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March 18, 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: West Coast Huron Energy Inc. (WCHEI)
Application for 2009 Electricity Distribution Rates
Board File No. EB-2008-0248

Please find enclosed the submissions of the Vulnerable Energy Consumers Coalition (VECC).

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 West Coast Huron Energy Inc. pursuant to section 78 of the *Ontario Energy Board Act* for an Order or Orders approving just and reasonable rates for the delivery and distribution of electricity.

FINAL SUBMISSIONS

On Behalf of The

VULNERABLE ENERGY CONSUMERS COALITION (VECC)

March 18, 2009

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Vulnerable Energy Consumers' Coalition (VECC)
Final Argument

1 The Application

- 1.1 West Coast Huron Energy Inc. ("West Coast" or "WCH") filed an application with the Ontario Energy Board ("the Board" or "OEB") on September 11, 2008 for rates effective May 1, 2009. WCH claimed a Test Year revenue deficiency of \$677,484 at existing rates.¹ The distribution revenue requirement claimed was \$2,663,172 with a revenue offset of \$92,696.² At existing rates, WCH forecast that 2009 distribution revenue would be \$1,892,992.³ This, together with the revenue deficiency forecasted, indicates a 35.8% increase in distribution revenues for the Test Year.
- 1.2 On January 16, 2009, WCH provided a comprehensive revision to its application which reflected, *inter alia*, changes made to its Test Year load forecast and PILs calculation
- 1.3 The revised information indicates a revenue deficiency of \$637,479 and a distribution revenue requirement of \$2,556,589 with a revenue offset (unchanged) of \$92,696. At existing rates, WCH's revised forecast is that 2009 distribution revenue would be \$1,826,414.⁴ The proposed rates would therefore result in a 34.9% increase in distribution revenues for the Test Year.
- 1.4 In the revised filing, WCHE sought approval to increase the RRRP rate from

¹ See Exhibit 7/Tab 1/Schedule 1 and Exhibit 1/Tab 2/Schedule 1, page 1.

² See Exhibit 7/Tab 1/Schedule 2. Note that the distribution revenue requirement as calculated by adding OM&A, Amortization, and Return per Exhibit 1/Tab 2/Schedule 1, page 2 differs from this figure by \$29,435, a difference discovered in preparing this argument.

³ See Exhibit 7/Tab 1/Schedule 2.

⁴ See Revised Exhibit 7/Tab 1/Schedule 2. A summary of the revenue requirement by component, similar to that provided in the original Exhibit 1/Tab 2/Schedule 1, was not included in the revised documents.

\$0.0010/kWh to \$0.0013/kWh⁵ and also requested an increase in the Smart Meter rate adder from \$0.26 per metered customer per month to \$1.00 per metered customer per month.⁶

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

2 Rate Base and Capital Spending

Capital Spending

- 2.1 WCH provided its historic capital spending 2003-2007, along with projected amounts for 2008 and 2009 in response to a Staff interrogatory.⁷ These amounts for 2007-2009 inclusive are shown in the table below.

Capital Spending per Board Staff IR #12 b)

2007	2008	2009
\$209,808	\$453,000	\$755,000

- 2.2 The application, as originally filed, indicated the following capital expenditures for the years 2007-2009:

Capital Spending per Exhibit 2/Tab 2/Schedule 2, page 2 and page 4

2007	2008	2009
\$172,026	\$453,000	\$755,000

- 2.3 The January 16, 2009 Revised Filing indicated the following capital expenditures

⁵ Revised Exhibit 1/Tab 1/Schedule 5, page 3

⁶ Revised Exhibit 1/Tab 1/Schedule 6

⁷ Board staff IR #12 b)

for the years 2007-2009:

Capital Spending per Revised Exhibit 2/Tab 2/Schedule 2⁸

2007	2008	2009
\$282,356	\$453,000	\$755,000

- 2.4 VECC notes that the 2007 capital spending per Staff interrogatory differs materially from the amount shown on the original Gross Asset Schedule and the amount shown on the revised Gross Asset Schedule. VECC submits that a “variance explanation” should be provided by WCH for these discrepancies.
- 2.5 VECC further notes that the revised filing indicates that actual Contributions and Grants for 2007 were \$273,091⁹ and, despite the large increase in capital spending projected for 2008 and the further, larger increase projected for 2009, the utility forecasts Contributions and Grants for both 2008 and 2009 at the actual 2007 level.
- 2.6 VECC also notes that despite the fact that the estimated cost of the new bucket truck has increased by \$12,337 since the initial filing, there has been no adjustment to Test Year forecasted capital spending in the revised application.¹⁰
- 2.7 VECC questions whether the utility can spend the amounts proposed in the Test Year, especially given its plans with respect to smart meter activity forecast (described below) for that year.
- 2.8 In response to an interrogatory regarding its multi-year capital spending plan, WCH indicated that it used an engineering assessment of its system to prepare an annual budget.¹¹ VECC submits that a more robust approach for multi-year capital budgeting should be filed when WCH next rebases.

⁸ The pages in the revised exhibit are all labeled “Page 3.”

⁹ Revised Exhibit 2/Tab 2/Schedule 2

¹⁰ See Exhibit 2/Tab 3/Schedule 1.

¹¹ VECC Supplementary IR #14a)

- 2.9 In light of the aforementioned, and noting that actual 2008 data is not on the record, VECC urges the Board to require the utility to provide actual 2008 capital expenditures net of contributions along with an explanation of the inconsistencies noted above.
- 2.10 VECC further submits that the 2009 approved capital expenditures, net of the actual (or estimated) cost of the bucket truck,¹² should not exceed actual 2008 capital expenditures, absent a convincing rationale provided by WCH.
- 2.11 Penultimately, VECC submits that the Test Year contributions should be forecasted to be equal or greater than 2008 actual contributions, absent a convincing rationale provided by WCH.
- 2.12 In the alternative, VECC notes that a rate base variance account could be employed to hold ratepayers harmless in the event of significant capital under-spending (net of contributions) on behalf of the utility.

Working Capital

- 2.13 WCH has used the formulaic method to forecast its Test Year working capital allowance, i.e., 15% of the sum of cost of power plus controllable O&M expenses.¹³ Board Staff has noted that this allowance amounts to “about 24% of the rate base.”¹⁴
- 2.14 Despite the large relative magnitude of the allowance, for the purposes of this proceeding VECC accepts the use of the formulaic method so long as it uses the most recent estimate of wholesale power costs and Board approved OM&A.
- 2.15 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

¹² WCH has noted that 2009 capital spending net of the bucket truck purchase is similar in magnitude to 2008 projected spending.

¹³ Exhibit 2/Tab 4/Schedule 1

¹⁴ Board Staff IR #16a)

WCH's next application for rebasing

3 Load Forecast and Revenue Offsets

Load Forecast Methodology

3.1 In its original Application, WCH's load forecast methodology was based largely on forecasting each customer classes' count for 2008 and 2009 and then applying the class retail average customer use as determined by Hydro One Networks for use in WCH's cost allocation filing¹⁵. However, on January 16, 2009 WCH filed a revised load forecast which utilized a fundamentally different methodology¹⁶.

WCH's revised methodology consists of the following steps:

- For weather sensitive customer classes (i.e., Residential, GS<50 and GS 50-499), weather normalized use for each year from 2002-2007 is calculated for each class using a province-wide weather normalization factor determined by the IESO. Then, using this historical weather normalized data, an average use per customer is calculated and applied to the forecast customer count for 2008 and 2009¹⁷.
- For the GS 500-4999 class, the historical data for the period 2002-2007 was adjusted to remove the Volvo plant that is shutting down¹⁸. Using this adjusted data, an average per customer use value was calculated and applied to the forecast 2008 and 2009 customer count for the class.
- For the Large Use class, there is only one customer (Sifto). The kWh forecast is based on the historical average use over the 2002-2007 period. However, for billing kWhs the 2008 actual demand was used to project 2009 in order to reflect Sifto's recent growth¹⁹.
- For the Sentinel Lighting, Street Lighting and USL classes, the approach is similar to that for the GS 500-4999 class. The only exception was Street Lighting where the 2002 value was excluded from the calculation as it was materially

¹⁵ Exhibit 3/Tab 2/Schedule 1, pages 3-6

¹⁶ VECC Supplementary #4 a)

¹⁷ Board Staff Supplementary #1

¹⁸ VECC Supplementary #4 g)

¹⁹ Updated Exhibit 3/Tab 2/Schedule 1, pages 2-5

different from the other years' values²⁰.

- 3.2 For the Large Use, Street Lighting, Sentinel Lighting and USL classes, the 2007 customer count was used for 2008 and 2009. For the GS 500-4999 class the forecast customer count was based on the expected change in customer numbers²¹. For the other customer classes historical (2002-2007) growth in customer counts was used to project the 2008 and 2009 numbers. However, the various GS class values were then adjusted to remove the four Volvo accounts²².
- 3.3 VECC primary concern regarding WCH's load forecast methodology is its use of the IESO weather normalization factors to determine historical weather normalized use for WCH's customers. For any given year, the IESO's average weather correction factor will capture weather impacts across the entire province and in doing so, will reflect not only the variations in the weather itself across the entire province but also amount of weather sensitive load in various locations across the province. In VECC's view there is absolutely no basis on which to assume that the IESO factor would be an appropriate adjustment to apply to WCH's load (which is influenced by local weather and the local penetration of weather sensitive loads) in total let alone by customer class.
- 3.4 The following table contrasts the weather normalized average use per customer for 2004 as calculated by Hydro One Networks with the results of WCH's weather normalization methodology for the same year.

²⁰ VECC Supplementary #4 f) & h)

²¹ Board Staff Supplementary #3 d)

²² Updated Exhibit 3/Tab 2/Schedule 1, pages 1-4

2004 Weather Normalized Average Use (kWh)

	<u>HON's NAC</u>	<u>WCH's NAC</u>	<u>Difference</u>
Residential	9,063	8,493	6.7%
GS<50	34,296	31,779	7.9%
GS 50-499	531,578	442,463	20.1%

Sources:

- 1) HON NAC's - VECC Supplementary #6 a)
- 2) WCH's NAC's - Calculated from Staff Supplementary #4, Schedule 4D

In all three cases, the values determined by WCH are less than those derived by Hydro One Networks suggesting that the IESO factors are not a reasonable representation of weather normalization adjustments required for WCH's specific circumstances.

- 3.5 VECC's other concern is with the adjustment WCH has made for the pending closure of the four Volvo facilities. In its forecast, WCH has assumed that all four facilities will be shut down for all of 2009²³. However, WCH has acknowledged that these facilities are currently still operating and expect to continue to do so until June 2009²⁴. VECC submits that either forecast should be adjusted to reflect the operation of these Volvo plants for part of 2009 or some mechanism (such as a deferral account) should be adopted to capture the associated revenues so that they can be credited to customers in the future.
- 3.6 In terms of customer count, WCH notes that, due to rounding of the growth rates used, its 2009 Residential customer count may be over forecast by 13²⁵. However, the response to VECC #2 a) suggests that WCH is on track to meeting its 2008 Residential customer forecast and the 2009 forecast calls for same number of additions again in that year. In VECC's view, there is no need for the Board to adjust the forecast Residential customer count.
- 3.7 Overall VECC submits that WCH's forecast 2009 customer count by rate class

²³ Board Staff Supplementary # 3 d)

²⁴ VECC Supplementary #3 c)

²⁵ Board Staff Supplementary #3 b) and #5

should be adopted by the Board. However, there is need for there is a need for the Board to recognize the inaccuracies inherent in using the IESO weather normalization factors to determine WCH's weather normalized usage by class. As a compromise, VECC submits that for the three weather sensitive customer classes the "per customer use" for 2009 should be determined as the average of the following values:

- The per customer use value as determined by WCH in its January 16, 2009 update, and
- The per customer use value implicit in the 2009 forecast for each class as filed originally filed.

In VECC's view this approach, while not elegant, recognizes that there are issues involved with both approaches. VECC submits that this approach, when combined with a mechanism to reflect the partial operation of the Volvo facilities during 2009 should provide a reasonable result for rate setting purposes.

3.8 Finally, VECC submits that, similar to the OEB direction given in the Toronto Hydro case²⁶, WCH should be directed to work with other distributors to develop a more comprehensive and integrated approach to load forecasting.

4 Operating Costs

4.1 Generally, VECC found the evidence on these costs to be confusing and not consistent internally.

4.2 For example, with respect to "Purchase of Services,"²⁷ the total for the Test Year per the pre-filed (which was not revised), was \$525,450. However, in response to a Board Staff interrogatory requesting a breakdown of this amount,²⁸ WCH produced a table indicating a total amount for 2009 of \$625,950 or \$671,959 depending on whether payments for "wholesale settlement services" and "MSP monthly mtce" whose costs total \$44,000 are included or not. In any case, VECC

²⁶ OEB Decision, EB-20070-0680, pages 32-33

²⁷ Exhibit 4/Tab 2/Schedule 6

²⁸ Board Staff IR #8b)

notes that the difference between \$671,959 and \$625,950 does not equal \$44,000.

- 4.3 VECC understands that some of the discrepancy between the pre-filed purchased services and the purchased services amounts provided in the interrogatory is due to increases – since the evidence was pre-filed – in the costs of items such as administration and environmental service charges. However, VECC is concerned with apparent increases in costs, since filing, in excess of \$100,000 for the Test Year on this item.
- 4.4 With respect to the Staff interrogatory mentioned above,²⁹ VECC notes the double digit percentage increases for “IT Support, billing, data processing” in each year since 2006, culminating in an increase of about \$30K or 30% in 2009 over 2008.³⁰ VECC submits that WCH has not substantiated the need for such a huge increase. VECC submits that in the absence of a satisfactory explanation for the large increase in 2009, a reduction such that the increase approximates inflation is appropriate.
- 4.5 VECC further notes that this interrogatory response shows that every line item corresponding to an ongoing cost has either remained constant (e.g., after hours call service) or increased since 2006.
- 4.6 With respect to the FTE count, the pre-filed historical information³¹ was revised in the January revision.³² Board Staff requested as explanation for the changes to historical head count information filed in late 2008.³³ VECC submits that WCH’s reply is not satisfactory and should be clarified.³⁴
- 4.7 With respect to regulatory costs, VECC notes WCH’s interrogatory response

²⁹ Ibid

³⁰ The increase is over \$30K and 30% if the OPG rebate is included.

³¹ Exhibit 4/Tab 2/Schedule 7

³² Revised January Exhibit 4/Tab 2/Schedule 7

³³ Board Staff Supplemental IR #6 a)

³⁴ For example, the IR response describes retirements in 2006 and 2007 which were not replaced. VECC assumed that this would result in a different FTE count for 2008 than for 2006 and 2007. However, the revised response indicates 2 FTEs for each year.

indicating a \$35,000 decrease if an oral hearing is not required.³⁵ As an oral hearing will not be required in this proceeding, VECC submits that a \$35,000 decrease in regulatory costs is appropriate. VECC also submits that it is appropriate for the reduced regulatory costs to be amortized over a four-year period.

- 4.8 With respect to other inconsistencies in respect of regulatory costs (as identified by Board Staff,³⁶) VECC submits that approval should be withheld of any component of regulatory costs until WCH provides adequate clarification.
- 4.9 With respect to “Administrative and environmental service” provided by the Town of Goderich, VECC has reviewed and supports the submissions of Board Staff on this issue.³⁷ VECC further submits that approval to recover any increase in this expense should be withheld until WCH provides adequate justification for the increase sought.
- 4.10 Finally, VECC notes that WCH has included \$150,000 as a one-time cost as a provision against post-retirement non-pension benefits liability, with the \$150,000 being management’s estimate of the liability. This was identified as a one-time cost by Staff.³⁸ VECC submits that there is a great deal of difference between the annual costs associated with a liability (e.g., the annual stream of costs over a time horizon) and a current estimate of the liability itself (e.g., the PV of the annual stream of costs over the time horizon). VECC submits that OM&A costs are similar to the former, not the latter.
- 4.11 In this case it is not clear if the management estimate is in terms of PV and, if it is, what discount rate was used, what time horizon was used, what estimated future medical, dental, and vision costs were, etc.
- 4.12 In general where these costs are long-term and continuing, VECC submits that the

³⁵ SEC Supplemental IR #1

³⁶ Staff Submission, March 12, 2009, pages 10 and 11

³⁷ Staff Submission, March 12, 2009, pages 11 and 12

³⁸ Staff Submission, March 12, 2009, pages 9 and 10

actual OM&A amount that should be included to provide for this liability in the Test Year is the forecasted Test Year expense based on an actuary report under the assumption that annual funding must prudently provide for current and future needs.

- 4.13 VECC submits that given WCH's lack of evidentiary support, intervenors have no basis upon which to test management's estimate as to reasonableness. While VECC believes that the onus is properly on the Applicant to support costs claimed, in this case denial of any amount does not seem appropriate. For the purposes of this proceeding, VECC submits that \$30,000 be included in the Test Year OM&A for this component of cost of service.³⁹

5 Losses

- 5.1 Based on a six-year average, 2002-2007, WCH has proposed a distribution loss factor of 1.0420 for Secondary Metered Customer < 5,000 kW along with a supply facility loss factor of 1.0045, for a total loss factor of 1.0467.
- 5.2 VECC submits that the proposed loss factor is reasonable.⁴⁰

³⁹ This is slightly less than the four-year amortization of the \$150,000 estimate as suggested by Staff. VECC maintains that the \$150,000 has not been supported by the record and that some, nominal reduction be made in recognition of this fact.

⁴⁰ The use of the most recent 3-years of data would lower the DLAF to 1.0407 and the TLF to 1.0454 for these customers.

6 Cost of Capital/Capital Structure

- 6.1 VECC submits that the short-term debt rate used to set Test Year rates should be the Board approved rate of 1.33%.
- 6.2 VECC submits that the return on equity used to set Test Year rates should be the Board approved rate of 8.01%.
- 6.3 In its pre-filed evidence, WCH forecasted Test Year long-term debt of \$1,505,068 of which \$974,454 was held by the Town of Goderich in the form of a promissory note with an interest rate of 7.25% per year.⁴¹ WCH provided a copy of the note in response to an interrogatory.⁴²
- 6.4 With respect to long-term debt, VECC makes the following observations that it believes are important for the Board to consider when making its determination.
- 6.5 The promissory note (copy) filed states that *“The principal amount of this note shall bear interest at a rate of 7.25% per annum and shall be repayable at any time by the undersigned upon written notice of demand by the Town. ...*
- The undersigned hereby acknowledges that the term “Event of Default”, as defined in such general security agreement, shall be deemed to be any failure by the undersigned to repay the principal amount outstanding under this promissory note within fourteen (14) business days from the date of demand by the Town in accordance with the preceding paragraph.”*⁴³
- 6.6 No market quote was sought when the note was reviewed in 2002.⁴⁴
- 6.7 The lender can, at her option, keep the note as a perpetuity, and given that only the lender – but not the borrower – has the right to call the note.
- 6.8 The utility cannot unilaterally pay any of the principal down even if the utility wishes to refinance part of the debt or seek alternate financing arrangements for

⁴¹ Exhibit 6/Tab 1/Schedule 2 and Schedule 3

⁴² Board Staff IR #26

the whole amount.

7 **Cost Allocation**

Results of WCH's Cost Allocation Informational Filing

7.1 WCH's Cost Allocation Informational Filing produced⁴⁵ the following revenue to cost ratios:

- Residential 82.39%
- GS<50 81.66%
- GS>50-499 169.08%
- GS 500-4999 371.28%
- Large Use 108.03%
- Street Lighting 27.82%
- Sentinel Lighting 81.15%
- USL 63.57%

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

7.2 WCH 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 class⁴⁶. VECC has two concerns regarding this approach.

7.3 First, WCH is proposing to allocate the “cost” of the transformer ownership allowance solely to the GS classes receiving the discount⁴⁷. As a result, WCH 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 ratios⁴⁸. VECC agrees with this change and notes that it is consistent with

⁴³ Ibid

⁴⁴ Board Staff IR #11

⁴⁵ Exhibit 8/Tab 1/Schedule 1, page 1

the approach approved for a number of distributors' 2008 rates⁴⁹.

- 7.4 The treatment of transformer ownership allowance in the current OEB Cost Allocation model results in an over allocation of costs to those classes where customers generally do not own their own transformers (e.g. Residential and GS<50). This circumstance arises because the model not only allocates these classes the full cost of the transformers used to serve them but also a share of the discount. In principle the discount is an intra-class issue for those classes where some customers own their transformer and 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.
- 7.5 Since the current Cost Allocation Model includes the transformer allowance discount as a "cost" and as "revenue", it must be removed so that the resulting revenue to cost ratios are consistent with the WCH's proposed approach. In its update to VECC Supplementary #9 WCH provide the results of a revised version of its Cost Allocation Informational filing that properly removed the costs and the revenue associated with the transformer ownership allowance⁵⁰.
- 7.6 The following table summarizes the resulting revenue to cost ratios:

- | | |
|---------------|---------|
| • Residential | 89.44% |
| • GS<50 | 88.20% |
| • GS>50-499 | 175.11% |
| • GS 500-4999 | 318.54% |
| • Large Use | 63.35% |

⁴⁶ OEB Staff Schedule #40

⁴⁷ VECC Supplementary #8 b)

⁴⁸ VECC Supplementary #8 b) and e) – Schedule #8 e)

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

⁵⁰ Interrogatory Evidence Clarifications, February 27, 2009 #7

- Street Lighting 31.94%
- Sentinel Lighting 93.68%
- USL 64.67%

7.7 VECC's second concern is with WCH's use of the class revenue requirement distribution from the Cost Allocation Informational filing to determine 100% cost responsibility for 2009⁵¹. This approach only works if the billing parameters (i.e., kWhs, kW and customer count) represent close to the same proportions by class in 2009 as they did in the Cost Allocation filing. The reason for this is that costs are allocated to classes based on allocation factors that reflect the relative loads and customer count by class. If these relative values change then so will the relative cost responsibility by customer class. Indeed, a number of the utilities filing 2009 Rate Application have recognized this issue and have assessed the ongoing validity of their Cost Allocation Informational filing as part of their 2009 Rate Application⁵².

7.8 In response to VECC Supplementary #7 WCH 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 an 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:

⁵¹ VECC Supplemental #8 e)

⁵² Examples include Westario Power (EB-2008-0250); COLLUS Power (EB-2008-0226) and Bluewater Power (EB-2008-0221)

Comparison of Revenue Responsibility

	<u>2009 @ 2008 Rates</u>	<u>2006 CA</u>
Residential	47.17%	46.31%
GS<50	17.39%	16.86%
GS>50-499	17.57%	16.16%
GS 500-4999	8.75%	12.08%
Large Use	7.65%	7.11%
Street Lights	1.13%	1.14%
Sentinel Lights	0.07%	0.07%
USL	0.27%	0.27%

- 1) Cost Allocation filing based on VECC Supplementary #6
- 2) 2009 @ 2008 Rates based on VECC Supplementary #11 a)

- 7.9 Based on the above results it appears that in the case of at least the GS 500-4999 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.
- 7.10 In Appendix A, VECC has set out the determination of the class shares of the distribution revenue requirement for 2009 using this approach. The results are summarized below and contrasted with WCH's values.

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

	<u>WCH's</u> <u>Values</u>	<u>VECC's</u> <u>Recommended Values</u>
Residential	53.07%	52.11%
GS<50	19.65%	19.54%
GS 50-499	9.39%	9.61%
GS 500-4999	3.25%	2.57%
Large Use	10.00%	11.94%
Street Lights	4.12%	3.74%
Sentinel Lights	0.08%	0.07%
USL	0.44%	0.43%

Sources:

- 1) WCH's Values - VECC Supplementary #8 e)
- 2) VECC's Values - Appenedix A

7.11 VECC submits that the preceding Revenue Share values should be used as the reference point for any cost allocation adjustments⁵³.

Proposed Revenue to Cost Ratios

7.12 The following Table compares the WCH proposal for 2009 with the current revenue to cost ratios as determined using the CA Informational Filing and Response #7 of the Interrogatory Evidence Clarification materials filed on February 27, 2009.

⁵³ Should the Board decide to alter WCH'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.

West Coast Huron's Proposed R/C Ratio Shifts

	<u>WCH CA R/C Ratio</u>	<u>Interrogatory Clarification #7</u>	<u>Proposed R/C Ratio</u>
Residential	82.39%	89.44%	92.69%
GS<50	81.66%	88.20%	92.32%
GS 50-499	169.08%	175.11%	136.74%
GS 500-4999	371.28%	318.54%	180.00%
Large Use	108.03%	63.35%	105.72%
Street Lights	27.82%	31.94%	72.09%
Sentinel Lights	81.15%	93.68%	92.06%
USL	63.57%	64.67%	83.12%

1) WCH CA & Proposed - Exhibit 8/Tab 1/Schedule 2, pages 1 & 5

7.13 WCH's general approach to determining revenue to cost ratios for 2009 has been to move the each class' ratio 50% of the way to 100%, with the caveat that the results must also be within the Board's recommended ranges⁵⁴. VECC does not agree with WCH's general approach and, indeed, submits that it is inconsistent with the Board's November 2007 Cost Allocation Guidelines (EB-2007-0667).

7.14 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 ratio⁵⁵. 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.

⁵⁴ Exhibit 8/Tab 1/Schedule 2, pages 3-5

⁵⁵ Page 4

7.15 VECC recognizes that in limited instances⁵⁶ the Board has approved distributors' requests to move their revenue to cost ratios to virtually 100%. However, the preponderance of the decisions from the 2008 rate setting process support the approach recommended by VECC:

- Barrie Hydro (EB-2007-0746, page 13) – where the Board concluded the ratio for the GS>50 class should not be increased as it was already within the recommended range.
- Espanola (EB-2007-0901, page 15) and PUC (EB-2007-0931, page 15) – where the Board stated:

The Board is prepared to adopt the general principle that, where the proposed ratio for a given class (Column 2) is above the Board's target range (Column 3), there should be a move of 50% toward the top of the range from what was reported in its Informational Filing (Column 1). None of Espanola's (PUC's) classes are in this situation. Where the revenue to cost ratios in the Informational Filing (Column 1) are below the Board's ranges (Column 3), the rates for 2008 shall be set so that the ratios for these classes shall move by 50% toward the bottom of the Board's target ranges.

- Guelph Hydro (EB-2007-0742, page 24) – where the Board similarly stated:

As the Board has noted in the Cost Allocation Report, cost causality is a fundamental principle in setting rates. However, observed limitations in data affect the ability or desirability of moving immediately to a revenue to cost framework around 100%. The Board's target ranges are a compromise until such time as data is refined and experience is gained.

In other decisions, the Board has adopted the general principle that, where the proposed ratio for a given class (Column 2) is above the Board's target range (Column 3), there should be a move of 50% toward the top of the range from what was reported in its Informational Filing (Column 1). None of Guelph's classes are in this situation.

- Wellington North (EB-2007-0693, page 29) – where the Board stated:

An important element in the Board's report on cost allocation was its express reservation about the quality of the data underpinning cost allocation work to date. The report frankly indicated that the Board did not consider all of the data underpinning the report to be so reliable as to justify the application of the report's findings directly into rate cases. For this reason, among others, the Board established the ranges depicted above and mandated the migration of revenue to cost ratios currently outside the ranges to points within the 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

⁵⁶ The only one VECC is readily aware of is Erie Thames – EB-2007-0928

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.

- 7.16 Based on the revised Cost Allocation results (per Interrogatory Clarification #7), the only classes with revenue to cost ratios outside the Board's recommended ranges are Street Lighting, USL, Large Use and GS 500-4999. The first three classes all have ratios below the lower bound established by the Board and VECC submits the ratios for these classes should be increased. In the case of Street Lighting the class' current ratio is significantly below the 70% threshold and the ratio should be increased to 50.97% (i.e., 50% of way). For the other two classes the ratios are much closer to Board's lower thresholds⁵⁷. However, given current economic conditions the Board should consider only adjusting the ratio for Large Use class 50% of the way as well. VECC submits that such an approach is consistent with the Board's Guidelines and the majority of Board decisions to-date.
- 7.17 The resulting revenues from these increases in the three classes' revenue to cost ratios should be used to reduce the ratio for the GS 500-4999 class. VECC anticipates that, unless the revenue to cost ratios for the Large Use and Street Lighting classes are moved more than 50% of the way to their respective lower bounds, WCH will not be able to reduce the ratio for GS 500-4999 by 50% of the way to the Board's upper threshold for this class. VECC submits that this result is precisely the rate shock and mitigation issue identified in the Board's November 2007 report⁵⁸ and illustrates the associated implications of reducing the revenue to cost ratios for certain classes.
- 7.18 The current revenue to cost ratios for Residential, GS<50 and Sentinel Lighting are all well within the Board's prescribed ranges. In VECC's view the ratios for these class should not be increased so as allow for further reductions in the GS 500-4999 class' ratio, until the ratios for USL, Large Use and Street Lighting have

⁵⁷ 80% for GS 500-4999 and 70% for USL

⁵⁸ EB-2007-0667, pages 6-7

reached comparable levels. Until that time, the ratios WCH should be directed to continue to increase the just the ratios for these three classes over the balance of the IRM period in order to permit the GS 500-4999 ratio to eventually be reduced to 180%.

8 Rate Design

- 8.1 WCH is proposing to maintain the Residential monthly customer charge at its current level of \$14.09⁵⁹. While the current service charge is within the range established by the Board⁶⁰, WCH argues that increasing just the variable charge manages the rate impacts for low volume customers and allows customers a greater opportunity to manage their bills⁶¹.
- 8.2 Based on WCH's Application, the total bill impact for a 100 kWh/month customer is 5.7%, while for customers using in excess of 500 kWh/month the impacts exceed 11%⁶². In VECC's view this is not balanced result. VECC submits that WCH should generally maintain the current fixed/variable split for Residential customers and modify only to the extent to balance the range of total bill increase experienced as consumption levels change.

9 Smart Meters

- 9.1 VECC notes that WCH (i) is authorized to deploy smart meters, (ii) plans to commence deployment in the Test Year, (iii) estimates that 1,678 smart meters will be deployed in the Test Year, (iv) estimates the cost per installed meter to be \$135, and (v) does not expect to incur costs for which the Smart Meter Entity has the exclusive authority to carry out.⁶³
- 9.2 As such, VECC supports WCH's request for an increase in its Smart Meter rate adder to \$1.00 per metered customer per month.

⁵⁹ Exhibit 9/Tab 1/Schedule 6, page 1

⁶⁰ Exhibit 9/Tab 1/Schedule 1, page 1

⁶¹ Exhibit 9/Tab 1/Schedule 6, page 1

⁶² Exhibit 9/Tab 1/Schedule 9, page 2 (Updated January 16, 2009)

⁶³ Board Staff IR #20 a), b), and c)

10 Recovery of Reasonably Incurred Costs

10.1 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 18th Day of March, 2009,

Michael Buonaguro
Counsel for VECC

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

		<u>Total</u>	<u>Residential</u>	<u>GS <50</u>	<u>GS 50-499</u>	<u>GS 500-4999</u>	<u>Large Use</u>	<u>Street Light</u>	<u>Sentinel Light</u>	<u>USL</u>
	<u>Cost Allocation Results - Revenue</u>									
#1	Distribution Revenue	1,635,592	757,367	275,824	264,348	197,639	116,224	18,713	1,132	4,345
#2	Miscellaneous Revenue	114,898	62,543	25,114	11,629	4,709	7,138	2,806	60	898
#3	Total Revenue	1,750,490	819,910	300,938	275,977	202,348	123,362	21,519	1,192	5,243
#4	Total Revenue %		46.84%	17.19%	15.77%	11.56%	7.05%	1.23%	0.07%	0.30%
#5	Dx Revenue %		46.31%	16.86%	16.16%	12.08%	7.11%	1.14%	0.07%	0.27%
#6	Misc Revenue %		54.43%	21.86%	10.12%	4.10%	6.21%	2.44%	0.05%	0.78%
	<u>Cost Allocation Results - Revenue Requirement</u>									
#7	Revenue Requirement	1750490	916687	341188	157603	63523	194731	67378	1272	8108
#8	Revenue to Cost Ratios		89.44%	88.20%	175.11%	318.54%	63.35%	31.94%	93.71%	64.66%
#9	Adjustment Factor for Rev=RR		1.1180	1.1337	0.5711	0.3139	1.5785	3.1311	1.0671	1.5464
	<u>2009 Rates</u>									
#10	2009 Dx Revenue at Current Rates	1,680,577	792,780	292,315	295,232	147,037	128,533	19,050	1,150	4,480
	<u>Determination of 100% Dx Revenue Allocation</u>									
#11	- Misc Revenue (2009 Rates)	92,969	50,458	20,261	9,382	3,799	5,759	2,264	48	724
#12	- Total Revenue (@ Current Rates)	1,773,546	843,238	312,576	304,614	150,836	134,292	21,314	1,198	5,204
#13	- Adjusted Total Rev 100% Cost by Class	1,806,506	942,768	354,383	173,957	47,352	211,984	66,735	1,279	8,048
#14	- Adjustment to Reconcile 2009 SRR	2,575,672	1,344,176	505,270	248,023	67,513	302,241	95,150	1,823	11,475
#15	- 2009 Dx Revenue for 100% R/C Ratio	2,482,703	1,293,718	485,009	238,641	63,714	296,483	92,886	1,775	10,751
#16	- Dx Revenue Proportions for 100%		52.11%	19.54%	9.61%	2.57%	11.94%	3.74%	0.07%	0.43%
#17	- Total Service Revenue Proportions for 100%		52.19%	19.62%	9.63%	2.62%	11.73%	3.69%	0.07%	0.45%

Notes: #1-#3 - from Interrogatory Clarification #7
#4-#6 - based on values set out in preceding rows
#7 - from Interrogatory Clarification #7
#8 - based on Row #3/Row #7
#9 - Based on Row #7/Row #3
#10 - VECC Supplementary #11
#11 - Based on 2009 proposed Misc. Revenues (VECC Supplementary #8 e)) 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) - from VECC Supplementary #8 e)
#15 - Based on Row #14 less Row #11
#16 - Based on values in Row #15
#17 - Based on values in Row #14