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April 8, 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)
Final Submissions: EB-2007-0901
Espanola Regional Hydro Corporation – 2008 Electricity Distribution Rate Application

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

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

EB-2007-0901

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 Espanola Regional Hydro Distribution Corporation 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)

April 8, 2008

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Vulnerable Energy Consumers Coalition (VECC)

Final Argument

1 The Application

1.1 On November 6, 2007 Espanola Regional Hydro Distribution Corporation ("ERHDC") submitted an Application to the Ontario Energy Board for approval of its proposed 2008 distribution rates. This application is based on a projected 2008 Total Service Revenue Requirement [1] of $1,340,404 which, after an allowance of $146,652 for revenue from other sources, leaves $1,193,752 to be recovered through distribution rates. Excluded from this amount is the "cost" of the transformer ownership allowance[2] ($12,958).

1.2 Distribution revenues for 2008 at current rates (excluding the smart meter and LV rate adders and prior to the transformer allowance) would produce base revenues of $1,115,796[3] yielding a difference of $77,956 or 7%.

1.3 Also included in the Application are requests for Smart Meter and LV rates adders as well as 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 ERHDC's Application.

[1] Exhibit 9, page 2
[2] VECC #18 a)
[3] VECC #17 e)

2 Rate Base and Capital Spending

Capital Spending

2.1 ERHDC's capital spending for 2007 and 2008 is driven primarily by[4]:

- Customer Demand Projects (New/Upgraded Services),
- Replacement of Distribution Station Equipment, and
- Replacement of Poles and Wires.

2.2 VECC has no submissions regarding the quantum of spending on Customer Demand Projects. VECC is concerned that while ERHDC has included over $30,000 in spending on overhead wires based on customer demand there is no provision for any capital contributions[5]. In 2006, actual capital contributions represented 6.5% of capital spending on Services. VECC submits that the Board should include a nominal 5% allowance for capital contributions which would amount to roughly $1,500.

2.3 ERHDC has explained the need for the proposed spending on distribution station equipment[6] and VECC has no submissions.

2.4 With respect to the spending on replacement of poles and conduit (underground), in both cases ERHDC is proposing a significant increase in spending for 2008 and suggests that the 2008 spending is less than what will be required in the future. However, at the same time, ERHDC is just now initiating asset condition assessments for these assets[7]. As a result, VECC questions the validity of ERHDC's assertions that: a) sustaining investment in pole replacement will need to target 40 poles per year and b) the long term target for annual sustaining reinvestment in underground conduit will be double 2008 spending levels. Indeed, it appears that, in establishing the higher 2008 spending levels, ERHDC has pre-

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[4] Exhibit 2, pages 27-28
[5] VECC #7 e)
[6] VECC #7 f)
[7] VECC #7 a) & g)

judged the outcome of its 2008 asset condition assessment studies.

2.5 VECC submits that ERHDC should be directed to file its asset condition assessment studies and resulting asset replacement plan with the Board prior to the end of 2008. If the results are materially different from those presented in the Application, the issue can be addressed as part of the 2009 rate approval process.

Rate Base

2.6 Rate Base consists of Net Fixed Assets plus an allowance for Working Capital. In determining Working Capital ERHDC has used 15% of OM&A plus Cost of Power and has used $55 / MWh to determine the commodity portion of Cost of Power[8]. No explanation was provided as to the source of this value. However, VECC notes it is reasonably close to the most recent forecast available from Navigant of over $54 / MWh[9].

2.7 With respect to the forecast cost for Wholesale Market Services and Transmission (Networks and Connection), ERHDC is projecting increases over 2007 for all three components, with the highest being 22% for Connection Service[10]. However, ERHDC is forecasting that sales to retail customers will decline slightly in 2008[11]. VECC submits that based on this lower sales forecast plus the fact that Hydro One Networks is applying for a reduction in its Retail Transmission Service rates the cost to ERHDC for Transmission and Wholesale Market Services should be going down in 2008 – not up. The Board should direct EHRDC to adjust these components of its working capital calculation accordingly.

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[8] OEB Staff #16
[9] www.oeb.gov.on.ca/documents/cases/EB-2004-0205/rpp-nci_wholesaleelectricypriceforecastreport_20071012.pdf - page 2. Where HOEP for 2008 is projected to be in the order of $0.054 / kWh.
[10] VECC #8 b)
[11] Exhibit 3, page 9

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

Load Forecast

3.1 ERHDC has used 2004 weather normalized load data developed by Hydro One Networks to establish a weather-normalized average customer use for each weather-sensitive 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)[12]. For unmetered loads (Street Lighting, Sentinel Lighting and USL), 2006 actual average use per connection was applied to the forecasted number of 2008 connections[13]. VECC has no submissions with respect to ERHDC's load forecast.

3.2 Board Staff has expressed concerns regarding the fact that ERHDC's approach relies on a single year of weather-normalized historical data to determine future load[14]. VECC has similar concerns, which it has already expressed in submissions made regarding other electricity distributors' 2008 rates. However, in the short-term it is not clear to VECC that a better alternative exists.

Other Revenues

3.3 VECC has no submissions with respect to ERHDC's Other Revenues forecast. The reduction in revenues between 2006 actual and 2008 forecast is primarily due to a reduction in the work performed for other utilities[15].

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[12] OEB Staff #25 a)
[13] OEB Staff #25 b)
[14] OEB Staff Submissions, page 13
[15] OEB Staff #23 d)

4 Operating Costs

OM&A – General

4.1 In response to Board Staff Information Request #6 ERHDC has provided an explanation of the change in OM&A costs (excluding all taxes) from 2006 to 2008. As mentioned earlier, Other Revenues declined between 2006 and 2008 due to a reduction in the work performed for other utilities. The total reduction over the two years is roughly $23,000. VECC is surprised that there is no reported offsetting reduction in OM&A costs over the same period. ERHDC is invited to explain this inconsistency in its reply submissions.

4.2 Staff Submissions[16] have expressed concerns regarding the increase in cost arising apparently from the Management Services agreement with PUC Services Inc. which commenced on January 1, 2006. In response to VECC's Information Request #4, ERHDC provided a copy of its Management Service Agreement with PUC Services which indicates an initial cost of $132,400 plus future inflationary adjustments. ERHDC suggests that this cost would be less than that of hiring an actual manager plus consultants to support regulatory requirements. However, it appears that the contract itself excludes[17] the cost many regulatory activities outlined the process it went through in selecting PUC Services. As a result, VECC submits that it is important for ERHDC to respond to Board Staff's request for further justification of this expense.

[16] Page 5
[17] See response to VECC IR's page 6 of 62

5 Cost of Capital/Capital Structure

5.1 VECC notes that the Capital Structure and Cost of Equity proposed by ERHDC consistent with the direction of the Board in its Report on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors. The only issue VECC would note is the proposed cost of long term debt.

5.2 ERHDC's current long term debt is held by the municipal corporations and carries a rate of 5%[18]. ERHDC has indicated that there are plans to restructure this debt and revise the rate to 5.82%[19]. In VECC's view the proposed rate of 5.82% is appropriate – provided the debt restructuring is still on track to occur in 2008. Otherwise, the rate should be 5%.

6 Deferral and Variance Accounts

New Deferral Accounts Requested

6.1 ERHDC has requested[20] two new deferral/variance accounts related to:

- The MDMR (Meter Data Management Repository), and
- The Late Payment Action Suit.

6.2 The issues being addressed by these proposed accounts are not unique to ERHDC but are issues/costs that could impact all electricity distributors in the Province. However, in each case it is not clear – at this point in time – whether a deferral/variance account will be required to address the related matter. In VECC's view it is pre-mature to approve these deferral/variance accounts at this point in time. Should the need arise, the Board can authorize the creation and use of such accounts on an industry wide basis and establish a common set of rules for use of the accounts at that time. VECC submits that for issues such as those identified above this is the best way to approach the matter, as opposed to on a

[18] Exhibit 1, page 74
[19] Exhibit 6, page 4
[20] Exhibit 1, page 31

piece-meal utility by utility basis.

Balances in Existing Accounts

6.3 VECC notes the concerns by Board Staff[21] regarding the balance in Accounts #1508, #1550 and #1586. In VECC's view any questions regarding the appropriateness of the balances (including interest calculations) need to be resolved before they are disposed of.

Account #1590

6.4 In its Application, ERHDC is proposing to clear the forecast April 30, 2008 balance in Account #1590[22]. VECC submits that this approach is inconsistent with the Board's Phase 2 Decision regarding the Recovery of Regulatory Assets. In that Decision, the OEB stated that any residual in Account #1590 would be cleared after April 30, 2008.

7 Cost Allocation

7.1 ERHDC has provided the Revenue to Cost ratios (RCR) resulting from its 2006 Cost Allocation informational filing[23]. Based on these results and the Board's November 2007 Guidelines, the customer classes requiring rebalancing are the GS>50 kW, Street Lighting and Sentinel Light classes where the RCR's are below the Guidelines. Furthermore, any revenues gained by the rebalancing should be shared between the Residential and GS<50 kW classes, where the RCRs currently exceed 100%.

7.2 In its Application, ERHDC proposed to rebalance the revenue requirement allocation between classes so as to address all of the aforementioned issues[24].

[21] Board Staff Submissions, pages 21-22
[22] VECC #14
[23] Exhibit 8, page 4
[24] Exhibit 8, page 8

However, VECC has a number of concerns with ERHDC's "proposed" Revenue to Cost ratios which are similar to those expressed by Board Staff[25]. First, the RCR increases for Sentinel Lighting and Street Lighting should move both ratios closer to the lower limit of the Board's Guidelines. Also, in VECC's view it is inconsistent to move the GS>50 kW RCR all the way to 100% while maintaining the USL ratio at 92%. A better approach would be to just move the GS>50 kW ratio up to the lower limit of the Board's Guideline.

8 Rate Design

8.1 VECC concurs with ERHDC's proposal to maintain the Residential monthly customer charge at $10.13 (excluding the Smart Meter rate adder). The current value is above the range of values produced by the Cost Allocation Informational Filing[26] and there is not justification for increasing it further.

9 Retail Transmission Service Rates

9.1 VECC shares Board Staff's concerns[27] regarding the proposed retail transmission service rates and submits that the current rates should be reduced to reflect Hydro One Networks' proposed reduction in the retail transmission rates it charges to embedded distributors such as ERHDC.

[25] Board Staff Submissions, pages 15-16
[26] Exhibit 8, page 9
[27] OEB Staff Submissions, pages 27-28

10 Recovery of Reasonably Incurred Costs

10.1 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 8th Day of April 2008

Michael Buonaguro
Counsel for VECC