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BY E-MAIL

December 16, 2011

Board Secretary
Ontario Energy Board
2300 Yonge Street, Ste. 2701
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Grimsby Power Inc.
2012 Distribution Rate Application
Board Staff Submission
Board File No. EB-2011-0273**

Please find attached Board staff's submission in the above proceeding and forward the attached to Grimsby Power Inc. and to all other registered parties to this proceeding.

Sincerely,

Original Signed By

Silvan Cheung
Advisor – Applications & Regulatory Audit

Encl.

2012 ELECTRICITY DISTRIBUTION RATES
Grimsby Power Inc.

EB-2011-0273

STAFF SUBMISSION

December 16, 2011

INTRODUCTION

Grimsby Power Inc. (“Grimsby” or the “Applicant”) is a licensed electricity distributor serving approximately 10,000 customers in the Town of Grimsby. On August 16, 2012, Grimsby filed an application (the “Application”) requesting new distribution rates and other changes effective January 1, 2012. The Application was based on a future Test year cost of service methodology.

The Vulnerable Energy Consumers Coalition (“VECC”), the School Energy Coalition (“SEC”), and Energy Probe Research Foundation (“Energy Probe”) were granted intervenor status. No letters of comment were received.¹

Pursuant to Procedural Order No. 1, a Settlement Conference was convened on November 23 and 24, 2011. A partial settlement was reached between Grimsby and VECC, SEC and Energy Probe. An oral hearing commenced on December 12, 2011 on the unsettled matters and Grimsby submitted its oral Argument-in-chief (“AIC”) at the hearing.

This submission on the unsettled matters reflects observations and concerns which arise from Board staff’s review of the case record including the oral hearing and AIC and is intended to assist the Board in evaluating Grimsby’s application and in setting just and reasonable rates.

OPERATIONS, MAINTENANCE AND ADMINISTRATION (“OM&A”)

Background

In its original application, Grimsby requested the Board’s approval of \$2,459,977 (CGAAP basis), in 2012 OM&A expenses excluding taxes and amortization expenses. In its AIC, Grimsby updated its 2012 OM&A to be \$2,375,758² (CGAAP basis). Grimsby’s 2012 OM&A request represents a 14.2% increase over the 2011 Bridge year OM&A and a 31.6% increase over 2010 actual OM&A. The following table summarizes Grimsby’s OM&A expenses by year.

¹ Response to Board staff IR # 1.

² Tr. Vol.1, page 83/ In 27-28

Table 1³

	2006 Approved	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Bridge	2012 Test
OM&A	\$1,550,966	\$1,509,565	\$1,718,034	\$1,793,136	\$1,770,474	\$1,805,717	\$2,080,519	\$2,375,758
Year to year % change			13.8%	4.4%	-1.3%	2.0%	15.2%	14.2%
% change as compared to 2006 Approved		-2.7%	10.8%	15.6%	14.2%	16.4%	34.1%	53.2%

Grimsby is forecasting 2012 Test year compensation costs including salaries, base wages, overtime, incentive payments and benefits to be \$1.64 million. This Test year cost represents an 8.7% increase from 2011 Bridge year and a 17.3% increase from 2010 actual. Grimsby proposes to increase its 2012 Full Time Equivalent Employees count ("FTEE") to 18.5. The FTEE for 2010 and 2011 are 16.5 and 17.5, respectively. The following table summarizes Grimsby's compensation costs and FTEE count by year.

Table 2⁴

<i>(Salary, Wages, & Benefits)</i>	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Bridge	2012 Test
Management	\$417,724	\$533,548	\$535,100	\$564,984	\$704,184	\$727,778	\$732,907
Union	\$567,857	\$588,495	\$700,937	\$668,082	\$694,766	\$781,716	\$908,124
Total compensation	\$985,581	\$1,122,043	\$1,236,037	\$1,233,066	\$1,398,950	\$1,509,494	\$1,641,032
Year to year % change		13.8%	10.2%	-0.2%	13.5%	7.9%	8.7%
Number of Full Time Employee Equivalent (FTEE)	14.5	14.5	15.5	15.5	16.5	17.5	18.5

³ Source from Exhibit 4/ page 2 – 3, Tr. Vol.1, p.83/ ln27

⁴ Source from Response to Board staff IR # 19 and Exhibit 4/ page 4/table 4.2

Discussion and Submission

Compensation

The proposed 2012 compensation represents a 66.5% increase as compared to 2006 actual compensation. Staff notes that part of the reason for the increase is due to the increase in FTEEs. In reference to Exhibit 4/ page 4/ table 4.2, in 2012, Grimsby is projecting an increase of two FTEEs from 2010. The two FTEEs are identified as a Journeyman Lineman (“Line Maintainer”) and Accounting Assistant.

Board staff notes that Grimsby is hiring a Line Maintainer to provide support on line work and making the work more efficient. In its evidence⁵, Grimsby stated that hiring the additional Line Maintainer will reduce its spending on line contractors by the amount of one full time equivalent lineman. Board staff does not have a concern with this additional position; however it appears that the reduction of spending is not reflected elsewhere in OM&A. In its reply submission, Grimsby should clearly map and identify the reductions it expects to realize.

Grimsby’s evidence purports that its Finance Department suffered from instability through the years 2006 and 2008, when the Director of Finance position was held at different times by different people, but that stability was once again established following the hiring of its current Director of Finance near the end of 2008.⁶ However, notwithstanding its evidence that the current Director of Finance has brought stability to the Finance Department, Grimsby proposes that, in order to mitigate the risk of instability in the Finance Department in the future, another position is required – that of an Accounting Assistant. It is not clear to Board staff that if the stability in the Finance Department was already achieved with the hiring of a Director of Finance, why this new Accounting Assistant position is required.

Board staff recognizes that Grimsby is a small utility and does not have a large workforce. However, with the significant increase proposed in 2012 OM&A, the Board may wish to consider reducing compensation costs, or equivalent, in 2012 by an

⁵ Exhibit 4/ page 49-50

⁶ Exhibit 4/ page 48

amount of \$177,000⁷ in the absence of better explanations from Grimsby in its reply submission supporting the addition of the two positions discussed above.

Third Party Service Providers

Board staff notes that the increase of costs for Third Party Service Providers is one of the key drivers for the proposed increase to Grimsby's 2012 OM&A. Grimsby indicated that the additional costs related to Third Party Service Providers for 2012 is \$102,507, the costs including services related to HR Consultant and Training.

Board staff has one specific concern with Grimsby's proposed additional costs related to Third Party Service Providers. Board staff notes that, in an Energy Probe interrogatory⁸, Grimsby clarified that the HR Consultant is an ongoing cost. In the cross examination, Grimsby provided more details on the HR Consultant cost:

MR. AIKEN: Moving on to the next line item, the HR consultant, and this is dealt with on page 7 of the compendium at the top, and I forget the amount. \$26,880 is the net increase.

Again, is this a one-time cost or an ongoing cost?

MR. CURTISS: As we stated in our -- some of our responses to the IRs, it is an ongoing cost.

MR. AIKEN: What is the breakdown of the 26,880 in the incremental costs related to the negotiations with the Power Workers' Union and to the compensation review?

Those are the two items that make up this increase. I just need a rough number. Is it 50/50?

MR. CURTISS: Rough number, I believe it is 50/50.⁹

Board staff has a concern with this cost being treated as an ongoing cost. While Board staff acknowledges that Grimsby's witness is of the view that this position would be ongoing during the IRM plan term, it is not clear to Board staff why this would be so, given that the evidence indicates that this position would be responsible for negotiations and compensation reviews and that neither of these two activities would necessarily take place every year. Board staff is of the view that the amount of \$26,880 should not

⁷ Calculation based on the average 2012 compensation per FTEE of \$88,700 x 2

⁸ Response to Energy Probe IR # 20 (a)

⁹ Tr. Vol. 1, page 44/ ln3-15

be constituted as an ongoing cost. Board staff submits that this cost should be amortized over four years.

In its pre-filed evidence¹⁰, Grimsby proposed an incremental amount to the budget for Training in the amount of \$32,071. During cross-examination, Grimsby was asked to provide the details of the training costs. In its response¹¹, Grimsby stated that the original incremental training costs included labour costs and should not be treated as incremental. As such, the 2012 incremental training costs should be \$15,159. Board staff submits that the OM&A should be adjusted accordingly.

Overall Increase

If the Board is satisfied with Grimsby's clarifications on the items identified by Board staff above, the Board may wish to consider whether the overall increase requested by Grimsby is appropriate given its historical performance.

The proposed 2012 OM&A represents a 53.2% increase as compared to 2006 Board Approved OM&A. This increase represents an annual average increase of approximately 8.9%. In 2010, the OM&A amount shows an increase of 16.4% as compared to 2006 Board Approved OM&A. On an annual basis, this represents an average increase of 4.1%.

If the Board reduces Grimsby's OM&A for the items identified by Board staff in this submission, the reduced 2012 OM&A will represent a 39% increase over the 2006 Board approved OM&A, which is approximately a 6.5% annual increase from 2006. This increase is higher than Grimsby's historical annual actual increases since 2006. While the Board has limited increases to 5% in certain cost of service applications¹², Board staff submits that since Grimsby has been identified as a "low cost utility"¹³ along with the fact that significant new and ongoing costs were introduced in this test year,

¹⁰ Exhibit 4/ page 22

¹¹ Response to undertaking J1.4

¹² For example, Decision on Burlington Hydro (EB-2009-0259), p. 16

¹³ Report for the Board, Third Generation Incentive Regulation Stretch Factor Updates for 2012 (EB-2011-0387), dated December 1, 2011, page 27

such as smart meter operating costs, a case can be made for a higher than normal increase.

- All of which is respectfully submitted -