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January 28, 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-2009-0267**  
**Kitchener-Wilmot 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.

**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 Kitchener-Wilmot 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 28, 2010**

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

**1 The Application**

- 1.1 Kitchener-Wilmot Hydro Inc. ("KW Hydro" or "the Applicant" or "the Utility") filed an application ("the Application") with the Ontario Energy Board ("the Board" or "the OEB") on August 31, 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 \$40,631,182 for the 2010 test year and claimed a revenue deficiency of \$6,157,264<sup>1</sup> based on existing rates. The associated percentage increase in distribution revenues was 18.8%<sup>2</sup>.
- 1.2 On January 12, 2010, following two rounds of interrogatories from Board Staff and Intervenor, KW Hydro filed a Submission-in-Chief which included a revised deficiency of \$5,576,036<sup>3</sup>. Based on this update, the associated required increase in distribution revenues was 17.0%.
- 1.3 In its Application KW Hydro has also requested: (i) Approval for revised Retail Service Transmission Rates; (ii) Approval to collect Lost Revenue Adjustment Mechanism and Shared Savings Mechanism amounts; (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 Variance accounts<sup>4</sup>.
- 1.4 The following sections contain VECC's final submissions regarding KW Hydro's Application.

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<sup>1</sup> Exhibit 1, page 14

<sup>2</sup> Based on the claimed deficiency and distribution revenues at current rates (excluding miscellaneous revenues) of \$32,748,623 - Exhibit 1, page 14

<sup>3</sup> Submission-in-Chief, page 13

<sup>4</sup> Submission-in-Chief, pages 5-7

## **2 Rate Base and Capital Spending**

### *Capital Spending*

- 2.1 In its original Application KW Hydro was forecasting capital spending of \$19,714,100 for 2009 and \$22,457,100 for 2010<sup>5</sup>. This compares with capital spending levels of \$17 M and \$17.6 M in 2007 and 2008<sup>6</sup>. The increased spending in 2009 and 2010 is not due to the incorporation of new renewable generation facilities<sup>7</sup>, but rather to due to the higher spending on transformation facilities, underground distribution facilities associated with system expansion and increased spending on revenue meters<sup>8</sup>. This spending results in capital additions (net of capital contributions) of \$11,228,273 in 2009 and \$27,256,312 in 2010<sup>9</sup>. In support of its capital program, KW Hydro has filed an Asset Management Review and a Long Term Capital Expenditures program<sup>10</sup> as well as detailed descriptions of both the bridge and test years' capital programs. In VECC's view, KW Hydro's approach to capital planning is appropriately documented and supported.
- 2.2 VECC's only comments are with regard to KW Hydro's updated values for 2009 and 2010 capital spending and additions that were provided during the proceeding. In particular, in response to the second round interrogatories<sup>11</sup>, KW Hydro provided revised capital spending projections for 2009 and 2010 of \$15,984,800 and \$23,864,600. The associated capital additions (net of capital contributions) for the two years are now expected to be \$10,403,836 and \$26,558,949 respectively. This will result in a lower gross and net book value for year-end 2009 and an even lower values for year-end 2010 relative to those originally forecast.

- 2.3 Contrary to KW Hydro's position as set out in the interrogatory responses, VECC

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<sup>5</sup> Exhibit 2, Tables #7 and #8

<sup>6</sup> Exhibit 2, Tables 35 and #6

<sup>7</sup> VECC #13 c) & e)

<sup>8</sup> Exhibit 2, Table 1 and Board Staff #1 b)

<sup>9</sup> Exhibit 3, Tables #15 and #16

<sup>10</sup> Exhibit 3, Appendices A and B

<sup>11</sup> Energy Probe #38

submits that this updated information should be taken into account when establishing KW Hydro's 2010 rate base and revenue requirement. The objective in a cost of service rate year is to base the rates on the best information available. In VECC's view, adopting this update is no different than adopting the updated RPP report for purposes of determining working capital as discussed below.

- 2.4 Finally, KW Hydro's 2010 capital spending requirements will be affected by the Province's plans to harmonize its retail sales tax (8%) with the federal goods and services tax effective July 1, 2010 to create a harmonized sales tax (HST). KW Hydro has not made any adjustments for this change<sup>12</sup>. While not addressed in its Submission-in-Chief, in response to Board Staff interrogatory #27 KW Hydro outlined its concerns regarding the establishment of a deferral account for 2010 retail sales tax savings and suggested an alternative way of tracking the savings.
- 2.5 In VECC's view the first issue should be to remove from the 2010 capital spending forecast a reasonable estimate of the retail tax savings anticipated for 2010. KW Hydro has estimated that in 2007 and 2008 it paid an average of \$800,000 annually in provincial sales tax and that 80%-90% of that was associated with capital spending<sup>13</sup>. Given the higher levels of capital spending/additions (and OM&A) projected for 2010 it would not be unreasonable to assume that there was at least \$680,000 in provincial sales tax included in the forecasted 2010 capital additions<sup>14</sup>. Given the harmonization is to effective July 1, 2010, VECC submits that KW Hydro's 2010 updated forecast of capital additions should be reduced by \$340,000<sup>15</sup>.
- 2.6 Given the quantum of the dollars involved and the approximations involved in establishing the \$340,000 value, the Board may wish to consider a requiring a deferral account to track the savings. VECC agrees with the KW Hydro's observation that this is a generic issue and VECC also notes KW Hydro's cautions

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<sup>12</sup> Energy Probe #1 e)

<sup>13</sup> Energy Probe #1 g)

<sup>14</sup> 85% of \$800,000

<sup>15</sup> One half of \$680,000

around the administrative efforts associated with such an account<sup>16</sup>. Overall, VECC agrees with Board Staff's submissions that tracking the savings is warranted but submits that the Board should give consideration to alternative approaches, such as that suggested by KW Hydro. VECC notes that in a future KW Hydro rate case the tracked savings would be trued-up against the retail sales tax savings incorporated into the 2010 rates.

### *Working Capital*

- 2.7 KW Hydro initially used<sup>17</sup> the Board's April 2009 forecast for the RPP price to determine the cost of power component of working capital. In its Submission-in-Chief KW Hydro acknowledged<sup>18</sup> that the working capital calculation should be revised to reflect: i) the Board's October 2009 RPP Report and ii) the weighted forecast cost of RPP and non-RPP volumes. VECC agrees with these revisions and notes that, while not included in KW Hydro's Submission-in-Chief, the impact on working capital is calculated in response to Energy Probe interrogatory #40 d).
- 2.8 KW Hydro has also committed to conducting a lead-lag study prior to its next cost of service filing, currently scheduled for 2014<sup>19</sup>. VECC supports this undertaking and notes that it is appropriate given that a one percentage point change in the current 15% allowance would impact the annual revenue requirement by more than \$100,000<sup>20</sup>.

## **3 Load Forecast and Revenue Offsets**

### *Load Forecast*

- 3.1 KW Hydro's load forecast methodology consists<sup>21</sup> of the following:
- First, develop a multi-variable regression model that relates total system purchases to weather conditions, economic conditions, demographics and

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<sup>16</sup> Board Staff #27 a) & b)

<sup>17</sup> VECC #6 a)

<sup>18</sup> Page 9-10.

<sup>19</sup> VECC #7 c)

<sup>20</sup> VECC # 7 c)

<sup>21</sup> Exhibit 3, page 5

various calendar variables. The regression equation was developed using monthly data for the period 1996-2005<sup>22</sup>.

- Normal weather conditions are determined based on the average heating and cooling degree days by month over the period 1997-2008<sup>23</sup>.
- Using the coefficients for heating and cooling degree days from the regression equation and the difference between actual weather conditions in 2008 and the defined weather normal conditions, a weather normalization adjustment factor is determined for 2008 for KW Hydro's overall purchases<sup>24</sup>.
- Based on the relative weather sensitivity of each customer class (as provided by HON for purposes of KW Hydro's 2007 Cost Allocation filing) and the relative sales to each class in 2008, weather normalized billed energy values are determined for each class for 2008<sup>25</sup> and converted into an average weather normalized use per customer value for 2008<sup>26</sup>.
- Based on assumptions in average energy use trends by customer class and a forecast of customer count for 2010, a forecast of billed energy by customer class for 2010 is then developed<sup>27</sup>.

3.2 While KW Hydro's load forecast methodology may appear similar to that used by a number of the electricity distributors filing for 2009 and 2010 rates based on cost of service in that it starts with a multi-variable regression analysis, overall the methodology is unique. Other distributors have generally used a regression model based on historical data up to 2008 along with forecasts of the relevant explanatory variables to forecast their purchases for 2010. Indeed, some distributors have used their regression model even when the resulting coefficients produced counter intuitive results. In some instances, these forecasts have also been manually adjusted to account for factors the Applicants did not consider as being captured in their models.

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<sup>22</sup> Exhibit 3, page 10

<sup>23</sup> Exhibit 3, page 8

<sup>24</sup> Exhibit 3, page 16

<sup>25</sup> Exhibit 3, pages 22-24

<sup>26</sup> Exhibit 3, page 28

<sup>27</sup> Exhibit 3, pages 31-45

- 3.3 In contrast, KW Hydro has excluded the most recent years (2006-2008) where inclusion of the data would have produced counter intuitive results<sup>28</sup> and used the resulting equations just to normalize historical data by customer class and calculate an historical weather normalized average use value for each class. From this point, its approach tends to mirror more the “NAC” based approach used by many of the distributors who filed for 2008 cost of service based rates. The one exception being that KW Hydro has trended its average use estimates over the forecast period.
- 3.4 VECC agrees that it would be inappropriate to use a model where the resulting coefficients have counter intuitive results to project purchases for future years or even for weather normalization. However, excluding historical years from the analysis is not the optimal approach. KW Hydro argues that since it is using the resulting equation only for weather normalization there is no problem with excluding recent data<sup>29</sup>. VECC disagrees and notes that including more observations in the analysis should produce a more robust estimate of weather effects.
- 3.5 Also, VECC has concerns regarding the determination of weather normalized use by customer class. KW Hydro’s assumption that the Residential and GS<50 classes are 100% weather sensitive while GS > 50 is only 64% weather sensitive is based on an interpretation of Hydro One Networks’ weather normalization work to provide data for KW Hydro’s cost allocation filing<sup>30</sup>. However, KW Hydro’s own data indicates that less than 60% of its Residential customers have air conditioning and less than 20% use electric space heating<sup>31</sup>. In VECC’s view, it is intuitively obvious that Residential (and also GS<50) are not 100% weather sensitive<sup>32</sup>.

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<sup>28</sup> Exhibit 3, page 10

<sup>29</sup> Exhibit 3, pages 10-11

<sup>30</sup> Exhibit 3, page 18 and VECC#16 a)

<sup>31</sup> VECC #16 b)

<sup>32</sup> Both the Residential and GS<50 classes have lighting loads which are not weather sensitive.



- 3.6 Having said this, the calculated 2008 weather normalized average use for each of the three “weather sensitive” customer classes is only marginally lower (between 1% - 1.5%) than the actual average use for each class over the 2006-2008 period<sup>33</sup>. As a result, the 2008 weather normalized average use values calculated by KW Hydro appear to be a reasonable starting point for determining the 2010 load forecast.
- 3.7 VECC also has concerns regarding the customer count forecasts and the assumptions in future average use trends proposed by KW Hydro. In the case of the Residential class, KW Hydro states that customer growth is directly related to population growth<sup>34</sup>. Historically, KW Hydro’s population has grown at 1.56% per annum<sup>35</sup>. At the same time KW Hydro’s Residential customer count has grown at roughly 2% per annum<sup>36</sup>. As KW Hydro’s population is expected to continue to grow at 1.56% per annum<sup>37</sup>, VECC considers the assumed Residential customer count growth for 2008-2010 of 1.5% as being too low<sup>38</sup>. In VECC’s view it would be more reasonable to assume a continued growth of 2%.
- 3.8 A similar issue exists for the GS<50 class where the growth in customers is considered as being linked to residential customer growth and has been between roughly 1.5% and 2% per annum over the last 6 years<sup>39</sup>. KW Hydro is assuming customer count for this class grows at 1% between 2008 and 2010<sup>40</sup>. In VECC’s view it would be more reasonable to assume the growth rate for the GS<50 customer count is at least 1.5% per annum.
- 3.9 KW Hydro may well point to the experience to-date for 2009 which shows that annual growth in customer count from September 2008 to September 2009 was

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<sup>33</sup> This can be seen by comparing the 2008 weather normalized results for 2008 in Exhibit 3, Table 11 with the actual average use results for 2006-2008 reported in Table 12.

<sup>34</sup> Exhibit 3, page 31

<sup>35</sup> VECC #17 a)

<sup>36</sup> VECC #17 a) and Exhibit 3, page 31

<sup>37</sup> VECC #17 b)

<sup>38</sup> Exhibit 3, page 31

<sup>39</sup> Exhibit 3, page 17 a) and Exhibit 3, page 33

<sup>40</sup> Exhibit 3, page 33

1.28% and 1.46% for Residential and GS<50 respectively<sup>41</sup>. However, VECC notes that one would expect lower growth rates in 2009 vs. 2010 as the economy is forecast to move from negative to positive GDP growth<sup>42</sup>. VECC also notes that in justifying its System Expansion to Supply New Development spending, KW Hydro highlights that its service area has been targeted to absorb a significant increase in population and that capacity is required in anticipation of the economic rebound<sup>43</sup>. Therefore, VECC submits that its proposed revisions to the customer count forecast are reasonable.

3.10 In the case of the GS>50 class, KW Hydro is calling for a 0.5% reduction in customer count in 2009 and no change for 2010<sup>44</sup>. VECC notes that as of September 2009 the customer count has declined by almost 1%<sup>45</sup>. While this decrease is higher than that forecast by KW Hydro, VECC notes that KW Hydro is not calling for any increase in customer count as the economy recovers in 2010. Overall, in VECC's view the forecast GS>50 customer count for 2010 is reasonable.

3.11 In terms of average use trends, for the Residential class KW Hydro has assumed a 1% reduction in 2009 followed by a 0.5% reduction in 2010<sup>46</sup>. KW Hydro rationalizes these reductions based on the reported success of its CDM and the OPA's conservation programs. As discussed in Section 12 of this Argument, VECC has concerns that the early CDM results reported by the OPA significantly overstate the conservation actually achieved due to the use of overly optimistic savings assumptions. As a result, in VECC's view a more reasonable approach would be to assume a 0.5% reduction in average Residential use in each of the two years.

3.12 VECC has similar concerns regarding the average use assumptions for the GS<50

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<sup>41</sup> Energy Probe #10 a)

<sup>42</sup> VECC #15 e)

<sup>43</sup> Schools Energy Coalition #3 c)

<sup>44</sup> Exhibit 3, page 35

<sup>45</sup> Energy Probe #10 b)

<sup>46</sup> Exhibit 3, page 31

class. KW Hydro is forecasting a 1% reduction in 2009 and a 0.5% reduction in 2010. In VECC's view the 2010 forecast makes insufficient allowance for the anticipated economic recovery and the change in average use for 2010 should be assumed to be zero<sup>47</sup>.

3.13 With respect to the GS>50 class, VECC notes again that while KW Hydro assumes average use will fall by 2% in 2009 due to the continuing recession, it makes not offsetting assumption in 2010 to recognize the anticipated economic recovery. In VECC's view, it would be reasonable to assume a 1% increase in average use for 2010 given the economy is expected to contract by 3.5% in 2009 and then grow by 2% in 2010<sup>48</sup>. Summarized below are KW Hydro's assumptions and VECC's recommendations regarding customer count and average use growth over the 2008-2010 period for Residential, GS<50 and GS>50:

	<b><u>2009</u></b>		<b><u>2010</u></b>	
	<b>Customer #</b>	<b>Avg. Use</b>	<b>Customer #</b>	<b>Avg. Use</b>
Residential				
- KW	1.5%	-1.0%	1.5%	-0.5%
- VECC	2.0%	-0.5%	2.0%	-0.5%
GS<50				
- KW	1%	-1.0%	1%	-0.5%
-VECC	1.5%	-1.0%	1.5%	-
GS>50				
- KW	0.5%	-2.0%	-	-
- VECC	0.5%	-2.0%	-	+1.0%

<sup>47</sup> Under a "zero assumption" the impact of the economic recovery on average use is just offset by the adoption of new conservation measures.

<sup>48</sup> VECC #14 e)

3.14 For the remaining customer classes, VECC submits that KW Hydro's load forecast for 2010 is reasonable.

#### *Miscellaneous Revenues*

3.15 In its initial Application KW Hydro included Other Operating Revenues of \$1,725,295<sup>49</sup>. This revenue excludes the anticipated revenue of \$70,145 from the embedded distributor<sup>50</sup>.

3.16 In its Submission-in-Chief<sup>51</sup>, KW Hydro makes three adjustments to its Other Operating Revenue forecast: i) Late Payment revenues are increased by \$14,820, ii) Specific Service Charge revenues are increased by \$11,113 and iii) Street Lighting Maintenance and Capital revenues are increased by \$110,284. VECC agrees with all of these adjustments and the resulting Other Operating Revenues forecast of \$1,861,512..

3.17 VECC notes that KW Hydro is proposing to introduce a new charge – "Collection of Account Charge – No Disconnection"<sup>52</sup>. While VECC recognizes the need for such a charge, VECC encourages KW Hydro to ensure that customers are aware of the new charge and advise customers of it as part of the first field visit<sup>53</sup>. Furthermore, the Board should direct KW Hydro not to attempt to recover the charge at the time of the second visit if the bill is paid at that time. Customers who are unaware of the charge may not be able to pay it immediately at the time of this "visit".

## **4 Operating Costs**

### *OM&A Costs*

4.1 In the original Application, KW Hydro's OM&A costs were projected to increase by \$2,038,382 (or 16.8% to \$14,190,476 over the period 2006-2010<sup>54</sup>. In its

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<sup>49</sup> Exhibit 6, Table 1

<sup>50</sup> VECC 32 a)

<sup>51</sup> Page 15

<sup>52</sup> Exhibit 3, page 63

<sup>53</sup> VECC #24 a)

Submissions-in-Chief<sup>55</sup>, KW Hydro reduced its 2010 OM&A by \$163,976. The resulting year over year increase between 2006 and 2010 is 3.64%.

4.2 KW Hydro's \$163,976 reduction in OM&A consists of:

- IFRS Costs – \$43,000 which will be captured in a deferral account.
- Regulatory Costs - \$74,000 in Regulatory costs for an oral hearing on its 2010 Rate Application<sup>56</sup>.
- Leap Funding - \$46,976 based on the Minister's Letter

VECC agrees with these reductions and notes that while the LEAP funding has been removed the proposed OM&A still includes \$18,000 in 2010 for the Heat Bank program<sup>57</sup>.

4.3 VECC has three concerns with respect to the revised OM&A for 2010 as set out in KW Hydro's Submission-in-Chief. The first is with regards to the inflation rate assumed for 2010 for non-labour expenses. In its original Application KW Hydro used an inflation rate of 2.25%<sup>58</sup>. However, in response to Energy Probe 24 c), KW Hydro agreed that the inflation rate should be adjusted to reflect the actual rate established by the Board for 2009. VECC notes that this approach would be consistent with that adopted by the Board in its 2009 rebasing decisions<sup>59</sup>. VECC submits that KW Hydro should be required to update its non-labour costs for the GDP IPI FDD inflation factor adopted by the Board for the 2010 IRM applications. VECC notes that this should be easily done as KW Hydro has indicated that a 10 basis point change is equivalent to \$5,789<sup>60</sup>.

4.4 VECC's second concern is that the costs included in the revised OM&A forecast for 2010 include the amortization of almost \$230,000<sup>61</sup> for Regulatory costs.

VECC has had an opportunity to review submissions of Energy Probe (pages 14-

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<sup>54</sup> Exhibit 4, page 2. Note: The 2010 OM&A includes \$90,000 in donations that are not included in the proposed revenue requirement per VECC #32 b).

<sup>55</sup> Page 16

<sup>56</sup> Note: The \$74,000 had not been amortized over four years in the original Application – per VECC #55 a)

<sup>57</sup> VECC #53 a) & b)

<sup>58</sup> Exhibit 4, page 8

<sup>59</sup> EB-2008-0226 Decision, page 12

<sup>60</sup> Energy Probe #47

<sup>61</sup> VECC #55 a)

15) and agrees with its conclusion that rebasing costs should be reduced from \$228,000 to \$188,000, resulting in a \$10,000 reduction in the test year's costs.

- 4.5 VECC's final concern is with respect to the fact that KW Hydro's 2010 OM&A costs will also be affected by the Province's plans to harmonize its retail sales tax (8%) with the federal goods and services tax effective July 1, 2010. VECC notes that, similar to the circumstances regarding capital spending, KW Hydro has not made any adjustments for this change<sup>62</sup>.
- 4.6 VECC refers the Board to its arguments regarding the impact of the retail sales tax elimination on capital spending and submits that \$60,000 should be removed from KW Hydro's proposed OM&A for 2010 to account for the tax change.

### *Depreciation*

- 4.7 KW Hydro has not used the ½ year rule when determining depreciation expense for 2010 capital additions<sup>63</sup>. VECC notes that the impact (based on KW Hydro's forecast of 2010 capital additions) is \$517,066<sup>64</sup>. KW Hydro argues<sup>65</sup> that there is no direction from the Board requiring the application of the ½ year rule. However, in its submissions<sup>66</sup> Board Staff provides a number of references where direction has been given on this matter by the Board.
- 4.8 Board Staff also makes reference to the recent Sudbury decision where the distributor was given some dispensation with respect to the half-year rule. However, VECC notes that the Board's reasoning was that the asset involved (a CIS system) had a short amortization period and would be largely amortized by the end of the IRM period<sup>67</sup>. This is not the case for KW Hydro's new transformer which has an amortization rate of 2.5%<sup>68</sup>. As a result, VECC agrees with Board

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<sup>62</sup> Energy Probe #1 a) & b)

<sup>63</sup> VECC #56 a)

<sup>64</sup> VEC #56 b)

<sup>65</sup> Board Staff #28 b)

<sup>66</sup> Pages 15-16

<sup>67</sup> EB-2008-0230 Decision, page 28

<sup>68</sup> Exhibit 4, page 54.

Staff's final conclusion<sup>69</sup> that KW Hydro should comply with the ½ year rule.

### *Property Taxes*

- 4.9 In response to Energy Probe #31 a) KW Hydro provided an update on its actual 2009 property tax expense and the forecast for 2010. The estimated property tax for 2009 is now \$394,862 as opposed to the original value of \$529,300<sup>70</sup>. Similarly, the new value for 2010 has been reduced from \$550,000 to \$410,656. VECC submits that the updated value should be used for purposes of setting KW Hydro's 2010 revenue requirement.

## **5 Payments in Lieu of Taxes**

- 5.1 In its Submission-in-Chief<sup>71</sup> KW Hydro acknowledges the need to revise its PILs calculations for a number of specific issues identified during the interrogatory process. VECC agrees with these revisions and submits that KW Hydro should be directed to fully and properly incorporate them into its 2010 revenue requirement.

## **6 Cost of Capital/Capital Structure**

- 6.1 KW Hydro's proposed capital structure is consistent with the Board's December 2006 Report and should be accepted by the Board. VECC notes that KW Hydro has also acknowledged that both the cost of short-term debt and the cost equity will be updated in accordance with the Board's Guidelines<sup>72</sup>.
- 6.2 KW Hydro's current long term debt consists of promissory notes with its shareholders totalling \$76,962,142<sup>73</sup>. The notes are callable with 18 months notice and therefore are not "callable on demand" as defined in the Board's recent Cost of Capital Report<sup>74</sup>. Also, the promissory notes do not specify a debt rate. Rather, the notes direct that the rate will be set at the Ontario Energy Board's

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<sup>69</sup> Page 17

<sup>70</sup> Exhibit 4, page 73

<sup>71</sup> Pages 15 and 18-19

<sup>72</sup> Exhibit 5, page 7

<sup>73</sup> Exhibit 5, page 4

<sup>74</sup> The Board's EB-2009-0084 Report defines debt callable on demand as debt that is callable within the test period (page 54)

“Established Rate”<sup>75</sup> and as such could be viewed as debt with a “variable rate”. In such circumstances the Board’s recent Report directs that the deemed long-term debt rate should act as a ceiling for the allowable rate.

- 6.3 Based on these circumstances, VECC submits that the Board’s (yet to be determined) deemed long term debt rate for 2010 is the appropriate rate to use for for KW Hydro’s existing debt.
- 6.4 KW Hydro has indicated that it is currently in discussions with Infrastructure Ontario for a \$10 M loan to assist with financing its Smart Meter initiative<sup>76</sup>. However, KW Hydro has provided no information regarding the timing of loan or the anticipate debt rate. VECC notes that while the information available is not complete, based on other Applications currently before the Board, the rate for the Infrastructure Ontario loan will likely be less than 5%<sup>77</sup>. As result, VECC submits that it would be more than reasonable to base the average cost of KW Hydro’s long term debt for 2010 on its existing debt and a new loan for \$10 M from Infrastructure Ontario issued half way through the year at a rate of 5%.

## **7 Cost Allocation**

### *Results of KW Hydro’s Cost Allocation Study*

- 7.1 KW Hydro 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<sup>78</sup>. The results were presented in Table 1 of Exhibit 7 of the Main Application. During the interrogatory process, VECC submitted requests<sup>79</sup> that the Cost Allocation be re-run to properly reflect proportion of revenues at existing rates by customer class excluding the transformer ownership allowance and to properly include SSS Admin revenues as

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<sup>75</sup> Exhibit 5, pages 9 and 11.

<sup>76</sup> Board Staff #16 b)

<sup>77</sup> Burlington Hydro’s Application noted a cost of 4.55% {EB-2009-0259, SEC #28 e)

<sup>78</sup> Exhibit 7, page 8

<sup>79</sup> VECC #34 n) and #61 a)



Miscellaneous Revenues. Unfortunately the runs were not performed as requested and, as result, the Revenue to Cost ratios included in the response to VECC #34 and #61 and in the Submission-in-Chief<sup>80</sup> are incorrect and do not represent the “existing” 2010 revenue to cost ratios prior to any adjustments.

- 7.2 In both VECC #61 and the Submission-in-Chief<sup>81</sup>, the reported Distribution Revenues from the Cost Allocation are \$33,105,250 as opposed to the proposed Base Distribution Revenue Requirement for 2010 which (with the Submission-in-Chief revisions) is \$38,254,512<sup>82</sup>. Furthermore, it appears that the distribution revenues used for the GS>50 and Large Use classes have not been reduced to account for the transformer allowance as the Filing Guidelines require.
- 7.3 Based on the information on the record, VECC has determined the revenue to cost ratios that would result if the forecast deficiency was addressed by increasing the current rates for each customer class by the same percentage. The results are set out in the following table.

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<sup>80</sup> Table 12, Column 2.

<sup>81</sup> See Table 12, Column 2

<sup>82</sup> Per Table 11 of the Submission-in-Chief - excluding revenues from the Embedded Distributor.

**CORRECTED 2010 COST ALLOCATION RESULTS**

	<u>2010 Rev @ 2009 Rates</u>	<u>Class Share</u>	<u>Alloc. Of 2010 Base Revenue</u>	<u>Alloc of Misc Rev</u>	<u>Total Rev Alloc</u>	<u>Alloc. Of Rev Req</u>	<u>R/C Ratio</u>
Res	\$16,950,201	0.5232	\$20,014,999	\$1,234,680	\$21,249,679	\$23,416,287	0.907
GS<50	\$4,379,622	0.1352	\$5,171,510	\$257,263	\$5,428,773	\$5,191,542	1.046
GS>50	\$10,031,776	0.3097	\$11,845,640	\$409,699	\$12,255,339	\$10,483,322	1.169
LU	\$457,896	0.0141	\$540,689	\$16,492	\$557,181	\$580,633	0.960
Str Light	\$423,821	0.0131	\$500,453	\$10,506	\$510,959	\$398,840	1.281
USL	\$153,472	0.0047	\$181,222	\$3,017	\$184,239	\$115,545	1.595
Total	\$32,396,788	1.00	\$38,254,512	\$1,931,657	\$40,186,169	\$40,186,169	

Sources: 2010 Rev @ 2009 Rates - VECC 57 a)

Class Share - Based on Share of Revenue at Current Rates

Alloc of 2010 Base Revenue Requirement - Based on Class Share

Base Revenue Requirement - Per Submission in Chief less Embedded Distr (\$70,145)

Alloc of Misc Revenue - per Cost Allocation Run filed with Submission in Chief, page 22

Total Misc Rev - Revenue Offsets pre Submission in Chief plus Embedded Distr (\$70,145)

Alloc of Rev Req - Per Cost Allocation Run filed with Submission in Chief, page 22

7.4 It should be noted that the above results are not that much different from those submitted as the 2010 “existing” ratios in the Original Application<sup>83</sup>. Furthermore, the changes are what one would expect in the revenue to cost ratios (i.e. lower values for GS>50 and Large Use) with the corrected treatment for the transformer allowance.

7.5 Based on these results, it would appear that only the Revenue to Cost ratios for Street Lights (128.1% vs. a maximum of 120%) and USL (159.5% versus a maximum of 120%) fall outside the Board’s recommended ranges.

*Use of the Cost Allocation Study Results in Setting 2010 Rates*

7.6 The revised (but incorrect) Cost Allocation results produced by KW Hydro suggested that the only customer class outside the Board’s Guidelines was USL and in its Submission-in-Chief the Applicant proposed to move this class’ revenue to cost ratio to 110.81%<sup>84</sup>. The only other major change proposed for the revenue to cost ratios was an increase in the Large Use ratio from 96.75% to 100.22%.

<sup>83</sup> Exhibit 7, Table 1

<sup>84</sup> Submission-in-Chief, Table 14

- 7.7 Using the corrected results (per the above Table) as the starting point for 2010, VECC submits that the revenue to cost ratios for both Street Lights and USL should be reduced to 120% - the upper end of the Board's range for each class. In VECC's view there is no need to reduce either class' ratio any further.
- 7.8 As the Residential class has the lowest revenue to cost ratio the shortfall from these adjustments should be recovered from this class. VECC notes that, given the relative size of the revenue requirement allocation to Street Lights and USL versus Residential, this re-allocation of costs will only marginally increase the revenue to cost ratio for Residential.
- 7.9 With respect to the remaining customer classes, VECC submits that there is no reason to adjust their revenue to cost ratios for 2010.

*Embedded Distributor Rates*

- 7.10 For purposes of its 2010 Rate Application KW Hydro did not include its Embedded Distributor customer in the Cost Allocation as a customer<sup>85</sup>. Rather, the costs to be recovered from this customer were calculated separately<sup>86</sup> and treated as Miscellaneous Revenues for purposes of Cost Allocation.
- 7.11 VECC notes that the algorithm used to determine the costs recoverable from the Embedded Distributor does not use the same allocation factors as the Cost Allocation Model. Also, it does not allocate certain costs to the Embedded Distributor (such as General Plant and Meter costs<sup>87</sup>) that would be assigned through the Cost Allocation model. VECC agrees with Board Staff's submissions that KW Hydro should be required to fully integrate the Embedded Distributor into any future cost allocation study<sup>88</sup>.

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<sup>85</sup> Exhibit 7, page 9

<sup>86</sup> Exhibit 3, page 57

<sup>87</sup> VECC #21 d) and #52 b)

<sup>88</sup> Pages 28-29

## 8 **Rate Design**

- 8.1 In its Submission-in-Chief, KW Hydro proposes to maintain the monthly fixed charge for all its customer classes at the 2009 rate with the exception of USL where the rate is being reduced from \$12.59 to \$8.34. Based on the Cost Allocation<sup>89</sup> run filed with KW Hydro's Submission-in-Chief, the 2009 monthly charges for most customer classes exceed the upper limit of the range established by the Board's Guidelines. Only for Residential (\$9.55/month) and Street Lights (\$0.78/month) do the current charges fall below the limit calculated for the class. As a result, for the other classes KW Hydro's proposal is reasonable and should be adopted by the Board.
- 8.2 For the Residential and Street Lights classes, the proposal conforms with the Board's guidelines since the resulting charges are within the Board's Guidelines. However, in VECC's view, a more appropriate and balanced approach would be to base the 2010 monthly service charge on the fixed-variable split that arises from applying the 2009 rates to the 2010 forecast billing determinants for each class, provided the results do not exceed the ceiling established by the Board's Guidelines.
- 8.3 With regard to the "ceiling" established by the Board's Guidelines, VECC has explored this through interrogatories to a number of distributors filing for 2010 cost of service based rates. Based on their responses and further review of the Board's Report, it is VECC's view that
- The original Cost Allocation methodology set a ceiling for the MSC of avoided costs plus allocated customer costs. In the Cost Allocation Model this is referred to as the "Customer Unit Cost per month – Minimum System with PLCC Adjustment".
  - The subsequent Board Staff Discussion Paper proposed that the ceiling be increased to 120% of this value.
  - However, the Board concluded that the ceiling should not be changed but

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<sup>89</sup> See Sheet 02 – Customer Unit Cost per month – Minimum System with PLCC Adjustment

rather the original value from the Cost Allocation methodology should be maintained.

As a result, VECC submits that the upper end of the range prescribed by the Board's EB-2007-0667 Report is the "Customer Unit Cost per month – Minimum System with PLCC Adjustment" as calculated by the Cost Allocation Model (without any 120% mark-up).

## **9 Losses**

- 9.1 KW Hydro's proposed total loss factor of 1.0381 is based on a 5-year historical average<sup>90</sup>. VECC notes that KW Hydro's annual loss factor is reasonably stable over this period and submits that the proposed value should be accepted.

## **10 Retail Transmission Rates**

- 10.1 KW Hydro is proposing to adjust its Retail Transmission Service Rates to account for the UTR adjustment factors set out in the Board's G-2008-0001 (July 2009) Guideline and also to account for an existing over recovery by both Networks and Connections charges versus costs<sup>91</sup>. VECC submits that KW Hydro's proposed adjustments are appropriate.

## **11 Deferral and Variance Accounts**

- 11.1 VECC notes that KW Hydro's proposals for clearing its variance and deferral accounts are consistent with the Board's EB-2008-0046 Report and has no further submissions on this aspect of the Application.

## **12 LRAM/SSM Claim**

### *Background*

- 12.1 KW Hydro is seeking LRAM and SSM recovery of \$832,174 (\$674,100 for LRAM and \$158,074 for SSM), to be recovered over four years. The third-party review of

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<sup>90</sup> Exhibit 8, page 12

<sup>91</sup> Exhibit 8, pages 6-7

the LRAM and SSM calculations was provided in Exhibit 10/Appendix A.

- 12.2 VECC filed extensive interrogatories regarding the appropriate input assumptions used by KW Hydro and its consultants for both the third tranche and OPA programs, pointing out in particular, the Board's Decision with respect to Horizon Utilities' ("Horizon") application for LRAM and SSM recovery, considered under Board file number EB-2009-0192. KW Hydro then filed updated evidence on November 18, 2009. The updated evidence was filed as an Addendum to Exhibit 10 and consisted of a re-calculated LRAM and SSM recovery of \$846,530.12 (\$672,536.83 for LRAM and \$173,993.29 for SSM).

*Board Staff Submission*

- 12.3 Board Staff notes the Board's Guidelines for Electricity Distributor Conservation and Demand Management (the "Guidelines") issued on March 28, 2008 that outline the information that is required when filing an application for LRAM or SSM.
- 12.4 VECC notes that the Guidelines were supplemented by a Letter dated January 29, 2009, which inter alia. adopts the OPA Measures and Assumptions List as the source of input assumptions, instead of the Appendix to the Guidelines.
- 12.5 Board Staff submits that KW Hydro's (revised) application for LRAM and SSM recovery is consistent with the Board's Guidelines and the Board's Decision on Horizon's application (EB-2009-0192) for LRAM and SSM recovery.

*VECC Submission*

- 12.6 As discussed below, the inconsistent use of input assumptions particularly for Mass Market CDM Measures lead to inflated kilowatt hour savings and LRAM claims for Third Tranche CDM programs carried out in 2005-2007.
- 12.7 Whether the Addendum filed on November 18, 2009 satisfies the requirement for support of the revised LRAM/SSM claim and corrects the overstatement of the LRAM is the primary issue. VECC submits that it does not provide the appropriate level of support.

12.8 VECC accepts for LRAM purposes, the OPA verification of OPA-funded CDM programs, with a few observations about the changes that the OPA made to certain mass market measure input assumptions under the Every Kilowatt Counts campaigns between 2006 and 2007.

12.9 Because of the non-retroactivity provision in the Guidelines for SSM claims for third tranche and rate-funded CDM, also VECC accepts the SSM claim as revised. (There is no SSM available to LDCs for OPA-funded programs). However the support provided by KW Hydro for the revised LRAM is inadequate and makes verification of the claim impossible

- *History of LRAM Claims to Date*

12.10 Most LRAM claims filed to date relate to residential and small commercial sector CDM. The programs have been funded either out of third tranche funds or directly from rates and since 2006, by the Ontario Power Authority. In all cases, the majority of the kilowatt hour and peak demand savings and associated LRAM claims relate to installation of “Mass Market Measures” or “Standard Measures”.

12.11 Most utilities filing LRAM claims have used a common set of input assumptions for Residential Mass Market measures. Up to January 29, 2009 these were listed in the Appendix to the Board’s TRC Guidelines for Electric Utility CDM. Post January 29, 2009 the OPA Mass Market Measures and Assumptions List has been used.

12.12 For Multi Residential CDM programs, including Affordable/Social Housing, either Mass Market assumptions are applicable or in some cases Standard Measures were deployed such as for Lighting.

12.13 For the GS<50 kW sector the majority of measures deployed were Mass Market Measures or Standard Measures for which the OPA Commercial and Institutional Measures and Assumptions List is applicable.

- *KW Hydro LRAM Claim Comparison/Verification of Revised Third Tranche CDM*

*Claim*

12.14 The original and amended KW Hydro LRAM and SSM amounts are summarized in Exhibit 10 Page 6 Table 1 and in the Addendum filed November 18, 2009 Page 21 Table 1 Addendum

ENERGY SPECTRUM REPORT, INC.  
EB-2009-0267  
Filed: August 28, 2009  
Exhibit 10 - Page 6 of 32

**Table 1**  
**2010 Test Year - LRAM and SSM Rider**

Rate Class	Amounts (2005 ~ 2007)		Billing Units (2008)		Rate Riders			Four Year Rate Rider
	LRAM	SSM			LRAM	SSM	Total	Total
	\$	\$	kWh	kW	\$/unit (kWh or kW)	\$/unit (kWh or kW)	\$/unit (kWh or kW)	\$/unit (kWh or kW)
Residential	560,784.88	47,444.49	638,167,356		0.0009	0.0001	0.0010	0.0002
GS < 50	13,924.85	15,332.76	233,464,130		0.0001	0.0001	0.0001	0.0000
GS > 50	70,612.44	67,415.72		2,227,288	0.0317	0.0303	0.0620	0.0155
USL	28,777.83	27,881.40	3,287,782		0.0088	0.0085	0.0172	0.0043
<b>Total</b>	<b>674,100.00</b>	<b>158,074.37</b>						

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Addendum Filed: November 18, 2009  
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**Table 1 - Addendum**  
**2010 Test Year - LRAM and SSM Rider**

Rate Class	Amounts (2005 ~ 2007)		Billing Units (2008)		Rate Riders			Four Year Rate Rider	Rate Rider to Use
	LRAM	SSM			LRAM	SSM	Total	Total	Total
	\$	\$		Metrics	\$/unit (kWh or kW)	\$/unit (kWh or kW)	\$/unit (kWh or kW)	\$/unit (kWh or kW)	\$/unit (kWh or kW)
Residential	540,944.26	49,182.13	638,167,356	kWh	0.0008	0.0001	0.0009	0.0002	0.0002
GS < 50 kW	34,654.26	18,783.20	233,464,130	kWh	0.0001	0.0001	0.0002	0.0001	0.0001
GS > 50 kW	68,160.48	78,146.56	2,227,288	kW	0.0306	0.0351	0.0657	0.0164	0.0164
USL	28,777.83	27,881.40	3,287,782	kWh	0.0088	0.0085	0.0172	0.0043	0.0043
<b>Total</b>	<b>672,536.83</b>	<b>173,993.29</b>							

12.15 A further summary of the revised claim broken down into Third tranche and OPA Programs is provided in the (Revised) EnerSpectrum Report- Addendum Exhibit 10 - Page 24 Filed: November 18, 2009



Rate Class	Reported LRAM	Revised LRAM	Variance	Reported SSM	Revised SSM	Variance
<b>Third Tranche</b>						
RESIDENTIAL	\$122,395.29	\$90,572.40	-\$31,822.89	\$86,412.46	\$49,182.13	-\$37,230.32
GENERAL SERVICE <50KW	\$7,944.05	\$24,775.97	\$16,831.92	\$19,416.38	\$18,783.20	-\$633.19
GENERAL SERVICE >50KW	\$14,645.54	\$12,178.15	-\$2,467.39	\$67,415.72	\$78,146.56	\$10,730.84
UNMETERED SCATTERED LOAD	\$28,622.67	\$28,622.67	\$0.00	\$27,881.40	\$27,881.40	\$0.00
<b>OPA Programs</b>						
RESIDENTIAL	\$450,321.94	\$450,371.86	\$49.92			
GENERAL SERVICE <50KW	\$9,878.29	\$9,878.29	\$0.00			
GENERAL SERVICE >50KW	\$55,966.90	\$55,982.33	\$15.43			
UNMETERED SCATTERED LOAD	\$155.16	\$155.16	\$0.00			
			-\$17,393.01			-\$27,132.67

12.16 However the Attachments referred to by Mr. Bart Burman President of EnerSpectrum in his cover letter with the revised Enerspectrum Report have not been filed.

“I trust that this, together with supporting detail binder to be sent shortly, will provide you with the appropriate information and guidance for your needs. For your easy reference, we will also address interrogatories, the responses to which will be found in the supporting detail. Any remaining interrogatories after this cross referencing process has been completed will be addressed as required.”

12.17 Accordingly VECC has been forced to rely on the Responses to its Second Round IRs as the basis of assessing/verifying the changes to the LRAM (and SSM) claims.

- o *LRAM Claim-Third Tranche CDM Programs*

12.18 The revised LRAM claim for the Residential and GS<50 kW classes is shown in detail in the response to VECC IRR#40 (a). This shows the revised load impacts for Third Tranche Programs (no material changes were made to kWh savings from OPA programs). The load reduction data have been compiled in the following table by VECC's consultants:

**Verification of Third Tranche Load Reductions and LRAM Amounts**

<b>Program And Class</b>	<b>As filed kWh/kW 2005-2009<sup>1</sup></b>	<b>Revised TOTAL kWh 2005- 2009<sup>2</sup></b>	<b>Unit Rate \$/kWh<sup>4</sup></b>	<b>LRAM as Filed<sup>1</sup></b>	<b>LRAM as Revised<sup>4</sup></b>
<b>Residential</b>	<b>8,963,650</b>	<b>7,348,095</b>	0.012323	<b>\$110,460</b>	<b>\$90,561</b> ✓
<b>GS&lt;50kW</b>	<b>447,212</b>	<b>447,175</b>	0.00905	<b>\$4046</b>	<b>\$4,046</b> ✓
<b>Cool Shops<sup>3</sup></b>	<b>Not included</b>	<b>2,292,277 kWh</b>	0.00905		<b>\$20,745</b> ✓
<b>GS&gt;50kW</b>	<b>4115 (kW)</b>	<b>[1455.72(k W)?]</b>	3.55	<b>\$14,645</b>	<b>[\$12,178?]</b>
<b>USL</b>	<b>3,174,419</b>	<b>3,174,419</b>	0.0090	<b>\$28,622</b>	<b>\$28,622</b> ✓
<b>TOTAL</b>				<b>\$173,518</b>	<b>[156,149]</b>

*Sources/Notes*

1. Exhibit 10 Page 18 Attachment B August 28, 2009
2. VECC IRR #40 (a)
3. Cool Shops seems to have been reclassified to Third tranche and GS<50 kW
4. Average rate-- results in rounding differences

12.19 VECC has attempted to reconcile the results between the as filed and revised LRAM claims for Third tranche Programs. The result is close for the Residential and the GS<50 kW class, (assuming however that Cool Shops should be (re)assigned to the GS<50kW Class). There is no change to the USL Class claim. However VECC is unable to verify the LRAM result for the GS>50kW class

12.20 KW Hydro should be required to confirm/verify the following and reflect any adjustments in the final rate order:

1. Confirm the third tranche kWh/kW savings shown in VECC IRR 40(a) for the

GS<50 kW class, (including clarifying the assignment of Cool Shops) and  
GS>50 kW

2. Verify the LRAM amounts shown in *the (Revised) EnerSpectrum Report-Addendum Exhibit 10 - Page 24* Filed: November 18, 2009.
3. Ensure the LRAM has been adjusted for carrying charges
4. Revise the Residential and GS<50 kW rate riders to reflect adjusted LRAM amounts
5. Revise the GS>50kW rate rider to reflect the adjusted LRAM amount

- *Third Tranche SSM Claim*

12.21 Based on the lack of supporting information provided by KW Hydro, VECC has been unable to verify the revised SSM claim. Directionally the reduction in the Residential class SSM claim is consistent with the reduced kWh savings. The results for the other classes need more explanation and justification.

**12.22 VECC submits that, at a minimum, the support for the significant changes to the (third tranche CDM) SSM claim should be provided by KW Hydro and verified by Board Staff prior to approval.**

- *OPA Programs*

12.23 Although VECC is not challenging the KW Hydro's LRAM claim for OPA programs, it is noted that the OPA revised its input assumptions, notably the savings for CFIs, in 2007 and again in 2008. Accordingly, although the OPA results were based on the "Best Available" input assumptions at the time of the program implementation, the OPA has not revised the 2006 results to reflect updated input assumptions. Accordingly, unlike the Boards Guidelines which require the use of the Best Available Input Assumptions at the time of the independent third party evaluation, the OPA has maintained its 2006 results and not adjusted these for the revised assumptions in the 2008 and 2009 OPA Mass Market Measures and Assumptions List.

12.24 This produces significantly inflated OPA results and LRAM claims for 2006 Every

Kilowatt Counts Mass Market CDM programs. However, the Board is relying on the OPA as the CDM authority for all OPA-funded LDC programs and therefore VECC suggests that the Board should accept this situation but take the fact that 2006 EKC savings are inflated into account when considering other aspects of LDC LRAM claims.

### **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 28<sup>th</sup> Day of January 2010