EB-2007-0710

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

VULNERABLE ENERGY CONSUMERS COALITION (VECC)

January 14, 2008

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Vulnerable Energy Consumers' Coalition (VECC)
Final Argument

1 The Application

1.1 On October 4, 2007 Oshawa PUC Networks Inc. ("OPUCN") 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 $22.04 M which, after an allowance of $1.6 M for revenue from other sources, leaves $20.44 M to be recovered through distribution rates[1]. Excluded from this amount are the recovery of discounts paid to customers for transformer allowances ($239,235) and the Smart Meter adder ($167,252).

1.2 Distribution revenues at current rates would produce revenues of $17.91 M[2] yielding a difference of $2.54 M or 14%.

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 submissions regarding the various aspects of OPUCN's Application.

[1] Exhibit 7, Tab 1, Schedule 1 and Exhibit 9, Tab 1, Schedule 8
[2] Exhibit 9, Tab 1, Schedule 2, page 2

2 Rate Base and Capital Spending

2.1 Overall, VECC does not take issue with any of the specific capital spending projects proposed by OPUCN for 2008. However, VECC does have some concerns regarding its ability to reconcile the various capital spending estimates provided and the degree to which OPUCN has demonstrated the priority of the projects it has proposed.

2.2 In response to a VECC information request, OPUCN provided a detailed schedule setting out its historical and forecast capital spending by account. The following table shows the totals reported for each year (net of capital contributions)[3]:

Item	2004	2005	2006	2007	2008
Capital Expenditures	$6,913 k	$5,536 k	$3,876 k	$8.929 k	$11,495 k
Capital Additions	$7,155 k	$4,371 k	$2,565 k	$8,575 k	$10,993 k

2.3 However, the detailed entries by asset class do not match those presented in Exhibit 2, Tab 2, Schedule 1 which provides the continuity schedule for OPUCN's assets. For example, in the case of Account #1835, the capital additions differ for all three years provided:

Source:	2006	2007	2008
VECC #4	$5,064 k	$2,354 k	$3,885 k
Ex 2/T2/S1	$4,964 k	$2,731 k	$3,254 k

Furthermore, the total capital spending reported in response to the VECC information request differs from that reported in information requests posed by Board Staff[4] VECC is unable to reconcile these discrepancies and it is not at all clear to VECC that the capital spending discussed in Exhibit 2, Tab 3, Schedule 2 reconciles with the asset continuity tables presented in Tab 2 of the same Exhibit.

[3] VECC #4
[4] Board Staff #8 b)

VECC would invite OPUCN to address this in its Reply Submission.

2.4 VECC is pleased to note that OPUCN has performed an Asset Assessment Study[5]. OPUCN has also described a fairly comprehensive approach to capital planning in Exhibit 2, Tab 3, Schedule 1. However, it is not immediately clear how this process led to the specific projects proposed for 2008. It would be useful if in its Reply Submission OPUCN described what its considered the key issues arising out of its Asset Condition Assessment and the application of the Metsco Asset Investment Tool. This may also serve to address the issues raised by Board Staff[6] regarding OPUCN's Asset Management Plan.

2.5 Rate Base consists of Net Fixed Assets plus an allowance for working capital. In determining the latter, OPUCN has used 15% of OM&A plus Cost of Power. For the Cost of Power component of the calculation, OPUCN has forecast its 2008 wholesale load and then applied the average of the 2003-2006 unit costs for each cost of power component[7]. VECC is concerned that in adopting this approach OPUCN has failed to capture the material decrease in Transmission Charges that will be in effect for 2008 relative to previous years. In VECC's view, OPUCN should be directed to revise its Cost of Power estimate to reflect the lower transmission charges approved for 2008. Furthermore, OPUCN's cost of power purchased value for 2008 ($.0584 / kWh) also appears high when compared with the most recent Navigant forecast prepared for the OEB in October 2007 to support the November 1, 2007 RPP prices[8].

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[5] Exhibit 11, Appendix D
[6] OEB Staff Submission, page 22
[7] VECC #10 a)
[8] www.oeb.gov.on.ca/documents/cases/EB-2004-0205/rpp-nci_wholesaleelectricitypriceforecastreport_20071012.pdf - page 2. Where HOEP for 2008 is projected to be in the order of $0.054 / kWh.

3 Load Forecast and Revenue Offsets

3.1 OPUCN has used the 2004 weather normalized load data developed by Hydro One Networks to establish a weather normalization factor for each customer class. It has then developed its load forecast by applying this weather normalization factor to the average (per customer) use for each customer class over the period 2002-2006 and multiplying the result by the forecast 2008 customer count (by class)[9].

3.2 OPUCN's rationale for using a five year average is that it "smooths out" consumption variations over the period. However, Hydro One Networks weather normalization adjustment factor is based on 2004 data (and weather). The adjustment factor will typically vary by year – based on the actual weather experienced in each year. It is inappropriate to apply the same "adjustment factor" to the actual loads for other years. VECC submits that, while the OPUCN approach may help smooth out some of the year to year non-weather variations in average use, the methodology used by OPUCN does not properly adjust for weather variations over the period.

3.3 In its response to Board Staff #15, OPUCN proposed an updated load forecast based on new data received from Hydro One Networks. For purposes of this new load forecast, OPUCN used weather normalized usage data for each of its customer classes for 2006. An average (normalized) use per customer was then determined for each customer class, using strictly 2006 data, and multiplied by the forecast customer count for 2008 to derive the 2008 load forecast[10]. In VECC's view this a more appropriate approach to reflecting weather normalization in OPUCN's load forecast.

[9] Exhibit 3, Tab 2, Schedule 1, page 1 & Schedule 5, page 4, and OEB Staff #14 a)
[10] OEB Staff #15 b)

3.4 With respect to the customer count forecast, VECC is concerned that the forecast count for residential customers in 2008 is understated. Over the 2002-2006 period, residential customer count grew by roughly 1.7% per annum. In contrast, OPUCN is forecasting a residential customer growth of roughly 1.2% per annum between 2006-2008[11]. At the same time, OPUCN is forecasting continued expansion within its service area[12]. Compounding this concern is the fact that an increasing number of unmetered based apartments is likely to mean that the historical average use for residential customers may understate the per customer usage in 2008[13]. In order to at least partially address this issue, VECC submits that OPUCN's residential customer count forecast should be increased so as to be commensurate with historical levels.

4 Other Revenues

4.1 From the information request responses that OPUCN has provided[14], it appears that the forecast revenue from the SSS Administration charge is not captured in OPUCN's Other Distribution Revenue forecast[15]. VECC submits the this forecast should be adjusted accordingly.

5 Operating Costs

5.1 VECC shares Board Staff's concerns regarding the material increase in OM&A costs between 2006 and 2008[16] and the lack of comprehensive explanation for the overall change in costs[17]. VECC also notes the inconsistencies between the total OM&A reported by OPUCN (by major USoA Account) in the Main Application[18] versus that provided in response to VECC's information requests[19].

5.2 VECC submits that without further explanations the Board should reduce

[11] OEB Staff #15 a)
[12] Exhibit 2, Tab 3, Schedule 3, page 8 and Tab 3, Schedule 1, page 10
[13] VECC #12 a) & b)
[14] VECC #11
[15] Exhibit 3, Tab 3, Schedule 1, page 1

OPUCN's OM&A spending by $1 M. VECC notes that this amount is slightly less than the unexplained differences[20] in year over cost changes between 2006 actual and 2008 forecast values.

6 Taxes

6.1 It appears that OPUCN has included capital taxes twice in its 2008 revenue requirement. The capital taxes ($148,936) are included in the total PILs value of $1,935,917 as shown in the Tax Calculation for 2008[21]. They also appear to be included under OM&A[22] in the "Property and Capital Taxes" (Account #6105 – Taxes other then Income Taxes). OPUCN may with to clarify this issue in its Reply Submissions.

6.2 After reviewing Exhibit 4, Tab 3, Schedule 3, it is not readily apparent to VECC whether OPUCN 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 OPUCN to address this issue as part of its Reply Submission.

6.3 VECC concurs with OPUCN's proposal[23] that the new federal corporate income tax rate for 2008 be used in the final rate order.

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[16] OEB Staff Submissions, pages 3-8
[17] OEB Staff Submissions, pages 12-16
[18] Exhibit 4, Tab 1, Schedule 1, page 3
[19] VECC #16
[20] OEB Staff Submissions, page 13
[21] Exhibit 4, Tab 3, Schedule 1, page 2
[22] Exhibit 7, Tab 1, Schedule 1, page 2
[23] SEC #9

7 Losses

7.1 VECC has reviewed Board Staff's submissions on this topic and supports the need for further input from OPUCN regarding what action can be taken to reduce losses[24].

8 Cost of Capital/Capital Structure

8.1 VECC notes that the Capital Structure proposed in OPUCN's Application[25] reflects the direction of the Board in its Report on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors.

8.2 With respect to the cost of debt, OPUCN's debt consists of debt due to the Shareholder and third part debt. The third party debt carries an interest rate of 4.9% while the Shareholder debt (due on demand) carries a rate of 7.25%[26].

8.3 With respect to the cost of equity, VECC notes that OPUCN used 8.799% and has acknowledged that the rate will be updated to reflect the Board's ROE formula and January data[27].

8.4 Based on the above, VECC has no submissions to make regarding OPUCN's proposed cost of capital.

9 Deferral and Variance Accounts

9.1 Board Staff's submissions are fairly comprehensive and have canvassed the issues that the Board must consider. However, VECC would like to reiterate Board Staff's concerns regarding OPUCN's proposal[28] to clear the balance in

[24] Board Staff Submissions, page 26
[25] Application, Exhibit 6, Tab 1, Schedule 2 page 1
[26] Exhibit 6, Tab 1, Schedule 3, page 1
[27] SEC #12
[28] VECC #19 d)

Account #1590 – as currently forecast for April 31, 2008. VECC submits that the Board was clear in its Phase 2 Decision for the Review and Recovery of Regulatory Assets that any outstanding balance in this account as of the end of April 2008 would be dealt with after the end of the period.

10 Revenue Deficiency/2008 Revenue Requirement

10.1 In responding to various information requests OPUCN has materially updated/revised its Application. VECC would request that as part of its Reply Submission, the utility provide a schedule that clearly documents any changes in the 2008 revenue requirement or revenue deficiency and indicate where (in the information requests) the supporting documentation for the revisions can be found. The same would apply to any further changes arising from OPUCN's responses to issues raised by parties in their final Submissions. A similar request applies with respect to the rate riders proposed with respect to the clearance of OPUCN's various deferral/variance accounts.

11 Cost Allocation

11.1 Based on OPUCN's 2007 Cost Allocation Informational filing[29], the Revenue to Cost ratios for the GS < 50 kW; the GS 1000-5000 kW, the Large Use and the USL classes (129.77%, 333.66%, 257.45 % and 131.76% respectively) exceed the Board's guidelines; while the ratios for the Street Lighting and Sentinel Lighting classes (23.16% and 55.33% respectively) are below the Board guidelines for those two classes[30]. In its Application[31] OPUCN is proposing to maintain the existing Revenue to Cost ratios[32].

11.2 As the Board is aware, a number of electricity distributors have expressed

[29] Exhibit 8, Tab 1, Schedule 1, page 2
[30] The Board's Guidelines were issued after OPUCN filed its Application.
[31] Exhibit 8, Tab 1, Schedule 2, pages 4-5
[32] Exhibit 8, Tab 1, Schedule 1, page 3

concerns in their 2008 Rate Applications[33] regard the treatment of the "cost" of the transformer ownership allowance in their Cost Allocation Informational filings. VECC attempted to pursue this issue with OPUCN. However, no information was provided as to OPUCN's proposed treatment for 2008[34]. In principle, the current treatment results in an overall allocation of costs to those classes where customers do not own their own transformer. This is because the allocation results in such classes not only being allocated the full cost of the transformers used to serve them but also a share of the discount. In principle, the discount is an intra-class issue which should capture the fact that for classes where some customers own their transformer, the costs allocated to the class should only flow through to those customers actually using the utility's transformers. This should have been reflected in the Cost Allocation model by either:

a) Excluding the "cost" of the transformer ownership allowance as a cost to allocated to customers and using each customer class' actual revenues (net of discount where applicable) in the determination of the revenue to cost ratios, or
b) Allocating the cost of the discount directly to those customer classes receiving the discount.

11.3 Either of the approaches outlined above would tend to increase the revenue to cost ratio for those customer classes with no transformer ownership (e.g., residential and GS<50 kW) and reduce the revenue to cost ratios for those customer classes with transformer ownership (e.g. GS 1,000-5,000 KW and Large Users). This is illustrated by the response to VECC #27 a), where correcting the revenue allocation in approach (a) above reduces the revenue to cost ratio for the GS 1,000-5,000 class from 333.66% to 306.69% and the ratio for the Large User class from 257.45% to 213.8%.

11.4 As result, VECC submits that caution must be exercised when deciding whether and by how much to shift the revenue to cost ratios for OPUCN in 2008. Overall, some reduction in the revenue to cost ratios, particularly for the GS 1,000 – 5,000

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[33] Barrie Hydro, Enersource and Horizon
[34] VECC #23 b)

kW and Large User classes is appropriate for 2008. However, in VECC's view, adoption of the Revenue to Cost ratio scenario presented by OPUCN in response to Board Staff #61 would lead to revenue to cost ratios for these classes that are materially below the Board's guidelines. Also, as noted by Board Staff[35], there is a need for the Board to consider the rate impacts that will be experienced by those customers classes whose revenue to cost ratios must increase.

11.5 VECC requests that OPUCN submit, as part of its Reply Submission, an alternate proposal for 2008 revenue to cost ratios that results in a more modest shift of costs between customer classes.

12 Rate Design

12.1 In its Application OPUCN states that it proposes to maintain the current fixed variable portions for each customer class[36]. However, VECC has some specific concerns regarding the rates used to establish the current fixed variable split. In the case of the Residential class the rates used (see VECC #23 a)) appear to have included the Smart Meter rate adder in the fixed monthly charge and to have included the Regulatory Asset rate rider in the variable charge. Both of these should have been excluded.

12.2 The Smart Meter rate adder is established separately by the Board and the revenues generated revenues are accrued to a Smart Meter variance account. It should not be included in the rates used to determine the fixed variable split for recovering the base distribution revenue requirement. The same comments apply with respect to the variable Regulatory Asset rate rider.

12.3 VECC requests that OPUCN address this issue in its Reply Submissions.

[35] Board Staff Submissions, page 24
[36] Exhibit 8, Tab 1, Schedule 1, page 4

13 Retail Transmission Rate

13.1 VECC agrees with Board Staff's submission[37] that OPUCN should update its Application to reflect the decrease in Wholesale Transmission rates for 2008.

14 LRAM and SSM

14.1 VECC has reviewed and concurs with OEB Staff Submissions made on this topic.

15 Recovery of Reasonably Incurred Costs

15.1 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 14th Day of January 2008

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[37] OEB Staff Submission, page 25