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January 27, 2010

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-2009-0263
Festival Hydro Inc – 2010 Electricity Distribution Rate Application

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

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

EB-2009-0263

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 Festival 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)

January 27, 2010

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Vulnerable Energy Consumers' Coalition (VECC)

Final Argument

1 The Application

1.1 Festival Hydro Inc. ("Festival," "FHI," "the Applicant," or "the Utility") filed an application ("the Application") with the Ontario Energy Board ("the Board" or "the OEB") on August 28, 2009, under section 78 of the Ontario Energy Board Act, 1998 for electricity distribution rates effective May 1, 2010. The Application requested a distribution revenue requirement of $10,511,581 for the 2010 test year and claimed a revenue deficiency of $979,467[1] based on existing rates. The associated percentage increase in distribution revenues was 11.04%.[2] As a result of issues raised during the interrogatory process, Festival proposed changes to its Application in respect of (i) an estimated annual reduction in ongoing IFRS compliance costs from $25K/year to $14K/year, (ii) additional streetlighting margin of $15K, and (iii) PILS corrections for reclassification of software, inclusion in UCC of the FMV bump, reflecting the projected reduction in the Ontario corporate tax rate, and reflecting the application of the Ontario small business tax rate.[3] The aggregate effect of the proposed changes is to reduce the distribution revenue requirement by $139,694 to $10,371,887 and to reduce the revenue deficiency by $154,678 to $824,790.[4]

1.2 In its Application, Festival has also requested: (i) Approval for revised Retail Service Transmission Rates; (ii) Approval of a revised Low Voltage Cost Recovery Adder; (iii) Continuation of its existing $1.00/customer/month Smart Meter rate adder; and (iv) Approval to dispose of the balances in a number of its Deferral and

[1] Exhibit 6/Tab 1/Schedule 1, page 2
[2] Based on the claimed deficiency of $979,467 and distribution revenues at current rates (excluding miscellaneous revenues) of $8,872,663 – Exhibit 6/Tab 1/Schedule 1, page 2
[3] Board Staff Supplementary IR #48, Appendix B
[4] Ibid. VECC notes that the row labeled "Change" under the row labeled "PILS Correction…" appears to show the cumulative result of all the proposed adjustments and not simply the changes reflecting the PILS adjustment.

Variance accounts.[5]

1.3 The following sections contain VECC's final submissions regarding Festival's Application.

2 <u>Rate Base and Capital Spending</u>

Capital Spending

2.1 Festival's annual spending on capital additions has averaged $2,781,941over the period 2004-2008, ranging from $2,399,343 to $2,822,415 per year.[6]

2.2 Festival's capital additions for 2009 and 2010 are projected to be $3,402,000 and $3,357,000 respectively.[7]

2.3 In its Application, Festival has provided its 2009 Asset Management Plan, which included 2008 Aerial Device Reports and a 2008 System Reliability Report. [8]

2.4 FHI also provided details regarding its planned capital projects for 2009[9] and 2010, along with budgeted capital additions for 2011 and 2012 of $3,391,500 and $3,409,000 respectively.[10]

2.5 In VECC's view, Festival's approach to capital planning is appropriately documented and supported. VECC takes no issue with the proposed capital expenditure estimates as such but VECC believes that the savings in PST which will begin as of July 1, 2010 as a result of the agreement between the federal and

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[5] See Exhibit 1/Tab 1/Schedule 4. With respect to deferral and variance accounts, FHI proposes to remove accounts 1565 "CDM Expenditures & Recoveries" and 1566 "CDM Contra Account" as their balances are offsetting.
[6] See Exhibit 2/Tab 2/Schedule 1, pp 1-5. Note that the 2008 additions shown in this schedule include two accounting changes totaling $1.616M (per Exhibit 2/Tab 2/Schedule 3, p. 25 and Board Staff IR#1 and #2) which are not related to 2008 capital expenditures. This amount is removed from the 2005 capital expenditures shown as "Additions" on page 5 of the schedule in calculating the average annual capital spending for 2004-2008.
[7] Ibid, pp 6-8
[8] Exhibit 2/Tab 3/Schedule 2, Appendix A
[9] Exhibit 2/Tab 2/Schedule 3,pp 26-31
[10] Exhibit 2/Tab 3/Schedule 1

provincial government to harmonize the GST and the PST should be reflected in the 2010 revenue requirement.

2.6 VECC notes that one method of accomplishing this would be to reduce capital expenditures for 2010 by an estimate of the savings due to harmonization. Following the approach suggested by Energy Probe, VECC submits that an appropriate reduction to capital spending would be $34,500.[11] To hold all parties harmless, a variance account could be established to track any differences between the savings embedded in rates and actual savings.[12]

2.7 In the alternative, if the Board deems that a variance account is not warranted then the 2010 rate base should still be reduced by the forecasted impact of the introduction of the HST.

2.8 With respect to FHI's rate base, VECC notes that in response to Board Staff Supplementary IR #48, Festival indicated that it had revised its proposal from $39,583,651 as filed down to $39,581,974 to reflect reduced estimated IFRS compliance costs and PILS Corrections.

2.9 VECC submits that, subject to an adjustment to reflect HST savings on Test Year capital spending, this rate base is acceptable.

Working Capital Allowance (WCA)

2.10 VECC accepts the methodology used by FHI in calculating the WCA component of rate base but concurs with the submissions of Board Staff regarding the updating the WCA to reflect updated commodity and transmission prices and the Board's determinations in this case regarding controllable expenses and the load forecast.[13]

2.11 VECC further submits that a lead-lag study should be filed with FHI's next rebasing

[11] Energy Probe IR#1 and Supplementary IR#41 b): $11,500x12x0.25 = $34,500.
[12] A variance account could also hold parties harmless for the following three years.
[13] Board Staff Submission, January 22, 2010, page 19.

application to assess the appropriateness of continuing with the "15% option," an option that might generate a figure that bears no relationship to actual working capital requirements or their actual cost.

3 Load Forecast and Revenue Offsets

Load Forecast

3.1 Festival's load forecast methodology consists[14] of three steps:

- First, a weather normalized forecast of monthly system purchases is developed based on a multifactor regression analysis that includes weather, number of customers, economic output and seasonal calendar variables as independent explanatory variables. The regression equation was developed using monthly data for the period 1998-2008.[15] The predicted purchases for 2010 are adjusted to account for the expected addition of two large GS>50 customers.[16]
- Second, the forecast is adjusted for losses to produce a weather-normalized billed energy forecast.
- Third, based on customer count forecasts and trends in non-weather normalized per customer use, forecasts of total (non-weather normalized) use are developed for each customer class. These forecasts are then adjusted (based on the relative weather sensitivity of each class) so that the sum of individual customer class forecasts equals the total billed kWh forecast developed in Steps #1 and #2.

3.2 In terms of the methodology used in Step #1 to develop the total system forecast, VECC's primary concern is that the coefficient for population (one of the explanatory variables used in the analysis) is negative suggesting that purchased load will decrease if the population increases[17]. Festival speculates that the result is due to CDM savings in more recent years and the economic downturn that have

[14] Exhibit 3/Tab 2/Schedule 1, page 5
[15] Exhibit 3/Tab 2/ Schedule 1, pages 6-13
[16] Exhibit 3/Tab 2/Schedule 1, page 12
[17] OEB Staff #6

lead to reduced use even as population grows – thus the negative coefficient[18]. However, this does not resolve the fact that the model yields counter-intuitive results which suggests that the model is improperly specified. In this regard, VECC notes that the Adjusted-R Squared value for the regression equation is only 77.6%, whereas for many electricity distributors using a similar modelling approach the value has been well in excess of 90%. Again, this suggests there is room for improvement in Festival's load forecasting methodology[19]. VECC agrees with Board Staff's submissions[20] that the objective in choosing between various model formulations is not simply to achieve the highest R-Squared or Adjusted R-Squared value but that the resulting equation must also make sense intuitively and the explanatory variables must be significant.

3.3 In Step #3 of Festival's approach, VECC has concerns regarding the process for determining and adjusting what Festival deems to be a "non-weather normalized" forecast so that it reconciles with the forecasted weather normalized use[21]. Festival's forecast of non-weather normalized use in each customer class is calculated based on i) the projected customer count as discussed above and ii) a projected average use per customer which, in turn, is calculated by escalating the actual 2008 per customer use by the average growth rate in the class' per customer use over the 2000-2008 period[22].

3.4 The problem with the second part of this approach is that by using the geometric mean the growth rate calculated only really reflects weather conditions in 2000 and 2008[23]. It therefore, is specifically affected by the weather conditions those two years and does not reflect average weather conditions.

3.5 Also, with respect to Step #3, VECC has concerns regarding the adjustment process Festival uses to reconcile its non-weather normal forecast by class with its

[18] VECC #10 e), Staff #6 and Energy Probe #10 a)
[19] Board Staff #8 a)
[20] Board Staff Submissions, pages 6-7
[21] Exhibit 3/Tab 2/Schedule 1, pages 14-20
[22] Exhibit 3/Tab 2/Schedule 1, pages 17-18
[23] The GeoMean is effectively the compound annual growth rate between 2000 and 2008.

projection of total weather-normalized loads[24]. Festival's assumption that the Residential and GS<50 classes are 100% weather sensitive while GS >50 is only 24% weather sensitive is based on an interpretation of Hydro One Networks weather normalization work to provide data for Festival's cost allocation filing[25]. However, in VECC's view, Festival has not adequately substantiated that Residential and GS<50 customers' loads are 100% weather sensitive[26]. Indeed, VECC submits that it is intuitively obvious that they are not[27].

3.6 In order to check the reasonableness of Festival's projections for the weather sensitive customer classes, the following table compares Festival's projected 2010 per customer use with two historical averages: the 2004 weather normal use calculated by Hydro One Networks for the Utility's Cost Allocation filing and the 2008 weather normalized average use determined using the same methodology. The table suggests that Festival's load forecast (2010-WN) is low when the resulting usage per customer is compared against any of the benchmarks.

Comparison of Average Monthly Use (kWh)

	Average 2003-2008	HON NAC	2008 WN	2010 WN
Residential	8,367	8,549	8,351	7,580
Residential (H)	9,694	9,183	9,943	9,222
GS<50	34,693	46,065	34,758	31,515
GS > 50	1,526,100	1,508,774	1,442,090	1,407,198

Sources Historical Use - Exhibit 3/Taba 2/Schedule 1, page 16
HON NAC - VECC #13 g) - Note these values are suspect as
the IR response reports different values for 2009 and 2010 -
2008 WN - VECC #13 h)
2010 WN - VECC #13 f)

3.7 In response to interrogatories Festival provided various forecasts of <u>total</u> sales

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[24] Exhibit 3/Tab 2/Schedule 1, pages 19-20
[25] VECC #13 d) & e)
[26] VECC #13 e)
[27] Both the Residential and GS<50 classes have lighting loads which are not weather sensitive.

based on alternative load forecasting methodologies. The results are noted below and can be compared with Festival's 2010 forecast[28] for billed energy of 576.87 GWh:

- Board Staff #30 d): Using the 2008 NAC values and forecast 2010 customer counts yielded a result of 600.29 GWh
- Board Staff #30 e): Escalating 2008 usage by the 2008-2010 change projected the IESO for the province overall yielded a result of 567.94 GWh.
- Energy Probe #44: Using a revised version of Festival's regression model that excluded population as an explanatory variable yields a result of 631.07 GWh (after adjustment of 2.058% for losses).

VECC has reservations regarding the values provided in response to the two Board Staff interrogatories.

3.8 In VECC's view none of these forecasts are particularly robust but that it would be reasonable to conclude that the 2010 forecast would fall somewhere within the range of the results. VECC notes that a simple average of the upper and lower values (631.07 and 567.94) produced a value of roughly 600 GWh and submits that this is the value that should be adopted by the Board for 2010. This value should be apportioned to customer classes by retaining Festival's original 2010 forecast values for Street Lights, Sentinel Lights and USL and proportionally adjusting the usage in the balance of the customer classes.

Miscellaneous Revenues

3.9 With respect to its initial pre-filed evidence, FHI explains the fact that 2010 forecast revenue for Street Lighting Capital and Maintenance is less than cost as a timing issue.[29] However, VECC submits that this timing issue should not result in higher rates to electricity consumers. To correct this, VECC submits that the revenues for this activity should be increased to level equivalent to the 2010

[28] Exhibit 3/Tab 2/Schedule 1, Table 15
[29] Energy Probe #17 c)

forecast costs (i.e., $273,609 as per the original filing absent any other changes).

3.10 However VECC notes that since the original filing, FHI has proposed to include a margin to their streetlighting charges[30] and also significantly revised its 2009 Bridge Year and 2010 Test Year projections of Other Distribution Revenues.[31] These latter net revenues originally forecast for 2009 and 2010 at $659,113 and $659,450 have been revised upwards to $685,239 and $695,786 respectively, i.e., the 2010 forecast has been increased by $36,336. VECC submits that, subject to the provisos that (i) these projections do not incorporate revenues that are less than costs due to timing differences and (ii) they include appropriate margin where applicable, then the appropriate 2010 Other revenue should be increased by $36,336 more than is proposed by FHI.

4 Operating Costs

4.1 VECC notes that the increases in OM&A costs have been well controlled overall. However, VECC believes that a number of adjustments should be made for the Test Year, in addition to those proposed by FHI in its response to Board Staff IR #48.

4.2 With respect to the treatment of Fuel Costs and bad Debt Costs, VECC advises the Board that SEC has shared a draft of its argument with VECC and VECC supports SEC's submissions on these issues.

4.3 With respect to the depreciation rate applied to Account 1908, Buildings and Fixtures, VECC supports Board Staff's view that a 50-year life should be used and hence the depreciation expense would be reduced by $7,000 for 2010.[32]

4.4 VECC notes that depreciation expenses will need to be adjusted to reflect any

[30] Board Staff Supplementary IR#48, Appendix B
[31] VECC Supplementary IR#23
[32] Board Staff Submissions, January 22, 2010, page 11

changes in capital additions for 2009 or 2010 from those provided in the updated revenue requirement

4.5 With respect to LEAP costs, VECC supports Board Staff's view that $7,600 should be removed from the Test Year revenue requirement given the September 28, 2009 letter to the Board from the Ministry of Energy and Infrastructure.[33]

4.6 Finally, similar to its submissions made regarding 2010 capital spending, VECC submit that the 2010 OM&A costs should be reduced to account for the planned introduction of the harmonized sales tax July 1, 2010. VECC submits that the best estimate of such savings in evidence is $103,000 for 2010.[34] VECC submits that absent compelling evidence to the contrary, a reduction of this amount to 2010 OM&A is appropriate. VECC submits that a variance account could be established about this estimate to hold parties harmless should the actual savings deviate significantly from this estimate.

5 Payments in Lieu of Taxes

5.1 VECC submits that the changes made per Board Staff IR#48, Appendix B are appropriate but that the final PILS amount included in rates will depend on the Board's determinations in respect of other cost of service components.

6 Cost of Capital/Capital Structure

6.1 Festival's proposed capital structure is consistent with the Board's December 2006 Report and should be accepted by the Board. VECC notes that Festival has also acknowledged that both the cost of short-term debt and the cost of equity will be

[33] Ibid, page 12

[34] Energy Probe IR# 41 b)

updated in accordance with the Board's Guidelines.[35]

6.2 Festival's current long term debt consists of a promissory note with the City of Stratford for $15,600,000 at a rate of 7.25%. Festival has, however, used the Board's deemed rate of 7.62% in the Application as the cost of long-term debt for 2010.

6.3 VECC notes that the Board's December 2009 Report on the Cost of Capital for Ontario's Regulated Utilities states:[36]

> "For debt that is callable on demand (within the test year period), the deemed long-term debt rate will be a ceiling on the rate allowed for that debt. Debt that is callable, but not within the period to the end of the test year, will have its debt cost considered as if it is not callable; that is the debt cost will be treated in accordance with other guidelines pertaining to actual, affiliated or variable-rate debt."

Since the rate on the Promissory Note is 7.25%,[37] VECC submits that this is the rate that should be applicable for 2010 unless the Board's deemed rate is less. In that case, the rate applicable to the Promissory Note would then be the deemed rate for 2010.

6.4 VECC further notes that Festival proposes to borrow $2.5 million dollars in 2010.[38] Furthermore, Festival has indicated that the borrowing will be through Infrastructure Ontario and have a term of 15 years.[39] Although FHI's pre-filed evidence indicates that – at the time – Infrastructure Ontario indicated the rate on such loans was 5.04%,[40] FHI used a rate of 6.0% for its 2010 Application to allow for interest rate volatility.[41] VECC notes that in response to a subsequent interrogatory, FHI indicated that this interest rate had dropped to 4.72%.[42]

6.5 While Festival states that this borrowing is to fund its smart meter activities, the

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[35] Exhibit 5/Tab 1/Schedule 1, pages 1-2
[36] EB-2009-0084, page 54
[37] Exhibit 5/Tab 1/Schedule 3
[38] Exhibit 5/Tab 1/Schedule 3

[39] Ibid
[40] Ibid
[41] Exhibit 5/Tab 1/Schedule 1, page 2
[42] Energy Probe IR#36

Board's December 2009 Cost of Capital report states[43] that for electricity distributors "the Board will rely on the embedded or actual cost for existing long-term debt instruments."

6.6 As a result, VECC submits that Festival's cost of long-term debt for 2010 should be calculated as a weighted average of the rate applicable to its Promissory Note with the City, i.e., 7.25% and the most recent rate quoted by Infrastructure Ontario, i.e., 4.25%.

7 <u>Cost Allocation</u>

Results of Festival's Cost Allocation Study

7.1 Festival has prepared a 2010 cost allocation study using 2010 costs and scaling the various loads used in its 2007 study to match the change in load forecast for each customer class between then and 2010[44]. The key points to note from the results are that the revenue to cost ratios for all of Festival's customer classes are within the Board's Guidelines, except for Residential-Hensall (at 71.52% vs. a 85% minimum); Sentinel Lighting (at 31.4% vs. a 70% minimum); Street Lighting (at 32.88% vs. a 70% minimum) and USL (at 143.83% vs. a 120% maximum)[45].

Use of the Cost Allocation Study Results in Setting 2010 Rates

7.2 For 2010, Festival is proposing to move the revenue to cost ratio for Sentinel Lighting and Street Lighting 50% of the way to the minimum level specified by the Board's guidelines for each class[46]. In the case of the Residential-Hensall class, Festival proposes to increase the revenue to cost ratio by more than 50% of the way to the 85% minimum. The increased revenue is use to reduce the revenue to cost ratios for USL, Large Use and Residential.

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[43] Page 53
[44] Exhibit 7/Tab 1/Schedule 2, page 3
[45] Exhibit 7/Tab 1/Schedule 2, page 4
[46] Exhibit 7/Tab 3/Schedule 2, page 5

7.3 VECC agrees with Festival's proposal regarding the adjustment to the Street Lighting and Sentinel Lighting revenue to cost ratios and notes that it is consistent with the Board's approvals for a number of 2009 rate applications.

7.4 With respect to Residential-Hensall, Festival states that the increase is more than the 50% difference because it intends to eventually harmonize these rates with the normal Festival Residential rates[47]. VECC agrees with Festival's long term goal of harmonizing its Residential rates but submits that increasing the revenue to cost ratios for the Residential-Hensall class is not the correct way to achieve this. Indeed, achieving a 100% revenue to cost ratio for the Residential-Hensall class will not, itself, yield harmonized rates. Eventually, these two Residential classes must be combined into one for purposes of cost allocation and the rate design for each adjusted so as to achieve harmonized rates. This will result in increased rates for Residential-Hensall customer and a nominal reduction in rates for the normal Residential class. In VEC's view, these two customer classes should be merged prior to full harmonization.

7.5 Board Staff queried Festival as to its plans for harmonization, but no specific date was provided[48]. However, based on its stated plans for revenue to cost ratio adjustments, any harmonization will not occur until after 2013[49]. In order to ameliorate bill impact considerations over this period, VECC submits that the 2010 adjustment to the Residential-Hensall class should be no more than 50% of the way to the 85% minimum. VECC notes that this would result in a 7 percentage point adjustment and that similar sized adjustments in each of the subsequent three years would allow the Residential-Hensall class to achieve Festival's target of a 10% revenue to cost ratio by 2013.

7.6 While supporting Festival's move to increase the revenue to cost ratio for the Residential-Hensall class to 100%, VECC wants to emphasize that it does not

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[47] Exhibit 7/Tab 1/Schedule 2, page 5 and Energy Probe #38 b)
[48] OEB Staff #22 b).
[49] Board Staff #42 a). As noted earlier moving Residential-Hensall to 100% R/C ratio will not achieve harmonized rates, particular when the ratio for the normal Residential class is in excess of 107%.

view this as being inconsistent with its position that revenue to cost ratios should not be increased to levels above the Board's established minimum for each class. In this case, what Festival is proposing is similar to an approach whereby:

- The two Residential customer classes are combined for 2010,
- A revenue to cost ratio for the combined class is established and (since it would be in the order to 107%) maintained, and
- The rates for Residential-Hensall customers are increased relative to those for normal Residential customers with the aim of eventually harmonizing the rates.

In this regard VECC notes that the total revenues allocated to the normal Residential and Residential-Hensall classes in each subsequent year (2010 to 2013) is very close to that in the 2010 Cost Allocation[50].

7.7 With this caveat, VECC generally agrees with Festival's proposals with respect to cost allocation for 2010. VECC also agrees with Festival's plans for the IRM period as set out in response to Board Staff #42 a).

7.8 VECC notes that Festival has used the 2010 allocated service revenue requirement to determine what portion of the 2010 revenue requirement would represent 100% cost responsibility for each customer class[51]. Festival has applied its proposed revenue to cost ratios to these values and then removed the miscellaneous revenues allocated by class to determined the base revenue requirement to be recovered by distribution rates. VECC agrees with this approach.

8 <u>Rate Design</u>

8.1 Festival has set the 2010 fixed monthly charge for each class so as to maintain the same fixed/variable split as in the current rates for each customer class[52]. Festival contends that a ceiling has not be established for the monthly service charge and

[50] Exhibit 7/Tab 2/Schedule 2, page 6 and Board Staff #42 a)
[51] VECC #16 a)
[52] Exhibit 8/Tab 1/Schedule 1, page 5

its approach is appropriate even in cases where the results exceed the upper bound of the range established by the Board's cost allocation methodology[53].

8.2 VECC disagrees with the proposition that the Board has not set a ceiling for the monthly service charge. VECC notes that the 3rd paragraph in section 4.2.2 of the EB-2007-0667 Report[54] states:

In the interim, the Board does not expect distributors to make changes to the MSC that result in a charge that is greater than the ceiling as defined in the Methodology for the MSC. Distributors that are currently above this value are not required to make changes to their current MSC to bring it to or below this level at this time.

Based on this paragraph, VECC submits that the Board's expectation is that if the current MSC is below the "ceiling" it should not be increased to a value that is greater than the ceiling (i.e., the upper end of the prescribed range). Furthermore, VECC submits that, based on this paragraph, distributors whose monthly service charges currently exceed the upper end of the range, should not increase them further.

8.3 In the case of both the normal Residential class and the Residential-Hensall class the month service charge established using the current fixed/variable split falls below the ceiling[55] and there is no issue. However, for several of the other customer classes Festival's proposal is inconsistent with the Guidelines including:

- GS<50 class where the proposed monthly service charge is being increased to a value above the calculated ceiling ($30.15 vs. $28.03).
- GS>50 where the current charge exceeds the guideline the proposal is to increase if further (from $209.76 to $238.49)[56].
- Large Use where the current charge exceeds the Guideline and the proposal is to increase if further (from $10,447.04 to $10,977.20)[57].

In the first case the Board should limit the service charge to no more that the ceiling

[53] Exhibit 8/Tab 1/Schedule 1, page 6
[54] Note: Contrary to Festival's response to VECC #17 b) this is not a Staff Discussion Paper but rather a Guideline issued by the Board.
[55] Exhibit 8/Tab 1/Schedule 1, pages 6-7
[56] Board Staff #44
[57] Board Staff #44

value, while in the next two the Board should maintain the existing service charge for 2010.

9 LV Charges

9.1 Festival is proposing to allocate the LV costs to customer classes based the average cost collected from each class over the period 2006-2008[58]. VECC submits that, since load patterns are different in 2010, this approach will result in an inappropriate allocation of costs. The approach generally adopted by the Board in previous decisions has been to allocate LV charges to classes in same proportion as Retail Transmission Connection charges are proposed to be recovered in the test year[59]. VECC submits that a similar approach should be used for Festival's 2010 rates.

10 Losses

10.1 Festival's proposed total loss factor of 1.0307 is based on a 5-year historical average.[60] Given that the historical data exhibits stability, VECC accepts this loss factor as reasonable for the 2010.

11 Retail Transmission Rates

11.1 Festival uses 2008 and partial 2009 billings from the IESO and Hydro One to determine an annualized cost for Networks and Connections and then adjusts this by the July 2009 UTR rate changes to determine the costs to be recovered in 2010. The total is then assigned to customer classes based on the relative amounts collected from each class over the year and a half period considered[61]. In VECC's view this approach is fundamentally flawed for at least two reasons.

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[58] Exhibit 8/Tab 1/Schedule 1, page 11
[59] EB-2008-0238, page 23
[60] Exhibit 8/Tab 1/Schedule 1
[61] Exhibit 8/Tab 1/Schedule 3, pages 2-3

11.2 First by using the "costs" over the period January 2008 to July 2009 to estimate the costs in the test year, the approach fails to recognized that Festival's load forecast for 2010 is less than that for 2008 or the first half of 2009 (when annualized). This can readily be seen from the total customer kWh and kW reported for 2008 and the first half of 2009 versus those for 2010 as reported in Exhibit 8/Tab 1/Schedule 3, Table 13. The lower load forecast for 2010 means that the costs for Networks and Connection Transmission service will also be lower in total.

11.3 The second flaw is that by using the historical shares to allocate the cost and then dividing by the 2010 forecast billing determinants the resulting rate increases vary significantly across the customer classes. This can be seen from the percentage changes reported in Tables 14 and 15[62]. Indeed, in the case of Connection charges some classes actually see rate increases while others experience rate decreases.

11.4 In response to VECC #20 c) Festival has indicated that the average increase for Networks service 4.1% while the average decrease for Connection service is 0.4%. However, the UTR increase for Networks service is only 3.5% and Festival has acknowledged that it has chronically over collected[63]. As result, one would have expected an average increase in the retail charge for Networks service of less than 3.5% - not 4.1%. Similarly, the UTR decrease for Connection service is 2.16%. Again, with the history of over collection[64] one would have expected an average decrease in retail charges of more than 2.16% - not 0.4%.

11.5 In response to VECC #27 b), Festival has confirmed that based on the trends of the first 6 months of 2009 the overpayments for retail transmission service is 12.58% for Networks which, when combined with the July 1st 2009 3.5% increase would suggest a 9.1% reduction in the rate is required. In the same response, Festival also expressed a preference for using a longer period to look a variance

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[62] Exhibit 8/Tab 1/Schedule 3, pages 4-5
[63] Exhibit 8/Tab 1/Schedule 3, page 4 and Table 13
[64] Exhibit 8/Tab 1/Schedule 3, page 4 and Table 13

trends. However, looking at all of 2008 and the first half of 2009 yields an average overpayment by customers of 17.71%[65]. VECC also notes that adding the months of July to September 2009 to the analysis as Festival did in the response causes a problem since the charges from the IESO for these months will already include the 3.5% increase.

11.6 In VECC's view, the adjustment to the Retail Transmission charges should be based on a combination of the percentage of over/under payment over the first six month of 2009 in combination with the percentage change in UTR as of July 1, 2009.

12 Deferral and Variance Accounts

12.1 VECC submits that Festival's proposals for clearing its variance and deferral accounts are consistent with the Board's EB-2008-0046 Report.

12.2 As noted above, VECC believes that the Board should consider the establishment of a deferral or variance account or accounts to capture test year O&M savings and capital savings due to the incipient harmonization of the GST and PST. Further, VECC is supportive of the establishment of a deferral account to track actual, one-time costs of IFRS conversion.

12.3 VECC has no further submissions with respect to this aspect of the Application.

All of which is respectfully submitted this 27th day of January 2010

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[65] Exhibit 8/Tab 1/Schedule 3, Table 13