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February 29, 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)
Submissions: EB-2007-0762
Rideau St. Lawrence Distribution 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.

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 Rideau St. Lawrence 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)

February 29, 2008

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Vulnerable Energy Consumers' Coalition (VECC)
Final Argument

1 The Application

- 1.1 On November 22, 2007 Rideau St. Lawrence Distribution Inc. ("RSL") 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 requirement¹ of \$2,267,241 which, after an allowance of \$ 251,850 for revenue from other sources, leaves \$2,015,391 to be recovered through distribution rates. Excluded from this amount are the recovery of discounts paid to customers for transformer allowances (\$37,012) and the LV Charge rate adder (\$168,161)².
- 1.2 Distribution revenues for 2008 at current rates (excluding the smart meter rate adder and prior to the transformer allowance) would produce base revenues of \$1,727,550³ yielding a difference of \$456,002⁴ or 26%.
- 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 RSL's Application.

¹ Exhibit 1, Tab 2, Schedule 4

² Staff #32 b)

³ VECC #6 c)

⁴ \$2,015,391+\$168,161-\$1,727,550=\$456,002

2 Rate Base and Capital Spending

Capital Spending

2.1 VECC has no submissions with respect to RSL's capital spending for 2006 through 2008 other than to note that:

- There is no capital spending for Smart Meters⁵.
- Since the Application was filed, two of the 2007 projects (with a value of \$255,000) have been postponed to 2008⁶.
- Two of the areas of new spending in 2008 are for the to upgrade two wholesale meter points and an upgrade in RSL's Harris CIS⁷.

Issues regarding these items will be addressed in subsequent sections.

Rate Base

2.2 As noted above roughly \$255,000 of the planned 2007 capital spending included in the Original Application has been postponed to 2008. As a result, VECC submits there is a need for RSL to update the 2008 Rate Base Calculation⁸ so as to remove \$225,000 (less any associated depreciation originally assumed for 2007) from the opening 2008 balance used to calculate the annual value.

2.3 Rate Base consists of Net Fixed Assets plus an allowance for working capital. In determining working capital RSL has used 15% of OM&A plus Cost of Power. Furthermore, RSL has used an average HOEP of \$57.04 / MWh to determine the Cost of Power⁹ based on input from its consultant and an April 2007 forecast produced by Navigant. VECC notes that more a 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 / MWh¹⁰. VECC submits that RSL

⁵ Exhibit 2, Tab 3, Schedule 2 and Staff #4

⁶ Staff #19 and VECC #8 d)

⁷ Exhibit 2, Tab 3, Schedule 3, page 35

⁸ Staff #14 i)

⁹ VECC #11 a) and c)

¹⁰ www.oeb.gov.on.ca/documents/cases/EB-2004-0205/rpp-nci_wholesaleelectricitypriceforecastreport_20071012.pdf - page 2. Where HOEP for 2008 is projected to

should be directed to reduce the purchased cost of power component of its working capital calculation accordingly.

2.4 VECC is also concerned RSL has not adjusted its forecast costs for retail transmission charges from Hydro One Networks, despite the known reduction in wholesale transmission charges and the anticipated reductions in retail transmission service charges from Hydro One¹¹. VECC submits that RSL should be directed to reduce the retail transmission service costs included in its working capital calculation¹². In anticipation of the fact that Hydro One's revised retail transmission rates will likely only be in effect for part of the year, VECC submits it would be reasonable to incorporate into the retail transmission service rates half of known wholesale reductions. This would result in the following adjustments¹³:

- Retail Network Transmission costs would be reduced by 10% to reflect half the anticipated change in Hydro One Networks' retail rates for Network Service.
- Retail Connection Transmission costs should be reduced by 5% to reflect half the anticipated change in the Hydro One Networks' retail rates for Transformation and Line Connection.

3 Load Forecast and Revenue Offsets

Load Forecast

3.1 RSL 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. The only exception was the GS>50 kW class where the average used derived using 2004 data was adjusted to reflect the loss of a large customer

be in the order of \$0.054 / kWh.

¹¹ VECC #11 a)

¹² Per Exhibit 2, Tab 4, Schedule 1, page 2

¹³ Based on comparison of the currently approved rates (EB-2007-0542, April 30, 2007) and the proposed rates (EB-200700781, Hydro One Application, Exhibit G2, Tab 4, Schedule 1, page 5)

¹⁴ VECC #12 a) and c)

in 2006. Otherwise the average use value for this class would have been overstated¹⁵.

- 3.2 Board Staff has expressed concerns regarding the fact that RSL's approach relies on a single year of weather-normalized historical data to determine future load¹⁶. In response to a Board Staff Information Request¹⁷, RSL has attempted to produce weather-normalized usage value by customer class for 2002 through 2006 using IESO province-wide weather correction factors. In its submissions Board Staff suggests that a load forecast based on this data would be more accurate¹⁸. VECC disagrees.
- 3.3 As RSL has noted¹⁹, the IESO weather factor is simple annual value based on the province overall. It does not reflect RSL's customer class mix, penetration rates for weather sensitive loads by class or the fact weather impacts vary across the province. While the Hydro One normalization process was based on 2004 data, it does account for all these factors. As a result, VECC believes the RSL original approach is preferable to the one presented in response to Staff #28.
- 3.4 Admittedly VECC has concerns, which it has already expressed in submissions made regarding other electricity distributors' 2008 rates, regarding the RSL approach. 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 survey data for the year concerned, which is typically not available.

¹⁵ VECC #12 b)

¹⁶ OEB Staff Submissions, pages 15-17

¹⁷ Staff #28 a) and b)

¹⁸ OEB Staff Submissions, page 17

¹⁹ Staff #28

However, VECC acknowledges that this is an issue the Board and utilities will have to resolve over the longer term.

3.5 VECC does not have any submissions with respect to RSL's customer count forecast.

4 Operating Costs

OM&A - General

4.1 RSL's increase in OM&A expenses (excluding depreciation and taxes) over the 2006 to 2008 period is driven²⁰ mainly by:

- Increased wages and benefits (2007 & 2008),
- The addition of new employees (2007 & 2008),
- Regulatory expenses (2008)
- Wholesale Meter related costs (2007 & 2008)
- Testing and Replacement of PCB contaminated transformers (2007& 2008)

²⁰ Staff #3.12 b)

- 4.2 VECC has no submissions regarding the increased wages and salaries or the addition of new employees.
- 4.3 With respect to the \$23,333 of Regulatory Expense in 2008, VECC notes that this is 1/3 of the anticipated costs \$70,000 in costs²¹. VECC agrees with RSL's proposal to spread the cost of the current Application over 3 years²². The 2008 rates are meant to position RSL 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.
- 4.4 RSL explains that the OM&A increase associated with Wholesale meters is due to two factors²³. First, the Hydro One Networks' "rebate" for metering points that had converted to LDC ownership ended as of November 1, 2007. Second, Hydro One Networks is charging a fee of \$6,200 per meter point that has not converted. However, it should be noted that this restructuring of charges for Wholesale Metering is one of the factors leading to a decline in retail transmission service rates. VECC is concerned that this "offset" has not been captured in RSL's Application. This issue will be discussed further under the section dealing with retail transmission service rates.
- 4.5 In supporting its spending on upgrading its Harris Computer Billing Software, RSL noted that there would be operational efficiencies created in billing, cash receipts, CIS and regulatory reporting²⁴. However, RSL has not reflected any of these "savings" in its projected OM&A expense²⁵. VECC submits some recognition of these savings should be reflected in the 2008 revenue requirement. Billing and

²¹ Staff #3 d)

²² VECC #15 b) & c)

²³ VECC #14 a)

²⁴ Exhibit 2, Tab 2, Schedule 3, page 24

²⁵ VECC #8 f)

collecting alone account for 23% of RSL's total OM&A expenses. Furthermore, 2008 rates will form the base for future rate adjustments under the Board's 3GIRM. VECC submits that absent any additional information a nominal savings of \$10,000 should be incorporated into the 2008 planned OM&A.

Shared Services

- 4.6 VECC shares the concerns expressed by Board Staff²⁶ as to the lack of detail provided regarding the basis for the split of Meter Reading, Billing and Collecting costs between hydro and water services. In addition, VECC is also concerned about the approach used to assign Administration costs.

²⁶ Board Staff Submissions, page 10

- 4.7 First, the process of assigning Administration costs is not an allocation. Rather, a 10% mark-up is applied to the costs associated with Rideau St. Lawrence Utilities' non-hydro activities and then the balance of the Administration costs are assigned to RSL (the electricity distributor). However, there is no sound rationale provided for the use of 10%. VECC notes that in contrast to the 10% attributed to Utilities' activities, the Administration costs assigned to RSL (\$406,196) represent over 50% the cost of Metering, Billing, Collecting and Operations services (\$769,927) provided by Utilities to RSL²⁷.
- 4.8 Second, the 10% does not appear to be applied to all of the non-hydro activities of Utilities. According to RSL's Application²⁸ the 10% is applied to the costs associated with Hot Water Tank rentals, Water and Sewer billing, Street Light Maintenance and a small amount of contract work. However, Utilities is also engaged in meter reading and collection activities with regard to water services²⁹. It is not at all clear why these are not included in the calculation.
- 4.9 Given the lack of information and materiality of the dollars involved³⁰, VECC is unable to make reasonable recommendation at this time as to if and by how much Administration costs should be reduced. One approach would be for the Board to direct RSL to undertake a formal review of the cost allocation of shared services and track (through a variance account) any differences between the assigned Utilities' costs included in rates and those identified as being reasonable as result of this independent review.

²⁷ Staff #7

²⁸ Exhibit 4, Tab 2, Schedule 4, page 21

²⁹ Exhibit 4, Tab 2, Schedule 4, page 20

³⁰ Allocated administration costs are over 25% of RSL's total OM&A costs. See Exhibit 4, Tab 1, Schedule 2, page 4 and Staff #7

Amortization

4.10 In Section 2 VECC noted the postponement of certain capital spending from 2007 to 2008. As well as impacting on rate base, this postponement will also reduce depreciation expenses for 2008 (as the asset will only be in-service for half the year). VECC submits that RSL should be directed to adjust its amortization expense accordingly.

Taxes

4.11 VECC has reviewed and concurs with the submissions made by Board Staff regarding RSL's PILs calculations³¹.

4.12 RSL has indicated that it may have capital additions that qualify for the new CCA classes and that it will follow the Board's direction for adjustment³². VECC submits that the Board should make it clear to RSL (and all distributors) that they are expected to adopt the appropriate CCA classes for tax purposes so as to minimize current tax expenses.

Line Losses

4.13 RSL has calculated its proposed loss factor based on average losses over the period 2003-2006 period. RSL has provided no sound rationale as to why a four year period was selected³³. As a result, VECC submits that there is no reason to depart from the use of a three year average as established for the 2006 EDR Process³⁴. It should be noted that while this approach will reduce loss factor to approximately 1.0764 (TLF), RSL's loss factors have been showing a declining trend over the last three years³⁵.

³¹ Staff Submissions, pages 22-23

³² VECC #18 b)

³³ Staff #35 a)

³⁴ 2006 Electricity Distribution Rate Handbook, page 101

³⁵ Exhibit 4, Tab 2, Exhibit 9, page 27

5 Cost of Capital/Capital Structure

- 5.1 RSL is proposing to maintain its current deemed capital structure of 50/50 rather than taking the first step towards the Board's approved capital structure of 60% debt/40% equity. When asked to justify this proposal RSL simply noted that its actual capital structure was 29/71³⁶. RSL went on to observe that the Board Report was a "guideline" and that the Board was obligated to ensure RSL received reasonable return on invested capital. RSL concluded its response by noting that it was moving its actual capital structure in the direction suggested by the Board.
- 5.2 First, it is VECC's understanding the Report is more than a guide, it is a Board policy that has been established after an extensive public process where RSL was represented³⁷. It is VECC's view that strong and compelling rationale would have to be presented before an distributor should be exempted from the policy. VECC submits there is nothing compelling about any of RSL's rationale that would support deviation from the direction provided by the Board in its Report on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors.
- 5.3 With respect to the suggestion that the Board is obligated to ensure a reasonable return on RSL's invested capital, RSL's argument is that since 29/71 is its actual capital structure it should be allowed a commensurate return. However, RSL misses the point that part of the determination of a reasonable return is to establish that the capital structure itself is reasonable. Indeed, this was one of the major issues addressed by the Board in its report where it concluded:

The Board will deem a single capital structure for all distributors for rate-making purposes. The Board has considered the concerns that have been expressed by distributors and certain members of the investment community that a reduction in equity thickness or return might result in a lower credit rating. As discussed below, the Board is not convinced these concerns warrant differentiated deemed capital structures. Therefore, **the Board has determined**

³⁶ Staff #20 a) & b)

³⁷ VECC #1 b)

that a split of 60% debt, 40% equity is appropriate for all distributors. (page 5)

- 5.4 Similarly, RSL's suggestion that it is transitioning to the Board guideline should be rejected. The previously deemed capital structure for RSL was 50/50. However, Board Staff has noted in its submissions³⁸ that RSL has been increasing its equity component since it was incorporated in late 2000.
- 5.5 As a result, VECC submits that RSL has provided no rationale as to why it should be exempt from moving to the 60/40 deemed capital structure consistent with the Board's established policy.

6 Deferral and Variance Accounts

New Deferral Accounts Requested

- 6.1 RSL has requested a new deferral account for Future Capital Projects. The issues being addressed by this account are not unique to RSL but are issues/costs that could impact all electricity distributors in the Province. As Board Staff's submissions³⁹ note such an account is "analogous to including a capital investment factor in an IRM year". In VECC's view it is pre-mature to approve the deferral account 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.

³⁸ Page 12

³⁹ Page 24

Balances in Existing Accounts

6.2 As well as the issues raised by Board Staff in its submissions⁴⁰, VECC has a concern regarding the transactions reported for the Smart Meter Capital and Recovery Offset Variance account. In the response to Board Staff Information Request #41, RSL shows an addition to the account in 2006. However, as noted elsewhere in these submissions, RSL has also reported that to date it has not undertaken any Smart Meter activity. VECC invites RSL to address this inconsistency in its reply submissions.

Disposition of Balances

6.3 VECC has reviewed the submissions of Board Staff regarding the treatment of RCVAs and RSVAs. However, in VECC's view the account balances as of December 31, 2006 should be cleared. Now, during a cost of service filing, is the most efficient time to deal with this matter. Also, timely disposal helps to address any inter-generational equity concerns associated with the ultimate refund/recovery of the balances.

7 Smart Meters

Regulatory Treatment

7.1 RSL has not included any Smart Metering activities in its Application. Similarly, it has not included a Smart Meter rate adder in its proposed rates. Assuming that RSL will eventually be authorized (and directed) to implement Smart Meters, VECC submits that it would be prudent for the Board to direct RSL to maintain its current Smart Meter rate adder of \$0.26/meter/month⁴¹.

⁴⁰ Pages 25-26

⁴¹ VECC #21 c)

8 **Cost Allocation**

8.1 RSL has provided the Revenue to Cost ratios (RCC) resulting from its 2006 Cost Allocation informational filing⁴². Based on these results, the customer classes requiring rebalancing are:

- The GS<50 kW class where the RCC of 65.09% is below the Board's guideline.
- The Street Lights Class where the RCC of 41.61% is below the Board's guideline.
- Sentinel Lights Class where the RCC of 49.08% is below the Board's guideline.
- The USL Class where the RCC of 152.26% is above the Board's guideline.

Also, while within the Board's guidelines, serious consideration should be given to addressing the 148.27% RCC associated with the GS> 50kW class.

8.2 In its Application, RSL proposed to rebalance the revenue requirement allocation between classes so as to address all of the aforementioned issues. However, VECC has concerns with both with the "proposed" Revenue to Cost ratios and the way RSL has applied the 2006 Cost Allocation results to its 2008 Revenue Requirement. In terms of the proposed RCC values, RSL has proposed a fairly significant shift in costs for the all the classes which are currently under contributing except for Street Lighting. In the case of GS<50 kW class, RSL moves the reported RCC from 65.09% to 91.36%. Similarly, for the Sentinel Lights class the ratio changes from 40.08% to 79.47%. However, in the case of Street Lights, the ratio only increases from 41.61% to 49.84%⁴³. In VECC's view the shift in RCC for Street Lights should be equivalent to that for Sentinel Lights and both values should be at or approaching 80% (as the current Sentinel Lights value is).

8.3 With respect to the methodology, VECC notes that in determining the required adjustments to revenue requirement allocation to customer classes, RSL uses the

⁴² Exhibit 8, Tab 1, Schedule 2, page 4

⁴³ Exhibit 9, Tab 1, Schedule 1, page 2

class revenue proportions arising from the Cost Allocation filing as the starting point for determining any revenue allocation adjustments⁴⁴. 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. Furthermore, 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.

- 8.4 VECC sought to explore this issue during the interrogatory process (see VECC #21). However, the response provided did not correctly address the issue. VECC appreciates RSL's efforts to respond and acknowledges that the question could have been better worded. Furthermore, VECC (unlike Board Staff⁴⁵) does not interpret RSL's response to the question as a "revised proposal" but rather a sincere attempt to respond to VECC's requested calculations.
- 8.5 Working with the available data VECC has determined that the RCC ratios quoted by RSL are, in each case, within a few percentage points of the values it would consider as being consistent with the proposed allocation of revenue requirement to customer classes. As result, for purposes of setting 2008 rates, VECC considers RSL's proposal to be reasonable provided the allocation to the Street Lights class is increased. The additional revenues should be used to further reduce the RCC for the GS>50 class and reduce the shift in costs to the GS<50 kW class.
- 8.6 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 Applications⁴⁶ regard the treatment of the "cost" of the transformer ownership allowance in their Cost Allocation Informational filings. In summary, the concern is

⁴⁴ VECC #21 e)

⁴⁵ Board Staff Submissions, page 20)

⁴⁶ Barrie Hydro, Enersource and Horizon. The issue was also addressed in the recently approved Hydro Ottawa Settlement Agreement.

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.

8.7 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 kW). This directional bias has been taken into account in VECC's preceding recommendations.

9 Rate Design

9.1 In its Application RSL states that it proposes to maintain the current fixed/variable portions for the residential customer class⁴⁷. However, in response to VECC's information requests RSL acknowledged that the methodology used did not achieve this objective. In the same response, RSL submitted that its proposed rates were reasonable and should be accepted⁴⁸.

⁴⁷ Exhibit 9, Tab 1, Schedule 1, page 2 and VECC #24 c)

⁴⁸ VECC #24 c)

9.2 VECC agrees with RSL's assessment of its methodology. Furthermore, in VECC's view, the Smart Meter rate adder should also have been excluded from the 2007 rates used in the calculation. 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. VECC notes that inadvertent inclusion of the Smart Meter rate adder tends to offset (to some extent) the directional bias arising from the inclusion of LV charges and the transformation allowance in the variable rate.

10 Retail Transmission Rates

10.1 VECC concurs with Board Staff's concerns on this topic⁴⁹ and submits that RSL should have assumed lower retail transmission services rates would be in effect for at least part of 2008. Furthermore, VECC's understanding of the Evidence is that the associated Variance Accounts have negative balances, suggesting that customers have over contributed to date⁵⁰ based on existing rates, thereby further aggravating the situation. Finally, as discussed earlier, this reduction in retail service rates is partially due to a change in treatment of wholesale meters which has led to increased distribution costs for RSL. In VECC's view, since the Application includes these increased distribution costs it should also reflect the (offsetting) reduction in retail transmission service rates.

⁴⁹ Staff Submissions pages 21-22

⁵⁰ Exhibit 5, Tab 1, Schedule 3, page 11

11 Recovery of Reasonably Incurred Costs

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 29th Day of February 2008

Michael Buonaguro
Counsel for VECC