

**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 Erie Thames Powerlines 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 21, 2008**

**Michael Buonaguro**  
**Public Interest Advocacy Centre**  
34 King Street East  
Suite 1102  
Toronto, Ontario  
M5C 2X8

Tel: 416-767-1666  
E-mail: [mbuonaguro@piac.ca](mailto:mbuonaguro@piac.ca)

**Vulnerable Energy Consumers Coalition (VECC)**  
**Final Argument**

**1 The Application**

- 1.1 In September 2007 Erie Thames Powerlines Corporation (“ETPL”) 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 <sup>1</sup> of \$7,410,563 which, after an allowance of \$581,688 for revenue from other sources, leaves \$6,828,875 to be recovered through distribution rates. Excluded from this amount is the “cost” of the transformer ownership allowance<sup>2</sup> (\$212,666) and LV charges from Hydro One Networks (\$516,713)<sup>3</sup>.
- 1.2 Distribution revenues for 2008 at current rates (excluding the smart meter rate adder) would produce revenues of \$7,791,936<sup>4</sup> yielding a sufficiency<sup>5</sup> of \$233,682<sup>6</sup>.
- 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 ETPL’s Application.

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<sup>1</sup> Energy Probe Supplemental, Schedule #11

<sup>2</sup> VECC #41 b)

<sup>3</sup> VECC #41 b)

<sup>4</sup> VECC #4 a)

<sup>5</sup> The sufficiency is actually higher than stated as the 2008 revenue at current rates excludes revenues from HON as an embedded distributor within ETPL.

<sup>6</sup> (\$6,828,875+\$212,666+\$516,713-\$7,791,936)

## **2 Rate Base and Capital Spending**

### *Capital Spending*

2.1 ETPL's capital spending for 2007 and 2008 is driven primarily by<sup>7</sup>:

- Customer Demand Projects (New/Upgraded Services),
- Replacement of Existing Assets (including a 27 kV voltage conversion), and
- System Expansions to eliminate Long Term Load Transfers.

2.2 VECC has no submissions regarding the quantum of spending on Customer Demand Projects. However, VECC notes that the number of new Residential and Commercial/Industrial connections underlying the 2007 capital spending forecast is higher than the number of new customer additions included in ETPL's load forecast<sup>8</sup>. In the case of Residential customers the difference is fairly small (e.g. 129 versus 127). However, it is somewhat larger, in both absolute and percentage terms for the Commercial/Industrial sector (19 vs. 3).

2.3 VECC also notes that while capital expenditures are included in 2007 for the line extension to the Aylmer Ethanol Plant<sup>9</sup> (a GS >3000 customer<sup>10</sup>), the forecast number of customers for the GS>3000 class is the same in 2008 as it was in 2002<sup>11</sup>.

2.4 For consistency purposes, VECC submits that the customer count used in the load forecast should be adjusted upwards accordingly to match the customer additions assumed in the capital plan.

2.5 VECC does not have any submissions on the specific asset renewal projects proposed by ETPL. ETPL states that "asset condition assessments are an

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<sup>7</sup> Exhibit 2, Tab 3, Schedules 2 & 3

<sup>8</sup> The # of new connections assumed in the capital program can be found in VECC #6, while the number connections assumed in the load forecast can be found in Exhibit 3, Tab 2, Schedule 1, page 5

<sup>9</sup> Exhibit 2, Tab 3, Schedule 3, page 1

<sup>10</sup> Energy Probe Supplementary #12 a)

<sup>11</sup> VECC #11 b)

ongoing part of ETPL's strategy for asset investment"<sup>12</sup>. However, when asked for a copy of their most recent asset condition assessment study, what ETPL provided was a just a number of graphs and tables regarding the condition of its current poles. In VECC's view this is far from a comprehensive asset condition assessment as it does not address other issues such as re-insulate projects or vegetation nor is there any clear assessment provided regarding the implications of the current pole condition for future work requirements.

- 2.6 VECC submits that ETPL should be directed to prepare and file a comprehensive asset condition assessment that addresses all of its major assets and indicates the priority areas for renewal prior to the end of 2008. Any issues/concerns arising from the assessment can be addressed as part of the 2009 rate approval process.
- 2.7 With respect to the system expansions to eliminate load transfers, ETPL claims that the net annual savings will be \$4,407<sup>13</sup>. However, it appears that in determining the net savings, ETPL has only accounted for the amortization associated with the expansion projects<sup>14</sup> and has made no provision for financing costs. Given that the amortization charges reduce the gross settlement savings by more than 50% and that the amortization rate for the assets<sup>15</sup> is less than ETPL's average cost of capital<sup>16</sup>, VECC submits that projects will likely result in an increase in revenue requirement – at least in the near term.
- 2.8 VECC is concerned that ETPL's decision to expand its system so as to eliminate load transfers is not based on a sound "business case". VECC submits that ETPL's overall approved revenue requirement for 2008 should be reduced so as to remove the negative impact of the system expansion spending associated with these loads transfers.

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<sup>12</sup> OEB #25 c)

<sup>13</sup> Energy Probe #4 a) and Energy Probe Supplementary #17 d).

<sup>14</sup> Again, see response to Energy Probe Supplementary #17 d)

<sup>15</sup> The amortization rate for the associated assets is likely 4% - Energy Probe #17

<sup>16</sup> 7.55% based on Energy Probe #19

## *Rate Base*

- 2.9 Rate Base consists of Net Fixed Assets plus an allowance for Working Capital. Even after two rounds of information requests it is unclear to VECC as to the value ETPL is proposing to use for the determination of its 2008 rate base. In response to Energy Probe Supplementary #11, ETPL uses a rate base value of \$22,154,852. However, the same response cross-references OEB #19 a) with respect to the determination of debt and equity costs and in that response the rate base used is \$22,153,007. It would be useful if ETPL, in its final submissions and with reference to the materials already filed, clearly set out not only the total rate base value proposed but also the component values for net fixed assets and working capital.
- 2.10 In determining Working Capital ETPL has used 15% of OM&A plus Cost of Power (Commodity, Transmission and Wholesale Market Charges). ETPL has used \$57.04 / MWh to determine the commodity portion of Cost of Power<sup>17</sup>. VECC submits that this value should be adjusted to reflect the most recent forecast available from Navigant of roughly \$54 / MWh<sup>18</sup>.
- 2.11 With respect to the forecast for Transmission (Networks and Connection) costs, ETPL has updated the forecast to reflect the lower transmission rates approved for 2008<sup>19</sup> – but has not included the results in its determination of rate base<sup>20</sup>. Also, VECC has serious reservations about the updated cost ETPL has provided for Transmission. In response to VECC #50, ETPL suggested that the updated values did not decline to the same degree as the change in transmission rates due to increased consumption. However, a review of the forecast sales for 2007 and 2008<sup>21</sup>, suggests that consumption is increasing by less than 1%. In contrast,

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<sup>17</sup> OEB Staff #16

<sup>18</sup> [www.oeb.gov.on.ca/documents/cases/EB-2004-0205/rpp-nci\\_wholesaleelectricitypriceforecastreport\\_20071012.pdf](http://www.oeb.gov.on.ca/documents/cases/EB-2004-0205/rpp-nci_wholesaleelectricitypriceforecastreport_20071012.pdf) - page 2. Where HOEP for 2008 is projected to be in the order of \$0.054 / kWh.

<sup>19</sup> Energy Probe #5 a)

<sup>20</sup> OEB #19 a)

<sup>21</sup> Exhibit 3, Tab 2, Schedule 1, page 5

Network costs only decline by 8% in 2008<sup>22</sup>, despite an 18% decline in Network charges<sup>23</sup>. Similarly Connection charges increase by 6% despite a 5% decline in the associated rates.

- 2.12 VECC submits that the cost of Network and Connection Service used in the Working Capital calculation should be updated to reflect the lower rates for 2008 and that the value calculated by ETPL need to be revised downwards significantly. For example, Network costs should be showing a decline of roughly 17% not 8% and Connection costs should be showing a decline of roughly 4% - not an increase of 6%.

### **3 Load Forecast and Revenue Offsets**

#### *Load Forecast*

- 3.1 ETPL has used 2004 weather normalized load data developed by Hydro One Networks (“HON”) 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)<sup>24</sup>. For non-weather sensitive and unmetered loads (Street Lighting, Sentinel Lighting and USL), projected 2007 use per connection was applied to the forecasted number of 2008 connections<sup>25</sup>.
- 3.2 In Section 2 VECC identified that the customer count increase assumed in the load forecast was lower than that used in establishing the capital spending plan. In response to Energy Probe (Supplementary) #2 ETPL updated its 2007 customer count for the actual year end results. The actual 2007 year end customer count is consistent with the forecast increase in customer connections used in the capital spending forecast. VECC submits that the 2008 customer

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<sup>22</sup> Energy Probe #5

<sup>23</sup> VECC #24

<sup>24</sup> OEB Staff #35 a)

<sup>25</sup> Exhibit 3, Tab 2, Schedule 1, page 4

count (by class) should be adjusted to reflect any differences between the number of customers assumed in Exhibit 3 for 2007 and the actual customer count as now reported. In addition, VECC submits that the 2008 customer count should also be adjusted to reflect the fact that the Aylmer Ethanol Plant is expected to start up in June 2008<sup>26</sup>.

#### *Other Revenues*

- 3.3 VECC has no submissions with respect to ETPL's Other Revenues forecast, other than to note the 2008 value has been updated during the interrogatory process<sup>27</sup>.

### **4 Operating Costs**

#### *OM&A*

- 4.1 As a result of changes<sup>28</sup> in how ETPL allocates the costs incurred through its affiliate (ETPC) amongst the various USOA accounts it is difficult to assess spending trends at a detailed level. Overall, OM&A costs increase by 3.6% between 2006 and 2007<sup>29</sup> and a further 1.7% in 2008. At a high level such increases appear reasonable. However, VECC has concerns regarding the escalation in some of the charges from ETPC since 2006.
- 4.2 Between 2006 and 2008 charges from ETPC for Executive Services increase from \$503,629 to \$787,381<sup>30</sup>. ETPL explains that the increase is due to the addition of 4 "independent" directors to the ETPL Board of Directors and the addition of 3 executives in 2007<sup>31</sup> within ETPC. With respect to the increased Board of Directors costs, it is unclear to VECC as to why an increase in the ETPL Board membership should trigger an increase in costs charged from ETPC, for its Board of Directors. VECC would request that ETPL, as part of its reply submission, reference information already filed that can clarify this matter. Otherwise, VECC

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<sup>26</sup> Energy Probe Supplementary #12 c)

<sup>27</sup> Energy Probe Supplementary #3

<sup>28</sup> VECC #13 a) & b)

<sup>29</sup> VECC #13 b)

<sup>30</sup> OEB #1

<sup>31</sup> Energy Probe #16

submits the ETPL's 2008 revenue requirement should not include these increased costs.

- 4.3 ETPL claims that the increase in executives is offset by a decrease in outside services costs<sup>32</sup>. When asked to explain why 2008 outside services' costs only decreased by \$102,000 (relative to the \$173,595 increase in executive costs). ETPL explained that the difference was due to the \$70,000 the additional costs associated with the preparation of the 2008 Rate Application<sup>33</sup>. However, ETPL has noted that the total annual cost of the new executives is \$197,563<sup>34</sup> – suggesting that even after allowing for the cost of the 2008 Application the new staff do not create overall cost savings for the utility. In VECC's view, ETPL has not provided a clear case for the increase in charges from ETPL for the new executives and submits that approximately \$25,000 should be excluded from the 2008 revenue requirement<sup>35</sup>.

## *Taxes*

- 4.4 ETPL's responses to various interrogatories<sup>36</sup> indicate that its calculation of income and capital taxes is not based on the most recent information available as to what the prevailing tax rates and CCA allowances will be for 2008. VECC notes that this issue has been addressed in detail in Energy Probe's final submissions and agrees with its recommendations regarding the PILs that should be included in the 2008 revenue requirement.

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<sup>32</sup> Exhibit 4, Tab 2, Schedule 3, page 4

<sup>33</sup> Energy Probe #14 a)

<sup>34</sup> Energy Probe Supplementary #5 c)

<sup>35</sup> i.e., \$198,000-\$173,000

<sup>36</sup> For example, OEB #52 a) and #53 a) as well as Energy Probe #18



## Losses

- 4.5 VECC notes that ETPL has revised<sup>37</sup> its loss factor calculation. The proposed DLF value of 1.0357 is based on a 5-year average. VECC also notes that there has been a general downward trend in ETPL's historic loss factors and submits that a 5-year average is too long a period. VECC recommends that the loss factor calculation should be based on an average of the most recent three years available data.

## 5 Cost of Capital/Capital Structure

- 5.1 VECC notes that the Capital Structure, the Cost of Short Term Debt and Cost of Equity proposed by ETPL are consistent with the direction of the Board in its Report on Cost of Capital and 2<sup>nd</sup> Generation Incentive Regulation for Ontario's Electricity Distributors. The only issue VECC would note is the proposed cost of long term debt.
- 5.2 In its initial Application ETPL used 7.25% as its cost of long term debt<sup>38</sup>. However, during the interrogatory process this value was updated to 6.7% to include the cost of new debt at 5.54%<sup>39</sup>. VECC agrees that the cost of new borrowings planned for 2008 should be included in the calculation of the average cost of long term debt. However, VECC has concerns regarding the appropriateness of the 7.25% value ascribed to the existing debt.
- 5.3 The Shareholders' Agreement<sup>40</sup> makes no specific reference to the term of the loan from the municipal corporations or the interest rate to be paid. Indeed, ETPL acknowledges that such arrangements are to be determined on a case by case

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<sup>37</sup> OEB #44 b)

<sup>38</sup> Exhibit 6, Tab 1, Schedule 1, page 1

<sup>39</sup> Energy Probe #19

<sup>40</sup> OEB #30, Section 3.4

basis<sup>41</sup>. In light of these facts, VECC submits the shareholder loan should be viewed as a demand note and the interest rate should be set at the 6.1% value approved by the Board for 2008.

## **6 Deferral and Variance Accounts**

### *New Deferral Accounts Requested*

6.1 VECC notes that ETPL is not requesting any new deferral/variance accounts.

### *Balances in Existing Accounts*

6.2 VECC notes despite requests<sup>42</sup> during both the first and second round of information requests, ETPL has not provided any information regarding the balances in those deferral/variance accounts for which it is not seeking disposition at this time. The Board should make it clear that a full history regarding these accounts will be required when the disposition of the accounts is made in the future.

### *Recovery of Balances*

6.3 In its original Application, ETPL included its embedded distributor (HON) in the allocation of the balances to refunded/recovered from customers. However, in response to a Board Staff information request<sup>43</sup>, ETPL has revised its allocation and now excluded its embedded distributor class. ETPL explains<sup>44</sup> this change on the basis that prior to the deregistration of the HON metering points with the IESO, HON was billed directly for Commodity, Network and Transmission costs.

6.4 VECC agrees that HON should not be responsible for any of the variances in the RSVA accounts associated with Wholesale Market charges (#1580) or Commodity costs (#1588) prior to deregistration. However, in the case of Transmission

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<sup>41</sup> VECC #37

<sup>42</sup> VECC # 17 a) and #46

<sup>43</sup> OEB #41

<sup>44</sup> VECC #38 b)

Network and Connections charges it is not immediately clear why, if the HON delivery points were not connected to the Transmission Network, they would have ever been subject to separate billing by the IESO at the approved transmission rates. Perhaps this is something ETPL can clarify in its final submissions. Finally, VECC submits that the HON delivery points should bear a full share of the responsibility for the LV variance account. These delivery points have always been embedded in ETPL's system<sup>45</sup> and therefore should bear a share of the costs incurred by ETPL in the past to deliver electricity to its customers.

## **7 Cost Allocation**

- 7.1 ETPL has provided the Revenue to Cost ratios (RCRs) resulting from its 2006 Cost Allocation informational filing<sup>46</sup>. Based on these results and the Board's November 2007 Guidelines, the customer classes requiring rebalancing are the GS<50 kW, the GS >3000 and the USL classes where the ratios exceed the Guidelines as well as Street Lighting and Sentinel Light classes where the RCR's are below the Guidelines.
- 7.2 In its Application, ETPL proposed to rebalance the revenue requirement allocation between classes so as to move all of the classes to 101% except for Street Lighting where the ratio is set at 70% (i.e., low end of the Board's Guidelines). VECC has concerns with ETPL's proposed RCR values and the methodology used to implement the proposal.
- 7.3 First VECC does not agree with the proposal to increase the RCRs for all virtually all classes to 101% simply so as to maintain Street Lighting at 70%. If the Board deems movement to 100% RCR to be appropriate for all the other customer classes then the RCR for Street Lighting should also be 100%. ETPL acknowledges that the impact on the total bill for Street Light customers of moving from 70% to 100% RCR is only two-percentage points, which is minor in the

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<sup>45</sup> VECC #38 a)

context of the impact (i.e., 66%) of the ETPL proposal<sup>47</sup>.

- 7.4 In VECC's view a more measured approach is usually required similar to that adopted by the Board in its 2008 Rate Decisions regarding Barrie, Oshawa and Halton Hills. However, given that in ETPL's case there is an apparent revenue sufficiency at current rates it would be appropriate for the Board to require that all class' RCRs be moved to the upper/lower limits of the Board's Guidelines (as applicable). VECC notes that this approach would yield similar results to those generated by ETPL in Step #1 of its cost allocation (see Exhibit 8, Tab 1, Schedule 2, pages 1-2).
- 7.5 VECC also notes that the starting point for the RCR adjustments is the percentage revenue distribution by customer class from the Cost Allocation Informational Run. In VECC's view the starting point should be the percentage revenue distribution resulting from 2008 forecast billing quantities and current (2007) rates. Furthermore, the 2007 rates should exclude both the Smart Meter rate adder and the LV rate adder. Finally, since there was no Embedded Distributor class in 2007, the revenues at current rates for this class should be determined by applying the relevant 2007 rates<sup>48</sup> to each of HON's two delivery points.
- 7.6 VECC requested<sup>49</sup> that ETPL perform such a calculation. However, it is not readily apparent that the rates used to determine the initial revenue allocation excluded both the Smart Meter and LV rate adders and, furthermore, the calculations failed to separate out the Embedded Distributor class.
- 7.7 Finally, VECC has been unable to reconcile the \$6,901,824 value that ETPL has used as its base revenue requirement for cost allocation purposes<sup>50</sup>, with the requirement (net of other revenues) as presented in either the initial application or

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<sup>46</sup> Exhibit 8, Tab 1, Schedule 2, page 1

<sup>47</sup> Exhibit 8, Tab 1, Schedule 2, page 3

<sup>48</sup> Currently ETPL bills these delivery points as standard customers – VECC #3 f)

<sup>49</sup> VECC #20 and #47

<sup>50</sup> VECC #41 b)

that updated during the interrogatory process<sup>51</sup>.

## **8 Rate Design**

- 8.1 It is not immediately clear how the \$14.83 value for the Residential monthly service charge was established<sup>52</sup>. However, if one used the 2007 approved rates (excluding the Smart Meter and LV rate adders) and the 2008 billing quantities the resulting percentage for fixed revenues – when applied to the proposed \$3,914,715<sup>53</sup> revenue allocation to the Residential – yields a fixed charge which is roughly the same. VECC notes that this Monthly charge should change if either the overall revenue requirement or the cost allocation is adjusted. VECC requests that the Board direct ETPL to fully document (in its draft Rate Order) how the cost allocation and rate design directed by the Board will be implemented.

## **9 Retail Transmission Service Rates**

- 9.1 In response to VECC information request #24 ETPL has indicated how it calculated the proposed 2008 Retail Transmission Rates for its existing 2007 customer classes. VECC submits that the approach used by ETPL is reasonable. In the case of the Embedded Distributor class, it appears that ETPL proposes to pass through directly the approved transmission rates<sup>54</sup>. The rationale for this approach is not readily apparent and VECC would request that ETPL indicate if it is discussed anywhere in the materials filed to date.

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<sup>51</sup> Both of these values are presented in Energy Probe Supplementary #11.

<sup>52</sup> VECC #48

<sup>53</sup> VECC #41 b)

<sup>54</sup> Exhibit 9, Tab 1, Schedule 5, page 4

## **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 21<sup>st</sup> Day of April 2008

Michael Buonaguro  
Counsel for VECC