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October 14, 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 – Part II: EB-2009-0278
Algoma Power Hydro Inc. – 2010/2011 Electricity Distribution Rate
Application

Please find enclosed Part II of the Vulnerable Energy Consumers Coalition's (VECC) submissions in the above noted proceeding.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.
cc: Algoma Power 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 Algoma Power 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
(Part II)**

On Behalf of The

VULNERABLE ENERGY CONSUMERS COALITION (VECC)

October 14, 2010

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Vulnerable Energy Consumers Coalition (VECC)
Final Argument

1 The Application

- 1.1 Algoma Power Inc. ("Algoma" "the Applicant," or "the Utility") filed an application ("the Application") with the Ontario Energy Board ("the Board" or "the OEB") on June 1, 2010 and amended on June 7, 2010, under section 78 of the Ontario Energy Board Act, 1998, for electricity distribution rates to be effective July 1, 2010 and January 1, 2011. Following a round of interrogatories and a technical conference, a settlement conference was held on August 24 and August 25, 2010. The Settlement Proposal (dated September 10, 2010) was filed by the parties indicating that all but three issues were resolved.
- 1.2 The three unresolved issues were:
- A. What is the appropriate method of calculating the average rate adjustments of other distributors in order to calculate the rate increase for the customers of API, and the remaining amount that is payable under RRRP? ("RRRP Adjustment");
 - B. Should API's proposal to recover amounts in Account 1572 Extraordinary Event Costs be approved? ("Extraordinary Event Costs") and;
 - C. Should API's proposal to establish a new IFRS Deferral Account be approved? ("IFRS Deferral Account")
- 1.3 Upon review, the Board indicated concerns regarding the Proposal and a revised version was filed on September 17, 2010, with the same three unsettled issues. On September 22, the Board issued Procedural Order #3 indicating that on September 29th it would review the Revised Proposal and conduct an oral hearing regarding unresolved Issue B. It also indicated that final submissions would be made in writing and that for Issue B and C these submissions were due on October 8, 2010. Submissions on Issue A were to be submitted by October 14, 2010.
- 1.4 Set out below are VECC's final submission on Issue A.

2 RRRP Adjustment

2.1 The RRRP Adjustment is required under Ontario Regulation 442/01:

(3.1) For each year, in respect of the rates for a distributor serving consumers described in paragraph 5 of section 2, the Board shall calculate the amount by which the distributor's forecasted revenue requirement for the year, as approved by the Board, exceeds the distributor's forecasted consumer revenues for the year, as approved by the Board. O. Reg. 335/07, s. 1 (2).

(3.2) For the purpose of subsection (3.1), the distributor's forecasted consumer revenues for a year shall be based on the rate classes and on the rates set out for those classes in the most recent rate order made by the Board and shall be adjusted in line with the average, as calculated by the Board, of any adjustment to rates approved by the Board for other distributors for the same rate year.

2.2 The Regulation requires the Board to “calculate” an “average increase” and the unsettled issue revolved around precisely how this calculation should be performed. To facilitate parties' submissions regarding the RRRP Adjustment, the Board directed its Staff to prepare a report on several options that could be considered to determine the appropriate method of calculating the average distribution rate adjustment of other distributors¹. Board Staff submitted its report on October 1, 2010². On the same date, Board Staff also filed its submission and supported an approach whereby:

- The calculation of the average adjustment included the years 2008, 2009 and 2010 – the three year period since the Board last set Algoma's rates for the 2007 rate year.
- The calculation would continue to exclude the Attawapiskat Power Corporation, Fort Albany, Algoma Power Inc, Hydro One Remote Communities Inc and Kashechewan Power Corp.
- The calculation should include the Residential as well as the the GS<50 customer classes.
- Each licensed distributor would receive a weighting of one, regardless of the

¹ Procedural Order #3

² A corrected version was filed on October 4, 2010

number of tariffs for a single class. The average increase for each distributor would be the simple average of the increases calculated for the Residential and GS<50 classes. For those distributors that have multiple tariffs for either Residential or GS<50, the values used would be the simple average increase across all the tariff schedules.

- The calculation of the average would be based on the monthly fixed charge and variable distribution rate (i.e., would exclude the RTSR and rate adders).
- The increases would be calculated using 800 kWh/month in the case of Residential and 2,000 kWh/month in the case of GS<50.

2.3 VECC's submissions are organized so as to address each of the above elements of the RRRP Adjustment, as presented by Board Staff in its Submissions.

Years Included in Calculation

2.4 Section 3.1 of the Regulation appears to suggest that the calculation will be carried out each year. However, clearly this is not case as the current Application by Algoma sought to adjust the rates that had been approved for 2007. As result, when such circumstances arise the question arises as to whether the "average adjustment" calculated per Section 3.2 of the Regulation should look simply at the rate adjustment approved for each distributor for the current year in question or consider all adjustments approved since the last rate approval for Algoma. In its initial Application, Algoma proposed³ to use the former approach while Board Staff is proposing the latter approach should be adopted.

2.5 While the Board Staff's recommended approach recognizes that Algoma's distribution rates are not adjusted annually, VECC believes that wording of Section 3.2 of O. Reg. 442/01 is such that the average must be calculated in accordance with the approach proposed by Algoma. This section of the Regulation directs that the average adjustment be determined based on rates approved for the "same rate year". In reading the Section, VECC is of the view that "same rate year" refers to the test year in question (i.e., the year for which the forecasted consumer

³ Exhibit 8/Tab 1/Schedule 1, page 3

revenues are to be established). It does not refer back to the last year for which a rate order for Algoma was issued, as suggested by Board Staff⁴.

Distributors Excluded

2.6 The original calculation excluded four provincial distributors that serve First Nation communities and are, themselves, recipients of RRRP. Staff proposes⁵ to continue to exclude these distributors from the calculation and VECC agrees with this approach.

Customer Classes Included

2.7 The Algoma customer classes eligible for RRRP include the R1 class (which is made up of customer that are typically Residential or GS<50) and R2 (which is made of customers that are typically GS>50). Board Staff's proposal to exclude GS>50 from the calculation is predicated primarily on the significant work that would be required to calculate the average increase for this class for each distributor⁶, given there are relatively few customers in the class and bill impacts are difficult to generalize.

2.8 VECC notes that Algoma's GS>50 customers account for roughly 40% of total energy sold to those customers qualifying for RRRP⁷. As a result, they make up a significant portion of the total and, from a materiality perspective, are likely as important to include as the GS<50 class. VECC acknowledges that the average use (i.e., kW/month/customer) does tend to vary more from year to year for this class than for the either Algoma's R1 class or its component Residential and GS<50 classes⁸. However, the variation is not that great (i.e., between 3,000 and 4,000 kW per year over the period 2005-2009). As a result, VECC submits that

⁴ Board Staff Report on: Rural and Remote Rate Protection and Adjustment Mechanism, October 1, 2010, page 3

⁵ Board Staff Report on: Rural and Remote Rate Protection and Adjustment Mechanism, October 1, 2010, page 1

⁶ Board Staff Submission on: Rural and Remote Rate Protection and Adjustment Mechanism, October 1, 2010, page 2

⁷ Exhibit 3/Tab 3/Schedule 2, ERA Load Forecast Report, page 8

⁸ Exhibit 3/Tab 2/Schedule 1, page 1

the GS>50 class should be included in the calculation.

Comparator Weightings

2.9 VECC agrees with Staff's proposal to give each distributor a weighting of one – regardless of the number of tariff schedules it has. The Regulation directs the Board to calculate the average rate adjustment across distributors. In VECC's submission this suggests that each (licensed) distributor should receive equal weighting regardless of the number of tariffs it offers.

2.10 VECC also agrees that the tariffs for each class (Residential, GS<50 and, based on VECC's recommendation, GS>50) should receive equal weighting when deriving the average increase for each distributor.

Cost Components to be Included

2.11 The calculation used for the 2007 rates included all components of the Delivery Charge (i.e, RTSR, Rate Adders, etc.)⁹. VECC agrees with the Staff Proposal that the calculation should only include the monthly fixed charge and the variable distribution rate. Absent the RRRP, these are the charges that would be used to recover Algoma's Base Distribution Revenue Requirement. As a result, it is the rate adjustment for other distributors associated with these components that should be used as a comparator in establishing the level of RRRP.

Volumetric Assumption

2.12 For the Residential Class, Board Staff recommends calculating the rate adjustment for each distributor using 800 kWh/month. VECC agrees and notes that the average Residential use/customer/month was 794 kWh in 2008 and 779 kWh in 2009¹⁰.

2.13 In the case of GS<50, Board Staff recommends using a monthly consumption

⁹ Board Staff Report on: Rural and Remote Rate Protection and Adjustment Mechanism, October 1, 2010, page 4

¹⁰ Calculated using the Board's Statistical Yearbooks

level of 2,000 kWh. For this class, VECC notes that the average monthly use (across all distributors) was 2,685 kWh in 2008 and 2,644 kWh in 2009. In VECC's view, a more representative value to use would be 2,500 kWh/month.

2.14 In the case of GS>50, VECC submits that the Board should use a consumption level reflective of the average monthly kW use by Algoma's customers. Using the most recent 3 years historical data this would be roughly 300 kW/month¹¹.

3 Recovery of Reasonably Incurred Costs

3.1 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 14th day of October 2010

¹¹ Exhibit 3/Tab 2/Schedule 1, page 1