

Veridian Connections Inc.

REPLY SUBMISSION

**2011 IRM3 ELECTRICITY DISTRIBUTION
RATES**

EB-2010-0117

Filed: February 11, 2011

Overview/Introduction

This is the reply submission of Veridian Connections Inc. (“Veridian”) in regard to its 2011 IRM3 Distribution Rate Application for an order approving just and reasonable rates effective May 1, 2011 (“the Application”). The submission is filed in reply to those submissions filed by Ontario Energy Board Staff (“Board Staff”) January 21, 2011 and Vulnerable Energy Consumers Coalition (“VECC”) January 21, 2011.

Veridian is an electricity distributor as defined in the Ontario Energy Board Act, 1998 (the “Act”) and operates pursuant to license EB-2002-0503. Veridian distributes electricity to approximately 112,800 customers in Ajax, Pickering, Belleville, Brock, Uxbridge, Scugog, Clarington, Port Hope and Gravenhurst.

Veridian has two distinct Tariffs of Rates and Charges. One for the Gravenhurst Service Area (referred to within this submission as Veridian_Gravenhurst) and another for “All Service Areas Except Gravenhurst” (referred to within this submission as Veridian_Main).

1 Veridian filed its application with the Ontario Energy Board on October 5th, 2010 under
2 section 78 of the Ontario Energy Board Act, 1998. Veridian submitted responses to
3 interrogatories from Board Staff and VECC on December 14, 2010.

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5 **Reply Submission – VECC**

6 **Revenue to Cost Ratio Adjustments**

7 During the interrogatory process, VECC identified two issues related to Revenue to Cost
8 Ratio adjustments.

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10 The first was noting of incorrect data entry related to the transformer allowance discount
11 in the Board issued Workforms. Veridian agreed that the original submission was
12 incorrect and has filed revised Workforms. VECC has accepted the revised Workforms
13 as correct. Veridian has no further comments on this issue.

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15 The second issue concerned the omission of Revenue Offsets in the Board issued
16 Workforms. Veridian provided explanation of this omission in its response to Board
17 Interrogatory 7 and specifically noted that the Revenue to Cost ratios derived by Veridian
18 in its 2010 Cost of Service Rate Application and agreed to in the Settlement Agreement
19 approved by the Board were derived from the Distribution Revenue Requirement (Total
20 Service Revenue Requirement less Revenue Offsets), thus it was appropriate to omit
21 Revenue Offsets from the Board issued Workforms. In its Final Argument submission
22 (paragraph 2.3, page 2), VECC indicates that after a review of Veridian's 2010 rate
23 Application and Draft Rate Order, it does understand Veridian's statement on this issue to
24 be correct. As well, VECC goes on to state that "If this is the case, then the approach
25 initially used by Veridian in the current application is correct." Veridian acknowledges
26 that VECC now accepts Veridian's initial approach of omitting Revenue Offsets in the
27 Board issued Workforms as correct and submits that no further adjustments to the
28 Workforms are required.

Z-Factor Cost Recovery

In its submission VECC provides statements of support for Veridian's request for Z-factor recovery in the amount of \$314,927.

In paragraph 3.8 VECC states "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 the customer classes."

Veridian's initial proposal for allocation of costs to rate classes had been on that of the 2009 metered kWh information reported in the RRR filing as of April 30, 2010.

In its Interrogatory 15 (b) Board Staff asked Veridian if it had considered allocating the costs on the same basis as transformer costs and asked Veridian to provide a table comparing allocation of costs to each rate classes for each Tariff Zone when using (a) kWh as the allocator and (b) using the allocation factor for transformer costs underpinning Veridian's 2010 cost of service application.

In response to this Interrogatory, Veridian stated that it did view the methodology of allocating the costs on the same basis as transformer costs as an acceptable approach and provided the requested comparative information in table format.

Veridian agrees with Board Staff submission that, in order to better reflect cost causality principles, the allocation of the Z-factor recovery should be based on the rate class responsible for transformer costs.

Veridian submits that the proposed rate class allocation from Veridian's response to Board Staff Interrogatory 15 be accepted as the basis for allocation of the Z-factor recovery amount of \$314,927.

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2 **Reply Submission – Board Staff**

3 **Revenue to Cost Ratio Adjustments**

4 Similar to VECC, during the interrogatory process, Board Staff identified the issue of
5 omission of Revenue Offset in the Board issued Workform.

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7 In its submission, Board Staff states “Board staff submits that revenue offset information
8 should be included in the 2011 IRM3 Revenue Cost Ratio Adjustment Workform. Board
9 staff requests that Veridian propose a methodology for including the 2010 revenue offset
10 amount of \$4,463,100 in the 2011 IRM3 Revenue Cost Ratio Adjustment Workform.”

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12 In reply, Veridian reiterates that inclusion of the 2010 Revenue Offset amount in the
13 Workform is not appropriate. The purpose of the Workform is to adjust Revenue Cost
14 Ratios from the existing approved 2010 ratios. As explained in Veridian’s response to
15 Board Staff Interrogatory 7, the existing approved 2010 ratios were derived from the
16 Base Distribution Revenue Requirement (Total Service Revenue Requirement less
17 Revenue Offsets). It would be inappropriate to now include Revenue Offsets in the
18 calculation of the adjustments from the current ratios.

19 Board Staff also states “The Vulnerable Energy Consumers Coalition (“VECC”) asked in
20 interrogatory #1b that Veridian provide a revised 2011 IRM3 Revenue Cost Ratio
21 Adjustment Workform which allocates the revenue offsets between its Main and
22 Gravenhurst Tariff Zones on the basis of the 2010 Board-approved distribution revenue
23 requirement. Veridian complied with this request in its interrogatory response.”

24 Veridian acknowledges that it did comply with VECC’s request but notes that in the same
25 interrogatory response, VECC was directed to Veridian’s response to Board Staff
26 Interrogatory 7 where it explained why Revenue Offsets had been omitted and why it was
27 appropriate to do so. Veridian’s completion of the calculations requested by VECC were

1 not an acceptance by Veridian that Revenue Offsets should be included in the Workform
2 or of VECC's proposal for allocation to the two Tariff Zones.

3 Veridian submits that, as agreed by VECC in its Final Argument submission paragraph
4 2.3, page 2, Veridian's initial approach of omitting Revenue Offsets in the Board issued
5 Workforms is correct and submits that no further adjustments to the Workforms are
6 required.

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8 **Z-Factor Cost Recovery**

9 In its submission Board staff states that it supports Veridian's request for Z-factor
10 recovery in the amount of \$314,927.

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12 Additionally it states "Board staff further submits that in order to better reflect cost
13 causality principles, the allocation of the Z-factor recovery should be based on the rate
14 class responsibility for transformer costs."

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16 Veridian agrees with Board Staff submission on the allocation of the Z-factor recovery.
17 Veridian provided a proposal for allocation by 'rate class responsibility for transformer
18 costs' in its response to Board Staff Interrogatory 15 (c) where it provided Tables 1 and 2
19 for class allocation for each of the Veridian_Main and Veridian_Gravenhurst Tariff
20 Zones.

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22 Veridian submits that the proposed rate class allocation from Board Staff Interrogatory
23 Response be accepted as the basis for allocation of the Z-factor recovery amount of
24 \$314,927.

Deferral and Variance Account Disposition

In its submission Board Staff submits that Veridian's proposed disposition of Group 1 Deferral and Variance account balances, including interest as of April 30, 2011 for both its Main and Gravenhurst Tariff Zones is not warranted at this time.

In preparation for an upcoming RPP (Form 1598) Electricity Refunds Claims Audit to be conducted by the Ministry of Finance in March 2011, Veridian has determined that some adjustments may be required to various Group 1 Deferral and Variance account balances for the period up to December 31, 2009. Any adjustments identified as required will be included in Veridian's first quarterly RRR filing of 2011.

As a result of these possible adjustments, Veridian withdraws its request for disposition of Group 1 Deferral and Variance account balances (for both its Main and Gravenhurst Tariff Zones) originally proposed within its Application.