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February 15, 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)
EB-2007-0761
Lakefront Utilities Inc. – 2008 Electricity Distribution Rate Application

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

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

EB-2007-0761

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 Lakefront Utilities 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)

February 15, 2008

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Vulnerable Energy Consumers' Coalition (VECC)

Final Argument

1 <u>The Application</u>

1.1 On October 31, 2007 Lakefront Utilities Inc. ("LUI") 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[1] of $5,077,851 M which, after an allowance of $1.6 M for revenue from other sources, leaves $4,742,287 to be recovered through distribution rates. Excluded from this amount are the recovery of discounts paid to customers for transformer allowances ($178,080) and the LV Charge rate adder ($346,196)[2].

1.2 Distribution revenues for 2008 at current rates would produce base revenues (prior to the transformer allowance) of $3,749,655[3] yielding a difference of $1,338,828[4] or 35%.

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 LUI's Application.

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[1] Exhibit 7, Tab 1, Schedule 1, page 2

[2] VECC #26 a)

[3] VECC #7 a)

[4] $4,742,287+$346,196-$3,749,655=$1,338,828

2 Rate Base and Capital Spending

Capital Spending

2.1 LUI's capital spending for 2007 and 2008 (and particularly the increase in capital spending) is driven by four factors[5]:

- Smart Meter Implementation,
- New Software - required to comply with emerging requirements including smart metering,
- Continuation of LUI's Voltage Conversion Program, and
- New Truck Purchase.

2.2 VECC's views on the 2008 treatment of LUI's Smart Meter related costs are set out in the Smart Meter section of this submission. However, in summary, it is VECC's position that Smart Meter capital should not be included in LUI's rate base but rather the impact recorded in Variance/Deferral Account #1555.

2.3 Board Staff has expressed concerns as to whether LUI spending for 2007 and 2008 is consistent with its claimed need to "catch-up" on infrastructure investments and has asked parties to comment[6]. Clearly LUI is in the best position to respond. However, VECC's reading of the evidence[7] is that LUI factored system condition and replacement requirements into the planned staging of its Voltage Conversion Program (i.e., asset condition influences the order in which assets are converted to higher voltage). As a result, VECC does not have the same concerns regarding the adequacy of LUI's planned spending.

2.4 Similar observations also apply to Board Staff concerns (and request for comment) regarding the development of as asset management plan[8]. VECC agrees that it would useful if LUI were to more formally document how the results of its asset

[5] VECC #10 a) & b)
[6] Staff Submissions, page 11
[7] VECC #11 a) & b)
[8] Board Staff Submissions, page 12

condition assessment were translated into the near term requirements for the Voltage Conversion program. However, as VECC understands it, a process similar to that outlined in the Staff submission is followed and looks forward to LUI's response on this issue.

2.5 Overall, VECC submits that (with the exception of Smart Meters), LUI's capital expenditures for 2007 and 2008 are reasonable.

Rate Base

2.6 Rate Base consists of Net Fixed Assets plus an allowance for working capital. In determining the latter, LUI has used 15% of OM&A plus Cost of Power. For the Cost of Power component of the calculation, LUI has used its forecast 2008 wholesale load and then used an average HOEP of $57.16 / MWh to determine the cost of power[9] based on input from its consultant and an April 2007 forecast produced by Navigant. VECC notes that a more recent forecast is now available from Navigant that covers all of 2008. Based on this forecast, it appears that the 2008 value for HOEP will be just over $54 / MWh[10]. VECC submits that LUI should be directed to reduce the purchased cost of power component of its working capital calculation accordingly.

2.7 VECC is also concerned LUI has not adjusted its forecast costs for retail transmission charges from Hydro One, despite the known reduction in wholesale transmission charges. Arguably any difference will be captured in the associated RSVA Accounts (#1584 and #1586). However, these accounts are already accumulating negative balances[11] due to overpayment by customers and failure to adjust the rates at this time will simply aggravate the situation. VECC submits that LUI should be directed to reduce the Retail Transmission costs included in its

[9] VECC #13 a)
[10] www.oeb.gov.on.ca/documents/cases/EB-2004-0205/rpp-nci_wholesaleelectricypriceforecastreport_20071012.pdf - page 2. Where HOEP for 2008 is projected to be in the order of $0.054 / kWh.
[11] Exhibit 5, Tab 1, Schedule 2, page 1

Working Capital calculation[12] as follows:

- Retail Network Transmission costs should be reduced by 20% to reflect the anticipated change in Hydro One Networks' retail rates for Network Service.
- Retail Connection Transmission costs should be reduced by 10% to reflect the anticipated change in the Hydro One Networks' retail rates for Transformation and Line Connection[13].

3 <u>Load Forecast and Revenue Offsets</u>

Load Forecast

3.1 LUI has used 2004 weather normalized load data developed by Hydro One Networks to establish a weather normalized average customer use for each customer class. It has then developed its load forecast by multiplying this average (per customer) use for each customer class by the forecast 2008 customer count (by class)[14].

3.2 Board Staff has expressed concerns regarding the fact that LUI's approach relies on a single year of weather-normalized historical data to determine future load[15]. VECC has similar concerns, which it has already expressed in submissions made regarding other electricity distributors' 2008 rates. However, in the short-term it is not clear to VECC that a better alternative exists. Ontario's smaller electricity distributors all seem to lack the data that would be required to undertake a valid weather-normalization assessment:

- With only five years of data available (2002-2006) it is unlikely that any statistically valid trend analysis could be undertaken using weather and other explanatory variables.
- Alternatively, the weather normalization process performed by Hydro One Networks (for the Cost Allocation informational filings) requires customer

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[12] Per Exhibit 2, Tab 4, Schedule 1, page 2
[13] OEB Staff Submissions, page 26, Table 14
[14] OEB Staff #6.1 a)
[15] OEB Staff Submissions, page 20

survey data for the year concerned, which is typically not available. However, VECC acknowledges that this is an issue the Board and utilities will have to resolve over the longer term.

3.3 VECC does not have any submissions with respect to LUI's customer count forecast.

Other Revenues

3.4 LUI's Other Revenue forecast for 2008 is the same as for 2007. LUI has already acknowledged that the forecast should increase slightly to account for higher SSS Admin revenues[16]. However, since LUI is introducing a new miscellaneous charge[17] for 2008, one would have expected to see a corresponding increase other revenues. VECC would invite LUI to address this issue in its reply submissions and indicate the additional revenues (if any) it expects to receive from this new charge.

3.5 Finally, LUI has not provided any details as to how the actual rate of $110/month was established for the Interval Meter Load Management Tool Charge and may wish to do so as part of its final submissions.

4 Operating Costs

OM&A - General

4.1 LUI's increase in OM&A expenses (excluding depreciation and taxes) over the 2007 and 2008 period is driven[18] mainly by:

- Increased wages and benefits (2007 & 2008),
- The addition of new employees (2007 & 2008),
- Regulatory expenses (2008)
- Smart meter related costs (2008)

16 VECC #17 a)
17 VECC #1 a) & b)
18 Staff #3.12 b)

- Cost allocation study expenses (2008)
- Increased costs of supplies, services and expenses (2007 & 2008).

4.2 VECC has no submissions regarding the increased wages and salaries or the addition of new employees. With respect to the $149,198 of Regulatory Expense in 2008, VECC is of the view that a portion of the costs associated with the preparation of the 2008 Rate Application should be amortized over future years. LUI has acknowledged that the 2008 spending is roughly $100,000 higher than that in 2007 directly as a result of the cost of preparing the 2008 Rate Application[19]. The 2008 rates are meant to position LUI for the OEB's 3GIRM framework which is expected to last for a number of years. As result, principles of inter-generational equity and matching would suggest that the costs should be amortized over the 3GIRM period. Furthermore, if the costs for 2008 are not amortized then the 2008 prices/revenue requirement which will form the base for future incentive adjustments will include (and even escalate) costs that will not exist in future years.

4.3 In response to Staff information requests, LUI has suggested that $75,000 of this increase be included in the revenue requirement and the remaining $25,000 should be amortized[20]. This would result in regulatory costs of $124,198 for 2008. In VECC's view, no more than $35,000 should be included in the 2008 Revenue Requirement. Assuming the remaining $65,000 would be amortized over 2009 and 2010 at $32,500 per annum, this provides a more reasonable matching of benefits and costs. LUI contends that it may not be able to wait until 2011 to rebase. However, there is no indication as to when LUI will be rebased under the Board's 3GIRM, which could last beyond 2010. VECC submits that the regulatory expense for 2008 should be reduced by $65,000 and this amount should be amortized over the next two years.

4.4 LUI's operating expenses include $220,278 in spending for Smart Meters[21]. As

[19] Staff #3.12 c)
[20] Staff #3.12 c)
[21] VECC #19 f)

noted earlier, VECC's submissions on Smart Meters are provided in a separate section of this submission. However, to summarize, it is VECC's view that the OM&A costs associated with Smart Meters should be removed from the revenue requirement and recorded in Variance/Deferral Account #1556.

4.5 With respect to the proposed $16,650 for a new cost allocation study run in 2008, VECC sees little value in such an exercise given that applications in the near future will be based on an incentive adjustment mechanism. Updating the cost allocation analysis would be best done at that time of LUI's next rebasing[22]. As result, VECC submits that this cost should be removed from the 2008 Revenue Requirement.

4.6 Finally, VECC's concerns regarding the increases in Supplies, Services and Expenses are similar to those of Board Staff. Without a satisfactory explanation from LUI, the Board should limit increases in these areas to 3% per annum.

OM&A - CDM

4.7 LUI has included $80,408 in CDM spending in its 2008 OM&A expense[23]. VECC has a number of concerns with regard to the inclusion of this spending. The first is that spending represents incremental costs of upgrading a portion of LUI's existing system to 27.6 kV as opposed to simply rebuilding it at the existing 4.16 kV[24]. As a result it is not immediately clear to VECC that these costs have not already been captured as part of the capital spending associated with LUI's overall Voltage Conversion Program as discussed in Exhibit 2, Tab 3, Schedule 2. VECC invites LUI to address this question of double counting in its reply submissions.

4.8 Second, the $80,804 was calculated as the difference between the $119,169 in CDM spending that the Board authorized in its August 13, 2007 Decision[25] and the $38,761 that the Board had previously authorized for inclusion in LUI's 2007

[22] SEC #5 b)
[23] VECC #19 i) and Exhibit 4, Tab 2, Schedule 1, page 2
[24] OEB Decision EB-2007-0106, August 13, 2007, page 2
[25] EB-2007-0106

rates[26]. However, VECC submits that the two numbers are not comparable. The $119,169 represents the portion of the originally requested $550,000 in capital spending that the Board ultimately accepted as being considered as associated with a CDM initiative[27]. In contrast, the $38,761 represents the annual capital related expenses associated with the $550,000 originally requested[28]. VECC submits that LUI's calculation of $80,804 is totally erroneous.

4.9 As the Board noted in its April 12, 2007 Decision[29], "capital costs are included in rate base, and it is only the annual capital related expenses that are recovered through rates in any given year". On a simple pro-rata basis, if $550,000 translates into a annual capital-related expense of $38,761, then $119,169 would translate into a annual capital-related expense of $8,398. Board Staff raised this issue with LUI during the interrogatory process and LUI's comment was that since the Board did not mention the $8,938 specifically, it believes the full $119,169 was authorized for inclusion in the 2007 revenue requirement[30].

4.10 VECC submits that such an interpretation is totally inconsistent with the Board's decisions of April and August 2007 when read in conjunction with each other. It is clear from the August Decision that the Board was approving only $119,169 out of the originally requested $550,000 in capital spending as being eligible for CDM. It is also clear that the Board fully expected that the result of its August Decision would mean that the $38,761 originally approved for inclusion in rates would result in a "over-collection" of revenues by LUI[31]. As result, VECC submits that to suggest the Board's August 2007 Decision gives rise to being able to claim an additional $80,408 in revenue requirement for 2008 is a total misinterpretation of the two Decisions.

4.11 It is VECC's submission that the Board should remove the $80,408 from LUI's

[26] OEB Decision, April 12, 2007, EB-2007-0550/EB-2007-0106, page 3
[27] See the Board's August 13, 2007 Decision, page 2
[28] See the Board's April 12, 207 Decision, page 3
[29] Page 3
[30] OEB Staff #3 d)
[31] Pages 2-3

requested revenue requirement. Furthermore, as will discussed in a separate section, LUI should repay to customers the difference between the amounts collected[32] in the 2007 rates ($32,825) and the $8,938 annual capital-related expense attributable to the amount ($119,169) actually approved by the Board.

Amortization

4.12 In Staff #2.9 b) LUI was asked to show the calculation of its depreciation expense for each account for the years 2006, 2007 and 2008. In response, LUI appears to have provided only the calculation of the depreciation charges associated with the capital additions in each year. Also, in the response material, the depreciation charges for 2008 were determined without application of the ½-year rule. Furthermore, the ½-year rule was also ignored in the depreciation calculations done in response to VECC #6 d). As a result, it is not clear to VECC whether the depreciation expense included in the revenue requirement for 2008 has properly treated 2008 capital additions. VECC invites LUI to address this issue in its reply submissions.

Taxes

4.13 VECC has reviewed and concurs with the submissions made by Board Staff regarding LUI's PILs calcuations[33].

Line Losses

4.14 LUI is proposing to increase its distribution loss factor from 1.0471 to 1.0494[34]. LUI has calculated its proposed loss factor based on average losses over the period 2004-2006. While this is the generally accepted approach, VECC has concerns regarding the result that is produces for LUI. LUI has undertaken a

[32] Staff #3.15 c)
[33] Staff Submissions, pages 18-19
[34] Exhibit 2, Tab 2, Schedule 9, page 1

significant voltage conversion program[35] which is accounting for a major portion of the recent increases in its rate base and annual capital-related expenses. LUI also acknowledges that this program will lead to lower loss factors[36].

4.15 Given this background and the fact that loss factors will not likely be revisited until LUI's next rebasing[37], VECC believes it is inappropriate to increase the loss factor for 2008. VECC submits that the Board should maintain LUI's distribution loss factor at 1.0471 for 2008.

5 Cost of Capital/Capital Structure

5.1 VECC notes that the Capital Structure proposed in LUI's Application[38] reflects the direction of the Board in its Report on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors.

5.2 With respect to the cost of debt, LUI's debt currently consists entirely of debt due to the Shareholder. This debt carries an interest rate of 7.25% and is payable upon demand[39]. For 2008, LUI proposes to issue third-party debt with an interest projected interest rate of 6.25%[40]. For its short-term debt component, LUI has used an interest rate of 4.77%, but acknowledges that this will be updated for rate finalization[41].

5.3 With respect to the cost of equity, VECC notes that LUI used 8.68% and has acknowledged that this rate will also be updated to reflect the Board's ROE

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[35] VECC #8 a)
[36] VECC #8 b)
[37] VECC #21 b)
[38] Application, Exhibit 6, Tab 1, Schedule 1, page 1
[39] LUI's 2006 Financial Statements, page 15
[40] Staff #1.3 e)
[41] Staff #1.1 b)

formula and January data[42].

5.4 VECC's only concerns regarding LUI's proposed cost of capital are similar[43] to Board Staff's and are regarding the proposed cost of long-term debt. With regard to the new debt, VECC concurs that the rate should reflect the Board's current deemed rate for long-term debt as opposed to the 6.25% established for the 2006 EDR. To VECC's knowledge the Board has not indicated what the deemed debt rate(s) should be for 2008 and would request that it do so when it updates the short-term debt rate and ROE applicable for 2008.

5.5 VECC also notes that the Board's Report on 2006 Rates (Section 2.2.1) called for the debt rate applicable to all affiliate debt that is callable on demand to be set at the current deemed long-term debt rate. Since LUI's debt with the Town of Cobourg is "callable on demand", the deemed rate would also apply to LUI's existing debt.

6 Deferral and Variance Accounts

New Deferral Accounts Requested

6.1 LUI has requested three new deferral accounts for:

- Late Payment Class Action Suit
- Meter Data Management Depository
- Future Capital Projects.

6.2 The issues being addressed by these three accounts are not unique to LUI but are issues/costs that could impact all electricity distributors in the Province. However, as Board Staff's submissions note, in each case the issue is still pending and it is not clear whether a deferral account is required. In some instances the issue may not materialize at all (e.g. the Class Action Suit) and, in others (e.g. MDMR and

[42] Staff #1.2
[43] Staff Submissions, pages 13-14

Future Capital Projects), there may be alternative ways of addressing the issue.

6.3 As a result, in VECC's view it is pre-mature to approve these deferral accounts at this point in time. Should the need arise, the Board can authorize the creation and use of such accounts on an industry wide basis and establish a common set of rules for use of the accounts at that time. VECC submits that for issues such as those identified above this is the best way to approach the matter, as opposed to on a piece-meal utility by utility basis. VECC therefore agrees with Board Staff's submissions that the request for these accounts is premature.

Balances in Existing Accounts

6.4 In its April 12, 2007 Decision, the Board directed LUI to establish a new sub-account in Account 1508 to track the expenditures associated with its proposed CDM program[44]. According to LUI, by May 1, 2008 it will have collected $32,825. However, Account #1508 does not show any "additions" during 2007[45]. As discussed above, the Board ultimately only authorized the inclusion of $8,938 for CDM spending in 2007 rates. VECC submits that the difference (I.e., $23,887) should be recorded as net revenue in Account #1508 for 2007, thereby reducing the balance owed by customers.

6.5 In its current Application, LUI notes that there was an error in the determination of its 2006 rates, in that the $296,000 interest on transition costs was treated as revenue. This resulted in the 2006 rates being set too low and LUI not recovering the $296,000[46]. LUI is requesting that the current rate adder for transition cost recovery be maintained until this amount is recovered. In VECC's view, while not explicitly stated, this is equivalent to requesting that the balance in the #1590

[44] Page 4
[45] Staff #24 a)
[46] Exhibit 1, Tab 1, Schedule 7, page 1 and Staff #10.5 a) & b)

account be increased by $296,000.

6.6 LUI has confirmed that the $296,000 was included in the balances to be recovered from customers and therefore in the rate adder calculation. As a result, in VECC's view, this issue nothing to do with regulatory asset balances and/or rate adders. Rather, it is matter of an error that was made (by LUI) in the preparation of its 2006 Rate Application. The fact that the error is associated with interest on transition costs is really immaterial. LUI's concern is that its 2006 rates were (in its view) set to recover $296,000 less than they should have.

6.7 VECC submits that what LUI is effectively asking the Board to do is vary its 2006 Rate Decision regarding LUI so as to allow it to recover $296,000 more than what was included in the 2006 approved rates. In VECC's view, such a request is totally inappropriate. Not only is the deadline for a Review and Vary Application on a decision issued in 2006 well past, but now that 2007 rates have been set and the Board is considering 2008 rates this amounts to retroactive ratemaking in the extreme.

6.8 VECC asks the Board to consider what the reaction of LUI or any other distributor would be if other parties now raised what they viewed to be "errors" in the setting of 2006 rates and requested monies be refunded to customers as part of the 2008 rate setting process. It is VECC's submission that the request of LUI to extend its current rate adders so as to recover an additional $296,000 should be rejected by the Board. In the alternative, if the Board rejects VECC's position and believes the matter should be considered, then it should be the subject of a formal (and separate) Review and Vary Application by LUI.

6.9 As result of the correction of a metering error regarding one of its larger customers, LUI refunded[47] $1,428,792.20 to the customer in July 2007. This has lead to LUI adjusting the balances reported in its RSVA and LV accounts for the period 2004 to 2006[48]. It will also affect the 2007 balances. There are two issues

[47] Staff #10.1 e)
[48] Exhibit 1, Tab 1, Schedule 7, page 1

that arise as result of these adjustments:

- First, the adjustment extends back into 2004. However, the 2004 deferral and variance account balances for LUI were given final disposition as part of the 2006 rate setting process.
- Second, LUI is proposing to adjust the 2006 balance in Account #1588 to account for the difference between the interest rate applicable to deferral/variance accounts and that used (per the Retail Settlements Code) in the settling of billing/metering errors with customers.

6.10 With respect to the first point, VECC agrees with Staff Submission that LUI is effectively asking the Board to review and vary its 2006 decision regarding the balances in the affected accounts as of December 31, 2004[49]. Consistent with the comments made regarding the recovery of $296,000 associated with the 2006 rate approval, VECC finds the concept of revisiting decisions that were made almost two years ago troublesome.

6.11 With respect to the second point, VECC respectfully submits that ratepayers have not been "unjustly enriched" in the manner suggested by LUI in it's response to Board Staff Interrogatory 10.1 (b).

6.12 First, VECC respectfully submits that it is incorrect to assume that, as LUI does in its response, customers "enjoyed the benefit of earning interest on their retained under-billed amounts". This argument, which is clearly advanced in an effort to establish that customers are somehow being asked to return money they should not have received in the first place, assumes that all of LUI's customers had the ability to earn interest at prime for amounts that they were allegedly under-billed over the period; that has simply not been established.

6.13 Second, VECC respectfully submits, for ratepayers to have been unjustly enriched to the detriment of LUI, LUI would have to establish that it is entitled to recover the

[49] Staff Submission, page 31

full interest it pays to customers for overpayment from its ratepayers. In other words, for LUI to recover this amount from ratepayers, it would first have to establish that it is entitled to be held whole under the circumstances.

6.14 VECC points out that the obligation on LUI to pay interest at prime when refunding money in accordance with Section 7.7 of the Retail Settlement Code occurs only when the refund results from a billing error that is not the result of a distributor's standard documented billing practices. It is VECC's respectful submission that the Retail Settlement Code establishes that it is the distributor that is liable, not it's ratepayers, to pay interest to customers as a result of the distributor's mistake; when the distributor has acted in accordance with it's standard documented billing practices the Retail Settlement Code protects the distributor from having to pay interest at prime. Accordingly VECC submits that, in response to Board staff's question on page 31 of their submissions, ratepayers should not bear the cost of the different interest rates for the error of a utility contractor.

6.15 VECC notes that in it's response to Board Staff Interrogatory 10.2 (b) LUI suggested that the matter was appropriately dealt with in final argument and that it may elaborate and expand on this issue in its final submissions. As the procedure in this proceeding required submissions from intervenors prior to submissions from LUI, VECC is unaware of any other basis for LUI's claim on this issue; VECC submits that it would be fundamentally unfair to require intervenors to guess at what other grounds LUI may rely on in argument and argue against them prior to LUI having advanced those arguments. Accordingly, should LUI disclose further grounds for recovery of this amount from ratepayers, VECC may require an opportunity to respond if necessary.

7 Smart Meters

Regulatory Treatment

7.1 LUI has indicated that it plans on fully deploying smart meters through out its service territory in the fourth quarter of 2008[50]. Accordingly, it has included in its 2008 capital spending the full capital costs of this project[51]. Similarly in its OM&A costs, LUI has included the operating expenses associated with the smart meters. However, to date, LUI has not been authorized to undertake smart metering activities[52].

7.2 As a result, VECC believes it is premature for the Board to approve a revenue requirement that assumes full deployment of Smart Meters by LUI in 2008. Rather, VECC submits, LUI should continue to use Accounts #1555 and #1556 to record any Smart Meter expenses and the Board should approve a Smart Meter rate adder for 2008 – the revenues from which would also be tracked in Account #1555. The appropriate level for the Rate Adders is discussed below.

2008 Smart Meter Costs

7.3 VECC notes that throughout the Evidence there are at least three different values quoted as to the level of capital spending on Smart Metes in 2008:

- $2,037,923 is the value noted in VECC #6 d)
- $2,041,819 is the value noted in Exhibit 2, Tab 3, Schedule 2, page 4
- $1,956,245 is the value noted in VECC #9 a)

VECC invites LUI to reconcile these values and clarify, in its final submissions, what the planned capital spending on smart meters is for 2008.

7.4 Similarly, in terms of 2008 OM&A expenses there appear to be at least three different values quoted:

- $220,278 is the value noted in VECC #6 d)
- $212,315 is the value noted in Staff #4.1 e)
- $207,850 is the value noted in Staff #3.12 b)

VECC understands that the last value is meant to represent the incremental costs

[50] VECC #12 c)
[51] VECC #12 b)
[52] Staff #4.1 a)

for 2008. However, VECC would request that LUI confirm this and reconcile the first two values as part of its final submissions.

Rate Adder

7.5 Consistent with the regulatory treatment of smart meters recommended above, VECC submits that the Board should approve a Smart Meter Rate adder and continued use of the related deferral/variance accounts for 2008. In VECC's view this approach will hold the utility harmless for smart meter costs, while recognizing that it has not yet received approval to proceed with smart meter deployment.

7.6 If the Board adopts VECC's recommended approach, the remaining question is to establish an appropriate level for the smart meter rate adder. The major advantage to the rate adder approach is that while the level of adder is important in terms of its impact on customer's bills and LUI's cash flow, at the end of day the Smart Meter Deferral/Variance accounts ensure that both LUI and customers are held harmless.

7.7 In VECC #6 d) and e), LUI was asked to set out the 2008 costs (OM&A and capital-related) associated with Smart Meters and to calculate a 2008 rate adder for Smart Meters. The value calculated by LUI is $2.51 / meter / month. LUI did not provide any supporting schedules. If the Board should agree with VECC's submissions regarding the need for Smart Meter Rate Adder for 2008, then VECC submits these supporting schedules should be provided as part of the draft rate order.

7.8 Having said this, VECC has some concerns regarding the $2.51 calculated by LUI:

- First, the depreciation charges included assume the meters are in place for the full year[53]. In VECC's view, even the use of the standard ½ year rule is excessive in this case, as LUI has acknowledged that the installations will not occur until the 4th quarter of 2008.

[53] VECC #6 d)

- Second, the OM&A costs used in the calculation[54] ($220,278) are higher than those reported elsewhere in the Evidence[55].
- Third, the annual costs are overstated as some the OM&A expense should be classified as capital spending[56].

7.9 In VECC's view the setting of appropriate Smart Meter rate adder should be a two step process. First, the correct rate adder should be established assuming all LUI's smart meters are deployed in 2008. Then, this value should be discounted to recognize the uncertainty associated with LUI actually being authorized and able to complete deployment of its smart meters by the end of 2008. As to the appropriate "discount factor", while it is a matter of judgement, VECC submits that the rate adder should be set at somewhere between 50% and 75% of the annual cost associated with full deployment in 2008.

8 Cost Allocation

8.1 LUI has provided the Revenue to Cost ratios resulting from its 2006 Cost Allocation informational filing[57]. However, both the utility and Board Staff have expressed concerns regarding the results:

- LUI's concerns are regarding the allocation of other distribution revenues[58], particularly to the Street Lighting class, and the use of connections rather than number of accounts in the allocation of various costs[59]. The later issue also mostly affects the Street Lighting class.
- Board Staff concern is with respect to the allocation of Line Transformers[60].
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8.2 In VECC's view the concern raised by Board Staff and the LUI concern regarding

[54] VECC #6 d)
[55] Staff #4.1 e)
[56] VECC #19 g)
[57] Exhibit 8, Tab 1, Schedule 2, page 1
[58] VECC #27 e)
[59] VECC #27 f)
[60] Staff Submissions, page 23 and Staff #7.3

the allocation of Other Distribution revenues both have merit. The Staff issue appears to be have been an input error by LUI while the significance of LUI's first issue is accentuated by the fact the 2006 EDR overstated Miscellaneous Revenues by close to $300,000[61]. VECC notes that the issue of connections vs. customer accounts as an allocation factor was extensively canvassed during the development of the Board's Cost Allocation Methodology and does not agree that LUI should change the allocator at this time.

8.3 Board Staff has suggested that LUI's response to Staff #7.3 provides a better basis for rate rebalancing and VECC agrees. However, since the revenue from all classes only produces a revenue to cost ratio of 92.4% (as opposed to 100%)[62], the results must be adjusted before the Board's Guidelines can be applied. In the absence of additional information, the best way to adjust the results is to divide each of the class ratios by 92.4%. The resulting ratios for each of the classes are:

- Residential: 94.9%
- GS < 50 kW: 124.4%
- GS 50-2999 kW: 146.8%
- GS 3000-4999 kW: 35.1%
- Street Lights: 9.3%
- Sentinel Lights: 39.4%
- USL: 103.9%

8.4 Based on these results, VECC submits that the main focus of any rate rebalancing should be moving costs from the GS < 50 kW and GS 50-2999 kW classes to the GS 3000-4999 kW class along with the Street Light and Sentinel Light classes. Since only the GS <50 kW class is above the revenue to cost ratio range established by the Board, priority should be given to reducing its ratio to 120%.

8.5 Also, in considering the question of rate rebalancing, the Board should recall that a number of electricity distributors have expressed concerns in their 2008 Rate

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[61] VECC #27 e)
[62] Staff #7.3, Attachment

Applications[63] regard the treatment of the "cost" of the transformer ownership allowance in their Cost Allocation Informational filings. In summary, the concern is that 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.

8.6 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 50-2999 and GS 3000-4999 kW).

8.7 Another issue impacting the results of the cost allocation is the direct assignment of CDM costs to the residential class. In earlier submissions, VECC has recommended that the $80,408 in CDM costs be removed from LUI's 2008 revenue requirement. In the event that the Board does not agree, VECC notes that the costs should not be allocated entirely to the residential class as proposed by LUI[64]. Rather the costs should be allocated to both the Residential and GS<50

[63] Barrie Hydro, Enersource and Horizon. The issue was also addressed in the recently approved Hydro Ottawa Settlement Agreement.
[64] Exhibit 8, Tab 1, Schedule 2, page 8

kW classes as directed by the OEB in its April 12, 2007 Decision[65].

8.8 Finally, VECC notes that in determining the required adjustments to revenue requirement allocation to customer classes, LUI uses the class revenue proportions arising from the Cost Allocation filing as the starting point for determining any revenue allocation adjustments[66]. In VECC's view this is incorrect. The starting point should be the revenue allocation factors arising from 2008 revenues at current (2007) rates. The underlying assumption being that revenues at current rates are consistent with the revenue to cost ratios arising from the 2006 Cost Allocation informational filing. However, to be fully consistent, the revenues should be calculated using 2007 rates excluding the smart meter rate adder and the LV Charge adder, as neither of these were included in the 2006 Cost Allocation filing.

9 Rate Design

9.1 In its Application LUI states that it proposes to maintain the current fixed variable portions for the residential customer class[67]. 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 appear to have included the Smart Meter rate adder in the fixed monthly charge and to have included the LV Charge adder in the variable charge[68]. Both of these should have been excluded.

9.2 The Smart Meter rate adder is established separately by the Board and the revenues generated 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. Similarly, LV Charges were not included in the Base Distribution Revenue Requirement used in the Cost Allocation informational filings.

9.3 However, on a more fundamental basis, the resulting residential monthly customer

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[65] EB-2007-0550/EB-2007-0106, page 3
[66] VECC #27 c)
[67] Exhibit 9, Tab 1, Schedule 7, page 1 and VECC #28 a)
[68] VECC #26 c)

charge proposed by LUI is inconsistent with the Board's November 2007 guidelines. LUI's proposed charge for 2008 is $11.44 which is 139% above the Minimum System Fixed Charge of $8.24[69]. The Board's Guidelines set the ceiling for the customer charge at 120% of this value. Furthermore the Guidelines state that "the Board does not expect distributors to make changes to the MSC that result in a charge that is greater than the ceiling that is defined in the Methodology for the MSC"[70]. However, when asked about this inconsistency, LUI did not acknowledge the relevancy of the Board' Guidelines[71].

9.4 VECC submits that the OEB should direct LUI to maintain its residential monthly service charge within the range set out in the Board's Guidelines.

10 <u>Retail Transmission Rate</u>

10.1 VECC has reviewed and concurs with OEB Staff Submissions[72] made on this topic.

11 <u>Recovery of Reasonably Incurred Costs</u>

11.1 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 15th Day of February 2008

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69 Exhibit 9, Tab 1, page 3
70 OEB Report – Application of Cost Allocation for Electricity Distributors, EB-2007-0667, November 28, 2007, page 12
71 VECC #28 a)
72 Staff Submissions, pages 25-26