



***PUBLIC INTEREST ADVOCACY CENTRE
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April 6, 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)
Final Submissions: EB-2009-0186
Hydro Hawkesbury Inc. – 2010 Electricity Distribution Rate Application**

Please find enclosed the submissions VECC in the above noted proceeding. Please note that we were able to include our entire argument in this filing, rather than relying on a phase 2 filing for some topics.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC

cc: Hydro Hawkesbury Inc.

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 Hydro Hawkesbury Inc. pursuant to section 78 of the *Ontario Energy Board Act* for an Order or Orders approving just and reasonable rates for electricity distribution to be effective May 1, 2010.

FINAL SUBMISSIONS

On Behalf of The

VULNERABLE ENERGY CONSUMERS COALITION (VECC)

April 6, 2010

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Vulnerable Energy Consumers Coalition (VECC)
Final Argument

1 The Application

- 1.1 Hydro Hawkesbury Inc. ("HHI," "the Applicant," or "the Utility") filed an application ("the Application") with the Ontario Energy Board ("the Board" or "the OEB") on November 5, 2009, under section 78 of the Ontario Energy Board Act, 1998 for electricity distribution rates effective May 1, 2010. The Application projected a 2010 rate base of \$4,146,090¹, requested a distribution revenue requirement of \$1,304,216 for the 2010 test year and claimed a gross revenue deficiency of \$394,455 based on existing rates.² The associated percentage increase in distribution revenues was 36.20%.³
- 1.2 In its Application, HHI also requested: (i) approval for revised Retail Service Transmission Rates; (ii) approval of a utility-specific Smart Meter rate adder of \$1.51/customer/month; (iii) approval of a revised loss factor; and (iv) approval to dispose of an aggregate balance of \$1,885,598 in a number of its Deferral and Variance accounts.⁴
- 1.3 On December 18, 2009, the Board issued Procedural Order No. 1 which provided for a round of written interrogatories with responses due on January 26, 2010. By letter dated January 26, 2010, HHI requested an extension for interrogatory responses to February 3, 2010.
- 1.4 In its responses to first round interrogatories, HHI provided a "Summary of Proposed Changes to Revenue Requirement" list that made revisions with respect to rate base, revenue, operating costs, deferral/variance account balances, and rate design.

¹ Exhibit 2/Tab 1/Schedule 1

² Exhibit 6/Tab 2/Schedule 1, Attachment 1

³ Based on the claimed deficiency of \$394,455 and distribution revenues at current rates (excluding miscellaneous revenues) of \$1,089,759 as derived by taking the 2010 distribution service revenue requirement of \$1,484,214 per Exhibit 6/Tab 1/Schedule 1, Attachment 1 and backing out the gross deficiency.

⁴ Exhibit 1/Tab 1/Schedule 3, page 2

- 1.5 On February 19, 2010, the Board issued Procedural Order No. 2 which provided for a second round of written interrogatories with responses due on March 5, 2010.
- 1.6 In its responses to the second round of interrogatories, HHI provided additional information, largely correcting and clarifying its earlier responses. In response to a second round Board Staff interrogatory,⁵ HHI indicated that the corrections made to its pre-filed evidence arising from three first-round Board staff interrogatories, the 2010 rate base was now projected to be \$4,234,148.
- 1.7 However, as parties required more clarification on the evidence, and subsequent to a teleconference call involving Board Staff, HHI, and VECC, on March 29, 2010, HHI provided further written “Amendments to Responses to Board Staff Supplemental Interrogatories” and “Amendments to Responses to VECC Supplemental Interrogatories.” Among other things, the Board Staff “Amendments” indicated a revised 2010 rate base of \$4,270,260 which VECC understands to have changed mainly in response to Board staff’s efforts to correct recorded depreciation and HHI’s updates to the cost of power included in the working capital component.
- 1.8 On March 30, 2010, the Board issued Procedural Order No. 3 which directed that VECC file its revenue requirement submissions no later than April 6, 2010 and to file its submissions regarding load forecast, cost allocation and rate design by April 8, 2010. The following sections contain VECC’s final submissions regarding all aspects of HHI’s Application.

2 Capital Spending and Rate Base

- 2.1 The amended projected Test Year rate base is \$4,270,262, comprised of \$2,155,830 in net fixed assets and \$2,114,431 in working capital allowance.⁶
- 2.2 VECC submits that the record on these issues is quite difficult to follow as at each stage of the numerous stages of this process the numbers underlying the net fixed

⁵ Second Round IR#2

⁶ Exhibit 2/tab 5/Schedule 1 as amended March 29, 2010

assets and working capital components of rate base changed as revisions/updates/corrections were made.

- 2.3 Notwithstanding the preceding, VECC notes that Board Staff took an active lead role in focusing on the correctness of the depreciation schedule in this proceeding. Further, in its submissions, Board Staff indicated that they were finally satisfied that the historical depreciation record was finally appropriate and, as such, Staff was satisfied that HHI's 2010 net fixed assets of \$2,155,830 "is appropriately derived."⁷
- 2.4 VECC notes that in all its incarnations, the HHI rate base is relatively flat over the period 2006-2010. VECC further notes that HHI forecasts no retirements and no contributions for 2010.⁸
- 2.5 VECC therefore accepts the net fixed asset amount of \$2,155,830 as appropriate for 2010.
- 2.6 VECC notes that while HHI has indicated it has no asset management strategy or performance targets, it does adhere to the Minimum Inspections Requirement of the Distribution System Code.⁹
- 2.7 VECC accepts that HHI appears to be a good candidate for "minimum inspections requirement" regarding its distribution assets due to its small size. However, the service quality indicators provided by HHI in response to interrogatories¹⁰ lead VECC to question whether HHI should investigate the extent to which outages could be reduced through a more active asset management approach and whether a more active approach is economically justified.
- 2.8 VECC submits that HHI should undertake a "threshold study," at least at a high level focusing on the costs and benefits of reduced outages, regarding the appropriateness of increasing its asset management activity. VECC submits that

⁷ Board Staff Submission, April 1, 2010, page 3.

⁸ VECC IR#20

⁹ Board Staff IR #6

¹⁰ Board Staff IR #7 and VECC IR #22

HHI should file such a study at its next rebasing proceeding.

- 2.9 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 provincial government to harmonize the GST and the PST should be reflected in the 2010 revenue requirement. HHI has estimated that \$16,603 in PST is included in the capital expenditures for 2010.¹¹
- 2.10 VECC submits that it would be appropriate to remove the revenue requirement impact of half of this amount in 2010 since the HST will be in effect for half of 2010. VECC notes that HHI has agreed to establish a variance account to track HST savings¹² and submits that such a variance account should be established.

Working Capital Allowance (WCA)

- 2.11 HHI has used the “15% rule” to calculate its 2010 WCA of \$2,114,431.¹³
- 2.12 Over the period 2006-2010, the working capital component for HHI represents approximately 50% of rate base.¹⁴
- 2.13 HHI has not undertaken a lead-lag study and estimates the cost of such a study as “unknown.”¹⁵
- 2.14 VECC accepts the methodology used by HHI in calculating the WCA component of rate base for this proceeding and concurs with the submissions of Board Staff regarding (i) updating the WCA to reflect updated UTRs and (ii) costing the non-RPP load at estimated non-RPP costs.¹⁶ VECC notes that the LV costs included in the cost of power also need to be updated to reflect the \$60,500 revised value submitted on March 29, 2010¹⁷.

¹¹ VECC IR#17 c)

¹² Board Staff IR #16a)

¹³ Exhibit 2/Tab 5/Schedule 1 as amended March 29, 2010

¹⁴ VECC IR #18a)

¹⁵ VECC IR #18b) and c)

¹⁶ Board Staff Submission, April 1, 2010, page 3

¹⁷ VECC #29 - revised

2.15 VECC adds that the WCA should also reflect the Board's determinations in this case regarding controllable expenses and the load forecast.

2.16 Finally, VECC submits that a lead-lag study should be filed with HHI's next rebasing 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

Load Forecast Methodology

3.1 Hawkesbury's load forecast methodology consists of the following steps:

- First, weather normalized purchases for 2010 are estimated based on a multifactor regression analysis that includes weather, employment levels and seasonal calendar variables as independent explanatory variables. The regression equation was developed using monthly data for the period January 2004 to December 2008¹⁸. Normal weather is based on a 10 year average¹⁹. It should be noted that for purposes of the analysis the load associated with Hawkesbury's one Large Use customer was excluded, on the basis that it ceased operation in 2009²⁰.
- Second, for the weather sensitive classes (Residential, GS<50 and GS>50), the 2010 retail kWh were determined based on each class' 2008 share of wholesale kWh, exclusive of distribution losses. For the remaining classes (Street Lighting, Sentinel Lighting and USL), 2010 sales are assumed to be the same as those for 2008²¹.
- Finally, for the customer count forecast, residential connections were assumed to drop in 2009 by the same amount as they did in 2008 (1.1%) and then grow slightly in 2010. Similarly, the customer count for the GS<50 class is also

¹⁸ Exhibit 3/Tab 1/Schedule 1, Attachment 1 (ERA Report), page 2

¹⁹ Exhibit 3/Tab 1/Schedule 1, Attachment 1 (ERA Report), page 7

²⁰ Exhibit 3/Tab 1/Schedule 1, Attachment 1 (ERA Report), page 3

²¹ Exhibit 3/Tab 1/Schedule 1, Attachment 1 (ERA Report), pages 9-12

forecast to decline slightly in both 2009 and 2010 as it did in 2008²².

- 3.2 Overall, the total billed energy for 2010 is forecast to be 161.85 GWh²³ as compared to an actual 2008 billed energy value of 167.38 GWh and a 2008 weather normalized value of 168.88 GWh²⁴ – a reduction of roughly 4.2%.
- 3.3 In terms of the regression model used to predict total weather normalized purchases, VECC notes that model has an adjusted R-squared value of over 95% and that the coefficients are all (statistically) significant and intuitively correct²⁵. VECC submits that the model should provide a reasonable forecast for purposes of setting 2010 rates.
- 3.4 VECC notes that Hawkesbury's approach to determining the 2010 weather normalized use by customer class is simplistic in that it assumes all (weather sensitive) customer classes (i.e. Residential, GS<50 and GS>50) have the same degree of weather sensitivity. Furthermore, there is disconnect between the methodology used to determine the 2010 weather normal use for these customer classes (which uses percentage of 2008 actual sales) and the methodology used for the smaller customer classes (which uses actual 2008 sales levels). Implicit in using the Residential, GS<50 and GS>50 actual sales as a percentage of total purchases is the assumption that the sales to all customer classes vary with the weather. However, this is not the case as Hawkesbury assumes that USL, Street Lighting and Sentinel Lighting are not weather sensitive²⁶.

2010 Load Forecast Results

- 3.5 The Ontario employment forecast used by Hawkesbury to estimate 2010 purchases is based on various forecasts developed in early 2009. The cumulative projected change in employment levels from 2008 to 2010 was -2.2% (-2.6% in

²² Exhibit 3/Tab 1/Schedule 1, Attachment 1 (ERA Report), pages 13-14

²³ OEB Staff Supplementary IR #3

²⁴ Exhibit 3/Tab 1/Schedule 1, Attachment 1 (ERA Load Forecast Report), page 9 – note the historic values quoted exclude Large User loads for 2008.

²⁵ Exhibit 3/Tab 1/Schedule 1, Attachment 1, page 6

²⁶ Exhibit 3/Tab 1/Schedule 1, Attachment 1, page 10

2009 followed by +0.4% in 2010)²⁷. In response to VECC #3 a) Hawkesbury noted that the employment forecast issued by the Provincial Government in the Fall of 2009 was not materially different (cumulative change of -2.0%) and, as a result, did not update its 2010 forecast.

- 3.6 VECC notes that in the recent 2010 Budget delivered by Provincial Government last month the forecast growth in employment over the 2008-2010 period is -1.3% (-2.4% in 2010 followed by +1.1% in 2010)²⁸. VECC submits that this is a material change that should be reflected in Hawkesbury's load forecast for 2010. One approach would be for the Board to direct Hawkesbury to revise its load forecast based on the updated employment projection.
- 3.7 Another approach would be to make a "bottom line" adjustment to the existing forecast. Given that the original forecast was 4.2% less than the 2008 weather normalized use (excluding the large use customer) and the employment reduction forecast between 2008 and 2010 is now only 60% of the originally projected change, reducing the 2008 weather normalized use by 2.5% (60% of 4.2%) would provide a rough estimate of the impact. This would yield a 2010 purchase forecast of 164.66 GWh as oppose to the 161.85 GWh forecast proposed by Hawkesbury.
- 3.8 In terms of the individual customer class volume forecasts, VECC submits that a more consistent approach would have been to determine the 2008 percentage use by customer class of total 2008 purchases excluding the sales to USL, Street Lighting and Sentinel Lighting. These percentages would then be applied to the forecast 2010 purchases (again excluding USL, Street Lighting and Sentinel Lighting) to determine the 2010 weather normalized sales for Residential, GS<50 and GS>50. However, as the loss factors implicit in Hawkesbury's approach are not materially different from historic values²⁹, it appears that Hawkesbury's approach is reasonable for 2010.

²⁷ Exhibit 3/Tab 1/Schedule 1, Attachment 1, page 8

²⁸ http://www.fin.gov.on.ca/en/budget/ontariobudgets/2010/ch2c.html#c2_secC_table5

²⁹ VECC #30

- 3.9 Finally, VECC has reviewed and agrees with Board Staff's submission regarding Hawkesbury's forecast customer count for 2010³⁰.

4 Revenue Offsets

- 4.1 In its original pre-filed evidence, HHI indicated that its forecast 2010 revenues and costs related to Merchandising and Jobbing were \$45,000 and \$25,000 respectively.³¹
- 4.2 In response to an interrogatory, HHI proposed to amend its estimated 2010 revenues and costs related to Merchandising and Jobbing to \$64,902.73 and \$51,480.84 respectively.³²
- 4.3 In response to a further interrogatory, HHI stated that the revenue requirement impact of this change was \$96,400.³³ VECC does not understand how the revenue requirement impact was calculated.
- 4.4 VECC submits that HHI should clarify and if necessary correct how this impact was calculated in its reply submission.

5 Operating Costs

- 5.1 HHI agreed that the growth in OM&A costs from actual 2006 to projected 2010 was consistent with an annual growth rate of 5.77% compounded.
- 5.2 However, HHI maintained that such a comparison was "deceptive" insofar as there were uncontrollable costs in 2010 such as IFRS and rebasing costs. HHI therefore suggested that an appropriate period to use to calculate the growth in OM&A spending would be from 2006 (\$770,907) to 2009 (\$873,491), with that particular period exhibiting a compounded annual growth rate of 3.17%.³⁴ VECC submits that using the period suggested by HHI still results in a compounded

³⁰ Board Staff Submission, pages 5-6

³¹ Exhibit 3/Tab 3/Schedule 2, Attachment 1

³² VECC IR #8b)

³³ VECC IR #36

³⁴ VECC IR #23

annual growth rate of 4.25%, not 3.17%.

- 5.3 VECC also notes that using the actual OM&A costs from 2004 of \$703,451³⁵ and looking at the period 2004-2009 results in a compounded annual growth rate of 4.425% in terms of actual costs.
- 5.4 VECC submits that rather than choosing a different period that excludes the Test Year, it is more appropriate to include the Test Year and make any required adjustments in one-time Test Year expenses to look at the trend in OM&A costs. VECC further notes that the Test Year costs included an amortization of rebasing costs and IFRS costs, not the full amounts.³⁶
- 5.5 As the preceding analysis indicates, even with the removal of amortized IFRS and rebasing costs, the increase in OM&A is above twice the general rate of inflation over the years 2006-2010.
- 5.6 VECC submits that for its next rebasing application, HHI should undertake a review with respect to the control of controllable costs and be prepared to explain any overall increases in OM&A costs that materially exceed the general increases in inflation.
- 5.7 With respect to regulatory costs, VECC agrees with Board Staff that HHI's estimates appear to be excessive and VECC suggests that Board Staff's recommendations in this respect are fairly generous to the utility.³⁷
- 5.8 With respect to the included LEAP costs of \$2,000, VECC submits that while it strongly supports initiatives to mitigate the impacts on Low Income customers, given (i) that there is no apparent specific purpose for the funds or benefit to Low

³⁵ VECC IR #37

³⁶ Removing the originally proposed amortized IFRS costs of \$15,000 and the originally proposed amortized regulatory costs of \$31,250 from the originally proposed Test Year OM&A spending of \$965,143, results in adjusted OM&A for 2010 of \$918,893. This together with actual 2006 OM&A of \$770,907 results in a compounded annual growth rate of 4.49% over the period 2006-2010.

³⁷ Board Staff Submission, April 1, 2010, page 7 - Staff suggests that no more than \$270K should be approved for regulatory costs, i.e., approximately twice the average of such costs approved in 2009 COS decisions.

Income customers³⁸, and given (ii) that there is no regulatory or government direction provided with respect to LEAP proposals at the present time, the amount of \$2,000 should be removed from the Test Year revenue requirement.

- 5.9 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 \$5,500 for 2010.³⁹ VECC submits that a variance account be established about this estimate to hold parties harmless should the actual savings deviate significantly from this estimate.

6 Payments in Lieu of Taxes

- 6.1 VECC accepts Board Staff's view that the proposal is appropriate.⁴⁰

7 Cost of Capital/Capital Structure

- 7.1 VECC supports Board Staff's position that HHI's proposal be revised to incorporate the Board's 2010 parameter updates.⁴¹

8 Cost Allocation

- 8.1 Hawkesbury has prepared a 2010 cost allocation study using 2010 costs and scaling the various loads used in its 2006 study to match the change in load forecast for each customer class between then and 2010⁴². In preparing the 2010 Cost Allocation study Hawkesbury's consultant used 2010 revenues by customer class based on 2009 rates and, as a result, the overall revenue to cost ratio is 73.42% as opposed to 100%⁴³. In response to a VECC interrogatory, Hawkesbury produced a table setting out the revenue to cost ratios that would result if the 2010 revenue deficiency was addressed through a uniform rate increase to all customer

³⁸ VECC IR #24a)

³⁹ VECC IR# 17 - the \$5.5K is half of the full year estimated savings of \$11,079.11 to account for the introduction of the HST mid-year

⁴⁰ Board Staff Submission, April 1, 2010, page 9

⁴¹ Ibid

⁴² Exhibit 7, ERA Report, pages 5-8

⁴³ Exhibit 7, ERA Report, page 13

classes⁴⁴. The following table compares these results with those from Hawkesbury's 2006 Cost Allocation (corrected for the treatment of the transformer ownership allowance).

REVENUE TO COST RATIOS – 2006 vs. 2010 Results		
Customer Class	2006 (TOA Adjustment) Cost Allocation	2010 Cost Allocation (Uniform Increase)
Residential	127.84	141.26
GS<50	111.08	118.91
GS>50	26.72	29.33
Large Use	140.87	Not Applicable
Street Lighting	26.26	36.32
Sentinel Lighting	147.77	197.39
USL	7.53	198.48
Total	100.0	100.0

Sources: Exhibit 7, Tab 1, Schedule 1, ERA Report, page 13
VECC #9 a)

8.2 The results are materially different as the 2010 Cost Allocation reflects the changes in costs and load between 2006 and 2010 as well as the elimination of the Large Use Class.

Use of the Cost Allocation Study Results in Setting 2010 Rates

8.3 For 2010, Hawkesbury has used the 2006 Cost Allocation results as the “starting point” for determining its proposed revenue to cost ratio adjustments for 2010⁴⁵. The following table compares Hawkesbury's proposed R/C ratios with those from the 2006 Cost Allocation and the 2010 Cost Allocation.

⁴⁴ VECC #9 a) – Column B

⁴⁵ VECC #11 b)

REVENUE TO COST RATIOS			
Customer Class	2006 (TOA Adj) Cost Allocation	2010 Cost Allocation (Uniform Increase)	2010 Proposed
Residential	127.84	141.26	112
GS<50	111.08	118.91	111
GS>50	26.72	29.33	80
Large Use	140.87	Not Applicable	Not Applicable
Street Lighting	26.26	36.32	70
Sentinel Lighting	147.77	197.39	120
USL	7.53	198.48	80
Total	100.0	100.0	100

Sources: Exhibit 7, Tab 1, Schedule 1, ERA Report, page 13
VECC #9 a)
Exhibit 8, Tab 2, Schedule 1, Attachment 1, page 2

- 8.4 For those customer classes whose (2006) revenue to cost ratios are below the Board's target range, Hawkesbury is proposing to move the revenue to cost ratio to the minimum value in 2010. Similarly, Hawkesbury is proposing to move the ratio for Sentinel Lighting down to the upper end of the target range for the class. The balance of the excess revenue generated by these adjustments is used to reduce the revenue to cost ratios for both Residential and GS<50.
- 8.5 VECC notes that the use of the 2006 Cost Allocation as the "starting point" only impacts the ratio for 2010 (and beyond) if either:
- a) the starting ratios are outside the range and the proposal is to phase-in the adjustment to the target range, or
 - b) the choice of starting point alters whether the revenue to cost ratio is above/below the target range.

- 8.6 In the case of Hawkesbury, the utility has chosen to not phase-in the adjustments required to achieve the Board's target ranges. While this is a departure from the normal practice approved for other distributors, the total bill impacts are all less than 10%, due to the change in loss factor and the rate riders proposed for 2010⁴⁶. However, the choice of 2006 vs. 2010 as the starting point does affect whether the ratio for USL is above or below the Board's target range. As a result, for this class, the choice is an issue.
- 8.7 Hawkesbury's rationale for using the 2006 Cost Allocation as the starting point is that it believes the revenue to cost ratios arising from the last non-IRM rate setting process that are most appropriate to use as the reference point⁴⁷. VECC disagrees. A uniform across increase in all customers' rates is consistent with a neutral approach to cost allocation and, VECC submits, that the results of cost allocation using 2010 costs and loads is the appropriate starting point for considering 2010 cost allocation adjustments.
- 8.8 As Hawkesbury's consultants noted⁴⁸ both costs and loads have changed since 2006 – both of which will affect the calculation of the revenue to cost ratios. Indeed, in the case of Hawkesbury, the 2006 Cost Allocation included a Large Use customer class that does not exist in 2010. This anomaly simply highlights the inconsistency in trying to apply the 2006 Cost Allocation as the starting point for 2010.
- 8.9 Furthermore, VECC notes that its proposed approach is consistent with that generally used by other utilities whose approved rates are based on an Application that included an updated cost allocation study:
- The approach used by Hydro One Networks in its 2008 Rate Application⁴⁹ where the results were adopted by the Board for rate setting and again in its most recent 2010/2011 Rate Application⁵⁰.

⁴⁶ Exhibit 8, Tab 4, Schedule 3, pages 2-3

⁴⁷ VECC #31

⁴⁸ Exhibit 7, Tab 1, Schedule 1, ERA Report, page 13

⁴⁹ EB-2007-0681, Exhibit G1, Tab 3, Schedule 1, pages 1-2

⁵⁰ EB-2009-0096, Exhibit G1, Tab 3, Schedule 1, pages 1-2

- The approach used by Burlington Hydro in its 2010 Rate Application which was recently approved by the OEB⁵¹.
- The approach used by Festival Hydro in its 2010 Rate Application which was recently approved by the OEB⁵².

8.10 Indeed, apart from the 2010 Application by Embrun Hydro, VECC is not aware of another utility where the 2006 Cost Allocation results have been used in the determination of the approved 2010 cost allocation adjustments when more current results based on the test year are available. In Embrun's case, while VECC raised the issue in its final argument, the Board's final Decision⁵³ does not provide any specific direction as to which is the appropriate starting point.

8.11 Overall VECC submits that Hawkesbury should use the 2010 Cost Allocation (assuming a uniform increase) as the starting point. The immediate effect is that the 2010 ratio for USL should be 120% (the upper limit of the Board's target range for that class). Otherwise, the ratios originally proposed for GS>50, Street Lighting and Sentinel Lighting are acceptable subject to the need to ameliorate any bill impacts arising from the Board's findings on other issues.

8.12 VECC also agrees with the approach adopted by Hawkesbury where any excess revenues are first used to reduce the Residential ratio to 119% (same as GS<50) and then the ratios for both classes are reduced in tandem.

8.13 VECC's only other concern is that Hawkesbury calculates its 2010 proposed revenue to cost ratios based on a comparison of customer class base distribution revenues vs. allocated base revenue requirement⁵⁴ (as opposed to based on total revenues versus the allocation of service revenues by class – as per the Board's cost allocation model). While the effect of this is very small⁵⁵, VECC submits that the calculation should follow the Board's methodology and notes that the Board

⁵¹ EB-2009-0259, VECC #27

⁵² EB-2009-0263, VECC #16 and Board Decision, page 35

⁵³ EB-2009-0132, Board Decision, page 16

⁵⁴ Exhibit 8, Tab 2, Schedule 1, Attachment 1, page 2

⁵⁵ VECC #11

recently directed Embrun to use the service revenue based calculations⁵⁶.

9 Rate Design

- 9.1 Hawkesbury claims that its fixed-variable split is more weighted to the “variable” portion than that of comparable utilities. As a result, it has calculated the average fixed-variable split for its comparator group and proposes to increase its fixed recovery portion 75% of the way to this average for each class. The only exception is the GS>50 class where adoption of this approach would yield a monthly service charge above the Board’s recommended range. For this class, Hawkesbury proposes to set the monthly service charge at the upper end of the Board’s target range. For all other classes, the results fall within the Board’s target range⁵⁷.
- 9.2 VECC notes that in past Decisions the Board has, in situations where the current fixed-variable split yields rates within the range established by the Board, approved increases in the fixed portion of the Distributor’s rates⁵⁸; decreases⁵⁹ in the fixed portion of the rate structure and maintained the existing fixed-variable split⁶⁰. The general approach of the Board appears⁶¹ to be that the choice is within the discretion of the Distributor as long as the result falls within the Board’s prescribed range.
- 9.3 As noted in the discussions to date during the OEB’s Rate Design review – there are arguments to be made in favour of an increase in the fixed portion of the rate design⁶² and arguments to be made in favour of an increase⁶³ in the variable portion of the rate design. VECC submits that it is inappropriate to allow a distributor to pick and choose among these arguments to support its particular

⁵⁶ EB-2009-0132, page 17

⁵⁷ Exhibit 8, Tab 2, Schedule 1.

⁵⁸ Centre Wellington, EB-2008-0225

⁵⁹ Innisfil, EB-2008-0233

⁶⁰ Niagara-on-the-Lake, EB-2008-0237

⁶¹ EB-2008-0233, page 29

⁶² One such argument is “revenue stability” as put forward by THI

⁶³ One such argument is an improved conservation signal as put forward by Lakeland Power (EB-2008-0234)

position.

- 9.4 In VECC's view a more standardized and principled approach is required. VECC submits that, subject to bill impact considerations, when the resulting service charge for a customer class is within the range established by the Board's Report, the distributor should be required to maintain its existing fixed-variable split. Based on this approach, VECC submits that Hawkesbury's proposed fixed-variable split for all its customer classes should reflect the existing (2009) fixed-variable split. The only exception is the GS>50 class where application of the existing split yields a service charge that exceeds the Board's recommended range⁶⁴. In this case, the service charge should be set at the upper limit (currently \$94.41).
- 9.5 Finally, Hawkesbury has included LV charges/revenues in the determination of its fixed-variable splits⁶⁵. VECC submits that this is inconsistent with the Board's cost allocation model which excludes LV costs and submits that the calculation of the splits for each class should be calculated excluding LV charges. VECC notes that in the recent Embrun Decision⁶⁶ the utility was directed to exclude LV charges from the determination of the monthly charge.

10 Retail Transmission Service Rates

- 10.1 In response to a Board Staff interrogatory⁶⁷, Hawkesbury has revised its proposed 2010 Retail Transmission Service rates to account for both the recent trends in cost over-recovery and the July 2009 UTR adjustments. VECC submits that the proposed rates should be accepted by the Board.

11 LV Costs

- 11.1 In response to VECC interrogatories⁶⁸, Hawkesbury has revised its proposed 2010

⁶⁴ Exhibit 8, Tab 2, Schedule 1, Attachment 2, page 1.

⁶⁵ VECC #10 b)

⁶⁶ EB-2009-0132, page 17

⁶⁷ OEB Staff #23

⁶⁸ VECC #28 and #29 - revised

LV costs from \$70,600 to \$60,500. VECC submits that this latter value is reasonable and should be adopted by the Board.

12 Losses

12.1 Based on a five-year average, HHI proposes a total loss factor of 4.66% for the Test Year as compared to the current factor of 6.35%.⁶⁹ VECC notes that overall the loss factor is trending downward and that if one takes the most recent three-year average, the calculated factor would be 4.46%.⁷⁰ VECC submits that the Board should consider the lower three-year average in determining the appropriate loss factor.

13 Deferral and Variance Accounts

Miscellaneous Deferred Debits (Account #1525)

13.1 Hawkesbury proposes to dispose of the \$272,862 balance⁷¹ in this account and has allocated it to customer classes based on customer count. VECC notes that the Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative specifically directs the use of "number of customers with rebate cheques" as the allocation factor for the #1525 Rebate Cheques Sub-account. The Report does not provide any direction as to how any other sub-accounts within Account #1525 are to be allocated.

13.2 In the case of Hawkesbury, over 85% of the balance (\$237,727) in Account #1525 consists of past charges from Hydro One Networks for the recovery of environmental costs and only 1% is related to the Ontario Price Credit Rebate cheques⁷². In VECC's view it is inappropriate to allocate environmental costs to customer classes based on customer count.

13.3 Environmental costs are part of overall distribution expenses. Indeed, in its

⁶⁹ Board Staff IR # 20c)

⁷⁰ Based on the information in Board Staff IR # 20c)

⁷¹ OEB #21 a)

⁷² OEB Staff #21 a). The remaining amount of balance is carrying costs.

December 2004 Decision Regarding the Recovery of Regulatory Assets – Phase 2, the Board approved the Hydro One Networks’ allocation of these costs based on distribution/LV revenues⁷³. In VECC’s view a similar allocation (i.e., the allocation of LV costs to customer classes) should be used by Hawkesbury in recovering its share of Hydro One Networks costs from its customers.

Furthermore, given that only a very small portion of the costs are related to “rebate cheques”, it would be reasonable for the Board to consider extending this allocation approach to the entire Account #1525 balance.

Power Supply – Global Adjustment Subaccount (Account #1588)

13.4 VECC has reviewed and concurs with the Board Staff’s submissions regarding the recovery of the balance in this account from non-RPP customers. VECC notes that in its March 29, 2010 amendments to Board Staff’s interrogatories Hawkesbury indicates that its billing software provider can accommodate the allocation of costs to a sub-group within a rate class. As a result, VECC assumes there will be minimal expense involved in implementing the preferred approach.

14 Recovery of Reasonably Incurred Costs

14.1 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.

All of which is respectfully submitted this 6th day of April 2010

⁷³ Board’s Decision regarding Recovery of Regulatory Assets – Phase 2, December 2004, page 42. In the Decision LV revenues were to be used to allocate the costs to embedded distributors while distribution revenues were to be used to allocate the costs to HON’s retail customer classes.