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April 5, 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-2010-0135
Kenora Hydro Electric Corporation Limited – 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: Kenora Hydro Electric Corporation Limited

EB-2010-0135

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 Kenora Hydro Electric Corporation Limited 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)

April 5, 2011

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Vulnerable Energy Consumers Coalition (VECC)

Final Argument

1 The Application

1.1 Kenora Hydro Electric Corporation Limited ("Kenora", "the Applicant," or "the Utility") filed an application ("the Application") with the Ontario Energy Board ("the Board" or "the OEB") on November 1, 2010, under section 78 of the Ontario Energy Board Act, 1998, for electricity distribution rates effective May 1, 2011. The Application projected a 2011 rate base of $10,307,448, requested a distribution revenue requirement of $2,850,945[1] for the 2011 test year and claimed a gross revenue deficiency of $909,070 based on existing rates[2].

1.2 In its Application, Kenora also requested[3]: (i) approval for revised Retail Service Transmission and LV Rates; (ii) the inclusion of all Smart Meter capital costs incurred up to December 31, 2009 in the 2011 Rate Base and the inclusion of their associated 2011 OM&A costs in the 2011 Revenue Requirement; (iii) approval of a revised loss factor; (iv) approval to dispose of the balances in a number of its deferral accounts, v) the approval of various new deferral accounts, vi) approval of an actual cost recovery rate rider to recover the difference between the revenues collected via the smart meter rate adder up to December 31, 2010 and the annual revenue requirements for 2008-2010 for smart meters installed by December 31, 2009. and vii) approval of a smart meter rate adder to recover the 2010 and 2011 revenue requirements for smart meters added after December 31, 2009.

1.3 In its responses to two rounds of interrogatories, Kenora provided a number of Application amendments. The Applicant's response to VECC #47 summarizes the relevant interrogatories.

1.4 The following sections provide VECC's final submissions on Kenora's Application.

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[1] Including Miscellaneous Revenues the overall requested Service Revenue Requirement for 2011 was $3,208,191

[2] Exhibit 6/Tab 1/Schedule 1, page 2

[3] Exhibit 1/Tab 1/Schedule 5, pages 1-2

2 Capital Spending and Rate Base

2.1 The projected Test Year rate base in Kenora's original application was $10,307,488 and was comprised of $8,672,540 in net fixed assets and $1,634,948 in working capital allowance.[4] As a result of the interrogatory process Kenora reduced its 2011 capital spending by $73,500 and 2011 depreciation accordingly was reduced by $2,055[5]. The net effect of these changes by Kenora is a $71,445 reduction in forecast net fixed assets as of December 31, 2011 and a corresponding $35,723 reduction in the 2011 average rate base.

Capital Spending

2.2 In 2006 Kenora commenced a long-term project involving the reconstruction and refurbishment of its substation. Excluding the expenditures on this project, capital spending over the 2005-2009 period has ranged between $273,458 (in 2008) and $473,232 (in 2005) and averaged just under $370,000 on an annual basis[6].

2.3 In 2010, capital spending (excluding the substation project) is forecast to be $780,000. Kenora Hydro has provided descriptions of its other planned 2010 capital projects and all but $28,000 is deemed to be priority work[7]. In particular, $365,000 is for necessary renovation of the hydro work centre[8]. After allowing for this expenditure and the substation project, the balance of the 2010 projected spending is $415,000 which is line with past spending. VECC submits that Kenora's 2010 planned capital spending is reasonable and should be reflected in its 2011 rate base.

2.4 Kenora notes that in the past it has not had a formal asset management plan. However over the 2008-2009 period it has initiated a data collection process to inform the development of such a plan. As part of the current Application, Kenora

[4] Exhibit 2/Tab 1/Schedule 1, page 2
[5] VECC #47
[6] Exhibit 2/Tab 3/Schedule 1, pages 1-2
[7] Exhibit 2/Tab 3/Schedule 3/Appendix A, pages 46-64
[8] Exhibit 2/Tab 3/schedule 1, page 2 and Exhibit 2/Tab 2/Schedule 2, page 22

has filed what it considers its first Asset Management[9]. The Utility has also indicated that it will continue to develop and improve its plan over the next few years[10].

2.5 In VECC's view, the "Plan" filed by Kenora is not really an Asset Management Plan. It does not contain any details regarding the condition of the Utility's assets, any resulting inventory of required work nor any prioritization of that work which would lead to the proposed capital budget. Rather the document describes the information and processes that will be used to develop a fully functional Asset Management Plan and then puts forward a set of capital budget justification forms for 2010 and 2011. Having said this, VECC understands that development of an Asset Management is an evolutionary process and that the collection of relevant data is still ongoing[11] for Kenora. VECC commends Kenora for initiating the processes needed to develop an Asset Management and anticipates that a comprehensive plan will be available to support its next cost of service filing.

2.6 Kenora's initially projected capital spending for 2011 of $1,284,500. If the $605,000 spending on the substation reconstruction/refurbishment is excluded the remaining spending is $679,500[12]. As well as spending on distribution plant (e.g. poles and wires) the $679,500 includes $155,000 for roof replacement and $150,000 for a bucket truck replacement.[13]

2.7 In response to Board Staff Interrogatory #13 Kenora reviewed the priority and need for each of its planned 2011 capital projects. In doing so, it concluded that some $39,500 in spending was not required for 2011 and that it had overlooked $34,000 that it would receive in capital contributions. This led to the $73,500 reduction in capital spending noted above. VECC submits that, with this adjustment, Kenora's proposed capital spending for 2011 is reasonable and should be reflected in the Utility's 2011 rate base.

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[9] Board Staff #8 and Exhibit 2/Tab 3/Schedule 3, Appendix A
[10] Exhibit 2/Tab 3/Schedule 3, page 1
[11] Board Staff #3 and #8
[12] Exhibit 2/Tab 3/Schedule 1, page 2
[13] Exhibit 2/Tab 2/Schedule 2, pages 24-25

2.8 Finally, VECC notes that Kenora has set its 2011 capital budget net of HST[14] and that, as a result, no adjustments are required.

Net Fixed Assets

2.9 VECC notes that Kenora has taken a full year's depreciation on capital additions during the historical years and the bridge year, but has used the ½ year rule of the Test Year[15]. VECC agrees with this approach.

Working Capital Allowance (WCA)

2.10 Kenora has used the "15% rule" to calculate its 2010 Working Capital Allowance of $1,634,948[16].

2.11 VECC notes that, in calculating the 2011 Electricity Commodity cost, Kenora used a value of $0.065 for both RPP and non-RPP loads[17]. However, Kenora also acknowledged that the value would need to be updated to reflect the most current rates[18].

2.12 In response to VECC #36, Kenora has provided a calculation of the Electricity commodity cost using the electricity costs for RPP and non-RPP loads from the Board's October 2010 RPP Report and its current RPP/non-RPP load split by customer class. VECC submits that these results reflect the most current data available and should be used in the determination of Kenora's 2011 working capital allowance (subject to any changes to Kenora's 2011 load forecast).

2.13 Kenora also acknowledges that its determination of the Transmission costs used to calculate working capital requirements were based on 2010 rates and need to be updated to reflect 2011 Uniform Transmission Rates[19]. VECC agrees. VECC

[14] Board Staff #6 a)
[15] Exhibit 3/Tab 2/Schedule 8, page 1
[16] Exhibit 2/Tab 4/Schedule 1, page 1
[17] Exhibit 2/Tab 4/Schedule 1, Appendix B, page 2
[18] VECC #8 a)
[19] VECC #8 d)

also notes and supports Staff's submission[20] that any such update needs to be fully documented such that parties can understand the derivation of the new values.

3 Load Forecast

Load Forecast Methodology

3.1 Kenora's load forecast methodology consists of the following steps[21]:

- First, develop a weather normal forecast for purchases using a multifactor regression model that incorporates historical weather and economic variables.
- Second, adjust the results by a historical loss factor to produce a weather normalized billed energy forecast.
- Third, forecast the number of customers by rate class using a geometric mean analysis for the years 2002-2009.
- Fourth, a non-weather normalized forecast of billed energy by rate class is developed using forecast customer counts and trends in average use per customer.
- Fifth, for weather sensitive customer classes (Residential, GS<50 and GS>50), these forecasts are adjusted such that the forecast of total billed energy matched that from Step #2.
- The resulting forecast by class is then adjusted for the anticipated 2011 CDM savings associated with the recent CDM targets set by the Board.

3.2 VECC does not have any issues with the overall approach taken by Kenora nor with the multifactor regression model it has developed. The model has a high Adjusted R-Squared value and all the proposed explanatory variables are both statistically significant and have intuitively correct coefficients[22].

[20] Board Staff Submissions, page 11
[21] Exhibit 3/Tab 2/Schedule 1, pages 1-14
[22] Exhibit 3/Tab 2/Schedule 1, pages 8-9

2011 Load Forecast - Volumes

3.3 Overall, the total billed energy for 2011 is forecast to be 107.84 GWh, based on a purchased energy forecast of 113,384,070 kWh (before any CDM adjustment), a loss conversion factor of 4.3% and a CDM adjustment of 1.23 GWh[23] in billed energy.

3.4 VECC has two issues regarding Kenora's 2011 billed energy forecast. The first is with respect to the loss factor used to convert forecast purchased energy to billed energy. In its description of the load forecast methodology Kenora states that it uses a "historical loss factor"[24]. Kenora later states that it has used a 4.3% loss factor reflecting its 2011 proposed loss factor[25]. VECC notes that the average loss factor over the historical period used to estimate the multifactor regression model was 4.14%[26]. As this is the loss factor implicit in the model and therefore implicit in the projected purchases for 2011, VECC submits that the 4.14% loss factor should be used to convert the model's purchased energy projections to billed energy.

3.5 VECC second issue is with respect to the CDM adjustment Kenora has incorporated into its 2011 load forecast. The 1.23 GWh that Kenora has incorporated into its 2011 load forecast represents slightly less than 25% of its 5.22 GWh CDM target for 2011-2014[27]. In response to Board Staff #15 a), Kenora expresses the view that its 5.22 GWh target represents the savings that must be achieved in 2014 based on programs implemented over the 2011-2014 period (as opposed to total the total cumulative savings achieved over the 2011-2014 period). To support this view, Kenora suggests that in order to achieve its 2014 MW target, it must record MWh savings in 2014 roughly equivalent to its assigned MWh target.

3.6 With regard to the Kenora's interpretation of the its CDM GWh target, VECC notes

[23] Exhibit 3/Tab 2/Schedule 1, pages 10-11 and 17
[24] Exhibit 3/Tab 2/Schedule 1, page 6
[25] Exhibit 3/Tab 2/Schedule 1, page 11
[26] VECC #13 a)
[27] Board Staff #15 a) and VECC #14 b)

that in response to VECC #40 c) Kenora acknowledges that the target represents the **cumulative** savings over the 2011-2014 period as opposed to the savings recorded for 2014. VECC notes that this interpretation is consistent with that of Board Staff as outlined in its submissions[28]. VECC also notes that this is consistent with the OPA's interpretation of the targets[29]. Finally, VECC notes that the CDM Strategy filed by Kenora with the Board[30] adopts a similar interpretation, wherein the target preliminary 5,000 MWh target is shown as being met by the cumulative savings achieved in 2011, 2012, 2013 plus 2014.

3.7 Kenora second claim is that a cumulative interpretation of the CDM target implies a load factor for CDM of 28% which is unreasonable[31]. Kenora rationale is that the load factor for CDM must approximate its overall load factor. In VECC's view this is not a valid rationale. The OPA offers a range of CDM programs some of which (such as the PeakSaver program) focus on peak (as opposed to energy) reductions. VECC submits that through an appropriate mix of OPA programs utilities (including Kenora) can achieve combination of M and MWh savings that result in a CDM load factor significantly different from their overall load factors. Indeed, from its participation in the OPA's 2008 and 2009 programs, Kenora has achieved reported net MW and net MWh savings for 2009 of 0.5856 MW and 812 MWh[32]. These values translate into a CDM load factor of 15.8%[33] - less than the 28% Kenora claims is unreasonable. VECC further notes that these results do not involve any participation by Kenora in the OPA's PeakSaver programs[34]. As a result, VECC submits that Kenora's claims that it must achieve savings of 1.23 GWh in 2011 in order to achieve its 2014 MW target are unfounded.

3.8 Finally, VECC notes that in the Kenora CDM Strategy referenced above the

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[28] Page 8
[29] EB-2010-0133, Exhibit JT1.1
[30] http://www.ontarioenergyboard.ca/OEB/_Documents/EB-2010-0215/Kenora_CDM%20Strategy_20101104.pdf, page 9
[31] Board Staff #15 a)
[32] VECC #40 b)
[33] Calculated as 812 MWh / 8760 hours / 0.5856 MW = 15.8%
[34] VECC #40 a)

planned CDM savings for 2011 are only 365 MWh[35]. VECC recognizes that this Strategy was based on preliminary CDM targets of 5,000 MWh/1,000 kW. However, refinement of strategy to meet the approved targets (5,220 MWh and 860 kW) is not likely to produce an energy savings value for 2011 anywhere near 1,230 MWh.

3.9 Board Staff has recommended[36] that Board adopt a CDM adjustment value of 522 MWh for 2011 (10% of the overall target). In VECC's view even this value is aggressive as it assumes an equivalent level of program savings each year and that the savings in the first year of implementation are equivalent to the annual savings persisting in future years[37]. Both of these assumptions are unrealistic given that Manager of CDM & Engineering position will not be filled until February 2011[38] and that CDM programs are not all implemented on January 1st but rather throughout the year.

3.10 VECC submits that the CDM energy adjustment should be no more than 400 MWh and notes that proportionally adjusting the 367 MWh for 2011 contained in Kenora's CDM Strategy up to account for the target increase from 500 to 522 MWh would only yield a revised 2011 savings value of 381 MWh.

2011 Load Forecast – Customer Count

3.11 Kenora's forecast of customer counts calls for a decline in the number of Residential and GS<50 customers, a nominal increase in the number of GS>50 customers and roughly a constant number of Street Light and USL connections as between 2009 and 2011[39]. In response to VECC #13 e) Kenora has provided its actual customer count for the 2010 year end. Unfortunately the values for Street Lighting and USL are the number of accounts (not connections) and are therefore not comparable to the forecast 2010 values. However, for the other three classes

[35] Page 9
[36] Board Staff Submissions, page 8
[37] Board Staff #15 a)
[38] Board Staff #15 b)
[39] Exhibit 3/Tab 2/Schedule 1, pages 14-15 and VECC #13 f)

the 2010 actual counts are 42 higher in the case of Residential, 36 higher in the case of GS<50 and 3 lower in the case of GS>50.

3.12 In its submissions[40] Board Staff has presented analyses that re-calculate the geometric means of the growth rates for each class using 2003-2010 data and re-estimate the 2011 customer counts for each of the major customer classes. VECC submits that there is a need to update the 2011 forecast customer count to reflect the 2010 actuals and that Board Staff's approach is a reasonable way of achieving this.

4 Revenue Offsets

4.1 The projected 2011 revenue offsets are $357,246[41]. This value differs from the $353,206 in Other Distribution Revenue detailed in Exhibit 3/Tab 3 by $14,040 for SSS Admin Fees which are not included in Exhibit 3 and a reduction of $10,000 representing half the gain on the disposal of a truck in 2011.

4.2 VECC has two concerns regarding Kenora's proposed revenue offsets for 2011. The first is that Kenora appears to have included $7,500 in interest income related to deferral and variance accounts[42]. This amount should be excluded as it is posted to the Kenora's deferral/variance accounts and credited to customers through that mechanism.

4.3 VECC's second concern is with respect to Kenora's treatment of the $20,000 gain on the truck disposal. VECC has reviewed and concurs with Board Staff's submissions on this issue[43]. VECC also notes that an alternative way of viewing the gains on the disposal is as the "trade-in" accompanying the purchase of the new truck. Under such a view, 100% of the $20,000 would accrue to ratepayers through reduced capital spending. Finally, VECC notes that the 50/50 sharing approach set out in the 2006 Rate Handbook applies specifically to capital gains and losses on non-depreciable assets and therefore is not applicable to assets such as trucks[44]. As a result, VECC submits that the disposal of the truck should

[40] Page 6
[41] Exhibit 6/Tab 1/Schedule 1, page 2

be recorded as a $20,000 in revenue off-sets.

5 Operating Costs

OM&A

5.1 In the original Application OM&A expenses for 2011are forecast to be $2,076,045[45] (including property taxes). Through the interrogatory process Kenora has identified $69,566 in reductions to its proposed 2011 OM&A[46]:

- HST savings - $13,096
- Reduction in City allocated costs - $40,434
- Reduced Application costs - $21,053
- Offset by higher OMERs costs - $1,167, and
- Allowance for LEAP costs - $3,850

5.2 VECC notes that Kenora's actual OM&A costs have increased from $1,399,588 in 2007 to $1,714,086 in 2009 (or by 22%) and that they are projected to increase by $292,393 (another 17%) over the two years from 2009 to 2011[47] (even after the above noted reductions). However, after allowing for the one-time costs associated with the Rate Application (now $16,447) and the Asset Management Plan ($37,500) as well as the new LEAP costs ($3,850) and Smart Meter costs ($59,000), the OM&A costs proposed for 2011 are $1,889,682 which is an increase of 10.25% over the two years. VECC also notes that this $175,596 increase between 2009 and 2011 is primarily due to staff increases over the period[48].

5.3 VECC has three outstanding issues regarding Kenora's revised OM&A costs for 2011. The first is that the LEAP costs Kenora has proposed to include in its Application are based on its originally proposed 2011 Service Revenue

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[42] VECC #15 and #41
[43] Board Staff Submissions, page 9
[44] Handbook, page 28
[45] Exhibit 4/Tab 1/Schedule 1, page 2
[46] VECC #47
[47] Exhibit 4/Tab 2/Schedule 2, page 2
[48] Exhibit 4/Tab 2/Schedule 3, pages 5-7 and Schedule 4, pages 6-8

Requirement. This provision will need to be revised to reflect the Board's final Decision regarding Kenora's 2011 revenue requirement.

5.4 VECC second concern is with respect to the 2% inflation adjustment used by Kenora for 2011[49]. As Board Staff has noted, the price escalator approved by the OEB for 2011 IRM applications is 1.3%[50]. If one assumes that of the 10.25% increase noted above that 2% percentage points of this is due to the 2011 inflation assumption, then reducing that assumption to 1.3% would reduce the increase in OM&A for 2011 by roughly $12,000[51]. VECC submits that the 2011 OM&A should be further reduced by at least this amount. VECC notes that this results in a lower reduction than that proposed by Board Staff which would be roughly $18,000[52].

5.5 VECC third concern is that the proposed increase in OMERs costs is only projected for the years 2011-2013. However, the 2011 approved rates will form the basis for rates during the four year period 2011-2014. Ideally, the additional funding requirement of $3,501 (i.e., $1,167 for three years) should be amortized over a four year period.

5.6 Finally, VECC notes Board Staff contention that the regulatory costs (in particular the OEB costs) associated with the Application can be reduced by a further $28,000 (or $7,000 for 2011)[53].

Depreciation

5.7 Kenora has confirmed the need to exclude $500 in depreciation associated with 2011 smart meter additions.[54] With this adjustment, VECC has no submissions regarding Kenora's proposed 2011 depreciation expense.

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[49] OEB Staff #20
[50] Board Staff Submissions, page 15
[51] Calculated as (2.0-1.3)/10.25 times the associated increase of $175,596. VECC notes that this calculation does not make any adjustment for inflation included in the additional $59,000 in OM&A associated with smart meters for 2011.
[52] Board Staff Submissions, page 15. The $18,000 estimate is based on (3.0-1.3)/3.0 X $32,000.
[53] Board Staff Submissions, page 17
[54] VECC #45 and VECC #47

Taxes

5.8 VECC only concern regarding Kenora's 2011 tax calculation[55] is that the $533,590 for amortization included as an "Addition to Accounting Income" includes the $500 for depreciation on smart meters to be installed in 2011 (per previous discussion) and should be removed.

6 Cost of Capital/Capital Structure

6.1 Kenora has acknowledged that the cost of capital parameters will need to be updated to reflect the Board's ROE and deemed debt rates for 2011[56].

6.2 In its original Application Kenora calculated its average cost of long-term debt to be 3.95% for 2011[57]. During the interrogatory process, Kenora updated the status of its current and planned borrowings with Infrastructure Ontario (IO) and revised its average cost of long term debt to 2.72%[58].

6.3 VECC believes there may be an error in Kenora's calculation of the 2.72% average cost of long term debt for 2011. VECC notes that in calculating the 2011 interest costs Kenora has allowed for the fact that two of the IO loans will only be in place for part of 2011 but did not make the same allowance in its determination of the $4,797,479 debt principal used to calculate the 2.72% value in response to VECC #46. As a result, Kenora may be understating its 2011 average cost of long-term debt.

7 Cost Allocation

Cost Allocation Methodology

7.1 As part of its Application, Kenora filed the results of a 2011 cost allocation study where existing rates for all customer classes where increases uniformly so as to

[55] Exhibit 3/Tab 3/Schedule 1d, page 2
[56] Board Staff #27
[57] Exhibit 5/Tab 1/Schedule 2,page 2
[58] VECC #21 and #46

recover the proposed Base Distribution Revenue Requirement[59].

7.2 The following table sets out the results of Kenora's updated cost allocation.

REVENUE TO COST RATIOS – 2011 Updated Results	
Customer Class	**2011 Revenue to Cost Ratios**
Residential	100.68%
GS<50	76.60%%
GS>50	128.44%%
Street Lights	77.58%
USL	156.72%
Total	100.0%

Sources: Exhibit 7/Tab 1/Schedule 2, Appendix A, page 19

7.3 In VECC's view Kenora has properly applied the Board's cost allocation methodology and the above results are the appropriate starting point for any consideration of adjustments to customer class revenue to cost ratios.

Use of the Cost Allocation Study Results in Setting 2011 Rates

7.4 The revenue to cost ratios from the updated Cost Allocation study all fall within the Board's recommended ranges with the exception of the GS<50 class (which is below the 80% floor) and USL (which is above the 120% ceiling). For 2011 Kenora proposes[60] to:

- Increase the GS<50 ratio to 80%,
- Decrease the USL ratio to 138%, and
- Decrease the GS>50 ratio to 124.52%.

[59] Exhibit 7/Tab 1/Schedule 2, pages 1-2 and Appendix A
[60] Exhibit 7/Tab 1/Schedule 2, page 4

For the other two customer classes the revenue to cost ratio is unchanged.

7.5 In the subsequent years (2012 and 2013), Kenora proposes to decrease the USL ratio to 120%[61] and to also adjust the ratio for the GS>50 class. VECC notes that the 2012 ratios set out in Exhibit 7/Tab 1/Schedule 2[62] are all equal to or less than those proposed for 2011. Such a result would not permit Kenora to recover its overall revenue requirement in 2012. VECC assumes there is a error in the presentation and that Kenora's intent is to (as noted in response to Board Staff[63]) adjust the ratio for GS>50 in 2012 and 2013 so as to account for the revenue decrease resulting from the proposed adjustments to the USL ratio.

7.6 Subject to clarification of the above, VECC has no concerns regarding Kenora's proposed revenue to cost ratio adjustments for either 2011 or for the years 2012 and 2013. VECC notes that while the GS>50 ratio (which is already greater than 100%) will increase marginally in 2012 and 2013; the results in both years will be less than the current ratio of 128.44%. While the pattern of year over year changes is unique, VECC submits that it is acceptable as the material reduction in 2011 helps to offset the significant increase in overall distribution rates.

8 Rate Design

Base Distribution Rates

8.1 For 2011 Kenora proposes to maintain the current fixed/variable split proportions for each customer class. The Utility maintains that "a monthly service charge ceiling has not been established" and that, as result, its approach is appropriate[64].

8.2 In VECC's view Kenora's approach is inconsistent with the November 2007 Report of the Board – Application of Cost Allocation for Electricity Distributors (EB-2007-0667). In that report[65] the Board noted that the Cost Allocation methodology "set a ceiling for the MSC (Monthly Service Charge)"; stated that it considered it to be

[61] Exhibit 7/Tab 1/Schedule 2, page 5
[62] Page 5
[63] Board Staff #29
[64] Exhibit 8/Tab 1/Schedule 1, page 4
[65] Page 12-13

inappropriate to make significant changes to that ceiling (as had been proposed by Board Staff) and, most importantly, concluded that:

> "The Board does not expect distributors to make changes to the MSC that result in a charge that is greater than the ceiling as defined in the Methodology for the MSC. Distributors that are currently above this value are not required to make changes to their current MSC to bring it to or below this value at this time"

8.3 VECC submits that the direction of the Board in its November 2007 Report was clear that in cases where the current MSC is below the ceiling set by the Cost Allocation methodology the distributor was not to make any changes such that the resulting MSC would exceed the ceiling. The following table sets out Kenora's 2010 MSC's for class, its proposed 2011 MSC values and the MSC ceiling based on the 2011 Cost Allocation.

Class	**Current MSC (2010)**	**Proposed MSC (2011)**	**Board's MSC Ceiling**
Residential	$13.53	$19.86	$18.69
GS<50	$25.77	$39.79	$30.85
GS>50	$372.26	$528.38	$81.69
Street Lights	$3.54	$5.20	$6.40
USL	$13.00	$16.65	$9.71

Sources: Exhibit 8/Tab 1/Schedule 1, pages 3-4

8.4 As the Table illustrates, for the Residential and GS<50 classes the current MSC is below the ceiling value established by the Cost Allocation methodology and adopted by the Board. VECC submits that, in order to conform with the Board's

EB-2007-0667 Report, the 2011 MSC for these classes should be no greater than the ceiling for the respective class: $18.69 in the case of Residential and $30.85 in the case of GS<50.

8.5 VECC also notes that in the case of the Residential class the bill impacts (prior to taxes) from Kenora's Application are significantly higher for low volume customers (e.g. 20.21% for 250 kWh/month and 13.73% for 500 kWh per month) than for high volume customers (e.g. 6.56% for 1,500 kWh per month and 6.88% for 2,000 kWh per month)[66]. In contrast, if an MSC value of $18.69 is adopted the bill impacts are not as divergent, as shown in the following table

	Monthly Residential Bill impact (before taxes)	
Monthly Use	**Kenora's Proposed $19.86 MSC**	**VECC's Proposed $18.69 MSC**
250 kWh	20.21%	18.47%
500 kWh	13.73%	13.33%
750 kWh	10.52%	10.72%
1,000 kWh	8.59%	9.12%
1,500 kWh	6.58%	7.44%

Sources: Exhibit 8/Tab 1/Schedule 5, Appendix C, pages 1-3
VECC #25 c)

8.6 In the case of the GS>50 and USL classes, the MSC is already above the ceiling adopted by the Board. While the Board's Report does not require the value to reduced, in keeping with the spirit of the Report VECC submits that the value should not be increased further in 2011.

[66] Exhibit 1/Tab 1/Schedule 5/Appendix C, pages 1-3

Loss Factors

8.7 Kenora proposes to maintain its current Total Loss Adjustment Factor of 4.3%[67]. This value is slightly more than the average historical loss factor over the past 5 years (4.13%). However, VECC notes that the five year historical average is significantly influenced by a 2005 value of 5.82% and that the average value based on the past four years is 3.71%. Given the more recent history, VECC submits that the Total Loss Adjustment Factor for 2011 should be 4.0%.

9 Retail Transmission Service Rates

9.1 Kenora's proposed 2011 RTSRs are based on the OEB Model 2011 RTSR Adjustment Workform completed using 2010 Uniform Transmission Rates (UTR) available at the time of the Application. Kenora indicates that the model should be updated to reflect the 2011 UTR values[68]. VECC agrees.

10 Deferral and Variance Accounts

Proposed New Deferral/Variance Accounts

10.1 Kenora is requesting a new deferral account to record/track future charges from the IESO for smart meter entity and MDMR costs[69]. VECC has reviewed and concurs with Board Staff's submissions[70] on this request. The requested deferral account should not be approved at this time.

10.2 VECC has also reviewed and adopts Board Staff submissions[71] regarding Kenora's requests regarding the recovery of Kenora's Late Payment Penalty costs.

Account Balances Proposed for Disposition

10.3 Kenora is proposing to clear the 2009 year-end balances (plus interest) in its

[67] Exhibit 8/Tab 1/Schedule 4, page 2
[68] Exhibit 8/Tab 1/Schedule 2, page 1
[69] Exhibit 1/Tab 1/Schedule 5, page 2
[70] Pages 32-33
[71] Pages 33-34

RSVA accounts and its Other Regulatory Assets (#1508) account[72]. VECC has no concerns regarding either balances proposed for recovery or the proposed allocation to customer classes.

10.4 However, Kenora is proposing to dispose of the balances (which overall represents a refund to customers of $521,517) over a four year period[73]. Kenora claims that using a four year period as opposed to the Board's default disposition period of one year will ameliorate the bill impacts in the year after the removal of the rate rider.

10.5 VECC notes that for a Residential customer using 800 kWh per month the total bill impact in 2011 from Kenora's Application is 10%[74] with a four-year recovery. Reducing the recovery period to one year would reduce this impact to 6.1% followed the next year by a 4.91% increase (without considering any other factors)[75]. VECC submits that when the rate increases for 2011 are taken into account along with the impact when the rate rider is discontinued, a one-year recovery period produces a more stable and acceptable outlook for year over year rate increases.

10.6 Based on these observations VECC sees no reason to depart from the default one-year recovery period.

11 Smart Meters

11.1 Kenora's smart meter installations were 92% complete by the end of 2009. Kenora's proposed revenue requirement reflects the inclusion in rate base of all smart meters installed as of December 31, 2009 along with the inclusion of $59,000 in associated operation and maintenance costs[76]. VECC notes that Kenora has excluded cost incurred for capabilities beyond minimum functionality[77]. VECC has no concerns regarding Kenora's propose treatment of smart meter

[72] Exhibit 9/Tab 1/Schedule 2, page 1
[73] Exhibit 9/Tab 1/Schedule 2, page 3
[74] Exhibit 8/Tab 1/Schedule 5, Appendix C, page 2
[75] Board Staff #33 a) and b)
[76] Exhibit 9/Tab 2/Schedule 1, page 1
[77] Exhibit 9/Tab 2/Schedule 2, pages 2-3

capital costs incurred up to December 31, 2009.

11.2 Kenora is proposing a rate rider of $2.09 per metered customer per month to recover the difference between the smart meter adder revenues collected up to December 2010 and the 2009 and 2010 revenue requirements associated with the smart meters installed prior to December 31, 2009[78]. VECC has reviewed and shares Board Staff's concerns[79] regarding Kenora's calculation of the 2009 and 2010 revenue requirements associated with the smart meters installed as of December 31, 2009.

11.3 Kenora is also proposing a rate adder of $0.09 per customer per month to fund the capital expenditures incurred for smart meters in 2010 and 2011[80]. In its submission Board Staff suggested[81] that consideration should be given to including the forecasted 2010 and 2011 smart meter capital spending in the 2011 rate base. VECC recognizes that the remaining spending is small relative to the total program costs. However, the Board's practice to-date has been to only permit audited smart meter spending to be included in rate base. VECC is concerned about the precedent that may be set by adopting Board Staff's suggestion. Finally, VECC notes that should the Board adopt Staff's suggestion then the weighted costs of meters by customer class as used in the Cost Allocation study would need to be updated.

12 Effective Date

12.1 In its initial Application Kenora requested an effective date of May 1, 2011[82]. In February 2011 the Board declared Kenora's current rates interim as of May 1, 2011. However, in response to interrogatories, Kenora indicated that it does not have the expectation that under-recovered revenues between the period May 1,

[78] Exhibit 9/Tab 2/Schedule 3, page 2. Note: While the Application states that the adder revenues to December 31, 2009 are considered in the calculation the supporting calculations (Appendix B) also include the adder revenues for 2010.
[79] Board Staff Submission, page 26
[80] Exhibit 9/Tab 2/Schedule 1, page 1 and Schedule 3,page 3
[81] Page 27
[82] Exhibit 1/Tab 1/Schedule 5, page 1

2011 and the time new rates are implemented will be recouped.

12.2 VECC notes that Kenora filed its Application on November 1, 2010, roughly two months later than the filing deadline set by the Board. Given this delay VECC agrees with Board Staff[83] that an effective date of July 1, 2011 would be reasonable.

13 Recovery of Reasonably Incurred Costs

13.1 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 5th day of April 2011

[83] Board Staff Submissions, page 36