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December 9, 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: EB-2013-0159 - Oakville Hydro Electricity Distribution Inc.
Vulnerable Energy Consumers Coalition (VECC)
Comments on the Proposed Issues List**

In accordance with Procedural Order No. 1 please find enclosed the comments of VECC on the proposed issues list. The Board will note that these submissions are the same as those made in the proceeding for Orangeville Hydro Limited, EB-2013-0160 and similar to those made in Niagara-on-the-Lake Hydro, EB-2013-0155. As such they reference the submission of Schools Energy Coalition and Energy Probe in those proceedings.

Yours truly,

Michael Janigan
Counsel for VECC

cc: Oakville - Mary Caputi - mcaputi@oakvillehydro.com

ONTARIO ENERGY BOARD

**IN THE MATTER OF AN APPLICATION BY
OAKVILLE HYDRO ELECTRICITY DISTRIBUTION INC.**

2014 ELECTRICITY DISTRIBUTION RATES

SUBMISSIONS ON THE PROPOSED ISSUES LIST

SUMMARY

1. In VECC's submission the proposed issues list is overly complex and in stark contrast to the order and practical application of the Board's Filing Requirements for Electricity Distribution Rate Applications ("EDX Guidelines" -as modified July 17, 2013"). We also believe the issues list as currently proposed is unlikely to lead to any efficiency in the cost of service proceeding. It may in fact have the opposite effect of unnecessarily prolonging the proceeding.
2. We have divided our comments into three parts: (1) overall comments on the issues list; (2) specific comments on the proposed issues list; (3) an alternative issues list which we believe is more succinct and better describes the Application.

OVERALL COMMENTS - STYLE OF THE ISSUES LIST

3. VECC recognizes that the newly developed issues list is intended to aid in the implementation of the RRFE framework. While this is a laudable goal, we believe that in places the proposed list supplements the concept of “issues” with that of “tests or standards” of decision making. This may unnecessarily fetter the Board’s decision making, although it can be helpful to the parties to understand what is important to the Board. For example, Issue 3.1 indicates that one test of the reasonableness of the proposed rates is whether the Applicant has: (a) sought customer feedback, (b) whether the type and quality of customer feedback is sufficient; and (c) whether the proposed spending sufficiently addresses that feedback. Presumably if the answer to any of these questions is negative then remedial action or denial of the application is in order. While VECC is supportive of this issue in particular, it asks the questions as to whether the current EDX guidelines contemplate this as a test of reasonableness? If not, then the addition of the issue will necessarily add time and effort to the proceeding in order to allow the Applicant to modify its application (in this case through the interrogatory process).
4. In number of places the proposed issues list invents new terms which are not self-explanatory. For example the list creates an issue category called ‘Foundations’. The subset issues are around two distinctly different matters of utility planning and customer engagement. In our view such ambiguities are not helpful to the process and are likely to lead to

prolonged debate – in the first instance simply to have parties come to a common understanding of meaning. As an aside it is not clear why the latter category is not part of issue 3 - Customer Focus.

5. In other places the nature of the issue is ambiguous. For example, issue 4.2 asks whether OM&A is driven by appropriate objectives, but it is not clear what is meant by “appropriate” (except in its opposite). In our submission it is not particularly helpful to add ambiguous terms which add nothing of substance to the current legislative and common regulatory term “just and reasonable”.

CLARITY AND SIMPLICITY

6. In our submission an issues list should address two types of matters: a list of those questions the Board must make a determination on in order to calculate just and reasonable rates for each rate class served by the Utility; and - a subset of those questions; a list of those matters the parties to the proceeding (including the Board and its staff) believe are contentious and require additional discovery. The former provide structure to the Board’s decisions. The latter, which changes as the proceeding progress, offers an opportunity to make the proceeding more efficient.
7. In most electricity local distribution company (“ELDC”) cost of service applications the Board has chosen not to create an issues list. In our view this has worked reasonably well. It is unclear what efficiencies are to be had by introducing a new format issues list especially for smaller utilities.

8. For some of the larger utilities, the Board has approved issues lists. These lists, which used a similar in format, were much more succinct than proposed list.
9. By way of example, VECC draws the Board's attention to the issues list used in the 2012 cost of service proceeding for Hydro Ottawa (EB-2011-0054). The list follows both EDX Guidelines and the well-established elements of the cost of service rate setting formula. It contemplates the need for the Board to make determinations on two phases of the application: the revenue requirement (Phase I); and the allocation and recovery of that revenue requirement from specific customer classes (Phase II).
10. In our submission the Ottawa Hydro Issues list, modified for the RRFE framework is preferable to a reinvented list which lacks any obvious relationship to the format of the filed application or the Board's filing guidelines.
11. To the extent the Board or parties wish to add new issues then, in our submission, it is best to use a standardized list which has categories that all parties can understand and modify as an individual proceeding requires. We have suggested such a list in Appendix II. This list adds a "Phase III" to the proceeding which deals with the RRFE non-rate, or at least, not directly rate related issues.

NON-RATE ISSUES

12. VECC recognizes that there are matters other than the mechanical parts of establishing rates that may be decided by the Board in a proceeding. The most obvious of these are service standards and service quality which are key elements in the determination of whether the capital and OM&A spending of a utility is prudent. In Ontario's electricity sector there are also a number of ancillary issues such as the requirements to file and complete a Green Energy Plan and the requirement to meet conservation targets through CDM programs. In our view such issues should be delineated separately from the standard cost of service rate methodology issues.
13. In our alternative issues list we have proposed three issues in the RRFE category: Performance measures; Public Policy Responsiveness, and Regulatory accounting. Each of these categories follows from the incremental issues in the Procedural Order's proposed issues list.
14. In summary, VECC proposes the issues list be divided into three parts: Phase I deals with revenue requirement; Phase II – addresses the recovery of the revenue requirement; and Phase III which considers any remaining issues which are not directly linked to the methodological derivation of the rates, but are key to the determining the prudence of the application as a whole. We have provided such a list in Appendix II of this submission.

15.To be helpful, although we are not advocating for its adoption, we have added specific comments to the proposed issues list. We have also had the opportunity to review the draft comments of Energy Probe on the proposed list and we are in general agreement with them.

ADDITIONAL ISSUES

16.We note that in the most recent 2014 cost of service applications all the draft issues lists are identical. That is, the proposed issue list does not identify anything unique in this Application. As such it purports to guide the Applicant and the parties through the process. As we have stated above we believe it fails in this objective.

17.We have also had an opportunity to review the submissions of Schools Energy Coalition (SEC) in respect to the submissions of Orangeville Hydro Limited EB-2013-0160. In our view their submissions are substantively in line with those of VECC. In addition SEC has raised a number of new issues including whether the consideration of past objectives is a proper or legal standard for deciding future spending. We share those concerns.

18.SEC has also suggested that the issues list proposed by VECC is imperfect, but adequate for the current proceeding and until a better standardized issues list can be developed with the input of all stakeholders. We concur.

19.Finally, SEC makes the point that the current issues list is likely to add time and uncertainty the process. We strongly agree with this proposition

and its corollary, that the benefits, if any, to be derived from the additional costs that are ultimately borne by ratepayers, are far from clear.

APPENDIX I

VECC SPECIFIC COMMENTS ON THE DRAFT ISSUES LIST

Set out below is the wording as suggested in the proposed issues list followed by any suggested comments/edits in italics.

In addition VECC has reviewed and supports the specific comments made by Energy Probe on the Issues List

1. Foundation

1.1 Does the planning (regional, infrastructure investment, asset management etc.) undertaken by the applicant and outlined in the application support the appropriate management of the applicant's assets?

- *Note that “management of assets” involves both capital and O&M spending and the “planning” should demonstrably support both.*

1.2 Are the customer engagement activities undertaken by the applicant commensurate with the approvals requested in the application?

- *It is not clear why this issue is not part of Issue 3*

2. Performance Measures

2.1 Does the applicant's performance in the areas of: (1) delivering on Board-approved plans from its most recent cost of service decision; (2) reliability performance; (3) service quality, and (4) efficiency benchmarking, support the application?

3. Customer Focus

3.1 Are the applicant's proposed capital expenditures and operating expenses appropriately reflective of customer feedback and preferences?

- *This issue appears to presume the Applicant has solicited sufficient feedback from the customer to understand whether it addresses their preference. If the applicant has not and fails this test what are the consequences?*

4. Operational Effectiveness

4.1 Does the applicant's distribution system plan appropriately support continuous improvement in productivity, the attainment of system reliability and quality objectives, and the level of revenue requirement requested by the applicant?

- *There is likely to be some overlap/duplication between this issue and Issue 1.1.*

4.2 Are the applicant's proposed OM&A expenses clearly driven by appropriate objectives?

- *It is not clear what is meant by "appropriate objectives"*

4.3 Are the applicant's proposed operating and capital expenditures appropriately paced and prioritized to result in reasonable rate increases for customers, or is any additional rate mitigation required?

5. Public Policy Responsiveness

5.1 Do the applicant's proposals meet the obligations mandated by government in areas such as renewable energy and smart meters and any other government mandated obligations?

- *The COS rate proceeding is not the place to deal with "compliance" issues – which the current wording could be interpreted as suggesting. Would suggest a re-wording as follows:
Do the applicant's proposals permit timely and appropriate expenditures in relation to the applicant's government-mandated obligations in areas such as renewable energy and smart meters and any other government mandated obligations?*

6. Financial Performance

6.1 Do the applicant's proposed rates allow it to meet its obligations to its customers while maintaining its financial viability?

- *It is not clear what this issue is other than a restatement of the questions as to whether the rates are just and reasonable. Would suggest eliminating this.*

6.2 Has the applicant adequately demonstrated that the savings resulting from its operational effectiveness initiatives are sustainable?

7. Revenue Requirement

7.1 Is the proposed Test year rate base including the working capital allowance reasonable?

7.2 Are the proposed levels of depreciation/amortization expense appropriately reflective of the useful lives of the assets and the Board's accounting policies?

7.3 Are the proposed levels of taxes appropriate?

7.4 Is the proposed allocation of shared services and corporate costs appropriate?

7.5 Are the proposed capital structure, rate of return on equity and short and long term debt costs appropriate?

7.6 Is the proposed forecast of other revenues including those from specific service charges appropriate?

7.7 Has the proposed revenue requirement been accurately determined from the operating, depreciation and tax (PILs) expenses and return on capital, less other revenues?

8. Load Forecast, Cost Allocation and Rate Design

8.1 Is the proposed load forecast, including billing determinants an appropriate reflection of the energy and demand requirements of the applicant?

8.2 Is the proposed cost allocation methodology including the revenue-to-cost ratios appropriate?

8.3 **Is Are** the proposed rate design including the class-specific fixed and variable splits and any applicant-specific rate classes appropriate?

- *See suggested edit*

8.4 Are the proposed Total Loss Adjustment Factors appropriate for the distributor's system and a reasonable proxy for the expected losses?

8.5 Is the proposed forecast of other regulated rates and charges including the proposed Retail Transmission Service Rates appropriate?

8.6 Is the proposed Tariff of Rates and Charges an accurate representation of the application, subject to the Board's findings on the application?

- *Presumably this is where any issues regarding the effective date of the Rate Order could be addressed*

9. Accounting

9.1 Are the proposed deferral accounts, both new and existing, account balances, allocation methodology, disposition periods and related rate riders appropriate?

- *While traditionally covered as part of the load forecast presumably this is where proposals regarding the values to be used for the LRAMVA would be addressed.*

9.2 Have all impacts of any changes in accounting standards, policies, estimates and adjustments been properly identified, and is the treatment of each of these impacts appropriate?

- *A more specific identification of the issues would be helpful (see VECC Appendix II).*

APPENDIX II VECC PROPOSED ISSUES LIST

Phase I – Revenue Requirement

1. Rate Base

- 1.1 Has the Applicant an asset management plan which reasonably ensures that it can meet its future customer and public policy requirements?
- 1.2 Has the Applicant maintained its assets in accordance with customer service requirements and kept its assets in reasonable condition?
- 1.3 Is the historical rate base in accordance with prior asset plans and if not are the changes reasonable?
- 1.4 Is the proposed rate base for the test year appropriate and in accordance with the proposed asset plan?
- 1.5 Is the working capital allowance for the test year appropriate?
- 1.6 Is the capital expenditure forecast for the test year appropriate?

2. Operating Costs

- 2.1 Is the overall OM&A forecast for the test year appropriate?
- 2.2 Are the methodologies used to allocate shared services and other costs appropriate?
- 2.3 Is the proposed level of depreciation/amortization expense for the test year appropriate?
- 2.4 Are the 2013 compensation costs and employee levels appropriate?
- 2.5 Is the test year forecast of property taxes appropriate?
- 2.6 Is the test year forecast of PILs appropriate?

3. Capital Structure and Cost of Capital

- 3.1 Is the proposed capital structure, rate of return on equity and short term debt rate appropriate?
- 3.2 Is the proposed long term debt rate appropriate?

Phase II – Recovery of Revenue Requirement

4. Load Forecast and Operating Revenue

- 4.1 Is the load forecast methodology including weather normalization appropriate?
- 4.2 Are the proposed customers/connections and load forecasts (both kWh and kW) for the test year appropriate?
- 4.3 Is the impact of CDM appropriately reflected in the load forecast?
- 4.4 Is the proposed forecast of test year throughput revenue appropriate?
- 4.5 Is the test year forecast of other revenues appropriate?

5. Cost Allocation

- 5.1 Is the Applicant's cost allocation study and model appropriate?
- 5.2 Are the proposed revenue to cost ratios for each class appropriate?

6. Rate Design

- 6.1 Are the fixed to variable splits for each class appropriate?
- 6.2 Are the proposed retail transmission service rates appropriate?
- 6.3 Are the proposed LV rates appropriate?
- 6.4 Are the proposed loss factors appropriate?

Phase III - Performance & Responsiveness

7. Performance Measures

- 7.1 Has the Applicant responded appropriately to all relevant Board directions from previous proceedings?
- 7.2 Are the Applicant's economic and business planning assumptions for 2012 appropriate?
- 7.3 Is service quality, based on the Board specified performance indicators, acceptable?
- 7.4 Is the Applicant's benchmark performance reasonable and does the applicant support its improvement
- 7.5 Has the Applicant sought sufficient customer feedback?
- 7.6 Has the Applicant responded sufficiently to its customer focus programs and to customer complaints?

8. Public Policy Responsiveness

- 8.1 Has the Applicant met all of its public policy requirements.
- 8.2 Are the proposed expenditures (capital& operating) paced and prioritized resulting in a balanced approach to rate changes?
- 8.3 Has the Applicant met its requirements to deliver conservation and demand management programs?
- 8.4 Is the proposal related to LRAM appropriate?
- 8.5 Does the Green Energy Plan meet the mandated requirements
- 8.6 Has the Applicant met all its requirements in respect to smart metering implementation and ongoing operations?

9. Regulatory Accounting

- 9.1 Is the capitalization policy and allocation procedure appropriate?
- 9.2 Are the deferral and variance account balances, cost allocation methodology and disposition period appropriate?
- 9.3 Are the proposed rate riders to dispose of the account balances appropriate?
- 9.4 Are the proposed new deferral and variance accounts appropriate?
- 9.5 Has the Applicant made the appropriate adjustments for IFRS or MGAAP ?

ALL OF WHICH IS RESPECTFULLY SUBMITTED

THIS 9TH DAY OF DECEMBER, 2013