PUBLIC INTEREST ADVOCACY CENTRE
LE CENTRE POUR LA DEFENSE DE L'INTERET PUBLIC
ONE Nicholas Street, Suite 1204, Ottawa, Ontario, Canada K1N 7B7
Tel: (613) 562-4002. Fax: (613) 562-0007. e-mail: piac@piac.ca. http://www.piac.ca

Michael Buonaguro
Counsel for VECC
(416) 767-1666

February 2, 2009

VIA MAIL and E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: Barrie Hydro Distribution Inc.
2009 3GIRM Electricity Distribution Rate Application (EB-2008-0160)
Vulnerable Energy Consumers Coalition (VECC) Comments

Set out below are the comments of Vulnerable Energy Consumers Coalition (VECC) in the above-noted proceeding. The comments focus on the proposed Cost Allocation adjustment included in the Application.

Cost Allocation - General

With respect to the cost allocation adjustment, VECC notes that the Board's 3GIRM Supplementary Filing Module uses the shares (percentages) of a distributor's revenue requirement from the Cost Allocation Informational filing to determine what portion of the 2009 revenue requirement would represent 100% cost responsibility for each customer class. VECC has four concerns regarding this approach.

First, most distributors are now allocating the “cost” of the transformer ownership allowance solely to those classes receiving the discount. This is a change from the 2006 methodology. VECC notes that Board Staff has acknowledged this issue[1] and undertaken to correct the methodology for 2010 rates.

Second, in the 3GIRM Supplementary Module the revenue to cost ratio adjustment is applied to the total distribution revenue requirement including LV costs, although LV costs were not included in the model used for the Cost Allocation Informational filings. Again VECC notes that Board Staff has acknowledged this issue and proposed to correct it for the 2010 rates.

Third, and potentially more significant, is the use of the class revenue requirement distribution from the Cost Allocation Informational filing to determine 100% cost responsibility for 2009[2]. This approach only works if the billing parameters (i.e., kWhs, kWs and customer count) represent close to the same proportions by class in 2009 as they did in the Cost Allocation filing. The reason for this is that costs are allocated to classes based on allocation factors that reflect the relative loads and customer count by class. If these relative values change then so will the relative cost responsibility by customer class. Indeed, a number of the utilities filing 2009 Rate Application have recognized this issue and have assessed the ongoing validity of their Cost Allocation Informational filing as part of their 2009 Rate Application[3].

In VECC’s view, given the potential for such anomalies to exist, a preferred approach for 3GIRM Applications is to assume that revenues at current rates are consistent with the revenue to cost ratios underlying the rates established in the last cost of service review. This would then be used as the starting point to determine the allocation of the distribution revenue requirement that would yield 100% cost responsibility for each

[1] See Staff Submissions regarding Norfolk’s Application
[2] Model Sheet C1.1
[3] Examples include Westario Power (EB-2008-0250); COLLUS Power (EB-2008-0226) and Bluewater Power (EB-2008-0221)

class. VECC submits that Board should direct staff to also revisit this part of the Supplementary Module as part of its model redesign for 2010.

Finally, VECC notes that the Cost Allocation Informational filings included both distribution service revenues and miscellaneous revenues in the “revenue” values used to establish the revenue to cost ratios. In contrast, the Board’s Supplementary filing module assumes that all revenues are derived from distribution service rates. The impact is likely to be small. However, this is another issue that VECC submits the Board should direct staff to revisit as part of its model redesign.

Barrie Hydro

VECC notes that Barrie Hydro has attempted to adjust its cost allocation results to reflect the changed treatment of the transformer ownership allowance[4]. VECC is unsure as to whether the adjustment has been done correctly and is unable to fully review the matter given the time and resources available. However, it suspects that an appropriate adjustment would require a change in the costs allocated to customers (as opposed to or as well as revenues). As Board Staff has undertaken to review this issue, VECC does not consider it necessary for Barrie to make any changes at this time.

VECC also notes that Barrie has arbitrarily adjusted the “Expense Allocation” results of the Cost Allocation Informational filing and input difference values to the Supplementary Module[5]. Barrie claims that this was done so as to meet the direction of the Board regarding the need for reconciliation with the Cost Allocation results. VECC suspects that the third point identified in its general comments is likely to be one of the reasons for the variation in revenue to cost ratios calculated in Tab 2.1 versus those arising from the Board’s Decision. As discussed above, there are other ways of adjusting for this issue. While Barrie’s approach may be acceptable in the short term, VECC submits the

[4] VECC #1 c)
[5] VECC #1 a)

matter needs to be addressed on a more comprehensive basis as it has already proposed.

Finally, VECC notes that Barrie Hydro's approved 2008 rates included a Large Use customer class that did not exist at the time of the Cost Allocation Runs were performed for the Informational Filing[6]. In order to accommodate the issue Barrie Hydro has "force fit" a Large Use class into its Cost Allocation run by assuming a its revenue to cost ratio is the same as that for the GS>50 class. In VECC's view this approach is somewhat simplistic but probably acceptable given that a) the Street Lighting class is the only class outside the Board's recommended revenue to cost ratio ranges and, then by a material amount, and b) the proposal is to only move its ratio to the bottom of the range over the 3GIRM period. Clearly, Barrie Hydro will need to undertake another cost allocation study before its revenue to cost ratios can be refined further.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC

cc: Barrie Hydro Distribution Inc.

[6] VECC#1 b)