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November 15, 2013

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-2013-0122
Cooperative Hydro Embrun Inc.
2014 Cost of Service Application

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

Yours truly,

Michael Janigan
Counsel for VECC

cc: Benoit Lamarche, GM, Cooperative Hydro Embrun - embrunhydro@manga.ca

EB-2013-0122

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 Co-operative Hydro Embrun Inc. pursuant to section 78 of the *Ontario Energy Board Act* for an Order or Orders approving just and reasonable rates for electricity distribution to be effective May 1, 2014.

FINAL SUBMISSIONS

On Behalf of The

VULNERABLE ENERGY CONSUMERS COALITION (VECC)

November 15, 2013

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Vulnerable Energy Consumers Coalition (VECC)
Final Argument Co-operative Hydro Embrun Inc. EB-2013-0122
November 15, 2013

1 THE APPLICATION

1.1 In making these submissions VECC has relied on the final filings made by Co-operative Hydro Embrun Inc. (CHEI) on October 16th and the RRWF and other spreadsheets filed on October 10, 2013. VECC has also reviewed the submissions of Board Staff made on November 13, 2013.

1.2 Co-operative Hydro Embrun Inc. (CHEI or Embrun) filed its application on May 12, 2013. The Application was deemed compliant with the filing requirements and notice issued June 28, 2013. The Application is filed in an "IFRS like" modified CGAAP (MGAAP)[1]. The initial application sought a revenue requirement of $838,798. The Application was subsequently updated and the final base revenue requirement was reported as $839,008 or $838,797 depending on whether one relies on the Summary of Impacts or the last filed RRWF.[2] No explanation was provided as to this discrepancy. While the amount is immaterial VECC submits the Applicant should confirm its requested revenue requirement in its reply submission.

1.3 CHEI proposes to align its fiscal year with its rate year and is therefore seeking an effective date of January 1, 2014. VECC has no issue with this proposal other than to submit that rates should become effect the later of January 1, 2014 or the earliest date of implementation after the Board's order. That is, no retroactivity should be granted should the Utility be unable to implement rates by January 1 due to the length of this proceeding.

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[1] Exhibit 1, Tab 2, page 23

[2] The Summary of Impact on Revenue Requirement was filed on October 16, the final RRWF Excel spreadsheet was filed on October 10, 2013.

1.4 The corporate structure of Embrun is unlike most electricity utilities in Ontario. The Utility is registered under the Co-operative Corporations Acts and profits are either reinvested or distributed to members in the form of dividends[3]. This structure leads to some unique issues which we address later in this argument.

2 RATE BASE

2.1 Below are shown the requested 2013 rate base. The amount shown differs by $3,163 from that shown in the last RRWF filed by Embrun. This is due to an adjustment made by Embrun in response to 8.0-VECC-42 and relates to the removal of the 2013 depreciation from rate base for stranded meters. Embrun has shown the change in its summary of revenue requirement impacts.[4]

Reference: RRWF Excel CHEI_2014_20131010				
Line No.	Particulars	Initial Application	Adjusted	
1	Gross Fixed Assets (average)	$3,733,350	$3,733,350	
2	Accumulated Depreciation (average)	($1,360,666)	($1,357,503)	Note 1
3	Net Fixed Assets (average)	$2,372,683	$2,372,683	
4	Allowance for Working Capital	$509,744	$509,744	
5	**Total Rate Base**	$2,882,427	$2,885,590	

[3] Exhibit 1, Tab 1, page 13 /
[4] See line 19 in Summary of Impact on Revenue Requirement Oct 16, 2013 Excel worksheet

Service Reliability

2.2 CHEI provided the following table on reliability statistics[5].

Service Reliability Indices	2010	2011	2012
SAIDI-Annual	0.02	10.00	3.08
SAIFI-Annual	0.01	4.01	1.02
CAIDI-Annual	2.31	2.49	3.02
Loss of Supply Adjusted Service Reliability Indices	2010	2011	2012
SAIDI-Annual	0.00	9.00	0.08
SAIFI-Annual	0.00	3.00	0.02
CAIDI-Annual	N/A	3.00	4.00

2.3 VECC did ask CHEI to provide a breakdown showing the reasons for service interruptions. However, it does not appear that Embrun responded to this interrogatory (see 1-VECC-2). Given this, and due to the lack of data for 2010, we are unable to make any submission regarding the overall reliability of the distribution system or the adequacy of its maintenance.

2013 Capital Expenditures

2.4 At 2.0-VECC-8, CHEI was asked to provide an update of the 2013 capital expenditures. VECC notes that the update shows that 2013 capital spending is on track, if somewhat remarkable, in that it show all budget and actual spending as identical figures.

[5] Exhibit 2, Tab 3, Schedule 1, page 82 -9

2014 Capital Expenditures

2.5 CHEI's historical and forecast capital expenditures are shown below.

From CHEI 2014_OEB Appendices_20131010			Capital Projects				
Account/projects	**2008**	**2009**	**2010**	**2011**	**2012**	**2013 Bridge Year**	**2014 Test Year**
1820 Sub-Total (Substation, metering, cabinet)	0	0	24,966	0	0	62,400	0
1830 Sub-Total (Poles etc.)	18,323	43,907	62,256	18,097	3,098	83,850	60,220
1835 Sub-Total (Conductors,Feeders etc.)	73,492	5,232	856	4,224	0	58,750	19,375
1845 Sub-Total (Underground etc.)	12,204	875	0	0	5,841	52,400	398,000
1850 Sub-Total Padmount transformers etc.)	26,501	73,966	28,328	21,554	36,088	12,000	87,500
1855 Sub-Total (u.g. services)	18,548	11,373	12,637	4,036	5,074	5,000	4,000
1915 Sub-Total (Office furniture)	0	2,733	3,013	14,694	0	1,500	0
1920 Sub-Total (Computer)	2,195	0	3,080	2,320	2,746	1,500	0
1925/1940 Sub-total (CIS)		6,442	61,341	1,500	4,205	26,500	35,000
Total Pre Capital Contributions	**151,262**	**144,528**	**196,476**	**66,424**	**57,052**	**303,900**	**604,095**
1995 Capital Contribution			-11,423	-7,774	-1,600	-8,000	-160,000
Total - Pre-Smart Meters	**151,262**	**144,528**	**185,053**	**58,650**	**55,452**	**295,900**	**444,095**
1860-smart meters					310,212		30,500
1860-smart meters - stranded					-79,072		
TOTAL	**151,262**	**144,528**	**185,053**	**58,650**	**286,592**	**295,900**	**474,595**

Note: CHEI made a correction to account 1830 and 1835 at 2-Staff-19 which is not shown here, but did not change the total 2013 capital expenditures

2.6 As shown by the table CHEI's capital budget for 2013 and 2014 is significantly higher than the previous five years. In 2014 a significant portion of this increase, or $400,000, is due to four housing projects. Related capital contributions are $160,000.[6] The projects are listed below:

	PATENAUDE SUBDIVSION (100 UNITS)	$ 120 000.00
	BRISSON PROJECT OLIGO (50 UNITS)	$ 60 000.00
	DOMAINE VERSAILLE PHASE (50 UNITS)	$ 60 000.00
	MAURICE LEMIEUX NEW YORK CENTRAL PROJECT (50 UNITS)	$ 60 000.00

[6] 2-Staff-10

2.7 When asked about the status of these projects CHEI explained "*[N]o detailed description of the project other than preliminary plans and counts from the developer and municipality is known to CHEI. As explained at E3.T1.S4, the utility has been advised to expect and plan for 200 new connections by the end of 2014.*"[7]

2.8 CHEI also noted that although it had forecast 1,500 customers for these projects only 200 were forecast to be energized in 2014.[8] As discussed below VECC accepts the forecast of 200 to be a reasonable for 2014 and notwithstanding that only 177 of the projected units have reached the preliminary design stage.[9]

2.9 In VECC's submission the 2014 capital budget should be reduced (and the related continuity schedule appropriately adjusted) by $60,000, or 50 units, to reflect the fact noted by CHEI itself that only 200 units will be in service by 2014.

Working Capital Allowance

2.10 For working capital CHEI proposes to use the 13% of controllable costs default methodology set out by the Board. VECC submits that a rate of 12% of controllable costs is more appropriate. Such a change would have a minimal reduction to the revenue requirement of $2,346[10]. However we believe the underlying principle is significant.

2.11 In 2011 CHEI changed from bi-monthly to monthly billing[11]. The Board's default rate was established when most utilities offered bi-monthly billing. Utilities that perform monthly billing have a lower need for cash on hand than bi-monthly billing utilities. Monthly billing Utilities, such as London Hydro, which have recently

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[7] ibid
[8] 2-Staff-17
[9] 2-VECC-9
[10] 2-VECC-7
[11] 2-VECC-7

completed lead-lag studies have shown much lower working capital requirements and nearer to 11% of controllable costs.[12]

2.12 While VECC is mindful of the recent decisions for 2013 rate filers we continue to advocate for a review of the working capital default value. The default value is based on aged population of electric distribution utilities that had in the past bi-monthly billed. Over the past 4 years, with the introduction of smart metering and time-of-use rates, billing frequency by electricity utilities has moved to a monthly basis bringing them in line with most other home services.

2.13 It is our view that the current default value of 13% is based on no specific evidence and contrary to evidence reviewed and accepted by the Board in other proceeding. We believe it is incorrect to use an arbitrary proxy rather than tested evidence which is the result of actual lead-lag studies.[13]

3 LOAD FORECAST

2014 Forecast Customer Count

3.1 In its May 2013 Application, CHEI determined the forecast 2014 customer count for each class by applying the historical geometric mean growth rate (2003-2012) to the actual 2012 customer count[14]. The result was then adjusted to account for the fact that CHEI anticipates that a new subdivision will be energized sometime in 2014-2015. These adjustments primarily impacted the Residential and GS<50 classes where, for 2014, an additional 200 and 11 customers were added respectively[15] to the 2012 actual customer count. This forecast was not changed as a result of the interrogatory process[16].

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[12] See EB-2012-0146, Exhibit 1, page 42.
[13] EB-2012-0113, pg.4
[14] Exhibit 3, Tab 1, pages 19-20
[15] Exhibit 3, Tab 1, Table 13
[16] 3-VECC-17

3.2 In response to VECC #12 CHEI provided the most recent actual 2013 customer count by class. While it is not clear precisely what month the values are for, the reported values appear to be in line with CHEI's customer count forecast for 2013. Overall, VECC submits that CHEI's forecast customer counts by class for 2014 are reasonable and should be adopted by the Board.

Volume Forecast (Prior to CDM Adjustments)

3.3 CHEI's load forecast is prepared in two phases. In the first phase a billed energy forecast by customer class for 2014 is developed reflecting the 2012 customer count. Then, in the second phase, usage associated with the change in customers between 2012 and 2014 is determined and added[17].

3.4 For the first phase, CHEI's load forecast is prepared on a total purchase basis using regression analysis. The purchased power model uses weather, seasonal variables, calendar variables and full time employment levels in the Ottawa region as explanatory variables[18]. The overall regression model is fairly robust with a reasonably high Adjusted R Square and with all the coefficients for the explanatory variables being statistically significant and having the intuitively correct signs[19].

3.5 VECC submits that the regression model developed by CHEI is reasonable and appropriate model to use for purposes of forecasting purchases[20].

3.6 For purposes of forecasting 2014 purchases, CHEI has used the 2014 values for the seasonal and calendar variables along with a ten-year definition of weather normal. However, for the 2014 employment forecast, CHEI has used the average

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[17] CHEI does not specifically describe its methodology as being a two-phase approach. However, this effectively what happens, as can be seen in Exhibit 3, Tab 1, pages 21-27 where for each class the 2014 usage initially estimated for class is adjusted to account for the change in customer count between 2012 and 2014.

[18] Exhibit 3, Tab 1, pages 12-16

[19] Exhibit 3, Tab 1, page 16

[20] To be clear, VECC views the model as appropriate. The use of the model, in terms of the forecast values use for the explanatory variables, is discussed in subsequent paragraphs.

of the historical employment levels over the 2003-2012[21]. This 2014 purchase power forecast was then allocated to customer classes based on each retail class' 2012 share (i.e. %) of 2012 weather normalized purchases[22].

3.7 For the second phase, the preceding results were then used to determine an average use per customer for each class (based on 2012 customer counts). These values were then multiplied by the increase in customers for each class to determine the increase in load from new customers added between 2012 and 2014 and added to the retail class energy values determined earlier[23].

3.8 In VECC's view, this approach is reasonable provided:

- The forecast 2014 purchases (and resulting usage by customer class) determined in phase 1 reflect the purchases CHEI could expect in 2014 assuming no growth in customers after 2012, and
- The customer additions used in the second phase account for all forecast customer growth between 2012 and 2014.

3.9 The only variable in CHEI's regression equation that is reflective of changes in number of customers and/or usage per customer over time is the "economic conditions" variable – employment in the Ottawa region. As a result, the economic conditions reflected in the (phase 1) 2014 purchase power forecast should be those existing at the close of 2012. They should not reflect any of the employment growth currently forecast for 2013 and 2014[24]. On the other hand, they should not be based on average employment levels over the past 10 years which is what CHEI has used in preparing the forecast[25].

3.10 The difference is material. Based on the values used in CHEI's Load Forecast model the Ottawa Region employment level as of December 2012 was 567.50. In comparison the average of the monthly employment values that CHEI has used in

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[21] VECC 3-VECC-14 a)
[22] Exhibit 3, pages 10 and 22
[23] Exhibit 3, Tab 1, pages 21-27
[24] VECC 3-VECC-14 b)
[25] VECC 3-VECC-14 a)

its 2014 purchased power forecasts is 537.30[26]. Furthermore, if one replaces the 2014 employment values used by CHEI with 567.5 for each month of 2014 VECC estimates that the resulting purchased energy forecast to be 30,632,629 kWh versus the 29,654,833 kWh forecast developed by CHEI[27].

3.11 With respect to the customer additions used in phase 2, VECC notes that for its 2014 forecast CHEI has only used the new customers forecasted be added in 2014 and omitted those added in 2013. For example, while the total 2012-2014 increase in customer count for the Residential class is 210[28], the number of new 2014 customers used in making the adjustment is only 200[29]. A similar problem exists for the GS<50 class. Furthermore, in the case of the USL and Street Lighting classes no adjustment has been made to account for the customers forecasted to be added between 2012 and 2014[30]. However, correcting the number of customer additions would only result in small increase for each of these classes.

3.12 VECC also notes that, since phase 2 is determining the effect of additional customers added over 2012-2014 on 2014 loads, the average use per customer should reflect the 2014 forecast by customer class (assuming no change in customer count from 2012) and not the weather adjusted 2012 energy sales by customer class. However the differences are likely to be minor as the weather adjusted purchases for 2012 (30,483,513 kWh[31]) are only slightly less than the purchases forecast for 2014 using the economic conditions as of the end of 2012 (30,632,629 kWh – as discussed above).

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[26] This value was calculated as the average of the January 2014 to December 2014 Ottawa Region employment values from CHEI's Load Forecast Worksheet_May 10, 2013 - Tab: Input WS Regression Analysis

[27] This calculation was performed by replacing (in CHEI's Load Forecast Worksheet_May 10, 2013 - Tab: Input WS Regression Analysis) the 2014 employment values used by CHEI with 567.5 for each month. The supporting model run is available upon request.

[28] Exhibit 3, Tab 1, Table 13

[29] Exhibit 3, Tab 1, page 22

[30] Exhibit 3, Tab 1, pages 25-26

[31] Exhibit 3, Tab 1, Table 11

3.13 Even if one ignores the issues raised in the preceding two paragraphs and only corrects the economic assumption used in the developing the initial purchased energy forecast[32], VECC estimates[33] the resulting retail energy forecast for 2014 (including the additional 2012-2014 customers but prior to CDM adjustments) to be 32,636,155 kWh as opposed to the 31,609,564 kWh value[34] developed by CHEI.

3.14 VECC submits that this higher value is the minimum pre-CDM retail energy forecast value that should be adopted by the Board for purposes of setting CHEI's 2014 rates. In VECC's view this higher value (based on 2012 year end employment levels) is much more reflective[35] of energy use in 2014 (assuming no further growth) than a forecast value that is based on average employment levels over the period 2003-2012.

Volume Forecast (Including CDM Adjustment)

3.15 In its initial Application, CHEI included in its CDM adjustment the full year impact anticipated in 2014 from CDM programs implemented in 2011 through 2014 (388,471 kWh)[36]. Furthermore, CHEI adjusted these results so that they reflected gross (as opposed to net) CDM savings such that the resulting CDM adjustment was 710,139.77 kWh[37].

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[32] It should be noted that the resulting calculations for 2014 would also ignore any impact the forecast improvement in economic conditions between 2012 and 2014 (VECC 3-VECC-14) may have on average used per customer between 2012 and 2014.

[33] Note: Typically VECC would have requested that CHEI perform this analysis and provide the results. However, with only one round of interrogatories and no follow-up this was not possible. This estimate was made by using CHEI's initial Load Forecast Worksheet, with the Ottawa Region employment values set at the December 2012 value of 567.5 for each month of 2013 and 2013 in the "Input WS Regression Analysis" Tab. The resulting total retail sales were then taken from the "Results-Weather Adj LF" Tab. The actual modelling is available upon request.

[34] Exhibit 3, Tab 1, page 31

[35] As noted in paragraph #3.10 and the associated footnotes, even this result is likely an understatement as it does not fully capture likely increases in average use per customer.

[36] Exhibit 3, Tab 1, page 28. See also VECC #16 a)

[37] Exhibit 3, Tab 1, pages 30-31

3.16 During the interrogatory process CHEI acknowledged that, in accordance with the Board's Guidelines, the 2011 and 2012 CDM savings (totalling 537,910 on a gross CDM basis) should not be included in the manual adjustment as they are already captured in the 2003-2012 historical data used by CHEI to develop its load forecast model[38]. However, CHEI is not proposing to alter its CDM adjustment and resulting load forecast accordingly[39]. CHEI's position appears to be that since the Board Guidelines were issued after its Application was filed it does not have to follow them, unless explicitly directed to do so by the Board[40].

3.17 VECC disagrees. VECC notes that the Board's Decisions regarding 2013 rates for both Sioux Lookout and Centre Wellington, excluded CDM impacts from programs implemented in years covered by the historical data used to develop the initial (pre-CDM forecast) and sees no reason why CHEI should not assume that the same approach would be applied it for 2014 rates.

3.18 VECC submits that the Board should direct CHEI to exclude impacts of 2011 and 2012 CDM programs from its manual CDM adjustment for 2014.

3.19 With respect to the gross versus net adjustment, the Board has clearly indicated its position in its Decision regarding Centre Wellington's 2013 rates[41] and, subsequently, confirmed that net was the appropriate approach in its Decision regarding Sioux Lookout's 2013 rates[42]. The same applies to the application of the ½ year adjustment for the first year a CDM program is in effect. VECC submits that the Board should direct CHEI to use net CDM impacts and apply the ½ year rule to its forecast 2014 CDM program impacts in 2014 in the determination of the manual CDM adjustment for 2014.

3.20 VECC notes that, based on CHEI's response to VECC #16 c), reflecting the above submissions into CHEI's 2014 load forecast would result in a manual CDM

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[38] VECC 3-VECC-16 a) & b)
[39] VECC 3-VECC-17
[40] VECC 3-VECC-17
[41] Board Decision, EB-2012-0113, page 7
[42] Board Decision, EB-2012-0165, page 7

adjustment of 58,322 kWh as opposed to the 710,139.77 kWh value proposed by CHEI. This is the same value as recommended by Board Staff in its submissions[43].

3.21 VECC agrees with CHEI's proposed 2014 LRAMVA kWh amounts as set out in the initial Application[44]. For the demand billed classes (GS>50 and Street Lighting) the kWh values should be translated into billing kW using the same ratios as were used to translated the forecast kWh for each of these classes into billing kW, which are set out in Tables 17 and 18 (i.e., 0.00295 and 0.00268) respectively.

4 REVENUE OFFSETS

4.1 The projected 2014 revenue offsets in CHEI's Application are $30,281[45]. This value has remained unchanged throughout the interrogatory process.

4.2 VECC has no issues with CHEI's 2014 forecast for revenue offsets.

5 OM&A

Reference CHE I2014 Appendices_2013010 (Excel)	Last Rebasing Year (2010 BA)	Last Rebasing Year (2010 Actuals)	2011 Actuals	2012 Actuals	2013 Bridge Year	2014 Test Year
Reporting Basis	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Operations	33,860	20,827	20,965	16,298	15,550	20,900
Maintenance	37,425	36,633	39,319	48,629	39,800	40,300
Billing and Collecting	155,247	146,429	163,139	135,426	134,057	170,174
Community Relations	3,000	2,182	1,316	6,710	3,100	4,000
Administrative and General	267,695	263,128	308,264	317,534	320,278	320,905
Total	**497,227**	**469,199**	**533,003**	**524,597**	**512,785**	**556,279**

[43] Board Staff Submissions, page 5
[44] Exhibit 3, Tab 1, page 30
[45] Exhibit 3, Tab 3, Schedule 3, Appendix 2-F

5.1 Above, we have reproduced CHEI's OM&A costs. Embrun is seeking a 12% increase from that approved by the Board or an 18.5% increase from what it actually spent in 2010.

5.2 Before reviewing the OM&A costs in detail VECC performs an "expected growth test." This exercise attempts to find the operating costs had the Utility's costs been adjusted from its last cost of service application (2010 Board approved) for only customer growth and inflation. The second part of the test examines what, if any, incremental responsibilities have been taken on by the Utility since its last rebasing and adds these costs to the expected growth results. The test is similar to the policy approach taken by the Board though simpler and taken with a more consumer oriented point of view.

5.3 Customer growth is a difficult to ascertain because, until 2013 CHEI's growth has been very slow. In 2013 and 2014 it expects significant customer additions due to new sub-division projects. CHEI's customer growth between 2010 and 2012 for the residential, GS <>50 classes has been 2.7%. The growth in these classes between 2013 and 2014 is expected to be 10.6%. The overall growth (if one accepts the 2014 forecast) between 2010 and 2014 is 12.1%[46].

5.4 As an inflation factor VECC has used widely available Statistics Canada figures for 2010 through 2012 are a matter of public record and are 1.78%/2.91%/1.52% respectively. 2013 is currently running at approximately 1.0%. Simple addition would indicate an expected inflationary growth of 7.3%[47].

5.5 Based on these figures VECC suggests a range for the expected OM&A cost growth of between 10% (without 2013-2014 customer growth) to 19.4% growth (including 2014 forecast customer growth).

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[46] Exhibit 3, Tab 1, page 5
[47] See Statcan.ga.ca

5.6 To this range one needs to apply both a productivity offset and a stretch factor for the IRM period. Applying the productivity offsets of 0.72% as provided by the Board's IRM policy over the four year period would reduce the expected growth by approximately 3% (288 basis points). VECC submits a productivity offset is an appropriate adjustment as it simply embeds the assumed efficiencies of the IRM period.

5.7 The IRM stretch factor should also be incorporated into the calculation of the expected growth factor. CHEI had a specific stretch factor of 0.4%.[48] This would further reduce the expected growth by approximately 1.6 %(160 basis points).

5.8 The resulting expected growth in OM&A is a range of between 5.4% (10.0 – 4.6) and 14.8% (19.4 - 4.6). A simple average of this gives an expected growth rate of 10% or approximately $50,000 from the last Board approved figures.

5.9 As outlined above, VECC holds that utilities should be able to recover costs for any responsibilities that have arisen since the time of their last cost of service rebasing. In this Application CHEI identified two such costs: incremental smart meter costs of $31,400 and $42,482 related to the change in billing cycle[49]

5.10 We conclude from this analysis that CHEI's OM&A costs are within the range of what would be expected from inflation, growth and incremental responsibility cost pressures.

5.11 As a simple check of this result we examined the compensation cost of the Utility. CHEI's employment level of 3 has not changed since the last rebasing. The total compensation costs have increased from $179,548 in 2010 to a forecast of $203,511 for 2014[50]. This 12% increase in compensation is slightly greater than the 7.3% increase expected by inflationary pressures, but given the progression in salary range in VECC's submission the amount is not excessive.

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[48] 4.0-VECC-25
[49] 4-VECC-23
[50] Exhibit 4, Tab 3, page 34

5.12 VECC submits the OM&A costs of CHEI are reasonable. While there are certainly areas in which one might argue for specific reductions we do not think it useful to try to micro-manage issues. Suffice to say that there are areas in, for example, membership fees in which the Utility could continue to make savings.

Green Energy Plan

5.13 There are no expenditures related to the CHEI's GEA plan[51]. The Utility has connected six microfit projects and expects to connect a similar number over the next two years.[52] Board Staff has made extensive submissions on the appropriateness of the process CHEI followed and specifically on the lack of OPA review.

5.14 It is not clear to VECC that CHEI is seeking any exemption to the policies set out by the Board. Since, as noted by Staff, the plan is non-contentious we would suggest that the Applicant be required to submit the plan for review by the OPA and the results shared with all parties as part of the draft order process. We note that if CHEI cannot get a timely response from the OPA it would be a risk of having its rate implementation date delayed.

Depreciation/Amortization/Capitalization Policy

5.15 As noted by Board Staff, CHEI has adopted the Kinectrics Report Depreciation rates. CHEI has not and does not capitalize indirect overheads or compensation and therefore reported no change to its existing capitalization policy as part of the change to MGAAP[53]. VECC has no issues with the proposals of the Applicant with respect to these matters.

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[51] 2-Staff-23
[52] Exhibit 2, pages 74-76
[53] Exhibit 2, Tab 2, S2,,page 41-42

6 Cost of Capital/Capital Structure

*	Particulars	Capitalization Ratio		Cost Rate	Return
	Debt				
1	Long-term Debt	56.00%	$1,614,159	4.12%	$66,503
2	Short-term Debt	4.00%	$115,297	2.07%	$2,387
3	**Total Debt**	60.00%	$1,729,456	3.98%	$68,890
	Equity				
4	Common Equity	40.00%	$1,152,971	8.98%	$103,537
5	Preferred Shares	0.00%	$ -	0.00%	$ -
6	**Total Equity**	40.00%	$1,152,971	8.98%	$103,537
7	**Total**	**100.00%**	**$2,882,427**	**5.98%**	**$172,427**

*Reference: October 10 RRWF

6.1 In general VECC supports the submissions of Board Staff with respect to cost of capital. However, we would make the following observation.

6.2 As a cooperative CHEI is structured differently than most other electricity utilities. The Cooperative is overseen by a Board of Directors who are elected by the Co-op members on an annual basis. Members have one vote per share. Membership is open to any account holder. Each member can have only one share per class account, but a member who has a separate class accounts may hold multiple shares and hence have multiple votes (theoretically up to three if a member has residential, GS<50 and GS>50 accounts)[54].

6.3 Not all eligible become members of the Coop. Below are the shown the number of members and the number of eligible members:

Ref: 1.0-VECC-1	Members	Account Eligible	%membership
Res	1172	1727	68%
GS<50	77	91	85%
GS>50	8	16	50%
USL	0	4	0
StreetLights	0	0	

[54] 1-Staff-3

6.4 In 2012 dividends were paid out to members in the following amounts:

*	Members	Account Eligible
Res	1172	$40/customer
GS<50	77	$55/ customer
GS>50	8	$600/customer

*Reference 1.0-VECC-1

6.5 The result is that 555 residential customers who are eligible for a dividend do not receive one because they have chosen to be or do not know the can be, Co-op members. The amount of undispersed dividends is $22,200 for the residential class, $770 for the GS<50 class and $2,400 for the GS>50 class. In 2012 for example, CHEI avoided paying $25,570 in potential dividends, largely derived from the residential class of customers.

6.6 CHEI appears to have a proactive approach to soliciting members. "*New customer are informed when they contact the utility to request a service connection. Customers are also informed through various media such as Bill inserts and "Semaine de la Cooperative" which occurs in October of every year. The published Annual Report also provides information on membership costs*" [55]. The Township of Russell receives $655 for its GS>50 and GS<50 account indicating that there is no undue influence from the Township in this matter. Non dispersed dividends presumably go back into the Utility as invested capital serving all account holders.

6.7 However it is also clear that many residential customers receive no direct benefit from the corporate structure that they might otherwise be entitled to. While VECC does not believe the matter is within the Board's jurisdiction to make an order it could use its moral suasion to persuade CHEI to consider ways of rectifying the underpayment to the residential class. CHEI, because of its overall small revenue requirement provides only the minimum LEAP contribution amount of $2,000.

[55] 1-VECC-1

VECC would ask that CHEI consider supplementing its LEAP contributions, from some portion of the pool of undispersed dividends, as a way to assist the most vulnerable residential electricity consumers in its community.

7 COST ALLOCATION

Cost Allocation Methodology

7.1 In its Application, CHEI has used the latest Board approved Cost Allocation model[56]. CHEI also indicates that it has used LDC specific weighting factors for Services and Billing & Collecting, as directed by the Board[57], and has also updated its Meter Reading information in Sheet I7.2 to reflect smart meters[58].

7.2 However, during the interrogatory process, CHEI acknowledged that Meter Reading costs have not been separated out and allocated as required by the Board's Cost Allocation model. Rather these costs have been included in Account 5314 – Customer Billing[59]. This brings into question the appropriateness of CHEI's allocation of its meter reading costs (which are allocated using the weighting factors developed for billing and collecting). VECC also notes that Board Staff, while ultimately accepting the Billing & Collecting weighting factors used by CHEI, did express some reservations regarding the proposed values themselves[60].

7.3 Also, for purposes of establishing the load profiles and resulting demand allocation factors for each customer class, CHEI continues to use the load profile data from its last cost of service application[61] which, in turn, were based on values developed by Hydro One for CHEI's 2006 informational filing [62].

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[56] Exhibit 7, Tab 1, page 5
[57] Exhibit 7, Tab 1, page 5
[58] Exhibit 7, Tab 1, page 6
[59] VECC #32
[60] Board Staff Submissions, page 12
[61] VECC #33
[62] EB-2009-0132 Exhibit 7, Tab 1 (Elenchus Report, page 6

7.4 Overall, VECC submits that CHEI's cost allocation requires some further refinements, particularly identification and separate allocation of meter reading costs in order to be consistent with the Board's Directions and CA Model requirements. Having noted this, VECC accepts that the results from CHEI's current model are reasonable for purposes of making determinations regarding revenue to coast ratios for 2014.

7.5 However, given this deficiency and the fact that the load profile data used in the cost allocation model is roughly 10 years out of date, VECC submits that the methodology is clearly not sufficiently improved to justify the moving the revenue to cost ratio closer to 100% than is currently required by the March 2011 Report the Board ("Review of Distributor Cost Allocation", EB-2010-0219).

Use of the Cost Allocation Study Results in Setting 2014 Rates

7.6 The following table sets out the 2013 Status Quo Revenue to Cost (R/C) ratios for each customer class based on the Cost Allocation model and the ratios proposed by CHEI for 2014.

REVENUE TO COST RATIOS – STATUS QUO AND PROPOSED per REVISED APPLICATION		
Customer Class	**2013 Status Quo R/C Ratios**	**2013 Proposed R/C Ratios**
Residential	89.82%	100.00%
GS<50	139.74%	100.00%
GS 50-4999	156.70%	100.00%
Street Lighting	83.12%	100.09%
USL	231.70%	100.00%

Notes: Per July 13, 2013 Revised Application, Exhibit 7, Tab 1, page 12 and VECC #37. Note : The CA Model results were not updated for the most recent (September 2013) revisions to the Load Forecast or the Revenue Requirement – see VECC #34, #35 and #36

7.7 The Status Quo R/C ratios for GS<50, GS>50 and USL are all outside (above) the Board's policy guidelines and clearly should be reduced. The issue for the Board is by how much and, correspondingly, by how much should the R/C ratios for Residential and Street Lighting be increased in order to maintain revenue neutrality.

7.8 In its November 2007 Report (Application of Cost Allocation for Electricity Distributors, EB-2007-0667) the Board expressed the following views[63]:

> *Distributors should endeavour to move their revenue-to-cost ratios closer to one if this is supported by improved cost allocations. However, if a large increase is required to move closer to one, rate mitigation plans should be proposed by the distributor. Distributors should not move their revenue-to-cost ratios further away from one (emphasis added).*

7.9 In its March 2011 Report (EB-2010-0219) the Board set out target ranges for revenue to cost ratios for each customer class[64]. In that same Report the Board stated:

> *As indicated in its September 2, 2010 letter, the Board expects that with the installation of smart meters and the availability of sufficient smart meter data, better cost allocators for the CA Model will become available and a more comprehensive review of the Board's cost allocation policies will become feasible. The Board anticipates that such a comprehensive review may provide an opportunity to further refine its target ranges. In the meantime, the Board's policy remains that distributors should endeavour to move their revenue-to-cost ratios closer to one if this is supported by improved cost allocations (emphasis added).*

7.10 In its Decision regarding Toronto Hydro's 2011 rates[65], the Board made the following findings regarding the application of this policy:

> *The Board finds that the proposed revenue-to-cost ratios are not appropriate and are not consistent with the Board's revenue-to-cost policy report (EB-2007-0667). In that report, the Board set out that an incremental approach is appropriate and that a range approach is preferable to implementation of a specific revenue-to-cost ratio. The Board also stated that distributors should endeavour to move their revenue-to-cost ratio closer to one if this is supported by improved cost allocations. THESL did not file updated or improved cost allocation information and*

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[63] Page 7
[64] Page 36. See also Exhibit 7, Schedule 2, page 3 of the Application
[65] July 7, 2011 Decision, EB-2010-0142,page 40

continues to rely on 2006 information to define the load profiles for certain customer classes.
Based on these findings and those set out above, the Board directs THESL to recalculate the starting revenue-to-cost ratios by customer class. For those customer classes with starting revenue-to-cost ratios greater than or less than the upper or lower end of the range provided by the Board in EB-2007-0667, THESL is directed to move the customer class ratio to the upper or lower boundary, as appropriate, and to adjust other class ratios only as required to reconcile with the overall approved revenue requirement (emphasis added).

7.11 Similarly, in its Decision regarding Horizon's 2011 Rates the Board made the following findings[66]:

The Board finds, however, that the proposed revenue-to-cost ratios are not appropriate and not consistent with the Board's revenue to cost policy, which establishes ranges of tolerance around revenue-to-cost ratios of one and adopts an incremental approach, whereby changes to revenue-to-cost ratios within the range are to be supported by improvements to the cost allocation model.
The Board is of the view that updating the pre-existing cost allocation model with test year data is an insufficient "improvement" for the purpose of supporting the movement within class ranges, as the Board recognizes that the results will vary somewhat due to data limitations and volatility.
For those customer classes with starting revenue-to-cost ratios greater or less than the upper or lower end of the range provided by the Board in EB-2007-0667, Horizon is directed to move the customer class ratio to the upper or lower boundary, as appropriate, and to adjust the other class ratios only as required to reconcile with the overall approved revenue requirement (emphasis added).

7.12 VECC following submissions are based on the application of the principles as set out in these Reports and Decisions. First, as noted in the preceding paragraphs there has been no fundamental improvements in CHEI's cost allocation model from that used for its informational filing in 2006. While it has followed the Board's direction regarding using specific allocators for Service and Billing & Collecting, the treatment of meter reading costs and reservations regarding the Billing & Collecting factors raise questions as whether there has been any real improvement. Also, while CHEI may point to it updating of the model to reflect smart meter costs as an improvement, this change is really not an improvement but simply a change in the model to reflect the fact that different types of meters are now used for some classes. At the same time, the load profiles used by CHEI

[66] July 7, 2011 Decision, EB-2010-0131, page 43

are now considerably more dated than they were for the EB-2010-0132 Application and likely less reflective of each customer class' current usage profile.

7.13 As a result, VECC submits that CHEI's cost allocation does not reflect any real improvement (and indeed may be less accurate) over that used for its 2006 Informational Filing or its 2010 Rate Application. In its Application for 2010 rates CHEI proposed moving the ratios for those customer classes that were outside the policy range to the limits of the respective ranges for each customer class and only proposed adjusting the ratios for those classes that were already within the Board's applicable policy ranges as necessary to maintain revenue neutrality[67] and the Board agreed.

7.14 VECC submits that, given the status of CHEI's cost allocation model, the policies outlined in the Board's 2007 and 2011 Reports, and the previous Decisions cited above, there is no reason to depart from this approach for 2014 rates. As a result, VECC submits that the ratios for GS<50, GS>50 and USL should be reduced – but only to the upper end of the Board's respective policy range for each class.

7.15 Reducing the ratios for GS<50, GS>50 and USL will require an increase in the R/C ratios for the Residential and/or Street Lighting classes in order to maintain revenue neutrality.

7.16 In a similar situation regarding Sioux Lookout Hydro's 2013 Rate Application (EB-2012-0165), VECC submitted that the Board should address the revenue shortfall by first increasing the ratios for those classes that were below 100% and the furthest away from 100%. The Board rejected this approach on the grounds that it "dismisses the class-specific R/C ratios provide the Study"[68]. VECC respectfully disagrees with this finding and would point out that, by focusing on those customer classes whose ratios are the furthest from (below) 100% its proposal is actually directly taking into account the class-specific R/C ratios provided by the Cost Allocation Study.

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[67] EB-2009-0132, Board Decision, page 13-14 and 17.
[68] EB-2012-0165, Board Decision, page 15

7.17 In CHEI's instance, the R/C ratios for the Residential and Street Lighting classes are both within the Board's policy guidelines. However, the ratio for the Street Lighting class is marginally lower (i.e., 83.12% versus 89.82% for Residential). In recognition of these class-specific results, VECC submits that the R/C ratio for Street Lighting should first be increase such that it is equivalent to that for the Residential class. However, further adjustments (increases) will be required in the R/C ratios for one or both classes in order to maintain revenue neutrality. Given that both R/C ratios would now be at 89.82%, VECC submits that it is fair and appropriate to increase both ratios (in tandem) in order to achieve revenue neutrality, subject only to any rate impact considerations that may triggered for either customer class and the view that, in no event, should either ratio exceed 100%.

7.18 In the unlikely event that these adjustments cannot be achieved due to rate impact considerations, VECC submits that the Board should direct CHEI to phase in its reductions in the R/C ratios for GS<50, GS>50 and USL to the upper end of the Board's policy range for each class over more than one year. Such an approach would be consistent with the Board's EB-2010-0219 Report which stated[69]:

To the extent that the application of the Board's cost allocation policies results in a significant shift in the rate burden amongst classes relative to the status quo, distributors should be prepared to address potential mitigation measures. As in the past, and until a review of alternative options is completed as part of the Board's rate mitigation consultation, the general approach to mitigating rate impacts should be to bring the affected class into the allowed range over multiple years; in other words, going beyond the cost of service year and completing the transition during the subsequent Incentive Regulation Mechanism ("IRM") period (emphasis added).

[69] Page 35

8 RATE DESIGN

Base Distribution Rates

8.1 For 2014, CHEI states that it is proposing to move the fixed/variable split for all customer classes closer to a 50% fixed and 50% variable split[70]. When asked about the rationale for such a proposal CHEI stated[71]:

If a utility had a choice, they would select a 100% fixed and 0% variable to ensure revenue stability. If a customer had a choice, they would select a 100% variable so that they could have full control over the cost of their hydro bills. A 50/50 split ensures that both sides are getting their fair share.

8.2 In its 2007 Cost Allocation Review Report the Board did not establish any specific approach that electricity distributor should adopt in setting their fixed-variable splits for purposes of rate design but did conclude that[72]:

The Board considers it to be inappropriate to make significant changes to the ceiling for the MSC at this time, given the number of issues that remain to be examined. The appropriateness of the methodologies cited above, used to set the MSC is an issue that will be examined within the scope of the Rate Review. The Rate Review will also examine the role of rate design in achieving various objectives, including conservation of energy. Both of these undertakings will have determinative impacts on the fixed/variable ratio policy.
In the interim, the Board does not expect distributors to make changes to the MSC that result in a charge that is greater than the ceiling as defined in the Methodology for the MSC. Distributors that are currently above this value are not required to make changes to their current MSC to bring it to or below this level at this time.

8.3 VECC has consistently argued in previous proceedings regarding cost of service based rate applications that, in line with the Board's intent not to make significant changes until it has completed its Rate Review (including the fixed/variable ratio policy), the current fixed variable split should be maintained unless it results in a fixed charge that exceeds the ceiling established by the Cost Allocation model. In such circumstances, it is VECC's view that the fixed charge should be capped at

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[70] Exhibit 8, Tab 1, pages 10-11 (Revised July 13, 2013)
[71] VECC 8-VECC-38
[72] Pages 12-13

the greater of the ceiling or the current value, consistent with the Board's stated policy.

8.4 To date, the Board's general approach has been to approve proposed service charges based a utility's existing fixed/variable split even when this results in increases to fixed charges such that the results will exceed the ceiling established by the Cost Allocation model[73]. While VECC does not completely agree with this approach we understands the attractiveness in maintaining the status quo fixed variable ratio until its currently planned Rate Review has been completed.

8.5 However, CHEI's proposal does not adopt either of these approaches and, indeed, adopts a totally different view of what should be considered "fair rates". VECC notes that CHEI's definition of fairness departs significantly from the "cost-based" approach generally used by the Board in setting rates and, as Board Staff's Submission[74] states the approach is "arbitrary". Furthermore, CHEI's proposal leads to results that are materially different from the status quo[75].

8.6 VECC submits that the CHEI should be directed to base its rate design for base distribution rates on the current fixed-variable split for each customer class. VECC further notes that, based on CHEI evidence, the resulting fixed charges should all be below the respective ceilings established by Board policy[76].

8.7 In VECC's view, to accept CHEI's proposal and associated rationale would establish a precedent that other utilities may seek to follow. The changes (and supporting rationale) proposed by CHEI should not be adopted by the Board at this time. These are the types of changes that are more properly considered as part of the Board's pending Rate Review.

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[73] The Board has also accepted proposals by electricity distributors to limit their monthly service charges to current levels when those exceed the ceiling for the MSC

[74] Page 17

[75] Exhibit 8, Tab 1, Schedule 4, Table TESI-12

[76] Exhibit 8, Tab 1, page 12, Table 2

Loss Factors

8.8 CHEI has used a five year historical average to determine its proposed loss factors[77]. The loss factors vary widely from year to year and until 2012 were increasing annually. VECC notes that CHEI is undertaking a line loss study[78].

8.9 Given that the historical period used by CHEI includes years with relatively low as well as high annual loss factors and CHEI commitment to study the issue, VECC is prepared to accept the use of the five year average for setting 2014 rates.

Retail Transmission Service Rates

8.10 CHEI completed the Board's RTSR Model as available at the time of its Application. VECC submits that CHEI should be directed to update this filing using the Board's September 17, 2013 RTSR Adjustment Work form.

Low Voltage Rates

8.11 CHEI has based its 2014 LV costs ($56,000) on historical charges[79]. While the forecast could be refined to reflect anticipated change in Hydro One's ST charges and CHEI's load as of 2014, the value is reasonable for rate setting given any differences will be captured in a variance account.

9 Deferral and Variance Accounts

9.1 VECC is in general support of the submissions of Board Staff in respect to Deferral and Variance Accounts.

Account 1592 LRAMVA

[77] Exhibit 8, Tab 6, Schedule 2, Appendix 2-R
[78] VECC 8-VECC-41
[79] VECC #40

9.2 Board Staff have made substantive submissions on the LRAMVA. VECC concurs with Staff that the requested $1,045 should be disposed of as proposed by CHEI

9.3 VECC also agrees with Staff that it would generally be inappropriate to include a review of the 2011 persistence in 2012 LRAM amounts as part of the draft rate order (DRO) process. However, as a practical matter the amounts are unlikely to be material. For this reason VECC submits CHEI's proposal to deal with the matter as part of the DRO process is acceptable provided the amounts in question are less than $2,000.

Account 1576

9.4 As noted by Board Staff, VECC also submits that CHEI should dispose of the balance of Account 1576. In response to 9-VECC-44 CHEI states that disposition is against Board policy since the balance are unaudited. As the impediment appears to be CHEI's understanding of Board policy the Board can clarify the matter in its decision.

Account 1556

9.5 VECC supports the submissions of Board Staff in respect to CHEI's proposal to recovery 2012 smart meter OM&A costs. In the proceeding, EB-2012-0094 VECC specifically noted in its submission:

CHEI has not included any OM&A costs for the historical period during deployment, or for 2012 as part of the on-going expenses related to the operations of deployed smart meters. VECC notes this approach differs from that of most other smart meter recovery applications that include OM&A costs.[80]

9.6 In the interrogatory process of that proceeding Board Staff also specifically brought CHEI's attention the matter stating: *Board staff observes that CHEI has input no OM&A costs related to smart meters, either for the historical period during deployment, or for 2012 as part of the ongoing expenses related to the operations of deployed smart meters.* Staff went on to specifically reference CHEI's evidence which states: *CHEI has not included any OM&A costs as it is assumed to be part of regular operations. In making this decision CHEI has taken into consideration*

[80] EB-2012-0094 VECC submission page 2

the incremental cost savings as offsets to incremental costs, i.e. meter readers (emphasis added).[81]

9.7 It is clear that this matter has been discussed, considered and decided upon. The Applicant had made a decision in its proposal of EB-2012-0094 and the issue is, in our submission, now closed. No reason was given by CHEI for revisiting the issue. VECC submits the request to recover $165,834 in out –of- period costs should be denied.

10 Smart Meters

Stranded Meter Cost Recovery

10.1 CWH's is proposing to recover a net book value of stranded meters of $42,924[82]. With this one adjustment VECC submits the riders should be calculated using the methodology shown at Exhibit 8, Tab 7, page 28.

Smart Meter Entity (SME) Charge

10.2 CHEI is also seeking to recover a 0.79 Smart Meter Entity charge[83]. The charge is in accordance with the Board's Order. VECC has no submissions with respect to the proposed charge.

11 Effective Date

11.1 CHEI is seeking a January 1, 2014 effective date. VECC supports that proposal with the provisos set out in this submission.

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.

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[81] EB-2012-0094 Exhibit1/Tab 1/Schedule 6, page 6 - see also Board Staff Interrogatory #9 in the same proceeding.
[82] As updated in 8-VECC-42
[83] Exhibit 1, Tab 2, page 20

All of which is respectfully submitted this 15th day of November 2013.