EB-2016-0085

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Sch.B, as amended;

AND IN THE MATTER OF an Application by InnPower Corporation. pursuant to the *Ontario Energy Board Act* for an Order or Orders approving rates for the distribution of electricity commencing July 1, 2017

FINAL ARGUMENT
OF THE
SCHOOL ENERGY COALITION

October 30, 2017

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1 GENERAL COMMENTS

1.1 *Introduction*

1.1.1 On November 28, 2016 the Applicant InnPower Corporation filed an application to set just and reasonable rates for the distribution of electricity for the period commencing January 1, 2017. The Application sought an increase of $2.7 million in its revenues, representing a 32.0% weighted average rate increase[1].

1.1.2 The Application replaced a Custom IR application, which had been filed June 6, 2016, but was determined by the Board to be incomplete. The November Application was filed after a change in management and management philosophy at the Applicant in August 2016, with the appointment of Walter Malcolm as CEO of both the Applicant and its affiliate, InnServices.

1.1.3 There has been a sequence of proposals from the Applicant over the course of the Custom IR application, the original November application in this proceeding, and the current proposal from the Applicant, most recently set out on September 13, 2017. In addition to making changes to the 2017 "ask" between the Custom IR and the current Application, the Applicant also made changes to its "ask" from the time it filed this Application, both as a result of the response of customers at the Community Day, and as a result of new information and updated forecasts that arose during the course of the proceeding.

1.1.4 SEC has compiled a comparison of the Revenue Requirement Work Form data from each of the three most relevant points in time, and compared each to the same figures as approved by the Board in the previous cost of service case of this Applicant, EB-2012-0139. That comparison is set out in Table 1 below.

[1] Original RRWF, adjusted to reflect a problem with negative tax in the model. The true deficiency was $2,707,859, and the true revenue at current rates was $8,470,552.

Table 1: Side by Side 2013 and 2017 Revenue Requirement

Revenue Requirement Component	*EB-2012-0139* *15-Mar-13*	*Custom IR* *06-Jun-16*	*Application* *28-Nov-16*	*Current* *21-Sep-17*	*Change Since* *2013*	*Change Since* *Custom IR*	*Change Since* *Application*
OM&A Expenses	$5,465,072	$6,864,522	$6,187,625	$5,990,356	$525,284	($874,166)	($197,269)
Amortization/ Depreciation	$1,387,925	$2,850,366	$2,746,369	$2,699,369	$1,311,444	($150,997)	($47,000)
Property Taxes	$12,500	$122,500	$122,501	$110,950	$98,450	($11,550)	($11,551)
Income Taxes (Grossed up)	$ -	$146,434	$140,564	$165,450	$165,450	$19,016	$24,886
Return							
Deemed Interest Expense	$1,005,369	$1,172,798	$1,211,998	$1,099,244	$93,875	($73,555)	($112,755)
Return on Deemed Equity	$1,217,173	$2,116,573	$1,976,476	$1,865,542	$648,369	($251,031)	($110,934)
Service Revenue Requirement	$9,088,039	$13,273,194	$12,385,532	$11,930,910	$2,842,872	($1,342,284)	($454,622)
Revenue Offsets	$536,948	$1,216,205	$1,207,121	$975,758	$438,810	($240,447)	($231,363)
Base Revenue Requirement	$8,551,091	$12,056,989	$11,178,412	$10,955,153	$2,404,062	($1,101,836)	($223,259)
Rate Base	$33,885,655	$57,578,157	$56,277,779	$53,119,071	$19,233,416	($4,459,086)	($3,158,708)
Distribution Revenues	$8,551,091	$11,920,340	$11,178,412	$10,955,153	$2,404,062	($965,187)	($223,259)
Deficiency	$450,240	$3,449,787	$2,707,859	$2,626,876	$2,176,636	($822,912)	($80,983)
Weighted Average Rate Increase		40.7%[2]	32.0%	31.5%			

1.1.5 An oral hearing was held on September 12 and 13, 2017, and undertaking responses and other additional material were filed October 6 and 11, 2017. The Applicant's Argument-in-Chief was filed on October 6, 2017. OEB Staff Final Argument was filed on October 24, 2017.

1.1.6 This is the Final Argument of the School Energy Coalition.

1.1.7 The numbering of Sections and Subsections in this Final Argument is not consistent with the numbering in the Issues List, as the issues that arose in the course of the proceeding and the development of this Final Argument made a different logical structure appropriate.

[2] This was followed by a 4.2% increase for 2018, then decreases of 0.62%, 1.38%, and 1.14% in the remaining three years. In 2021, the fifth year of the Custom IR plan, the cumulative weighted average increase would have been 42.05%. As proposed in the present Application, and assuming 2% per year IRM increases until 2021, the cumulative weighted average increase would be 42.33%. (If you assume 1.7% IRM increases per year for the next four years, it is 40.67%).

1.2 *Theme of These Submissions – Customers vs. Shareholder*

1.2.1 This was a troubled utility. It's management was not getting the job done, and its customers were unhappy. It had very high rates, especially for residential customers. The 40% initial rate increase proposed in the Custom IR application would have simply exacerbated an already unacceptable situation. Even the new proposal, at 32%, was high, which was shown by the vocal opposition at the Community Day.

1.2.2 ***Adjustments to the Utility Proposals***. All parties saw during the hearing that the adjustments after the Community Day didn't end up having much impact (see Table 1 above). To the extent that there were any of real substance, they were almost entirely offset by adjustments in the other direction. Changing a 32.0% rate increase to 31.5% is an improvement, but doesn't really go very far to solve the problem.

1.2.3 As proposed, and with all the adjustments, the residential annual distribution bill would be $566.28, compared to the industry average of $340.18. Only Algoma Power, at $605.28, would have a higher annual residential distribution bill than InnPower. For the typical small business (GS<50) customer, the annual distribution bill would be $803.52, compared with the industry average of $475.47. Only eight distributors would have a higher annual small business distribution bill than InnPower.[3]

1.2.4 It does appear that the changes from the Custom IR to the November 2016 application were more significant, a reduction in the proposed increase from 40% to 32%. In 2016, after the Custom IR application was sent back by the Board, the Applicant brought in new management, and a new regulatory philosophy ("growth will pay for growth"). This was on the face of it a very good thing, as a utility with already relatively high rates was proposing a large additional increase.

1.2.5 As we show in Note 2 above, however, much of this apparent change is timing rather than real improvements. Whether under the Custom IR application, or the current application with all additional reductions proposed, this Applicant still proposes to increase its rates by more than 40% over the next five years, despite the anticipated revenue increases associated with high levels of growth. The only difference is whether the full increase is today, followed by four years of basically even rates (the Custom IR), or 80% of the increase is today, followed by smaller increases for four years under IRM (the current Application as amended).

1.2.6 SEC submits that it is simply unacceptable for an electricity distributor to propose a more than 40% increase over five years. It doesn't matter whether it is 40% right away, or 32% plus additional smaller increases. It is still unreasonable. The Applicant

[3] 2017 InnPower from October updated tariff sheet. Other data from KT2.6, based on 2016 final approved rates for all LDCs.

is offering nothing to its customers for this additional money. It is simply expecting to increase the price of its product, without changing in any way the quality of its product.

1.2.7 ***The Board's Difficult Situation.*** The Board is, however, faced with somewhat of a dilemma. As we will note at various places later in this Final Argument, the main drivers of the increase are capital and other spending that has taken place in past years. Normal practice is that, barring exceptional circumstances, the customers eventually pay for that spending.

1.2.8 Indeed, the entire theme of the evidence from the Applicant, particularly Mr. Malcolm, is "the past is the past."[4] He admits that things weren't done well in the past, but says the future will be better. "Let's move on", he tells the Board.

1.2.9 The pitch sounds reasonable, and it is hard not to have sympathy for him. He is trying to do all the right things in the face of difficult challenges. It is hard enough to run a utility in the midst of high growth and a changing demographic. It is harder still when you are saddled with a less than stellar history. The plan management is proposing does appear to be a good one. The future of the utility looks like it might be better than the past.

1.2.10 But there is an implicit second part to the "change in philosophy" mantra. In the Applicant's proposal, the customers pay for the mistakes of the past, in full, and then the utility does better in the future. "Sorry we overspent. Here's the bill. We're going to try not to do that again."

1.2.11 It is not self-evident that the pain from past overspending should be borne entirely by the customers. There is an issue whether the shareholder should bear some part of that.

1.2.12 The problem is that this is not a normal prudence review. There is some room for the Board to reduce 2017 amounts to get to a more reasonable level, as we will point out later, but that room is quite limited. The Board could also disallow recovery of some of the past capital spending. However, as much as some of that past capital spending may have been driven by overambitious visions of InnPower's future, it is already spent, and to the extent that any of it was frivolous, those amounts, if any, are not material.

1.2.13 Aside from the relatively small reductions that can be achieved by cutting back on the OM&A budget, and increasing the charges to the affiliate InnServices, the Board really has only four choices to get the rate increase down to a reasonable level:

(a) ***Rate-Driven Solution.*** Set a reasonable rate level, for example based on

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[4] See, e.g. Tr1:7 et seq.

benchmarking, and leave it to the Applicant to determine how to get there. As tempting as this is, SEC does not recommend this approach. This may be a good idea for utilities in the future, but it would be a sea change in cost-of-service rate-making. It should not be implemented without a full public discussion of the implications of such a policy/approach.

(b) ***Shareholder Responsibility.*** Assign responsibility for some of the past capital spending to the shareholder, for failing to ensure good governance of the utility, and thus relieve the customers of the responsibility for paying for those assets. This could be done using a benchmarking approach, or it could be done through a more bottom-up analysis. In the end, though, this would be a significant and controversial step in re-imagining the implications of prudence under the RRFE.

(c) ***Adjusted Five Year Trajectory.*** Allow a substantial increase in 2017, but, in keeping with the expectations of additional growth in 2018-2021, establish a rate trajectory for those four years that is less than the 4th generation IRM formula (to account for the expected high revenue growth in those years). Aside from issues of whether this Board panel has the scope to direct rates for those four years, there is also some question whether the evidence is sufficient to do so. SEC believes that some form of adjustment to the rate trajectory is the theoretically preferred approach, but is concerned that it may not be legally or practically feasible in this case.

(d) ***2017 Rates in Five Year Context.*** Establish a target reasonable rate level for 2021 (20% increase, for example) given the evidence in this proceeding, and work backwards from four years of IRM increases to get to a reasonable level for 2017 (which in this example would be about a 12.5% increase for 2017, enough to cover the new building but not much more). This is also full of difficulty, although maybe less so than the other alternatives.

1.2.14 SEC submits that, while the Board undoubtedly has to ensure that the Applicant can continue to be financially viable, the Board also has a responsibility to ensure that past overspending by the Applicant is not simply foisted on the customers, who will receive no benefit from it.

1.2.15 If the Applicant had continued with its original Custom IR application, the Board could perhaps have been creative in balancing financial viability and rate fairness over the five year period.

1.2.16 Alternatively, given that the Applicant has a new philosophy and a new approach to spending, it may have been better (hindsight being 20/20[5]), if this Application had

[5] This is not intended to be critical of the utility's management. Their decision to proceed with this Application was not unreasonable. Now that the process has unfolded, it turns out that delay may have been better.

been delayed for a year. The utility could have appeared before the Board with a new Strategic Plan, implementing its new approach to spending. The Board would have been able to consider proposed solutions to the challenges facing the utility, rather than just expectations of future solutions.

1.2.17 As it is, SEC believes that the Board should start by looking at the rate levels that would be appropriate to ensure financial viability, and also at the rate levels that would be appropriate to ensure fairness to the customers. These two levels will likely not overlap. If they do not, in our submission the Board may, perhaps through a combination of the methods outlined above, find it necessary to establish a middle ground between the two goals that is, in essence, equally unfair to customers and to the shareholder[6].

1.3 ***Summary of Submissions***

1.3.1 ***Overall Increase***. SEC submits that any increase in rates that would result, cumulatively, in more than 20% over the next five years, would not be just and reasonable.

1.3.2 ***OM&A.*** The OM&A budget is too high. The apparent reason for that is too many employees relative to the number of customers, somewhat balanced by the fact that their average pay is below the industry norms. Based on OM&A per customer benchmarking, SEC recommends a reduction in OM&A included in rates of $650,000. That should be adjusted downward to the extent that the Board allocates additional costs to Revenue Offsets, as set out below.

1.3.3 ***Revenue Offsets.*** The Applicant is providing a complete back office to its affiliate, InnServices, for an amount that is probably no more than $200,000 per year (net of 50% of the compensation cost of the CEO). This is clearly too low, and should be increased to approximately half of the costs incurred by the Applicant for its back office. SEC estimates the increase in this revenue offset should be about $200,000, plus the $112,981 the Applicant has already proposed in J1.6.

1.3.4 The amounts charged for billing services also appear to be very low, for similar reasons. Those revenue offsets should be increased by at least $100,000 per year.

1.3.5 The Applicant's approach to the excess space in the head office building is a reasonable one, and it would not be fair to add an offset for rents for the part of the building that is not being funded by the customers.

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[6] In this context, we note that the current proposals would, on the utility's own numbers, produce ROE well in excess of the Board's allowed level during all years including 2017, despite reducing leveraging substantially. While these calculations are apparently on a financial basis, rather than a regulatory one, the results are still very healthy. See J2.1, Attachment Tab 6.

1.3.6 ***Capital Spending Plan.*** The Applicant probably could not afford the new building when it was built, but it is now spent, and it was approved by agreement among the parties and by the Board. The adjusted amount included in rates should be approved. This represents about a third of the proposed rate increase.

1.3.7 The additional capital spending by the Applicant since 2013 is excessive, even in the face of high growth. On the other hand, no material amount has been wasted. It is a case of not living within your means, not imprudence in the traditional sense.

1.3.8 ***Cost Allocation and Rate Design***. The fixed charge for GS>50 should be set at the 2016 level, and not increased.

1.3.9 Pole attachment and MicroFIT charges are being dealt with in a parallel part of this proceeding, so we have not commented on those charges in these submissions.

1.3.10 ***Effective Date.*** The rates arising out of this application should follow the normal rule that they take effect at the beginning of the month following the Board's rate order.

2 OM&A EXPENSES

2.1 *Introduction*

2.1.1 In 2016 the Applicant had an OM&A per customer of $354, compared to an industry average of $267, or about 33% above the industry average[7]. The Applicant currently proposes an OM&A per customer in the Test Year of about $351, almost the same as the previous year.

2.1.2 In total, the revised OM&A proposal is $5,990,356, an increase of 19.9% from the amount actually spent in the last rebasing year, 2013, and an increase of 22.5% from the Board-approved OM&A budget in 2013[8]. The percentage increase is almost equal between G&A spending and O&M spending[9].

2.1.3 Since 54.3% of OM&A costs are related to personnel costs[10], that has been the focus of SEC's review. This focus is particularly appropriate because the Applicant has made a point of reducing its FTEs proposed (compared to its Custom IR application), but stated many times in the oral hearing that its employees were overworked and could not continue without additional FTEs being added.

2.2 *Personnel Costs*

2.2.1 SEC looked at personnel costs by asking two questions:

(a) Is the company paying its employees the right amount?, and

(b) Does the company have the right number of employees?

2.2.2 ***Compensation Levels***. The Appendix 2-K, which provides details of personnel costs, is not included in the Yearbook data. However, SEC has reviewed the filings of the ten LDCs who have filed for COS rates in 2017, using them as essentially a random sample[11]. The results of that analysis are attached to this Final Argument as Appendix 1.

2.2.3 What that analysis shows is the following:

(a) Average compensation per FTE for the Applicant is lower than average

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[7] Figures from 2016 OEB Electricity Distributors Yearbook. Hydro One and Toronto Hydro excluded from averages.
[8] Data from App. 2-L and J1.5.
[9] Once you adjust for the fact that now only half of the CEO remuneration is in G&A, the two categories increase at roughly the same rate.
[10] J1.2 for total compensation ($4,070) net of capitalization in 4-VECC-30 ($819).
[11] While this may be less than satisfactory in other circumstances, in this case it was a reasonable shortcut.

compensation per FTE for all 2017 COS filers.

(b) Average compensation per FTE for InnPower has declined since 2013 Actuals, in contrast with most of the other LDCs.

(c) Even if you adjust for the fact that only 50% of the CEO's compensation is now included (down from 100%), the average compensation per FTE of the Applicant has stayed flat over the four year period, and remains below the average of the sample.

2.2.4 SEC did a number of other tests of the compensation data to see if there was an indication of compensation levels that are too high. None of the tests we used, including those detailed above, indicated that the Applicant is paying its employees more than market rates[12].

2.2.5 SEC therefore concludes that, overall, compensation levels at InnPower are reasonable.

2.2.6 ***Number of FTEs***. We reached a different conclusion with respect to number of FTEs

2.2.7 The Applicant made a point of telling the Board that the new personnel they had planned to add in 2017 were not being added[13]. FTEs are still going up, but not as quickly.

2.2.8 On the other side, however, the witnesses repeatedly emphasized that the staff of the utility are overworked, and they can't go on indefinitely without some relief. This started in the opening statement, where Ms. Cowles said[14]:

> *"While we are committed to reducing our OM&A spend and using existing FTEs, <u>there is a limit to how far we can take this, and I believe InnPower is at that limit. Existing employees are being asked to do more, resulting in overwork, burnout, and more stress leave.</u> 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*

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[12] We note that, once you adjust to move Management up to 100% CEO cost (and 11 FTE), the resulting average Management compensation per FTE is on the high side relative to the other LDCs, but well within the range. At this level of granularity, the figures will reflect things like the allocation of any particular individual between Management and Non-Management, and so small differences like this are not instructive.

[13] Tr.1:8.

[14] Tr.1:13-14.

> *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. <u>We cannot cut further in this circumstance, and all vacancies need to be filled</u>."[emphasis added]*

2.2.9 This had already been stated in the Technical Conference, and then was repeated in the oral hearing more than once.

2.2.10 Number of FTEs is a metric that can be tested objectively, using Customers/FTE for comparison purposes. At finer levels of detail, it is not very helpful, but at the broader level it can indicate where a problem exists and, conversely, where there is no problem.

2.2.11 SEC has reviewed the Customers/FTE metric for all LDCs using the 2016 Yearbook data[15]. What that data shows is that the industry average is 553 customers per FTE[16]. The Applicant's 2016 ratio, with 39 FTEs, was 422, placing it 47th out of the 66 LDCs listed.

2.2.12 In order to ensure that this did not skew the comparison for very large or very small LDCs, we also did a comparison of the Customer/FTE ratio for the 26 LDCs in the mid-range, tested by number of customers. That comparison is attached as Appendix 2 to this Final Argument.

2.2.13 That shows that, compared to LDCs with similar size, the Applicant has a relatively large number of staff for its number of customers, ranking 20th of 26. If you compare the Applicant head to head to, for example, other high growth LDCs, their FTEs serve more customers. If you compare the Applicant head to head to other LDCs with similar density, their FTEs serve more customers. The Applicant is not a good performer, no matter which way you slice the sample. St. Thomas, with almost exactly the same number of customers, has ten less staff. COLLUS Powerstream, also

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[15] Certain "virtual" utilities have to be removed, because they have no or minimal direct employees, but there remain 66 for which there is proper data on number of customers and number of FTEs.
[16] As with all comparisons, excluding Hydro One and Toronto Hydro.

the same size, has about half[17]. Peterborough and Westario both have many more customers, but fewer staff.

2.2.14 Further, the Applicant is planning to have 43.82 FTEs in 2017, giving it a ratio of 389 customers per FTE. At that level, it would be worse than all of the 26 peers except Canadian Niagara Power, Algoma, and Bluewater.

2.2.15 SEC does not believe the Board can make decisions based on ratios like this. It would not, in our view, be appropriate in this situation to adjust overall compensation by 34% to reflect the 34% that the Applicant's FTE's are forecast to be above the industry average in 2017[18].

2.2.16 The way the data is useful, though, is that it demonstrates that the concern about overwork and lack of sufficient personnel is probably misdirected[19]. In this situation, it appears fairly clear that the utility could operate, properly organized, with even fewer staff and still do a very good job.

2.2.17 Based on the likelihood that staffing constraints are less of a concern than the Applicant suggests, SEC will propose below reductions that can help ameliorate unnecessary rate increases.

2.3 ***Other OM&A Expenses***

2.3.1 As is our normal practice, SEC will not focus on individual line items in the OM&A budget. In our view, an overall reduction in OM&A budget is more consistent with the Board's recent "outcomes" approach, and allows the utility the freedom to respond in the most appropriate way.

2.4 ***SEC Recommendation***

2.4.1 There is no easy way to adjust the OM&A budget in this situation. The Aiken Model, which the Board and the parties have used in the past, relies for its effectiveness on the underlying OM&A costs from prior years being reasonable. There is some doubt whether that is the case here[20].

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[17] Although their relationship with Alectra may create a special circumstance.

[18] Even if you adjusted for the lower average compensation at InnPower, as shown in Appendix 1, that would still be a reduction of about 25% in compensation costs charged to OM&A, or more than $800,000. SEC does not believe that is appropriate.

[19] We do not for a second think that the witnesses are lying, or in any way misrepresenting what they and their colleagues are experiencing. However, we believe that the better explanation for the stresses that are being seen is the normal reaction to a significant change in management style and philosophy. While in the longer term that change will probably benefit the staff as well as the customers, it is human nature to experience stress during periods of significant change. The anger of customers over large proposed rate increases is probably exacerbating that effect.

[20] The Aiken Model would likely come up with an OM&A budget of about $5.7 million in 2017, although SEC has not run the model with all assumptions to test that guess.

2.4.2 In any case, the Aiken Model is a steady state model, suitable for business as usual utilities. Here, the utility recognizes that it has to change what it is doing in significant ways, and it will be developing a new Strategic Plan and direction for exactly that purpose.

2.4.3 SEC therefore submits that, in this situation, a more useful top-down approach to estimating the reasonable OM&A budget is OM&A per customer, relative to the rest of the industry. The average for all LDCs in 2016 is $267 per customer, so even adding 3% would mean 2017 is no more than $275. The Applicant is proposing $351 per customer, which is about 28% higher.

2.4.4 The Board cannot, in our view, simply apply the industry average as a kind of rough justice. There are elements to this Applicant – density being the biggest – that suggest that an OM&A per customer slightly above the industry average may be reasonable. As well, even if a reduction to reflect the 28% difference was in order, it would be unfair to the Applicant to implement it in one fell swoop.

2.4.5 SEC therefore proposes that the Board reduce the OM&A of the Applicant by half of that differential. This would leave an OM&A per customer of $313, and an OM&A total budget of $5,339,154. This is a reduction of $650,000 over the current proposal of $5,990,354, but is still about $450,000 higher than the OM&A budget approved in the last rate case[21].

[21] We note that, in J1.6, the Applicant has proposed to reduce administrative labour by about $113,000 to reflect personnel that are working for the affiliate. This would be part of the above adjustment if accepted by the Board, not incremental.

3 REVENUE OFFSETS

3.1 *Overview*

3.1.1 There are three issues relating to revenue offsets, or Other Revenue.

3.1.2 First, there is the issue of the charges being levied by the Applicant against its affiliate, InnServices, which is the water and waste water utility for the Town of Innisfil. This in turn has two components – the charge for providing the financial back office, and the charge for issuing bills, customer care, and collections.

3.1.3 Second, there is the issue of the revenues from the portion of the head office building that was to be leased to others, which the Applicant agreed in EB-2014-0086 would be credited to customers.

3.1.4 Third, there is the original proposal to increase pole attachment charges by $164,615[22], which the Applicant purported to withdraw after the interrogatories. Because that is being dealt with in a parallel process, SEC is not commenting on that issue in this Final Argument.

3.2 *Back Office*

3.2.1 The Applicant now proposes to bill its affiliate InnServices the annual sum of $346,309 for "financial services", with a cost listed as $232,198[23]. For reasons we are not able to understand, the Applicant proposes that part of that difference between cost and price, $112,981, be used to reduce OM&A, and the balance of it, an administrative fee of 1%, or $1,130, be added to other income.

3.2.2 We do not have details of the cost as listed. What we know is that it includes half of the compensation of the CEO of the Applicant, since he is also the CEO of InnServices. While that 50% amount is unknown (for reasons of privacy), it is likely in the $150,000 range. That would mean that the balance of the financial services provided have an annual cost of about $80,000.

3.2.3 For that, InnServices, which is a company of similar size to InnPower, receives all of its financial back office services (except its CFO, who works for the Town). Mr. Malcolm described that as follows[24]:

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[22] Figure from Cross-Reference document filed October 11, 2017.
[23] J1.6. The pricing is listed as "Negotiated Agreement", which would mean two entities with the same owner, and the same CEO, negotiated with themselves. In fairness, however, the actual pricing is intended to be related to costs. It is not done correctly, but it is not purely a negotiated amount between non-arms-length parties.
[24] Tr.1:111.

> *"MR. SHEPHERD. It seems like InnServices corporation has the tool in hand people and a couple of others, but it doesn't have the full complement of people that you normally expect to run a company that has [redacted] of revenue.*
>
> *MR. MALCOLM: Yes, there's no back office people. When it was part of the town department, they utilized the back office from the town of Innisfil. So we have an arrangement with the town of Innisfil for our back office that's still in place.*
>
> *MR. SHEPHERD: Sorry, I thought the back office was IPC, the LDC did it.*
>
> *MR. MALCOLM: IPC does the water and wastewater billing and the financial portion of InnServices. IT, human resources, purchasing is an agreement that we have with the town of Innisfil.*

3.2.4 At the time of the oral hearing, the Applicant was saying that the cost for the financial services was $229,899, and the amount billed for it was $232,198[25]. The difference was an admin fee of 1%. During the oral hearing, we cross-examined on this issue, particularly noting that, as of the end of July, the costs for this service were already $213,065[26]. The witnesses agreed that the actual costs for the service would be substantially higher than the forecast[27].

3.2.5 Eventually, after much back and forth about what the correct number would be, the Applicant agreed to provide J1.6, which is now filed. For whatever reason, the cost has not increased, but the amount to be billed has increased.

3.2.6 What is being billed to the affiliate is the docketed hours spent on the affiliate's work, plus the standard payroll burden. There is no additional charge for the other costs associated with the staff that work on behalf of the affiliate, like space, computers, administrative support, etc.[28]

3.2.7 In fact, we got to the nub of this when we talked about incremental costing, in the following exchange[29]:

> *"MR. SHEPHERD: And the payroll burden is 51.2 percent; we have that on the next page, page 31.*
>
> *MS. COWLES: Yes.*
>
> *…*
>
> *MR. SHEPHERD: So I look at this and I'm thinking this is only payroll burden. But all these employees, they have over things, too, right? They have a desk, and they have a computer, and they have software, and they*

[25] App. 2-N and K1.5, p. 29.
[26] JT2.2 and K1.5, p. 30.
[27] Tr.1:116.
[28] Tr.1:120.
[29] Tr.1:120-1.

have all these things that you need to have to have an employee. Effectively, you don't charge anything for that, right?

MS. COWLES: When we added the additional analyst that is working primarily for InnServices, InnServices paid for outfitting her office, the computer, the laptop, all of that. But other than that, the admin fee is expected to cover that.

MR. SHEPHERD: The admin fee is $3,000 a year.

MS. COWLES: Yeah, it's not a lot.

MR. SHEPHERD: That doesn't cover my computer.

MS. COWLES: These employees would have those things regardless of whether we have InnServices or not.

MR. SHEPHERD: So you are costing this on an incremental basis.

MS. COWLES: I am following how the financial services agreement was written.

MR. SHEPHERD: That's not responsive. You are costing it on an incremental basis, yes or no?

MS. COWLES: Yes, it's incremental.

MR. SHEPHERD: I am used to seeing if you charge out the third parties that are arm's length third parties, not you but the companies charge out, they add another 25 or 35 percent, something in that range for overheads, an overhead burden. In fact, often the job costing mechanism has it expressly in there. You don't have anything like that, right? Your one percent is supposed to cover that.

MS. COWLES: We do not add a burden to what we charge. Except for the employee burden, we do not add additional burden or mark-up to what's invoiced to them, besides the one percent.

MR. SHEPHERD: So all the costs associated with looking after an employee -- like HR for example, and stuff like that -- that you look after these employees and you outfit them and everything like, that those costs -- InnServices is getting a free ride on those? It's not paying anything for those?

MS. COWLES: No, they are not.

MR. SHEPHERD: If they had to employ their own people, they would have to pay those things?

MS. COWLES: Yes, they would have to." [emphasis added]

3.2.8 It has been a principle at the Board for more than 20 years that, when a utility and its affiliate share resources, the costs are allocated fully, not on an incremental basis, but on the basis that neither activity is incremental to the other[30].

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[30] In fact, even years before that Enbridge (Consumers Gas, as it then was) had to get out of its ancillary businesses because incremental cost allocation was found to be a subsidy of those businesses by the customers of the regulated business. When they had to allocate a fair amount of costs to the non-utility activity, it was no longer viable and they sold it.

3.2.9 Put at its highest, the actual cost to provide a complete back office to the affiliate, excluding the cost of Mr. Malcolm, is probably just under $200,000 on an incremental basis. This is the result when the $232,198 cost and the $112,981 adjustment, detailed earlier, are added together, and 50% of the cost of Mr. Malcolm is deducted.

3.2.10 This can then be compared to the cost to InnPower of all of its financial services back office. That is not broken out, but is included in a larger total, $1,613,297[31], which is listed as "Management, Administrative, Finance, Regulatory and IT". This does not include "Information Systems", and it does not include "Regulatory Affairs", both of which are separate OM&A programs.

3.2.11 If you back out of that total the 50% of Mr. Malcolm borne by InnPower, and all of the InnPower CFO, the remaining amount is more than $1.3 million. To that has to be added a portion of the other $1,037,000 of Admin costs of InnPower (insurance, information systems, building and office supplies, etc.), since those costs are needed to support the administrative staff of InnPower. A part of that total is the cost of financial services back office. Clearly the cost of financial services back office at InnPower is a multiple of $200,000.

3.2.12 The onus is on the Applicant to demonstrate that their costs, revenues and rates are reasonable. In this case, the evidence before the Board is that the amounts to be charged to InnServices for financial services are incremental, contrary to Board policy. Further, they appear to dramatically understate the true cost of a back office for a substantial company.

3.2.13 SEC submits that, in the absence of full information, the Board must rely on what it has. That shows that some portion of $2.3 million in costs should be split between two companies, InnPower and InnServices. Since the two companies are of similar size, they should in our submission split the cost equally. Thus, if the Board estimates that the total cost of the financial services component of the $2.3 million of Admin costs is, for example, $800,000, InnServices should pay 50% of that cost, or $400,000. In addition, it should pay the 50% cost of Mr. Malcolm, for a total annual cost of around $550,000.

3.2.14 We note that, for a company the size of InnServices to get its CEO, and its back office, for a total cost of $550,000, is a bargain.

3.2.15 SEC therefore submits that the revenue offsets should be increased (or the Admin costs should be decreased, depending on how InnPower proposes to account for it), by $550,000, rather than the $346,309 proposed by the Applicant[32].

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[31] J1.5.

[32] We note that, if the Board accepts our recommendation to adjust the shared services cost upward by $200,000, plus the adjustment already proposed by the Applicant, $112,981, those amounts should fairly come off of the

3.3 *Billing Services*

3.3.1 The same undertaking, J1.6, also has the up to date figures for billing services, a separate activity performed by the Applicant on behalf of its affiliate, InnServices. In a discussion with Mr. Malcolm, this work was described as follows[33]:

> *"MR. MALCOLM: IPC does the water and wastewater billing….*
> *MR. SHEPHERD: And what about things like a call centre? Who does the call centre?*
> *MR. MALCOLM: The call centre for water and wastewater billing would either come in through InnPower or through the customer service at the town of Innisfil, depending on which number the customer decides to call.*
> *MR. SHEPHERD: They are on your bill, so likely they are going to call you.*
> *MR. MALCOLM: It depends. With the transfer of InnServices into a municipal service corporation, a lot of people still have the town of Innisfil in their mind and still have the town as their speed dial for InnServices issues. So a number of issues that get to the town of Innisfil are related to the fact that they are using old numbers that they were accustomed to, not recognizing that InnPower is actually billing them.*
> *MR. SHEPHERD: But because you are doing the billing, in essence you want them to call your call centre, right? That's the plan.*
> *MR. MALCOLM: The plan is for any billing inquiries or collection inquiries that they call InnPower. For any other services that they require they call through the town of Innisfil.*
> *MR. SHEPHERD: Okay. What about collections? When -- like, you're collecting the bill, right? You have a collections department that goes out and collects. We heard about that this morning.*
> *MR. MALCOLM: Through InnPower; that's correct."*

3.3.2 For this, the annual fee to InnServices is $245,000, with a cost listed of $195,530[34]. This includes actually sending the bills, and some customer service (including the call centre), and collections.

3.3.3 The cost to InnPower for those categories of expenses is $1,071,681. This does not include bad debts, which are borne separately by InnPower and InnServices. It also includes some portion of customer service (technical service, primarily) which is handled by the Town.

$650,000 downward adjustment we have proposed for OM&A.
[33] Tr.1:111.
[34] J1.6.

3.3.4 The Applicant purported to show the total of these costs in JT2.3[35]. What that shows is that between the two entities, they issue 322,000 bills, of which the Applicant issues 61.5% of them. The Applicant says that the total cost for those activities, for both water and electric, is $644,733, and it is essentially divided up pro rata between the two companies.

3.3.5 The Applicant does not explain, however, why its OM&A has costs of $1,071,681 for these categories, but only $644,733 is divided up. The Applicant also does not explain why there are labour costs of about $335,000, but no overheads associated with those labour costs.

3.3.6 SEC submits that InnServices is underpaying for its billing services. InnPower is spending $63 per customer, plus related overheads, on customer care[36]. InnServices, with a similar number of customers, is spending less than $15 per customer. Since it all operates out of the same office, run by InnPower, this is an unfair subsidy by the utility customers of the water customers.

3.3.7 SEC therefore submits that the revenue offset, or Other Revenue, associated with the billing services should be increased by a minimum of $100,000[37].

3.4 ***Leasing the Building***

3.4.1 The Applicant agreed in EB-2014-0086 to include as an offset to revenue requirement leasing revenues from the excess space in the new head office building. After much discussion in this proceeding, and filing an update, the Applicant now says about 20% of the building is not needed by the utility, so that is being excluded in all respects from revenue requirement.

3.4.2 In an exchange with Mr. Malcolm, we got a clear understanding of the concept he is implementing, as follows[38]:

> *"MR. SHEPHERD: All right. Now I have some questions on capital, and I want to start with the building.*
> *In the last -- I went back and looked at the transcript after yesterday to try to make sense of what I was hearing from you, and I am going to try to read back to you what I think is your approach and see whether I have got it right.*
> *I am not reading from the transcript; I am reading from my mind, sad but true.*
> *You have said there's a concern that this building might have been too*

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[35] Also found at K1.5, p. 34.
[36] $1,071,681 divided by the number of customers,
[37] As with financial services, this adjustment is effectively a reduction in OM&A costs, and so should reduce the $650,000 OM&A reduction SEC has proposed.
[38] Tr.2:43-5.

big, might cost too much money and you can't fill it right now. You don't have enough people for it, and it was built essentially to contemplate future growth. So what you have done is conceptually, you have said let's split up this building into two virtual buildings; it's like splitting up a hard drive into sectors. And 80 percent of it, let's say roughly, is what we are using now, so we will call that a building.

MR. MALCOLM: Correct.

MR. SHEPHERD: And whatever the cost of that and whatever the expenses associated with that, that will go into rate base because the ratepayers are getting the benefit of that now.

MR. MALCOLM: Correct.

MR. SHEPHERD: Then that other 20 percent, we'll pretend that's a separate smaller building off in the corner. And we are not using that right now, so it's not a utility asset.

MR. MALCOLM: Correct.

MR. SHEPHERD: And so the cost of it, 2-million-350 and the expenses associated with it, are not the ratepayers' problem right now.

MR. MALCOLM: That's correct.

MR. SHEPHERD: We are going to rent that to see if we can recover some of that cost, but that's also not the ratepayers' problem because it's not their asset yet.

MR. MALCOLM: Correct.

MR. SHEPHERD: It's actually the same building and ten years from now, we the utility might actually need that.

MR. MALCOLM: That's right.

MR. SHEPHERD: And if we do, then it's there and it hasn't cost the ratepayers anything. It's like the ratepayers have this insurance policy or an option on more space that they done have to pay for, but it's there when they need it.

MR. MALCOLM: That's correct.

MR. SHEPHERD: So your concept is to try to fairly separate what the ratepayers should pay for and what they shouldn't pay for right now, and that's why you think that the leasing revenues shouldn't be included as an offset in your revenue requirement.

MR. MALCOLM: That's correct.

3.4.3 Clearly this is not precisely what was agreed in EB-2014-0086. However, it appears that it seeks to achieve what was contemplated in principle in the prior agreement, and this solution is likely to be better for the customers, at least in the foreseeable future.

3.4.4 For this reason, SEC submits that the Board should approve this alternative approach.

4 CAPITAL SPENDING – PAST AND PROPOSED

4.1 *Background*

4.1.1 This an analysis of the capital side of revenue requirement focuses primarily on the existing capital proposed to be included. The Applicant is proposing an increase in its rate base of 57% in the last four years, from $33.9 million to $53.1 million[39]. Of this $19.2 million increase, about $9.5 million arises because of the new building. The remaining increase is still a 29% increase over four years, or about 6.5% per year. Most of the rate increase proposed is being driven by capital spending since the last rebasing.

4.1.2 This section of our Final Argument first looks at whether, based on objective tests, the rate base and capital spending of the Applicant is high, low, or about right. Then we look specifically at the building issue, the other spending since 2013, and the proposed capital spending in the Test Year.

4.2 *Empirical Tests of Capital Levels*

4.2.1 There are many ways to test or benchmark the reasonableness of capital levels on a top-down basis. It is a two-step process. First, you have to look at the existing level of capital being employed (for example relative to peers, and relative to the same distributor in past years). Second, you have to consider the spending proposed.

4.2.2 ***Existing Capital Assets.*** For the Applicant, its capital assets as of its last completed year, 2016, are relatively high, about 27.5% above the industry average[40]. In 2016, Net PP&E per customer for the industry as a whole was $2,495. For the Applicant, it was $3,182.

4.2.3 On the face of it, one might think that this is the result of the relatively low density of the Applicant's service territory. Its customers/sq.km, at 56.31, is about half the industry average of 104.91. Only seven distributors have lower density.

4.2.4 However, that appears to be only part of the explanation. If you go back to 2007, when the industry average PP&E per customer was $1,812, the Applicant's PP&E per customer was $1,209. From 2007 to 2016, the PP&E per customer for the industry grew by 38%, a healthy 4% per year. For InnPower, however, PP&E per customer grew by 163%, a less reasonable 11.5% per year.

[39] See Table 1 earlier in this Final Argument.
[40] All figures are from the 2016 OEB Electricity Distributors Yearbook, unless otherwise stated. All averages and ratios exclude the two outliers, Hydro One and Toronto Hydro, since their size and unusual behaviour make the overall totals of little use in benchmarking the rest of the LDCs.

4.2.5 Further, even if you exclude the expensive building[41], the increase over nine years is 111%, or 8.5% per year. Since these figures are per customer numbers, growth is already factored in. These numbers suggest that, over at least the past decade, spending control has been less than stellar.

4.2.6 ***Spending Proposals.*** The overall capital spending proposed for inclusion in 2017 rates is not an increase over 2016. Net of contributions, it is actually a decrease.

4.2.7 However, that decrease is from levels that were already above industry averages. SEC normally uses the ratio of capital additions to depreciation to assess the reasonableness of spending levels. This is also the ratio used in the Board's ICM formula. In 2016, the Applicant spent 293% of depreciation on new capital additions[42]. That compares to the industry average of 252%[43]. The Applicant's 2016 capital additions were thus about $1.1 million above the industry average, which was itself already high[44].

4.2.8 Another way of looking at the data is net capital additions per customer. In 2016, the Applicant had net capital additions per customer of $419. The industry average for 2016 was $269, so the Applicant was 56% higher.

4.2.9 For 2017, the Applicant proposes to include in rates net capital additions of $4.4 million, which compares to $2.7 million of depreciation, i.e. a 163% ratio. This does, though, mask the real level of capital spending. Before capital contributions, the capital additions are actually $8.6 million, and the ratio is 317%[45]. On a net basis, proposed capital additions in the Test Year are $258 per customer, approximately the industry average, and $502 per customer before capital contributions.

4.2.10 ***Conclusion.*** The ratios appear to demonstrate that before the Test Year the Applicant already had a high cost system relative to other LDCs, caused largely by aggressive and sustained capital spending over the last decade. While the current capital plan moderates this on a net basis, the capital spending is still substantial. This is not a "bare bones" capital plan.

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[41] Which is not really sensible, given that InnPower is not the only LDC that has built a lavish new building in the last few years. However, excluding the building does establish a lower bound.
[42] This does not include the building, which was in 2015. The Applicant's capex/depreciation ratio in 2015 was 1054% due to the cost of the building.
[43] In this case, the industry average including those two outliers is actually lower, at 225%, but for consistency we use the averages excluding the outliers.
[44] To put this in perspective, in 2007 the Applicant spent 128% of depreciation on new capital additions, compared to an industry average of 194%. It has since caught up, and then some.
[45] Even after deducting the large capital contributions of the Applicant, it is still proposing a ratio that is higher than sixteen other LDCs last year.

4.3 *The Building*

4.3.1 In EB-2014-0086 the Applicant and the parties, including SEC, agreed in an ICM application to provide rate relief for the cost of the building at a reduced amount of $10.9 million, with a net addition to rate base of $10.1 million, and the Board approved that agreement[46]. This reflected a reduction (after some other adjustments that are not relevant here) of $2.35 million from the actual cost, since the building was considered too large for the employees who would need to use it.

4.3.2 The fact that the spending for the building arose in the context of an ICM application turned out, in retrospect, to be unfortunate. As the Board has noted in establishing the ACM, large capital projects can be assessed more thoroughly and with better perspective in the context of a cost of service application, and a multi-year capital plan. Considering them in isolation is less effective.

4.3.3 What no-one appears to have seen, in EB-2014-0086, is that spending this much money on a building like this was simply beyond the means of this utility. The review would have benefitted from looking at it in the context of the other challenges facing this utility, and the ability of customers to pay for a head office on this scale. The ICM process generally does not allow for that.

4.3.4 In part as a result of the spending on the building, the Applicant now proposes to increase its distribution bills to residential customers to a level 66% above the industry average, and exceeded only by Algoma Power[47].

4.3.5 You don't buy the penthouse when you can only afford the two-bedroom reno. However, what's done is done, as they say, and that is true here on two levels.

4.3.6 At the most obvious level, the money is spent. It is reasonable to disallow some of the cost of the building because it is too big, and the Applicant has withdrawn the $2.35 million that it believes represents the excess size of the building.

4.3.7 At another level, though, both the parties and the Board have expressly approved this capital spending in EB-2014-0086. Should it have been approved? Reasonable people could disagree on that, and at the very least in a different context both the parties and the Board might have doubted the wisdom of even the lower amount. But the fact is that there was a negotiation, followed by a review by the Board. The amount currently proposed for inclusion in rate base was in fact considered and approved.

4.3.8 On the facts of this case, therefore, SEC believes that the Board should accept the addition to rate base of the proposed cost of the building.

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[46] EB-2014-0086 Settlement Agreement, p. 9.
[47] See Section 1.2 of this Final Argument for details.

4.4 ***Remaining Sunk Capital and Proposed Test Year Spending***

4.4.1 In the 2013 to 2016 period, the Applicant spent a total of $38.3 million on capital, of which about $13.2 million was the building, for a net of $25.1 million[48]. However, the Applicant received $6.4 million of contributions, about 26% of the total, leaving net capital additions other than the building of $18.7 million, i.e. more than $1,100 for each and every customer of the utility.

4.4.2 SEC believes that capital spending since the last rebasing has been excessive, and much of the large rate increase (at least $900,000 of the deficiency, or about 8.5% of the rate increase, excluding the building) is attributable to this spending pattern. When both the building and the other capital spending are included, together they drive a more than 16% rate increase.

4.4.3 We are aware that other parties may have comments on specific aspects of the past capital spending. From SEC's point of view, we have not identified any material components of the sunk costs of capital assets that do not meet the traditional test of prudence. Objectively, the rate base is too high, and has grown too rapidly over a number of years. None of the individual components of that rate base appear to us to be obviously imprudent. The Applicant appears to have built to improve its system. It just allowed itself a budget that, in retrospect, it probably couldn't afford. ("Growth will pay for growth" might have been a better approach.)

4.4.4 We reach a similar conclusion with respect to the capital budget for the Test Year.

4.4.5 Based on the evidence in this proceeding, SEC cannot conclude that any specific past or proposed capital additions are or were imprudent.

4.5 ***SEC Recommendation***

4.5.1 With respect to the building, SEC believes that it should be included in rate base as proposed.

4.5.2 With respect to all other capital additions, past and proposed, and subject to our more general comments in Section 1.2 above, SEC does not recommend that any of them be disallowed by the Board.

[48] All figures from 1-SEC-2, p. 34.

5 COST ALLOCATION AND RATE DESIGN

5.1 ***Fixed-Variable***

5.1.1 SEC agrees with OEB Staff that, in keeping with Board policy, the fixed charge for the GS>50 rate class should be kept at the 2016 level, rather than being increased and move further outside of the Board's range.

5.2 ***Specific Service Charges***

5.2.1 SEC is not making any submissions in this Final Argument relating to pole attachment charges and MicroFIT charges, which are being dealt with in a parallel process.

6 EFFECTIVE DATE

6.1 *History of the Application*

6.1.1 On June 6, 2016, the Applicant filed a Custom IR application for rates commencing January 1, 2017. It was already late in filing that application given the expected effective date, but in any case it didn't matter, because the application was incomplete.

6.1.2 Subsequently, Mr. Malcolm joined InnPower, and instead of continuing with the Custom IR application, he caused the company to file a single year cost of service/rebasing application November 28, 2016. While the intent was a good one, the fact remains that, with that filing, rates should normally be set for at least 270 days later, which would be September 1, 2017.

6.1.3 After initial review of the revised application, the Notice was issued February 22, 2017. It is not clear to SEC whether all of the delay from the time of the filing until the time of the Notice arose due to the actions of the Applicant, or whether some of that delay arose because of the time taken by the Board to review the application and set up the Community Day.

6.1.4 The Community Day (two meetings) was held March 9, 2017. SEC attended, and found it to be the most negative customer response we have seen in any of the Community Days. The Applicant and the OEB also received many letters of comment, and some of those were also very negative.

6.1.5 Partially in response to the Community Day and the letters of comment, on April 25, 2017 InnPower announced that it would be filing an amended application, and on May 8, 2017 it did so. Among other things, it changed its requested effective date to July 1, 2017.

6.1.6 The process has had some small delays since that time, but in general has proceeded at a reasonable pace. Given the normal time frames for Board decisions, and the rate order process, it is reasonable to expect that the Board will issue a rate order in this proceeding sometime in January or February, 2018.

6.2 *SEC Recommendation*

6.2.1 The customers of InnPower are already faced with a substantial rate increase, and so an additional rider to recover the retroactive component of that rate increase would be a further burden to customers already paying high rates. That suggests that following the Board's normal practice of setting rates for the month following the rate order is a reasonable approach.

6.2.2 Militating against that is the fact that much of the delay in this lengthy proceeding is the result of new management at the utility trying to moderate rate increases in the customers' interests. New management cannot be faulted for that. That is not the fault of the customers, either, of course. It is the apparent result of past management errors at the utility that the new management is trying to address and clean up.

6.2.3 It seems apparent that the customers of InnPower face a substantial rate increase. In our submission, that increase should be minimized, and should not be allowed to increase by the additional cost, however small, of a rate rider to recover lost revenues.

6.2.4 Therefore, SEC submits that the effective date of the rates in this proceeding should be the first of the month following the rate order.

7 OTHER MATTERS

7.1 *Costs*

7.1.1 The School Energy Coalition hereby requests that the Board order payment of our reasonably incurred costs in connection with our participation in this proceeding. It is submitted that the School Energy Coalition has participated responsibly in all aspects of the process, in a manner designed to assist the Board as efficiently as possible

All of which is respectfully submitted.

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Jay Shepherd
Counsel for the School Energy Coalition

Comparative Personnel Costs for 2017 COS Filers

LDC	*Year*	*Number of FTEs*		*Total Compensation*		*Compensation per FTE*			*Increase*
		Mgmt	*Non-Mgmt*	*Mgmt*	*Non-Mgmt*	*Mgmt*	*Non-Mgmt*	*Total*	
Brantford Power	2013 Actual	16.00	42.00	$2,384,856	$3,402,360	$149,054	$81,009	$99,780	
EB-2016-0058	2016 Bridge	17.00	46.00	$2,241,765	$4,235,185	$131,869	$92,069	$102,809	
	2017 Final	17.00	49.00	$2,390,488	$4,608,471	$140,617	$94,050	$106,045	6.28%
Canadian Niagara Power	2013 Actual	15.12	55.57	$1,984,459	$5,771,540	$131,247	$103,861	$109,718	
EB-2016-0061	2016 Bridge	13.28	57.83	$2,026,489	$6,610,620	$152,597	$114,311	$121,461	
	2017 Final	13.43	57.98	$2,123,927	$6,917,324	$158,148	$119,305	$126,610	15.40%
E.L.K. Energy	2013 Actual	4.00	31.00	$450,590	$1,324,829	$112,648	$42,736	$50,726	
EB-2016-0066	2016 Bridge	4.00	30.00	$549,953	$1,248,592	$137,488	$41,620	$52,898	
	2017 Final	6.00	32.00	$788,702	$1,519,807	$131,450	$47,494	$60,750	19.76%
InnPower Corporation	2013 Actual	11.00	29.00	$1,620,272	$2,267,823	$147,297	$78,201	$97,202	
EB-2016-0085	2016 Bridge	10.00	34.20	$1,376,062	$2,900,170	$137,606	$84,800	$96,747	
	2017 Final	10.50	33.12	$1,372,539	$2,697,718	$130,718	$81,453	$93,312	-4.00%
Lakefront Utilities	2013 Actual		19.75		$1,878,424		$95,110	$95,110	
EB-2016-0089	2016 Bridge		18.50		$1,700,232		$91,904	$91,904	
	2017 Final		18.50		$1,727,144		$93,359	$93,359	-1.84%
London Hydro	2013 Actual	46.28	241.34	$6,978,750	$23,727,166	$150,808	$98,313	$106,759	
EB-2016-0091	2016 Bridge	57.23	236.87	$9,023,376	$25,617,019	$157,670	$108,148	$117,785	
	2017 Final	53.00	258.71	$8,231,986	$28,257,014	$155,320	$109,221	$117,059	9.65%
Northern Ontario Wires	2013 Actual	4.45	14.00	$526,953	$1,056,949	$118,416	$75,496	$85,848	
EB-2016-0099	2016 Bridge	3.50	12.20	$426,992	$1,170,994	$121,998	$95,983	$101,783	
	2017 Final	3.50	12.20	$441,183	$1,205,997	$126,052	$98,852	$104,916	22.21%
Renfrew Hydro	2013 Actual		11.00		$919,654		$83,605	$83,605	
EB-2016-0166	2016 Bridge		10.25		$994,172		$96,992	$96,992	
	2017 Final		10.00		$1,008,739		$100,874	$100,874	20.66%
Thunder Bay Hydro	2013 Actual	22.71	112.40	$3,053,778	$9,558,330	$134,461	$85,036	$93,344	
EB-2016-0105	2016 Bridge	24.51	111.72	$3,437,996	$9,985,401	$140,265	$89,378	$98,534	
	2017 Final	23.87	114.41	$3,499,687	$10,805,259	$146,616	$94,442	$103,448	10.83%
Welland Hydro	2013 Actual	13.40	28.40	$1,638,448	$2,576,202	$122,272	$90,711	$100,829	
EB-2016-0110	2016 Bridge	12.00	29.00	$1,720,575	$2,830,247	$143,381	$97,595	$110,996	
	2017 Final	13.00	28.00	$1,822,554	$2,819,846	$140,196	$100,709	$113,229	12.30%
Averages	2013 Actual							$92,292	
	2016 Bridge							$99,191	
	2017 Final							$101,960	10.48%

Sources of data: *J1.2 for InnPower*
Last filed 2-K for all other LDCs listed

	Distribution Company	Customers	FTEs	Cust/FTE
1	Peterborough Distribution Incorporated	36,574	34	1076
2	COLLUS PowerStream Corp.	16,864	20	843
3	Newmarket-Tay Power Distribution Ltd.	35,465	44	806
4	Westario Power Inc.	23,168	30	772
5	Wasaga Distribution Inc.	13,346	18	741
6	Brantford Power Inc.	39,405	57	691
7	Essex Powerlines Corporation	29,327	44	667
8	Grimsby Power Incorporated	11,169	17	657
9	E.L.K. Energy Inc.	11,794	18	655
10	Lakeland Power Distribution Ltd.	13,406	21	638
11	Orangeville Hydro Limited	12,000	19	632
12	Milton Hydro Distribution Inc.	36,818	59	624
13	Lakefront Utilities Inc.	10,214	17	601
14	St. Thomas Energy Inc.	17,246	29	595
15	Welland Hydro-Electric System Corp.	22,853	39	586
16	Entegrus Powerlines Inc.	40,833	76	537
17	North Bay Hydro Distribution Limited	24,070	45	535
18	Festival Hydro Inc.	20,825	39	534
19	Ottawa River Power Corporation	10,994	26	423
20	Innpower Corporation	16,443	39	422
21	Erie Thames Powerlines Corporation	18,637	45	414
22	Orillia Power Distribution Corporation	13,570	33	411
23	Halton Hills Hydro Inc.	22,112	54	409
24	Canadian Niagara Power Inc.	28,808	84	343
25	Bluewater Power Distribution Corporation	36,355	110	331
26	Algoma Power Inc.	11,707	57	205
	Category Totals and Weighted Average Ratio	***574,003***	***1,074***	***534***
	Simple Average Ratio			***583***