hydro has not received any compliance order from the OEB. Similarly, Sudbury Hydro has not received any notice of the OEB's intention to issue a compliance order. At no time was it suggested by OEB staff the course of its dealings with the Compliance Office or in the course of the EDA application or the OEB ARC review that Sudbury Hydro was engaging in delaying tactics. Moreover, as mentioned at paragraph 50 of the Argument-in-Chief, The *Green Energy and Green Economy Act, 2009* contemplates expanded activities for distributors, and this may also have an impact, as yet undetermined, on the ARC. If there are changes to be made with respect to transfer pricing and allocation of billing costs, Sudbury Hydro submits that they should

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[60] See Sudbury Hydro's response to Undertaking J2.9
[61] http://www.oeb.gov.on.ca/documents/industryrelations/keyinitiatives/research/ARC_final_report_20070615.pdf – see section 2.6 – Transfer Pricing Rules
[62] Filed as Appendix 16 in response to Schools Interrogatory 16(a)

be made on a prospective basis at the time of its next rebasing. Sudbury Hydro also reiterates that it is appropriate that it be permitted to recover its costs of the study, and notes that VECC, in its submission, significantly understated the estimated cost of the study at approximately $100,000. A more accurate estimated range can be seen in the proposals filed in confidence as part of its response to Undertaking J2.6. Sudbury Hydro submits that this is a legitimate regulatory cost, particularly in light of years of uncertainty around transfer pricing and shared services. Sudbury Hydro intends to undertake the transfer pricing study, with the significant costs of such study to be accounted for in a deferral account for recovery in a later date and the findings of the study to come into effect on a prospective basis in conjunction with its next rebasing application.

131. As should be clear from the foregoing comments, Sudbury Hydro believes that any changes in shared costs, or any structural changes to Sudbury Hydro and its corporate family that flow from the Transfer Pricing study should be dealt with on a prospective basis at the time of Sudbury Hydro's next rebasing, currently anticipated in 2013; and that that rebasing should not be accelerated. Similarly, there should be no arbitrary changes in billing-related now, whether or not they are subject to retroactive adjustment at a later date. However, in the event that the OEB determines that a strictly prospective approach is not acceptable to it, Sudbury Hydro submits that a provision for a retroactive adjustment is preferable to arbitrary changes at this time, and the Board Staff approach – that is, the maintenance of the status quo until the next rebasing subject to the use of a transfer pricing deferral account – is preferable to arbitrary changes now subject to adjustment later. Sudbury Hydro suggests that if a deferral account is to be used, then it would be appropriate to allow Sudbury Hydro to track the transfer pricing study-related costs in that account for recovery at the same time any adjustments to allocation are made.

132. With respect to the scope of the study, Sudbury Hydro agrees with Schools in that it is not necessary for the OEB to provide it with a detailed roadmap of how to do a transfer pricing study. Sudbury Hydro intends to retain experienced consultants in this regard. Similarly, Sudbury Hydro should not be required to consult with stakeholders. Sudbury Hydro is not aware of other LDCs having been required to consult on corporate matters. Sudbury Hydro may consult as it considers necessary with Board Staff, but Sudbury

Hydro respectfully submits that it should be in control of its transfer pricing review process.

7. COST ALLOCATION

Board Staff Submission:

133. At page 22 of their submission, staff present a table that illustrates the revenue to cost ratios set out in Sudbury Hydro's cost allocation informational filing; the proposed ratios shown in Exhibit 8 of the Application; and the revised ratios set out in Sudbury Hydro's response to Technical Conference ("TC") Undertaking No. 4.

134. Staff support the revised approach to cost allocation and the revised cost allocation study and ratios presented by Sudbury Hydro in response to TC Undertaking #4. Staff also consider the proposal to move Street and Sentinel Lighting to 70% in equal steps in 2010 and 2011 to be reasonable. Staff suggest that additional revenue generated could be used to decrease ratios for GS < 50 kW, GS > 50 kW and Unmetered Scattered Load by equal percentages because those classes have similar ratios above 100%.

Intervenor Submissions:

135. CCC appears to be silent on this – as CCC's submission focuses on areas of disagreement with Sudbury Hydro, CCC apparently does not object to the Sudbury Hydro proposal.

136. VECC discusses cost allocation and revenue to cost ratios at some length in its submission.[63] Portions of the VECC submission on this point relate to what appear to be more generic issues such as the appropriateness use of the class revenue requirement distribution from the Cost Allocation Informational Filing to determine 100% cost responsibility for 2009.[64] Other portions contain VECC's discussion of a comparison of the revenue to cost ratios set out in Exhibit 8 of the Application to those set out in response to VECC interrogatory No. 23(c) (which is identical to Sudbury Hydro's response to Technical Conference Undertaking No. 4, shown in Table 1 of the Staff

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[63] VECC submission, pages 25-30
[64] VECC submission, paragraph 126

submission and supported by Staff). VECC confirmed[65] that the cost allocation study and revenue to cost ratios set out in response to VECC #23(c) properly address VECC's concerns about the need to remove the cost of the transformer allowance from other rate classes than the GS>50 class. VECC also acknowledged Sudbury Hydro's confirmation at paragraph 86 of the Argument-in-Chief that it proposes to use the revenue to cost ratios set out in its response to TC Undertaking No. 4 (VECC #23(c)) as the starting point for reallocation of distribution revenue.

137. In short, in attempting to summarize VECC's five pages of submissions on this issue, Sudbury Hydro believes VECC's position to be that it supports the use of the revenue to cost ratios set out in response to VECC #23(c)/TC Undertaking 4, an approach supported by Staff and in fact proposed by Sudbury Hydro, subject to VECC's concerns about the use of the class revenue requirement distribution from the Cost Allocation Informational Filing to determine 100% cost responsibility for 2009. The area in which VECC differs from staff is that instead of using additional revenues to decrease ratios for GS < 50 kW, GS > 50 kW and Unmetered Scattered Load by equal percentages because those classes have similar ratios above 100%, VECC would have the OEB adjust only the ratio for the USL class, as the two GS classes are already within the OEB's range. Notwithstanding this apparent agreement with Sudbury Hydro on the appropriate starting point, VECC then proceeds with a critique of Sudbury Hydro's *original* proposal as contained in the Application.[66] VECC opposes Sudbury Hydro's proposal to increase the Residential ratio to over 96%, but that is not Sudbury Hydro's proposal as set out in its response to TC Undertaking #4/VECC #23(c) or in its Argument-in-Chief. Sudbury Hydro does not intend to revisit its original proposal, and believes that that portion of the submission is intended more as a response to a potential Schools submission than as a matter to be addressed by Sudbury Hydro, as it is no longer relevant to the Sudbury Hydro proposal.

138. Schools supports a different set of revenue to cost ratios from the Staff submission. Where Staff supports the ratios in column 3 of Table 1 of its submission, which are the TC Undertaking 4/VECC IR #23(c) figures, Schools supports column 2, which represents the ratios proposed in the original Application. The original proposal reduces ratios for

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[65] VECC submission, paragraph 125
[66] VECC submission, page 29

GS customers more than the ratios in TC Undertaking 4 and increases the Residential revenue to cost ratio. Schools supports the approach set out in response to VECC #23(c) as the correct approach to the transformer allowance.

Sudbury Hydro Submissions:

139. Sudbury Hydro acknowledges VECC's and Schools' confirmation that its revised cost allocation filing in TC Undertaking 4/VECC #23(c) represents the appropriate treatment of the transformer allowance. The Sudbury Hydro proposal is to use those ratios and to apply additional revenue generated to decrease ratios for GS < 50 kW, GS > 50 kW and Unmetered Scattered Load by equal percentages, as suggested by Staff. The ratios would be applied to both Sudbury and West Nipissing customers, and Sudbury Hydro does not believe that any party is opposed to this.

140. With respect to VECC's comments about the use of the class revenue requirement distribution from the Cost Allocation Informational Filing to determine 100% cost responsibility for 2009, Sudbury Hydro submits that that concern would only arise where there have been significant changes in class proportions since the original cost allocation filings. That is not the case here. Sudbury Hydro's load growth has been fairly flat, and there have been no significant changes in class proportions. If VECC is attempting to suggest that Ontario distributors should be updating their cost allocation filings, that is a generic matter and beyond the scope of this proceeding.

141. Sudbury Hydro acknowledges the possibility that not all parties will necessarily be satisfied with any particular proposal. However, Sudbury Hydro submits that its proposal, including its proposal to move Street and Sentinel Lighting to 70% in equal steps in 2010 and 2011 and the use of additional revenue generated to decrease ratios for GS < 50 kW, GS > 50 kW and Unmetered Scattered Load by equal percentages, is reasonable and consistent with OEB policies. Should the OEB adopt a different approach, Sudbury Hydro will incorporate it into its Draft Rate Order.

8. RATE DESIGN (MONTHLY FIXED CHARGES, UNMETERED SCATTERED LOAD, LOW VOLTAGE RATES, RETAIL TRANSMISSION SERVICE RATES, LOSS FACTORS)

142. Within this area, Sudbury Hydro will address the following topics: fixed/variable splits; harmonization of West Nipissing rates; mitigation; LV adders; Retail Transmission Service Rates ("RTSRs") and Loss Factors.

- **Fixed-Variable Splits:**

Board Staff Submission:

143. In their submission, Board Staff confirm that the harmonized Sudbury/WNES rates will retain the same fixed-variable ratios, subject to small adjustments to the WNES fixed-variable ratios to mitigate impacts of harmonization. Staff support both the maintenance of the fixed-variable ratios at their current levels and the proposal to make minor adjustments for WNES during the harmonization period.[67] Staff also support the maintenance of the existing Sudbury Hydro Specific Service Charges and the $0.60 transformer allowance.

Intervenor Submissions:

144. VECC suggests[68] that although there is no requirement that residential service charges be reduced to the upper bound value for fixed charges, the fixed percentage for the Sudbury area rates should be reduced such that total bill impacts for both Sudbury and WNES residential customers is no more than 10% based on 250 kWh use, in order to (in part) mitigate impacts.

145. Schools submits that the fixed charges appear to comply with Board policies with the exception of the fixed charge for GS>50. Sudbury customers are at a fixed charge of $178.96/month, while West Nipissing customers are at $30.34/month, and the minimum system with PLCC is $78.87/month. Schools notes that Sudbury Hydro is proposing to increase West Nipissing GS > 50 kW customers to an amount outside the range. Schools suggests that this contravenes Board policy, and submits that all GS>50 customers should be set at $78.87. Put simply, because a few West Nipissing

[67] Staff Submission, at page 23
[68] VECC submission, at page 31

customers would see an increase in their monthly service charges, Schools' approach is to give a much larger number of Sudbury customers a $100 discount on their monthly service charges. Sudbury Hydro will address this below, but notes at this time that this is entirely unreasonable, particularly where Sudbury Hydro has already proposed mitigation measures for WNES customers.

Sudbury Hydro Submissions:

146. Sudbury Hydro maintains its proposal with respect to fixed/variable splits as set out in the Application and as supported by Board Staff.

147. With respect to the VECC comments regarding residential customers at the 250 kWh profile, Sudbury Hydro submits, as it has previously, that the impacts of its Application are not so great as to warrant further mitigation measures. Even at this profile, bill impacts are minimal.

148. With regard to Schools' request for changes to the GS > 50 kW fixed/variable split, Sudbury Hydro respectfully submits that the reasonable way to deal with a harmonization impact on West Nipissing GS > 50 kW customers, who for many years have been paying an extraordinarily low monthly charge, is not by discounting Sudbury GS > 50 kW customers' monthly charges by $100/month. Rather, it is to move West Nipissing GS > 50 kW customers to a more appropriate monthly service charge and provide for reasonable measures to mitigate the impact of harmonization, which Sudbury Hydro has proposed in this Application through the two year harmonization period. The OEB, in its November 28, 2008 Cost Allocation Report, clearly contemplates circumstances in which the fixed charge remains outside of the range, and Sudbury Hydro submits that the circumstances of this Application are consistent with those contemplated by the OEB in the Report.

- **Harmonization:**

Board Staff Submission:

149. Staff submit[69] that Sudbury Hydro's harmonization approach whereby all West Nipissing customers will be harmonized over 2 years is not unreasonable, although they note that harmonization in the first year may be more appropriate for some classes.[70]

Intervenor Submissions:

150. VECC is generally supportive of Sudbury Hydro's harmonization proposal but expresses concern[71] that Sudbury Hydro's proposal to recover the revenue shortfall will change revenue to cost ratios from those being proposed to the Board.

151. Schools does not appear to speak specifically to harmonization except in the context of the impact on the fixed-variable splits as discussed above.

Sudbury Hydro Submissions:

152. Sudbury Hydro maintains that its proposed two year approach to harmonization for all customers is reasonable, and should be approved by the OEB. While there will be some changes to fixed/variable splits as a result of the two year harmonization process, these changes will be temporary and are reasonable in the context of Sudbury Hydro's desire to mitigate the impacts of harmonization on its West Nipissing customers. Sudbury Hydro acquired WNES in 2005; amalgamation took place in January of 2008; and Sudbury Hydro submits that it is appropriate to deal with harmonization now, while respecting the need to address the impacts related to harmonization. The two year harmonization proposal accomplishes these objectives without significant impacts on Sudbury customers. Sudbury Hydro recognizes that the rate impact on low volume residential customers may appear significant on a percentage basis, but it is relatively small in dollar terms. Sudbury Hydro believes that the anticipated OEB-directed RSVA credit rate rider will further mitigate the impact on the low volume West Nipissing

[69] Staff submission, at page 25
[70] Staff submission, at page 25
[71] VECC submission, at page 30

customers, and therefore Sudbury Hydro proposes to proceed with the harmonization plan and fixed/variable split as submitted with the Application.

- **Rate Impacts and Mitigation**

The Board Staff Submission:

153. Staff suggest that it would be reasonable to offset the impacts of adders that affect the fixed charge by lowering the base fixed charge and increasing the base volumetric charges. On the next page of their submission, however, Staff submit that the OEB could consider reducing the individual rate adders if it needs a rate mitigation strategy.[72]

Intervenor Submissions:

154. VECC does not appear to speak to mitigation as a separate item, although it is mentioned in the context of the fixed-variable split.

Sudbury Hydro Submissions:

155. Once again, Sudbury Hydro maintains the position set out in its Application – that is, that there are no impacts on customers that are so significant as to warrant mitigation, even in the context of the WNES harmonization – in that regard, Sudbury Hydro is already mitigating impacts on West Nipissing customers, who are experiencing higher impacts as a result of harmonization, by harmonizing over the proposed two-year period.

156. Sudbury Hydro also notes, as it will discuss below in the context of Deferral and Variance Accounts, that it has determined that it will propose to clear its 2008 Deferral and Variance Account balances, and because the overall balance in these accounts favours customers, the credit in this regard will reduce bill impacts for all Sudbury Hydro customers.

[72] Staff submission, at pages 25-26

- **LV Adder**

Board Staff Submission:

157. Board Staff support the Application in this regard, with the exception that that the cost estimate of $160,000 should be updated to match the Hydro One Networks Inc. ("HONI") sub-transmission class rates that apply to Sudbury Hydro, and Staff note that the cost is expected to be considerably lower than $160,000. Staff have asked for a forecast of the LV cost with and without HONI Rate Rider #4 and submit that Sudbury Hydro should propose "appropriate LV rate adders similar to those approved for COLLUS." Sudbury Hydro understands that to mean an LV rate adder that reflects 50% of HONI Rate Rider #4 given the significant credit being incorporated into HONI's billing and the disparity between that credit, which will be in place for a two-year period, and the four-year time horizon contemplated in the 3rd Generation IRM regime.

158. It does not appear that intervenors addressed this matter.

Sudbury Hydro Submissions:

159. Sudbury Hydro agrees with Staff that the LV adder should be updated to reflect approved low voltage rates and that the Cost of Power calculation in Sudbury Hydro's working capital requirements should also be updated accordingly.

160. Sudbury Hydro has performed the requested calculations, and those are shown in Attachment A to this submission.

161. With respect to the Staff request to address HONI Rider #4, Sudbury Hydro offers the following comments: Its original estimate of LV charges (based on 2007 actual costs) was $160,000. Updated 2009 charges using 2008 volumes and applying Rider #4 in full results in a cost of $132,860.65. Updated 2009 charges and applying 50% of the rider based on four years of rates results in a cost of $170,195.87. Sudbury Hydro's actual 2008 LV costs were 182,686.28. Sudbury Hydro submits that the 50% approach is preferable, and has incorporated this approach into its updated calculations.

- **Retail Transmission Service Rates**

The Board Staff Submissions:

162. Staff support Sudbury Hydro's methodology in calculating RTSRs, but request that Sudbury Hydro's transmission costs be updated to reflect the updated Uniform Transmission Service Rates approved by the OEB effective July 1, 2009 (EB-2008-0272).

Sudbury Hydro Submissions:

163. As with LV charges, Sudbury Hydro agrees with Staff that the RTSRs should be updated to reflect the updated Uniform Transmission Service Rates approved by the OEB effective July 1, 2009, and that the Cost of Power calculation in Sudbury Hydro's working capital requirements will also be updated accordingly. Sudbury Hydro will make these revisions in its Draft Rate Order.

- **Loss Factors:**

The Board Staff and Sudbury Hydro Submissions:

164. Board Staff have acknowledged[73] that Sudbury Hydro has provided a detailed explanation of the derivation of its loss factors including the Supply Facility Loss Factor, and have submitted that the Total Loss Factors requested by Sudbury Hydro are reasonable. Sudbury Hydro agrees with the Staff submission, and has no further comments in this regard.

9. DEFERRAL AND VARIANCE ACCOUNTS

Board Staff Submissions:

165. Staff consider Sudbury Hydro's regulatory asset balance to be sizeable and note that other distributors have been directed to implement rebates in similar circumstances.[74] Staff consider three options for the treatment of Deferral and Variance Account ("DVA") balances (no disposition; uniform rate riders; and rate riders that differ between Sudbury

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[73] Staff submission, at page 27
[74] Staff submission, at page 30

and West Nipissing customers), and adopt the second – uniform rate riders (rebates) across the entire Sudbury Hydro service area, in place for a 2-year period. However, they invite comments on how long the regulatory asset recovery period should be under the 3rd option (separate riders for Sudbury and West Nipissing customers).

Intervenor Submissions:

166. Schools agrees with Staff with the exception that accounts 1570 and 1571 should not be cleared because Sudbury Hydro allegedly has no apparent evidence to support the $282,798 balance in accounts 1570 and 1571.

Sudbury Hydro Submissions:

167. As the OEB will be aware, Sudbury Hydro had initially proposed to not clear its Deferral and Variance account balances. However, Sudbury Hydro has since considered the Staff submission and agrees with Staff that the second option – uniform rate riders across the entire Sudbury Hydro service area which would dispose of the 2008 balances of all accounts set out in Table 2 of the Staff submission[75] over a two year period – would be appropriate. In addition to updating the DVA balances, the riders, being credits to customers, will provide a measure of mitigation in respect of customer bills, although as Sudbury Hydro has previously stated, there are no impacts arising from the Application that are so great as to warrant mitigation. Sudbury Hydro will calculate the riders as part of its Draft Rate Order, but may require some assistance from Board Staff in this regard, in the context of the Staff comment that while the use of a uniform allocation to kWh may have been satisfactory for the purpose of a response to an interrogatory that requested hypothetical rate riders, "the various allocators approved for the respective deferral and variance accounts should be used to design actual rebates."[76]

168. With respect to Schools' request that the balances in Accounts 1570 (Qualifying Transition Costs) and 1571 (Pre-Market Opening Cost of Energy Variances) not be cleared, Sudbury Hydro submits that the OEB should reject the Schools request. While it is perhaps not surprising that Schools would make such a request, since the balances

[75] Staff submission, at page 28
[76] Staff submission, at page 30

in those accounts favour Sudbury Hydro and would reduce the rebate payable to customers, Sudbury Hydro submits that it would not be appropriate to adopt Schools' approach in any event. As part of this Application, Sudbury Hydro was requesting a transfer of these balances together with the other RSVAs to account 1590. In Board Staff Interrogatory No. 70, Board Staff referred to the July 12, 2005 OEB filing guidelines regarding "Applications for Final Recovery of Regulatory Assets for May 1, 2006 Distribution Rate Adjustments" and noted that "These guidelines are applicable to the December 31, 2004 West Nipissing balances that would have been filed with the 2006 rate application that are requested by the Applicant to be disposed or transferred to account 1590." Staff requested that Sudbury Hydro "provide the information required under "Supplemental Disclosure", paragraphs a through l, and under "Qualification for a Minimum Review", paragraphs a through f." Sudbury Hydro delivered the information as part of its updated interrogatory responses on March 30, 2009 (as Appendix 70). Sudbury Hydro indicated in that response that "Item (e) under Qualification for Minimum Review requires supplemental disclosure be verified by the distributor's auditor if transition costs claimed are between $30 and $60.00. This is the case for West Nipissing. FCR has been appointed to conduct the audit and the audit report will follow once completed." That report was delivered in response to Board Staff Supplemental Interrogatory 21(a).

169. WNES did not file a 2006 rate application, nor did it file a Phase II regulatory asset application. However, Sudbury Hydro has filed in the current proceeding the necessary support for the balances in Accounts 1570 and 1571, in the form that would have been required for the minimum review under the Phase II regulatory asset process which proceeded in conjunction with the 2006 EDR process, and Sudbury Hydro should be permitted to clear them together with the other balances shown in Board Staff Table 2.

170. Sudbury Hydro also notes that if the balances for Accounts 1570 and 1571 remain in place, they will needlessly be accruing carrying charges that will ultimately be recoverable from Sudbury Hydro's customers.

- **Capital Interest Deferral Account:**

Sudbury Hydro Submissions:

171. In light of the submissions of Board Staff in this regard[77], Sudbury Hydro has determined that it will withdraw its request for the establishment of a capital interest deferral account.

OTHER MATTERS:

10. LRAM/SSM

Intervenor Submissions:

172. Only VECC has spoken to the Sudbury Hydro LRAM/SSM claim. VECC does not oppose the recovery by Sudbury Hydro of amounts attributable to LRAM and SSM, but raises two concerns with respect to the claim – VECC submits that the calculation of mass market CDM savings includes savings from non-residential programs, and it should not; and the calculation of mass market savings for 2007 does not use updated OPA Every Kilowatt Counts assumptions for kWh savings from CFLs, and It should.

173. The removal of non-residential savings from the mass market CDM savings results in an LRAM claim of $61,092; the use of the updated OPA savings figures for CFLs (specifically, the OPA's reduction of the savings assumption from 104 kWh to 44.3 kWh for a 13/14W CFL) reduces the residential LRAM claim from $61,092 to $29,165.

Sudbury Hydro Submissions:

174. As discussed above, Sudbury Hydro has agreed to revise its CDM-related calculations to reflect the OPA's updated CFL savings assumptions. Sudbury Hydro has reduced its LRAM claim by approximately 50%, from the $61,092 shown in the Application to $29,165.

175. With respect to the removal of non-residential savings from the calculation of mass market program savings, Sudbury Hydro confirms that it has already agreed to this adjustment.

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[77] Staff submission, at page 31

176. Sudbury Hydro submits that as a result of the adjustment in the preceding paragraphs, its revised total LRAM claim is $29,165. There is no change to Sudbury Hydro's SSM claim. The revised LRAM claim will be incorporated into Sudbury Hydro's Draft Rate Order.

11. EFFECTIVE DATE OF THE RATE ORDER

Intervenor Submissions:

177. VECC and Schools have made submissions with respect to the appropriate effective date for the Rate Order arising out of this Application. VECC has requested an effective date of September 1, 2009 – presumably that contemplates a rider that enables Sudbury Hydro to recover the incremental revenue for the period from September 1st until the Rate Order can be implemented. Similarly, Schools proposes an effective date of September 1st and explicitly provides for a rider to recover the incremental revenue from September 1st. However, Schools submits that if there is a revenue sufficiency for the Test Year, then Sudbury Hydro's 2009 rates should be effective May 1st, with riders that would refund customers in respect of overrecoveries from May 1st.

Sudbury Hydro Submissions:

178. Sudbury Hydro reiterates its request for an effective date of May 1, 2009. Sudbury Hydro submits that it had intended to file its Application by mid-August in accordance with the OEB's Filing Requirements, and was working toward that objective. Sudbury Hydro wrote to the OEB on August 13, 2008 advising that "Although our staff with the help of external consulting services have been diligently working to complete the task due to unforeseen delays and the complexity of combining our rate application to reflect one amalgamated entity we cannot meet the set time line for filing said 2009 rate application…we will keep the Board apprised of our situation". Sudbury Hydro wrote to the OEB again to update the OEB on the status of the application and to confirm its commitment to filing its 2009 Cost of Service Electricity Distribution Rate Application at the earliest opportunity. Sudbury Hydro confirms that concurrent with the preparation of its Application, Sudbury Hydro was undergoing a Debt Retirement Charge audit conducted by the Ministry of Finance and an OEB Retail Settlement Variance Account review in May through July of 2008. As a result, the Sudbury Hydro staff who would

have been dedicated to the preparation of the Application were pulled away from that work to address these conflicting regulatory requirements. Sudbury Hydro submits that it would not be appropriate to effectively penalize it for being unable to file by the OEB's deadline in light of these other contemporaneous requirements.

179. In the alternative, if the OEB is not prepared to make the proposed rates effective May 1, 2009, Sudbury Hydro submits that in light of the conflicting regulatory obligations that it faced at the time of preparation of the Application, the proposed rates should be effective no later than July 1, 2009, and in no event later than September 1, 2009 as proposed by VECC and Schools.

E. CONCLUSION

180. Sudbury Hydro submits that it has complied with the OEB's Filing Requirements and all other applicable requirements in preparing this Application, whereby Sudbury Hydro will recover the revenues necessary to operate and maintain its distribution system; significantly increase its capital expenditures related to plant renewal as discussed in the Application; earn permitted returns on capital; harmonize the rates of its West Nipissing customers with those of its Sudbury customers; and recover LRAM and SSM adjustments, all with minimal customer impacts.

181. Sudbury Hydro respectfully requests that the OEB approve its Application subject to the adjustments referred to herein.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 29TH DAY OF SEPTEMBER, 2009.

Original Signed by James C. Sidlofsky
James C. Sidlofsky
Counsel to Greater Sudbury Hydro Inc.

Greater Sudbury Hydro Inc.
DISTRIBUTION COSTS - LOW VOLTAGE CHARGES
500-4720-481-07-04
2008 Volumes using 2009 rates for full year - including rider #4 at 50% - over four years
Accrued Liability

Date	Meter Point	Name	Demand	LV Rate .4425	Svc Chg	Meter Charge	Specific LV 438.64 @.47 units	SHARED LVDS @0.77	LV Rate .31 X 339.64	Total
January/08	248116370	Mansour Mining	726.00	$ 321.26						
	248116270	Coniston MS1	840.00	$ 371.70	$ 151.16	$ 442.58			$ 134.57	
	248116340	Coniston MS2	2,402.40	$ 1,063.06	$ 151.16	$ 442.58				
	248116260	Capreol	4,374.00	$ 1,935.50	$ 151.16	$ 442.58				
		Falconbridge		$ -	$ 151.16	$ 442.58				
	89026310	Crystal Falls T5	10,849.69	$ 4,800.99	$ 151.16	$ 885.16	$ 263.45			
	60628351	Crystal Falls T6	2,882.84	$ 1,275.66						
	541695	Cache Bay PME	856.80	$ 379.13	$ 151.16	$ 442.58		$ 843.95		
Sub Total			**22,931.73**	**$ 10,147.29**	**$ 906.96**	**$ 3,098.06**	**$ 263.45**	**$ 843.95**	**$ 134.57**	$ 15,394.28
				0.4425			560.525	0.9850	434.105	
February-08	248116370	Mansour Mining	760.00	$ 336.30						
	248116270	Coniston MS1	823.20	$ 364.27	$ 151.16	$ 442.58			$ 134.57	
	248116340	Coniston MS2	2,319.60	$ 1,026.42	$ 151.16	$ 442.58				
	248116260	Capreol	4,098.00	$ 1,813.37	$ 151.16	$ 442.58				
		Falconbridge		$ -	$ 151.16	$ 442.58				
	89026310	Crystal Falls T5	10,278.31	$ 4,548.15	$ 151.16	$ 885.16	$ 263.45			
	60628351	Crystal Falls T6	2,533.69	$ 1,121.16						
	541695	Cache Bay PME	825.84	$ 365.43	$ 151.16	$ 442.58		$ 813.45		
Sub Total			**21,638.64**	**$ 9,575.10**	**$ 906.96**	**$ 3,098.06**	**$ 263.45**	**$ 813.45**	**$ 134.57**	$ 14,791.59
								618.00		
March-08	248116370	Mansour Mining	735.00	$ 325.24						
	248116270	Coniston MS1	750.00	$ 331.88	$ 151.16	$ 442.58			$ 134.57	
	248116340	Coniston MS2	2,143.20	$ 948.37	$ 151.16	$ 442.58				
	248116260	Capreol	3,776.00	$ 1,670.88	$ 151.16	$ 442.58				
		Falconbridge		$ -	$ 151.16	$ 442.58				
	89026310	Crystal Falls T5	11,938.17	$ 5,282.64	$ 151.16	$ 885.16	$ 263.45			
	60628351	Crystal Falls T6	5,527.37	$ 2,445.86						
	541695	Cache Bay PME	695.16	$ 307.61	$ 151.16	$ 442.58		$ 684.73		
Sub Total			**25,564.90**	**$ 11,312.47**	**$ 906.96**	**$ 3,098.06**	**$ 263.45**	**$ 684.73**	**$ 134.57**	$ 16,400.24
April-08	248116370	Mansour Mining	628.00	$ 277.89						
	248116270	Coniston MS1	573.60	$ 253.82	$ 151.16	$ 442.58			$ 134.57	
	248116340	Coniston MS2	1,872.00	$ 828.36	$ 151.16	$ 442.58				
	248116260	Capreol	2,964.00	$ 1,311.57	$ 151.16	$ 442.58				
		Falconbridge		$ -	$ 151.16	$ 442.58				
	89026310	Crystal Falls T5	7,613.98	$ 3,369.19	$ 151.16	$ 885.16	$ 263.45			
	60628351	Crystal Falls T6	4,455.24	$ 1,971.44						
	541695	Cache Bay PME	525.96	$ 232.74	$ 151.16	$ 442.58		$ 518.07		
			18,632.78	**$ 8,245.01**	**$ 906.96**	**$ 3,098.06**	**$ 263.45**	**$ 518.07**	**$ 134.57**	$ 13,166.12
				$ 0.4425			$ 560.53	$ 0.9850	$ 434.11	
May/08	248116370	Mansour Mining	586.00	$ 259.31						
	248116270	Coniston MS1	484.80	$ 214.52	$ 151.16	$ 442.58			$ 134.57	
	248116340	Coniston MS2	1,699.20	$ 751.90	$ 151.16	$ 442.58				
	248116260	Capreol	2,464.00	$ 1,090.32	$ 151.16	$ 442.58				
		Falconbridge		$ -	$ 151.16	$ 442.58				
	89026310	Crystal Falls T5	14,242.50	$ 6,302.31	$ 151.16	$ 885.16	$ 263.45			
	60628351	Crystal Falls T6	-	$ -						
	541695	Cache Bay PME	502.56	$ 222.38	$ 151.16	$ 442.58		$ 495.02		
Sub Total			**19,979.06**	**$ 8,840.73**	**$ 906.96**	**$ 3,098.06**	**$ 263.45**	**$ 495.02**	**$ 134.57**	$ 13,738.79
June/08	248116370	Mansour Mining	604.00	$ 267.27						
	248116270	Coniston MS1	510.00	$ 225.68	$ 151.16	$ 442.58			$ 134.57	
	248116340	Coniston MS2	1,692.00	$ 748.71	$ 151.16	$ 442.58				
	248116260	Capreol	2,408.00	$ 1,065.54	$ 151.16	$ 442.58				
		Falconbridge		$ -	$ 151.16	$ 442.58				
	89026310	Crystal Falls T5	9,331.10	$ 4,129.01	$ 151.16	$ 885.16	$ 263.45			
	60628351	Crystal Falls T6	297.03	$ 131.44						
	541695	Cache Bay PME	400.32	$ 177.14	$ 151.16	$ 442.58		$ 394.32		
Sub Total			**15,242.45**	**$ 6,744.78**	**$ 906.96**	**$ 3,098.06**	**$ 263.45**	**$ 394.32**	**$ 134.57**	$ 11,542.14

July/08	248116370	Mansour Mining	565.00	$ 250.01						
	248116270	Coniston MS1	528.00	$ 233.64	$ 151.16	$ 442.58			$ 134.57	
	248116340	Coniston MS2	1,670.40	$ 739.15	$ 151.16	$ 442.58				
	248116260	Capreol	2,430.00	$ 1,075.28	$ 151.16	$ 442.58				
		Falconbridge		$ -	$ 151.16	$ 442.58				
	89026310	Crystal Falls T5	22,520.46	$ 9,965.30	$ 151.16	$ 885.16	$ 263.45			
	60628351	Crystal Falls T6	1,879.11	$ 831.51						
	541695	Cache Bay PME	406.44	$ 179.85	$ 151.16	$ 442.58		$ 400.34		
Sub Total			**29,999.41**	**$ 13,274.74**	**$ 906.96**	**$ 3,098.06**	**$ 263.45**	**$ 400.34**	**$ 134.57**	$ 18,078.12
August/08	248116370	Mansour Mining	580.00	$ 256.65						
	248116270	Coniston MS1	529.20	$ 234.17	$ 151.16	$ 442.58			$ 134.57	
	248116340	Coniston MS2	1,783.20	$ 789.07	$ 151.16	$ 442.58				
	248116260	Capreol	2,780.00	$ 1,230.15	$ 151.16	$ 442.58				
		Falconbridge		$ -	$ 151.16	$ 442.58				
	89026310	Crystal Falls T5	19,653.34	$ 8,696.60	$ 151.16	$ 885.16	$ 263.45			
	60628351	Crystal Falls T6		$ -						
	541695	Cache Bay PME	440.64	$ 194.98	$ 151.16	$ 442.58		$ 434.03		
Sub Total			**25,766.38**	**$ 11,401.62**	**$ 906.96**	**$ 3,098.06**	**$ 263.45**	**$ 434.03**	**$ 134.57**	$ 16,238.69
September/08	248116370	Mansour Mining	571.00	$ 252.67						
	248116270	Coniston MS1	585.60	$ 259.13	$ 151.16	$ 442.58			$ 134.57	
	248116340	Coniston MS2	1,818.00	$ 804.47	$ 151.16	$ 442.58				
	248116260	Capreol	2,878.00	$ 1,273.52	$ 151.16	$ 442.58				
		Falconbridge		$ -	$ 151.16	$ 442.58				
	89026310	Crystal Falls T5	7,537.60	$ 3,335.39	$ 151.16	$ 885.16	$ 263.45			
	60628351	Crystal Falls T6		$ -						
	541695	Cache Bay PME	435.96	$ 192.91	$ 151.16	$ 442.58		$ 429.42		
Sub Total			**13,826.16**	**$ 6,118.08**	**$ 906.96**	**$ 3,098.06**	**$ 263.45**	**$ 429.42**	**$ 134.57**	$ 10,950.54
October/08	248116370	Mansour Mining	614.00	$ 271.70						
	248116270	Coniston MS1	637.20	$ 281.96	$ 151.16	$ 442.58			$ 134.57	
	248116340	Coniston MS2	1,718.40	$ 760.39	$ 151.16	$ 442.58				
	248116260	Capreol	3,214.00	$ 1,422.20	$ 151.16	$ 442.58				
		Falconbridge		$ -	$ 151.16	$ 442.58				
	89026310	Crystal Falls T5	8,737.44	$ 3,866.32	$ 151.16	$ 885.16	$ 263.45			
	60628351	Crystal Falls T6		$ -						
	541695	Cache Bay PME	558.36	$ 247.07	$ 151.16	$ 442.58		$ 549.98		
Sub Total			**15,479.40**	**6,849.63**	**906.96**	**3,098.06**	**263.45**	**549.98**	**$ 134.57**	$ 11,802.66
November/08	248116370	Mansour Mining	667.00	$ 295.15						
	248116270	Coniston MS1	972.00	$ 430.11	$ 151.16	$ 442.58			$ 134.57	
	248116340	Coniston MS2	1,666.80	$ 737.56	$ 151.16	$ 442.58				
	248116260	Capreol	3,908.00	$ 1,729.29	$ 151.16	$ 442.58				
		Falconbridge		$ -	$ 151.16	$ 442.58				
	89026310	Crystal Falls T5	10,210.75	$ 4,518.26	$ 151.16	$ 885.16	$ 263.45			
	60628351	Crystal Falls T6		$ -						
	541695	Cache Bay PME	682.56	$ 302.03	$ 151.16	$ 442.58		$ 672.32		
Sub Total			**18,107.11**	**8,012.40**	**906.96**	**3,098.06**	**263.45**	**672.32**	**$ 134.57**	$ 13,087.76
December/08	248116370	Mansour Mining	729.00	$ 322.58						
	248116270	Coniston MS1	1,171.20	$ 518.26	$ 151.16	$ 442.58			$ 134.57	
	248116340	Coniston MS2	1,965.60	$ 869.78	$ 151.16	$ 442.58				
	248116260	Capreol	4,584.00	$ 2,028.42	$ 151.16	$ 442.58				
		Falconbridge		$ -	$ 151.16	$ 442.58				
	89026310	Crystal Falls T5	12,597.80	$ 5,574.53	$ 151.16	$ 885.16	$ 263.45			
	60628351	Crystal Falls T6		$ -						
	541695	Cache Bay PME	902.52	$ 399.37	$ 151.16	$ 442.58		$ 888.98		
Sub Total			**21,950.12**	**9,712.93**	**906.96**	**3,098.06**	**263.45**	**888.98**	**$ 134.57**	$ 15,004.95
Total by category			249,118.14	**$ 110,234.78**	**$ 10,883.52**	**$ 37,176.72**	$ 3,161.36	$ 7,124.62	$ 1,614.87	170,195.87

Total for the year 200 9	Total projected cost applying 50% of rider # 4	170,195.87
	2008 actual	182,686.28
	original submission	160,000.00

With rider # 4 for full year

Greater Sudbury Hydro Inc.
DISTRIBUTION COSTS - LOW VOLTAGE CHARGES
500-4720-481-07-04
2008 Volumes using 2009 rates for full year - including rider #4

Accrued Liability

Date	Meter Point	Name	Demand	LV Rate .345	Svc Chg	Meter Charge	Specific LV 438.64 @.47 units	SHARED LVDS @0.77	LV Rate .31 X 339.64	Total
January/08	248116370	Mansour Mining	726.00	$ 250.47						
	248116270	Coniston MS1	840.00	$ 289.80	$ 118.27	$ 346.34			$ 105.29	
	248116340	Coniston MS2	2,402.40	$ 828.83	$ 118.27	$ 346.34				
	248116260	Capreol	4,374.00	$ 1,509.03	$ 118.27	$ 346.34				
		Falconbridge		$ -	$ 118.27	$ 346.34				
	89026310	Crystal Falls T5	10,849.69	$ 3,743.14	$ 118.27	$ 692.68	$ 206.16			
	60628351	Crystal Falls T6	2,882.84	$ 994.58						
	541695	Cache Bay PME	856.80	$ 295.60	$ 118.27	$ 346.34		$ 659.74		
Sub Total			**22,931.73**	**$ 7,911.45**	**$ 709.62**	**$ 2,424.38**	**$ 206.16**	**$ 659.74**	**$ 105.29**	$ 12,016.63
				0.345			438.64	0.77	339.64	
February-08	248116370	Mansour Mining	760.00	$ 262.20						
	248116270	Coniston MS1	823.20	$ 284.00	$ 118.27	$ 346.34			$ 105.29	
	248116340	Coniston MS2	2,319.60	$ 800.26	$ 118.27	$ 346.34				
	248116260	Capreol	4,098.00	$ 1,413.81	$ 118.27	$ 346.34				
		Falconbridge		$ -	$ 118.27	$ 346.34				
	89026310	Crystal Falls T5	10,278.31	$ 3,546.02	$ 118.27	$ 692.68	$ 206.16			
	60628351	Crystal Falls T6	2,533.69	$ 874.12						
	541695	Cache Bay PME	825.84	$ 284.91	$ 118.27	$ 346.34		$ 635.90		
Sub Total			**21,638.64**	**$ 7,465.33**	**$ 709.62**	**$ 2,424.38**	**$ 206.16**	**$ 635.90**	**$ 105.29**	$ 11,546.68
								618.00		
March-08	248116370	Mansour Mining	735.00	$ 253.58						
	248116270	Coniston MS1	750.00	$ 258.75	$ 118.27	$ 346.34			$ 105.29	
	248116340	Coniston MS2	2,143.20	$ 739.40	$ 118.27	$ 346.34				
	248116260	Capreol	3,776.00	$ 1,302.72	$ 118.27	$ 346.34				
		Falconbridge		$ -	$ 118.27	$ 346.34				
	89026310	Crystal Falls T5	11,938.17	$ 4,118.67	$ 118.27	$ 692.68	$ 206.16			
	60628351	Crystal Falls T6	5,527.37	$ 1,906.94						
	541695	Cache Bay PME	695.16	$ 239.83	$ 118.27	$ 346.34		$ 535.27		
Sub Total			**25,564.90**	**$ 8,819.89**	**$ 709.62**	**$ 2,424.38**	**$ 206.16**	**$ 535.27**	**$ 105.29**	$ 12,800.61
April-08	248116370	Mansour Mining	628.00	$ 216.66						
	248116270	Coniston MS1	573.60	$ 197.89	$ 118.27	$ 346.34			$ 105.29	
	248116340	Coniston MS2	1,872.00	$ 645.84	$ 118.27	$ 346.34				
	248116260	Capreol	2,964.00	$ 1,022.58	$ 118.27	$ 346.34				
		Falconbridge		$ -	$ 118.27	$ 346.34				
	89026310	Crystal Falls T5	7,613.98	$ 2,626.82	$ 118.27	$ 692.68	$ 206.16			
	60628351	Crystal Falls T6	4,455.24	$ 1,537.06						
	541695	Cache Bay PME	525.96	$ 181.46	$ 118.27	$ 346.34		$ 404.99		
			18,632.78	**$ 6,428.31**	**$ 709.62**	**$ 2,424.38**	**$ 206.16**	**$ 404.99**	**$ 105.29**	$ 10,278.75
				$ 0.345			$ 438.64	$ 0.77	$ 339.64	
May/08	248116370	Mansour Mining	586.00	$ 202.17						
	248116270	Coniston MS1	484.80	$ 167.26	$ 118.27	$ 346.34			$ 105.29	
	248116340	Coniston MS2	1,699.20	$ 586.22	$ 118.27	$ 346.34				
	248116260	Capreol	2,464.00	$ 850.08	$ 118.27	$ 346.34				
		Falconbridge		$ -	$ 118.27	$ 346.34				
	89026310	Crystal Falls T5	14,242.50	$ 4,913.66	$ 118.27	$ 692.68	$ 206.16			
	60628351	Crystal Falls T6	-	$ -						
	541695	Cache Bay PME	502.56	$ 173.38	$ 118.27	$ 346.34		$ 386.97		
Sub Total			**19,979.06**	**$ 6,892.78**	**$ 709.62**	**$ 2,424.38**	**$ 206.16**	**$ 386.97**	**$ 105.29**	$ 10,725.20
June/08	248116370	Mansour Mining	604.00	$ 208.38						
	248116270	Coniston MS1	510.00	$ 175.95	$ 118.27	$ 346.34			$ 105.29	
	248116340	Coniston MS2	1,692.00	$ 583.74	$ 118.27	$ 346.34				
	248116260	Capreol	2,408.00	$ 830.76	$ 118.27	$ 346.34				
		Falconbridge		$ -	$ 118.27	$ 346.34				
	89026310	Crystal Falls T5	9,331.10	$ 3,219.23	$ 118.27	$ 692.68	$ 206.16			
	60628351	Crystal Falls T6	297.03	$ 102.48						
	541695	Cache Bay PME	400.32	$ 138.11	$ 118.27	$ 346.34		$ 308.25		
Sub Total			**15,242.45**	**$ 5,258.65**	**$ 709.62**	**$ 2,424.38**	**$ 206.16**	**$ 308.25**	**$ 105.29**	$ 9,012.34

July/08	248116370	Mansour Mining	565.00	$ 194.93						
	248116270	Coniston MS1	528.00	$ 182.16	$ 118.27	$ 346.34			$ 105.29	
	248116340	Coniston MS2	1,670.40	$ 576.29	$ 118.27	$ 346.34				
	248116260	Capreol	2,430.00	$ 838.35	$ 118.27	$ 346.34				
		Falconbridge		$ -	$ 118.27	$ 346.34				
	89026310	Crystal Falls T5	22,520.46	$ 7,769.56	$ 118.27	$ 692.68	$ 206.16			
	60628351	Crystal Falls T6	1,879.11	$ 648.29						
	541695	Cache Bay PME	406.44	$ 140.22	$ 118.27	$ 346.34		$ 312.96		
Sub Total			**29,999.41**	**$ 10,349.80**	**$ 709.62**	**$ 2,424.38**	**$ 206.16**	**$ 312.96**	**$ 105.29**	$ 14,108.20
August/08	248116370	Mansour Mining	580.00	$ 200.10						
	248116270	Coniston MS1	529.20	$ 182.57	$ 118.27	$ 346.34			$ 105.29	
	248116340	Coniston MS2	1,783.20	$ 615.20	$ 118.27	$ 346.34				
	248116260	Capreol	2,780.00	$ 959.10	$ 118.27	$ 346.34				
		Falconbridge		$ -	$ 118.27	$ 346.34				
	89026310	Crystal Falls T5	19,653.34	$ 6,780.40	$ 118.27	$ 692.68	$ 206.16			
	60628351	Crystal Falls T6		$ -						
	541695	Cache Bay PME	440.64	$ 152.02	$ 118.27	$ 346.34		$ 339.29		
Sub Total			**25,766.38**	**$ 8,889.40**	**$ 709.62**	**$ 2,424.38**	**$ 206.16**	**$ 339.29**	**$ 105.29**	$ 12,674.14
September/08	248116370	Mansour Mining	571.00	$ 197.00						
	248116270	Coniston MS1	585.60	$ 202.03	$ 118.27	$ 346.34			$ 105.29	
	248116340	Coniston MS2	1,818.00	$ 627.21	$ 118.27	$ 346.34				
	248116260	Capreol	2,878.00	$ 992.91	$ 118.27	$ 346.34				
		Falconbridge		$ -	$ 118.27	$ 346.34				
	89026310	Crystal Falls T5	7,537.60	$ 2,600.47	$ 118.27	$ 692.68	$ 206.16			
	60628351	Crystal Falls T6		$ -						
	541695	Cache Bay PME	435.96	$ 150.41	$ 118.27	$ 346.34		$ 335.69		
Sub Total			**13,826.16**	**$ 4,770.03**	**$ 709.62**	**$ 2,424.38**	**$ 206.16**	**$ 335.69**	**$ 105.29**	$ 8,551.16
October/08	248116370	Mansour Mining	614.00	$ 211.83						
	248116270	Coniston MS1	637.20	$ 219.83	$ 118.27	$ 346.34			$ 105.29	
	248116340	Coniston MS2	1,718.40	$ 592.85	$ 118.27	$ 346.34				
	248116260	Capreol	3,214.00	$ 1,108.83	$ 118.27	$ 346.34				
		Falconbridge		$ -	$ 118.27	$ 346.34				
	89026310	Crystal Falls T5	8,737.44	$ 3,014.42	$ 118.27	$ 692.68	$ 206.16			
	60628351	Crystal Falls T6		$ -						
	541695	Cache Bay PME	558.36	$ 192.63	$ 118.27	$ 346.34		$ 429.94		
Sub Total			**15,479.40**	**5,340.39**	**709.62**	**2,424.38**	**206.16**	**429.94**	**$ 105.29**	$ 9,215.78
November/08	248116370	Mansour Mining	667.00	$ 230.12						
	248116270	Coniston MS1	972.00	$ 335.34	$ 118.27	$ 346.34			$ 105.29	
	248116340	Coniston MS2	1,666.80	$ 575.05	$ 118.27	$ 346.34				
	248116260	Capreol	3,908.00	$ 1,348.26	$ 118.27	$ 346.34				
		Falconbridge		$ -	$ 118.27	$ 346.34				
	89026310	Crystal Falls T5	10,210.75	$ 3,522.71	$ 118.27	$ 692.68	$ 206.16			
	60628351	Crystal Falls T6		$ -						
	541695	Cache Bay PME	682.56	$ 235.48	$ 118.27	$ 346.34		$ 525.57		
Sub Total			**18,107.11**	**6,246.95**	**709.62**	**2,424.38**	**206.16**	**525.57**	**$ 105.29**	$ 10,217.97
December/08	248116370	Mansour Mining	729.00	$ 251.51						
	248116270	Coniston MS1	1,171.20	$ 404.06	$ 118.27	$ 346.34			$ 105.29	
	248116340	Coniston MS2	1,965.60	$ 678.13	$ 118.27	$ 346.34				
	248116260	Capreol	4,584.00	$ 1,581.48	$ 118.27	$ 346.34				
		Falconbridge		$ -	$ 118.27	$ 346.34				
	89026310	Crystal Falls T5	12,597.80	$ 4,346.24	$ 118.27	$ 692.68	$ 206.16			
	60628351	Crystal Falls T6		$ -						
	541695	Cache Bay PME	902.52	$ 311.37	$ 118.27	$ 346.34		$ 694.94		
Sub Total			**21,950.12**	**7,572.79**	**709.62**	**2,424.38**	**206.16**	**694.94**	**$ 105.29**	$ 11,713.18
Total by category			249,118.14	$ 85,945.76	$ 8,515.44	$ 29,092.56	$ 2,473.93	$ 5,569.50	$ 1,263.46	**132,860.65**
			2009 costs applying full rider # 4							**132,860.65**
			2008 actual costs with these volumes							182,686.28
			Rate submission (used 2007 volumes)							160,000.00

EB-2008-0230
Greater Sudbury Hydro Inc.
Final Argument
Attachment A
September 29, 2009