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November 15, 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)
EB-2009-0165
Ottawa River Power Corporation – 2010 Electricity Distribution Rate
Application**

Please find enclosed the submissions of the Vulnerable Energy Consumers Coalition in the above-noted proceeding.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

cc: Ottawa River Power Corporation
Attention: Mr. Douglas Fee

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 Ottawa River Power Corporation 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”)

November 15, 2010

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Vulnerable Energy Consumers' Coalition ("VECC")
Final Argument

The Application

On June 30, 2010, Ottawa River Power Corporation ("ORPC" or "Ottawa River") filed an application with the Ontario Energy Board for rates effective May 1, 2010. The application requested approval for a forecasted 2010 distribution revenue requirement of \$3,972,542.¹ At existing rates, ORPC forecasts a gross revenue deficiency of \$417,801.² The increase in distribution revenues required to eliminate the deficiency is 11.75%.³

ORPC proposes to record actual Provincial Sales Tax amounts paid in the first six months of 2010 in a deferral account for future recovery.⁴

ORPC does not propose to dispose of the balances the following accounts:
Account 1555 – Smart Meters Capital Variance, Account 1556 – Smart Meter OM&A Variance, Account 1562 – Deferred Payment in Lieu of Taxes, and Account 1592 – PILs and Tax Variance for 2006 and Subsequent Years.⁵

With the exception of the balance in Account 1588 RSVA/Power Sub-Account Global Adjustment, ORPC proposes to dispose of the balances in its other

¹ See Exhibit 6, Tab 1, Schedule 2, Attachment 1.

² See Exhibit 6, Tab 2, Schedule 1, Attachment 1. The gross deficiency includes a provision for PILs/taxes.

³ Per Exhibit 3, Tab 2, Schedule 1, Attachment 1, page 2, distribution revenues net of LV and Transformer Allowances is forecast to be \$3,554,741 at current rates.

⁴ See Exhibit 1, Tab 1, Schedule 3, page 2.

⁵ Regarding the first two accounts, ORPC noted that it had not reached the 50% deployment threshold at December 31, 2009 as required by Board policy for disposition of balances. Requirements for the disposition of balances in Account 1562 are the subject of a current proceeding, EB-2008-0381, the outcome of which is expected to be relevant to the requirements for disposition of Account 1592.

deferral and variance accounts by means of rate riders designed to recover the amounts over a four-year period. These balances give rise to an overall ratepayer credit of \$4,845,967.⁶

With respect to Account 1588 RSVA/Power Sub-Account Global Adjustment, the balance for recovery is a ratepayer debit of \$514,052⁷ which ORPC proposes to recover from non-RPP, non-MUSH customers over a 12-month period.⁸

Ottawa River also seeks approval of a Smart Meter Adder of \$1.54 per month per metered customer.⁹

The following sections contain VECC's final submission regarding the various aspects of Ottawa River's Application.

Rate Base and Capital Spending

Rate Base

ORPC proposes a 2010 rate base of \$11,518,872, comprised of \$8,706,302 in average net capital assets in service (75.6%) and \$2,811,992 in working capital allowance (24.4%).¹⁰ Approved, actual, and projected rate bases are shown in the table below for 2006-2010 inclusive.¹¹

Component	Rate Base					
	2006 Approved	2006 Actual	2007 Actual	2008 Actual	2009 Proj.	2010 Proj.
Net Assets	8,408,527	8,562,429	8,276,762	8,339,373	8,467,161	8,706,302
WCA	2,351,008	2,560,054	2,616,018	2,549,457	2,486,133	2,811,992

⁶ See Exhibit 9, Tab 2, Schedules 1 and 2.

⁷ Ibid. Note that the total includes the balance at December 2009 plus interest to April 30, 2010.

⁸ Per page 24 of the Report of the Board, EB-2008-0046, July 31, 2009.

⁹ See Exhibit 9, Tab 3.

¹⁰ Exhibit 2, Tab 1, Schedule 1, Attachment 1.

¹¹ Ibid

Total	10,759,535	11,122,483	10,892,800	10,888,830	10,953,294	11,518,294
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VECC notes that the pre-filed evidence shows the projected 2009 rate base. For the purpose of establishing rates for the Test Year, VECC submits that the starting point for determining the 2010 rate base should be the actual net plant in service at the end of the 2009 rate year.

VECC's proposed adjustments to the Test Year rate base are included in the two sections below.

Capital Spending

In preparing this submission, VECC noticed that there is an inconsistency between the historic approved capital budgets provided by ORPC in response to Board Staff IR #10 in the first round responses and the historic approved capital budgets provided by ORPC in response to VECC IR#4 (o) at Appendix B in the first round responses. The table below summarizes these two sets of budget information.

Capital Budgets Approved and Actual Capital Spending¹²

Year	Approved Budget per Staff IR#10	Approved Budget per VECC IR#4(o)	Variance - Staff IR and VECC IR	Actual CapEx ¹³
2005	not provided	896,495	na	674,526
2006	1,072,540	1,072,540	Nil	573,080
2007	1,071,681	1,210,301	138,620	800,944
2008	1,413,424	1,934,264	520,840	899,713
2009	965,052	1,504,952	539,900	1,014,042
2010	not provided	1,824,330	na	not available

VECC submits that ORPC should explain the reason for the significant

¹² The figures in the table are net of capital contributions.

¹³ For 2005-2008 inclusive, the actual capital expenditure figures are from Exhibit 2, Tab 4, Schedule 2, pages 11, 20, 28, and 36. For 2009, the actual capital expenditure total is from the response to Staff IR #10.

differences between the budget figures provided in Board Staff IR #10 with those provided in VECC IR #4 (o) at Appendix B for the years 2007-2009 inclusive.

Further, while the response to VECC IR #4(o) Appendix B indicates 2010 budgeted capital expenditures of \$1,824,330, the 2010 capital budget shown in the response to VECC Supplemental IR #20 (d) shows a 2010 capital budget of \$1,167,330. VECC submits that ORPC should also address this apparent inconsistency in its reply.

Given that the responses to VECC #4 (o) at Appendix B include, for each year, the date on which the Board of Directors approved the capital budget, for the purposes of this argument VECC has assumed that the responses to VECC #4(o) are correct.

From the table above, VECC notes that the average approved annual capital budget per VECC #4(o) is \$1,407,147 (2006-2010) while the average annual actual capital expenditure is \$792,461(2005-2009), i.e., 56.3% of the average approved annual expenditure. Further, in the year in which ORPC had the highest approved capital expenditures, 2008, VECC notes that ORPC failed to spend half of the amount budgeted.

ORPC has included \$302K in its 2010 capital budget for a line truck.¹⁴ The response to VECC Supplemental IR # 19(a) indicates that the utility expects the line truck to be delivered October 28, 2010 while the response to VECC Supplemental IR #20(d) indicates that ORPC has spent \$302K in its 2010 capital expenditures for transportation equipment.

However, in response to VECC Supplemental IR #19 (b), ORPC advises that it proposes to include \$282K (93.4% of \$302K) in its Test Year rate base for the line truck purchase.

¹⁴ VECC IR #3(a), VECC IR #4(o) Appendix B, and VECC Supplemental IR #20 (d).

VECC submits that the half-year rule should be observed in the amount closed to rate base in respect of the line truck as well as in respect of other capital expenditures closed to rate base. Therefore, VECC's view is that the 2010 rate base be lowered by \$131K¹⁵ to reflect that only half of the spending be put in rate base in the Test Year.

In response to VECC Supplemental IR #20(d), ORPC indicated a 2010 capital budget of \$1,167,330 and a year-to-date actual 2010 capital spending of \$395,661 as at July 31, 2010. Further, the 2010 budget provided in this response exceeds actual capital spending in each year 2005-2009 inclusive.

While VECC is unable to propose specific cuts to line items in its approved 2010 capital budget, VECC submits that based on (i) ORPC's historic record of spending just over half of its approved capital budget,¹⁶ and (ii) the fact that as at July 31, 2010, ORPC had spent only \$395,661¹⁷ or 21.7% of the total 2010 capital budget of \$1,824,330 as approved by the Board of Directors on January 12, 2010,¹⁸ VECC submits that ORPC's capital expenditures for 2010 should be approved as \$800K for ratemaking purposes.¹⁹ VECC submits that only 50% of the OEB approved 2010 capital spending should be closed to rate base in 2010.

While ORPC has proposed to exclude all PST from its Test Year OM&A, deferring recovery of actual PST paid in the first six months of 2010,²⁰ there does not appear to be a corresponding proposal with respect to PST paid on capital expenditures. VECC submits that the treatment of PST should be the same for OM&A spending and capital spending.

¹⁵ This is the difference between the \$282K proposed for rate base and 50% of the \$302K purchase price.

¹⁶ Again, VECC is assuming that Appendix B contains the actual approved capital budgets.

¹⁷ VECC Supplemental IR#20 (d)

¹⁸ VECC IR #4(o), Appendix B

¹⁹ This figure approximates ORPC's actual average capital spending and is about double the July 31, 2010, actual year-to-date spending.

²⁰ Exhibit 4, Tab 2, Schedule 2

Working Capital Allowance (WCA)

ORPC has used the 15% rule in forecasting its Test Year WCA of \$2,811,992.²¹

VECC takes no issue with the 15% rule but does submit that the amounts used for OM&A and cost of power in using this rule should reflect VECC's submissions on those components.

Load Forecast and Revenue Offsets

Load Forecast Methodology

Ottawa River'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 2002 to December 2009²². Normal weather is based on a 10 year average²³. It should be noted that Ottawa River's purchases from several embedded generators as well as those from Hydro One Networks were included in the analysis²⁴.
- Second, for the weather sensitive classes (Residential, GS<50 and GS>50), the 2010 retail kWh were determined based on each class' 2009 share of wholesale kWh, exclusive of distribution losses. For the remaining classes (Street Lights, Sentinel Lights and USL), 2010 sales are assumed to be the same as those for 2008²⁵.
- Finally, for the customer count forecast, residential connections were assumed to continue to grow at their historical rate (0.7%); while the GS<50 customer count was forecast to decrease at the same rate as historically observed (-0.5%). For the remaining customer classes the

²¹ In lieu of conducting a lead-lag study, ORPC has used 15% of the sum of OM&A costs and power supply costs.

customer count is forecast to remain constant at 2009 levels²⁶.

Overall, the total billed energy for 2010 is forecast to be 198.1 GWh²⁷ as compared to an actual 2009 billed energy value of 192.08 GWh and a 2009 weather normalized value of 197.6 GWh²⁸ – an increase of roughly 0.25%.

In terms of the regression model used to predict total weather normalized purchases, VECC notes that model has an adjusted R-squared value of 90% and that the coefficients are all (statistically) significant and intuitively correct²⁹. VECC submits that the model's results provide a reasonable forecast for purposes of setting 2010 rates.

VECC notes that Ottawa River'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 2009 actual sales) and the methodology used for the smaller customer classes (which uses actual 2009 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 Ottawa River assumes that USL, Street Lighting and Sentinel Lighting are not weather sensitive³⁰.

²² Exhibit 3/Tab 1/Schedule 1, page 1

²³ Exhibit 3/Tab 1/Schedule 1, Attachment 1 (ERA Load Forecast Report), page 6

²⁴ Exhibit 3/Tab 1/Schedule 2, page 1

²⁵ Exhibit 3/Tab 1/Schedule 2, Attachment 1 (ERA Load Forecast Report), pages 8-10

²⁶ Exhibit 3/Tab 1/Schedule 2, Attachment 1 (ERA Load Forecast Report), page 11.

²⁷ Exhibit 3/Tab 1/Schedule 2, Attachment 1 (ERA Load Forecast Report), page 12

²⁸ Exhibit 3/Tab 1/Schedule 1, Attachment 1

²⁹ Exhibit 3/Tab 1/Schedule 2, Attachment 1 (ERA Load Forecast Report), pages 4-5

³⁰ Exhibit 3/Tab 1/Schedule 2, Attachment 1, (ERA Load Forecast Report),

VECC submits that a more consistent approach would have been to determine the 2008 percentage use by customer class of total 2009 purchases excluding the sales to USL, Street Lighting and Sentinel Lighting. These percentages would then be applied to the forecast 2010 purchases (net of projected sales to USL, Street Lighting and Sentinel Lighting) to determine the 2010 weather normalized sales for Residential, GS<50 and GS>50. However, the impact relative to the total sales forecast is small³¹.

2010 Load Forecast Results

The Ontario employment growth forecast used by Ottawa River to estimate 2010 purchases is based on various forecasts developed in late 2009/early 2010 and averages 1.0%³². In response to VECC #6 a) Ottawa River provided updated forecast for two of the four sources used and the revised average growth in employment across the four sources is now 1.2%. Using this updated forecast increases the total forecast 2010 energy purchases by 0.05%.

VECC acknowledges that this is a small change. However, it does reflect the most current information available and the Board should consider adjusting Ottawa River's 2010 load forecast accordingly.

In terms of the individual customer class counts, VECC notes that the year to date values suggest that the Residential year-end count may be higher than forecast by Ottawa River; however, the GS<50 count is likely to be less³³. Overall, VECC submits that the customer count forecast as filed by Ottawa River is reasonable for purposes of setting 2010 rates.

Revenue Offsets

page 10

³¹ VECC #6 d) & e)

³² Exhibit 3/Tab 1/Schedule 2, Attachment 1 (ERA Load Forecast Report), page 7

³³ VECC #5 a)

In its initial Application Ottawa River's forecast 2010 Revenue Offsets of \$377,968³⁴. During the interrogatory process, Ottawa River acknowledged that this amount understated SSS Admin charge revenue but observed the difference was immaterial³⁵. Ottawa River also noted the need to exclude \$10,000 in revenue from the OPA which would reduce the revenue offsets³⁶.

VECC submits that if adjustments are to be made then the Revenue Offset forecast for 2010 should be \$368,091 – reflecting both of the noted changes.

Operating Costs

For 2010, ORPC has proposed a total OM&A expense of \$2,570,853 including one-time adjustments for filing costs (\$148K over 4 years or \$37K per year), IFRS transition costs (\$60K over 4 years or \$15K per year) and PST savings (\$29.915K). Without these one-time adjustments, ORPC's forecasted 2010 OM&A would be \$2,548,768.³⁷ VECC notes that even after adjustment for one-time costs, 2010 OM&A is forecast to be 12.7% above the 2008 level.

The 2008 actual OM&A was \$2,261,106.³⁸ ORPC cites the main cost drivers for the increase in 2010 over 2008 as *“the recruitment and training of trade apprentices to address recent and expected staff retirements; and salary adjustments to bring compensation levels of management and*

³⁴ Exhibit 1/Tab 4/Schedule 9 (RRWF), page 4

³⁵ VECC #8 a)

³⁶ VECC #8 e) and Staff #1

³⁷ Exhibit 4, Tab 1, Schedule 2

³⁸ Ibid

*administrative staff in line with those of cohorts.*³⁹

The variance of 2010 over 2008 OM&A costs that is unrelated to ORPC's one-time costs is further broken down into (i) \$181K *"largely due to salary adjustments to bring the salaries of non-union staff in line with those of cohorts"* and (ii) \$134K for recruitment and training of apprentices.⁴⁰

VECC notes that in 2008, \$216,880 was booked into Account 5605 – Management Salaries and Expenses. The comparable figure for 2010 is \$274,897, an increase of 26.8% in two years. VECC submits that a 10% increase in 2010 over 2008 is more reasonable. As such, VECC suggests that this component of 2010 OM&A costs be reduced to \$238,558 for a reduction of \$36,329.

With respect to Account 5125 – Maintenance of Overhead Conductors and Devices, ORPC incurred costs of \$184,537 in 2008, \$181,540 in 2009, and forecasts 2010 costs at \$291,857.⁴¹ VECC notes that this cost forecast for 2010 is more than twice the average annual spending of \$143,885 for the years 2006-2009 of \$143,885. Further, VECC notes that the capital investments made in respect of Overhead Conductors and Devices in USoA Account 1835 were \$202,917 in 2008,⁴² \$213,146 in 2009,⁴³ and forecast to be \$80,490 in 2010.⁴⁴

That is, while the level of investment was similar in 2008 and 2009, and forecast to be much less in 2010, the associated maintenance costs have skyrocketed since 2008 and 2009. Absent a clear and compelling rationale for the significant increase in this cost component, VECC's view is that the approved 2010 maintenance costs for Account 5125 – Maintenance of Overhead Conductors and Devices be limited to a 10% increase above the

³⁹ Ibid

⁴⁰ Exhibit 4, Tab 1, Schedule 4

⁴¹ Exhibit 4, Tab 2, Schedule 1, Attachment 2, page 2

⁴² Exhibit 2, tab 4, Schedule 2, Attachment 1, page 9

⁴³ Exhibit 2, tab 4, Schedule 3, Attachment 1, page 1

⁴⁴ Exhibit 2, tab 4, Schedule 3, Attachment 1, page 3

2008 level, i.e., \$202,991 for a reduction of \$88,866.

Losses

Ottawa River has based its proposed loss factor on a five year average.⁴⁵ Given that there is no discernable trend in Ottawa River's historical loss values, VECC considers this approach to be reasonable.

Cost of Capital/Capital Structure

6.1 VECC has no submissions with respect to Ottawa River's proposed 2010 cost of capital and capital structure.

Deferral and Variance Accounts

7.1 VECC takes no issue with respect to ORPC's deferral and variance account proposals other than to submit that the proposal to record PST costs actually paid in 2010 for OM&A should be matched with a variance account to track any PST savings associated with capital expenditures in 2010.

Payments in Lieu of Taxes

VECC has no submissions with respect to Ottawa River's proposed 2010 PILs treatment.

Cost Allocation

Ottawa River has prepared a 2010 cost allocation study using 2010 costs and

⁴⁵ Exhibit 8, Tab 3, Schedule 3, page 1

scaling the various loads used in its 2006 study to match the change in load forecast for each customer class between then and 2010⁴⁶. In preparing the 2010 Cost Allocation study Ottawa River's consultant used 2010 revenues by customer class based on 2009 rates and, as a result, the overall revenue to cost ratio in 90.4% as opposed to 100%⁴⁷. In response to a VECC interrogatory, Ottawa River 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 classes⁴⁸.

During the interrogatory process Ottawa River acknowledged that the 2010 Cost Allocation results filed had relied on an outdated version of the load forecast and provided a revised Cost Allocation (and Rate Design)⁴⁹. In VECC #16, Ottawa

River was asked to provide the revenue to cost ratios that would result if the 2010 revenue deficiency was addressed through a uniform increase to all customer classes based on the updated Cost Allocation⁵⁰. However, in reviewing the response, VECC notes that Ottawa River has not provided the information requested. Instead, the response sets out the determination of its proposed revenue to cost ratios as for each customer class as the "Allocated Revenue" equals the sum of the Miscellaneous Revenue allocated to the class (per the revised Cost Allocation) plus the proposed allocation of the Base Distribution Revenue Requirement (per the Updated RateMaker Model, Sheet F4). For example, the Allocated Revenue shown for the Residential class is \$2,574,512 which is the sum of \$202,987 (Miscellaneous Revenue allocation) plus \$2,371,526 (from Sheet F4 of the updated RateMaker Model).

VECC has replicated the calculations provided in the original response to VECC

⁴⁶ Exhibit 7/Tab 1/Schedule 1, Attachment 1, pages 5-7

⁴⁷ Exhibit 7/Tab 1/Schedule 1, Attachment 1, pages 10-11

⁴⁸ VECC 11 b)

⁴⁹ VECC #11 a)

⁵⁰ The response also updated the 2010 revenue requirement for the changes note in response to Staff #1.

#11 – using the updated revenue requirement allocation. VECC submits that the following results properly reflect the revenue to cost ratios that would result if the 2010 deficiency was addressed by means of a uniform rate increase. The results are set out below.

REVENUE TO COST RATIOS - UNIFORM RATE INCREASE

Column#	1	2	3	4	5	6	7
Class	Rev @ 2009 Rates	%	Alloc. Of 2010 BDR	Misc Rev Alloc	Total Serv Rev	Allocated Costs	R/C Ratio
Residential	\$2,043,761	57.5%	\$2,274,050	\$202,987	\$2,477,037	\$2,338,929	105.90%
GS<50	\$633,839	17.8%	\$705,259	\$86,716	\$791,975	\$939,983	84.25%
GS>50	\$803,473	22.6%	\$894,007	\$59,250	\$953,257	\$776,310	122.79%
USL	\$22,784	0.6%	\$25,351	\$608	\$25,959	\$8,489	305.80%
Sentinal L.	\$6,559	0.2%	\$7,298	\$1,396	\$8,694	\$19,680	44.18%
Street L.	\$44,324	1.2%	\$49,318	\$17,011	\$66,329	\$239,860	27.65%
Total	\$3,554,740	100.0%	\$3,955,284	\$367,968	\$4,323,252	\$4,323,251	

Sources: Column #1: VECC #12 a)
 Column #2: Based on Column #1
 Column #3: Column #2 x Proposed Base Distribution Revenue (per Staff #1)
 Column #4: Revised Cost Allocation Model - Sheet O1, Row 19
 Column #5: Column #4 + Column #3
 Column #6: Revised Cost Allocation Model - Sheet O1, Row 35
 Column #7: Column #5/Column #6

The following table contrasts the results from Ottawa River’s 2006 (TOA corrected) Cost Allocation filing and the results based on 2010 cost and loads, assuming a uniform rate increase.

REVENUE TO COST RATIOS		
Customer Class	2006 (TOA Adjustment) Cost Allocation	2010 Cost Allocation (Uniform Increase)
Residential	1.11	1.06
GS<50	0.88	0.84
GS>50	1.03	1.23
Street Lighting	0.30	0.28

Sentinel Lighting	0.47	0.44
USL	0.05	3.06
Total	100.0	100.0

Sources: Exhibit 7, Tab 1, Schedule 1, ERA Report, page 11
Previous Table

It should be noted that the results from a uniform rate increase reported above are fairly similar to those set out at the bottom of Sheet O1 of Ottawa River's updated Cost Allocation⁵¹. The differences are due to the fact that in the Cost Allocation presentation, the uniform increase was applied to the total Service Revenue Requirement for each class as opposed to the Base Distribution Revenue Requirement.

Use of the Cost Allocation Study Results in Setting 2010 Rates

For 2010, Ottawa River has used the 2006 Cost Allocation results as the "starting point" for determining its proposed revenue to cost ratio adjustments for 2010⁵². The following table compares Ottawa River's proposed R/C ratios with those from the 2006 Cost Allocation and the 2010 Cost Allocation based on a uniform rate increase.

REVENUE TO COST RATIOS			
Customer Class	2006 (TOA Adj) Cost Allocation	2010 Cost Allocation (Uniform Increase)	2010 Proposed
Residential	1.11	1.06	1.10
GS<50	0.88	0.84	0.88
GS>50	1.03	1.23	1.03
Street Lighting	0.30	0.28	0.40

⁵¹ See also the response to Board Staff Supplemental #2 b)

⁵² VECC #12 b)

Sentinel Lighting	0.47	0.44	0.70
USL	0.05	3.06	0.80
Total	100.0	100.0	100

Sources: Board Staff Supplementary #2
Previous Table

For those customer classes whose (2006) revenue to cost ratios are below the Board's target range, Ottawa River is proposing⁵³ to:

- For USL and Sentinel Lighting, move the revenue to cost ratio to the minimum value per the Board's guidelines in 2010.
- For Street Lighting, move the ratio to the minimum value over four years, in four equal increments, in view of the bill impacts.

Ottawa River proposes to apply the additional revenues to the Residential class, as it has the highest revenue to cost ratio based on the 2006 Cost Allocation results.

VECC generally agrees with the approach Ottawa River has used in terms of making adjustments to the customer class revenue to cost ratios. However, VECC does not agree with the use of the 2006 Cost Allocation as the "starting point". Indeed, using 2006 as the starting point results several anomalous results for 2010:

- Under the Ottawa River approach the Residential class would be allocated a higher revenue responsibility than it would under a uniform rate increase even though its revenue to cost ratio assuming a uniform rate increase exceeds unity⁵⁴. Adjustments to revenue to cost ratios are meant to shift cost responsibility between customer classes in recognition of circumstances where certain classes' rates are considered to over/under recover those classes fair share of costs. The Ottawa River proposal shifts the Residential class' revenue

⁵³ Exhibit 7/Tab 1/Schedule 2, pages 1-2.

⁵⁴ VECC #12 b)

responsibility in the wrong direction.

- In the case of the USL class, the Ottawa River proposal yields a revenue to cost ratio less than unity when a simple uniform rate increase would have resulted in a ratio that was well above unity.

Ottawa River supports its use of the 2006 Cost Allocation as the starting point with the observation that it was accepted by the Board in other rebasing decisions⁵⁵. However, VECC notes neither decision referenced specifically addressed the issue of what the appropriate starting point was and in neither case did the use of 2006 as the starting point lead to the types of anomalous results seen in the current Ottawa River Application⁵⁶.

As noted above, adjustments to revenue to cost ratios are meant to shift cost responsibility between customer classes in recognition of circumstances where certain classes' rates are considered to over/under recover the class' fair share of costs. VECC submits that a uniform across increase in all customers' rates is consistent with a neutral approach to cost allocation and that the results of such a cost allocation using 2010 costs and loads are the appropriate starting point.

Furthermore, VECC notes that its proposed approach is consistent with that generally used by other utilities whose Rate Application included an updated cost allocation study:

- The approach used by Hydro One Networks in its 2008 Rate Application⁵⁷ where the results were adopted by the Board for rate setting and again in its most recent 2010/2011 Rate Application⁵⁸.
- The approach used by Burlington Hydro in its 2010 Rate Application which was recently approved by the OEB⁵⁹.

⁵⁵ VECC #12 b)

⁵⁶ VECC #16 a) & b)

⁵⁷ EB-2007-0681, Exhibit G1, Tab 3, Schedule 1, pages 1-2

⁵⁸ EB-2009-0096, Exhibit G1, Tab 3, Schedule 1, pages 1-2

⁵⁹ EB-2009-0259, VECC #27

- The approach used by Festival Hydro in its 2010 Rate Application which was recently approved by the OEB⁶⁰.
- The approach used in the Settlement Agreements adopted by the Board for 2010 Rates for Orillia, Orangeville, Essex, Cambridge-North Dumfries, and Haldimand⁶¹.

VECC appreciates that Settlement Agreements are not to be taken a Board precedents. However, VECC believes they demonstrate the extent to which the approach it proposes has been accepted for rate setting purposes. Indeed, apart from the Applications cited by Ottawa River, VECC is not aware of another utility that has used the 2006 Cost Allocation results in the determination of its final 2010 rates.

Overall VECC submits that Ottawa River should use the 2010 Cost Allocation (assuming a uniform increase) as the starting point. The immediate effect is that while the ratios for Street Lighting and Sentinel Lighting are still below the Board's guidelines, the ratio for USL now exceeds the Board's guidelines. As a result, VECC submits that the 2010 ratios should be adjusted as follows:

- The ratios for Residential and GS<50 should remain unchanged at 105.9% and 84.25% respectively, as both are within the Board's recommended ranges.
- The ratio for Sentinel Lighting should be increased to 70% as proposed by Ottawa River.
- The ratio for Street Lighting should be increased $\frac{1}{4}$ of the way to the Board's minimum value as proposed by Ottawa River. However, with the revised starting point this would produce a revenue to cost ratio for

⁶⁰ EB-2009-0263, VECC #16 and Board Decision, page 35

⁶¹ Essex (EB-2009-0143) used the 2006 Cost Allocation in its initial Application but agreed to the alternate approach as part of the Settlement Agreement

2010 of 38.2%.

- The additional revenues should first be applied to reduce the ratio for USL to 122% and then any remaining revenues should be used to reduce the ratios for both GS>50 and USL in tandem.
- In subsequent years, if the ratios for USL and GS>50 fall below 106% then the additional revenues should also be applied to the Residential class.

Rate Design

Ottawa River's general approach is to maintain the existing fixed/variable split unless the results fall outside the MSC boundaries established by the Cost Allocation model⁶². For the USL, Sentinel Lighting and Street Lighting classes, Ottawa River contends that there is no need for any adjustments. In the case of the Street Lighting and Sentinel Lighting classes VECC agrees as the proposed monthly service charges is below the Board's maximum MSC in each case (i.e., \$1.48 vs. \$7.33 and \$6.10 vs. \$7.27 respectively)⁶³. VECC also agrees in the case of USL. While the resulting service charge is greater than the upper boundary set by the Board it is less than the current 2009 charge (\$6.10 proposed vs. \$6.42 current value)⁶⁴. However, if the results using VECC's recommended Revenue to Cost Ratio yield a value greater than \$6.42 then VECC submits the monthly service charge for USL should remain fixed at \$6.42.

In the case of the Residential and GS<50 classes both the current Monthly Service Charge and the 2010 charge with no change in the fixed/variable split exceed the Board's upper boundary. As result, Ottawa River is

⁶² Exhibit 8/Tab 2/Schedule 1, pages 1-2

⁶³ See revised Rate Maker Model, Sheet F5 and revised Cost Allocation Model, Sheet O2

⁶⁴ Revised Rate Maker Model, Sheet F5

proposing to maintain the current 2009 monthly service charge in both cases⁶⁵. VECC agrees with the approach used by Ottawa River for these classes.

In the case of the GS>50 class, the Cost Allocation model produces anomalous results in that the minimum boundary for the monthly service charge exceeds the maximum boundary⁶⁶. When asked to explain the results, Ottawa River observed that the model appears to be allocating accumulated depreciation but not gross book value for certain assets yielding negative values for allocated interest, ROE and PILs⁶⁷. While this anomaly likely impacts the calculations for all classes it appears to have the most noticeable impact for the GS>50 class⁶⁸. For this class, Ottawa River proposes to set the monthly service charge at the minimum value determined by the Cost Allocation. Given the circumstances, this appears to VECC to be a reasonable approach.

VECC submits that the OEB should also direct its staff to review the Cost Allocation model and determine what changes are required in order to avoid such anomalies in the future.

Retail Transmission Rate

VECC has no submissions with respect to Ottawa River's proposed 2010 Retail Transmission Service rates or its proposed 2010 LV Costs/Rates.

Smart Meters

⁶⁵ Exhibit 8/Tab 2/Schedule 1, page 2 and VECC #13 a)

⁶⁶ Exhibit 8/Tab 2/Schedule 1, page 1

⁶⁷ VECC #13 b) and 18 a) & b)

⁶⁸ VECC #18 c)

12.1 VECC takes no issue with respect to ORPC's proposals with respect to the associated deferral account, nor with the proposed increase of the Smart Meter rate adder to \$1.54 per customer per month.

Recovery of Reasonably Incurred Costs

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.

Respectfully Submitted on the 15th Day of November 2010