Ontario Energy Board

Commission de l'énergie de l'Ontario

Ontario

EB-2010-0140

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 Parry Sound Power Corporation for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2011.

BEFORE: Paul Sommerville
Presiding Member

DECISION AND ORDER

Background

Parry Sound Power Corporation ("Parry Sound" or the "utility" or the "applicant") filed its 2011 distribution rate rebasing application (EB-2010-0140) on October 15, 2010. The applicant is the licensed electricity distributor for the Town of Parry Sound, serving approximately 3,400 customers.

Parry Sound Power Corporation is one of 80 electricity distributors in Ontario whose rates are regulated by the Ontario Energy Board ("the Board"). In an effort to assist distributors in preparing their applications, the Board issued the *Filing Requirements for Transmission and Distribution Applications* on November 14, 2006. Chapter 2 of that document, as amended on June 28, 2010, outlines the filing requirements for cost of service rate applications by electricity distributors based on a forward test year.

On March 5, 2009, the Board informed Parry Sound that it would be one of the electricity distributors to have its rates rebased for the 2011 rate year. This was confirmed in the Board’s letter of April 20, 2010. Accordingly, Parry Sound filed a cost of service application based on 2011 as the forward test year. On August 24, 2010, Parry Sound informed the Board that it would not be able to file its application until after the prescribed August 27, 2010 application date. Parry Sound filed the application on October 15, 2010.

The Board issued a Notice of Application and Hearing on November 4, 2010. The Board approved the intervention of the Vulnerable Energy Consumers Coalition (“VECC”) and also determined that VECC was eligible to apply for a cost award under the Board’s *Practice Direction on Cost Awards*.

Parry Sound indicated that if the application was approved as filed, residential customers consuming 800 kWh per month would experience an increase of approximately 39.0% in their delivery charges with an increase of $20.21 per month on their total bill. General Service customers consuming 2,000 kWh per month and having a monthly demand of less than 50 kW would experience an increase of approximately 37.3% in their delivery charges with an increase of $37.56 per month on their total bill.

After the publication of the Notice, no letters of comment were received by the utility.

Procedural Order #1 in this proceeding was issued on November 30, 2010, indicating that this case would proceed by way of a written hearing and set the dates for the first round of interrogatories. Procedural Order #2 was issued on February 15, 2011 establishing the dates for a supplementary round of interrogatories. Procedural Order #3 set the dates for the applicant’s Argument-in-Chief, Intervenor and Board staff submissions and the Parry Sound reply argument.
Parry Sound filed its Argument-in-Chief on April 13, 2011. Board staff filed final submissions on April 26, 2011 and VECC filed final submissions on April 29, 2011. Parry Sound filed reply submissions on May 12, 2011.

THE ISSUES

Board staff and VECC made submissions on the following issues which are addressed in this Decision:

Operating Revenue;
Operating, Maintenance & Administrative Expenses;
Amortization and Depreciation;
Payments in Lieu of Taxes;

Rate Base and Capital Expenditures;
Cost of Capital;
Cost Allocation and Rate Design;
Retail Transmission Rates & Low Voltage Rates;
Loss Factors;
Deferral and Variance Accounts;
Harmonized Sales Tax;
LRAM/SSM, LEAP and LPP
Smart Meter Adder and Stranded Meter Assets;
Rate and Bill Impacts
Effective Date; and
Implementation.

OPERATING REVENUE

In this section, the Load Forecast, including Customer Forecast, Methodology and CDM Forecast are addressed as well as Other Distribution Revenue.

LOAD FORECAST

Parry Sound's test year load forecast totals 88,903,303 kWh and 99,088 kW. This represents a slight increase in system wide consumption of 0.1% from 2009 actual. The proposed volumes by customer class are set out in the table below.[1]

Parry Sound Power Corporation
Customer Count and Load Forecast, 2011

Class	Customer & Connection Count	Load Forecast
Residential	2,812	33,427,924
General Service <50 kWh	493	16,733,379
General Service >50 kWh	68	37,802,659
General Service >50 kW		96,631
Street Lighting kWh	1,004	867,846
Street Lighting kW		2,421
Sentinel Lights kWh	12	12,745
Sentinel Lights kW		36
Unmetered Scattered Load kWh	18	58,750
Total kWh		88,903,303
Total kW		99,088

[1] Exhibit 3/Tab 2/Schedule 1, page 6

Customer Growth Forecast

Parry Sound bases its forecast of customer numbers for the Residential and GS<50kW customer classes on the geometric mean of customers from 2004 to 2009. Parry Sound's view is that the geometric mean approach provides the average growth rate on a compounded basis. Parry Sound forecasts a slight increase in customers of 1% in the test year, following similar 1% increases in 2010 and 2009.

Parry Sound is forecasting a slight increase in Residential customer numbers, a slight decrease in GS<50kW customer numbers and a slight increase in GS>50kW customers for 2010 and 2011 as compared to 2009. Street lighting and Sentinel Light connections remain constant as do USL connections.

Based on the actual customer connections for 2010, it is apparent that the pre-filed evidence over-forecasted Residential customers by a small amount (21 customers). Differences in the other classes are minor. Parry Sound corrected the customer connection number for Street Lighting from the originally submitted 1,067 to 1,004.

Positions of Parties

Both VECC and Board staff submitted that the original customer count forecast be accepted by the Board for setting 2011 distribution rates.

In its reply argument, Parry Sound agreed to use the customer counts in the original submission with a correction to the number of street light connections.

Load Forecast – Methodology

Parry Sound uses the same regression analysis used by a number of other distributors to forecast weather normalized loads.

Parry Sound calculates the kWhs consumed for the Residential, GS<50kW, and GS>50kW customer classes on a pro-rated basis. Its weather normalized load forecast is developed based on a multifactor regression model that incorporates historical load, weather, and economic data. The regression analysis relates the monthly explanatory variables such as heating and cooling degree days. The regression analysis produces an equation that predicts consumption based on the explanatory variables which is then used as the basis to forecast the total level of weather normalized consumption for the bridge and test years.

The model has determined that the main drivers of year-over-year changes in Parry Sound's load growth are economic, weather, and "calendar" factors. Economic growth is captured in the model using an index of economic output, the Ontario Real Gross Domestic Product ("GDP"). Weather impacts are apparent in both the winter heating and summer cooling seasons as both Heating Degree Days and Cooling Degree Days are modeled. “Calendar” factors are the energy use that changes due to particular months. The modeling of purchased energy uses the time trend in the month and a “flag” variable to capture the typically lower usage in the spring and fall months.

Parry Sound also indicated that the forecast consumption the Street Lights, Sentinel Lights, and Unmetered Scattered Load classes was estimated using logic and intuition based on a review of the historical usage patterns for those classes. Although no change in consumption is forecast for both Street Lights and Sentinel Lights, a slight reduction was forecast for the USL class consistent with the trend experienced in 2008 and 2009.

The forecast was also adjusted for CDM targets set for Parry Sound and the anticipated decline in consumption. Parry Sound provided a record of the accuracy of the regression model.[2] Between 2004 and 2009, the variance between predicted and actual volumes was:

- 1.2% or less for the Residential class from 2004 to 2009
- 0.7% or less for the GS<50 kW class from 2004 to 2007, a -1.6% variance in 2008, then followed by a 2.4% variance in 2009.
- 4.4% in 2004; followed by -3.8% in 2005, followed by less than 1.0% from 2006 to 2009 in the GS>50kW class.

Parry Sound provided 2010 actual consumption for these three classes which revealed more significant differences: The Residential variance grew to 5.4%, the GS<50kW grew to 7.5% and the GS>50 kW grew to 2.5%.

Board staff noted, that in its Argument-in-Chief, Parry Sound indicated that it would amend its weather regression load model using 2010 actual data. Board staff supported this change in light of the differences in the actual 2010 results compared to the 2010 forecast in the pre-filed evidence.

[2] Exhibit 3/Tab 2/Schedule 1/page 11

Positions of Parties

VECC had two concerns with the Parry Sound forecast and how the regression model was used:

- VECC expressed concerns over the fact that the employment coefficient was negative in the equation used for the GS>50 kW class and noted that Parry Sound had submitted a revised forecast without this variable in response to a Board staff Interrogatory # 7. VECC recommended that the revised forecast for the GS>50 kW class be used.

- VECC also indicated that it was concerned with the Parry Sound desire to update its load forecast with revised bridge year data. Actual sales for 2010 were revised from 87.69 GWh to 84.65 GWh in the first round of interrogatories and then to 83.94 GWh in the second round of interrogatories

VECC pointed out that at the time that these responses were provided there was no indication from the applicant that it was necessary to either update the regression models used or the forecast for 2011. While the actual 2010 volume sales were lower than those forecast in response to the first interrogatories, the total 2010 actual billing demands for the applicable customer classes were higher (i.e., 92,761 kW vs. 91,816 kW) due to errors in the original response.

VECC submitted that the only economic forecast on record is the March 2010 one used by Parry Sound (VECC IR #2 g). VECC submitted that it was inappropriate for Parry Sound to be proposing, at this stage in the process, to estimate a new set of regression models for the Residential and GS classes and to then use them to update its 2011 volume forecast. Opportunities to do so existed and should have been proposed after the first round, which saw a major change in the outlook for 2010.

VECC noted that updating regression models and forecasts is not a simple arithmetic process. Choices need to be made as to which explanatory variables should be used for each equation, questions arise as to whether the definition of “weather normal” should also be updated to reflect 2004-2010 average weather, and questions arise regarding what forecasts should now be used for the 2011 values for the economic explanatory variables.

VECC submitted that since these new models and forecast would not be filed until after the decision is issued, there would be no opportunity for review and testing by parties to the proceeding, including the Board itself.

VECC submitted that unless the current review process is revised so as to allow for appropriate consideration of the new models and associated 2011 volume forecast, the best (and only) information before the Board on which to establish the 2011 volume forecast by customer class is the forecast submitted with the original Application (revised to reflect the new GS>50 model provided in response to Board staff IR #7).

Board staff, citing the significant differences in the actual and forecast data, supported the updating of the model to use the 2010 actual data.

In reply, Parry Sound argued that the original GS>50 kW forecast that had the negative coefficient had a better R^2 value and therefore should be used, not the revised version. Parry Sound also argued for an updated load forecast.

Load Forecast -- CDM Target

Parry Sound's initial pre-filed evidence included the calculation of the CDM target of 1 GWh, which is slightly less than 25% of the 2011-14 Net Cumulative Energy Savings Target set for Parry Sound (4.16 GWh) in the EB-2010-0215/0216 Decision and Order, dated November 12, 2010.

Positions of Parties

Board staff submitted that Parry Sound should use the 4 year target of 4.16 GWh and should not expect that one quarter of this target will be realized in the test year. Rather, Board staff viewed 2011 as the CDM start-up year for Parry Sound and that 10% of the total 4 year target should be used in the first year (2011).

This was the conclusion reached by the Board in its recent Hydro One Brampton decision, EB-2010-0132. Accordingly, Board staff submitted that Parry Sound should recast its load forecast by using this amount for the CDM impact.

VECC also submitted that the energy adjustment should be 416 MWh which is 10% of its approved cumulative target.

In reply, Parry Sound agreed that the target be adjusted in this manner.

Board Findings

With regard to the customer count forecast, as VECC and Board staff suggested (and Parry Sound accepted) the customer count forecast in the original submission with the correction to the number of street light connections, should be used for the test year. The Board approves this forecast.

Regarding the CDM forecast to be used in the test year, as VECC, Board staff and the applicant have agreed to use the 10% value (of the 2011-2014 target), the Board agrees this value is reasonable.

The Board also will mandate the use of the original load forecast and not the update as submitted by Parry Sound. The update was proposed too late in the proceeding and therefore was not tested as the other evidence in this case has been. The Board feels that the applicant has shown a lack of confidence in the development of the load forecast which was compounded in its filing of the revised forecast after it was appropriate to do so. Therefore the Board agrees with the submissions of VECC that there were earlier opportunities to file an updated forecast and that the applicant did not use those opportunities as they arose. The Board feels it is more sound to adopt the original forecast.

As for the question of the forecast method to use for the GS >50 kW class, the Board approves the use of the original methodology as it appears to demonstrate a better fit with the overall forecast.

OTHER DISTRIBUTION REVENUE

Parry Sound forecast Other Distribution Revenues of $100,986 for both 2010 and 2011. This value is 22% less than the 2009 actual value and less than half the value of the preceding years. Parry Sound explained that the decrease is due to the exclusion of interest on regulatory accounts from the 2010 and 2011 values, reduced cash as of 2010 due to dividend payouts, lower interest rates and a corporate restructuring that led to the elimination of Non-Utility work revenues.

Positions of Parties

Board staff had no submissions on the forecast of other revenues. VECC expressed two concerns regarding Parry Sound’s Other Revenue forecast for 2011. The first was that there was no provision for revenue from either the disposition of utility/other property or from miscellaneous non-operating income. VECC pointed out that the total average annual revenues from these sources over the 2006-2009 period was $3,800 and submitted a similar amount be added for the test year.

VECC’s second concern was that it was not clear if Parry Sound had accounted for revenues from the SSS Administration Fee and invited Parry Sound to clarify this in reply argument.

In reply, Parry Sound indicated that it did not foresee any gain on the sale of any assets in the test year. In the past five years gains on the sale of assets occurred in 2008 ($5,949), and 2009 ($3,955).

Parry Sound also indicated that it did not forecast unforeseen miscellaneous operating income as over the past five years, revenue from these sources has been inconsistent – 2006 ($510), 2007 ($690), 2008 ($0), 2009 ($4,155), 2010 ($0).

Parry Sound also confirmed that the SSS Administration Fee of $8,604 was included in Other Distribution Revenue as a revenue offset. Parry Sound submitted that the Board approve the Other Distribution Revenue forecast as originally filed.

Board Findings

The Board accepts the argument of VECC that the other revenue forecast should be increased by $3,800. As indicated in the evidence and in Parry Sound’s reply argument, certain sums of additional revenue in the categories cited by VECC have appeared in the last few years. Even if these amounts were zero in certain years, there is no reason to believe that this will be the case over the next four years. The additional revenues suggested by VECC are based on an average of historic values and are more realistic and reasonable.

OPERATING, MAINTENANCE & ADMINISTRATION EXPENSES

A summary of Parry Sound’s historic and projected Operating, Maintenance and Administration (OM&A) costs are shown in the table below.

Parry Sound Power Corporation
OM&A Costs, Actual and Forecast, 2006 - 2011

	2006 Board Approved	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Bridge Year	2011 Test Year
						(Actual)	
Operations	$ 66,823	$ 51,120	$ 63,190	$ 57,279	$ 57,300	$ 40,894	$ 17,801
Maintenance	$ 168,838	$ 213,937	$ 266,047	$ 268,637	$ 283,648	$ 214,887	$ 423,074
Billing & Collection	$ 283,052	$ 375,543	$ 342,691	$ 373,628	$ 380,463	$ 331,170	$ 395,022
Community Relations	$ 13,011	$ 30,656	$ 89,801	$ 52,381	$ 21,616	$ 14,918	$ 13,423
Administrative & General	$ 474,477	$ 365,288	$ 347,580	$ 464,189	$ 502,752	$ 566,683	$ 821,914
Total (adjusted)	**$1,006,201**	**$1,036,544**	**$1,109,309**	**$1,216,114**	**$1,245,779**	**$1,168,552**	**$1,671,234**
% Increase		**3.0%**	**7.0%**	**9.6%**	**2.4%**	**-6.2%**	**43.0%**

Note: 2010 has been updated with 2010 Actual results (Board staff IR #11) and also reduced in Operations by $29,000 (Argument-in Chief). For 2011, Maintenance is reduced by $95,184 and Operations reduced by $29,000 (Argument-in Chief).

The OM&A figures appearing in the table are the result of Argument-in-Chief amendments and 2010 Actual results which result in a 6.2% reduction in 2010 from 2009 and a 43% increase in 2011 over 2010 as shown in the table.
The 2011 level represents a 10.7% annual increase over 2006 Board approved. In its pre-filed evidence, Parry Sound provided explanations for the yearly variances over the 2006 to 2009 period in the evidence. The major drivers of the increase in 2011 are Labour costs (66%) and Regulatory Costs (32%). For 2010 the major driver was Materials costs offset by a reduction in Third Party costs.

Parry Sound’s 2010 actual OM&A costs were $242,000 lower than indicated in the pre-filed evidence. The under-spending was mainly in the Maintenance category and was due to lower than planned work levels, inaccurate categorization of one project, removal of contingency costs and concerned with allocated materials costs ($80,000).

For 2011 (after adjustments) it is apparent that the most significant increases are found in the Maintenance (+$208,187 or 97%) and Administration & General Categories (+$255,231 or 45%).

Administration & General increases were partly driven by the costs of establishing the stand-alone utility including that senior management (president and vice president/financial officer) were no longer shared between affiliated companies. Instead of the utility only receiving 70% of the related wage and overhead costs, this will now change to 100% to achieve compliance as all of the senior management team costs and overheads are allocated to the distributor. Also included was a 3% wage increase and a new staff member, allocated at 30% to this category.

Another impact of the move to form a stand-alone utility, was that the Rent account grows to $69,527, an increase of 37% in the test year, due to the fact that sharing of a building is no longer permitted with the full cost of this space now paid by the utility.

Regulatory Costs

The Parry Sound pre-filed evidence shows regulatory costs of $210,929, up considerably from the 2010 level of $54,606 and from the 2009 level of $19,427. These costs were calculated in this manner:

2009 Cost of Service Application (withdrawn)		$ 99,315	
2011 Cost of Service Application		$176,258	
Asset Management Plan costs		$123,249	
ARC Compliance/Corporate Changes		$158,407	
Sub-Total		$557,230	
Divided by the 4 year IRM period:			$139,307
Other Regulatory Costs: ESA, OEB, Reg. Advertising			$ 19,347
Existing Labour/OH staff at 20%	$11,650		
New hire + overhead at 50%	$40,625		$ 52,275
Grand Total			$210,929

Information on the 2009 Cost of Service application that was withdrawn was provided in the pre-filed evidence. Parry Sound indicated that in 2008, it filed a self-nomination request for rebasing in 2009 and then filed a complete cost of service application on August 18, 2008 for rates effective May 1, 2009. (EB-2008-0240). Due to matters beyond Parry Sound management control, this application was withdrawn.

Staffing and Compensation

In the pre-filed evidence, Parry Sound showed a staffing complement of 12.5 FTEs for the test year and a total compensation amount of $1,067,550. Historical staffing and compensation figures as shown in the table below.

Parry Sound Power Corporation
Staffing & Compensation, Actual and Forecast, 2006 - 2011

	2006 Board approved	2009 Actual	2010 Bridge Year	2011 Test Year
Employees (FTE)				
Non-Union	3	3	3	4
Union	5	6	7	8.52
Total	7.6	8.57	9.94	12.52
yearly change		0.97	1.37	2.58
Total Compensation				
Non-Union	$ 323,367	$ 365,501	$ 250,773	$ 338,188
Union	$ 281,079	$ 320,148	$ 470,043	$ 729,362
Total	$ 604,446	$ 685,649	$ 720,816	$ 1,067,550
yearly change %				
Non-Union		13.0%	-31.4%	34.9%
Union		13.9%	46.8%	55.2%
Total		13.4%	5.1%	48.1%

Parry Sound explained the overall increase in compensation from 2010 to 2011 by citing a 3% inflationary increase ($21,625), one new hire ($81,250) and a switch of allocated staff to the wires-only company ($243,859).

Response to Board staff Supplementary IR #9 indicated that Parry Sound omitted an increase of $7,934 for OMERS expenses in the test year. In reply argument, Parry Sound indicated that this additional cost should be added to OM&A costs for recovery in the test year.

OM&A per Customer

Parry Sound provided a table that compares OM&A per customer statistics with its Small Northern Low Undergrounding Cohort of 9 LDCs. The evidence showed a consistent pattern for Parry Sound to be in the middle of this cohort, most recently 5th highest in 2008 and 2009. When the impacts of this application are included, Parry Sound's OM&A per customer will grow from $369 in 2009 to $493 in 2011 (as amended in Argument-in-Chief), an increase of 34%.

Customers per FTE

In response to VECC supplementary IR #42b, Parry Sound provided data on Customers per FTE for 16 utilities in Ontario, of which 6 were in the Parry Sound Cohort. With this admittedly incomplete sample, Parry Sound (at 270 customers per FTE) was 4th out of the six distributors in its cohort and 14th of 16 in the entire group of 16.

Positions of Parties

Board staff was encouraged that Parry Sound had amended its OM&A budget for the test year, as it appeared that the original applied-for increase at 54% over the bridge year actual was unjustifiable. Despite these reductions, Board staff took the position that some of the increases in the Parry Sound OM&A budget were still not justifiable. Board staff suggested reductions in the following areas:

Regulatory Costs

- It was inappropriate to recover costs ($99,315) for the rates application withdrawn in 2009 in a 2011 application. Staff took the position that these were prior period costs for which no deferral or variance account treatment was granted and therefore should not be granted in this proceeding.

- Costs claimed for ARC Compliance and Corporate restructuring should be reduced by 25% or $40,000. Staff argued that it appeared that a number of the activities undertaken for the reorganization are activities that are usually undertaken in the normal business of a distribution utility, such as development of a 4 year strategic plan, the asset management plan already submitted separately for recovery, determining spacing requirements for administration and operations, and time analyses for customer support personnel. Board staff noted that the Parry Sound's ARC exemption application decision (EB-2009-0133) was issued on November 15, 2009, while the Board issued its revised Affiliate Relationships Code on March 15, 2010. In its submissions, Board staff invited Parry Sound to comment on how the revised ARC influenced its decisions on ARC Compliance and Corporate Restructuring, in its Reply Argument.

- For a distributor the small size of Parry Sound, the addition of a half-time regulatory staff person, on top of the current .20 FTE position was excessive and recommended only a .30 FTE increase be allowed for recovery by ratepayers.

- Board staff calculated that these three reductions will result in lowering the Regulatory Affairs budget by $52,722; ($24,828 annual impact of the 2009 recovery and the reduction in ARC compliance costs and a $27,894 reduction due to .30 FTE change).

Staffing and Compensation:

Board staff noted that Parry Sound staff numbers grow from 9.94 in 2010 to 12.52 in 2011, an increase of 2.58 FTE positions in one year, or a 26% increase. Compensation costs grow by 48%, or $346,734, yielding a per position increase of $137,592. With inflation in the application assumed at 2.2%, Board staff argued that these compensation increases appeared to be completely inappropriate.

Staff submitted that another full FTE should be removed, leaving an increase of 1.32 FTE for the test year, a reasonable increase by any measure for a smaller distributor. Board staff also submitted that at least $100,000 be removed from the OM&A compensation budget, citing additional senior management staff resources available due to restructuring and 3% compensation increases.

Administration and General Costs:

Board staff submitted that as these costs increase by 45% in the test year over 2010 actual, Parry Sound did not demonstrated enough effort to control these costs and submitted that the Office Supplies & Expenses and Rent costs should be reduced by $10,000 in the test year.

In summary, Board staff submitted that its recommended total OM&A reduction of $163,133 would work to reduce the OM&A 2010/2011 increase from 43% to 29%. While still a very high increase and considering that the operation of a stand-alone utility does incur additional costs, Board staff saw this as a reasonable OM&A level. Board staff noted that this OM&A level reduced the OM&A per customer to $444 as compared to the applied-for $493 per customer, 20% higher than the 2009 score and 9% above the cohort average for 2009.

Board staff submissions were supported by VECC. VECC made no further submissions on OM&A costs.

In its reply submissions on regulatory costs, Parry Sound submitted that the $99,315 cost for the rate application withdrawn in 2009 was prudently incurred and had Parry Sound not withdrawn the application after filing in August 2008, these costs would have been recoverable. Parry Sound argued that the ground work for the current application was part of the 2009 cost-of-service application and when the 2009 application was withdrawn it was done so in part on the advice of Board staff. This advice included the likelihood of at least partially recovery of costs incurred to date. These costs are significant enough that Parry Sound may have continued with the process had some assurance of recovery not been offered.

In response to Board's staff invitation to comment on the revised ARC and its impact, Parry Sound submitted the decision and costs incurred to become compliant with the ARC were made with the ARC exemption application and subsequent denial as a guide. The revised March 15, 2010 ARC would have little or no effect on Parry Sound's ARC exercise or the related costs. However, Parry Sound accepted Board staff's recommendation of a reduction of 25% in restructuring costs.

With regard to staffing and compensation costs, Parry Sound agreed to the staff submission of reducing 1 FTE position and related compensation. However, Parry Sound argued that the 3% compensation increases assumed in the application is within the industry standard citing the Mearie Group report indicating the 3% as standard and noted that its collective agreement (including an annual increase of 3%) is in place until December 31, 2011.

In response to Board staff's recommendation of a $100,000 reduction in compensation, Parry Sound proposed to remove 1.0 FTE at a cost of $65,000 plus burdens of $16,250 for a total of $81,250.

In reference to the submissions on Administration and General Costs, Parry Sound submitted that although it had no history as a stand-alone LDC, the application was developed using a formal Capital, Operations and Maintenance Asset Management Plan. Parry Sound submitted that it prepared the OM&A budget after a thorough analysis of all cost components and submitted the Board not accept Board Staff's submission that not enough effort to control the costs of restructuring was demonstrated.

In summary, Parry Sound agreed to revise its 2011 test year OM&A forecast by a total of $208,000 in the following areas:

- reduction of $95,184 of material and contingency costs
- transfer of $29,000 from Operation expense to Services Capital
- an increase of $6,584 for the (OM&A) portion of OMERS

- a decrease of $40,000 ($10,000 in 2011) in ARC costs
- $81,250 representing a reduction of 1 FTE.

This brings the test year OM&A total to $1,586,568.

Board Findings

The Board agrees with the submissions of Board staff that a 43% increase in OM&A costs in the test year is excessive, even when acknowledging the incremental costs of establishing a stand-alone utility.

While the Board appreciates the Parry Sound submissions offering reductions of $208,000, the Board notes that this total already includes reductions which were first mentioned in Argument-in-Chief: Maintenance reduced by $95,184 and Operations reduced by $29,000. In essence, Parry Sound's reply argument only offers additional reductions of $84,666, leaving the test year increase at 36%.

The Board views a 36% increase in OM&A costs as excessive. The Board feels that, consistent with a recent Court of Appeal decision in the matter of Toronto Hydro Electric System Limited v. Ontario Energy Board (April 20, 2010), a distribution utility has a fiduciary duty to its rate payers and must find the correct balance between its OM&A expense increases and the bill impact on its customers.

Therefore the Board will order additional reductions in the OM&A expenses for the test year. The Board will not allow the expenses occurred in 2009 of $95,315 (or $23,929 for the test year) related to the preparation of an aborted rates application, as it considers these costs to be prior period costs. Also, the Board sees little evidence that the incurrence of these costs contributed to lower application costs in the present proceeding. The Board also accepts the argument of Board staff that an increase in Administration and General cost of 45% shows that Parry Sound has not demonstrated enough effort at cost control and will order a reduction of $10,000 in this budget for the test year.

In addition, the Board will order a reduction in staffing equivalent to .20 FTE related to the addition of regulatory affairs position, which represents a saving of $27,894 in the test year.

In mandating these reductions and leaving the overall OM&A level of $1,524,745 in the test year, the Board notes that this still represents a 30.5% increase over 2010 actual levels. Normally the Board would not approve such an increase, however, in Parry Sound's case, with the additional pressures of restructuring into a stand alone utility, the Board will grant this level of increase.

AMORTIZATION and DEPRECIATION

Board staff submitted that it did not have any concerns with the mortization/depreciation amounts proposed by Parry Sound. However, Board staff noted that in the event the Board makes changes to Parry Sound's capital expenditures, Parry Sound should reflect the impact on amortization/depreciation in its Draft Rate Order.

In its submission, VECC requested a clarification of the depreciation component proposed in the 2011 revenue requirement as the depreciation number in the RRWF is stated to be $389,525, but set at $453,271 in the 2011 Test Year Depreciation and Amortization schedule.

In its reply argument, Parry Sound agreed with staff's submission. Parry Sound also addressed the depreciation question raised by VECC, indicating that the difference between the RRWF and OEB Table 2M for the test year is the allocated depreciation of $63,355 for Rolling Stock and $391 for Stores.

Board Findings

The Board finds that the provisions for Amortization and Depreciation expense are appropriate for setting Parry Sound's distribution rates for 2011 and expects the applicant to make the appropriate changes in these expenses to reflect the changes in this decision.

PROVISION FOR PAYMENTS IN LIEU OF TAXES

Parry Sound filed its Payments in Lieu of Taxes (PILs) evidence and calculated the PILs provision for the test year as $47,696. Board staff submitted that it had no concerns with the income tax calculations provided by the Applicant. VECC made no comments on PILs and Parry Sound did not make reply submissions.

Board Findings

The Board finds that the provisions for Payments in Lieu of Taxes (PILs) are appropriate for setting Parry Sound's distribution rates for 2011 and expects the applicant to make the appropriate changes in these provisions to reflect the changes ordered in this decision.

RATE BASE & CAPITAL EXPENDITURES

RATE BASE

Parry Sound is requesting approval of $5,967,046 for its 2011 rate base. For the 2007 to 2009 period, the Parry Sound rate base has declined each year until the Bridge Year. The historical and forecast rate bases are summarized in the table below.

Parry Sound Power Corporation
Rate Base, Actual and Forecast, 2006 - 2011

	2006 Board approved	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Bridge Year	2011 Test Year
Gross Fixed Assets	$9,745,106	$10,478,190	$10,593,476	$10,905,755	$10,905,930	$11,083,150	$12,294,932
Accumulated Depreciation	$5,176,801	$6,106,367	$6,487,600	$6,761,274	$6,855,301	$6,966,329	$7,419,600
Net Book Value	$4,568,305	$4,371,823	$4,105,876	$3,944,481	$4,050,629	$4,116,821	$4,875,332
Average Net Book Value	$4,568,305	$4,503,933	$4,238,849	$4,025,179	$3,997,555	$4,083,725	$4,496,076
Working Capital	$6,494,285	$7,727,173	$7,716,086	$7,843,223	$7,991,868	$9,286,509	$9,806,469
Working Capital Allowance (WCA)	$ 974,143	$1,159,076	$1,157,413	$1,176,483	$1,198,780	$1,392,976	$1,470,970
Rate Base	$5,542,448	$5,663,009	$5,396,262	$5,201,662	$5,196,335	$5,476,701	$5,967,046
rate base year-on year increase	na	2.2%	-4.7%	-3.6%	-0.1%	5.4%	9.0%
rate base (excl. WCA) year on year increase		-1.4%	-5.9%	-5.0%	-0.7%	2.2%	10.1%

The significant increase in 2010 and 2011 over historical amounts is largely due to the increase in capital spending for transportation equipment in 2010 and higher capital spending in 2011 for Poles and Towers as well as a related expansion of conductor spending. In addition, the move to restructure the utility to meet ARC requirements has resulted in higher capital spending in the test year for Leasehold Improvements, Office Equipment and Transportation assets.

Positions of Parties

Board staff noted that Parry Sound reported that it had used the full year rule for depreciation until the end of 2007 and then switched to the half year rule. Parry Sound calculated the impact of this change as $38,700 for the test year. Board staff submitted that ordinarily it would advocate that depreciation methodologies for regulatory purposes remain constant through an IRM period, with the half- year rule applied to the 2011 test year rate base. However, as the materiality threshold for a distributor with a revenue requirement of less than $10 million is $50,000, staff made no comment on this change in depreciation for the purposes of this application.

In its final submissions, VECC requested a clarification of Parry Sound's evidence regarding the change to the half-year rule for depreciation. VECC pointed out that Parry Sound had stated that had it applied the full-year rule for the years 2007-2007, the 2011 rate base would be reduced from $5,967,047 to $5,836,693, a reduction of over $130,000. However, Parry Sound then stated that making such a change would increase the 2011 revenue requirement by $38,729. In VECC's view, such a reduction in rate base would normally be expected to result in a revenue requirement decrease. VECC invited Parry Sound submissions on this point.

Parry Sound responded that changing the depreciation expense to the full year rule requested in VECC IR#24 has the impact of reducing net book value and increasing depreciation expense. The reduction in rate base affects the revenue requirement only by the amount of the regulated rate of return, however, the increase in amortization expense in this case affects the revenue requirement dollar for dollar.

Regarding the Working Capital Allowance (WCA), Board staff took no issue with Parry Sound's methodology (15% of specified amounts) for calculating the WCA for the test year. In response to VECC IR #19, Parry Sound provided an update of its cost of power, using the October 2010 RPP report.

Board staff submitted that Parry Sound should update the WCA to reflect any changes in controllable expenses and load forecasts as determined by the Board in its Decision; the most current estimate of the RPP commodity price (ie, April 19, 2011) and updates to reflect current retail transmission prices. This should provide sufficient detail and discussion to aid all parties in understanding the numbers provided and their derivation.

VECC submitted that Parry Sound had appropriately applied the 15% WCA methodology to the sum of approved 2011 controllable expenses and the most recent estimates of commodity prices and RTRs.

Board Findings

The Board finds that Parry Sound's Rate Base calculations are appropriate, but that they should be adjusted for the Board's capital expenditure findings. As for the Working Capital calculation, Parry Sound should update the WCA to reflect any changes in controllable expenses and load forecasts as determined by the Board in its Decision; the most current estimate of the RPP commodity price and any updates to reflect current retail transmission prices.

CAPITAL EXPENDITURES

The following table summarizes Parry Sound's historical and proposed capital expenditures as presented in the pre-filed evidence. In support of its proposed expenditures, Parry Sound filed a detailed Asset Management Plan, prepared by Rodan Energy Solutions.[3]

In response to Board staff supplementary IR #11, Parry Sound Power provided a year-end update to the 2010 capital expenditures, with a total of $581,613. This is $43,351 or 8 percent higher than in the original pre-filed evidence.

[3] Exhibit 2/Tab 3/Schedule 2/ Appendix A

Parry Sound Power Corporation
Capital Expenditures, Actual and Forecast, 2006 - 2011

	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Bridge Year	2011 Test Year
	$	$	$	$	$	$
Distribution Station Equipment	14,909	-	419,407	3,930	12,785	-
Poles, Towers & Fixtures	24,567	27,609	47,057	124,286	139,039	414,729
O/H Conductors & Devices	22,956	12,965	94,747	56,979	36,663	236,195
Underground Conduit	24,151	238			5,058	64,178
U/G Conductors & Devices	28,143	9,514	11,566	1,287	9,351	-
Line Transformers	44,230	60,601	8,497	51,683	17,979	15,681
Services	14,759	25,856	26,121	20,185	4,021	-
Meters	13,709	10,781	42,787	152,960	9,119	-
Leasehold Improvements						200,000
Office Furniture & Equipment					10,062	38,499
Computer Equipment - Hardware				16,674	6,164	10,500
Computer Equipment- Software	-			63,433	26,873	7,000
Transportation	-				292,235	225,000
Tools, Shop & Garage					1,955	
Measure & Test Equipment						
Communication Equipment						
Miscellaneous Equipment						
Capital Contributions					-33,040	
TOTAL	$187,424	$147,564	$650,182	$491,417	$538,264	$1,211,782

Note: Does not include the amendments noted in the Update for 2010 or those noted in Parry Sound's Argument-in-Chief, where $29,000 is added for 2010 and 2011, in Account 1855 - Services.

With actual 2010 capital spending of $610,613 (including the $29,000 update) is applied, the test year updated amount of $1,240,782 represents an increase of 103%. In justifying this increase, Parry Sound indicated that the primary reason was the requirement for conductor upgrades to increase system reliability and allow load transfers between substations without raising concerns regarding the overloading of the feeders/conductors.

Response to Board staff IR #35 dealt with the major capital expense ($641,778) in the test year, which is the first phase of the three year replacement of the MS1/MS2 municipal transformer station. The total three year cost of this project is $2,340,220.

The rationale for replacing these two stations is that they have reached the end of their useful life as clearly identified in the Asset Management Plan. The MS1/MS2 station was constructed in the 1960s and transformer nameplates identify the year of manufacture as 1968. The station provides service to the downtown business core as well as a large percentage of the residential customer base through ten (10) feeders (MS1 – 1-5) (MS2 – 6-10). The station is requiring increasing degrees of maintenance and in the event of a failure, there is not enough capacity between adjacent municipal stations to accommodate the load provided by the MS1/MS2 station.

The new station is planned to be constructed on an adjacent property and the existing MS1/MS2 station will remain in operation until the load can be transferred to the new station.

Information on the other major capital projects was provided through Board staff IR #36 Voltage Conversions ($47,000); and, #37 Conductor Replacements ($31,000).

These capital projects are all designed to increase reliability in the Parry Sound distribution system. However, the reliability statistics do not show a consistent picture of decline, as shown in response to Board Staff IR #41, where SAIDI, SAIFI and CAIDI statistics from 2008 to 2010 are provided. Parry Sound also stated that no major outages occurred in 2010.

One other major capital expense category is the plan to spend $200,000 for office improvements in the building that Parry Sound has been using as a tenant but will be the leaseholder starting in 2011. Response to Board staff IR #36 indicates that, "*The $200,000 estimate is a minimum to update the 2400 sq. ft office, garage 1,040 sq. ft and 2,280 sq. ft of storage area. It is PSP's view that the existing building is aging and in need of major repairs.*"

Another related expense is the purchase of Office Equipment and Computers which is budgeted at $39,999 and $7,000 in software in 2011. These office- related expenditures are also driven by the effort to become a stand-alone utility in 2011.

Positions of Parties

Board staff submitted that the increase in capital expenditures in the test year is too high as proposed. Board staff suggested that it appears that Parry Sound may have difficulty ramping up capital expenditures to the degree requested for the test year. Board staff submitted that the proposed increase puts too much pressure on ratepayers, especially when considering the overall bill impacts resulting from this application.

Board staff suggested that if Parry Sound wished to go ahead with the MS1/MS2 replacement project that it prioritize spending in other areas, such as other Pole and Fixture projects, Voltage Conversions and Conductor Replacements, doing only work on an ‘as needed’ basis until the 3 year MS1/MS2 project is complete. This planned work, in Board staff’s submission, could be cut back modestly from a total of $88,000 to $50,000, a saving of $28,000 in capital in the test year.

Board staff submitted that as reliability statistics do not show a marked decline in performance and that restraint in capital spending in these areas will not have a marked affect in the short term.

In addition, Board staff submitted that the purchase of the Derrick truck be delayed in the short term, so as to remove $225,000 in capital from the test year.

With regard to the investments proposed in building improvements, Board staff submitted that the $200,000 capital cost is too high. Despite Parry Sound’s belief that the $200,000 cost of the improvements is a minimum amount, Board staff submitted that a budget of $100,000 is more appropriate at this time for these improvements. Board staff noted that this reduction leaves in place the related $47,000 office equipment/computers and software budget.

In total, Board staff urged the Board to reduce the total capital budget for Parry Sound by $353,000 to a level of $858,782, which still a 41% increase from the 2010 bridge year actual.
 Board staff also asked Parry Sound to clarify (in its reply argument) what its plans were with regard to the pick-up truck not purchased in 2010 and whether this purchase would go forward in 2011.

VECC focused on the historical pattern of capital expenditures. VECC noted that the proposed 2011 capital expenditures of $1,211,782 not only exceed the gross additions for the years 2009 and 2010 combined, they also exceed the sum of the two largest annual gross capital additions undertaken by PSP over the period 2006-2010 inclusive. In addition, VECC pointed out that looking at the 2011 proposal on a net-of-contributions basis, it is barely exceeded by the sum of net capital additions for 2008, 2009, and 2010 combined.

VECC questioned whether Parry Sound is capable of completing such a massive spending program in the Test Year given that the proposed capital program for 2011 is so far out of line with historical expenditures. VECC submitted that Parry Sound's proposal is excessive and should be reduced. VECC supported the Board staff proposal to reduce capital expenditures in excess of $350,000.

In reply, Parry Sound focused on its 5 year Asset Management Plan and submitted that deviation from the plan would not make the best use of the plan or resources. Parry Sound submitted that the primary work to its asset base will involve contract work; therefore to ramp up for this outlay will not be an issue if the decision from the Board arrives in reasonable time. Parry Sound pointed out that that the 2011 capital expenditures excluding the digger truck, building improvements and distribution station replacement are actually lower than the historical year(s) spending.

In response to the staff clarification request, Parry Sound indicated that the pickup truck originally scheduled for 2010 will now be purchased in 2011, for a capital expenditure in 2011 of $27,500.

With regard to the Board staff recommendation to delay in the purchase of the digger derrick truck and a $100,000 reduction in the proposed building improvements, Parry Sound submitted that it could delay the purchase of the digger truck, however, the building improvement costs of $200,000 are the minimum to do the necessary work to update the former Ontario Hydro Area Office. Parry Sound argued that the condition of the deteriorating office and operational areas did not afford staff a comfortable workplace. The design of the original building does not lend any ergonomics or privacy to the day-to-day work environment and that the planned addition of showers, washrooms, and a training/lunch area are essential to a healthy work place.

In addition to the building improvements, Parry Sound further submitted the other capital work needed to be completed as planned to follow the asset management plan. Parry

Sound therefore did not agree with Board staff in its submission to reduce the 2011 capital further with an arbitrary reduction of $28,000.

Board Findings

While the Board appreciates the initiation and completion of Asset Management Plans by distributors, strict adherence to these plans is not necessarily advisable, without considering work loads, impacts on ratepayers and other factors. The Board has indicated in the past (Burlington Hydro EB-2009-0259, March 1, 2010) that capital programs should generally be stable over time to ensure overall rate stability, and that if an overall increase is required then that should be planned for, to the extent reasonable and practical, on a staged basis in a way which smoothes the rate effects.

The Board acknowledges that Parry Sound has agreed to delay the purchase of the digger truck, a capital saving of $225,000 in the test year. However, the Board is of the view that Parry Sound's total expenditures are still excessive and with reference to the submissions of Board staff and VECC, feels that the test year capital budget should be reduced further.

The Board will order additional capital reductions of $100,000 which Parry Sound can apply according to its priorities as it sees them. The Board notes that there are a number of areas where increases are significant and where some shifting or prioritization of funds can be accomplished. The Board also notes that the reliability statistics filed do not show a pattern of service reliability problems.

Therefore, the Board will approve capital expenditures of $943,282 as prudent for the test year. This is the current updated total of $1,240,782, with the addition of the pick up truck ($27,500) and total reductions of $325,000 as noted above.

COST OF CAPITAL

Parry Sound proposed a test year weighted cost of capital of 8.08% based on a deemed capital structure which is consistent with the Board's guidelines, as shown in the table below.

Parry Sound Power Corporation 2011 Test Year Weighted Cost of Capital					
	Amount (Rate Base)	Weight	Cost Rate	Weighted Cost	Return
Long Term Debt	$ 3,341,546	56%	7.25%	4.06%	$ 242,262
Short Term Debt	$ 238,682	4%	2.07%	0.08%	$ 4,941
Total Debt	$ 3,580,228	60%			$ 247,203
Common Equity	$ 2,386,819	40%	9.85%	3.94%	$ 235,102
TOTAL	$ 5,967,047	100%		8.08%	$ 482,304

Parry Sound acknowledged that the cost for Short term Debt and Return on Common Equity will likely be amended when the Board releases its revised rates, (which it did on March 3, 2011). The applicable Short term Debt Rate is 2.46% and the Common Equity rate is 9.58%.

Positions of Parties

Board staff focused on Parry Sound's proposed long term debt rate of 7.25% and the Long Term Loan from the shareholder, the Town of Parry Sound, with a value of $2,433,728. Board staff noted that the remaining long term debt amount of $907,818 was not addressed in the evidence and the debt instruments and applicable interest rate for this amount was not apparent.

Board staff submitted that Parry Sound should identify the other debt instruments that make up this difference in its Reply Argument. Staff submitted that if there are no identifiable debt instruments, then this residual long term debt should be assigned the Board's current long term debt rate of 5.32%.

Board staff also cited the provisions of the Board's Cost of Capital parameters and submitted that Parry Sound should provide reasons for why the affiliated debt amount of $2,433,728 should not attract the Board's long term deemed debt rate of 5.32%. Board staff noted that applying the Board's deemed long term debt rate will work to reduce the revenue requirement by approximately $65,000.

VECC noted that Parry Sound's evidence indicated that its shareholder has issued debt to the utility in the amount of $2,433,728 at a rate of 7.25%. For this component of capital structure, VECC submitted that the appropriate cost rate is the Board's deemed rate of 5.32%. VECC also noted that this instrument alone does not support 56% of rate base and submitted that 5.32% is the appropriate cost rate to apply to 56% of the rate base approved by the OEB for the 2011 Test Year.

In reply, Parry Sound reviewed its relationship with its shareholder regarding the debt held and how the 7.25% interest rate was established. Parry Sound argued that the note had no restrictive covenants with regard to operations, capital spending or financing and that the utility has benefited from being able to phase in the interest payments. Parry Sound clarified that the note does not require Parry Sound to pay back the principal or expose the utility to a refinancing risk as the Town of Parry Sound has confirmed its intention to continue to provide the required long-term financing under the current terms.

Parry Sound submitted that during the recent credit crisis in the financial markets, the value from this financial flexibility and the long-term nature of the note is enhanced considerably. Parry Sound concluded with the submission that the financing arrangements between the utility and the Town were designed to benefit the customer while ensuring a fair return to the shareholder.

Parry Sound did not address the issue of the amount of long term debt not covered by the note from the Town of Parry Sound ($907,818) raised by both VECC and Board staff.

Board Findings

The Board accepts the deemed capital structure of 40% equity, 4% short-term debt and 56% long term debt as these are consistent with the Board's guidelines.

The Board also approves the long term debt rate of 7.25% for the portion of long term debt held by the affiliate (Town of Parry Sound) as this arrangement has been in place since 2000 and meets the Board's Cost of Capital parameters.
In addition, the remaining long term debt of $907,818 is considered as notional debt for the purpose of this application and will also carry the 7.25% rate.

With regard to the short term debt rate and the return on equity, the Board notes that the applicable short term debt rate is 2.46% and the common equity rate is 9.58%, as noted in the Board most recent cost of capital report. The Board approves these rates for Parry Sound accordingly.

COST ALLOCATION AND RATE DESIGN

Parry Sound used the Board-approved Cost Allocation Model and followed the instructions and guidelines issued by the Board. Changes to the Transformer Allowance and Low Voltage treatments were made according to the latest filing guidelines issued by the Board for the 2011 Cost of Service rate applications.

Revenue to Cost Ratios

Parry Sound proposed Revenue to Cost ratios are shown in the table below:

Parry Sound Power Corporation
Revenue to Cost Ratios, 2011

Rate Class	Updated OEB Cost Allocation Model, R/C Ratios	Proposed Revenue to Cost Ratios		Board Target Low	Board Target High
Residential	102%	102%		85%	115%
GS <50kW	85%	85%		80%	120%
GS>50kW	148%	141%		80%	180%
Sentinel Lighting	40%	70%		70%	120%
Streetlighting	14%	28%		70%	120%
USL	46%	80%		80%	120%

Parry Sound proposed to re-align its revenue to cost ratios by adjusting the revenue allocations among rate classes in order to reduce cross-subsidization. The proposed re-alignment moves the Sentinel Lighting and Unmetered Scattered Load classes to the lower end of the Board target ranges.

To mitigate the impact on the Street Lighting class, Parry Sound followed the Board direction provided to other LDCs in previous Cost of Service decisions and moved the Street Light class to a revenue-to-cost ratio of 28% for 2011.

Parry Sound also proposed that the Street Lighting class move to revenue to cost ratios of 42%, 56%, and to 70% in the years 2012, 2013, and 2014 respectively. These upward ratio adjustments result in the need to decrease the R/C ratios in other classes.

Therefore, the General Service >50kW class was adjusted from 148% to 141%, since the only other remaining customer class that exceeds a revenue to cost ratio of 100% is Residential which is relatively close to unity at 102%.

Positions of Parties

Board staff accepted the cost allocation evidence of Parry Sound but submitted that the progress to move the Streetlight class into the Board range should be accelerated and completed in two years and not four years.

VECC submitted that the distribution revenues by customer class used in the model be updated and the revenue to cost ratios that would arise if existing rates for all customer classes were increased uniformly, be used as a starting point for adjustments. This was shown in response to VECC IR #41 a):

Customer Class	2011 Revenue to Cost Ratio
Residential	102.47%
GS<50 kW	85.97%
GS>50 kW	145.14%
Street Lights	14.06%
Sentinel Lights	36.56%
USL	46.55%

Otherwise, VECC had no other concerns with the revenue to cost ratios as proposed.

In Reply Argument, Parry Sound submitted that it would be unreasonable to accelerate the revenue to cost ratios for the Street Light Class to the bottom of the Board's lower band of 70%, while the Board has just initiated a Cost Allocation Consultation. In addition, Parry Sound submitted that the revenue to cost ratio of 28% for the Street Light class for the test year be approved as submitted and any further changes to the revenue to cost ratios should not be made until the results of the Cost Allocation Consultation are known.

Parry Sound indicated that it had no objections to the revenue to cost ratios as proposed by VECC.

Board Findings

With one exception, the Board approves the revenue to cost ratios as proposed by Parry Sound. The exception concerns the Streetlighting customer class. The Board disagrees with Parry Sound and believes that it is appropriate that the revenue to cost ratio for the Streetlighting class be increased to the Board's lower band of 70% at an accelerated pace. Therefore, the Board orders Parry Sound to take steps to increase the Revenue to Cost Ratio for Streetlighting to 35% in the test year, 52% in 2012 and 70% in 2013. The additional revenues from these adjustments should be allocated to the GS>50 kW class, reducing the ratio in the GS>50 kW class as this class still has a revenue to cost ratio outside the Board's range.

Monthly Fixed Charges and Variable Distribution Rates

Parry Sound's current and proposed fixed monthly and variable distribution rates are presented in the table below[4].

Parry Sound Power Corporation
Fixed and Variable Charges, 2010 and 2011

Rate Classes	Monthly Service Charge Current	Monthly Service Charge Proposed		Variable Charge Current	Variable Charge Proposed
Residential	$16.79	$23.97	kWh	$0.0134	$0.0191
GS <50kW	$25.29	$36.01	kWh	$0.0104	$0.0148
GS>50kW	$171.14	$237.51	kW	$3.4592	$4.6012
Sentinel Lighting	$1.74	$4.92	kW	$6.7501	$19.0674
Streetlighting	$0.41	$1.27	kW	$4.1163	$12.7683
USL	$8.96	$23.33	kWh	$0.0523	$0.1362

Parry Sound proposed to maintain the current fixed/variable split for its 2011 rates as shown below:

Class	Volumetric	Fixed
Residential	44.15%	55.85%
GS<50kW	53.76%	46.24%
GS>50kW	69.92%	30.08%
Sentinel Lights	49.26%	50.74%
Streetlights	65.62%	34.38%
USL	61.35%	38.65%

Parry Sound indicated that its proposed fixed monthly rates are consistent with the Board's guidance found in the *Board Report on the Application of Cost Allocation for Electricity Distributors* (EB-2007-0667), November 28, 2007. The proposed monthly

[4] Exhibit 8/Tab1/Schedule 2

fixed rates are above the ceiling amount ($119.54) for the General Service >50kW class as it is Parry Sound's understanding of the current regulatory status is that distributors are not required, for the time being, to make changes to their monthly fixed rate when they exceed the ceiling.

Parry Sound provided a history of the Board's activity concerning the question of fixed/variable split and referred to the Board's Norfolk Power Distribution Inc. Decision EB-2007-0753. Parry Sound submitted that an MSC ceiling has not been established and that it is appropriate to keep the current variable/fixed split.

In the response to VECC supplementary IR #35, Parry Sound further defended the decision to increase this monthly fixed charge above the stated ceiling and presented a table of MSC charges in its cohort of distributors for the GW>50kW class to show that the proposed rate was in the middle of the rates established in this cohort.

Positions of Parties

Board staff did not have any concerns with Parry Sound's fixed monthly rates as proposed.

VECC submitted that a MSC for GS>50 kW that is above the ceiling is inconsistent with the Board's November 2007 Report dealing with the Application of Cost Allocation for Electricity Distributors (EB-2007-0667).

VECC argued that the Board explicitly stated that it, "…does not expect distributors to make changes to the MSC that result in a charge that is greater than the ceiling as defined by the Methodology for MSC and that distributors that are currently above the ceiling are not required to make changes to their MSC to bring it to or below that level at this time". In VECC's view this means that if the monthly fixed rate is currently less than the ceiling then the proposed rate should not exceed the ceiling.

VECC submitted that a reasonable interpretation of the Board's direction is that for those classes where the charge currently exceeds the ceiling, the charge should not be increased further, but maintained at its current level for 2011.

Parry Sound replied that the Board should approve the GS>50 MSC while maintaining the existing fixed/variable split.

Board Findings

The Board accepts Parry Sound's proposed MSC which maintain the current fixed/variable proportions. The Board believes that the proposed MSC are consistent with the Board's guidelines and previous decisions of the Board.

RETAIL TRANSMISSION SERVICE RATES

Parry Sound proposed to revise its Network Service and Line and Transformation Connection rates, using the RTSR Workform pursuant to the Board's guidelines for electricity distribution Retail Transmission Service rates (G-2008-0001) Revision 2.0.

Parry Sound noted that these rates could be subject to modifications, should the Uniform Transmission Rates (UTR) change early in 2011.

Positions of Parties

Board staff submitted that Parry Sound update its proposed RTS rates reflecting the new UTRs and that Parry Sound include this information, along with the completed RTSR module, in its reply submission.

VECC submitted that Parry Sound should update its RTSRs for the approved 2011 UTR and that details of the update should be provided as part of the Draft Rate Order. VECC also submitted that the Board should direct Parry Sound to account for any changes in load as between 2009 actual and the 2011 forecast. VECC suggested that this could be done by adjusting actual 2009 UTR billing quantities by the ratio of the forecast total sales for 2011 over the actual total sales for 2009.

Parry Sound responded by indicating that it is billed by Hydro One for Transmission and Connection charges based on sub-transmission rates, not UTR rates. As the sub-transmission rates were not adjusted, Parry Sound submitted there was no need to change its proposed RTS rates.

Board Findings

The Board finds that Parry Sound should update its RTS rates using the applicable Hydro One RTS rates as updated on January 1, 2011.

LOW VOLTAGE CHARGES

Parry Sound is an embedded distributor with Hydro One Networks Inc. and is subject to Low Voltage (LV) charges. Parry Sound indicated that the 2008 audited balance of variance account 1550 was disposed of as part of the 2010 IRM rate application.

The 2009 accumulated principal balance is a credit of $1,312 which is being disposed of in this rate application. Parry Sound indicated that since the accumulated amount is relatively small, it proposes to continue with the current approved LV rates. Parry Sound forecasted the Low Voltage revenues at the proposed rates for the test year to be $82,266. This amount was used in the calculation of the Cost of Power.

Board staff indicated that it had no issues with Parry Sound's LV rates proposal.

VECC pointed out that in the response to VECC #36, Parry Sound provided an estimate of LV charges from Hydro One Networks based on 2009 billing quantities and Hydro One Networks' 2011 approved rates. The total cost was $80,294. VECC submitted that this value – adjusted for the percentage change in total sales as between the 2009 actual (88,772,959 kWh) and the 2011 total sales volumes as approved by the Board in this proceeding, is an appropriate forecast of LV costs for 2011. VECC argued that these costs should then be allocated to customer classes based each class' anticipated share of Retail Transmission Connection costs.

Parry Sound did not reply to the submissions of Board staff or VECC in its reply argument.

Board Findings

The Board finds that Parry Sound should update its LV rates using the applicable Hydro One sub transmission rates as updated on January 1, 2011.

LOSS FACTORS

Parry Sound provided evidence showing that its average (2004-2009) distribution loss factor was 1.0453. The supply facility loss factor is 1.0340. These loss factors equate to a 1.0809 Total Loss Factor for a Secondary Metered Customer <5,000 kW and a 1.0700 for a Primary Metered Customer <5,000 kW. Parry Sound accordingly requested a loss factor change from the existing levels of 1.0586 and 1.0480 respectively.

Positions of Parties

In its final submissions, Board staff noted the significant change in loss factor and submits that Parry Sound investigate the reasons for this change and address this in its Reply Argument. Board staff submitted that if this change cannot be explained then the Board should order Parry Sound to complete a loss factor study to address this issue.

In its submission, VECC noted that the loss factors over the past 6 years have been fairly consistent and exhibited no particular trends. VECC submitted that Parry Sound's loss factors should be accepted as proposed, subject to Parry Sound providing the explanation requested by Board staff.

In its reply submission Parry Sound reviewed the source data for the calculations of the current Total Loss Factor of 1.0586, prepared as part of the 2006 EDR application. Upon review of the 2006 EDR material Parry Sound presented a revised calculation and determined that the data used in the original calculation was incorrect and should have been 1.0779.

Board Findings

As Parry Sound has addressed the concerns of Board staff and VECC in its reply argument, the Board approves the applied for loss factor 1.0809 for a Secondary Metered Customer <5,000 kW and a 1.0700 for a Primary Metered Customer <5,000 kW.

DEFERRAL AND VARIANCE ACCOUNTS

Parry Sound provided a list of the Deferral and Variance accounts currently in use and requested disposition of the account balances representing principal balances to December 31, 2009 and projected interest to April 30, 2011. This is summarized in the table below:

Parry Sound Power Corporation
Deferral and Variance Account Balances

Account Number and Description	Total Claim[5]
1550 – Low Voltage Account	($1,642)
1580 – RSVA – Wholesale Market Service Charge	($26,582)
1584 – RSVA – Retail Transmission Network Charge	($16,546)
1586 – RSVA – Retail Transmission Connection Charge	($36,418)
1588 – RSVA – Power (excluding Global Adjustment)	$1,190,682
1588 – RSVA – Power – Sub-account Global Adjustment	($690,078)
1590 – Recovery of Regulatory Asset Balances	($69)
Group 1 Subtotal	**$419,347**
1508 – Other Regulatory Assets	$11,425
1518 – RCVA – Retail	($3,862)
1548 – RCVA – STR	$53
1582 – One-time Wholesale Market Service	$15,322
Group 2 Subtotal	**$22,938**
TOTAL	**$442,285**

[5] Exhibit 9/Tab 1/Schedule 2, page 1

The balances as of December 31, 2009 are consistent with Parry Sound's RRR filings with the Board.

Disposition Period

In its pre-filed evidence, Parry Sound requested a one-year rate rider to recover the deferral and variance account balances. In response to Board staff IR #2, Parry Sound filed a bill impact analysis, which showed the bill impact of over 16% on a residential bill with a monthly consumption of 800 kWh. Subsequently, Parry Sound provided the bill impacts based on a 2-year and a 4-year rate rider. The total bill impact, based on a 2-year and 4-year rate riders will be approximately 12.5% and 10.6% respectively.

In its Argument-in-Chief, Parry Sound changed its proposal to recover the deferral and variance account balances over a 4-year period. Parry Sound made some additional revisions to its original application, reducing certain other costs, and revised the rate impact based on 4-year disposition to 9.67%.

Positions of Parties

Board staff submitted that it had no issues with the balances requested for disposition, but noted that there was a significant balance in Account 1582 – One -Time Wholesale Market Service and invited Parry Sound to address the reasons for this balance in its Reply Argument.

Board staff also submitted that a 4-year disposition is appropriate in this case, as the bill impact with a shorter disposition period would be above the 10% bill impact mitigation threshold historically used by the Board.

VECC noted the adjustments to the individual #1508 sub-account balances found in the responses to Board Staff IR #55 and had no further submissions regarding the balances proposed for recovery. VECC also supported the 4 year recovery period for these amounts due to the bill impact mitigation benefits.

In response to Board Staff's submission with respect to the balance in Account 1582 Parry Sound replied that it records line item 0169 from IESO invoice - Station Service Reimbursement Debit in APH account 4712. This account plus accrued interest is solely responsible for the balance in 1582.

Global Adjustment

In its pre-filed evidence, Parry Sound did not calculate a separate rate rider for global adjustment. In response to VECC IR #12a), Parry Sound stated that although it did not calculate a specific rate rider; it did take into consideration the non-RPP kWh as a basis of the allocation of the Global Adjustment. This approach is consistent with EDDVAR, and spreads the recovery of the allocated account balances to all customers in the affected rate class.

Board staff submitted that the Board may wish to consider establishing a separate rate rider for the disposition of the global adjustment sub-account balance enabling the prospective recovery solely from non-RPP customers, as this would be more reflective of cost causality (as it was that group of customers that was responsible for accumulation of balances in this account). Board staff suggested that Parry Sound comment on its ability to recover these balances in this manner or advise when they expect to be able to do so, in its reply argument.

Alternatively, Board staff suggested that the Board may wish to consider the recovery of the allocated global adjustment sub-account balance from all customers in each class, as this approach would recognize the customer migration that might occur both away from the non-RPP customer group and into the non-RPP customer group.

VECC also noted that Parry Sound did not propose an allocation and rate rider for the Power Sub-Account – Global Adjustment and also noted that Parry Sound has provided no explanation as to why it has not followed the Board's June 2010 filing guidelines. VECC requested that Parry Sound address this matter in its Reply Submission.

VECC supported Parry Sound's use of 2011 data to allocated amounts to classes and noted that these will be "the latest Board approved data" when the rates are ultimately finalized.

In reply to VECC and staff suggestions that it comment on its ability to recover these balances from Non-RPP customers, Parry Sound confirmed that it does have the ability to accommodate an allocation to Non-RPP customers only. Parry Sound submitted the Board should review the alternatives presented in staff's submission to determine the most appropriate method of disposing of the global adjustment sub-account balance.

Board Findings

The Board approves of the disposition of the amounts in the deferral and variance accounts over a 4 year period. With regard to the Global Adjustment sub-account, the Board directs Parry Sound to establish a separate rate rider for the disposition of the global adjustment sub-account balance enabling the prospective recovery solely from non-RPP customers, as this would be reflective of cost causality.

HARMONIZED SALES TAX

Parry Sound accounted for reductions in both OM&A and capital expenditures related to the harmonization of PST and HST. Parry Sound also stated that it has not separated PST from OM&A expenditures for 2007, 2008, 2009 or 2010 and had not recorded any incremental input tax credits in account 1592 as this would be labour intensive and that their current financial system could not accommodate such segregation within an invoice. Parry Sound confirmed that the HST on invoices received is recorded as an input tax credit.

Positions of Parties

Board staff pointed out that the Board's EB-2009-0207 IRM Rates decision, dated April 28, 2010, directed Parry Sound to:

> "…beginning July 1, 2010, Parry Sound shall record in deferral account 1592 (PILs and Tax Variances, Sub-account HST / OVAT Input Tax Credits (ITCs)) the incremental ITC it receives on distribution revenue requirement items that were previously subject to PST and become subject to HST. Tracking of these amounts will continue in the deferral account until the effective date of Parry Sound's next cost of service rate order. 50% of the confirmed balances in the account shall be returnable to the ratepayers."

Board staff submitted that Parry Sound should comply with the 2010 IRM decision of the Board, however, given the advanced stage of this proceeding, the relative magnitude of the amount that would need to be scrutinized, Board staff was of the view that examination and disposition of this amount should be considered in a subsequent proceeding.

Staff noted that the review and disposition of account 1592 is not typically done within the scope of an IRM proceeding. However, staff submitted that the Board may wish to consider, due to the nature of the costs tracked, this sub-account be brought forward for disposition in the next rate proceeding for Parry Sound, which would be Parry Sound's 2012 IRM application.

In reply, Parry Sound agreed that the disposition of account 1592 should be dealt with in the 2012 IRM proceeding.

Board Findings

The Board agrees with Board staff, notes Parry Sound's agreement and orders Parry Sound to come forward with recovery of Account 1592 at its next IRM proceeding.

LRAM/SSM

Parry Sound's proposed a Lost Revenue Adjustment Mechanism and Shared Savings Mechanism and applied for LRAM and SSM recovery of $96,367.42 and $2,399.42 respectively. In support of this proposal, Parry Sound submitted a report prepared by Burman Energy Consultants Group.

During the course of the hearing, Parry Sound provided a revised calculation of the LRAM recovery.

Positions of Parties

Board staff asked that Parry Sound confirm that it has amended its proposal for the LRAM/SSM in its Reply Argument.

VECC noted that the LRAM claim is based on Third Tranche CDM Programs and OPA Funded programs and that it was important to note that the Residential Claim of $28,011.49 is based on the Preliminary OPA 2009 results for Parry Sound.

VECC indicated that it was satisfied that the appropriate input assumptions for two programs, "Lighten your Electricity Bill 2005" and "Light Bulb Giveaways 2006/2007" were used for the LRAM calculations.

However, VECC also pointed out that, similar to several other utilities that utilized the Services of Burman Energy Consulting Group, Parry Sound's Third Tranche LRAM claim was amended as a result of what VECC considers an erroneous interpretation of the Board's January 2009 Letter regarding use of OPA M&A list assumptions.

Parry Sound/Burman's interpretation is that the OPA M&A list applies only to kWh savings and LRAM post January 2009 and prior savings should be based on OEB input assumptions. VECC submitted that the Board has confirmed in recent decisions, (ie, Midland Power EB-2010-0099), that the OPA input values are the best available at the time of the third party review and should be used for all years savings estimates in Third Tranche LRAM calculations. Accordingly, VECC submitted that the Board should reject the revised Third Tranche LRAM claim and accept the original Third Tranche CDM claim and related rate riders.

VECC accepted for purpose of the LRAM, the OPA Verification of OPA-funded CDM programs, including the update as a result of the final 2009 OPA results. VECC submitted that Parry Sound should update the LRAM claim to reflect final results for OPA 2009 programs and revise the rate riders accordingly.

In reply, Parry Sound submitted that the LRAM claim of $107,469.97 was correct and should be approved by the Board for recovery.

Board Findings

The Board agrees with the submissions of VECC in this instance, and consistent with the Board's findings in the Midland case, will approve the original LRAM recovery as submitted by Parry Sound, updated for OPA 2009 program results.
The SSM recovery of $2,399.42 is also approved.

LOW INCOME ENERGY ASSISTANCE PROGRAM (LEAP)

Parry Sound did not include LEAP funding in its original application. The calculation of 0.12% of total distribution revenue ($2,714,943) was provided in an interrogatory response ($3,257.93). Board staff noted that this calculation is consistent with the Board's guidance found in its letter on LEAP Emergency Financial Assistance dated October 20, 2010.

Positions of Parties

Board staff submitted that Parry Sound should update this calculation in accordance with the approved revenue requirement resulting from the Board's decision on this application, and include it in the revenue requirement.

In reply argument, Parry Sound submitted that it should use the most recently approved distribution revenue which would be its 2006 EDR Decision. Applying the 0.12% to this amount yields a LEAP amount of $2,084.75. Parry Sound submitted that this is the amount of LEAP funding that the Board should approve.

Board Findings

The Board directs Parry Sound to reflect a re-calculated LEAP, based on the findings in this Decision and Order, in its revenue requirement at the time the Draft Rate Order is prepared.

LATE PAYMENT PENALTY (LPP) LITIGATION COSTS

On February 22, 2011 the Board issued its generic decision and order, file EB-2010-0295, regarding the recovery from ratepayers of the costs and damages incurred in the Late Payment Penalty Class Action.

In response to a Board Staff interrogatory, Parry Sound indicated that it did not included these costs in its application. However, on March 3, 2011 Parry Sound provided its response to the Board's LPP Decision and indicated that the LPP amount for recovery from customers was $12,417 and also provided the calculations to establish Monthly Fixed Charge Rate Riders for each customer class. Parry Sound corrected the customer numbers on April 21, 2011.

Positions of Parties

Board staff had no issues with the revised calculation of these rate riders.
In reply, Parry Sound agreed with the calculation and inclusion of the monthly fixed charge riders.

Board Findings

The Board directs Parry Sound to reflect the LPP riders in its Draft Rate Order.

SMART METER ADDER

Parry Sound requested a smart meter funding adder of $1.71 per metered customer per month to replace its current standard smart meter funding adder of $1.00. Subsequently, in response to a VECC interrogatory, Parry Sound revised its smart meter funding adder proposal to $2.88 per metered customer per month.

Parry Sound's residential and small commercial (GS<50 kW) smart meter installations in total were substantially complete (2,779 residential and 512 small commercial) and reported an average installed cost of $288.86 per meter.

Positions of Parties

Board staff noted that in the Board's 2011 IRM decisions where the applicant requested an increase to their smart meter funding adder in excess of $2.50 per metered customer per month, the Board ordered the adder to be set at $2.50.

Board staff submitted that the Board might consider approving a smart meter funding adder of $2.50 per metered customer per month from May 1, 2011 to April 30, 2012.

VECC indicated its disappointment at Parry Sound's inability to provide a class specific Smart Meter Funding Adder and submitted that such a class specific adder was fairer to ratepayers than an aggregate adder.

In reply, Parry Sound accepted the establishment of the Smart Meter Funding adder at $2.50 per meter per customer.

Board Findings

The Board is concerned with the rate impact associated with the level of the proposed increase in the Smart Metter Funding Adder. Since the deployment of smart meters on a province wide basis is now nearing completion, the Board expects distributors to file for a final prudence review at the earliest possible opportunity following the availability of audited costs.

For Parry Sound, scheduled to enter an IRM period, the Board expects that it will file an application with the Board seeking final approval for smart meter related costs in the near future. In the interim, the Board will approve a SMFA of $2.50 per metered customer per month from July 1, 2011 to April 30, 2012. This new SMFA will be reflected in the Tariff of Rates and Charges and will cease on April 30, 2012.

STRANDED METER ASSETS

Parry Sound did not seek the recovery of the stranded meter costs but has stated that it is waiting for direction from the Board with respect to the method of recovery. Parry Sound reported that it has kept the record of stranded meter costs in Account 1860 and that it no longer amortizes these costs. The residual net book value of these meters at December 31, 2009 is $161,416.68. Parry Sound also reported that the depreciation expense that would be applicable for the period from the time the meter became stranded to December 31, 2009 is $12,071.41.

Positions of Parties

In its submission, Board staff noted that Parry Sound will be receiving rate base treatment on most of its smart meters that have replaced its “stranded” meters. Consistent with the Board’s decision and order for Hydro One Brampton Networks Inc. (EB-2010-0132), Board staff submitted that it is no longer appropriate for the distributor to receive a concurrent rate base treatment for stranded meters that are no longer used and useful. Board staff submitted that a more appropriate approach from an accounting perspective for the recovery of stranded meters costs may be to allow recovery of the estimated residual net book value of the overall stranded meters. The estimated amount should comprise the pooled residual net book value of the removed from service meters, less any sale proceeds and contributed capital, as of April 30, 2011 or the day before the effective date of the 2011 rate order.

Pursuant to the Board’s EB-2010-0132 decision and order, Board staff further submitted that the total estimated stranded costs as of April 30, 2011 could be allowed to be recovered through a separate rate rider. In this case, Parry Sound should revise this estimate to the end of 2011 and could suggest a reasonable recovery period. Board staff also submitted that the estimated total costs related to the stranded meters in rate base on approval for recovery be removed from rate base (and Account 1860, Meters) and tracked in “Sub-account Stranded Meter Costs” of Account 1555. The associated recoveries from the separate rate rider should also be recorded in this sub-account to draw down the balance in the sub-account. The approved estimate of stranded meter costs should be trued-up to actual costs, recorded in the sub-account, and submitted for review in the distributor’s next cost of service application. A final disposition of the sub-account balance (comprised of the final stranded meter costs as of April 30, 2011 net of the rate rider recoveries) would be addressed in that proceeding.

Board staff invited parties to comment on the suggested recovery methodology for the stranded meter costs, the proposed recovery period, and the associated bill impacts.

VECC invited Parry Sound to clarify how the exclusion of depreciation expense related to stranded meters was reflect in the depreciation expense in the evidence.

VECC did not favour staff’s suggestion that a methodology similar to the one followed in the Hydro One Brampton case be used for Parry Sound as it was evident to VECC that Parry Sound has actually included any smart meter costs in its proposed rate base, whereas Brampton had done so. In addition the Brampton case resulted in a revenue sufficiency, while in Parry Sound's case, a significant bill impact in the 10% was evidence, even before a stranded meter recovery.

Given this material difference in circumstances, VECC submitted that the Brampton Decision is not an appropriate precedent for purposes of establishing the treatment of Parry Sound's stranded meter costs. VECC viewed this as a generic issue which needs to be dealt with on a broader basis and not resolved within the context of one (rather unique) previous case. In Parry Sound's case, VECC submitted it would be appropriate for the matter of stranded meter costs recovery to be dealt with in a future proceeding.

In reply, Parry Sound provided a clarification of this issue and indicated that during its 2010 fiscal audit and with discussion with Board staff Parry Sound recorded depreciation expense for the 2009 and 2010 years. This resulted in a net book value of $137,359.98 at Dec 31, 2010. The revised estimate per Board staff's request at Dec 31, 2011 includes one further year of depreciation expense of $11,716.26 resulting estimated net book value of $125,643.72.

Board Findings

The Board finds that the issue of stranded meter costs for Parry Sound be dealt with in a future proceeding as it appears that the evidence on this issue is not complete, particularly the audited financial data to address this issue comprehensively.

RATE and BILL IMPACTS

During the hearing, Parry Sound corrected its initial pre-filed bill impact evidence and showed a total bill impact of over 16% on a residential bill with a monthly consumption of 800 kWh (39% on the delivery line). Subsequently, Parry Sound provided bill impact analyses based on a 2-year and a 4-year deferral and variance account disposition. The total bill impact, based on 2-year and 4-year rate riders was estimated to be 12.5% and 10.6% respectively.

In its Argument-in-Chief, Parry Sound proposed to recover the deferral and variance account balances over a 4-year period and to recover the LRAM/SSM amounts over a 2 year period. Parry Sound made some additional revisions to its original application, reducing certain other costs, and revised the bill impact based on 4-year variance account disposition to 9.67% for the 800 kWh residential customer.

Board staff submitted that as this impact is below the customary 10% bill impact mitigation threshold, and considering that staff had made a number of submissions which would work to reduce this impact further, staff had no further submissions on the bill impacts of this application. VECC supported the Deferral and Variance Account recovery over 4 years, citing bill impact mitigation benefits.

In reply, Parry Sound indicated that with the proposed decreases offered in its Argument-in-Chief, the total bill impact for a residential customer at 800kWh per month has been reduced from 16.1% to 9.7%. Parry Sound went on to say that these bill impacts are likely to be further reduced when the Board's decision is rendered.

Board Findings

The Board notes that even if bill impacts are eventually below the 10 percent threshold for mitigation, bill impacts in the higher ranges approaching 10% are not welcomed by the Board or customers. In light of the fact that Parry Sound will incur some additional costs due to its restructuring, that it has agreed to recover its deferral and variance account balances over 4 years, and acknowledging that the Board has mandated lower costs in various areas in this decision, the Board is satisfied that no further bill impact mitigation is required.

EFFECTIVE DATE

In response to a request from Parry Sound, on April 25, 2011, the Board declared the current rates interim, effective May 1, 2011.

In its Argument-in-Chief, Parry Sound indicated that it was requesting the recovery of incremental revenue from May 1, 2011 until a decision and order is issued.

Board staff, in its submission, noted that Parry Sound filed its application on October 15, 2010 for rates effective May 1, 2011. Staff also indicated that this is about 2 months later than expected for new rates to have been approved and ordered by the Board in time for a May 1, 2011 implementation.

Board staff submitted that accounting for the two month late filing, the Board may wish to consider retroactive recovery of incremental revenues only if approval of the final rate order finalizes an effective date after July 1, 2011.

VECC submitted that the effective date should be no earlier than June 1, 2011. VECC pointed out that the Board's deadline for distributors seeking rates effective May 1 2011;

was August 27, 2010 and, given that Parry Sound filed its Application on October 15, 2010, a reasonable expectation would be for rates to be effective some time in later part of June 2011.

VECC also noted that the Board's performance standards for a rate application with a standard written hearing are 185 days from the date of filing to the Board Decision. Based on the October 15th filing, date this would result in a Board Decision roughly the last week of April 2011, such that June 1, 2011 would be a reasonable expectation for an effective date following the preparation and approval of the Rate Order.

In reply, Parry Sound acknowledged that the original application was submitted after the due date, however, submitted that it was not from lack of effort on Parry Sound's part. Parry Sound argued that LDCs who have a larger number of resources to dedicate to submissions such as Cost of Service Rate Applications, however, still have delays in filing on time. Parry Sound indicated that as seen on the OEB website, approximately 25% of the LDCs filing a 2011 Cost of Service Rate application were filed by the required due date.

Parry Sound further submitted that obtaining its total revenue requirement is a prerequisite for Parry Sound to ensure it has the resources in place to continue to meet all of its obligations going forward. Although Parry Sound has agreed to reduce the revenue requirement on submissions from both Board Staff and VECC, Parry Sound submitted that the Board should not further penalize the utility by approving an effective date other than May 1, 2011. Parry Sound submitted that the Board approve the rates with an effective date of May 1, 2011 to keep the utility and the customers of Parry Sound whole.

Board Findings

The Board finds that, considering the late filing of the application, that June 1, 2011 to be a fair and reasonable date for rates to be declared effective.

IMPLEMENTATION

The Board has approved an effective date of June 1, 2011 and considering the date of this decision, will assume an implementation date of July 1, 2011. The Board has made findings in this Decision which change the 2011 revenue requirement and therefore change the distribution rates from those proposed by Parry Sound.
The Board orders Parry Sound to address any revenue deficiency arising from this Decision for the period of June 1, 2011 to the implementation date. Accordingly, Parry

Sound is directed to calculate class specific rate riders that will recover from customers the one month stub period amount over a period of 10 months, from July 1, 2011 to April 30, 2011. Parry Sound should also provide the detailed calculations of the rate riders in its draft Rate Order. The current interim rates are in effect until the Board approves the final Rate Order.

In filing its draft Rate Order, it is the Board's expectation that Parry Sound will not use a calculation of the revised revenue sufficiency to reconcile the new distribution rates with the Board's findings in this Decision. Rather, the Board expects Parry Sound to file detailed supporting material, including all relevant calculations showing the impact of this Decision on Parry Sound's revenue requirement, the allocation of the approved revenue requirement to the classes and the determination of the final rates. 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.

A Rate Order will be issued after the steps set out below are completed:

1. Parry Sound 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 the issuance of this Decision. The draft Rate Order shall also include customer rate impacts and detailed supporting information showing the calculation of the final rates including the Revenue Requirement Work Form in Microsoft Excel format.

2. Intervenors shall file any comments on the draft Rate Order with the Board and forward to Parry Sound within **7 days** of the date of filing of the draft Rate Order.

3. Parry Sound 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 comments.

COST 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.

1. Intervenors shall file with the Board and forward to Parry Sound their respective cost claims within **7 days** from the date of issuance of the final Rate Order.

2. Parry Sound shall file with the Board and forward to intervenors any objections to the claimed costs within **21 days** from the date of issuance of the final Rate Order.

3. Intervenors shall file with the Board and forward to Parry Sound any responses to any objections for cost claims within **28 days** of the date of issuance of the final Rate Order.

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

All filings with the Board must quote the file number EB-2010-0140, and be made through the Board's web portal at www.errr.ontarioenergyboard.ca, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must be received by the Board by 4:45 p.m. on the stated date.

Parties should use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.ontarioenergyboard.ca. If the web portal is not available, parties may e-mail their documents to the attention of the Board Secretary at BoardSec@ontarioenergyboard.ca. All other filings not filed via the Board's web portal should be filed in accordance with the Board's *Practice Directions on Cost Awards*.

DATED at Toronto**,** June 17, 2011

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary