May 9, 2012

**VIA EMAIL**

**PUBLIC INTEREST ADVOCACY CENTRE**

**LE CENTRE POUR LA DEFENSE DE L’INTERET PUBLIC**

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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)**

**Final Submissions - EB-2011-0293**

**Atikokan Hydro Inc. – 2012 Electricity Distribution Rate Application**

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

As per Procedural Order No. 2 we have also directed a copy to the applicant via email.

Thank you.

Yours truly,

*Original signed*

Michael Janigan

Counsel for VECC

cc: Atikokan Hydro Inc. – Wilf Thorburn - wilf.thorburn@athydro.com

**EB-2011-0293**

 **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 Atikokan Hydro Inc. pursuant to section 78 of the *Ontario Energy Board Act* for an Order or Orders approving just and reasonable rates for electricity distribution to be effective May 1, 2012.**

 **FINAL SUBMISSIONS**

 **On Behalf of The**

 **VULNERABLE ENERGY CONSUMERS COALITION (VECC)**

**May 9, 2012**

**Vulnerable Energy Consumers Coalition (VECC)**

**Final Argument**

# The Application

## These are the final submissions of VECC with respect to the issues. VECC has reviewed the submissions of Board Staff. For the sake of brevity and efficiency VECC hasnot repeated the summary of evidence in Board Staff’s submission. Submissions have been made on only on those matters where we take issue with the Applicant’s proposals or Board Staff’s submissions. For the sake of consistency we have generally followed issues format employed by Board Staff. The issues addressed in this submission are:

1 Administration/Implementation

2. Rate Base and Capital Expenditures

3. Load Forecast

4. Offsetting Revenues

5. Operating Expenses

6. Cost of Capital

7. Cost Allocation

8. Rate Design

9. Retail Transmission Service Rates

10. Rate Mitigation

11. Deferral and Variance Accounts

12. Smart Meters

13. Recovery of Reasonably Incurred Costs

*Implementation of rates*

## VECC takes no issue with the proposal for rates to be effective May 1, 2012.

*Financial Duress*

##  While VECC generally supports the submissions of Board Staff it does take issue with the characterization of Atikokan Hydro Inc. (Atikokan) as being a utility under financial duress. The comments made in Staff’s submission (see page 26) appear to be due to a note in Atikokan’s 2010 financial statements under the heading “Going Concern.” In essence the note reflects the auditors concerns due to losses Atikokan has incurred. VECC notes that the Applicant has not applied for any special consideration or relief due to reasons of financial duress. While the reasons for Atikokan’s inability to earn its regulated return remain unclear, it is the clear that the Utility has not been operating under financial duress over the past four years. In fact, it has made major discretionary expenditures on buildings, vehicles and increased its FTEs. VECC submits it would be unfair to ratepayers to explicitly or implicitly provide special consideration or relief that the Applicant has not sought and which is not supported in evidence.

# Rate Base and Capital Spending

## As noted in Board Staff’s submission the evidence on rate base was revised during the course of discovery. VECC takes no issue with the adjustments made. The historical and proposed rate bases are shown in the table below.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Description** | **2008OEBApproved** | **2008****Actual** | **2009Actual** | **2010Actual** | **2011(CGAAP)** | **2012CGAAP** | **2012MIFRS** |
| **GrossFixedAssets** | 5,032,491 | 4,621,076 | 4,804,897 | 5,169,638 | 5,239,138 | 5,750,922 | 5,750,922 |
| **AccumulatedDepreciation** | 2,483,926 | 2,691,084 | 2,830,723 | 2,936,882 | 3,117,804 | 3,319,549 | 3,250,890 |
| **NetBookValue** | 2,548,565 | 1,929,992 | 1,974,174 | 2,232,756 | 2,121,334 | 2,431,373 | 2,500,032 |
| **AverageNetBookValue** | 2,363,115 | 1,941,283 | 1,952,083 | 2,103,465 | 2,177,045 | 2,477,949 | 2,529,279225 |
| **WorkingCapital** | 2,512,539 | 2,635,828 | 2,705,895 | 2,913,853 | 3,172,906 | 3,415,637 | 3,415,637 |
| **WorkingCapitalAllowance** | 376,881 | 395,374 | 405,884 | 437,078 | 475,936 | 512,346 | 512,346 |
| **RateBase** | 2,739,996 | 2,336,658 | 2,357,967 | 2,540,543 | 2,652,981 | 2,990,294 | 3,041,625 |

## In VECC’s submission the Board should adjust rate base downward by between $8,000 and $30,000 in the calculation of rates.

## VECC makes this submissions with in light of the following (1) Atikokan changed its capitalization policy in 2012 which had the effect of increasing OM&A Administration and general expense and lowering gross fixed assets. Since 2007 Atikokan has shown an improving system reliability (excluding loss of supply). From this one can conclude that there are no imminent dangers to system operations from making a modest adjustment to rate base[[1]](#footnote-2).

## The town of Atikokan has declined in population from 3,632 in 2001 to 2,854 in 2010. The Utility’s residential customer base has declined since 2008 by one half of one percent and its larger customer class (GS >50 and Intermediate) has declined significantly from 22 customers in 2008 to a projected 15 in 2012[[2]](#footnote-3).

## Atikokan will have just 1,675 paying customers (including the municipality) in 2012.

## After adjusting for the impact of smart meters, on a CGAAP basis the fixed asset growth of Atikokan has been 7% as measured from the 2008 Board approved amount[[3]](#footnote-4).

## Between 2008 and 2012 Atikokan spent $392k on buildings and office furniture (excluding computer related items), $342k on trucks, and only $315k on distribution plant (poles, station equipment, line transformers and meters). Some offsetting income is derived from use of equipment but this income is forecast to decline from $85,125 in 2010 to $55,000 in 2011 and 2012.[[4]](#footnote-5)

## In summary, despite a declining customer base and the loss of major customers more than two thirds of the spending on fixed assets during the past four years has been on buildings or trucks. In VECC’s submission this leads to the question as to whether spending 2/3 of capital on non-distribution plan is prudent in light of the revenue requirements of Atikokan and to serve its declining customer base.

## Two areas suggested for downward adjustment in 2012 are accounts 1908 (Building and Fixtures) and a reduction in account 1940 (Tools and Garage Equipment). VECC notes in respect to account 1940 the amount requested in 2012 is $16,500 the amounts of expenditures are three times the average expenditure of the past four years. VECC questions the need for a further $8,500 in spending on buildings in 2012. Finally, based on the explanation provided in response to VECC IR # 4 there is room for a reduction in the computer budget for 2012 of $20,000 (12,000 for hardware and $8,000 for software)

## *Working Capital*

## VECC submits that Atikokan should be required to use the working capital amount of 13% as outlined in the Board’s direction on April 12, 2012. VECC has consistently argued that a default value of 15% of the cost of power and controllable expenses is excessive to the needs of most utilities. This has been borne out by the various lead-lag studies that have been submitted before the Board over the past two years. VECC also notes that Atikokan utilizes monthly rather than bimonthly billing implicitly lowering its working capital requirements.

# Load Forecast

*Load Forecast Methodology*

## Atikokan’s load forecast methodology consists of the following steps[[5]](#footnote-6):

* First, develop a weather normal forecast for total system purchases using a multifactor regression model that incorporates historical weather and customer-related variables for the historical period May 2002 to April 2011.
* Second, adjust the results by a historical loss factor to produce a weather normalized billed energy forecast.
* Third, forecast the number of customers by rate class using a geometric mean analysis for the years 2003-2010[[6]](#footnote-7).
* Fourth, a non-weather normalized forecast of billed energy by rate class is developed using forecast customer counts and trends in average use per customer.
* Fifth, for weather sensitive customer classes (Residential, GS<50 and GS>50), these forecasts are adjusted such that the forecast of total billed energy matches that from Step #2.
* The resulting forecast by class is then adjusted for the anticipated 2011 CDM savings associated with the recent CDM targets set by the Board[[7]](#footnote-8).

## VECC does not have any issues with the overall approach taken by Atikokan nor with the multifactor regression model that it has developed. The model has a high Adjusted R-Squared value and all the proposed explanatory variables are both statistically significant and have intuitively correct coefficients[[8]](#footnote-9).

## VECC notes that in its submissions Board Staff has suggested that the Board adopt an alternative forecast for Atikokan’s 2012 purchased energy based on a regression model that excludes the Intermediate class loads from the historical analysis[[9]](#footnote-10). VECC disagrees. The model adopted by Atikokan specifically addresses the loss of the Intermediate customer through the use of a “class flag” variable[[10]](#footnote-11). Furthermore, the model used by Atikokan does a much better job of explaining the year to year changes in the utility’s historical energy purchases which included years (2009 and 2010) for which there was no intermediate customer[[11]](#footnote-12). Finally, as noted below, the resulting forecast is reasonable relative to the actual 2009 and 2010 weather normalized values.

*2012 Load Forecast - Volumes*

## Overall, the total billed energy for 2011 is forecast to be 23.6 GWh, based on a purchased energy forecast of 25.6GWh (before any CDM adjustment), a loss conversion factor of 7.42% and a CDM adjustment of 0.2 GWh[[12]](#footnote-13) in billed energy. VECC notes that the purchased energy forecast for 2012 (prior to any CDM adjustment) is slightly less than the weather adjusted sales values for 2009 and 2010 (25.7 GWh and 25.8 GWh respectively[[13]](#footnote-14)) which is as one would expect given the slight decline in forecast customer count[[14]](#footnote-15).

## VECC’s only issue regarding Atikokan’s 2011 billed energy forecast is its proposed CDM adjustment. VECC notes that the CDM savings of 0.2 GWh for 2012 assume ongoing savings of 0.1 GWh from 2011 programs and a further 0.1 GWh of savings in 2012 from 2012 programs. However, as of mid-year 2011 Atikokan had not achieved any savings from its 2011 CDM programs[[15]](#footnote-16). As a result, VECC has concerns regarding the reasonableness of Atikokan’s 0.2 GWh adjustment for 2012. However, given the LRAM true-up process established in the Board’s recently released CDM Guidelines[[16]](#footnote-17), VECC does not see any need to alter Atikokan’s proposed 2012 CDM adjustment provided Atikokan commits to/is required to establish an LRAM variance account as set out in the Guidelines. Otherwise, in VECC’s view a reduction to 0.1 GWh of CDM savings should be adopted to recognize both the under-achievement in 2011 and the fact that any programs introduced in 2012 will not have a full year’s effect in that year.

*2012 Load Forecast – Customer Count*

## Atikokan’s forecast of customer counts calls for a slight decline in the number of GS<50[[17]](#footnote-18) and GS>50 customers between 2010 and 2012 while the number of Residential and Street Lighting customers/connections remains constant. In response to VECC Round 1 - #6 a)Atikokan has provided its actual customer count for the 2011 year end. While the values differ slightly from forecast, Atikokan has indicated that it is not revising its customer count forecast[[18]](#footnote-19). Given the slight variation by class and the fact the total customer count is virtually on forecast VECC agrees that the 2012 customer count, as forecast by Atikokan, should be adopted for purposes of setting 2012 rates.

# Revenue Offsets

## The projected 2012 revenue offsets are $125,235[[19]](#footnote-20). VECC’s only issue with Atikokan’s forecast is that it does not include any anticipated revenues from MicroFit Service Charges[[20]](#footnote-21). While the additional revenue is small ($550.10), it is a simple matter to include it.

# Operating Costs

**Modified Table4.1 Exhibit 4, Tab 1, Schedule 1,**

**(Adjustedby VECC IR # 15 /Board Staff IR #36)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Description | 2008BoardApproved | 2008Actual | 2009Actual | 2010Actual | 2011Unaudited (VECC IR # 15) | 2012BridgeYear |
| Operations | 311,895 | 296,121 | 322,006 | 332,111 | 226,314 | 418,349 |
| Maintenance | 38,800 | 88,816 | 41,928 | 51,665 | 53,367 | 53,177 |
| Billing&Collecting | 170,950 | 168,981 | 159,760 | 130,786 | 128,752 | 153,170 |
| Community Relations | - | - | - | - | - | - |
| Administrative&GeneralExpenses | 287,400 | 291,106 | 357,989 | 486,151 | 540,342 | 550,455 |
| OMERS Adjustment (Board Staff IR#36) |  |  |  |  |  | 45,229 |
| TotalOM&AExpense | 809,045 | 845,024 | 881,683 | 1,000,713 | 948,775 | 1,220,380 |
| YearoverYearIncrease |  | 4.45% | 4.34% | 13.50% | -5.19% |  28.6% |
| Increase from2008Board Approved |  |  |  |  |  | 33.7% |
| Inflation Rate(CanadaCPI) |  | 2.37% | 0.30% | 1.78% | 2.98% | 2.98% |

## VECC is in general agreement with the submissions on OM&A made by Board Staff. The proposed OM&A spending for 2012 is significantly in excess of the actual amount spent in 2011 and higher than should be expected from the last Board approved.

## Atikokan has a significantly higher OM&A cost per customer than any of its cohorts.In 2010 the OM&A cost per customer was $434. In 2012 this will rise to $531. By comparison in 2010 the cohort of utilities had an average OM&A cost per customer of $381.[[21]](#footnote-22)

## VECC has taken an approach that starts with the last Board approved OM&A (2008). The increase in costs that be expected due to inflation and customer growth is then added to this number. Finally, costs related to incremental responsibilities or unavoidable costs are added to find an estimate of the expected 2012 OM&A

## Based on the inflation figures provided in evidence by the by the Applicant one would expect cost inflation for the period 2008 to 2012 to account for an increase in OM&A of approximately 10.5%[[22]](#footnote-23). Customer growth during this period has declined by at least ½%. VECC accepts that a utility might find it difficult to make downward adjustment in costs due to declining customer attachments. However, even allowing for 0% customer growth one would expect OM&A to have increased by no more than $85,000due to inflationary pressures. The resulting OM&A would be $894,045.

## VECC accepts that the $45,229 of incremental pension costs is reasonable. This adjustment would increase the 2012 OM&A to $939,274.

## Atikokan has stated that there is no change in OM&A due to the move to MIFRS. However, the change in capitalization policy has resulted in a change in the amount of OM&A capitalized. In response to VECC IR #13 Atikokan stated this change resulted in an increase in OM&A in 2009 of $93,565 and of $75,470 in 2010. However, a review of Table 4-24 shows that the amount of compensation capitalized has remained relatively constant since 2008. [[23]](#footnote-24)The contradictory nature of the evidence makes it difficult to make an accurate assessment of the impact on OM&A from the change in capitalization policy. However, even a generous adjustment of $85,000 (mid-point of 2009 and 2010) would increase OM&A for 2012 only to $1,024,274.

## About $75,000 of increase is related to increase in compensationE4/T2/S6/p3) However, the increase of 9 FTE’s in 2012 from 8 in 2011 is a temporary one.[[24]](#footnote-25)VECC submits that there is no compelling evidence to support a permanent increase in FTEs. Atikokan has stated that the incremental cost for 2012 for the concurrent employment of two lineman is $30,000.[[25]](#footnote-26)

## No adjustment should be made to OM&A for incremental smart meter costs. Further submissions on this issue are made in Section 12 below.

## Regulatory costs have increased significantly and arepredominantly due to the filing of this application. The breakdown of costs are: $30,000 legal; $140,000 consulting; $20,000 intervenor and $10,000 in Board costs. Based on VECC’s own estimate of its costs as compared to the amount allowed by Atikokan ($20,000) it would be reasonable to reduce these costs by 15%. This would reduce OM&A expenditures by $7,500.[[26]](#footnote-27)

## Bad debt costs should also be reduced. Atikokan has indicated that the bad debt expense is based on the 2008-10 average. However, this amount could be reduced by $1,500 to be closer in line with 2011 actual bad debt expense[[27]](#footnote-28)

## Taking into account these cost reductions would give an 2012 OM&A of $1,045,274. In round figures VECC would submit a reasonable OM&A for Atikokan be in the range of $1,025,000 and $1,065,000.

*Depreciation*

## In VECC’s submission Atikokan should be required to use the typical lives found in the Kinetrics Study. The changes due to this adjustment are set out below[[28]](#footnote-29). Atikokan offered no evidence in support of its changes to useful lives. Maintaining the standard Kinetrics useful lives is consistent with other utilities who have not undertaken their own asset study.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Account | Description | AverageUsefulLifeofIndividualComponentsassumedintheApplication | DepreciationExpense | AverageTypicalUsefulLifeofIndividualComponents(Kinetrics) | DepreciationUsingKinetricsTypicalUsefulLives | Difference |
| 1820 | DistributionStationEquipment<50kV | 45 | $14,660 | 50 | $14,353 | ($307) |
| 1830 | Poles,Towers&Fixtures | 45 | $62,485 | 45 | $62,485 | $0 |
| 1850 | LineTransformers | 45 | $4,971 | 40 | $6,789 | $1,818 |
|  | Total |  | $82,116 |  | $83,627 | $1,511 |

# Cost of Capital/Capital Structure

## VECC supports the submissions of Board staff with respect to cost of capital.

# Cost Allocation

## *Cost Allocation Methodology*

## As part of its Application, Atikokan filed the results of a 2012 cost allocation study. The study utilized the Board’s new Cost Allocation model and incorporated revised weighting factors for Billing & Collecting, Meter Reading and Meter Capital[[29]](#footnote-30). In response to interrogatories Atikokan refined its allocation factors for meter capital to reflect the different types of smart meters used and updated its 2012 cost allocation results[[30]](#footnote-31). The following table sets out the results of Atikokan’s updated cost allocation.

|  |
| --- |
| **REVENUE TO COST RATIOS – 2012 Updated Results** |
| **Customer Class** | **2012 Revenue to Cost Ratios** |
| Residential | 97.3% |
| GS<50 | 128.8%% |
| GS>50 | 89.0%% |
| Street Lights | 75.8% |
| Total | 100.0% |

## Sources: VECC IR Round #2 - #5 a)

## In VECC’s view Atikokan’s updated cost allocation represents a proper application the Board’s cost allocation methodology and the above results are the appropriate starting point for any consideration of adjustments to customer class revenue to cost ratios.

*Use of the Cost Allocation Study Results in Setting 2012 Rates*

## The revenue to cost ratios from the updated Cost Allocation study all fall within the Board’s recommended ranges with the exception of the GS<50 class (which is above the 120% ceiling).In its response to VECC’s interrogatories Atikokan revised its originally proposed revenue to cost ratios for 2012 and is now proposing[[31]](#footnote-32) to:

## Decrease the GS<50 ratio to 120%, and,

## Increase both the GS>50 and Street Lighting ratios to 90.6% (in order to maintain the same overall revenues)

## Hold the Residential ratio unchanged at 97.3%

In the subsequent years (2013 and 2014), Atikokan proposes to maintain the same values for each customer class’ revenue to cost ratio.

## VECC submits Atikokan’s proposals are consistent with previous Board Decisions[[32]](#footnote-33) and that the Board should accept Atikokan’s proposed revenue to cost ratios for both 2012 and the subsequent years.

# Rate Design

*Base Distribution Rates*

## For 2012Atikokan proposes to maintain the current fixed/variable split proportions for each customer class[[33]](#footnote-34). Based on the original cost allocation results as filed with the Application, both the current 2011 and the resulting 2012 service charges (based on maintaining the current fixed/variable proportions) for each of the GS<50 and GS>50 classes are greater than the upper limit of range for the monthly service charge (MSC) for these classes as established by the Board’s November 2007 Report of the Board – Application of Cost Allocation for Electricity Distributors (EB-2007-0667). The relevant values for these classes are set out in the following table.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2011 MSC** | **Proposed 2012 MSC** | **Customer Unit Cost / Month - Minimum System with PLCC** |
| GS<50 | $70.02 | $82.46 | $44.62 |
| GS>50 | $440.74 | $587.88 | $399.09 |

## Source: Exhibit 8/Tab 1/Schedule 1, page 3

## The Utility has not provided its proposed monthly service charges based on its revised revenue to cost ratio proposals and updated 2012 revenue requirement. However, in all likelihood, the proposed MSC values for these two classes will continue to exceed the upper limit of the range established by the Board.

## In VECC’s view Atikokan’s approach is inconsistent with the November 2007 Report of the Board – Application of Cost Allocation for Electricity Distributors (EB-2007-0667). In that report[[34]](#footnote-35) the Board noted that the Cost Allocation methodology “set a ceiling for the MSC (Monthly Service Charge)”; stated that it considered it to be inappropriate to make significant changes to that ceiling (as had been proposed by Board Staff) and, most importantly, concluded that:

### “The Board does not expect distributors to make changes to the MSC that result in a charge that is greater than the ceiling as defined in the Methodology for the MSC. Distributors that are currently above this value are not required to make changes to their current MSC to bring it to or below this value at this time”

## VECC submits that the direction of the Board in its November 2007 Report was clear that in cases where the current MSC is below the ceiling set by the Cost Allocation methodology the distributor was not to make any changes such that the resulting MSC would exceed the ceiling. VECC also submits that while distributors were not required to reduce MSC values that already exceeded the “ceiling”, it is inconsistent with the direction contained in the Board’s Report to further increase MSC values that are already in excess of the ceiling. In VECC’s view, the MSC value in such cases should be maintained at the existing level. For Atikokan this would result in 2012 MSC values for the GS<50 and GS>50 classes of $70.02 and $440.74 respectively.

## *Loss Factors*

## Atikokan proposes to set its Total Loss Adjustment Factor at 7.78% which reflects its average loss factor over the years 2006-2010[[35]](#footnote-36). This value is slightly more than its currently approved loss factor of 7.53%[[36]](#footnote-37). Atikokan’s distribution loss factors have increased significantly since 2007. However, Atikokan is unable to explain the increase due to a change in its billing systems[[37]](#footnote-38). VECC is concerned about the historic increase in loss factors, but notes that there is a subsequent decline starting in 2010. Given that the proposed loss factor represents only a nominal increase over the current value and in the absence of any better approach VECC submits that the Board should adopt Atikokan’s proposed loss factor. However, Atikokan should be “put on notice” that the loss factor issue will be followed-up on in its next cost of service proceeding.

*Transformer Ownership Allowance (TOA)*

## In its original Application Atikokan proposed to maintain its transformer ownership allowance at $0.17 / kW[[38]](#footnote-39). Subsequently, in response to interrogatories, Atikokan revised it proposed Transformer Ownership Allowance to$0.24 / kW, which represents 10% of it proposed GS>50 variable charge[[39]](#footnote-40). Then, in its Argument-in-Chief, the utility revised its proposal once again to $0.31 / kW based on the results of its 2012 cost allocation model. VECC notes that this value is based on the original cost allocation filing and the revised filing produces a value of $0.29 / kW value for the unit cost of transformers. VECC accepts Atikokan’s proposal to base the TOA on the results of the cost allocation model. However, VECC submits that the value adopted for 2012 should be based on a cost allocation model that reflects the revenue requirement and load forecast as ultimately approved by the Board.

# Retail Transmission Service Rates

## In its response to interrogatories Atikokan has updated its proposed 2012 RTSRs using the 2012 approved UTR values and the Board’s 2012 RTSR Adjustment Work Form[[40]](#footnote-41). VECC submits that these revised RTSRs should be approved for 2012.

# Rate Mitigation

## Based on the original Application the typical monthly Residential bill would have increased by 22.5%[[41]](#footnote-42). As result, Atikokan’s Application[[42]](#footnote-43) included a rate mitigation plan that consisted of two components:

* A rate mitigation rate rider to limit the Residential bill impacts to just under 10% for a customer using 800 kWh / month.
* Deferral of the disposition of the 2010 Group 1 and 2 deferral and variance account balances until the 2013 IRM application. The disposition deferral was also justified by the fact that the related balances were currently undergoing an audit review by Board Staff and could therefore be subject to change.

## In its response to interrogatories Atikokan revised its rate mitigation plan such that the rate mitigation rate rider would limit the bill impact to 10% for a Residential customer using 581 kWh / month as this represented the average Residential use per month for Atikokan’s customers[[43]](#footnote-44).

## VECC submits that Atikokan’s rate mitigation plan is reasonable, consistent with previous Board Decisions[[44]](#footnote-45) and should be accepted by the Board.

# Deferral and Variance Accounts

## *2006-2009 Cost Assessment and OMERs Balances*

## Board staff has provided a comprehensive and clear picture of the important issues in respect to the balance and clearance of Atikokan’s Account 1508. Staff provides two options – to disallow the balances (option 1) or to clear the accounts (option 2). The amount of $159,039 is not immaterial given the customer base of Atikokan.

## In VECC’s submission Atikokan should not be required to absorb the entire cost of its failure to fully comprehend the regulatory accounting scheme. Both the Utility and the Regulator share responsibility for this error. Small utilities, like Atikokan, are more at risk in trying to meet myriad of regulatory rules set by a number of agencies and governments. The OEB is responsible for communicating its requirements and is resourced to subsequently monitor and audit “at risk” utilities like Atikokan. It is unfortunate that the error was not uncovered earlier and its discovery in this proceeding demonstrates the on-going value of public hearings to scrutinize utility costs.

## In VECC’s submission Atikokan should recovery of only a portion of these costs. This solution recognizes the failed responsibility of Atikokan while avoiding taking punitive action for what amounts to an administrative error.

## Issues of intergenerational inequities are magnified in this case because of the decline in customers since 2006. A simple allocation of these costs would result in the remaining customers absorbing the costs for those customers who have left the system. To address this issue and to determine a fair proportion of costs to be recovered by Atikokan, VECC a proration of the amounts based on the2006 customer count. The first step in this process would be to allocate the entire amount based on 2006 customer numbers and volumes. Since the GS > 50 class has lost approximately 28% of its customers since 2006 the amount recoverable by this class would then be reduced this amount. Likewise the intermediate class would be allocated an amount given there was one customer in that class in 2006. As there are no customers currently in this class these costs would not be recovered by Atikokan.

# Smart Meters

## VECC agrees with the submissions of Board Staff in respect to Smart Meters. We will not repeat the comprehensive summary provide by Staff, but would reiterate their conclusion that both the capital and operation costs of Atikokan’s smart meter program are abnormally high.

## VECC also agrees that some disallowance should be made to the smart meter costs. However, the 20% suggested by Staff is arbitrary. In VECC’s submission Atikokan should be allowed the average costs of its cohort of utilities[[45]](#footnote-46). In the alternative the Board should undertake an audit of the smart meter program of Atikokan and report publicly its findings. Parties should then be able to make submissions on an appropriate recovery amount.

## This would mean a delay in the recovery of costs. VECC submits that in the interim Atikokan should be allowed to recover 50% of its proposed smart meter costs.

## The remaining amounts should be recovered after the Board has considered the smart meter costs of Atikokan’s cohort of utilities or until an audit of the smart meter program has been performed by the Board.

## VECC submits that any smart meter disposition should be in accordance with the revised class specific methodology submitted by Atikokan[[46]](#footnote-47).

# Recovery of Reasonably Incurred Costs

## VECC submits that its participation in this proceeding has been focused and responsible. Accordingly, VECC requests an award of costs in the amount of 100% of its reasonably-incurred fees and disbursements.

## All of which is respectfully submitted this 9th day of May 2012.

1. Exhibit 2, Tab 1, Schedule 1, page 2; Exhibit 2, Tab 1, Schedule 1, page 11. [↑](#footnote-ref-2)
2. Exhibit 2, Tab 1, Schedule 2, page 2 and Exhibit 3, Tab 2, Schedule 1, page 4. [↑](#footnote-ref-3)
3. The adjustments for smart meters are shown at Exhibit2, Tab 2 Schedule 1, page 11 and equal an amount of $367,813 in accounts 1860 and 1920. [↑](#footnote-ref-4)
4. Exhibit 2, Tab 1, Schedule 2, page 3 Table 2-8; Exhibit 2, Tab 2, Schedule 2, page 1 Table 2-21; and Board Staff IR #11. [↑](#footnote-ref-5)
5. Exhibit 3/Tab 2/Schedule 1, pages 6 [↑](#footnote-ref-6)
6. Exhibit 3/Tab 2/Schedule 1. A manual adjustment was made to reflect the reclassification of 6 customers from GS.50 to GS<50. Also, the number of Residential customers was held constant at 2010 levels. [↑](#footnote-ref-7)
7. Exhibit 3/T5ab 2/Schedue 1, page 14 [↑](#footnote-ref-8)
8. Exhibit 3/Tab 2/Schedule 1, pages 7-8 [↑](#footnote-ref-9)
9. Staff Submissions, page 6 [↑](#footnote-ref-10)
10. VECC IR #1 - #5 a) [↑](#footnote-ref-11)
11. Atikokan’s proposed model has an adjusted-R2 value of 94.9% (Exhibit 3/Tab 2/Schedule 1, page 8) whereas the value for the alternative model is only 74% (VECC IR #1 - #5 b) [↑](#footnote-ref-12)
12. Exhibit 3/Tab 2/Schedule 1, pages 9 and 14 [↑](#footnote-ref-13)
13. VECC IR Round #1 - #9 a) [↑](#footnote-ref-14)
14. Exhibit 3/Tab 3/Schedule 1, page 11 [↑](#footnote-ref-15)
15. VECC IR Round #2 - #2 a) [↑](#footnote-ref-16)
16. EB-2012-0003, April 26, 2012, page 11 [↑](#footnote-ref-17)
17. Prior to the reclassification of existing customers per Exhibit 3/Tab 2/Schedule 1, page 11 [↑](#footnote-ref-18)
18. VECC IR Round #2 - #1 a) [↑](#footnote-ref-19)
19. Exhibit 3/Tab 3/Schedule 3, page 3 [↑](#footnote-ref-20)
20. VECC IR Round #1 - #12 b) [↑](#footnote-ref-21)
21. See VECC IR #18 and Exhibit 4, Tab 2¸Schedule 3, page 15. [↑](#footnote-ref-22)
22. The inflation rates used by Atikokan are found at Table 4-1, Exhibit 4, Tab 1, Schedule 1, page 1. [↑](#footnote-ref-23)
23. VECC IR #13; Board Staff IR #52; Exhibit 4, Tab 2, Schedule 6, page 3. [↑](#footnote-ref-24)
24. VECC IR #20; Board Staff IR #13; Exhibit 4, Tab 2, Schedule 6, page 3. [↑](#footnote-ref-25)
25. Board Staff IR#13 [↑](#footnote-ref-26)
26. Board Staff IR # 12; Exhibit 4, Tab 2, Schedule 3, page 15, Table 4-21. [↑](#footnote-ref-27)
27. VECC IR #16, Board staff IR #61 [↑](#footnote-ref-28)
28. VECC IR #9; Board Staff IR #49 [↑](#footnote-ref-29)
29. Exhibit 7/Tab 1/Schedule 1, pages 1-2 [↑](#footnote-ref-30)
30. VECC IR Round #1 - #21 a) – d) [↑](#footnote-ref-31)
31. VECC IR Round #2 - #5 a) & c) [↑](#footnote-ref-32)
32. Board Decision EB-2010-0131, page 43 [↑](#footnote-ref-33)
33. Exhibit 8/Tab 1/Schedule 1, page 3 [↑](#footnote-ref-34)
34. Page 12-13 [↑](#footnote-ref-35)
35. Exhibit 8/Tab 1/Schedule 3, page 1 [↑](#footnote-ref-36)
36. Exhibit 8/Tab 1/Schedule 5, page9 [↑](#footnote-ref-37)
37. Board Staff IR #22 a) [↑](#footnote-ref-38)
38. Exhibit 8/Tab 1/Schedule 1, page 4 [↑](#footnote-ref-39)
39. VECC IR Round #2 - #6 and OEB #21 [↑](#footnote-ref-40)
40. VECC IR Round #1 - #22 [↑](#footnote-ref-41)
41. VECC IR Round #1 - #23 b) [↑](#footnote-ref-42)
42. Exhibit 8/Tab 1/Schedule 4, page 1 [↑](#footnote-ref-43)
43. OEB Staff IR #24 a) & b) [↑](#footnote-ref-44)
44. Exhibit 8/Tab 1/Schedule 4,page 1 [↑](#footnote-ref-45)
45. These can be found in response to VECC IR # 18. [↑](#footnote-ref-46)
46. Board Staff IR # 42. [↑](#footnote-ref-47)