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January 13, 2011

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-2009-0074
Chatham-Kent Hydro Inc. – 2011 Electricity Distribution Rate Application

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

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.
cc: Chatham-Kent Hydro Inc.

EB-2009-0074

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 Chatham-Kent Hydro 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, 2011.

FINAL SUBMISSIONS

On Behalf of The

VULNERABLE ENERGY CONSUMERS COALITION (VECC)

January 13, 2011

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Vulnerable Energy Consumers Coalition (VECC)

Final Argument

1 The Application

1.1 Chatham-Kent Hydro Inc. ("Chatham-Kent", "the Applicant," or "the Utility") filed an application ("the Application") with the Ontario Energy Board ("the Board" or "the OEB") on September 17, 2010, under section 78 of the Ontario Energy Board Act, 1998 for electricity distribution rates effective May 1, 2011. The Application was filed in accordance with the OEB's guidelines for 3rd Generation Incentive Regulation, which provide for a formulaic adjustment to distribution rates and related charges.

1.2 As part of its Application, Chatham-Kent included proposed adjustments to the customer class revenue to cost ratios. The following section sets out VECC's final submissions regarding Chatham-Kent's proposed revenue to cost ratio adjustments.

2 Revenue to Cost Ratio Adjustments

2.1 Chatham-Kent's proposed adjustments to its revenue to cost ratios were complicated by the following issues:

- The approved distribution rates include an adder to recover the costs for smart meter additions up to December 31, 2008. To address this, Chatham-Kent adjusted the revenue requirement by $65,548[1] and modified the 2010 revenue to cost ratios from those approved for 2010 to reflect these additions costs and revenues[2].
- The Settlement Agreement approved by the Board for Chatham Kent's 2010 distribution rates (EB-2009-0261) called for the revenue to cost ratios for customer classes that are outside the Board's guidelines to be moved to the range by moving ½ way to the applicable boundary in 2010 and the rest of the way in equal increments over 2011 and 2012. The problem for 2011 is that

[1] VECC #4 b)

[2] VECC #1 a) i) and Manager's Summary, Section 5

these adjustments are not revenue neutral and result in a revenue shortfall of $442,321 for 2011[3] and the Settlement Agreement did not address how any revenue rebalancing required as a result of the agreed upon adjustments would be accomplished. To address this shortfall Chatham-Kent proposes to further increase the ratios for all of the classes who are currently below 100%. This involves increasing the ratios for some classes who are currently below the Board's range (e.g., GS>50-999; Streetlights and Sentinel Lights) to values in excess of the Board's lower boundary and further increasing the ratio for the Residential class even though it is already in excess of the Board's lower boundary[4].

- The revenues for the Intermediate Class with Self Generation include Standby Charges as well as the standard monthly service charges and volumetric distribution rates[5]. To account for this, Chatham-Kent included a Standby class in the Revenue-Cost Ratio Adjustment Work Form[6].

The following submissions address each of these issues.

Smart Meter Adjustment

2.2 In response to interrogatories from Board Staff[7] and intervenors[8] Chatham-Kent has revised its Application and now proposes to exclude the smart meter capital rate adjustment. VECC agrees that this rate adder along with the associated costs should be removed from the determination of the revenue to cost ratio adjustments as it did not factor into the determination of the revenue to cost ratios in Chatham-Kent's original 2010 Rate Application or Settlement Agreement.

2.3 Chatham-Kent has not provided an updated Revenue-Cost Ratio Adjustment Work Form that reflects this adjustment. VECC submits that this revision should be accomplished by inputting the smart meter capital rate rider in Sheet B1.2 of the Work Form so that it can be removed from the rates used to establish the revenue requirement by customer class for purposes of the revenue to cost ratio

[3] VECC #3 b)
[4] Manager's Summary, Section #5 and Board Staff #1 a)
[5] EB-2008-0261, Exhibit 8, Tab 1, Schedule 1, page 7, Table 8-8
[6] VECC #1 a) ii)

adjustments. VECC notes that Chatham-Kent used this approach in preparing the "alternative" Work Form requested by VECC[9] during the interrogatory process.

Settlement Agreement Revenue to Cost Ratio Adjustments

2.4 The following table sets out the revenue to cost ratios approved by the Board for 2010, the ratios for 2011 and 2012 that would result from a literal interpretation of the EB-2009-0261 Settlement Agreement and the ratios proposed by Chatham-Kent for 2011 and 2012.

Rate Class	**2010 Settlement Ratio**	**Per Settlement**		**C-K Proposal**	
		2011	**2012**	**2011**	**2012**
Resid	94.7%	94.7%	94.7%	96.2%	97.7%
GS<50	106.6%	106.6%	106.6%	106.6%	106.6%
GS 50-999	73.1%	76.5%	80.0%	86.5%	100.0%
Interm	241.5%	178.3%	115.0%	178.3%	115.0%
Street L	68.1%	69.0%	70.0%	81.5%	95.0%
Sent. Light	59.9%	64.9%	70.0%	77.4%	95.0%
USL	66.2%	73.1%	80.0%	80.6%	95.0%
Interm with SG	73.1%	76.6%	80.0%	79.1%	85.0%

Sources: VECC #3 b) and Board Staff #1 a)

2.5 As noted in paragraph 2.3 the generally higher proposed (versus Settlement) revenue to cost ratios for those classes with ratios below 100% are meant to address the overall revenue shortfalls that would occur in 2011 and 2012 based on a literal interpretation of the Settlement Agreement[10]. VECC agrees that a literal interpretation of the Settlement Agreement (I.e., no revenue to cost ratio adjustments other than those specified in the Agreement) would be inappropriate – since it would lead to a revenue deficiency for Chatham-Kent.

2.6 In response to VECC #3 b) Chatham-Kent outlines a number of alternatives that were considered. One option considered was to increase the ratios for the other

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[7] Board Staff #1 a)
[8] VECC #1 a) i)
[9] VECC #5
[10] VECC %3 b)

classes still below 100% (but not addressed in the Settlement Agreement, i.e., Residential). The problem with this approach is that the resulting Residential ratio exceeds 100%. In Chatham-Kent's view, one of the tenets to be maintained is that "no rate class with a ratio currently below 100% should be adjusted to above 100%"[11]. Chatham-Kent also took the view that the ratio for GS<50 (which is already above 100%) should not be increased further in order to address the revenue deficiency. Based on these results, there are only two ways to address the revenue deficiency:

- Slow the rate at which the revenue to cost ratio for the Intermediate class is being reduced towards the upper end of the Board's prescribed range (from that specified in the Settlement Agreement), or
- Increase the ratios for some/all of the Residential, GS 50-999; Street Lights; Sentinel Lights; USL and Intermediate with SG classes.

2.7 In VECC's view, since either option can be viewed as inconsistent with the terms of the Settlement Agreement, Chatham Kent should have approached the parties to the Settlement Agreement, discussed its proposed course of action and sought concurrence from the parties prior to filing its Application. However, this did not occur.

2.8 Rather, Chatham-Kent has unilaterally adopted the latter approach. While VECC agrees, in principle, with this choice; VECC does not agree with the specific ratios proposed by Chatham-Kent. VECC's concerns are two-fold:

- First, the proposal calls for an increase in the ratio for Residential from 94.7% to 96.2%, when there are several customer classes where the proposed 2011 ratio is substantially less[12] and the overall bill impacts[13] are well below the Board's 10% threshold (e.g. GS 50-999; USL, and Intermediate with Self-Generation). In VECC's view the ratios for these classes should be increased further prior to any increase being applied to the Residential ratio.

[11] VECC #3 b)
[12] Board Staff #1 a)
[13] Manager's Summary, page 5

- Second, Chatham-Kent proposes to limit the revenue to cost ratio adjustment for the Intermediate with Self-Generation class on the basis that there is only one customer in the class[14]. VECC submits that the number of customers in the class is not a relevant factor when considering the extent to which revenue to cost ratios should be adjusted. Bill impacts are the same (on an individual basis) whether experienced by one customer or 28,000 customers. As result, VECC sees no basis for applying a different criterion to the Intermediate with Self-Generation class when considering revenue to cost ratio adjustments.

2.9 Overall, VECC submits that ratios for GS 50-999; USL, and Intermediate with Self-Generation (particularly the latter two) should be increased further prior to implementing any changes to the Residential ratio.

Treatment of Standby Revenues

2.10 As noted earlier, the rates for to the Intermediate with Self-Generation class include a standby charge as well as the standard monthly service charges and volumetric distribution charge[15]. In Chatham-Kent's Application, the revenues (and costs – assuming a 100% ratio) for Standby were separated out and treated as a separate customer class. This allowed the impact of the revenue to cost ratio adjustments for the class to be applied to only the monthly service charge and the volumetric distribution charge.

2.11 In response to interrogatories[16], Chatham-Kent states that it is now proposing to "remove the Standby adjustment from the revenue to cost ratios". However, Chatham-Kent has not provided a revised Revenue-Cost Ratio Adjustment Work Form that sets out precisely what its revised proposal is. Overall, VECC agrees with the intent of the original Standby Adjustment –provided it is done in a manner that maintains the integrity of revenue to cost ratio for the class overall – which the

[14] VECC #3 b)
[15] See 201 IRM Application, Current Tariff Sheet Appendix
[16] Board Staff #1 a) and VECC #1 a)

original proposal appeared to do[17].

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 13th day of January 2011

[17] Board Staff #1 a)