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A Member of:
EDA
The Voice Of Ontario's Electricity Distributors

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: EB-2010-0140: Parry Sound Power Corporation – 2011 Cost Of Service Rates

Please find enclosed Parry Sound Power Corporation's reply to Board Staff and Vulnerable Energy Consumers Coalition (VECC) final submissions.

Miles Thompson

Miles Thompson
Vice President, General Manager
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In its April 13, 2011 Argument-in-Chief, Parry Sound Power identified a number of areas where a change to the amounts presented in the pre-filed evidence was required. This included changes to OM&A, Capital, a Load Forecast update and a proposal to recover Deferral and Variance Accounts over 4 years to mitigate total bill impacts.

In response to OEB staff and VECC's IRs PSP proposes to remove the congruency amount and correct the material components of projects, 5f, 6c, 6i, 6j and 6k from the Asset Management Plan. The value of these adjustments affects operations and maintenance by $95,184.40, there is no effect on capital.

As questioned in VECC's IR #3 PSP proposes to amend the operations budget by moving $29,000 from operations to capital for services USOA 1855 in each of the 2010 Bridge and 2011 Test years.

PSP is also proposing to recover the DVA amounts over four years and the LRAM and SSM over two years versus the one year recovery included with the original application.

PSP proposes to amend the weather regression load model using 2010 actual data for three weather sensitive rate classes and a correction to the number of street light connections. These updates to the load data also include an adjustment to cost of power forecast which affects working capital.

The proposed changes listed above will decrease PSP's service revenue requirement from $2,714,942 to $2,592,355 representing a 5.0% decrease in service revenue requirement. These changes result in a total bill impact on a residential customer using 800 kWh per month of 9.67% from the original filing impact of 16.10%.

In addition to the above proposed changes PSP offers the following submissions in response to both Board Staff and VECC Submissions.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Since Board staff has no concerns regarding the status of IFRS matters as described by Parry Sound Power, PSP will wait for the Board to issue guidance to distributors with respect to addressing IFRS issues during IRM years.

ALIGNMENT OF RATE YEAR TO CALENDAR YEAR

Parry Sound Power requested starting in January 2012, its rate year be aligned with its fiscal year. In doing so, Parry Sound Power relied on the Board's April 15, 2010 letter regarding these matters. Board staff has reviewed the evidence presented and has no concerns regarding this request. PSP recommends the Board approve alignment of the rate and fiscal year commencing January 1, 2012.

LOAD FORESCASTING

In response to the Board Staff and VECC submissions, PSP agrees to amend the load data to include 2010 actual data, amend the CDM targets for 2011 test year to 10% of the total 4 year target (4.16 GWh), and correct the number of Street Light connections.

In response to VECC item 3.2, PSP confirms it will use the customer counts in the original submission with a correction to the number of street light connections.

In response to VECC item 3.8, PSP utilized many variables to arrive at the best result from a regression analysis point of view. That means using variables which produces the highest R^2 possible. Although the T-stat result was negative the R^2 result was 81.7%. Removing the "employment" variable reduced the R^2 to 78.3%, therefore, PSP submits the Board approve the forecast for the GS>50 class with the R^2 at 81.7%.

OTHER DISTRIBUTION REVENUE

PSP confirms Board Staff has no submissions on the other revenues forecast.

In response to VECC item 3.21, PSP does not foresee any gain on the sale (APH 4355) of any assets in the test year. In the past five years gains on the sale of assets occurred in 2008 $5,949, and 2009 $3,955. PSP also did not forecast unforeseen miscellaneous operating income (APH 4390) since over the past five years revenue from these sources has been inconsistent – 2006 $510, 2007 $690, 2008 $0, 2009 $4,155, 2010 $0. PSP submits the Board approve the Other Distribution Revenue as originally filed.

In response to VECC item 3.22, PSP confirms the SSS Admin fee in the amount of $8,604 is included in Other Distribution Revenue as a revenue offset.

RATE BASE

Board staff submits that Parry Sound Power should update the WCA to reflect any changes in controllable expenses and load forecasts as determined by the Board in its Decision; the most current estimate of the RPP commodity price (ie, April 19, 2011) and updates to reflect current retail transmission prices. PSP agrees with Board staff and will adjust the WCA accordingly with Board's decision.

CAPITAL EXPENDITURES

PSP has developed a 5 year Asset Management Plan with the assistance of Rodan Energy Solutions Inc. PSP has operated historically without a formal plan. As the plan becomes apparent with Cost of Service Applications PSP feels to not utilize the plans content or deviate from the plan would not make the best use of the plan or our resources. The primary work to asset base will involve contract work; therefore to ramp up for this outlay will not be an issue if PSP receives the final decision from the Board in reasonable time.

In response to Board staff's request for clarification with respect to the pickup truck originally scheduled for 2010 it will now be purchased in 2011. This will be a capital expenditure in 2011 of $27,500.

Board staff has recommended a delay in the purchase of the digger derrick truck, a $100,000 reduction in the proposed building improvements, plus an arbitrary reduction in other capital of $28,000.

PSP submits the 2011 capital expenditures excluding the digger truck, building improvements and distribution station replacement are actually lower than the historical year(s) spending. PSP can delay the purchase of the digger truck, however, the building improvement costs of $200,000 are minimal to afford the necessary work to update the former Ontario Hydro Area Office. The condition of the deteriorating office and operational areas do not afford staff a comfortable place to work. The design of the original building does not lend any ergonomics or privacy to the day to day work environment. The addition of functional showers, washrooms, and a training/lunch area are essential to a healthy work place. In addition to the building improvements PSP further submits the other capital work needs to be completed as planned, again the asset management plan needs to be followed. PSP therefore does not agree with Board staff to reduce the 2011 capital further with an arbitrary reduction of $28,000

In response to VECC concern (item 2.5) with the capability of spending the test year capital forecast, PSP submits the original forecast of $1,211,782 included $225,000 for a new digger truck, $200,000 for building renovations (primarily contract work), and $642,000 for the first phase of the Distribution Station replacement which will also require contract labour. The remaining $145,000 from the original forecast will easily be completed by PSP resources provided Board approval is received to commence with the projects.

It may not be intuitively obvious to VECC's item 2.8 that a change to the method of depreciation can cause a reduction in rate base and at the same time an increase in revenue requirement. Changing the depreciation expense to the full year rule requested in VECC IR#24 has the impact of reducing net book value and increasing depreciation expense. The reduction in rate base affects the revenue requirement only by the amount of the regulated rate of return, however, the increase in amortization expense in this case affects the revenue requirement dollar for dollar increase.

In response to VECC item 2.9, the difference between the RRWF and OEB Table 2M for the test year is the allocated depreciation of $63,355 for Rolling Stock and $391 for Stores.

OPERATING, MAINTEANCE AND ADMINISTRATION COSTS

In the Argument in Chief and again in paragraph 2 and 3 above PSP has reduced the OMA in the test year by $124,184.40 which effectively results in a $496,737.60 impact over the four year IRM period.

OMERS

Response to Board staff Supplementary IR #9 indicates that Parry Sound Power omitted an increase of $7,934 for OMERS expenses in the test year. In response to Board staff's invitation to address the OMERS issue, PSP submits we would like to include the $7,934 as part of the test year component. The capital portion represents approximately $1,350 the remainder is OMA.

Parry Sound Power Argument-in-Chief

In response to Board staff's need for clarity on Parry Sound Power's proposal to move $29,000 from Operations to Capital in account 1855 for both the Bridge and Test Years the Asset Management Plan allocated the new services to maintenance instead of capital.

PSP's response to VECC IR round 1 question 3 h is provided below.

3 h) Please comment on the customer count growth shown in this section for 2010 and 2011 versus the number of new connections assumed for purposes of forecasting capital spending (Exhibit 2).

Response: *PSP load and customer forecast identified increase customer numbers in both the Residential and General Service <50kW customer classes, however, there did not appear to be a forecast of capital costs for those customer additions. PSP would like to point to an error made in the 2010 and 2011 forecasts where a capital budget amount of $29,000 for each of those years was erroneously allocated to account 5130 – Maintenance of Overhead Services instead of Capital Account 1855 – Services.*

Board Staff Submissions on OM&A

In response to Board staff's OMA submission PSP disagrees with the increases not being justifiable.

Regulatory Costs

PSP submits the recovery of costs of $99,315 for rate application withdrawn in 2009 be included in the regulatory costs recovery in this 2011 Cost of Service Rate Application. These costs were prudently incurred by the applicant and had PSP not withdrawn the application after filing in August 2008, these costs would have been recoverable. The ground work for the current application was part of the 2009 COS. When PSP withdrew the 2009 COS application we did so in part on the advice of Board staff. This advice included the likelihood of at least partially recovery of costs incurred to date. These costs are significant enough that PSP may have continued with the process had some assurance of recovery not been offered. Therefore, PSP submits the Board approve the recovery of its 2009 COS Application costs and has included $24,828 in the test year OM&A representing one quarter of the total cost.

In response to Board's staff invitation to comment on the revised ARC and its impact on PSP decision, PSP submits the decision and costs incurred to become compliant with the ARC were made with the ARC exemption application and subsequent denial as a guide. The revised March 15, 2010 ARC would have little or no effect on PSP's ARC exercise or the related costs. PSP accepts Board staff's reduction of 25% in costs and will reduce the regulatory costs in the test year on direction from the Board.

Staffing and Compensation

In response to Board staff's submission on FTE and related compensation PSP agrees to the reduction of 1.0 FTE, however, PSP submits the 3% compensation increases assumed in the application is within the industry standard. As seen in the Kenora response to OEB submissions The Mearie Group offers an annual wage settlement detail report indicating the 3% as standard.

Board staff has recommended a $100,000 reduction in compensation. In response PSP proposes to remove 1.0 FTE at a cost of $65,000 plus burdens of $16,250 for a total of $81,250. PSP's collective agreement is in place until December 31, 2011 which includes a negotiated annual increase of 3%.

Administration and General Costs

Although PSP has no history as a stand-alone LDC, this Cost of Service rate application was developed using a formal Capital, Operations and Maintenance Asset Management Plan prepared with the assistance of Rodan Energy Solution Inc. who has assisted several other LDCs in the province. PSP has prepared and submitted this OM&A budget through a thorough analysis of all cost components and submits the Board should not accept Board Staff's submission that PSP has not demonstrated enough effort to control the costs of restructuring.

In summary, PSP submits to revise its 2011 test year OM&A forecast on direction from the Board by the following amounts:

- reduction of $95,184 of material and contingency costs
- transfer of 29,000 from Operation expense to Services Capital
- an increase of $6,584 (OM&A) portion of OMERS
- a decrease of $40,000 ($10,000 in 2011) ARC costs
- $81,250 representing a reduction of 1 FTE

These revisions total a net reduction in OM&A of $208,800 in the Test Year.

Amortization and Depreciation

PSP agrees with Board Staff's submission to reflect the impact on amortization and depreciation associated with any changes to capital directed by the Board.

Cost of Capital

PSP submits the fixed interest rate was established at the time of incorporation when the deemed debt rate was 7.25%. The fixed rate 7.25% was agreed upon (using the OEB guideline) in order to provide both Parry Sound Power and the Town of Parry Sound with a predetermined rate of interest.

In the 2006 Electricity Distribution Rate Handbook, dated May 11, 2005, page 32 states that the interest rates for LDC's with a Utility Rate Base of less than $100 million dollars should be using 7.25% debt cost rate. The following quote is taken directly from the EDR Handbook:

"For debt held by a third party, the actual debt rate for the debt is used. For debt held by an affiliate (e.g. municipal shareholder, holding company), the debt rate used is the lower of the actual debt rate and the deemed debt rate at the time of issuance.

The debt rate should include all costs of issuance.

For debt issued between March of 2000 and May 12, 2005, the deemed debt rate is that shown in Table 3-1 of the first generation PBR Distribution Rate Handbook (released in March, 2000), given the distributor's size. The updated deemed debt rates shown in Table 5.1 if this 2006 Handbook are used for debt issued on May 13, 2005 or later. For debt issued before March, 2000, the actual debt rate is used. The applicant may have to demonstrate that the debt rate was at or below then current market rates."

Table 3-1 Deemed Common Equity and Debt Ratios and Debt Cost Rates

Size of Utility Rate Base	CER%	(1-CER)%	DR
Greater than $1.0 billion	35%	65%	6.80%
Between $250 million to $1 billion	40%	60%	6.90%
Between $100 million to $250 million	45%	55%	7.00%
Under $100 million	50%	50%	7.25%

Favourable terms for both PSP and the shareholder are the long term stability of the note. The agreement provides long term stability for the LDC in providing a known consistent cost of debt, and for the shareholder a known consistent revenue stream.

The reasons that the terms can be favourable for the utility when the interest rate payable is much higher than the current market rate or the rate based on the Report of the Board on Cost of Capital and the 2nd Generation Incentive Regulation for Ontario's Electricity Distributors is because with the current rate of interest, the Shareholder has not made any demands on the Utility with regards to additional funds, nor put pressure on the LDC to update infrastructure for the sake of appearance. The Shareholder consults with the LDC with regards to municipal infrastructure upgrades (roads, water, sewers, etc) to ensure that if the LDC needs to do upgrades to the electrical systems that the most cost effective process is followed.

With being a smaller LDC, we benefit from a close relationship with our shareholder, in that the shareholder and the LDC together look at ways to keep down costs to all customers in electric, water, sewer and tax rates while providing the best possible service.

In addition, there are no restrictive covenants associated with the Note relating to operations, capital spending or financing and PSP has benefited from being able to phase in the interest payments. The Note does not require PSP to pay back the principal or expose the utility to a refinancing risk as the Town has confirmed its intention to continue to provide the required long-term financing under the current terms.

During the credit crisis in the financial markets, the value from this financial flexibility and the long-term nature of the Note will be enhanced considerably.

The financing arrangements between PSP and the Town were designed to benefit the customer while ensuring a fair return to the shareholder.

Both parties benefit from the certainty of the arrangements with the utility avoiding any exposure to debt refinancing and retaining more cash from operations to fund the future needs of the utility and the shareholder being provided with a stable interest payment.

Historically the Town has foregone regular dividend payments.

In summary, in response to VECC item 5.2 and Board Staff submissions to reduce the interest on the debt by $65,000 would likely only result in PSP having to pay a dividend to the Town in an amount equivalent to their loss in interest payment, and based on the discussion above PSP submits the Board should approve the long term date rate of 7.25% in this rate application.

Cost Allocation and Rate Design

In response to Board Staff's recommendation to accelerate the revenue to cost ratios for the Street Light Class to the bottom of the Board's lower band of 70%, PSP submits it would be unreasonable to make such a change while the Board has just initiated a Cost Allocation Consultation with the first meeting of the working group scheduled to take place on May 9, 2011. PSP further submits the Board should approve the revenue to cost ratio of 28% for the Street Light class for the test year as submitted with the original application and any further changes to the revenue to cost ratios should not be made until the results of the Cost Allocation Consultation are known.

PSP confirms VECC Item 6.5 has cited no objections to the revenue to cost ratios as proposed.

Although Board Staff had no concerns with PSP fixed monthly rates, VECC item 7.4 proposed PSP maintain the fixed monthly rate for the GS>50 at the current 2010 approved rate. VECC's interpretation of the Board's direction is that for those classes where the charge currently exceeds the ceiling it should not be increased further. PSP submits VECC's interpretation conflicts with the Board's in that fixed monthly charges in the IRM proceedings change regardless if they are above or below the ceiling calculated in the cost allocation model. It should also be noted that PSP's objective in the rate design exercise was to maintain the existing fixed/variable split. PSP submits the Board should approve the monthly fixed charge for the GS>50 class while maintaining the existing fixed variable split.

Loss Factors

PSP confirms VECC item 7.10 supports the proposed Loss Factors and has prepared an analysis presented below of the change in current to proposed Total Loss Factor requested by Board Staff.

PSP has reviewed the source data for the calculations of the current Total Loss Factor of 1.0586. The calculation was prepared as part of the 2006 EDR application process and was a two year average of 2003 and 2004.

A copy of the schedule used in the 2006 EDR to calculate the Loss Factors is provided below:

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Schedule 10-5: Determination of Loss Adjustment Factors

Calculation for distribution loss adjustment factors:

	2004	2003
IESO applies loss factor to wholesale meter readings to determine wholesale billing quantities	90,338,629 kwh	91,688,361 kwh
actual KWH paid for on 12 IESO billings Jan 1 - Dec 31 purchases		
IESO reads wholesale meters	87,538,157 kwh	88,912,320 kwh
Jan 1- Dec 31 readings		
Retail Energy sales adjusted for unbilled NOT loss adjusted	84,098,646 kwh	87,911,692 kwh
Jan 1 to Dec 31 sales		

	2004		2003	Average
Total Loss Factor (TLF)	1.0742	applied to retail bill to recover all losses and keep financially whole	1.0430	1.058579
Specific Facility Loss Factor (SFLF)	1.0333	portion of losses not controllable by LDC	1.0316	1.032439
Distribution Loss Factor (DLF)	1.0396	the portion of losses controllable by LDC	1.0110	1.025307

TLF = SFLF x DLF

1.0585668

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Upon review of the 2006 EDR material PSP determined the data used in the calculation was incorrect. In response to Board Staff's concern regarding the significant change in Total Loss Factor from 1.0586 to 1.0809 PSP revised the data for 2003 and 2004 using a similar template to what PSP calculated its proposed 2011 Loss Factors. This recalculation results in a correction to the Total Loss Factor of 1.0586 to 1.0779 for the 2006 EDR application. The table below provides the corrected calculation for the 2003 and 2004 average:

	Parry Sound Power Corporation	Recalculation of 2006 EDR Loss Factors			
			2004	**2003**	
A	"Wholesale" kWh (IESO) **Qty at the Meter**		82,366,827	81,647,366	
B	"Wholesale" kWh (PGEN)		5,171,332	7,254,953	
C	Net "Wholesale" kWh (A)-(B)		87,538,159	88,902,320	
D	Retail kWh (Distributor) **Qty at the Meter**		83,859,893	85,401,730	
E			-	-	
F	Net "Retail" kWh (D)-(E)		83,859,893	85,401,730	
					2 Yr Average
G	Distribution Loss Factor [(C)/(F)]		1.0439	1.0410	1.0424
H					
	Total Utility Loss Adjustment Factor	LAF			
	Supply Facility Loss Factor	1.0340			
	Total Loss Factor				
	Secondary Metered Customer				
	Total Loss Factor - Secondary Metered Customer < 5,000kW	1.0779			
	Total Loss Factor - Secondary Metered Customer > 5,000kW	n/a			
	Primary Metered Customer				
	Total Loss Factor - Primary Metered Customer < 5,000kW	1.0671			
	Total Loss Factor - Primary Metered Customer > 5,000kW	n/a			

Retail Transmission Service Rates

In response to VECC item 7.7 and Board Staff's suggestion to revise the RTSRs based on January 1, 2011 Board approved UTR rates, PSP submits it is billed by Hydro One for Transmission and Connection charges based on Sub transmission rates, and not UTR rates, which were not changed on January 1, 2011. Therefore, Parry Sound submits there are no changes to its proposed RTSR rates.

SMART METERS

PSP submits it accepts Board Staff's recommendation for a smart meter funding adder of $2.50 per metered customer per month from May 1, 2011 to April 30, 2012.

In response to VECC item 9.7, PSP has not included any smart meter costs in its proposed rate base.

STRANDED METERS

PSP offers the following comments on VECC item 9.5 and Board Staff's invitation with respect to stranded meter costs and treatment. The net book value of PS's stranded meters at Dec 31, 2009 was $161,416.39. During our 2010 fiscal audit and further discussion with Board staff on stranded meter costs and treatment PSP recorded depreciation expense for the 2009 and 2010 years. The result is a net book value of $137,359.98 at Dec 31, 2010. The revised estimate per Board staff's request at Dec 31, 2011 includes one further year of depreciation expense of $11,716.26 resulting net book value of $125,643.72.

PSP's proposal for recovery would consist of the $2.50 per meter as submitted by Board staff for smart meter funding adder be continued for an additional time period of approximately 16 months as a rate rider following expiration of the proposed funding adder. The rate rider proposed would not have any incremental bill impact as it replaces the funding adder. The customer would see consistency on the bill.

DEFERRAL AND VARIANCE ACCOUNTS

In response to Board Staff's submission with respect to the balance in Account 1582 PSP offers the following comment.

PSP records line item 0169 from IESO invoice - Station Service Reimbursement Debit in APH account 4712. This account plus accrued interest is solely responsible for the balance in Variance Account 1582.

PSP's Argument in Chief, consistent with Board Staff and VECC submissions, agrees that a 4-year disposition is appropriate which will assist in bill impact mitigation.

GLOBAL ADJUSTMENT

In reply to VECC item 8.4 and Board Staff's suggestion that PSP comment on its ability to recover these balances from Non-RPP customers, PSP confirms it does have the ability to set up its CIS system to accommodate an allocation to Non-RPP customers only. PSP submits the Board should review the alternatives presented in Board staff's submission to determine the most appropriate method of disposing of the global adjustment sub-account balance.

HARMONIZED SALES TAX

In response to Board Staff's submission for PSP to comply with the 2010 IRM decision of the Board, PSP agrees the disposition of account 1592 should be dealt with in the 2012 IRM proceeding,

LRAM/SSM

In response to Board Staff's request for confirmation that the LRAM/SSM is amended from the original submission, PSP submits it will utilize the updated values from the preliminary results to utilise OPA finalized numbers. The updated values are: $107,469.97 LRAM the SSM would remain unchanged. VECC recommended approving the original version of the LRAM claim – which would be $96,367.42, however, there were changes to that LRAM claim since – mainly going from the Preliminary results to the Finalized OPA results. The final LRAM Claim should be $107,469.97

I have attached the finalized LRAM claim as Attachments A-D .

LEAP (Low Energy Assistance Program)

The excerpt below from the Board's October 20, 2010 LEAP letter indicates to use the "Board-approved distribution revenue requirement". PSP submits its most recent Board Approved Distribution Revenue was its 2006 EDR Decision.

"As set out in the LEAP Report, the Board has determined that the greater of 0.12% of a distributor's Board-approved distribution revenue requirement, or $2,000, is a reasonable commitment by all distributors to emergency financial assistance. The $2,000 minimum is intended to ensure that, for smaller distributors, more funding is available than otherwise would be if based solely on a percentage of distribution revenues. The LEAP amount should be calculated based on total distribution revenues, and is to be recovered from all rate classes based on the respective distribution revenue of each of those rate classes."

PSP has paid an amount to the Social Services agencies in the amount of $2,084.75 as shown in the table below and submits the Board should approve inclusion of this amount in PSPs 2011 revenue requirement since it was not included in the original submission.

Base Revenue Requirement Allocated (adjusted for Transformer Credit)		
Overall Allocation to Classes	Variable Component	Fixed Component
968,305	451,902	516,403
353,194	192,804	160,390
396,535	274,881	121,654
0	0	0
8,292	5,742	2,550
575	245	330
13,121	8,140	4,982
1,740,023	**933,715**	**806,308**
2,728	<< Less Transformer Credit	
1,737,295	<< Base Revenue Req. B.R.R.#1	
From the 2006 Final EDR		
		0.12%
	total funds for LEAP	2,084.75

Late Payment Penalty (LPP) Litigation Costs

PSP confirms Board staff comments with respect to the calculation and inclusion of LEAP monthly fixed charge rate riders.

RATE AND BILL IMPACTS

With the proposed decreases offered by PSP in its Argument in Chief, the total bill impact for a residential customer at 800kWh per month has been reduced from 16.1% to 9.7%. Theses total bill impacts are estimated to be further reduced when the Board renders its decision on PSPs final submission.

IMPLEMENTATION

PSP submits that the original application was submitted after the due date, however, it was not from the lack of effort on PSP's part. LDCs who have a larger number of resources to dedicate to submissions such as Cost of Service Rate Applications, however, still have delays in filing on time. As seen on the OEB website approximately 25% of the LDCs filing a 2011 Cost of Service Rate application were filed by the required due date.

PSP further submits that obtaining its total revenue requirement is a prerequisite for PSP to ensure it has the resources in place to continue to meet all of its obligations going forward. Although PSP has agreed to reduce the revenue requirement on submissions from both Board Staff and VECC, PSP submits the Board should not further penalize PSP by approving an effective date other than May 1, 2011. PSP respectfully submits the Board approve the rates with an effective date of May 1, 2011 to keep the utility and the customers of Parry Sound whole.

All of which is respectfully submitted this 12th day of May 2011.