EB-2008-0241

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Peterborough Distribution Inc. for an order approving or fixing just and reasonable rates and other charges for the distribution of electricity to be effective May 1, 2009.

BEFORE: Paul Vlahos
Presiding Member

Ken Quesnelle
Member

DECISION

June 1, 2009

Overview

Peterborough Distribution Inc. ("PDI") is an electricity distribution company licensed by the Ontario Energy Board ("Board") and serves customers within three service areas: the City of Peterborough, the Village of Lakefield and the Town of Norwood. It is 100% owned by the City of Peterborough through the City of Peterborough Holdings. PDI has no employees and purchases services from Peterborough Utilities Services Inc. ("Peterborough Utilities"), which is also 100% owned by the City of Peterborough through the City of Peterborough Holdings.

In 2008, in its three service areas, PDI was serving 30,508 Residential customers; 3,642 General Service customers under 50 kW; 366 General Service customers above 50 kW; 2 Large Use customers; 10 USL customers; 432 Sentinel Lighting accounts; and 8,431 Street Lighting connections.

PDI is supplied through the Hydro One transmission system but it is also an embedded distributor of Hydro One's distribution system for some of its supply of electricity.

On October 10, 2008, PDI submitted a 2009 Distribution Rate Application following the Board's filing guidelines. The application has been based on the 2009 forward test year cost of service methodology and on the basis of harmonized rates for the three service areas.

The Notice of Application was published on November 8, 2008. The Vulnerable Energy Consumers Coalition ("VECC") and the Association of Major Power Consumers in Ontario ("AMPCO") requested and were granted intervenor status. AMPCO did not participate in the proceeding.

PDI provided evidence supporting a revenue requirement of $15,753,249 with revenue offsets of $1,618,851 resulting in a base revenue requirement of $14,134,398 to be recovered from distribution rates. This revenue requirement reflects a revenue deficiency of $1,542,189 based upon existing rates.

The Board heard the application by way of a written hearing. PDI responded to a number of interrogatories by Board staff and VECC. Board staff and VECC filed argument and PDI filed reply argument.

The full record of the proceeding is available at the Board's offices. The Board has chosen to summarize the record only to the extent necessary to provide context to its findings.

PDI's revenue requirement and rates filing is predicated on harmonized rates for its three service areas. Board staff and VECC did not oppose the framing of the filing. VECC's issues were only with respect to rate impacts for certain customers, where it suggested certain remedies. The Board accepts the rate harmonization aspects of PDI's application and will deal with the specifics of the application and VECC's concerns in this decision.

Operating Revenue

PDI's total forecast revenue is derived from its load forecast and from forecast of revenue from other sources. The latter was forecast at $1,530,851 and is used as offset to the costs to be recovered from base rates. No party took issue with the forecast amount of the revenue offset and the Board approves it as reasonable. The load forecast is dealt with below.

Customer Count and Load Forecasts

PDI provided customer projections for the number of customers in each rate class based upon a simple trend growth. In PDI's view, the resulting customer forecast is likely not materially different than what would result from using more sophisticated time series techniques.

For the weather-sensitive rate classes (Residential, GS<50kW, GS>50kW), PDI developed the load forecast using the Normalized Average Consumption (NAC) approach based on 2004 data that had been prepared by Hydro One as part of PDI's 2006 Cost Allocation Informational Filing. For the non-weather-sensitive rate classes, the actual 2004 load date was used.

Despite certain reservations regarding the simplicity of the model, Board staff submitted that the approach employed by PDI should be accepted by the Board.

VECC submitted that there is no basis on which to adjust PDI's 2004 average use values and accepted PDI's normalized average use values for forecasting purposes.

In its reply argument, PDI noted that it is aware that certain distributors have supplemented the Hydro One work with their own modeling and that PDI may initiate an internal project or retain consultants to investigate and track other methods to forecast load and compare them to the current methodology.

Board Findings

The Board accepts PDI's customer count and load forecasts for the 2009 test year as reasonable. The Board expects PDI to be prudent if it decides to employ external assistance to investigate alternatives to the current approach.

Rate Base

In its application, PDI proposed a 2009 rate base of $54,126,094, which includes proposed capital expenditures of $5,506,000 (excluding smart meters) and a working capital allowance of $9,440,740 (as corrected). The Board deals with the issues of capital expenditures and working capital allowance below.

2009 Capital Expenditures

PDI provided a number of exhibits in support of its capital expenditures of $5,506,000 for the 2009 test year and responded to a number of IRs. PDI provided its most recent Asset Management Report (dated September 8, 2008) and SAIDI, SAIFI and CAIDI annual and monthly data from the years 2000 to 2007. It indicated that its formal Asset Management Plan is in its early development stage.

Both Board staff and VECC noted that the average annual capital expenditures over the past few years have been relatively stable. They did not express concerns about the proposed level for 2009. Both parties submitted that PDI should file a formal Asset Management Plan at the time of its next rebasing. In reply, PDI submitted that the completion of the Asset Management Plan and its implementation is a priority and that it will be in place for the next rate rebasing application.

Board staff commented that the information does not indicate any areas or patterns of concern regarding the reported reliability indices. VECC noted that, with the exception of three extraordinary years, the 2007 SAIDI and SAIFI reliability indices reflect improvements over the 2005 levels.

Board Findings

The Board finds that the proposed amount of capital expenditures of $5,506,000 (excluding expenditures for smart meters) are well supported by the evidence and approves them for ratemaking purposes. The Board notes PDI's undertaking that it will complete and file its Asset Management Plan for its next rebasing application. Based on the information provided and parties' submissions, the Board does not have any concerns about the service quality and reliability performance as reported.

Working Capital Allowance

PDI's proposed working capital allowance of $9,440,740 is based on 15% of the sum of the commodity cost of power and applicable transmission charges, and controllable OM&A expenses. The commodity cost of power and transmission charges were those applicable at the time PDI made its application.

Board Staff submitted that the working capital allowance should be updated to reflect the most current estimate of the RPP commodity price of $0.06072/kWh and to reflect current transmission rates.

VECC did not object to the use of the "15% rule" for purposes of this proceeding, but submitted that PDI should be required to submit a lead-lag study in the future.

PDI agreed to reflect the updated RPP commodity price to $0.06072/kWh and to update for current transmission rates as well as for other adjustments made by the Board in OM&A expenses.

In response to VECC's request for a lead-lag study, PDI submitted that lead-lag studies can be costly for individual utilities. If the OEB considers that such studies should be required, they should be conducted in a generic manner across the province through a consultation process led by the Board. PDI noted that VECC and at least one other intervenor have made similar requests in other 2009 applications by distributors, and that these requests have been rejected by the Board.

Board Findings

PDI confirmed that, for the purposes of determining its 2009 distribution rates, the working capital allowance would be updated to reflect the current Board-approved transmission rates and the most current RPP commodity estimate available. The Board directs PDI to submit with the draft rate order an updated Exhibit 2, Tab 4, Schedule 1 as support for that recalculation. PDI should identify the commodity, RTS, Wholesale Market Service Charge and other applicable rates used in the Cost of Power update. The updated schedule shall also include the reduced amount of $395,000 for Low Voltage charges as the Board finds later in this decision.

The Board will not direct PDI to undertake a lead/lag study at this time. It might not be the most cost effective way for testing the reasonableness of the current default provision for working capital, which is used by all, except two, electricity distributors.

Operating Costs

The Board deals below with the following issues:

- Operation, Maintenance and Administrative (OM&A) Expenses
- Depreciation Expense
- Loss Adjustment Factors
- Payments in Lieu of Taxes (PILs)
- Smart Meter Rate Adder

Operation, Maintenance and Administrative (OM&A) Expenses

PDI proposed OM&A expenses (excluding depreciation, and property and other taxes) for 2009 of $6,711,606. The table below compares this proposed level with prior years.

Peterborough Distribution Incorporated

	2006 Board Approved	Variance 2006/2006	2006 Actual	Variance 2007/2006	2007 Actual	Variance 2008/2007	2008 Bridge	Variance 2009/2008	2009 Test	Variance 2009/2006
Operation	554,522	190,955	745,477	164,634	910,111	37,208	947,319	9,198	956,517	211,040
		34.4%		*22.1%*		*4.1%*		*1.0%*		***28.3%***
Maintenance	1,596,006	799,575	2,395,581	-145,824	2,249,757	-74,506	2,175,251	174,801	2,350,052	-45,529
		50.1%		*-6.1%*		*-3.3%*		*8.0%*		***-1.9%***
Billing & Collections	2,098,572	-227,678	1,870,894	44,374	1,915,268	67,278	1,982,546	44,157	2,026,703	155,809
		-10.8%		*2.4%*		*3.5%*		*2.2%*		***8.3%***
Community Relations	0	485,827	485,827	-399,839	85,988	-85,988	0	0	0	-485,827
		#DIV/0!		*-82.3%*		*-100.0%*		*#DIV/0!*		***-100.0%***
Administrative and General Expenses	1,129,188	22,127	1,151,315	241,707	1,393,022	-46,404	1,346,618	31,716	1,378,334	227,019
		2.0%		*21.0%*		*-3.3%*		*2.4%*		***19.7%***
Total OM&A Expenses	**5,378,288**	**1,270,806**	**6,649,094**	**-94,948**	**6,554,146**	**-102,412**	**6,451,734**	**259,872**	**6,711,606**	**62,512**
		23.63%		-1.43%		-1.56%		4.03%		***0.94%***

PDI has no employees of its own. It obtains its management and operating services from Peterborough Utilities Services, which allocates costs to the affiliated companies it services based on a corporate cost allocation model. In response to Board Staff IR #31, PDI addressed the five principles of outsourcing as referenced in the Board's acceptance of Enbridge's corporate cost allocations (EB-2006-0034).

Board staff submitted that, subject to a clarification, PDI's proposed operating costs seem reasonable for inclusion into the determination of its 2009 distribution rates. The clarification sought by staff was the nature of the $117,000 increase for Software and Equipment Rentals as this matter was not clear to Board staff from the evidence. Board staff noted that the five cost allocation principles were appropriately addressed but because of the complexity of the relationships within the operation of Peterborough Utilities, it suggested that PDI engage a reputable independent third party to review the corporate cost allocation methodology for correctness in regards to allocation principles established by the Board as part of PDI's next rebasing application. Board staff also noted that the elimination of Utility Billing Services ("UBS"), an unregulated business, resulted in a higher allocation of costs from Peterborough Utilities to PDI and requested that PDI clarify and address whether these higher costs are still in accordance with the Affiliate Relationships Code; namely, services are provided at lower than or equal to market value.

VECC suggested that the labour charges from Peterborough Utilities may be overstated by $264,000 and this overstatement contributes to a smaller percentage increase in operating costs in 2009 over 2008 than there really is. In VECC's calculations, the increase is 6.5% (not 4.03% shown in the table above) and this level of increase is not justifiable. VECC noted that if the Board accepts its argument regarding labour charges and its calculations, there should be a reduction to the 2009 rate base by about $100,000. VECC also suggested that the proposed $50,000 associated with the current rate application should be amortized over a four-year period, rather than expensed in 2009.

In response to Board staff submission, PDI provided information clarifying that the $117,000 increase in Software and Equipment Rental includes Building rent, and should have been labeled as such. The nature of the increase in software and equipment rent is related to necessary investments made in information technology, including billing and financial system upgrades, system security, and backup and recovery systems. The increase in building rent is due to increased operating costs at the Ashburnham Drive Operations Centre that are billed to tenants on a square footage basis.

PDI submitted that the Activity Based Costing model was developed in conjunction with Corporate Renaissance Group ("CRG"). CRG was established in 1989 and is an independent global provider of innovative solutions and services and has significant expertise in developing cost allocation models. PDI noted that Board staff was satisfied that the five cost allocation principles were appropriately addressed. PDI noted that the model has been consistently applied since its inception in 2000. PDI also noted that it will consider the necessity of reviewing the existing cost allocation model in preparation for its next rebasing application.

With respect to VECC's comments, PDI submitted that there is no direct correlation between labour and the total capital program implied in VECC's argument. As the mix of resources utilized to achieve the capital program objective may vary from year to year, the correlation suggested by VECC is incorrect. The capital program includes labour, materials, vehicle usage and external resources. The 2008 Bridge Year total capital program has decreased despite an increase in allocated labour. The labour increase has been offset by a reduction in external resources. Therefore, the 2008 Bridge Year labour forecast of $6,794,926 is correct and not overstated as submitted by VECC, and the increase to the 2009 Test Year amount of $6,955,552 is also correct.

PDI did not agree with VECC's submission that the $50,000 associated with 2009 Test Year Rate Application costs should be amortized over four years. PDI submitted that the $50,000 estimated costs for this application and the related proceedings are likely too low, particularly since that estimate was made in the summer of 2008, prior to the filing of the application and the establishment of the Board's process for the disposition of this application which ultimately included two rounds of interrogatories. Additionally, the costs associated with the rate application may be required during the IRM period for additional studies such as load forecast, IFRS integration and verification of the costing methodology as well as possible LRAM, SSM and Smart Meter applications.

Board Findings

The Board notes PDI's explanation with respect to the nature of the $117,000 increase and accepts this increase as reasonable.

The regulatory treatment of amortizing one-time costs related to rebasing applications is a common practice of the Board. The Board finds that the $50,000 shall be amortized over four years, $12,500 per year. In so finding, the Board considered that there are other regulatory-related costs to be included in 2009 rates to the tune of $70,000. The Board considers the types of potential expenditures cited by PDI to substantiate their claim to be either routine or in the case of IFRS likely to be dealt with on a sector wide basis.

The Board has not been convinced that VECC's approach in calculating the rate of increase from 2008 to 2009 correct, or at least its restatement of the increase is not overstated. In any event, even if the rate of increase was indeed 6.5%, while this is a significant increase, the record in this proceeding appears to support it. The Board will not make any other adjustments to PDI's proposal in this regard.

In so finding, the Board has accepted the results flowing from the current cost allocation methodology as reasonable for purposes of setting rates in this proceeding. However, given that PDI contracts out all of its services and the cost allocation methodology determines all of the OM&A costs its customers are asked to pay, the Board considers it prudent for PDI to periodically initiate a review. The Board expects PDI to initiate in partnership with its service provider affiliates such review and to file the appropriate evidence at its next rebasing application. This finding also addresses a concern raised by Board staff as to the reasonableness of the costs allocated to PDI upon the elimination of former affiliate Utility Billing Services, which has ceased operations.

Depreciation Expense

Board Staff noted two classes of assets that are amortized at rates that are different than the rates stipulated in Appendix B of the 2006 Electricity Distribution Rate Handbook (the "2006 EDRH") but that the two deviations offset each other. For building and fixtures (account 1805) PDI uses 40 years rather than 50 years. For substations equipment (account 1820) PDI uses an expected life of 35 years rather than 30 years.

PDI responded that it will review its depreciation policies to ensure compliance with the 2006 EDRH.

Board Findings

The Board accepts PDI's undertaking to review its depreciation policies to ensure compliance with the Board's policies. The Board expects PDI to report on that matter at the time of its next rebasing. The Board will not direct any adjustments to the revenue requirement in this regard for purposes of setting 2009 rates.

Loss Adjustment Factors

PDI is proposing an average Distribution Loss Factor of 1.0413 and a Total Loss factor of 1.0487 for the 2009 test year, which is the observed average for the three year period from 2005 to 2007.

Both Board staff VECC submitted that the evidence provided by PDI is satisfactory and the proposed loss factors are reasonable.

Board Findings

The Board accepts the proposed loss factors as reasonable.

Payments in Lieu of Taxes (PILs)

PDI agreed with Board Staff's submission that the PILs calculation should be updated to flow through applicable changes and updates resulting from the Board's findings on PDI's application.

Board Findings

The Board directs PDI to reflect in the draft rate order updated calculations for PILs and to attach as support an updated Exhibit 4, Tab 3, Schedule 1 and Schedule 2.

Smart Meter Rate Adder

PDI anticipates full implementation of Smart Meters by mid to late 2009, requiring a capital outlay estimated at $5,600,000. PDI is not seeking approval for capital and operating costs incurred in 2009 or prior, but it will track actual costs and revenues received from the rate adder. PDI is seeking to increase the current rate adder of $0.26 per month per metered customer to $1.00.

Neither VECC nor Board staff opposed the proposed $1.00 adder. Board Staff however requested that PDI clarify in its reply submission the recording in the company's accounts of a $100,000 amount relating to remote control disconnects which is a capability beyond minimum functionality per the Board's guidelines.

PDI responded that, through the IR process, it identified approximately $100,000 for remote controlled disconnects that were not included in the Smart Meter budget as these do not currently meet the Board's minimum functionality guidelines. At the time these costs were also not included in the 2009 capital budget. PDI submitted that it has not yet incurred any costs related to the remote disconnects and as such there has been no cost included in accounts 1555 or 1556 for items that are considered above minimum functionality. However, the $100,000 costs may be included in accounts 1555 or 1556 in future years. PDI acknowledged that recovery of costs beyond minimum functionality will be reviewed for prudence and PDI will demonstrate the additional benefits to justify the expense.

Board Findings

The Board approves the rate adder of $1.00 per month per metered customer. With respect to the $100,000 identified costs that go beyond minimum functionality, these costs have not been incurred and if they will be incurred they will not impact rates at this time. The Board notes that PDI is aware that recovery of any costs beyond minimum functionality will be reviewed for prudence.

Cost of Capital

On December 20, 2006, the Board issued the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* (the "Board Report"). The Board Report provides the Board's policy guidelines for determining the capitalization and cost of capital to be used for electricity rate-setting.

PDI's proposals for capital structure and cost of capital are summarized in the following table.

Cost of Capital Parameter	PDI's Proposal
Capital Structure	56.7% debt (composed of 52.7% long-term debt and 4.0% short-term debt) and 43.3% equity
Short-Term Debt	4.47%, but to be updated in accordance with section 2.2.2 of the Board Report.
Long-Term Debt	6.02%, as a weighted average of 6.10% on affiliated debt of $21,657,680 and $4.85% of $1,500,000 with the City of Peterborough.
Return on Equity	8.57%, but to be updated in accordance with the methodology documented in Appendix B of the Board Report.
Return on Preference Shares	Not applicable

On February 24, 2009, the Board issued a letter to all distributors announcing the updated Cost of Capital parameters to be used for rate-setting in 2009 Cost of Service electricity distribution rate applications. These updated parameters are:

Return on Equity:	8.01%
Deemed Long-term Debt Rate:	7.62%
Deemed Short-term Debt Rate:	1.33%

Board staff and VECC took issue with the proposed costs of long-term debt components.

The particulars of PDI's long-term proposals are shown in the table below.

Debt instrument (description)	Debt holder	Principal ($)	Debt Rate (%)	Interest Expense
Shareholder Demand Loan	City of Peterborough	21,657,680	7.62%	1,650,315
Demand Loan	City of Peterborough	1,500,000	4.85%	72,750
Demand Loan	TD Bank	6,600,000	4.55%	300,300
New Third Party	To be determined	4,000,000	5.00%	200,000
Total		33,757,680	6.59%	2,223,365

With respect to the Demand Loan payable to the City with a principal of $21,657,680, this loan was established on January 1, 2000 and was payable on demand and with no fixed term. While initially established at a rate of 6.00%, PDI indicated, in response to Board staff IR #40 a), that it was subsequently mutually agreed with the lender that the debt would attract the deemed long-term debt rate as prescribed by the Board.

With respect the $1,500,000 demand loan payable to the City, this is comprised of two separate demand notes established on September 28, 2001, bearing interest at Prime Rate less 125 basis points.

In the last rate rebasing decision for PDI, the Board stated as follows:

> PDI's capital structure includes a loan from its shareholder in the amount of $21,657,680, dating from January 1, 2000. The loan is included in the Long Term Liabilities in PDI's financial statement. However, the Board notes that it is a demand loan from an affiliate, and it does not have a fixed term. The Board finds that the deemed debt rate in the previous Handbook (March, 2000) does not apply to a demand note because such an instrument cannot be considered embedded debt with an enduring interest rate; the note can be called at any time. Therefore, the Board finds that the deemed debt rate in the current Handbook of 6.25% should be used for this loan. PDI will be allowed for ratemaking purposes a debt rate of 6.04%, being the weighted average of this $21.7 million loan at 6.25% and a $1.5 million loan at 3.00%. The Board has adjusted PDI's revenue requirement accordingly. (page 4)

Board staff noted that, based on the last rebasing decision for PDI, the long-term loan of $21,657,680, being affiliated and without fixed term, should be treated as a demand note callable on demand and subject to the Board's updated deemed debt rate. Board staff noted that PDI has proposed a rate of 4.85% in this application for the two demand notes totalling $1.5 million. These two notes are also affiliated notes that are callable and without fixed term; therefore a strict application of the guidelines in the Board Report would treat these as callable demand notes that would attract the deemed long-term debt rate.

Board staff noted that, in making these submissions, Board staff should not be seen as condoning these types of arrangements which, in Board staff's view, are artificial. Debt arrangements without fixed term or repayment requirements are not normal commercial arrangements; PDI should be encouraged to arrange new and replacement debt as commercial arrangements at arm's length, and with fixed maturity and repayment options.

VECC noted that the long-term loan provided on January 1, 2000 carried an interest rate of 6% and, given that PDI cannot locate this promissory note, it should be costed at 6%.

Board staff observed that PDI has included a new forecasted debt of $4 million, with a third party and at a rate of 5.00%. Board staff stated that it is unable to find any explanation for this debt on the record. Board staff submitted that PDI should clarify its proposed long-term debt to be recovered in 2009 distribution rates in its reply submission.

PDI responded that the Shareholder loan rate of 6.10% reflects the Cost of Capital Parameter Updates for 2008 Cost of Service Applications issued by the Board on March 7, 2008. The current rate is 6.25% and reflects the 2006 EDR decision that reduced the long term rate from 7.25%. PDI noted that it had indicated in its evidence that the long term rate was subject to change and in response to Board staff IR #53 a) has requested that the long term debt rate be changed to 7.62% to reflect the deemed long term rate recently announced by the Board in its February 24, 2009 Cost of Capital Parameter Updates for 2009 Cost of Service Applications.

With respect to Board staff request for clarification for debt of $4 million with a third party debt rate of 5.00%, PDI has budgeted for an additional $4 million of debt for the purposes of achieving adequate working capital levels and a capital structure that is more reflective of the OEB's deemed debt/equity ratio for rate making purposes. PDI's 2009 Pro Forma Balance Sheet shows a year end cash balance of $3.2 million, which includes the proceeds of the additional budgeted debt of $4 million. Therefore, the debt issuance is necessary to maintain a positive cash balance.

Board Findings

The Board does not accept VECC's suggestion that the cost rate for the $21.657 million debt with the City be at 6% because PDI could not locate the original arrangement. The original arrangement has been replaced by the new arrangement in which the debt is priced at the Board's deemed rate as applicable from time to time. The current rate set by the Board is 7.62%.

The Board does not accept Board staff's argument that the two demand notes with the City totaling $1.5 million should be costed at the 7.62% rate. Clearly there is an agreed upon price for that debt at Prime Rate less 125 basis points.

The Board is satisfied that the $4 million budgeted debt is needed by PDI to more properly balance its financial requirements. Whether or not that debt will be with a third party is not a decision point for the Board. The Board notes that no party took issue with the proposed cost rate for that debt. The Board accepts the proposed 5% rate as reasonable.

The Board accepts that the proposed capital structure and cost of capital for its components as proposed by PDI on the basis that they are not inconsistent with the Board's Report. Therefore, PDI's revised long term debt rate for the 2009 test year is 6.59%.

The Board-approved capitalization and cost of capital for PDI are shown in the table below.

Board-approved 2009 Capital Structure and Cost of Capital

Capital Component	**% of Total Capital Structure**	**Cost rate (%)**
Long-Term Debt	52.7	6.59
Short-Term Debt	4.0	1.33
Equity	43.3	8.01
Weighted Average Cost of Capital		**6.99**

Deferral and Variance Accounts

In its pre-filed evidence, PDI requested the disposition of only two Deferral and Variance accounts: Other Regulatory Assets (1508) and Low Voltage (1550). The balances were as at December 31, 2007 with interest to April 30, 2009. PDI had calculated the associated rate riders on the assumption that they would be in effect for three years. PDI responded to several IRs in respect of its proposed treatment of Deferral and Variance accounts.

In its reply submission, PDI noted that in the course of preparing its reply submission it was determined that there may be an issue with respect to the calculation of its cost of power variance for the period commencing May 2006. PDI stated that it will review this account as well as other variance accounts "in the next few months". PDI therefore stated that it withdraws its request to recover any Deferral and Variance Account balances at this time and that it anticipates making a separate application to the OEB with respect to its Deferral and Variance Account balances following the completion of its review.

Board Findings

The Board accepts the withdrawal of the request to dispose of the balances of accounts 1508 and 1550. When making an application, as anticipated by PDI, the Board expects PDI to provide the balances of all its existing deferral and variance accounts and to explain the reasons for not seeking disposition for any of its other deferral and variance accounts. Should an application not be made by December 31, 2009, PDI shall notify the Board of the reasons not having done so and provide a proposed plan to deal with this issue.

Revenue to Costs Ratios and Rate Design

PDI proposed a total 2009 revenue requirement of $15,753,249. Subtracting revenue offsets totaling $1,618,851, the proposed revenue requirement to be recovered through distribution rates is $14,134,398.

Revenue to Costs Ratios

PDI's proposed revenue to cost ratios (R/C ratios) for each rate class for 2009 are shown in the table below. The table also shows the R/C ratios per PDI's updated informational filing and the Board policy range.

	Revenue to Cost Ratio		
	Updated Informational Filing	Proposed 2009	Board Policy Range
Residential	109.53%	105.92%	85% - 115%
GS < 50 kW	98.40%	98.40%	80% - 120%
GS > 50 kW	114.69%	111.08%	80% - 180%
Large User	70.99%	78.00%	85% - 115%
Sentinel Lights	30.76%	50.38%	70% - 120%
Street Lights	19.59%	44.79%	70% - 120%
USL	7.13%	43.57%	80% - 120%

The proposed R/C ratios for the Large User, Sentinel Lights, Street Lights and USL rate classes are outside the Board's policy range. However PDI has moved these ratios by 50% of the difference between the updated informational filing value and the low end of the Board's target range.

Board staff submitted that the proposed R/C ratios are acceptable.

VECC submitted that in the Board's cost allocation model the treatment of the transformer ownership allowance results in an over allocation of costs to those classes where customers generally do not own their own transformers (e.g. Residential and GS<50). VECC noted that, in response to a VECC interrogatory, PDI has provided a revised version of its Cost Allocation Informational filing that corrects this anomaly. The revenue-to-cost ratios of the two methods are shown in the table below.

	R/C Ratios	
	Updated Informational Filing (provided in Application)	Revised Informational Filing (With removal of Transformer Ownership Allowance) In response to VECC interrogatory
Residential	109.53%	111.4%
GS < 50 kW	98.40%	100.6%
GS > 50 kW	114.69%	110.0%
Large User	70.99%	40.3%

Sentinel Lights	30.76%	31.4%
Street Lights	19.59%	20.0%
USL	7.13%	7.3

VECC submitted that the results it recommends more closely represent the appropriate reference point to use and noted that this approach has been accepted in recent 2009 rate decisions issued by the Board.

VECC further submitted that the revenue attributed to the various rate classes should be adjusted to reflect the 2009 load forecast. The results of comparing the two methods are shown below.

Class Shares of the Distribution Revenue		
	PDI's Values	**VECC's Recommended Values**
Residential	56.10%	56.93%
GS < 50 kW	17.20%	16.53%
GS > 50 kW	16.80%	16.24%
Large User	1.30%	1.93%
Sentinel Lights	0.50%	0.30%
Street Lights	5.30%	5.38%
USL	2.80%	2.70%

VECC stated that it disagrees with recent decisions where the Board has suggested that such fine tuning would not be appropriate in the absence of updating other cost allocation factors.

In its reply submission, PDI acknowledged that the Board has ruled in favour of VECC's proposal regarding the removal of the transformer ownership allowance in some other 2009 cost of service rate decisions but VECC has not been successful with respect to changes in the class revenue shares. PDI was not prepared to use the results from VECC's proposals.

Board Findings

In keeping with earlier 2009 rate decisions for other distributors, the Board will not direct VECC's suggested changes to reflect the 2009 revenue shares for the various classes. The results are similar enough so as not to warrant such changes.

Consistency with Board practice and with earlier 2009 rate decisions made by the Board for other distributors dictates that the move by 50% to the bottom of the Board's policy range should be accomplished by starting with VECC's approach, where the transformer ownership allowance is removed. This would move the Large User class R/C ratio from the new starting point of 40.3% to 62.65%, a substantially larger rate of change than PDI's assumed starting point of 70.99% moving to 78.0%. This may result in excessive rate impacts for the Large Use class. The Board is prepared to accept VECC's recommendation but subject to the total bill impacts for the Large User rate class not exceeding 10%. PDI shall perform the appropriate calculations to determine the appropriate R/C ratio for this class for purposes of preparing the draft rate order for 2009 rates. PDI shall include in its next IRM application a proposal for moving this class to within the Board's policy range within an appropriate time frame. In its next IRM application, PDI shall also move the USL, Sentinel Lights and Street Lights classes to within the Board's policy range subject to any considerations of undue rate impacts.

Rate Harmonization and Rate Mitigation

PDI noted that the bill impacts resulting from the implementation of the harmonized rates are reasonable and therefore no rate mitigation measures are being proposed. However, it identifies the following groups that might experience bill impacts greater than 10%:

- low usage residential customer in the Asphodel-Norwood service area,
- street lighting,
- sentinel lighting, and
- USL

PDI justified not implementing any mitigation for the low volume residential customers in Asphodel-Norwood on the grounds that the dollar impact is less than $4.45 per month and this is reasonable during the transition to harmonized rates. With respect to the other three groups, the impacts result from the revisions to the R/C ratios to bring them more in line with the Board's target range.

PDI also noted that, although it appears that there is a bill impact greater than 10% in the General Service > 50 kW class for a 4,000 kW customer in Lakefield, there is in fact no customer with that load profile in Lakefield.

VECC submitted that that the Board should limit the impact of the smallest customers to 15% of the distribution component of the bill by instituting rate mitigation measures.

Board staff commented that, given the desire for rate harmonization and the movement to more realistic revenue to cost ratios, there is no need to introduce rate mitigation.

PDI responded by referring to its answer to VECC IR # 9d) where it had indicated that that the distribution component bill impact higher than 15% affects only 10 residential customers. PDI submitted that the $4.45/month impact on only 10 customers is reasonable for transitioning to harmonized rates and that the cost to maintain separate rate structures outweighs the adverse impacts on a few customers.

Board Findings

The Board's general policy for rate mitigation is for impacts on the total bill of a residential customer using 1,000 kWh that exceed 10%. The evidence is that the impact on such customers will not exceed that level. The greater than 10% bill impact will be on only 10 customers with very low use. With respect to the other groups of customers whose bills will be impacted by more than 10%, this is the result of revisions to the R/C ratios to bring them more in line with the Board's target range. The Board agrees with PDI and Board staff that no mitigation is required in this case. The collective benefits of harmonizing rates for the three service areas outweigh the additional costs for the few residential customers of concern to VECC. The Board approves the harmonization proposal and finds that no rate mitigation measures are warranted, other than possibly the Large Use rate class discussed earlier.

Harmonized Retail Transmission Service Rates

In a decision issued on July 15, 2008, the Board approved PDI's request to decrease both its transmission network service rates and line and transformation connection service rates by 12%. This was against a backdrop of an 18% decrease and 5% decrease respectively in the uniform transmission rates for Ontario transmitters effective November 1, 2007. Hence with respect to network, PDI's decrease was less than the wholesale decrease, and with respect to connection, PDI's decrease was greater than the wholesale decrease.

In response to Board staff IR #43, PDI provided quarterly balances for 2006 and 2007 in its deferral accounts related to retail transmission network charge (#1584) and retail transmission connection charge (#1586). The balances in the latter have steadily trended downwards from ($2,362,173) in Q1 2006 to ($317,190) in Q4 2007.

PDI has proposed an increase of 11.3% in its network rate and an increase of 5.5% in its connection rate, both in concert with the increase in the uniform transmission rates for Ontario transmitters effective January 1, 2009.

In addition, PDI has proposed to harmonize the currently different rates for each service area into a single set of rates based on the weighted average of the current approved rates using the proportion of customer numbers by rate class in each service area.

Board staff submitted that the methodology is probably as good as any other, and appears to be reasonable. Board staff submitted that, in the absence of deferral account balances for 2008 related to accounts #1584 and #1586, PDI's proposed increase related to the network and connection rates in concert with the increase in the uniform transmission rates for Ontario transmitters effective January 1, 2009 is also acceptable.

Board Findings

The Board accepts PDI's proposals as reasonable.

Unmetered Scattered Load (USL)

The existing monthly services charges for all three service areas are on a per customer basis. PDI's harmonized proposal is for the continuation of the charge on a per customer basis. The proposed rates are shown in the table below.

	Monthly Service Charge			
	Peterborough Service Area - 2008	**Lakefield Service Area - 2008**	**Asphodel-Norwood Service Area - 2008**	**Harmonized – 2009**
USL	$26.15	$28.71	$20.22	$292.53

PDI explained that the need for the significant increase in the monthly service charge was driven by the move of the R/C ratio halfway to the minimum target of 80% and the unchanged fixed/revenue split.

An analysis of the customer/connection profile indicates it is extremely skewed. As detailed below, one customer has 4,104 connections, one customer has one connection, and the remaining eight customers have on average approximately 10 connections.

- Total number of customers 10
- Average number of connections 419
- Lowest number of connections 1
- Highest number of connections 4,104

Board staff submitted that PDI's strategy to increase the monthly fixed cost would be acceptable if the customer/connection profile was less skewed. However, given the extremely skewed profile, Board staff submitted that PDI should adopt a per connection monthly service charge for the USL rate class.

In response, PDI agreed with Board staff's recommendation.

Board Findings

The Board sees merit in Board staff's recommendation in the circumstances and notes that PDI has agreed to it. PDI shall use a per connection monthly charge for the USL class and revise its rate schedules and rates accordingly.

Monthly Fixed Charge

PDI determined the revenue to be recovered through the monthly fixed charge by taking the current monthly charges of the three service territories and multiplied these with the 2009 forecasted number of customers by area and calculated a percentage of revenue to be recovered from the fixed and variable charge for each of the combined classes.

Both Board staff and VECC commented that they find this approach acceptable.

Board Findings

The Board agrees with the PDI's approach in determining the fixed and variable charges for each of the combined rate classes.

Transformer Ownership Allowance

PDI proposed to maintain the current approved Transformer Ownership Allowance of $0.60 per kW.

Board Staff submitted that the resulting allocations appear to be reasonable.

Board Findings

The Board accepts PDI's proposal to maintain the current approved Transformer Ownership Allowance of $0.60 per kW as reasonable.

Low Voltage Charges

As a partially embedded distributor, pays Low Voltage charges for electricity it receives from Hydro One Distribution. PDI's base rates include an adder to recover these payments and PDI uses a variance account to record the differences in payments and revenue. PDI's proposed 2009 base rates reflected an amount of $505,453 for Low Voltage costs. This amount according to PDI reflects the anticipated revenues from its Low Voltage adder.

VECC submitted that since PDI's load forecast in 2009 is 2.7% less than in 2008, the Low Voltage forecast costs should be reduced to no more than $395,000.

In response, PDI agreed to reduce base rates to reflect Low Voltage costs of $395,000 rather than $505,453.

Board Findings

The Board directs PDI to reflect in the draft rate order Low Voltage costs of $395,000. The reduction to the Low Voltage costs will also impact PDI's working capital requirement and the Board has dealt with this aspect earlier in this decision.

Specific Service Charges

PDI proposed to consolidate its currently approved Specific Service Charges to be applicable to all its service areas.

Board staff submitted that this approach is reasonable.

Board Findings

The Board accepts PDI's proposal as reasonable given the harmonization of rates for the three service areas in all other respects.

Implementation

PDI's application was for the new rates to be effective May 1, 2009. The Board had declared rates interim effective May 1, 2009. PDI filed its application almost two months after the Board's established filing date of August 15, 2008. Given the date of this Decision, instituting a May 1, 2009 effective date would cause rate retroactivity, which would be particularly problematic in this case where there is harmonization of rates resulting in additional rate impacts for some customers. Therefore, the Board finds that the new rates shall be effective the same date as the implementation date. Given that there would be some time required for the Rate Order to be finalized, the Board finds an effective date of July 1, 2009. For additional clarity, there will be no recovery of any foregone distribution revenue from May 1, 2009 to July 1, 2009.

The Board's findings outlined in this decision are to be reflected in material, commonly referred to as a Draft Rate Order. The Board expects PDI to file detailed supporting material, including all relevant calculations showing the impact of this Decision on PDI's proposed revenue requirement, the allocation of the approved revenue requirement to the classes and the determination of the final rates, including rate impacts. Supporting documentation shall include, but not be limited to, filing a completed version of the Revenue Requirement Work Form excel spreadsheet, which can be found on the Board's website. PDI should also show detailed calculations of the revised retail transmission rates reflecting this Decision.

A final Rate Order will be issued after the following steps have been completed.

1. PDI shall file with the Board, and shall also forward to intervenors, a Draft Rate Order attaching a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision, within 14 days of the date of this Decision.

2. Intervenors shall file any comments on the Draft Rate Order with the Board and forward to PDI within 7 days of the date of filing of the Draft Rate Order.

3. PDI shall file with the Board and forward to intervenors responses to any comments on its Draft Rate Order within 7 days of the date of receipt of intervenor submissions.

Costs Awards

The Board may grant cost awards to eligible stakeholders pursuant to its power under section 30 of the *Ontario Energy Board Act, 1998*. The Board will determine eligibility for costs in accordance with its Practice Direction on Cost Awards. When determining the amount of the cost awards, the Board will apply the principles set out in section 5 of the Board's Practice Direction on Cost Awards. The maximum hourly rates set out in the Board's Cost Awards Tariff will also be applied.

A cost awards decision will be issued after the following steps have been completed.

1. Intervenors shall file with the Board, and forward to PDI, their respective cost claims within 30 days from the date of this Decision.

2. PDI shall file with the Board and forward to intervenors any objections to the claimed costs within 44 days from the date of this Decision.

3. Intervenors shall file with the Board and forward to PDI any responses to any objections for cost claims within 51 days of the date of this Decision.

PDI shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

DATED at Toronto, June 1, 2009
ONTARIO ENERGY BOARD

Original signed by

____
Paul Vlahos
Presiding Member

Original signed by

____
Ken Quesnelle
Member