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February 19, 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)
Notice of Intervention: EB-2009-0265
Haldimand County Hydro Inc. – 2010 Electricity Distribution Rate Application

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

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

EB-2009-0265

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 Haldimand County 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)

February 18, 2010

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Vulnerable Energy Consumers' Coalition (VECC)

Final Argument

0 Introduction

0.1 Haldimand County Hydro Inc. ("HCHI," "Haldimand," "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.

0.2 The process included a Settlement Conference held on January 21 and 22, 2010. Subsequently, a Settlement Agreement was filed with the Board on February 12, 2010.

0.3 The Settlement Agreement included Appendix A, entitled *Unsettled Matters for Written Submission.* The following argument provides VECC's submissions on several of the unsettled issues on which VECC wishes to make specific comments.

1 Unsettled Issue #1: Lead/Lag Study

1.1 HCNI has never undertaken a lead/lag study.[1] Rather, for the instant application – as in the past – HCHI has elected to use the "15% rule," i.e., 15% of the sum of controllable expenses plus the cost of power, to calculate its 2010 working capital allowance ("WCA").

1.2 VECC notes that by using the "15% rule," HCHI's Test Year rate base is $40,157,330, comprised of $34,697,070 in average fixed assets and $5,460,259 in WCA.[2]

1.3 Given the regulated return of 6.13%,[3] of the total proposed $2,461,580 return on rate base, HCHI proposes, abetted by the 15% rule, to recover from ratepayers a return of $334,714, before the gross-up for income taxes, on the WCA component of rate base in 2010.[4]

1.4 VECC submits that the revenue requirement component associated with the proposed WCA is a material amount that will be collected in each and every year of the IRM.

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[1] VECC IR #4
[2] Settlement Agreement, Appendix C
[3] Ibid
[4] Ibid

1.5 VECC further submits that for any other material component of the revenue requirement for which the utility was seeking approval, the utility would be expected and required by the Board to provide evidence to support the quantum sought by providing e.g., a business case, actual historical expenses, robust estimates, etc.

1.6 Given that HCHI has never undertaken a lead/lag study, it is VECC's view that HCHI has never provided any evidentiary support as to the appropriateness of the costs related to WCA as calculated using the 15% rule and subsequently recovered (and possibly over-recovered) from ratepayers.

1.7 VECC notes that HCHI declined to provide an estimate of the costs it would incur if it were to undertake a lead/lag study.[5] VECC submits that in those cases where a lead/lag study has been undertaken the costs have not been onerous; further, the study has often been undertaken by the utility using primarily internal resources.

1.8 VECC finally submits that in determining an appropriate WCA, the option of using the 15% rule – which is acknowledged to be an imperfect proxy – instead of carrying out a lead/lag study should not be extended in perpetuity by the regulator. VECC therefore urges that the Board direct HCHI to provide an up-to-date lead/lag study when it makes its next rebasing application.

2 Unsettled Issue #2 b: Cost of Capital - Return on Equity

2.1 VECC has reviewed a draft of Energy Probe's submissions on this issue and supports those submissions: VECC submits that as a general principle, any costs which are not incurred by the utility, i.e., in this case flotation costs as included in the ROE through a 50 basis point adder but not incurred by the utility, should not be recovered from the ratepayer.

3 Unsettled Issue #3: Harmonized Sales Tax ("HST")

3.1 VECC has reviewed a draft of Energy Probe's submissions on this issue and supports their proposed Deferral Account Option, i.e., creation of a deferral account in which to track savings with respect to PST on OM&A expenses and capital expenditures.

[5] VECC Supplemental IR #28

4 Unsettled Issue #4: Load Forecast

Load Forecast Methodology

4.1 Haldimand's load forecast methodology consists[6] of the following steps:

- First, weather normalized purchases for 2008 are estimated based on a multifactor regression analysis that includes weather, economic output, population and seasonal calendar variables as independent explanatory variables. The regression equation was developed using monthly data for the period 2001-2008[7]. Normal weather is based on an 8 year average[8].
- Second, weather normal purchases for 2009 and 2010 are developed by adjusting the 2008 value by the percentage change in energy use projected by the IESO in its 18-Month Outlook[9] and translated into a billed energy forecast using Haldimand's proposed loss factor[10].
- 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[11].

Overall, the total billed energy for 2010 is forecast to be 343.105 GWh as compared to an actual 2008 billed energy value of 352.084 GWh[12] and a 2008 weather normalized value of 358.477 GWh[13] – a reduction of roughly 4.3%.

4.2 In terms of the methodology used by Haldimand to develop the total system billed kWh for 2010, VECC has concerns regarding both Step #1 and Step #2. With respect to Step #1, VECC notes that the regression equation developed by Haldimand has negative coefficients for both the GDP and Population explanatory variables[14]. Such results are counter-intuitive as one would expect purchased energy to increase with increases in either GDP or Population. Similarly, the equation

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[6] Exhibit 3/Tab 2/Schedule 2, page 9
[7] Exhibit 3/Tab 2/ Schedule 2, page 10
[8] Exhibit 3/Tab 2/Schedule 2, page 10
[9] Exhibit 3/Tab 2/Schedule 2, page 10
[10] Exhibit 3/Tab 2/Schedule 2, page 15
[11] Exhibit 3/Tab 2/schedule 2, page 21
[12] Exhibit 3/Tab 2/schedule 2, page 5
[13] VECC #12 h)
[14] Exhibit 3/Tab 2/Schedule 2, page 12

contains several variables that are statistically insignificant such that their inclusion is questionable.

4.3 When asked about the inclusion of such variables, Haldimand explained that their objective in developing the model was to achieve the "highest R square value"[15]. VECC submits that this is not the appropriate approach, indeed inclusion of additional variables will always increase the R-square value regardless of whether they actually have any explanatory value (i.e. are statistically significant) or yield results that are intuitively correct (i.e., have the right sign). VECC submits that as well as looking at the goodness of the fit (i.e., the adjusted R-square value), Haldimand should also focus on identifying those variables that make a "significant" contribution to explaining changes in purchases energy and consider whether the variables lead to counter-intuitive results. As a result, VECC submits that the Board can not have any confidence that the model developed by Haldimand properly accounts weather impacts and produces acceptable weather normalized results for 2008.

4.4 Haldimand claims that the negative coefficients for GDP and Population are associated with the decline from 2006 onwards relating to DSM[16]. To demonstrate this point, Haldimand developed an alternative regression model that excluded GDP and Population but included a CDM flag that start at 1^3 in January 2006 and increased to 36^3 by December 2008[17]. The results in term of 2008 purchases were very close to its proposed forecast which Haldimand suggests demonstrates its proposed forecast is reasonable.

4.5 In developing this alternate forecast Haldimand has provided no explanation or rationale for the basis of its CDM flag. VECC notes that based on the coefficient for the CDM flag[18] (-30) and the values of the "flag" for 2008, the total impact of the CDM flag for 2008 would be a reduction of over 12 GWh[19]. In contrast, Haldimand has calculated actual savings from CDM of less than 3 GWh on an annual basis. VECC submits that this result clearly demonstrates that the CDM flag included by Haldimand is significantly overstating the results of CDM and the associated results in no way validate Haldimand's proposed regression model or the results it produces.

4.6 In contrast, a regression model based only on those variables that are significant and have an

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[15] Board Staff #8 b) & c) and Energy Probe #11 a)
[16] Board Staff #8 c)
[17] Board Staff Supplementary # 3 a)
[18] Board Staff Supplementary #3 a)
[19] $(25^3 + 26^3 + 27^3 + 28^3 + 29^3 + 30^3 + 31^3 + 32^3 + 33^3 + 34^3 + 35^3 + 36^3) \times (-30) = 12.728$ GWh

intuitively correct sign yields a weather normalized sales value for 2008 of 390.147 GWh[20], materially higher than the 358.5 value produced by Haldimand's model. VECC submits that this is further evidence that the Haldimand model produces results that are too low.

4.7 With respect to Step #2 of the methodology, use of the IESO forecast percentage changes suggests there is some correlation between the annual growth in Haldimand's purchases and the growth in the overall power delivered by the IESO. However, when asked, Haldimand was unable to provide any data to demonstrate that its economic growth was correlated with that of the province[21] or that its industrial make-up mirrored that of the province[22].

4.8 On the other hand, a comparison of the annual growth in the province's load for the period 2003 to 2008 shows wide discrepancies from that of Haldimand. Indeed, the difference exists for comparisons made regarding growth in both actual sales[23] and weather normalized sales[24]. VECC submits that that the evidence on record clearly shows that the annual growth rate in IESO sales is not correlated with Haldimand's annual growth in purchases. It is therefore totally inappropriate to use the IESO growth rate to forecast year over year changes in Haldimand's purchases.

4.9 In Step #3 of Haldimand's approach, VECC has concerns regarding the process for determining and adjusting what Haldimand deems to be a "non-weather normalized" forecast so that it reconciles with the forecasted weather normalized use[25]. Haldimand'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 2002-2008 period[26].

4.10 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 2002 and 2007[27]. It therefore, is specifically affected by the weather conditions those two years and does not reflect average weather conditions.

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[20] Energy Probe #12 b)
[21] OEB Staff 9 a)
[22] VECC #8 k)
[23] VECC #8 h)
[24] VECC #8 j)
[25] Exhibit 3/Tab 2/Schedule 2, page 9
[26] Exhibit 3/Tab 2/Schedule 2, page 18
[27] VECC #16 e)

Furthermore, the growth rate for the GS>50 class is based on incorrect data. This can be seen from the fact the average use values for the class reported in Exhibit 3, Table 12 do not reconcile with the annual usage and customer count values reported in Exhibit 3, Table 11. The result is that the negative growth rate calculated by Haldimand is overstated as illustrated in the following table.

GS>50 Usage and Customer Count Data

	Table 11 Values		Corrected	Table 12
	Usage (kWh)	Customer #	Average Use	Average Use
2002	120,066,374	138	870,046	2,947,132
2008	118,305,016	137	863,540	2,101,728
Growth			0.99874982	0.9542

Sources: Exhibit 3, Tables 11 and 12

4.11 Finally, with respect to Step #3, VECC has concerns regarding the adjustment process Haldimand uses to reconcile its non-weather normal forecast by class with its projection of total weather-normalized loads. Haldimand's assumption that the Residential and GS<50 classes are 100% weather sensitive while GS 50-499 is only 36% weather sensitive is based on an interpretation of Hydro One Networks weather normalization work to provide data for Haldimand's cost allocation filing[28]. However, in VECC's view, Haldimand has not adequately substantiated that Residential and GS<50 customers' loads are 100% weather sensitive[29]. Indeed, VECC submits that it is intuitively obvious that they are not[30].

4.12 Overall, VECC submits that there are serious flaws with Haldimand's load forecast methodology such that the results can not be viewed as reasonable on their own for purposes of setting 2010 rates.

2010 Load Forecast Results

4.13 In order to assess the reasonableness of the results from Haldimand's methodology VECC has

[28] Exhibit 3/Tab 2/Schedule 2, page 20
[29] VECC #11 e)
[30] Both the Residential and GS<50 classes have lighting loads which are not weather sensitive.

developed a forecast using the NAC approach accepted by the Board in a number of its 2008 and 2009 Decisions. In applying the approach VECC has used the actual 2008 consumption and customer count for the major customer classes (Residential, GS<50 and GS>50) and Haldimand's 2010 forecast for the remaining customer classes. Use of the 2008 data addresses concerns that the NAC's developed by Hydro One reflect 2004 use and is therefore quite dated. Also, while the 2008 data is not weather normalized, both the IESO's data[31], Haldimand's methodology[32] and variations on Haldimand's methodology[33] indicate that weather normalized results would have been higher. As a result, use of 2008 actuals can be considered a conservative approach. The following table which contrasts the average use values for each major customer class as forecasted by HCHI for 2010 with historic values. The table also presents the resulting alternative forecast for 2010 and compares it with that proposed by Haldimand.

Haldimand Load Forecast

	2010 Cust #	HCH Fcst Avg Use	HCH 2010 Fcst	2008 Avg Use	2010 Alt Fcst
Residential	18,534	9,145	169,492,357	9,415	174,502,101
GS<50	2,357	25,848	60,923,412	24,973	58,861,360
GS>50	143	765,454	109,459,903	863,540	123,486,258
Street Light	2,879	809	2,328,757		2,328,757
Sentinel Light	589	711	418,928		418,928
USL	84	5,741	482,264		482,264
Total			343,105,621		360,079,668

Sources: HCH Forcast - Exhibit 3, Tab 2, Schedule 2, page 24
2008 Average Use - Derived from Table 11

4.14 VECC submits that Haldimand's 2010 Residential average use value of 9,145 kWh (almost 3% less than 2008 actual average use) is too low even if one allows for additional CDM impacts[34]. Similarly, VECC submits that, given that the net change in GDP between 2008 and 2010 is projected to be -1.5%[35], the more than 10% reduction in average use between 2008 and 2010 for the GS>50 class is

[31] VECC #8 h) & j)
[32] VECC #8 h) & j)
[33] Energy Probe #12 b) and
[34] Board Staff #10
[35] VECC #8 g)

overly pessimistic even, again, some allowance is made for additional CDM impacts. VECC notes that when considering the potential impacts of CDM between 2008 and 2010, its is important to recall that. according to Haldimand's weather normalization methodology, actual 2008 total sales are already 1.8% below weather normalized levels[36] and 2008 normalized Residential use is 2.3% below weather normal[37]. As result, adopting the 2008 actual average use values helps to compensate for any additional CDM that may occur between 2008 and 2010 along with the impacts of slightly lower GDP levels for 2010.

4.15 VECC submits that the forecast based on 2008 actual average use as set out above is a more reasonable forecast than the one submitted by Haldimand and should be adopted by the Board for setting 2010 rates.

5 Unsettled Issue #5: RSVA Account 1588 – Global Adjustment Disposition to non-RPP Customers Only

5.1 The projected balance in this account at April 30, 2010 is $240,786.[38] A revised derivation of the deferral and variance account rate riders was provided in response to Energy Probe IR #7 c) using corrected kWh allocators.

5.2 VECC submits that the use of a separate rate rider for non-RPP customers is the appropriate resolution of this issue in principle.

5.3 However, VECC recognizes that "... HCHI notes at this time that its billing system is not capable of creating distinctions among customers of the same rate class with respect to rate riders."[39]

5.4 Whether the cost of a patch or upgrade to permit such intra-class rate riders is justified by the benefits is unknown since there is no evidence as to what a patch or upgrade of HCHI's existing billing system would cost.

5.5 VECC further notes that billing systems do not have an infinite life but rather are upgraded or

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[36] As discussed in the preceding paragraphs
[37] VEWCC #11 h) – as calculated by Haldimand – 9,635 kWh versus 9,415 kWh
[38] Exhibit 9/Tab 1/Schedule 1, page 4
[39] Settlement Agreement pp 19-20

replaced more frequently than most other utility assets.

5.6 Hence, in the medium term, a viable and possibly attractive solution to address the current billing system deficiency might be to ensure that the next billing system that HCHI acquires has the required functionality to generate rate riders to non-RPP customers within a rate class. Again, there is no evidence with respect to the costs of this solution on the record.

5.7 Given the preceding, VECC submits that the Board should direct HCHI to address the current system deficiency and provide the estimated costs of alternative solutions in its next filing.

All of which is respectfully submitted this 19th day of February 2010