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February 13, 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: Vulnerable Energy Consumers Coalition (VECC)
EB-2008-0226
COLLUS Power Corp. – 2009 Electricity Distribution Rate Application

Please find enclosed the submissions of VECC in the above noted matter.

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 COLLUS Power Corp. 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 13, 2009

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Vulnerable Energy Consumers' Coalition (VECC)
Final Argument

1 The Application

- 1.1 COLLUS Power Corp. ("COLLUS" or "the Applicant" or "the Utility") filed an application ("the Application") with the Ontario Energy Board ("the Board" or "the OEB") on August 18, 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 \$6,134,984 for the 2009 test year and claimed a revenue deficiency of \$976,701¹ based on existing rates. The associated percentage increase in distribution revenues was 20.2%².
- 1.2 On January 10, 2009 COLLUS filed an update³ to its original Application which reflected a number of changes since the original filing. Based on this update, the deficiency was revised to \$877,262 and the associated increase in distribution revenues was 18.2%.
- 1.3 In its Application COLLUS has also requested: (i) Approval for revised Retail Service Transmission Rates; (ii) a Variance Account in the event of the loss of its other Large Use customer; (iii) Continuation of the existing \$0.26/customer/month smart meter rate adder and (iv) Approval to transfer the credit from Account #2405 into Distribution Service Revenue in 2008. However, in response to Board Staff interrogatories the Applicant clarified that it was not continuing with this last request⁴.
- 1.4 The following sections contain VECC's final submissions regarding COLLUS' Application.

¹ Exhibit 1/Tab 1/Schedule 5, page 1

² Based on the claimed deficiency and distribution revenues at current rates (excluding miscellaneous revenues) of \$4,832,283 - Exhibit 7/Tab 1/Schedule 1, page 1

³ Exhibit 7/Tab 1/Schedule 1 (Updated January 9, 2009)

⁴ OEB Staff Round #1 - 7.1 and Round #2 - 5.1

2 Rate Base and Capital Spending

Capital Spending

- 2.1 COLLUS' capital additions⁵ are projected to increase from \$614,720 in 2006 to \$3,017,500 in 2009⁶. COLLUS explains that 2006 spending levels were curtailed in light of a planned 2007 upgrade to a Municipal Distribution Station and the pending closure of its largest customer – ALCOA⁷. However, capital additions in 2007 and 2008 are roughly \$1.9 M in each year and the 2009 spending level represents an increase of more than 60% over the preceding year.
- 2.2 The main reason for the increase in 2009 is the planned expenditure of \$1.9 M on a new Municipal Distribution Station (MS #9)⁸. The station will be constructed by a third party contractor following an RFP process⁹ and is currently expected to be completed before the end of 2009.
- 2.3 In its original Application¹⁰ COLLUS provided internal documentation supporting the need for the new station based on load growth and reliability considerations. In response to information requests¹¹, COLLUS explained why it is not feasible to service the south west section of Collingwood using one of its existing stations. COLLUS has also confirmed that, even after adjusting the currently planned developments for potential delays due to the economic downturn, the station is required by the end of 2009. COLLUS further notes¹² that current expectations are that another new MS will be needed to serve the Creemore area in 2011, such that delays in proceeding with MS#9 could result in COLLUS having to finance and manage two large capital projects in the same year. In VECC's view COLLUS has adequately demonstrated the need for the new station and the spending should be reflected in the rate base for the 2009 test year.

⁵ Net of capital contributions

⁶ Exhibit 2/Tab 2/Schedule 1, pages 1-4

⁷ SEC Round 1 - #6

⁸ Board Staff Round 1 - #3.4

⁹ VECC #8

¹⁰ Exhibit 2/Tab 3/Schedule 1, Appendix C-2

¹¹ Board Staff Round 1 - #3.6 c)

¹² VECC #39

- 2.4 VECC notes that the 2009 spending in other areas such as Customer Demand & Renewal; Security and Reliability and General Plant is comparable with previous years and COLLUS has provided supporting details on each of the planned projects¹³. VECC submits that the Board should also accept the inclusion of this spending in Rate Base for 2009.

Working Capital

- 2.5 VECC notes that COLLUS has used¹⁴ the Board's current forecast for the RPP price to determine the cost of power component of working capital. However, it appears that the billing to COLLUS is difference as between RPP and non-RPP loads¹⁵. As a result, it may not be appropriate to apply the RPP price to all the Applicant's forecast 2009 purchases. 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 (as set out by the OEB) should be included in the Cost of Power for purposes of determining working capital allowances associated with both types of load.
- 2.6 Finally, it does not appear that COLLUS has updated its working capital allowance calculation to account for the January 2009 increase in Connection charges¹⁶.

3 Load Forecast and Revenue Offsets

Load Forecast

- 3.1 COLLUS has used 2004 weather normalized load data developed by Hydro One Networks to establish weather normalized use per customer for its Residential, GS<50 and GS>50 customer classes¹⁷. For the Large Use¹⁸, USL and Street

¹³ OEB Staff Round 1 - #3.1 and Round 1 Supplementary - #2 b)

¹⁴ Energy Probe Round 1 - #8

¹⁵ VECC #43 b).

¹⁶ VECC #42

¹⁷ Exhibit 3/Tab 2/Schedule 1, Appendix A, page 1 and Exhibit 3/Tab 2/Schedule 2, pages 3-6

¹⁸ For the Large Use class the ALCOA plant (closed in 2007) was removed from

Lighting classes, per customer use values were established by averaging historical per customer use over a number of years¹⁹. COLLUS then developed its load forecast by forecasting 2009 customer count (by class) and multiplying this “count” by the weather normalized per customer use for each class.

- 3.2 VECC notes that this approach is similar to that used by most distributors who filed, using a cost of service approach, for 2008 rates. For 2009, a number of applicants have used alternative approaches. In VECC’s view some of the load forecasting alternates put forward in 2009 Rate Applications represent an improvement in approach; whereas others do not. However, in VECC’s view, none of the load forecasting approaches put forward in the 2009 are totally satisfactory.
- 3.3 In the case of COLLUS, potential changes in use of electricity using equipment (both reductions due to energy efficiency improvements and increases due to new applications, etc.) are likely to result in changes in per customer use between 2004 and 2009. However, given the lack of additional information, there is no basis on which to adjust the 2004 average use values either up or down for 2009. As a result, VECC submits that the Board should accept COLLUS’ normalized average use values for purposes of forecasting 2009 loads.
- 3.4 At the same time, VECC submits that, similar to the OEB direction given in the Toronto Hydro case²⁰, COLLUS should be directed to work with other distributors to develop a more comprehensive and integrated approach to load forecasting.
- 3.5 For the Residential, GS<50; GS>50 and Street Lighting classes the forecast 2008 and 2009 customer counts are based on historic growth patterns. In the case of the Large Use class the customer count is forecast to remain constant; while for

the historical data.

¹⁹ OEB Staff Round 1 - #6.4

²⁰ OEB Decision, EB-20070-0680, pages 32-33

USL it is forecast to decrease²¹.

- 3.6 VECC has two concerns with COLLUS' customer count forecasts. First, the decline in USL customers is attributed to the transfer of some of these customers to the GS<50 class as metering units are added where possible. This leads to a decline of 9 customers in 2008 and 8 customers in 2009. However, in response to VECC #16 COLLUS has stated that it does not forecast any such conversions in 2009. Overall VECC submits that the customer count for USL should be held constant at 76 for both 2008 and 2009.
- 3.7 Second, while the growth rates for the Residential, GS<50 and GS>50 classes were based on historic trends, COLLUS' overall outlook and associated capital spending plans appear to be based on the view that there will aggressive load growth over the next few years²². VECC is not recommending any increases to the load forecast based on this view. However, this outlook will inform VECC's submissions regarding COLLUS' request for a variance account to address the potential loss of its remaining Large Use customer.

Miscellaneous Revenues

- 3.8 VECC notes that in response to various interrogatories COLLUS has undertaken to include interest income as miscellaneous revenues²³. In the second round of interrogatories, this value was updated to \$46,000²⁴. VECC agrees with this change. VECC has no other submissions regarding COLLUS' miscellaneous revenue forecast.

4 Operating Costs

OM&A Costs

- 4.1 Between 2007 and 2009 COLLUS' OM&A costs are projected to increase by

²¹ Exhibit 3/Tab 2/Schedule 2, pages 1-2

²² For example, see OEB Staff Round #1 - 3.6 c) & #6.2; OEB Supplementary # 1 and VECC #39

²³ VECC #19 and Board Staff Round 1 - #6.6

²⁴ OEB Staff Round 2 - #4.3

\$512,051 (or 15.6%). The key contributors to this increase are:

- Labour Expenses – which increase by \$387,813 (or 25%) over the two years²⁵
- Contract Service Costs - which increase by \$109,518 (or 30%)
- 2009 Rate Application – which adds \$40,000
- Miscellaneous Expenses – which increase by \$4,731
- CIS Purchase (offset) – which reduces leasing costs by \$30,000.

4.2 In terms of Contract Services, a major contributor to the increase is a \$46,576 increase in contract services for vegetation management. As outlined in response to VECC #36, COLLUS has moved from using both internal and contracted staff to relying entirely on contracted staff for vegetation management. However, as VECC #36 also shows the total annual cost of tree-trimming has increased in 2008 and 2009 to \$115,000 and \$100,000 respectively as COLLUS moves from a two-year to a three-year cycle.

4.3 COLLUS explains that this increase is due to the need for lower clearances and to remove more brush during the first three year cycle²⁶. The Utility also indicates that after this first cycle costs will be lower. VECC submits that based on this information it would be reasonable to expect tree trimming costs in 2010 and 2011 to be less than those incurred in 2006 and 2007. Using a cost of \$60,000 per annum²⁷ for 2011 and 2012 suggests an average annual cost over the 3GIRM period of \$80,000²⁸. Based on this average, VECC submit that the contracting out costs included in the 2009 rates should be reduced by \$20,000.

4.4 The \$40,000 in regulatory costs associated with the 2009 Rate Application is based on total cost of \$160,000²⁹ spread over the four-year 3GIRM period. VECC

²⁵ OEB Staff Round 1 - #1.2 b)

²⁶ COLLUS' January 16, 2009 Supplementary Clarification

²⁷ The annual cost for a full two year cycle was less than \$160,000 over 2006/2007. Given that contracting out is likely cheaper than doing the work internally, \$180,000 as the future cost for a complete cycle of work (or \$60,000 per annum) appears more than reasonable, even allowing for inflation.

²⁸ \$100,000 in 2009 and 2010 followed by \$60,000 in 2011 and 2012

²⁹ OEB Staff Round 1 - #1.8

notes that included in this estimate is \$35,000 for a Technical Conference and another \$35,000 for an oral hearing. Furthermore, there are only 4 intervenors that have been at all active in the process and who are eligible for cost awards as opposed to the 5 assumed in the original budget. This would suggest that the budget for intervenor costs could also be reduced by 20% to \$40,000. VECC submits that, overall, it would be reasonable to reduce the total budget for the 2009 Application to \$80,000 which would lead to a \$20,000 reduction in regulatory costs to be included in the 2009 revenue requirement.

Compensation

- 4.5 The roughly 25% increase in labour expenses over the two year period is due to an increase in FTE (associated with OM&A) of over 15% plus a more than 8% increases in compensation per employee³⁰. The staffing increase is mainly attributable to the hiring of 2 new journey linepersons that are part of COLLUS succession planning³¹.
- 4.6 What VECC finds troubling are the projected year over year increases in compensation per employee. Total compensation increases for 2008 and 2009 include an average adjustment of 3% prior to any allowance for employee progression³². However, for non-union staff (whose wages are typically recorded as Billing & Collecting; Community Relations and Administration & General Expenses) the average adjustment is 4% in each of these years³³. With inflation running at roughly half this for 2008³⁴ and projected to be less still for 2009³⁵ this level annual inflation increase is excessive. VECC submits that the wages included in the 2009 rates should reflect an inflationary increase of no more than 2% in 2008 and no more than 1% for 2009, as opposed to the 3% used by

³⁰ OEB Staff Round 1 - #1.2 c)

³¹ Exhibit 4/Tab 2/Schedule 3, page 5

³² OEB Staff Round 1 - #1.2 c)

³³ VECC 21 a) & b)

³⁴ Bank of Canada reports that CPI for the period December 2007 to December 2008 increased by 1.2% and the Core CPI increased by 2.4%

³⁵ The Bank of Canada's most recent Monetary Policy Report Update (January 2009) notes that the latest Consensus Forecast is calling for total CPI inflation of 0.7%.

COLLUS in each year. VECC estimates that apply these lower inflation rates to the non-union staff³⁶ would translate into a reduction in total OM&A expenses for 2009 of \$40,000³⁷.

- 4.7 Based on the foregoing comments, VECC submits that COLLUS total OM&A costs for 2009 should be reduced by \$80,000.

5 Losses

- 5.1 COLLUS' proposed Total Loss Factor is 1.0750 for secondary metered customers. This value is based on a Supply Facility Loss Factor of 1.034 and a Distribution Loss Factor of 1.0397. This later value is calculated using data for 2005-2007 so as to capture the most recent impact of it largest customer ceasing operations³⁸. VECC submits that the Board should accept COLLUS' proposal.

6 Cost of Capital/Capital Structure

- 6.1 COLLUS' proposed capital structure is consistent with the Board's December 2006 Report and should be accepted by the Board. VECC notes that COLLUS has also acknowledged that both the cost of short-term debt and the cost equity will be updated in accordance with the Board's Guidelines³⁹.
- 6.2 In response to a Board Staff interrogatory, COLLUS has acknowledged that the interest rate on the promissory note payable to the Town of Collingwood will be adjusted when the Board sets the 2009 deemed rate for long-term debt⁴⁰.
- 6.3 COLLUS' forecast long-term debt for 2009 also includes a demand loan to be

³⁶ Union staff was excluded due to uncertainty as to the increases required under their contracts.

³⁷ Based on the difference in the 2009 average annual wage for each employee group assuming an escalation of 2% in 2008 and 1% in 2009 versus assuming 4% in each year applied to the 2009 staff count.

³⁸ Exhibit 4/Tab 2/Schedule 7, page 1

³⁹ Energy Probe Round 1 - #22

⁴⁰ Board Staff Round 1 - #2.1

issued in January 2009 with a 5-year term at a projected rate of 5.08%⁴¹.

COLLUS has indicated that the 5.08% is based on the rates quoted for the OSIFA Loan Program for Municipal Corporations⁴² and that they intend to adjust it to the available 25-year rate when the final Rate Order is being made.

- 6.4 VECC agrees with the submissions of Energy Probe that, in the event the loan has been issued then the appropriate rate is the one obtained from Infrastructure Ontario. Otherwise, the Board should use the 5-year rate (consistent with the planned term of the loan) published by Infrastructure Canada as of the date of the Board's Decision.

7 Deferral and Variance Accounts

- 7.1 COLLUS is not requesting the disposition of any deferral or variance accounts as part of the current Application⁴³.
- 7.2 However, COLLUS is requesting a new variance account that could be used in the event of the loss of its other Large Use customer. The Applicant has also raised the issue of how costs associated with the implementation of IFRS will be managed during 2009 and the balance of the 3GIRM period⁴⁴.
- 7.3 With regards to IFRS, VECC notes that in response to other utilities who have requested variance accounts to address the issue, the Board has indicated that the matter requires a "sector-wide approach" and would not be dealt with as part of an individual application⁴⁵. As a result, VECC submits that the treatment of COLLUS' IFRS-related costs should not be addressed as part of this Application.
- 7.4 With respect to the requested variance account to address the possible loss of COLLUS' Large Use customer, VECC submits that this request should not be approved.

⁴¹ Exhibit 6/Tab 1/Schedule 3, page 1

⁴² Board Staff Round 1 - #2.2

⁴³ VECC #25 c)

⁴⁴ November 28, 2008 cover letter to the Round 1 Interrogatory Responses.

⁴⁵ EB-2008-0171, Board's Letter of December 1, 2008.

- 7.5 In its July 2008 Report regarding 3rd Generation Incentive Regulation the Board indicated that it would limit the reliance on the creation of new deferral accounts during the 3GIRM period⁴⁶. VECC submits that, in lieu of this, the Board provided for Z-factors to be included in the 3GIRM in order to address unforeseen events. Furthermore, it appears that the loss of COLLUS' remaining Large Use customer would qualify for Z-factor consideration⁴⁷.
- 7.6 Having said this, in VECC's view, consideration of whether the customer loss requires an adjustment in COLLUS rates is more than simply a matter of calculating the lost revenue associated with this one customer. As noted earlier, COLLUS has indicated that it expects new load growth both through the development of new subdivisions and the expansion of existing customers. VECC submits that it will be necessary for the Board to look at COLLUS' overall load levels when deciding what if any adjustments are necessary in the event this one large customer is lost.

8 Payments in Lieu of Taxes

- 8.1 VECC notes that COLLUS has updated⁴⁸ its calculations to reflect the actual mechanics involved in the determination of Ontario income tax. VECC agrees with this revised approach as it more accurately reflects what COLLUS will be required to pay. VECC submits that both the income and capital tax calculations should be further updated to reflect any Federal or Provincial changes announced prior to the preparation of the actual Rate Order.

9 Cost Allocation

Results of COLLUS' Cost Allocation Informational Filing

⁴⁶ Page 47

⁴⁷ VECC #35 indicates that the revenue exceeds \$50,000 which is the materiality threshold for distributors with a distribution revenue requirement equal to or less than \$10 million.

⁴⁸ OEB Staff Round 1 - #5.1

9.1 In January 2007 COLLUS submitted its Cost Allocation Informational Filing to the Board based on its approved 2006 distribution rates⁴⁹. However, in early 2006 one of COLLUS major customers (ALCOA Wheel Products) announced that it was closing operations. As result, COLLUS updated its Cost Allocation Informational Filing to reflect the changes in loads and revenues associated with removing ALCOA from the analysis. COLLUS has used the revenue to cost ratios from this analysis to guide its proposed cost allocation adjustments for 2009⁵⁰.

9.2 In response to interrogatory requests⁵¹ COLLUS' revised the updated to cost allocation to correct for not also removing the cost of the transformer discount associated with ALCOA from the original update and filed updated versions of Exhibits 8 and 9. Based on these results, the revenue to cost ratios from the cost allocation study are summarized as follows:

- Residential 113.79% R/C ratio
- GS<50 96.30% R/C ratio
- GS>50 42.21% R/C ratio
- Large Use 120.76% R/C ratio
- Street Lighting 15.84% R/C ratio
- USL 82.37% R/C
- Total 95.42%

The total revenue to cost ratio is less than 100% because the updated cost allocation study removed the revenue (and loads) associated with ALCOA but did not adjust the costs.

9.3 VECC has two concerns with the revenue to cost ratios as presented by COLLUS. First, it is not clear that COLLUS has “completely” removed the cost of the transformer allowance associated with ALCOA from the results provided in response to VECC #47. VECC notes that, as compared to the original updated results provided in OEB Round 1 - #8.1, while the total revenue requirement has

⁴⁹ Exhibit 8/Tab 1/Schedule 2, page 1

⁵⁰ Exhibit 8/Tab 1/Schedule 2, pages 2-4

⁵¹ VECC #47

been reduced by \$72,068 (the ALCOA TOA), the revenues are unchanged. VECC also notes that, as compared to the results from VECC #33 c) where all transformer costs and revenues are correctly removed⁵², the change in Distribution revenues (\$187,730) does not equal the Revenue Requirement (\$115,662). It appears that in responding to VECC #47 c), COLLUS did not reduce the distribution revenue for the Large Use class by the \$72,068 in transformer discount associated with ALCOA. VECC would invite COLLUS to address this point in its reply submissions.

9.4 VECC's second concern is that while COLLUS acknowledges⁵³ that the overall revenue to cost ratio was less than 100%, the Applicant used the numbers from the study to assess conformance with the Board's guidelines and determine the proposed revenue to cost ratio for 2009⁵⁴. A similar situation arose last year with Lakefront Utilities Inc. and the Board agreed⁵⁵ with submissions made by VECC that it would be appropriate to adjust the revenue to cost ratio for each class so as to yield a 100% revenue to cost ratio overall. Following the same methodology as used for Lakefront (i.e., in COLLUS' case divide the current ratios by .9542) yields the following results:

- Residential 119.25% R/C ratio
- GS<50 100.92% R/C ratio
- GS>50 44.24% R/C ratio
- Large Use 126.56% R/C ratio
- Street Lighting 16.60% R/C ratio
- USL 86.32% R/C ratio
- Total 100.00%

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

⁵² VECC #47 f)

⁵³ Exhibit 8/Tab 1/Schedule 2, pages 2-3

⁵⁴ Exhibit 8/Tab 1/Schedule 2, page 4

⁵⁵ EB-2007-0761 Decision, page 20

- 9.5 COLLUS has used the distribution (percentages) of revenue requirement from its updated Cost Allocation Informational filing to determine what portion of the 2009 revenue requirement would represent 100% cost responsibility for each customer class⁵⁶. VECC has two concerns⁵⁷ regarding this approach.
- 9.6 First, COLLUS is proposing to allocate the “cost” of the transformer ownership allowance solely to the GS>50 class⁵⁸. 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 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 rates⁵⁹.
- 9.7 To accommodate this change, COLLUS removed the cost of the transformer ownership allowance from the allocation of the revenue requirement to customer classes⁶⁰. However, VECC submits that the approach used by COLLUS is incorrect. COLLUS deducted the cost from the GS>50 class’ allocated revenue requirement; while the OEB’s Cost Allocation Model originally allocated it to all customer classes⁶¹. To properly remove the cost of the transformer allowance the

⁵⁶ VECC #45

⁵⁷ As noted earlier, VECC also as concerns to whether the adjustments made to derive the January 2009 revised Cost Allocation were correct.

⁵⁸ Exhibit 9/Tab 1/Schedule 1, pages 6-7

⁵⁹ For example, Horizon Utilities, Hydro Ottawa and Enersource Mississauga.

⁶⁰ VECC #45 – Table Footnote

⁶¹ VECC#3 a)

allocated costs must be removed from each customer class.

- 9.8 In response to VECC #33 c), COLLUS 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 allowance⁶². VECC submits that these results more closely represent the appropriate reference point to use. VECC notes that in its Decision regarding Horizon's 2008 Rates⁶³ the Board accepted a similar adjustment to the Cost Allocation Model for purposes of setting the distributor's rates.
- 9.9 The following table summarizes the revenue to cost ratios from VECC #33 c), after the revenues have been adjusted (per the earlier discussion) to yield a 100% revenue to cost ratio overall.

Current Revenue to Cost Ratios
(With Removal of Transformer Ownership Allowance)

Residential	124.4%
GS<50	105.3%
GS>50	36.4%
Large Use	59.3%
Street Lights	17.5%
USL	89.3%

- 9.10 VECC's second concern is with COLLUS' use of the class revenue requirement distribution from the Cost Allocation Informational filing to determine 100% cost responsibility for 2009⁶⁴. 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 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

⁶² 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.

⁶³ EB-2007-0697 Decision and OEB Letter to VECC dated October 24, 2008.

⁶⁴ VECC #45

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 Application⁶⁵.

9.11 In response to VECC #29 b) COLLUS 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

	<u>Current Rates</u>	<u>Cost Allocation Filing</u>
Residential	72.75%	74.36%
GS<50	15.82%	16.55%
GS>50	6.73%	5.65%
Large Use	3.76%	2.39%
Street Lights	0.79%	0.75%
USL	0.14%	0.30%

9.12 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 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

⁶⁵ Examples include Westario Power (EB-2008-0250); COLLUS Power (EB-2008-0226) and Bluewater Power (EB-2008-0221)

informational filing.

9.13 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 COLLUS' values.

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

	<u>COLLUS'</u> <u>Values</u>	<u>VECC's</u> <u>Recommended Values</u>
Residential	61.15%	56.42%
GS<50	16.28%	14.77%
GS>50	14.68%	18.13%
Large Use	2.81%	5.77%
Street Lights	4.72%	4.72%
USL	0.36%	0.19%

Sources:

- 1) COLLUS' values - Based on Column E from VECC #45
- 2) Appenedix B

9.14 It should be noted that there are material changes for most of the class values. This is due to the fact that the recommended values are correcting not only for shift in load as between 2006 EDR and the 2009 Application but also due to the need to correct for how COLLUS removed the cost of the transformer ownership allowance. 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 COLLUS' 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

9.15 The following Table compares the COLLUS' proposal for 2009 with the current

revenue to cost ratio corrected to reconcile with 100% for the utility overall⁶⁶.

COLLUS Proposed R/C Ratio Shifts

	<u>COLLUS R/C Ratio</u>	<u>VECC's IR 33 c)</u>	<u>Proposed R/C Ratio</u>
Residential	119.25%	124.4%	109.45%
GS<50	100.92%	105.3%	100.00%
GS>50	44.24%	36.4%	80.00%
Large Use	125.56%	59.3%	100.00%
Street Lights	16.60%	17.5%	42.92%
USL	86.32%	89.3%	100.00%

Note:

1) COLLUS Ratio reflects adjustment to equate total to 100%

2) Ratios from VECC 33 c) also adjusted to equate total to 100%

9.16 VECC agrees with COLLUS proposal to increase the revenue to cost ratio for Street Lights half way to the lower end of the Board's recommended range. This is consistent with the Board's approach in many of its 2008 Cost of Service Decisions. However, based on VECC 33 c) the half way point is 43.75%.

9.17 VECC also agrees with COLLUS plan to move the GS>50 ratio up to the lower end of the range. However, in view of the increase required, VECC submits that this should be done in stages - again consistent with the approach set out in Board's various 2008 Decisions and mindful of the total bill impacts.

9.18 In the case of the Large Use class, correcting for the treatment of transformer allowance leads to a revenue to cost ratio that is below the Board's recommended range. Following the practice set in the Board's 2008 Decisions it would be appropriate to increase this ratio to 72.15%⁶⁷, subject to bill impact considerations based on the final revenue requirement determination.

9.19 VECC does not agree with the Applicant's proposal to increase the USL ratio to

⁶⁶ The determination of the adjusted values is shown in Appendix B

⁶⁷ This represents 50% of the required adjustment to meet the Board's 80% minimum guideline.

100%. The ratio for the class is comfortably within the Board's Guidelines (80-180%) and VECC does not see any rationale to increase further unless "revenues" are required to reduce specific customer class' ratios to the top end of the Board's Guidelines. Similarly, VECC does not support COLLUS' proposal to reduce the GS<50 ratio to 100%.

9.20 The Board, through the "Application of Cost Allocation for Electricity Distributors: Report of the Board", (the "Report") has reviewed the Cost Allocation Model and the data used in running it and determined that, as evidence of cost causality, it is inappropriate to rely on runs of the model to move to a revenue to cost ratio of unity. Rather, the Board has adopted a range approach as opposed to the implementation of a specific revenue to cost ratio⁶⁸ The Report cited several reasons for reaching the conclusion that the Cost Allocation Study could not be strictly applied, including:

- the quality of the data (both accounting and load data),
- limited modeling experience, and
- the status of the current rate classes.

9.21 VECC submits that the appropriate approach is to leave the revenue to cost ratios for GS<50 and USL at their current levels (105.3% and 89.3% respectively). The revenue gained from increasing the ratios for the GS>50, Large Use and Street Lighting classes should first be used to move both the Residential ratio down to that of the GS<50 class.

9.22 VECC recognizes that in limited instances⁶⁹ the Board has approved distributors' requests to move their revenue to cost ratios to virtually 100%. However, the preponderance of the decisions from the 2008 rate setting process support the approach recommended by VECC:

- 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

⁶⁸ Page 4

⁶⁹ The only one VECC is readily aware of is Erie Thames – EB-2007-0928

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.

10 Rate Design

10.1 COLLUS has established the fixed monthly charge for the Residential class by

maintaining the fixed-variable split calculated based on current rates⁷⁰. VECC notes the resulting monthly service charge is within the range established by the Board's Guidelines⁷¹ and, therefore, agrees that the Utility's approach is acceptable.

11 Retail Transmission Rates

11.1 COLLUS is proposing to maintain its Retail Network Transmission rates at current levels. This proposal is based on the fact that while the uniform rate for Network Service is increasing by 11.5%, COLLUS' current revenues from this charge are typically recovering 11.8% more than the current charges from the IESO. For the Retail Connection Transmission rate, COLLUS is proposing to increase it in line with the recent 5.5% increase in wholesale rates. In this case, COLLUS notes that the current retail rates are generally just covering the charges from the IESO⁷². VECC submits that the Board should accept COLLUS proposed Retail Transmission Service rates.

12 Smart Meters

12.1 In response to a VECC interrogatory⁷³ COLLUS indicated that it had recently been authorized to proceed with Smart Meter acquisition. COLLUS also indicated in other first round response that it was applying for a \$1.00 Smart Meter rate adder and submitted the supporting materials required by the Board's Guidelines⁷⁴. VECC submits that the Board should accept COLLUS' request for the \$1.00 adder.

13 Recovery of Reasonably Incurred Costs

13.1 VECC submits that its participation in this proceeding has been focused and

⁷⁰ VECC #32

⁷¹ OEB Round 1 - #8.2

⁷² OEB Staff Round 1 - #9.2 a) & b)

⁷³ VECC #5 b)

⁷⁴ OEB Staff Round 1 - #4 b)

responsible. Accordingly, VECC requests an award of costs in the amount of 100% of its reasonably-incurred fees and disbursements.

Respectfully Submitted on the 13th Day of February 2009

Michael Buonaguro
Counsel for VECC

APPENDIX A

Comparison of Revenue Responsibility

	<u>2009 @ Current Rates</u>							<u>Cost Allocation Filing</u>	
	<u>Volumes</u>		<u>Rates</u>		<u>Tx</u>	<u>Total</u>	<u>%</u>	<u>Reported</u>	<u>%</u>
	<u>Fixed</u>	<u>Variable</u>	<u>Fixed</u>	<u>Variable</u>	<u>Allowance</u>	<u>Revenue</u>		<u>Dx Rev</u>	
Residential	13011	121128423	9.26	0.01709	0	3,515,867	72.75%	3,316,640	74.36%
GS<50	1588	45443633	16.26	0.01	0	764,287	15.82%	738,320	16.55%
GS>50	127	300721	54.14	1.0626	76,779	325,276	6.73%	251,985	5.65%
Large Use	1	75012	6908.18	1.91836	45,007	181,791	3.76%	106,741	2.39%
Street Lights	3051	6087	0.61	2.6368	0	38,384	0.79%	33,387	0.75%
USL	68	455701	0	0.01509	0	6,877	0.14%	13,349	0.30%
Total						4,832,481		4,460,422	100.00%

- Notes:
- 1) Cost Allocation filing based on VECC #33 c) adjusted for 2006 Transformer Allowance
 - 2) 2009 @ 2008 Rates based on VECC Round 2 - #46 adjusted for 2008 Transformer Allowance
 - 3) Based on the 2008 Rates and 2009 Volumes reported for GS<50 VECC is not able to duplicate the fixed charge revenue reported for this class

APPENDIX B

100% COST RESPONSIBILITY BASED ON 2009 REVENUES @ CURRENT RATES

		<u>Total</u>	<u>Residential</u>	<u>GS <50</u>	<u>GS>50-Regular</u>	<u>Large Use</u>	<u>Street Light</u>	<u>USL</u>
<u>Cost Allocation Results - Revenue</u>								
#1	Distribution Revenue	4,460,422	3,316,640	738,320	251,985	106,741	33,387	13,349
#2	Miscellaneous Revenue	327,742	231,184	60,964	24,993	4,192	4,755	1,655
#3	Total Revenue	4,788,164	3,547,824	799,284	276,977	110,933	38,142	15,004
#4	Total Revenue %		74.10%	16.69%	5.78%	2.32%	0.80%	0.31%
#5	Dx Revenue %		74.36%	16.55%	5.65%	2.39%	0.75%	0.30%
#6	Misc Revenue %		70.54%	18.60%	7.63%	1.28%	1.45%	0.50%
<u>Cost Allocation Results - Revenue Requirement</u>								
#7	Revenue Requirement	5098981	3036570	808570	811097	199234	231622	17889
#7 a)	Adjusted Total Revenue (for 100% R/C)	5098981	3778126.056	851168.4081	294956.5763	118134.0613	40617.93483	15977.96377
#8	Revenue to Cost Ratios		124.42%	105.27%	36.37%	59.29%	17.54%	89.32%
#9	Adjustment Factor for Rev=RR		0.8037	0.9500	2.7499	1.6865	5.7025	1.1196
<u>2009 Rates</u>								
#10	2009 Dx Revenue at Current Rates	4,832,481	3,515,867	764,287	325,276	181,791	38,384	6,877
<u>Determination of 100% Dx Revenue Allocation</u>								
#11	- Misc Revenue (2009 Rates)	372,000	346,525	91,380	37,462	6,283	7,127	2,481
#12	- Total Revenue (@ Current Rates)	5,204,481	3,862,392	855,667	362,738	188,074	45,511	9,358
#13	- Adjusted Total Rev 100% Cost by Class	5,501,821	3,104,296	812,843	997,489	317,189	259,526	10,477
#14	- Adjustment to Reconcile 2009 SRR	6,081,545	3,431,395	898,492	1,102,594	350,611	286,873	11,581
#15	- 2009 Dx Revenue for 100% R/C Ratio	5,709,545	3,084,870	807,112	1,065,132	344,328	279,745	9,100
#16	- Dx Revenue Proportions for 100%		54.03%	14.14%	18.66%	6.03%	4.90%	0.16%
#17	- Total Service Revenue Proportions for 100%		56.42%	14.77%	18.13%	5.77%	4.72%	0.19%

Notes:

- #1-#3 - from VECC #33 c)
- #4-#6 - based on values set out in preceding rows
- #7 - from VECC #33 c)
- #7 a) - Adjustment based on Board's Decision EB-2007-0761 -- Proportional increase to all Classes Total Revenues to Equal Revenue Requirement
- #8 - based on Row #3/Row #7 a)
- #9 - Based on Row #7 a)/Row #3
- #10 - Based on Appendix A
- #11 - Based on 2009 proposed Misc. Revenues (Exhibit 9 Update - Table 1) 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)
Total Service Revenue Requirement from Updated Exhibit 9 - Table 1
- #15 - Based on Row #14 less Row #11
- #16 - Based on values in Row #15
- #17 - Based on values in Row #14