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May 1, 2009

VIA MAIL and E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
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Dear Ms. Walli:

Re: Vulnerable Energy Consumers Coalition (VECC)
EB-2008-0241 Peterborough Distribution Inc. – 2009 Electricity Distribution Rate Application

Please find enclosed the submissions of the Vulnerable Energy Consumers Coalition (VECC) in the above-noted proceeding.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

EB-2008-0241
EB-2008-0242
EB-2008-0243

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 Peterborough Distribution 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)

May 1, 2009

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Vulnerable Energy Consumers' Coalition (VECC)

Final Argument

1 The Application

1.1 Peterborough Distribution Inc. ("PDI") filed an application ("the Application") with the Ontario Energy Board ("the Board" or "the OEB") dated October 10, 2008, for electricity distribution rates and charges effective May 1, 2009. The Application sought approval to recover a Test Year service revenue requirement of $15,753,249 including a revenue deficiency of $1,542,189 at existing rates. Recovery of this deficiency would require a 12.25% increase in distribution revenues.[1]

1.2 PDI is also seeking approval (i) to harmonize its rates across the three geographic areas that it serves – Peterborough, Asphodel-Norwood, and Lakefield, and (ii) of a rate rider of $1 per customer per month to fund Smart Meter activities.[2] PDI is authorized for smart meter deployment[3] and intends to begin smart meter deployment in 2009.[4]

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

2 Rate Base and Capital Spending

Rate Base and Capital Spending

2.1 PDI forecasts a Test Year rate base of $54,126,094, comprised of fixed assets with an average net book value of $44,685,355 and a working capital allowance of

[1] Ex. 1/T1/S5 p.1 and Ex. 7/T1/S1 p.2
[2] Ex. 1/T1/S5 p.1
[3] Board Staff IR #16 a)
[4] Ibid

$9,440,740.[5]

2.2 Excluding spending on smart meters, PDI forecasts total Test Year capital expenditures of $5,506,000, an amount which includes $1,263,000 in contributions.[6]

2.3 With respect to smart meters, PDI forecasts Test Year capital expenditures of $5,787,868.[7]

2.4 VECC notes that the proposed Test year capital expenditures, excluding smart meters, is approximately equal to recent historic actual capital spending.[8]

2.5 While VECC has no concerns with the quantum of Test Year capital spending, VECC is concerned that some assets that PDI relies upon, specifically the breaker stations, have exceeded their expected service lives.[9]

2.6 In this regard VECC notes that PDI's *"formal Asset Management Plan is still in its development stages. PDI is currently reviewing all aspects of its maintenance programs, capital expenditures and its long term strategy for managing its existing assets, development of capacity for growth, meeting new customer connections and meeting all of its many regulatory obligations."*[10] VECC submits that completing the review and implementing the results of the review should be a priority for PDI and that these activities should be concluded by the time that PDI files for rebasing.

2.7 VECC further notes that since 2000 – with the exception of three extraordinary years[11] – the 2007 SAIDI and SAIFI reliability indices reflect an improvement only

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[5] Ex.2/T1/S1, p.8
[6] Ex.2/T2/S1, p.4
[7] Board Staff IR #16 b)
[8] Board staff IR #2, 2006-08.
[9] See Ex. 2/T3/S4/Appendix A and VECC IR #20. Six breaker stations have an average age of 49 years (as compared to their normal service life of 50 years), while three others are 76 years old.
[10] VECC IR #20 e)
[11] 2003 (North American blackout), 2004 (Peterborough flood), and 2006 (windstorm).

over the corresponding 2005 indices.[12]

Working Capital

2.8 Using the 15% of OM&A rule, PDI forecasts that it's the Test Year rate base component, allowance for working capital, will be $9,440,740.[13] This represents 17.44% of the forecasted Test Year rate base of $54,126,094.[14] VECC accepts the use of the "15% rule" for the purposes of this proceeding.

2.9 However, VECC believes that as a condition of approval in the current proceeding, PDI should be required to submit a lead-lag study with its rebasing application, given the significant percentage of rate base comprised by working capital under the rule.

2.10 VECC notes that the purpose of working capital is to provide short-term funding to cover expenses that must be paid before the associated revenue is recovered from customers. As such, VECC believes that the Board should consider whether such short-term funding requirements should be underpinned by WACC or, rather, by short-term debt alone.

2.11 VECC submits that the rate used for the cost of power used to calculate the working capital allowance should be updated to reflect the most recent forecast available.

2.12 VECC finally submits that the cost of power should also reflect the costs of Hydro One Network's transmission services for 2009. Also, the proposed 2009 LV costs used to calculate the working capital allowance should be reduced as discussed in Section 11.

[12] See Ex. 2/T3/S4/Appendix A, page 16.
[13] Reported as $9,433,240 in Ex. 2/T4/S1, p. 1 but corrected in response to Board staff IR #14.
[14] Ex. 7/T1?s1, p. 2

3 Load Forecast and Revenue Offsets

Load Forecast

3.1 PDI has used 2004 weather normalized load data developed by Hydro One Networks to establish weather normalized use per customer for its Residential, GS<50 and GS>50 customer classes[15]. For the Large Use, USL, Sentinel Lighting and Street Lighting classes, per customer use values were established by averaging historical (2002-2007) per customer/connection use[16]. COLLUS then developed its load forecast by forecasting 2009 customer/connection count (by class) and multiplying this "count" by the weather normalized per customer use for each class.

3.2 VECC notes that this approach is similar to that used by most distributors who filed, using a cost of service approach, for 2008 rates. For 2009, a number of applicants have used alternative approaches. In VECC's view some of the load forecasting alternates put forward in 2009 Rate Applications represent an improvement in approach, whereas others do not. However, in VECC's view, none of the load forecasting approaches put forward in the 2009 are totally satisfactory. In the case of PDI, potential changes in use of electricity using equipment (both reductions due to energy efficiency improvements and increases due to new applications, etc.) are likely to result in changes in per customer use between 2004 and 2009.

3.3 VECC notes that in response to a Board Staff Interrogatory[17], PDI attempted to provide historical weather normalized average use values for each customer class for the period 2002-2007 using the IESO's provincial weather correction factor. In VECC's view this approach to weather normalization is also flawed. 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 the amount of weather sensitive

[15] Exhibit 3/Tab 2/Schedule 1, page 1 and OEB Staff #19 a)
[16] OEB Staff #19 b) and VECC #3 c)
[17] Board Staff #23

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 PDI'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 Overall, VECC submits that, given the lack of additional information, there is no basis on which to adjust PDI's 2004 average use values either up or down for 2009. As a result, VECC submits that the Board should accept PDI's normalized average use values for purposes of forecasting weather sensitive 2009 loads.

3.5 For non-weather sensitive loads, VECC has concerns regarding PDI's use of 2002-2007 period data to establish the average use for 2009. For every class (i.e., Large Use, Street Lighting, Sentinel Lighting, and USL) the average use in 2002 is significantly less than the usage in all subsequent years as can be seen from the following Table.

Average Use per Customer/Connection (kWh)

	Large Use	Street Lighting	Sentinel Lighting	USL
2002	29,402,359	599	1,040	109,235
2003	32,678,873	782	1,460	207,434
2004	32,378,295	740	1,531	244,470
2005	33,325,845	723	1,403	232,528
2006	31,701,263	763	1,601	217,460
2007	31,610,550	792	2,820	221,175
2002-07 Avg	31,849,531	733	1,643	205,384
2003-07 Avg	32,338,965	760	1,763	224,613
Difference	1.5%	3.7%	7.3%	9.4%

Source: Exhibit 3/Tab 2/Schedule 7, pages 2-3

3.6 In VEC's view the 2002 data for each customer class is clearly anomalous when compared with the data for more recent years and should be excluded when

determining the average use per customer for 2009 for each of these classes.

3.7 At the same time, VECC submits that, similar to the OEB direction given in the Toronto Hydro case[18], COLLUS should be directed to work with other distributors to develop a more comprehensive and integrated approach to load forecasting.

3.8 For each customer class, the forecast 2008 and 2009 customer counts are based on the average compound growth rate for the period 2002-2007[19]. For 2009 PDI is proposing to introduce a new USL class. To account for this, PDI has adjusted its historical data to separate out USL customers from its GS<50 and GS>50 classes[20]. VECC has no submissions regarding PDI's customer count forcast.

Miscellaneous Revenues

3.9 PDI's Test Year forecast of Other Revenues is provided at Exhibit 3/Tab 3/Schedule 1. VECC has no concerns with respect to PDI's Test Year forecast of these revenues.

4 Operating Costs

4.1 Originally, PDI forecasted that Test Year operating costs will total $6,711,606, comprised of $956,517 for operation, $2,350,052 for maintenance, $2,026,703 for billing and collection, and $1,378,334 for administrative and general expenses.[21]

4.2 In response to a supplementary IR, PDI revised the Test Year total operating expenses to $6,710,734.[22]

4.3 VECC notes that PDI's total operating expenses *"include 3rd party costs, inventory and PUSI labour charges that have not been capitalized."*[23]

[18] OEB Decision, EB-20070-0680, pages 32-33
[19] Exhibit 3/Tab 2/Schedule 2, page 1 and VECC #2 c)
[20] VECC #2 b); VECC #3 a) and VECC #5 a)
[21] Ex. 4/T2/S1
[22] Board Staff IR #47 e)
[23] VECC IR #34

4.4 PUSI, PDI's shared service provider, charges PDI for labour costs,[24] vehicles, and building and equipment rental.

4.5 With respect to the labour costs charged by PUSI, PDI initially provided a yearly breakdown as shown in the table below.[25]

Labour Charges from PUSI

2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Bridge	2009 Test
$5,213,183	$5,566,221	$5,908,625	$6,175,846	$6,786,224	$6,952,581

4.6 The 2009 labour charges of $6,952,581 are equivalent to what the amount that would result from inflating the actual 2004 labour charges of $5,213,183, by 5.93% in each succeeding year through to 2009.[26] PDI attributed approximately 73% of this increase to increases in wages and benefits, and a further 11% to three new hires.[27] PDI also indicated that the percentage of PUSI's operating costs allocated to PDI in labour charges and building and equipment rental charges, has increased from 36.22% in 2004 to 39.41% in the Bridge Year, then falling slightly to 38.63% in the Test Year.[28]

4.7 In a supplementary IR, PDI was asked to confirm that labour costs charged by PUSI for 2008 were expected to be $6,786,224 per the response summarized in the table above from the initial round of IRs. PDI responded that the actual labour charges for PDI from PUSI in 2008 totalled $6,494,177.[29]

4.8 In the second part of the same supplementary IR, PDI was asked to *"confirm that the 2008 Bridge Year labour costs of $6,786,224 represent an increase of $610,378 or 9.9% over the actual 2007 labour costs of $6,175,846 and provide a rationale for such an increase."*[30] (Emphasis added) PDI confirmed the 9.9% increase and attributed it *"to a 3% labour increase, increased benefit costs ... and*

[24] PDI capitalizes approximately 37% of the PUSI labour charges, per response to VECC IR #34.
[25] Response to VECC IR #15 a)
[26] At this rate, labour charges would double approximately every 12 years.
[27] Response to VECC IR#15 a)
[28] Response to VECC IR#22 d)
[29] VECC IR #33 a)
[30] VECC IR #33 b)

an additional 4,200 hours allocated from PUSI to PDI for capital and operating activities as well as increased shared service costs. The capital program was increased by approximately 3,500 hours as Management anticipated increased capital activity based upon estimates from the asset management report and increased economic activity carried over from 2007. The Operating program labour requirement was increased by approximately 700 hours. ... The increase is comprised of the following components:

- *$185,000, labour increase on $6,175,846;*
- *$61,000, increased benefits and progression increases;*
- *$47,000, increased shared services costs; and*
- *$317,000, increased labour hours."*

4.9 VECC notes that, while the variance analysis in this response does account for a 9.9% increase in 2008 over 2007, the 9.9% increase is very large for a one-year change.

4.10 The $317,000 increase attributed to the total of 4,200 hours of increased labour allocated to PDI indicates that the average cost of an hour of labour allocated to PDI is $75.48.[31] VECC notes that PDI attributes 83.3% of the increased hours allocated to PDI to "anticipated increased capital activity" in 2008.

4.11 In the foregoing, VECC assumes that PDI would have capitalized the increase of 3,500 hours associated with increased capital activity and expensed the increase of 700 hours associated with maintenance.[32]

4.12 However, VECC submits that this portion of the increase is not consistent with the fact that PDI reported total capital expenditures (excluding smart meters) of $6,108,641 in 2007 and the lower amount of $5,370,000 for 2008.[33]

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[31] This is just the $317,000 divided by the 4,200 hours.
[32] That is, VECC assumes that any change made to the 3,500 hours would impact rate base only. If this is not the case, VECC submits that any reduction in the 3,500 hours would impact rate base and OM&A costs in 2008, thus increasing the stated 2009 over 2008 increase in operating costs also and indicating a reduction in Test Year OM&A also.
[33] Board Staff IR #2. Note that smart meter spending in 2008 was also less than it was in 2007.

4.13 VECC therefore submits that absent a reasonable rationale provided by PDI, the need for increased hours associated with capital activity in 2008 has not been established. As such, VECC's position is that the 2008 labour charges from PUSI may be overstated by $264,000[34] and that this overstatement will contribute to a smaller perceived increase in operating costs in 2009 over (overstated) 2008.

4.14 VECC notes that PDI corrected the labour cost allocations to PDI in a subsequent supplementary IR response.[35] The revised allocations to PDI for labour charges for the years 2006-09 is given in the table below:

Revised Labour Costs Allocated to PDI per VECC Supplementary IR #35

2006	2007	2008	2009
$5,908,939	$6,151,722	$6,794,926	$6,955,552

4.15 VECC notes that in the supplementary IR responses, two different figures are provided for labour charges to PDI in 2008: the figure provided for this charge in the response to VECC IR # 33 a) is $6,494,177 while the figure provided in the response to VECC IR #35 is $6,794,926. VECC submits that it would be useful for PDI to provide the correct figure in its submissions.

4.16 Notwithstanding the previous remark, the percentage variances between these corrected figures is small and the 2008 over 2007 increase is approximately the same as it was using the initial figures provided. Therefore VECC submits that the issue of increased allocation of 3,500 hours to PDI in respect of "increased capital activity" in 2008 is still a concern.

4.17 VECC further notes that if the $264,000 increase associated with these hours for increased capital activity in 2008 PDI is not accepted by the Board as reasonable, then the total 2008 PDI labour charges from PUSI would be reduced to

[34] That is, $317,000 x 0.833, where the 0.833 factor is the proportion of the 2008 labour hour increase attributed to increased capital activity.
[35] VECC IR #35. Note that even though the numbers have changed for each year 2006-2009, the increase in 2008 over 2007 is approximately the same as in the original filing.

$6,530,926.[36]

4.18 If this reduction is made to the 2008 figure, then (i) the increase in 2009 over 2008 would represent a 6.50% increase in 2009, which VECC submits has not been justified by the Applicant, and (ii) there would be a related adjustment to rate base in the form of a reduction of approximately $100,000.[37]

4.19 VECC submits that if the Board finds that the 2008 labour cost reduction as proposed by VECC is accepted, then (i) the Test Year increase associated with labour costs should be limited to 2.36%,[38] and (ii) the Test Year rate base should be adjusted accordingly.

4.20 With respect to regulatory costs, PDI has identified $50,000 associated with the current proceeding as one-time costs.[39] VECC submits that these costs should be amortized over a four-year period.

5 Losses

5.1 Based on three-year average data for 2005-07, PDI has proposed a distribution loss factor of 1.0413 for Secondary Metered Customer < 5,000 kW along with a supply facility loss factor of 1.0071, for a total loss factor of 1.0487 for Secondary Metered Customer < 5,000 kW.

5.2 VECC submits that the proposed loss factor is reasonable.

6 Cost of Capital/Capital Structure

6.1 PDI proposes to reduce its equity component from the current 46.7% to 43.3% in line with the Board's direction to attain a debt:equity ratio of 60%:40% over a three-year period. For 2009, the debt component would be comprised of 52.7%

[36] This is the corrected 2008 figure less the $264K associated with the capital activity hours.
[37] As noted earlier, PDI capitalizes approximately 37% of the labour charges from PUSI.
[38] This is the percentage increase in "PDI Labour" as given in the response to VECC IR #35.
[39] Board staff supplementary IR #51 a)

long-term debt and 4% short-term debt.[40] VECC supports this proposal.

6.2 With respect to ROE and short-term debt rates, PDI has proposed to use the Board's revised rates for 2009.[41]

6.3 With respect to long-term debt rate, PDI proposes a 6.02% weighted average debt rate "reflecting a debt rate of 6.10% on an existing Long Term Loan of $21,657,680 with its shareholder the City of Peterborough and a debt rate of 4.85% on a Demand Loan of $1,500,000 with the City of Peterborough." PDI noted that the OEB would be finalizing a deemed long-term debt rate for 2009.[42]

6.4 VECC notes that the long-term loan was provided on January 1, 2000 and carried an interest rate of 6% pa, although *"PDI has been unable to locate the original promissory note."*[43]

6.5 VECC submits that in the absence of this promissory note, the associated long term loan should be assigned a debt rate of 6.0%.

7 Deferral and Variance Accounts

7.1 PDI proposes to dispose of the balances, including interest to April 30, 2009, in Account No. 1508, Other Regulatory Assets, and Account No. 1550, Low Voltage Variance Account by means of rate riders over a three-year period.

7.2 PDI proposes to allocate the balance in Account No. 1508 to classes according to distribution revenue and the balance in Account No. 1550 on the basis of kWh. PDI calculated the balances to be disposed as $84,321 for Account No. 1508 and ($387,081) for Account No. 1550.[44]

7.3 PDI provided the interest rates used to calculate the account balances in

[40] Ex.6/T1/S1, p.1
[41] Ibid and p.2
[42] Ibid, p.1
[43] Board Staff IR #40 a)
[44] Ex.5/T1/S1

response to an IR.[45]

7.4 Subject to the Board confirming that the interest rates used to calculate the account balances are appropriate, VECC supports PDI's deferral account proposal.

8 Cost Allocation

Results of PDI's Cost Allocation Informational Filing

8.1 In February 2007, PDI submitted its Cost Allocation Informational Filing to the Board based on its approved 2006 distribution rates[46]. However, for purposes of its 2009 Rate Application, the Cost Allocation filing was updated to correct errors in the customer/connection counts used in the original filing and to incorporate the proposed USL class[47]. Based on this updated Cost Allocation, the revenue to cost ratios are summarized as follows[48]:

- Residential 109.53%
- GS<50 98.40%
- GS>50 114.69%
- Large Use 70.99%
- Sentinel Lights 30.76%
- Street Lighting 19.59%
- USL 7.13%

Use of the Cost Allocation Results in Setting 2009 Rates

8.2 PDI has used the distribution of revenue requirement (by percentage) from its updated Cost Allocation to determine what portion of the 2009 revenue requirement would represent 100% cost responsibility for each customer class[49]. VECC has two concerns regarding this approach.

[45] Board Staff IR #39 c)
[46] Exhibit 8/Tab 1/Schedule 2, page 1
[47] Exhibit 8/Tab 1/Schedule 2, page 2
[48] Exhibit 8/Tab 1/Schedule 2, Page 3
[49] VECC #8 a) and #28 a)

8.3 First, PDI is proposing to allocate the "cost" of the transformer ownership allowance solely to the GS>50 class[50]. VECC agrees with this change. The treatment of 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 who own their transformer will pay too much and those who don't will not bear full cost responsibility for the transformers they use. VECC also notes that this change in the treatment of the transformer allowance is consistent with the approach approved for a number of distributors' 2008 rates[51].

8.4 To accommodate this change, PDI removes the cost of the transformer ownership allowance from the allocation of the revenue requirement to customer classes[52]. However, VECC submits that the approach used by PDI is incorrect. PDI has deducted the costs from the GS>50 and Large User classes only, based on the amount of the allowance provided to each class in the 2006 EDR. In reality, the Board's Cost Allocation model allocates the "cost" of the transformer ownership allowance to all customer classes[53]. To properly remove the cost of the transformer allowance the allocated costs must be removed from the cost allocation model.

8.5 In response to VECC #7 c), PDI has provided a revised version of its Cost Allocation Informational filing that follows this approach and is consistent with its proposal regarding the transformer ownership allowance. VECC submits that

[50] Exhibit 9/Tab 1/Schedule 1, page 6. Note: The Large User Transformer Allowance is being eliminated.
[51] For example, Horizon Utilities, Hydro Ottawa and Enersource Mississauga.
[52] VECC #28 a)
[53] VECC #7 a)

these results more closely represent the appropriate reference point to use. VECC notes that this approach has been accepted in recent 2009 rate Decisions issued by the Board[54]. The following table summarizes the resulting revenue to cost ratios.

PDI Current Revenue to Cost Ratios
(With Removal of Transformer Ownership Allowance)

Residential	111.4%
GS<50	100.6%
GS>50	101.0%
Large Use	40.3%
Sentinel Lights	31.4%
Street Lights	20.0%
USL	7.3%

Source: VECC #7 c) - Attachment A

8.6 VECC's second concern is with PDI's use of the class revenue requirement distribution from the Cost Allocation Informational filing to determine 100% cost responsibility for 2009[55]. This approach only works if the billing parameters (i.e., kWhs, kWs and customer count) represent close to the same proportions by class in 2009 as they did in the Cost Allocation filing. The reason for this is that costs are allocated to classes based on allocation factors that reflect the relative load 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 Applications have recognized this issue and have assessed the ongoing validity of their Cost Allocation Informational filing as part of their 2009 Rate Application[56].

8.7 In response to VECC #6 a) PDI has provided the relative kWhs and customer

[54] For example – Niagara-on-the-Lake(EB-2008-0237, page 25) and Northern Ontario Wires (EB-2008-0238, page 26)
[55] VECC #28 a)
[56] Examples include Westario Power (EB-2008-0250); COLLUS Power (EB-2008-0226) and Bluewater Power (EB-2008-0221)

count by class for both 2009 and its Cost Allocation filing and there are some differences. PDI suggests they are small. However, one way to get an indication as to the potential shift in costs is to compare the responsibility for distribution revenue from the Cost Allocation filing with that which arises from using 2009 billing parameters and 2008 rates. The following table provides such a comparison.

Comparison of Distribution Revenue Responsibility

	Current Rates	Cost Allocation Fling
Residential	62.70%	60.78%
GS<50	16.46%	16.86%
GS>50	18.79%	20.28%
Large Use	0.78%	0.78%
Sentinel Lights	0.09%	0.15%
Street Lights	1.04%	1.01%
USL	0.13%	0.15%

Sources: 1) Current Rates - VECC #25 c)
2) Cost Allocation - VECC #6 c)

8.8 In VECC's view, where the potential for such anomalies exists, a preferred approach is to assume that revenues at current rates are consistent with the revenue to cost ratios determined via the cost allocation informational filing and use this as the starting point to determine the allocation of the distribution revenue requirement that would yield 100% cost responsibility for each class.

8.9 In recent Decisions[57] the Board has suggested that such fine tuning is not required and that updating the revenue shares would not be appropriate in the absence of updating other cost allocation factors such as cost drivers. VECC respectfully disagrees. It is the fact that the costs drivers have not been updated to reflect the forecast customer count and loads by class that gives rise to the need for this adjustment. As no efforts have been made to realign the revenue to cost ratios in

[57] For example – Northern Ontario Wires (EB-2008-0238, page 26

2007 or 2008, there is no reason to assume that the current revenue to cost ratio for each class (based on current loads and 2008 rates) would be any different than those arising from the original cost allocation informational filing. Indeed without this adjustment, the conclusions of the Board in it EB-2007-0667 Report[58] that "there may be little difference between a revenue to cost ratio near one and the theoretical ideal of one" are all the more compelling.

8.10 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 PDI's values.

Summary of Class Shares of Service Revenue Requirement
Assuming 100% Cost Responsibility

	PDI's Values	VECC's Recommended Values
Residential	56.10%	56.93%
GS<50	17.20%	16.53%
GS>50	16.80%	16.24%
Large Use	1.30%	1.93%
Sentinel Lights	0.50%	0.30%
Street Lights	5.30%	5.38%
USL	2.80%	2.70%

Sources:
1) PDI's values - Based on Column D from VECC #28 a)
2) Appendix A

8.11 It should be noted that there are significant changes (i.e., greater than 10%) for the Large User and Sentinel Light classes which, for a proposed revenue to cost ratio change, could have a material effect on the resulting rates for these classes[59].

[58] Application of Cost Allocation for Electricity Distributors, November 2007, page 4.
[59] For example, in the case of the Large User class, VECC's approach results in almost a 50% increase in the revenue allocation associated with a 100% revenue to cost ratio (1.93/1.3).

Proposed Revenue to Cost Ratios

8.12 The following Table compares PDI's proposal for 2009 with the current revenue to cost ratio as calculated by the Cost Allocation update and as corrected for the transformer ownership allowance treatment.

PDI Proposed R/C Ratio Shifts

	PDI R/C Ratio	VECC's IR 7 c)	Proposed R/C Ratio
Residential	109.53%	111.4%	105.92%
GS<50	98.40%	100.6%	98.40%
GS>50	114.69%	110.0%	111.08%
Large Use	70.99%	40.3%	78.00%
Sentinel Lights	30.76%	31.4%	50.38%
Street Lights	19.59%	20.0%	44.79%
USL	7.13%	7.3%	43.57%

Note:
1) PDI R/C Ratio from Exhibit 8/Tab 1/Schedule 2, page 3
2) Proposed Ratios from Exhibit 8/Tab 1/Schedule 2, page 3

8.13 PDI's proposed Revenue to Cost ratios are based on moving the ratios for those classes that are under contributing 50% of the difference between the current ratio and the low end of the OEB's target range for each class[60]. The additional revenue is distributed to those customer classes whose ratios currently exceed 100%.

8.14 VECC agrees with PDI's overall approach and notes that it is consistent with the Board's approach in many of its 2008 Cost of Service Decisions. Furthermore, for the Sentinel Lights, Street Lighting and USL classes, the proposed ratios are roughly the same as what would result from using VECC #7 c) as the starting point. In the case of the Large User class, application of the same principles, using VECC # 7 c) as the starting point, would produce a revenue to cost ratio of

[60] Exhibit 8/Tab 1/Schedule 2, page 4

62.65% for 2009. Subject to any overall total bill impact considerations, VECC submits that this is the appropriate large use class target for 2009

8.15 Given the results of VECC #7 c), VECC also submits the additional revenues from adjusting the ratios for these four classes should be distributed proportionally to the Residential and GS<50 classes in order to reduce their revenue to cost ratios, as per the original Application.

8.16 Finally, VECC submits that PDI should be directed to continue to adjust the revenue to cost ratios in 2010 and 2011 for those classes that are under contributing so as to achieve the lower end of the Board's target ranges in 2011.

9 Rate Design

9.1 PDI has established the fixed monthly charge for the Residential class by maintaining the fixed-variable split calculated based on current rates[61]. VECC notes the resulting monthly service charge is within the range established by the Board's Guidelines[62] and, therefore, agrees that the Utility's approach is acceptable.

9.2 PDI is proposing to harmonize the rates across its three service areas for 2009. For low volume Residential customers in the Asphodel-Norwood service area the resulting monthly impacts exceed 20%[63]. PDI claims that since the dollar impact is less than $4.45/month, this is an acceptable impact. VECC notes that in the case of Hydro One Networks' recent harmonization proposal the Board approved bill impact mitigation for those low volume residential customers whose bills increased by more than 15% and more than $3/month[64]. VECC submits that the Board should consider a similar approach for PDI.

[61] Exhibit 9/Tab 1/Schedule 1, page 4
[62] VECC #9 c)
[63] Exhibit 9/Tab 1/Schedule 9 – Appendix A
[64] EB-2007-0681 Decision, pages 42-43

10 Low Voltage Costs

10.1 PDI has based its $505,453 forecast of LV costs (from Hydro One Networks) on its anticipated revenues from its LV rate adder[65]. In VECC's view this approach is circular – as the costs should be forecasted based on the anticipated charges from Hydro One Networks and the results used to set the adder. When asked what its LV "costs" would be based on 2008 usage and Hydro One Networks' 2009 approved rates, PDI indicated it would be $405,225[66]. Since PDI's total load in 2009 is forecast to be 2.7% less than that in 2008[67], VECC submits that the forecast LV costs for 2009 should be reduced to no more than $395,000. This value should be used to establish the LV rate adder and also for purposes of determining PDI's working capital allowance.

11 Smart Meters

11.1 PDI forecasts that it will deploy 30,000 smart meters in the Test Year at a cost per installed meter of $172, for a total cost of $5,787,868.[68] PDI provided documentation indicating that it was authorized to deploy smart meters,[69] and also provided assurance that it has not incurred, and does not expect to incur costs associated with functions for which the Smart Meter Entity has exclusive authority.[70] On this basis, PDI proposes a smart meter rate adder of $1 per customer per month.

12.2 VECC has no concerns with PDI's smart meter proposal.

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

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[65] VECC #10 a)
[66] VECC #31 b)
[67] Exhibit 3/Tab 2/Schedule 2, page 3
[68] See Board Staff IR # 16 b). VECC notes that 30,000 installations per year implies, on average, over 82 per day on a 7-day work week basis and 115 per day on a 5-day work week basis.
[69] Board Staff IR 16 a)
[70] Board Staff IR 16 b)

100% of its reasonably-incurred fees and disbursements.

Respectfully submitted on the 1st Day of May 2009

Michael Buonaguro
Counsel for VECC

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

		Total	Residential	GS <50	GS>50-Regular	Large Use	Sentinel Light	Street Light	USL
	Cost Allocation Results - Revenue								
#1	Distribution Revenue	12,491,185	7,591,905	2,106,243	2,533,119	96,810	18,638	125,871	18,599
#2	Miscellaneous Revenue	1,206,705	829,105	215,353	127,025	9,152	1,453	16,198	8,419
#3	Total Revenue	13,697,890	8,421,010	2,321,596	2,660,144	105,962	20,091	142,069	27,018
#4	Total Revenue %		61.48%	16.95%	19.42%	0.77%	0.15%	1.04%	0.20%
#5	Dx Revenue %		60.78%	16.86%	20.28%	0.78%	0.15%	1.01%	0.15%
#6	Misc Revenue %		68.71%	17.85%	10.53%	0.76%	0.12%	1.34%	0.70%
	Cost Allocation Results - Revenue Requirement								
#7	Revenue Requirement	13,697,890	7,560,833	2,308,444	2,419,352	262,708	64,016	711,183	371,354
#8	Revenue to Cost Ratios		111.38%	100.57%	109.95%	40.33%	31.38%	19.98%	7.28%
#9	**Adjustment Factor for Rev=RR**		0.8979	0.9943	0.9095	2.4793	3.1863	5.0059	13.7447
	2009 Rates								
#10	**2009 Dx Revenue at Current Rates**	12,592,206	7,895,527	2,073,229	2,366,264	98,211	11,486	130,909	16,580
	Determination of 100% Dx Revenue Allocation								
#11	- Misc Revenue (2009 Rates)	1,618,851	1,112,283	288,906	170,410	12,278	1,949	21,730	11,294
#12	- Total Revenue (@ Current Rates)	14,211,057	9,007,810	2,362,135	2,536,674	110,489	13,435	152,639	27,874
#13	- Adjusted Total Rev 100% Cost by Class	14,207,468	8,087,693	2,348,753	2,307,058	273,931	42,809	764,097	383,126
#14	- Adjusment to Reconcile 2009 SRR	15,753,249	8,967,639	2,604,299	2,558,068	303,735	47,466	847,231	424,810
#15	- 2009 Dx Revenue for 100% R/C Ratio	14,134,398	7,855,356	2,315,393	2,387,658	291,457	45,517	825,501	413,516
#16	**- Dx Revenue Proportions for 100%**		55.58%	16.38%	16.89%	2.06%	0.32%	5.84%	2.93%
#17	**- Total Service Revenue Proportions for 100%**		56.93%	16.53%	16.24%	1.93%	0.30%	5.38%	2.70%

Notes:
#1-#3 - from VECC #7 c)
#4-#6 - based on values set out in preceding rows
#7 - from VECC #7 c)
#8 - based on Row #3/Row #7
#9 - Based on Row #7/Row #3
#10 - Based on VECC #25 c)
#11 - Based on 2009 proposed Misc. Revenues (Exhibit 9/Tab 1/Schedule 1, page 1 prorated using Row #6
#12 - Based on Row #10 + Row #11
#13 - For each Class calculated based on Row #12 x Row #9
#14 - Each Class' Row #13 value inceased by same proportion to yield 2009 Service Revenue Requirement (excluding the Transformer Ownership Allowance)
Total Service Revenue Requirment from Exhibit 9/Tab 1/Schedule 1, page 1
#15 - Based on Row #14 less Row #11
#16 - Based on values in Row #15
#17 - Based on values in Row #14