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April 29, 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)
EB-2010-0140: Parry Sound Power Corporation – 2011 Rates

Please find enclosed the submissions of VECC in the above noted proceeding.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

EB-2010-0140

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 Parry Sound Power Corporation 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 January 1, 2011.

FINAL SUBMISSIONS

On Behalf of The

VULNERABLE ENERGY CONSUMERS COALITION (VECC)

April 29, 2011

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PARRY SOUND POWER CORPORATION
2011 RATE APPLICATION (EB-2010-0140)

VECC'S FINAL SUBMISSIONS

1 The Application

1.1 Parry Sound Power Corporation ("Parry Sound" or "PSP") filed an application ("the Application") with the Ontario Energy Board ("the OEB" or "the Board") on October 15, 2010.

1.2 The Application proposed a 2011 Test Year distribution service revenue requirement of $2,714,943 with miscellaneous revenues forecast to be $100,986,[1] resulting in a base revenue requirement of $2,613,957.[2]

1.3 At existing rates, PSP forecasts a 2011 revenue deficiency of $791,616.

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

2 Capital Spending and Rate Base

Fixed Assets

2.1 PSP is proposing 2011 capital expenditures of $1,211,782 and forecasting $0 for 2011 contributions and grants, for net additions of $1,211,782 in 2011.[3]

2.2 For the years 2006-10 inclusive, comparative historical figures are provided in the table below:[4]

	2006	2007	2008	2009	2010
Gross Adds	187,426	147,564	650,182	491,417	571,304
Contributions	(71,562)	(32,278)	(357,904)	(6,618)	(33,040)
Net Adds	**115,865**	**115,286**	**292,279**	**484,800**	**538,263**

[1] Exhibit 1, Tab 1, Schedule 5, page 1
[2] Exhibit 1, Tab 2, Schedule 4, page 9
[3] Exhibit 4, Tab 2, Schedule 7, page 8
[4] Exhibit 4, Tab 2, Schedule 7, pages 3-7

2.3 VECC notes that the proposed 2011 gross-of-contributions capital expenditures of $1,211,782 not only exceed the gross additions for the years 2009 and 2010 combined, they also exceed the sum of the two largest annual gross capital additions undertaken by PSP over the period 2006-2010 inclusive.[5]

2.4 Looking at the 2011 proposal on a net-of-contributions basis, it is barely exceeded by the sum of net capital additions for the three years 2008, 2009, and 2010 combined.[6]

2.5 Given that the proposed capital program for 2011 is so far out of line with historical expenditures, VECC questions whether the utility is even capable of completing such a massive spending program in the Test Year. As such, VECC submits that the proposal is excessive and should be reduced.

2.6 With respect to an appropriate reduction, VECC notes that Board Staff has proposed specific reductions to capital spending in excess of $350K in its argument which would still leave approved 2011 spending at 41% above actual 2010 spending.[7] VECC submits that a reduction of this scale is appropriate.

2.7 VECC would like to draw attention to two other related matters on which VECC invites PSP to address in its reply argument.

2.8 In response to VECC IR #24 c), PSP stated that had it applied the full-year rule for the years 2007-2007, the 2011 rate base would be reduced, under PSP's proposal, from $5,967,047 to $5,836,693, a reduction of over $130K in rate base. However, PSP then stated that making such a change would increase the 2011 revenue requirement by $38,729. In VECC's view, such a reduction in rate base would normally be expected to result in a revenue

[5] The gross adds for 2010, $571,304, and 2008, $650,182, add up to $1,221,486, i.e., less than the $1,211,782 proposed for 2011.
[6] These items sum to $1,315,342, barely exceeding the one-year proposal of $1,211,782.
[7] Staff Submission, April 26, 2011

requirement decrease. VECC invites PSP's submissions on this point.

2.9 The other point that VECC invites the utility to address in its reply is related to the depreciation component proposed in its 2011 revenue requirement. According to the RRWF,[8] this component is stated to be $389,525. However, in its 2011 Test Year Depreciation and Amortization schedule,[9] the figure of $453,271 is presented as being the 2011 depreciation expense. VECC invites PSP's submissions on this point.

Working Capital

2.10 PSP has proposed to use the proxy of 15% of the sum of forecasted cost of power and controllable expenses for its working capital component of rate base. VECC submits that this methodology is appropriately applied to the sum of approved 2011 controllable expenses and the most recent estimates of commodity prices and RTRs.

3 Load Forecast and Other Revenues

A. Customer Count Forecast

3.1 Parry Sound's 2010 and 2011 forecast customer count (by class) is prepared independently of it volume forecast. For the Residential and GS<50 classes the growth in customers was forecast using the geometric mean growth over the period 2004 through 2009. For the GS>50 class the growth rate between 2008 and 2009 was used to project the annual change in the number of customers for 2010 and 2011.

3.2 In response to VECC #34 Parry Sound updated its 2011 projections using the 2010 actual customer count by class. The results are similar to the initial 2011 forecast except for Street Lighting where an error was found in the original customer count used (i.e. 1004 vs. 1067). Subject to this correction in the number of Street Light connections, which Parry Sound

[8] Exhibit 1, Tab 2, Schedule 4, page 9
[9] Exhibit 4, Tab 2, Schedule 7, page 8

has adopted in its Argument-In-Chief[10], VECC submits that the 2011 customer counts proposed by Parry Sound in its original Application[11] should be accepted.

B. Volume Forecast

3.3 For the Residential, GS<50 and GS>50 classes, regression models were developed using 2004-2009 monthly sales data and independent weather, economic and calendar variables. Forecasts for 2010 and 2011 were then developed using the average weather conditions over the 2004-2009 period[12] and the economic projections from the Province's March 2010 Budget[13]. The 2011 forecasts for the Residential, GS<50 and GS>50 classes were then adjusted by a total of 1 GWh to account for the Parry Sound's estimated share of the 6,000 GWh CDM target[14] established for electricity distributors overall..

3.4 For the Street Lighting and Sentinel Lighting classes no change in volumes was forecast from 2009 levels. For USL a slight year over year decline was forecast based on the 2008-2009 trends[15].

3.5 Finally, of those classes that are demand billed (GS>50, Street Lighting and Sentinel Lighting), the 2010 and 2011 billing kW were forecast based on the historic growth in energy. For the GS>50 class the 2008 to 2009 growth rate was used, while for the other two classes the geomean growth over the 2004-2009 period was employed. In the case of the GS>50 class the result was reduced to account for the CDM targets[16].

3.6 In its Argument in Chief Parry Sound indicated that it proposes to amend

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[10] April 13, 2011 Argument-in-Chief, page 2
[11] Exhibit 3, Tab 2, Schedule 1, page 6
[12] Exhibit 3, Tab 2, Schedule 1, page 7
[13] VECC #2 g)
[14] Exhibit 3, Tab 2, Schedule 1, page 12
[15] Exhibit 3, Tab 2, Schedule 1, page 11
[16] Exhibit 3, Tab 2, Schedule 1, page 14. This adjustment was subsequently revised in response to VECC #3 j).

the regression models for the three weather sensitive customer classes using 2010 actual data.

3.7 VECC has a number of concerns with Parry Sound's proposed 2011 volume forecast.

Regression Models Used

3.8 The first concern is with respect to the regression equation used for the GS>50 class. As Parry Sound noted[17], the coefficient for the "employment" explanatory variable is negative – which is counter intuitive. Parry Sound has re-estimated the equation without this variable and produced a revised forecast for the GS>50 class based on the results[18]. In VECC's view this revised forecast for the GS>50 class should be used for 2011.

3.9 VECC's second concern is with respect to Parry Sound's proposal to update its regression models for 2010 actual data and, presumably, also its sales volume forecast for 2011. VECC #40 sets out the various 2010 sales volume values provided by Parry Sound during this proceeding. At the time of Application, Parry Sound was forecasting total sales for 2010 of 87.69 GWh. In response to the first round of interrogatories[19], Parry Sound provided an estimate of 2010 sales based on 10 months of actual 2010 data and the revised total sales value was 84.65 GWh. In its response Parry Sound indicated that, based on this value, it did "not view it necessary to revise the 2011 forecast".

3.10 The actual sales for 2010 of 83.94 GWh were reported in response to VECC's second round of interrogatories. VECC notes that at the time this response was provided there was no indication from Parry Sound that it viewed it necessary to either update the regression models used or the forecast for 2011. Indeed, while the actual 2010 volume sales were lower

[17] Board Staff #7
[18] Board Staff #7
[19] Board Staff #4

than those forecast in response to the first round of interrogatories the total 2010 actual billing demands for the applicable customer classes were higher (i.e., 92,761 kW vs. 91,816 kW) due to errors in the original response[20].

3.11 VECC submits that it is inappropriate for Parry Sound to be proposing, at this stage in the process, to estimate a whole new set of regression models for the Residential and GS classes and to then use them to update its 2011 volume forecast. Opportunities to do so existed at the time Parry Sound was responding to the first or the second round of interrogatories. Furthermore, after the first round, which saw a major change in the outlook for 2010, Parry Sound explicitly stated there was not need to revise the forecast.

3.12 VECC also notes that updating the regression models and the forecast is not a simple arithmetic process. Choices need to be made as to which explanatory variables should be used for each equation, a question arises as to whether the definition of “weather normal” should also be updated to reflect 2004-2010 average weather, and a question exists as to what forecasts should now be used for the 2011 values for the economic explanatory variables[21]. However, since the new models and forecast would not be filed until after the Board issued it decision, there would be no opportunity for them to be reviewed and these choices tested by parties to the proceeding, including the Board itself.

3.13 VECC submits that unless Parry Sound (and the Board) are willing reconfigure the current review process so as to allow for appropriate consideration of Parry Sound’s new models and associated 2011 volume forecast, the best (and only) information before the Board on which to establish the 2011 volume forecast by customer class as the forecasts

[20] VECC #40
[21] The only economic forecast currently on record for this proceeding is the March 2010 one used by Parry Sound – see VECC #2 g)

submitted with the original Application, revised to reflect the new GS>50 model provided in response to Staff #7.

CDM Adjustment

3.14 VECC's third concern regarding Parry Sound's 2011 volume forecast is with respect to the CDM adjustment Parry Sound has incorporated into its 2011 load forecast. The 1 GWh used by Parry Sound represents slightly less than 25% of its 4.16 GWh CDM target for 2011-2014[22].

3.15 In response to VECC #3 a), Parry Sound acknowledges that there are two possible interpretations of "Net Cumulative Energy Savings" as used to define electricity distributors approved CDM energy targets. One interpretation is that it represents the total accumulated savings over the four years 2011-2014. Based on this interpretation and 100% persistence of savings achieved by programs over the period, CDM program savings for 2011 would need to be 10% the approved target[23]. The second interpretation is that the target represents the total savings persisting in 2014 as a result of programs implemented over the four year period. Based on this interpretation and assuming 100% persistence, CDM savings for 2011 would need to be 25% of the approved target. Parry Sound has adopted the second interpretation, i.e., that its 4.16 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, Parry Sound suggests that, based on system load factors, it must record in 2014 MWh savings roughly equivalent to its overall 2011-2014 MWH target in order to achieve its 2014 MW target,

3.16 With regard to the Parry Sound's interpretation of the its CDM GWh target, VECC notes that in response to VECC #33 c) Parry Sound acknowledges

[22] VECC #3 c)
[23] VECC #3 a)

that it has not sought any clarification from either the OPA or the OEB regarding its interpretation of "Net Cumulative Energy Savings". In contrast VECC notes materials provided in other 2011 rate application proceedings indicate that the OPA's development of the proposed CDM targets for electricity distributors was based on the first interpretation[24]. Furthermore, VECC notes that in its submissions[25] Board Staff has recommended that 10% of Parry Sound's overall CDM target should be used in the first year (2011) – consistent with the second approach.

3.17 Parry Sound's second claim is that the first interpretation of the CDM target implies a load factor for CDM of 26% which is unreasonable[26]. Parry Sound's 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 Parry Sound) can achieve combination of MW 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 2006 through 2009 programs, Parry Sound has achieved reported persisting savings in 2009 of 0.6104 MW and 1,701 MWh[27]. These values translate into a CDM load factor of 31.8%[28] - which is fairly close to the 26% Parry Sound claims is unreasonable. VECC further notes that these results do not involve any participation by Parry Sound in the OPA's PeakSaver programs[29]. As a result, VECC submits that Parry Sound's claims that it must achieve savings of 1 GWh in 2011 in order to achieve its 2014 MW target are unfounded.

[24] EB-2010-0133, Exhibit JT1.1
[25] Board Staff Submission, page 6
[26] VECC #3 c)
[27] VECC #39, Excel File, OPA Results Tab
[28] Calculated as 1701 MWh / 8760 hours / 0.6104 MW = 31.8%
[29] VECC #33 a)

3.18 Finally, in its Decision regarding Hydro One Networks Brampton's 2011 Rates the Board approved a CDM adjustment for 2011 equal to 10% of Brampton's 2011-2014 CDM energy target[30]. VECC notes that this approach is consistent with the first interpretation outlined in paragraph 3.15 above[31].

3.19 Overall, VECC submits that the first interpretation is the correct one and the Parry Sound's 2011 CDM energy adjustment should be 416 MWH which is 10% of its approved 2011-2014 cumulative target of 4.16 GWh.

C. Miscellaneous Revenues

3.20 For both 2010 and 2011 Parry Sound is forecasting Other Operating Revenue of $100,986[32]. This value is 22% less than the actual Other Operating Revenue for 2009 and less than half the value of years' preceding that. Parry Sound explains that the decrease is due to: a) the exclusion of interest on regulatory accounts from the 2010 and 2011 values, b) reduced cash as of 2010 due to dividend payouts, c) lower interest rates and d) a corporate restructuring that has led to the elimination of Non-Utility work revenues[33].

3.21 VECC has two concerns regarding Parry Sound's Other Operating Revenue forecast for 2011. The first is that there is no provision for revenue from either the disposition of utility/other property (Account #4355) or from miscellaneous non-operating income (Account #4390). VECC notes that the total average annual revenues from these sources over the 2006-2009 period was $3,800[34]. VECC submits that it would be reasonable to include a similar allowance for 2011.

3.22 VECC's second concern is that it is not clear if and/or where Parry Sound

[30] EB-2010-0132 Decision, page 8
[31] See Parry Sound's response to VECC #3 b)
[32] Exhibit 3, Tab 3, Schedule 1, page 1
[33] Exhibit 3, Tab 3, Schedule 2, pages 1-2 and VECC #4 a) – c)
[34] Board Staff #43

as accounted for revenues from the SSS Admin fee. VECC invites Parry Sound to clarify this in its Reply.

4 Operating Expenses

OM&A

4.1 VECC has reviewed the Board Staff Submissions on this issue[35] and supports Staff's recommendations.

Depreciation

4.2 VECC has made its submissions with respect to depreciation in paragraph 2.9 above.

[35] Staff Submission, April 26, 2011, pages 14-21

5 Cost of Capital

5.1 VECC submits that the updated short term debt and equity rates issued by the Board in March, 2011, are the appropriate cost rates for these components of cost of capital.

5.2 PSP's evidence indicates that its shareholder has issued debt to the utility in the amount of $2,433,728 at a rate of 7.25%.[36] For this component of capital structure, VECC submits that the appropriate cost rate is the Board's deemed rate of 5.32%. Furthermore, VECC notes that this instrument alone does not support 56% of rate base.[37] Absent compelling submissions by PSP to the contrary, VECC submits that 5.32% is the appropriate cost rate to apply to 56% of the rate base approved by the OEB for the 2011 Test Year.

6 Cost Allocation

Cost Allocation Methodology

6.1 As part of its Application, Parry Sound has filed the results of a 2011 cost allocation study[38]. However, the distribution revenues by customer class used in the "model" were not updated as the Application was finalized[39]. The revenue cost ratios that would arise if existing rates for all customer classes where increases uniformly so as to recover the proposed Base Distribution Revenue Requirement are set out in response to VECC #31 a)[40] and summarized below.

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[36] Exhibit 5, Tab 1, Schedule 1, page 1
[37] The proposed rate base is $5,967,047 per Exhibit 1, Tab 2, Schedule 4, page 4. 56% of this is $3.34M.
[38] Exhibit 7, Tab 1, Schedule 2, page 5
[39] VECC #41 a)
[40] See also Exhibit 7/Tab 1/Schedule 2, Appendix A

REVENUE TO COST RATIOS – 2011 Updated Results	
Customer Class	**2011 Revenue to Cost Ratios**
Residential	102.47%
GS<50	85.97%
GS>50	145.14%%
Street Lights	14.06%
Sentinel Lights	36.56%
USL	46.55
Total	100.0%

6.2 In VECC's view Parry Sound 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

6.3 The revenue to cost ratios from the updated Cost Allocation study all fall within the Board's recommended ranges with the exception of Street Lights, Sentinel Lights and USL, all of which are below the minimums for the respective classes. For 2011 Parry Sound proposes[41] to:

- Increase the Street Lights ratio to 28%
- Increase the Sentinel Lights ratio to 70%, and
- Increase the USL ratio to 80%.

For the other two customer classes the revenue to cost ratios are unchanged.

[41] Exhibit 7/Tab 1/Schedule 2, Appendix A, page 2

6.4 In the subsequent years (2012, 2013 and 2014), Parry Sound proposes to move the ratio for Street Lights up to 70%. The additional revenues from these adjustments will all be used to reduce the ratio for the GS>50 class.

6.5 VECC has no concerns regarding Parry Sound's proposed revenue to cost ratio adjustments for either 2011 or for the years 2012, 2013 and 2014.

7 <u>Rate Design</u>

Fixed/Variable Split

7.1 Parry Sound is proposing to maintain the existing fixed/variable splits for all customer classes[42].

7.2 For the Residential, GS<50, Street Lights, Sentinel Lights and USL classes, application of the existing fixed/variable split to the class' proposed base revenue requirement yields a monthly service charge that falls within the range set by Board's guidelines[43]. However, for the GS>50 class both the current fixed charge ($171.14) and the proposed charge ($237.51) are above the maximum value of $119.54.

7.3 Contrary to Board Staff's view[44], VECC submits that such a result is inconsistent with the Board's November 2007 Report dealing with the Application of Cost Allocation for Electricity Distributors (EB-2007-0667).

7.4 As Parry Sound has noted the Board explicitly stated[45] that it "does not expect distributors to make changes to the MSC that result in a charge that is greater than the ceiling as defined by the Methodology for MSC and that distributors that are currently above the ceiling are not required to make changes to their MSC to bring it to or below that level at this time". In VECC's view this means that if the monthly fixed rate is currently less than

[42] Exhibit 8, Schedule 2, page 2
[43] Exhibit 8, Schedule 2, page 3
[44] Board Staff Submissions, page 26
[45] VECC #8 a)

the ceiling then the proposed rate should not exceed the ceiling (even under the application of the current fixed variable split). However, VECC submits that a reasonable interpretation of the Board's direction is also that for those classes where the charge currently exceeds the ceiling it should not be increased further. As a result, VECC submits that for the GS>50 class the current (2010) monthly fixed charge should be maintained for 2011.

Retail Transmission Service Rates (RTSR)

7.5 Parry Sound has completed the Board's RTSR Workform and used the results as the basis for its proposed 2011 Retail Transmission Service Rates[46]. In its Application, Parry Sound also noted that the rates are subject to update based on the Board's Decision regarding Hydro One Networks' 2011 Uniform Transmission rates.

7.6 VECC notes that the Rate Order regarding the 2011 Uniform Transmission Rates (UTR) was issued by the Board on January 18, 2011 (EB-2010-0002). However, Parry Sound has not filed any proposals to update its RTSRs based on these new rates. VECC also notes that the Board's RTSR Workform utilizes actual 2009 billing quantities in order to calculate the costs of Network and Connection service.

7.7 VECC submits that these RTSR calculations should be updated for the recently approved 2011 UTR and that details of the update should be provided as part of the Draft Rate Order. Furthermore, should the Board accept Parry Sound's proposal to update the RTSRs for the 2011 UTR values, VECC submits that it should also direct Parry Sound to account for any changes in load as between 2009 actual and the forecast for 2011. This can be done by adjusting the results calculated using the actual 2009 UTR billing quantities by the ratio of the forecast total sales for 2011 over the actual total sales for 2009.

[46] Exhibit 8, Schedule 3, page 1

LV Costs

7.8 In its original Application Parry Sound proposed to continue with the currently approved LV rates[47]. Based on the load forecast as initially filed this produced 2011 LV costs of $82,266. However, in response to Board Staff[48], Parry Sound indicated that it expected the LV rates to be revised to reflect any changes in Hydro One Networks' LV charges.

7.9 In response to VECC #36, Parry Sound provided an estimate of LV charges from Hydro One Networks based on 2009 billing quantities and Hydro One Networks' 2011 approved rates. The total cost was $80,294. VECC submits that this value – adjusted for the percentage change in total sales as between the 2009 actual (88,772,959 kWh[49]) and the 2011 total sales volumes as approved by the Board in this proceeding is an appropriate forecast of LV costs for 2011. These costs should then be allocated to customer classes based each class' anticipated share of Retail Transmission Connection costs.

Loss Factors

7.10 Parry Sound has calculated its proposed loss factors based on a six-year historical average[50]. VECC notes that the loss factors over the past 6 years have been fairly consistent and exhibit no particular trends. VECC submits that Parry Sound's loss factors should be accepted as proposed, subject to Parry Sound providing a the explanation requested by Board Staff[51] as to the reason for the significant change between the proposed loss factors and Parry Sound's current loss factors.

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[47] Exhibit 8, Schedule 4,page 1
[48] Board Staff #52
[49] Exhibit 3, Tab 2, Schedule 1,page 6
[50] Exhibit 8, Tab 1, Schedule 5, page 1
[51] Board Staff Submission, page 26

8 Deferral and Variance Accounts

New Proposed Accounts

8.1 Parry Sound is not requesting any new deferral/variance accounts.

Disposition of Deferral/Variance Accounts

8.2 In its original Application, Parry Sound proposed to dispose of the December 31, 2009 balances (plus interest) in Accounts #1508, #1518, #1548, #1550, #1590, #1580, #1582, #1584, #1586 and #1588 over a one year period[52]. However, in its Argument-in-Chief the recovery period was revised to four years.

8.3 VECC notes the adjustments to the individual #1508 sub-account balances per Board Staff #55 and has no further submissions regarding the balances proposed for recovery.

8.4 With respect to the allocation of the balances to be recovered to customer classes, VECC notes[53] that Parry Sound is not proposing allocation and rate rider for the Power Sub-Account – Global Adjustment. Parry Sound has provided no explanation as to why it has not followed the Board's June 2010 filing guidelines. VECC requests that Parry Sound address this matter in its Reply.

8.5 In its interrogatories, Board Staff questioned[54] Parry Sound's use of 2011 data to allocate the balance to customer classes. VECC supports Parry Sound's use of 2011 data and notes that it will be "the latest Board approved data" when the rates are ultimately finalized.

8.6 VECC supports Parry Sound's proposed four-year recovery period for disposing of these balances. Based on Parry Sound's initial proposal well

[52] Exhibit 1, Tab 1, Schedule 5, pages 1-2
[53] VECC #12
[54] Board Staff #56

over 60% of Residential customers would have experienced total bill impacts in excess of 15%[55]. Extending the disposition period from one to four years helps mitigate these impacts.

9 Smart Meters

Treatment of Smart Meters

9.1 VECC notes that in response to its request to calculate an SMFA on a class –specific basis using Capital Cost to allocate the Revenue requirement Parry Sound Power states:

> VECC 13 d Response: PSP does not have the customer class details as requested, however, it has followed the guidance included with Guideline – G-2008-0002 Smart Meter Funding and Cost Recovery dated October 22, 2008 and has recorded accounts 1555 and 1556 accordingly with no segregation by rate class.
>
> Additionally, the PowerStream Inc. Decision and Order EB-2010-0209 dated November 19, 2010 Board Findings indicate "the Board is concerned about distributors' ability to track all individual costs on a class specific basis at this point in the Smart Meter initiative, given that the instructions that have been issued by the Board in the recent past have not included this requirement
>
> VECC 14 b) Response: PSP has not kept records on a class specific basis for the Smart Meter program.
>
> In its Decision in Powerstream's application (EB-2010-0209) the Board staff submitted that "there should not be a requirement for class specific accounting of all such costs, as the added costs of tracking and reporting would, in board staff's view, outweigh the benefits, particularly as at least some costs would have to be allocated between customer classes. Therefore, Board staff also submits that any cost allocation methodology used for smart meters should not assume that a distributor can identify costs on a class specific basis for all cost components."

9.2 First Parry Sound has selectively cited the Board's EB-2010-0209 Decision. The Board also accepted PowerStream's cost allocation (page 14ff). Furthermore, at page 17, it stated that "the Board finds that PowerStream's original cost allocation methodology is reasonable and based on the

[55] VECC #11 b) & c)

principle of cost causality".

9.3 VECC cannot accept that Parry Sound cannot at least estimate the capital costs based on its procurement and installation costs for residential and commercial meters. It should then apply the allocation methodology used by PowerStream to allocate the revenue requirement to each class in order to generate a class-specific 2011 SMFA

9.4 VECC submits that this is fairer to ratepayers than an Aggregate $1.71 SMFA as proposed by Parry Sound.

Treatment of Stranded Meter Costs

9.5 According to Parry Sound's evidence, the cost of stranded meters continues to be recorded in rate base (Account #1860) but depreciation expense is no longer recorded[56]. It is not immediately clear to VECC where/how this exclusion of depreciation related to stranded meters was effected as the calculation of depreciation expense in Exhibit 4, Tab 2, Schedule 7 appears to include the assets in Account #1860. VECC invites Parry Sound to clarify this matter in its Reply.

9.6 In its submissions[57] Board Staff recommended that the cost of the stranded meters be removed from rate base and recovered through a separate rate rider. Board Staff notes that such an approach would be consistent with that directed by the Board for Hydro One Brampton Networks[58]. Staff also invited parties to comment on its stranded meter costs recover proposals.

9.7 In VECC's view there some major differences in the circumstances of the Brampton and Parry Sound cases. First, it is not evident to VECC that Parry Sound has actually included any smart meter costs in its proposed rate base, whereas Brampton had done so. VECC invites Parry Sound to

[56] OEB Staff #46 a)
[57] Page 29
[58] EB-2010-0132 Decision, page 62

clarify this matter in its Reply.

9.8 The second difference was that in Brampton's case the Board's Decision as it affected the revenue requirement resulted in a "sufficiency" for 2011 based on revenues at current rates[59] leading to reduction in base distribution rates for 2011. The result is that, even with the proposed recovery of stranded meter costs, the total bill impacts for all Brampton's customer classes (with the exception of Street Lighting) are either negative or less than 1%[60]. In contrast, Parry Sound has indicated[61] that the total bill impact on a Residential customer from its current proposals is 9.67% - just under the 10% benchmark the Board has used to define "rate shock" – even before any consideration of stranded meter cost recovery.

9.9 Given this material difference in circumstances, VECC submits that the Brampton Decision is not an appropriate precedent for purposes of establishing the treatment of Parry Sound's stranded meter costs. Indeed, given the some what abnormal circumstances surrounding the Brampton Decision[62], VECC's submits that it should not be used as the "policy" basis for determining the treatment of stranded meter costs in general. Rather, VECC views this as a generic issue which needs to be dealt with on a broader basis and not resolved within the context of one (rather unique) application.

9.10 In Parry Sound's case, VECC submits it would be appropriate for the matter of stranded meter costs recovery to be dealt with in a future proceeding.

10 LRAM/SSM Claim

[59] See Brampton's April 11, 2011 Draft Rate Order, Appendix D, page 7
[60] See Brampton's April 11, 2011 Draft Rate Order, Table 11
[61] See Parry Sound's April 13, 2011 Argument-in-Chief
[62] It is very rare for a Distributor filing a cost of service based application to have a "sufficiency".

10.1 Exhibit 10, Tab 1, Schedule 1, Page 1summarizes the as filed LRAM/SSM amounts and rate riders.

2011 Test Year - LRAM and SSM Rider

Rate Class	Amounts (Up to 2009) LRAM $	Amounts (Up to 2009) SSM $	Billing Units (2011)	Metrics	Rate Riders LRAM $/Unit (kWh or kW)	Rate Riders SSM $/Unit (kWh or kW)	Rate Riders Total $/Unit (kWh or kW)	Two Year Rate Rider Total $/Unit (kWh or kW)	Three Year Rate Rider Total $/Unit (kWh or kW)	Number of Years to Use (2 or 3) 1
Residential	30,324.46	2,328.22	33,427,924	kWh	0.0009	0.0001	0.0010	0.0005	0.0003	
GS<50 kW	9,943.54	521.91	16,733,379	kWh	0.0006	0.0000	0.0006	0.0003	0.0002	
GS>50	51,107.48		97,727	kW	0.5230	0.0000	0.5230	0.2615	0.1743	
Sentinel Lights			36	kW	0.0000	0.0000	0.0000	0.0000	0.0000	
Street Lighting			2,421	kW	0.0000	0.0000	0.0000	0.0000	0.0000	
USL	4,991.94	-450.71	58,750	kWh	0.0850	-0.0077	0.0773	0.0386	0.0258	
Total	96,367.42	2,339.42								

10.2 The breakdown of the as filed LRAM/SSM claim is shown in Exhibit 10, Tab1, Schedule 2, page 8.

Rate Class	LRAM $	SSM $	TOTAL $
Third Tranche			
RESIDENTIAL	$2,312.97	$2,328.22	$4,641.19
GENERAL SERVICE >50KW	$1,616.81	$659.37	$2,276.18
UNMETERED SCATTERED LOAD	$4,991.94	-$450.71	$4,541.23
OPA Programs			
RESIDENTIAL	$28,011.49		$28,011.49
GENERAL SERVICE <50KW	$8,326.73		$8,326.73
GENERAL SERVICE >50KW	$51,107.48		$51,107.48
	$96,367.42	$2,536.88	$98,904.30

10.3 The Claim is based on Third Tranche CDM Programs and OPA Funded programs. It is important to note that the OPA Residential Claim of $28,011.49 is based on the Preliminary OPA 2009 results for Parry Sound.

LRAM –Third Tranche CDM

10.4 VECC IRs #15 and 16 requested that PSP verify the input assumptions, kWh savings and LRAM amounts for two programs:

- Lighten your Electricity Bill 2005 and
- Light Bulb Giveaways 2006/2007

10.5 VECC is satisfied that despite an apparent error in Attachment E that indicated that for 15w CFLs, OEB input assumptions were used rather than OPA M&A List values, the appropriate input assumptions were in fact used for the LRAM calculations.

10.6 However, like several other utilities that utilized the Services of Burman Energy Consulting Group, Parry Sound's Third Tranche LRAM claim was amended as a result of what VECC considers an erroneous interpretation of the Board's January 2009 Letter regarding use of OPA M&A list assumptions. (VECC IRR#17 updated Third Tranche claim of $109,069.41).

10.7 Parry Sound/Burman's interpretation is that the OPA M&A list applies only to kWh savings and LRAM post January 2009 and prior savings should be based on OEB input assumptions.

10.8 The Board has confirmed in recent decisions[63] that the OPA M&A List input values are the best available at the time of the third party review and should be used for all years savings estimates in Third Tranche LRAM calculations.

10.9 Accordingly the Board should reject the revised Third Tranche LRAM claim (in VECC IRR #17) and accept the original as filed Third Tranche CDM claim and related rate riders.

LRAM-OPA CDM Programs

10.10 In response to IRs Parry Sound has provided updated OPA results[64.]. Parry Sound has not provided a revised Exhibit 10, Tab1, Schedule 1.

10.11 VECC accepts for LRAM purposes, the OPA Verification of OPA-funded CDM programs, including the update as a result of the final 2009 OPA

63 For example, the Board Decision EB-2010-0099 (pages 10-11) regarding Midland Power.
64 Parry Sound IRR Attachment A to D LRAM Application 2009 Final Jan03 2011_201102021223.xls
OPA Final Results Tab

results.

Summary

10.12 VECC urges the Board to accept Parry Sound Power's as filed claim for Third Tranche CDM and to reject the revision in VECC IRR #17.

10.13 Parry Sound should update the LRAM claim to reflect final results for OPA 2009 programs and revise the rate riders accordingly.

11 <u>Effective Date</u>

11.1 In its Argument-in-Chief Parry Sound indicates that it is seeking an effective date of May 1, 2011. Furthermore, in the event that the new rates can not practically be implemented as of this date, Parry Sound is requesting and order that their current rates be declared Interim and that a rate rider be approved to recover any foregone revenue between May 1, 2011 and the actual implementation date. Given the schedule for the current proceeding a May 1, 2011 implementation date is clearly not practical. The key issue at this point is what should be the effective date for the new rates.

11.2 VECC submits that the effective date should be no earlier than June 1, 2011:

- The Board's deadline for Distributors seeking rates effective May 1st 2011 was August 27, 2010. Given that Parry Sound filed its Application on October 15, 2010, a reasonable expectation would be for rates to be effective some time in later part of June 2011.
- The Board's performance standards for a rate application with a standard written hearing are 185 days from the date of filing to the Board Decision. Based on the October 15th filing date this would result in a Board Decision roughly the last week of April 2011, such that June 1, 2011 would be a reasonable expectation for an effective date following the preparation and approval of the Rate Order.

12 Recovery of Reasonably Incurred Costs

12.1 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 29th day of April 2011.