Board Staff Comments

Orangeville Hydro Limited
2010 Cost of Service Distribution Rate Application
Draft Rate Order ("DRO")
(EB-2009-0272)

Orangeville Hydro Limited ("Orangeville Hydro") submitted its Draft Rate Order and supporting documentation on March 5, 2010. The following are staff's comments regarding Orangeville Hydro's Draft Rate Order.

Board staff is also aware of the comments submitted by the Vulnerable Energy Consumers Coalition (VECC) on March 11, 2010. Board staff also submits comments only on the subject of cost allocation and the resulting revenue to cost ratios. Staff agrees with VECC that it would useful if Orangeville Hydro were to file an update its cost allocation study, but unlike VECC staff submits that the Board should not specifically direct Orangeville Hydro to do so.

Orangeville Hydro filed a cost allocation study on November 9, 2009, which was titled Revised Cost Allocation. The revenues in the study attributed to each class were proportional to the 2009 approved rates, though prorated to equal the revenue requirement that was in the Application at that time. Staff notes that the detailed load forecast has changed slightly, as shown in the second column of the table on p. 2 of the DRO, in a downward direction for four classes and upward for two classes. As VECC points out, an update based on the agreed revenue requirement, the detailed forecast of billing quantities, and the 2010 rates in the DRO would be a good reference point for future rate applications.

While agreeing that an update would be a good idea, staff does not find it necessary for the purpose of examining the validity of the DRO. Staff has replicated Orangeville Hydro's calculation of its forecast revenues by class within a reasonable margin. Using these revenue forecasts together with costs apportioned as in the Revised Cost Allocation, staff has verified that the revenue to cost ratios submitted in the DRO (table on p. 9, second column from the right) are accurate within a small margin. Staff notes that the revenue to cost ratios proposed by Orangeville Hydro for 2010 have all moved toward 100% relative to the ratios in the study that was filed.

As VECC has noted in its submission, certain items in the revenue requirement are also changed significantly since the cost allocation study was filed. Staff notes that the components that are changed the most happen to be allocated to the classes in proportion to a broad composite of allocation factors. In particular the return on equity is allocated using a composite allocator in the standard cost allocation model.

The revenue to cost ratios of Streetlights and Sentinel Lights are quite low currently, and are proposed to increase approximately half-way to the lower boundary of the Board's policy range for these classes. In replicating Orangeville Hydro's calculations, staff's calculated revenues are slightly higher those shown in the DRO. At the same time, the load forecast for each of these classes is somewhat lower than the original forecast. Staff concludes that if a new cost allocation study were available it would show projected ratios no lower than those in the DRO for these two classes

For these reasons, Board staff submits that Orangeville Hydro should not be specifically directed by the Board to update its cost allocation study. Staff suggests nevertheless that an updated cost allocation could likely be done by Orangeville Hydro with relatively little effort, using the updated components of the revenue requirement and the updated load forecast. Such a study would be a valuable reference point in the future, because it would be internally consistent in respect to costs and revenues.

- All of which is respectfully submitted. -