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November 20, 2012

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)
Festival Hydro Inc. EB-2012-0124
Final Submissions of VECC

Please find enclosed the submissions of VECC in the above-noted proceeding. We have also directed a copy of the same to the Applicant.

Thank you.

Yours truly,

Michael Janigan
Counsel for VECC
Encl.

cc: Festival Hydro Inc.
W. G. Zehr

ONTARIO ENERGY BOARD

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 Festival Hydro Inc. ("Festival Hydro") for an order or orders approving or fixing just and reasonable distribution rates effective May 1, 2013, under the Board's guidelines for 3rd Generation Incentive Regulation Mechanism which provides for a mechanistic and formulaic adjustment to distribution rates between cost of service applications.

Submissions of Vulnerable Energy Consumers Coalition (VECC)

VECC will address the Incremental Capital Module (ICM) in its submissions.

Incremental Capital Module

- Festival Hydro requests the approval of incremental rate riders to recover the incremental cost to construct a new 62 MVA municipal Transformer Station (TS) in the City of Stratford.

- The total incremental capital spending forecast for 2010 to 2013 related to the project is $15,863,113[1] as follows:

	2010 Actual	2011 Actual	2012 Forecast	2013 Forecast	Total
Capital	$879,452	$312,730	$10,376,471	$4,294,461	$15,863,114

- The incremental revenue requirement impact in 2013 is $672,412.[2] Festival Hydro requests the approval of the recovery of the revenue requirement though Option A, which allows for the collection of a combined fixed service charge and distribution volumetric charge.

- For incremental capital expenditures to be considered for recovery prior to rebasing, the Board's Guidelines indicate the amounts must satisfy the following eligibility criteria: **materiality, need and prudence**.[3]

- *Materiality:* *The amounts must exceed the Board-defined materiality threshold and clearly have a significant influence on the operation of the distributor; otherwise they should be dealt with at rebasing. Distributors are to use a Board approved formula to calculate a materiality threshold.*[4]

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1 VC IR#2(d)
2 Board Staff IR 5 (b), Sheet E4.1 Incremental Capital Adjustment
3 Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors – July 14, 2008, Section 2.5, Page 24

- Festival Hydro submits the purpose of the ICM is to address the treatment of new capital investments that arise during the IRM plan term which are incremental to the materiality threshold. Festival Hydro seeks funding for the new transformer station in the IRM period instead of waiting until its next rebasing year in 2014.[5]

- Using the Board's formula, Festival Hydro calculates the materiality threshold as $3,642,654 using a price cap index of 1.08%, growth of -0.33% and a dead band of 20%. The price cap index is based on a price escalator of 2.0%, a productivity factor of 0.72% and a stretch factor of 0.20%. Festival Hydro confirms that the price cap index will need to be updated to reflect the price escalator when updated data becomes available.[6]

- The Board determined that the eligible incremental capital amount sought for recovery should be new capital in excess of the materiality threshold. A distributor applying for recovery of incremental capital should calculate the maximum allowable capital by taking the difference between 2013 total non-discretionary capital expenditure and the materiality threshold. [7]

- As a clarification to the policy on ICM, the Board decided that the half-year rule would apply in the final year of the IRM term.[8] As Festival Hydro is in the last year of its IRM term, Festival Hydro has appropriately applied the half year rule.

- Festival Hydro calculated the incremental capital amount as determined by the ICM as $7,777,903.

- Festival Hydro states its incremental capital investment exceeds the materiality threshold, has a significant influence on the operation of Festival Hydro, is non-discretionary and outside the existing rate base and it represents the most cost elective solution for ratepayers.[9] Furthermore, Festival Hydro indicates the work identified in its 2013 capital budget is non-discretionary because it is being undertaken to meet/maintain minimum requirements for safety, reliability, efficiency and growth and failure to carry out the work in 2013 will have negative system impacts and would result in higher capital costs in subsequent years.[10]

- For the purposes of ICM, VECC submits that Festival Hydro has provided adequate evidence that the total 2013 capital expenditures forecast can be reasonable viewed as non-discretionary. VECC submits the materiality criterion has been met and the

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[4] Chapter 3of the Filing Requirements for Transmission and Distribution Applications, June 28, 2012, Page 7
[5] Board Staff IR#4
[6] VECC IR 1(a)
[7] Chapter 3of the Filing Requirements for Transmission and Distribution Applications, June 28, 2012, Page 8
[8] Chapter 3of the Filing Requirements for Transmission and Distribution Applications, June 28, 2012, Page 8
[9] Application, Page 12
[10] Application, Page 14

incremental capital requested by Festival Hydro for recovery exceeds the Board defined materiality threshold.

- <u>Need</u>: *Amounts should be directly related to the claimed driver, which must be clearly non-discretional. The amounts must be clearly outside the base upon which rates were derived.*

- Festival Hydro states the new TS is needed to alleviate a potential overload condition at the existing Hydro One owned Stratford TS that provides the sole supply to the City of Stratford (approximately 15,000 residents and businesses) and the surrounding area. The Stratford TS also supplies Hydro One customers.

- The Stratford TS is approximately 75 years old. Festival Hydro indicates it has been exceeding its assigned capacity and will continue to exceed its assigned capacity on a regular basis until the new TS is constructed. If load continues to increase, a failure of a single major component during peak loads could result in rotating blackouts. Festival Hydro's evidence documents the operational challenges that impact reliability and quality of service due to supplying an entire City and surrounding area from a single transformer station.[11]

- Festival Hydro confirmed that work on the new Transformer Station is approximately 40% complete as at September 30, 2012[12] and the project is forecast to be 65% complete by the end of 2012.[13] The power transformers are to be delivered before 2012 year end and work is on schedule to meet the April 30, 2013 in-service date. Hydro One is completing its work related to the 230 kV connections and the forecasted in-service date for this work is April 2013. Hydro One indicated it did not have a need for additional capacity to be provided by the proposed Transformer Station as it did not foresee sufficient growth within its service area that could not be accommodated from the existing Stratford TS or other Hydro One delivery points. As such, Hydro One is not sharing any of the costs of the new TS.[14]

- VECC submits this project meets the needs criterion: the amount requested is incremental, non-discretionary and it directly addresses a potential overload condition (i.e. the claimed driver).

- <u>Prudence:</u> *The amounts to be incurred must be prudent. This means that the distributor`s decision to incur the amounts must represent the most cost effective option (not necessarily least initial cost) for ratepayers.*

- With respect to the Board's Guidelines, Festival Hydro submits it strived to undertake the most cost effective solution on behalf of its ratepayers with the objective of keeping long

[11] Application, Pages 15-18
[12] Board Staff IR#6(b)
[13] VECC IR#2(d)
[14] VECC IR#2(b)

term costs favourable.[15]

- In response to its potential inadequate supply situation, Festival Hydro evaluated four options to alleviate the situation:
  - Hydro One upgrades the one transformer at the existing TS in 2010 to meet the immediate capacity requirements, then builds a second TS in 2015 for long term capacity;
  - Hydro One upgrades the one transformer at the existing TS in 2010 to meet immediate capacity requirement, then Festival Hydro builds a second TS in 2015 for long term capacity;
  - Hydro One builds a second TS in 2010 to meet the immediate and long term capacity; and
  - Festival Hydro builds a second TS in 2010 to meet immediate and long term capacity requirement.

- Festival Hydro selected the last option above (Festival Hydro builds a second TS in 2010 to meet immediate and long term capacity requirement) which was the lowest cost option based on lowest net present value. Based on Hydro One's examples of costs to build a new TS, the Festival Hydro solution provided better redundancy and capacity value than the alternative.[16] Furthermore, Festival Hydro noted a financial analysis concluded the rate impact to customer would be less with the Festival Hydro owned solution compared to a Hydro One owned solution.[17]

- VECC submits Festival Hydro has provided adequate evidence that Festival Hydro`s proposal represents the most cost effective option.

- Festival Hydro retained Costello & Associates to review the findings to date and provide advice on the best way to proceed. Costello confirmed a new TS was required to meet load growth.

Load Forecast

- The evidence documents Festival Hydro's continuous review of its load forecast to determine the latest possible time that the TS should be in service to ensure adequate capacity and be available to meet the forecasted demand. Festival Hydro noted that the construction of a new TS takes approximately 18 to 24 months.

- A final review of the load forecast in the summer of 2011 determined that the actual peak load was approximately 1 to 2 MW less than predicted due to an industrial customer unexpectedly closing which meant that the existing TS would not be in an overload

[15] Board Staff IR 4(a)
[16] Board Staff IR7(a)
[17] Application, Page 20

situation until 2015 assuming medium growth.[18]

- The capacity of the existing Stratford Transformer Station is 77.7 MW.[19] In response to SEC IR#4, Festival Hydro provided a comparison of projected load for 2010, 2011 and 2012 with actual 2010, 2011 and 2012 forecasted to year end, as follows:

	2010	**2011**	**2012**
Projected Load	76.3 MW	78.9 MW	83.7 MW
Actual Load	77 MW	80 MW	78 MW
Difference	0.7 MW	1.1 MW	-5.7 MW

- Festival Hydro further explains that the actual load in 2012 was lower than projected due to the unexpected closing of one factory (2 MW), the delay in the amount of load brought on by a major new development (1.5 MW) and a delay in the construction of another development until late August so load of 0.5 MW did not contribute to peak in July.[20]

- In response to Board Staff IR#8(e), Festival Hydro confirms the 2011 forecast showed the load would exceed the allocated capacity of 77.7 MW in 2012 and the LTR in 2015. In regards to the factory closure that reduced the peak load by 2 MW, Festival Hydro submits that additional knowledge may, but not necessarily result, in a delay to the in-service date to 2014 instead of 2013. Festival Hydro further explains that at the time the decision was made to target 2013 as the in-service date, there were no indications of any pending factory closures in Stratford.

- Festival Hydro also noted that it was recognized that several industrial customers who had decreased load in 2009 and 2010 were in a position to return to previous load levels as the auto industry and overall economy recovered in which case the existing TS could be overloaded as soon as 2013.[21] Festival Hydro submits that delaying the project until 2014 has the potential to expose Stratford customers to an unreliable supply should load increase by 1 to 2 MW above projections. Festival submits deferring the project based upon new forecasts would have resulted in significant additional costs.

- VECC submits Festival Hydro's explanations regarding the possibility of unreliable supply in the near term resulting from a small increase in load are reasonable.

- In response to VECC IR#2(i) Festival Hydro states if the ICM is not approved, delaying the project would result in significant unnecessary extra costs related to the delay of work and postponement of contracts. Delaying the project after some or all contracts have been awarded would result in financial penalties and increased costs associated with stopping and starting a large construction project. Furthermore, benefits of the new TS would not

[18] Application, Page 21
[19] VECC IR#2(c)
[20] SEC IR#4(b)
[21] Application, Page 22

be realized and some of the operational risks would continue to exist.

- In its ICM proposal, Festival seeks to match the cost of new assets in the period customers receive benefits. If the ICM rate rider is not approved and is delayed until 2014, Festival Hydro indicates its cash flow position will also be impacted. The payment of interest and principal amounts related to the project will have to be funded through bank overdraft and Festival Hydro would seek recovery of this extra interest from customers.

- In considering the above, VECC submits Festival Hydro has appropriately demonstrated that its Transformer Station ICM project is justified and has met the Board`s materiality, need and prudency criteria and thus should be eligible for recovery through the ICM.

Recovery of Reasonably Incurred Costs

VECC submits that its participation in this proceeding has been focused and responsible.

Accordingly, VECC requests an order of costs in the amount of 100% of its reasonably-incurred fees and disbursements.

All of which is respectfully submitted this 20th of November 2012.