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August 20, 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: Canadian Niagara Power Inc.
Application for 2009 Electricity Distribution Rates
Board File No. EB-2008-0224

Please find enclosed the submissions of VECC in the above noted proceeding.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

EB-2008-0224

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 Application by Canadian Niagara Power Inc. – Port Colborne 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)

August 20, 2009

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Vulnerable Energy Consumers Coalition ("VECC")

Final Argument

1 The Application

1.1 Canadian Niagara Power Inc. – Port Colborne ("CNP-PC" or "the Applicant") filed an application ("the Application") with the Ontario Energy Board ("the Board") dated August 15, 2008, for distribution rates and charges effective May 1, 2009. CNP-PC claimed a Test Year distribution service revenue requirement of $5,969,947 (excluding LV costs) and a revenue deficiency based on current rates of $1,137,610.[1]

1.2 During the course of the interrogatory process CNP-PC revised the cost of power and retail transmission rates used in the determination of its 2009 working capital allowance as well as the 2008 and 2009 capital expenditures on meters. These changes result in a revised revenue deficiency (excluding LV costs) of $1,143,742[2].

1.3 In its Argument-in-Chief ("AIC"), the Applicant indicated it was seeking approval of a proposed revenue requirement of $6,030,546, consisting of the originally requested $5,969,947 plus updated incremental regulatory costs of $80,399 (versus the $19,800 initially requested)[3]. VECC notes that the revenue requirement requested in the AIC does not include the revenue requirement adjustments identified by CNP-PC during the interrogatory process. In its Reply Argument, the Applicant should clarify whether or not it is no longer requesting the associated adjustments to its proposed rate base.

1.4 In its Application, CNP-PC also requested disposition of the $25,918 balance in Account 1508 – Other Regulatory Assets.[4]

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[1] Ex.7/T1/S1, page 2.
[2] VECC #38 a)
[3] AIC, pages 1 and 16
[4] Ex.5/T1/S3, page 1

1.5 The following sections contain VECC's final submissions regarding the various aspects of CNP-PC's Application.

2 Rate Base and Capital Spending

Rate Base

2.1 CNP-PC's proposed 2009 rate base is $13,295,618, comprised of average net book value of fixed assets of $10,647,634 and working capital allowance ("WCA") of $2,647,984[5]. VECC notes that the WCA represents almost 20% of the total rate base.

Capital Spending

2.2 Excluding spending on smart meters, CNP-PC's original application included Test Year capital expenditures of $2,674,138 as compared to the spending of $1,128,536 for the Bridge Year and $1,348,711 for 2007[6]. Sustaining capital expenditures for 2009 are in line with those for previous years. The increase is due to increased development and operations capital spending[7].

2.3 The increase in development capital spending in 2009 is primarily attributable to the construction of the Beach Road DS for a cost of $1,616,383 – which is primarily spent in 2009[8]. Furthermore, associated with this project is $830,000 in capital contributions from the Sherkson Shores Resort[9]. CNP-PC has provided justification for the new substation in both its Application[10] and during the oral proceeding[11]. VECC has no issues with CNP-PC's proposed capital spending on the Beach Road DS.

2.4 The increased 2009 operations capital spending is to improve and extend the

[5] AIC, psge 9
[6] Ex. 2/T1/S1,page 2
[7] OEB #2 c)
[8] OEB #4
[9] SEC #32
[10] Ex. 2/T3/S1, App. A. page 10
[11] April 20,2009, page 28

Applicant's SCADA system[12]. Again, VECC has no issues with this proposed spending.

2.5 CNP-PC's initial application included $130,000 and $101,000 of capital spending on meters (excluding smart meters) in 2008 and 2009 respectively[13]. However, in response to OEB Staff Interrogatories[14], this spending was revised to $9,000 in 2008 and $7,000 in 2009 in anticipation of smart meter deployment. The rate base proposed in the Applicant's AIC does not reflect this update and, in VECC's submission, should be revised accordingly.

2.6 Apart, from the preceding adjustment for capital spending on meters, VECC accepts CNP-PC's proposed fixed asset values used to determine the 2009 rate base.

Working Capital Allowance

2.7 CNP-PC has computed the above-mentioned figure for WCA using the Board's rule-of-thumb of 15% of the sum of controllable expenses and the cost of power. In response to interrogatories[15], the Applicant has updated its projected 2009 cost of power expenses to reflect the January 1, 2009 approved wholesale transmission rates and the RPP price forecast per the Board's October 2008 RPP Price Report. These changes increase the working capital allowance by $184,495[16]. As noted earlier (see paragraph #1.3) this change has not been incorporated into the proposed rate base set out in the Applicant's AIC. VECC notes that in its recent Fort Erie and Eastern Ontario Power decisions the Board directed CNP to update the RPP price used to reflect its April 15, 2009 Report and submits that CNP-PC should be directed to do the same.

2.8 In Section 9 of this argument VECC notes that CNP-PC should be directed to revise its forecasted LV costs to reflect Hydro One Networks' approved 2009

[12] Ex. 2/T3/S1, App. A, page 13
[13] Ex. 2.T3/S1, App. A, page 4
[14] OEB #17
[15] VECC #10 b)
[16] VECC #38 a)

rates. VECC submits that the LV cost used in the calculation of the WCA should similarly be updated.

2.9 VECC also submits that CNP-PC is sufficiently large to require a specific lead/lag study prior to the next rebasing, using a similar methodology to the Navigant Study done for Hydro One Networks. VECC notes that for those distributors who have undertaken a lead/lag study the resulting working capital allowance can be reduced by several percentage points (from the standard 15%).

2.10 Based on CNP-PC's originally proposed return on rate base of 7.36%[17], the working capital allowance increases the annual revenue requirement by over $200,000 (even before any allowance for taxes). This means that each percentage point of the 15% working capital allowance would likely increase the annual revenue requirement by more than $14,000. VECC submits that this impact is sufficient to warrant the undertaking of a lead/lag study, particularly when the results will impact the rates for the entire IRM period following rebasing[18]. As a result, VECC submits that the Board should direct CNP-PC to undertake a lead/lag study as part of its next cost of service filing.

3 Load Forecast and Revenue Offsets

Load Forecast Methodology

3.1 For each customer class the energy/demand forecast is established based on annual average use per customer values combined with the projected number of customers (or connections)[19]. For the weather sensitive customer classes an annual weather normalized average use per customer is established.

3.2 CNP-PC developed weather normalized load forecasts for 2008 and 2009 for its Residential and GS<50 classes as follows:

[17] Ex. 7/T1/S1, page 3
[18] For example, a two percentage point reduction for a 4-year rebasing/IRM period would yield a total savings to customers of over $100,000 (i.e., $14,000x2x4)
[19] Ex. 3/T2/S1, page 2

- First, for each class, the actual energy used in each year from 2005 to 2007 was weather normalized based on a utility specific adjustment factor which was calculated as the product of: a) The IESO weather normalization factor for the year (expressed as a percentage) and b) The ratio of the utility's total load for the year divided by its weather sensitive load. For purposes of the calculation, CNP-PC used the load analysis done by Hydro One Networks to identify the proportion of each customer class' load that was weather sensitive[20].
- Average annual usage values for each class were then determined by dividing these results by the number of customer in the class for year. The resulting 2007 average annual use value was used to project the use per customer in 2008 and 2009.
- The projected 2008 and 2009 customer count for each class was developed by applying the average annual growth over 2005-2007 (3 years) to the 2007 customer count[21].

3.3 For the GS 50-4,999 class, CNP-PC broke out of the class a number of sub-populations that were atypical for reasons such as representing a temporary service or a plant that is shutting down, involving embedded generation or being an embedded distributor[22]. A outlook for each of these sub-populations was developed based on a consideration of the circumstances associated with each[23].

3.4 For the balance of the GS>50-4,999 class, average actual use per customer for 2007 is combined with the forecast customer count to project the sales for 2008 and 2009. The result is then weather adjusted based on the 2007 weather normalization factor[24].

3.5 For the non-weather sensitive classes, forecast sales were developed as follows[25]:

- For each class (Street Lighting, Sentinel Lighting and USL) forecast average

[20] Ex. 3/T2/S1, pages 2-4
[21] Ex. 3/T2/S1, pages 8-10
[22] OEB #37
[23] Ex. 3/T2/S1, pages 11-18
[24] CNP-PC_CustomerandLoadForecast_20080815.xls, Port Colborne>50 kW Detail
[25] Ex. 3/T2/S1, pages 19-21

annual use was based on 2007 actual usage and customer count.

- For each class the 2008 and 2009 customer count forecast was based on the historical growth rate.

3.6 VECC has a number of issues regarding CNP-PC's load forecast methodology. First, the IESO weather normalization methodology captures the weather impacts across the entire province and, in doing so, reflects weather conditions and the amount of weather sensitive load across the entire province. As a result, the factor is not representative of the Port Colborne service area. Indeed, CNP-PC acknowledged this point during the April 20-23, 2009 oral phase of the proceeding[26].

3.7 Second, the specific adjustment factor developed for CNP-PC's service area (i.e., the ratio of total load to weather sensitive load) is problematic for a couple of reasons. One, the definition of "weather sensitive" load assumes that all residential and GS<50 class loads are weather sensitive when this is readily acknowledged as not being the case[27]. Also, the factor works such that the higher the portion of weather sensitive load the lower the weather normalization adjustment, which is a counter intuitive result[28]. Finally, CNP-PC has acknowledged that this factor does not correct for the fact the IESO adjusts for weather conditions that are different than those in its service area[29].

3.8 VECC notes that while recognizing these issues CNP-PC's position is that, overall, the methodology produces intuitively correct results[30]. VECC also acknowledges that the Board has adopted the results of a similar methodology for CNPI's Fort Erie and Eastern Ontario Power service areas[31]. However, VECC submits that the methodology used by CNP-PC is inappropriate. VECC submits that, even it the Board accepts the results of the methodology for rate setting purposes, the Board

[26] Volume 1, page 37 and Volume 3, pages 73-74
[27] Volume 1, pages 33-34
[28] Volume 1, page 42
[29] Volume 1, page 37
[30] Volume 1, page 45
[31] EB-2008-0222/EB-2008-0222 Decision, page 10

should acknowledge the deficiencies in the current approach and encourage CNP-PC to improve its load forecast methodology. To this end, VECC notes that a number of electricity distributors have developed load forecast methodologies that utilize local conditions to produce weather normalized results.

Load Forecast Results

3.9 There are some variations between the actual 2008 year end customer count by class and the forecast value[32]. However, some classes are higher (i.e. Residential) while of other are lower (i.e., GS<50) and the variations are small in percentage terms. Adjusting the customer count forecast to allow for these variations is unlikely to make a material difference. As a result, VECC takes no issue with CNP-PC's 2009 customer count forecast.

3.10 The following Table sets out the historical and forecast per customer usage for the Residential and GS<50. The GS>50 class has been excluded from the analysis due to the atypical sub-populations.

CNP - Port Colborne: Historical and Forecast per Customer Usage

	2002	2003	2004	2005	2006	2007	2008	2009
Residential								
- Volume (kWh)	55,948,133	67,222,437	61,309,778	65,834,052	63,377,413	65,276,604		
- Customers (#)	7,885	7,943	8,064	8,098	8,115	8,131		
- Average Use	7,096	8,463	7,603	8,130	7,810	8,028	8,132	8,132
Average						7,855		
GS<50								
- Volume (kWh)	24,146,580	28,166,788	27,297,710	27,395,952	26,343,975	25,917,221		
- Customers (#)	911	921	962	968	937	930		
- Average Use	26,506	30,583	28,376	28,302	28,115	27,868	27,656	27,656
Average						28,292		

Source: Exhibit3/Tab 2/Schedule 1 - Appendix A

3.11 VECC notes that in its Decision regarding CNPI's Fort Erie and Eastern Ontario Power service areas, the Board focussed on whether alternate available

[32] VECC #35

approaches would yield "preferable results"[33]. Within this context, it is VECC's view that CNP-PC's load and customer forecast is reasonable and should be accepted for purposes of setting 2009 rates. However, VECC submits that this should not be interpreted as an acceptance of the underlying methodology which, as discussed previously, has a number of fundamental flaws.

Revenue Offsets

3.12 Revenue Offsets in 2009 are projected to be $286,000 versus $404,172 in 2008 and $388,072 in 2007[34]. The reduction is attributable to the expectation that there will be no Standby Revenues in 2009. During the course of the oral proceeding CNP-PC explained the basis for this assumption[35] and VECC takes no issue with the forecast.

4 Operating Costs

4.1 In its original Application, CNP-PC's 2009 Operating costs were projected to be $4,155,188 as compared to $4,027.507 for 2008 and $4,153,664 for 2007. In response to OEB #54 c) CNP-PC provided an explanation as to the reasons for the year over year changes. Also, during the course of the proceeding, the Applicant updated its projected Regulatory costs resulting in an increase of $60,599 in the requested 2009 expenses[36].

4.2 VECC initially had concerns regarding the increase in vegetation management costs. However, during the oral proceeding[37] the reason for the increase was explained as was the fact that the increase would be ongoing for the duration of the 3GIRM period. VECC also had concerns regarding the nature of the training cost increase ($52,600) reported for 2007 and why the projected OM&A values for 2008 and 2009 continued to include these costs. However, during the proceeding CNP-PC explained that the reduction for 2008 and 2009 was captured

[33] Page 10
[34] Ex. 3/T3/S1, page 1
[35] April 20, 2009, pages 83-89 and Undertaking JT1.2
[36] Increasing from $19,800 (Ex. 4.T1/S1, page 2) to $80,399 (AIC, page 16).
[37] April 20, 2009, pages 59-61

elsewhere[38].

4.3 VECC notes that, in its Decision regarding the Fort Erie and Eastern Ontario Power service areas, the Board accepted Canadian Niagara Power Inc.'s ("CNPI") overall approach for allocating common costs amongst the various service areas.[39]

4.4 In general, with the exception of the regulatory costs (which are discussed immediately below) and the lease costs (which are discussed in Section 7), VECC has no concerns regarding CNP-PC's projected OM&A costs.

4.5 During the course of the proceeding, CNPI increased the regulatory costs it was seeking to recover for all three service areas from less than $180,000 to $475,000[40]. The amount attributable to the Port Colborne service area increased from $59,400 to $241,197[41]. VECC notes that the claimed legal costs for CNP-PC are now $134,901 versus the $25,000 in the original application. CNP-PC has attempted to explain the increased costs and, in doing so, has pointed to its January 16th correspondence concerning interrogatories; the SEC motion and the separate oral hearing on the operating lease.

4.6 In VECC's view this amount is excessive. VECC notes that the January 12th correspondence concerned interrogatory responses for all three service areas and should really be considered as part of the response process for the second round of IRs. VECC also notes that the request is considerably higher than the $100,000 approved by the Board for Fort Erie and the $75,000 approved by the Board for Eastern Ontario Power[42]. There is some justification for a higher amount given the motion and the addition oral hearing day. However, in VECC's view this does not justify costs that are $140,000+ in excess of those approved for Fort Erie and

[38] April 20, 2009, page 70.
[39] EB-20080-0222/EB-2008-0223, page 11
[40] The $180,000 based on Ex 4/T1/S1, page 2 from each of the original applications. The $475,000 is taken from the OEB Decision EB-2008-0222/EB-2008-0223, page 13.
[41] AIC, page 16
[42] EB-2008-0222/EB-2008-0223, page 14

$165,000+ in excess of those approved for Eastern Ontario Power.

4.7 VECC submits that for these additional activities, the Board should provide an additional funding of no more than $20,000. VECC notes that, based on the Board's most senior billing rates for legal counsel[43], this would allow an additional 60 hours of preparation and attendance time for what were effectively three hearing days. As a result, VECC submits that the total regulatory costs for the 2009 application should be no more than $120,000[44]. Amortized over 3 years this would result in 2009 OM&A cost of $40,000 versus the $80,399 currently proposed.

5 Losses

5.1 CNP-PC is proposing a 2009 total loss factor of 1.0382, using a Supply Facility Loss Factor of 1.0052 and a Distribution Loss Factor of 1.0328. Due to recent changes in supply points and use of embedded generation, this proposal is based on the 2007 actual results[45] as opposed to a multi-year average.

5.2 During the course of the proceeding CNP-PC provided a calculation using the 2008 data[46]. However, the results are materially different from those for 2007 and there has been no opportunity to explore the differences and test their reasonableness. As a result, VECC submits that the Board should approve the loss factors as proposed by CNP-PC in its Application.

6 Cost of Capital/Capital Structure

6.1 For the Test Year, CNP-PC seeks a deemed capital structure of 52.7% long-term debt, 4% short-term debt, and 43.3% equity. The Applicant has advised that the short-term debt and the return on equity will be updated using data from *Consensus Forecasts* and the Bank of Canada/Statistics Canada, per the Board

[43] Currently $330/hour for a lawyer with over 20 years experience
[44] Based on the $100,000 level approved for Fort Erie plus the incremental $20.000
[45] Ex. 4/T2/S3, pages 1-3
[46] Undertaking JT1.4

Report.[47] VECC takes no issue with the proposals in respect of short-term debt and return on equity for the Test Year.

6.2 With respect to long-term debt, in its AIC the CNP-PC repeats its original request for 7.62% to be applied to its total affiliate debt – both that issued in 2008 and the new debt to be issued in 2009. However, the AIC goes on to state that the Applicant has no objection to applying the same rationale as was directed by the Board for Fort Erie and Eastern Ontario Power – namely 6.13% for the existing $15 million of affiliate debt and 7.62% for the $6 million to be issued in 2009[48].

6.3 VECC submits that the circumstances for Port Colborne are precisely the same as those for Fort Erie and Eastern Ontario Power and that, as a result, the Board's finding in this case should be the same.

7 Lease of Assets from Port Colborne Hydro Inc. (PCHI)

Amount of Lease Payment Requested

7.1 In July 2001 CNPI and PCHI entered into an agreement whereby CNPI leased from PCHI the existing fixed assets and the inventory valued at $550,000 for a ten year period ending April 15, 2012[49]. The annual lease payment included in the 2009 Rate Application was $1,528,200[50]. It is also VECC's understanding this is the lease expense included in the OM&A cost that CNP-PC has requested in it AIC[51]. However, during the course of the proceeding other amounts were quoted by CNP-PC:

- The responses to SEC #28 and SEC Supplemental #16 both state that the annual lease payment is $1,462,834.

[47] AIC, page 18
[48] EB-2008-0222/EB-2008-0223, pages 21-22
[49] Undertaking JT4.5
[50] Ex 1/T1/S14, Appendix A and JT3,3
[51] VECC notes that the OM&A requested in the AIC is unchanged from that in the original Application except for an increase in Regulatory Expense.

- In response to an Undertaking[52] during the July 16th, 2009 oral proceeding CNP-PC indicated that it is seeking recovery of $1,466,563 for lease payments.

7.2 VECC requests that, in its Reply Argument, the Applicant reconcile the above values and clarify which one it is seeking to recover in its 2009 Rates.

Appropriate Amount of Lease Payment to be Recovered in 2009 Rates

7.3 In its AIC CNP-PC takes the position that it is appropriate to include and recovery the entire cost of the lease in its 2009 rates as an operating expense[53]. VECC has reviewed and generally adopts School Energy Coalition's detailed argument[54] regarding the just and reasonable amount of costs related to the lease that should be included in rates and adds the following observations.

7.4 CNP-PC argues that the "prudent price for a true lease is the price that reflects the value of the leased assets" and then relies on the valuation of the leased assets as prepared at the time of the transaction and used for purposes of obtaining a tax ruling from the Ministry of Finance[55]. VECC has a number of concerns with this rationale.

7.5 First, while CNP-PC claims that the appraised market value of the assets exceeded the net present value of the lease payments[56], the book value of the assets at the time of lease was less than the net present value of the payments[57]. This suggests that the appraised value of the assets exceeded their net book value. However, this appraised value was never reviewed by the OEB for the purpose of setting rates and during the course of the current proceeding CNP-PC expressed concerns regarding the condition of PCHI's assets at the time of the lease[58]. In VECC's view these comments bring into question the validity of using

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[52] JT4.8
[53] Pages 32-36
[54] See Section 2 of the SEC Argument.
[55] AIC, pages 32-33
[56] AIC, page 33
[57] July 16, 2009 Transcript, page 103
[58] Page 8 in the Redacted July 16th Transcript. Additional comments can also be found on pages 56, 67, and 70-71 of the UnRedacted transcript.

the untested appraisal with results higher than net book value for rate setting purposes. Also, VECC notes that a portion of the original assets covered by the lease have been replaced due to condition or storm damage without any adjustment to the lease payments[59]. VECC submits that this also brings into question the use of an appraisal undertaken at the start of the lease to justify 2009 costs. Overall, it is VECC's view that the Appraisal Report prepared in March 2001[60] cannot be used to determine the market value of the assets associated with the lease payments.

7.6 Second, CNP-PC argues that the use of costs as opposed to market value in determining the appropriate amount to be included in rates is restricted to the circumstance of a utility acquisition. VECC disagrees. CNP-PC's current application is a "cost of service" (not a value of service) based application and therefore the underlying costs are relevant. VECC also notes that PCHI is a licensed owner of distribution assets[61] and there is an argument to be made that the charges it makes under the lease arrangements should be subject to an order of the Board under Section 78 of the OEB Act. Under such circumstances the reasonableness of the charges would be subject to a cost of service based evaluation. It may be reasonable to posit that CNP-PC is indirectly seeking such an order by virtue of including the lease costs in its revenue requirement. However, this should not alter the basis upon which the charges should be judged as just and reasonable. VECC submits that "cost of service" is the appropriate basis for such an assessment.

7.7 In its argument[62] SEC has offered a number ways of establishing a just and reasonable charge for the lease based on cost of service principles. VECC suggests that approach (a) which is based on a "cost of service" treatment of PCHI's assets is likely the most reasonable and straightforward approach to use. However, the VECC notes that CNP-PC's calculations in JT4.7 need to be

[59] July 16th, 2009 Transcript, pages 90-92
[60] SEC Supplemental #12, Appendix D
[61] July 16th, 2009 Transcript, page 17
[62] SEC Argument, Paragraph 2.5.2

updated to reflect:

- The Board's ultimate decision regarding the 2009 cost of debt and equity.
- The fact that the analysis undertaken by CNP-PC fails to account for the revenue requirement impact that treatment of the lease cost as an "expense" has on the WCA calculation.
- The PHCI assets that have been removed from service due to the 2006 storm damage[63].

VECC notes that all of these revisions are likely to reduce the "cost of service" value of the lease.

7.8 Finally, CNP-PC argues that the differential between cost and the actual lease payment is reasonable because Port Colborne's rate payers have benefitted from the lease arrangement relative to what their rates would have otherwise been. In VECC's submission it entirely irrelevant (and also speculative) as to what the costs and rates would have otherwise been. A cost of service application considers the cost incurred by the distributor (owner and/or operator) to distribute power, not what the costs would have been under alternative supply arrangements. Furthermore, to the extent CNP-PC had to invest capital in the utility to resolve the problems identified, these costs are reflected in the rate base put forward in the Application.

Treatment of Inventory

[63] VECC #4

7.9 As noted previously the lease included $550,000 in inventory. It is VECC's understanding that the analysis provided by CNP-PC in JT4.7 only deals with the cost of service implications of the leased fixed assets. If this is not the case and the analysis includes the value of inventories, then the allowed level of working capital (as discussed in Paragraph 2.7) would need to be reduced by $550,000.

8 Deferral and Variance Accounts

8.1 In the original Application CNP-PC proposed that only the balance in Account #1508 be disposed of for 2009 rates and that the recovery period be one year[64]. In its AIC[65], the Applicant reiterated its proposal to dispose of only the balance in Account #1508.

8.2 VECC notes that in its Decision[66] regarding the Fort Erie and Eastern Ontario Power service areas, the Board approved recovery of only the Account #1508 balance although CNPI has indicated it was amenable to clearing all of the accounts. Based on this precedent, VECC submits that the Board should approve CNP-PC proposal for recovery of only the Account #1508 balance.

8.3 VECC notes that in neither its original application nor its AIC has CNP-PC requested the approval of any new deferral/variance accounts.

9 Cost Allocation

Results of CNP-PC's Cost Allocation Informational Filing

9.1 CNP-PC's Cost Allocation Informational Filing produced[67] the following revenue to cost ratios:

- Residential: 93.42%
- GS < 50: 89.36%
- GS 50-4,999: 167.08%

[64] Ex. 5/T1/S1, page 1
[65] Page 17
[66] Pages 16-17
[67] Ex. 8/T1/S1, page 1

- USL: 61.43%
- Sentinel Lighting: 49.58%
- Street Lighting: 29.39%
- Backup/Standby: 5.56%

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

9.2 CNPI has used the shares (percentages) of revenue requirement from its 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 class[68]. However, for 2009 CNP-PC, is not forecasting any revenue associated with the Backup/Standby customer class[69]. As a result, CNP-PC combined the distribution costs and miscellaneous revenues allocated to the Back-Up Standby class with those associated with the GS>50 class.

9.3 However, CNP-PC used the revenue to cost ratios from the original CA Filing to guide its determination of the appropriate revenue to cost ratio adjustments. When asked why it did not use the result of a revised CA Run where the two classes would be combined CNP-PC stated that the results would be virtually the same[70]. Subsequently, the results of the "re-run" provided in the response were determined to be incorrect and when corrected produced the following results[71]:

[68] CNP-PC_DxDesign_20080815_R1.xls, Tab – Cost Allocation Review
[69] Ex. 8/T1/S2, page 3
[70] VECC #30 b)
[71] VECC #46

- Residential: 93.23%
- GS < 50: 88.94%
- GS 50-4,999: 138.05%
- USL: 61.39%
- Sentinel Lighting: 49.59%
- Street Lighting: 29.39%

VECC notes that the corrected results for the GS>50 class are materially different and submits that the starting point for any consideration of revenue to cost ratios should be based on a "run" where the two classes are combined.

9.4 In addition to the treatment of the Backup/Standby class, VECC has four concerns regarding the overall approach used by CNP-PC in using its 2006 Cost Allocation Informational filing results to develop 2009 rates. First, VECC notes that the reported proposed revenue to cost ratios are calculated based on each class' proposed distribution revenues relative to its allocation of the base distribution revenue requirement – where both the numerator and the denominator exclude miscellaneous revenues[72]. In contrast, the revenue to cost ratios calculated in the Cost Allocation Informational filing are based on total Service Revenue Requirement (including miscellaneous revenues)[73]. CNPI has acknowledged that the different treatment of miscellaneous revenues will yield different revenue to cost ratio results[74]. VECC recognizes that the differences may not be that great and the implications minor provided the Board is not trying to target revenue to cost ratios that are virtually 100%.

9.5 Second, CNP-PC has included the charges from HON for LV (now ST) service in the base distribution revenue requirement to be allocated. VECC notes that this is contrary to the revenue requirement definition used in the Cost Allocation Informational filing[75]. While the costs are subsequently backed out, this

[72] April 20, 2009 Transcript, pages 94-95 and CNP-PC_DxDesign_20080815_R1.xls, Tab – Cost Alloc Revenue Distribution
[73] April 20, 2009 Transcript, page 94
[74] April 20, 2009 Transcript, page 95
[75] VECC #32 a)

adjustment does not remove the costs on the same basis they were allocated[76]. Again, VECC acknowledges the differences may not be great but notes that CNP-PC has agreed that the correct calculation could be included in its rate derivation[77].

9.6 VECC's third concern is with CNPI's use of the class revenue requirement distribution from the Cost Allocation Informational filing to determine 100% cost responsibility for 2009[78]. 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 loads and customer count by class. If these relative values change then so will the relative cost responsibility (and revenue 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 Application[79].

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

[76] April 20, 2009 Transcript, pages 89-91
[77] April 20, 2009 Transcript, pages 89-91
[78] CNP-PC_DxDesign_20080815_R1.xls, Tab – Cost Allocation Review and Ex. 9/T1/S1,page 13
[79] Examples include COLLUS Power (EB-2008-0226) and Bluewater Power (EB-2008-0221)

Distribution Revenue Responsibility

	@2008 Rates	CA Study
Residential	54.043%	54.534%
GS<50	12.564%	13.192%
GS>50	32.069%	31.074%
USL	0.268%	0.308%
Sentinel L	0.025%	0.028%
Street L	1.031%	0.865%

Source: 2008: January 16, 2009 Ogilvy Renault Letter
2006: VECC #46

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

9.9 VECC submits that in CNP-PC's case the revenue responsibility proportions are fairly similar for most classes and there may be no need to make such adjustments provided the Board does not intend to implement revenue to cost ratios that are targeted to be closer to 100% than the Board's recommended ranges. However, VECC notes that for the smaller customer classes the differences in the ratios are material in percentage terms (e.g., Sentinel Lighting where there is a 12% difference and Street Lighting where there is a 19% difference). Unless VECC's suggested alternative approach is adopted, this difference will manifest itself and should be taken into account when the consideration of rate impacts are factored into the revenue to cost ratio adjustments.

9.10 Fourth, CNPI is proposing to allocate the "cost" of the transformer ownership allowance solely to the GS >50[80]. 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.

9.11 In principle the discount is an intra-class issue for those classes where some customers own their transformer and other don't. The Cost Allocation model recognizes that some customers own their transformers. However, unless a discount is introduced for these customers (and paid for by the other customers in the same class) those customers in the class who own their transformer will pay too much and those who don't will not bear full cost responsibility for the transformers they use.

9.12 To accommodate this change and be consistent with its own proposals, CNP-PC'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. CNP-PC provided a revised version of its Cost Allocation Informational filings that attempted to follow this approach[81]. However, the Applicant neglected to remove the lost revenues associated with the transformer ownership discount from the GS>50 distribution revenues. This is readily evidenced by the fact that the total Revenues do not equal the total Revenue Requirement and the difference is precisely equal to the value of the 2006 transformer allowance[82]. CNP-PC has acknowledged this deficiency[83] and

[80] VECC #31 c)
[81] VECC #31 d)
[82] The 2006 transformer ownership allowance values can be found on input sheet I3 of the relevant Cost Allocation filing run.

the following Table summarizes the revenue to cost ratios by class if this correction is made[84]:

CNP-PC's Cost Allocation Informational Filing Adjusted for Transformer Allowance

Class	Total Revenue	Total Cost	R/C Ratio
Residential	$2,722,564	$2,874,787	94.70%
GS<50	$659,437	$723,348	91.16%
GS>50	$1,322,741	$995,971	132.81%
USL	$20,055	$33,538	59.80%
Sentinel Lights	$1,387	$2,597	53.41%
Street Lights	$45,119	$141,062	31.99%
Total	$4,771,303	$4,771,303	100.00%

Sources: For all classes but GS>50 - VECC #31 d)
For GS>50 - VECC #31 d) - with distribution revenue reduced by $136,729 to account for TOA and Backup/Standby
Miscellaneous Revenues and Costs added to those for GS>50

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

Proposed Revenue to Cost Ratios

9.13 CNP-PC's general approach in developing its proposed revenue to cost ratios for 2009 was to attempt to move the ratios for those classes who were outside the Board's recommended ranges closer to the range/within the range while respecting the Board's bill impact criteria[85].

9.14 The following Table compares the CNP-PC's proposal for 2009 revenue to cost ratios with the revenue to cost ratios CNP-PC has indicated result from its Cost Allocation run and those determined using the Cost Allocation run adjusted for the Transformer Ownership Allowance (per paragraph #9.12).

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[83] January 16, 2009 Ogilvy Renault letter, page 9
[84] Note: The following table also combines the results for the GS>50 and Backup/Standby classes as previously discussed
[85] April 21, 2009 Transcript, page 19

CNP's Proposed R/C Ratio Shifts - Rate Harmonization

	CNP CA R/C Ratio	VECC Starting Point	Proposed R/C Ratio
Residential	93.42%	94.70%	93.43%
GS<50	89.36%	91.16%	89.39%
GS>50	167.08%	132.81%	135.58%
USL	61.43%	59.80%	52.21%
Sentinel Lights	49.58%	53.41%	63.46%
Street Lights	29.39%	31.99%	38.69%

1) CA Ratio per Ex. 8/Tab 1/Schedule 2, page 1
2) VECC Starting Point - See preceding Table
3) Proposed R/C ratio per Exhibit 8/Tab 1/Schedule 2, page 3

9.15 VECC agrees with the general approach adopted by CNP-PC for both the GS<50 and Residential classes – which is to retain the current revenue to cost ratio. In both cases the current ratio is well within the Board's recommended range and there is no justification to increase it further.

9.16 CNPI has indicated that in the case of the USL, Street Lights and Sentinel Lights classes the movement in the revenue to cost ratios was limited by the objective of restricting the total bill impacts for the customers in these classes to no more than 10%[86]. VECC notes that in its Decision regarding Fort Erie and Eastern Ontario Power, the Board rejected this approach and directed the Applicants to move the ratio 50% of the way to the lower boundary of the Board's policy range[87]. Given this precedent, VECC would consider a similar approach reasonable in the case of CNP-PC's Street Lighting and Sentinel Lighting classes.

9.17 For both of these two customer classes the revenues at current rates represents a higher percentage of overall revenues than it did in the Cost Allocation Informational filing. This would suggest that a comprehensive cost allocation would allocate more costs to these classes than CNP-PC has done using the 2006

[86] Ex. 9/T1/S1, pages 19, 21 and 23
[87] EB-2008-0222/EB-2008-0223, page 32

CA results. As a result a 50% move in one year is not overly aggressive.

9.18 However, in the case of the USL case the opposite situation exists and revenue at current rates represents a smaller proportion of total revenues than it did in the 2006 CA Run. This is due to the fact that this class has experienced virtually no load growth[88]. This would suggest that a comprehensive cost allocation would allocate less costs to this class than CNP-PC has using the 2006 CA results and the 50% move based on the CA results may be overly aggressive. VECC recommends that for this class the ratio be adjusted (from VECC's starting point) by 1/3 of the way to lower boundary in each of the next 3 years (i.e., 2009, 2010 and 2011).

9.19 VECC agrees that any additional revenues from rebalancing the ratios for USL, Sentinel Lighting and Street Lighting should be used to reduce the revenue to cost ratio for the GS>50 class.

10 Rate Design

Residential Rates

10.1 In its Application CNP-PC stated that it was increasing the percentage of costs recovered from the residential monthly fixed charge from 51.5% to 61.2%[89]. However, in response to interrogatories[90] and in its supporting materials[91] the Applicant indicated that percentage of class revenue recovered from the monthly fixed charge was actually proposed to decrease from 61.2% to 51.5%. The proposed residential monthly service charge is $16.57, prior to the smart meter rate adder.

10.2 CNP-PC's rationale is that this change in the fixed/variable split is necessary in order to maintain the Monthly Service Charge at an amount that is consistent with recent increases allowed by the 2nd Generation IRM[92]. In VECC's view this is not a legitimate objective given that the application is based on cost of service. VECC

[88] OEB Staff #69 b)

submits that since the monthly service charge is within the range recommended[93] by the OEB the fixed-variable split should remain unchanged.

LV Costs

10.3 The rates for the CNP-PC service area include an LV rate adder. The proposed adder is based on 2009 forecast LV costs of $20,784[94]. However, this value was developed prior to the Board's Decision regarding Hydro One Networks' 2009 Distribution Rates[95]. VECC notes that the decision reduces the LV charges (e.g., $0.55/kW approved vs. the $0.633/kW value used in the application). VECC submits that CNP-PC should be directed to reduce the LV costs used to determine the rate adder accordingly.

10.4 VECC also notes that the allocation of the LV costs to customer classes is based on allocation factors derived from the 2006 EDR. VECC submits that the allocation factors should be updated to reflect the 2009 forecast RTSR-Connection revenues by customer class. VECC notes that CNP-PC has agreed with this approach[96].

11 Retail Transmission Service Rates (RTSR)

11.1 In its August 2008 Application CNP-PC did not propose to make any changes to its approved RTSR[97]. However, in response to interrogatories[98], CNP-PC filed a proposal for new 2009 RTSR that reflected changes In the provincial uniform transmission rates and the trends in the related variance accounts' balances. In its AIC, the Applicant simply stated it would comply with the Board's direction

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[89] Ex. 9/t1/S1, page 16
[90] VECC #33 e)
[91] CNP-PC_DxDesign_20080815_R1.xls, Tab – Cost Alloc Revenue Distribution
[92] Ex. 9/T1/S1, pages 15-16
[93] VECC notes that, based on CNP-PC's 2006 Cost Allocation filing, the upper boundary for the service charge would be in excess of $25
[94] VECC #5 c)
[95] EB-2008-0187 – Rate Order Decision June 16, 2009
[96] January 16, 2009 Ogilvy Renault Letter, page 12, reference VECC #33 b)
[97] Ex. 9/T1/S1, page 11
[98] OEB #70

regarding RTSR[99].

11.2 Based on the response to the Board Staff interrogatory, costs have exceeded revenues by 4% in the case of Network Service and been roughly equal revenue in the cast of Connection Service[100]. As result, CNP-PC is proposing to adjust the RTSR 7.26% in the case of Network Service (11.26% for the uniform increase and -4% for the trend) and 5.45% in the case of Connection Service (5.45% for the uniform increase and 0% for the trend).

11.3 VECC's only concern with CNP-PC's proposal is that the trend analysis undertaken for the variance accounts does not appear to make any allowance for the fact that RTSR adjustments have not coincided (time-wise) with the adjustments in the uniform transmission rates. This will lead to inherent monthly variances that, in principle, should be excluded from any trend analysis. VECC notes that the "trend adjustments" are not overly significant and that a similar analysis was adopted by the Board for Fort Erie. As result, VECC has not objection to the rates as proposed in response to OEB #70.

12 Smart Meters

12.1 CNP-PC currently collects a smart meter rate adder of $0.27 per metered customer per month[101] and is proposing to maintain the same rate adder for 2009.

12.2 In its original Application, CNP-PC's proposed $0.27 rate adder was based on the fact it was not eligible to conduct discretionary smart meter activities[102]. Subsequently, in its interrogatory responses, CNP-PC indicated that it was authorized to deploy smart meters[103]. However, CNP-PC has not provided the necessary information to support a $1.00 smart meter rate adder in accordance with the Board's Smart Meter Funding and Cost Recovery Guideline[104]. As a

[99] Page 34
[100] OEB Staff #70
[101] Ex. 9/T1/S1, page 10
[102] Ex. 9/T1/S1, page 10
[103] VECC #5 d)
[104] G-2008-0002, pages 9-10

result, VECC submits that continuation of the current rate adder (as proposed by CNP-PC) is appropriate.

13 Recovery of Reasonably Incurred Costs

13.1 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 20th Day of August 2009

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