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May 6, 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)
Notice of Intervention: EB-2008-0014
Atikokan Hydro Inc. – 2008 Electricity Distribution Rate Application

Please find enclosed the final submission of the Vulnerable Energy Consumers Coalition (VECC) in the above-noted proceeding. We apologize for the delay in filing.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

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 the delivery and distribution of electricity.

FINAL SUBMISSIONS

On Behalf of The

VULNERABLE ENERGY CONSUMERS COALITION (VECC)

May 5, 2008

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Vulnerable Energy Consumers Coalition (VECC)
Final Argument

1 The Application

- 1.1 On January 17, 2008, Atikokan Hydro Inc. (“AHI”) 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 \$1,163,591 which, after an allowance of \$70,293 for revenue from other sources, leaves \$1,093,298 to be recovered through distribution rates. Excluded from this amount is the “cost” of the transformer ownership allowance² (\$73).
- 1.2 Distribution revenues for 2008 at current rates (excluding the smart meter rate adder and the transformer allowance discount³) would produce revenues of \$806,628⁴ yielding a deficiency of \$286,748⁵ (or 35.5%).
- 1.3 Also included in the original Application was 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 AHI’s Application.

¹ Exhibit 9, Tab 1, Schedule 1, page 1 and VECC #4 j)

² Exhibit 9, Tab 1, Schedule 1, page 4

³ VECC #4 b) & c)

⁴ VECC #4 a)

⁵ (\$1,093,298+78-806,628=\$286,748).

2 Rate Base and Capital Spending

Capital Spending

2.1 AHI's capital spending for 2007 and 2008 is driven primarily by⁶:

- Sub-Transmission Equipment Replacement
- Distribution Upgrades
- Buildings Upgrades/Replacement, and
- New Transportation Equipment

2.2 The annual capital spending on Sub-Transmission and Distribution equipment is relatively constant over the 2006-2008 period and the 2008 spending is not out of line with past experience. However, there are inconsistencies in AHI's explanations regarding its planning process. As a result, it is not clear if there is a sound justification for the specific projects being undertaken.

2.3 In the initial Application AHI stated that it maintains its distribution plant according to a "thorough assessment that uses a combination of time based and condition based maintenance methodology"⁷. The Company also stated that "rebuild and conversion projects are planned with in a three-year time"⁸. As a result VECC was surprised when AHI indicated that it had no long term Capital or Asset Management Plan nor an Asset Condition Assessment⁹. Overall, there appears to be some question as to how the current capital spending plan was actually developed. VECC invites AHI to address this issue in its Reply, with reference to materials on the record.

2.4 VECC notes Board Staff's question as to whether an asset management plan should be developed in conjunction with the long-term business plan AHI has

⁶ Exhibit 2, Tab 3, Schedule 1, pages 3-10

⁷ Exhibit 2, Tab 3, Schedule 1, page 5

⁸ Exhibit 2, Tab 3, Schedule 1, page 6

⁹ Staff 24 c) & d)

committed to¹⁰. It is VECC's view that, given the capital intensive nature of the electricity distribution sector, an asset management plan is a critical component of any long-term business plan.

- 2.5 The two key areas with significant spending in 2008 are Buildings and Transportation Equipment which, together account for almost 80% of total capital spending¹¹. However, AHI has explained the need for the new aerial bucket device and the expanded equipment storage facilities¹².
- 2.6 VECC agrees with Board Staff¹³ that there is a lack of a consistent picture with respect to AHI's service reliability performance. In VECC's view, AHI should be directed (as part of its business plan) to provide a clear picture¹⁴ of its past reliability performance and its expectations for the future.

Rate Base

- 2.7 Rate Base consists of Net Fixed Assets plus an allowance for Working Capital. In determining Working Capital AHI has used 15% of OM&A plus Cost of Power. In its determination of the commodity component of the Cost of Power, AHI has used \$57.04 / MWh based on Navigant's April 2007 Report to the Board¹⁵. In submissions on other utilities' rate applications VECC has taken the position that the Board should use the most recent information available and adopt a commodity cost of just over \$54 / MWh based on the Navigant's October 2007 Report¹⁶. VECC notes that Navigant's April 2008 Report is now available¹⁷ and it calls for an average market price of \$62 / MWh for the 12 months beginning May 1, 2008.
- 2.8 With respect to the forecast cost for Transmission (Networks and Connection), AHI has indicated that its Cost of Power calculations do not reflect the changes in

¹⁰ Staff Submissions, paged 11

¹¹ Exhibit 2, Tab 3, Schedule 1, page 3

¹² VECC #11 and Staff #24 e)

¹³ Staff Submissions, pages 11-12

¹⁴ In this regard, AHI should be direct to provide historical performance data calculated on a consistent basis, e.g. with supply outages excluded.

Transmission rates recently approved by the Board for 2008¹⁸. VECC submits that AHI should be directed to adjust the 2008 Cost of Power values for Network charges and Transformation Connection charges by the approved change in the provincial rates.

- 2.9 Finally, AHI has noted that the volumes used to determine the 2008 Cost of Power values included the usage for the Intermediate customer which is no longer business. VECC agrees with AHI's proposal to lower the Cost of Power to reflect the loss of this customer¹⁹.
- 2.10 With respect to Net Fixed Assets, VECC notes AHI's response to Board Staff #26 where it is stated that the rate base used to develop the revenue requirement is \$211,640 less than reported in the Application. According to the original Application the rate base was \$2,965,972.30²⁰, while the value use in the rate determination appears to have been \$2,754,532²¹. However, the difference between these two values is not \$211,640. Similarly, the response to Staff #26 suggests the depreciation has been calculated correctly. However, VECC #4 e) notes an error in the calculation of amortization expense. VECC requests that AHI clearly explain (with reference to materials filed) what the appropriate values are for 2008 depreciation, net fixed assets (opening and closing balances)

3 Load Forecast and Revenue Offsets

Load Forecast

- 3.1 AHI has used 2004 weather normalized load data developed by Hydro One

¹⁵ OEB Staff #25

¹⁶ 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.

¹⁷ http://www.oeb.gov.on.ca/OEB/Documents/EB-2004-0205/rpp-nci_wholesaleelectricitypriceforecastreport_2008.pdf

¹⁸ VECC #12 b) & c)

¹⁹ Board Staff #25

²⁰ Exhibit 2, Tab 1, Schedule 2

²¹ VECC 4 j)

Networks to establish a weather-normalized average customer use for each weather-sensitive customer class²². 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)²³. For unmetered loads (Street Lighting, Sentinel Lighting and USL), the average use per connection from 2004-2006 was applied to the forecasted number of 2008 connections²⁴. VECC has no submissions with respect to AHI's load forecast methodology.

- 3.2 Board Staff has expressed concerns regarding the fact that AHI's approach relies on a single year of weather-normalized historical data to determine future load²⁵. 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.
- 3.3 The one aspect of the AHI's load forecast with which VECC does take issue is its 2008 forecast customer count for the Residential class. In its Application the customer count for this class is forecast to decrease from 1,452 in 2006 to 1,436 in 2007 and 1,421 in 2008. However, the actual customer count for 2007 is virtually the same as that for 2006 (1,450 customers)²⁶. As result, it is VECC's view that the residential customer count for 2008 is under forecast and the value for 2008 should be at least 1,445.

Other Revenues

- 3.4 VECC has no submissions with respect to AHI's Other Revenues forecast which has been held constant at 2006 levels²⁷.

²² Staff #31

²³ OEB Staff #25 a)

²⁴ OEB Staff #25 b)

²⁵ OEB Staff Submissions, pages 15-16

²⁶ VECC #14 a)

²⁷ Exhibit 3, Tab 1, Schedule 2, page 1

4 Operating Costs

OM&A – General

4.1 All of AHI's major OM&A categories are showing material increases²⁸ over the period 2006-2008:

- Operations costs are increasing by 9.8% primarily as a result of increased inspections; associated supplies & expenses and training requirements²⁹.
- Maintenance costs are up 45% primarily due to increased work on right of ways to meet ESA code requirements.
- Billing and Collecting cost are up 9.9% due to labour cost increases, other inflationary pressures (e.g. fuel costs) and investigation/training towards a different billing system³⁰.
- Administrative Expenses are increasing by 48% (and accounts for 60% of the overall increase) due to increased wages and salaries, outside services and regulatory costs.

4.2 VECC has no submissions with respect to the increases in Operations and Maintenance expenses. In the case of Billing and Collecting costs, there are some inconsistencies in AHI's responses to information requests.

4.3 In response to a Board Staff request, AHI states that Billing and Collecting costs are increasing due to investigation and testing of enhancements to the system³¹. However, in response to a VECC request, the Company stated that part of the increase was due to investigation and training towards a different billing system³². It would be useful if, in its final submissions, AHI could clarify what its plans are regarding its current billing system and how they impact on 2008 costs.

4.4 In the case of Administrative expenses, most of the increase is due to increased

²⁸ Staff #2 b) & #3

²⁹ VECC #16 a)

³⁰ VECC #16 b)

³¹ Staff #3

³² VECC #16 b)

Outside Services and Regulatory costs. In the case of regulatory costs, VECC agrees with Board Staff³³ that there is a need for AHI to clarify the record:

- The break down of Regulatory Expenses provided in response to Staff IR #1 does not reconcile with total Regulatory expenses reported for 2006-2008 for Account #5655.
- The consultant costs for regulatory matters reported in response to Staff IR #1 does not reconcile with the details regarding Outside Services provided in response to VECC #16 d).
- VECC IR #16 d) shows roughly constant spending on Regulatory and Rates Consulting between 2007 and 2008, while Exhibit 4, Tab 2, Schedule 7 shows a \$21,000 decline in purchased services from Elenchus for regulatory consulting.

Without further clarification, VECC submits the Board should reduce total 2008 Regulatory Expenses and Outside Services costs by at least \$20,000.

- 4.5 With respect to staff compensation, VECC notes that total compensation has increased by less than 2% between 2006 and 2008³⁴. While compensation per FTE has increased substantially, more than half the increase is due to overtime costs in 2007 and 2008³⁵, where the staff complement is reduced by one. Overall, VECC as no submissions regarding compensation costs.

³³ Staff Submissions, pages 5 and 8

³⁴ Exhibit 4, Tab 2, Schedule 8

³⁵ Staff #13 b)

5 Cost of Capital/Capital Structure

- 5.1 VECC notes that the Capital Structure and Cost of Equity proposed by AHI are 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 issues VECC would note are with respect to long term debt.
- 5.2 AHI's current long term debt is held by the Township and carries a rate of 5%³⁶. AHI has indicated that due to its financial circumstances it has been able to negotiate a "payment holiday". VECC agrees that 5% is the long term debt rate that should be used in the calculation of AHI's weighted average cost of capital.
- 5.3 VECC is surprised and concerned that AHI is unable to fully explain the reason for steady increase in the amount owing to its shareholder³⁷, particularly in view of its current financial situation.

6 Deferral and Variance Accounts

New Deferral Accounts Requested

- 6.1 AHI is not requesting any new deferral/variance accounts³⁸.

Balances in Existing Accounts

- 6.2 It is VECC's understanding that in response to VECC #20 and Staff #56, AHI has withdrawn its request to clear any of the balances in its various deferral/variance accounts.

³⁶ VECC #9 b)

³⁷ Staff #29 b) iii)

³⁸ VECC #3 a)

Account #1508

- 6.3 VECC agrees with Staff's comments³⁹ regarding Account #1508 and would have no objections to AHI clearing this account at this time subject to the Board's Chief Regulatory Auditor confirming the balance in the Account. Not only are there inter-generational issues as raised by Staff but, given AHI's financial position, it would be prudent to clear such balances where possible.

Account #1555

- 6.4 Based on the assumption that AHI will eventually be authorized to proceed with Smart Meter installations⁴⁰, it is VECC's view that AHI should not return the balance in Account #1555 to customers at this time.

7 Smart Meters

- 7.1 VECC notes that AHI has not been authorized as yet to proceed with the installation of Smart Meters. VECC agrees with AHI's proposal to continue its current Smart Meter rate adder of \$0.25 / month / metered customer⁴¹.

8 Cost Allocation

- 8.1 AHI has provided the Revenue to Cost ratios (RCR) resulting from its 2006 Cost Allocation informational filing, both with and without its Intermediate Class customer⁴². The RCR values without the Intermediate class customer are the most relevant ones going forward. However, the values do not sum to 100% (since no revenues are included for the intermediate user⁴³) and must be used

³⁹ Staff Submissions, page 23

⁴⁰ Per Government Policy regarding provincial deployment of Smart Meters

⁴¹ VECC #1 b)

⁴² Staff #39

⁴³ VECC #23 b)

with caution. Still, based on these results and the Board's November 2007 Guidelines, it is clear that a rebalancing of the revenue requirement is required whereby the revenues to be collected from the Residential class should be reduced and those to be collected from all classes except GS<50 kW should be increased. However, the AHI Application does not include any such rebalancing and simply establishes the net revenue requirement by customer class based on revenues at existing rates⁴⁴.

- 8.2 VECC submits that since the RCR for Residential is at least ten percentage points over the Board's guideline⁴⁵, at least 3% of the revenue requirement allocated to the residential class⁴⁶ by AHI should be redistributed to the balance of the customer classes with the exception of GS < 50 kW. Given the current RCR values, the apportionment should be done in proportion to AHI's current allocation of the revenue requirement to the affected classes with one adjustment. This adjustment would recognize that the RCR values for GS >50 and Street Lights are already higher than those for Sentinel Lights and USL and, as a result, allocate proportionally more to the later two classes.
- 8.3 VECC also notes that the revenue at current rates used by AHI to allocate the costs to customer classes includes the Smart Meter rate adder. In VECC's view it should be excluded from the calculation.

9 Rate Design

- 9.1 VECC notes that the current monthly service charge for Residential customer is well above the ceiling established by the Board's Guidelines⁴⁷. As result, in VECC's view, the Residential Monthly service charge (without the Smart Meter Rate adder) should be maintained at the current value of \$26.93⁴⁸.

⁴⁴ VECC #24 e)

⁴⁵ Exhibit 8, Tab 1, Schedule 3, page 3

⁴⁶ 3% was chosen in recognition of the bill impacts rebalancing will have on the other customer classes.

⁴⁷ Exhibit 8, Tab 1, Schedule 2, page 7

⁴⁸ VECC #4 a)

10 Retail Transmission Service Rates

10.1 VECC submits that the AHI's proposed Retail Transmission Rate – Line and Transformation Connection is too high. AHI has stated that its costs will increase by 7.33%⁴⁹. However, it has increase the proposed Residential rate from \$0.0019 to \$0.00225 / kWh (or 18.4%).

11 Interim Rates

11.1 Board Staff has invited parties to comment on the finalization of AHI's 2006 and 2007 interim distribution rates⁵⁰. While the Chief Regulatory Auditor's review may be complete, no information has been provided as to the results of the review or AHI's response. As a result, VECC is unable to provide any comments or submissions at this time.

12 Recovery of Reasonably Incurred Costs

12.1 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 5th Day of May 2008

Michael Buonaguro
Counsel for VECC

⁴⁹ Staff #48 a)

⁵⁰ Staff Submissions, page 3