PUBLIC INTEREST ADVOCACY CENTRE
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ONE Nicholas Street, Suite 1204, Ottawa, Ontario, Canada K1N 7B7

Michael Buonaguro
Counsel for VECC
(416) 767-1666

January 21, 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-2010-0117
Veridian Connections 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

cc: Mr. George Armstrong
Veridian Connections Inc.

EB-2010-0117

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 Veridian Connections 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 21, 2011

Michael Buonaguro
Public Interest Advocacy Centre
34 King Street East
Suite 1102
Toronto, Ontario
M5C 2X8

Tel: 416-767-1666
E-mail: mbuonaguro@piac,ca

Vulnerable Energy Consumers Coalition (VECC)

Final Argument

1 The Application

1.1 Veridian Connections Inc. ("Veridian") filed an application ("the Application") with the Ontario Energy Board ("the Board"), 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. The Application included two proposed rate schedules. One for its southern service area covering Ajax, Pickering, Belleville, Brock, Uxbridge, Scugog, Clarington and Port Hope ("Veridian – Main") and a second for its northern service area of Gravenhurst ("Veridian – Gravenhurst"). As part of its Application, Veridian also included an adjustment to the customer class revenue to cost ratios for both service areas and a proposal for recovery of the costs of testing non pole-top transformers (Z-Factor Cost Recovery). The following sections set out VECC's final submissions regarding these aspects of the Application.

2 Revenue to Cost Ratio Adjustments

2.1 VECC identified two issues during the interrogatory process. The first was that Veridian had incorrectly input the transformer allowance discount into the Revenue Cost Ratio Adjustment Workforms (Sheet C1.3) for both Veridian – Main[1] and Veridian – Gravenhurst[2]. Veridian has revised the Workforms accordingly.

2.2 The second issue was that Veridian had not included any Revenue Offsets in the Revenue Cost Ratio Adjustment Workforms (Sheet C1.2). In its response to interrogatories Veridian explained that this was because there was no separate determination or allocation to customer classes of Revenue Offsets by Service

[1] VECC Veridian – Main IR #2
[2] VECC Veridian – Gravenhurst IR #2

Area using the 2010 test year data[3]. In response to VECC's interrogatories, Veridian also provided revised Workforms for each service area where the approved Revenue Offsets for 2010 were allocated between the two service areas based on the overall 2010 Revenue Requirement assigned to each and tehen allocated to customer classes using the class percentages from the 2006 Informational CA Filings[4].

2.3 Subsequent to receiving the IR responses VECC has reviewed the 2010 rate Application and Draft Rate Order filed by Veridian. It is VECC's understanding from this review that the Revenue to Cost ratios as derived by Veridian in its original Application[5] and agreed to in the Settlement Agreement approved by the Board were derived using the Base Distribution Revenue Requirement[6]. If this is case, then the approach initially used by Veridian in the current application is correct. VECC invites Veridian to clarify this matter in its Reply.

2.4 VECC submits that apart from these two matters the Revenue-Cost Ratio Adjustment Work Form has been completed appropriately

2.5 The Settlement Agreement approved by the Board in EB-2009-0140 did not provide any direction as to the revenue to cost ratio adjustments during the IRM period. However, in its initial 2010 rate application, Veridian proposed that further adjustments be made over this period to increase the revenue to cost ratios for certain classes to the lower limit of the Board's prescribed ranges[7]. In the case of Veridian – Gravenhurst it was noted that this would occur over the subsequent three-year period in order to address bill impacts. The revenue to cost ratio adjustments proposed for 2011 are in accordance with this original plan. As a result, VECC submits that the proposed adjustments be accepted.

[3] Board Staff IR #7
[4] VECC Veridian-Main IR #1 b) and VECC Veridian-Gravenhurst IR #1 b)
[5] EB-2009-0140, Exhibit 7/Tab 3/Schedule 1., pages 1 & 4
[6] The Base Distribution Revenue Requirement excludes Revenue Offsets.
[7] EB-2009-0140, Exhibit 7/Tab 3/Schedule 1

3 Z-Factor Cost Recovery

3.1 Veridian is requesting the recovery of Z-factor costs in the amount of $314,927.84 (including principal and interest). The principal amount represents costs incurred in 2009 to test non pole-top transformers as required for compliance with Environment Canada PCB Regulations effective September 5, 2008[8]. The existence of such costs and Veridian's plan to record them in Account 1572 (Extraordinary Event Costs) for future recovery were identified in Veridian's 2010 cost of service based rate application[9].

3.2 In the current Application, Veridian seeks to establish that these costs qualify for a Z-factor adjustment using the requirements issued by the Board on July 9, 2010 for filing for Z-Factors under Incentive Regulation Mechanisms[10]. Under these requirements the three eligibility criteria that must be met are causation, materiality and prudence.

3.3 With respect to causation, VECC agrees that the activity associated with the request meets the requirements as set out in the July 2010 Filing Requirements. It is clear from both the evidence in this proceeding and that from EB-2009-0140 that the costs were both necessary and outside management's control as they were triggered by a change in Environment Canada regulations.

3.4 VECC notes that since the costs were incurred in 2009 they were incurred while Veridian was under the Board's 2nd Generation IRM framework. Since there was no provision for such testing costs in the 2006 rates, VECC agrees that the claim is incremental to what was allowed for in rates at the time.

3.5 VECC also notes that the actual Z-Factor requirements as set out[11] in the Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for

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[8] Exhibit 2/Tab 1/Schedule 2, page 1
[9] EB-2009-0140, Exhibit 4/Tab 2/Schedule 1, page 5 and Exhibit 9/Tab 2/Schedule 2, page 6
[10] Exhibit 2/Tab 1/Schedule 2, page 1
[11] Pages 34-36 and Appendix C

Ontario's Electricity Distributors (December 20, 2006) only provided for Z-factors associated with tax changes and natural disasters. However, these requirements were not replicated in the Board's 2009 Filing Requirements which parties to the Board-approved EB-2009-0140 Settlement agreed[12] would be basis for Veridian's Z-factor consideration. These 2009 Filing Requirements are also similar to the July 2010 Guidelines used by Veridian in the current Application. As a result, VECC agrees that Veridian's claim meets the eligibility criteria with respect to causation.

3.6 In the current Application Veridian demonstrates that the claimed principal amount ($311,758.30) exceeds the materiality threshold as established by the Board for 3rd Generation IRM. However, since the costs were incurred in 2009 while Veridian was under the Board's 2nd Generation IRM framework, it is the Z-factor criteria under this regime against which the claim must be tested. The materiality threshold for expenses under 2nd Generation IRM was 0.2% of total distribution expenses before taxes which the requested claim also meets based on Veridian's approved 2006 OM&A and Amortization expenses[13].

3.7 VECC notes that the costs are primarily those for outside contracted services to undertake the necessary inspections and that the contractor was selected through an RFP process[14]. The remaining costs were for new padlocks to replace those damaged or found to be in an unacceptable condition during testing[15]. VECC agrees with Veridian's claim that the costs were prudently incurred.

3.8 Finally, VECC agrees with Veridian's proposals regarding the assignment of the amounts to be recovered to its two service areas, the one-year recovery period and the allocation of the costs to customer classes.

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[12] EB-2009-0140 Settlement Agreement, page 29

[13] From EB-2009-0140, the approved 2006 OM&SA was $19.7 M (Exhibit 4/Tab 2/Schedule 1, Attachment 1) and the approved amortization expense was $8.8 M (Exhibit 4/Tab 8/Schedule 3, page 1)

[14] Exhibit 2/Tab 1/Schedule 2, page 5

[15] VECC IR #5 b)

4 Recovery of Reasonably Incurred Costs

4.1 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 21st day of January 2011.