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February 25, 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)
Midland Power Utility Corporation OEB File No.: EB-2008-0236

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

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 Midland Power Utility Corporation 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 25, 2009

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Vulnerable Energy Consumers' Coalition (VECC)
Final Argument

1 The Application

- 1.1 Midland Power Utility Corporation (“Midland” or “MPUC”) filed an application (“the Application”) with the Ontario Energy Board (“the OEB” or “the Board”) on August 15, 2008, for rates effective May 1, 2009.
- 1.2 In its response to the first round of Board Staff interrogatories, MPUC provided an “Interrogatory Response Summary” on December 12, 2008, which provided details on proposed changes to the Application arising as a result of interrogatories received from parties.
- 1.3 The Application as revised forecasts a base revenue requirement for the Test Year of \$3,461,620 and a Test Year deficiency of \$776,221 at existing rates. The base revenue requirement for the Test Year represents a 32% increase over the 2006 EDR base revenue requirement of \$2,629,071,¹ an increase of 33% above the projected base revenue requirement (“distribution revenue”) of \$2,692,898 for 2008,² and an increase of 29% over forecasted 2009 distribution revenue at existing rates.³
- 1.4 In the Application, MPUC also (i) proposed to recover a balance at April 30, 2009, of \$171,625⁴ in Account No. 1508 and Account No. 1550 over two years via a rate rider, (ii) seeks approval for a \$1.00 per month per meter rate rider for costs associated with smart metering infrastructure, and (iii) seeks approval to recover

¹ Table entitled “Midland Power Utility Corporation Summary of Proposed Changes” included in the December 12, 2008 cover letter.

² Exhibit 3/Tab 1/Schedule 2/Attachment 1

³ Table entitled “Midland Power Utility Corporation Summary of Proposed Changes” included in the December 12, 2008 cover letter.

⁴ This total was revised upwards on February 19, 2009, to \$211,248. MPUC proposes to recover this total over the same two-year period.

\$339,515 in low voltage charges.⁵

- 1.5 The following sections contain VECC's final submission regarding the various aspects of Midland's Application.

2 Rate Base and Capital Spending

Capital Spending

- 2.1 In its pre-filed evidence, MPUC projected 2009 total capital additions of \$2,972,040 along with capital contributions of \$225,200 for net capital additions of \$2,746,840.⁶
- 2.2 As a result of revisions made in its responses to first round interrogatories, MPUC updated its forecasted 2009 capital budget spending, net of contributed capital, to \$2,820,400, attributing the change to "the increase in fourth street substation project, an increase in pole line work, the removal of the SCADA software and the increase in the purchase of the bucket truck for an overall increase in budget of \$121,860."⁷
- 2.3 VECC notes that the removal of the SCADA software expenditures in 2009 has resulted in a significant decrease in spending on Computer Hardware & Software Upgrades (reduction of \$100,440).⁸
- 2.4 VECC also notes that compared to the information in its Application, MPUC now forecasts significant increases in 2009 capital spending on Pole Street Rebuilds (from \$406,600 to \$548,600) and on Vehicle – Bucket Truck & Metering Van (from \$335,000 to \$386,500).⁹ VECC does not understand (i) the reason for the 35%

⁵ Exhibit 1/Tab 1/Schedule 8 and Exhibit 5/Tab 1/Schedule 2, page 6.

⁶ Exhibit 2/Tab 3/Schedule 1, page 41. Note that this contributions figure appears to be incorrect as the amount is reported to be \$273,500 at Exhibit 2/Tab 2/Schedule 3, page 44 and in the response to VECC IR #21.

⁷ See VECC IR #21 b). The \$121,860 difference cited by MPUC embodies the capital contributions figure of \$273,500.

⁸ Ibid

⁹ Ibid

increase in 2009 Pole Street Rebuilds spending since the Application was filed,¹⁰ or (ii) how the prices for Vehicles to be purchased in 2009 has increased by 15% since the Application was filed, especially given the state of the business cycle and price trends for other vehicles.

2.5 In its submissions, Board Staff noted that actual 2007 capital expenditures, net of contributions, were \$1,451,837 while comparative projections for 2008 and 2009 were \$2,550,453 and \$2,746,840 respectively.¹¹

2.6 VECC notes that MPUC's actual budget spending amounts – not including “Additional Capital Work” or “Contributed Capital” – for the years 2005, 2006, and 2007, were \$535,756, \$944,588, and \$1,351,609 respectively,¹² i.e., each year less than half of the projected spending for the Test Year.

2.7 With respect to Bridge Year capital spending, the pre-filed evidence indicates that the total capital additions amount budgeted for 2008 was \$2,786,653 and the amount budgeted for 2008 net of contributed capital was \$2,550,453.¹³ In response to an interrogatory, the utility stated that “Midland is on target to complete the 2008 capital projects as projected and as budgeted except for the developer contributions.”¹⁴ The same response indicated that total actual 2008 spending as at October 31, 2008 was \$1,526,104, an amount that included \$204,000 in Contributed Capital – Customer Contributions.

2.8 Therefore, VECC submits that MPUC stated that it was “on target” to spend

¹⁰ For context, VECC notes that the response to VECC IR #18b) indicates a total budgeted amount for Pole Projects of \$45,300 in 2007.

¹¹ See Staff Submission, February 20, 2009, page 3, Table 1. The figures cited are taken from Exhibit 2/Tab 3/Schedule 1, pages 21, 30, and 41. The 2008 and 2009 figures do not reflect the adjustments made by MPUC in their first round IR responses, i.e., increased spending of \$58,600 in 2008 (and decreased contributions of \$400,000) and increased spending of \$121,860 in 2009.

¹² See VECC IR #21 a). The comparable budgeted amounts for these years were \$571,900, \$1,052,080, and \$1,211,200.

¹³ Exhibit 2/Tab 3/Schedule 1, page 30 - this total includes development contributions of \$400,000.

¹⁴ See the response to VECC IR #19 a). The development contributions were budgeted to be \$400,000 in 2008 in Exhibit 2/Tab 3/Schedule 1.

\$2,386,653 in total capital additions for 2008¹⁵ yet had only spent \$1,526,104 at October 31, of that year: this implies that MPUC planned on spending \$860,549 or 36% of the total 2008 capital spending (revised downwards by \$400,000 to exclude development contributions) in the final two months or 17% of the year. Putting it differently, although MPUC's 2008 capital spending averaged \$152,610 per month for the first ten months of the year, MPUC intended in spending an average of \$430,275 per month for the final two months of the year. VECC submits that such an intra-year capital spending profile gives rise to a suspicion that MPUC is increasing spending solely to hit its budget in the Bridge Year. VECC also questions whether MPUC can actually complete this amount of spending in the last two months of 2008.

2.9 VECC notes that for 2007, the total capital spending budgeted for 2007 was \$1,211,200,¹⁶ while the total budget spending at October 31, 2007 was \$920,614.¹⁷ this indicates a far more "even" flow of spending over the year as 76% of the budgeted spending had been undertaken in the first ten months or 83% of the year.

2.10 VECC submits that if it is reasonable to assume that capital spending is evenly spread throughout the year, then the projected 2008 spending should be projected as \$1,832,000.¹⁸ VECC submits that this is a reasonable assumption to make assuming prudent budget spending and timing over the full year and that therefore, for ratemaking purposes the 2008 capital spending should be reduced from \$2,386,653 to \$1,832,000 and that the rate base should be adjusted accordingly for the Test Year.

2.11 With respect to 2009 capital spending, VECC notes that Pole Line Rebuilds, originally forecast as \$406,600 in the Application have been since revised upwards

¹⁵ This is the total additions in 2008, including customer contributions, less the \$400,000 in development contributions

¹⁶ Response to VECC IR #18b)

¹⁷ VECC IR #19c)

¹⁸ This is \$1,526,104 divided by 0.833 or the monthly average spending of \$152,610 in 2008 for the first ten months applied to the last two months.

to \$548,600.¹⁹ With respect to this spending, VECC notes that \$548,600 (i) is about twelve times the \$45,300 budgeted on Pole Projects in 2007,²⁰ (ii) exceeds the total amount of capital expenditures in 2005 of \$535,756,²¹ (iii) is 2.73 times the total cumulative spending on Poleline Projects for 2005, 2006, and 2007 combined,²² and (iv) is about 40% higher than projected spending on Polelines in each year, 2010 and 2011.²³ Furthermore, there has been no apparent downwards trend in reliability as measured by SQIs over the period 2003-2007.²⁴

2.12 As such, VECC submits that the amount of capital spending for 2009 Poleline Rebuilds in the Application as originally filed, \$406,600, is generous, both with respect to past spending and with respect to projected “out year” spending for 2010 and 2011. VECC therefore urges the Board to reduce the now proposed amount for these projects of \$548,600 for the Test Year, to the original projection of \$406,600²⁵ and to adjust the rate base accordingly.

2.13 With respect to the Vehicle spending mentioned above, originally projected to be \$335,000 for 2009 and since revised upwards to \$386,500, VECC submits that absent any credible reason as to why the prices have increased since August while the economy headed into recession, the \$51,000 increase in this expense should not be allowed and the 2009 rate base should be adjusted accordingly.

Working Capital

2.14 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. VECC notes that the most recent forecast of the cost of power for 2009

¹⁹ VECC IR #21b)

²⁰ VECC IR #18b)

²¹ VECC IR #21a)

²² Ibid, actual spending for 2005, 2006, and 2007 was \$107,867, \$38,478, and \$55,193 respectively for a total of \$201,538 for this three-year period.

²³ VECC IR #21b) provides the three-year capital plan under which MPUC budgets \$399,100 and \$387,900 in 2010 and 2011 for Poleline Rebuilds.

²⁴ VECC IR #17a)

²⁵ VECC IR #21b)

is contained in the OEB's October 2008 Regulated Price Plan Report where in the average RPP price for the next 12 months is quoted²⁶ as \$60.30/MWh.

- 2.15 However, also VECC notes that other distributors²⁷ 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.
- 2.16 VECC further submits that the working capital allowance should also reflect the most current estimate of the costs of Hydro One Network's transmission services for 2009.

3 Load Forecast and Revenue Offsets

Load Forecast

- 3.1 MPUC has determined that the only customer classes where consumption is correlated with weather are the Residential and GS<50 classes²⁸. For these two classes regression equations were tested that related monthly consumption data for the period January 2002 to December 2007 to weather and economic factors (monthly full time employment in the Kitchener-Waterloo-Barrie economic region). While Residential use was found to be statistically correlated with economic activity, use in the GS<50 was not²⁹ and only weather variables were included in the final analysis for the latter. The resulting equations were then used along with projected levels of economic activity and 10-year average weather conditions to project Residential and GS<50 kWh use for 2008 and 2009³⁰. Overall, (weather

²⁶ Page (iii)

²⁷ For example see COLLUS Power's (EB-2008-0226) response to VECC #43 b).

²⁸ Exhibit 3/Tab 2/Schedule 1/ERA Attachment, page 2

²⁹ Exhibit 3/Tab 2/Schedule 1/ERA Attachment, pages 5-6

³⁰ Exhibit 3/Tab 2/Schedule 9/ERA Attachment, pages 7-9

normal) Residential usage is forecast to increase by 0.4% in 2008 and 0.3% in 2009. In the case of GS<50 the annual change is -0.1% per annum.

- 3.2 For the non-weather sensitive GS>50 and Street Lighting classes, the 2008 and 2009 forecasts are based on the trend in consumption over the past (2006 and 2007) years. This led to a forecast of declining GS>50 use (-2.9%/annum) and an increasing annual use for Street Lights (2.1%/annum)³¹.
- 3.3 For all customer classes except USL, customer connections were projected based on the trend observed over the most recent two years³². For USL, where 2007 is the first year there were customers, no change in customer connections was forecast for 2008 and 2009.
- 3.4 Electricity distributors filing for 2009 rates based on a “cost of service” application have used a variety approaches to weather normalize historical usage and project 2008 and 2009 “weather normal” consumption. In VECC’s view the approach used by MPUC is preferable to others it has commented on to date. However, there is room for improvement.
- 3.5 VECC’s initial concerns regarding the forecast were with respect to two issues. The first was the use of simple trend analysis over two years to forecast GS>50 use. In response to a VECC interrogatory, MPUC provided the results of a regression analysis that tested the relationship between GS>50 use and economic factors³³. While the economic factor used (employment) proved to be statistically significant the resulting equation did not explain a significant amount of the monthly variation in use and fails to predict the declining trend in usage that starts in 2006. Furthermore, MPUC noted that 2008 usage to date in the GS>50 class was below 2007 levels. Based on this information, VECC accepts the approach used by MPUC for the GS>50 class for purposes of setting 2009 rates.
- 3.6 VECC’s second concern is with the fact that under the current approach kWh and

³¹ Exhibit 3/Tab 2/Schedule 9/ERA Attachment, page 10

³² Board Staff Round 1 - #277 a) and Exhibit 3/Tab 2/Schedule 9/ERA Attachment, page 11

³³ VECC #2 i)

customer connections are projected independent of each other. This could potentially lead to anomalous results for the test year. MPUC has indicated that number of residential customers did not prove to be a significant explanatory variable in the estimated regression equations³⁴. However, there may other ways of incorporating customer count, such using per customer use as the dependent variable. The Board should direct MPUC to refine its weather normalization and forecasting approach for its next rebasing application. As well as addressing the issue of integrating the forecasts of customer count and usage, MPUC could undertake the following:

- Consideration should also be given to ways to address the need to pro-rate monthly data as discussed in response to VECC #2 a), prior to the full availability of true monthly data based on smart metering.
- Consideration could be given to more rigorous approaches to forecasting future use in the GS>50 class than a simple two year trend.

3.7 However, for now, VECC submits that the Board should accept MPUC's load and customer forecast for purposes of setting 2009 rates.

Miscellaneous Revenues

3.8 The evidence with respect to these revenues indicates that MPUC received actual 2007 Other Distribution Service Revenue of \$343,533 in 2007 and projects that these revenues will be \$251,131 in 2008 and \$231,131 in 2009.³⁵

3.9 VECC notes that the 2007 actual results include Costs and Expenses of Merchandising, Jobbing, Etc., in the amount of \$47,624, Gain on Disposition of Utility and Other Property in the amount of \$36,734, and Interest and Dividend Income of \$74,750.³⁶

3.10 The 2008 projected results include amounts of \$60,800, \$0, and \$30,000 respectively for these three components while the 2009 forecasted comparables

³⁴ Board Staff Round 1 - #34 a)

³⁵ Exhibit 3/Tab 3/Schedule 1/Attachment 1

³⁶ Ibid

are \$60,800, \$0, and \$10,000 respectively.³⁷

- 3.11 In justifying the increase in projected Costs and Expenses of Merchandising, Jobbing, Etc. for 2008, from \$47,624 to \$60,800, Midland states that “[a]long with the increase in revenues from jobbing, MPUC is projecting that economies in expenses will be attained in 2008 over 2007 levels.”³⁸
- 3.12 VECC notes that jobbing revenues were \$78,471 in 2007 and are projected to be \$82,000 in 2008 (and in 2009), for an increase of \$3,529 or 4.50% over 2007 actual revenues. VECC submits that attaining “economies in expenses” would usually indicate that associated costs would increase by less than 4.50%.
- 3.13 However, as indicated above, the projected Costs and Expenses of Merchandising, Jobbing, Etc. for 2008, increase to \$60,800 as compared to the 2007 amount of \$47,624, a 27.67% increase.
- 3.14 Even assuming that no economies are attained, a 4.50% increase in costs over the 2007 level would amount to these costs being \$49,767 in 2008 and in 2009, not the \$60,800 proposed.
- 3.15 VECC therefore submits that the other revenues component be adjusted to reflect costs of \$49,767 for the Test Year, resulting in an increase in other revenue of \$11,033 for 2009.
- 3.16 With respect to Gain on Disposition of Utility and Other Property, MPUC projects no income for 2009. However, VECC notes that, as indicated above, MPUC plans to buy two replacement vehicles in 2009. VECC submits that to the extent any trade-in credit or salvage value exists for the vehicles to be replaced in 2009, the appropriate amount as forecasted for this component by MPUC should be reflected in miscellaneous revenues for 2009.
- 3.17 With respect to the component, Interest and Dividend Income, MPUC states that

³⁷ Ibid

³⁸ Exhibit 3/Tab 3/Schedule 2, page 11

“[a]s MPUC’s capital program has increased over the years interest income will be reduced as bank balances are reduced by payments for capital projects. In addition, regulatory asset recoveries will cease in May, 2008. Consequently, cash flows will decrease as a result of the reduction in monies received from customers on account of regulatory asset balances.”³⁹

3.18 VECC notes that while total budgeted capital spending levels are similar in 2008 and 2009, MPUC has reduced interest and dividend income by \$20,000 in 2009. .

3.19 VECC therefore submits that the Test Year reduction of \$20,000 in interest income has not been supported and that 2009 revenues should be increased by \$20,000 to reflect an increase in forecasted interest income.

4 Operating Costs

4.1 VECC submits that the depreciation and amortization cost components included in the Test Year revenue requirement should be reduced to reflect the reduction in capital spending that VECC proposes above.

4.2 With respect to regulatory costs, VECC notes that MPUC proposes a total of \$175,000 to be recovered over four years.⁴⁰ MPUC has increased its initial request of \$150,000 by \$25,000 “as it is anticipated that the oral component of the Rate Application will require increased costs over and above those itemized in the Rate Application.”⁴¹ VECC submits that since there will be no oral hearing in this proceeding, the \$25,000 increase should be disallowed.

4.3 VECC notes that the components of total compensation, benefits, salary, and wages have increased at a rate higher than inflation on an average basis over the period 2006-2009.⁴²

4.4 Furthermore, the revenue requirement includes provision for an additional

³⁹ Exhibit 3/Tab 3/Schedule 2, page 12

⁴⁰ Cover letter, December 12, 2008.

⁴¹ Ibid

⁴² Exhibit 4/Tab 2/Schedule 8, page 1

manager to be hired “in late 2008 or early 2009.”⁴³ From the description of the duties for this position,⁴⁴ VECC is unsure that an additional manager is required for regulatory activities, especially since MPUC has prepared this Application without the benefit of additional regulatory management and MPUC will not be required to file its next Application until 2012.

- 4.5 However, for the purposes of this proceeding, VECC does not take issue with the compensation component of the Test Year revenue requirement.

5 Cost of Capital/Capital Structure

- 5.1 VECC notes the submissions of Board staff in respect of these issues⁴⁵ and accepts that the filing is consistent with the Board Report.

6 Deferral and Variance Accounts

- 6.1 As noted above, MPUC requests disposition of two deferral accounts, #1508 and #1550, over a two-year period. The balance in these accounts at April 30, 2009, to be recovered from ratepayers, is expected to total \$211,248.

- 6.2 MPUC has not requested disposition of accounts #1518, #1582, #1584, #1586, and #1588. If MPUC were to dispose of the balances in these accounts, ratepayers would be receiving a credit of \$465,469 which would more than offset the proposed recovery of balances in #1508 and #1550.⁴⁶

- 6.3 If MPUC were to dispose of all of the balances for the accounts listed in the two preceding paragraphs, the result would be a ratepayer credit of \$254,221.

- 6.4 Given the size of the credit that ratepayers would achieve relative to the Test Year

⁴³ VECC IR #25

⁴⁴ Exhibit 4/Tab 2/Schedule 2, page 47

⁴⁵ Board Staff Submission, pp 5-7

⁴⁶ Board staff Submission, Table 7

deficiency and the revenue requirement, VECC submits that it would be appropriate for MPUC to dispose of the balances in account #1508 and #1550 and #1518, #1582, #1584, #1586, and #1588 at the same time to mitigate the increases in rates that MPUC seeks elsewhere in its Application.

7 Payments in Lieu of Taxes

8.1 VECC has reviewed and supports the submissions of Board Staff on this issue.

8 Cost Allocation

Results of MPUC's Cost Allocation Informational Filing

8.1 MPUC's Cost Allocation Informational Filing produced⁴⁷ the following revenue to cost ratios:

- Residential 118.18%
- GS<50 97.96%
- GS>50 83.67%
- Street Lighting 23.46%
- Sentinel Lighting 28.21%
- USL 117.38%

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

8.2 MPUC has used the distribution (percentages) of revenue requirement (less miscellaneous revenues) from its Cost Allocation Informational filing to determine what portion of the 2009 base distribution revenue requirement would represent 100% cost responsibility for each customer class⁴⁸. VECC has two concerns regarding this approach.

8.3 First, MPUC is proposing to allocate the "cost" of the transformer ownership

⁴⁷ Exhibit 8/Tab 1/Schedule 2, page 1

⁴⁸ VECC #6 d)

allowance solely to the GS>50⁴⁹. As a result, MPUC has not include the cost of the transformer ownership allowance in the basic distribution revenues it is allocating to customers using the revenue to cost ratios⁵⁰. VECC agrees with this change and notes that it is consistent with the approach approved for a number of distributors' 2008 rates⁵¹.

8.4 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 others 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 customers in the class who own their transformer will pay too much and those who don't will not bear full cost responsibility for the transformers they use.

8.5 To accommodate this change and be consistent with its own proposal, MPUC should remove the cost of the transformer ownership allowance from the allocation of the revenue requirement to customer classes and, instead allocate it directly to the GS>50 after the cost allocation adjustments have been completed. MPUC 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 allowance⁵². VECC submits that these results more closely represent the appropriate reference point to use.

8.6 The following table summarizes the revenue to cost ratios from VECC #5 c):

⁴⁹ Exhibit 9/Tab 1/Schedule 2, page 7

⁵⁰ Exhibit 9/Tab 1/Schedule 2, page 1

⁵¹ For example, Horizon Utilities, Hydro Ottawa and Enersource Mississauga.

⁵² VECC #5 c)

- Residential 124.58%
- GS<50 105.58%
- GS>50 69.67%
- Street Lighting 25.77%
- Sentinel Lighting 31.03%
- USL 126.16%

8.7 VECC’s second concern is with MPUC’s use of the class revenue requirement distribution from the Cost Allocation Informational filing to determine 100% cost responsibility for 2009⁵³. 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 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 Application⁵⁴.

8.8 In response to VECC #4 b) MPUC has provided the relative kWhs and customer count by class for both 2009 and its Cost Allocation filing and there are some differences. The differences are material in some cases. Another 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 comparison⁵⁵.

⁵³ VECC #6 d)

⁵⁴ Examples include Westario Power (EB-2008-0250); COLLUS Power (EB-2008-0226) and Bluewater Power (EB-2008-0221)

⁵⁵ MPUC provided a comparison in response to VECC #6 c), unfortunately the two are not comparable as each treats the Transformer Ownership Allowance differently.

Comparison of Revenue Responsibility

	<u>2009 @ 2008 Rates</u>	<u>2006 CA</u>
Residential	63.89%	60.19%
GS<50	17.17%	16.46%
GS>50	17.72%	21.85%
Street Lights	0.89%	0.87%
Sentinel Lights	0.02%	0.08%
USL	0.31%	0.54%

- 1) Cost Allocation filing based on VECC #5 c)
- 2) 2009 @ 2008 Rates based on VECC #6 b)

8.9 In VECC's view where there are differences that could prove material (e.g., GS>50), 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 informational filing. VECC also notes that these differences are giving rise to the inconsistencies in MPUC's current proposal as discussed in response to VECC #6 c) and VECC Supplementary #3.

8.10 In Appendix A, 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 MPUC's values.

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

	<u>MPUC's Values</u>	<u>VECC's Recommended Values</u>
Residential	47.32%	50.45%
GS<50	15.86%	16.29%
GS>50	31.97%	26.90%
Street Lights	4.11%	4.16%
Sentinel Lights	32.00%	0.10%
USL	43.00%	0.24%

Sources:

- 1) MPUC's values - VECC #6 d)
- 2) VECC's Values - Appenedix A

8.11 VECC submits that the preceding Revenue Share values should be used as the reference point for any cost allocation adjustments.

Proposed Revenue to Cost Ratios

8.12 The following Table compares the MPUC's proposal for 2009 with the current revenue to cost ratios as determined using the CA Informational Filing and in VECC #28.

MPUC's Proposed R/C Ratio Shifts

	<u>MPUC CA R/C Ratio</u>	<u>VECC's IR 5 c)</u>	<u>Proposed R/C Ratio</u>
Residential	118.18%	124.58%	107.00%
GS<50	97.96%	105.58%	98.00%
GS>50	83.67%	69.67%	98.00%
Street Lights	23.46%	25.77%	49.00%
Sentinel Lights	28.21%	31.03%	49.00%
USL	117.38%	126.16%	100.00%

- 1) MPUC CA - Exhibit 8/Tab 1/Schedule 2, page 1
- 2) MPUC Proposed - Exhibit8/Tab 1/Schedule 2, page 5

8.13 VECC generally agrees with the proposed adjustments for Street Lights and Sentinel Lights. In both cases, the proposal moves the ratio roughly half way to the bottom end of the Board's Guidelines for these classes (i.e., 70% - 120%).

VECC notes that this remains the case even with reference to the revenue to cost ratios from VECC 5 c).

8.14 There is one other class below the Board's guideline (based on VECC#5 c) – GS>50. VECC submits that the revenue to cost ratio in this case should be moved to 80% (the low end of the Board's range for this class) subject to remaining within the Board's bill impact criteria.

8.15 MPUC proposes to utilize the additional revenues gained from improving the revenue to cost ratios for certain classes In order to reduce the ratio for USL to 100% and to also reduce the ratio for Residential (the only other class above 100% based on the Cost Allocation Informational filing). Based on the results of VECC #5 c), VECC submits that the surplus revenue gained from increasing the revenue to cost ratios for Street Lights, Sentinel Lights and GS>50 should be used:

- First to reduce the ratios for Residential and USL to the upper end of the Board's prescribed range for each (i.e., 115% and 120% respectively),
- Any additional revenue should be used to move both class' ratios proportionally closer to 100%.
- Finally, if the ratios for Residential and USL reach 105% - then the GS<50 class should also be included in the adjustment process.

8.16 The Board, through the "Application of Cost Allocation for Electricity Distributors: Report of the Board", 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 ratio⁵⁶ 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),

⁵⁶ Page 4

- limited modeling experience, and
- the status of the current rate classes.

8.17 VECC recognizes that in limited instances⁵⁷ 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 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

⁵⁷ The only one VECC is readily aware of is Erie Thames – EB-2007-0928

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.

8.18 Based on these circumstances, VECC submits that the proposal to move USL to 100% is inappropriate.

8.19 VECC agrees with MPUC's proposed allocation of LV Costs as described in Exhibit 9/Tab 1/Schedule 2 (page 6).

9 Rate Design

9.1 MPUC is proposing to maintain the current fixed-variable split for the Residential class⁵⁸. In VECC's view this approach is appropriate as:

- The Board is still in the process of completing its current initiative regarding distribution rate design:
- The current monthly service charge is within the range established by the OEB⁵⁹, and
- The bill impacts within the class are not such that they need to be mitigated through a change in rate design⁶⁰.

10 Retail Transmission Rate

10.1 In response to Board Staff #5 c) MPUC has proposed Retail Transmission Service rates that reconcile the anticipated revenues with the expected costs using Hydro One Networks' charges adjusted for the January 2009 change in Uniform Transmission Rates. VECC submits that the proposed rates are consistent with the direction given to utilities in its October 22, 2008 guidelines and should be

⁵⁸ Exhibit 9/Tab 1/Schedule 2, page 3

⁵⁹ Exhibit 9/Tab 1/Schedule 2, page 3

⁶⁰ Exhibit 9/Tab 1/Schedule 9, page 1

approved by the Board.

11 Smart Meters

11.1 In its original Application MPUC indicated that it was authorized to proceed with smart meter implementation⁶¹. In response to Board Staff #41, MPUC provided most of the information required under Board's Guideline for Smart Meter Funding and Cost Recovery to support a \$1.00 smart meter rate adder. The only information missing was "a statement as to whether the distributor has incurred, or expects to incur, costs associated with functions which the SME has the exclusive authority to carry out pursuant to O. Reg. 393/07, and an estimate of those costs"⁶². VECC submits that, subject to MPUC satisfactorily addressing this outstanding issue in its Reply, the Utility should be granted the \$1.00 per customer per month smart meter rate adder, as requested.

12 Recovery of Reasonably Incurred Costs

12.1 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 25th Day of February 2009

Michael Buonaguro

⁶¹ Exhibit 9/Tab 1/Schedule 3, page 1

⁶² Board Guideline, page 10

Counsel for VECC

APPENDIX A

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>Sentinel Light</u>	<u>USL</u>	
<u>Cost Allocation Results - Revenue</u>								
#1	Distribution Revenue	2,629,073	1,582,535	432,779	574,448	22,871	2,188	14,252
#2	Miscellaneous Revenue	229,656	119,488	40,867	62,570	5,226	415	1,089
#3	Total Revenue	2,858,729	1,702,023	473,646	637,018	28,097	2,603	15,341
#4	Total Revenue %		59.54%	16.57%	22.28%	0.98%	0.09%	0.54%
#5	Dx Revenue %		60.19%	16.46%	21.85%	0.87%	0.08%	0.54%
#6	Misc Revenue %		52.03%	17.79%	27.25%	2.28%	0.18%	0.47%
<u>Cost Allocation Results - Revenue Requirement</u>								
#7	Revenue Requirement	2858727	1366180	448608	914362	109027	8389	12160
#8	Revenue to Cost Ratios		124.58%	105.58%	69.67%	25.77%	31.03%	126.16%
#9	Adjustment Factor for Rev=RR		0.8027	0.9471	1.4354	3.8804	3.2228	0.7926
<u>2009 Rates</u>								
#10	2009 Dx Revenue at Current Rates	2,689,968	1,718,488	461,969	476,680	23,997	482	8,352
<u>Determination of 100% Dx Revenue Allocation</u>								
#11	- Misc Revenue (2009 Rates)	231,131	154,788	52,940	81,055	6,770	538	1,411
#12	- Total Revenue (@ Current Rates)	2,921,099	1,873,276	514,909	557,735	30,767	1,020	9,763
#13	- Adjusted Total Rev 100% Cost by Class	2,922,304	1,503,642	487,690	800,561	119,387	3,286	7,738
#14	- Adjustment to Reconcile 2009 SRR	3,813,852	1,962,378	636,476	1,044,799	155,810	4,289	10,099
#15	- 2009 Dx Revenue for 100% R/C Ratio	3,582,721	1,807,590	583,536	963,744	149,040	3,751	8,689
#16	- Dx Revenue Proportions for 100%		50.45%	16.29%	26.90%	4.16%	0.10%	0.24%
#17	- Total Service Revenue Proportions for 100%		51.45%	16.69%	27.39%	4.09%	0.11%	0.26%

Notes: #1-#3 - from VECC #5 c)
 #4-#6 - based on values set out in preceding rows
 #7 - from VECC #5 c)
 #8 - based on Row #3/Row #7
 #9 - Based on Row #7/Row #3
 #10 - VECC #6 b)
 #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