EB-2007-0746

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 Barrie Hydro Distribution Inc. pursuant to section 78 of the *Ontario Energy Board Act* for an Order or Orders approving just and reasonable rates for the delivery and distribution of electricity.

FINAL SUBMISSIONS

On Behalf of The

VULNERABLE ENERGY CONSUMERS COALITION (VECC)

January 11, 2008

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Vulnerable Energy Consumers' Coalition (VECC)
Final Argument

1 The Application

1.1 On September 27, 2007 Barrie Hydro Distribution Inc. ("Barrie Hydro") submitted an Application to the Ontario Energy Board for approval of its proposed 2008 distribution rates. This application is based on a projected 2008 Distribution revenue requirement of $35,008,572 which, after an allowance of $2,556,074 for revenue from other sources, leaves $32,452,498 to be recovered through distribution rates. Excluded from this amount are additional charges required in 2008 associated with the recovery of LV Charges (($1,215,380), the recovery of discounts paid to customers for transformer allowances ($549,556) and the Smart Meter adder ($224,428).

1.2 Distribution revenues at current rates would produce revenues of $28,562,491 yielding a total revenue deficiency of $5,879,372 (including LV charges, transformer allowances and the provision for smart meters). This result requires in increase in distribution revenues from customers of 20.6%[1].

1.3 Also included in the Application is a request to clear the balances in a number of deferral and variance accounts.

1.4 The following sections contain VECC's final submission regarding the various aspects of Barrie Hydro's Application.

[1] Response to OEB Staff IR #1 b)

2 Rate Base and Capital Spending

2.1 Additions to fixed plant over the 2005-2008 period (net of capital contributions) are as follows[2]:

- 2005 $24,991 k
- 2006 $16,242 k
- 2007 $13,971 k
- 2008 $14,619 k

2.2 While the projected capital additions for 2008 are not out of line with historical spending patterns VECC does have concerns with respect to Barrie Hydro's capital plan. First, as noted by Board Staff[3], there does not appear to be a comprehensive asset management plan that identifies and prioritizes the various spending requirements. Second, Barrie Hydro has provided minimal information regarding the basis of the capital cost estimate ($1,5000,000) for its new ERP Software, even after being asked to do so[4]. A similar circumstance exists for the $350,000 spending on a Geographical Information System[5]. Aggravating this concern is the fact that the resulting rate base will serve to establish rates not only for 2008 but also for the subsequent year when the Board's 3GIRM is in effect. VECC invites Barrie Hydro to comment (in its Reply Submissions) on the basis for the cost estimate attributed to the ERP Software and the rationale and basis for the GIS spending.

2.3 Rate Base consists of Net Fixed Assets plus an allowance for working capital. In determining the latter, Barrie Hydro has used 15% of OM&A plus Cost of Power. For the Cost of Power component of the calculation, Barrie Hydro has forecast its

[2] VECC #9 - Attachment
[3] OEB Staff Submissions, page 11
[4] Application, Exhibit 2, Tab 3, Schedule 1, page 35 and VECC #12 b)
[5] VECC #12 c)

2008 wholesale load and then applied its 2007 costs[6]. VECC is concerned that in adopting this approach Barrie Hydro has failed to capture the material decrease in Transmission Charges that will be in effect for 2008 relative to most of 2007. In VECC's view, Barrie Hydro should be directed to revise its Cost of Power estimate to reflect the lower transmission charges approved for 2008.

3 Load Forecast and Revenue Offsets

3.1 Barrie Hydro has used the 2004 weather normalized load data developed by Hydro One Networks to establish weather normalized use per customer for each customer class. It has then developed its load forecast by forecasting 2008 customer count (by class) and multiplying this "count" by the weather normalized per customer use for each class. The one exception is the load forecast associated with a new large user expected to come into service in November 2008[7].

3.2 VECC notes (and shares) the concerns of Board Staff[8] regarding the use of a single year's normalized average use per customer to develop the 2008 load forecast. Not only does such an approach fail to capture continuing improvements in energy efficiency, but it also fails to capture changes in customer usage (particularly in the General Service classes) due to shifts in customer mix. The General Service classes capture customers with a wide range of sizes (e.g. from less than 50 kW up to 4,999 kW). Customer additions over a number of years could have a material affect on average use. However, at this point in time, it is VECC's view that there is no evidence to support a change in the average use values adopted by Barrie Hydro.

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[6] VECC #13 a)
[7] Application, Exhibit 3, Tab 2, Schedule 1
[8] OEB Staff Submission, page 13

3.3 VECC also has concerns with respect to Barrie Hydro's customer growth forecast for 2008, particularly for the GS classes. In its Application, Barrie Hydro indicates[9] that a simple trend line was applied to the post 2004 data to determine forecast customer additions. However, the growth in 2008 customer additions for all the major customer classes is less than the historical average – as illustrated below.

Customer Class	Customer Growth 2004-2006	Customer Growth 2004-2007	Customer Growth 2007-2008
Residential	2.75% / annum	2.4% / annum	2.1 % / annum
GS < 50 kW	1.9% / annum	1.37% / annum	0.6% / annum
GS > 50 kW	2.7% /annum	2.57% / annum	0.6% / annum

Source: Exhibit 3, Tab 2, Schedule 1, pages 6-7. Growth is based on simple averages over period indicated

Barrie Hydro also suggests that customer growth is slowing because the majority of its municipal service areas are approaching total buildout[10]. However, elsewhere in its Application, Barrie Hydro notes that "while residential land in Barrie is dwindling, Bradford is poised to take off and New Tecumseth is expect to continue its strong growth"[11]. Overall, VECC recommends that the load forecast for 2008 should be increased. Based on recent data, in VECC's view, it would not be unreasonable to increase the 2008 customer growth in the GS classes to at least 1% / annum.

4 Operating Costs

4.1 VECC shares Board Staff's concerns regarding the material increase in OM&A costs between 2006 and 2008[12] and the lack of comprehensive explanation for the overall change in costs. Furthermore, as Board Staff has noted, even when the areas experiencing cost increases were identified, Barrie Hydro provided minimal to no explanation as to the reasons/cost drivers underlying the increases.

[9] Application, Exhibit 3, Tab 2, Schedule 1, page 6 of 19
[10] Application, Exhibit 3, Tab 2, Schedule 1, page 6 of 19
[11] Application, Exhibit 2, Tab 3, Schedule 1, page 32 of 43
[12] OEB Staff Submissions, pages 3-8

4.2 Over and above the specific areas of concern noted by Board Staff, VECC wishes to highlight the following:

- When asked to explain how the tree trimming requirements for a normalized spending year were determined, Barrie Hydro simply stated that the 2007 and 2008 forecast spending reflected a normalized year[13].
- The majority of the increased IT costs are attributed to maintenance for GIS software[14]. However, nowhere in the Application is the need for new GIS software discussed or what cost savings may be achieved by the installation of such software.

4.3 VECC submits that without further explanations the Board should reduce Barrie Hydro's OM&A spending by $500,000 to $800,000. VECC notes that the $500,000 amount is less than the $783,815 in unexplained differences[15] in year over cost changes between 2006 actuals and 2008 forecast values; while the $800,00 figure would capture the unexplained differences and also (marginally) address the deficiency associated with the explanations provided.

5 Losses

5.1 VECC has reviewed Board Staff's submissions on this topic and supports the need for further input from Barrie Hydro regarding what action can be taken to reduce losses[16].

[13] VECC #18 a)
[14] VECC #18 b)
[15] OEB Staff Submissions, page 4
[16] Board Staff Submissions, page 16

6 Cost of Capital/Capital Structure

6.1 VECC notes that the Capital Structure proposed in Barrie Hydro's Application[17] reflects the direction of the Board in its Report on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors.

6.2 With respect to the cost of debt, Barrie Hydro's debt consists of both a Shareholder Promissory Note and third part debt. The third party debt carries an interest rate of 6.83% while the Promissory Note (to be replaced January 1, 2008) will carry a rate of 6.5%. For purposes of its Application, Barrie Hydro has used the 2006 deemed debt rate of 6.0%[18]. Barrie Hydro has also indicated that once the Board has determined the "deemed rate" for 2008, the interest rate on Promissory Note will be set (for regulatory purposes) at the lower of the deemed rate or the contracted rate[19].

6.3 With respect to the cost of equity, VECC notes that while Barrie Hydro used 9% instead of applying the Board's formula, the utility has acknowledged that the rate will be updated to reflect the Board's ROE formula and January data[20].

6.4 Based on the above, VECC has no submissions to make regarding Barrie Hydro's proposed cost of capital.

7 Deferral and Variance Accounts

7.1 VECC has no submissions with respect to Barrie Hydro's proposals regarding the disposition of existing deferral and variance account balances. Board Staff's submissions are fairly comprehensive and have canvassed the issues that the Board must consider.

[17] Application, Exhibit 6, Tab 1, Schedule 2 page 2
[18] Application, Exhibit 6, Tab 1, Schedule 3, page 5
[19] Staff IR Response #18 b)
[20] Application, Exhibit 6, Tab 1, Schedule 1, page 2

8 Payments in Lieu of Taxes

8.1 After reviewing Exhibit 4, Tab 3, Schedule 1 and Appendix 8, it is not readily apparent to VECC whether Barrie Hydro has reflected in its Income Tax calculations for 2008 the changes introduced in the March 2007 federal budget with respect to a) a new CCA class (at 55%) for computer equipment acquired on or after March 19, 2007 or b) the new CCA class (at 6%) related to buildings. VECC invites Barrie Hydro to address this issue as part of its Reply Submission.

9 Cost Allocation

9.1 Based on Barrie Hydro's 2007 Cost Allocation Informational filing, the Revenue to Cost ratio for the Residential class (117.5%) exceeds the Board's guidelines (115%); while the ratio for the GS > 50 kW and Street Light classes (80.6% and 9.3% respectively) are below the Board guidelines for those two classes[21]. In its Application[22] Barrie Hydro made a change in the cost allocation methodology as it applies to how the "cost of the transformer discount credit is allocated to customers classes". VECC supports the change proposed by Barrie Hydro and notes that this same issue has been raised by a number of other Ontario LDCs[23] and was incorporated into the recent Enersource Settlement Agreement[24] accepted by the Board.

9.2 In its Application, Barrie Hydro has proposed to re-allocate the revenue requirement between customer classes so as to yield the following revenue to cost ratios:

- Residential 115.1%
- GS < 50 kW 96.0%
- GS > 50 kW 86.3%

[21] The Board's Guidelines were issued after Barrie Hydro filed its Application. At the time of the filing, the only class not meeting the draft guidelines developed by Board Staff was Street Lights.
[22] Exhibit 8, Tab 1, Schedule 2, pages 4-5
[23] For example, Hydro Ottawa and Horizon.
[24] Proposed Settlement Agreement, page 32 or 42

- Street Light 10.8%
- USL 98.6%

VECC has a number of concerns regarding Barrie Hydro's proposal, both in terms of the proposed revenue to cost ratios and the associated calculations.

9.3 First, it is not entirely clear how Barrie Hydro determined the starting point for its cost allocation adjustment, i.e., the current revenue proportion by customer class[25]. In VECC's view these proportions should reflect 2008 revenues based on currently approved rates with the following two adjustments: a) the Smart Meter Rate Adder should be removed and b) the LV Recovery Adder should be removed. With these adjustments the rates used in the calculation would be consistent with the revenues (and costs) in the Cost Allocation Informational filings. This approach would also be consistent with that used in the 2006 and 2007 EDR.

9.4 Second, applying the proposed 63.8% residential distribution revenue proportion to the Base Revenue Requirement yields $20,704,693[26] – not the $20,711,184[27] proposed by Barrie Hydro.

9.5 Third, it is not at all clear to VECC that the proposed 63.8% of distribution revenue for the Residential class is consistent with a Revenue to Cost ratio of 115.1% - as proposed by Barrie Hydro[28]. Assuming the current revenue proportion of 64.1% yields the current ratio of 117.5%, then a Revenue to Cost ratio of 115.1% is consistent with an allocation of 62.8% (not 63.8%) of the Base Revenue Requirement[29].

9.6 VECC invites Barrie Hydro to clarify the foregoing issues in its Reply Submission.

9.7 As well as these computation issues, VECC has a number of concerns with

[25] Exhibit 9, Tab 1, Schedule 1, Table 2
[26] $32,452,498 * 63.8% = $20,704,693
[27] Exhibit 9, Tab 1, Schedule 1, Table 4
[28] Exhibit 9, Tab 1, Schedule 1, Table 3 and Exhibit 8, Tab 1, Schedule 2, Table 3
[29] If 64.1% yields a ratio of 117.5 %, then 115.1% yields a ratio of .641*1.151/1.175 = 62.8%

respect to the actual Revenue to Cost ratios proposed by Barrie Hydro:

- VECC agrees with Board Staff submissions[30] with respect to the Street Light class and believes that a further increase in the Revenue to Cost ratio for this class is warranted.
- In addition, VECC agrees with Board Staff that the Revenue to Cost ratio for the GS < 50 kW class should not be moving away from 100%. In VECC's view, it would be reasonable to maintain the Revenue to Cost ratio for this class at 97.9%.
- Finally, given that the total bill impacts for typical GS > 50 kW customers are less than 1%[31], VECC submits that the Revenue to Cost Ratio for this class should be further increased. In VECC's view it would be appropriate to increase the ratio to at least 90% - subject to bill impact considerations.

[30] OEB Staff Submissions, pages 15-16
[31] Main Application, Appendix 9-1

10 Rate Design

10.1 In its Application Barrie Hydro states that it proposes to maintain the current fixed variable portions for each customer class[32]. However, the mechanics underlying Barrie Hydro's calculations are inconsistent with this objective. It appears that in determining the fixed/variable ratio for each customer class Barrie Hydro used the 2007 rates – including the Smart Meter rate adder[33]. However, afterwards, Barrie Hydro then adds the Smart Meter rate adder to the resulting service charge[34]. This approach is inconsistent with the 2006 and 2007 EDR and results in the Smart Meter impacting the monthly service charge for each customer class twice.

10.2 In VECC's view the appropriate way to determine the fixed/variable split is to calculate the total 2008 revenue for each customer class using 2008 billing quantities and 2007 rates – excluding both the Smart Meter adder and the LV Charge adder. The rationale for this approach is that recovery of these costs are addressed through separate "adders" and not included in the Base Distribution Revenue Requirement. Indeed, VECC notes (and agrees) with Barrie Hydro's treatment of LV costs as a separate adder[35].

11 Retail Transmission Rate

11.1 In response to Board Staff's information requests, Barrie Hydro put forward revised retail rates for Transmission Network Service and Transmission Connection Service[36]. However, both proposed rate reductions are less than the 2008 reductions in the underlying Wholesale Transmission rates. For example the reduction in retail rates charged to Residential customer for Network service is 8.8% ($0.0052 vs. $0.0057 / kWh); while the reduction in Wholesale Network Transmission rates is more than 18% ($2.31 / kW vs. $2.31 / kW). Similarly, the reduction in the retail rates charged to Residential customers is 2% ($0.0049 vs. $0.0050 / kWh); while the reduction in the combined Line and Transformation

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[32] Application, Exhibit 9, Tab 1, Schedule 1, page 5 of 21
[33] Application, Exhibit 9, Tab 1, Schedule 1, page 4 of 21 and Tables 5 & 6 and VECC #24, Attachment 2007.
[34] Board Staff #48 b)
[35] Exhibit 9, Tab 1, Schedule 1 (page 9-10) and OEB Staff #48
[36] Board Staff #51 a)

Connection charges exceeds 5% ($2.20/ kW vs. $2.32 / kW).

11.2 Subject to Barrie Hydro providing details to support its proposed charges, VECC submits that the Board should approve reductions in the retail transmission charges for each customer class consistent with the reductions approved in the Wholesale Transmission rates.

12 Recovery of Reasonably Incurred Costs

12.1 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.

Respectfully Submitted on the 11th Day of January 2008

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