

EB-2008-0230
2009 Distribution Rates
Greater Sudbury Hydro Inc. (“Greater Sudbury”)
December 30, 2009

**Board Staff comments on Greater Sudbury’s Draft Rate Order dated
December 16, 2009**

Board staff has reviewed Greater Sudbury’s Draft Rate Order as submitted on December 16, 2009. Based on its review, Board staff has determined that there are certain inconsistencies, errors, and omissions in the Draft Rate Order in the following areas:

- Rate Base and Capital Expenditures;
- Depreciation;
- Operating, Maintenance and Administrative (“OM&A”) Expenses; and
- Payment in Lieu of Taxes (PILs).

In light of the foregoing, the Draft Rate Order does not fully comply with the Board’s Decision.

Rate Base / Capital Expenditures

The Board in its Decision approved a capital spending plan of \$8.97 million for 2009. In its Draft Rate Order, the Applicant has indicated that an additional three projects will not be used and useful in 2009. Of these, one of the projects includes the CIS system at \$1.2 million.

Greater Sudbury has revised its capital spending plan to \$7.7 million and adjusted the 2009 rate base accordingly. At the same time, Greater Sudbury has requested the Board to give due consideration to include the SAP billing software in rate base for the 2010 IRM rate application. Board staff respectfully submits that the request to include the SAP billing software in the 2010 IRM rate application is not within the purview of the current rate proceeding panel. Greater Sudbury can include this request in its upcoming 2010 IRM rate application if it wishes to do so.

Depreciation

As per the Decision, Greater Sudbury has recalculated amortization based on the half-year rule for additions in the Test Year. In addition, Greater Sudbury has

included a revised amortization amount for the CIS reflecting the Board's Decision based on the number of months the asset will be in rate base. The Board's Decision assumed that the new system would be in service as of November 2009. However, in the Draft Rate Order Greater Sudbury has indicated that the CIS will not be used and useful until March 31, 2010. Board staff submits that Greater Sudbury cannot include the amortization amount for the CIS in depreciation expenses for the 2009 Test Year because the asset will not be in service in 2009 and subsequently is not in the 2009 Rate Base. The CIS is not a 2009 Test Year expenditure anymore and therefore amortization related to this item cannot be included in Greater Sudbury's revenue requirement.

OM&A Expenses

Water Billing

Greater Sudbury has reflected the Board's Decision with respect to opening a credit balance with 50% of the total billing costs. Greater Sudbury has also proposed to debit the amount that the City currently pays to Greater Sudbury for water billing services as this is included in the \$3.642 million of total billing costs.

However, Greater Sudbury has not indicated which Deferral/ Variance Account it proposes to use to record these entries. Board staff submits that one of the accounts that could be used to record entries related to water billing costs is Account 1574 – Deferred Rate Impact Amounts. If Greater Sudbury has an alternate proposal, it is requested to outline the proposal in its Reply.

Audit Expenses

In its Application, Greater Sudbury requested \$200,000 representing audit expenses for the 2009 Test Year. The following table captures the different elements of the audit expenses:

Details	Amount
Financial Audit	\$100,000
Special Audit Work	\$50,000
IFRS	\$50,000
TOTAL	\$200,000

The Board in its Decision found that \$100,000 for financial audits is out of line with other utilities, and reduced this to \$50,000. The Board also directed Greater Sudbury to record IFRS related expenditures in the deferral account established by the Board for this purpose. Accordingly, the Board reduced the total expenditures by \$100,000. Greater Sudbury has removed the IFRS costs, however no other reduction to expenses for audit work was made in the rate order. Board staff submits that the total of the financial audits and special audit work should be \$100,000, and therefore a further reduction to audit expenses of \$50,000 is required. The revised table below captures Board staff's submission in this matter:

Revised Table: Greater Sudbury Audit Expenses as per Board Decision

Details	Amount as filed	Adjustment as per Board Decision	Approved Amount
Financial Audit	\$100,000	-\$50,000	\$50,000
Special Audit Work	\$50,000	0	\$50,000
IFRS	\$50,000	-\$50,000	\$0
TOTAL	\$200,000		\$100,000

Board staff submits that Greater Sudbury should provide a revised OM&A number with the schedule reflecting all the adjustments.

Payment in Lieu of Taxes ("PILs")

In its Draft Rate Order, Greater Sudbury has not provided details related to its PILs calculation, similar to the schedule (Exhibit 4/Tab 3/ Schedule 1/Page 2) in its original Application. Essentially, Greater Sudbury has not provided details of additions and deductions to accounting income. Greater Sudbury is requested to provide the details of its PILs calculation in Reply.