

**IN THE MATTER OF the Ontario Energy Board Act
1998, S.O. 1998, c. 15, (Schedule B);**

**AND IN THE MATTER OF an Application by
Rideau St. Lawrence Distribution Inc. for an Order
or Orders approving or fixing just and reasonable
rates and other charges for the distribution of
electricity commencing May 1, 2008.**

SUBMISSIONS OF THE SCHOOL ENERGY COALITION

These are the submissions of the School Energy Coalition (“SEC”) in connection with the application by Rideau St. Lawrence Distribution Inc. (“RSL”) for an order approving just and reasonable rates for the distribution of electricity effective May 1, 2008.

Operating Expenses

Shared Services

SEC agrees with Board Staff that RSL has not provided adequate evidence to justify its shared services costs.

SEC has particular concerns with respect to the allocation of Billing and Administration costs to RSL.

With respect to Billing, it appears RSL has arbitrarily applied a “complexity factor” of three to hydro bills such that each hydro bill is assigned a cost allocation equal to three times that of each water bill [Board Staff IR#47]. It is not clear how the complexity factor is determined or, as pointed out by Board Staff, how it takes into account the fixed costs of the billing system, which should be applied equally to both electricity and water bills.

SEC believes this complexity factor is arbitrary and not justified by the evidence. Accordingly, SEC believes RSL’s OM&A costs for billing should be reduced by \$45,266. SEC arrives at this amount as follows:

	Hydro	Water
Number of bills (1)	47,868	35,100

Total cost (2)	\$178,669	\$43,670*
Cost per bill (3)	\$3.73	\$1.24
Total cost of Billing (4)	\$222,339 ¹	
Allocation if Hydro and Water bills treated equally (5)- equals (4) times 60% for Hydro and (4) times 40% for Water.	\$133,403	\$88,935
Excess (shortfall)- equals (2) less (5)	\$45,266	(\$45,266)

In other words, SEC believes \$45,266 should be deducted from the cost of Hydro bills and added to the cost of Water bills. SEC arrived at that figure by taking the cost per bill for Hydro bills (\$3.73) and dividing by three to arrive at the assumed cost per Water bill of \$1.24². When multiplied by the known number of Water bills, we get a total cost for Water bills of \$43,670. When this amount is added to the total cost of Hydro bills, we get a total billing cost (Hydro plus Water) of \$222,339. SEC believes that amount should be apportioned to Hydro and Water on a 60/40 in accordance with their approximate share of the total number of bills. The result is \$133,403 (60% of \$222,339) for Hydro and \$88,935 for Water.

SEC points out that because the proposed 60/40 split is actually slightly higher than the actual proportion of Hydro bills to Water bills, the resulting cost per bill for Hydro (\$2.78) is approximately 10% higher than the cost per bill for Water (\$2.53). SEC submits that if there is any greater complexity in the Hydro bill, a 10% premium is more reasonable than the 300% premium proposed by RSL.

With respect to Administration, SEC believes there is insufficient information on the record in respect of these costs. RSL's explanation to Board Staff's interrogatory #7 does not explain how the value of "contracted value of activity in Utilities" is determined or how the 10% adder for the cost of executive effort for Utilities is determined. In addition, as pointed out by Board Staff, it is not clear how the fixed component of administration costs are allocated to Utilities. In the absence of this information, SEC submits that Administration costs be held at their 2006 actual level, \$363,370, a reduction of \$42,826 from the as-filed amount.

Board of Directors

The Affiliate Relationships Code for Electric Distributors, s. 2.1.3, requires that a utility to ensure that at least one third of its Board of Directors is independent from any affiliate. In RSL's case, the only Board Member who is not also a Board Member of one or more of RSL's affiliates is Mr. J. Annable [see Exhibit 1/1/14, pg. 52]. Although Mr. Annable is not a Board Member of any of RSL's affiliates, RSL appears to have very few of its own

¹ Equals \$178,669 (total costs for Hydro bills) plus \$43,670 (assumed total cost for Water bill).

² This figure is not in evidence, however, SEC assumes this is the cost per bill allocated to Water since it is 1/3 the cost of each Hydro bill and RSL said that it applies a complexity factor of 3 to Hydro bills- i.e. the cost of each Hydro bill is three times the cost of each Water bill.

employees. Therefore, it is not clear whether Mr. Annable is employed by any of the affiliates. If he is, then it would appear that RSL is not in compliance with the Affiliate Relationships Code as no members of its Board of Directors would be independent from its affiliates.

Rate Base

2008 Rate Base

It appears that RSL has included expenditures for two projects- the New Line truck (\$225,000), and the Interval Meter Project (\$30,000) in its 2008 opening rate base even though those projects will not be in service until some time in 2008. SEC believes the more appropriate treatment for these projects is to treat them as 2008 capital expenditures. Their inclusion in 2008 rate base, therefore, should be subject to the half-year rule. 2008 Depreciation expenses should also be adjusted so that half of the 2008 depreciation is included in 2008 rates for these two items.

Asset Condition Assessment Study

Board staff invited parties to comment on the issue of whether an Asset Condition Study is necessary for RSL.

SEC believes that the asset condition for major distribution asset classes should be quantified through the use of asset health indices, and an asset management plan is necessary to address reliability and asset condition problems.

Cost of Capital

The only justification RSL has given to retain its current deemed capital structure of 50/50 debt and equity is that its actual equity is greater than 50%. RSL argues that the fact that its deemed equity component of its capital structure is lower than its actual equity means that it is not receiving a return on all of its invested capital. (As Board Staff points out, this assertion is actually inaccurate- what RSL likely means is that it is not receiving a return equal to the allowed return on equity but rather the excess equity is treated as debt for regulatory purposes.)

If that has been a problem for RSL, however, it is not evident from the evidence in the proceeding. In fact, the evidence shows that RSL actually increased its equity component since 2006. It has done so by replacing third party debt with retained earnings. In other words, RSL has increased its actual equity component even though it knew that its actual equity was already above the deemed equity component.

In SEC's submission, a regulated utility should not be able to increase its regulated equity component simply because it has chosen to increase its actual equity. If RSL's explanation were sufficient, it would mean any utility seeking a higher equity structure could justify it by simply having its shareholder increase its actual equity.

RSL's explanation certainly does not justify allowing RSL to have a different capital structure than most other electric utilities in the province.

As pointed out by Board Staff, since RSL has provided no evidence specific to its business risk to justify a higher equity component, RSL's proposal should be rejected.

Load Forecast

RSL has explained that the normalized average consumption approach used in its Application is more appropriate compared to the IESO method [Board Staff Interrogatory #28]. SEC believes that until the next (2008) weather-normalized forecast conducted by Hydro One, the most recent 2004 weather normalized data appears to be the most reasonable base upon which to build the forecast.

Deferral and Variance Accounts

New deferral account for future capital projects

RSL is requesting a new deferral account, the Capital Projects Deferral Account, to track future capital project investments in non-rebasing years in the event that the 3rd Generation Incentive Regulation Mechanism ("3GIRM") is not completed in time to address the capital project expenditures.

In SEC's submission, the treatment of capital or revenue items in the 3GIRM period is a matter for the panel deciding the 3GIRM process. RSL's application is premature as it preempts the 3GIRM process.

Cost Allocation

RSL proposes no increase to the contribution from the Streetlighting class, despite the fact that the Streetlighting customer is an affiliate of RSL and despite the fact that Streetlighting's revenue to cost ratio is well-below the Board's guideline.

In SEC's submission, RSL is providing a service to an affiliate at a cost well below the actual cost of providing the service. Unless there is an exemption by the Board, it is SEC's submission that RSL is not entitled to charge an affiliate for any service at less

than cost. Therefore, it is submitted that the rules relating to affiliate transactions should be applied, and the streetlighting rates should be set at 100% of cost.

SEC agrees with RSL's proposal to eliminate the single-customer rate class for Westport Sewage Treatment Plant and move this customer into the GS>50kW rate class.

Rate Design

The proposed Fixed Charge for the GS>50kW rate class, \$244.67, is well above upper bound for the monthly service charge as set out in the Report of the Board in the *Allocation of Cost Allocation for Electricity Distributors* [EB-2007-0667]. (The Minimum System Fixed Charge for the GS>50 rate class is \$70.18- see Exhibit 8/1/2, pg. 7)

Although the Report of the Board states that distributors currently above the maximum do not have to make changes to their monthly service charge to bring it below the maximum, in RSL's case SEC believes a change should be made. The current service charge is so far above the maximum that it provides an unfair subsidy to large users within the GS>50kW rate class. Lower volume customers within the GS>50kW rate class are paying a disproportionate share of the revenue allocated to this rate class.

PILS

SEC believes the change in federal corporate income tax should be reflected in RSL's PILS allowance.

Costs

SEC participated responsibly in this proceeding and respectfully submits that it be awarded 100% of its reasonably incurred costs.

All of which is respectfully submitted this 29th day of February, 2008.

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