Ontario Energy Board **Commission de l'énergie de l'Ontario**

Ontario

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.

BEFORE: Cathy Spoel
Presiding Member

Pamela Nowina
Member and Vice-Chair

DECISION AND ORDER

Greater Sudbury Hydro Inc. ("Greater Sudbury" or the "Applicant") filed an application with the Ontario Energy Board on December 22, 2008 under section 78 of the *Ontario Energy Board Act*, *1998*, seeking approval for changes to the rates that Greater Sudbury charges for electricity distribution, to be effective May 1, 2009. Greater Sudbury is the licensed electricity distributor providing service to consumers within the City of Greater Sudbury and the Municipality of West Nipissing.

Greater Sudbury is one of about 80 electricity distributors in Ontario that are regulated by the Board. In 2006, the Board announced the establishment of a multi-year electricity distribution rate-setting plan for the years 2007-2010. In an effort to assist distributors in preparing their applications, the Board issued the *Filing Requirements for Transmission and Distribution Applications* on November 14, 2006. Chapter 2 of that document outlines the filing requirements for cost of service rate applications, based on a forward test year.

On January 30, 2008, the Board indicated that Greater Sudbury would be one of the electricity distributors to have its rates rebased for the 2009 rate year. Accordingly, Greater Sudbury filed a cost of service application based on 2009 as the forward test year.

In its original application, Greater Sudbury requested a revenue requirement of $23,818,357 to be recovered in new distribution rates effective May 1, 2009. If the application was approved as filed, a residential customer consuming 1,000 kWh per month would experience an increase of approximately 13.4% from the current delivery charges in the City of Greater Sudbury, and an increase of approximately 12.8% in the Municipality of West Nipissing.

The Board assigned the application file number EB-2008-0230 and issued a Notice of Application and Hearing dated January 13, 2009. The Board approved three interventions: the Consumers Council of Canada (CCC), School Energy Coalition (SEC), and Vulnerable Energy Consumers Coalition (VECC).

On February 18, 2009, the Board issued Procedural Order No. 1 that provided for a phased approach to the discovery process, the first phase consisting of written interrogatories and the possibility of a technical conference at the option of the Applicant. The Applicant chose not to have a technical conference.

The Board issued Procedural Order No. 2 on March 31, 2009, seeking the views of the Applicant and all parties regarding the need for additional procedural steps in this proceeding. Intervenors and Board staff suggested that further discovery was required. Accordingly, the Board ordered a Technical Conference followed by a Settlement Conference.

The Technical Conference was held on June 2, 2009, followed by the Settlement Conference on June 3, 2009. The parties were not able to reach a settlement, nor were they able to come to agreement on an issues list to scope a potential hearing.

In Procedural Order No. 6, the Board ordered a limited oral hearing focusing on specific issues. The hearing was held in the Board's hearing room on July 23 and 24, 2009.

Board staff and intervenors filed their written submissions on September 10 and 11,

2009. The Applicant filed its Reply Argument on September 30, 2009.

The following aspects of Greater Sudbury's Application for rates were accepted by all parties:

- Transformer Ownership Allowance
- Specific Service Charges
- Loss Factors
- Rural and Remote Ratepayer Protection

THE ISSUES

The issues listed below were raised in the submissions filed by Board staff and CCC, SEC, and VECC and are addressed in the following sections of the Decision:

1. Board of Directors budget approval
2. Load Forecast
3. Other Distribution Revenue
4. Operating, Maintenance & Administrative ("OM&A") Expenses
5. Capital Expenditures and Rate Base
6. Cost of Capital and Capital Structure
7. Smart Meters
8. Lost revenue Adjustment Mechanism and Shared Savings Mechanism
9. Cost Allocation and Rate Design
10. Deferral and Variance Accounts

1. BOARD OF DIRECTORS APPROVED BUDGET

Before we deal with the specifics of the application, we will address an issue raised by SEC both in the context of OM&A expenses and the Capital Expenditures, that is whether the Board should require the Applicant to operate within the budget approved by the Applicant's board of directors in January 2009[1].

This panel of the Board agrees with the comments made by the Board in EB-2008-0187, Hydro One Networks Inc., that

[1] Response to SEC Interrogatory (Appendix 9c)

> while the genesis of an application is of general interest to the Board, it is not determinative of the substantive aspects of the application. Once filed in accordance with the provisions of the legislation, applications are reviewed on their merit. The particulars surrounding the levels of approvals before a distributor makes an application, is a matter that is internal to the company itself.

Therefore the Board has not considered the budget approved by Greater Sudbury's board of directors in making our determination.

2. LOAD FORECAST

The Applicant used historical data to determine the 2008 Bridge Year and 2009 Test Year customers/connections count by class, and to determine the kWh forecast by customer class (and the kW forecast for appropriate classes). It presented variance analyses in support of these forecasts.

Methodology and Model

The forecast for the number of customers/connections by rate class was prepared using time-series analysis.

The weather-normalized load forecast was developed in a five-step process:

- a total system weather-normalized purchased energy forecast for 2008 and 2009 was developed based on a multifactor regression model
- Conservation and Demand Management ("CDM") adjustments were made to the 2008 and 2009 purchased energy forecasts
- the weather-normalized CDM-adjusted purchased energy forecast was adjusted by an historical loss factor to produce a weather-normalized *billed* energy forecast
- the forecast of *billed energy by rate class* was developed based on a forecast of customers numbers and their historical usage patterns. For each of the rate classes with weather-sensitive load, their forecasted billed energy was adjusted to ensure that the total of the billed energy forecast by rate class was equivalent to the previously-obtained total weather-normalized billed energy
- for those rate classes that use kW for the distribution volumetric billing determinant, the kWh forecast was re-stated by applying a conversion factor

to the class energy forecast based on the historical relationship between kW and kWh.

Results

The forecast resulted in a 0.3% per annum increase in the customer count, and a 0.8% per annum increase in load growth. These are the same as the historical rates of growth. The 2009 forecasted customer count is 56,751. The 2009 forecasted load is 973.5 GWh.

The Applicant used GDP data that were approximately 18 months out of date. The Applicant recalculated the load forecast twice using even more up-to-date GDP data and provided alternate forecasts that were 1.8% higher (991.0 GWh) and 2.9% higher than the filed forecast (1,002.2 GWh).

The Applicant noted that when using updated GDP data, its model predicted a load increase even though the GDP was declining. The Applicant explained that this did not make sense and thus it continued to rely on the filed forecast[2].

In the oral hearing the Applicant's consultant rationalized the negative correlation between GDP and load by suggesting that the negative correlation may be attributed to a "roller coaster effect" of load in the Applicant's service area over the 1998 to 2007 period[3].

The Applicant acknowledged that it had included a greater reduction in its forecast due to future CDM than can be supported by the data and agreed to reduce it[4].

Board staff submitted that the Applicant's forecasting model is fundamentally flawed as demonstrated by the negative correlation between GDP and load. Board staff also submitted that because of the model's negative correlation and the out-of-date data used in the model, no confidence can be placed in the forecasting method used and the subsequent forecast developed. However, despite this, Board staff noted that the Applicant's forecast shows the same 0.8% per annum increase as was actually experienced in the 2002-7 period. Hence, to assist the Board in its selection of a specific load forecast for setting 2009 rates, Board staff recommended that the

[2] Technical Conference transcript pages 7-8

[3] Oral hearing transcript Day 2, pages 134-140

[4] Undertaking J2.10

Board accept the Applicant's 2009 forecasted load of 973.5 GWh. Board staff also recommended that in future rate applications, the Applicant prepare and file a load forecast that is supported by both historical load data and the most currently-available economic data. Board staff also suggested that where the results of a sophisticated technique are unrealistic, an alternate – perhaps more basic – technique should be used instead.

VECC expressed concern that the Applicant's regression equation did not include the number of customers as a variable but, instead, used population count. It also identified concerns with the Applicant's process for weather-normalizing loads. VECC also supported the Applicant's revision to the forecast to include only a percentage of the CDM savings in the model.

VECC submitted that the 2009 load forecast should be increased by at least 1% to adjust for the Applicant's use of out-of-date data and the negative correlation in the model.

VECC also submitted that while it recommended that the Board accept the resulting value after making these adjustments, it should only be for the purpose of setting 2009 rates, and should not be viewed as acceptance of the Applicant's load forecasting methodology.

CCC supported VECC's proposed adjustments.

SEC also expressed concern with the model's negative correlation and the Applicant's reluctance to update its forecast to use more recent GDP data.

SEC was concerned with the implications of Board staff's recommendation that despite the obvious problems with the methodology, the resulting forecast is intuitively fairly accurate and should be accepted. SEC argued that the Board should not accept the forecast filed by the Applicant since it will send a signal to other Local Distribution Companies ("LDCs") that rigour in key aspects of their applications is no longer required. SEC recommended that the forecast be increased to 991.0 GWh[5] subsequently reduced to correct for a weather-normalization error and then increased to correct for the CDM issue, be the approved forecast. Finally, SEC submitted that this type of model needs a thorough

[5] Data used by Applicant in response to Board staff interrogatory number 2

review to ensure proper correlation is present and, for the Applicant's next rebasing, the Applicant demonstrates the model it uses is more robust.

In its Reply Argument, the Applicant acknowledged that the methodology for LDC forecasting is still evolving and anticipated that the load forecasting methodology for Ontario LDCs may be revisited for future cost of service applications. With respect to the current application, the Applicant submitted that Board Staff's approach is the most reasonable one since, not withstanding an allegedly flawed methodology, it acknowledged the forecast increase matched the historical increase. The Applicant expressed concern that the intervenors were attacking its methodology but were then requesting the Board to force it to use the same methodology in order to reduce rates. Concerning CDM adjustments, the Applicant acknowledged that the Ontario Power Authority had prepared updated figures regarding certain electricity savings and it would be appropriate to use these. This update corresponded to an increase of 2.618 GWh in the forecast – a larger increase, the Applicant noted, than the intervenors had recommended.

Consequently, the Applicant requested that the Board approve the filed forecast plus 2.618 GWh to compensate for the reduction in CDM.

Board Findings

The Board approves the 56,751 customer forecast for 2009 as filed.

The Board approves 976,124,612 kWh as the 2009 load forecast for the purpose of setting rates. This is the filed load forecast plus the Applicant's recommended increase to compensate for a reduction in CDM savings. While cognizant of intervenors' recommendations to adopt a still higher load forecast, the Board considers the approved load forecast to be reasonable. It is consistent with historical data and a more appropriate number has not been proposed. However the Board wishes to be clear that it does not have confidence in the load forecasting methodology used by the Applicant.

The Board notes the Applicant's acknowledgement that its load forecasting methodology may have to be revisited in future cost of service rate applications. While the Board accepts that the Applicant's load forecasting methodology is substantially similar to that used previously by other LDCs and accepted by the Board as satisfactory, the Board, like Board staff and intervenors, is concerned about the methodology. Specifically, it is concerned with the counter-intuitive negative correlation between GDP and load expressed in the Applicant's model. The Board also shares the concerns expressed by Board staff and intervenors regarding the need for applicants to demonstrate that the models they use are robust, are supported by historical load data and use up-to-date data in their forecasts. The Board expects the Applicant to demonstrate that these concerns have been addressed in its next cost of service application. As well, if the applicant uses Ontario GDP as a factor in future forecasts, the Board expects the applicant to demonstrate the applicability of Ontario's GDP to the utility's service territory.

3. OTHER DISTRIBUTION REVENUE

Greater Sudbury submitted a forecast of Other Distribution Revenue in its Argument-in-Chief equal to $1,647,880. This amount is lower than the initial request by $50,000, which is the forecast of revenue from the Retail Settlement Variance Accounts carrying charges.

Board staff noted that the forecast of several components of Miscellaneous Revenue are well below the average of previous years, and submitted that the forecast should either be increased or that the Applicant should provide additional evidence to reassure the Board of the accuracy of its forecast. SEC agreed with this submission. CCC suggested that the forecast was likely accurate, as the various components were all associated with interest rates. Greater Sudbury provided information in its Reply Argument[6] about its monthly revenues from interest earnings, and showed that these amounts had declined significantly in more recent months.

Board Findings

The Board accepts that the reduction in interest rates is likely to cause a reduction in other distribution revenue and approves Greater Sudbury's forecast of $1,647,880 as the Revenue Offset.

4. OPERATING, MAINTENANCE AND ADMINISTRATIVE ("OM&A") EXPENSES

Operating costs include OM&A expenses, depreciation and amortization expenses,

[6] Applicant Reply Argument, para 29

payments in lieu of taxes (“PILs”), and the cost of debt. PILs are proxies for capital and income taxes that otherwise would have to be paid if the distributor were not owned by a municipality.

The final PILs allowance for ratemaking purposes is determined after the Board makes its findings on other relevant parts of the application.

Interest charges on the distributor’s debt are dealt with in the cost of capital section of the Decision.

The table below shows the components of Greater Sudbury’s proposed OM&A expenses for 2009 and compares them with previous years.

Greater Sudbury Hydro Inc.

Dollars

		2006 Board Approved	2006 Actual	2007	2008 Bridge	2009 Test
1	Operation	2,984,821	2,825,760	3,056,145	2,953,779	3,651,237
2	Maintenance	789,686	1,357,346	1,726,935	1,594,474	1,745,098
3	Billing and Collection	2,150,141	2,218,799	2,183,704	2,255,815	2,515,358
4	Community Relations	3,327	218,301	283,804	19,500	206,736
5	Administrative and General Expenses	4,578,945	2,922,543	9,004,627	3,473,245	3,756,117
6	**Total OM&A Expense**	**10,506,920**	**9,542,749**	**16,255,215**	**10,296,813**	**11,874,546**

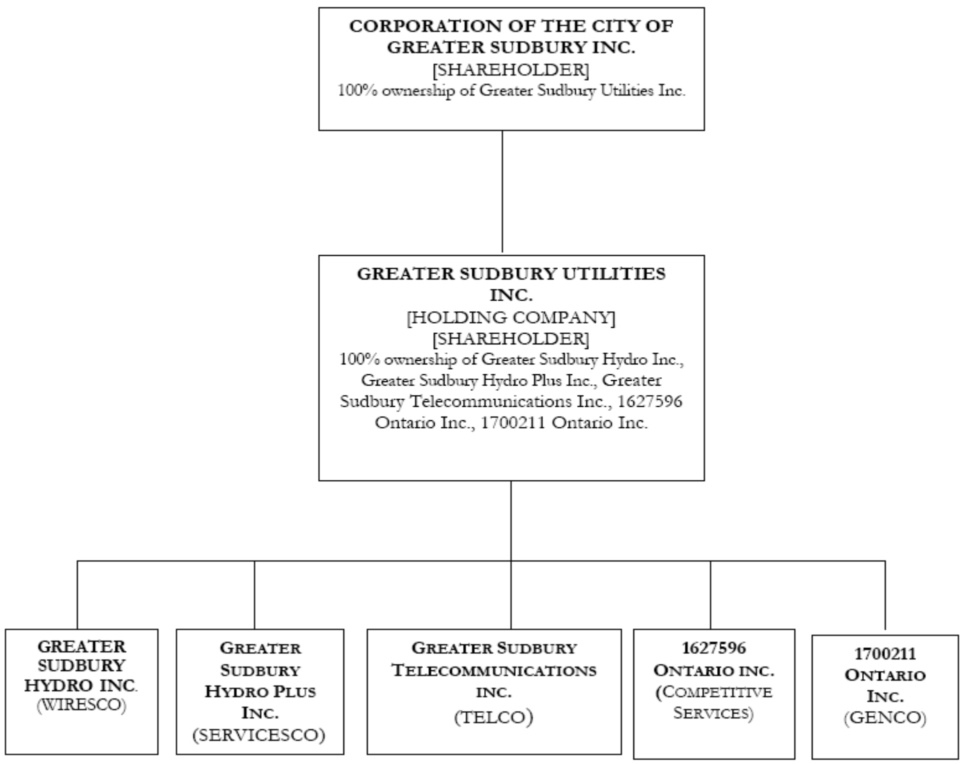
This table contains actual results for 2006, and 2007. 2008 is an estimate and 2009 is the requested test year costs. The trend is somewhat distorted due to an accounting adjustment in the 2007actuals of $5,912,439 for future retirement benefits. In total, the requested $11,874,546 is an increase of $2,331,797 or 24.4% over 2006 actuals.

The issues raised by Board staff and intervenors were related to:

a. Shared services,
b. Water Billing,
c. Tree trimming,
d. Regulatory costs,
e. Audit costs,
f. Compensation
g. Control Room costs, and
h. Enterprise Resource Planning Maintenance costs.

4 a. Shared Services

Greater Sudbury Plus Inc. ("The Plus Company") provides all services to Greater Sudbury with the exception of CDM. While a significant portion of the Plus Company's costs are only for Greater Sudbury, the Plus Company also provides services to other affiliates and the shareholder. The following chart provides the corporate relationships. [7]



Greater Sudbury's evidence was that most of the Plus Company's costs are directly attributable, and are in support of, the operation of the regulated utility. However, there are costs that are shared with affiliates. Depending on the service provided, between 90 to 97.5% of these shared costs from the Plus Company are ultimately charged to Greater Sudbury.

Greater Sudbury indicated that it would be undertaking a review of transfer pricing methodologies and intra-company cost allocations, including the water billing service, once additional requested information and interpretations from the regulator are received.

[7] Source: Exhibit 1 Tab 1 Schedule 13

During the oral hearing Greater Sudbury provided the draft terms of reference for a proposed study, titled *Draft ARC Compliance Plan and Transfer Pricing Study,*[8] and filed, in confidence, proposals from two consultants. Greater Sudbury indicated that the scope of work contained in the proposals would have to be refined, in part because the terms of reference of the study had not been developed with the consultants.

At the conclusion of the oral hearing, the panel invited the parties to address in argument the corporate cost allocation and transfer pricing issue with specific regard to:

i. the scope of the corporate cost allocation and transfer pricing study;
ii. the timing of the study;
iii. what the Board should do with the results of the study once available, including the holding of a limited scope hearing on the matter; and
iv. the model or approach to be followed regarding the allocation of costs of the new Customer Information System.[9]

CCC submitted that Greater Sudbury should work with Board staff to finalize the terms of reference of the study and retain an independent consultant to carry out a comprehensive review of its corporate structure, its transfer pricing methodologies, and its intra-company cost allocation. CCC also submitted that the Board should require Greater Sudbury to rebase in 2011 on the basis on the study.

SEC submitted that the study should include all affiliates of the Applicant that provide services to, or receive services from, the Applicant or the Plus Company, or whose operations affect the cost of the Applicant; and should reflect the requirements of the Board as set out in other proceedings in particular those relating to Enbridge Gas Distribution Inc’s transfer pricing and corporate cost allocations issues. SEC suggested that Greater Sudbury should be encouraged, but not required, to work with stakeholders to develop and implement the study.

VECC argued that formal review of shared services should be conducted under the control of Greater Sudbury and not an affiliate for the services in question. In this

[8] See appendix A
[9] EB-2008-0230 Transcript Vol.2 pp. 191-194

regard, VECC submitted that the Board, under its licensing powers, should direct GSUI/the Plus Company to undertake a comprehensive review of Corporate Shared Services Allocations. VECC commented that there are many examples of such studies which should keep the study costs in line with the subject amounts.

Board staff submitted that as an alternative to holding a limited scope hearing to address the outcome of the transfer pricing study, the Board could direct Greater Sudbury to record the financial outcome of the study in a deferral account. The balances could later be reviewed as part of the next cost of service application.

Greater Sudbury disagreed with CCC's proposal to make 2011 a re-basing year. Greater Sudbury pointed to the practical limitations to preparing an application within an accelerated timeframe as well as potential structural changes within the Greater Sudbury corporate family that may occur in the interim.

With respect to the scope of the study, Greater Sudbury agreed with SEC that a Board-provided road-map was unnecessary since it would be retaining consultants experienced in conducting transfer pricing studies. Greater Sudbury submitted that it should be in control of its transfer pricing review process and not be required to consult with stakeholders, noting that it is not aware of other LDCs who have had to consult with intervenors on corporate matters. Greater Sudbury noted that it would consult with Board staff if it thought it necessary.

CCC, SEC and VECC submitted that the shareholder, and not the ratepayer, should pay for the study. Greater Sudbury suggested that if a deferral account is to be used, then it would be appropriate to track the transfer pricing study related costs in that account for recovery at the same time any adjustments to allocations are made.

4 b. Water Billing

The Plus Company provides billing services to the City of Sudbury Water Services Division based on a ten year fixed price contract set in 2004. The price is indexed. The overall cost of operating the billing system is $3.642 million. At present approximately $2.912 million or 80% is allocated to electricity billing and the remainder of $729,678 is billed to the City. The contract was not subject to an RFP (Request for Proposal) process and was negotiated directly between the City and the Plus Company.

At issue is that approximately 21% of the billing costs are paid by the City of Sudbury for water billing. However, the number of bills issued for electricity and water billing customers is roughly the same, with 46,862 electricity customers and 46,482 water customers. The Applicant in its Argument submitted that water billing was less complex than electricity billing.

CCC argued that the overall billing costs should be split 50-50 with the City of Sudbury. CCC submitted that, without a completed cost allocation study, there is no reliable evidence to support the current fee. SEC proposed a similar interim solution which includes reflecting a 50-50 splitting of overall billing costs in the Greater Sudbury's revenue requirement along with the establishment of a Transfer Pricing Variance Account. The Transfer Pricing Variance Account would record difference between the amounts that are included in revenue requirement for payments back and forth with the affiliates and the City of Sudbury and the amounts that, pursuant to the transfer pricing study, should have been included in revenue requirement each year relating to those same payments.

Greater Sudbury opposed VECC's, SEC's and CCC's proposals that the revenue requirement in this proceeding reflect 50-50 split in overall billing services costs since it was without foundation, prejudicial to the outcome of the transfer pricing study and jeopardizes the existing financial advantages of the existing cost sharing arrangement for Greater Sudbury's ratepayers. Largely for the same reasons, Greater Sudbury rejected SEC's suggestion for the establishment of a variance account.

Greater Sudbury indicated that it would not object to Board staff's suggestion that the Board could direct Greater Sudbury to record the financial outcome of the transfer pricing study in a deferral account and the balances could be reviewed later as part of the next cost of service application. Greater Sudbury preferred this approach, even though it involves retroactivity, to making arbitrary adjustments to its revenue requirement before the results of the study are known and accepted.

Board Finding

The Board directs Greater Sudbury to undertake a study of all shared services, and the cost allocation method that would be most appropriate for transfer pricing. The Board notes that Greater Sudbury is addressing some outstanding Affiliate Relationships Code issues, which may result in corporate reorganization. The study should reflect any new corporate structure that may result. Appendix A and Appendix B to this Decision are to be used by Greater Sudbury in establishing the scope of the study.

The Board will not require stakeholder involvement. Any corporate re-organization is clearly a matter for the corporation's executive and board of directors.

As for timing, the Board does not accept Greater Sudbury's position that it cannot develop a study until 2013. The Board directs Greater Sudbury to prepare an appropriate transfer pricing study through an independent third party to be completed by Dec 31, 2011, and to be filed with its next cost of service application.

The Board is concerned that the allocation factor that is currently being used may not be correct, and does not wish to wait until the next cost of service rate application to correct any re-allocation that is recommended by the study. The Board therefore orders the creation of a variance account to track the difference between the costs as currently allocated and any new allocation of costs as recommended by the study.

This variance account will work as follows: an opening credit balance in the amount of $1,821,102 will be recorded for 2009 and for each of the subsequent IRM years. This is half of the total annual amount of operating the billing system. To the extent that the allocation study shows that the current allocation of approximately 21% is incorrect, this variance account will allow the Board to order a clearance of a portion of this variance account in favour of ratepayers to a maximum of 50% of the total billing costs. The allocation study may well show that an allocation of less than 50% is appropriate: in that a case the variance account would be cleared to ratepayers only in proportion to the amount supported by the allocation study. The Board also anticipates that a future panel of the Board may allow for some form of discovery and submissions on the allocation study in the next cost of service application. This variance account will come into effect on the effective date of this Decision (July 1, 2009). It will only capture amounts going forward from that date. To be clear, the Board is approving Greater Sudbury's requested costs of $2,912,000 for billing in 2009 rates. The variance account will allow a future panel of the Board to determine if a portion of that amount should be returned to ratepayers based on the results of the transfer pricing study.

Regarding the cost of the study, the Board considers it appropriate to split the cost evenly between the ratepayers and the shareholder of the Applicant. Greater Sudbury is therefore permitted to record half the costs incurred in a deferral account. The costs will be reviewed at the next rebasing application.

4 c. Tree Trimming

For the 2009 test year, Greater Sudbury budgeted $544,880 for tree trimming. The evidence shows that costs for tree trimming have increased significantly from pre 2005.[10] Greater Sudbury stated that this increase is due to trees planted during a major tree planting programme in the 1970's and 1980's maturing and requiring greater attention. Board staff, CCC and SEC pointed out that tree trimming included costs for shaping the trees. Greater Sudbury replied that they do not undertake ornamental shaping of vegetation, and that they generally follow industry practice. SEC argued that the Board of Directors approved amount of $213,696 be the allowed expense. Board staff pointed out that the proposed $544,000 budget for tree trimming is consistent with that expended in 2006 and 2007, as well as that expected for 2008 as submitted by Greater Sudbury in evidence.[11]

Board Finding

The Board understands that The City of Sudbury undertook to significantly increase the number of trees in the 1970's and 1980's by planting fast growing varieties of trees to overcome the scarcity of trees in the area. The Board accepts Greater Sudbury's evidence regarding the need to start regular trimming of these trees as they become a risk to Greater Sudbury's plant. The Board approves the proposed budget for tree trimming.

4 d. Regulatory Expenses

Greater Sudbury has applied for $323,000 in expenses representing regulatory costs for 2009. These costs are:

OEB annual assessment	158,100
OEB hearing assessment	60,000
Incremental internal costs	40,000
Legal Costs	65,000
Total	323,100

[10] Source: Exhibit 4 Tab 2 Schedule 3 page 6

[11] Source: Table 2 of Exhibit 4 Tab 2 Schedule 3

In undertaking J2.8, Greater Sudbury forecasted regulatory expenses to 2012. Additional costs for the *Green Energy and Green Economy Act* were included from 2010 going forward. Also included for this period were minor costs for advertising rate orders of approximately $3,000 per year over the remaining three year period.

Intervenors submitted that the annual regulatory costs were too high, with CCC arguing that amounts should be consistent with other utilities.

In Reply, Greater Sudbury argued that the costs were not unreasonable, and that they would not include the budgeted amounts for the *Green Energy and Green Economy Act* in their costs of operations and instead would use the Board established deferral accounts that were established for such expenses.

Board Findings

The Board has examined the costs presented in undertaking J2.8 and finds the expenses for OEB assessments and legal costs to be in line with other applicants' approved costs. Although some costs may seem high, the Board accepts them as the Applicant was required to attend a technical conference, settlement conference and an oral hearing, and is located at some distance from the Board's offices in Toronto. The Board accepts Greater Sudbury's request to recover $323,000 in regulatory costs for 2009.

4 e. Audit Expenses

Greater Sudbury's audit expenses were a subject of concern to Board staff, CCC, and SEC. During the technical conference, Mr. Pawlowicz stated that Greater Sudbury's financial audit cost was $100,000.[12] He further confirmed that special audit work and IFRS (International Financial Reporting Standards) are also budgeted at $50,000 each, for another $100,000, for a total of $200,000 for the 2009 Test Year. While some confusion arose over whether one or three auditors reviewed Greater Sudbury's operations, the Applicant clarified in its Reply Submissions that only one auditor, FCR, performed the audit.

In regards to the costs for a financial audit, Board staff, CCC, and SEC argued that $100,000 was too high. While Board staff suggested allowing only one third of this amount, SEC suggested $50,000.

[12] Source: Technical Conference transcript pages 79 – 80.

With respect to the budget component for IFRS, Greater Sudbury stated in their Reply that it will use the deferral accounts established by the Board for IFRS expenses. This has the effect of reducing audit costs by $50,000 in the test year.

Board Findings

The Board finds that $100,000 for a financial audit out of line with other utilities that it has reviewed. VECC suggested $50,000 which the Board sees as more in line with the costs of other utilities. The Board will approve a total of $100,000 for audit expenses for ratemaking purposes. Accordingly, the Board will allow Greater Sudbury to recover $100,000 in audit expenses for 2009. IFRS related expenses should be recorded in the deferral account established by the Board for this purpose.

4 f. Compensation

As a result of a substation asset condition report by Costello Associates, Greater Sudbury has included two additional Powerline technicians in its O&M budget.[13] These technicians are annualized in the budget, even though they will not be hired until December. Greater Sudbury pointed out that in an IRM environment, if they were not annualized, the rates for the subsequent years would under collect for these technicians.

Board Finding

Greater Sudbury has established the need for the Powerline technicians. The remaining question is a matter of the appropriate cost level for setting rates until the next rebasing. The Board directs greater Sudbury to build only 77% of the annual fully burdened cost for the two technicians into rates. This reflects that the technicians will be employed for 37 of the 48 months before the next rebasing.

4 g. Control Room Costs

Greater Sudbury operates a control room 24 hours a day, seven days a week. In 2006 Greater Sudbury tried to operate a 24 hours per day 5 days per week, but returned in 2007 to a 24/7 operation. The Applicant's evidence was that it is not required to operate a 24/7 control room, but it does so because the attempt at a 24/5 operation was unsatisfactory from an operating perspective. [14] The Applicant's evidence was that the control room is integral to the operation of the system, monitoring real time status, dispatching repair crews, managing equipment failures

[13] Source: Exhibit 2 Tab 1 Schedule 1 Appendix A

[14] Oral Hearing Transcript, Volume 2, July 24, 2009, page 34 and 35

and issuing work protection to the crews. Additional demands are now being placed on the control room Advanced Metering Infrastructure and the Smart Meter Entity.[15]

In 2007 one operator was transferred to the Plus Company because Greater Sudbury felt that it could market the control room services, but it was not able to do so. Greater Sudbury now proposes to return the cost of this operator to the distribution company in 2009.[16] SEC argued that the utility should not be allowed to shift the costs of a failed unregulated business to the distribution company. Greater Sudbury argued that the recovery of costs is related to returning to a 24/7 operation and is not the attempt to pass the costs of a failed business venture to the wires company.

An additional System Operator position is also budgeted in the test year to meet the additional demands of the new Advanced Metering Infrastructure and the smart meter entity. None of the parties objected to this addition.

Board Finding

The Board finds that it is reasonable to operate a 24/7 control room. While it would have been advantageous to the ratepayers if part of the cost continued to be absorbed by the Plus Company, Greater Sudbury is ultimately responsible for the costs of the proper operation of the control room. The Board will allow this cost.

4 h. Enterprise Resource Planning (“ERP”) Maintenance Costs

Greater Sudbury has included $100,000 for maintenance of the ERP system and WIPRO.[17] However these costs will not be incurred until 2010.[18] SEC submitted that these costs should not be included in OM&A.

Board Finding

The Board finds the inclusion of $100,000 in 2009 to be inappropriate. However, a total exclusion, which would not recognize the incurrence of these fees after 2009 which is during the IRM phase, would leave Greater Sudbury without the appropriate level of revenue to offset these costs. The Board finds that $75,000 a year until the next rebasing is appropriate under the circumstances.

[15] Exhibit 4 Tab 2 Schedule 1
[16] Oral Hearing Transcript, Volume 2, July 24, 2009, page 36
[17] Oral Hearing Transcript, Volume 2, July 24, 2009, page 44
[18] Oral Hearing Transcript, Volume 2, July 24, 2009, page 47

5. RATE BASE AND CAPITAL EXPENDITURES

Greater Sudbury Hydro requested approval of $77.5 million for the 2009 rate base. This represented an increase of 5.0% ($3,688,970) over the Applicant's 2007 actuals and an 8.0% increase ($5,741,786) from its 2006 actuals[19].

The issues addressed in this section are:

a. Capital Expenditures
b. Depreciation
c. Working capital

5 a. Capital Expenditures

In the Application, Greater Sudbury had requested 2009 capital expenditures of $10,868,524 to be closed to rate base. However, following the oral component of the hearing this was revised to $9,733,772 ($10,549,192 less contributions of $815,380). This represents an increase of approximately 56% compared to the 2008 projected level of $6,247,968.

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

Table 1[20]

	2007 Actual	**2008 Bridge**	**2009 Test**
Capital Expenditures (for addition to rate base)	$4,832,251	$6,247,968	$9,733,772
% change as compared to the prior year		29.3%	55.8%

In its Application and at the oral hearing, Greater Sudbury expressed concern about its ability to maintain the integrity of its distribution system under its current capital spending program. Greater Sudbury referred to years of inadequate investment

[19] Revised Exhibit 2/Tab 1/Schedule 2 – Page 1
[20] Based on Exhibit 2/Tab 3/Schedule 2

resulting in backlogs of capital projects and emphasized the need to “ramp up” its capital expenditures.

Appendix “C” sets out the capital budget included in the original application and the revised budget submitted by the applicant in the answers to the undertakings given in the oral hearing. It became evident during the oral portion of the hearing that a number of projects in the original capital budget would not become used and useful in 2009. The applicant agreed to remove these amounts from its revised budget.

It was also evident by the time of the oral hearing in the summer of 2009 that some projects would not proceed in 2009, that some priorities had changed, and that the estimated costs of some of the projects had increased or decreased since the application was filed. Most of these are noted in the “comments” portion of the table.

The issues raised by Board staff and intervenors related to capital expenditures were:

i. The Applicant’s budgeting process and the reliability of the evidence
ii. Smart meter costs
iii. Extent to which projects would be used and useful
iv. Allocation of Customer Information System capital costs to water billing

5 a (i) *Capital budgeting process*

Several of the intervenors argued that the starting point for the capital budget should be a capital spending budget approved by the Applicant’s board of directors prior to the application being filed. As noted above, the Board considers the appropriate starting point for our purposes to be the application itself, rather than an internal budget.

SEC argued that the current capital expenditure plan put forth before the Board is a result of an ongoing shortfall in capital spending on plant renewal over many years. SEC pointed to the Applicant’s description of a “slow, steady rot”[21] of the distribution system. SEC further stated that the independent review of the Capital Asset Management Plan was not a broad look at the deficiencies of the Sudbury system;

[21] Oral Hearing Transcript, Volume 1, July 23, 2009, page 83

rather it was a check on whether the capital plan prepared by the Applicant was “on the right track”.[22]

SEC further argued that the Applicant’s three main reliability indices are better than the North American average and therefore based on the evidence before the Board it would be difficult to approve a large increase in capital spending.

SEC submitted that if the Board finds that there is a material infrastructure deficit then the responsibility for correcting it should be shared between the ratepayers and the shareholder.

In its Reply Argument, Greater Sudbury clarified that the evidence does not support the assertion that the Applicant had starved its system in order to flow money (in way of higher interest payments) to its shareholder. Greater Sudbury had in fact underinvested in its plant in an effort to keep rates down. Greater Sudbury pointed to the fact that it decided not to apply for Market Adjusted Revenue Requirement in their unbundled distribution rate application mainly to keep rates down.

Greater Sudbury also clarified that while the need for significant increases in capital spending may not always be reflected in current reliability indicators, continued underfunding of the system would lead to failures in the future.

Greater Sudbury submitted that the Board should reject SEC’s suggestion of sharing capital expenditures between the shareholder and the ratepayer and argued that its capital spending proposed for the Test Year is necessary and supported by the evidence. If the Board were to remove millions of dollars from the capital budget as suggested by SEC then it could result in several more years of underfunding of Sudbury Hydro’s infrastructure.

SEC submitted that some of the approved projects were expected to be over budget, and that there was little evidence to explain why. SEC also submitted that the revised budget bears little resemblance to the one that was subject to the discovery process, and that it was untested evidence that was provided after the oral hearing.

VECC expressed doubt with respect to Greater Sudbury’s ability to carry out its 2009 Capital Plan given the lateness of the Application and Board approval. VECC

[22] Oral Hearing Transcript, Volume 1, July 23, 2009, page 26

submitted that the Capital spending projection as provided in response to Undertaking J1.5 was not credible as only 40% of the revised 2009 budget had been spent as of the end of June 2009.

CCC presented similar arguments to VECC and SEC.

Greater Sudbury argued that it has established the appropriateness of expenditures totalling $10,540,192 that will be used and useful in the 2009 Test Year and that this value should be approved by the Board. The projected contributions amount to $815,380, based on a percentage of the gross project expenditures. As there is a decrease in gross expenditures there was a corresponding decrease in contributions, from the original budget of $959,585 to $815,380.

Board Findings

The Board shares the concerns expressed by the intervenors that many of the projects in the revised capital budget were not disclosed until after the end of the discovery process. The Board cautions the Applicant against such practice in future applications. However, the Board accepts that Greater Sudbury has established a need for improving its distribution infrastructure as evident from the Capital Asset Management Report and the evidence at the oral hearing.

The Board also notes that most of the new projects in the revised budget relate to distribution system infrastructure. Some of these have been carried forward from 2008, while some of the projects in the original budget have been removed as they will not be completed in 2009. The Board acknowledges that it is not unusual for capital spending priorities to change as the year progresses, but at some point the record has to be considered complete. For these reasons, the Board accepts Greater Sudbury's revised capital spending plan with the exception of non-distribution system related projects that were added later in response to Undertaking J1.3, and with the exception of some of the specific projects noted below.

Non-distribution system related projects include the AM/FM GIS Software Carryover ($160,610) and Webpage Design ($21,658). The Board orders Greater Sudbury to remove these two projects from the 2009 rate base in the Draft Rate Order.

5 a (ii) Smart meters

VECC recommended a reduction of $61,000 in meter capital related to smart meters that should be included in the respective deferral account, an adjustment that Greater Sudbury agreed to.

Board Findings

The Board orders Greater Sudbury to remove $61,370 from the capital budget and to include it in the deferral account related to smart meters.

5 a (iii) Used and Useful

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

Board staff submitted that Greater Sudbury should not be permitted to book these amounts to rate base as originally proposed by the applicant.

SEC noted that the $293,906 booked to rate base in 2008 but not used and useful at that time should be reversed for the purpose of calculating the 2009 opening rate base, and the 2008 depreciation expense should be reduced.

With respect to capital expenditures of $2.16 million that were booked to rate base in 2009, SEC noted that they had been removed from the revised capital budget presented by the Applicant.

However, SEC identified one additional item that it submitted will not be used and useful in 2009. A land purchase at a cost of $400,000 was included in the OEB Application for the MS14 substation. This item is included in Greater Sudbury's revised budget presented to the Board for approval. SEC submitted that Greater Sudbury has admitted that this acquisition may not be completed by year end, and even if the land is acquired, it would not be used and useful until 2010[23].

The Applicant agreed that it would restate its 2009 opening rate base to reflect the amount of $293,906 that was not used and useful in 2008. Greater Sudbury also confirmed that the $293,906 was not included in the revised capital budget

[23] Oral Hearing Transcript, Volume 1, July 23, 2009, pages 39-41

(Undertaking J1.5). It agreed to include this amount in its closing rate base.

Board findings

The Board orders Greater Sudbury to exclude all projects that will not be used and useful for the Test Year from the 2009 rate base as laid out in the revised budget filed in response to Undertaking J1.5.

While the $200,000 earmarked for land acquisition for the MS14 substation was not excluded from the revised budget, it appears from the evidence that the land had not been acquired at the time of the hearing and that the substation will not be built and put into service before the end of 2009. The Board therefore finds that this amount should be removed form the 2009 capital budget.

The Board also orders the Applicant to restate its 2009 opening rate base to reflect the amount of $293,906 that was not used and useful in 2008.

5 a (iv) New Customer Information System

Greater Sudbury acquired the Advanced Utility System (AUS) Customer Information System (CIS) in 2002. In June 2006 Harris Computer Systems ("Harris") purchased AUS. On January 31, 2007, Harris announced that they would be discontinuing the AUS CIS in Ontario effective December 31, 2008. In collaboration with other utilities, Greater Sudbury explored alternatives to procure the best CIS solution at the most competitive price, and decided to acquire the SAP module which includes access to software, licensing and other costs.

Greater Sudbury is seeking $2.1 million in capital costs related to the new CIS System and intends to include $1,525,000 in the 2009 rate base.

Greater Sudbury currently bills water customers using the AUS system and the evidence indicates that once the new CIS system is in place, it will be used to bill water customers in addition to electricity ratepayers, although the AUS system will continue to be supported for that purpose. Although the City paid for converting water billing data to the AUS system, it did not pay any capital cost for the acquisition of that system.

Board staff argued that water billing customers would benefit from the new CIS system and accordingly should bear a part of the acquisition costs, as otherwise the

Greater Sudbury Hydro customers would bear a disproportionate share of the costs of the new system.

Board staff submitted that an appropriate allocation would be the same percentage of overall billing costs that the City is currently paying for water billing, the allocation methodology used by the Board in the Tillsonburg Hydro Inc. rate case (EB-2008-0246). As noted above in the section on OM&A expenses this is 21%. Therefore Board Staff suggested an amount of $441,840 as a reasonable allocation to the City.

CCC and SEC both suggested that the CIS costs should be split equally between the City and Greater Sudbury pending the outcome of the transfer pricing study.

VECC recommended that if the Board accepts Greater Sudbury's argument that fixed costs of electricity billing are higher than for water, then by eliminating the depreciation charge related to the new CIS system, a 33% water and 66% electricity split is reasonable.

In its Reply Argument, Greater Sudbury disagreed with Board staff and intervenors' positions that Greater Sudbury water customers will derive some benefit from the implementation of the new CIS. Greater Sudbury pointed out that the existing AUS software remains an option for providing water billing services and will continue to be supported by the vendor for that purpose.

Greater Sudbury further indicated that the City did pay for converting water billing data to the AUS system, and the City continues to pay for the services at a rate that is just and reasonable. Greater Sudbury argued that it is in the interest of the electricity ratepayers to provide the service as otherwise they would have to bear significantly higher costs for billing and collection services, estimated at $429,627.

Greater Sudbury also argued that implementing the 50/50 split sought by some of the intervenors would prejudge the outcome of the transfer pricing study and that there was no basis for an immediate reallocation.

Board Findings

The Board does not accept Greater Sudbury's argument that the City should not pay any of the capital cost of the CIS system even though water billing customers will receive services using this system. The Board understands Greater Sudbury's position that the City's water service could continue to operate on the current system. However, if the City chose to continue with the current system alone, it would assume 100% of the cost of maintaining the current system and would at some point need to replace it. In addition, it is reasonable to expect that the new system will provide some benefits and features that the City could avail itself of. Therefore the Board believes that electricity ratepayers should not be burdened with 100% of the cost of the new system. The question is – what is the fair allocation of the capital cost?

Board Staff's takes the position that a reasonable allocation is the same proportion used for OM&A expenses, in this case 21% for water services and 79% for electricity services. The Board has previously said in this decision that it is not clear that this allocation is appropriate for OM&A costs and has ordered Greater Sudbury to conduct a transfer pricing study. However, in light of no other substantiated number and recognizing that the City does not require the full features of the proposed new system for water billing, the Board accepts these proportions for the purposes of capital allocation and directs Greater Sudbury to allocate $1,204,140 ($1,525,000 - $320,860) of the total $1,525,000 proposed capital spending in 2009 to ratepayers.

Summary of Board Findings for Capital Expenditures

Overall, the Board orders the following adjustments to Greater Sudbury's proposed capital spending plan for the 2009 Test Year.

Net Capital Requested in Rate Base	$9,733,812
Less: 1. $200,000 land for MS14 substation	$ 200,000
2. AM/FM GIS Software Carryover	$ 160,610
3. Webpage Design	$ 21,658
4. Reduction in meter capital expenditures	$ 61,370
5. Allocation of CIS capital costs to water customers	$ 320,860
Total Approved Capital Spending Plan for 2009	**$8,969,314**

In addition, Greater Sudbury is directed to remove the amount of $293,906 from the 2008 rate base and add it to the rate base of the Test Year.

5b. Depreciation

Greater Sudbury proposed a recovery of $5,597,110 as depreciation for the 2009 Test Year. Greater Sudbury assumed that all new additions to rate base occurred in the beginning of 2009 and accordingly included full depreciation in the first year[24].

Board staff submitted that Greater Sudbury's position was contrary to directions issued in the 2006 Electricity Distribution Rate Handbook of May 11, 2005 that states in Section 3.2.2 that the additions or subtractions to rate base should be presumed to occur mid year and the depreciation impact should be recorded accordingly. Board staff submitted that Greater Sudbury should use the Board directed methodology and accordingly reduce its depreciation amount for 2009 by $405,558, the difference between Greater Sudbury's methodology and the half-year rule[25].

CCC and SEC agreed with Board staff. VECC suggested a further reduction of $64,000 on the assumption that the main assets except ERP have a service life of 25 years, plus a further reduction to account for the fact that certain projects would not be used and useful in 2009.

Greater Sudbury maintained that its methodology is consistent with the Board's Accounting Procedures Handbook and submitted that its calculation of the depreciation expense was appropriate.

Greater Sudbury indicated that the reference to the half-year rule relates to Tier 1 Adjustments and related to matters such as retirements without replacement and non-routine/unusual adjustments.

Greater Sudbury further submitted that under Third Generation Incentive Regulation, the Board allows depreciation on the full value of the approved incremental capital assets beginning with the year in which they go into service.

Greater Sudbury indicated that historically it has used the full year of amortization in the year of acquisition. Greater Sudbury expressed particular concern with the application of the half-year rule in respect of its acquisition of the new CIS software. To apply the half-year rule to this asset which is fully depreciated for accounting

[24] Oral Hearing Transcript, Volume 1, July 23, 2009, page 55
[25] Response to Undertaking J1.4

purposes over 5 years, would in effect cause Greater Sudbury 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.

Greater Sudbury requested that if the Board decided to apply the half-year rule for asset amortization then it should exclude the new CIS from this requirement and let Greater Sudbury amortize it on the basis of its full value in the year of acquisition.

Board Findings

The Board's policy has established the half-year rule for all electricity distributors and this has been implemented by all distributors in the 2008 and 2009 cost of service proceedings. In its Argument, Greater Sudbury has referred to the section on incremental capital modules under Third Generation Incentive Regulation that states that the half-year rule would not apply to new capital sought in excess of the materiality threshold. Under this regulation mechanism, the Board has determined that the half year rule would not apply to capital that is in excess of the threshold[26]. If it does not meet the threshold the standard half-year rule applies. It is to be noted here that the half-year rule has been made exempt only for the portion of spending that exceeds the threshold amount and is not applicable to the entire amount of new spending.

In case the Board decides to apply the half-year rule, Greater Sudbury has requested exemption of applying the half-year rule with respect to its new CIS. The Board understands Greater Sudbury's position and agrees that it would under-recover over the life of the asset if it was to apply the half-year rule to the new CIS. Considering the circumstance of the Applicant wherein a significant asset with a short amortization period has been acquired in the Test Year, the Board will allow Greater Sudbury to amortize the CIS on the following basis. The evidence indicates that the CIS will be closed to rate base in November 2009[27]. This means that the asset will be in rate base for a total of 38 months of the 48-month IRM period. Greater Sudbury shall recover in rates the equivalent of 38/48 (or 79.17%) of the amortized amount. In other words, in place of recovering 50% of the amount as depreciation under the half-year rule, Greater Sudbury will be able to recover approximately 80% of the amount as depreciation. However, Greater Sudbury can

[26] Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, September 17, 2008, EB-2007-0673, Pg.31

[27] Oral Hearing Transcript, Volume 1, July 23, 2009, page 50

only use the allocated amount to ratepayers ($1,204,140) to determine the full value of the asset (see findings above on CIS system).

With respect to all other assets added to the 2009 rate base, the standard half-year rule will apply. The Board orders Greater Sudbury to recalculate depreciation based on the above findings and submit the details as part of the Draft Rate Order.

5 c. Working Capital Allowance

CCC, VECC and SEC submitted that Greater Sudbury be required to undertake a lead-lag study as part of its next rebasing. CCC noted that in cases where distribution utilities undertook a lead-lag study, the appropriate level of working capital allowance was less than 15%, which is the current proportion used by Greater Sudbury.

In its Reply, Greater Sudbury referred to other 2009 Cost of Service decisions on this matter wherein it was established that conducting a lead/lag study by individual utilities would not be the most cost effective way for testing the reasonableness of the current default proportion for working capital. Greater Sudbury submitted that the current standard can be more appropriately addressed by way of a generic proceeding.

Board Findings

The Board will not require Greater Sudbury to prepare a lead-lag study for its next rebasing application. In making this finding, the Board is mindful of the cost of an individual study and the generic nature of this issue. The Board finds that Greater Sudbury's approach of using a 15% factor to derive its working capital allowance is reasonable.

6. COST OF CAPITAL and CAPITAL STRUCTURE

With the exception of long-term debt, parties agreed that Greater Sudbury's proposed cost of capital was consistent with the Board's guidelines and the recent Cost of Capital Parameter Updates for 2009 Cost of Service Applications.

Capital Structure

Greater Sudbury's proposed capital structure is 56.67% debt and 43.33% equity.

SEC expressed concern that the utility was financing its operations using 80% debt. SEC submitted that this results in higher funds being collected from ratepayers for PILs (Payment in Lieu of Taxes) purposes that do not need to be paid out for that purpose. Secondly, a high debt ratio could lead to a higher cost of capital or the availability of additional capital could be restricted.

SEC further submitted as interest payable on affiliate debt has to be paid before any other spending, unlike a dividend, it cannot be suspended in case of urgent spending needs.

SEC submitted that the Applicant's capital structure, including its costs, benefits, risks, and other implications should be reviewed at the time of next rebasing.

The Applicant maintained that the Board has not prevented distributors from having actual capital structures that differ from their deemed capital structures for ratemaking purposes. Greater Sudbury submitted that even if the actual capital structure of distributors was an issue, it is generic in nature and should be pursued in the context of a generic proceeding. Greater Sudbury requested that the Board reject SEC's suggestion of an analysis with respect to its capital structure at the time of its next rebasing application.

Short Term Debt

Greater Sudbury has included a 4% short-term debt component as part of its proposed capital structure and has accepted the short-term debt rate of 1.33% identified in the Cost of Capital Parameter Updates for 2009 Cost of Service Applications issued on February 24, 2009.

Long Term Debt

Greater Sudbury has proposed a long term weighted debt cost of 7.01% for 2009 consisting of a Promissory Note to the City ("Note") for an amount of $48.6 million at a rate of 7.25% and $12.6 million of new debt that the utility intends to add. Greater Sudbury's Application indicates a rate of 6.10% for the new debt based on its initial consultation with its banker.

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

In its Argument-in-Chief, the Applicant maintained that the Note should be considered embedded debt and therefore subject to a rate of 7.25% for 2009 and in subsequent rebasing proceedings. If, however, the Board determines that the Note represents affiliate debt callable on demand, then Greater Sudbury submitted that it should be subject to the Board's deemed debt rate which is currently 7.62%.

None of the parties objected to Greater Sudbury's long-term debt rate.

SEC did suggest that the Board should direct the Applicant to seek alternate debt financing arrangements at market rates in time for its next rebasing application. CCC agreed with SEC.

Common Equity

Greater Sudbury confirmed its use of the revised return on equity ("ROE") of 8.01% adopted by the Board in February 2009.

Board Findings

None of the parties expressed concerns with respect to Greater Sudbury's proposed capital structure and cost of debt. However, Greater Sudbury has raised an issue with respect to the rate on the Note held by the City and has suggested two alternatives.

The Applicant is currently paying a rate of 7.25% on the Note. Greater Sudbury has argued that should the Board consider the Note as affiliate debt callable on demand, the Board's deemed rate of 7.62% should apply. However, the Board's view is that ratepayers should not bear the burden of a higher rate than is actually being paid. The intent of the Board's policy on deemed affiliate debt rates was to prevent utilities (and their ratepayers) from paying above market rates for debt provided by an affiliate, which is not the situation in this case.

The Board directs Greater Sudbury to use a rate of 7.25% on the affiliate debt. While this debt rate will be embedded in the Applicant's rates during the IRM period, the hearing panel does not, nor would it be appropriate to, make a finding for future rate periods.

The Board agrees with Greater Sudbury's submission that issues raised by SEC relating to its actual capital structure are of a generic nature and are outside the scope of this proceeding.

The Board accepts all other aspects of the utility's proposal with respect to capital structure and cost of capital.

7. SMART METERS

Greater Sudbury applied for a Utility-Specific Smart Meter Funding Adder, in accordance with OEB Guideline G-2008-0002. Greater Sudbury is a participant in the London RFP process and requested a smart meter funding adder of $1.94 per month per metered customer.

The Company anticipates installing a total of 46,018 smart meters by the end of 2009 at an installed cost of $152.00 per smart meter. Greater Sudbury confirmed that its Smart Meter Plan does not include costs to support functionality that exceeds the minimum functionality adopted in Ontario Regulation 425/06 and has not incurred and does not expect to incur any costs associated with functions for which the Smart Metering Entity has the exclusive authority to carry out pursuant to Ontario Regulation 393/07.

Board staff did not object to the rate adder but did suggest that if the Board required Greater Sudbury to implement a rate mitigation mechanism, then reducing the smart meter rate adder could be one of the options. The intervenors did not raise any objections to Greater Sudbury's request.

The Applicant requested that the Board approve the proposed smart meter funding adder. Although Greater Sudbury did not believe that mitigation measures are necessary, it pointed out that disposition of the credit balance in the deferral and variance accounts would reduce the impact of the proposed smart meter rate adder.

Board Findings

The Board approves Greater Sudbury's request for a smart meter funding adder of

$1.94 per month per metered customer in accordance with the Board Guideline on Smart Meter Funding and Cost Recovery.

8. LOST REVENUE ADJUSTMENT MECHANISM (“LRAM”) AND SHARED SAVING MECHANISM (“SSM”)

In its Application, Greater Sudbury requested a total combined LRAM/SSM amount of $220,524, calculated to December 31, 2007. This was comprised of $61,092 in lost revenue resulting from savings achieved through Sudbury Hydro’s third tranche CDM plan for the years 2005-2007; and $159,432 in SSM recoveries. Sudbury Hydro’s third tranche CDM plan was approved by the OEB in RP-2004-0203/ EB-2004-0471. Greater Sudbury proposed to recover the total combined LRAM/SSM amount of $220,524 through a class-specific volumetric rate rider over a two year period that would be in effect commencing in the 2009 rate year.

Greater Sudbury submitted that its LRAM and SSM-related calculations have been performed in accordance with the Board’s requirements, including those set out in the *Guidelines for Electricity Distributor Conservation and Demand Management* (EB-2008-0037) issued on March 28, 2008 (the “Guidelines”).

VECC submitted that:

1. The calculation of Mass market CDM savings includes savings from non-residential programs, and
2. The Calculation of mass market savings for 2007 does not use the OPA Every Kilowatt Counts (EKC) assumptions for kwh savings from Compact Fluorescent Light bulbs (CFLs).

In response to Undertaking J2.11, the Applicant corrected the LRAM claim for Mass Markets for 2006.

With respect to savings assumptions from CFLs, the Applicant used the Board guideline number of 104 kWh. In 2007 the Ontario Power Authority (“OPA”) changed the input assumptions for CFLs distributed under its EKC spring/ fall campaigns. The annual savings were reduced from 104 kWh for a 13/14 watt CFL to 44.3 kWh.

VECC submitted that the use of 104 kWh rather than 44.3 kWh resulted in LRAM claims that were too high and also resulted in overstatement of CDM savings used in Load Forecasts.

VECC submitted that the Board should approve the recalculated number as presented in response to Technical Conference Undertaking number 3 and adjust Greater Sudbury's Residential LRAM claim from $61,092 to $29,165.

In its Reply Argument, Greater Sudbury agreed to revise the LRAM claim to $29,165.

Board Findings

The Board accepts Greater Sudbury's revision and directs it to revise the combined LRAM/SSM recovery to $188,597.

9. COST ALLOCATION AND RATE DESIGN

The following issues are addressed in this section:

a. Revenue to Cost Ratios
b. Rate Harmonization
c. Rate Design - Monthly Fixed Charges
d. Low Voltage Rate Adder
e. Retail Transmission Service Rates

9 a.Revenue to Cost Ratios

Greater Sudbury proposes 2009 revenue to cost ratios for each of its rate classes as shown in column 2 of Table 1 below. For those classes whose ratios are outside of the Board's policy range, shown in column 4, Greater Sudbury proposes to increase the relative rates in subsequent years, so that the ratio will be at the lower boundary of the range by 2011.

The proposed ratios are adjustments from existing ratios found in Greater Sudbury's Informational Filing EB-2007-0001. The ratios were corrected by Greater Sudbury for an error in the inputs[28] (shown in column 1), and then further adjusted to correct an error in the Board's cost allocation model that affected the ratios for all

[28] Exhibit 8 / 1 / 2 / Table 2

distributors[29] (shown in column 3).

The cost allocation studies in all cases do not include the costs and revenues of West Nipissing Energy Services Ltd, which was a separate entity in 2006 and did not file an Informational Filing cost allocation study. The 2009 ratios proposed by Greater Sudbury would apply to the distributor as it now exists, i.e. the revenue for each class would include revenue from customers in West Nipissing and the class revenue requirements are prorated from the best version of the Sudbury cost allocation study.

Table 1
Greater Sudbury Revenue to Cost Ratios

	1	2	3	4
Class	Existing Ratios (Exh 8 / 1 / 2 / Appendix A)	Ratios corrected for Transformer Ownership (Response to VECC 23(c))	Proposed Ratios for 2009 (Exh 8 / 1 / 2 / Table 3)	Range set out by the Board (EB-2007-0667)
Residential	94.61%	95.17%	96.95%	85% - 115%
GS < 50 kW	117.22%	117.97%	110.00%	80% - 120%
GS > 50 kW	121.08%	118.91%	113.88%	80% - 180%
Street Lighting	6.53%	6.60%	41.10%	70% - 120%
Sentinel Lighting	18.28%	18.45%	54.03%	70% - 120%
Unmetered Scattered Load	221.57%	223.05%	119.31%	80% - 120%

Submissions supported the ratios in column 3 as the best available starting point for re-balancing class revenues. Greater Sudbury noted that the adjustments made to the cost allocation study had a very small effect on the ratios.

The ratios of two classes are substantially below the Board's suggested range. All

[29] Response to VECC interrogatory 23(c), also in the record as Transcript Undertaking 1.4 at the technical conference.

parties supported the proposed 2009 ratios for Street Lighting and Sentinel Lighting as consistent with the pattern established in other Board decisions. The Applicant noted that the parties also supported the proposal to increase the ratios for those classes by equal steps in 2010 and 2011 to reach 70%.

VECC submitted that there is no basis for increasing the ratio for the Residential class, because it is already within the policy range established by the Board. SEC generally supported any movement toward 100%, including the Greater Sudbury proposal in this instance.

The increased ratios for the Residential, Street Lighting and Sentinel Lighting classes allow lower ratios for some or all of the classes with ratios above 100%. The proposed ratios are all lower than the starting point ratios. VECC submitted that there is no basis for lowering the ratios for the two General Service classes that are already within their respective policy ranges, until the ratio for the Unmetered Scattered Load class is within its range. VECC submitted that any additional revenue beyond that can be used to reduce the ratios for all classes that are above 100%. SEC and Board staff supported the 2009 ratios proposed by Greater Sudbury. Board staff suggested that the ratios could be decreased equally in 2010 and 2011 as a result of the proposed increases in Street Lighting and Sentinel Lighting ratios in those years.

Board Findings

Except for Street Lighting and Sentinel Lighting, the revenue to cost ratios are consistent with the Board's policy range. The Board finds the revenue to cost ratios proposed by Greater Sudbury to be reasonable.

The Board also accepts Greater Sudbury's proposal for 2010 and 2011 ratios for the Street Lighting and Sentinel Lighting classes. With respect to who should benefit and by how much from the resulting additional revenue, the Board accepts the Applicant's proposal to decrease the ratios of GS<50 kW, GS>50 kW and Unmetered Scattered Load by equal percentages, starting from the 2009 ratios. The Board expects that the Residential ratio will remain unchanged from its 2009 amount.

9 b. Fixed:Variable Ratios

Greater Sudbury proposed that when rate harmonization has been completed, the proportions of revenue derived from the fixed charges and volumetric rates will be at current levels for each class. Prior to complete harmonization, there may be incidental differences as various charges and rates are brought closer together.

The parties' submissions generally supported this proposal, with two exceptions. VECC noted that the Residential Monthly Service Charge is above the ceiling amount calculated in the cost allocation study, and submitted that the charge should be reduced to bring it closer to its range and to mitigate bill impacts on the smallest customers.

SEC observed that the Monthly Service Charge proposed for the General Service > 50 kW class is substantially above the ceiling amount calculated in the cost allocation study, and submitted that the charge should be set at the ceiling (adjusted for inflation since the cost allocation study was done). SEC argued that while in other applications the Board has approved a charge above the ceiling in instances where the existing charge was already above the ceiling, in this case the approved charge in West Nipissing is below the ceiling, and approving the proposed rate would have the effect of moving the charge from within the range to outside the range. SEC noted that the customers that currently are charged the West Nipissing rate would experience a large change in their Monthly Service Charge even putting it at the ceiling, and a much larger change if above the ceiling as proposed by Greater Sudbury.

Board Findings

The Board accepts Greater Sudbury's proposal to design its rates, once fully harmonized, to achieve the fixed variable ratios at their current amounts.

The Board acknowledges VECC's observation concerning the impact on small residential customers. It points out, however, that the calculated bill impact on customers using 250 kWh per month in West Nipissing is less than 20% over the two years, though more than 10% in the first year. For the same small customer in Sudbury, the bill impact over two years would be less than 12%[30]. Further, Greater Sudbury is proposing a rate rebate, which is addressed later in this Decision, and the effect of a rebate would go some way to reducing the bill impact. The Board

[30] The "full harmonization" bill impact calculations are in the response to Board staff interrogatory # 56, and are described here as being the impacts over two years although they do not include an IRM adjustment. The 2009 bill impact calculations are in the response to Board staff interrogatory # 58.

expects that the Applicant will include an update of the bill impact calculations with its Draft Rate Order, and expects the impacts of full harmonization to remain below 20%.

The Board accepts Greater Sudbury's submission that the proportion of its service area currently paying West Nipissing rates is too small to warrant changing the fixed:variable ratio for the whole GS>50 kW class. While the Board does not agree with SEC's submission concerning the fixed:variable ratio and the use of the cost allocation ceiling, the Board does accept the general point that there will be an unacceptable bill impact on some customers within that class. The bill impact on smaller customers currently paying West Nipissing rates would be nearly 30%[31]. This issue is addressed below under "harmonization".

9 c.Harmonization

Greater Sudbury proposed to harmonize all rates over a two year period, by designing rates that would apply in each class throughout the service area, with 2009 rates for customers that currently pay West Nipissing rates set half-way between the currently approved rates and the uniform rates. The 2009 rates for customers that currently pay Sudbury rates would be designed to recover the class revenue requirement, net of revenue from the customers paying the West Nipissing rates. In 2010, all customers would pay fully harmonized rates.

All parties supported Greater Sudbury's harmonization proposal, except for SEC's submission about the Monthly Service Charge as it applies to General Service customers larger than 50 kW in West Nipissing.

Board Findings

The Board finds that Greater Sudbury shall design its rates as proposed for all classes except GS>50 kW, so that harmonization occurs over two years.

The bill impacts on GS>50 kW class customers may be somewhat lower than shown in the calculations provided by the Applicant, in light of the rate rider rebate that is discussed later in this Decision, and perhaps other factors. The best information that the Board has available is that customers in West Nipissing will experience a bill impact of nearly 30% with the implementation of harmonized rates. The effect of

[31] Response to Board staff interrogatory # 56, for customers using 60 kW and 15,000 kWh.

any IRM adjustment after 2009 would be in addition to this impact. The Board finds that the harmonization period for this class shall be three years, resulting in uniform rates throughout the service area in 2011.

With this longer harmonization period, the Board expects that in 2009, the rates applicable to West Nipissing customers in the GS>50 kW class will move one-third of the distance from the current approved rates toward the harmonized rates, followed by similar changes in 2010 and 2011. The Board recognizes that the rates to GS>50 kW class customers in the Sudbury part of the service area will be somewhat higher in 2009 than that proposed by Greater Sudbury, in order to keep the class revenue requirement at the proposed level. The same will pertain to a lesser degree in 2010. The Board notes, however, that the calculated bill impacts are quite small, and will be little affected by the longer harmonization period.

9 d. Low Voltage Adder

Greater Sudbury provided a forecast of its Low Voltage cost incurred under Hydro One distribution rates applicable to embedded distributors. Board staff submitted that the estimate should be updated to reflect the approval of Hydro One rates applicable to Sub-Transmission class customers, which now include embedded distributors along with a variety of other large customers. Staff also submitted that an adjustment should be made in the estimate to reflect the Hydro One Rate Rider # 4 which will apply for only two of the expected four years before Greater Sudbury's next rate rebasing. Greater Sudbury agreed with the position of Board staff in their submission.

Greater Sudbury submitted a detailed cost estimate with its Reply Submission. The rates assumed in the calculation are the approved rates less one-half of the approved Rate Rider # 4. The calculation is based on the assumption that there will be a number of months with the rebate followed by an approximately equal number of months without it, leading up to the next re-basing of Greater Sudbury's distribution rates. The amount of the estimated annual cost is $170,196.

Board Findings

The Board finds that Greater Sudbury's cost forecast methodology is reasonable. However, since the effective date of this Decision is July 1, 2009, there are 22 months remaining with Hydro One's Rate Rider #4. However, Greater Sudbury's rate adder is expected to be in place for 46 months until April 30, 2013. Accordingly, Greater Sudbury is directed to make the appropriate adjustments to its proposed rate adder.

9 e. Retail Transmission Service Rates

Greater Sudbury proposed Retail Transmission Service Rates designed to recover its cost under the Uniform Transmission Service Rates approved by the Board in EB-2007-0759. In its Reply Submission Greater Sudbury agreed with the staff submission that the rates should be updated to recover costs under the Uniform Transmission Service Rates approved by the Board in EB-2008-0272.

Greater Sudbury provided a forecast of the cost of transmission service provided by Hydro One pertaining to the portion of the load that is delivered through embedded delivery points. In its Argument-in-Chief Greater Sudbury indicated that it would update its forecast to reflect the 2009 rate order applicable to the host distributor.

Board Findings

The Board finds that Greater Sudbury's proposal to update its forecast transmission costs is acceptable, and expects the Applicant to submit documentation with its Draft Rate Order showing load quantities together with the applicable Uniform Transmission Service Rates and Hydro One Retail Transmission Service Rates.

10. DEFERRAL AND VARIANCE ACCOUNTS

Disposition of Balances

Greater Sudbury did not initially request disposition of any deferral or variance accounts in 2009, but it reconsidered this position in its Reply Submission.

Greater Sudbury filed information on its deferral and variance accounts in a continuity schedule. The table below shows the balances at year-end 2008, inclusive of projected interest up to April 30, 2009, which Greater Sudbury provided in response to Board staff supplemental interrogatory # 22. The balances shown are for the former Sudbury and West Nipissing distributors combined.

Table 2

Greater Sudbury Deferral and Variance Accounts

	Acct. Number	Account Description	Total ($)
1	1508	Other Regulatory Assets – Sub-Account – OEB Cost Assessments	136,014
2	1508	Other Regulatory Assets – Sub-Account – Other	2809
3	1525	Miscellaneous Deferred Debits	12,177
4	1550	LV Variance Account	148,667
5	1570	Qualifying Transition Costs	219,324
6	1571	Pre-Market Opening Energy Variances	63,474
Option (a)		**Sub-Total (rows 1 - 6)**	**582,465**
7	1580	RSVA – Wholesale Market Service Charge	(2,530,339)
8	1584	RSVA – Retail Transmission Network Charge	(424,919)
9	1586	RSVA – Retail Transmission Connection Charges	438,047
10	1588	RSVA – Power (including Global Adjustment)	(90,433)
11	1590	Recovery of Regulatory Asset Balances	(566,082)
		Sub-Total (rows 7 – 11)	**(3,173,726)**
		Sub-Total (rows 1 – 11)	(2,591,261)
12	1588	RSVA – Power Sub-account (Global Adjustment)	506,551
Option (b)		**Total (rows 1 – 12), excluding Global Adjustment**	**(3,097,812)**

SEC submitted that the record may not be adequate to support the balances in Accounts 1570 and 1571, in particular the components related to the West Nipissing distributor. In its Reply Submission, Greater Sudbury indicated that the required supplementary disclosure and audit had been completed, and were provided in response to Board staff supplemental interrogatory number 70 parts a) and b).

Board staff noted that Greater Sudbury had also provided balances for the two former distributors separately. Staff submitted that there were three main options available for disposition of deferral and variance account balances: no disposition in 2009, disposition of balances from the table above such as option (a) or (b), and disposition of the separate balances by means of rate riders that would differ in the two former service areas. Staff also submitted that there are alternatives of larger rate riders over a shorter period such as one year or smaller rate riders over a longer period. Greater Sudbury submitted that it would be preferable to implement rate riders that would be uniform across the whole service area, and suggested that a two-year period would be appropriate.

Board Findings

The Board finds that Greater Sudbury shall dispose of the balances as shown in Table 2 above, in the aggregate amount of ($2,591,261). This balance includes the 1588 sub-account for the Global Adjustment, and excludes balances in several accounts related to Smart Meters and Conservation and Demand Management (not shown in the table). The Board finds that the rate rebates shall be uniform for customers throughout Greater Sudbury's service area. The Board finds that the balances shall be allocated amongst the rate classes according to the default factors described in Table 1 at page 21 of "Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative", EB-2008-0046, July 31, 2009. The Board finds that the rate riders shall be calculated to dispose of the balance over a twenty-two month period, and that the rate riders are approved from the implementation date of the Rate Order until April 30, 2011.

EFFECTIVE DATE

The Board required utilities to file their 2009 Cost of Service applications on or before August 15, 2008 in order to meet a target implementation date of May 1, 2009. Greater Sudbury filed its Application on December 22, 2008. Greater Sudbury's rates were declared interim on April 24, 2009.

VECC and SEC submitted that the Applicant had filed its application four months late and should therefore receive an effective date of September 1, 2009. SEC further submitted that in case there is a revenue sufficiency, the effective date should be May 1, 2009. SEC maintained that ratepayers should not be penalized for the tardiness of the Applicant.

Greater Sudbury in its Reply requested an effective date of May 1, 2009 citing that it was late due to unforeseen delays including the complexity of combining the rate application to reflect one amalgamated entity. Greater Sudbury indicated that concurrent with the preparation of its Application, it was undergoing a Debt Retirement Charge audit and Board's Retail Settlement Variance Account review. These simultaneous obligations pulled away much needed resources from preparing the rate application.

Board Findings

The Board understands the Applicant's position but notes that the Application was filed four months late, and even once filed, the process was prolonged in part because the Applicant initially declined to have a technical conference, was unable to settle any of the matters in dispute during the settlement conference, and was still updating its evidence at the time of the oral hearing. However, the Board does recognize that Greater Sudbury was faced with a difficult task of preparing an application that reflected the amalgamation with West Nipissing Energy Services Ltd. Considering all the exceptional circumstances, the Board approves an effective date of July 1, 2009 and the recovery of the revenue shortfall arising in the period between July 1, 2009 and the implementation of the new rates.

The Board has made findings in this Decision which change the revenue deficiency and therefore the proposed 2009 distribution rates. These are to be properly reflected in a Draft Rate Order incorporating an effective date of July 1, 2009 for the new rates.

In filing its Draft Rate Order, the Board expects Greater Sudbury to file detailed supporting material, including all relevant calculations showing the impact of this Decision on Greater Sudbury's proposed revenue requirement, the allocation of the approved revenue requirement to the classes and the determination of the final rates, including bill impacts. Greater Sudbury should also show detailed calculations of the revised low voltage rate adders, retail transmission service rates and variance account rate riders reflecting this Decision.

A Rate Order and a separate cost awards decision will be issued after the processes set out below are completed.

COST AWARDS

The Board may grant cost awards to eligible stakeholders pursuant to its power under section 30 of the *Ontario Energy Board Act, 1998*. When determining the amount of the cost awards, the Board will apply the principles set out in section 5 of the Board's Practice Direction on Cost Awards. The maximum hourly rates set out in the Board's Cost Awards Tariff will also be applied.

All filings with the Board must quote the file number EB-2008-0230, and be made through the Board's web portal at www.errr.oeb.gov.on.ca, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must be received by the Board by 4:45 p.m. on the stated date. Please use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.oeb.gov.on.ca. If the web portal is not available you may e-mail your documents to the attention of the Board Secretary at BoardSec@oeb.gov.on.ca. All other filings not filed via the Board's web portal should be filed in accordance with the Board's Practice Directions on Cost Awards.

THE BOARD ORDERS THAT:

1. Greater Sudbury shall file with the Board, and shall also forward to SEC, CCC and VECC, a Draft Rate Order attaching a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision, within 14 days of the date of this Decision. The Draft Rate Order shall also include customer rate impacts and detailed supporting information showing the calculation of the final rates.

2. SEC, CCC and VECC shall file any comments on the Draft Rate Order with the Board and forward to Greater Sudbury within 7 days of the filing of the Draft Rate Order.

3. Greater Sudbury shall file with the Board and forward to SEC, CCC and VECC responses to any comments on its Draft Rate Order within 7 days of the receipt of any submissions.

4. SEC, CCC and VECC shall file with the Board and forward to Greater Sudbury, their respective cost claims within 26 days from the date of this Decision.

5. Greater Sudbury shall file with the Board and forward to SEC, CCC and VECC any objections to the claimed costs within 40 days from the date of this Decision.

6. SEC, CCC and VECC shall file with the Board and forward to Greater Sudbury any responses to any objections for cost claims within 47 days of the date of this Decision.

7. Greater Sudbury shall pay the Board’s costs incidental to this proceeding upon receipt of the Board’s invoice.

DATED at Toronto, December 1, 2009.

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary

Appendix A

Study Terms of Reference

The purposes of the ARC Compliance Plan and Transfer Pricing Study are:

1. To ensure Greater Sudbury Hydro's compliance with the Ontario Energy Board's *Affiliate Relationships Code for Electricity Distributors and Transmitters* as amended August 2008.
2. To establish a framework and business practices to ensure ongoing compliance with the *Affiliate Relationships Code*, which also provides the appropriate level of operational and cost information to support future cost-of-service rate rebasing applications.

The Study will comprise three components or phases:

PHASE 1. Obtain opinion regarding restructuring options, costs and benefits of those options with specific attention to the services currently purchased from Greater Sudbury Hydro Plus Inc.

PHASE 2. Transfer Pricing Study

Depending upon the outcomes of Phase 1, the second phase of the study will comprise a transfer pricing study to establish cost drivers and methodologies.

The study will seek to price services based on fair market value pricing, if available, purchased from Greater Sudbury Hydro Plus Inc.; and

If fair market value pricing is not available, develop a costing framework and methodology including fully allocated costing and return on invested capital to fairly allocate cost among the corporate family.

The costing framework will address cost allocation principles such as:

- Cost causality
- Elimination of cross subsidies
- Accuracy
- Transparency
- Cost effectiveness
- Stability
- Flexibility to change

PHASE 3. Ongoing Administration

The purpose of Phase 3 is to establish the pricing methodologies, information requirements and business practices to ensure ongoing compliance with the *Affiliate Relationships Code* and to provide the appropriate level of operational and cost information to support future cost-of-service rate rebasing applications.

Appendix B

Extracts from EB-2006-0001/434 pp. 79-88 pertaining to, and an elaboration on the 3- prong test.

10.8.1 The 3-prong test was defined in the Board's Decision in EBRO 493/494 and can be summarized as follows:

1. **Cost incurrence: Were the corporate centre charges prudently incurred by, or on behalf of, the companies for the provision of services required by Ontario ratepayers?**

2. **Cost allocation: Were the corporate centre charges allocated appropriately to the recipient companies based on the application of cost drivers/allocation factors supported by principles of cost causality?**

3. **Cost/Benefit: Did the benefits to the Company's Ontario ratepayers equal or exceed the costs?**

10.8.2 The costs must pass all three tests. If a service, or the scope of service, is not needed by the gas distribution utility, then the cost should not be recovered from ratepayers. This is so even if the benefits may exceed the costs in question.[32]

10.9.1 In the Board's view, costs will not pass this test [cost incurrence] if they relate to activities which:

2. go beyond the scope of the service required for a utility,

3. are associated with overall governance from a shareholder perspective or "minding the investment", or

4. represent additional and superfluous management layers.

10.9.17 In order to pass this test[cost benefit], Enbridge must demonstrate that the allocated costs for a service are less than what Enbridge would incur as a stand-alone gas distribution utility. The Board also expects that there will be demonstrable scale economy benefits. In other words, in some areas, the corporate cost allocation should result in costs that are lower than the stand-alone equivalent.

[32] EB-2005-0001/EB-2005-0437, *Decision with Reasons*, February 9, 2006 pp.79-80.

Appendix C

Original and Revised Capital Expenditure requested in 2009 Rate Base

Project Description	As per Application	Revised Budget following oral hearing	Comments
Meter Installations	111,370	50,000	$61,370 related to smart meters removed from capital budget , will be added to smart meter deferral accounts
Emergency Plant Maintenance	83,849	140,000	No reason for the increase has been provided
Failed Transformers	73,676	73,676	
PCB	147,960	20,000	Represents the portion that will be used and useful in 2009
Major Repairs to Substations	750,716	897,965	No reason for the increase has been provided
MS14 Land Acquisition	400,000	200,000	
System Betterment	427,041	938,020	No reason for the increase has been provided
Overhead & Underground Services	281,100	283,893	
City Roadwork	546,030	150,000	Represents the portion that will be used and useful in 2009
Subdivisions	427,201	300,000	Represents the portion that will be used and useful in 2009
Commercial	563,600	563,600	
Beatrice - West of Buckingham	106,197	106,197	
Sherwood Park Phase 3	334,025	334,025	
Sparks Street - Restricted Conductor Rebuild	204,169	365,000	No reason for the increase has been provided
Insulator Replacement Program	937,197	400,000	Represents the portion that will be used and useful in 2009
Shaughnessy O/H to U/G Conversion	225,683		Will not be used and useful in 2009
Centennial Load Area Voltage Conversion	202,825	202,825	
44kV Motorized Switches	133,335	133,335	
44 kV and 12 kV Fault Indicators	20,622	20,622	
Tools and Equipment	170,000	170,000	
Vehicles & Leasehold Improvements	703,000	283,000	Represents the portion that will be used and useful in 2009 Not all vehicles on order will be delivered in 2009
Enterprise Resource Planning Software	540,000		**Removed** – will not be used and useful in 2009
Substation Security	15,000	15,000	
SAP - Billing Software	2,100,000	1,525,000	Represents the portion that will be used and useful in 2009

Jarvi Road	297,500	297,500	
28M6 Montague to Whissel	235,797	525,000	Budget increase as project will require significant amount of contracted labour
SCADA	392,907	392,907	
Pole Replacement 9M1 to 9M6		450,409	
Southlane Road		275,000	New project to allow Bell Canada to attach poles
Louis Street 22/04		174,814	Collapse of underground chamber has required a rebuild
Falconbridge Voltage Conversion		150,000	As per 2003 MADD application to the Board
Bell Park O/H to U/G conversion	62,011		**Removed** - will not be used and useful in 2009
Hillsdale Lakeview Rebuild	610,298		**Removed** – will not be used and useful in 2009
44kV Tie between 28M4 and 9M4	725,000		**Removed** – will not be used and useful in 2009
Am / Fm GIS Software Carryover		160,610	Advanced the purchase & conversion of the GIS system from original 2010 Capital Asset Management Plan
Barrydowne 44 kV Reconductor Carryover		150,000	Carryover of a 2008 project
Vehicle Carryover		208,888	Long lead time for delivery – 2008 year end actual adjusted
Building Carryover		149,913	Cost to build small PCB processing & storage building on site
Substation Security Carryover		4,985	Completed in 2009
Major Repairs to Substations Carryover		11,691	Substation fencing from 2008 completed in 2009
Webwood Drive		50,000	Related to changing transformers of 2 customers
Tilton Lake Rd		47,818	Charges associated with Bell Canada transfers on this major rebuild
Gary Street Carryover		305,801	Service transfers and underground installation associated with Gary Street 44 kV line rebuild
Webpage Design		21,658	Costs associated with new webpage to meet ARC guidelines
Total - Capital	**$ 11,828,109**	**$ 10,549,152**	
Less Contributions	**$ 959,585**	**$ 815,380**	
Total Capital Less Contributions	**$ 10,868,524**	**$ 9,733,772**	