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April 24, 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)
EB-2007-0755
Chapleau Public Utilities Corporation – 2008 Electricity Distribution Rate Application

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

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

EB-2007-0755

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 Chapleau Public Utilities 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 24, 2008

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Vulnerable Energy Consumers Coalition (VECC)

Final Argument

1 <u>The Application</u>

1.1 In November 2007 Chapleau Public Utilities Corporation ("CPUC") submitted an Application to the Ontario Energy Board for approval of its proposed 2008 distribution rates. The initial application was based on a projected 2008 Total Service Revenue Requirement [1] of $723,891 which, after an allowance of $44,980 for revenue from other sources, left $678,911 to be recovered through distribution rates. Excluded from this amount was the "cost" of the transformer ownership allowance[2] ($9,610). However, it did include recovery of LV charges from Hydro One Networks ($24,631)[3].

1.2 During the interrogatory process the requested 2008 total Revenue Requirement was revised to $736,568. The corresponding revenue required from distribution rates was $691,588[4].

1.3 Revenues for 2008 based on existing rates would be $586,319[5] which produces a deficiency of $105,269 (or 18%).

1.4 Also included in the Application is a request to clear the balances in a number of deferral and variance accounts.

1.5 The following sections contain VECC's final submissions regarding the various aspects of CPUC's Application.

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[1] Appendix E, Exhibit 2
[2] VECC #10 b)
[3] Appendix E, Exhibit 4
[4] VECC #9 e)
[5] VECC #3 d

2 <u>Rate Base and Capital Spending</u>

Capital Spending

2.1 CPUC's capital spending for 2007 and 2008 is driven primarily by[6]:

- Replacement of Existing Assets (Poles and Line Transformers),
- Installation of new Regulators, and
- Smart Meter spending.

2.2 VECC has two concerns regarding CPUC's proposed spending for replacement of existing assets. First, it is not apparent to VECC how CPUC determines the number of poles and transformers that require replacement each year. When asked specifically about pole replacement costs, CPUC responded[7] that the quantity to be replaced was "purely an estimate". This suggests that there is no underlying asset management plan. Second, when VECC questioned[8] CPUC regarding the 30% increase in replacement costs <u>per</u> pole from 2006 to 2008, the Company again responded that the costs were "purely an estimate".

2.3 VECC submits that, given the lack of supporting evidence, the Board should consider directing a modest reduction (e.g. 5%) in CPUC's capital expenditures on asset renewal for 2008. However, more importantly, the Board should direct CPUC to develop asset management plan. VECC notes that CPUC's auditors are in the process of preparing a 3-year business plan for the Company[9] and one would expect that an asset management plan would be a core element of any overall business plan. CPUC should be directed to prepare and file an asset management plan that addresses all of its major assets, indicates the priority areas for renewal and sets out planned activities for the next 3 years prior to the end of 2008. Any issues/concerns arising from the assessment can be addressed

[6] Main Application, Exhibit 2, pages 21-22
[7] VECC #4 b)
[8] VECC #4 b)
[9] Main Application, Exhibit 4, page 26

as part of the 2009 rate approval process.

2.4 VECC has no submissions on the planned expenditures related to the three regulators. Their need has been documented in the Application and the proposed costs are in line with the Consultant's report[10].

2.5 VECC's views on the 2008 treatment of CPUC's Smart Meter related costs are set out in the Smart Meter section of this submission. However, in summary, it is VECC's position that Smart Meter capital should not be included in CPUC's rate base but rather the impact recorded in Variance/Deferral Account #1555. As will be noted later, CPUC is proposing a rate adder approach to recovery of smart meter costs. However, it appears that CPUC has included the $29,361 capital spending on smart meters in 2008 in both its rate base calculation[11] and in the calculation of its proposed smart meter rate adder[12].

Rate Base

2.6 Rate Base consists of Net Fixed Assets plus an allowance for Working Capital. As noted in Board Staff's submissions[13], in the case of net fixed assets the value is to be based on an average of the opening and closing fiscal year balances. In contrast, CPUC has based its calculation of rate base on the year-end closing balance[14]. When asked to justify this departure, CPUC stated[15] that its rationale was "to achieve a higher rate base going forward to 2010". VECC submits that this is not an acceptable rationale for departure from standard regulatory practice and that the Board should direct CPUC to used the average value – consistent with the Board's filing guidelines.

2.7 In determining Working Capital CPUC has used 15% of OM&A plus Cost of Power (Commodity, Transmission and Wholesale Market Charges). CPUC has used

[10] Appendix D
[11] VECC #4 i)
[12] Board Staff #43 b)
[13] Page 9
[14] VECC #4 l)
[15] VECC #4 l)

$58.50 / MWh to determine the commodity portion of Cost of Power[16]. VECC submits that this value should be adjusted to reflect the most recent forecast available from Navigant of roughly $54 / MWh[17].

2.8 With respect to the forecast for Transmission (Networks and Connection) and Wholesale Market services costs[18], CPUC did not respond to VECC's request for clarification as to how the charges were derived[19]. In the case of Wholesale Market Service costs the value used in the calculation increases in 2008[20] although the total sales by CPUC are decreasing[21]. In VECC's submission there is no rationale for using a higher value in 2008 than that forecast for 2007.

2.9 With respect to the Transmission Service costs, CPUC's forecast includes a 9.2% reduction in Network charges and a 3.2% reduction in Connection charges[22]. Both of these reductions are less than the approved reduction for 2008 in Transmission rates and Hydro One's proposed reductions in its Retail Transmission rates[23]. VECC submits that the cost of Network and Connection Service used in the Working Capital calculation should be reduced by at least the proposed change Hydro One's rates (if not also the change in usage) for 2008. For example, Network costs should be showing a decline of roughly 20% and Connection costs should be showing a decline of roughly 9%.

[16] OEB Staff #18
[17] 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.
[18] Appendix E, Exhibit 2, Rate Base Calculation
[19] VECC #4 j)
[20] Appendix E, Exhibit 2, Rate Base Calculation
[21] Appendix E, Exhibit 3 a, Customer Data
[22] Appendix E, Exhibit 2, Rate Base Calculation
[23] Board Staff Submissions, page 21

3 Load Forecast and Revenue Offsets

Load Forecast

3.1 VECC concurs with Board Staff's submissions[24] regarding the quality and clarity of the evidence as to how CPUC prepared its load forecast. VECC notes that it too requested clarification from CPUC regarding method used to prepare the load forecast, given inconsistencies in the original Application. Instead of responding to VECC's question[25], CPUC cross-referenced a response to a Staff information request that did not directly answer the questions asked.

3.2 After having reviewed the data provided[26], VECC has concluded that the 2008 forecast for both customer count and kWh is based on an average of the respective values for 2006 and 2007. In turn the consumption forecast for 2007 is based on actual data to May 2007 and the average of the previous two years (2005 & 2006) for the month from June to December 2007. The only exception is the GS<50 and GS>50 classes where there was a "transfer" of kWh between the classes to capture two customer transfers that occurred in 2007[27]. It would be useful if, in its reply, CPUC confirmed/corrected VECC's understanding of the load forecast methodology.

3.3 VECC submits that load forecasting methodology outlined in the preceding paragraph is extremely simplistic and includes no real attempt at weather normalization. When asked about this, CPUC responded[28] that the weather normalization undertaken for the Cost Allocation Informational Filing had a very small impact on its 2004 data and so therefore consumption data did not need to be normalized. The problem with this rationale is that the current load forecast does not rely on 2004 data but rather data from 2005, 2006 and 2007. There is no information on the record as to the impact weather normalization would have on

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[24] Page 13
[25] VECC #5
[26] Appendix E, Tab 3 a), Customer Data
[27] OEB Staff #25 b)
[28] OEB Staff #24

the data for these years.

3.4 Board Staff has raised[29] what it believes are some inconsistencies in the resulting growth in customer count and volume sales from 2006 to 2008. In VECC's view, these inconsistencies are easily rationalized by the difference in average use per customer between 2006 and 2007 (the two years for which the average was used to develop the forecast). Average use per customer was materially higher in 2007 versus 2006 with the net effect that the implied average use (per customer) is higher in 2008 than 2006. This leads to an increase in sales for 2008 even though the forecast number of connections decreases slightly when compared to 2006.

3.5 In VECC's view, while the quality of the load forecast is suspect, there is nothing on the record to suggest that it is bias one way or another. The main conclusion one can draw is that one should not attach a high degree of confidence to the forecast. Given this perspective and the fact there is insufficient data on the record to support an alternative proposal[30], VECC reluctantly submits that CPUC's forecast should be adopted.

3.6 Finally, in response to a Board Staff information request[31], CPUC has suggested that its forecast residential customer count for 2008 should be based on 2007 values as opposed to the average of 2006 and 2007. VECC does not agree. A review of the number of residential customer connections over the period 2002 to 2007[32] indicates that the value has been fluctuating up and down annually. Given that there is no clear trend using an average of the last two years is reasonable.

[29] Page 14
[30] CPUC has not provided the weather normalized average use per customer for 2004 (as derived by HON) such that one could suggest using a similar approach to that adopted by many other distributors.
[31] Board Staff #25 c)
[32] Appendix E, Exhibit 3 a), Customer Data

Other Revenues

3.7 VECC has no submissions with respect to CPUC's Other Revenues forecast.

4 Operating Costs

OM&A

4.1 OM&A increases between 2006 and 2008 are primarily the due to[33]:

- Higher charges from Chapleau Energy Services Corporation for labour
- Additional travel and supply expense
- Recovery of one-time costs

4.2 CPUC does not have any employees. Its "compensation costs" are those charged to CPUC by Chapleau Energy Services Corporation (CESC)[34]. The OM&A related labour charges from CESC increased from $184,998 in 2006 to $207,867 in 2008 (i.e., 12%)[35]. The key reasons for this are salary escalation, increased pension costs and additional repair and maintenance work[36]. The only aspect of this increase for which VECC has comments is the additional repair and maintenance work.

4.3 Despite requests by both Board Staff[37] and VECC[38] for more details on the underlying cost drivers behind its O&M costs, CPUC has not provided any information as to the factors that are giving rise to the increase in costs. In VECC's view it is insufficient justification to simply state that the "cost drivers" are labour and truck expenses[39]. What is required is an explanation of the activities the labour and trucks are engaged in and, in particular, what activities are demanding more resources over time and why. VECC agrees with Board Staff[40]

[33] Board Staff #2 b)
[34] Main Application, Exhibit 4, page 27
[35] Board Staff #13
[36] Board Staff #9 and #11
[37] Board Staff #5
[38] VECC #6 a)
[39] VECC #6 a)
[40] Board Staff Submission, page 5

that more information is required to support this increased spending.

4.4 In response to the interrogatories, CPUC updated its filing to include the recovery of one-time costs of $88,816[41]. In calculating the $88,816 it proposes to recover over three years, CPUC has included:

- $8,241 incurred in 2006
- $62,575 forecast for 2007, and
- $18,000 forecast for 2008.

4.5 In VECC's view the recovery should be limited only to those costs directly related to the current application and not all one-time costs incurred over a three year period. VECC submits that the following costs should be excluded:

- The $8,241 incurred in 2006. Not only is this cost clearly out of period but CPUC has not provided any explanation as to what it was for.
- The 2007 costs associated with the 2nd Generation IRM ($25,000), the OEB audit ($7,950), the three year Business Plan ($11,450) and the Hydro One weather normalization work ($3,500). These costs are all associated with other regulatory initiatives (apart from the current filing). Furthermore, VECC questions whether business planning should even be considered a regulatory cost or just part of the cost of effectively managing one's business.
- The 2008 costs associated with the 2nd generation IRM ($15,000). Also, with regard to this item VECC does not understand why 2nd Generation IRM should be costing CPUC $40,000 over and above the $3,000 required for its 2007 IRM Application.

Taxes

4.6 VECC notes that CPUC will not be required to pay PILs in 2008 due to past losses and the fact that it is not subject to capital taxes[42].

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[41] Board Staff #3 b)
[42] Main Application, Exhibit 4, page 29 and VECC #3

Losses

4.7 VECC acknowledges that, given the 2002 and 2003 data problems, the revised loss factor calculated in response to Board Staff information request #26 are a better reflection of CPUC's circumstances.

5 Cost of Capital/Capital Structure

5.1 VECC notes that the Capital Structure, the Cost of Short Term Debt and Cost of Equity as revised by CPUC in response to Board Staff information request #22 is consistent with the Board's Report on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors.

5.2 However, it determining its revised Base Revenue Requirement, CPUC has not used the 7.19% WACC as calculated but rather a value of 7.25%[43]. There is no explanation provided for the use of the 7.25% value and, in VECC's view, no justification. VECC assumes that this was a typographical error and that CPUC will accept the 7.19% in its reply submissions. If not, the Board should direct the Company to adopt this value.

6 Deferral and Variance Accounts

New Deferral Accounts Requested

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

Balances in Existing Accounts

6.2 VECC notes that Board Staff has raised concerns[44] regarding the balances in a number of the accounts for which CPUC is requesting disposition. In VECC's view it is important the these issues be fully resolved before the Board considers

[43] Board Staff #23 b)

approving disposition of the balances in the respective accounts.

Recovery of Balances

[44] Staff Submissions, pages 21-23

6.3 VECC agrees with Board Staff's comments that it is inappropriate to clear balances in deferral/variance accounts that include forecast principal balances[45]. VECC also agrees that Account #1590 should not be subject to disposition until after April 30, 2008 and a final true-up has been performed[46].

6.4 VECC recognizes that earlier decisions issued by the Board with respect to 2008 rates have generally not approved the disposition of accumulated balance in the RSVA accounts. However, in CPUC's case a substantial balance has accumulated in the Transmission Connection account (#1584). VECC submits that the Board may wish to approval at least a partial disposition of this account.

7 Smart Meters

7.1 CPUC is requesting approval for a smart meter rate adder of $6.26 / metered customer / month[47]. This value is based on annualizing the forecast cost of smart meters for the period 2008-2010. In VECC's view there are a number of fundamental flaws with the proposal and it should not be approved by the OEB.

7.2 The first problem is that CPUC has not even been authorized yet to undertake smart meter installations[48]. The second major concern is that calculation of the proposed charge for 2008 includes significant spending planned for 2009 and 2010. For example, recovery of the projected 2008 operating costs for smart meters would only require a rate adder of $0.20[49] as opposed to the $4.76 value[50] calculated using all three years costs.

7.3 In VECC's view the setting of appropriate Smart Meter rate adder should be a two step process. First, the correct rate adder should be established using CPUC's

[45] Board Staff Submissions, page 20-21
[46] Board Staff Submissions, pages 21-22
[47] Board Staff #43 b)
[48] VECC #4 f)
[49] $3,197/ 1,344 (customers) / 12 months
[50] Board Staff #43 b)

forecast costs for 2008[51] (i.e, $3,197 in operating costs and $29,361 in capital spending). Then, this value should be discounted to recognize the uncertainty associated with CPUC actually being authorized to start deployment of its smart meters by the end of 2008. As to the appropriate “discount factor” while it is a matter of judgement VECC submits that the rate adder should be in the order of 75% of the value determined in step 1. In the alternative, the Board should consider simply maintaining the current $0.26 rate adder until CPUC is authorized to proceed with smart meters and its plans have been firmed up.

[51] Board Staff #43 b)

8 Cost Allocation

8.1 CPUC has provided the Revenue to Cost ratios (RCRs) resulting from its 2006 Cost Allocation informational filing[52]. Based on these results and the Board's November 2007 Guidelines, the customer classes requiring rebalancing are the GS>50 kW, Street Lights, Sentinel Lights and USL classes where the ratios are all below the Guidelines.

8.2 In its Application CPUC claims[53] it is reducing the cross subsidization to these classes. However, there is no indication as to what the resulting RCRs are and, therefore, to what degree CPUC's proposal conforms with the Board's Guidelines on Cost Allocation. As Board Staff notes[54], when asked to provide the resulting RCRs the values were inclusive of other charges such as transmission.

8.3 Furthermore, VECC has concerns with the manner in which CPUC has allocated its 2008 proposed revenue requirement. First, the Board's Cost Allocation Model did not include LV costs. Rather, LV costs were allocated separately in the 2006 EDR process based on the customer class shares of Retail Transmission cost and recovered through an energy rate adder. CPUC should be directed to follow a similar approach.

8.4 Second, CPUC applies each class' allocated share of the 2006 revenue requirement (per the Cost Allocation Model) to 2008 revenue requirement to determine the revenue allocation assuming 100% RCR for all classes. In VECC's view this approach is only correct if billing quantities for all the customer classes changed by the same percentage between 2006 and 2008. Since this is not the case, the correct approach is to assume that allocating the 2008 revenue requirement based on each class' share of 2008 revenues at current (2007) rates will yield an allocation consistent with RCRs derived by the CA Model. VECC notes that in CPUC's case the difference between the two approaches will be particularly pronounced for the smaller customer classes.

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[52] Exhibit 8, Tab 1, Schedule 2, page 1
[53] Main Application, Exhibit 8, page 36
[54] Board Staff Submissions, page 16

8.5 Finally, VECC notes that the proposed adjustment for Street Lights[55], in terms of percentage movement, is the smallest even though its RCR is the lowest (17.39%). In VECC's view the adjustment for Street Lights should be more aggressive.

9 Rate Design

9.1 CPUC has established the fixed charges for each customer class based on the existing fixed/variable split. For the Residential class this results a monthly fixed charge of $22.01 prior to the Smart Meter rate adder[56]. This value is well in excess of the upper range for the Residential customer charge ($12.99 plus 20%) as determined by CPUC's Cost Allocation filing[57] and the Board's November 2007 Guidelines VECC submits that the Residential service charge (prior to the smart meter rate adder) should be maintained at the current 2007 value of $19.62.

10 Retail Transmission Service Rates

10.1 CPUC proposes to adjust its Retail Transmission Service rates based on the historic (2006 and 2007) relationship between costs and revenues[58] and thereby adjust the rate to eliminate any past pattern of over or under recovery. Contrary to Board Staff's submissions[59], the update provided with the interrogatory responses also attempts to adjust for the change in the underlying Transmission rates[60]. However, it is not clear if the later adjustments are consistent with the Hydro One Networks proposed changes. In the case of Transmission Networks, CPUC appears to be assuming a decrease of 28% as opposed to the 20% proposed by HON. However, in the case of Transmission Connection, CPUC appears to be assuming a decrease of only 5% as opposed to the 9% reduction proposed by

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[55] Board Staff Information Requests, Appendix H, Tab 8
[56] Board Staff Information Requests, Appendix H, Tab 9 b)
[57] Main Application, Exhibit 8,page 35
[58] Board Staff Information Requests, Appendix H, Tab 5 b)
[59] Board Staff Submissions, page 18-19
[60] Board Staff Information Requests, Appendix H, Tab 5 b)

HON[61].

10.2 VECC submits that CPUC's approach is reasonable – if modified to reflect the percentage changes actually proposed by HON.

11 Recovery of Reasonably Incurred Costs

11.1 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 24th Day of April 2008

Michael Buonaguro
Counsel for VECC

[61] The 10% is based on the percentage change in the aggregate Transformation and Line charges from $2.09 to $1.90