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December 16, 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-2011-0273

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

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

GRIMSBY POWER INC. (Grimsby)
<u>2012 RATE APPLICATION (EB-2011-0273)</u>

<u>Issues:</u>

1. On December 9, 2011 the Board accepted the Partial Agreement filed by the parties to this proceeding on December 7, 2011. The incomplete settlement issues 1.1, 1.3, 2.5, 2.6, 6.1 and 8.4 remain outstanding issues only in so far as there was no agreement on the appropriate level of Operating, Maintenance and Administration (OM&A) expenses. Therefore no separate submissions are made on these issues.

2. Submissions with respect to issues 4.1 (OM&A forecast), 4.2 (Allocation of Shared Services) and 4.4 (Employee Compensation) are provided below.

<u>Adjusted OM&A</u>

3. Table 1 below sets out the Applicant's past OM&A history and 2012 proposed budget. This table is a modified form of Table 4.1 found at Exhibit 4, page 2. The figures are CGAAP compliant and the modifications (shown in italics) are in respect to changes agreed to in the Settlement Agreement. Specifically these are:

    a) In response to Board Staff IR #15(d) Grimsby indicated that it would remove from the OM&A forecast $60,588 in MDM/R fees (Billing and Accounting 5310);
    b) An adjustment of $11,240 related to PST adjustments (Operations account 5085); and
    c) An adjustment of $12,391 relating to the accounting of retailer expenses and which lowers the Billing and Accounting category by $12,391 (OM&A Account not specified).

4. These adjustments are noted in Appendix A of the Settlement Agreement and were confirmed by the Applicant at the oral hearing [TR Vol.1, pgs. 22, 27, 29 and 56].

Table 4.1 ADJUSTED OM&A

	2006	2006	2007	2008	2009	2010	2011	2012 (adjusted)
	Board-approved	**Actual**	**Actual**	**Actual**	**Actual**	**Actual**	**Bridge**	**Forecast**
Operations	$207,528	$187,438	$187,089	$200,472	$197,350	$179,324	$271,866	*$272,481*
Maintenance	$219,107	$225,316	$271,420	$409,935	$380,246	$397,852	$418,385	$489,114
Billing and Collecting	$399,757	$407,642	$483,317	$487,755	$463,965	$506,789	$504,524	*$517,291*
Community Relations	$5,388	$53,288	$80,754	$33,426	$11,428	$11,749	$16,500	$12,500
Administrative and General	$719,186	$635,882	$695,452	$661,546	$717,486	$710,002	$869,244	$1,084,372
Total OM&A Expenses	**$1,550,966**	**$1,509,565**	**$1,718,034**	**$1,793,136**	**$1,770,474**	**$1,805,717**	**$2,080,519**	***$2,375,758***

2006 to 2010 Growth in OM&A

5. To determine the reasonableness of Grimsby's OM&A proposal it is useful to review OM&A growth since the last Board approved cost of service application. The 2006 Board approved costs provide last findings of reasonable distribution costs. The underlying premise is that subsequent cost increases should generally follow the two most significant cost drivers; inflation and customer growth.

6. The annual compound growth rate of the Canada consumer price index for the four year period 2006 to 2010 is 1.65% [Energy Probe IR # 15]. In VECC's submission this figure is somewhat low and a more reasonable assumption is a 2% per annum growth in general inflation. VECC notes that this estimate is consistent with the inflation figures provided by the Applicant in Table 4.1 at Exhibit 4, page 2 and consistent with GDP IPI inflation figures used by the Board in IRM applications.

Customer Growth

7. Table 3.3 (abridged) showing customer additions: [EXHIBIT 3, Pg. 7]

Year	Residential	GS <50	GS > 50	Streetlights	USL	Total
2006 Board Approved	8,535	706	115	2,477	82	11,915
2003 Actual	7,979	623	110	2,391	82	11,184
2004 Actual	8,368	623	114	2,454	82	11,641
2005 Actual	8,606	629	115	2,489	82	11,921
2006 Actual	8,715	639	114	2,493	85	12,046
2007 Actual	8,825	657	102	2,493	84	12,161
2008 Actual	9,007	656	105	2,529	85	12,382
2009 Actual	9,147	662	100	2,486	82	12,477
2010 Actual	9,290	669	102	2,512	80	12,654
2011 Normalized Bridge	**9,495**	**676**	**101**	**2,530**	**80**	**12,882**
2012 Normalized Test	**9,703**	**683**	**100**	**2,548**	**80**	**13,114**

8. Between 2006 and 2010 the average growth rates of the two largest customer classes (other than street lighting) was 1.61% for the residential class and 1.15% for the GS < 50 customer class.

9. In VECC's submission, for the purpose of considering OM&A cost pressures, an approximate customer growth value of between 1.2% and 1.6 % would be reasonable. While this range is higher than the total customer growth it recognizes that residential and small commercial customers can have a significant impact on operating costs.

Employee Compensation

10. The table below is an abridged version of the Employee Cost table provided in response to Board Staff IR #19, pg. 38:

Employee Costs – revised from Appendix 2-k

	2006 - Board Approved	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Bridge Year	2012 Test Year
Number of Employees (FTEs including Part-Time)[1]								
Executive		$ -	$ -	$ -	$ -	$ -	$ -	$ -
Management		$ 7	$ 7	$ 7	$ 7	$ 8	$ 8	$ 8
Non-Union		$ -	$ -	$ -	$ -	$ -	$ -	$ -
Union		$ 8	$ 8	$ 9	$ 9	$ 9	$ 10	$ 11
Total	$ -	$ 15	$ 15	$ 16	$ 16	$ 17	$ 18	$ 19
Total Compensation (Salary, Wages, & Benefits)								
Executive	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Management	$ -	$ 417,724	$ 533,548	$ 535,100	$ 564,984	$ 704,184	$ 727,778	$ 732,907
Non-Union	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Union	$ -	$ 567,857	$ 588,495	$ 700,937	$ 668,082	$ 694,766	$ 781,716	$ 908,124
Total	$ -	$ 985,581	$ 1,122,043	$ 1,236,037	$ 1,233,066	$ 1,398,950	$ 1,509,494	$ 1,641,032
Compensation - Average Yearly Base Wages								
Executive								
Management		$ 49,498	$ 60,271	$ 62,783	$ 65,172	$ 70,708	$ 73,567	$ 72,442
Non-Union								
Union		$ 54,269	$ 55,942	$ 58,286	$ 56,761	$ 59,323	$ 59,426	$ 62,895
Total		$ 103,767	$ 116,213	$ 121,069	$ 121,934	$ 130,031	$ 132,994	$ 135,337
Compensation - Average Yearly Overtime								
Executive								
Management		$ 581	$ 774	$ 1,819	$ 917	$ 614	$ 632	$ 651
Non-Union								
Union		$ 2,905	$ 2,305	$ 3,673	$ 3,241	$ 2,910	$ 2,997	$ 3,087
Total		$ 3,486	$ 3,079	$ 5,492	$ 4,159	$ 3,523	$ 3,629	$ 3,738
Compensation - Average Yearly Incentive Pay								
Executive								
Management		$ 462		$ 4,615	$ 1,438		$ 3,476	$ 3,581
Non-Union								
Union								
Total		$ 462	$ -	$ 4,615	$ 1,438	$ -	$ 3,476	$ 3,581
Compensation - Average Yearly Benefits								
Executive								
Management		$ 14,768	$ 21,814	$ 19,540	$ 21,748	$ 23,183	$ 23,470	$ 25,279
Non-Union								
Union		$ 16,713	$ 17,620	$ 19,596	$ 17,470	$ 17,873	$ 18,745	$ 19,662
Total		$ 31,480	$ 39,433	$ 39,136	$ 39,218	$ 41,056	$ 42,215	$ 44,941
Total Compensation	$ -	$ 985,581	$ 1,122,043	$ 1,236,037	$ 1,233,066	$ 1,398,950	$ 1,509,494	$ 1,641,032
Total Compensation Charged to OM&A		$ 919,603	$ 1,053,056	$ 1,181,813	$ 1,122,110	$ 1,281,333	$ 1,339,957	$ 1,470,620
Total Compensation Capitalized	$ -	$ 65,978	$ 68,987	$ 54,224	$ 110,956	$ 117,617	$ 169,537	$ 170,412

11. The evidence shows that Grimsby's compensation has been well in excess of inflation. For the period 2006 to 2010 average base wages rose by nearly 6% per year.

12. Total Employee compensation charged to OMA has increased by more than 8.5% between 2006 and 2010. Employee compensation has also risen as a proportion of total OM&A spending, from 61% in 2006 to 71% in 2010.

13. If one excludes the hiring of a CEO in 2010 (which simply replaced contracted management services), then between 2006 and 2010 Grimsby only added one new FTE. However, in VECC's submission this change should be offset by reduced management fees. Between 2011 and 2012 two new positions were added, an accounting assistant and a regulatory analyst.

14. In VECC's submission Grimsby has provided reasonable justification for the positions added since 2006, However, in VECC's submission the Applicant did not provide sufficient evidence supporting the above inflation growth the average compensation levels. For example, while the evidence explains that union negotiations resulted in a 2.5% increase in annual wages (Exhibit 4, pg. 40), the average yearly union base wage increased by 4.5%.

2010 Expected OM&A

15. In VECC's submission, with 2006 to 2010 inflation being between 1.6% and 2% and customer growth rate between 1.2% and 1.5%, one would expect OM&A growth during that period of no more than 3.5% per year. The actual annual growth OM&A during this period was 3.9%.

16. In VECC's submission the main reason for higher than expected OM&A growth is the significant increase in compensation levels and the expanding role of labour as a proportion of OM&A costs.

2012 OM&A Adjustment for Changes in Capitalization policy

17. At Exhibit 4, page 19 Grimsby states that a change in allocation methodologies resulted in $154,135 in additional O&M&A booked in the 2012 test year. At Board Staff IR #58 this amount is broken down into its constituent elements:

Supervision	49,820
Director of Engineering	45,471
Engineering training	16,896
Network+GIS	41,948
TOTAL	**$ 154,135.19**

18. There is a further discussion of this amount at Transcript Volume 1, pages 39 through 41. Here a figure of approximately $140,000 is discussed. This figure is the rounded number of $139,820 shown at line 2 of Table 4.8 (reproduced below). The impact of the cost allocation change in 2012 is $14,314, which when added to the 2011 figure provides the total of $154,335.

19. While there might be some debate as to which figure is most appropriate to use for comparison purposes, in VECC's submission the difference is not material. Both are approximate estimates as to what the change in allocation would have on the 2012 OM&A budget. For the purpose of making an

"apples-to-apples" comparison of OM&A, VECC has adopted the approximate figure of $145,000 as the cost allocation methodology change adjustment to the 2012 OM&A.

<u>Calculating an adjusted OM&A</u>

20. In 2010 Grimsby spent $1,805,717 on OM&A costs. As VECC has outlined above this figure is above what would have been expected due to the impact of labour costs. In VECC's submission using 2010 actual OM&A represents a high starting point. Arguably the 2010 costs should be 1% to 1.5% lower.

21. However, VECC recognizes that Grimsby has had a number of cost pressures arising from the Green Energy Act and Smart Meter requirements. Therefore for the purpose of this analysis VECC has adopted the 2010 costs as a starting point for adjustments to OM&A for 2012.

22. Customer Growth between 2010 to 2012, as shown in Table 3.3 above are 4.3% for the residential class and 2.1% for the GS<50 class. Total customer growth is 3.64%.VECC submits a reasonable customer growth rate for the two years is 4%. Customer growth would contribute an adjustment of $72,228 to 2010 OM&A.

23. VECC submits that an inflation factor of 4% for the two years is reasonable. This figure is consistent, albeit on the high side, of the Board's recent IRM findings. Again this would make an adjustment to 2010 OM&A of 72,228.

24. The cost allocation methodology change represents a further $145,000 adjustment.

25. VECC also accepts the reasonableness of two new FTEs in 2011 and 2012. However, as set out above one contributing factor to the above inflation and customer growth increase are rising average compensation levels. In VECC's submission some discipline should be applied to these rising costs. Therefore we have calculated an adjustment for the two positions at 85% of the average of the average salary and benefit costs of the Management and Union categories (excluding incentive pay) for 2012. The resulting figure is $142,700. This figure is consistent with the cost driver figure for labour provided by Grimsby at Table 4.8 (see below).

26. VECC's proposed adjustments to 2010 OM&A are set out below:

2012 OM&A Derivation		
2010 OM&A		$1,805,717
Customer Growth	4%	72,228
Inflation	4%	72,228
Cost Allocation Adjustment		140,000
2 New FTEs		142,700
		2,232,873

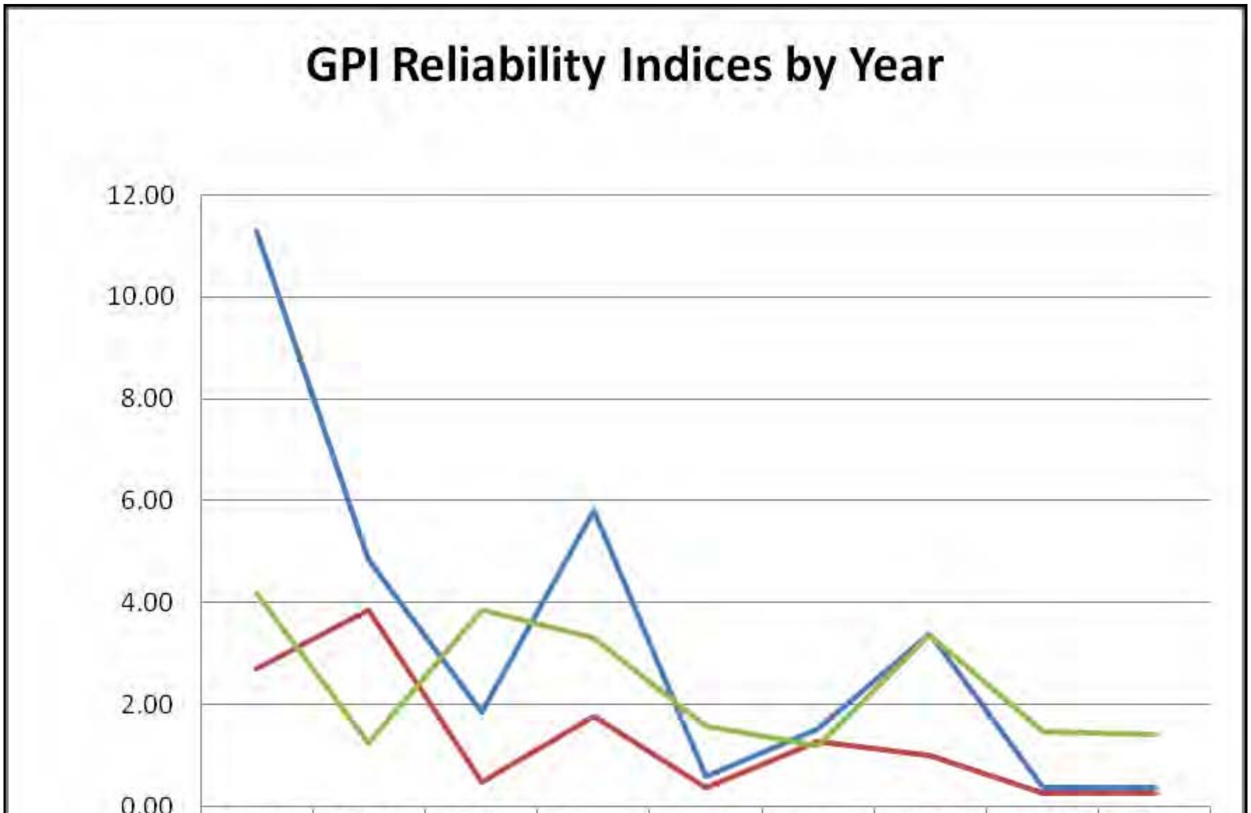
These adjustments translate into a reduction in the proposed 2012 CGAAP OM&A of $142,885.

27. VECC notes that if the Board were to adopt an adjustment of 1.5% to 2010 OM&A to recognize the high labour costs the associated OM&A figure would be approximately $2,206,000.

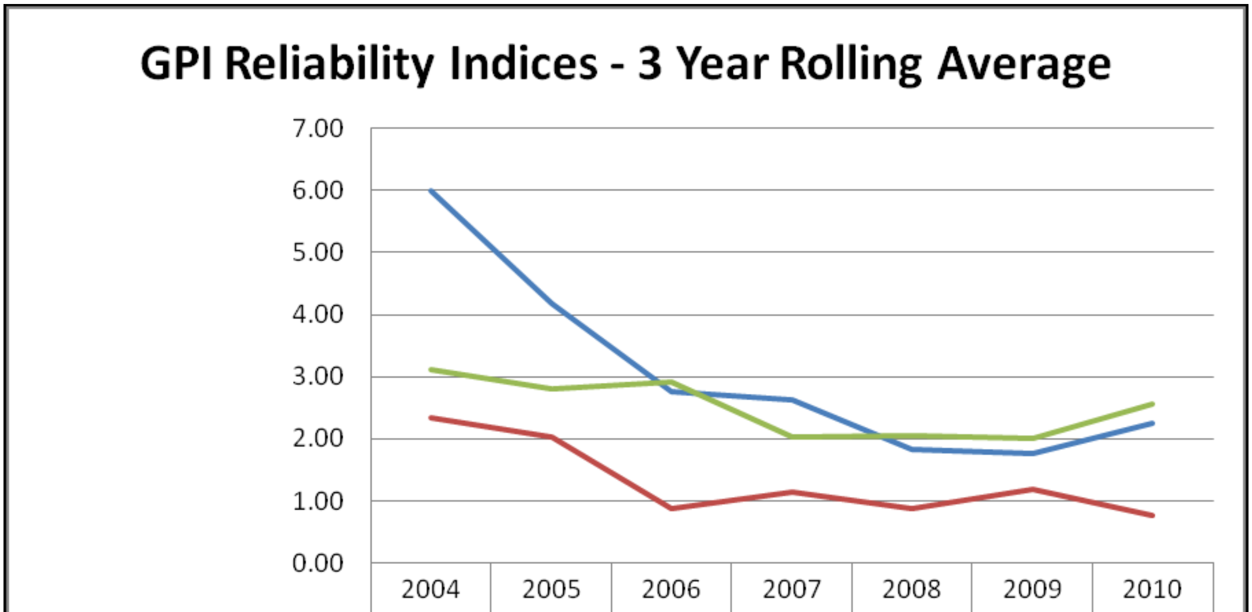
<u>Reasonableness of the proposed adjustment - Reliability</u>

28. VECC has undertaken two checks on the reasonableness of its submissions. The first is in respect to the impact of a reduction in OM&A on system reliability and asset conditions.

29. Grimbsy has filed evidence on service quality indicators at Exhibit 2, pages 15 to 18 and Appendix 2.1, pages31 and 32. Two charts from that evidence are reproduced below.



	2002	2003	2004	2005	2006	2007	2008	2009	2010
SAIDI	11.2903	4.8321	1.8603	5.8143	0.5896	1.5095	3.3876	0.3797	0.38
SAIFI	2.6926	3.854	0.4811	1.7624	0.3716	1.2715	1.0072	0.2594	0.27
CAIDI	4.1931	1.2538	3.8668	3.299	1.5868	1.1872	3.3633	1.4636	1.41



	2004	2005	2006	2007	2008	2009	2010
SAIDI (3 year Rolling Average)	5.994	4.169	2.755	2.638	1.829	1.759	2.256
SAIFI (3 Year Rolling Average)	2.343	2.033	0.872	1.135	0.883	1.179	0.776
CAIDI (3 Year Rolling Average)	3.105	2.807	2.918	2.024	2.046	2.005	2.552

30. In VECC's submission the evidence clearly shows that Grimsby has been able to operate reliably in the past. In fact, reliability statistics demonstrate an improvement during the 2006 to 2010 period.

31. Updated OM&A per customer comparison evidence can be found at Energy Probe Technical Conference IR #13. However, this data has to be adjusted to make appropriate comparisons.

32. In 2010 Grimsby OM&A per customer is shown as $178. However the 2010 OM&A is understated due to the change in cost allocation methodology; accordingly an "apples-to-apples" figure for 2010 is approximately $192 per customer once the 2010 OM&A is adjusted upwards to reflect the increased allocation to OM&A. Under Grimsby's OM&A proposal 2012 costs per customer would increase to $226.

33. The adoption of VECC's proposal would result in an OM&A per customer of $213. In VECC's submission this is well within the range Grimsby has shown it is able to operate reliably.

Reasonableness of the proposed adjustment - Specific OM&A Adjustment

34. A second check on the reasonableness of the proposed reduction is OM&A is a consideration of specific OM&A items. The Utility is best placed to make the changes and trade-offs that will be required to reduce its OM&A budget. However, in support of VECC's argument that a lower OM&A structure is achievable, sustainable and reasonable a number of specific costs are considered.

35. Table 4.8 which show the cost drivers and Table 4.9 which further breaks down by third party services, are reproduced below.

Table 4.8 Cost Driver Table Exhibit 4, page 19:

OM&A	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Bridge Year	2012 CGAAP Test Year
Opening Balance	$ 1,550,966	$ 1,509,565	$ 1,718,034	$ 1,793,136	$ 1,770,474	$ 1,805,717	$ 2,080,519
(1) Staffing (Payroll and Benefits)	-$ 87,247	$ 133,453	$ 128,757	-$ 59,703	$ 159,224	$ 58,624	$ 130,663
(2) Change in Allocation Method						$ 139,820	$ 14,314
(3) Third Party Service Providers	$ 55,001	$ 35,049	-$ 22,795	$ 11,122	-$ 120,637	$ 12,744	$ 102,507
(4) Smart Meter System Costs							$ 129,960
(5) Computer Network and Website							$ 28,568
(6) Meter Maintenance						$ 52,500	-$ 31,922
(7) LEAP Program						$ 3,974	$ 143
(8) HST Saving							-$ 18,723
(9) Remaining Balance	-$ 9,155	$ 39,967	-$ 30,860	$ 25,920	-$ 3,344	$ 7,141	$ 23,948
Closing Balance	$ 1,509,565	$ 1,718,034	$ 1,793,135	$ 1,770,475	$ 1,805,716	$ 2,080,519	$ 2,459,977

Table 4.9 Cost Drivers – Third Party Service Providers:

	2006	2007	2008	2009	2010	2011 Bridge	2012 Test CGAAP
(3) Third Party Service Providers	**55,001**	**35,049**	**-22,795**	**11,122**	**-120,637**	**12,744**	**102,507**
FortisOntario (Financial Services)	15,213	-15,213		-	-	-	-
Financial Audit Services	52,995	-12,990	-29,074	37,413	-7,287	-7,557	670
Canada Post	-	6,895	9,774	4,090	4,407	6,724	1,500
Line Contractor (Maintenance 5120 & 5125)	-	3,490	21,526	-23,460	43,848	7,557	-29,090
NPI Board Fees	-	34,537	83	-33,453	-54,525	-11,000	-
NPI Management Fees		1,110	-27,111	-3,467	-121,000		
Canadian Niagara Power (CIS Related Costs)	-	-	-	27,990	11,910	5,100	900
Health & Safety	-	-	-	-	-	11,920	11,336
Line Contractor (Maintenance 5160)							12,240
Process Meter Data							**46,000**
HR Consultant							26,880
Training							32,071

Process Meter Data

36. At Exhibit 4, page 22 Grimsby states that it currently has a number of disparate systems and service providers which enable it to process meter data. This process includes the downloading of data from interval & wholesale meters, converting this data for use in the billing system, and comparing Grimsby Power Inc. data with IESO data in the settlement process.

37. The net increase in costs of this project is approximately $46,000. However in response to Undertaking J1.3 Grimsby states that this project will replace internal labour functions. The labour savings of $52,255 are undesignated in the 2012 budget.

38. In VECC's submission while it may, as a practical matter, be difficult to reduce labour costs by $52,255, an equivalent reduction in costs should notionally occur in the areas in which the surplus labour is subsequently directed.

HR Consultant

39. In response to Energy Probe IR #20, page 35, Grimsby notes that the costs associated with the HR consultant are one-time in nature. At the hearing the Utility spoke about unspecified plans with respect to this being an ongoing cost.

40. In VECC's submission it is not apparent what, if any amounts will be spent on HR consultants after 2012. This $26,880 costs could be reduced and may in fact not be spent after 2012. A reduction of 50% in this category would not be unreasonable to reflect its' non-recurring nature.

Training

41. 2010 actual training costs were $15,970. The Utility is proposing to increase the training budget to $49,199 (see Undertaking J1.4 pg. 11). While the per-employee training costs of $2,589 are may not be excessive the total increase in one year, VECC, respectfully submits, is.

42. In VECC's submission Grimsby could reduce training costs by at least 50%.

Remaining balance

43. This amount is a simple a mathematical "catch all" for unexplained increases. In original application these unexplained costs were $23,948.

44. In VECC's submission there is no evidence for these costs. Therefore a 50% reduction would not be unreasonable.

Summary

45. VECC does not assert that the Board should dictate the OM&A for the Applicant on a line by line basis; VECC only refers to line items in order to test the reasonableness of its envelope approach to the Applicant's requested level of OM&A spending. In VECC's view, based on the evidence available to it, it would be reasonable for the Board to make reductions to the overall OM&A requested by the applicant on a CGAAP basis.

46. Accordingly VECC respectfully submits that an overall 2012 OM&A Budget of $2,232,873 (on a CGAAP basis) is appropriate.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 16th DAY OF DECEMBER 2011