



***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](mailto:piac@piac.ca). <http://www.piac.ca>

Michael Buonaguro  
Counsel for VECC  
(416) 767-1666

February 7, 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: Innisfil Hydro Distribution Systems Limited  
Application for 2009 Electricity Distribution Rates  
Board File No. EB-2008-0233**

Please find enclosed the submissions of VECC. We apologize for filing late, all filings come through me and I was cut off from internet access yesterday afternoon.

Yours truly,

Michael Buonaguro  
Counsel for VECC  
Encl.

**ONTARIO ENERGY BOARD**

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

**AND IN THE MATTER OF an Application by Innisfil Hydro Distribution System Ltd. pursuant to section 78 of the *Ontario Energy Board Act* for an Order or Orders approving just and reasonable rates for the delivery and distribution of electricity.**

**FINAL SUBMISSIONS**

**On Behalf of The**

**VULNERABLE ENERGY CONSUMERS COALITION (VECC)**

**February 7, 2009**

**Michael Buonaguro  
Public Interest Advocacy Centre  
34 King Street East  
Suite 1102  
Toronto, Ontario  
M5C 2X8**

**Tel: 416-767-1666  
E-mail: [mbuonaguro@piac.ca](mailto:mbuonaguro@piac.ca)**

**Vulnerable Energy Consumers' Coalition (VECC)**  
**Final Argument**

**The Application**

1. Innisfil Hydro Distribution Systems Ltd. ("IDSL" or "the Applicant" or "the Utility") filed an application ("the Application") with the Ontario Energy Board ("the Board") on August 15, 2008 under section 78 of the *Ontario Energy Board Act*, 1998, for electricity distribution rates effective May 1, 2009. The Application requested a distribution revenue requirement of \$7,750,434 for the 2009 Test Year and claimed a revenue deficiency of \$1,071,765 for the Test Year at existing rates. The requested percentage increase in distribution revenues was 16.0%.<sup>1</sup>
2. On January 8, 2009, IDSL filed a summary of changes, since filing its Application, to its capital spending program and a "Revised Summary of Proposed Changes" schedule in response to an interrogatory.<sup>2</sup> The summary identified the updated base revenue requirement as \$7,727,341 and the gross deficiency as \$1,020,061 as "Proposed at December 18, 2008."
3. IDSL has also asked for: (i) approval to clear, over a two-year period, the deferral/variance account balances as at December 31, 2007 plus interest to April 30, 2009 in Account No. 1508, Other Regulatory Assets – Sub-account OMERS contributions, Account No. 1508, Other Regulatory Assets – Sub-account OEB Cost Assessments, and Account No. 1550, Low Voltage Variance Account;<sup>3</sup> and (ii) approval to continue the rate rider of \$0.28 per meter per residential and general service customer per month to fund costs associated with smart meter infrastructure.<sup>4</sup>
4. The following sections contain VECC's final submission regarding the various aspects of IDSL's Application.

---

<sup>1</sup> Exhibit 7/Tab 1/Schedule 1

<sup>2</sup> VECC IR #25 revised

<sup>3</sup> Exhibit 5/Tab 1/Schedule 1

<sup>4</sup> Exhibit 1/Tab 1/Schedule 6, page 1

## **Rate Base and Capital Spending**

### *Capital Spending*

5. Subsequent to filing its Application,<sup>5</sup> IDSL has made substantial reductions to its projected 2008 capital spending and to its proposed 2009 capital expenditures. The overall impact of these updates is to reduce the 2009 rate base by \$1,371,970.<sup>6</sup>
6. In its submissions, Board staff noted that in spite of the reductions to its test year capital spending, the percentage increases in capital spending over the previous year were 81.3% for 2008 and 91.9% for 2009.<sup>7</sup> Staff noted parties' interest in seeking justification for the acceleration in capital expenditures<sup>8</sup> and invited "parties to comment on whether or not Innisfil has adequately justified its proposed increase in the 2009 capital expenditure budget."<sup>9</sup>
7. VECC submits that even with the significant downwards revisions post-filing, IDSL's 2009 capital expenditures show significant increases over historical actual spending. Further, the magnitude of the 2008 revision made in December of 2008 leads VECC to believe that 2009 capital spending is likely to be overstated.
8. With regards to proposed adjustments to the 2009 capital expenditure budget for ratemaking purposes, VECC advises that it has reviewed a draft copy of the submissions of Energy Probe and supports its proposed capital expenditure adjustments in respect of (i) the increased costs of the road widening project, (ii) forecasted increases associated with customer connections and metering, and (iii) forecasted expenditures on general plant.<sup>10</sup>

### *Smart Meters*

9. VECC does not object to IDSL's proposal to continue the smart meter adder.

---

<sup>5</sup> Re 2008 changes, see Energy Probe IR #29.

<sup>6</sup> VECC IR #25 revised

<sup>7</sup> Staff Submission, January 29, 2009, p. 3

<sup>8</sup> Staff Submission, January 29, 2009, p. 5 and fn 4

<sup>9</sup> Staff Submission, January 29, 2009, p. 6

<sup>10</sup> Argument of Energy Probe, pp 5-6

### *Working Capital*

10. VECC submits that the rate used for the cost of power used to calculate the working capital allowance should be updated to reflect the most recent forecast available at the time the Board makes its Decision.
11. However, also VECC notes that other distributors<sup>11</sup> undergoing 2009 cost of service reviews have indicated that they are not billed by the IESO for all components of the RPP price and indeed are billed for different components for non-RPP customers. VECC submits that the OEB should work with distributors and the IESO to establish a common approach to determining what elements of the RPP Price Report should be included in the Cost of Power for purposes of determining working capital allowances. VECC also notes that the approach may have to take into account the relative sales to RPP and non-RPP customers.
12. VECC has a concern that the present, formulaic determination of allowance for working capital in rate base may not accurately reflect any given utility's need for working capital. As such, VECC urges the Board to require a lead-lag study with IDSL's application for rebasing.

### **Load Forecast and Revenue Offsets**

#### *Load Forecast Methodology*

13. IDSL's load forecast methodology consists<sup>12</sup> of three steps:
14. First, a weather normalized forecast of monthly system purchases is developed based on a multifactor regression analysis that includes weather, economic output and seasonal calendar variables as independent explanatory variables. The regression equation was developed using monthly data for the period 2002-2007<sup>13</sup>.
15. Second, the forecast is adjusted for losses to produce a weather-normalized billed energy forecast.

---

<sup>11</sup> For example see COLLUS Power's (EB-2008-0226) response to VECC #43 b).

<sup>12</sup> Exhibit 3/Tab 2/Schedule 3, page 1

<sup>13</sup> Exhibit 3/Tab 2/ Schedule 3, page 1

16. Third, based on customer count forecasts and trends in non-weather normalized per customer use forecasts of total (non-weather normalized) use are developed for each customer class. These forecasts are then adjusted (based on the relative weather sensitivity of each class) so that the sum of individual customer class forecasts equals the total billed kWh forecast developed in Steps #1 and #2.
17. In terms of the methodology used to develop the total system billed kWh, VECC has a number of concerns. First, the regression equation includes variables that are not statistically significant<sup>14</sup> (i.e., Ontario GDP and Number of Peak Hours). IDSL states that they were included because the R squared value increased slightly. However, this rationale is unconvincing since the inclusion of more variables will always increase the R squared value.
18. Second, the regression equation for forecasting total billed kWh does not include any link to IDSL's customer count. At best, there is a very indirect link through the inclusion of a "population" variable. VECC submits that it is reasonable to expect load to be driven, in part, by customer count. Also, this creates issues with Step #3, as discussed below.
19. Finally, VECC has serious concerns about the third step of the IDSL methodology and, in particular, the way the total billed kWh developed using the regression analysis are combined with the per customer non-weather normalized forecast to determine the weather normalized 2008 and 2009 projection by customer class. The third step relies heavily on a customer count forecast that is developed independently of the overall billed kWh load forecast such that there is no relationship between the two. Furthermore, the method for integrating the two approaches leads to counter intuitive results. For example, increasing the forecast customer count for one customer class will reduce the total sales forecast for the other (weather sensitive) customer classes. VECC notes and adopts the more detailed submissions of Energy Probe on this issue.
20. However, VECC does agree with the 5.8% loss factor that IDSL uses to adjust its

---

<sup>14</sup> Energy Probe IR Round #1 - Question #3 c)

forecast of purchased kWh to billed kWh for 2008 and 2009<sup>15</sup>. Ideally the econometric model would have been developed using billed kWh. If this approach had been used the adjustment would have been based on the actual loss factors over the 2002-2007 period used to estimate the model. However, since the model was developed using purchased kWhs the adjustment to billed load should be based on the loss factors as they existed during this period.

21. Finally, VECC would note that the use of a 5.8% loss factor at this stage to determine billed load does not preclude the adoption of a different loss factor for purposes of billing customers in 2009 based on expectations of what a reasonable loss factor for that year would be.

22. VECC submits that, similar to the OEB direction given in the Toronto Hydro case<sup>16</sup>, IDSL should be directed to work with other distributors to develop a more comprehensive and integrated approach to load forecasting.

*IDSL's 2009 Customer Count and Load Forecast*

23. For purposes of forecasting 2008 and 2009 loads IDSL has used the same economic forecast as Toronto Hydro submitted in August of 2007 with its rate application<sup>17</sup>. Clearly a more recent forecast should have been used. However, given that "Ontario GDP" is not a significant variable in the regression equation updating the forecast is not likely to have a material effect on the results.

24. VECC also has concerns regarding IDSL's customer count forecast for 2009. In the case of the Residential IDSL is forecasting a average annualized count of 13,512<sup>18</sup>. However, the most recently available data indicates that:

- The Residential customer count for 2008 year-end is 13,463<sup>19</sup>.
- New dwelling additions in 2009 will be 200, leading to an increase in average

---

<sup>15</sup> Exhibit 3/Tab 2/Schedule 3, page 5, Table 5

<sup>16</sup> OEB Decision, EB-20070-0680, pages 32-33

<sup>17</sup> VECC #14

<sup>18</sup> Exhibit 3/Tab 2/Schedule 3, Table 8 and VECC #18

<sup>19</sup> VECC #18

annual customer count of 100<sup>20</sup>.

25. This suggests that the Residential customer count for 2009 will be 13,563. VECC notes that this value is very close to the 13,567 derived by Energy Probe also using updated data but a different methodology. VECC submits that it would be reasonable for the OEB to approve a forecast 2009 Residential customer count of 13,565.

26. In the case of the GS<50 class, IDSL has projected the customer count using an average annual growth rate of negative 0.24%<sup>21</sup>. However, the reason for this negative growth rate is the transfer of 72 customers to the USL class in 2007<sup>22</sup>. If one were to exclude 2007 the average annual growth rate is 1.79%<sup>23</sup>. Alternatively, if one were to add the 72 customers back into the 2007 customer count the average annual growth over the 2002-2007 period is 1.43%. Using the updated forecast of the 2008 GS<50 average annualized customer count<sup>24</sup> and a 1.43% growth rate yields a 2009 customer count of 849 as opposed to IDSL's 827 forecast customer count. VECC submits that this is a more appropriate value as it corrects for the error in IDSL's forecasting methodology.

27. Finally, in the case of the GS>50 class, IDSL is forecasting that the customer count will remain at the year end 2007 level of 72<sup>25</sup>. However, updated September 2008 value shows an actual customer count of 74<sup>26</sup>. In VECC's view this is a more appropriate value to use for 2009.

28. Overall, IDSL's forecast of total load for 2009 represents the best information available at this time. As a result, VECC (somewhat reluctantly) submits that the OEB should accept the results subject to the preceding adjustments regarding customer counts which will impact on the proportions of the 2009 loads attributed to each

---

<sup>20</sup> VECC #19 indicates an addition of 200 dwelling units in 2009. Using the approach outlined in response to OEB #6.2 this yields an increase in the average annual customer count of 100.

<sup>21</sup> Exhibit 3/Tab 2/Schedule 3, page 6

<sup>22</sup> Energy Probe Round #1 - IR #2 a)

<sup>23</sup> Energy Probe Round #1 - IR #2 b)

<sup>24</sup> 837 as per VECC #18

<sup>25</sup> Exhibit 3/Tab 2/Schedule 3, pages 6-7

<sup>26</sup> Energy Probe Round #1 - IR #4



customer.

### *Miscellaneous Revenues*

29. IDSL's Miscellaneous Revenues consist of Late Payment Charges, Specific Service Charges and Other Distribution Revenues<sup>27</sup>.

30. VECC has reviewed and concurs with Energy Probe's submissions regarding the inclusion of the carrying charge interest on balances in regulatory asset, deferral and variance accounts in the determination of miscellaneous revenues. The balances in these accounts are improved for carrying costs and refunded to/recovered from customers when the associated accounts are cleared. In IDSL's case, reducing miscellaneous revenues by the value of these carrying costs would result in double charging customers.

### **Operating Costs**

#### *General - OM&A Costs*

31. IDSL's historic and projected Test Year OM&A expenses are presented, along with an analysis of the cost drivers in their response to an interrogatory from Board Staff.<sup>28</sup>

32. Excluding property taxes, from the 2006 Board approved OM&A costs (\$2,980,733) to IDSL's proposed 2009 Test Year OM&A costs (\$3,921,120), the change is the same as would be experienced if costs were increased by 9.57% in each year of this three-year period. VECC submits that such sustained increases are not reasonable.

33. VECC submits that the increase for the test year attributable to a forecasted inflation rate of 2.9% for 2009 is a significant over-forecast given the current business cycle condition (recession/depression). VECC notes that some economists are now

---

<sup>27</sup> Exhibit 3/Tab 1/Schedule 2, Table 1

<sup>28</sup> Board Staff IR# 1.2 a), b) and c)

openly concerned about deflation rather than low inflation. VECC submits that it would be appropriate to take into account the current economic climate by using a recent forecast of inflation that is informed by current business cycle conditions which VECC submits would be far below the 2.9% used by IDSL.

34. VECC further notes that the OM&A costs per customer have increased in 2009 by the same amount that they would have increased had the 2006 OM&A per customer been escalated by 9.1% per year in each year of the three-year period.<sup>29</sup>
35. In response to an IR by Energy Probe,<sup>30</sup> IDSL listed the drivers of the 8% increase in average yearly base salaries for management in 2009 as (i) increase to bring salaries in line with comparable averages as published by the EDA and with Town of Innisfil management salaries (2.4%), (ii) management no longer spending time on Innisfil Energy (2.4%), (iii) President being full-time employee of the utility (0.8%), and (iv) inflationary increases (2.5%).
36. With respect to the first driver, VECC submits that unless utilities whose salaries are above averages published by the EDA are systematically reduced, it is not appropriate to increase salaries paid by utilities which are below the average on that basis alone: to do so simply increases the average and further increases of those below the new, higher average. Further, VECC notes that if utility salaries, which are recovered from ratepayers, are linked to salaries paid by their owners to municipal managers, there is an increased incentive for the municipality to increase their non-regulated compensation paid.
37. With respect to the second driver, VECC submits that the compensation to utility management should be based on services provided to ratepayers and not reflect “lost opportunities” for management in unregulated activities.
38. With respect to the fourth driver, VECC submits that embedding an inflationary increase of 2.5% is excessive and should be reduced in line with a more recent

---

<sup>29</sup> Based on the response to SEC IR# 14

<sup>30</sup> Energy Probe IR# 10 a)

forecast of inflation.

39. VECC further notes that the Application contains an increased provision for management overtime. VECC submits that the Board should give sober consideration as to whether salaried management should be eligible for any overtime payments.
40. VECC notes that both Energy Probe and SEC have provided more detailed “line item” analyses on such other components of OM&A as regulatory costs, new hires, contracting costs, etc.
41. In terms of overall adjustments to OM&A, VECC has reviewed the submissions of Energy Probe and SEC on this issue and notes that both parties have suggested that the Board reduce overall 2009 OM&A by similar amounts.<sup>31</sup> VECC submits that a reduction similar to those proposed by these two intervenors is appropriate.

#### *IFRS Compliance Costs*

42. IDSL proposes to include one quarter of their total estimated IFRS-related costs in 2009 rates. VECC notes that the Board has indicated to other distributors that regulatory treatment of IFRS costs requires a sector-wide approach. As such, VECC’s view is that the appropriate treatment of this issue will be determined by the Board’s ultimate decision with respect to IFRS costs.

#### **Cost of Capital/Capital Structure**

43. VECC submits that IDSL’s proposal for a capital structure comprised of 56.67% debt and 43.33% equity for 2009 is appropriate.
44. VECC notes that the short-term debt rate used to establish rates for 2009 will be updated rate by the Board, similar to the treatment accorded to the cost of the equity component of capital costs.

---

<sup>31</sup> SEC proposes a reduction of \$225,000 while Energy Probe suggests a reduction of \$207,473.

45. VECC submits that the total capital requirements (debt and equity) should reflect the reductions to 2009 capital expenditures referred to above.
46. With respect to long-term debt, the forecasted blended rate is 6.93% consisting of (i) a \$2.1M two-year note payable issued to the municipality in 2007 with a 3.35% interest rate, (ii) \$5.0M of 20-year debentures issued to the municipality in 1995 with a rate of 9.75%, and (iii) a \$1.87M 25-year loan to be issued in May 2009 with an interest rate of 5.08%.
47. In its submissions, Board staff invited parties to comment on IDSL's proposed long-term debt rate of 6.93%.<sup>32</sup>
48. VECC submits that the amounts borrowed from the municipality constitute affiliate debt. However, if the debentures are not callable, VECC does not object to use of the blended rate that uses the interest rates proposed and as properly adjusted.<sup>33</sup>

### **Deferral and Variance Accounts**

49. VECC has no submissions regarding IDSL's proposal to dispose of the December 31, 2007 balances (plus interest to April 30, 2009) in Accounts #1508 and #1550 other than to note that the interest rates used to determine the accrued interest up to April 30, 2009 should be based on the Board's prescribed values.

### **Payments in Lieu of Taxes**

#### *Comments on Methodology and Tax Rate*

50. The OEB Staff Submission noted that the approach taken by IDSL in calculating PILs "produces a higher taxable income. Innisfil's method diverges from the Board's established methodology. Board staff estimates that Innisfil is requesting approximately \$31,000 more in PILS using its methodology than would otherwise arise using the Board's established methodology. Board staff notes that this amount

---

<sup>32</sup> Staff Submission, January 29, 2009, p. 10

<sup>33</sup> That is to reflect the capital expenditure reductions for 2009.

is less than 0.50% of the base revenue requirement. Parties may wish to comment on the Applicant's methodology and on the selection of the applicable income tax rate."<sup>34</sup>

51. VECC submits that calculation of the PILs component of the revenue requirement should respect the following principles:
52. The Board approved methodology should be used absent a compelling and tested rationale for diverging from the Board approved methodology;
53. The calculation should reflect all applicable tax savings: in particular the calculation should not result in a higher effective tax rate than that which the utility is entitled to; and
54. The best PILs estimate available should be included in rates.
55. VECC submits that no rationale has been provided by IDSL for diverging from the Board approved methodology. As such, IDSL should be required to adhere to the approved methodology.
56. Further, notwithstanding the Board's Staff's estimate that the extra cost is less than 0.5% of the base revenue requirement, VECC respectfully submits that it would be inappropriate to include an additional \$31,000 in the revenue requirement that arises solely due to an Applicant's choice to diverge from Board approved methodology absent compelling evidence that such divergence is in the public interest.

### **Cost Allocation**

#### *Results of IDSL's Cost Allocation Informational Filing*

57. In response to VECC #1 a) IDSL has provided the results of its Cost Allocation Informational filing, the results of which are summarized in the Application<sup>35</sup>. Key

---

<sup>34</sup> Ontario Energy Board Staff Submission, January 29, 2009, page 14

<sup>35</sup> Exhibit 8/Tab 1/Schedule 2, Table 2

points to note from the results are:

- The revenue to cost ratios for all of IDSL's customer classes are within the Board's Guidelines, except for GS<50 (at 130.98% vs. 112% ceiling); Street Lights (at 9.45% versus 70% minimum); Sentinel Lights (at 16.97% versus 70% minimum) and USL (at 78.89% versus the 80% minimum).
- IDSL's Cost Allocation Informational filing treated the revenue reduction from the transformer ownership allowance as a "cost" and allocated it to all customer classes. At the same time the revenues for the GS>50 class were reported based on no adjustment/discount for transformer ownership<sup>36</sup>.
- The Cost Allocation filing was based on the customer class usage and count values as per the 2006 EDR Application.

#### *Use of the Cost Allocation Informational Filing Results in Setting 2009 Rates*

58. IDSL has used the distribution (percentages) of 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<sup>37</sup>. VECC has two concerns regarding this approach.

59. First, IDSL is proposing to allocate the "cost" of the transformer ownership allowance solely to the GS>50 class. VECC agrees with this change. The treatment of allowance in the current OEB Cost Allocation model results in an over allocation of costs to those classes where customers generally do not own their own transformers (e.g. Residential and GS<50). This circumstance arises because the model not only allocates these classes the full cost of the transformers used to serve them but also a share of the discount. In principle the discount is an intra-class issue for those classes where some customers own their transformer and other don't. The Cost Allocation model recognizes that some customers own their transformers. However, unless a discount is introduced for these customers (and paid for by the other customers in the same class) those who own their transformer will pay too much and

---

<sup>36</sup> VECC #1 b)

<sup>37</sup> Exhibit 8/Tab 1/Schedule 2, page 4, Table 4

those who don't will not bear full cost responsibility for the transformers they use. VECC also notes that this change in the treatment of the transformer allowance is consistent with the approach approved for a number of distributors' 2008 rates<sup>38</sup>.

60. To accommodate this change, IDSL removed the cost of the transformer ownership allowance from the allocation of the revenue requirement to customer classes<sup>39</sup>.

However, VECC submits that the approach used by IDSL is incorrect. First, the value of "cost of the transformer ownership allowance" removed by IDSL was incorrect and subsequently revised in VECC #21. Second, IDSL deducted the cost from the GS>50 class' allocated revenue requirement; while the OEB's Cost Allocation Model had allocated it to all customer classes. To properly remove the cost of the transformer allowance the allocated costs must be removed from each customer class.

61. In response to VECC #20, IDSL has provided a revised version of its Cost Allocation Informational filing that follows this approach and is consistent with its proposal regarding the transformer ownership allowance<sup>40</sup>. VECC submits that these results more closely represent the appropriate reference point to use. VECC notes that in its Decision regarding Horizon's 2008 Rates<sup>41</sup> the Board accepted a similar adjustment to the Cost Allocation Model for purposes of setting the distributor's rates.

62. VECC's second concern is with IDSL's use of the class revenue requirement distribution from the Cost Allocation Informational filing to determine 100% cost responsibility for 2009<sup>42</sup>. This approach only works if the billing parameters (i.e., kWhs, kW 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

---

<sup>38</sup> For example, Horizon Utilities, Hydro Ottawa and Enersource Mississauga.

<sup>39</sup> Exhibit 8/Tab 1/Schedule 2, page 4

<sup>40</sup> In response to OEB Staff #9.1 IDSL attempted to alter the results of the Cost Allocation filing to remove the transformer ownership allowance. However, in VECC's view the approach used was incorrect.

<sup>41</sup> EB-2007-0697 Decision and OEB Letter to VECC dated October 24, 2008.

<sup>42</sup> Exhibit 8/Tab 1/Schedule 2, Table 5

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<sup>43</sup>.

63. In response to VECC #3 a) IDSL has provided the relative kWhs and customer count by class for both 2009 and its Cost Allocation filing and there are some differences. While they may look small, these differences could translate into a material changes in cost responsibility. One way to get an indication as to the overall shift is to compare the responsibility for distribution revenue from the Cost Allocation filing with that which arises from using 2009 billing parameters and 2008 rates. The following table provides such a comparison, while Appendix A sets out the determination of revenues by customer class based on 2009 billing parameters and 2008 rates.

#### **Comparison of Distribution Revenue Responsibility**

	<b><u>2009 @ 2008 Rates</u></b>	<b><u>2006 Cost Allocation</u></b>
Residential	79.09%	79.46%
GS<50	10.41%	9.54%
GS>50	9.37%	9.76%
Street Lights	0.68%	0.57%
Sentinel Lights	0.08%	0.08%
USL	0.37%	0.58%

64. While the values are relatively close for many customer classes<sup>44</sup>, there are some material differences, such as for USL where the percentage difference is 57% (i.e., 0.58/0.37). Indeed, it is this difference that led to the anomaly noted in Board Staff IR #9.3 a).

65. In VECC's view, where the potential for such anomalies exists, a preferred approach is to assume that revenues at current rates are consistent with the revenue to cost

---

<sup>43</sup> Examples include Westario Power (EB-2008-0250); COLLUS Power (EB-2008-0226) and Bluewater Power (EB-2008-0221)

<sup>44</sup> For example, for Residential the difference is roughly 0.5%.



ratios determined via the cost allocation informational filing and use this as the starting point to determine the allocation of the distribution revenue requirement that would yield 100% cost responsibility for each class. VECC submits that since no efforts were made to realign the revenue to cost ratios in 2007 or 2008, there is no reason to assume that the current revenue to cost ratio for each class would be any different than those arising from the cost allocation informational filing.

66. In Appendix B VECC has set out the determination of the class shares of the distribution revenue requirement for 2009 using this approach. The results are summarized below and contrasted with IDSL's values.

**Summary of Class Shares of Service Revenue Requirement**  
**Assuming 100% Cost Responsibility**

	<u>IDSL's Values</u>	<u>VECC's Recommended Values</u>
Residential	78.37%	77.30%
GS<50	7.28%	7.83%
GS>50	6.36%	6.10%
Street Lights	6.54%	7.60%
Sentinel Lights	0.53%	0.51%
USL	0.92%	0.67%

Sources:

- 1) IDSL's values - Exhibit 8/Tab 1/Schedule 2, Table 4 (prior to VECC #21 update)
- 2) Appenedix B

67. VECC submits that the preceding Revenue Share values should be used as the reference point for any cost allocation adjustments (i.e., Exhibit 8/Tab 1/Schedule 2, Table 4, Column C). It should be noted that VECC's recommended values were calculated using IDSL's proposed Service Revenue Requirement. Should the Board approve a different overall Service Revenue Requirement, then the recommended values will change slightly as a result of the need to also account for the different customer class allocation associated with miscellaneous revenues.

### *Proposed Revenue to Cost Ratios*

68. IDSL is proposing<sup>45</sup> that the revenue to cost ratio for the various classes be adjusted as follows:

- The Residential value would be reduced slightly from 101.6% to 101.2%.
- The GS<50 and GS>50 values would be decreased from 131.0% to 116.2% and from 146.6% to 135.8% respectively.
- Street Lighting and Sentinel Lighting would be increased from 9.5% to 40% and from 17% to 43% respectively.
- USL would be increased from 78.9% to 80%.

69. VECC agrees with IDSL's proposal regarding USL, Street Lights and Sentinel Lights. The proposal moves the USL to the lower end of the Board's recommended range with minimal impact. The proposed moves for Street Lights and Sentinel Lights represent 50% of the movement required to achieve the Board's recommended ranges and is consistent with the movement recommended by the OEB in various 2008 EDR Decisions for distributors in similar circumstances.

70. VECC notes that the current revenue to cost ratio<sup>46</sup> for GS<50 (131%) is above the Board's guideline (120%) while the ratio for GS>50 (145%) is within the Board's Guidelines (i.e., <180%). As result, VECC submits that the first "use" of the additional revenues arising from the increased ratios for the USL and Lighting classes should be to reduce the GS<50 ratio to 120%. Any remaining revenues should be pro-rated between the two customer classes in order to reduce the revenue to cost ratios for both.

71. VECC submits that this approach to adjusting IDSL's revenue to cost ratios is not only consistent with the Board's Guidelines but also consistent with its Decisions regarding 2008 rates:

---

<sup>45</sup> Exhibit 8/Tab 1/Schedule 2, page 2. Note: The starting values quoted in this paragraph are taken from IDSL's Application and, in VECC's view, do not represent the appropriate starting point as discussed earlier in these Submissions.

<sup>46</sup> The "current" values quoted here are taken from VECC #20 which, as VECC has submitted, is the appropriate reference point.

- Barrie Hydro (EB-2007-0746, page 13) – where the Board concluded the ratio for the GS>50 class should not be increased as it was already within the recommended range.

- Espanola (EB-2007-0901, page 15) and PUC (EB-2007-0931, page 15) – where the Board stated:

The Board is prepared to adopt the general principle that, where the proposed ratio for a given class (Column 2) is above the Board's target range (Column 3), there should be a move of 50% toward the top of the range from what was reported in its Informational Filing (Column 1). None of Espanola's (PUC's) classes are in this situation. Where the revenue to cost ratios in the Informational Filing (Column 1) are below the Board's ranges (Column 3), the rates for 2008 shall be set so that the ratios for these classes shall move by 50% toward the bottom of the Board's target ranges.

- Guelph Hydro (EB-2007-0742, page 24) – where the Board similarly stated:

As the Board has noted in the Cost Allocation Report, cost causality is a fundamental principle in setting rates. However, observed limitations in data affect the ability or desirability of moving immediately to a revenue to cost framework around 100%. The Board's target ranges are a compromise until such time as data is refined and experience is gained.

In other decisions, the Board has adopted the general principle that, where the proposed ratio for a given class (Column 2) is above the Board's target range (Column 3), there should be a move of 50% toward the top of the range from what was reported in its Informational Filing (Column 1). None of Guelph's classes are in this situation.

- Wellington North (EB-2007-0693, page 29) – where the Board stated:

An important element in the Board's report on cost allocation was its express reservation about the quality of the data underpinning cost allocation work to date. The report frankly indicated that the Board did not consider all of the data underpinning the report to be so reliable as to justify the application of the report's findings directly into rate cases. For this reason, among others, the Board established the ranges depicted above and mandated the migration of revenue to cost ratios currently outside the ranges to points within the ranges, but not to unity. In short, the ranges reflect a margin of confidence with the data underpinning the report. No point within any of the ranges should be considered to be any more reliable than any other point within the range. Accordingly, there is no particular significance to the unity point in any of the ranges.

As is noted above, with the exception of the street lighting and sentinel lighting classes, all of the Applicant's proposed revenue to cost ratios fall within the range as provided in the Board's report on cost allocation. The Board will not approve any further movement within the ranges as requested by a number of the intervenors in this proceeding, and by the Applicant itself with respect to the Residential class.

72. VECC concurs with IDSL proposal<sup>47</sup> to move the Street Lighting class to 70% over the subsequent two years and use the additional revenues to reduce the rates for

---

<sup>47</sup> Exhibit 8/Tab 1/Schedule 2, page 5

the GS<50 and GS>50 classes.

### **Rate Design**

73. VECC notes that IDSL's current residential monthly fixed charge of \$19.24<sup>48</sup> is within the range established by the Board's November 2008 Guidelines<sup>49</sup>. As a result, VECC does not agree with IDSL's proposal to reduce the fixed/variable proportions from 57/43 to 50/50. VECC submits that the current residential fixed variable split should be maintained.

### **Retail Transmission Service Rates**

74. In response to a Board Staff interrogatory<sup>50</sup>, IDSL indicates that it is applying for an 11.3% increase in Network rates and a 5.5% increase in the Connection rates based on the recent increases in the Uniform Transmission rates. In the same response, IDSL also filed the variances for its RTSR deferral accounts for the last two years and states that it is applying for rate changes for Network and Connection charges of -16.9% and 20.9% based on deferral account changes. VECC has a number of concerns with IDSL's RTSR application.

75. First, the proposed 2009 Network rates set out in the interrogatory response only include the 11.3% adjustment for the change in Uniform Transmission Rates. As a result, it is unclear as to whether IDSL proposal actually includes adjustments to address trends in the deferral account balances. Second, the calculated adjustments attributed to trends in the deferral account balances are significant but based on only 3 months of data (May to July 2008). In VECC's view more detailed analysis is required to support adjustments in RTSR's beyond those that can be directly associated with changes in the Uniform Transmission Rates. Based on the data available, the Board should limit the adjustment to 11.3% and 5.5% for the Network and Connection rates respectively.

---

<sup>48</sup> VECC #4 a) (excludes smart meters)

<sup>49</sup> VECC #5 a)

<sup>50</sup> OEB Staff #10.1

**Recovery of Reasonably Incurred Costs**

76. VECC submits that its participation in this proceeding has been focused and responsible. Accordingly, VECC requests an award of costs in the amount of 100% of its reasonably-incurred fees and disbursements.

Respectfully Submitted on the 7<sup>th</sup> Day of February 2009

**APPENDIX A****Comparison of Revenue Responsibility**

	2009 @ Current Rates							Cost Allocation Filing			
	Volumes		Rates		Tx	Total	Reported	Total	%		
	Fixed	Variable	Fixed	Variable	Allowance	Revenue				%	
Residential	13512	153846698	19.24	0.014		5,273,504	79.09%	4,957,254		4,957,254	79.46%
GS<50	827	31019894	36.49	0.0107		694,040	10.41%	595,079		595,079	9.54%
GS>50	72	115534	359.8	2.8045	10,284.00	624,598	9.37%	618,035	8,954	609,081	9.76%
Street Lights	2810	4924	0.67	4.6396		45,438	0.68%	35,495		35,495	0.57%
Sentinel Lights	193	344	1.34	6.6447		5,389	0.08%	5,301		5,301	0.08%
USL	85	562039	18.25	0.0106		24,573	0.37%	36,198		36,198	0.58%
Total						6,667,542		6,247,362		6,238,408	

Notes: 1) Cost Allocation filing based on VECC #1 a) adjusted for 2006 Transformer Allowance  
2) 2009 @ 2008 Rates based on VECC #4 a) adjusted for 2009 Transformer Allowance

**APPENDIX B****100% COST RESPONSIBILITY BASED ON 2009 REVENUES @ CURRENT RATES**

		<u>Total</u>	<u>Residential</u>	<u>GS &lt;50</u>	<u>GS&gt;50-Regular</u>	<u>Street Light</u>	<u>Sentinel</u>	<u>USL</u>
<b><u>Cost Allocation Results - Revenue</u></b>								
#1	Distribution Revenue	6,238,408	4,957,254	595,079	609,081	35,495	5,301	36,198
#2	Miscellaneous Revenue	438,862	359,266	41,635	19,415	5,760	731	12,054
#3	Total Revenue	6,677,270	5,316,520	636,714	637,450	41,255	6,032	48,252
#4	Total Revenue %		79.62%	9.54%	9.55%	0.62%	0.09%	0.72%
#5	Dx Revenue %		79.46%	9.54%	9.76%	0.57%	0.08%	0.58%
#6	Misc Revenue %		81.86%	9.49%	4.42%	1.31%	0.17%	2.75%
<b><u>Cost Allocation Results - Revenue Requirement</u></b>								
#7	Revenue Requirement	6686224	5231859	486106	434896	436664	35538	61161
#8	Revenue to Cost Ratios		101.62%	130.98%	146.58%	9.45%	16.97%	78.89%
#9	<b>Adjustment Factor for Rev=RR</b>		0.9841	0.7635	0.6822	10.5845	5.8916	1.2675
<b><u>2009 Rates</u></b>								
#10	<b>2009 Dx Revenue at Current Rates</b>	6,667,542	5,273,504	694,040	624,598	45,438	5,389	24,573
<b><u>Determination of 100% Dx Revenue Allocation</u></b>								
#11	- Misc Revenue (2009 Rates)	491,257	402,159	46,606	21,733	6,448	818	13,493
#12	- Total Revenue (@ Current Rates)	7,158,799	5,675,663	740,646	646,331	51,886	6,207	38,066
#13	- Adjusted Total Rev 100% Cost by Class	7,225,697	5,585,283	565,454	440,955	549,185	36,571	48,250
#14	- Adjustment to Reconcile 2009 SRR	8,241,691	6,370,621	644,961	502,957	626,405	41,713	55,034
#15	- 2009 Dx Revenue for 100% R/C Ratio	7,750,434	5,968,462	598,356	481,224	619,957	40,895	41,541
#16	<b>- Dx Revenue Proportions for 100%</b>		77.01%	7.72%	6.21%	8.00%	0.53%	0.54%
#17	<b>- Total Service Revenue Proportions for 100%</b>		77.30%	7.83%	6.10%	7.60%	0.51%	0.67%

**Notes:**

- #1-#3 - from VECC #20
- #4-#6 - based on values set out in preceding rows
- #7 - from VECC #20
- #8 - based on Row #3/Row #7
- #9 - Based on Row #7/Row #3
- #10 - Based on Appendix A
- #11 - Based on 2009 proposed Misc. Revenues prorated using Row #6
- #12 - Based on Row #10 + Row #11
- #13 - For each Class calculated based on Row #12 x Row #9
- #14 - Each Class' Row #13 value increased by same proportion to yield 2009 Service Revenue Requirement (excluding the Transformer Ownership Allowance)
- #15 - Based on Row #14 less Row #11
- #16 - Based on values in Row #15
- #17 - Based on values in Row #14