

**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 Oshawa PUC Networks 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**

**Association of Major Power Consumers in Ontario (AMPCO)**

**January 14, 2008**

**Adam White**  
**AITIA Analytics Inc.**  
372 Bay Street  
Suite 1700  
Toronto, Ontario  
M5H2W9

Tel: 416-260-0225  
Email: [awhite@ampco.org](mailto:awhite@ampco.org)

## 1 Overview

- 1.1 OPUCN is proposing budgets for 2008 that would, without the proposed large rate increases, result in a forecasted revenue deficiency of 19.5% of the proposed revenue requirement. In addition, OPUCN is proposing to continue what is to our knowledge the most unfair interclass cross subsidies affecting major rate classes of any LDC in Ontario.
- 1.2 Therefore, the Association of Major Power Consumers in Ontario (AMPCO), representing industrial consumers with load 1 MW and larger, consumers who are major employers, has concerns both with respect to the rapid escalation of the applicant's proposed costs and with respect to the extreme unfairness of the proposed allocation of recovery of those costs from the various customer classes.
- 1.3 AMPCO is confining its comments to areas where we believe we can be of particular assistance of the Board. AMPCO has reviewed Board Staff comments in areas related to load forecasting and revenue requirement items and finds itself in substantial agreement with the concerns expressed there.
- 1.4 OPUCN's application for approval of massive budget increases does not arise from financial distress. On the contrary, OPUCN has enjoyed persistent excess earnings for the period 2002-2006 except for a shortfall in 2005 that amounts to a mere \$9,450 (Ref: Response to Board Staff IR 8.b).

	2002	2003	2004	2005	2006
Actual Return on Equity	12.26%	11.70%	10.54%	9.85%	14.09%
Allowed Return on Equity	9.88%	9.88%	9.88%	9.88%	9.00%

- 1.5 In 2006, some of OPUCN's over-earnings were derived from the utility's actual O&M coming in below the Board Approved by an amount of \$690K (response to Board Staff 28). Notwithstanding, the generosity of the 2006 Board Approved O&M budget, O&M escalation from 2006 actuals to 2007 was 11% (ref: response to Board Staff IR #32 ). O&M escalation from 2007 to 2008 proposed is 14% (ref: response to Board Staff IR #34).
- 1.6 AMPCO is supportive of financially secure utilities able to work within, and even outperform, Board-approved budgets. AMPCO raises these general observations to highlight a general concern about what appear to be excessive budgetary demands.
- 1.7 AMPCO has identified two areas where OPUCN's proposed 2008 revenue requirement should be reduced.

## 2 Cost of Capital – Debt Rate

- 2.1 The applicant is requesting recovery of interest at a rate 7.25% on the demand note negotiated with its corporate parent OPUC (Oshawa Public Utilities Corporation) on a principle of approximately \$23.1 million. The deemed revenue requirement impact associated with this debt is approximately \$1.67 million. In response to Board staff interrogatory #58, OPUCN stated that the affiliated debt was a long-term demand note set on November 1, 2000. AMPCO has identified no evidence indicating that the debt rate was negotiated at a market rate. OPUCN declined to provide the term of the underlying debt instrument, notwithstanding Board Staff's

direct question on this subject in its IR #58, raising the question of when this costly instrument can be retired.

- 2.2 The Bank of Canada provides a tracking record for historic bond rates. Considering the all-corporate average weighted yield mid-term bonds issued over the period October 15, 2000 to November 15, 2000 (data file: V122519), the results were as follows:

Low – 6.70%  
Average – 6.73%  
High - 6.76%

- 2.3 In the leading passage of the “Message from the Chair” heading up the 2006 Annual Report of OPUCN's parent, paragraph 3 reports “Since 2002, we have transferred approximately \$38 million to the City of Oshawa in the form of dividends and interest.” This comment heightens AMPCO's concern that some of this interest income appears excessive. AMPCO recommends reducing the claimed interest rate on the affiliated debt by at least 50 basis points, reducing the revenue requirement by approximately \$115K.
- 2.4 The Board's decision in EB-2005-0421, issued in April 2006, in which the Board disallowed out-of-market rates on debt issued by a parent company, provides guidance on how to deal with OPUCN's debt cost.

### **3 Working Capital Allowance**

- 3.1 OPUCN has applied for a Working Capital Allowance of \$15.248 million based on 15% of O&M and cost of power.
- 3.2 The use of a 15% ratio appears rooted in historic Board practice. However, after a recent examination of a detailed bottom-up lead/lag study for Hydro One, the Board approved the use of a ratio of 11.6% as a more accurate reflection of cost.
- 3.3 OPUCN has provided no comparable lead/lag analysis.
- 3.4 AMPCO recommends that OPUCN should use the recently Board Approved 11.6% ratio arising from the Hydro One DX decision. The resulting revenue requirement impact would be a reduction of approximately \$350K.

### **4 Cost Allocation**

- 4.1 AMPCO is very concerned about OPUCN's proposal to continue its excessive cost shifting targeting its largest customer classes.
- 4.2 Based on OPUCN's most recent estimates, the revenue/cost ratio for General Service >1000kW < 5000 kW is 334% and the revenue/cost ratio for Large Users is 257%. Prior to any of the cost increases that might be approved through this application, these larger customers are now paying distribution rates that recover \$1.2 million more than it costs the utility to serve these customers. OPUCN's practice of over-charging these customers works out to more the \$100,000 per customer per year on average and is proposed to increase dramatically.

4.3 In response to SEC IR#14b, OPUCN indicates that it has “temporarily delayed making adjustments” to reduce the extent of cross-subsidization among customer classes. Particularly in light of the long history of overcharging larger users, AMPCO respectfully suggests that this is completely unacceptable.

4.4 OPUCN is proposing the following rates:

GS >1000kW, <5000kW  
Monthly Service Charge (per month): \$2228.91  
Distribution Volumetric Rate (per kW): \$4.95

LARGE USE  
Monthly Service Charge (per month): \$12001.85  
Distribution Volumetric Rate (per kW): \$3.30

4.5 In response to OEB Staff IR #62 OPUCN has provided the rates resulting from applying the ceiling rates of the Board's November cost allocation report:

GS >1000kW, <5000kW  
Monthly Service Charge (per month): \$1154.85  
Distribution Volumetric Rate (per kW): \$2.565

LARGE USE  
Monthly Service Charge (per month): \$6658.66  
Distribution Volumetric Rate (per kW): \$1.14

4.6 AMPCO suggests that there is a sound justification in this particular case for the Board to order OPUCN to bring rates for all the largest user classes closer to unity than presented as the general ceiling rates in the Board's guidelines issued in November. This justification is based on the more highly differentiated rates and rate analysis of OPUCN and the better quality of information available in this case, as compared to that available from many Ontario LDCs.

4.7 Because Oshawa has broken out the 50-5000kw customers into sub groups and carefully calculated costs for each of these groups, AMPCO believes that Oshawa's data are of sufficient quality to justify an R/C tolerance band of 85% - 115% for each of these sub groups.

4.8 Regarding the quality and differentiation of the underlying data, the applicant's pre-filed evidence indicates:

The cost/financial data used in the Model is consistent with the cost data that supports the current approved distribution rates for OPUCN. Based on the Guidelines, OPUCN assets were broken out into primary and secondary distribution functions. The breakout of assets, capital contributions, depreciation, accumulated depreciation, customer data and load data by primary, line transformer and secondary categories were developed from the best data available from OPUCN's customer and financial information systems. (Pre-filed Evidence Appendix E, p. 2/7)

4.9 Regarding the issue of transformer allowances, AMPCO suggests that the best approach for now is for OPUCN to following the approved cost allocation methodology and the Board guidelines on revenue/cost ratios as appears to be indicated in the response to Board Staff IR #62. With respect specifically to transformer allowances, AMPCO believes the correct, principled

approach it that customers should not be allocated costs for transformation assets they do not use and that the payment of a transformer allowance to these customers should therefore be unnecessary. Until a sound evidentiary basis can establish the underlying facts to implement this, AMPCO recommends sticking with the Board guidelines regarding transformer allowances.

All of which is respectfully submitted,

A handwritten signature in blue ink, appearing to read 'Adam White', with a long horizontal flourish extending to the right.

Adam White

Representing AMPCO