EB-2009-0260

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S. O. 1998, c. 15, Schedule B;

AND IN THE MATTER OF a review of an application filed by Cambridge and North Dumfries Hydro Inc. for an order approving just and reasonable rates and other charges for electricity distribution commencing May 1, 2010.

FINAL SUBMISSIONS

OF THE

SCHOOL ENERGY COALITION

1. These are the final submissions of the School Energy Coalition ("SEC") in the application by Cambridge and North Dumfries Hydro Inc. ("CND") for an order approving just and reasonable rates for the distribution of electricity commencing May 1, 2010.

2. On February 10, 2010, CND submitted a Settlement Agreement for approval by the Board. The parties to the Agreement were CND, the Vulnerable Energy Consumers' Coalition ("VECC"), Energy Probe, and SEC. On February 17, 2010, the Board accepted that agreement.

3. These submissions therefore address only those issues for which the parties have not reached an agreement. Those issues are set out in Appendix A to the Settlement Agreement.

4. We have had the opportunity to review the draft submissions of Energy Probe and VECC in relation to all of the unsettled issues. Doing so has greatly reduced the amount of effort required for these submissions. We are generally in agreement with Energy Probe's and VECC's submissions but offer below some additional comments on behalf of SEC.

Issue 1: Appropriate Treatment of Ontario's Shift to Hamonized Sales Taxes

5. This issue has an impact on both capital expenditures and operating expenses.

6. In SEC's submission, there is no dispute that with the implementation of the Harmonized Sales Tax on July 1, 2010, the applicant's OM&A and capital expenditures are over-stated to the extent they reflect past expenditures in which the provincial sales tax ("PST") was an embedded cost.

7. The HST, like the GST, is an end-user tax. That means that ratepayers, as the end users, will as of July 1, 2010 be paying the 8% PST that has hitherto been embedded in the company's operating and capital expenses, as a direct charge on their electricity bills. As Energy Probe indicates in its submissions, CND has confirmed that it has not made adjustments to its OM&A or capital budgets to reflect the removal of PST as of July 1, 2010 [Energy Probe IRR#1].

8. As the situation now stands, therefore, ratepayers will be paying the PST portion of the HST twice- once as an embedded cost in the OM&A and capital budget forecasts and again as a direct charge on their electricity bills.

9. Unless something is done to correct for it, distribution rates that reflect this double taxation cannot be said to be just and reasonable.

10. SEC notes CND's concerns with using a variance or deferral account. Regardless of the Board's finding on that issue, SEC submits that the amount of PST embedded in test year capital and OM&A spending is simply a forecasting issue. Just like forecasting any other revenue or cost item, certain assumptions must be made and there is of course a possibility that the forecast will be wrong.

11. In this case, CND has provided an estimate of PST embedded in both 2010 capital and operating expense forecast. As Energy Probe states in its argument, that estimate appears to be consistent with historical patterns. In the absence of other information, therefore, SEC submits that that reasonable estimate should be accepted and the applicable amount should be removed from test year revenue requirement.[1]

<u>Issue 2: Lead Lag Study</u>

12. SEC agrees with Energy Probe and VECC that the amount of working capital included in CND's rate base, and the resulting revenue requirement impact, is a material amount. Like any other material amount included in revenue requirement, it should supported by reasonable evidence. At present, the only "evidence" used to determine the working capital requirement is a Board guideline. SEC therefore agrees with Energy Probe and VECC that a lead lag study is required.

<u>Issue 3: Capital Structure</u>

13. No submissions.

<u>Issue 4: Return on Equity</u>

14. SEC agrees with Energy Probe's submissions regarding the floatation costs included in the equity risk premium portion of the allowed return on equity.

15. SEC acknowledges that the return on equity is itself a proxy figure, designed to reward the utility investor with a rate of return on its investment that is equivalent to what the investor

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[1] In this case, the revenue requirement impact of removing half the test year forecast. This is to reflect the fact that the HST will be implemented July 1, 2010, half way through the year.

would earn had it invested in an enterprise with a similar risk profile n the competitive market. As such, the return on "equity" is included in the distributor's revenue requirement even where, for example, the distributor has no actual equity.

16. The floatation cost, however, should not in SEC's submission be viewed as a proxy for a reasonable rate of return. It is not, in other words, part of the fair return standard, but rather an estimate of an actual cost that a company would pay to obtain equity. Since the floatation cost is an estimate of an actual cost and not a proxy for a fair return, it should not apply where, as here, there is evidence that the utility will not incur the cost.

Issue 5: Load Forecast

17. No submissions.

Issue 6: Normalization of Other Revenue

18. CND states in the pre-filed evidence that it will cease providing sewer and water billing services to the Region of Waterloo and City of Cambridge. It forecasts the lost revenue from that decision to be $440,000 per year beginning in 2011, with a partial-year impact of $110,000 in 2010. CND has asked that this lost revenue be normalized for rate making purposes so that the amount applied to determine 2010 rates reflects the average revenue loss over the four-year period.

19. SEC believes CND's request should be rejected.

20. In the first place, it is not clear that CND's forecast of $440,000 in lost revenue is completely net of expenses. SEC agrees with VECC that the figures mentioned in the Settlement Agreement simply stated CND's forecast. There was no agreement among the parties as to whether or not the $440,000 figure was appropriate, only that the *issue of* the appropriate amount to be used as a revenue offset would be determined by the Board. SEC agrees with VECC that, over time, we would expect to see some reduction in general costs so that the total loss to CND is less than $440,000 per year.

21. Moreover, the approach advocated by CND effectively amounts to single-issue rate-making. It attempts to factor in to 2010 rates an adjustment for a single known event during the IRM period. There are a number of areas of revenue and spending that could change during the IRM years. For that reason, adjustments of this nature are done only in exceptional circumstances.

Issue 6: Normalization of Monthly Billing Costs

22. SEC's submissions regarding this issue are similar to the revenue offset normalization issue discussed above. As pointed out in VECC's submission, there are a number of potential areas of cost savings resulting from the move to monthly billing that may only materialize in the IRM period. It would be unfair to ratepayers to make an adjustment for a single cost item when, even with respect to that cost item, there may be offsetting savings.

Costs

23. SEC participated responsibly in this proceeding and sought to cooperate with other ratepayer groups to minimize costs. SEC respectfully requests that it be awarded 100% of its reasonably incurred costs.

All of which is respectfully submitted this 26th day of February, 2010.

John De Vellis
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