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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: Lakeland Power Distribution Ltd.
Application for 2009 Electricity Distribution Rates
Board File No. EB-2008-0234

Please find enclosed the submissions of the Vulnerable Energy Consumers Coalition.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

EB-2008-0234

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 Lakeland Power Distribution Ltd., 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 27, 2009

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Vulnerable Energy Consumers' Coalition (VECC)
Final Argument

1 The Application

1.1 Lakeland Power Distribution Ltd. ("Lakeland" or "LPDL") filed an application with the Ontario Energy Board ("the Board") on September 15, 2008 for rates effective May 1, 2009. LPDL requested a delivery revenue requirement of $4,957,946.53 which includes a $991,889 deficiency at existing rates and represents a 25.0% increase in distribution revenue.[1]

1.2 LPDL does not request disposal of the balances in any of its Deferral or Variance Accounts nor does LPDL seek approval for any new such accounts. Lakeland does request approval to continue the Smart Meter rate adder of $0.25 per metered customer per month and to continue the Specific Service Charges and Transformer Allowance approved by the Board in RP-2005-0020/EB-2005-0388 for 2006 distribution rates.[2]

1.3 The following sections contain VECC's final submission regarding the various aspects of Lakeland's Application.

2 Rate Base and Capital Spending

Capital Spending

2.1 VECC notes that the 2006 actual rate base of $15,243,425 was below the Board approved 2006 rate base of $15,622,096 and has declined steadily to its 2008 Bridge Year amount of $15,161,382. The rate base proposed for 2009, however,

[1] Exhibit 1/Tab 2/Schedule 4
[2] Exhibit 5/Tab 1/Schedule 2 and Exhibit 1/Tab 1/Schedule 5

indicates an increase to $15,499,710 .[3]

2.2 The average NBV of fixed assets shows the same qualitative profile over time, with the 2006 OEB approved amount being $12,982,926 and the 2006 actual being $12,536,442. The NBV of fixed assets then declines steadily to its 2008 Bridge Year amount of $12,290,543. The average NBV proposed for 2009, however, reflects an increase to $12,542,880.[4]

2.3 In any case, the evidence indicates that capital spending for each of these three years was below depreciation, i.e., the utility failed to replace assets at the rate at which they were "wearing out" during this "out year" period.

2.4 Lakeland recorded capital additions net of contributions of $844,745 in 2006 and $844,284 in 2007 and projected capital additions, in the Application, of $974,788 in 2008 (15.5% increase over 2007) and $1,685,160 in 2009 (a further 72.9% increase over 2008).[5]

2.5 In response to an interrogatory,[6] LPDL updated its capital additions projections to $942,000 for 2008, a more modest increase of 11.6% over 2007, and $1,773,000 for 2009, a further increase of 88.2%. The variances in 2008 and 2009 spending original forecasted amounts by Account No. are provided in the interrogatory response.

2.6 VECC notes that major drivers of the 2008 variance between the initial filing and the updated capital additions are $334K in contributed capital (not originally forecasted) which is partly offset by (i) an increase in Distribution Plant Overhead of $187K and (ii) an increase of $192K for General Plant due to spending on replacement Vehicles that was originally scheduled for 2009.

2.7 VECC also notes that while 2008 Distribution Plant spending totaled $406K as of October 2008, LPDL's 2008 Distribution Plant spending has been revised to

[3] SEC IR #4, Table 1
[4] Ibid
[5] Exhibit 2/Tab 2/Schedule 1
[6] Energy Probe IR #11

$578K for the year.[7] This implies that while Distribution Plant spending averaged $40.6K per month for the first 10 months of the year, LPDL forecasts that such spending will average $86.0K – more than double per month – for the last two months of the year. VECC's concerns, aside from the fact that VECC would have assumed that the weather during the months April to October would have been far more conducive for construction than the months November and December, are (i) whether LPDL can ramp up its spending in the last two months of 2008 to the extent that it now forecasts, and (ii) whether there has been intra-year shifting of expenditure to the very end of the Bridge Year or a year-end surge to hit a spending target.[8]

2.8 Regarding the variance in 2009 spending, VECC notes that in the Application, Lakeland forecasts 2009 spending at $1.387M for Distribution Plant[9] and $0.298M on General Plant,[10] for total Test Year capital spending of $1.685M. The revised 2009 forecast[11] indicates that while General Plant spending has decreased by $0.205M (entirely due to purchase of the Vehicles in 2008 rather than in 2009 as originally forecast) to $0.093M, the spending on Distribution Plant has increased by $0.293M to $1.680M due to increases in Distribution Station ($173K) and Line Transformers ($120K).

2.9 VECC submits that the need for the 2009 Distribution Plant increases for the two line items mentioned in the preceding paragraph – especially during a significant downturn in the business cycle – have not been explained or adequately justified by the utility. As such, absent credible support provided by LPDL, VECC submits that the Board should deny the augmented capital spending for the Test Year of $293K in LPDL's revised 2009 forecast.

2.10 VECC further notes that the major contributor to the increase in capital spending is

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[7] Ibid
[8] Such shifting, while lowering Bridge Year carrying costs for the utility while maintaining Test Year opening rate base, may put reliability at risk.
[9] Exhibit 2/Tab 3/Schedule 1, page 3
[10] Ibid, pages 7, 9, 11, and 12
[11] Energy Probe IR #11

attributed to construction of the 10 MVA substation. In response to a first round interrogatory, LPDL stated that "[a]s indicated on Exhibit 2/Tab 3/Schedule 1 page 4, the total project cost is expected to be $1.5M with a capital contribution of $1.0M resulting in a net increase to capital of $500K. As at October 2008, $330K has been spent on the project."[12] (Emphasis added.)

2.11 In response to a supplementary IR – which requested an update to the original IR – LPDL stated that "[t]he current estimate on the final cost of the substation and subdivision is $2.3M with a contributed capital of $1.4M leaving an LDC asset of $879K versus the $500K in the original application. Expected energization date is June 2009. Amounts spent to date are $323K."[13] (Emphasis added.)

2.12 VECC is unsure as to how the total spent on the project actually decreased after the first round of IRs. Further, other than the potential addition of one developer, the rationale for the increases of over 50% both in total project costs and additions to rate base, has not been adequately provided in VECC's view. VECC urges LPDL to identify, in its Reply, any information on the record to date that provides support and clarification of these issues so that the Board has a basis to evaluate this project's contribution to the proposed Test Year rate base and revenue requirement. Otherwise, VECC submits that the 2009 rate base should reflect the original estimate.

2.13 In general, VECC notes that this spending behaviour – increasing capital spending significantly in the Test Year compared to the spending in years immediately preceding – has been a common theme in many of the rebasing applications that VECC has reviewed. Applicants seem to be responding to the financial incentives, under IR or PBR as currently practiced, to defer major capital spending projects from "out years" to the Test Year and, to a lesser extent, to the Bridge Year (which allows for a full-year rate base impact in the Test Year).

2.14 As such, VECC submits that in cases where there is an upwards spike in capital

[12] VECC first round IR #18a)
[13] VECC Supplementary IR #13

spending forecasted to occur towards the end of the Bridge year that has a major impact on rate base, the Board should consider either:

a) Reducing the projected 2008 spending to a more reasonable level;

b) Prescribing a rate base variance account , targeted on specific projects, for the opening balance so as to hold the ratepayer and the shareholder harmless should significant variances between actual and presumed assets in service arise; or

c) Setting the January 1, 2009 opening balance according to the actual NBV of assets in service as at that date and using this balance along with Board approved Test Year capital expenditures to determine an appropriate Test Year rate base for ratemaking purposes.

2.15 VECC finally submits that all impacts of the Board's decision on capital spending should be fully reflected in the approved revenue requirement.

Working Capital

2.16 VECC submits that the rate 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 is contained in the OEB's October 2008 Regulated Price Plan Report where in the average RPP price for the next 12 months is quoted[14] as $60.30/MWh.

2.17 However, VECC also notes that other distributors[15] 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

[14] Page (iii)
[15] For example see COLLUS Power's (EB-2008-0226) response to VECC #43 b).

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.

2.18 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 Methodology

3.1 Lakeland's load forecast methodology consists[16] 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 1996-2007[17].
- Second, the forecast is adjusted for losses to produce a weather-normalized billed energy forecast. Average weather conditions over the period 2001-2007 are used to determine the weather normalized forecast.
- Third, based on customer count forecasts and trends in non-weather normalized per customer use, forecasts of total (non-weather normalized) use are developed for each customer class. These forecasts are then adjusted (based on the relative weather sensitivity of each class) so that the sum of individual customer class forecasts equals the total billed kWh forecast developed in Steps #1 and #2.

3.2 In terms of the methodology used in Step #1 to develop the total system, VECC is concerned that the regression equation for forecasting total billed kWh only includes total customers (excluding Sentinel Lights and USL[18]). As a result, the "equation" will not capture the impacts of changes in customer mix. This becomes

[16] Exhibit 3/Tab 2/Schedule 2, page 1 (Revised December 18, 2008)
[17] Exhibit 3/Tab 2/ Schedule 2, page 1 (Revised)
[18] VECC #4 d)

important if the forecast growth in customer count varies across customer classes.

3.3 VECC has serious concerns about the third step of the Lakeland's methodology. This step relies heavily on a customer count forecast that is only loosely tied to the overall billed kWh load forecast, as discussed above. While the total kWh forecast assumes that the addition of new customers has the same impact regardless of the class, this step relies on specific use/customer data for each class. As a result, changing the forecast customer count for one customer class will impact the total sales forecast for the other (weather sensitive) customer classes.

3.4 In Step #3. VECC also has concerns regarding Lakeland's process for determining and adjusting what it deems to be a "non-weather normalized" forecast so that it reconciles with the forecasted weather normalized use[19]. Lakeland's forecast of non-weather normalized use in each customer class is calculated based on i) the projected customer count as discussed above and ii) a projected average use per customer which, in turn, is calculated by escalating the actual 2007 per customer use by the average growth rate in the class' per customer use over the 2002-2007 period[20].

3.5 The problem with the second part of this approach is that by using the geometric mean the growth rate calculated only really reflects weather conditions in 2002 and 2007 and, therefore, is not reflective of year over year weather changes through out the entire period and does not reflect average weather conditions as Lakeland suggests[21].

3.6 Finally, with respect to Step #3, VECC has concerns regarding the adjustment process Lakeland uses to reconcile its non-weather normal forecast by class with its projection of total weather-normalized loads. Lakeland's assumption that the Residential and GS<50 classes are 100% weather sensitive while GS 50-499 is only 55% weather sensitive is based on an interpretation of Hydro One Networks

[19] Exhibit 3/Tab 2/Schedule 2, pages 7-11 (Revised)
[20] Exhibit 3/Tab 2/Schedule 2, page 9 (Revised)
[21] VECC #4 e)

weather normalization work to provide data for Lakeland's cost allocation filing[22]. However, in VECC's view, Lakeland has not adequately substantiated that Residential and GS<50 customers' loads are 100% weather sensitive[23]. Indeed, VECC submits that it is intuitively obvious that they are not[24].

3.7 In order to check the reasonableness of Lakeland's projections for the weather sensitive customer classes, the following table compares Lakeland'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.

Comparison of Per Customer Use Values (kWh)

	Average 2002-07	Average 2005-07	HON NAC	Lakeland's 2009 Forecast
Residential	11,396	11,226	11,508	11,509
GS<50	32,875	32,153	31,764	31,770
GS 50-999	613,390	626,376	900,865	556,660

Sources: 1) Data for 2002-2007 taken from Exhibit 3,Tab 2, Sch 2 - Table #9
2) HON NAC - from VECC #4 i)
3) Lakeland's Forecast derived from Exhibit 3, Tab 2, Sch 2 - Appendix A

3.8 Lakeland's projected average use values for Residential and GS<50 are reasonably similar to the comparators and, in VECC's view, can be accepted by the Board. However, in the case of the GS 50-999 class, Lakeland's per customer use value is significantly lower. This lower projection appears to be the result of including 2001 data in the calculation.

3.9 Since Lakeland has acknowledged that the 2001 data is suspect[25], a preferable approach would be to estimate this class' per customer use based on data for the 2002-2007 period. In response to Energy Probe #20 Lakeland has provided the results of this analysis and determined a projected 2009 average use of 647,371 kWh. VECC submits that this value is more reasonable and should be used in

[22] VECC #4 f)& g)
[23] VECC Supplementary #3
[24] Both the Residential and GS<50 classes have lighting loads which are not weather sensitive.
[25] Energy Probe #19

determining the 2009 forecast.

3.10 Under Lakeland's methodology adopting this higher number for GS 50-999 would reduce the values for the other weather sensitive classes. However, since the current values for these classes are reasonable, VECC submits that this would not be an appropriate outcome. Rather, VECC submits that the overall load forecast should be increased by applying the resulting increase in average use to the projected number of GS 50-999 customers. Based on Lakeland projections this would yield 8,254,701 kWh[26].

3.11 In terms of forecast customer count, Lakeland has acknowledged that its projected customer counts for Residential, GS<50 and GS 50-999 are too low. However, the Utility notes that in developing its load forecast it has used the wrong loss factors such that the forecast is too high[27]. Lakeland submits that the two errors directionally offset each other andthat the loss factor error has the larger impact. More fundamentally, Lakeland has acknowledged that the loss factor error impacts all of the historical customer class data reported in its Application, thereby changing both the 2007 per customer usage and the growth rates applied to determine 2009 non-weather normalized usage. However, again, Lakeland proposes to not correct its Application[28].

3.12 In VECC's view, the correct average loss factor along with the correct usage by customer class from the historical period should be used in translating the projected purchased load to billed load. Also, updated customer count values – similar to those proposed by Energy Probe[29] – should be used in the forecast. There is no information available as to what the result of a full re-working of the load forecast would be. However, since the loss factor error appears to be common to all customer classes, it is likely that reducing each classes projected

[26] Based on (647,371-556,660) * 91 customers
[27] VECC Supplementary #5 b)
[28] VECC Supplementary #8 c)
[29] Energy Probe Submissions, pages 25-26

sales by 3.24%[30] would produce a first order approximation of the likely result.

3.13 Overall VECC submits that Lakeland's 2009 load forecast as filed should be adjusted follows:

- The weather normalized average use values implicit[31] in the load forecast should be adopted for all classes except GS 50-999. For this class an average use value of 647,371 kWh is appropriate.
- The class customer counts for 2009 should be revised to reflect those recommended by Energy Probe.
- The total use by class obtained by applying the foregoing average use and customer count values for 2009 should be reduced by 3.23% to reflect the error in the loss factors underlying the overall analysis.

3.14 Finally, VECC submits that, similar to the OEB direction given in the Toronto Hydro case[32], Lakeland should be directed to work with other distributors to develop a more comprehensive and integrated approach to load forecasting.

4 Operating Costs

4.1 In response to an interrogatory by Board Staff,[33] LPDL provided "Total OM&A" for the years 2007, 2008, and 2009, as $2,312,277, $2,702,782, and $2,854,047 respectively.

4.2 VECC notes that this same interrogatory response also shows that the actual OM&A spending in 2007 was $181,374 or 7.3% below LPDL's actual 2006 OM&A spending of $2,493,651.

4.3 VECC notes that the proposed 2009 Test Year OM&A requirement is equal to the

[30] To capture the difference between the 2.7% loss factor used and the correct loss factor 6.14%
[31] Per Exhibit n3/Tab 2/Schedule 2, Attachment A
[32] OEB Decision, EB-20070-0680, pages 32-33

amount that would result from taking actual 2007 OM&A spending and (i) inflating this total by 11.1% per year for 2008 and (ii) inflating the 2008 total subsequently by a further 11.1% for 2009.

4.4 VECC submits that such double digit increases in controllable expenses, far exceeding the general rate of inflation, should require considerable evidentiary support on the part of the Applicant before receiving regulatory approval.

4.5 In its response to a Board Staff IR,[34] LPDL corrected Table 3 of the pre-filed Exhibit 4, Tab 2, Schedule 7, which provides details of "Employee Complement and Compensation." LPDL stated that the original table had misclassified cost allocations to expense types and also failed to account for part-time positions in its FTE count.

4.6 VECC makes two comments with respect of the employee compensation component of OM&A expenses forecast for the Test Year based on the Revised Table 3.

4.7 VECC's first comment is that the increase in management average yearly base wages from 2007-2008 represents a 20.4% increase, from $67,024 in 2007 to $80,728 in 2008. VECC notes that as there were 3 such FTEs in both 2007 and 2008, this implies a total increase in base wages paid to the three management FTEs in 2008 was $41,112 over that paid to the three management FTEs in 2007. LPDL states that "[o]f the three positions, two are new in 2008."[35]

4.8 VECC notes that, elsewhere in the evidence, LPDL indicated a need to upgrade its management resources, with the implication that to attract superior management, superior compensation may be required. VECC accepts this rationale, on a one-time basis for LPDL, as acceptable to explain the fact that in replacing two of the

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[33] Board Staff IR #4, Table 2 Revised. The same totals are provided in response to AMPCO IR #1 and similar OM&A figures (within 0.4%) are provided in response to SEC IR # 2 (which requested revenue requirement amounts.)
[34] Board Staff IR #10 a)
[35] Ibid. VECC notes that the increases in 2009 over 2008 appear reasonable for all groups.

three management positions, there may have been up to an average base year wage increase of approximately 30% for the replacements.[36]

4.9 The second comment VECC makes with respect to the compensation piece of the total OM&A spending, is the large size of the increases for average yearly benefits in 2009 over 2007. As the Revised Table 3 indicates, the increases have been 35.2%, 46.2%, and 40.2% for management, non-union, and union employees respectively.[37] While VECC does not take issue with these increases in this proceeding, VECC notes that the evidence shows significant increases for all three groups in both 2008 and 2009 and submits that the Applicant should strive to contain such cost increases in future years.

4.10 Notwithstanding VECC's acceptance of the OM&A increases related to compensation, VECC is troubled by the double digit increases overall and believes that reductions in the overall percentage increase in OM&A spending are justified.

4.11 In this respect, VECC has reviewed a draft of Energy Probe's submissions and supports Energy Probe's recommendations with respect to proposed decreases in OM&A spending on allocated Lakeland Holding expenses, rate rebasing costs, EDA fees, and bad debt expenses.

5 Losses

5.1 LPDL proposes to use five years of wholesale and retail kWh data, 2003-2007, to calculate a distribution loss adjustment factor ("DLF") of 1.0315 and a supply facility loss adjustment factor ("SLF") of 1.0290, resulting in a total loss factor "TLF") of 1.0614for secondary metered customers < 5,000 kW[38].

[36] This is an approximation based on the assumption that the one FTE who was not replaced received an increase in line with increases to other expense groups: if $40K of the increased base wages were directed equally to the two replacements ($20K to each), the increase above the 2006 average of approximately $67K is about 30% for each new hire.
[37] Board Staff IR #10a)
[38] Exhibit 4/Tab 2/Schedule 9 and Energy Probe IR #27

5.2 With respect to the DLF, VECC notes that the five-year average value, 1.0315, exceeds the DLF calculated for each of the four years 2004-2007 inclusive: the only single year DLF that exceeds the five-year average is the 1.0426 calculated for the first year, 2003.[39] VECC submits that this is evidence that the five-year average may provide a biased result. VECC further notes that the data appears to exhibit a downward trend over time in DLF. As such, VECC submits that use of the five-year average appears to include an "outlier" that upwardly biases the average.

5.3 On the other hand, for the SLF, the five-year average value, 1.029, exceeds the SLF calculated for two of the years, 2004 and 2007 and is exceeded by the SLF calculated for the other three years, 2003, 2005, and 2006.[40] VECC submits that this pattern exhibits as much symmetry as is possible when using a dataset with an odd number of years of data.

5.4 VECC notes that if an average of the most recent three years of data were used to calculate DLF and SLF, the calculated values would be 1.0279 and 1.0317 respectively.

5.5 VECC further submits, If the three-year average is used to calculate both the DLF and the SLF, the TLF would be 1.0606 for secondary metered customers < 5,000 kW; if the five-year SLF of 1.0289 were used with the three-year DLF of 1.0279, the TLF would be 1.058. VECC submits that either of these two TLFs is more appropriate than that proposed by the Applicant.

[39] Exhibit 4/Tab 2/Schedule 9, Table 1
[40] Exhibit 4/Tab 2/Schedule 9, Table 2

6 Cost of Capital/Capital Structure

6.1 VECC has reviewed the evidence in respect of LPDL's proposal to go to a capital structure of 56.67% debt and 43.33% equity and submits that it is consistent with the direction given in the Board Report.

6.2 VECC has reviewed the evidence and the submissions of Board Staff and agrees that the proposals in respect of the appropriate cost of long-term debt and of equity appear to be consistent with the Board Report.

7 Deferral and Variance Accounts

7.1 LPDL has not requested approval for the disposition of any balances in deferral or variance accounts.[41]

8 Payments in Lieu of Taxes

8.1 VECC supports the submission of Board Staff "that Lakeland should calculate the PILs expense using the appropriate starting point, and gross-up methodology, as found in the Board's Application Model and Handbook when it prepares its 2009 draft Rate Order."[42]

9 Cost Allocation

Results of Lakeland's Cost Allocation Informational Filing

9.1 Lakeland's Cost Allocation Informational Filing produced[43] the following revenue to cost ratios:

- Residential 98.53%

[41] Exhibit 1/Tab 1/Schedule 5
[42] Staff Submission, February 20, 2009, page 12.
[43] Exhibit 8/Tab 1/Schedule 2, page 2

- GS<50 95.53%
- GS>50 147.15%
- Street Lighting 16.95%
- Sentinel Lighting 24.54%
- USL 67.27%

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

9.2 Lakeland 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 class[44]. VECC has two concerns regarding this approach.

9.3 First, Lakeland is proposing to allocate the "cost" of the transformer ownership allowance solely to the GS>50[45]. As a result, Lakeland has not included the cost of the transformer ownership allowance in the basic distribution revenues it is allocating to customers using its proposed revenue to cost ratios[46]. VECC agrees with this change and notes that it is consistent with the approach approved for a number of distributors' 2008 rates[47].

9.4 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.

9.5 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

[44] VECC #6 c)
[45] Exhibit 9/Tab 1/Schedule 1, page 6
[46] Exhibit 9/Tab 1/Schedule 1, pages 1-2
[47] For example, Horizon Utilities, Hydro Ottawa and Enersource Mississauga.

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.

9.6 To accommodate this change and be consistent with its own proposal, Lakeland has "attempted" to remove the cost of the transformer ownership allowance from the allocation of the revenue requirement to customer classes[48]. However, the adjustment made by Lakeland is incorrect. Lakeland has removed all of the "costs" from the GS>50 class whereas in the Cost Allocation filing the cost of the transformer ownership allowance was allocated across all customer classes[49]. In VECC Supplemental #5 Lakeland was asked to provide a revised version of its Cost Allocation Informational filing that properly removed the costs and the revenue associated with the transformer ownership allowancel[50].

9.7 Unfortunately the response provided only removed the transformer ownership allowance from the revenue requirement and not from the revenues attributed to each class – as can be seen by the fact that the total revenue to cost ratio does not equal 100%[51]. However, assuming the $56,626 transformer ownership allowance (from the 2006 EDR) is all associated with the GS > 50 class it is possible to correct the result provided. VECC submits that these corrected results will more closely represent the appropriate reference point to use.

9.8 The following table summarizes the revenue to cost ratios from VECC Supplemental #6 adjusted to remove the transformer ownership allowance from the GS>50 class revenues:

- Residential 99.85%
- GS<50 96.90%

[48] VECC#6 c)
[49] VECC #7 a)
[50] VECC Supplemental #6
[51] The value reported is 101.37%

- GS>50 139.76%
- Street Lighting 17.29%
- Sentinel Lighting 24.99%
- USL 67.02%

9.9 VECC's second concern is with Lakeland's use of the class revenue requirement distribution from the Cost Allocation Informational filing to determine 100% cost responsibility for 2009[52]. This approach only works if the billing parameters (i.e., kWhs, kWs 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 Application[53].

9.10 In response to VECC #6 a) Lakeland has provided the relative kWhs and customer count by class for both 2009 and its Cost Allocation filing. The percentages are fairly comparable such that there may not be issue with this particular Application. In order to get a better assessment as to the potential for shifts in cost responsibility one can also compare each class' 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

[52] VECC #6 c)
[53] Examples include Westario Power (EB-2008-0250); COLLUS Power (EB-2008-0226) and Bluewater Power (EB-2008-0221)

Comparison of Revenue Responsibility

	2009 @ 2008 Rates	2006 CA
Residential	55.59%	55.07%
GS<50	22.40%	22.38%
GS>50	20.86%	21.23%
Street Lights	0.87%	0.88%
Sentinel Lights	0.03%	0.03%
USL	0.24%	0.40%

1) Cost Allocation filing based on VECC Supplementary #6
2) 2009 @ 2008 Rates based on VECC #5 a)

9.11 Based on the above results it appears that in the case of the USL class there are material differences. In VECC's view where such differences exist, the 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.

9.12 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 Lakeland's values.

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

	Lakeland's Values	VECC's Recommended Values
Residential	55.97%	56.99%
GS<50	23.53%	23.74%
GS>50	13.55%	14.95%
Street Lights	6.17%	5.98%
Sentinel Lights	0.14%	0.13%
USL	0.65%	0.43%

Sources:
1) Lakeland's values - VECC #6 c)
2) VECC's Values - Appenedix A

9.13 VECC submits that the preceding "VECC Recommended" Revenue Share values should be used as the reference point for any cost allocation adjustments[54].

Proposed Revenue to Cost Ratios

9.14 The following Table compares the Lakeland proposal for 2009 with the current revenue to cost ratios as determined using the CA Informational Filing and in VECC Supplemental #5.

[54] Should the Board decide to alter Lakeland's load forecast by customer class or overall revenue requirement, then these shares will need be recalculated using the approach set out in Appendix A.

Lakeland's Proposed R/C Ratio Shifts

	Lakeland CA R/C Ratio	VECC Supplemental #5	Proposed R/C Ratio
Residential	98,53%	99.85%	100.00%
GS<50	95.53%	96.90%	100.00%
GS>50	147.15%	139.76%	122.84%
Street Lights	16.95%	17.29%	50.24%
Sentinel Lights	24.54%	24.99%	52.70%
USL	67.27%	67.02%	81.25%

1) Lakeland CA & Proposed - Exhibit 8/Tab 1/Schedule 2, page 3

9.15 VECC agrees that the revenue to cost ratios for Street Lights and Sentinel Lights need to increase, as both are currently below the range established by the OEB in its EB-2007-0667 Report. However, when the ratios are significantly below the guideline (as is currently the case), the Board's approach in other cases has been to increase the ratio half way to the bottom end of the range in the first year. Using VECC Supplemental #5 as the starting point would result in 2009 ratios for Street Lights and Sentinel Lights of 43.65% and 47.5 % respectively. VECC submits that these are the revenue to cost ratios that the Board should direct Lakeland to implement for 2009.

9.16 In the case of the USL class', VECC agrees there is a need to increase the the revenue to cost ratio but submits it should only increase to 80% - the lower bound of the Board's prescribed range for this class.

9.17 All other classes are within the prescribed ranges set by the Board and VECC submits there is no need to adjust the revenue to cost ratios for Residential or GS<50. As a result, VECC does not agree with Lakeland's proposal to move the Residential and GS<50 classes to 100%.

9.18 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 ratio[55] 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.

9.19 VECC recognizes that in limited instances[56] 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.

[55] Page 4
[56] The only one VECC is readily aware of is Erie Thames – EB-2007-0928

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.

9.20 Based on these precedents VECc also submits that the proposal to move the USL to beyond the lower end of the its prescribed range is inappropriate.

9.21 Since GS>50 is the only class with a ratio above 100%, VECC submits that any additional revenues generated through adjusting the ratios for the Lighting and USL classes should be used to reduce the ratio for GS>50.

10 Rate Design

10.1 Lakeland is proposing to alter the fixed-variable split for the Residential class[57] and decrease the fixed charge's proportion of costs from 60.1% to 53.5%. Lakeland's rationale for this change is that maintaining the fixed/variable split would have resulted in significant bill impacts (>17%[58]) for low volume customers, while the proposed split restricts the customer total bill impacts to less than 10%[59].

10.2 VECC submits that Lakeland's proposal with respect to the Residential

[57] Exhibit 9/Tab 1/Schedule 2, page 3
[58] VECC #9 b)
[59] Exhibit 9/Tab 1/Schedule 9, Appendix A, page 1

fixed/variable split is an appropriate bill impact mitigation and should be accepted by the Board.

11 Low Voltage Costs

11.1 Lakeland's Application includes $656,843 in LV cost for 2009. This value was calculated using rates that Hydro One Networks applied for in its EB-2007-0681 filing[60]. As Board Staff notes in its submissions, since Lakeland first filed its Application, the Board has issued its Decision regarding Hydro One Networks' 2008 Rates Application and Hydro One Networks has filed for a 2009 IRM adjustment to these rates. VECC agrees with Staff's submission[61] that Lakeland should update its Low Voltage costs based on Hydro One Networks' 2009 Rate Application.

12 Smart Meters

12.1 VECC does not object to LPDL's proposal to continue collecting the current smart meter rate 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 2nd Day of March 2009

Michael Buonaguro
Counsel for VECC

[60] Board Staff #29 b)
[61] Page 16

APPENDIX A **LPDL's 100% COST RESPONSIBILITY BASED ON 2009 REVENUES @ CURRENT RATES**

		Total	Residential	GS <50	GS>50-Regular	Street Light	Sentinel Light	USL
	Cost Allocation Results - Revenue							
#1	Distribution Revenue	3,809,198	2,097,742	852,652	808,874	33,395	1,133	15,402
#2	Miscellaneous Revenue	325,141	185,463	79,559	48,454	7,826	204	3,635
#3	Total Revenue	4,134,339	2,283,205	932,211	857,328	41,221	1,337	19,037
#4	Total Revenue %		55.23%	22.55%	20.74%	1.00%	0.03%	0.46%
#5	Dx Revenue %		55.07%	22.38%	21.23%	0.88%	0.03%	0.40%
#6	Misc Revenue %		57.04%	24.47%	14.90%	2.41%	0.06%	1.12%
	Cost Allocation Results - Revenue Requirement							
#7	Revenue Requirement	4134339	2286722	962038	613420	238404	5350	28405
#8	Revenue to Cost Ratios		99.85%	96.90%	139.76%	17.29%	24.99%	67.02%
#9	**Adjustment Factor for Rev=RR**		1.0015	1.0320	0.7155	5.7836	4.0015	1.4921
	2009 Rates							
#10	**2009 Dx Revenue at Current Rates**	3,966,076	2,204,748	888,560	827,422	34,508	1,128	9,709
	Determination of 100% Dx Revenue Allocation							
#11	- Misc Revenue (2009 Rates)	407,336	169,698	72,796	44,335	7,161	187	3,326
#12	- Total Revenue (@ Current Rates)	4,373,412	2,374,446	961,356	871,757	41,669	1,315	13,035
#13	- Adjusted Total Rev 100% Cost by Class	4,259,667	2,378,104	992,116	623,744	240,994	5,261	19,449
#!4	- Adjusment to Reconcile 2009 SRR	5,365,301	2,995,361	1,249,628	785,642	303,546	6,626	24,498
#15	- 2009 Dx Revenue for 100% R/C Ratio	4,957,965	2,825,663	1,176,832	741,307	296,385	6,439	21,172
#16	**- Dx Revenue Proportions for 100%**		56.99%	23.74%	14.95%	5.98%	0.13%	0.43%
#17	**- Total Service Revenue Proportions for 100%**		55.83%	23.29%	14.64%	5.66%	0.12%	0.46%

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 inceased 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