



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

March 2, 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)
Interrogatories: EB-2008-0250
Westario Power 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 Westario Power 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)

March 2, 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 Westario Power Inc. ("WPI" or "the Applicant" or "the Utility") filed an application ("the Application") with the Ontario Energy Board ("the Board" or "the OEB") on August 22, 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 \$9,934,837 for the 2009 test year and claimed a revenue deficiency of \$1,462,691¹. Based on this Application, the resulting increase in base distribution rates would be 18.7%².
- 1.2 In its Application WPI has also requested: (i) Approval of a \$1.00/customer/month smart meter rate adder³ and (ii) Disposition of Deferral Accounts #1508 and #1550⁴. WPI has not sought any change in its Retail Transmission Service rates⁵.
- 1.3 The following sections contain VECC's final submissions regarding WPI's Application.

¹ Exhibit 7/Tab 1/Schedule 2 - Attachment 1 and Exhibit 9/Tab 1/Schedule 2, page 1 - excludes LV costs

² Calculated using the noted deficiency and 2009 revenues at 2008 rates of \$7,802,616 - per VECC #24 b). Note: This increase does not include allowance for LV costs.

³ Exhibit 1/Tab 1/Schedule 8, page 1

⁴ Exhibit 5/Tab 1/Schedule 4, Attachment 1, page 1

⁵ Board Staff #43 d)

2 Rate Base and Capital Spending

Capital Spending

- 2.1 WPI's proposed capital spending for 2009 is \$3,064,400 which is just 4.8% higher than the planned spending for 2008, but materially less than spending levels in 2006 and 2007⁶. Capital additions in 2007 included \$2,443,787 associated with a new operating facility⁷. If this amount is removed, total capital spending for 2007 is roughly equivalent to that proposed for 2009.
- 2.2 WPI has recently established an Asset Management Policy that includes an approach for scoring/prioritizing proposed capital projects⁸. VECC notes that the projects included in the current Application were screened accordingly⁹ and explanations for each project provided¹⁰.
- 2.3 Overall, VECC has no issues with respect to WPI's proposed 2009 capital spending.

Working Capital

- 2.4 In response to VECC #37, WPI has provided details regarding the derivation of the Power Supply expenses underlying its working capital allowance calculation. In the case of the Electricity Commodity, VECC submits that the \$/MWh rate used should be updated. VECC notes that the most recent forecast of the cost of power for 2009 is contained in the OEB's October 2008 Regulated Price Plan Report where in the average RPP price for the next 12 months is quoted¹¹ as \$60.30/MWh.
- 2.5 However, also VECC notes that WPI does not appear to be invoiced by the IESO

⁶ Board Staff #15 - amounts quoted are gross values before any allowance for capital contributions.

⁷ Exhibit 2/Tab 2/Schedule 3, page 17

⁸ Exhibit 2/Tab 3/Schedule 1, Attachment

⁹ Board Staff #20

¹⁰ Exhibit 3/Tab 2/Schedule 1

¹¹ Page (iii)

for all components of the RPP price. Furthermore, WPI appears to be invoiced differently for RPP as opposed to non-RPP customers¹². 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.

- 2.6 Similarly, the working capital allowance should also reflect the most current estimate of the costs of Hydro One Network's transmission services¹³ and LV costs¹⁴ for 2009. VECC notes that in the case of LV costs the Hydro One Networks' rates used are the ones the Company applied for in EB-2008-0681 and need to be reduced to reflect the rates approved in the Board's January 2009 Rate Order.

3 Load Forecast and Revenue Offsets

- 3.1 WPI's load forecast methodology consists¹⁵ of three steps:

- First, a weather normalized forecast of monthly system purchases is developed based on a multifactor regression analysis that includes weather, economic output and seasonal calendar variables as independent explanatory variables. The regression equation was developed using monthly data for the period 2003-2007¹⁶. Average weather conditions over the period 1998-2007 are used to determine the weather normalized forecast.
- For the non-weather sensitive classes, both Sentinel and USL sales are assumed to remain at 2007 levels while Street Light usage is projected to grow at the same rate as wholesale consumption¹⁷. For customer classes that are weather sensitive, historical weather normal use is calculated using the weather normalized total purchases (exclusive of losses) and each class' share of the actual wholesale kWh (exclusive of losses). For the bridge and test years, the

¹² VECC #17

¹³ Board Staff #43 d)

¹⁴ VECC #38

¹⁵ Exhibit 3/Tab 2/Schedule 1, Attachment

¹⁶ Exhibit 3/Tab 2/ Schedule 1, Attachment, pages 3-5

¹⁷ Exhibit 3/Tab 2/Schedule 1, Attachment, pages 9-10

2007 shares are used to establish the projected kWh for the weather sensitive classes.

- A customer count forecast is developed for each class based on historic trends¹⁸.

3.2 In terms of the methodology used in Step #1 to develop the total system forecast, VECC is concerned that the regression equation for forecasting total billed kWh does not include customer count. WPI's consultant notes that in many cases when the number of customers is added the estimated coefficient is statistically insignificant or (intuitively) has the wrong sign¹⁹. However, for WPI the results of including customer count produce a coefficient that has the correct sign and is statistically significant²⁰. Also, in VECC's view, it is important to integrate customer count into the projection of total sales. Otherwise there is no connection between a utility's total sales projection and its projected customer count which could lead to anomalous projections of per customer use in the test year.

3.3 VECC also has reservations regarding the second step in WPI's load forecast methodology. Using the 2007 (non-weather normalized) class shares to establish the each class' share of the weather normalized total sales forecast assumes that the weather adjustment factor would be the same for all classes. This is not necessarily the case. However, given the limited data WPI has to work with there may be no better approach for now.

3.4 In order to check the reasonableness of WPI's projections for the weather sensitive customer classes the following table compares WPI's projected 2009 per customer use with both historical averages and the 2004 weather normal use calculated by Hydro One Networks for the Utility's cost allocation filing.

¹⁸ Exhibit 3/Tab 2/Schedule 1, Attachment, page 10

¹⁹ Board Staff #34 a)

²⁰ Board Staff #34 b)

WPI's Per Customer Use (kWh/Customer/Annum)

	<u>2004-2007</u> <u>Actual</u>	<u>HON CA</u> <u>Values</u>	<u>2009</u> <u>Forecast</u>
Residential	10,962	11,388	10,472
GS<50	30,004	30,804	29,800
GS>50	606,920	580,389	639,653

Sources:

- 1) Actual - Exhibit 3/Tab 2/Sch 5, Attachment 1
- 2) HON Values - VECC #9 f)
- 3) Forecast Values - Same as (1)

3.5 WPI's projected average use values for Residential and GS<50 are both lower than the comparators. In the case of the GS 50-999 class, WPI's per customer use value appear considerable higher than both comparators. However, in 2006 and 2007, per customer use for this class was roughly 650,000 kWh/annum. VECC notes that using a regression equation model that also includes customer count yields slightly higher values²¹ and therefore more in line with the comparators. VECC submits that these results should be as the basis for WPI's 2009 load forecast.

3.6 VECC also submits that the Board should direct WPI to refine its load forecasting methodology as it accumulates more historical data.

Miscellaneous Revenues

3.7 WPI's Miscellaneous Revenues drop from \$1,246,346 in 2007 to \$864,879 in 2009²². The main reason for the decrease is a reduction in rent which occurred as a result of the January 1, 2008 amalgamation of Westario Power Service Inc. and Westario Power Holdings Inc.²³

3.8 VECC notes that WPI's "Interest and Dividend Income" appears to include interest

²¹ Board Staff #34 c)

²² Exhibit 3/Tab 3/Schedule 1, Attachment 1, pages 1-2

²³ Board Staff #18

associated with regulatory assets²⁴. In VECC's view, such interest expenses/income should not be included in the determination of the revenue requirement as it is captured in the account balances that will eventually be refunded to/recovered from customers. However, the revenue offsets actually used in establishing WPI's Base Revenue Requirement (correctly) exclude these revenues²⁵ and, as a result, no further adjustment is required.

4 Operating Costs

- 4.1 WPI's projected OM&A costs for 2009 are \$4,811,825 excluding taxes²⁶. As noted in Board Staff's submissions this represents an increase of \$490,086 (or 11.3%) over 2007 spending levels once one normalizes 2007 for the Meter Exit Fee credit and 3rd Tranche CDM spending²⁷.
- 4.2 WPI has provided an explanation of year over year changes on an account by account basis. However, the existence of two affiliates in 2007 and their subsequent amalgamation in 2008 significantly impacts the changes on an account by account basis. Noting that a 3%/annum inflation allowance would account for \$263,194 of the increase over 2007 it appears that key contributors to the balance of the increase include:
- a) Ongoing PCB Oil Disposal²⁸ - for which spending was reduced in 2007
 - b) The Field Asset Management Collection Program²⁹ – in support to the Utility's Assets Management Policy
 - c) Maintenance of O/H and UG Services³⁰
 - d) Tree Trimming and Line Clearing³¹

²⁴ Exhibit 3/Tab 3/Schedule 2, pages 6-8

²⁵ Exhibit 3/Tab 3/Schedule 1, Attachment 1, page 1 reports \$864,879 in revenue offsets. However, in Exhibit 9/Tab 1/Schedule 1, page 1 only \$669,555 was included in the derivation of rates. See also VECC Supplementary #24.

²⁶ Exhibit 4/Tab 1/Schedule 2, Attachment 1

²⁷ Staff Submissions, page 7

²⁸ Exhibit 4/Tab 2/Schedule 2, page 3

²⁹ Exhibit 4/Tab 2/Schedule 2, page 3 & 4 and Exhibit 4/Tab 2/Schedule 3, page 2

³⁰ Exhibit 4/Tab 2/Schedule 2, pages 8-9

- e) Regulatory Costs for the Current Application³²
- f) Non-inflation adjustments to Management Compensation³³

- 4.3 In the case of items (c) and (d) above, while some of the increase (in excess of inflation) is due to increased hours of direct work, it appears the major contributor to the increases is an increase in Engineering Burden³⁴. Engineering Burden is described as the indirect cost and activities supporting operational staff³⁵. In the case of accounts #5125, 5130 and 5155, the total costs increase from roughly \$200,000 in 2008 to \$350,000 in 2009. Assuming Engineering Burden increases proportionally with direct costs, inflation of 3% and direct activity increases of 10% would produce a 2009 spending level of no more than \$230,000. In VECC's submission the spending in this area should be reduced by at least \$100,000.
- 4.4 In the case of Right of Ways, costs for 2009 (\$270,900) are significantly higher than those in 2006 and 2007 – which were both less than \$200,000. Using \$200,000 as a base and increasing for 3% inflation in 2008 and 2009 would yield a 2009 budget of \$212,200. Even allowing for 10% increased in direct hours only increases the budget to \$233,400. Again, in VECC's view, it is not clear why Engineering Burdens would escalate at a materially different rate than direct costs. As a result, VECC submits that the 2009 spending level for Right of Ways should be reduced by roughly \$35,000.
- 4.5 Finally, in the case of Regulatory Costs, the \$80,000 included in the budget represents 1/3 of the projected \$240,000³⁶. VECC is of view that the \$240,000 is too high in light of the fact there will be no oral component and there are a limited number of active intervenors. In addition, VECC notes that the 3GIRM period has been extended to four years. In view of these facts, VECC submits that the 2009 costs for this Application should be reduced to \$55,000 – based on a total cost of

³¹ Exhibit 4/Tab 2/Schedule 2, page 9

³² Exhibit 4/Tab 2/Schedule 2, page 19 and VECC #11 f)

³³ VECC #14

³⁴ Board Staff #7 and VECC #11 c)

³⁵ VECC #28 b)

³⁶ Exhibit 4/Tab 2/Schedule 2, page 19

\$220,000 spread over four years.

- 4.6 Finally, VECC submits that in assessing the reasonableness of the foregoing reductions the Board should note that VECC has used a 3% inflation rate for 2009 consistent with WPI's Application. However, more recent estimates of inflation for 2009 suggest that it will be materially less³⁷.

5 Losses

- 5.1 VECC has reviewed WPI's loss adjustment factor calculation and notes there is a material year to year variance and no particular trend to the 2004-2007 values for its Distribution Loss Factor³⁸.
- 5.2 Based on these results, VECC submits that the use of a four-year average (as proposed by WPI) is reasonable.

6 Cost of Capital/Capital Structure

- 6.1 WPI's proposed capital structure³⁹ is consistent with the Board's December 2006 Report and should be accepted by the Board. WPI has also acknowledged that the deemed cost of short-term debt will be updated in accordance with the Board's Guidelines⁴⁰. While not explicitly stated, VECC assumes that WPI also accepts that the 8.57% rate of return on equity used in the Application is similarly subject to updating. WPI may wish to confirm this in its Reply.
- 6.2 VECC notes that, in response to Board Staff interrogatories, WPI has clarified that its average 2009 cost of long term debt is 5.82⁴¹ as per the Original Application.

7 Deferral and Variance Accounts

³⁷ The Bank of Canada's January 2009 Monetary Policy Update notes that the Consensus forecast for 2009 is 0.7% and itself is projecting an average annual rate that is lower still.

³⁸ Exhibit 4/Tab 2/Schedule 8, page 1

³⁹ Exhibit 6/Tab 1/Schedule 1, page 1

⁴⁰ Board Staff Round 1 - #24 a)

⁴¹ Board Staff #25 d)

- 7.1 WPI is seeking to recover the balances in Account 1508 and 1550. Based on response to Board Staff interrogatories the total amount requested for recovery has been revised to \$120,875⁴². VECC has no issues with WPI's proposal to clear these two accounts, or with its proposed basis for allocating recovery to customer class or its proposed two-year recovery period.
- 7.2 VECC notes that the total of the balance in WPI's RSVA and RCVA accounts is less than \$100,000. As result, it is VECC's view that disposition of these accounts can await the outcome of the separate initiative the Board plans on undertaking to deal with these accounts.

8 Payments in Lieu of Taxes (PILs)

- 8.1 VECC agrees with Board Staff's submissions that WPI's calculation of PILs should be updated to reflect the recently-passed Federal Budget changes in the federal small business tax threshold and CCA rates.
- 8.2 VECC also notes that, in light of previous decisions by the OEB, WPI has agreed to remove regulatory assets from its determination of taxable income⁴³.

9 Cost Allocation

- 9.1 WPI's Cost Allocation Informational Filing produced⁴⁴ the following revenue to cost ratios:

- Residential 94.75%
- GS<50 80.77%
- GS>50 168.03%
- Street Lighting 50.04%
- Sentinel Lighting 99.35%
- USL 100.39%

⁴² Board Staff Supplementary 12 b) & c)

⁴³ VECC #29

⁴⁴ Exhibit 8/Tab 1/Schedule 2, page 1

9.2 However, WPI's Cost Allocation runs neglected to include the revenues from Late Payment charges⁴⁵. As a result total Revenues equal 98.72% of the Revenue Requirement – as opposed to 100%⁴⁶. Recognition of these revenues would marginally increase the reported revenue to cost ratios.

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

9.3 WPI has used the distribution (percentages) of revenue requirement from its updated Cost Allocation Informational filing (adjusted for miscellaneous revenues) to determine what portion of the 2009 base distribution revenue requirement would represent 100% cost responsibility for each customer class⁴⁷. VECC has three concerns regarding this approach.

9.4 First, as noted above, the Cost Allocation results need to be revised to include Late Payment charge revenues.

9.5 Second, WPI is proposing to allocate the “cost” of the transformer ownership allowance solely to the GS>50 class⁴⁸. VECC agrees with this change and notes that it is consistent with the approach approved for a number of distributors' 2008 rates⁴⁹. 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 “cost” of the discount.

9.6 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

⁴⁵ VECC #31 b)

⁴⁶ VECC #31 a)

⁴⁷ VECC #32

⁴⁸ VECC #21

⁴⁹ For example, Horizon Utilities, Hydro Ottawa and Enersource Mississauga.

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.

9.7 To accommodate this change and be consistent with its own proposal, the Cost Allocation results used should exclude 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 class after the cost allocation adjustments have been completed. WPI 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 allowance⁵⁰. VECC submits that these results more closely represent the appropriate reference point to use⁵¹.

9.8 The following table summarizes the revenue to cost ratios from VECC #21 c):

- Residential 95.46%
- GS<50 81.13%
- GS>50 163.46%
- Street Lighting 51.03%
- Sentinel Lighting 101.06%
- USL 99.92%

9.9 VECC's third concern is with WPI's use of the class revenue requirement distribution from the Cost Allocation Informational filing to determine 100% cost responsibility for 2009⁵². 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

⁵⁰ VECC #21 c)

⁵¹ Note - The results still need to be revised to recognize Late Payment charge revenues.

⁵² VECC #32

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 Application⁵³.

9.10 One way to get an indication as to the potential for cost shifts 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.

Comparison of Revenue Responsibility

	<u>2009 @ 2008 Rates</u>	<u>2006 CA</u>
Residential	62.97%	62.98%
GS<50	14.39%	14.27%
GS>50	19.89%	19.92%
Street Lights	2.41%	2.47%
Sentinel Lights	0.003%	0.01%
USL	0.33%	0.36%

- 1) Cost Allocation filing based on VECC #21 c)
- 2) 2009 @ 2008 Rates based on VECC #33

9.11 While the revenue responsibility proportions are fairly similar for the larger customer classes (i.e., Residential, GS<50 and GS >50), there is a significant difference for the Sentinel Light class. In large part, this is due to the errors in the 2006 EDR and the Cost Allocation run regarding the customer count for Sentinel Lights⁵⁴.

9.12 In VECC's view where there are such differences that could prove material, 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.

⁵³ Examples include COLLUS Power (EB-2008-0226) and Bluewater Power (EB-2008-0221)

⁵⁴ Board Staff Supplemental #9

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.

9.13 In Appendix A, VECC has set out the determination of the class shares of the distribution revenue requirement for 2009 using this approach and also adjusting for Late Payment charge revenues. The results are summarized below and contrasted with WPI's values.

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

	<u>WPI's Values</u>	<u>VECC's Recommended Values</u>
Residential	65.23%	65.297%
GS<50	17.56%	17.787%
GS>50	11.86%	11.756%
Street Lights	5.00%	4.827%
Sentinel Lights	1.00%	0.003%
USL	0.35%	0.330%

Sources:

- 1) WPI's values - VECC #32
- 2) VECC's Values - Appenedix A

9.14 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

9.15 The following Table compares the WPI's proposal for 2009 with the current revenue to cost ratios as determined using the CA Informational Filing and in VECC #31 – adjusted to allow for Late Payment Charge revenues⁵⁵.

⁵⁵ The calculation of the adjusted values is set out in Appendix A

WPI's Proposed R/C Ratio Shifts

	<u>WPI CA R/C Ratio</u>	<u>VECC #31 (Adjusted for LPC)</u>	<u>Proposed R/C Ratio</u>
Residential	94.75%	96.84%	94.93%
GS<50	80.77%	82.41%	81.17%
GS>50	168.03%	164.47%	166.28%
Street Lights	50.04%	51.69%	75.05%
Sentinel Lights	99.35%	102.03%	100.00%
USL	100.39%	103.05%	100.00%

1) WPI CA & Proposed - Exhibit 8/Tab 1/Schedule 2, pages 1-2

9.16 VECC notes that all of the ratios are within the Board's recommended range for the respective customer classes with the exception of Street Lights⁵⁶. As a result, VECC does not agree with WPI's proposals to increase the ratios for Residential and GS<50 and to move the ratios for Sentinel Lights and USL to 100%.

9.17 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 ratio⁵⁷. 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.

9.18 VECC recognizes that in limited instances⁵⁸ 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

⁵⁶ Report of the Board, EB-2007-0667

⁵⁷ Page 4

⁵⁸ The only one VECC is readily aware of is Erie Thames - EB-2007-0928

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 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.

9.19 Based on these Decisions, VECC submits that the ratio for the Street Light class should be increased to 70% and the additional revenues used to reduce the ratio for the GS>50 class. Apart from this, there should be no adjustments made to the revenue to cost ratios.

10 Rate Design

10.1 In the case of the Residential class WPI proposes to maintain the current fixed/variable split⁵⁹. VECC notes that the proposed monthly service charge (\$12.84) is within the range established by the Board's Guidelines⁶⁰. As result, there is no need to alter the fixed/variable split to conform to these Guidelines.

10.2 However, VECC notes that over 20% of WPI's Residential customers use 500 kWh per month or less⁶¹. Indeed, more than 5% of Residential customers use less than 250 kWh per month. While WPI has not shown the impacts, VECC estimates that for customers using 500 kWh per month the (winter) total bill impact will be over 10%⁶². For customers using 250 kWh per month the impact will be even higher. As result, unless there is a sufficient reduction in the overall revenue requirement requested by WPI VECC submits that there is a need to reduce the fixed portion of the Residential rate design in order to mitigate bill impacts. The Board should direct WPI to set the fixed variable split such that a Residential customer using 250 kWh per month has a total bill impact of no more than 10%.

11 Retail Transmission Service Rates

⁵⁹ Exhibit 9/Tab 1/Schedule 1, page 3 and VECC #23

⁶⁰ Board Staff #39

⁶¹ VECC #24

⁶² Based on Exhibit 9/Tab 1/Schedule 9, Attachment 1, page 3 - and reducing the variable portions of the bills in 2008 and 2009 by 50%.

11.1 WPI is proposing to maintain its existing Retail Transmission Service rates⁶³, even though this will result in variances between projected revenue and costs for both Networks and Connections. VECC agrees with Board Staff's submissions⁶⁴ that these rates should be set so as to minimize future variances.

12 Smart Meters

12.1 WPI is requesting approval of a \$1.00 smart meter rate adder. In response to interrogatories WPI has confirmed that it is authorized to implement smart meters and has addressed the information requirements set out in the Board's Smart Meter Guidelines in order to qualify for the \$1.00 adder⁶⁵. VECC submits that the Board should approve the \$1.00 smart meter rate adder for 2009.

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 2nd Day of March 2009

Michael Buonaguro
Counsel for VECC

⁶³ Board Staff #43 d)

⁶⁴ Page 26

⁶⁵ VECC #2 and Board Staff #26

APPENDIX A

WPI 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	7,704,533	4,852,504	1,099,132	1,534,493	190,244	523	27,637
#2	Miscellaneous Revenue (per CA)	563,220	394,124	98,613	51,269	13,799	26	5,389
#3	Total Revenue	8,267,753	5,246,628	1,197,745	1,585,762	204,043	549	33,026
#6	Misc Rev %		69.98%	17.51%	9.10%	2.45%	0.00%	0.96%
<u>Adjustment for Late Payment Revenues</u>								
#2 a)	Corrected Miscellaneous Revenues	671,588	469,957	117,587	61,134	16,454	31	6,426
#3 a)	Corrected Total Revenues	8,376,121	5,322,461	1,216,719	1,595,627	206,698	554	34,063
#4	Total Revenue %		63.54%	14.53%	19.05%	2.47%	0.01%	0.41%
#5	Dx Revenue %		62.98%	14.27%	19.92%	2.47%	0.01%	0.36%
#6	Misc Revenue %		69.98%	17.51%	9.10%	2.45%	0.00%	0.96%
<u>Cost Allocation Results - Revenue Requirement</u>								
#7	Revenue Requirement	8,376,121	5,496,182	1,476,358	970,136	399,848	543	33,054
#8	Revenue to Cost Ratios		96.84%	82.41%	164.47%	51.69%	102.03%	103.05%
#9	Adjustment Factor for Rev=RR		1.0326	1.2134	0.6080	1.9345	0.9801	0.9704
<u>2009 Rates</u>								
#10	2009 Dx Revenue at Current Rates	7,802,616	4,913,313	1,123,135	1,551,941	187,948	213	26,067
<u>Determination of 100% Dx Revenue Allocation</u>								
#11	- Misc Revenue (2009 Rates)	669,555	468,534	117,231	60,949	16,404	31	6,406
#12	- Total Revenue (@ Current Rates)	8,472,171	5,381,847	1,240,366	1,612,890	204,352	244	32,473
#13	- Adjusted Total Rev 100% Cost by Class	8,470,250	5,557,507	1,505,051	980,632	395,310	239	31,512
#14	- Adjustment to Reconcile 2009 SRR	9,934,837	6,518,453	1,765,289	1,150,192	463,663	280	36,960
#15	- 2009 Dx Revenue for 100% R/C Ratio	9,265,282	6,049,919	1,648,058	1,089,244	447,259	249	30,554
#16	- Dx Revenue Proportions for 100%		65.30%	17.79%	11.76%	4.83%	0.003%	0.33%
#17	- Total Service Revenue Proportions for 100%		65.61%	17.77%	11.58%	4.67%	0.003%	0.37%

Notes: #1-#3 - from VECC #31
 #2 a) - Miscellaneous Revenues (including Late Payments) allocated using % based on Row #2
 #3 a) - Based on Row #1 plus Row #2 a)
 #4-#6 - based on values set out in preceding rows
 #7 - from VECC #31
 #8 - based on Row #3 a)/Row #7
 #9 - Based on Row #7/Row #3 a)
 #10 - VECC #33
 #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