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January 23, 2008

**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)**  
**Notice of Intervention: EB-2007-0696**  
**Halton Hills Hydro Inc. – 2008 Electricity Distribution Rate**  
**Application**

Please find enclosed the final submissions of the Vulnerable Energy Consumers Coalition (VECC) in the above-noted proceeding.

Thank you.

Yours truly,

Michael Buonaguro  
Counsel for VECC  
Encl.

**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 Halton Hills 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 23, 2008**

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**EB-2007-0696**  
**Vulnerable Energy Consumers' Coalition (VECC)**  
**Final Argument**

**1 The Application**

1.1 Halton Hills Hydro Distribution Inc. (HHHI) applied to the Board for approval of its proposed distribution rates and other charges effective May 1, 2008. Specific approvals requested include:

- Rates to recover a projected 2008 Distribution revenue deficiency of \$1,549,973 based on 2007 rates and a 2008 distribution revenue requirement of \$10,446,283. [Exhibit 1, Tab2, Schedule4]
- Specific Service Charges in [Exhibit 1 Tab2 Schedule 1 Pages 6-7]
- Capital Structure involving a change in deemed Equity component from 50% to 48%
- Continue and Recover certain deferral accounts after May 1, 2008 [Exhibit 5]
- Distribution Loss Factor [Exhibit 4 Tab2 Schedule 2]

Excluded from this DRR amount are additional charges required in 2008 associated with the recovery of LV Charges (\$660,000), the recovery of discounts paid to customers for transformer allowances (\$183,000) and the Smart Meter adder.

1.2 Distribution revenues at current 2007 rates would produce revenues of \$9,672,375 plus Other Revenue of \$960,000, yielding a total revenue deficiency of \$1,549,973 (excluding LV charges, transformer allowances and the provision for smart meters). Along with changes to fixed charges, HHHI indicates that the 2008 DRR of \$10,446,283 results in an increase in distribution bills of 1.8% for a residential customer consuming 1000 kwh/month.

1.3 **Summary Of VECC's Principal Concerns/Issues**

- Evidence in original filing lacking in sufficient detail and consistency
- Application seeks to correct revenue deficiency resulting from Historic and Bridge year overspending relative to Board-approved revenue requirement.
- 16% increase in Controllable Distribution Operating& Maintenance Costs
- Shared Services Arrangements and Transfer Pricing
- Working Capital Allowance
- Overall Distribution rate increases in the 20+% range
- Halton Hills Hydro's Capital Plan.
- Smart Meter Plan and Rate Rider

The following sections contain details of VECC's final submission regarding the various aspects of Halton Hills Hydro's Application.

## **Service Quality/Reliability Performance**

- 1.4 In response to VECC IR # 3b HHHI provided the following information on Service Quality/Reliability:

Table 2 – Service Reliability Indices

	2003	2004	2005	2006	2007 Forecast	2008 Forecast
SAIDI	3.4253	1.1234	1.2462	1.193	1.2	1.2
SAIFI	1.8774	1.2150	1.7034	1.534	1.6	1.6
CAIDI	1.8200	0.9200	1.0838	0.780	0.8	0.8

- c) HHHI performance is above Hydro One Distribution's performance in most areas.
- d) HHHI performance is comparable to other LDCs in the province.

- 1.5 It appears from the above that HHHI has significantly improved its distribution system reliability significantly over historic years.

- 1.6 VECC questions the accuracy with which HHHI is measuring the SQ/reliability. As Board Staff noted the evidence is not clear on the reliability performance Halton Hills Hydro achieved in 2007 compared to 2006. With no information on its reliability performance for 2007, and no information as to whether or not HHHI has set specific improvement targets in its projection for 2008, an evaluation as to how the company plans to achieve those targets to sustain or/and enhance its reliability performance is not possible.

1.7 VECC Agrees with Board Staff's suggestion<sup>1</sup> that, in its reply submission, HHHI, citing the evidence on the record, should clarify the correlation and impact of its 2008 capital expenditure projects with the 2008 reliability performance targets.

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<sup>1</sup> BS Submission Page 8

## 2 **Rate Base and Capital Spending**

2.1 The Net Rate Base over the 2006-2008 period (net of capital contributions) is<sup>2</sup>:

- 2006 Approved \$29,540,791
- 2006 Actual \$32,208,396
- 2007 \$34,723,033
- 2008 \$37,954,174

2.2 The table below is derived from the response to Board staff IR #14 and the responses to the VECC IRs #8 and #14.

### **2006-2008 Capitalized Expenditures & Construction Work in Progress Expenditures**

\$000's	2006	2007	2008
Capital Budget	3,276.5	4,641.7	5,131
Construction Work in Progress	796.5	200	700
<b>Total Expenditures</b>	<b>4,074</b>	<b>4,842</b>	<b>5,831</b>
+Expenditures capitalized,		+767.1	
+capitalized interest on CIP		- 200.0	
- Construction in progress, land, office furniture retirements	-803.4	+ 38.4	-1,000
<b>Capitalized Expenditure</b>	<b>3,270.4</b>	<b>5,447.2</b>	<b>4,831</b>

The projected capital additions for 2008 of \$5,831,010 (corrected) are above historical spending patterns.

2.3 In response to Board staff Phase 2 IR# 11 and VECC IR# 5 HHHI indicated that they have not conducted a comprehensive distribution asset condition assessment. The applicant provided documentation and procedures, and examples of the distribution system assessments made by internal personnel (Appendix C and D). However, no formal asset management plan was filed.

2.4 VECC has concerns with respect to HHHI's capital plan. First, as noted by Board Staff<sup>3</sup>, there does not appear to be a comprehensive asset management plan that identifies and prioritizes the various capital spending requirements. Second, while

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<sup>2</sup> VECC #9 - Attachment

<sup>3</sup> OEB Staff Submissions, page 9

HHHI has provided information on most projects, HHHI has provided minimal information regarding the basis of the capital cost estimate (\$300,000) for Property Purchases. It appears that the three identical estimates of \$100,000 per property is merely a placeholder. A related concern is whether these properties are (or were) owned by a related party.

2.5 VECC asks that HHHI comment (in its Reply Submissions) on the lack of an asset condition report and forward multiyear capital plan and also to explain the basis for the cost estimate attributed to 2008 property acquisitions.

2.6 Rate Base consists of Net Fixed Assets plus an allowance for working capital. In determining the latter, HHHI [Appendix C Exhibit 2 Tab4 Schedule 1] has used 15% of 2006 OM&A plus Cost of Power. In determining the 2008 WCA at \$6,469,200, HHHI has forecasted its 2008 wholesale load and then applied its 2007 costs of power. VECC has two concerns with the foregoing:

- The WCA of 15% for Purchased power is too high based on the Hydro One and Toronto Hydro lead lag studies and should be about 12%
  - If 12% was used on power purchased, the 2008 impact would be:
  - Working capital \$ 5,636,177 (from \$6,469,200)
  - Rate base \$37,121,151 (from \$37,954,174)
  - Revenue requirement \$10,384,214 (from \$10,446,283)<sup>4</sup>
- Using 2006 COP as a base HHHI has failed to capture the material decrease in Transmission Charges that will be in effect for 2008 relative to 2006.

2.7 In VECC's view, HHHI should be directed to revise its Cost of Power WCA estimate to reflect the lower transmission charges approved for 2008. In addition, VECC suggests that 12% of COP is a more appropriate rate based on recent lead/lag studies and all COS filers should use this absent any other evidence to the contrary.

## 2.8 **Smart Meters**

HHHI's Position on Smart Meters is outlined in VECC IR #4:

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<sup>4</sup> VECC IR Response Rate Base and Working Capital Question: 7

a) Halton Hills Hydro Inc. did not request a Smart Meter Adder in the original application. In response to Round 1 OEB Staff Interrogatory #46, the only submission filed is the Smart Meter Investment Plan. The plan was formed with the best information available at that time. Halton Hills Hydro Inc. has not selected a Smart Metering vendor nor have we implemented any Smart Meters as we are prohibited by legislation. Halton Hills Hydro Inc. expects that a further provincial directive will be necessary in order to extend the current Smart Meter initiative and this will likely require Halton Hills Hydro Inc. and other LDCs to adjust their current planning. [emphasis added]

b) The proposed rates in Exhibit 10, Tab 1, Schedule 6, do not include a Smart Meter Rate Adder.

The derivation of \$1.18 (rate adder for 2008) comes from Halton Hills Hydro Inc.'s Smart Meter Investment Plan dated December 15, 2006. Please refer to Table 1

**Table 1**

Year	Operating (\$)	Amortization (\$)	Total (\$)
2007	10,000	17,300	27,300
2008	67,000	116,730	183,730
2009	121,000	211,730	322,730
2010	177,000	306,740	483,740
			1,017,500
Total Cost			\$1,017,500
# of Customers			17,004
Cost per Customer			\$59.83
Number of Months			48
~Monthly Cost			\$1.18

c) The actual 2007 rates include a Smart Meter Rate adder of \$0.26 per customer per month.

2.9 VECC IR Response #2 indicates the status of the Smart Meter deferral account:

- i. Estimated balance as at December 31, 2007 - \$151,421
- ii. Estimated balance as at April 30, 2008 - \$176,421
- iii. As of this filing, the only known rate rider expires on April 30, 2008

2.10 VECC submits that the situation outlined above is totally unacceptable to ratepayers. HHHI is collecting \$0.26/month/customer plus carrying costs based on an SM Plan that is not being implemented and in 2008 it may be proposing to collect



\$1.18/month customer. It has done nothing material to procure and install Smart Meters in its service territory, but the Government has mandated that all residential customers have SM by 2010.

- 2.11 VECC submits that HHHI be directed by the OEB to seek authorization to undertake an SM program in 2008-2010, given the rapidly approaching deadline for SM installations. HHHI should request an appropriate 2008 SM rate adder and as usual, costs of the SM program be subject to deferral account treatment and prudence review by the Board.

### **3 Operating Costs**

- 3.1 VECC shares Board Staff's concerns regarding the material increase in controllable OM&A costs between 2006 and 2008<sup>5</sup> [E4T1S2]

#### **SUMMARY OF OPERATING COSTS TABLE**

##### **Operating Costs-Summary**

	2006 Board Approved	2006 Actual	2007 Bridge	2008 Test
	(\$)	(\$)	(\$)	(\$)
Operation	495,401	700,553	715,000	784,000
Maintenance	562,172	694,552	741,000	821,000
Billing & Collecting	873,784	908,849	923,000	1,039,000
Community Relations	88,690	2,245	2,000	2,000
Administrative and General Expenses	2,594,596	2,088,759	2,170,000	2,447,000
Amortization Expenses	1,846,338	1,930,209	2,129,369	2,190,723
Taxes other than income taxes	71,132	189,020	190,000	195,000
Cost of Power	30,683,803	35,539,505	36,636,500	37,840,000
Other Operating Costs	-	2,901	20,000	33,000
LCT, OCT & Income Taxes	502,007	731,486	1,181,000	836,500
Total Operating Costs	37,717,923	42,788,079	44,707,869	46,188,223

<sup>5</sup> OEB Staff Submissions, pages 3-5

3.2 Exhibit 4 Tab 2 Schedule 6 provides information concerning employee compensation and a breakdown of labour costs.

	<b>2006 Board</b>				
	<b>Approved</b>	<b>2006 Actual</b>	<b>2007 Bridge</b>	<b>2008 Test</b>	
<b>Compensation</b>	\$ 3,102,126	\$ 3,567,531	\$ 3,746,277	\$ 3,892,649	
<b>Pension and Benefits</b>	\$ 519,290	\$ 629,071	\$ 713,783	\$ 773,495	
<b>Incentive Pay</b>	\$ -	\$ 61,665	\$ 68,100	\$ 70,923	
<b>Total Compensation</b>	<u>\$ 3,621,416</u>	<u>\$ 4,258,267</u>	<u>\$ 4,528,160</u>	<u>\$ 4,737,067</u>	
<b>Capitalized</b>	\$ -	\$ 1,380,543	\$ 1,644,322	\$ 1,541,698	
<b>OM&amp;A</b>	\$ -	\$ 2,877,724	\$ 2,883,838	\$ 3,222,369	
<b>Total Compensation</b>	<u>\$ -</u>	<u>\$ 4,258,267</u>	<u>\$ 4,528,160</u>	<u>\$ 4,764,067</u>	
<b>Capitalized</b>	-	32.4%	36%	32%	
<b>OM&amp;A</b>	-	67.6%	64%	68%	

VECC notes that the proposed increase in Total Compensation is one of the main drivers for the increase in overall O&M expense.

3.3 VECC suggests that the Board require HHHI to benchmark its total compensation and O&M costs on a per customer and per kwh distributed from 2000-2008 and to file this information along with its next rate application.

3.4 VECC submits that without further sufficient explanations, the Board should reduce HHHI 's Controllable OM&A spending for 2008 by \$56,000 to \$5,263,000. VECC notes that the \$56,000 reduction is 10% of the claimed increase (2007-2008) and is the order of the "unexplained differences" in year over cost changes between 2006 and 2008.

3.5 VECC also has concerns with the Incentive Plan for HHHI Senior Management. As set out in HHHI's response to Board Staff<sup>6</sup>

<sup>6</sup> Phase 1 OEB Staff Interrogatories-Operation, Maintenance and Administration-General  
Question: 2 Page: 1

*"It was RESOLVED that each member of Management of the Corporation whose position is set forth below is eligible to receive a bonus, not exceeding the percentage of their base salary set opposite their position below, determined by the Directors at the end of each calendar year taking into consideration the weighted criteria for the position set forth below:*

<i>Position</i>	<i>Percentage Base Salary</i>	<i>Criteria</i>	<i>Weight</i>
<i>President</i>	<i>12.5%</i>	<i>Safety</i>	<i>33%</i>
		<i>LDC (NCFS) Before Tax Net Income</i>	<i>23%</i>
		<i>FIBRE (CFS) Before Tax Net Income</i>	<i>22%</i>
		<i>SWE (CFS) Before Tax Net Income</i>	<i>22%</i>
<i>Vice- President</i>	<i>10.0%</i>	<i>Safety</i>	<i>40%</i>
		<i>LDC (NCFS) Before Tax Net Income</i>	<i>25%</i>
		<i>SWE (CFS) Before Tax Net Income</i>	<i>35%</i>
<i>Chief Financial Officer</i>	<i>10.0%</i>	<i>Safety</i>	<i>33%</i>
		<i>LDC (NCFS) Before Tax Net Income</i>	<i>23%</i>
		<i>Fibre (CFS) Before Tax Net Income</i>	<i>22%</i>
		<i>SWE (CFS) Before Tax Net Income</i>	<i>22%</i>
<i>Engineering &amp; Operations Manager</i>	<i>7.5%</i>	<i>Safety</i>	<i>50%</i>
		<i>LDC (NCFS) Before Tax Net Income</i>	<i>50%</i>
<i>Lines Supervisor</i>	<i>5.0%</i>	<i>Safety</i>	<i>50%</i>
		<i>LDC (NCFS) Before Tax Net Income</i>	<i>50%</i>

Halton Hills Hydro Inc. response to OEB Staff Interrogatories  
EB-2007-0696  
Tuesday, November 20, 2007

3.6 VECC submits that the mixed incentive plan for the President, Vice President and CFO places in question the allocation of the time of these individuals between utility and non-utility business. For example does the President of HHHI spend 33% of his time on (utility) Safety and 23% of his time on EBIT for HHHI? Or does he spend more time on business development for Fibre and SWE?

3.7 In the absence of time logs or estimates to support the time allocations ratepayers cannot be certain that time and costs are appropriately allocated between HHI and

Affiliates.

- 3.8 VECC submits that the Board should require time dockets or time estimates to be filed in support of the time and costs allocated between HHHI and affiliates for the President, Vice President and CFO.

#### **4 Shared Services Costs**

- 4.1 Shared services with Affiliates for the 2008 test year are shown in Exhibit 4, Tab 2, Schedule 4.

Halton Hills Hydro provides the following services to its affiliates:

- 1.) Billing Services
- 2.) Collecting Services
- 3.) Customer Services
- 4.) Payment Services
- 5.) Distribution Poles
- 6.) Office space
- 7.) Use of Office Equipment
- 8.) Administration
- 9.) Warehouse Services

HHHI derives the following revenue from providing the services listed above are:

	<b>2006 Actual</b>	<b>2007 Bridge</b>	<b>2008 Test</b>
Intercompany Revenue	\$388,484	\$411,483	\$362,000

The decrease in 2008 Test is a result of an Affiliate's discontinuance of a line of business.

- 4.2 HHHI. views the costs that are incurred for the various components listed in Table 6 of VECC IR#13 response to be fair market value. According to HHHI, the fair market value is then allocated to the appropriate affiliate activity and fair market value is established by:

- a. Meter Reading costs – Provided by third party
- b. Bills/Postage costs – Provided by third party
- c. Billing/Collection costs – Actual wage cost incurred
- d. Warehouse Service – Market value of leased square footage space
- e. Office Equipment – Actual amortization and maintenance costs

4.3 VECC notes that the ARC requires that the transfer price for internally provided services be the fully allocated costs of the service provider, including a return on the Capital employed at the approved WACC.

4.4 VECC asks that the Board require HHHI to provide details of its affiliate services transfer pricing for 2008, either as part of its reply submission or, if time does not permit, by separate letter to the Compliance Branch of the Board.

## **5 Load Forecast and Revenue Offsets**

5.1 HHHI has provided two methodologies and Load Forecasts for 2008. It used the 2004 weather normalized load data (developed by Hydro One Networks) to establish weather normalized use per customer for each customer class. It is not clear how the normalized use was developed for 2005 and 2006. In fact HHI notes that the method resulted in Normalized Consumption in 2006 that was 8.1% higher than actual. However It developed its 2008 load forecast by using simple trend growth in customer connections by class to forecast 2008 customer count (by class) and then multiplying this “count” by the weather normalized average use per customer (NAC) for each class.

5.2 VECC notes (and shares) the concerns of Board Staff<sup>7</sup> regarding the use of only one year’s normalized average use per customer to develop the 2008 load forecast. Not only does this approach fail to capture continuing improvements in energy efficiency, but it also fails to capture changes in customer usage patterns (particularly in the General Service classes) due to shifts in customer mix. However, at this point in time, it is VECC’s view that there is no evidence or rationale to support a change in the average use values adopted by HHHI.

5.3 With regard to HHHI’s own Load forecast VECC notes that the forecast is driven off a residential customer count increase that is higher than the historic average. The historic GS Customer adds are very “lumpy” and do not provide a basis for a forward estimate. Accordingly, regardless of which method is used the customer adds is the critical assumption underlying the forecast and HHI should be asked to justify the

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<sup>7</sup> OEB Staff Submission, page 13

residential addition numbers based on expected new homes in 2008..

- 5.4 In the alternative VECC suggests that the forecast 2008 residential customer additions be reduced to the 3 year historic average of 443 and the load forecast, revenue forecast and capital budget be adjusted accordingly.

## 6 Losses E4T2S8

- 6.1 HHHI is proposing to increase the distribution loss factor from 3.68% to 4.99%

### LOSS ADJUSTMENT FACTOR CALCULATION

	2004	2005	2006	Total
A "Wholesale" kWh (IESO)	468,337,202	495,175,531	493,166,270	1,456,679,003
B Wholesale kWh for Large Use customer(s) (IESO)	0	0	0	0
C Net "Wholesale" kWh (A)-(B)	468,337,202	495,175,531	493,166,270	1,456,679,003
D Retail kWh (Distributor)	445,615,670	465,644,681	476,142,756	1,387,403,107
E Retail kWh for Large Use Customer(s) (1% loss)	0	0	0	0
F Net "Retail" kWh (D)-(E)	445,615,670	465,644,681	476,142,756	1,387,403,107
G Loss Factor [(C)/(F)]	1.0509	1.0637	1.0357	1.049932
H Distribution Loss Adjustment Factor				

### Total Utility Loss Adjustment Factor

	LAF
Total Loss Factor	
Secondary Metered Customer	
Total Loss Factor - Secondary Metered Customer < 5,000kW	1.0499
Total Loss Factor - Secondary Metered Customer > 5,000kW	N/A
Primary Metered Customer	
Total Loss Factor - Primary Metered Customer < 5,000kW	1.0395
Total Loss Factor - Primary Metered Customer > 5,000kW	N/A

- 6.2 Board Staff asked HHHI to confirm that the historic loss factors (RP-2005-0020/EB-2005-0374) were 1.0207, 1.0365 and 1.0371 respectively for 2002, 2003 and 2004 and that loss factors for 2004, 2005 and 2006 were 1.0509, 1.0637 and 1.0357 as indicated in the Application.
- 6.3 HHHI responded that it had reviewed information gathering methods and determined a more accurate method. In addition, internal procedures have been improved to ensure more accurate data.<sup>8</sup>
- 6.4 VECC does not accept HHHI's estimates underlying the 2008 loss factor and has reviewed Board Staff's submissions on this topic and supports the need for further explanation regarding why the 2008 loss factor should not be set at the historic year actual. If this is not an estimating problem, then VECC respectfully submits that HHHI has a real problem with losses at almost 5% and there is no evidence that they are taking the appropriate actions to reduce losses to more normal levels.

## **7 Cost of Capital/Capital Structure**

- 7.1 VECC notes that the 2008 Capital Structure proposed in HHHI's Application<sup>9</sup> of 53% debt and 47% equity reflects the direction of the Board in its Report on Cost of Capital and 2<sup>nd</sup> Generation Incentive Regulation for Ontario's Electricity Distributors.
- 7.1 VECC further notes that in 2007 HHI moved away from the previous 50:50 deemed debt:equity ratio to 42.5:56. VECC assumes that the higher cost of capital associated with that structure was not approved by the Board.
- 7.2 With respect to the cost of debt, HHHI LT debt for 2008 consists of both a historical Shareholder Promissory Note (6.25%) and third party debt. The third party debt carries a forecast interest rate of 5.78%. HHHI seems vague about the type of instrument and cost rate and VECC suggests that the forecast rate is not firm.
- 7.3 VECC submits that HHI should confirm with regard to the 2008 third party debt

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<sup>8</sup> Response to Phase 1 OEB Staff Interrogatories-Loss Factors Question: 10

<sup>9</sup> Application, Exhibit 6, Tab 1, Schedule 2 page 1

rate, whether it is firm (fixed) and if not, what contingency it has if either the rate or amount of debt changes.

7.4 With respect to Short term debt designated as “Deposits” the rate is shown at prime less 2.0 % but HHI seems less certain about the amount.

7.5 With respect to the cost of equity, VECC notes that while HHI has provided an estimate based on 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<sup>10</sup>.

7.6 Based on the above, VECC has no submissions to make regarding HHI’s proposed cost of equity.

## 8 CDM Costs and LRAM/SSM

8.1 In response to Board Staff IR#23 HHI provided a revised CDM LRAM/SSM claim and Rate Rider.

Table 23

Rate Class	Amounts (2005 + 2006)		Billing Units (2006)		Rate Riders		
	LRAM	SSM			LRAM	SSM	Total
	\$	\$			\$/unit (MWh or kW)	\$/unit (MWh or kW)	\$/unit (MWh or kW)
Residential	\$ 1,163	\$ 5,302	208,116,543	kWh	.000000	.00003	.00003
General Service less than 50 kW	\$ 6,818	\$ 2,926	54,412,911	kWh	.000013	.00005	.00018
Total	\$ 7,981	\$ 8,228					

8.2 VECC agrees with Board Staff that the recovery of the LRAM/SSM should be as per the revised claim.

## 9 Deferral and Variance Accounts

9.1 VECC has no specific submissions with respect to HHI’s proposals regarding the disposition of existing deferral and variance account balances. With regard to the issue

<sup>10</sup> Application, Exhibit 6, Tab 1, Schedule 4, page 2



of clearance of audited vs forecast balances VECC agrees with Board Staff<sup>11</sup> that HHHI has not complied with the Board's Policy in this regard.

- 9.2 With regard to the actual balances and rate of interest applied, VECC has relied on Board Staff's detailed review and notes that Board Staff's submissions are fairly comprehensive and have canvassed the issues that the Board must consider.

## **10 Payments in Lieu of Taxes**

- 10.1 VECC will rely on Board Staff to ensure that announced changes to Income Tax, Capital Tax and CCA Allowances are reflected in HHHI's PILS calculation for 2008.

## **11 Cost Allocation**

Table 11 from the response to VECC IR #9 shows the 2007 R/C ratios

Round 2 VECC Interrogatories  
Cost Allocation  
Question: 9  
Page: 4

- e) Please refer to Table 11 for a re-run of the Cost Allocation information filing based on the requested information.

Table 11

Proposed Customer Classes	Revenue to Costs Ratios from Informational Filing	Revenue to Costs Ratios based on information in (e)
Residential	88.34 %	89.88 %
Residential TOU	0.00 %	0.00 %
General Service less than 50 kW	81.75 %	83.60 %
General Service 50 kW to 999kW	156.93 %	160.47 %
General Service 1,000 kW to 4,999kW	164.17 %	164.24 %
Un-metered Scattered Load	106.77 %	108.13 %
Street Lighting	15.14 %	15.81 %
Sentinel Lighting	36.74 %	38.18 %

<sup>11</sup> Board Staff Submission Page 20

11.1 Based on HHHI 's response to VECC IR #9, the proposed Revenue to Cost ratio for the Residential class) is within the Board's guidelines (89.88%), while the GS class is at the upper end (160-164%). The Sentinel and Street Light classes (16 and 38% respectively) are below the Board guidelines for those two classes.

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

- Residential 93.46%
- GS < 50 kW 96.5%
- GS > 50 kW 149.18%
- GS1000-4999 kW 119.3%
- Sentinel Lighting 50%
- Street Light 20.7%
- USL 100%

11.3 VECC has a number of concerns regarding HHHI's proposal. For all of the classes where the Applicant calculates a ratio that is within the ranges of the Board's report, the value calculated by the Board staff formula and the VECC formula are also in the range.

11.4 However VECC submits that HHHI has not calculated the R/C ratios correctly.<sup>12</sup> The actuals should be Residential 96.1%, GS<50kw 88.7%; GS 50-999kw 129.7%;GS 1000-4999kw 141%;Streetlighting 28.03%. Based on this the GS< 50kw should be increased more than proposed.

11.5 There are two important exceptions in the application with respect to compliance with the Board's guidelines:

- The Streetlighting Class, which has a very low ratio based on current approved rates, and is proposed to remain very much below the lower end of the range for the ratio found in the Board report. The proposed ratio is approximately 21%, compared to the lower end of the range (70%).

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<sup>12</sup> Round 2 VECC IR Cost allocation Question 9 Page 3

<sup>14</sup> OEB Staff Submission, page 16

- Sentinel Lights, with a proposed ratio of 50%, also to be compared to lowest range value of 70%. VECC invites Barrie Hydro to clarify the foregoing issues in its Reply Submission.

11.6 VECC agrees with Board Staff submissions<sup>14</sup> with respect to the Street Light class and Sentinel Lighting, and believes that a further increase in the Revenue to Cost ratio for these classes is warranted.

11.7 Given that VECC's calculation shows a lower R/C ratio than HHHI and the total bill impacts for typical GS > 50 kW customers are less than 1%, VECC submits that the Revenue to Cost Ratio for this class should not be further decreased.

## **12 Rate Design**

12.1 In its Application HHHI states that it proposes to maintain the current fixed/variable portions for each customer class<sup>15</sup>.

12.2 HHHI is proposing to increase monthly fixed charges as follows:

### **PROPOSED MONTHLY SERVICE CHARGE**

Rate Classification	Approved Fixed Charge	Proposed Fixed Charge
Residential	\$ 11.59	\$ 12.88
Residential Time of Use	n/a	\$ 9.56
General Service <50 kW	\$ 24.86	\$ 28.13
General Service 50 to 999 kW	\$ 93.18	\$ 80.77
General Service 1,000 to 4,999 kW	\$ 205.17	\$ 185.71
Street Lights	\$ 0.52	\$ 1.01
Sentinel Lights	\$ 1.17	\$ 1.88
Un-metered Scattered Load	\$ 12.12	\$ 12.63

12.3 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 (if approved for 2008) and the LV Charge adder. The rationale for this approach is that recovery of these latter costs are addressed through separate “adders” and not included in the Base Distribution

<sup>15</sup> Application, Exhibit 8, Tab 1, Schedule 2

Revenue Requirement.

### **13     Retail Transmission Rate**

13.1        The currently approved Retail Transmission Service Rates were not adjusted in 2006, and in the initial Halton Hills Hydro application they were again proposed to remain constant.

13.2        In response to Board staff IRs #55 and # 56, a new set of proposed rates was provided. In response to Board staff IR # 24 (phase 2), another set of proposed rates was put forward, which are lower than those provided in the phase 1 interrogatories .

Board staff notes the applicant's intention to revise the rates once the rates applicable to the embedded delivery points are approved. VECC agrees with Board Staff that the rates do not seem to be correct and supports the need for a more fulsome explanation/correction.

### **14     Rate Impacts**

14.1        The following table sets out the split between the residential customers based on their monthly consumption, illustrating that fully 43.1% of HHHI's residential customers are below the 750 kWhs per month consumption level:

**Table 14**

Classification		Total Number of Residential Customers	Total Number of Customers in Classification	Percentage of Total Residential Customers
0-99	kWhs per month	18335	130	<b>0.7%</b>
100-249	kWhs per month	18335	522	<b>2.8%</b>
250-499	kWhs per month	18335	2691	<b>14.7%</b>
500-749	kWhs per month	18335	4568	<b>24.9%</b>

14.2 The Distribution Rate Impacts resulting from the 2008 Revenue Requirement are shown in response to VECC IR #10:

<b>Residential</b> 100 kWh Consumption										
	Metric	2007 BILL			2008 BILL			IMPACT		
		Volume	Rate \$	Charge \$	Volume	Rate \$	Charge \$	Change \$	Change %	% of Total Bill
Monthly Service Charge				11.35			14.06	2.71	23.9%	11.3%
Distribution	kWh	100	0.01150	1.15	100	0.01420	1.42	0.27	23.5%	1.1%
<b>Sub-Total</b>				<b>12.50</b>			<b>15.48</b>	<b>2.98</b>	<b>23.8%</b>	<b>12.4%</b>
Regulatory Asset Recovery	kWh	100	0.00420	0.42	100	0.00100	0.10	(0.32)	-76.2%	-1.3%
Retail Transmission - Network	kWh	104	0.00570	0.59	105	0.00570	0.60	0.01	1.3%	0.0%
Retail Transmission - Line and Transformation Connection	kWh	104	0.00500	0.52	105	0.00500	0.52	0.01	1.3%	0.0%
Wholesale Market Service	kWh	104	0.00520	0.54	105	0.00520	0.55	0.01	1.3%	0.0%
Rural Rate Protection Charge	kWh	104	0.00100	0.10	105	0.00100	0.10	0.00	1.3%	0.0%
Debt Retirement Charge	kWh	100	0.00700	0.70	100	0.00700	0.70	0.00	0.0%	0.0%
Cost of Power Commodity	kWh	104	0.05704	5.91	105	0.05704	5.99	0.08	1.3%	0.3%
<b>Total Bill</b>				<b>21.29</b>			<b>24.04</b>	<b>2.76</b>	<b>13.0%</b>	<b>11.5%</b>

<b>Residential</b> 500 kWh Consumption										
	Metric	2007 BILL			2008 BILL			IMPACT		
		Volume	Rate \$	Charge \$	Volume	Rate \$	Charge \$	Change \$	Change %	% of Total Bill
Monthly Service Charge				11.35			14.06	2.71	23.9%	4.2%
Distribution	kWh	500	0.01150	5.75	500	0.01420	7.10	1.35	23.5%	2.1%
<b>Sub-Total</b>				<b>17.10</b>			<b>21.16</b>	<b>4.06</b>	<b>23.7%</b>	<b>6.3%</b>
Regulatory Asset Recovery	kWh	500	0.00420	2.10	500	0.00100	0.50	(1.60)	-76.2%	-2.5%
Retail Transmission - Network	kWh	518	0.00570	2.95	525	0.00570	2.99	0.04	1.3%	0.1%
Retail Transmission - Line and Transformation Connection	kWh	518	0.00500	2.59	525	0.00500	2.62	0.03	1.3%	0.1%
Wholesale Market Service	kWh	518	0.00520	2.70	525	0.00520	2.73	0.03	1.3%	0.1%
Rural Rate Protection Charge	kWh	518	0.00100	0.52	525	0.00100	0.52	0.01	1.3%	0.0%
Debt Retirement Charge	kWh	500	0.00700	3.50	500	0.00700	3.50	0.00	0.0%	0.0%
Cost of Power Commodity	kWh	518	0.05704	29.57	525	0.05704	29.95	0.38	1.3%	0.6%
<b>Total Bill</b>				<b>61.03</b>			<b>63.98</b>	<b>2.95</b>	<b>4.8%</b>	<b>4.6%</b>

14.3 For low volume Customers the distribution rate increase is almost 24% and for the lowest use customers the total bill impact is an increase of 13% (assuming commodity cost do not increase) these increases do not include the potential request for a Smart Meter Rate rider of ~\$1.18/month.

14.4 It is clear that these increases are not acceptable to ratepayers and as mentioned before, HHHI is attempting to make up for 2007 rates that produced a revenue deficiency and a lower than allowed rate of return.

14.5 VECC believes that the Board should reduce the 2008 rates by a reduction in approved revenue requirement, including claimed operating costs and loss factor of

1.05, by:

- reducing the 16% requested increase in Operating costs based on Board Staff's analysis of cost drivers by \$56,000 (as submitted above);
- setting the 2008 line loss factor at the historic year level; and
- making miscellaneous adjustments (Working Capital Allowance, LRAM/SSM etc.) as indicated VECC and Board Staff's submissions.

## **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 23<sup>rd</sup> Day of January 2008

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