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March 16, 2009

**VIA MAIL and E-MAIL**

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge St.  
Toronto, ON  
M4P 1E4

Dear Ms. Walli:

**Re: Vulnerable Energy Consumers Coalition (VECC)  
EB-2008-0247  
Welland Hydro-Electric System Corp. – 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 Welland Hydro-Electric System Corp. 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 16, 2009**

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**Vulnerable Energy Consumers' Coalition (VECC)**  
**Final Argument**

**1 The Application**

- 1.1 Welland Hydro-Electric System Corp. ("Welland Hydro" or "WHESC") filed an application (the "Application") with the Ontario Energy Board ("the Board") on August 15, 2008 for distribution rates effective May 1, 2009.
- 1.2 The Application forecasted a 2009 Test Year distribution revenue requirement of \$8,701,397, including a pre-tax projected deficiency of \$1,608,305 at existing rates. The overall service revenue requirement was offset by other operating revenue of \$656,350. The increase in distribution revenue requirement sought was 22.7%.<sup>1</sup>
- 1.3 The Application also sought to dispose of the Deferral and Variance Account balances in the following accounts: #1508 Other Regulatory Assets, #1508 Other Regulatory Assets – Sub-account OEB Cost Assessments, #1525 Miscellaneous Deferred Debits, and #1574 Deferred Revenue. WHESC proposed to recover the overall balance in these accounts of \$416,929 from ratepayers by a rate rider over a three-year period, with the costs allocated to customer classes according to distribution revenue.<sup>2</sup> WHESC calculated the bill impact on residential customers of clearing these accounts as proposed as 0.52%.<sup>3</sup>
- 1.4 The Application sought no change in the existing Smart Meter rate adder of \$0.27 per month per metered customer.
- 1.5 On October 22, 2008, the Board issued its Guideline on retail transmission service ("RTS") rates, G-2008-0001. On November 3, 2008, Welland Hydro filed

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<sup>1</sup> Exhibit 1/Tab 2/Schedule 4

<sup>2</sup> Exhibit 5/Tab 1/Schedule 3

<sup>3</sup> Exhibit 5/Tab 1/Schedule 4. The rider for this class was \$0.0006/kWh.

supplemental evidence to reflect the Ontario Uniform Transmission Rate Order, EB-2008-0113, as directed in the Guideline.

- 1.6 During the interrogatory process, Welland Hydro stated that it expected to revise its Test Year revenue forecast based on the loss of one of its three Large Use customers and the downsizing of another..
- 1.7 On December 17, 2008, the Board announced by letter that the rate in distributors' tariff sheets for Rural or Remote Electricity Rate Protection ("RRRP") would increase from its current level of 0.1¢/kWh to 0.13¢/kWh, effective May 1, 2009. Distributors with a rate application before the Board were required to file the letter announcing the change along with a request to revise their filing to reflect the new RRRP rate. WHESC complied with the Board's letter on December 18, 2008.
- 1.8 In a supplemental filing to the Board made on January 20, 2009, Welland Hydro revised its distribution revenue requirement to \$8,577,474 including a pre-tax projected deficiency of \$1,768,861, with the overall service revenue requirement being offset by other operating revenue of \$568,391.<sup>4</sup> The revised increase in distribution revenue requirement is 26.0%.
- 1.9 The supplemental filing also proposed to revise the original proposal with respect to (i) the Deferral and Variance account balances for disposition and (ii) the Smart Meter rate adder.<sup>5</sup>
- 1.10 With respect to the account balances for disposition, due to the large percentage increases in distribution rates, WHESC proposed that the balances in Deferral and Variance Accounts #1580, #1582, #1584, #1586, and #1588 (excluding the Global Adjustment) be added to the original balance that the utility sought to dispose of in this proceeding. This revised proposal would result in a ratepayer refund of \$721,566 which the utility proposes to refund over a two-year period via a rate

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<sup>4</sup> Supplemental Filing, January 20, 2009, Exhibit A

<sup>5</sup> In addition the revision incorporated the impacts of changes made to RTSR and RRPP per OEB.

rider.<sup>6</sup>

1.11 With respect to the Smart Meter rate adder, WHESC originally expected to begin installation of Smart Meters in late 2009 and therefore intended to file a separate application for smart meter funding. However, since WHESC “has now been scheduled to begin installation of smart meters in March 2009,” Welland Hydro has now requested an increase in the Smart Meter rate adder to \$1.00 per month per metered customer.<sup>7</sup>

1.12 The following sections contain VECC’s final submission regarding the various aspects of Welland Hydro’s Application.

## **2 Rate Base and Capital Spending**

### *Capital Spending*

2.1 In its Application, WHESC proposed 2009 capital expenditures of \$2,558,000<sup>8</sup> and a Test Year rate base of \$27,324,488.<sup>9</sup>

2.2 In response to an interrogatory,<sup>10</sup> Welland Hydro stated that it would explore whether it could reduce 2009 capital spending on one major project, Crowland T.S. Wholesale Metering Station. In response to a Board Staff interrogatory, WHESC proposed reducing the spending on this project by \$280,000.<sup>11</sup>

2.3 In its January supplemental filing, Welland Hydro reflected the reduced capital spending of \$280,000, lowering the proposed 2009 capital spending to \$2,278,000. The associated reduction in depreciation is \$4,667 for the Test Year.

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<sup>6</sup> Supplemental Filing, January 20, 2009, Exhibit N. The proposed rate rider would reduce residential volumetric rates by \$0.0002/kWh.

<sup>7</sup> Supplemental Filing, January 20, 2009, page 5

<sup>8</sup> Exhibit 2/Tab 3/Schedule 2, page 1, Table 14

<sup>9</sup> Exhibit 2/Tab 1/Schedule 1, page 1, Table 1

<sup>10</sup> SEC IR #6, Exhibit D, page 11

<sup>11</sup> Board Staff IR #3a)ii

The revised rate base that WHESC seeks approval for is \$27,186,822.<sup>12</sup> VECC notes that the revised capital spending is very close to the 2007 and 2008 amounts.

- 2.4 VECC submits that the proposed capital expenditure and rate base for the Test Year are reasonable. VECC further submits that the return and tax components of the revenue requirement should be adjusted to reflect the revised rate base.

#### *Working Capital*

- 2.5 WHESC has applied for a working capital allowance based on the formulaic approach, i.e., 15% of total controllable OM&A costs plus cost of power.
- 2.6 In response to an interrogatory, Welland Hydro stated that “[i]f requested by the OEB, WHESC would provide a lead-lag study for the next rebasing application expected for 2013.”<sup>13</sup>
- 2.7 VECC has a concern that the present, formulaic determination of allowance for working capital in rate base may not accurately reflect any given utility’s need for working capital. As such, VECC urges the Board to require a lead-lag study with Welland Hydro’s next application for rebasing

### **3 Load Forecast and Revenue Offsets**

#### *Load Forecast Methodology*

- 3.1 Welland’s initial approach to developing a weather normalized load forecast was to leverage off the weather normalization work done by Hydro One Networks in support of Welland’s 2007 Cost Allocation filing.<sup>14</sup> However, there was a significant customer reclassification in 2007 such that the averages use per customer for the GS<50; GS 50-4999 and Large Use classes changed

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<sup>12</sup> Supplemental Filing, January 20, 2009, Exhibit F

<sup>13</sup> SEC IR #7a)

<sup>14</sup> Exhibit 3/Tab 2/Schedule 1, page 1

materially<sup>15</sup>.

- 3.2 As result, in Welland's Application, use of the Hydro One Networks' weather normalization results was limited to the Residential class, where the 2008 and 2009 forecast was based on the HON's estimated billed weather normal use per customer and the forecast customer count for 2008 and 2009<sup>16</sup>. In it revised Application, filed January 20, 2009, Welland reduced the Residential average use per customer from 8,427 kWh to 8,383 kWh in order to reflect the continued emphasis on conservation<sup>17</sup>. The forecast number of residential customers in 2008 and 2009 was based on the average growth rate for the period 2003-2007<sup>18</sup>.
- 3.3 For the GS<50, GS 50-4999 and Large Use classes, the 2008 and 2009 forecasts were initially based on 2007 volumes, adjusted for known 2008 changes in customers classification<sup>19</sup>. The total number of customers in each class was held constant at 2007 levels (after adjustments for customer reclassification)<sup>20</sup>. In its January 2009 update Welland made a number of adjustments to the forecasts for these classes<sup>21</sup>:
- The number of Large Use customers was reduced by two to reflect the closing of one customer's facilities and the transfer of the second customer to the GS 50-4999 class.
  - The number of customers in the GS<50 and GS 50-4999 classes were revised based on actual numbers as of September 2008 and the aforementioned reclassification.
- 3.4 For the USL, Street Lighting and Sentinel Lighting classes, an average per customer use was determined for each customer classification using 2002-2007 data and multiplied by the forecast customer count for 2008 and 2009 to derive the

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<sup>15</sup> VECC #2

<sup>16</sup> Exhibit 3/Tab 2/Schedule 2, page 3

<sup>17</sup> Page 1

<sup>18</sup> Exhibit 3/Tab 2/Schedule 2, page 1

<sup>19</sup> Exhibit 3/Tab 2/Schedule 1, page 2

<sup>20</sup> Exhibit 3/Tab 2/Schedule 2, page 3

<sup>21</sup> January 20, 2009 Update, page 1 and Exhibit C

respective forecasts<sup>22</sup>. The forecast count is based on the average growth rate for the period 2003-2007.

- 3.5 In terms of the 2009 forecast, VECC has concerns regarding the projected usage for the Residential and Large Use customer classes. In the case of the Residential class, Welland justifies using an average use value different from the weather normalized value calculated by Hydro One Networks on the basis of current recession, an increased focus on conservation and the fact that historical (non-weather normalized) use has typically been lower<sup>23</sup>. In lieu of the Hydro One Networks' value, Welland proposes to use the average (non-weather normalized) use for the 2002-2007 period.
- 3.6 VECC submits that the use of an historical average is inconsistent with Welland's claim that the adjustment is needed to reflect an increasing focus on conservation. Furthermore, without any data on the weather variations over the period and their impact on load, it can not be concluded that Hydro One Networks' weather normalized value is too high. Similarly, it is not clear that the recession will reduce residential usage per class (indeed home based activity may increase) and without a more sophisticated load forecasting methodology Welland has been unable to demonstrate that such an effect exists. In VECC's view, the Board should direct Welland to use the Hydro Networks' average use value as it proposed in the original Application.
- 3.7 In the case of the Large Use class, Welland states that the customer intends to "wind down" the majority of its operations by the end of April 2009. This has led Welland to exclude the customer's entire load from its 2009 forecast. The result is that any operation of the facility after May 1, 2009 is to the gain of Welland's shareholders. In VECC's view it would be reasonable to recognize, in the 2009 forecast, nominal level of operation for this customer (e.g. 10% of historic consumption).

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<sup>22</sup> Exhibit 3/Tab 2/Schedule 2, page 3

<sup>23</sup> Energy Probe #35 a)



- 3.8 Apart from these two adjustments, VECC submits that Welland's load forecast is reasonable for purposes of setting 2009 rates. However, VECC wishes to re-emphasize that acceptance of the 2009 values should not be viewed as an acceptance of Welland's overall load forecast methodology.
- 3.9 In VECC's view, Welland's load forecasting methodology is very simplistic. VECC submits that, similar to the OEB direction given in the Toronto Hydro case<sup>24</sup>, Welland should be directed to work with other distributors to develop a more comprehensive and integrated approach to load forecasting.

#### **4 Operating Costs**

- 4.1 Welland Hydro initially applied to recover OM&A costs of \$5,113,936 in 2009 rates: this total was comprised of \$3,313,407 in wages and benefits and \$1,800,529 OM&A expenses. The respective increases in these two components over the 2006 actual results were 40.0% and 9.3% with the overall increase 27.4%.<sup>25</sup>
- 4.2 In its January supplemental filing, Welland Hydro proposed cost reductions to its filed OM&A costs of \$43,000 in administrative and general costs (for reductions in retiree benefits pursuant to an actuary report) and further O&M reductions totalling \$150,849.<sup>26</sup> These adjustments reduced the total OM&A costs to \$4,920,087, representing a 22.6% increase over 2006 actual, an increase equivalent to 7.0% per year compounded for three years.
- 4.3 VECC notes that one new position added since 2006, Conservation and Demand Analyst results in a wage and benefit cost increase of \$80,274.<sup>27</sup> VECC notes that this new position will be responsible for OPA initiatives as well as utility initiatives.<sup>28</sup> The utility states that it will charge 66% of the associated wages and

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<sup>24</sup> OEB Decision, EB-20070-0680, pages 32-33

<sup>25</sup> Exhibit 4/Tab 2/Schedule 3, page 1

<sup>26</sup> Supplemental Filing, January 20, 2009, Exhibit E

<sup>27</sup> Exhibit 4/Tab 2/Schedule 3, page 1

<sup>28</sup> Board Staff IR #26 and Energy Probe IR #22

benefits costs to a third party (the OPA) and recover only 34% or \$27,239 of the costs in Test Year distribution rates. VECC was unable to determine whether this charging out of 66% of the compensation costs had been given effect in the Application.<sup>29</sup> VECC submits that if this is not reflected in the revised utility submission, appropriate adjustments to the revenue requirement should be made.

- 4.4 VECC notes that the utility has applied to recover regulatory costs over a three-year period. VECC submits that recovery should be over a four-year period.

## **5 Losses**

- 5.1 Based on three-year averages, WHESC has proposed a distribution loss factor of 1.0485 for Secondary Metered Customer < 5,000 kW along with a supply facility loss factor of 1.0045, for a total loss factor of 1.0532.

- 5.2 VECC submits that the proposed loss factor is reasonable.

## **6 Cost of Capital/Capital Structure**

- 6.1 VECC has reviewed the submissions of Board staff with respect to capital structure, return on equity, and the short-term debt rate. VECC supports Staff on these issues.

- 6.2 With respect to the long term debt of \$13,499,953 held by its shareholder, VECC supports Staff's submission that the utility be allowed to recover the actual cost of 6.25% for this embedded debt for the reasons cited by Staff,<sup>30</sup> notwithstanding that the utility now seeks the higher rate deemed by the Board.<sup>31</sup>

- 6.3 In addition, VECC notes that the "Amended and Restated Promissory Note" includes the following: (i) the note is now assignable without the consent of the

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<sup>29</sup> Ibid

<sup>30</sup> Board Staff Submission, March 9, 2009, pages 7-8

<sup>31</sup> Board Staff #2d)

utility and (ii) the note is callable by the shareholder but not by the utility.<sup>32</sup>

- 6.4 VECC submits that given that the lender can, at her option, keep the note as a perpetuity, and only the lender – but not the borrower – has the right to call the note, the Board should deny the request to recover the higher (than actual costs) deemed rate.
- 6.5 VECC submits that the appropriate cost of long term debt for ratemaking purposes is 6.25% for the Test Year.

## **7 Deferral and Variance Accounts**

- 7.1 VECC has summarized the utility's revised position in respect of clearing certain balance above in paragraph 1.10. VECC has no concerns with the revised proposal.

## **8 Payments in Lieu of Taxes**

- 8.1 VECC has reviewed the submission of Board Staff on this issue and supports Staff's view that the appropriate starting point for the PILs calculation is rate base, not taxable capital.
- 8.2 In general, VECC submits that calculation of the PILs component of the revenue requirement should respect the following principles:
- The Board approved methodology should be used absent a compelling and tested rationale for diverging from the Board approved methodology;
  - The calculation should reflect all applicable tax savings: in particular the calculation should not result in a higher effective tax rate than that which the utility is entitled to; and

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<sup>32</sup> Energy Probe #20, Exhibit M

- The best PILs estimate available should be included in rates.

8.3 VECC submits that no rationale has been provided by WHESC for diverging from the Board approved methodology. As such, WHESC should be required to adhere to the approved methodology.

## 9 **Cost Allocation**

### *Results of Welland's Cost Allocation Informational Filing*

9.1 Subsequent to the preparation of Welland's initial Cost Allocation Informational filing, Welland's 2006 rates were revised to provide for additional PILs expense<sup>33</sup>. To account for this change in rates Welland adjusted the results of its Cost Allocation Informational filing so as to include the additional revenues and expenses<sup>34</sup>. Welland's revised Cost Allocation Informational Filing produced<sup>35</sup> the following revenue to cost ratios:

- Residential            127.24%
- GS<50                75.20%
- GS>50                65.22%
- Large Use             100.69%
- Street Lighting       12.17%
- Sentinel Lighting     18.71%
- USL                    114.89%

9.2 In adjusting the Cost Allocation informational filing for the additional PILs expenses, Welland simply pro-rated the added costs to the various customer classes based on revenues<sup>36</sup>. In response to VECC #4 b), Welland has provided the results for a Cost Allocation run that allocates the additional PILs expense

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<sup>33</sup> VECC #4 a)

<sup>34</sup> Exhibit 8/Tab 1/Schedule 1, page 2

<sup>35</sup> Exhibit 8/Tab 1/Schedule 2, page 1

<sup>36</sup> Exhibit 8/Tab 1/Schedule 1, page 1 and VECC #4 a)

consistent with the Board's cost allocation methodology. The resulting revenue to cost ratios are summarized below<sup>37</sup>:

- Residential 129.62%
- GS<50 74.79%
- GS>50 63.73%
- Large Use 98.23%
- Street Lighting 11.57%
- Sentinel Lighting 17.84%
- USL 117.44%

VECC submits that these Cost Allocation results are a more appropriate starting point.

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

- 9.3 Welland 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<sup>38</sup>. However, in order to try and capture the impact of the loss of the two of the three Large Use customers included in the Cost Allocation filing, Welland adjusted the results of the Cost Allocation informational filing by reducing both the revenues and costs associated with the Large Use class and reassigning them to the other customer classes<sup>39</sup>.
- 9.4 VECC has two concerns regarding this approach. First, Welland is proposing to allocate the "cost" of the transformer ownership allowance solely to the GS>50 and Large Use classes<sup>40</sup>. As a result, Welland 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<sup>41</sup>. VECC agrees with this change and notes that it is consistent with the approach approved for a number of

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<sup>37</sup> VECC #4 a) - Exhibit C

<sup>38</sup> VECC #5 a)

<sup>39</sup> January 20, 2009 Update, page 3 and Exhibit H

<sup>40</sup> VECC # 5 a) - Exhibit D and VECC 23

<sup>41</sup> VECC #5 a) - Exhibit D

distributors' 2008 rates<sup>42</sup>.

9.5 The treatment of transformer ownership allowance in the current OEB Cost Allocation model results in an over allocation of costs to those classes where customers generally do not own their own transformers (e.g. Residential and GS<50). This circumstance arises because the model not only allocates these classes the full cost of the transformers used to serve them but also a share of the discount. In principle the discount is an intra-class issue for those classes where some customers own their transformer and other don't. The Cost Allocation model recognizes that some customers own their transformers. However, unless a discount is introduced for these customers (and paid for by the other customers in the same class) those 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, Welland has "attempted" to remove the cost of the transformer ownership allowance from the allocation of the revenue requirement to customer classes<sup>43</sup>. However, the adjustment made by Welland is incorrect. Welland has removed all of the "costs" from the GS>50 and Large Use classes whereas the in the Cost Allocation filing the cost of the transformer ownership allowance was allocated across all customer classes<sup>44</sup>. In VECC #22 Welland was asked to provide a revised version of its Cost Allocation Informational filing (with the corrected treatment of the additional PILs) that properly removed the costs and the revenue associated with the transformer ownership allowance<sup>45</sup>.

9.7 The following table summarizes the revenue to cost ratios from VECC #22:

- Residential            135.42%
- GS<50                77.81%

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<sup>42</sup> For example, Horizon Utilities, Hydro Ottawa and Enersource Mississauga.

<sup>43</sup> VECC#5 a) - Exhibit D

<sup>44</sup> VECC #3 b)

<sup>45</sup> Exhibit B

- GS>50                    57.17%
- Large Use                71.62%
- Street Lighting        12.16%
- Sentinel Lighting    18.73%
- USL                      120.79%

9.8 VECC's second concern is with Welland's adjustment for the loss of two Large Use customers and the subsequent use of the class revenue requirement distribution from the Cost Allocation Informational filing to determine 100% cost responsibility for 2009<sup>46</sup>. VECC agrees that it is inappropriate to use the customer cost shares from the Cost Allocation filing to determine 100% cost responsibility for 2009. 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. VECC also agrees that it is impractical to re-do the Cost Allocation filing using the updated forecast loads and costs. However, VECC does not agree with the approach Welland has used in addressing this issue.

9.9 The main drawbacks to Welland's approach are:

- It only addresses changes in the Large Use class, while there have also been changes to the GS<50 and GS>50 classes due to customer reclassification.
- The re-allocation of cost and revenues is simplistic and also inappropriate. For example, on the revenue side, Welland has re-assigned the loss in Large Use customer revenue to all classes except the Large Use class<sup>47</sup>. However, if a utility suffers a revenue deficiency due to the loss of customer such that an adjustment is required in rates – then all customers' rates should be adjusted.

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<sup>46</sup> January 20, 2009 Update, Exhibits G and H

<sup>47</sup> January 20, 2009 Update, page 3

Similarly, on the cost side, Welland's adjustment looks at maintaining the same revenue to cost ratio for the Large Use class. However, the same principle is not extended to the other customer classes.

9.10 In VECC's view, 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 all customer classes. VECC submits that since no efforts were made to realign the revenue to cost ratios in 2007 or 2008, there is no reason to assume that the current revenue to cost ratio for each class would be any different than those arising from the cost allocation informational filing.

9.11 In Appendix A, VECC has set out the determination of the class shares of the distribution revenue requirement for 2009 using this approach<sup>48</sup>. The results are summarized below and contrasted with Welland's values.

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

	<u>Welland's Values</u>	<u>VECC's Recommended Values</u>
Residential	58.04%	57.71%
GS<50	14.59%	15.42%
GS>50	18.09%	17.35%
Large Use	2.35%	3.45%
Street Lights	5.79%	5.07%
Sentinel Lights	0.65%	0.60%
USL	0.50%	0.39%

Sources:

- 1) Welland's values - January 20, 2009 Update - Exhibits H & J
- 2) VECC's Values - Appendix A

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<sup>48</sup> The results also reflect the change in PILs allocation and the treatment of the transformer ownership allowance.



9.12 VECC submits that the preceding Revenue Share values should be used as the reference point for any cost allocation adjustments<sup>49</sup>.

*Proposed Revenue to Cost Ratios*

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

**Welland's Proposed R/C Ratio Shifts**

	<u>Welland CA R/C Ratio</u>	<u>VECC #22</u>	<u>Proposed R/C Ratio</u>
Residential	127.28%	135.42%	115.61%
GS<50	75.23%	77.81%	84.70%
GS>50	65.24%	57.17%	84.54%
Large Use	100.73%	71.62%	95.56%
Street Lights	12.17%	12.18%	40.35%
Sentinel Lights	18.71%	18.73%	52.97%
USL	114.93%	120.79%	100.16%

1) Welland CA & Proposed - January 20, 2009 Update, Exhibit K

9.14 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. 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 #22 as the starting point this would result in 2009 ratios for Street Lights and Sentinel Lights of 41.09% and 44.37 % respectively. VECC submits that these are the revenue to cost ratios that the Board should direct Welland to implement for 2009.

9.15 In the case of the USL class, the 120.29% revenue to cost ratio (per VECC #22)

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<sup>49</sup> Should the Board decide to alter Welland'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.

slightly exceeds the upper bound of the Board's recommended range (120%). As a result, the ratio should be reduced to 120% and not virtually 100% as proposed by Welland.

9.16 With the exception of Residential, all other classes' revenue to cost ratios are below the prescribed ranges set by the Board based on VECC #22. For GS<50 and GS>50 this was also the case based on Welland's adjusted cost allocation. For these two customer classes Welland had proposed increasing the ratios to almost 85% - well above the 80% minimum set by the Board's Guidelines. VECC does not agree with Welland's proposal for these classes. VECC submits that Welland should be directed to increase these ratios to 80% but that there is no need to adjust them further unless necessary to eventually reduce the Residential ratio to the upper end of its prescribed range.

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 ratio<sup>50</sup> 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 instances<sup>51</sup> 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

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<sup>50</sup> Page 4

<sup>51</sup> The only one VECC is readily aware of is Erie Thames – EB-2007-0928

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 precedents VECC submits that the proposal to move the GS classes beyond the lower end of their prescribed range is inappropriate unless necessary to eventually reduce the Residential ratio to the upper end of its

prescribed range. Similarly, it is inappropriate to reduce the USL ratio below 120%.

9.20 In the case of the Large Use class, Welland's proposal is to reduce the ratio from the 100.73% value in its adjusted Cost Allocation to 95.56%. Welland's rationale appears to be two fold:

- First, Welland is concerned that any significant increase to Large Use distribution rates could have a negative impact on the last remaining Large Use customer<sup>52</sup>, and
- Second, to offset the fact that the transformer credit was not increased<sup>53</sup>.

9.21 Even before considering the fact that the corrected revenue to cost ratio for the Large Use class is now below 100%, VECC does not consider either of these explanations as being sufficient justification for moving revenue to cost ratios from above to below 100%. In its Guidelines the Board has clearly states<sup>54</sup> that "Distributors should not move their revenue to cost ratios further away from one" which is effectively what Welland is doing once the Large Use ratio crosses the 100% mark.

9.22 In the case of the transformer credit, since Welland's proposal is to allocate the cost of the credit entirely to the class receiving it and there is only one customer in the Large Use class, VECC fails to see how the size of the credit has any effect on the total bill paid by this customer. Indeed, since the Cost Allocation does not allocate any transformer costs to the Large Use class, the discount is not even necessary. VECC notes that other distributors<sup>55</sup> have reached a similar conclusion and eliminated the transformer discount for their Large Use customers along with the corresponding mark-up in the variable rate.

9.23 Based on the results of VECC #22, VECC submits there is a need to increase the

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<sup>52</sup> Energy Probe #41 b)

<sup>53</sup> Energy Probe #41 a)

<sup>54</sup> Page 7

<sup>55</sup> For example, see London Hydro's Application, EB-2008-0235, Exhibit 9, page 8.

revenue to cost ratio for the Large Use class to 85% and the ratio for the GS classes to 80% - the lower bounds of the Board's prescribed range. Given current economic conditions, VECC is not opposed to this implementing this adjustment over a two period for both the Large Use and GS>50 classes. In the case of the GS<50 class, however, the adjustment required is relatively small (i.e., 3 percentage points) and should be achieved in one year.

9.24 Apart from USL, the only class with a revenue to cost ratio exceeding the Board's recommended range is Residential. VECC submits that apart from the small revenue reassignment required to reduce the USL ratio to 120%, the balance of the revenues obtained by increasing the ratios for the other customer classes should be applied to reducing the revenue to cost ratio for Residential.

9.25 As noted earlier, adjusting these revenue to cost ratios to the Board's prescribed ranges may take a couple of years (i.e., 2009 and 2010). However, if after these adjustments are completed, the Residential ratio continues to be above the 115% upper bound set by the Board, then VECC submits the Board should require Welland to further increase the ratios for the classes that are currently below 100% over the balance of the IRM period, until the Residential ratio is at 115%.

## **10 Rate Design**

10.1 Welland is proposing to maintain the current fixed-variable split for the Residential class<sup>56</sup>. Welland's current Residential monthly fixed charge is more than 30% above the range established by the OEB<sup>57</sup>. Welland claims that the OEB has not established a ceiling for the monthly fixed charge<sup>58</sup>. However, the Board's Guidelines clearly stat that "the Board does not expect distributors to make changes to the MSC (Monthly Service Charge) that result in a charge that is

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<sup>56</sup> Exhibit 9/Tab 1/Schedule 2, page 4

<sup>57</sup> VECC #8

<sup>58</sup> Exhibit 9/Tab 1/Schedule 1, page 5

greater than the ceiling defined in the Methodology for the MSC”<sup>59</sup>.

- 10.2 VECC submits that, in light of the Board’s Guidelines and the fact that Welland’s current monthly charge significantly exceeds the prescribed ceiling, there should be no increase in the MSC. In the alternative, if the Board considers that an increase is warranted it should be substantially less than that applied to the variable charge (e.g., ½).

## **11 Smart Meters**

- 11.1 WHESC has proposed to increase its Smart Meter rate adder from the current \$0.27 per metered customer per month to \$1.00 per metered customer per month for funding Smart Meter installation which is now scheduled to begin about six months earlier than originally expected.
- 11.2 VECC notes that the utility has indicated that it will seek cost recovery of balances in smart meter related deferral accounts per the Board’s “Smart Meter Funding and Cost Recovery Guideline” (G-2008-0002) “at the appropriate time.”<sup>60</sup>
- 11.3 VECC further notes that similar increases have been approved by the OEB for other distributors in their rebasing applications.
- 11.4 In its submission, Board Staff noted that the Board’s Guideline requires that an application for the \$1.00 rate adder must include “some specific information about a utility’s smart meter program.” Staff specifically noted that “it would be helpful” if Welland Hydro provided information about the actual or expected cost per meter, whether the smart meters/AMI exceed the minimum functionality per Ontario Reg. 393/07 and an estimate of the costs, and whether the utility expects to incur costs associated with functions under the SME’s exclusive authority.<sup>61</sup>
- 11.5 VECC submits that subject to WHESC providing the information suggested by

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<sup>59</sup> Page 12

<sup>60</sup> Supplemental Filing, January 20, 2009, page 5

<sup>61</sup> Board Staff Submission, March 9, 2009, pages 8-9

Board Staff, WHESC's rate adder proposal is reasonable and should be approved.

## **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 this 16<sup>th</sup> Day of March 2009

Michael Buonaguro  
Counsel for VECC

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

		<u>Total</u>	<u>Residential</u>	<u>GS &lt;50</u>	<u>GS&gt;50-Regular</u>	<u>Large Use</u>	<u>Street Light</u>	<u>Sentinel Light</u>
<b><u>Cost Allocation Results - Revenue</u></b>								
#1	Distribution Revenue	6,756,206	4,918,088	679,723	683,018	409,300	24,156	4,950
#2	Miscellaneous Revenue	806,790	469,655	122,480	124,753	53,929	25,820	3,772
#3	Total Revenue	7,562,996	5,387,743	802,203	807,771	463,229	49,976	8,722
#4	Total Revenue %		71.24%	10.61%	10.68%	6.12%	0.66%	0.12%
#5	Dx Revenue %		72.79%	10.06%	10.11%	6.06%	0.36%	0.07%
#6	Misc Revenue %		58.21%	15.18%	15.46%	6.68%	3.20%	0.47%
<b><u>Cost Allocation Results - Revenue Requirement</u></b>								
#7	Revenue Requirement	7562996	3978574	1031027	1413025	646818	411095	46567
#8	Revenue to Cost Ratios		135.42%	77.81%	57.17%	71.62%	12.16%	18.73%
#9	Adjustment Factor for Rev=RR		0.7384	1.2852	1.7493	1.3963	8.2258	5.3390
<b><u>2009 Rates</u></b>								
#10	2009 Dx Revenue at Current Rates	6,808,615	5,222,747	764,990	611,775	147,813	24,618	5,248
<b><u>Determination of 100% Dx Revenue Allocation</u></b>								
#11	- Misc Revenue (2009 Rates)	568,391	330,876	86,288	87,890	37,993	18,190	2,657
#12	- Total Revenue (@ Current Rates)	7,377,006	5,553,623	851,278	699,665	185,806	42,808	7,905
#13	- Adjusted Total Rev 100% Cost by Class	7,102,610	4,101,068	1,094,101	1,223,916	259,446	352,136	42,207
#14	- Adjustment to Reconcile 2009 SRR	9,145,865	5,280,850	1,408,848	1,576,008	334,083	453,437	54,349
#15	- 2009 Dx Revenue for 100% R/C Ratio	8,577,474	4,949,973	1,322,560	1,488,118	296,089	435,246	51,692
#16	- Dx Revenue Proportions for 100%		57.71%	15.42%	17.35%	3.45%	5.07%	0.60%
#17	- Total Service Revenue Proportions for 100%		57.74%	15.40%	17.23%	3.65%	4.96%	0.59%

Notes:

- #1-#3 - from VECC #22
- #4-#6 - based on values set out in preceding rows
- #7 - from VECC #22
- #8 - based on Row #3/Row #7
- #9 - Based on Row #7/Row #3
- #10 - January 20, 2009 Update, Exhibit I
- #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 Costs)
- #15 - Based on Row #14 less Row #11
- #16 - Based on values in Row #15
- #17 - Based on values in Row #14