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May 27, 2009

VIA MAIL and E-MAIL

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

Dear Ms. Walli:

Re: Vulnerable Energy Consumers Coalition (VECC)
EB-2008-0246
Tillsonburg Hydro 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.

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 Tillsonburg Hydro 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 27, 2009

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

1 The Application

- 1.1 Tillsonburg Hydro Inc. ("THI") submitted its application for distribution rates effective May 1, 2009 on August 22, 2008. THI requested a service revenue requirement of \$3.313M¹ and claimed a Test Year revenue deficiency of \$746,792 at existing rates.² The initial filing sought an increase of 30.64% in distribution rates to eliminate the Test Year deficiency.³
- 1.2 On December 15, 2008, THI provided updated pre-filed evidence. The updated service revenue requirement was \$3,325,415 and the claimed deficiency rose to \$794,497.⁴ The updated filing seeks an increase of 33.07% in distribution rates.⁵
- 1.3 On April 14, 2009, THI supplied written pre-filed evidence in support of an interim rates application. In this "April Amendment," THI claimed a service revenue requirement of \$3,346,017 and a claimed deficiency of \$817,590. The April Amendment proposed to increase distribution rates by 33.76%.⁶
- 1.4 THI is also seeking to dispose of balances in deferral accounts No. 1508, Other Regulatory Assets, No. 1525, Miscellaneous Deferred Debits, and No. 2425, Other

¹ Per Ex1/T1/S3 page 1. More precisely, per Ex1/T1/S9 Attachment A, the revenue requirement was \$3,312,930.

² Ex1/T1/S9 Attachment A

³ 2009 distribution revenue at exiting rates was forecast to be \$2,437,260 (net of Transformer Allowance of \$138,278) at Ex3/T1/S3 Attachment A. The deficiency of \$746,792 is 30.64% of this amount.

⁴ Updated filing cover letter, page 2 – unless specified otherwise, all subsequent references refer to the updated filing.

⁵ Ex3/T1/S3, Attachment A page 1 forecasts 2009 distribution revenue of \$2,402,485 (net of Transformer Allowance of \$117,409) at existing rates.

⁶ See April Amendment, Attachments B.1 and B.2. Revenue offsets were reduced in the April Amendment to \$106,433 from the forecast provided in the December Update of \$128,433.

Deferred credits through rate riders over a two-year period.⁷

- 1.5 THI also requests approval to increase its Smart Meter Rate Adder to \$1.00 per metered customer per month.⁸
- 1.6 The following sections contain VECC's final submissions regarding the various aspects of THI's Application.

2 Rate Base and Capital Spending

Capital Spending

- 2.1 THI proposes a Test Year rate base of \$8,713,761,⁹ a reduction of \$279,074 from the \$8,992,835 proposed in its December Update. VECC understands the difference to be due to the updated working capital allowance in the April Update.¹⁰
- 2.2 THI's budgeted 2009 capital spending, net of contributions, for 2009 is \$677,602 comprised of \$169,866 for customer additions and \$507,736 for its Voltage Conversion program.¹¹
- 2.3 VECC notes that this level of capital spending is very close to THI's 2008 capital spending and takes no issue with the Test Year capital spending or the non-working capital allowance component of rate base.¹²

Working Capital

- 2.4 THI claims a working capital component of rate base in the amount of \$2,471,140 for the Test Year, calculated as 15% of the sum of cost of power and controllable

⁷ Ex.5/T2/S2, Attachment H

⁸ Ex.5/T1/S3/page 2

⁹ See April Amendment Attachment B.1.

¹⁰ The reduction is the difference between the allowance for working capital cited in THI's argument-in-chief at Appendix C.3 and the value reported at Exhibit 2/Tab1/Schedule 2 Attachment A, page 1 of the December Update.

¹¹ Ex.2/T3/S2 page 2, December Update

¹² December Update, Ex.2/T3/S2/page 1

expenses per the Board approved methodology.¹³

- 2.5 VECC submits that the 15% methodology is appropriate when used with the approved controllable OM&A costs and updated RPP estimates and retail transmission rates in conjunction with the approved load forecast.
- 2.6 Further, while the allowance for working capital claimed in the argument-in-chief is consistent with the April update information, the details as to how the corrections made in the April update were translated into the changes in the working capital allowance are not clear to VECC. VECC submits that THI should provide details of its working capital calculations so that the Board has a useful starting point in determining the appropriate working capital component of rate base and can make revisions that reflect the conditions expressed in the preceding paragraph.
- 2.7 VECC finally notes that use of the 15% rule results in working capital (\$2,471,140) comprising 28.4% of the rate base (\$8,713,761). VECC submits that while the 15% rule has been useful as a rule of thumb in obviating the production of a lead-lag study (in prior proceedings as well as the current one), VECC is concerned that the resulting allowance for working capital may not be a fair approximation of the utility's actual working capital requirements.
- 2.8 As such, VECC asks the Board to consider requiring THI to provide a lead-lag study in support of its proposed working capital allowance when it submits a rebasing application in 2012, unless THI can show that the costs of such an exercise are likely to outweigh the benefits.

3 Load Forecast and Revenue Offsets

Load Forecast Methodology

- 3.1 For the weather sensitive customer classes (Residential, GS<50 and GS 50-499), THI's load forecast methodology consists of the following steps:

¹³ The figure and a brief description of its calculation is supplied at Appendix C of THI's argument-in-chief.

- First, a weather normalized forecast¹⁴ of the total associated monthly system purchases¹⁵ is developed based on a multifactor regression analysis that includes weather, employment and peak days as independent explanatory variables. The regression equation was developed using monthly data for the period 2003-2007¹⁶. Average weather conditions over the period 1998-2007 are used to determine the weather normalized forecast. Subsequent to the initial August 2008 filing, this load forecast was revised in December 2008 to reflect a 1.5% decline in employment for 2008 and a “no growth” assumption for employment in 2009¹⁷ and to also reflect the closure of Synrecon which had three accounts in the GS 50-499 class¹⁸. In its April 2009 update, THI states that the forecast was further adjusted (upwards this time) to account for the transfer of DDM from the GS >1,500 class to the 50-499 GS class¹⁹.
- Second, the 2009 use by class was determined using each class’ actual 2007 share of the total associated purchases (included losses). For purposes of this step, the total used was that projected by the regression model prior to any specific adjustments for plant closures. The plant closures were then factored into the forecasts for the specific classes affected²⁰.
- Finally, the 2009 energy forecast for Residential and GS<50 was reduced by 1.25% to account for the expected results of the OPA’s CDM programs²¹. For the GS 50-499 class, the projected billing demand was reduced by 2.62% - again based on the expected results of the OPA’s CDM programs²².

3.2 For the non-weather sensitive classes, forecast sales were developed as follows:

- For the Street Lighting, Sentinel Lighting and USL classes kWh and kW 2008 and 2009 usage was held constant at 2007 levels.
- For the GS 500-4999 class, sales are forecast based on the trend in

¹⁴ Exhibit 3/Tab 2/Schedule 1, page 1 plus Attachment, pages 5-10.

¹⁵ Also includes losses per Energy Probe #33 a) and VECC #3 b)

¹⁶ Exhibit 3/Tab 2/ Schedule 1, Attachment, pages 3-5

¹⁷ Exhibit 3/Tab 2/Schedule 1, Attachment, pages 4 & 9

¹⁸ Exhibit 3/Tab 2/Schedule 1/ Attachment, pages 3 & 10

¹⁹ April 14, 2009, Exhibit 1, page 9

²⁰ Energy Probe #18 h) & i)

²¹ VECC #27

²² Board Staff #8 b)

employment outlook²³. However, the 2007 base sales are adjusted to remove the impact of Tillsonburg LP who ceased operations in March/April 2007²⁴. The forecasts for 2008 and 2009 were also adjusted downwards to account for the reclassification of DDM due to the company “idling” its Tillsonburg operations²⁵. Finally, the forecast sales to GS 500-4999 customers were reduced by 2.62% to account for the impact of 2008 and 2009 OPA CDM programs.

- 3.3 For the Residential and GS<50 classes a customer count forecast was initially developed based on historic trends²⁶. However, given the economic outlook the number of 2009 Residential additions was reduced from 105 to 50. For the other customer classes no growth or change in count was forecast other than that arising due to the reclassification of the DDM operations from GS 500-4999 to GS 50-499.
- 3.4 VECC has a number of issues regarding THI's load forecast methodology. First, in terms of the regression model used for the weather sensitive load, VECC is concerned that the equation for forecasting total billed kWh does not include customer count. THI's consultant has observed that employment is a better predictor of economic activity and that statistical problems/counter intuitive results arise when number of customers is also added to the equation²⁷. However, in VECC's view, it is important that there be some connection between the forecast of total load and the forecast customer count. Otherwise, independently produced forecasts of a utility's total sales and its projected customer count could lead to anomalous projections of per customer use in the test year.
- 3.5 VECC also has reservations regarding the second step in THI's load forecast methodology where the forecast of total weather sensitive load is broken down by customer class. Using the 2007 (non-weather normalized) class shares to

²³ Exhibit 3/Tab 2/Schedule 1, Attachment – page 12

²⁴ Exhibit 3/Tab 2/Schedule 1, Attachment – page 4

²⁵ April 14, 2009 Update, page 9

²⁶ Exhibit 3/Tab 2/Schedule 1, Attachment, page 15

²⁷ Energy Probe #18 d)

establish the each class' share of the weather normalized total sales forecast assumes that the weather adjustment factor would be the same for both the Residential and GS<50 classes²⁸. This is not necessarily the case. However, given the limited data THI has to work with there may be no better approach for now. As more (and better data) becomes available – particularly with advent of smart meters – THI should move to a load forecasting methodology that uses different “equations” for each customer class²⁹.

- 3.6 With respect to the forecasts for the various GS classes, VECC is concerned that by using an economic outlook that calls for declining employment post-2007, THI has already captured some of the impact attributable to the closure of Synrecon and the idling of DDM. VECC submits that by adjusting its projected demand for the GS classes for the full impact of these events THI is double counting at least a portion of the impact of these two events.
- 3.7 Finally, VECC has two specific issues with THI's CDM adjustment. First, VECC submits that the 2009 load forecast produced by THI's regression models includes a growing trend in CDM activity that will capture effects over and above the 2007 OPA programs. As a result, VECC submits that there will be some double counting in THI's CDM adjustment – which removes the full impact of 2008 and 2009 initiatives. Also, VECC notes that the 2.62% reduction calculated from the OPA forecast applies to summer peak demand and not average monthly demands. Since virtually half of the OPA peak reduction programs focus on summer peak³⁰, VECC believes that it is inappropriate to assume this same factor can be applied to all months of the year.

Load Forecast Results

- 3.8 In the second round of interrogatories THI was asked by both Board Staff³¹ and

²⁸ Energy Probe #18 x)

²⁹ Energy Probe #18 u)

³⁰ VECC #6 g)

³¹ Board Staff 37 a)

VECC³² to provide the 2009 load forecast it was relying on for the purpose of calculating its 2009 proposed rates. Unfortunately the two responses are not the same. VECC invites THI to clarify in its reply argument which of the two it proposes to use. However, in reviewing the values VECC believes that the response to the Board Staff IR is the most up to date and VECC's submissions are based on this assumption.

- 3.9 VECC takes no issue with THI's customer count forecast for 2009. In the preceding section VECC has expressed a number of concerns regarding the methodology used by THI to project the 2009 load forecast for the Residential and various General Service customer classes. At this point, there are only two adjustments that VECC is recommending.
- 3.10 First, VECC agrees with submissions of Energy Probe (page 17) that the kW/kWh ratio used to determine the billing kW's for the GS 500-1499 and GS >1500 classes should be calculated based on the 2008 actual results (as opposed to relying on 2006 results).
- 3.11 Second, VECC submits that the CDM adjustment for demand billed customers be reduced from 2.62.% to 1.6%. This lower value is based on the assumption that the peak demand reductions in the 3 core summer months will be 2.62% but the demand reduction in the other months of the year will be comparable to the assumed energy use reduction of 1.25%.
- 3.12 VECC believes that this adjustment is conservative given that no further adjustments are proposed for the likely double counting of the impact of the loss of the Synrecon accounts and the idling of the DDM operations.
- 3.13 VECC also submits that the Board should encourage THI to refine its load forecasting methodology as it accumulates more historical data.

³² VECC #28 a)

4 Operating Costs

- 4.1 VECC notes that the 2008 OM&A costs provided in the December 15, 2008 Update were provided, on a projected basis, as \$1,626,967.³³ VECC further notes that this same figure was provided as being the 2008 OM&A costs in response to Board staff IR #18 c)³⁴ and appears to be treated as an actual figure in THI's argument-in-chief.³⁵
- 4.2 VECC submits that the actual 2008 OM&A costs should be supplied by THI in the event that they materially differ from the projection.
- 4.3 On the assumption that the actual 2008 OM&A costs are approximately the same as they were projected to be in December 2008, VECC notes that for the three years, 2006-08 inclusive, OM&A costs were essentially flat for THI.³⁶
- 4.4 VECC notes that in its AIC, THI expresses the increase in OM&A costs to 2009 as representing *"a 23.2% increase [above actual 2006 OM&A costs] over that four year period or 5.4% compounded annual increase."*³⁷
- 4.5 VECC does not understand this figure of 23.2% as calculated by THI: since actual 2006 OM&A costs are reported to be \$1,614,146,³⁸ a 23.2% increase would result in Test Year OM&A expenses of \$1,988,628 – an amount far less than THI is seeking in this proceeding.
- 4.6 VECC further submits that even if one considered the increase in 2009 over 2006 to be an appropriate metric, there are only three years of increases in this interval;³⁹ using the actual 2006 OM&A costs and the requested 2009 costs, VECC calculates that the equivalent annual increase would be approximately

³³ Ex.4/T2/S1 Attachment E

³⁴ Ex.10/T1/S18 page 3

³⁵ On page 6 of the AIC, THI states that the difference between 2008 OM&A costs and proposed 2009 OM&A costs is \$508K, a difference consistent with the 2008 projection provided in December 2008.

³⁶ Ex.4/T2/S1 Attachment E, December Update

³⁷ AIC page 6, lines 16-18

³⁸ Ex.4/T2/S1 Attachment E, December Update

³⁹ 2007 over 2006, 2008 over 2007, and 2009 over 2008

9.5% per year.⁴⁰ In VECC's view, however, given the flatness of the numbers over the period 2006-2008, it is more appropriate to describe the increase as a 31.22% increase in 2009 over 2008 projected costs.

- 4.7 THI summarizes the drivers of the \$508K increase in 2009 OM&A costs (over 2008) in its AIC.⁴¹ THI also provided a table showing the cost drivers of the increases in OM&A costs over the period 2006-2009 in response to Board staff IR #18 b). VECC's submissions on these drivers are provided below.
- 4.8 VECC notes that for 2009 over 2008 changes, THI attributes increases of \$47.4K and \$86.2K to changes in capitalized fleet and capitalized labour costs respectively. In response to SEC Supplementary IR#23 c)⁴², which asked for an explanation of these variances, THI provided what VECC considers to be a vague response that did not provide sufficient detail to allow VECC to determine whether these OM&A cost drivers were justified. VECC submits that absent justification provided by THI in its reply argument, these cost increases, totalling \$133.6K, should not be approved as legitimate OM&A costs but rather treated as capital costs.
- 4.9 With respect to the cost driver increases that THI asserted in response to Board staff IR #18 b), VECC supports the submissions of Board staff regarding the increases related to (i) the expansion in number of the Board of Directors, (ii) paper and postage costs, (iii) the position of Operations Regulatory Affairs Manager, and (iv) the new CIS system.
- 4.10 With respect to the hiring of two apprentice linesmen, VECC accepts the necessity for succession planning, but submits that THI should be required to establish that their hiring of two apprentices now – leading to a surplus of 2 FTEs in the base year – was economical as compared with alternatives such as (i)

⁴⁰ This is calculated using the 2008 OM&A costs as provided in the December Update along with the \$508K increase referred to in the AIC at page 6.

⁴¹ Page 6, bullet points lines 3-11

⁴² This IR asked for an explanation of the changes due to capitalization of labour and fleet costs as shown in Attachment C to the April Amendment.

waiting for the first vacancy to come closer to being realized and hiring an experienced linesman at that time, and repeating when a second vacancy becomes imminent, or (ii) hiring one apprentice now and prepare to hire an experienced linesman when necessary.

4.11 Further, VECC notes that should an existing linesman (or two) retire during the IRM period, THI will realize cost savings – not through productivity increases, but by loading the base year rates with excess costs that are not expected to persist. In any event, VECC submits that THI should effectively address this issue in its reply, absent which the Board should disallow the cost of one linesman for the Test Year.

4.12 With respect to the 5% Management Fee, VECC submits that while it may be appropriate to collect some margin to cover overheads associated with costs such as labour costs, it is not appropriate to collect a 5% margin for simply paying bills related to third-party flow-through costs such as regulatory costs, the cost of retaining consultants (for which there are no associated utility or shareholder overhead costs to be borne), taxes and the like. VECC views such services as akin to the services provided by chartered banks allowing for the payment of utility bills and notes that no such margin is charged by the banks for this service.

4.13 Further, VECC notes that even for sophisticated investment services provided by experienced firms managing fund portfolios, a 5% margin (i.e., management expense ratio of 5%) would be considered wildly high.⁴³

4.14 VECC therefore submits that the 5% fee should only be levied on items such as internal labour provided by the shareholder when required to recover an appropriate share of overhead costs from the utility.

5 Losses

⁴³ VECC' views the 5% margin paid for the Board of Directors to be inappropriate.

- 5.1 In its AIC,⁴⁴ THI confirmed that it was proposing a TLF of 1.0420 based on the three-year average DLF and SLF over the period 2005-2007 using the corrected DLFs based on the data provided in response to Board staff IR #30. VECC accepts the loss factor as appropriate.

6 Cost of Capital/Capital Structure

- 6.1 VECC's sole concern on these issues lies with the proposed debt rate of 7.62% that THI seeks to have applied to its deemed long-term debt.
- 6.2 VECC notes that in its August 2008 application, the utility used a long-term debt rate of 6.10%.
- 6.3 VECC notes that the 7.62% rate is the rate set by the Board to apply to actual affiliate variable rate long-term debt and affiliate debt that is callable on demand. Since THI has no actual debt of either or any kind, VECC submits that it is inappropriate to apply the 7.62% to the long-term debt component of THI's deemed capital structure.
- 6.4 VECC submits that the onus is on the utility to justify the use of 7.62% and that THI has not met this onus. VECC's view is that any relevant evidence that could have been provided would likely indicate a rate lower than 7.62%.
- 6.5 VECC submits that without any justification for the use of 7.62% as a deemed long-term debt rate and given the fact that THI has no debt in its capital structure, a figure such as 6.10% or less is appropriate for rate-making purposes. VECC submits that the WACC used to set rates should not reflect a deemed long-term rate greater than 6.10%.

7 Deferral and Variance Accounts

- 7.1 As noted above, THI proposes to dispose of balances in deferral accounts No. 1508, Other Regulatory Assets, No. 1525, Miscellaneous Deferred Debits, and No.

⁴⁴ AIC, page 13, lines 18-21

2425, Other Deferred credits through rate riders over a two-year period. THI's evidence is that the sum of the balances in these three accounts is \$157,402.⁴⁵

7.2 VECC submits that the overall balance approved for recovery should reflect the Board's approved interest rate on deferral balances in each period.

7.3 VECC further submits that the recovery of the balances in these accounts could be spread over 4 years (similar to the proposed amortization of regulatory costs) to mitigate the impact on THI's ratepayers.

8 Cost Allocation

Results of THI's Cost Allocation Informational Filing and Customer Classification

8.1 THI's Cost Allocation Informational Filing produced⁴⁶ the following revenue to cost ratios:

- Residential 125.05%
- GS<50 114.75%
- GS>50-499 63.45%
- GS 500-5000 42.59%
- Street Lighting 342.92%
- Sentinel Lighting 130.28%
- USL 78.24%

8.2 However, as part of its 2009 Application THI is proposing to make to two changes to its customer classification. First, it proposes to split the GS 500-5000 class into two customer classes: GS 500-1499 and GS 1500-5000. Second, it proposes to combine the Sentinel Lighting and USL classes into a single customer class and eliminate the Sentinel Lighting class⁴⁷. Re-running the Cost Allocation Informational filing using these customer classes yields the following results:

⁴⁵ Ex.5/T1/S2 Attachment A. The overall balance represents over \$20 per customer.

⁴⁶ Exhibit 8/Tab 1/Schedule 1, page 6

⁴⁷ Exhibit 8/Tab 1/Schedule 1, pages 5-9

- Residential 126.47%
- GS<50 115.94%
- GS>50-500 63.35%
- GS 500-1499 59.80%
- GS 1500-5000 33.39%
- Street Lighting 348.85%
- USL 75.35%

8.3 THI's rationale for partitioning its current GS 500-5000 customer class is that the costs of serving the two sub-segments are different⁴⁸. Indeed, the revised Cost Allocation results support this premise in that the revenue to cost ratios for the two sub-segments are significantly different (33.39% vs. 59.80%). This suggests that the two segments should not have same the "rates". VECC notes that THI tested alternate break points (e.g. 3,000 kW) and the Cost Allocation results yielded a lower differential⁴⁹. As result, VECC supports THI's proposal to segment this class and agrees that 1,500 kW is the appropriate break point.

8.4 THI's proposal to combine the USL and Sentinel Lighting classes is motivated by the perceived homogeneity of the two classes⁵⁰. THI claims that under the currently authorized rates the distribution charges to Sentinel Lighting and USL customers are approximately the same⁵¹. However, as indicated by the results of THI's initial Cost Allocation filing⁵² – these similar revenues result in significantly different revenue to cost ratios for the two classes (130.28% vs. 78.24%). This result suggests that the customers in the two classes are not similar from a cost causality perspective. As result, VECC submits that the two separate customer classes should be maintained.

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

⁴⁸ Exhibit 8/Tab 1/Schedule 1, pages 5-6

⁴⁹ Exhibit 8/Tab 1/Schedule 1, Table 1

⁵⁰ Exhibit 8/Tab 1/Schedule 1, page 8

⁵¹ Exhibit 8/Tab 1/Schedule 1, page 9

⁵² Exhibit 8/Tab 1/Schedule 1, Table 1

8.5 In its Final Argument, THI provided a summary of the Cost Allocation run results it used as the starting point for its 2009 rate proposal. The associated Revenue to Cost Ratios are:

- Residential 123.74%
- GS<50 110.57%
- GS>50-499 56.68%
- GS 500-1499 53.75%
- GS 1500-5000 34.67%
- Street Lighting 317.37%
- USL 74.91%

8.6 THI has used the distribution (percentages) of revenue requirement from this Cost Allocation run (adjusted for miscellaneous revenues) to determine what portion of the 2009 base distribution revenue requirement would represent 100% cost responsibility for each customer class⁵³. VECC has four concerns regarding this approach.

8.7 First, VECC has been unable to reconcile the Revenue to Cost ratio and the Service Revenue and Miscellaneous Revenue values reported in the Final Argument⁵⁴ for each customer class with any of the Cost Allocation run results filed in the original application or during the IR process. Furthermore, contrary to what the Final Argument suggests⁵⁵, it appears from the values reported that the Cost Allocation run used does not reflect the Board's preferred treatment of the Transformer Ownership Allowance⁵⁶ and was not revised to reflect the number of Street Lighting connections⁵⁷.

⁵³ Final Argument, Appendix C.5, page 1

⁵⁴ Appendix C.5

⁵⁵ Final Argument, page 19, lines 6-9

⁵⁶ The total Service Revenue Requirement reported (\$2,556,087) is consistent with that reported for Cost Allocation runs prior to the removal of the Transformer Ownership Allowance.

⁵⁷ The reported 317.37% is inconsistent with the less than 50% ratio reported

- 8.8 Second, THI is proposing to allocate the “cost” of the transformer ownership allowance solely to the GS 50-499; 500-1499 and 1500-5000 classes⁵⁸. VECC agrees with this change and notes that it is consistent with the approach approved for a number of distributors’ 2008 and 2009 rates. 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 “cost” of the discount.
- 8.9 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.
- 8.10 To accommodate this change and be consistent with its own proposal, THI’s Cost Allocation results used should exclude the cost of the transformer ownership allowance from the allocation of the revenue requirement to customer classes and, instead allocate it directly to the GS>50 classes after the cost allocation adjustments have been completed. THI 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 allowance⁵⁹.
- 8.11 Third, THI’s original Cost Allocation filing used a customer count of “one”⁶⁰ as opposed to the number of Street Lighting connections as required by the Board’s

in response to Energy Probe 40 as a result of using # of connections.

⁵⁸ Final Argument, Appendix C.6, page 1

⁵⁹ Energy Probe #40 a). Note: This revised run also corrects for the treatment of street lighting by using estimated connections as opposed to number of customers.

⁶⁰ Energy Probe #23 c)

Cost Allocation guidelines. In response to Energy Probe #40 a) THI as provided an updated Cost Allocation run corrected for this as well as the transformer ownership allowance. The following table summarizes the resulting revenue to cost ratios:

• Residential	139.17%
• GS<50	121.59%
• GS>50-500	60.64%
• GS 500-1499	42.24%
• GS 1500-5000	9.97%
• Street Lighting	45.81%
• USL	76.20%

It is VECC's submission that these revenue to cost ratios should be considered as being consistent with current rates and used as the starting point for considering any reallocation of costs between customer classes.

8.12 VECC's fourth concern is with THI's use of the class revenue requirement distribution from the Cost Allocation Informational filing to determine 100% cost responsibility for 2009⁶¹. 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 Application⁶².

8.13 One way to get an indication as to the potential for cost shifts is to compare the responsibility for distribution revenue from the Cost Allocation filing with that which

⁶¹ Final Argument, Appendix C.6

⁶² Examples include COLLUS Power (EB-2008-0226) and Bluewater Power (EB-2008-0221)

arises from using 2009 billing parameters and 2008 rates. The following table provides such a comparison.

Comparison of Revenue Responsibility

	<u>2009 @ 2008 Rates</u>	<u>2006 CA</u>
Residential	66.96%	67.92%
GS<50	18.14%	19.33%
GS 50-499	7.42%	7.00%
GS 500-1499	4.38%	2.49%
GS 1500-5000	1.29%	1.17%
Street Lights	1.38%	1.41%
USL	0.43%	0.67%

- 1) Cost Allocation filing based on Energy Probe #40 a)
- 2) 2009 @ 2008 Rates based on Appendix A,
- 3) USL includes Sentinel Lights

8.14 While the revenue responsibility proportions are fairly similar for most classes, there is a significant difference for the GS 500-1499 class and also the USL class⁶³. In VECC's view, where there are such differences that could prove material, 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. 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.

8.15 Indeed, in THI's response to Board Staff IR #32 c) it appeared that THI was proposing to use a very similar approach. However, the Appendices submitted in

⁶³ In each case the 2009 @ 2008 rates value represents a shift in revenue of more than 30%.

support of the Final Argument indicated that the approach taken was as described above in Paragraph 8.12.

8.16 In Appendix B attached to these submissions, 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 THI's proposed values along with the values that would result from applying THI's methodology to the Cost Allocation results as presented in Energy Probe #40 a).

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

	<u>THI's Values</u>	<u>Energy Probe #40 a) Values</u>	<u>VECC's Recommended Values</u>
Residential	51.76%	47.75%	45.67%
GS<50	16.65%	15.80%	14.23%
GS 50-499	13.00%	11.74%	11.86%
GS 500-1499	7.08%	6.09%	10.05%
GS 1500-5000	10.18%	14.53%	14.64%
Street Lights	0.42%	3.15%	2.94%
USL	0.91%	0.94%	0.61%

Sources:

- 1) THI's values - Final Argument Appendix C.5
- 2) VECC's values per Appenedix B

8.17 VECC submits that the preceding Revenue Share values should be used as the reference point for any cost allocation adjustments. VECC notes that in the Decisions issued to date⁶⁴ the Board has indicated that the adjustment recommended by VECC is not required as: a) the revenue responsibility proportions are similar enough and b) an adjustment for the purposes of updating the revenue shares would not be appropriate in the absence of updating other cost allocation factors such as cost drivers. VECC concurs with Board that where the values are similar there may be no need to make an adjustment provided the Board is only targeting for the revenue to cost ratios to be within the bounds of its recommended guidelines – as opposed to moving the ratios to virtually 100%. However, VECC respectfully disagrees with the Board's second point and notes that it is precisely the fact that the cost allocation factors have not been updated while the loads of the various customer classes have changed that the approach

⁶⁴ For example, Westario, EB-2008-0238, page 28

suggested by VECC is required.

Proposed Revenue to Cost Ratios

8.18 The following Table compares THI's proposal for 2009 with the revenue to cost ratios that THI has indicated result from its Cost Allocation run and those determined using the Cost Allocation run adjusted for the Transformer Ownership Allowance and Street Light Connections (Energy Probe #40 a)).

THI's Proposed R/C Ratio Shifts

	<u>THI CA R/C Ratio</u>	<u>Energ Probe IR #40 a)</u>	<u>Proposed R/C Ratio</u>
Residential	123.74%	139.17%	118.00%
GS<50	110.57%	121.59%	108.00%
GS 50-499	58.68%	60.64%	70.00%
GS 500-1499	53.75%	42.24%	62.00%
GS 1500-5000	34.67%	9.97%	57.00%
Street Lights	317.37%	45.81%	218.00%
USL	74.91%	76.20%	85.00%

1) THI CA Ratio per Final Argument, Appendix C.5

2) Proposed R/C Ratio per Final Argument Appendix C.6, page 2

8.19 THI's general approach is to adjust the revenue to cost ratios over two years such that the final results fall within the ranges specified by the Board's guidelines.

VECC generally agrees with THI's approach with following exceptions:

- Priority should be placed on moving the ratios for classes that are outside the Board's recommended ranges to boundaries of the appropriate ranges. In this regard VECC does not support the reduction in the GS<50 ratio to 108% (less than the 120% upper boundary) when the Residential ratio (at 118%) is higher and exceeds the Board's guidelines (85%-115%).
- VECC does not support moving the USL ratio to 85% unless the increase is required to provide sufficient revenues to reduce other classes ratios to point where they fall inside the range. VECC notes that the USL class (as defined

by THI) includes both typical USL loads as well as Sentinel Lighting. The lower boundaries on the Board's prescribed ranges for these two classes are 80% and 70% respectively.

8.20 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 ratio⁶⁵. 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.

8.21 VECC recognizes that in limited instances 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 and 2009 rate setting processes have adopted an approach that moves the ratios for classes that are below the recommended range to lower limit of their range. Similarly, the ratios for customer classes above the recommended ranges have been reduced to the upper end of the appropriate range. VECC submits that a similar approach should be adopted for THI.

8.22 Based on the revenue to cost ratios set out in Energy Probe #40 a) the values for all of the customer classes fall outside the Board's recommended ranges. Consistent with the preceding comments and these results, VECC submits that the 2009 revenue to cost ratios should be determined as follows:

- The ratio for GS<50 should be reduced to 120% - the upper end of the recommended range for the class.
- The ratios for Sentinel Lighting and USL (Note: VECC earlier recommended

⁶⁵ Page 4

retaining these two classes) should be moved to 70% and 80% respectively. – the lower end of the relevant recommended ranges. If the Board chooses to accept THI's proposal to combine the two classes the ratio should be moved to 80%, as the preponderance of the load in the two classes is USL⁶⁶.

- The GS 50-499 ratio should be increased to 70% (as proposed by THI) and then, in 2010, moved to the lower end of the Board's recommended range (i.e., 80%).
- The ratios for the GS 500-1499 and GS>1500 classes along with the Street Lighting ratio should all be increased towards the lower end of their respective recommended ranges. In the case of the GS 500-1499 and Street Lighting classes it may be reasonable (from a rate impact perspective) to achieve this goal over two year. However, given the relative low starting value for the GS>1500 class, consideration should be given to adjusting this ratio over a four year period. VECC invites THI to address the rate impact of alternate implementation periods in its reply argument.
- The additional revenue achieved from increasing the ratios for the above classes should be used to reduce the revenue to cost ratio for the Residential class. Once the Residential ratio reaches the upper end of its recommended range (115%), any additional revenues should be applied proportionally to reducing the ratios for both the Residential and GS<50 classes.

9 Rate Design

9.1 In its Final Argument,⁶⁷ THI states it proposes to charge the maximum fixed monthly charge permitted by Board policy (i.e., the range established by the Board's Report of Cost Allocation for Electricity Distributors). In its submissions⁶⁸ Board Staff notes that there is nothing in the Board's Application of Cost Allocation for Electricity Distributors (EB-200y7-0667) that prohibits a distributor from increasing its monthly charges as proposed by THI and that the justification hangs on THI's rationale of mitigating the risk of revenue recovery.

⁶⁶ Exhibit 3/Tab 1/Schedule 2, Attachment, page 14

⁶⁷ Page 11

⁶⁸ Page 33

- 9.2 VECC notes that in the 2009 Rate Decisions issued to date the Board has, in situations where the current rates are within the range established by the Board, approved increases in the fixed portion of the Distributor's rates⁶⁹; decreases⁷⁰ in the fixed portion of the rate structure and maintained the existing fixed-variable split⁷¹. The general approach of the Board appears⁷² to be that the choice is within the discretion of the Distributor. As noted in the discussions to date during the OEB's Rate Design Review, there are arguments to be made in favour of an increase in the fixed portion of the rate design⁷³ and arguments to be made in favour of an increase⁷⁴ in the variable portion of the rate design. VECC submits that it is inappropriate to allow a distributor to pick and choose among these arguments to support its particular position.
- 9.3 In VECC's view a more standardized approach is required. VECC submits that, subject to bill impact considerations, when the service charge for a customer class is within the range established by the Board's Report the distributor should be required to maintain its existing fixed-variable split. Based on this approach, VECC submits that THI's proposed fixed-variable split for the Residential class is appropriate.

10 Smart Meters

- 10.1 As noted above, THI is requesting approval to increase its Smart Meter Rate Adder to \$1.00 per metered customer per month.
- 10.2 Board staff's submissions on this issue conclude, in part, that *"...THI has not complied with the Board's Smart Meter Guideline to support an increase of the smart meter funding adder to \$1.00 per month per metered customer."* Staff proposes that the Board either deny this request or approve the increase

⁶⁹ Centre Wellington, EB-2008-0225

⁷⁰ Innisfil, EB-2008-0233

⁷¹ Niagara-on-the-Lake, EB-2008-0237

⁷² EB-2008-0233, page 29

⁷³ One such argument is "revenue stability" as put forward by THI

⁷⁴ One such argument is an improved conservation signal as put forward by Lakeland Power (EB-2008-0234)

conditional on THI providing additional information.⁷⁵

10.3 VECC agrees with staff's analysis and supports the second option suggested by staff given the likelihood that such conditional approval will mitigate the future rate shocks that would otherwise be visited on ratepayers in all likelihood, i.e., the larger future increases required to fund the initiatives as a result of denial of the requested increase in this proceeding.

10.4 VECC suggests should the Board feel it necessary, the Board could also consider giving THI a financial incentive to come into compliance with the Smart Meter Guideline in a timely manner, e.g., by making the effective date of 2009 approved rates dependent on the lag between THI's final submissions and THI providing information to the Board sufficient to comply with the Guideline.

11 Recovery of Reasonably Incurred Costs

11.1 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 27th Day of May 2009

Michael Buonaguro
Counsel for VECC

⁷⁵ Staff submissions, page 23

APPENDIX A**Comparison of Revenue Responsibility**

	<u>2009 @ Current Rates</u>							<u>Cost Allocation Filing</u>	
	<u>Volumes</u>		<u>Rates</u>		<u>Tx</u>	<u>Total</u>		<u>Reported</u>	
	<u>Fixed</u>	<u>Variable</u>	<u>Fixed</u>	<u>Variable</u>	<u>Allowance</u>	<u>Revenue</u>	<u>%</u>	<u>Dx Rev</u>	<u>%</u>
Residential	5942	49583434	11.39	0.0159	0	1,600,529	66.96%	1,553,396	67.92%
GS<50	637	24428744	24.77	0.01	0	433,629	18.14%	442,022	19.33%
GS 50-500	70	101127	111.5	0.8315	462	177,285	7.42%	160,108	7.00%
GS 500-1500	8	53192	1158.16	0.4773	31915	104,657	4.38%	57,005	2.49%
GS 1500-5000	3	88121	1158.16	0.4773	52873	30,881	1.29%	26,839	1.17%
Street Lights	1	3783	1336.76	4.4791	0	32,986	1.38%	32,338	1.41%
Sentinel Lights	79	205	1.18	7.3155	0	2,618	0.11%	n/a	n/a
USL	19	472835	12.38	0.01	0	7,551	0.32%	15,375	0.67%
Total						2,390,136	100.00%	2,287,083	1

- Notes:
- 1) Cost Allocation filing based on Energy Probe #40 a)
 - 2) 2009 @ 2008 Rates based on VECC #32 - With Volumes revised per Board Staff #37
 - 3) Tx Allowance based on Final Argument, Appenedix C.6

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

		Total	Residential	GS <50	GS 50-499	GS 500-1499	GS 1500-5000	Street Light
<u>Cost Allocation Results - Revenue</u>								
#1	Distribution Revenue	2,287,082	1,553,396	442,022	160,108	57,005	26,839	32,338
#2	Miscellaneous Revenue	119,518	85,177	12,090	6,765	3,111	6,984	1,304
#3	Total Revenue	2,406,600	1,638,573	454,112	166,873	60,116	33,823	33,642
#4	Total Revenue %		68.09%	18.87%	6.93%	2.50%	1.41%	1.40%
#5	Dx Revenue %		67.92%	19.33%	7.00%	2.49%	1.17%	1.41%
#6	Misc Revenue %		71.27%	10.12%	5.66%	2.60%	5.84%	1.09%
<u>Cost Allocation Results - Revenue Requirement</u>								
#7	Revenue Requirement	2406600	1177370	373469	275168	142322	339293	73437
#8	Revenue to Cost Ratios		139.17%	121.59%	60.64%	42.24%	9.97%	45.81%
#9	Adjustment Factor for Rev=RR		0.7185	0.8224	1.6490	2.3675	10.0314	2.1829
<u>2009 Rates</u>								
#10	2009 Dx Revenue at Current Rates	2,390,136	1,600,529	433,629	177,285	104,657	30,881	32,986
<u>Determination of 100% Dx Revenue Allocation</u>								
#11	- Misc Revenue (2009 Rates)	106,433	75,852	10,766	6,024	2,770	6,219	1,161
#12	- Total Revenue (@ Current Rates)	2,496,569	1,676,381	444,395	183,309	107,427	37,100	34,147
#13	- Adjusted Total Rev 100% Cost by Class	2,591,447	1,204,536	365,478	302,271	254,330	372,170	74,540
#14	- Adjustment to Reconcile 2009 SRR	3,346,017	1,555,269	471,897	390,285	328,385	480,537	96,244
#15	- 2009 Dx Revenue for 100% R/C Ratio	3,239,584	1,479,418	461,130	384,261	325,614	474,318	95,083
#16	- Dx Revenue Proportions for 100%		45.67%	14.23%	11.86%	10.05%	14.64%	2.94%
#17	- Total Service Revenue Proportions for 100%		46.48%	14.10%	11.66%	9.81%	14.36%	2.88%

Notes:

- #1-#3 - from Energy Probe #40 a)
- #4-#6 - based on values set out in preceding rows
- #7 - from Energy Probe #40 a)
- #8 - based on Row #3/Row #7
- #9 - Based on Row #7/Row #3
- #10 - Based on Appendix A
- #11 - Based on 2009 proposed Misc. Revenues prorated using Row #6
- #12 - Based on Row #10 + Row #11
- #13 - For each Class calculated based on Row #12 x Row #9
- #14 - Each Class' Row #13 value increased by same proportion to yield 2009 Service Revenue Requirement (excluding the Transformer Ownership Allowance)
- #15 - Based on Row #14 less Row #11
- #16 - Based on values in Row #15
- #17 - Based on values in Row #14