EB-2007-0746

IN THE MATTER OF the Ontario Energy Board Act 1998, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an Application by Barrie Hydro Distribution Inc. for an Order or Orders approving or fixing just and reasonable rates and other charges for the distribution of electricity commencing May 1, 2008.

SUBMISSIONS OF THE SCHOOL ENERGY COALITION

These are the Submissions of the School Energy Coalition ("SEC") in the application by Barrie Hydro Distribution Inc. ("BHD") for just and reasonable distribution rates commencing May 1, 2008.

General Comments

As will be seen from the submissions below, SEC is concerned about the adequacy of BHD's interrogatory responses. As will be seen, in many cases, the response to questions such as "please provide a detailed explanation of X" was a one-line reference to a spreadsheet in the pre-filed evidence, or a series of numbers with no explanation. In SEC's submission, the responses are not adequate. This is particularly troubling in view of the fact that this proceeding proceeded in writing only and that, as a result, the interrogatory process was the only opportunity for parties to obtain additional information from the applicant.

AS a result, SEC submits that, in areas such as OM&A expenditures, the Applicant has failed to provide enough evidence to justify the proposed expenditures.

Rate Base

No submissions.

Forecasting Methodology

In its interrogatory #7, SEC sought an explanation of BHD's weather-normalization methodology, as well as an explanation as to how the customer numbers were derived. In response, we were directed to VECC interrogatory #14(c) and Appendix 3-3 in the pre-filed evidence, neither of which answers the questions that were asked (or if they do contain the required information, no explanation was provided to demonstrate how the requested information could be gleaned from the exhibit.)

The historical customer growth information provided in Attachment 14 to Board Staff interrogatories shows that for the 2002-2006 period BHD's customer count increased by an average annual growth of 3%. BHD's forecast, however, projects average annual growth between 2006 and 2008 of approximately 1.9%. BHD explains the lower growth forecast for 2007 and 2008 by stating that, while its service area experienced average annual growth in the 4-5% range in the years 2000-2004, actual growth since then has slowed. [Exhibit 3/Tab 2/Schedule 1/pg. 6]. However, BHD's residential customers grew by 3% in 2005 and 2.5% in 2006, yet BHD is projecting growth of just 1.7% in 2007 and 2.1% in 2008. BHD states in the pre-filed evidence that these customer projections are based on May YTD actual growth factors prorated for the entire year. [Ex. 3/Tab 2/Schedule 1, pg. 7] It appears, therefore, that BHD's customer count projections are based on its experience in the first part of 2007. That is not, in SEC's submission, a reasonable forecasting methodology.

BHD's evidence with respect to customer counts is in contrast to BHD's evidence with respect to distribution line losses, which states that "much of Barrie Hydro's service area continues to experience rapid growth." [Exhibit 4/Tab 2/Schedule 9, pg. 16]

In SEC's submission, the forecast customer counts should be revised to be in line with historical trends.

Operating Costs

OM&A expenses increase from $8.473 million in 2006 actual to $10.1 million in 2008.

In Board Staff interrogatory #37(a), BHD is asked to explain the $913,848, or 10.8%, increase in OM&A from 2006 to 2007. In response, BHD refers to some cost allocation changes "in individual internal cost centers". BHD goes on to explain, however, that while "the total overhead dollars did not change, additional amounts were allocated out of administration and a lesser amount from O&M." In other words, while the change in allocation could explain fluctuations within various line items, total OM&A number should be unaffected by any cost allocation changes.

In the same response, BHD then describes increases in tree trimming costs in the amount of $185,000, and labour and benefit cost increases in the amount of $170,000.

That still leaves $558,000 of the $913,848 unaccounted for. BHD also directs us to Appendix 4-1 for an explanation of the increase. Appendix 4-1, however, is simply a table showing expenditures for each year. There is no explanation of the variances, which is what was sought. The only explanation given is the increase in salary and benefits and increases to tree trimming budget, mentioned above.

OM&A expenses increase a further $663,444 in 2008 over 2007, a 7.1% increase in a single year [See Board Staff IR#39, and SEC IR#21] SEC sought clarification of these increases, and was directed to Board Staff interrogatory #39. In interrogatory #39, Board Staff sought a "detailed explanation with drivers" to explain the increases in O&M and Administration costs. The questions and answers, in their entirety, are reproduced below:

> From the table above Maintenance 2008 Test expense has increased over 2007 Bridge. Please provide a detailed explanation with drivers to explain the combined increase of $199,695.
> Response
> Operation costs have increased $199,695.
> Exhibit 4-1 Bridge year to Test Year for Group Description 3500:
> Account 5010 - $47,000 1 additional FTE
> Account 5005 - $48,000 change of 1fte from union to management position
> Account 5020 - $42,000 increased direct labour forecasted for this area
> Account 5025 - $34,000 accompanying material & vehicles for additional labour increase.
>
> b) From the table above Administrative and General Expenses for 2008 Test expense has increased over 2007 Bridge. Please provide a detailed explanation with drivers to explain the increase of $411,458.
> Response
> Exhibit 4-1 Bridge year to Test Year for Group Description 3800:
> Account 5610 – additional 1 FTE
> Account 5615 – additional 1 FTE plus 3% labour & 10% benefits increase
> Account 5630 – additional $95,0000 for IT services and maintenance

Again, the response provided is wholly inadequate. In SEC's submission, it is unreasonable to believe that the list of accounts provided could in any way be interpreted as a "detailed explanation" of the cost increases.

On the basis of the evidence provided, SEC submits that BHD has not provided adequate evidence to justify its 2008 OM&A expenditures. SEC suggests setting the OM&A amount for the 2008 test year at 2% above the 2007 level. That would result in a 2008 OM&A of $9.575 million (2007 OM&A= $9,387,153, multiplied by 2%= $9,574,896), or $475,707 less than the as-filed number. Doing so would still allow BHD to realize the unexplained increase of $558,000 from 2006 to 2007, and would still amount to a 13% increase in OM&A from 2006 to 2008 (from $8.473 million to $9.575 million) SEC believes this is a reasonable increase.

Wages and Compensation

As is shown in response to SEC interrogatory #16(b), benefit costs increased substantially from the 2006 Board approved level to 2006 actual. The total increase was $299,565, or 21%. For the unionized workforce, the difference totals $256,578- a 25% increase.

BHDs' explanation was that additional benefits were negotiated in the 2005 collective agreement, and that health and dental benefits premiums have been increasing by up to 10% per year. No explanation was provided as to what the additional benefits were or why they were negotiated. Additionally, no explanation was provided for the increase in health and dental premiums. In SEC's submission, these unexplained increases are further evidence of a need for a reduction in the OM&A budget, as discussed above.

Cost of Capital

BHD has used a return on equity of 9% for the purposes of the application, but stated in the pre-filed evidence that it understands that the actual return on equity for the test year will be based on January 2008 Consensus Forecast data [Ex. 6/1/1, pg. 2] SEC sought clarification of BHD's position in SEC interrogatory #3.

BHD's response was "it is our understanding that the Board will indicate the appropriate ROE to use in the application." SEC believes BHD should be directed to prepare an updated ROE for the test year using the January 2008 Consensus forecast.

Loss Factor

BHD has proposed an increase in its loss factor from 4.63% to 5.18%. This is the second application in a row that BHD has sought an increase in its loss factor. The new proposed loss factor would be among the highest in the province. BHD has provided no evidence to support the increased loss factor, other than to say it is the average of the past three years.

BHD also claimed that "theft of power" from marijuana grow operations has also been contributing to increased line losses. BHD provided no detail to support that claim, and when asked for clarification as to how theft of power from marijuana grow houses factored into its line loss factor calculation, BHD response was "The difference between wholesale kWh and retail kWh would have included this." When asked what the line loss factor would be absent any influence from theft of power from marijuana grow houses, BHD replied that it had "no methodology to estimate this" [see SEC interrogatory #5(c) and 5(d)]

SEC therefore submits that BHD's proposed increase in its line loss factor be rejected and the current line loss factor of 1.495 be maintained.

In addition, SEC submits that BHD be directed to develop an action plan specifically to reduce line losses. It does not appear that BHD currently has such a plan. When asked whether it has “an action plan to reduce the level of distribution line losses”, BHD’s response was as follows:

> Ongoing review of plant, feeders, etc. is a function of our capital planning which reviews line loss mitigation. Operational switching is also performed where possible to mitigate losses.
> [SEC interrogatory #5(f)]

Similarly, in Board Staff interrogatory #15(a), BHD was asked “what steps are contemplated to decrease the distribution loss factor during the test year (1998) and/or during a longer planning period”. BHD’s response was “None other than those stated in E4/2/9, pg. 16”

Based on the responses, it does not appear to SEC that BHD has an action plan specifically to address line losses. This is likely the result of the fact that, like most distributors in the province, line losses are a pass through item for the utility and there is, therefore, little incentive to reduce them. While SEC is not proposing at this time that the variance account for line losses be eliminated, it believes distributors such as BHD with high line losses should be directed to develop a plan to reduce them.

PILS

SEC sought confirmation from the company that it had incorporated recently-announced changes to the federal corporate income tax rate into its PILS calculation. BHD’s responses was as follows:

> We believe the Board will make adjustments on the model to reflect the charges in federal tax on behalf of the LDC’s

It is not clear what is meant by this response, since the company’s PILS calculation needs to be included in its revenue requirement prior to rate finalization. SEC submits that the company be directed to adjust its PILS calculations to reflect the changes to the federal corporate income tax rates.

In addition, as pointed out by Board Staff, BHD did not make any adjustment to PILS calculations to record the retroactive elimination of the large corporation tax. [Board Staff interrogatory 43(l), and (m).

Cost Allocation

BHD has singled out a single rate class, the GS>50kW rate class, for a significant increase in revenue in the amount of $427,555, increasing revenue to cost ratio for this rate class from 80.6% to 86.3% [Ex. 8/1/2, pg. 4-5] The result is that the GS>50kW faces distribution rate increases ranging from 16.4% to 23.1% (depending on volume consumed) [see Appendix 9-1].

By contrast, Street Lighting, which has a revenue to cost ratio of just 9.3%, is slated for a $20,000 increase in revenue, bringing its revenue to cost ratio up to a mere 10.8%. BHD has stated that an additional $841,000 could be collected from Street Lighting if its revenue to cost ratios were increased to 80%. [SEC interrogatory #23(b)]

BHD defends the comparatively small increase to Street Lighting on the basis that, though it is a small dollar value, it represents a large percentage increase to Street Lighting rates. The large percentage increase, however, is a function of the fact that Street Lighting currently pays so little for the electricity it consumes (and the costs it is responsible for on the system).

In SEC's submission, it is not indicative of "just and reasonable" rate making to collect an extra $427,500 from the GS>50 rate class, whose revenue to cost ratio is already within the Board's acceptable range, yet collect virtually no additional revenue from Street Lighting, which is far below the Board's acceptable range.

BHD proposes that any additional revenue collected from Street Lighting be allocated entirely to the residential rate class, since this is the only rate class whose revenue to cost ratio is above 100%. SEC agrees that the utilities should strive towards revenue to cost ratios for all rate classes as close to 100% as possible. Therefore, SEC agrees with BHD's proposal to allocate new revenues from Street Lighting to the Residential rate class on the basis that that is the only rate class whose revenue to cost ratio is greater than 100%.

All of which is respectfully submitted this 11th day of January, 2008.

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