Ottawa River Power

November 29, 2010

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli,

Ottawa River Power Corporation

OEB File No. EB-2009-0165

Enclosed please find Ottawa River Power Corporation ("ORPC")'s reply submission in regard to its Cost of Service Application which was filed on June 30, 2010. Should you require any further information, please do not hesitate to contact Mr. Doug Fee at the number below.

Yours very truly,

Douglas Fee
President & C.E.O.

EB-2009-0165

OTTAWA RIVER POWER CORPORATION

REPLY SUBMISSION

1 OVERVIEW

Ottawa River Power Corporation ("ORPC") is seeking an order from the Ontario Energy Board ("the Board") approving just and reasonable rates for the distribution of electricity in the City of Pembroke, the Township of Whitewater (Beachburg only), the Town of Mississippi Mills (Almonte Ward only) an the Township of Killaloe, Haggarty & Richards (Killaloe only) effective August 1, 2010. The Cost of Service Application supporting the proposed 2010 rates ("the Application") was submitted to the Board on June 30, 2010 based on a forward test year.

The Application was supplemented by ORPC's responses to two rounds of interrogations with clarification provided to Board staff and VECC ("the other parties") in a technical conference call. Responses to the preliminary round of interrogatories (Preliminary IRs) from Board staff and VECC and were submitted to the Board on September 15, 2010 and responses to the supplemental round of interrogatories (Supplemental IRs) from both of the other parties were submitted on October 22, 2010.

In its June 30, 2010 application, ORPC provided evidence supporting a service revenue requirement of $4,350,510. ORPC's proposed revenue offset was in the amount of $377,968 resulting in a base revenue requirement to be recovered from ratepayers of $3,972,542. This revenue requirement reflected a gross revenue deficiency for 2010 of $417,801 based on existing approved rates. The following table (Table #1) provides a breakdown of the components of the Base Revenue Requirement as requested in the June 30, 2010 application.

Table #1 – Calculation of Base Revenue Requirement
(As filed on June 30, 2010)

RateMaker 2009 release 1.1 © Elenchus Research Associates

F1 Distribution Revenue Requirement

		2010 Projection
OM&A Expenses	*from sheet D1*	2,570,853
3850-Amortization Expense	*from sheet E2*	791,805
Total Distribution Expenses		3,362,658
Regulated Return On Capital	*from sheet D3*	931,001
PILs (with gross-up)	*from sheet E4*	56,851
Service Revenue Requirement		**4,350,510**
Less: Revenue Offsets	*from sheet C9*	377,968
Base Revenue Requirement		**3,972,542**

In its responses to the Preliminary IRs from Board staff and VECC, ORPC proposed changes to the Application. These changes were reflected in a set of models and revenue requirement worksheets filed in conjunction with the responses. The table presented below (Table #2) is consistent with the revised Revenue Requirement Work Form included in ORPC's Responses to Preliminary Interrogatories.

Table #2 – Calculation of Base Revenue Requirement (As filed on October 22, 2010)

RateMaker 2009 release 1.1 © Elenchus Research Associates

F1 Distribution Revenue Requirement

		2010 Projection
OM&A Expenses	*from sheet D1*	2,570,853
3850-Amortization Expense	*from sheet E2*	791,805
Total Distribution Expenses		3,362,658
Regulated Return On Capital	*from sheet D3*	931,451
PILs (with gross-up)	*from sheet E4*	29,143
Service Revenue Requirement		**4,323,252**
Less: Revenue Offsets	*from sheet C9*	367,968
Base Revenue Requirement		**3,955,284**

The Revenue Requirement was not revised during the Supplemental IRs. Final submissions from VECC and Board staff were received on November 15th, 2010. This document presents ORPC's final submission on OEB File No. EB-2009-0165.

The following sections summarizes ORPC's final request for approval.

2 SUMMARY OF APPROVALS REQUESTED

2.1 Revenue Requirement

In its final submission, ORPC seeks approval to recover a Service Revenue Requirement of $4,323,252, a revenue offset of $367,968 and a Base revenue requirement of $3,955,284. ORPC attests that all components of the revenue requirement were prudently incurred and appropriately derived. Thus, ORPC submits that its proposed revenue requirement is just and reasonable and should be approved. OM&A Expenses, Depreciation Expenses, Cost of Capital, PILs and Revenue Offsets are discussed in greater detail throughout this submission.

Table #3 – Calculation of Base Revenue Requirement (As filed November 29, 2010)

RateMaker 2009 release 1.1 © Elenchus Research Associates

F1 Distribution Revenue Requirement

		2010 Projection
OM&A Expenses	*from sheet D1*	2,570,853
3850-Amortization Expense	*from sheet E2*	791,805
Total Distribution Expenses		3,362,658
Regulated Return On Capital	*from sheet D3*	931,451
PILs (with gross-up)	*from sheet E4*	29,143
Service Revenue Requirement		**4,323,252**
Less: Revenue Offsets	*from sheet C9*	367,968
Base Revenue Requirement		**3,955,284**

2.2 Rate Base

ORPC seeks Board approval for a Rate Base of $11,523,862 for its 2010 test year. This amount is composed of Net Fixed Assets plus a Working Capital Allowance ("the Allowance") determined using the Board approved percentage of 15%.

The projected increase of $1.0 million over 2009 is primarily due to material increases in distribution station equipment ($150K), the replacement of a line truck ($133K) and the replacement of the SCADA system ($80K), transformers ($180K) for downtown revitalization and commercial development, as well as increases in poles, overhead conductors and devices, underground conduits, conductors and devices and services ($185K).

ORPC submits that this level of rate base is justified and required to operate the utility in a safe and reliable manner. ORPC submits that the proposed rate as presented in the table below (Table #4) be approved.

Table #4 – Calculation of Rate Base
(As filed on November 29, 2010)

TOTAL RATE BASE		
		2010
Net Fixed Assets in Service:		
Opening Balance	**8,553,872**	
Closing Balance	**8,858,732**	
Average Balance		**8,706,302**
Working Capital Allowance		**2,817,560**
TOTAL RATE BASE		**11,523,862**

Board staff and VECC's comments are specifically addressed at section 4 of this reply.

2.3 Load Forecast

As part of its June 30, 2010 application, ORPC proposed a weather normal load forecast. Weather normalization involves removing the year-to-year variations in consumption due to weather. This is achieved by estimating a statistical relationship between observed monthly weather and observed monthly consumption. Both VECC and Board staff have made comments regarding ORPC's forecasting methodology. After reviewing these submissions, ORPC submits that the load forecast prepared by the company's expert does not need to be changed and should be approved as proposed in the Application. Further details are presented at Section 5 of this reply submission

2.4 Operating Expenses

ORPC seeks Board approval for OM&A expenses totalling $2,570,853 in the test year. The major cost driver behind the increase is the cost of the 2010 rebasing filing at $148,000, IFRS implementation at $60,000 (both to be amortized over four years), Recruitment of Linesman Apprentice for Succession at $134,000. ORPC also proposes to remove the PST in the amount of $29,915 and recover it through a deferral account at a later date.

The topic of operating expenses is discussed further in Section 6 of this reply. ORPC submits that this level of expenditure is required to operate the utility in an efficient, safe and reliable manner and that accordingly the proposed expenses should be approved.

2.5 Cost of Capital

ORPC submits that all components of the Capital Structure reflect the Board approved equity, long term debt, and short term debt in accordance with the Board's recent Cost of Capital Report. Thus, ORPC proposes that its capital structure be approved by the Board.

2.6 Transmission Rates

ORPC attests that the proposed RSTR rates presented in its application were calculated in accordance to the Electricity Distribution Retail Transmission Service Rates report ("G-2008-0001"). ORPC submits that the rates, as presented in the table below (Table #5), are just, reasonable and that they be approved by the Board.

Table #5 – Proposed 2010 RTSR
(As filed on November 29, 2010)

		Existing Rates		2010 Rates *	
Customer Class Name	Usage Metric	Network	Connection	Network	Connection
Residential	kWh	$0.0045	$0.0053	$0.0048	$0.0023
General Service Less Than 50 kW	kWh	$0.0041	$0.0048	$0.0044	$0.0021
General Service 50 to 4,999 kW	kW	$1.6741	$1.8886	$1.7987	$0.8304
Unmetered Scattered Load	kWh	$0.0041	$0.0048	$0.0044	$0.0021
Sentinel Lighting	kW	$1.2689	$1.4906	$1.3633	$0.6554
Street Lighting	kW	$1.2624	$1.4600	$1.3564	$0.6420
Supply Transmission Rates	kW	$2.2273	$1.9900	$2.6242	$2.1400
	** Rate Adjustment Factors:*				
	Change in Supply rates, 2010 vs Existing			17.82%	7.54%
	Historical Variance (per previous sheet)			-8.80%	-59.11%
	Total Adjustment			7.44%	-56.03%

2.7 Cost Allocation

ORPC seeks approval of its proposed cost allocation ("CA") methodology and maintains that it is an appropriate cost allocation study for its 2010 cost of service rate application. In the context of a cost of service rate application based on a 2010 forward test year, the primary purpose of the cost allocation study is to determine the proportions of a distributor's total revenue requirement that are the "responsibility" of each rate class.

For the purposes of this application, a "Prospective Year CA Study" approach was used. This approach ensures compliance with the Board's direction in the Filing Requirements that the CA Study "should reflect future loads and cost". The proposed 2010 Cost Allocation also addresses the correction to the treatment of the Transformer Ownership Allowance. Submissions from VECC can be found at section 7 of this reply. ORPC submits that the proposed methodology and the associated results be approved.

2.8 Rate Design

As pointed out by VECC, the 2009 fixed monthly charges for Residential, GS<50 and GS>50 were all within the Board's prescribed range. In all three cases, ORPC's approach to rate design has been to maintain the existing fixed charge. Comments on VECC and Board staff's approval of ORPC's approach can be found at section 8 of this reply.

2.9 Deferral and Variance Accounts

ORPC seeks a disposal of balances of Deferral and Variance Accounts in the amount of $4,845,967 over a period of 4 years, as proposed in the "Board's Report on Electricity Distributors' Deferral and Variance Account Review Initiative" issued on the 31st of July 2009. The summary of the balances being request for disposal/recovery are presented in Table #6 below and details can be found at section 6.5 of this reply.

Table #6 – DVA
(As filed on November 29, 2010)

Deferral / Variance Account	Balance for Recovery [1]	Additional Interest for Recovery	Total Recovery Amount
1508-Other Regulatory Assets	131,962	205	132,167
1525-Miscellaneous Deferred Debits			
1550-LV Variance Account	311,683	531	312,214
1555-Smart Meters Capital Variance Account			
1556-Smart Meters OM&A Variance Account			
1562-Deferred Payments in Lieu of Taxes			
1565-Conservation and Demand Management Expenditures and Recoveries			
1566-CDM Contra Account			
1570-Qualifying Transition Costs			
1571-Pre-market Opening Energy Variance			
1572-GLOBAL ADJUSTMENT			
1580-RSVAWMS	(2,099,377)	(3,550)	(2,102,927)
1582-RSVAONE-TIME			
1584-RSVANW	(299,451)	(444)	(299,894)
1586-RSVACN	(1,498,181)	(2,605)	(1,500,786)
1588-RSVAPOWER	(1,258,370)	(2,148)	(1,260,518)
1592-2006 PILs/Taxes Variance			
Sub-Total for Recovery			(4,719,744)
1590-Recovery of Regulatory Asset Balances (residual)	(125,991)	(231)	(126,222)
Total Recoveries Required			(4,845,967)
Annual Recovery Amounts # years: 4			(1,211,492)

2.10 Smart Meters

The filed evidence supported an increase in the smart meter rate adder from a current $0.26/month/metered customer to a justified $1.54/month/metered customer. Neither VECC nor Board staff took issue with proposed smart meter rate adder therefore ORPC requests that this utility specific rate adder be approved by the Board.

The following sections of ORPC's submission deal with specific issues raised by Board staff and VECC and follow the presentation sequence used in Board staff's submission.

REPLY SUBMISSION

3 General Comments

ORPC notes that, in its submission, Board staff submits that an effective date of rate implementation of August 1, 2010 would be reasonable. Board staff note that, due to an absence of response from the Board to its April 26, 2010 Letter[1], ORPC may have been left with the impression that the extension request was approved. ORPC notes that VECC made no mention of the issue in its Final Submission therefore ORPC requests that August 1, 2010 be approved as the effective date of rate change.

4 Rate Base and Capital Spending

4.1 Rate Base

2010 Starting Point – 2009 Actual

In its final argument, VECC submits that the starting point for determining the 2010 rate base should be actual net plant in service at the end of 2009. VECC's comment is based on the incorrect premise that ORPC's pre-filed evidence used the projected 2009 rate base[2].

In response to Board staff IR #12, ORPC stated that the data for 2009 in Exhibit 2 Tab 3 Schedule 1 Attachment 1 (pages 1-2) are actual results and that the title of the column should state "2009 Actual". ORPC therefore confirms that the starting point for the 2010 rate base is the 2009 actual results.

4.2 Capital Spending

2010 Budgeted Expenditures

VECC suggests that there are some inconsistencies in the historic approved capital budgets presented in Board staff IR #10 and to VECC IR #4 (o)[3]. VECC further submits that ORPC should address the apparent inconsistency between 2010 budgeted capital expenditures provided in VECC IR #4 (o) and VECC IR #20 (d)[4]. VECC compiled and referenced the following table (Table #7) in its final submission.

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[1] Board Staff Submission, p. 3.
[2] VECC Final Argument, p. 3.
[3] VECC Final Argument, p. 3.
[4] VECC Final Argument, pp. 3-4.

Table #7 - Approved and Actual Capital Spending (Per VECC's Submission)

Year	Approved Budget per Staff IR#10	Approved Budget per VECC IR#4(o)	Variance - Staff IR and VECC IR	Actual CapEx13
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

ORPC submits the following clarifications.

In response to VECC IR #4 (o), ORPC presented the full board of director's approved budget including those relating to its smart meter implementation. The variances for historic approved budgets highlighted by VECC are all attributed to smart meter expenditures. These numbers can be found in Appendix B of ORPC's responses to VECC's interrogatories filed September 15, 2010, under line item "1860 Meters."

As for the 2010 budgeted capital expenditures, ORPC notes that the 2010 budget included in its response to VECC IR# 4(o) was an earlier version. OPRC's 2010 capital budget was revised and then approved by the board of directors at the January 21, 2010 board meeting. The revision was necessitated as the substation in Almonte was incomplete as of December 2009.

ORPC submits that the total 2010 budget for "1860 Meters" is in the amount of $825,200 which is comprised of $24,000 for meters for (greater than 50kW) commercial customers and $801,200 for smart meters. ORPC confirms that its response to VECC IR #20 is correct and that the 2010 capital budget excluding smart meters is $1,167,330 as summarized in the table below (Table #8).

Table #8 – 2010 Net Capital Spending for Ratemaking Purposes
(Per VECC IR #20)

Gross Capital Spending	$2,071,530
Less Capital Contribution	$103,000
Net Capital Spending	$1,968,530
Less Smart Meters	$801,200
Net Capital Spending for Ratemaking Purposes	**$1,167,330**

Actual vs. Approved

In its final submission, VECC suggests that ORPC under-spends its approved capital budgets. VECC submits that, on average, ORPC spent 56.3% of its approved capital budget[5]. VECC also notes that as of July 31, 2010, ORPC had spent somewhat more than 20% of its 2010 approved budget[6]. While VECC was unable to identify a cut for a specific line item, it concludes that ORPC's 2010 budget for capital expenditures be limited to the approximated figure of $800,000 for ratemaking purposes[7].

In response to Board staff IR #10, ORPC provided an explanation for the variance between actual and budgeted capital expenditures in 2006. In short, most of the variance rests on the delays in building the new substation. As stated in that response, actual expenditures in 2006 were almost $510,000 lower than budgeted with the delay of building a new substation due, in part, by delays associated with the generating station of the Mississippi River Power Corporation. Overall, the postponement has impacted capital budgets over three years. Other contributors to the variance, such as pole work were clearly explained in ORPC's response to Board staff's IR #10.

ORPC remarks that Board staff's submission acknowledges that the variance is largely explained by the delay in completing the Almonte substation[8].

Furthermore, ORPC notes that as of September 30, 2010 it has already spent $643,341 on capital expenditures and expects to disburse approximately $145,000 for the Almonte substation in the near future. With respect to transportation

[5] VECC Final Argument, p. 4.
[6] VECC Final Argument, p. 5.
[7] VECC Final Argument, p. 5.
[8] Board Staff Submission, p. 5.

equipment, the final invoice for the line truck was received in October and the truck delivered on November 1st. With this totalling nearly $1,055,000 in capital expenditures, Ottawa River Power Corporation assures the Board that the 2010 approved budget will most likely be spent in full. ORPC therefore submits that the 2010 capital budget as forecasted in the rate model should be accepted.

ORPC adds that all of its capital costs are incurred in a responsible and prudent manner.

ORPC takes note of Board staff suggestion[9] that a high-level plan of capital expenditures would have been helpful in understanding asset conditions and reliability and would have further supported its rationale for capital spending. However, as Board staff acknowledges[10], ORPC is a small utility and as such cannot justify allocating human, time nor financial resources towards a capital investment plan. That being said, ORPC will commits to providing the Board with a high-level plan of its investment strategy in its next rebasing application.

Finally, ORPC acknowledges that Board staff has no specific issue with its proposed capital additions.

Transportation Equipment

In its final submission[11], VECC highlights an apparent inconsistency in the 2010 capital budget. VECC notes that ORPC has included $302,000 in its 2010 capital budget[12] for a line truck but that in response to VECC IR #19 (b), ORPC advises that it proposes to include $282,000 in its Test Year for the line truck purchase.

ORPC also notes that Board staff also refers to an amount of $302,000 solely for the line truck[13].

ORPC would like to correct this apparent inaccuracy and submits that included in the $302,000 is the replacement of a small truck for an additional $20,000.

Half-year Rule

Further to its observation on the line truck, VECC submits that the half-year rule should be observed in the amount closed to rate base and, in VECC's view, the 2010

[9] Board Staff Submission, pp. 5-6.
[10] Board Staff Submission, p. 1.
[11] VECC Final Argument, p. 4.
[12] Exhibit 2, Tab 3, Schedule 3, Attachment 1, p. 19.
[13] Board Staff Submission, p. 4.

rate base should be lowered to reflect that only half of the spending be put in rate base in the Test Year[14].

ORPC submits that its response to VECC IR #19 (b) is cognizant of ORPC's financial reporting policy rather than its ratemaking policy relating to capital additions.

In its evidence, ORPC has on numerous occasions stated that is uses the half-year rule for ratemaking purposes[15]. Response to Board staff IR #9 also confirms that ORPC has followed Board instruction with regards to the half-year rule. Therefore, ORPC submits that there is no need to lower the rate base as it already reflects the half-year rule for capital additions. ORPC further submits that Board staff acknowledges that the half-year rule is used throughout ORPC's application[16].

4.3 Working Capital Allowance

ORPC notes that neither Board staff[17] nor VECC[18] have issues with the 15% rule used by ORPC for determining the Working Capital Allowance.

4.4 Service Quality and Reliability Performance

In its final submission[19], Board staff indicates it has no issue with ORPC's reliability results following response to Board staff IR #14.

5 Load Forecast

5.1 Load Forecast Methodology

In its final submission, VECC submits that the load forecast model's results provide a reasonable forecast for purposes of setting 2010 rates[20].

VECC also provides some comments on the methodology used and suggests an alternate approach to determining weather normalized volumes for 2010. However, VECC concludes that the impact of its alternate approach relative to the total sales

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[14] VECC Final Argument, p. 5.
[15] See Exhibit 2, Tab 2, Schedule 3; Exhibit 2, Tab 3, Schedule 3; Exhibit 4, Tab 1, Schedule 1, Attachment 1; and Exhibit 4, Tab 7, Schedule 1, Attachment 1.
[16] Board Staff Submission, pp. 13-14.
[17] Board Staff Submission, p. 6.
[18] VECC Final Argument, p. 6.
[19] Board Staff Submission, p. 6.
[20] VECC Final Argument, p. 7.

forecast is small[21]. ORPC understands that VECC is satisfied with the load forecast methodology presented and that no changes are warranted.

In its submission[22], Board staff submits that is has no concerns about the mechanics of ORPC's load forecast methodology and that it has no remaining concerns with regards to "unusable variables" further to response to Board staff IR #18.

5.2 2010 Load Forecast Results

In its final submission, VECC notes that the Ontario employment growth forecast is based on various forecasts developed in late 2009 and early 2010 and that ORPC provided an updated forecast for two of the four sources used in VECC IR #6 (a). VECC notes that the updated forecast increases total energy purchases by 0.05% for 2010. While VECC acknowledges that the change is small, it recommends the Board adjust ORPC's forecast accordingly[23].

ORPC disagrees with VECC's proposal. Firstly, only two of the four sources for employment growth were updated. ORPC does not believe it is good practice to only partially amend a load forecast. Secondly, as a matter of principle, ORPC opposes selective updates of a filed application. Finally, the materiality of the change does not warrant a revised load forecast. The change is less than 0.099 GWh which, as VECC acknowledges, is small.

VECC also submits that the customer count forecast as filed by ORPC is reasonable for purposes of setting 2010 rates. Boar Staff has no issue with ORPC's customer count for 2010[24].

6 Test Year Revenues and Costs

6.1 Revenue Offsets

In its final submission, VECC notes the following[25]:

> *In its initial Application Ottawa River's forecast 2010 Revenue Offsets of $377,968. During the interrogatory process, Ottawa River acknowledged that this amount understated SSS Admin charge revenue but observed the difference*

[21] VECC Final Argument, pp. 7-8.
[22] Board Staff Submission, pp. 7-8.
[23] VECC Final Argument, p. 8.
[24] Board Staff Submission, p. 7.
[25] VECC Final Argument, p. 9.

> *was immaterial. Ottawa River also noted the need to exclude $10,000 in revenue from the OPA which would reduce the revenue offsets.*
>
> *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.*

In its submission[26], Board staff identifies changes to Other Revenues per responses to Board staff IR #1 and #20 and Board staff Supplemental IR #4. ORPC confirms that its proposed 2010 Revenues Offsets is in the amount of $367,968 as presented in OPRC's responses to Preliminary IRs. ORPC considers the difference between VECC's proposed Revenue Offset and ORPC's proposed Revenue Offset of $123 as immaterial.

6.2 Operating Costs

In its final submission, Board staff notes that ORPC has not included any costs for LEAP. Board staff also mentions that it is satisfied with the fact that ORPC did not include any amount relating to the recovery of late payment penalty litigation as the Board just recently initiated a specific proceeding for that matter[27].

Board staff's submission highlights that ORPC's OM&A expenses are less than the cohort average and of the industry average[28]. Board staff also indicates[29] that there has been a small incremental improvement in ORPC's OM&A expenses per customer for 2006-2010.

Management Salaries and Expenses

In its final submission, VECC notes that $216,880 was booked into Account 5605 – Management Salaries and Expenses for 2008 and that projections for 2010 are in the amount of $274,897. VECC submits that a 10% increase in 2010 over 2008 would be more reasonable[30].

ORPC strongly disagrees with VECC's submission because it overlooks the circumstances that generated the increase. ORPC provided a compelling rationale that explains the variances from 2008 to 2010. In response to Board staff IR #22, ORPC makes clear that the increase in management and non-union total compensation is the results of i) increased staff and ii) wage adjustments.

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[26] Board Staff Submission, p. 8.
[27] Board Staff Submission, p. 10.
[28] Board Staff Submission, p. 11.
[29] Board Staff Submission, p. 12.
[30] VECC Final Argument, p. 10.

As stated in the response, in 2007, the customer service manager went onto a long term disability and this position was left vacant for the entire 2008 period in anticipation of his return. This caused the percentage in 2008 to be less than normal. As stated in the same response, an IT technician was hired in mid-2008 and the new line superintendent was promoted in January 2010 with the previous superintendent retiring in May 2010. The review of management and non-union staff compensation by the human resource committee of the Board of Directors further explains the increase as detailed in response to VECC IR #9.

ORPC thus submits that the amount of $274,897 booked to account 5605 is just, reasonable and warranted.

ORPC notes that Board staff is satisfied with the justifications provided by ORPC with regards to increased staffing costs[31].

Maintenance of Overhead Conductors and Devices

In its final submission[32], VECC takes issue with respect to Account 5125 – Maintenance of Overhead Conductors and Devices. VECC notes that ORPC incurred costs of $184,537 in 2008, $181,540 in 2009, and forecasts 2010 costs at $291,857 but that the overall level of capital investments made in respect of Overhead Conductors and Devices in Account 1835 were $202,917 in 2008, $213,146 in 2009, and forecast to be $80,490 in 2010. VECC submits that a clear and compelling rationale was not provided for the significant increase for this cost component and suggests a reduction of $88,866.

ORPC submits that VECC's suggestion ignores the reasons provided in support of the increase. ORPC notes that in its submission, Board staff acknowledges ORPC's situation with regards to apprenticeship and that it has no issues on this matter[33].

ORPC first notes that it booked all of its OM&A costs associated with the additional line apprentices to Account 5125.

In response to Board staff IR #21 ORPC provided a clear and compelling explanation for the cost increases. It also provided the reasons for both the timing and need of the apprentices, and as such ORPC respectfully submits that these costs are just and reasonable.

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[31] Board Staff Submission, p. 13.
[32] VECC Final Argument, pp. 10-11.
[33] Board Staff Submission, p. 10-11.

ORPC further submits that if the Board was to accept VECC's suggestion and reduce the budget of Account 5125 by an amount close to $90,000, ORPC' shareholder would not be in a position to support such a cut. As a result, cost cutting measures would be applied and one apprentice would likely be let go. ORPC believes that to provide for a secure and reliable electric distribution network requires appropriate staffing levels but also adequately trained staff. ORPC is decidedly against putting the safety of its customers and its dedicated staff at risk.

6.3 Losses

ORPC notes neither VECC[34] nor Board staff[35] take issues with losses.

6.4 Cost of Capital/Capital Structure

ORPC notes that VECC has no issues with regards to its cost of capital or its capital structure[36]. In its submission, Board staff indicates ORPC's treatment of its cost of capital appears consistent with Board policy and that it is satisfied with that aspect of ORPC's application[37].

6.5 Deferral and Variance Accounts

ORPC notes that VECC takes no issues with ORPC's deferral and variance accounts except for the fact that the PST deferral account should also track amounts paid on capital expenditures[38]. In its submission, Board staff noted no specific issues with ORPC's proposals for deferral and variance accounts. As discussed below, ORPC will track PST amounts paid for both OM&A and capital expenditures.

PST Amounts Deferred Recovery

In its final submission, VECC notes that ORPC's proposal with regards to 2010 PST amounts is for OM&A only without 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[39].

As explained at Exhibit 1, Tab 4, Schedule 5 of the application, no amount for

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[34] VECC Final Argument, p. 11.
[35] Board Staff Submission, p. 18.
[36] VECC Final Argument, p. 11.
[37] Board Staff Submission, p. 14.
[38] VECC Final Argument, p. 11.
[39] VECC Final Argument, p. 5.

Provincial Sales Tax ("PST") was included in the 2010 spending projections for capital expenditure or for OM&A expenses. Instead, ORPC seeks to defer PST amounts actually paid in the first six months of 2010 for future recovery, as explained in Exhibit 9, Tab 1, Schedule 1. For OM&A, the total estimated savings from eliminating PST for the full year is reflected in the 2010 projection for account '6105-Taxes Other Than Income Taxes'. For capital spending, estimated savings of $43,754 are reflected in the individual asset account balances and project costs. ORPC notes that VECC had no objections with the same methodology proposed by Renfrew Hydro[40]. ORPC therefore requests that its proposed methodology be approved.

6.6 Payments in Lieu of Taxes

ORPC notes that neither VECC nor Board staff raised issues with respect to its proposed 2010 PILs treatment[41].

6.7 Income and Capital taxes

ORPC notes that Board staff is satisfied with ORPC's re-filed tax calculation that includes previously omitted tax credits for apprentices[42].

6.8 Revenue Deficiency or Sufficiency

In its submission[43], Board staff is satisfied with ORPC's calculation of its deficiency pursuant to clarifications provided in response to Board staff IR #24.

7 Cost Allocation

7.1 Starting point

In its final submission, VECC generally agrees with the approach Ottawa River has used in terms of making adjustments to the customer class revenue to cost ratios but it takes issue with the starting point used by ORPC[44].

VECC suggests that by using the (adjusted) 2006 cost allocation rather than the

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[40] VECC Final Submission EB-2009-0146 p. 13
[41] VECC Final Argument, p. 11.
[42] Board Staff Submission, p. 14.
[43] Board Staff Submission, p. 15.
[44] VECC Final Argument, p. 15

2010 cost allocation with a uniform increase results in “anomalous” revenue to cost ratios[45]. VECC further submit that its proposed approach is “the appropriate starting point” for cost allocation adjustments[46].

ORPC disagrees with VECC’s assertion. Different starting points will, as expected, generate different end points, in this case, revenue to cost ratios.

ORPC submits that the starting point for establishing 2010 revenue to cost ratios should be reference to revenue to cost ratios that are consistent with rates, volumes, revenues and costs that have been approved by the Board in a previous rate case. While the Board did not explicitly approve the ratios in the 2006 EDR cost allocation model (as adjusted), the resulting ratios were based on Board-approved methodology, rates, costs and load data. As such, the results from the 2006 model more closely represent Board-approved ratio values.

As stated in responses to VECC IR #12 and IR # 16, the Board has not previously determined that ORPC’s approach to cost allocation is inappropriate or otherwise inconsistent with Board policy. As VECC notes in its submission, “neither decision referenced [in VECC IR #16] specifically addressed the issue of what the appropriate staring point was” or should be.

In order to support its proposal to cost allocation and, at the same time dismiss that of ORPC, VECC lists a number of applications where LDCs have used its preferred approach to cost allocation and states that it demonstrates the extent to which the approach it proposes has been accepted for rate setting purposes[47]. VECC further submits that it is not aware of any utility other than those identified in response to VECC IR #16 that use the approach used by ORPC in this application.

Furthermore, VECC appears to suggest that because more utilities have used its proposed method, ORPC should be directed to do so. ORPC recognises that the approach VECC supports has been adopted by numerous utilities. However, ORPC is of the view that there are circumstances in which a case to case qualitative analysis is warranted and that ORPC’s proposed methodology should be assessed on its own merit instead of its apparent popularity with other utilities.

ORPC further notes that VECC has not identified a single decision where the Board

[45] VECC Final Argument, p. 15.
[46] VECC Final Argument, p. 16.
[47] VECC Final Argument, p. 17.

would have directed a utility to adopt another approach to cost allocation than that proposed by the utility.

ORPC therefore submits that its approach to cost allocation is reasonable and appropriate. ORPC further submits that Board staff appears not have any issue with the starting point used by ORPC[48].

7.2 Proposed Ratios

As stated above, VECC is generally supportive of ORPC's proposed revenue to cost ratios. Nonetheless, because VECC supports a different starting point for cost allocation that yields different results, its comments with regards to the direction each class' revenue to cost ratio should take departs from those proposed by ORPC[49]. The table below (Table #9) contrasts the adjustment proposed by VECC with that of ORPC.

Table #9 – Revenue to cost ratios

Customer Class	ORPC	VECC
Residential	Lowered to 1.07 from 1.11	Remains at 1.06
GS<50	Remains at 0.88	Remains at 0.84
GS>50	Remains at 1.03	Lowered to an unspecified value over 1.06 from 1.23
Street Lighting	Moved towards floor boundary of 0.40 from 0.30 (over four years)	Moved towards floor boundary at 0.38 from 0.28 (over four years)
Sentinel Lighting	Moved to floor boundary of 0.70 from 0.47	Moved to floor boundary of 0.70 from 0.44
USL	Moved floor boundary of 0.80 from 0.05	Lowered to at least 1.22 from 3.06

OPRC notes that, aside from the USL class, VECC's proposed values are quite similar to those proposed by ORPC. Accordingly, ORPC submits that its proposed revenue to cost ratios should be adopted by the Board.

48 Board Staff Submission, p. 16.
49 VECC Final Argument, p. 16-17.

In its submission, Board staff submits that the Board may consider accelerating the correction process for the Street Lighting class in order to minimize inter-class cross-subsidization[50].

ORPC investigated the implications of accelerating the correction process for the Street Lighting class by considering various R/C scenarios. Increasing the cost to revenue ratio by 10% (increasing from 0.40 to 0.50), would result in a rate impact, for Street Lighting, of 17.5% which is well above the 10% threshold of bill impacts. ORPC is working towards minimizing inter-class cross-subsidization in a manner that is equitable for all classes and therefore believes that a phased-in increase towards its applicable floor boundary is appropriate.

8 Rates and Rate Design

8.1 Bill Impacts

ORPC notes that Board staff has not identified any specific issues with regards to bill impacts[51].

8.2 Rate Design

ORPC understands that VECC has no issues and agrees with its proposed rate design for the Street Lighting, Sentinel Lighting and USL classes[52]. VECC also agrees with ORPC's approach for the Residential and GS<50 classes[53]. ORPC notes that VECC considers reasonable its approach for the GS>50 class which is to set the monthly service charge at the minimum value determined by the cost allocation[54].

ORPC notes that Board staff has no issues with its proposed distribution rates[55].

8.3 Retail Transmission Rate

ORPC notes that VECC has no submissions with respect to its proposed 2010 Retail Transmission Service rates or its proposed 2010 LV rates[56].

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[50] Board Staff Submission, pp. 16-17.
[51] Board Staff Submission, p. 18.
[52] VECC Final Argument, p. 18.
[53] VECC Final Argument, p. 19.
[54] VECC Final Argument, p. 19.
[55] Board Staff Submission, p. 17.
[56] VECC Final Argument, p. 19.

ORPC notes that Board staff is satisfied with its response to Board staff IR #14 with regards to payment to BEMI. ORPC further note that Board staff has no issue with respect to Transmission rates and LV rates[57].

8.4 Smart Meters

ORPC notes that VECC takes no issue with respect to its proposals with respect to the Smart Meters deferral account and the proposed increase of the Smart Meter rate adder[58].

All of which is respectfully submitted.

[57] Board Staff Submission, p. 18.
[58] VECC Final Argument, p. 20.