



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 17, 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-2008-0238
Northern Ontario Wires Inc. – 2009 Electricity Distribution Rate
Application

Please find enclosed the submissions of the Vulnerable Energy Consumers Coalition (VECC) in the above-noted proceeding.

Thank you.

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 Northern Ontario Wires Inc. 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 17, 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**

Vulnerable Energy Consumers' Coalition (VECC)
Final Argument

1 The Application

- 1.1 Northern Ontario Wires Inc. ("NOW" or "the Applicant" or "the Utility") filed an application ("the Application") with the Ontario Energy Board ("the Board" or "the OEB") on August 20, 2008 under section 78 of the Ontario Energy Board Act, 1998 for electricity distribution rates effective May 1, 2009. The Application requested a distribution service revenue requirement of \$3,139,087 for the 2009 test year and claimed a revenue deficiency of \$382,158¹ based on existing rates. The associated percentage increase in distribution revenues was 15.5%².
- 1.2 On January 10, 2009 NOW 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 \$387,211 and the associated increase in distribution revenues was 15.7%.
- 1.3 In its Application NOW has also requested: (i) Approval for revised Retail Service Transmission Rates⁴ and (ii) Approval of a \$1.00/customer/month smart meter rate adder⁵. The Applicant did not apply⁶ to dispose of any variance or deferral accounts and, in response to a VECC interrogatory⁷ the Applicant also clarified that it was not applying for any new variance or deferral accounts.
- 1.4 The following sections contain VECC's final submissions regarding NOW's' Application.

¹ VECC #17 a)

² Based on the claimed deficiency and distribution revenues at current rates (excluding miscellaneous revenues) of \$2,459,426 - VECC #17 a)

³ VECC #26

⁴ OEB Staff Round 1 - #40 c)

⁵ OEB Staff Round 1 - #19

⁶ Exhibit 5/Tab 1/Schedule 1, page 1

⁷ VECC #1

2 Rate Base and Capital Spending

Capital Spending

- 2.1 NOW's capital additions are projected to increase from \$183,655 in 2006 to \$391,000 in 2009⁸. NOW has acknowledged⁹ that there was little capital spending from 2003 to 2006 for financial reasons and that its infrastructure is in need of upgrading. Indeed, spending levels have increased significantly in 2007 and 2008.
- 2.2 In 2008 capital spending totaled \$615,215 primarily due to the need to upgrade computer hardware and software that would not be supported in the future (\$184,665) and the need to replace 2 vehicles (\$267,500)¹⁰. The balance of the 2008 spending was for rebuilding/replacement of distribution facilities (e.g., poles, conductors, etc.), tools and meters. In 2009, spending on distribution facilities is slightly below 2008 levels and the major expense is associated with the purchase of a new building to replace facilities that are currently rented¹¹.
- 2.3 VECC notes that NOW completed an Asset Condition Assessment study in 2006 which it uses to prioritize maintenance and capital projects¹². VECC also notes that the current proposed spending addresses all of the requirements NOW has identified through its planning process¹³. VECC submits that the Board should accept the inclusion of the proposed capital spending in Rate Base for 2009.
- 2.4 VECC has reviewed Board Staff's submissions and agrees that capital plans should be based on proactive approach that incorporates asset condition assessment results as well as maintenance and reliability trends. To this end, VECC agrees that before NOW's next rebasing application its asset condition assessment study should be updated and used to develop a long-term capital plan.

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

⁹ SEC #6 and Board Staff Round 1 - #2 b)

¹⁰ Board Staff Round 1 - #15 d)

¹¹ Exhibit 2/Tab 3/Schedule 2, page 1

¹² Board Staff Round 1 - #2 a)

¹³ VECC #27

- 2.5 However, VECC does not agree with the suggestion that depreciation charges form a useful benchmark for determining the appropriate level of capital spending. Depending upon the age profile and condition of utility's assets, the required capital spending levels could be more or less. This is particularly true in circumstances such as NOW's where there has been little growth in the past.

Working Capital

- 2.6 In response to the first round of interrogatories NOW acknowledged¹⁴ the need to update its working capital allowance to incorporate both the new cost of power rates associated with RPP pricing as well as its updated Retail Transmission Rates.
- 2.7 In response to VECC #28, NOW provided an update to its working capital allowance based on the Fall 2008 RPP pricing. However, NOW did not use the cost of RPP as set out in the Board's October 2008 report but rather used the average price "paid" by its Residential customers. In other submissions¹⁵, VECC has recommended 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. NOW's application has added another dimension to this issue by suggesting that the price may vary depending upon the average monthly use of a utility's RPP customers.
- 2.8 Finally, VECC notes that NOW does not appear to have updated its working capital allowance calculation to account for the January 2009 increase in Uniform Transmission Rates.

3 Load Forecast and Revenue Offsets

Load Forecast

¹⁴ OEB Staff Round 1 - #17 b)

¹⁵ For example Niagara on the Lake and COLLUS

- 3.1 NOW has weather normalized¹⁶ the historical usage for each of its customer classes¹⁷ by applying a “factor” that consists of: a) the IESO’s average weather correction for the year and b) a “NOW factor” determined as the ratio of NOW’s weather sensitive load to total load – based on HON’s 2004 Load Study¹⁸. These results were then used to establish a weather normal average use per customer for each class which was then multiplied by the forecast number of customers in each class for 2008 and 2009¹⁹.
- 3.2 VECC has serious concerns regarding NOW’s weather normalization methodology. For any given year, the IESO’s average weather correction factor will capture weather impacts across the entire province and in doing so, will reflect not only the variations in the weather itself across the entire province but also amount of weather sensitive load in various locations across the province. In VECC’s view there is absolutely no basis on which to assume that the IESO factor would be an appropriate adjustment to apply to NOW’s load (which is influenced by local weather and the local penetration of weather sensitive loads) in total let alone by customer class.
- 3.3 At first glance it appears that the purpose of the NOW factor is to adjust the IESO factor to make it relevant to local conditions. However, NOW has stated that “the adjustment factor does not attempt to adjust the weather correction the IESO performed to a NOW specific value”²⁰. Indeed, conceptually VECC does not see how applying the ratio of NOW’s 2004 weather sensitive load relative to its total load would result in any such adjustment to the IESO factor and NOW has been unable to adequately explain how it works. Indeed, NOW has indicated that it does not even know how this factor was determined²¹. Overall, VECC submits that the approach used by NOW should be not be accepted by the Board as a

¹⁶ Exhibit 3/Tab 2/Schedule 1, page 1

¹⁷ While Exhibit 3/Tab 2/Schedule 1, page 1 states the factor was applied to all classes the calculations shown in Exhibit 3/Tab 2/Schedule 2, page 3 do not apply the factor to Street Lighting and USL

¹⁸ Board Staff Round 1 - #24 a).

¹⁹ Exhibit 3/Tab 2/Schedule 2, page 2

²⁰ VECC #10 b)

²¹ VECC #30 a)

viable weather normalization methodology.

- 3.4 Absent any other data, VECC has reviewed the historical average non-weather normalized use for each customer class²² and determined that, in each case, the values proposed by NOW vary by less than 2% from the historical averages²³. Based on these small differences, VECC accepts that it would be reasonable to accept the average use values proposed by NOW for 2008 and 2009 for purposes of establishing the load forecast for those years. However, in doing so, VECC emphasizes that this does not represent acceptance of NOW's weather normalization methodology and disagrees with Staff's submission²⁴ that the overall forecasting methodology is reasonable.
- 3.5 In terms of forecast customer count, the forecast is based on NOW's assessment of current trends and economic conditions as opposed to any particular analytical approach (such as use of historic trends or growth rates)²⁵. VECC notes that relative to actual November 2008 values²⁶ the forecast 2008 customer counts for Residential and GS >50 are too low, while that for GS<50 is likely too high. In the case of Residential the variation is very small. However, for the GS classes the variation is larger (i.e., in excess of 2%). VECC notes that the updated customer count trends in the GS classes tend to offset (directionally) the differences in average use noted earlier. As result, VECC submits that the forecast customer count should be adopted in conjunction NOW's proposed average use per customer for each class.

Miscellaneous Revenues

- 3.6 The Application appears to suggest that the interest income reported is net of

²² 2002-2007 for Residential and 2006-2007 for GS<50 & GS>50 based on concerns expressed in Exhibit 3/Tab 2/Schedule 2, page 2 and corrected data from VECC #30 c)

²³ The actual average used by Residential was 1.1% higher, the GS<50 use was 0.3% lower and the GS>50 use was 1.8% lower.

²⁴ Page 13

²⁵ OEB Staff Round 1 - #23 b) and SEC #7

²⁶ VECC #11 f)

regulatory interest improvement²⁷. However, NOW has also included interest improvement costs for regulatory accounts as an OM&A expense²⁸. VECC will address appropriateness of seeking to recover such expenses in its discussion of OM&A. At this point, VECC simply requests that NOW clarify (in its Reply) whether this expense has also been included as an interest income offset and therefore double counted.

4 Operating Costs

OM&A Costs

- 4.1 Between 2006 and 2009 NOW's OM&A costs are projected to increase by \$404,731 (or 21.2%)²⁹. The key contributors to this increase are:
- Inflation – which accounts for \$160,000
 - Increases in Billing Staff and Management Costs - \$52,500 attributed to return of full-time CFO, an increase in shared staff time and temporary billing assistance.
 - Regulatory Accounting Interest – which accounts for \$46,443.
 - LV Costs – which account for \$118,830
 - Additional Tree Trimming - \$5,000
 - Increased Travel Budget - \$20,000 (for training).
- 4.2 With respect to inflation, NOW has indicated that it has included inflationary adjustments of 3% / annum for both 2008 and 2009³⁰. The 3% inflation rate for 2009 is based on year over year increases in the CPI to June and July 2008³¹. However, VECC notes that by the end of 2008 inflation was significantly lower for the year overall³² and projected to be less still (0.7%) for 2009³³. As a result,

²⁷ Exhibit 3/Tab 3/Schedule 2, page 2

²⁸ OEB Staff Round 2 - #1

²⁹ VECC #33 a)

³⁰ VECC #13 & 23 and SEC #12 & 13

³¹ OEB Staff Round 1 - #5

³² 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%

³³ The Bank of Canada's most recent Monetary Policy Report Update (January 2009) notes that the latest Consensus Forecast is calling for total CPI

VECC submits that the 3% inflation level used by NOW is too high. Overall NOW's projected OM&A costs³⁴ (excluding LV and interest costs) should be reduced by 2%. This would translate into a reduction of just over \$40,000.

- 4.3 NOW's OM&A expense for 2009 includes \$87,576 in interest expenses³⁵. Making up this amount is \$50,943 of Regulatory Interest (on Variance Accounts); \$24,214 in interest on Truck Loans and \$6,119 in Customer Deposit Interest Expense. In VECC's view all three of these items should be excluded from the revenue requirement determination. With respect to the interest on Regulatory Accounts, VECC notes that the balances in these accounts are "improved" to recognize interest costs and that the eventual disposition of any balances includes interest costs. To also include such interest costs in the revenue requirement would result in "double charging" customers. VECC notes that OEB Staff's submissions³⁶ concur with this view.
- 4.4 VECC notes that in response to the second round of interrogatories NOW has agreed that the interest expense on the Truck Loan should be excluded from OM&A expenses as the book value of the vehicles is included in rate base³⁷. However, this reduction was not captured in NOW's response to VECC #26.
- 4.5 In the case of interest on customer deposits, the cost of capital approach adopted by the Board does not recognize that distributors hold customer deposits. In VECC's view, recognition of such interest payments as an expense would only be appropriate if the monies were actually included in NOW's capital structure as a "zero-cost" source of funds.
- 4.6 VECC notes that LV costs should be excluded from OM&A costs and reported separately as an addition to NOW's overall revenue requirement. This would

inflation of 0.7%.

³⁴ Total 2009 OM&A costs are \$2,311,307 (per Exhibit 4/Tab 1/Schedule 1/page 1) and include \$219,055 in LV costs (per OEB Staff Round 1 - #37) and \$87,576 in interest costs

³⁵ OEB Staff Round 2 - #1

³⁶ Page 11

³⁷ OEB Staff Round 2 - #1 c)

ensure that they are not included in the Base Distribution Revenue Requirement that is allocated to customer classes based on the results of the Cost Allocation Informational filing³⁸, but rather allocated separately.

- 4.7 With respect to the additional tree trimming costs, VECC notes that the \$61,332 in non-recurring cost identified for 2008³⁹ already excluded the \$5,000 in ongoing incremental costs for tree trimming⁴⁰. Therefore VECC does not agree with NOW's response to VECC 33 b) and submits that it is appropriate to remove the full \$62,332 from the 2009 proposed OM&A costs.
- 4.8 VECC notes that a portion (\$10,500) of the increase in staffing cost is attributed to temporary billing assistance during the conversion to the new billing system. In VECC's view this is one-time non-recurring cost as such only ¼ of it should be included in the 2009 revenue requirement, assuming a 4 year IRM period. This would reduce 2009 OM&A costs by \$7,875.
- 4.9 Overall, VECC submits that the OM&A costs originally proposed by NOW should be reduced by \$134,150 consisting of:
- \$40,000 – to reflect lower inflation rates for 2009.
 - \$81,276 – to reflect the removal of interest costs associated with customer deposits, regulatory accounts and truck loans
 - \$5,000 – in non-recurring tree trimming costs
 - \$7,875 – in non-recurring billing costs
- 4.10 Also, VECC notes that the current Application includes a full-year's rent on the garage facilities that are being replaced by the new building purchase⁴¹. Since the revenue requirement also includes the cost of the replacement building using the ½ year rule, VECC submits it would reasonable to only include half of the annual

³⁸ The Board's Cost Allocation Methodology used for the CA Informational filings did not include LV costs.

³⁹ VECC #33

⁴⁰ Exhibit 4/Tab 2/Tab 3, page 3

⁴¹ SEC #5 b)

rent in the 2009 rates⁴².

- 4.11 With respect to the increased costs identified during the interrogatory process⁴³, VECC notes and shares Board Staff's concerns⁴⁴ regarding the overlap in staffing and additional costs attributed to the retirement of the existing Superintendent. VECC submits that the original \$30,000 cost estimate⁴⁵ should be considered adequate. This would reduce the claimed⁴⁶ increase in OM&A costs from \$44,053 to \$39,053.

5 Cost of Capital/Capital Structure

- 5.1 NOW's proposed capital structure⁴⁷ is consistent with the Board's December 2006 Report and should be accepted by the Board. VECC notes that NOW has also acknowledged that both the cost of short-term debt and the cost equity will be updated in accordance with the Board's Guidelines⁴⁸.
- 5.2 VECC's has no submissions regarding NOW's proposed cost of capital.

6 Deferral and Variance Accounts

- 6.1 NOW is not requesting the disposition of any deferral or variance accounts as part of the current Application⁴⁹ nor is it requesting any new deferral or variance accounts.

⁴² VECC has been unable to determine the value of the rent included in the current Application based on the record to date.

⁴³ VECC #26

⁴⁴ Page 9

⁴⁵ OEB Staff Round 1 - #5

⁴⁶ VECC #26

⁴⁷ Exhibit 6/Tab 1/Schedule 1, page 1

⁴⁸ Board Staff Round 1 - #18

⁴⁹ VECC #25 c)

- 6.2 VECC notes and concurs with OEB Staff's submissions⁵⁰ regarding an error the Applicant now seeks to correct in the 2006 balance for Account #1571 – which has already been cleared and discontinued.

7 Payments in Lieu of Taxes

- 7.1 VECC has also reviewed and concurs with OEB Staff's submissions⁵¹ regarding a) the additions of deemed/deduction of actual interest expense and b) the need to correct for the appropriate CCA rates.

8 LV Costs

- 8.1 The original Application indicated that there were \$219,055 in LV costs included in OM&A. However, in response to OEB Staff Round 1 - #34 c), the forecast LV costs for 2009 were revised to \$123,828.32 and then revised further in OEB Staff Round 2 - #8 b) to \$149,844.66. VECC notes that even this revision appears to be based on the LV rates Hydro One Networks applied for in EB-2007-0681 and needs to be updated to reflect the final rates approved by the OEB January 28, 2009.

9 Cost Allocation

Results of NOW's' Cost Allocation Informational Filing

- 9.1 NOW's Cost Allocation Informational Filing produced⁵² the following revenue to cost ratios:

- | | |
|-------------------|---------|
| • Residential | 97.92% |
| • GS<50 | 107.25% |
| • GS>50 | 162.28% |
| • Street Lighting | 26.02% |
| • USL | 127.53% |

⁵⁰ Pages 24-26

⁵¹ Pages 4-5

⁵² Exhibit 8/Tab 1/Schedule 2, page 2

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

- 9.2 NOW 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 class⁵³. VECC has three concerns regarding this approach.
- 9.3 First, NOW's LV costs were included in OM&A expense and therefore included in the Distribution Revenue Requirement to which the proposed cost allocation adjustments were applied. However, LV costs were not addressed in the OEB's cost allocation methodology and, indeed, the Board has adopted a specific approach to allocating these costs⁵⁴. In response to VECC #31 c) NOW has provided the allocation percentages based on the expected Retail Transmission Connection charges to each customer class. VECC submits that these values should be used in allocating LV costs and that LV costs should be removed from the costs being allocated in accordance with the revenue to cost ratios.
- 9.4 Second, the treatment of transformer ownership 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.

- 9.5 To accommodate this change, NOW should remove the cost of the transformer

⁵³ VECC #20 b)

⁵⁴ LV costs are typically allocated to customer classes based each class' share of Retail Transmission Connection charges.

ownership allowance from the allocation of the revenue requirement to customer classes and, instead allocate it directly to the GS>50 class after the cost allocation adjustments have been completed. NOW claims that this was not the intent of the OEB Cost Allocation methodology⁵⁵. However, VECC would note that the Board's Report on Cost Allocation did not address the treatment of the transformer ownership allowance⁵⁶. Rather the current model's treatment was subsequently included without any formal review or consideration. Indeed the issue only came to light during the 2008 EDR process and VECC notes that its proposed treatment is consistent with the approach approved for a number of distributors' 2008 rates⁵⁷.

9.6 In response to VECC #35 a), NOW 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 allowance⁵⁸. VECC submits that these results more closely represent the appropriate reference point to use.

9.7 The following table summarizes the revenue to cost ratios from VECC #35 a):

• Residential	99.80%
• GS<50	108.58%
• GS>50	141.08%
• Street Lighting	27.98%
• USL	132.74%

9.8 VECC's third concern is with NOW's' use of the class revenue requirement distribution from the Cost Allocation Informational filing to determine 100% cost responsibility for 2009⁵⁹. 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

⁵⁵ VECC #35

⁵⁶ OEB Cost Allocation Review Report EB-2005-0317, September 2006

⁵⁷ For example, Horizon Utilities, Hydro Ottawa and Enersource Mississauga.

⁵⁸ 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.

⁵⁹ VECC #20 b)

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 Application⁶⁰.

- 9.9 In response to VECC #18 c) NOW 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 Revenue Responsibility

	<u>2009 @ 2008 Rates</u>	<u>2006 CA</u>
Residential	63.42%	62.28%
GS<50	17.90%	21.07%
GS>50	16.91%	14.83%
Street Lights	1.63%	1.49%
USL	0.15%	0.33%

- 1) Cost Allocation filing based on VECC #35 a)
2) 2009 @ 2008 Rates based on VECC #36

- 9.10 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

⁶⁰ Examples include Westario Power (EB-2008-0250); COLLUS Power (EB-2008-0226) and Bluewater Power (EB-2008-0221)

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.

9.11 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 NOW's values.

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

	NOW's Values	VECC's <u>Recommended Values</u>
Residential	62.41%	63.51%
GS<50	19.19%	16.78%
GS>50	9.74%	11.42%
Street Lights	8.41%	8.16%
USL	0.25%	0.12%

Sources:

- 1) NOW's values - VECC #20
- 2) Appenedix B

9.12 VECC submits that the preceding Revenue Share values should be used as the reference point for any cost allocation adjustments (i.e., VECC IR #20 – 2009 Total Revenue Assignment).

Proposed Revenue to Cost Ratios

9.13 The following Table compares the NOW's proposal for 2009 with the current revenue to cost ratios as determined using the CA Informational Filing and in VECC #35.

NOW's Proposed R/C Ratio Shifts

	<u>COLLUS R/C Ratio</u>	<u>VECC's IR 35 a)</u>	<u>Proposed R/C Ratio</u>
Residential	97.92%	99.80%	102.76%
GS<50	107.25%	108.58%	102.76%
GS>50	162.68%	141.08%	102.76%
Street Lights	26.02%	27.98%	70.00%
USL	127.53%	132.74%	102.76%

9.14 VECC fundamentally disagrees with NOW's proposed changes in the revenue to costs ratios. First the proposed movement in the ratio for the Street Lighting class is inconsistent with the approach established by the Board in its 2008 EDR Decisions. In virtually all cases, where a significant increase was required in the revenue to cost ratio for Street Lights in order to achieve the Board's recommended range, the Board directed that the value be increased half way to the lower end of the Board's recommended range. On this basis, VECC submits that the appropriate ratio for Street Lights is 48.99% for 2009.

9.15 Second, NOW is proposing to move the ratio for Residential from below to above 100%. In VECC's view this is also inconsistent with the Board Guidelines which, at best, call for a movement towards 100%.

9.16 Finally, VECC does not agree with the proposal to adjust the revenue to cost ratios for all classes, except Street Lighting, to virtually 100%. 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 ratio⁶¹ The Report cited several reasons for reaching the conclusion that the Cost Allocation Study could not be strictly applied, including:

⁶¹ Page 4

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

9.17 Only the USL ratio falls outside the Board's guidelines (132.74% vs. 120%). The balance of the values are comfortably within the ranges established by the OEB. VECC submits that the appropriate approach is to use the additional revenues generated by increasing the ratio for Street Lights to reduce the ratio for USL. Moving the Street Light ratio to roughly 50% should generate more than sufficient revenues to permit USL to achieve the upper bound of the Board's recommended range and any addition revenues from Street Lights should the be used to reduce the revenue to cost ratio for the GS>50 class.

9.18 VECC recognizes that in limited instances⁶² 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 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

⁶² The only one VECC is readily aware of is Erie Thames – EB-2007-0928

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 VECC notes that the fixed charges quoted by NOW⁶³ appear to include the Smart Meter adder; while the variable charges include LV costs as well as the Basic Distribution Revenue Requirement. As result, it is difficult to determine the underlying shift in responsibility for the Basic Distribution Revenue Requirements as between the fixed and variable charges. However, the fixed monthly charge proposed by NOW for the Residential class is within the range established by the OEB's guidelines⁶⁴.

11 Retail Transmission Rates

11.1 In response to Board Staff requests⁶⁵ NOW has calculated revised Retail

⁶³ Exhibit 9/Tab 1/Schedule 1, page 1

⁶⁴ Exhibit 9/Tab 1/Schedule 1, page 1

⁶⁵ OEB Staff Round 2 - #10 c)

Transmission rates that reflect both the January 1, 2009 increase in the Uniform Transmission rates as well as the tendency of NOW's current Retail Transmission Rates to over recover costs. VECC submits that the Board should approve these revised rates for 2009.

12 Smart Meters

12.1 In response to SEC #2, NOW has indicated that it had recently been authorized to proceed with Smart Meter acquisition. As a consequence, NOW is seeking to increase its Smart Meter Rate Adder to \$1.00 (versus the current \$0.26)⁶⁶ and has submitted the information required by the Board's Guidelines. VECC submits that the Board should accept NOW's 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 responsible. Accordingly, VECC requests an award of costs in the amount of 100% of its reasonably-incurred fees and disbursements.

Respectfully Submitted on the 17th Day of February 2009

Michael Buonaguro
Counsel for VECC

⁶⁶ Board Staff Round 1 - #19

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>%</u>
	<u>Fixed</u>	<u>Variable</u>	<u>Fixed</u>	<u>Variable</u>	<u>Allowance</u>	<u>Revenue</u>		<u>Dx Rev</u>		
Residential	5200	41161457	16.4	0.00901		1,394,225	63.42%	1,393,379	62.28%	0.00%
GS<50	785	21858575	21.54	0.00872		393,514	17.90%	471,329	21.07%	0.00%
GS>50	69	173388	209.06	1.43035	49,316.00	371,791	16.91%	331,797	14.83%	0.00%
Street Lights	1737	5014	1.04	2.80713		35,753	1.63%	33,357	1.49%	0.00%
USL	15	121104	11	0.0102		3,215	0.15%	7,302	0.33%	0.00%
Total						2,198,497		2,237,164		

Notes: 1) Cost Allocation filing based on VECC #35 a)
2) 2009 @ 2008 Rates based on VECC #36 - Note: Residential revenue don't reconcile with reported rates and volumes

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>Street Light</u>	<u>USL</u>
<u>Cost Allocation Results - Revenue</u>							
#1	Distribution Revenue	2,237,164	1,393,379	471,329	331,797	33,357	7,302
#2	Miscellaneous Revenue	339,555	211,287	69,177	33,974	24,133	983
#3	Total Revenue	2,576,719	1,604,666	540,506	365,771	57,490	8,285
#4	Total Revenue %		62.28%	20.98%	14.20%	2.23%	0.32%
#5	Dx Revenue %		62.28%	21.07%	14.83%	1.49%	0.33%
#6	Misc Revenue %		62.22%	20.37%	10.01%	7.11%	0.29%
<u>Cost Allocation Results - Revenue Requirement</u>							
#7	Revenue Requirement	2576719	1607906	497799	259309	205463	6242
#8	Revenue to Cost Ratios		99.80%	108.58%	141.06%	27.98%	132.73%
#9	Adjustment Factor for Rev=RR		1.0020	0.9210	0.7089	3.5739	0.7534
<u>2009 Rates</u>							
#10	2009 Dx Revenue at Current Rates	2,198,497	1,394,225	393,514	371,791	35,753	3,215
<u>Determination of 100% Dx Revenue Allocation</u>							
#11	- Misc Revenue (2009 Rates)	297,503	185,120	60,610	29,767	21,144	861
#12	- Total Revenue (@ Current Rates)	2,496,000	1,579,345	454,124	401,558	56,897	4,076
#13	- Adjusted Total Rev 100% Cost by Class	2,491,871	1,582,534	418,242	284,679	203,345	3,071
#14	- Adjustment to Reconcile 2009 SRR	2,920,082	1,854,482	490,114	333,600	238,288	3,599
#15	- 2009 Dx Revenue for 100% R/C Ratio	2,622,579	1,669,362	429,504	303,833	217,144	2,738
#16	- Dx Revenue Proportions for 100%		63.65%	16.38%	11.59%	8.28%	0.10%
#17	- Total Service Revenue Proportions for 100%		63.51%	16.78%	11.42%	8.16%	0.12%

Notes:

- #1-#3 - from VECC #35a)
- #4-#6 - based on values set out in preceding rows
- #7 - from VECC #35 a)
- #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 and LV Costs)
- #15 - Based on Row #14 less Row #11
- #16 - Based on values in Row #15
- #17 - Based on values in Row #14