

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

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

SUBMISSIONS
OF THE
SCHOOL ENERGY COALITION

Overview

1. These are the submissions of the School Energy Coalition ("SEC") in the application by West Coast Huron Energy Inc. (WCHE) for an order fixing just and reasonable rates for the distribution of electricity effective May 1, 2009.
2. Although WCHE is a small utility, the review of the application was made considerably more difficult than necessary due to the fact that the company's original answers to interrogatories were incomplete and unclear, which necessitated extensive supplemental interrogatories. In addition to the two rounds of interrogatories there were also two updates filed by the company, the result of which is that it became difficult to follow the company's evidence and difficult to reconcile the various amounts claimed.

OM&A

3. WCHE's controllable OM&A expenses for 2009 represent a 28% increase over 2008. The escalation of WCHE's OM&A costs since 2006 has meant that WCHE's OM&A per customer, which was high to begin with compared to other utilities, has increased considerably:

West Coast Huron OM&A per Customer

	2006 Board approved	2006 actual	2007	2008	2009
Controllable OM&A	\$1,111,450	\$1,445,398	\$1,371,617	\$1,407,524	\$1,806,250*
# of Customers excluding connections	3,758	3,810	3,852	3,889	3,917
OM&A/customer	\$295.76	\$379.37	\$356.08	\$361.89	\$461.13

*Based on January 16 filing.

4. WCHE's OM&A per customer for 2009 would place it among the highest in the province.

5. SEC asked in both the first and second round of interrogatories for explanations of the costs driving the large increase in OM&A expenses. In response to SEC's initial interrogatory (SEC IR#6), SEC was referred to various Board Staff interrogatories (#'s 4, 7 and 9). Those responses provided what was purported to be a cost driver summary but which, upon review, appeared not to be a proper cost driver table. In a subsequent interrogatory, SEC asked for clarifications. In response, a new cost driver table was provided (Schedule 3 to SEC Supplemental IR's).

6. Unfortunately, no narrative was provided with the table so we have not been given any explanations for the various increases.

Regulatory Costs

7. SEC believes the one-time regulatory costs of \$140,000, which were identified in the February 27, 2009 update, should be amortized over four years (or \$35,000 per year) and not three as indicated by WCHE. This would mean a reduction of \$11,667 from the amount stated in the WCHE evidence update of February 27, 2009. It appears, however, that the total amount of \$145,000 was included in OM&A for 2009 [see Schedule 4C to Board Staff IRs and Schedule 3 to SEC supplemental IRs¹]. Therefore, SEC submits that the OM&A reduction in connection with this item should be \$110,000 (\$145,000 minus \$35,000).

Charitable Expenses

8. SEC also agrees with Board Staff that charitable expenses of \$11,900 should be removed from the revenue requirement.

Post- Retirement Benefits

9. SEC does not understand WCHE's evidence regarding the cost of the post-retirement benefits. In response to SEC supplemental IR#5(a)(ii), WCHE states that it had recorded in the

¹ See also Ex. 4, Tab 2, Schedule 3, pg. 9 where the increase in account 5630 (Outside Services Employed), from \$230,000 in 2008 to \$361,400 in 2009, is explained as due to "Addition of costs for 2009 COS rate application and interrogatory response and increased legal costs."

rate application \$125,000 in costs and allocated it to 2009. In response to Board Staff IR#7(a), however, the amount is stated to be \$150,000.

10. Furthermore, in response to SEC supplemental IR#5(a)(ii) WCHE also provided an excerpt from an actuarial report prepared by Mearie Actuarial Services and Dion Durrell and Associates. That report states as follows:

The implementation of CICA Section 3461 at January 1, 2008 results in a transitional obligation of \$192,877, equal to the ABO at January 1, 2008 minus management's estimated liability for post-retirement non-pension benefits of \$150,000 at December 31, 2007 (as per the Corporation's financial statements for the year ending December 31, 2007). Pursuant to CICA Section 3461, the transitional obligation will be amortized over the average remaining service period of active employees expected to receive benefits under the benefit plan.

11. Based on the above explanation, it appears that the total obligation is \$192,877, but that only an additional \$42,877 liability needed to be recorded due to the fact that the company had previously recorded a liability of \$150,000 for this item [see Board Staff IR#7(a)]. However, it is not clear why the \$150,000 would have been added to OM&A in 2009. It appears from the report that the annual benefits expense is \$42,000.²

12. It appears that the additional \$108,000 may be a result of previous year's post-employment expense being included in the 2009 amount. If that is the case, then that is improper.

² The report states, at p. 2, that the "benefit expense for the following 12 months" is \$42,000.

13. In any event, there does not appear to be any justification for the \$150,000 OM&A cost in 2009 for post-retirement benefits. It appears that the proper amount is \$42,000 and that OM&A should therefore be reduced by \$108,000.

Outside Services: Town of Goderich Fees

14. SEC believes that the increase in costs to the Town of Goderich. In the first place, the amount shown in the pre-filed evidence, \$69,500 [Ex. 4/2/6, p. 1] does not correspond with the table provided in response to Board Staff IR#8(b), \$110,000. Secondly, there is no explanation in the evidence or in the IR responses for this increase.

15. A partial explanation for the increase is provided in the 2008 vs. 2007 variance analysis for account 5630- Outside Services Employed [Ex. 4-2-3, p. 7], which states that the variance in the account (from \$174,342 in 2007 to \$230,000 in 2008) is due to the "addition of cost of Environmental resource shared with the Town of Goderich." Some brief additional information about this role is provided in response to Board Staff IR#5(a), but there is no explanation as to why the amount is charged to the distribution utility, what the allocation was, or how the allocation was determined.

16. SEC submits that the increase in fees to the Town of Goderich should be disallowed, with a further reduction to OM&A of \$70,000 (\$110,000 less \$40,000).

OM&A Total

17. The reductions identified above total \$299,000. They would bring WCHE's 2009 controllable OM&A down to \$1,507,250, which is still an 7% increase over 2008. In addition,

based on the revised figure, WCHE's OM&A per customer would be \$385, which is still among the highest in the province but which represents a much more reasonable (though still large) increase over the 2008 level of \$361.

Cost of Capital

18. SEC believes that WCHE's return on equity and cost of short-term debt should be updated to reflect the new cost of capital parameters set out in the February 24, 2009 Board report (i.e. 8.01% return on equity and 1.33% cost of short-term debt.)

19. SEC believes the capital structure proposed in response to Board Staff supplemental IR#12 is appropriate and that WCHE's cost of capital should also be adjusted to reflect the change in capital structure. SEC understands that, pursuant to its response to Board Staff supplemental IR#13(c), WCHE will also be updating its PILS amount in view of the new capital structure.

Rate Base and Capital Expenditures

20. SEC has a number of concerns regarding WCHE's rate base and capital expenditures.

21. First, 2007 gross assets have changed from the original application and the update filed January 16, 2009:

- In the original application [at Ex. 2-2-2, p. 2] the increase in gross assets in 2007 over 2006 is stated as \$172,026. In the January 16 revision, the amount is \$282,356. A number of accounts appear to have been restated, including accounts 1860 (increase from

\$320,982 to \$391,731), 1920 (increase from \$64,965 to \$80,982), 1915 (decrease from \$64,965- curiously the exact amount as the original balance for account 1920- to \$55,901), and 1995 (from -\$257,585 to -\$273,091). No explanation has been given for these changes.

- Neither the original amount of addition to gross fixed assets, \$172,026, or the January 16 revision, \$282,356, match the amount stated to be 2007 capital expenditures, \$209,808. (For 2008 and 2009, capital expenditures are equivalent to the additions to gross fixed assets (\$453,000 and \$755,000 respectively)).

22. With respect to 2009 capital expenditures, it appears that, with the exception of a single large purchase planned for 2009, WCHE's capital expenditures in 2009 are consistent with 2008. Expenditures in 2008, however, were considerably higher than 2007.

23. It appears the increase in 2008 and 2009 (excluding the bucket truck purchase in the amount of \$290,000) is due to the 27kV Conversion and Feeder Operating Enhancements. SEC has two concerns with respect to this project:

24. First, WCHE has stated that this is a multi-year project "which will require approximately \$300,000-\$350,000 per year over the next 5 years. Expected completion of the entire south loop feeder enhancement is 2013" [Board Staff supplemental IR#10(f)] It appears, however, that WCHE is adding expenditures to rate base in each year of the project. It is unclear why that it is as the entire project will not be used and useful until 2013. SEC submits that it may be more appropriate for WCHE to receive an allowance for funds used during construction during the intervening period.

25. Second, the need for the project seems to derive exclusively from the expansion plans of Sifto Salt, from which the load for the M3 feeder is primarily derived. However, there does not appear to be any capital contributions from Sifto for this project. SEC is concerned that in the event Sifto's plans do not materialize or its load changes at some point ratepayers will have incurred a major expense without the load to justify it. WCHE may wish to address these concerns in its reply submissions.

Cost Allocation and Rate Design

26. WCHE has chosen to recover the entire increase in the revenue requirement by increasing the volumetric rate and keeping all fixed charges constant. This means that larger users within each rate class will see much higher rate impacts than smaller volume users. In the GS<50kW rate class, which is facing the largest bill impacts from the application due to changes in cost allocation in addition to increases to the revenue requirement, the result is unacceptable distribution and total bill impacts for larger users.

27. WCHE only provided bill impacts for the GS<50kW rate class for users up to 5,000kWh consumption. However, using the billing data provided in the application SEC computed the bill impacts for larger users in the rate class, as follows:

GS<50kW (assuming 15,000 kWh consumption)

	<u>Rate</u>		<u>Applicable Charge</u>		<u>% Increase</u>
	2008	2009	2008	2009	
<u>Distribution Charges</u>					

Fixed	33.46	33.46	33.46	33.46	
Volumetric	0.0052	0.01529	78	229.35	
Total			111.46	262.81	135.79%

Other Charges

Reg Asset					
Retail Transmission	0.0036	0.0036	54	54	
Retail Tx Line and Tx	0.0037	0.0037	55.5	55.5	
Wholesale Market Service	0.0052	0.0052	78	78	
Rural Rate Protection	0.001	0.001	15	15	
Debt Retirement Charge	0.007	0.007	105	105	
Cost of Power	0.00545	0.00545	81.75	81.75	
Total Bill			500.71	652.06	30.23%

28. As can be seen from the above table, because the extra revenue from the class is being recovered exclusively through the volumetric rate, larger users in the GS>50kW rate class are facing extremely large distribution and total bill impacts: a 136% increase in the distribution bill and a 30% increase on a total bill basis.

29. The proposed fixed charge for the GS<50kW rate class is below the ceiling from the 2006 cost allocation filing, which was \$37.78 [see Ex. 9-1-1, p. 1]. Given the increase in the revenue requirement, however, that ceiling amount is now likely over \$40.³

30. SEC submits that the fixed charge for the GS<50kW rate class should be increased to \$37.78. This is the ceiling amount from the 2006 CA filing. The increase in the fixed charge would partially alleviate the unreasonable bill impacts for larger users within the class that are set out above.

³ WCHE said in a response to SEC IR#11(c) that it is not possible to update the value from the 2006 cost allocation filing, therefore a precise number is not available. Intuitively, however, we would expect the amounts to increase given the increase in the revenue requirement.

31. With respect to the GS>50 to 499kW rate class, the proposed fixed charge of \$420.56 is far above the ceiling value from the 2006 CA filing, \$96.43. The result is that smaller users within this class are paying a disproportionate share of the revenue collected from the class.

32. In addressing this issue, it is important to note that, because of changes in revenue to cost ratios, the distribution bill increases for this rate class are smaller than for other rate classes and total bill impacts are mostly negative. As a result, SEC submits that now may be an ideal opportunity to address the imbalance caused by the disproportionately large fixed charge. That is, lowering the fixed charge at this time would not cause unacceptable bill impacts on larger users within the class but would alleviate the existing intra-class subsidization.

33. Therefore, SEC submits that the fixed charge for the GS>50 to 499kW rate class should be lowered to the ceiling value. The only figure we have for the ceiling value is the one from the 2006 CA filing, \$96.43. However, SEC acknowledges that some reasonable increase to that value should be made to take into account the increase in WCHE's costs since that time. SEC therefore suggests a fixed charge of \$116, which is approximately 20% higher than the 2006 ceiling amount.

Costs

34. SEC participated responsibly in this proceeding and sought to minimize its costs by cooperating with other ratepayer groups. SEC respectfully requests that it be awarded 100% of its reasonably incurred costs.

All of which is respectfully submitted this 18th day of March, 2009.

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