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May 12, 2014

VIA 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-2013-0116 Cambridge and North Dumfries Hydro Inc. ("CND")
Final Argument of Vulnerable Energy Consumers Coalition (VECC)**

On behalf of the Vulnerable Energy Consumers Coalition (VECC), we have enclosed their Final Argument with respect to the above-noted proceeding. We have also filed a copy with the applicant, their counsel, as well as all listed intervenors via email.

Thank you.

Yours truly,

Michael Janigan
Counsel for VECC

Attachment

cc: CND – Grant Brooker – gbrooker@camhydro.com
CND – Counsel – John Vellone – jvellone@blg.com
Intervenors – via email

THE ONTARIO ENERGY BOARD

**IN THE MATTER OF the Ontario Energy Board Act, 1998, S.O. 1998, c. 15,
Sched. B;**

**AND IN THE MATTER OF an Application by Cambridge and North
Dumfries Hydro Inc. for an order approving just and reasonable rates and
other charges for electricity distribution to be effective May 1, 2014.**

Final Argument of the Vulnerable Energy Consumers Coalition

May 12, 2014

**Michael Janigan
Counsel for VECC**

Introduction

The Vulnerable Energy Consumers Coalition, VECC, has participated in this proceeding through its discovery of the application of Cambridge and North Dumfries Hydro Inc. (“CND”) and attendance at the settlement conference of this application. At that conference the following issues from the generic Issues List remained unsettled:

- OM&A ((Issues 1.1, 1.2, 2.1, 3.1, 4.1, 4.2, 4.3, 5.1, 6.1, 6.2, 7.1, 7.4, 7.7 and 8.6)
- Long Term Debt (Issue 7.5);
- Interest Income (Issue 7.6);
- Design of the GS 50 – 999 kW Rate (Issue 8.3); and
- Removal Costs (Issues 7.1, 7.2, 9.1 and 9.2).

VECC, through its counsel, participated in the Board hearing on April 29, wherein the settlement agreement was approved and the above –noted issues were addressed by CND witnesses. VECC’s participation concentrated on OM&A issues and its argument herein will do the same.

OM&A

There have been various attempts to come to terms with what are requests for substantial increases in OM&A and overall rates by CND particularly in the context of the lines of inquiry set out in the approved Issues List. VECC has been a proponent of both an envelope approach to LDC operations and the scrutiny of applicant’s requested revenue requirement by way of comparison to past performance and benchmarking results where available. Where the results of the utility’s operations seems to conflict with what VECC understands to be customer preferences, or commonly understood measurements of performance then VECC will test specific elements of the application to attempt to show how results more in keeping with the objectives of the issues list can be obtained.

In this table taken from Appendix 2 of the Settlement Agreement the following table is illustrative of the rather escalated levels of the CND request:

<i>From Appendix 2</i>	<i>Last Rebasing Year (2010 Board- Approved)</i>	<i>Last Rebasing Year (2010 Actuals)</i>	<i>2011 Actuals</i>	<i>2012 Actuals</i>	<i>2013 Bridge Year</i>	<i>2013 Actuals*</i>	<i>2014 Updated</i>	<i>2014 Test Year</i>
Reporting Basis	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Operations	2,872,659	2,516,620	2,839,916	3,306,212	2,204,861	2,065,161	2,501,846	2,501,846
Maintenance	1,166,239	931,863	929,059	2,121,992	2,460,379	1,921,495	2,035,344	2,841,552
Billing and Collecting	1,447,594	1,071,672	1,494,842	2,649,010	2,839,880	2,425,980	2,974,585	2,974,585
Community Relations	46,969	28,248	43,768	104,797	130,555	116,296	151,000	151,100
Administrative and General	4,498,647	5,032,154	5,454,838	5,494,299	7,235,724	7,259,962	7,334,228	7,334,228
Total	10,032,108	9,580,557	10,762,423	13,676,310	14,871,399	13,788,984	14,977,103	15,803,311

CND Undertaking J1.5 updates the increase from 2010 actuals of \$10,105, 460 and reduces the test year figure for 2014 to \$14,335,203 and removes 2012 costs for meter removal. This results in an annual average increase of 8.4% per year with close to a 40% increase being shown over 2010 figures. The test year OM&A increase proposed is itself some 10% above last year's actuals.

The principal driver for these substantial increases has been CND's increase in FTEs. CND notes in its evidence at Ex4/T1/sch1/p5:

"CND has hired 15 new positions from 2010 to June 30, 2013. For the balance of 2013, CND plans to hire an additional 7 new positions. In 2014, CND plans to hire an additional 5 new positions."

CND Undertaking J1.5 shows that there has been an increase of 21.5 positions (or close to 24%) over the 2010 levels. The pace of hiring seems to be outstripping the ability to actually bring aboard the individuals (Tr. Vol. 1, p.66).

Wage increases have also added approximately 12% for union employees and 11.9% for non-union employees over the same period 2010-2013. Employee benefits have also contributed to the increase ((Ex 4, T1, and Schl. P.5).

However, these cost developments have not been mirrored in the growth in CND customers, nor in the prices for goods and services paid or charged by the customers that CND serves. Undertaking J1.5 updates the customer growth numbers for CND in the subject period with a projection for 2014 of 3084 meaning growth of approximately 6% over the entire period.

An even starker contrast between the results of the application proposed by CND and the world of CND's customers can be found in the table set out in the response to Interrogatory 6.1-VECC-21:

	A	B	C	D
Year	CPI (Statistics Canada)	GDPI from OEB EB-2010-0379	CND's IRM Productivity Factor	CND's Stretch Factor
2010	1.80%	1.30%	N/A (Cost of Service)	N/A (Cost of Service)
2011	2.90%	2.20%	0.72%	0.40%
2012	1.50%	1.60%	0.72%	0.40%
2013	0.90%	1.80%	0.72%	0.40%

Most CND customers have not had increases in income that can match their public utility's appetite for rate increases, and its concurrent failure to meet productivity goals. CND asks the Board to bless an arrangement that means that customers take more of their household budget to pay electricity distribution charges that represent many times what might be reasonably expected of a well-managed firm. The rate increase that the application proposes which is non-rate class specific is approximately 15% (Tr. Vol. 1 p. 76)

In a regulatory framework focused on outcomes rather than activities, one might conclude that the proposed results of CND's application are such that they can't be supported by OEB approved rates. CND, on the other hand, maintains that its increased operational expenditures are consistent with the prudent operations of a utility faced with resource demands brought about by changes to the operating environment. Mr. Miles of CND noted (Tr. Vol. 1 pp26, 27):

“The evidence also details the key drivers behind these increases, which include the introduction of smart meters, time of use pricing, the associated new systems that go along with that, new licensing and support requirements, new regulatory requirements arising out of the Green Energy Act and the LEAP program, regulatory and IFRS-driven accounting changes, rising wage and benefit costs, and the hiring of certain positions for succession planning.

Many of these drivers will be familiar to you, as they have impacted not just our LDC but just about every LDC in Ontario.”

While it is true that these developments have had an impact on other utilities in the province, there has seldom been so costly a response by an LDC. The Board has been fairly reluctant to pile on the effects of wage increases to the revenue requirement. The Board noted on Hydro Ottawa Decision EB 2011-0054 p.13:

“It is the Board’s expectation that costs be contained as a whole and where there is little the company can do to control costs in some areas it must make up for it in areas where it does have control.”

The pivotal moment for revenue requirement increases seems to be when CNL decided in the fall of 2012 to undertake what was, in essence a risk management review of its operations (Tr. Vol. 1 pp26, 27):

“The process started with an enterprise-wide corporate risk review and assessment, and that simply involved identifying key risks that could impact our customers, our employees and the organization. Once these risks were identified, we looked at the mitigation strategies that were in place to manage those risks, and then we determined whether those strategies were adequate or not.

For the cases where we determined that the mitigation strategies were not adequate, we flagged those and we came up with a plan, a priority to address those risks. And those priority items made their way into the 2013-2014, and, in fact, our five-year plan.”

A companywide risk management review is consistent with good management. The problem arises when the gaps in service or security are identified. If those gaps are so severe they require a plan that ramps up mitigation measures such as new FTEs to the extent implemented and proposed by the applicant, it speaks ill of the management regime that preceded the risk review. This is not to say that the process itself is a part of continuous improvement, but the pace of the change in this case supports a conclusion that its efficiency rankings masked some important problems. Alternatively, the CND review has led to an exercise in expansion that has been done at a pace that is far too rich for the utility.

One of the fundamental objectives of regulation is to mirror the competitive market for companies of similar risk. If a firm supplying important telecommunications services such as TELUS decided that their operational risks required a fix, would they contemplate a plan calling for a 40% increase in O&M, a 15% rate increase, all the while maintaining market share and its target ROE? Not likely. Customer call centers, IT upgrades, training and succession costs and service quality (CND's service reliability figures seem to be going down) should be able to deliver high performance, if the cost of the same is not a prime concern and the effect on the financial bottom line is ignored. CND cannot meet its obligations associated with productivity and continuous improvement by simply overspending on remedial measures insulated from the effect of the previous policies by the compliance or compulsion of its ratepayers. In VECC's view, risks and problems have to be dealt with in a way that produces just and reasonable rates, and/or does not place all the financial risk on ratepayers for achieving the same. While the CND shareholders' agreement may commit CND to achieving the "maximum rate of return permitted pursuant to energy legislation" (Ex1T8/S5/p3), this does not mean that achieving CND's commitment to its shareholders is the first obligation to be met.

As a consequence, VECC is prepared to recommend that CND's OM&A expense be reduced to 2013 actuals for the 2014 test year. While it is on the high side of any allowance based on a reasonable envelope approach using the last 2010 Board approved numbers, it should be sufficient to preserve the improvements the Company may have made to its risk management strategy while compelling CND to making more realistic choices with respect to pacing for new initiatives and hires.

Potential O&M Savings

VECC explored with the Company the possibility of realizing savings and efficiencies in a number of areas of its operations. They are recapitulated here primarily to demonstrate to the Board Panel that CND is not bereft of choices to reduce its O&M budget and that choices can be made to avoid disruption and still provide fairness to ratepayers. These include:

1. Savings recognized from failure to implement monthly billing:
The previous Board decision in 2010 allocated \$42,500 to implement monthly billing. CND subsequently decided against the measure because of software program concerns (Tr. Vol. 1, P.92)
2. Savings associated with the \$603,000 in expenses for water billing: contrary to the Board's expectations in 2010, only \$278,000 have been covered by new revenues. The remainder should be removed from O&M (Tr. Vol. 1, p.95)
3. Recognition of productivity benefits: In a number of areas, CND has included expenses incurred to achieve productivity while declining to factor in benefits as too speculative or premature. These include matters such as reductions in bad debt as a result of hiring a credit and collections supervisor, remuneration reductions arising from succession planning, as well as new programs such as Bill Connect and improved use of IT.
4. Allocation of EDA fees to shareholders whose interests the association protects. (Tr. Vol. 1, pp100,101)

Long Term Debt and Interest Costs

VECC has been made aware of the position to be advanced by its fellow intervenors, EP and SEC. VECC concurs with their conclusions as to the appropriateness of the choices or lack thereof in this issue area made by CND. VECC contend that there is on obligation on the part of CND to minimize the costs

of capital and to augment its interest rate even if it means the loss of financial benefits to the parent company.

Design of the GS 50

VECC has no comments to make on this issue

Removal Costs

VECC is in agreement with and adopts the submissions of Board staff as to the appropriate treatment of removal costs as an amortization expense rather than being capitalized with the new asset. This is consistent with the Board's letter of July 2012 as well as good regulatory practice

Costs of this Proceeding

VECC submits that its participation has been responsible and focused on the issues in issue in this proceeding. VECC has been cooperative with its fellow intervenors to ensure that, as much as possible, its work has been non-duplicative and should be of assistance to the Board in determining the disputed issues. VECC accordingly requests 100% of the costs of fees and disbursements of its counsel and consultants for their participation herein.

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