

**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
Oshawa PUC Networks 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 OPUCN Networks Inc. ("OPUCN") for just and reasonable distribution rates commencing May 1, 2008.

Rate Base

No submissions.

Forecasting Methodology

In its application summary, OPUCN states that Oshawa has experienced significant growth since 2004 “in areas of the municipality which were formerly underused and unserved land.” OPUCN goes on to say that this growth has required the building of new infrastructure.

OPUCN has relied on this growth to explain the increases in various capital accounts. The need for the new Municipal Substation (MS9), with a cost of \$2 million, for example, is explained as deriving from expected development in the northern Oshawa which is expected to “include the addition of approximately 33,000 new residential customers, an expansion of Durham College/UOIT, and a commercial centre....This area is largely agricultural or open space at this time, and construction of residential subdivisions and the extension of Durham College/UOIT has already commenced.” [Ex. 2/3/3, pg. 8-9]

The increase in expenditures for Underground Conductors and Devices is also said to relate to meeting “capacity requirements to service new sub-divisions, the new University (UOIT), and expected developments in the northern and eastern areas of the City of Oshawa”- Ex. 2/2/3/, pg.7)

This significant expansion does not appear to be reflected in OPUCN's load forecast.

It appears from the response to Board Staff interrogatory #15 that, for the residential and GS<50 rate classes, OPUCN is forecasting customer count increases of just 1.4% and 1.5% respectively in 2008, down from about 2.5% growth in 2006 [see pg. 58 of responses to Board Staff]. Most other rate classes show low or negative growth in 2008. (The only exception is the Intermediate Use, which shows a 12.5% increase in customer count in 2008, but this is

entirely due to the loss of one customer in 2007 and the anticipated addition of one customer in 2008.)

OPUCN explains the relatively small increases in customer counts by stating that 2006 was an unusually strong year for growth, and that it expects, based on 2007 numbers so far, that 2008 will fall in line with historical averages. [see Exhibit 3/2/2, pg. 1-2]

Given OPUCN's large, growth-driven capital projects, however, it appears that more growth is expected than is reflected in the customer count projections. Given that OPUCN's load in 2008 will form the base for the three year incentive regulation period, it is important that anticipated growth be reflected in the test year load forecast.

Accordingly, SEC submits that the customer count projections should be adjusted to reflect growth anticipated by OPUCN's capital plan. SEC suggests a projected growth rate of 2% for the residential and general service rate classes, which is the approximate mid-point between the historical average and the 2006 growth rate.

Cost of Capital

SEC believes OPUCN's suggested return on equity and its proposal to update the return on equity using the January 2008 Consensus Forecast is appropriate.

With respect to debt costs, SEC has concerns over the proposed cost rate of 7.25% on the \$23.1 million debt instrument issued to OPUCN's parent company. Board Staff requested details of the debt instrument, and asked that "such documentation...identify the debt holder, whether that party is affiliated with OPUCN Networks, the term of the debt instrument, and whether the rate is fixed or variable, and any conditions on negotiability or on the allowed rate."

OPUCN's response was as follows:

This debt is in the form of a demand note held by OPUC, the parent of OPUCN. The interest rate is fixed at 7.25%
[Board Staff Interrogatory #58]

In SEC's submission, the response is not adequate. On the basis of the information provided, it is not possible to assess the reasonableness of OPUCN's proposal to treat the debt as embedded debt for the purposes of determining the allowable cost rate under the Board Guidelines¹.

In the absence of further information acceptable to the Board, SEC submits that the long-term debt instrument held by OPUC be included at the deemed debt rate of 6.25% rather than the negotiated rate of 7.25%.

Operating Costs

As stated in Board Staff's submissions, there are a number of increases to operations and maintenance costs that are not explained.

Of particular concern to SEC is the large increases in compensation between 2006 and 2008, which appears to account for most of the 30% increase in OM&A from 2006 to 2008 (OM&A increases by \$2.168 million from 2006 to 2008, while total compensation increases by \$1.855 million during the same period.) The majority of the variance explanations provided by the OPUCN also refer to wage and benefit increases, as opposed to changes in programs or work plan, as the drivers of spending increases. [see Exhibit 4, Tab 2, Schedule 2]

¹ Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors, pg. 13.

SEC submits that the proposed 2008 OM&A should be reduced by the amount of the “Unexplained Difference” between 2006 and 2008 OM&A identified in Table 5 of Board Staff’s submissions.

Cost Allocation

A number of OPUCN’s rate classes are over-contributing significantly to the utility’s costs. OPUCN has acknowledges “that significant cross-subsidization exists between the customer classes. However, until direction from the OEB is communicated, we have temporarily delayed making adjustments [SEC interrogatory #14, pg. 13]

In SEC’s submission, the current revenue to cost ratios cannot be said to result in just and reasonable rates for those rate classes that are significantly over-contributing.

In response to Board Staff interrogatory #62, OPUCN presented a scenario “to recover 70% of costs from the Street Lighting class, and changing all other customer category ratios to reflect the ceiling and floor levels identified by the OEB in its report issued November 8, 2007” and to reflect “changes in fixed charges to reflect the desired levels identified in the same report.”

With one exception discussed below, SEC believes that the adjusted cost ratios that result from the analysis in Board Staff interrogatory #62 are a good first step at reducing the current cross-subsidization and should be implemented.

SEC notes, however, that the revised cost allocation tables show that the GS>50 rate class, which was already over-contributing with a revenue to cost ratio of 1.02, moves to 1.08, which exacerbates rather than reduces its level of over-contribution.

Regulatory Assets

OPUCN has proposed clearing the regulatory account balances over two years. The Board Staff submissions suggest a faster recovery period. Given the relatively large distribution rate impacts of the current application, SEC does not believe that a faster recovery period is appropriate.

All of which is respectfully submitted this 15th day of January, 2008.

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