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Please reply to the TORONTO OFFICE

February 4, 2009

File No. 2080630

**BY COURIER**

Ontario Energy Board  
2300 Yonge Street  
27<sup>th</sup> Floor  
Toronto, Ontario  
M4P 1E4

Dear Ms. Walli:

**Re: Innisfil Hydro Distribution Systems Ltd. EB-2008-0233**

Please find enclosed a copy of School Energy Coalition submissions in respect of the above captioned matter. An electronic copy has already been sent to the parties.

Yours very truly,

**SHIBLEY RIGHTON LLP**

John De Vellis  
JDV/tw  
Enclosure

EB-2008-0233

OEB BOARD SECRETARY	
File No:	Sub File: 8
Panel	PN, CS
Licensing	DB, KS
Other	
00/04	

AB

**IN THE MATTER** of the *Ontario Energy Board Act 1998*,  
Schedule B to the *Energy Competition Act*, 1998, S.O. 1998, c.15;

**AND IN THE MATTER OF** an Application by Innisfil Hydro  
Distribution Systems Ltd. for an Order or Orders approving just and  
reasonable rates and other service charges for the distribution of  
electricity, effective May 1, 2009.

**SUBMISSIONS**  
**OF THE**  
**SCHOOL ENERGY COALITION**

Overview

1. These are the submissions of the School Energy Coalition in the application by Innisfil Hydro Distribution Systems Ltd. ("IHDS") for an order fixing just and reasonable rates for the distribution of electricity effective May 1, 2009.
2. IHDS' requested Service Requirement for 2009 represents a substantial increase- 18%- over 2008 and previous years [see SEC IR#2]. The resulting distribution increases are, in SEC's submission, unacceptable.
3. SEC has observed in several distribution rate applications for the 2009 test year a tendency on behalf of distributors to submit a cost of service application involving a large step

up in work during the rebasing year with a resultant large increase in distribution rates. In SEC's view, these increases, if accepted, will undermine the goals that are central to the incentive regulation framework adopted by the Board: to provide more efficient operations and stable prices for electricity customers.

#### **Load Forecast**

4. In response to interrogatories, Innisfil has agreed to reduce the distribution loss factor in calculating the load forecast to be consistent with the methodology used to compute the distribution loss factor as set out at Exhibit 4, Tab 2, Schedule 9. The result is a slight increase in the 2009 load forecast. SEC believes that adjustment is appropriate. [see Energy Probe IR#1(b), SEC IR#6].

#### **Cost of Capital**

5. In response to an interrogatory from SEC, IHDS indicated that it had not listed debentures issued to the Town of Innisfil as affiliate debt because they "were issued to various bond holders for the hydro expansion" [SEC 7(c)] It does appear, however, that the debt was issue by IHDS to the Town of Innisfil, which in turn issued the debentures. In SEC's submission, this would still qualify as affiliate debt. Nonetheless, as the notes are embedded

debt and do not appear to be callable on demand, SEC does not believe the cost of embedded debt needs to be altered.

## **OM&A**

6. IHDS' OM&A costs are increasing at an unacceptable rate: a 36% increase in 2009 over 2006 actual. As a result, IHDS' OM&A per customer has increased dramatically since 2006:

### **IHDS OM&A/Customer, 2006-2009**

	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009**</u></b>
OM&A	2,906,371	3,183,319	3,522,825	3,956,720*
# of Customers*	13,832	14,120	14,307	14,496
OM&A/customer	\$210	\$225	\$246	<b>\$273</b>
% Change (yr/yr)		7.2%	9.3%	10.9%
Index of OM&A/customer (2006=100)		107.15	117.14	130.0

\* Excluding Streetlighting/Sentinel lighting connections.

\*\* 2009 OM&A is as-filed amount, \$3,931,720, plus \$25,000 per IHDS' requested adjustment due to IFRS costs.

Source: SEC IR#14.

7. As can be seen from the above table, IHDS' 2009 OM&A per customer has increased by 30% over than 2006.

8. About three quarters of the increases (\$748,401) occur in 2008 and 2009:

### **IHDS OM&A Increases -2007, 2008, 2009**

Total

Total:



	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2008+ 2009</u>	<u>2007 - 2009</u>
Payroll changes	35,000	168,000	151,000	319,000	354,000
Change in Cost of Service Providers	41,000	-13,000	82,000	69,000	110,000
Change in Cost of contractors	71,000	74,000	72,000	146,000	217,000
Inflation	97,948	110,506	103,895	214,401	312,349
Total increase	244,948	339,506	408,895	<b>748,401</b>	<b>993,349</b>
Total \$ Increase in OM&A-2006-2009					<b>1,025,349</b>

9. IHDS provided a summary of the major drivers of OM&A increases in responses to an interrogatory from SEC [SEC #16]. Besides inflation, the major drivers of the increases are as follows:

- (a) **Payroll changes:** addition of Information Technologist in 2008 (\$72,000 full year impact in 2009); change in allocation of President's salary as will no longer be working for Town of Innisfil (\$84,000 full year impact in 2009- \$78,000 partial year impact in 2008 plus additional \$6,000 in 2009 to reflect full year impact); increase in management salaries in 2008 (\$32,000 full year impact in 2009); addition of regulatory analyst in 2009 (\$70,000); increase in payroll costs due to sale of water heaters, with the result that IHDS management will no longer be providing services to Innisfil Energy Services (\$29,000).

In SEC's submission, the increases in these areas, which do not include inflationary increases, are excessive. In particular, the increases in management salaries do not appear to have been driven by any particular need, and the increase in allocation as a result of the sale of water heaters appears to result in an increase in cost to IHDS without any offsetting reduction in personnel costs.

- (b) **Change in Contractors** (\$144,00): this is related to the shift from the existing line contractor (McG) to K Line: it appears IHDS may have double counted the impact. IHDS states that the increase in K Line costs equals \$74,000 in 2008. In 2009, however, IHDS records a further increase of \$72,000, bringing the total increase (over 2007) to \$146,000. That appears to be incorrect as the text describing the increase appears to imply that there is only one increase, in 2008, and this increase carries through to 2009. SEC requests that IHDS clarify whether

the total annual increase in K Line costs should be \$74,000 or \$146,000 as is currently stated.

SEC believes the circumstances surrounding the increase in line contractor costs are troubling. Based on the information provided by IHDS it appears the then existing contractor, McG, was sold to another company, K Line, and this company was then the successful bidder in a subsequent RFP, at a cost of service 20% greater than that of McG. While SEC does not suggest the RFP was carried out improperly, the fact that there were not more attractive service providers despite the fact that the K Line price had increased substantially over the McG's suggests that IHDS needs to begin to develop an alternative to the current service provider.

- (c) **Change in cost of service providers, 2009 (\$82,000):** this increase is primarily attributable to the costs of the rebasing application. IHDS has included a breakdown of these costs in response to an SEC interrogatory [SEC #17]. Included in the forecast are legal fees in the amount of \$43,000, although none have been spent so far. It appears as though the legal fees were included in the forecast in anticipation of an oral hearing or technical conference. Since no legal expenses have yet been incurred to date, and there is not going to be an oral hearing, it is unlikely that IHDS will incur any legal costs in conjunction with the application. Therefore, SEC believes the \$43,000 in legal fees should be removed from the forecast (with an impact on 2009 OM&A of \$10,750).
- (d) **IFRS costs (\$25,000 in 2009; total cost of \$100,000):** this was an add on expense in response to an interrogatory from SEC. The amount does not appear to be justified by any particular analysis and appears, at best, to be a guess. In fact, in the interrogatory response in which this amount was proposed IHDS states it is "planning to conduct a study to identify and assess the potential impact on its reporting systems to transition to the IFRS reporting standards." [SEC IR#1(b)] Other responses indicate that IHDS is still in the preliminary stages of understanding the nature of the impact of IFRS on its accounting systems. [SEC#1(a), and (c), Energy Probe #26(a)]. In addition, there is of course a Board proceeding [EB-2008-0408] currently underway to study the impact of IFRS on electricity and gas distributors. In SEC's submission, the requested amount is without foundation and should be removed from 2009 OM&A.

10. IHDS has also projected inflationary increases in the amount of \$103,895 in 2009, based on an assumed inflationary increase of 2.9%. SEC believes that the assumed inflation rate is too high in view of recent economic conditions as well as more up to date inflation forecasts. IHDS states that its assumption regarding inflation for 2009 was "based on forecasted inflationary increases by the banking institutions and the forecasted cost of living being communicated by government agencies via newspapers and business journals." [SEC IR#15(c)] More recent forecasts, however, have been much lower. The December 2008 consumer price index, for example, rose 1.2% over the previous year. Forecasts for 2009 are for CPI to grow by under 1%. As a result, SEC believes that an inflationary adjustment of 1% may be more appropriate.

11. For all these reasons, SEC submits that the OM&A budget be reduced by \$225,000. The reduction would still result in IHDS' 2009 OM&A being 28% higher than 2006, and its resulting OM&A per customer would be \$257, still 23% higher than 2006.



### Cost Allocation

12. In SEC's submission, IHDS' revenue to cost ratios result in significant over-contribution per customer in the general service rate classes, as can be seen from the following table:

#### Current vs. Proposed R/C Ratios and Over/(Under) Contributing

Rate Class	Existing R/C Ratio	\$ (being subsidized)/ \$over- contributing	Proposed R/C Ratio	\$ (being subsidized)/\$o ver- contributing	# of Customers (2009)	Over- contribution per customer
Residential	101.62%	\$84,662	101.60%	\$74,793.00	13,512	<b>\$5.54</b>
GS<50kW	130.98%	\$150,608	116.20%	\$97,140.00	827	<b>\$117.46</b>
GS>50kW	146.58%	\$202,554	135.80%	\$191,517.00	72	<b>\$2,659.96</b>
Street Lighting	9.45%	(\$395,408)	40.00%	(\$323,353.00)		
Sentinel Lighting	16.97%	(\$29,507)	43.00%	(\$24,995.00)		
Unmetered Scattered Load	78.89%	(\$12,909)	80.00%	(\$15,103.00)		

Source: SEC IR#19, except for last two columns, which are SEC calculations.

13. As can be seen from the above table, the GS>50kW are over-contributing to IHDS' revenue requirement in the amount of almost \$2,700 each. Those customers are seeing rate impacts from the current application of up to 40%. [Ex. 9-1-9, Appendix A]

14. In SEC's submission, the proposed revenue to cost ratio for the general service rate classes, the GS>50kW class in particular, are much too high and result in significant over-contribution per customer in 2009.



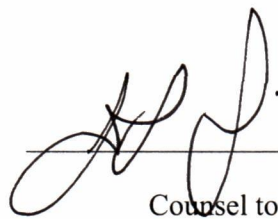
15. SEC submits that IHDS should be directed to reduce the revenue to cost ratios of the GS<50kW rate class to 100% over the course of the IRM period.

16. With respect to the GS>50kW rate class, SEC believes the level of over-contribution per customer is unacceptable, particularly in view of other serious economic challenges these customers may face and the significant distribution rate impacts these customers are facing in this application. SEC recommends that the revenue to cost ratio for this class be reduced immediately with a move, in 2009, to half way between the current level and 100%, with the remaining over-contribution eliminated in 2010.

#### Costs

17. SEC participated responsibly in this proceeding and sought to minimize its costs by cooperating with other ratepayer groups. SEC respectfully requests that it be awarded 100% of its reasonably incurred costs.

All of which is respectfully submitted this 4<sup>th</sup> day of February, 2009.



John De Vellis  
Counsel to the School Energy Coalition