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October 6, 2017

Delivered by Email, RESS & Courier

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2701
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: InnPower Corporation
2017 Rate Application (EB-2016-0085)
Argument-in-Chief

Pursuant to Procedural Order No. 5, please find enclosed InnPower Corporation's Argument-in-Chief.

If you require any further information, please contact the undersigned.

Yours very truly,

BORDEN LADNER GERVAIS LLP

Per:

Original signed by Ada Keon on behalf of John A.D. Vellone

John A.D. Vellone

cc: Intervenors of record in EB-2016-0085

EB-2016-0085

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Sched. B, as amended (the “Act”);

AND IN THE MATTER OF an Application by InnPower Corporation under Section 78 of the Act for an order approving just and reasonable rates and other charges for electricity distribution to be effective July 1, 2017.

ARGUMENT-IN-CHIEF OF
INNPOWER CORPORATION

October 6, 2017

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Counsel to the Applicant

INTRODUCTION:

1. InnPower Corporation ("**InnPower**") makes this written argument-in-chief in respect of an Application filed by InnPower on November 28, 2017, as amended, under Section 78 of the *Ontario Energy Board Act, 1998* seeking an order of the Ontario Energy Board (the "**OEB**") approving just and reasonable rates and other charges for electricity distribution to be effective July 1, 2017 (the "**Application**"). The Board assigned file number EB-2016-0085 to the Application.

2. This argument-in-chief is intended to address all of the issues except issue 5.2 as identified in the OEB approved Issues List attached to Decision and Procedural Order No. 4 dated Sept. 20, 2017 (the "**Approved Issues List**").

CONTEXT: THE NEW SENIOR MANAGEMENT TEAM AT INNPOWER

3. The Application superseded and replaced a previous Custom IR application that was filed on June 3, 2016 (the "**Custom IR Application**") by InnPower, under a previous management team.[1] Although the Custom IR Application was later rejected by the OEB as being incomplete on July 26, 2016, copies of the Custom IR Application remain on the evidentiary record in this EB-2016-0085 proceeding.

4. Subsequent to the filing of the Custom IR Application, InnPower changed both its management team and its management philosophy. Mr. Malcolm explained his new philosophy to the OEB panel during the first day of the oral hearing.[2] It is a prudent and practical approach to managing the business and driving efficiencies at InnPower going forward that is characterized by a willingness to learn from the past, a focus on customer needs and preferences, and a "Growth will pay for Growth" approach.

5. The new philosophy can be demonstrated by comparing the Application with the Custom IR Application. Counsel for the School Energy Coalition compared the Custom IR Application to the Application and explored the substantial reductions in both the test year OM&A and capital budgets that were introduced by Mr. Malcolm and his management

[1] TC Transcript Vol. 1 dated Sept. 12, 2017 at pg. 10, line 16 to pg. 14, line 1.
[2] Transcript Vol. 1 dated Oct. 3, 2017 at pg. 7, line 5 to pg. 13, line 6.

team during the second day of the technical conference.[3] Specifically, as noted in Exhibit KT2.5, the previous management team's Custom IR Application included a request of $6,864,522 in OM&A and $6,807,441 in Capital Expenditures in the test year. By contrast, the new management team cut 7 incremental FTEs in the Application from the test year budget, consistent with the "Growth will pay for Growth" approach..

6. Further reductions were made to the Application by management after the OEB hosted two community meetings regarding InnPower's 2017 rate application in Innisfil, Ontario on March 9, 2017.[4] Approximately 150 customers attended each of these two meetings, and a total of 41 customers filed written comments in respect of the Application.

7. Consistent with management's focus on customer needs and preferences, InnPower's management team amended the Application to incorporate customer feedback and preferences from those meetings. The amended Application that was filed on May 11, 2017 reduced the test year OM&A budget by a further 3%, removed the request for Z-factor relief and reduced the LRAM rate rider, and revised the requested effective date for rates to July 1, 2017.[5]

8. In addition, by May 2017, InnPower realized that the leasing revenue associated with the vacant office space at their administrative building was going to be much less than originally forecasted because of delays in signing the lease. Consequently ratepayers would be at risk of paying for vacant office space and associated OM&A, without the benefit of any offsetting leasing revenues. For this reason, Mr. Malcolm directed his staff to reduce the proposed ratebase in the test year by the value of the vacant office space and to reduce OM&A by the amounts attributable to this vacant office space.[6] Rather than asking ratepayers to take on the risks associated with being able to successfully rent this vacant space in the building – this risk was moved entirely to the account of InnPower's shareholder.

9. InnPower has remained responsive to customer needs and preferences throughout the

[3] Exhibit KT2.5 and TC Transcript Vol. 2 dated Sept 13, 2017 at pg. 30, line 1 to pg. 38, line 13.
[4] OEB Staff Summary of Community Meeting dated May 2, 2017.
[5] Transcript Vol. 1 at pg. 8, line 1-9.
[6] Ibid at lines 10-28.

Application process, proactively revisiting budget items when required. As just one example, in preparation for the technical conference InnPower identified an error in its forecasted capital contributions in the test year. As was explained by Ms. Cowles during the technical conference, five projects in the DSP that were previously categorized as System Service in 2017 should actually have been categorized as System Access projects as they related directly to new subdivision developments, and capital contributions totaling $2.284 million should have been assessed against these projects.[7]

10. Finally, during the oral hearing, InnPower agreed to make specific changes that may affect its proposed revenue requirement, including:

    a. To update the cost of power to reflect the latest RPP pricing report issued Oct. 14, 2016 for the Nov. 1, 2016 – Oct. 31, 2017 timeframe as more fully detailed in Undertaking J1.7;
    b. To revise the DVA continuity file to reflect the correction of a $148,378 adjustment from a credit to a debit, and to formally withdraw its request to dispose of accounts 1588 and 1589 balances at this time as more fully detailed in Undertaking J1.8;
    c. To correct Appendix 2-BA and Appendix 2-H to reflect the increased capital contributions in the test year as more fully detailed in Undertaking J2.4; and
    d. Further to the update provided in undertaking J1.6, InnPower would be agreeable to increasing other income by the 1% additional admin fee of $1,130 and also reducing administrative labour by $112,981 for the 2017 Test Year.

    InnPower would, unless the Board requests otherwise, make all of these changes in the models following the Board's Decision and Order.

11. However, InnPower’s new management team cannot make any further cuts to OM& A and capital without threatening the ongoing financial viability of the utility. Existing staff are severely strained at current workloads. Growth is continuing with no end in sight with 2000 lots approved and ready for sale (equivalent to 12% growth in customers) and more to come.[8] And there is no room left for the shareholder to absorb costs. InnPower’s

[7] TC Transcript Vol. 1 dated Sept. 12, 2017 at pg. 10, line 27 to pg. 11, line 24.
[8] Transcript Vol. 1 at pg. 170, line 27 to pg. 171, line 2.

historical profitability performance is summarized in the table below (taken directly from InnPower's OEB Scorecard). What is noteworthy is that InnPower is consistently, year-over-year, earning less than the deemed rate of return in rates. In addition, InnPower earned more than 300 basis points less than the OEB's deemed ROE in each of 2012, 2014 and 2016.

	2012	2013	2014	2015	2016
Deemed ROE	8.01%	8.98%	8.98%	8.98%	8.98%
Achieved ROE	1.96%	6.70%	5.82%	7.61%	3.90%
Difference	**(6.05%)**	(2.28%)	**(3.16%)**	(1.37%)	**(5.08%)**

12. In response to this, and in direct support to help improve InnPower's financial position, InnPower's shareholder provided InnPower with a $1,600,000 equity injection in 2016, the payment of dividends have been suspended since the last quarter of 2014 and have not been re-instated since that date, and InnPower has utilized a loss-carry-back strategy to further improve its liquidity position.[9]

13. In this context, InnPower is not yet clear of financial risk. Yes, its liquidity position is improved and a new management team is in place, with a new philosophy and a new approach that is focused on driving operational efficiencies and is directly in-tune with customer needs and preferences. But this new management team needs the OEB's help. They need the resources necessary to successfully operate and turn around performance at this utility going forward.

CAPITAL (ISSUE 1.1)

14. InnPower submits that the level of planned capital expenditures in the test year is appropriate and the rationale for the planning and pacing choices is appropriate and adequately explained.

[9] Undertaking JT1.7.

15. The most up-to-date forecasted level of capital in the test year net of contributions is $4.405 million, as shown in Table JT1.2, which was filed in response to the technical conference undertaking JT1.2. The forecasted capital expenditures in the test year is <u>less</u> than what was actually spent in each of 2013, 2014, 2015 and 2016, and only slightly more than what was spent in 2012. In addition, the forecasted capital expenditures in the test year are less than what is forecasted to be spent in each of the years 2018-2021. InnPower is clearly pacing its planned capital expenditures in a manner that accounts for customer feedback and preferences and impacts on distribution rates.

16. In addition, System Access spending of $1.757 million accounts for the majority of InnPower's expenditures in the test year. These include Base 4 projects that are driven primarily by customer requests for service, and are directly responsive to customer needs and preferences.

17. Because of the forecasted increase in System Access spending forecasted for 2017 and 2018, InnPower has deferred a much needed increase in System Renewal spending to 2019 and beyond. While higher spending in the renewal of pole assets is urgently needed based on the METSCO Distribution Assets Condition Assessments attached to the DSP, InnPower is pacing its renewal to only do what is absolutely required in the test year and to defer the bulk of any increases in renewal spending until after the System Access work slows down.

18. In response to Undertaking JT1.5, InnPower provided evidence that year-to-date total capital spending was $0.682 million excluding WIP, and $2.418 million including WIP, as of July 30, 2017. This year-to-date total cannot be assessed using a simplistic 7/12th formula against the $4.405 million budget, because experience is that more of the capital work is completed in the latter half of the year (through the balance of the summer and fall months). A more accurate comparison is to look at the previous year to assess where InnPower was at that same point in time last year. In the same undertaking response, which shows that as of July 30, 2016, InnPower's year-to-date total capital spending was $483,288 excluding WIP, and $2.074 million including WIP. By the end of the year in 2016, InnPower had spent a total of $4.548 million. This evidence demonstrates that

InnPower is currently on track to exceed its forecasted test year budget.

19. This was confirmed by Mr. Davison during the oral hearing, when he provided an update to the OEB panel on the high growth in the InnPower service area noting a significant increase in new home purchases and higher than anticipated energizations of both new subdivisions and additions to existing subdivisions, including the Friday Harbour development. As a result, actual expenditures in the "Base 4" System Access projects are above forecast by a significant amount. InnPower had originally forecasted "Base 4" costs for ratepayers net of capital contributions of approximately $130,000. In reality, given actuals to August 2017, InnPower is predicting "Base 4" capital expenditures net of capital contributions of nearly $2 million higher.[10]

20. Despite this increase in spending, InnPower is not proposing to change its requested capital expenditures in the test year from the amounts in the forecast that resulted after the technical conference.

21. If the OEB would prefer to use a more up-to-date forecast of capital expenditures in the test year (for example, to reflect the fact that the delivery of the double bucket truck has been delayed), then this should done on a comprehensive basis across the entire capital program to accurately reflect both increases and decreases in the expenditures amounts. InnPower has provided its most up-to-date forecast in Undertaking JT1.5, Table JT1.5A, in the column titled "2017 Year End Forecast-Net" which accurately reflects both reductions in some projects and increases in others. This would result in the forecasted capital for the test year increasing by more than $600k, driven in large part by a substantial increase in the actual spending on "Base 4" System Access projects, but offset somewhat by decreased spending in other categories.

OM&A (ISSUE 1.2)

22. InnPower's customer base has grown consistently over the past five years and this growth is anticipated to continue into the test year and beyond.

[10] Transcript Vol. 1 dated Oct. 3, 2017 at pg. 169, line 23 – pg. 171, line 2.

23. This is shown in Table 3-4 of the load forecast model filed following the technical conference and which reflects actuals up to 2016 and an updated 2017 forecast which is based on 8 months of actuals, and 4 months forecasted.[11] The data in Table 1 below is taken from that load forecast model, and it illustrates the growth in the number of customers, with actual growth rates for residential and GS customers of 2.44% in 2014, 2.35% in 2015, 2.26% in 2016, and forecasted growth of 2.35% in 2017.

Table 1: Number of Customers

Year	Residential	General Service < 50 kW	General Service 50 to 4,999 kW	Total	Growth (%)
Number of Customers					
2013 Board Approved	14,189	910	66	15,165	
2013 Actual	14,181	949	67	15,197	-
2014 Actual	14,509	991	67	15,568	2.44%
2015 Actual	14,862	1,001	72	15,934	2.35%
2016 Actual	15,202	1,016	76	16,293	2.26%
2017 Test - Normalized	15,555	1,034	88	16,677	2.35%

24. This growth has, in turn, driven an increase in OM&A costs beyond what might otherwise be predicted if one were to start with 2013 actual expenditures and adjust it to reflect merely inflationary increases. It can readily be seen that historical incremental OM&A expenditures in Appendix 2-JA are very much in-line with growth plus inflation, with only one exception - 2015 - the year that InnPower moved into its new building.

25. The increased OM&A costs associated with the new administrative building are best shown in response to undertaking JT1.8 of $138,713.92. It is worth noting that page 12 of the Settlement associated with the building that:

> *"IHDSL has indicated that it expects additional OM&A costs for the Corporate Headquarters and Operations Centre, above those incurred at the 2073 Commerce Park Drive facilities (IRR EP 4a – 4b)."*

[11] InnPower_2017 Load Forecast_TC_20170920.xls at Tab "Exhibit 3 Tables" Rows 47-63.

In agreeing with both the need and prudence of the new building in the Settlement, the parties explicitly recognized that additional incremental OM&A costs will be incurred commencing in 2015.

26. The underlying cost drivers are explained in detail in 4-Staff-49 and Exhibit 4, Section 2.4.2 (page 17).

27. In this context, it is worth highlighting the cost controls already being implemented by InnPower's new management team. These include:

(a) A substantial reduction in the forecasted test year OM&A from the Custom IR Application, achieved by removing 7 incremental FTEs from the forecast in a manner consistent with the "Growth will pay for Growth" management philosophy.
(b) A reduction in the test year OM&A budget by a further 3%, or $197,269, following the OEB community meetings without resorting to further FTE cuts, in a manner consistent with management's focus on customer needs and preferences.[12]
(c) A voluntary waiver of Z-factor relief associated with ice storm damage totaling $296,000, again in a manner consistent with management's focus on customer needs and preferences.
(d) Withdrawal of Lost Revenue Adjustment Mechanism Variance Account request.

28. No new FTEs are being proposed for the test year. Over the past five years, the incremental FTEs have been modest given the growth faced by InnPower. One (1) FTE – a Customer Accounts Representative – was hired in January 2013 to address increased customer service needs and growth. One-half (½) of an FTE was added in the form of a regulatory analyst in September 2013 to address incremental workload in the regulatory department. One (1) FTE - a financial analyst – and one-half (½) of an FTE – a financial admin – were both hired in December 2015 to support increased workload in the finance department following the transition to IFRS.[13] Both of these workers also assist with managing the incremental workload under the Financial Services agreement with InnServices, and their costs are in part offset by the incremental other revenues received

[12] 4.0-Staff-49 and Undertaking JT1.19.
[13] Transcript Vol. 1 dated Oct. 5, 2017 at pg. 11, lines 6-12.

by InnServices under the Financial Services agreement.

29. However, as was explained by Ms. Cowles during the oral hearing, management cannot make further cuts to OM&A at this time – they have reached the limit. She explains:

> "*Existing employees are being asked to do more, resulting in overwork, burnout, and more stress leave. Mr. Davison is here during the oral hearing because we are having exactly that issue in our engineering department, and we have experienced two extended vacancies that remain unfilled.*
>
> *Between 2016 and 2017 there's been a 59 percent increase in hours of overtime. Between two -- the same period, 2016 and 2017, there was a 109 percent increase in average days of absence by union staff and a 63 percent increase for non-union staff. There's currently one staff member on stress leave, and we have had six recent stress-leave occurrences.*
>
> *In 2013 we experienced a 5 percent turnover, which was completely related to retirements. In 2017 so far we have experienced 19 percent turnover with only 2 percent of that related to retirements.*
>
> *Vacancies contribute to higher costs as other employees are forced to work overtime at higher rates. We end up having to use more subcontract work. Overwork lowers productivity, and we experience higher turnover and new staff training costs.*
>
> *Ensuring we maintain a proper level of staff complement reduce these costs and contribute to better work/life balance, which is essential for a healthy, productive workplace.*
>
> *In this context and as we are anticipating more growth we have to be mindful of the capacity and limits of our current employees. We cannot cut further in this circumstance, and all vacancies need to be filled."*[14]

[14] Transcript Vol. 1 dated Oct. 3, 2017 at pg. 13, line 15 to pg. 14, line 16.

30. This concern was echoed by Mr. Malcolm during the second day of the oral hearing, in response to questioning from the OEB panel:

> *"MS. DUFF: Any constraints from a personnel perspective, with your 44 employees that have been held flat, in order to deliver that?*
>
> *MR. MALCOLM: Yes, there is constraints. A lot of our staff are working overtime. The growth and system renewal part of our program has shown on the staff a very hard strain on them. Sick leave has increased over the past number of years; people going on medical leaves, personal leaves has increased as well.*
>
> *We have tried to address with some of the contracted services we have to help them out, but the intention of the whole program and the number of staff we do have, there is a strain on our system for meeting the needs of our growth."*[15]

REVENUE REQUIREMENT (ISSUES 2.1 AND 2.2)

31. InnPower submits that the proposed revenue requirement is reasonable, and has been appropriately determined in accordance with OEB policies and practices.

32. In addition, InnPower has agreed to implement a voluntary reduction to ratebase of $2.35 million associated with the excess leasing space in the administrative building, and associated OM&A expenditures.

The Administrative Building

33. During the oral hearing, the OEB panel requested that the parties address in argument the interpretation of the reduction of $2.35 million Incremental Capital Module ("**ICM**") reduction associated with the new building as set out in the approved Settlement Proposal dated December 4, 2014 in EB-2014-0086 (the "**Settlement**").[16]

34. The first thing that is relevant to this interpretation exercise is timing. The OEB knows

[15] Transcript Vol. 2 dated Oct. 4, 2016 at pg. 74, line 22 to pg. 75- line 6.
[16] Transcript Vol. 2 dated Oct. 4, 2017 at pg. 83, lines 10-15.

that the InnPower employees moved into the building on January 23, 2015.[17] The Settlement Proposal approved by the OEB on Dec. 4, 2014 was dated November 14, 2014. That is to say, the building was nearly completed by the time the Settlement finalized. The actual costs of the building were largely already known at that time. InnPower had no ability to reduce its actual costs by $2.35 million in response to the settlement. All of the parties understood that the total actual costs were going to be at or around the $13.2 million.

35. In this context, InnPower would never voluntarily agree to an arbitrary permanent reduction to ratebase of $2.35 million as part of a settlement. As demonstrated in response to the SEC Preliminary Interrogatory questions filed in EB-2016-0085, the new building was needed and InnPower's expenditures on the building were prudent.

36. Luckily, a fact arose during the ICM settlement negotiations that gave the parties room to reach a compromise. Specifically, the Parties learned that a portion of the building was planned to be vacant and available to be leased to a third party. This is shown at page 12 of the Settlement, which states:

> "*The Parties agree that IHDSL will be able to rent/lease any excess square footage at the new Corporate Headquarters and Operations Centre. As of the date of filing, IHDSL is negotiating with two parties for leasing square feet at market rates. It is anticipated that the sites will be leased by July 2015.*"

37. Recognizing the fact that ratepayers were being asked to pay for the vacant leasing space, InnPower proposed in response to OEB Staff IR – 12 that a Deferral and Variance Account could be created to record any leasing revenues it receives for the new building. This too is shown at page 12 of the Settlement, which states:

> "*In response to OEB Staff IR – 12, IHDSL requested a Deferral and Variance Account ("DVA") to record any leasing revenues it will receive for the new Corporate Headquarters and Operations Centre.*"

[17] Transcript Vol. 1 dated Oct. 3, 2017 at pg. 160, lines 1-4.

38. However, the OEB's Incremental Capital Module process did not permit the creation of such a DVA. This too is shown at page 12 of the Settlement, which states:

> "*For the purposes of the settlement, the Parties agree that since an ICM is intended to recover the revenue requirement associated with capital additions only, there will be no DVA to record leasing revenues during IHDSL's IRM term.*"

39. The practical consequence of this was: if the leasing space were to be included in ratebase as part of the ICM, ratepayers would be required to pay the costs associated with the leasing space without benefiting from any offsetting leasing revenues until the next cost of service rebasing.

40. In this context, the parties agreed to an incremental capital reduction of $2.35 million to reflect the temporary removal of the leasing space from ratebase. This is shown at page 9 of the Settlement which states:

> "*For the purposes of settlement, the Parties agree to an incremental capital reduction of $2,350,000 from the submitted capital amount of $13,246,704. The Parties agree that the revised capital amount of $10,896,704 is prudent considering:*
>
> > • ***<u>The current square footage and operational requirements of IHDSL</u>****;*
> >
> > • ***<u>A reasonable allowance for future staffing growth expected over the next 20 years due to IHDSL's growth predictions</u>****; and*
> >
> > *• Reasonable comparisons with industry Distributors who have recently constructed new administration and /or operations facilities (Enersource, Powerstream and Waterloo North Hydro) considering current market construction rates.*
>
> *As discussed below,* ***<u>administrative and/or operational space that is in excess of IHDSL current requirements will be available for lease</u>****. Related leasing income will be included at the time of IHDSL's next rebasing application on a prospective*

basis. This arrangement provides a means of protecting IHDSL's customers from costs associated with the difference between the utilities needs over time and the total area available at the new Administration and Operations Centre."

41. The reduction to ratebase in the Settlement is clearly tied to:

- "the current square footage and operational requirements of InnPower";
- "A reasonable allowance for future staffing growth expected over the next 20 years"; and
- "[…] administrative and/or operational space that is in excess of IHDSL current requirements will be available for lease."

42. In this context, the facts presented by InnPower in this EB-2016-0085 case are also informative to the OEB's interpretation of the Settlement. The facts are as follows:

- The leasing space represents vacant office space that is in excess of the current square footage and operational requirements of InnPower;[18]
- The leasing space was built to provide for a reasonable allowance for future staffing growth expected over the next 20 years;[19] and
- The leasing space represents administrative and/or operational space that is in excess of InnPower's requirements, and which was/is available for lease.[20]

43. In addition, all of the parties understood that the reduction to ratebase was a <u>temporary reduction only</u>. It applied only to the Incremental Capital Module application, and was not binding going forward. This is shown at page 5 of the Settlement, which states:

"*IHDSL has applied for an Incremental Capital Module ("ICM") that will provide funding for the facility* ***<u>until the next rebasing application</u>****.*

For the purposes of settlement, the Parties have agreed to reduce the capital amount ***<u>in the ICM</u>*** *by $2.35M to $10.9M.*"

[18] Transcript Vol. 2 dated Oct. 4, 2017 at pg. 44, line 23 to pg. 45, line 3.
[19] Transcript Vol. 2 dated Oct. 4, 2017 at pg. 44, line 8 to pg. 45, line 16.
[20] Transcript Vol. 2 dated Oct. 4, 2017 at pg. 44, line 8 to pg. 45, line 16.
Transcript Vol. 1 dated Oct. 3, 2017 at pg. 75, line 20 to pg. 76, line 3.

And again at page 9, which states:

> "*For the purposes of settlement, the Parties agree to* ***an incremental capital reduction*** *of $2,350,000 from the submitted capital amount of $13,246,704.*"

44. Put simply, in the Settlement the parties agreed that InnPower would be entitled to seek recovery of its entire actual costs of the building as part of its next cost-of-service rate application. This is why the Settlement language was so clearly qualified so as to apply only to the ICM. There is nothing in the Settlement preventing InnPower from seeking full recovery of its actual costs for the building as part of this, its next cost of service application.

45. In addition, it must be understood from the language of the Settlement that InnPower would have a financial incentive to seek full recovery of the costs of its building at the time of its next cost of service application. As described, above actual costs were largely already known and included the leasing space. In this context, the parties further agreed at page 12 that:

> "*IHDSL does agree to include revenue off-sets from leasing revenues in its next Cost of Service or Custom IR application.*"

46. The essence of the Settlement was that InnPower customers would only be asked to pay the incremental costs associated with the leasing space, once they could also benefit from the off-setting leasing revenue associated with the leasing space.

47. In this way, the Settlement is being read in the context of the single overarching governing principle that underlies the entire Settlement, which is found at Page 9 of the Settlement:

> *"This arrangement provides a means of protecting IHDSL's customers from costs associated with the difference between the utilities needs over time and the total area available at the new Administration and Operations Centre."*

48. Fast forward to November 2016. In the original Application submitted by InnPower, consistent with the terms of the Settlement, InnPower included the full actual costs of the

building in ratebase (including the leasing space) and consistent with the terms of the Settlement, InnPower forecasted $110,000 in off-setting leasing revenue in the test year associated with the leasing space. This made sense. The leasing space was forecast to be both used and useful – it would be generating leasing revenues that are included in other revenues. InnPower also forecasted additional leasing revenue associated with the building, including revenues from InnServices.

49. Unfortunately, and as was explained by Mr. Malcolm during the oral hearing the actual leasing of leasing space was significantly delayed. A lease was only signed in September of 2017, and forecasted leasing revenue has dropped to $33,000.[21] This would not even off-set the incremental OM&A costs associated with the leasing space, which in 2016 was $37,502.91.[22] In addition, ratepayers would also be funding cost of capital and depreciation associated with $2.35 million leasing space.

50. Given this, following the OEB community day and in light of both the spirit and intent of the Settlement to ensure ratepayers are protected from costs associated with the difference between InnPower's needs over time and the total area available in the new building – InnPower voluntarily agreed to:

(1) remove the $2.35 million associated with the leasing space from ratebase;

(2) reduce its OM&A by all costs associated with the leasing space; and

(3) remove the associated leasing revenues from rates (since these revenues are solely attributable to an asset – the leasing space - that ratepayers have never previously funded, and that ratepayers will not be funding into the future).

51. In effect, the shareholder, rather than the ratepayer, is taking 100% of the risks associated with the ability to successfully lease out the leasing space and recover the costs associated with the leasing space. The ratepayers are fully protected in this arrangement. InnPower submits that its proposal is both consistent with the terms of the Settlement, and is in the public interest.

[21] Transcript Vol. 1 at pg. 9, line 10-19.
[22] 4-Staff-39.

LOAD FORECAST (3.1), COST ALLOCATION (3.2), RATE DESIGN (3.3) AND RTSR/LV RATES (3.4)

52. InnPower submits that the proposed load and customer forecast, loss factors and CDM adjustments and resulting billing determinants filed following the technical conference are appropriate. The load forecast model used by InnPower was prepared by Mr. Bacon, a consultant to InnPower, and is based on a systematic methodology that has been utilized by the OEB in numerous previous decisions. The methodology is routinely approved as representing an appropriate reflection of the energy demand requirements of InnPower's customers. In this case, following the technical conference in response to Undertaking JT2.4, the customer/connection forecast within the load forecast model has been updated for 2017 based on 8 months of actual data, and 4 months of forecast. The CDM information has been updated for 2016 verified results and revised 2017 targets. This represents the best available information at this time.

53. InnPower further submits that the proposed cost allocation methodology, the allocations, revenue-to-cost ratios, and its proposals for rate design are appropriate. In response to 8-Staff-57, InnPower explained that with respect to the GS > 50kW class, its proposal was to maintain the same fixed-variable split that formed the basis of the previous cost-of-service settlement agreement. This was updated to reflect 2016 approved rates in response to Undertaking JT1.23 and Table JT1.23, and showed a fixed rate for the GS > 50 class of $229.34. This approach has been approved by the OEB many times before, including in Horizon Utilities Corporations' 2015 rate decision (EB-2014-0002), as well as in EB-2012-0113, EB-2011-0293, EB-2011-0319, EB-2010-0131, EB-2010-0132 and EB-2010-0135.

54. Finally, InnPower's proposed Retail Transmission Service Rates and Low Voltage service rates are appropriate. In response to 8-VECC-44, InnPower agreed to utilize the Board's RTSR workform for 2017, and to update the model to reflect Hydro One's approved distribution rates as per the OEB's December 15, 2016 decision. InnPower's proposed Low Voltage Rates are set out in Exhibit 8, Section 2.8.7 of the Application.

ACCOUNTING (4.1), DVAs (4.2), SPECIFIC SERVICE CHARGES (5.1) AND

EFFECTIVE DATE (5.3)

55. The impacts of all changes in accounting standards, policies, estimates and adjustments have been properly identified and recorded, and the ratemaking treatment of each of these impacts is appropriate. InnPower adopted IFRS for financial reporting purposes effective January 1, 2015. These changes are properly reflected in Appendix 2-CA to 2-CF of the Chapter 2 appendices. The transition from MIFRS to IFRS did require a one-time adjustment to Employee Pension and Benefits of $60,050,[23] which is properly reflected in the OM&A forecast.

56. Following the community day, in response to customer feedback and preferences, InnPower voluntarily agreed to withdraw its request for disposition of $26,651 recording in account 1568, being the Lost Revenue Adjustment Mechanism Variance Account, and its request for recovery of $276,045 in Z-Factor recovery associated with ice storm damage that occurred between March 24-28, 2016. In response to Undertaking J1.8, InnPower has agreed to formally withdraw its request to dispose of accounts 1588 and 1589 balances at this time. Subject to these adjustment, InnPower submits that its proposals for deferral and variance accounts included in Exhibit 9, including the balances in existing accounts and their disposition, requests for new accounts and the continuation of existing accounts, is appropriate.

57. While InnPower has continued to collect the ICM rate rider consistent with the terms of the interim rate order, whether or not InnPower over-collect on depreciation under the ICM rate rider will in large part depend on the OEB's decision on the effective date (issue 5.3) in its Decision and final Rate Order for this Application. Because of this, InnPower submits that any final reconciliation is better done as part of the first IRM application following the OEB's decision on this Application.

58. Recognizing that issues related to the proposed pole attachment charges and microFIT charges are not included in this argument-in-chief, InnPower submits that its proposed changes to its specific service charges are appropriate. This includes, as more fully detailed in Exhibit 8 and in the responses to 8-Staff-69, 8-Staff-70, and 8-Staff-71:

[23] Exhibit 4 at pg. 18, line 14-15.

(a) An increase in the "Disconnect/reconnect charge – at meter- during regular hours" charge from $40 to $65 to better reflect current contractor average costs for disconnects/reconnects.

(b) An increase in the "Temporary Service – Install & Removal – Underground – No Transformer" charge from $300 to $468, to better reflect actual costs associated with both the install and removal portions of the activity.

(c) An increase in the "Temporary Service – Install & Remove – Overhead – No Transformer" charge from $500 to $632, to better reflect the actual costs associated with both the installation and removal activities.

(d) An increase in the "Temporary Service – Install & Remove – Overhead – With Transformer" charge from $1000 to $2525, to better reflect the actual costs associated with both installation and removal activities.

59. InnPower notes that it has adjusted its forecasts for other revenues to reflect its proposed changes to specific service charges in Appendix 2-H.[24] If the OEB rejects any of the foregoing requests, InnPower submits that the forecast of other revenues should be adjusted accordingly.

60. Finally, InnPower submits that its proposed effective date of July 1, 2017 for 2017 rates is appropriate.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 6TH DAY OF OCTOBER, 2017

BORDEN LADNER GERVAIS LLP

Per:

Original signed by Ada Keon on behalf of John A.D. Vellone

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John A.D. Vellone

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[24] 8-Staff-72.