EB-2008-0238

IN THE MATTER of the *Ontario Energy Board Act 1998*, Schedule B to the *Energy Competition Act*, 1998, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Northern Ontario Wires Inc. for an Order or Orders approving just and reasonable rates and other service charges for the distribution of electricity, effective May 1, 2009.

SUBMISSIONS

OF THE

SCHOOL ENERGY COALITION

Overview

1. These are the submissions of the School Energy Coalition ("SEC") in the application by Northern Ontario Wires Inc. ("NOW") for an order fixing just and reasonable rates for the distribution of electricity effective May 1, 2009.

Capital Expenditures

2. NOW appears to have under-invested in capital refurbishment in the historical period. In particular, from the years 2003 to 2006 capital expenditures ranged from 17% to 56% of depreciation expense.

3. As a result of this under-investment, capital expenditures in the bridge and test years are substantially higher than the historical period.

4. However, although capital expenditures in 2009 are substantially higher than 2006, it does not appear as though the 2009 capital expenditures are unreasonable or that they are out of line with the utility's rate base. Capital expenditures for 2009, for example, are 97% of depreciation, which is not, in SEC's submission an unreasonable level.

5. SEC agrees with Board Staff, however, that a more robust long-term capital plan may be needed in order to address system re-investment needs resulting from historical under-spending.

6. Although SEC generally does not question the amount of NOW's 2009 capital budget, it does have a concern about the timing of the expenditures and their resulting recognition in rate base. In particular, NOW has stated that a major portion of its 2009 capital budget, the Kapuskasing Building Purchase, will not occur until October 2009. The expense of this item, $200,000, represents over half of NOW's 2009 capital expenditures. If NOW has assumed the standard half year rule for this project, it would mean its 2009 rate base would increase by $100,000 even though the building will only be in use for one quarter of the year. In effect, NOW's 2009 rate base would be over-stated by $50,000 for 2009.

7. In addition, NOW has stated that the rental costs for the existing garage (the one which the Kapuskasing Building purchase is meant to replace) have not been removed from its 2009 OM&A expenses. [SEC IR#5(b)] In SEC's submission, NOW should not have both the cost of the rental building in OM&A and the cost of the replacement building in rate base (plus depreciation expense) at the same time.

PILS

8. SEC shares Board Staff's concerns with respect to the interest deduction and submits that it is inappropriate for NOW to effectively use the (lower) deemed interest expense in its PILS calculation. In EB-2007-0696 [Halton Hills], SEC submitted that that treatment was inappropriate for the following reasons:

> *In SEC's submission, the reason the actual interest is greater than deemed is because the company is, in effect, over-leveraging itself. The utility already enjoys a benefit by doing so, since it earns a rate of return on the deemed equity component of its capital structure and not its actual equity. To also allow the company to enjoy the tax advantage of doing so would, in SEC's submission, provide too great an incentive to utilities to have actual debt components in excess of that determined by the Board to be an appropriate capital structure.*

9. In response, the Applicant, Halton Hills Hydro Inc., proposed to correct its interest expense calculation in accordance with SEC's submissions. The Board said that that was appropriate. [EB-2007-0696, Decision with Reasons, pg. 9]

10. SEC submits that the PILS expense for NOW should be similarly adjusted.

OM&A

11. NOW provided a summary of the major cost drivers for its OM&A budget (excluding PILS and amortization) in response to SEC IR #11.

12. NOW states that the forecasted impact of inflation on its 2009 OM&A budget is $57,000 using an assumed inflation rate of 3% for compensation costs and 3.1% for materials and other expenses [Board Staff IR#4] SEC believes that the assumed inflation rate is too high in view of recent economic conditions as well as more up to date inflation forecasts. The December 2008 consumer price index, for example, rose 1.2% over the previous year. Forecasts for 2009 are for CPI to grow by under 1%. As a result, SEC believes that an inflationary adjustment of 1% may be more appropriate. That would mean a reduction in 2009 OM&A of approximately $36,000 (from $57,000 to $21,000).

13. In addition, SEC agrees with Board Staff that the specific increase for anticipated increases in lineman rates above 3% should not be included in the OM&A budget. NOW has used an assumed inflationary increase applicable to all staff. Some may be higher than the assumed level and some lower. There is no justification, in SEC's submission, to select one particular item and single it out for special treatment. SEC therefore believes that this amount should be removed from the OM&A forecast, for an additional decrease of $17,803.

14. NOW has also included $20,000 in its 2009 OM&A budget as the cost of training a new employee to replace the Electric Superintendent, who is projected to retire in 2010. The total cost of the training/replacement staff is $80,000, $20,000 of which has been allocated to 2009. However, SEC concurs with Board Staff that this amount may be inflated. SEC recommends a further reduction of $10,000 for this expense.

15. NOW has also included in 2009 OM&A an increase of $10,500 for "temporary billing assistance for 4 months during conversion to new billing system" [SEC IR#11] As this appears to be a non-recurring item, SEC believes the cost should be amortized over four years as is the practice with regulatory costs related to rebasing applications. This would result in a reduction in 2009 OM&A of $7,875.

<u>Regulatory Interest on Variance Accounts</u>

16. SEC agrees with Board Staff that a further reduction in OM&A is required to eliminate NOW's proposal to include $50,943 as an interest expense on variance account balances owed to ratepayers. As noted by Board Staff, interest on deferral and variance account balances owed to customers is meant to compensate customers for the time value of money. Recording that same interest as an expense to be recovered from customers through rates would completely offset the payment to customers, and would make the recording of interest completely redundant. In

addition, it would be asymmetrical since there is no corresponding interest revenue to offset the interest paid by customers on deferral and account balances owing to the utility.

17. The above reductions to OM&A recommended by SEC total $122,650, which would bring NOW's (adjusted) 2009 OM&A to $2,013,646[1]. That is still 12.5% above the 2006 actual OM&A of $1,791,576, which represents an annual increase of approximately 4.2%, still well above the rate of inflation during the historical period.

18. The above recommended reductions are in addition to the reductions in truck loan interest, totaling $24,214 that NOW has agreed should be removed from revenue requirement although not reflected in the revised revenue requirement submitted by NOW [Board Staff supplemental IR#1 and VECC (supplemental) IR#26]

Load Forecast

19. SEC does not believe that NOW's proposed adjustment to the IESO-provided weather normalization factor, the ("NOW Factor") is supported by the evidence. In the first place, NOW

[1] Being $2,311,307 in OM&A (excluding PILS and amortization) in original application, less $219,054 for removal of Low Voltage Charges, and plus $44,043 for various adjustments proposed by NOW in response to VECC supplemental IR#26, for a total of $2,136,296 (see Board Staff submissions, p. 6), less $122,650 in reductions proposed by SEC.

has stated that it "does not know how the value was calculated" [VECC IR#30(a)]. In addition, when asked why it is "reasonable to assume that, for weather sensitive loads, the NOW adjustment factor is the same for each customer class" NOW could not answer, saying only that "class specific value was not available" [VECC IR#10(b)]

20. NOW has therefore proposed a weather normalization methodology that is unique to NOW and which it does not fully understand. In SEC's submission, the NOW Factor is not supported by the evidence and should be removed from the load forecast calculation.

Cost Allocation

21. SEC supports NOW's proposal to immediately move the Streetlighting rate class to the minimum revenue to cost ratio as per the Board guidelines.

22. SEC notes Board Staff's position that the large rate impact on the Streetlighting necessitate a phased move to the 70% level. SEC respectfully disagrees with Board Staff's position, for two reasons: first, the Streetlighting customer is an affiliate of the applicant, and as such the primary concern should be that the affiliate is paying the true cost of the service provided to it; second, while bill impacts are large on a percentage basis, the reason is the Streetlighting class has been under-paying to such a large extent for many years. SEC does not believe that this under-contribution should be extended.

23. In addition, although the total bill impact to Streetlighting is large in percentage terms, the difference in revenue allocated to Streetlighting as between Board Staff's position (48% revenue to cost ratio in 2009) and the as-filed position (70%) is approximately $51,000.[2] As Board Staff has acknowledged in its submissions, almost all of the deficiency (if Board Staff's position were adopted) would come from the GS>50 rate class. That class has been significantly over-contributing to NOW's revenue requirement for many years and should not continue doing so, particularly in view of the significant economic challenges many of these customers will be facing in the coming years. In SEC's submission, there is no reason to delay the move to eliminate the subsidy paid to the Streetlighting class by GS>50 customers.

24. In addition, SEC believes that the Streetlighting rate class should be moved toward 100% revenue to cost ratio during the IRM period. NOW has not proposed doing so apparently on the basis that "historically IRM applications have not been used to adjusteither the revenue requirement of the allocation of that revenue requirement." [SEC IR#15(a)] In fact, other electricity distributors have proposed to continue adjusting their revenue to cost ratios during the IRM period and SEC believes there is no reason why NOW should not do so as well.

[2] The 2009 revenue from Streetlighting at a revenue to cost ratio of 70% is $164,232. At a R/C ratio of 48%, the amount be approximately $112,616, or a difference of approximately $51,616.

Costs

25. SEC participated responsibly in this proceeding and sought to minimize its costs by cooperating with other ratepayer groups and by reviewing Board Staff's submissions prior to commencing its own. SEC respectfully requests that it be awarded 100% of its reasonably incurred costs.

All of which is respectfully submitted this 17th day of February, 2009.

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