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July 3, 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: Vulnerable Energy Consumers Coalition (VECC)
Final Submissions: EB-2013-0130
Fort Frances Power Corporation – 2014 Electricity Distribution Rate Application

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

Thank you.

Yours truly,

Michael Janigan
Counsel for VECC

Cc: Fort Frances - Lori Cain - ffpc@fort-frances.com

EB-2013-0130

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 Fort Frances Power Corporation. 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 January 1, 2014.

FINAL SUBMISSIONS

ON BEHALF OF THE

VULNERABLE ENERGY CONSUMERS COALITION (VECC)

July 3, 2014

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FORT FRANCES POWER CORPORATION ("FFPC")
2014 COST OF SERVICE RATE APPLICATION EB-2013-130
FINAL ARUGMENT OF VECC

THE APPLICATON

In making these submissions we have followed the issues list as set out by the Board in Procedural Order No. 1 for Fort France Power Corporation ("FFPC). We have also reviewed the arguments of Board Staff and incorporated our views on these where appropriate.

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?

1.1.1. Fort Frances Power Corporation ("FFPC") is a small urban utility serving approximately 3,780 customers. It owns one transformer station. Service is at relatively low customer densities. Hydro One provides service to the surrounding area including the municipal airport. FFPC shares many characteristics of other small utilities, but is unique by the fact that energy costs are reduced by virtue of a Historic 1905 Power Agreement ("Historic Power Agreement") with the local hydro power producer. The terms of this Agreement have a number of impacts on the Applicant most notably in its request for 0% return on shareholder equity. These issues are discussed in detail below.

1.1.2. FFPC filed a comprehensive and detailed Distribution System Plan for the Period 2014-2018.

1.1.3. FFPC has used a newly developed Asset Management and Capital Planning Processes to develop its 2014 to 2018 Capital Investment Plan. Beginning in 2005 it has implemented and populated a new Geographical Information System (GIS). Over the period of the plan "*FFPC estimates that it will realize $455,757 in costs savings through its improved asset*

oversight, enabling good planning.[1]"

1.1.4. FFPC proposes to add one new employee – a Technical Customer Service Representative. The responsibility of this new position would include working on FFPC's newly developed asset management and capital planning processes, as well as to oversee (and enhance) the data sets that support them. FFPC is planning on linking health indexes to the asset classes by the end of 2016. Risk ratings and consequence of failure attributes are projected to be linked by the end of 2017[2].

1.1.5. With the exception of the proposed "Long-Term Load Transfer" capital projects discussed below VECC submits that FFPC has adequately planned for distribution plant maintenance. In our submission its plan for plant renewal is overly aggressive.

1.1.6. VECC does not support the proposed "Long-term load transfer project." Our arguments against undertaking this development are made below.

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

1.2.1. FFPC undertook a customer survey in the summer of 2013. The survey was developed and conducted by FFPC through a bill insert. The response rate was nearly 10%. FFPC estimated that it saved approximately $50,000 by doing this internally[3].

1.2.2. FFPC created an action plan to address the survey. The main points of that plan are shown below.

[1] Exhibit 1, Tabl 1, Schedule 2
[2] 1.1-Staff-1
[3] Exhibit 2, Appendix 2A, Distribution System Plan, see pages 31 and 282.

Table 2.1 Customer Survey Improvement Course of Action[4]

% Responses	Improvement	FFPC Course of Action
6.4%	Rate Reduction	Wise Spending through improved asset management and planning practices
3.8%	Access To Billing Data	FFPC will be implementing customer access to billing data
2.3%	Transition to Monthly Billing	FFPC will be transitioning to true calendar monthly billing
2.0%	Announcing Outages	FFPC will be investing in a mass customer contact technology
2.0%	Educating Consumers	FFPC will conduct consumer education campaigns
0.9%	Expand Business Scope	FFPC will evaluate the feasibility of this
0.9%	Length of Power Outages	FFPC is committed to minimizing power outages
0.6%	Other	N/A
0.3%	Arrears Payment Options	FFPC is committed to continually improving its customer care
0.3%	Budget Billing	FFPC is committed to continually improving its customer care
0.3%	Customer Care	FFPC is committed to continually improving its customer care
0.3%	Upgrade Infrastructure	FFPC is committed to up keeping its infrastructure

*From Exhibit 1, Tab 2, Schedule 1

1.2.3. In VECC's submission the customer survey developed and implemented by FFPC is similar to, if not slightly more informative than other surveys we have reviewed in recent electric distributor cost of service applications. Furthermore, FFPC is making clear efforts to translate the response of its customers into action. Its strategy to do the work internally should be commended. It demonstrates how smaller utilities can be innovative and provide similar services as larger utilities and a lower costs.

1.2.4. FFPC does not formally track customer complaints.[5] One of the roles of the proposed Customer Service Representative is to take on this responsibility. We support this proposition.

1.2.5. While we generally are supportive of the customer engagement of FFPC we note two deficiencies. As with most other utility surveys no effort was made to engage customers as to the cost effectiveness of the Utility. We admit this is a difficult area to survey as most customers simply (and naturally) express a desire for lower prices. However, we believe it is possible for utilities to craft questions which seek to find out whether customers believe they are getting value for the money they spend. This is

[4] Exhibit 1, Tab 2, Schedule 1
[5] 1.2-VECC-4

done in other industries and should be done by electricity distributors.

1.2.6. More importantly, FFPC did not attempt to understand its customer's preferences or interests with respect to its capital budget. Many utilities have tried to do this in their customer engagement. In this Application FFPC is proposing to spend $820,000 on capital projects versus a past five year average of $270,000. The largest portion of this increase, 371k, is for connecting 14 Hydro One customers. In our submission it is doubtful that the majority of customers would be in favour of paying for this project which has such a poor implied net present value.

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?

2.1.1. In response to VECC's interrogatory FFPC provided updated Service Quality Indices. These are shown below [6]

Service Reliability Indices- Including Outages Caused by Loss of Supply- 2006-2013- Revised 2014/05/28								
	2006	2007	2008	2009	2010	2011	2012	2013
SAIDI	0.15	0.30	3.77	6.63	0.60	0.09	0.30	11.37
SAIFI	0.24	0.31	1.77	2.40	0.31	0.21	0.30	3.19
CAIDI	0.62	0.95	2.13	2.76	1.92	0.43	1.02	3.56

Service Reliability Indices- Excluding Loss of Supply Outages 2006-2013								
	2006	2007	2008	2009	2010	2011	2012	2013
SAIDI	0.15	0.30	0.99	0.38	0.60	0.09	0.30	0.10
SAIFI	0.24	0.31	0.79	0.40	0.31	0.21	0.30	0.14
CAIDI	0.62	0.95	1.25	0.96	1.92	0.43	1.02	0.74

2.1.2. In VECC's submission FFPC's service quality indicators are demonstrative of a well maintained utility.

2.1.3. With respect to benchmarking FFPC has made a number of statements which argue against using benchmarking in considering the performance of

[6] 2.1-VECC-5 /2.1-VECC-34

the Utility. For example, FFPC made the following statement:

> … FFPC is concerned about being unjustly penalized in the establishment of its "Efficiency" and "Productivity Ratings", which are also key inputs for the assignment of Stretch Factors for rate setting purposes. The methodology contained in PEG Reporting that establish OEB Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors, underscore the importance of ensuring "apples to apples" benchmarking across distributors. This highlights the need for FFPC's unique circumstances to be taken into consideration when establishing its performance measures. FFPC's OM&A costs incurred essentially support three distinct business functions; a distribution business; a high voltage transformer station business; as well as a 1905 Historic Power Agreement business. Administrative costs; however, have historically not been segregated and allocated to each aspect. Segregation and allocation of costs is difficult due to the intertwined nature of the expense components. FFPC would like to underscore that although its OM&A expenses may appear higher than its peer group or established "targets", they are prudently incurred in the best interest of its customers.[7]

2.1.4. In fact, FFPC the Power Agreement makes no difference with respect to OM&A and capital costs. FFPC is correct to note that its ownership of the Fort Frances MTS does distinguish it from many, though by no means all, other electricity distributors. Again it is a simple matter to adjust for this type of difference. The Board's initiatives in benchmarking anticipate such differences and are not a valid excuse, in our submission, for not considering FFPC's efficiency vis-à-vis other similar utilities.

2.1.5. As noted by Board Staff, the costs related to FFPC's transformation station are a relatively small part of the overall costs of the Utility. Notwithstanding this fact, FFPC benchmark performance is below the average for its cohort. As we discuss below, this argues for a close examination of the proposed OM&A costs.

2.1.6. The fact is that even comparing its year on year performance FFPC shows significant increases in cost per customer and notwithstanding its stagnant customer base[8].

2006	2007	2008	2009	2010	2011	2012	2013	2014
282.63	296.59	312.64	349.41	350.99	344.9	428.61	379.62	442.98

2.1.7. As noted by FFPC the Utility also performs poorly with respect to its actual and the predicted costs. In the Board's most recent PEG Report it

[7] Exhibit 2, Appendix 2A – Distribution System Plan pg.28
[8] Ibid, pg. 71/ 2013 and 2014 taken from OM&A/per customer in Application

ranks 58 out of 73 making it one of the poorest performing utilities over the last few years.[9]

2.1.8. FFPC does shares an overall higher OM&A cost per customer as the cohort utilities that are (relatively) nearby. The 2012 OM&A per customer for these three utilities are shown below[10].

Sioux Lookout Hydro Inc.	532.4
Atikokan Hydro Inc.	777.24
FFPC	428.61

3. Customer Focus

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

3.1.1. As noted above generally, we are in support of the customer engagement of FFPC. And as also discussed above the customer engagement is significantly deficient in its attempt to understand customer preferences with respect to the proposed load transfer project. In our submission given the unique nature of this project this is a critical deficiency.

3.1.2. In our submission FFPC should not consider proceeding with the Load Transfer Elimination project until it has informed and engaged its customers. In doing so it should explain to customers the cost of proceeding and the risks if no further development should occur in the proposed expansion areas.

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 associated revenue requirement requested by the applicant?

[9] Productivity and Benchmarking Research in Support of Incentive Rate Setting (PEG) Final Report to the Ontario Energy Board, November 13, Table 17
[10] OEB 2012 Yearbook of Electricity Distributors

4.1.1. There are, in our submission, three issues for the Board to consider in the capital budget plans of FFPC. The first is the change from a run-to- failure asset maintenance to a system renewal proactive plan. The second is the proposed Long-Term Load Transfer program. The third issue is investments in renewable power enabling projects.

4.1.2. Below are the past and proposed capital expenditures for the test year.

Projects	2006	2007	2008	2009	2010	2011	2012	2013 Bridge Year	2014 Test Year
Reporting Basis	**CGAAP**	**CGAAP**	**CGAAP**	**CGAAP**	**CGAAP**	**CGAAP**	**CGAAP**	**CGAAP**	**CGAAP**
Poles, Towers and Fixtures	70,702	76,776	89,464	101,896	116,198	135,340	157,180	127,975	129,928
14-18-002: Overhead & Pad-Mounted Transformer Replacement Program									95,648
14-18-004: Renewable Enabling Improvements								35,000	50,000
14-14-006: Elimination of Long Term Load Transfers									371,739
Unit #4 & #12: Half Ton & F550 Dump Truck Replacements	90,569								
Unit #5: Digger Derrick Replacement					245,900				
Unit #2: Single Bucket Truck Replacement								120,000	
Unit #6: Cable Reel & Tensioning Trailer Replacement									50,000
Operations Centre Shop Expansion				103,332					
Main Office Emergency Backup Generator					75,466				
Miscellaneous	173,322	116,829	97,438	72,557	85,484	9,981	65,094	115,985	123,001
Total	**334,594**	**193,605**	**186,902**	**277,785**	**523,048**	**145,321**	**222,274**	**398,960**	**820,316**
Less Renewable Generation Facility Assets and Other Non Rate-Regulated Utility Assets *(input as negative)*							-27,673	-35,000	-50,000
Total	**334,594**	**193,605**	**186,902**	**277,785**	**523,048**	**145,321**	**194,602**	**363,960**	**770,316**

System Renewal Plan

4.1.3. FFPC a “just-in-time” asset replacement approach, under which assets are

replaced on a proactive manner as they approach their high probability of failure in their lifecycle, as established by FFPC's asset management and capital planning processes[11]. The Utility was widely rebuilt as part of a voltage conversion that lasted from the mid-70's until the mid-80's. For this reason the oldest vintage of assets is generally no later than 1970[12]. FFPC is proposing to depart from a maintenance mode of operation and begin a major capital "rebuild" mode of operation over the 2014 to 2018 planning horizon.

4.1.4. The first aspect of this project begins in 2014 with an overhead and pad transformer replacement (approx. 95k) project.

4.1.5. The proposed future spending is shown below[13].

Category	2014	2015	2016	2017	2018	2014 - 2018 Total
	Planned Expenditures ($'000)	Planned Expenditures ($'000)	Planned Expenditures ($'000)	Planned Expenditures ($'000)	Planned Expenditures ($'000)	Planned Expenditures ($'000)
System Access	421.7	40.0	20.0	45.0	12.0	538.7
System Renewal	253.6	418.9	504.3	531.0	360.7	2068.5
System Service	48.5	142.0	60.0	58.0	15.0	323.5
General Plant	96.5	75.5	76.0	33.0	310.5	591.5
Total	820.3	676.4	660.3	667.0	698.2	3522.2
System O&M	24.3	13.0	7.1	7.8	2.5	54.7

4.1.6. Removing the one- time costs of smart meters and the Long-Term Load transfer projects FFPC's forecast spending over the next 5 years remains about twice the level of the previous 5 years. This is a significant commitment for a small Utility with a stagnant to declining customer base.

4.1.7. VECC generally agrees with Board Staff's with respect to the capital renewal program. In our view the relatively young vintage of the utility (1970

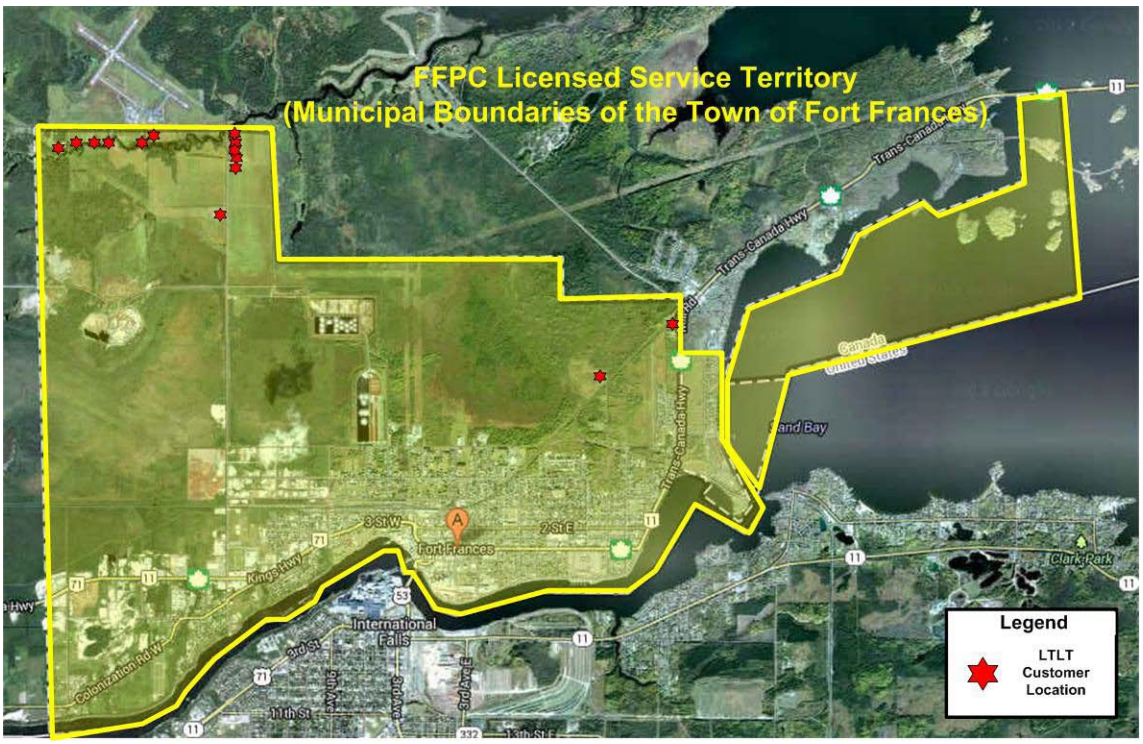
[11] Exhibit 1, Tab 1, Schedule 2, pg.8
[12] Exhibit 2, Appendix 2A,FFPC Distribution System Plan, page 10
[13] Exhibit E2 Appendix 2A Distribution System Plan pg. 256 / Board Staff Argument page 16

to 80's) and the lack of detailed information on existing plant argue for a more conservative approach. Staff has suggested reducing the Overhead & Pad-Mounted Transformer Replacement Program by about 50% for 2014. We agree and submit that it would be reasonable for FFPC to reduce its anticipated spending on this program by 50% for the entire 5 year period.

Long-Term Load Transfer project

4.1.8. The biggest program for 2014 is $371,739 for the "Long-Term Load Transfer Project." $18,587 is included in 2014 OM&A related to the this project. The map below shows the customer attachments in three separate locations:

(1) McIrvine & Frog Creek Road (Airport) - $270,767 connecting 12 customers
(2) CNR Railway - $46,446 connecting 1 customer
(3) Couchiching First Nations - $54,525 connecting one customer.[14]



4.1.9. Over the course of history, FFPC has been approached by several LTLT customers requesting that FFPC extend its distribution system such that they

[14] 1.1-VECC-33 / 1.1-VECC-1 / Map 1.1-Staff-1 and 1.1-VECC-1 for circuit map

can be connected to it and served by FFPC. FFPC's holds that these customers are entitled to receive benefits from a 1905 Historic Power Agreement. Under the current circumstances FFPC is not able to distribute the 1905 Historic Power Agreement credits to them, as FFPC does not meter or bill the these customers[15]

4.1.10. In fact all the customers in question are not load transfer customers but rather Hydro One customers who reside within the licensed service territory of FFPC. All of the customers are metered and billed directly by Hydro One.

4.1.11. FFPC has implied that the 14 customers are entitled to the benefit of the 1905 Historic Power Agreement. While VECC did seek clarification as to the legal basis for this assumption no evidence in the form of a legal opinion was provided. However, the view appears to be premised on the believe that all customers of FFPC are entitled to the associated power cost rebate. There are two issues to consider in this respect. The first is whether the supposition is true in and of itself, the second is whether any of these 14 services are in fact customers of FFPC[16].

4.1.12. The project would have no benefits with respect to reliability since Hydro One and FFPC plant cannot be connected due to the different voltages being used.[17]

4.1.13. The largest number of customers are in an area directly across from the municipal airport which is served by Hydro One. FFPC has stated that the Town has entered into an option to purchase agreement with a solar farm developer for a portion of the land just south of the airport. However, the status of this project has yet to be finalized. FFPC did not provide evidence from the OPA as to the status of a proposed solar farm project.

4.1.14. In VECC's submission the customers in question are clearly customers of Hydro One. They are not now, nor have ever been customers of FFPC. The fact that the licence service territory does not recognize this is a matter, we submit, of simple administrative oversight. FFPC's premise that the municipal boundary is definitive of its service territory is incorrect. Since 1999 the Board license is the sole determination of service boundaries. During the transition from the Power Corporation Act to the OEB Act, the

[15] Distribution System Plan, Pg.32
[16] 1.1-Staff-40 & 1.1-VECC-32
[17] 1.1-VECC-33

OEB, as a matter of convenience maintained the municipal boundaries were maintained as descriptions for service territory. For the most part this was the actual demarcation of service. In a small number of cases Hydro One and the Municipal Utility had agreements under which a customer was served by one utility but billed by the other. These are load transfer customers.

4.1.15. Under the OEB Act a municipal held utility does not acquire a right to serve within the municipal boundaries. There are no customer displacement issues to consider in this case. The Hydro One customers within the municipality of Fort Frances should appropriately be recognized by an amendment to the licence service territories of the two utilities. The vast majority of these customers lie along a major service of Hydro One to the municipal airport.

4.1.16. The Board is an economic regulatory. It is required to consider the issue from the basis of what is just and reasonable and what is economically efficient and in the public's interest. In our submission FFPC's is neither reasonable to its customers who would be faced with an inordinate cost burden and risk. Nor is economically efficient and in the public interest.

4.1.17. In our submission the potential for development south of the airport is immaterial to the issue. Hydro One presumable has sufficient plant in place to serve a large commercial area and could more efficiently attach new developments adjacent to the airport. We do not believe it is in the interest of the customers of FFPC such a large investment to attach such a small number of customers based partly on speculation as to future developments. We believe the public interest would be best served by having Hydro One and FFPC enter into discussions (perhaps mediated by Board Staff) in order to resolve any service issues in the most efficient way possible.

4.1.18. Finally, we reject the notion that the Hydro One customers within the municipal boundaries are entitled to power rebates due to the Historical Power Agreement. However, even if we are incorrect in this it is clear that FFPC could, working with Hydro One, provide a power rebate to these customers without the need to physically connect them to FFPC's distribution system.

4.1.19. The last amount (50k) is related to FFPC connections for renewable energy projects. VECC supports the submissions of Board Staff made in section 5.1 of the issues list.

Capital contributions

4.1.20. FFPC has not properly accounted for capital contributions. Instead was using a "net" capital expenditure accounting. This should be corrected. In response to VECC interrogatory FFPC was able to provide the actual contributions for 2008 through 2014. These are shown in the table reproduced below[18]

	2008	2009	2010	2011	2012	2013	2014
Capital Contributions	$47,368	$64,229	$0	$15,329	$0	$56,393	$0

4.1.21. If the Board were to accept the Load Transfer project consideration would then need to be given to the 2014 expected. It is FFPC's evidence that one reason to expand is its expectation of development in the area south of the municipal airport of new service. If this were the case significant contributions would be expected.

4.2. Are the applicant's proposed OM&A expenses clearly driven by appropriate objectives, and do they show continuous improvement in cost performance?

4.2.1. Below we have reproduced FFPC's past and proposed OM&A budgets.

	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
	Last Rebasing Year (2006 Board-Approved)	Last Rebasing Year (2006 Actuals)	2007 Actuals	2008 Actuals	2009 Actuals	2010 Actuals	2011 Actuals	2012 Actuals	2013 Bridge Year Original Filing	2013 Actuals*	2014 Test Year
Operations	142,165	154,931	167,586	161,730	194,356	192,399	195,697	213,851	209,500	203,958	371,000
Maintenance	106,651	92,874	113,833	142,860	130,396	183,394	169,076	377,219	213,000	217,156	304,000
Billing and Collecting	144,547	237,343	235,870	254,460	266,345	265,204	213,984	255,946	235,500	265,075	268,000
Community Relations	4,712	62,599	35,457	21,187	14,905	8,805	6,024	5,978	4,750	4,870	37,150
Administrative and General	603,271	577,417	612,906	686,964	710,557	675,883	717,211	751,977	763,500	773,253	677,500
Total	**1,001,346**	**1,125,164**	**1,165,652**	**1,267,201**	**1,316,559**	**1,325,685**	**1,301,992**	**1,604,971**	**1,426,250**	**1,464,312**	**1,657,650**

[18] 4.3-Staff-43 & 4.3-VECC-40

From FFPC_2014-CustomerChapter2_Appendicies_Rev_20140522

4.2.2. Based on benchmarking results FFPC is clearly a high cost utility. It's OM&A costs per customer are much higher than most Ontario electricity distributors. Also as noted above the PEG Report concludes FFPC's OM&A costs are much higher than would be expected.

4.2.3. 2014 OM&A costs are 65% higher than the last Board approved amount.

4.2.4. VECC has performed its "Expected Growth" analysis. In this analysis we consider the last Board approved amount, adjust for inflation and customer growth and any new incremental responsibilities (like smart meters) costs. The analysis confirms the findings of the PEG Report. By our analysis FFPC's costs are between 515k and 318k higher than would be expected.

Adjustment	Adjustment Factor	2006 BA	2006 Actuals
Last Board COS Review		**1,001,346**	**1,125,164**
CPI Adjustment 2006-2013*	14.00%	140,188	157,523
Smart Meter Adjust**	15,000	15,000	15,000
IFRS/MGAAP Adjust***	0	0	0
Incremental Regulatory requirement costs****	72,800	72,800	72,800
Customer growth *****	0	0	0
Additions for Growth, Incremental Costs & Accounting Changes		**212,988**	**230,323**
Stretch factor 0.4 x 2*	0.80%	8,011	9,001
Productivity Offset 1.0% x5 + 0.72% x 2*	6.40%	64,086	72,010

Reductions for Productivity		**72,097**	**81,012**
Expected OM&A		**1,142,238**	**1,274,475**
Applicant's Proposed OM&A	**1,657,650**		
Reduction from Proposed		**515,412**	**383,175**

* Based on simple cumulative CPI = 13.6%, IRM and Stretch Factors from 6.1-VECC-22

**Smart meter incremental costs are shown at 4.2-VECC-9

**There is no impact on OM&A since FFPC has not revised capitalization policies. (4.2-VECC-8)

**** Incremental costs related to government and OEB regulations (5.1-VECC-21) $48,800 without GEA and OEB application filing costs.

*****Customer growth from E3/T2/S1/pg.4

4.2.5. In their argument Board Staff have noted a number of areas where there have been increased costs. Most of these within the ambit of inflationary increases or discretionary spending. In our view only areas should be considered outside the normal expected increase in costs as shown in our analysis. This is with respect to increases in FTEs and OM&A related to the Long-Term Load Transfer project. As noted above we do not support any amounts related to the connection of Hydro One customers.

4.2.6. In VECC's submission, FFPC has made a compelling argument for the addition of two FTEs. FFPC added one lineman to its staff since 2006.[19] In 2014 it proposes to another for the purpose of capital planning and customer relations. In our submission both additions are reasonable given the incremental regulatory and technical (smart meter/smart grid) costs being incurred by the Utility. In our view an allowance of approximately $150k should be made for these positions.

4.2.7. Given the above in our submission FFPC's OM&A for 2014 should be reduced by between $365k and $233k.

[19] 4.2-VECC-13

4.2.8. While we have taken an envelope approach to our analysis we note there are a number of areas in which OM&A savings might be made. For example 75k in savings could be made in by reducing costs in just three areas:

(1) Training 47.7k (vs 29k in 2011). There are some one-time training costs in 2014 related to the new position that should properly be prorated for the purpose of rates.
(2) EDA Fees 13.4k [20]. We submit these are not ratepayer, but rather shareholder costs
(3) Community relations – 4.7k in 2013 vs. 29k in 2014
(4) LTLT costs 18-25k

4.2.9. More significantly, if the Board accepts the arguments of both Board Staff and VECC that the capital budget is over ambitious then there clearly will be a reduction in OM&A costs. This is especially true of FFPC since does not capitalize a large portion of its OM&A.

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

4.3.1. Our submissions on this issue are made under issue 4.1

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?

5.1.1. Our submissions with respect to this issue are made at 4.1

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?

6.1.1. VECC supports the submissions of Board Staff made under this issue. We have made similar points under issue 7.5 (Capital Structure).

[20] 4.2-VECC-14

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

6.2.1. VECC has no submissions under this issue.

7. Revenue Requirement

Table 1.3 Base Revenue Proposal*

Description	2006 Board Approved	2014 Test Year Proposed	Increase	Increase %
Reporting Basis	Old CGAAP	New CGAAP		
OM & A Expenses	$1,001,346	$1,657,650	$656,304	66%
Depreciation	$319,136	$197,074	-$122,062	-38%
Interest	$139,394	$135,041	-$4,353	-3%
Return on Equity - Target	$0	$0	$0	0%
PILs	$30,983	$0	-$30,983	-100%
Reg Asset Adjustment	$76,162			
Service Revenue Requirement	**$1,567,021**	**$1,989,765**	**$422,744**	**27%**
Revenue Offsets	$130,393	$103,033		0%
Base Revenue Requirement	**$1,436,628**	**$1,886,732**	**$450,104**	**31%**

*From Exhibit 1, Tab 1, Schedule 4

FFPC did not make any changes to its proposed Revenue Requirement during this proceeding. The revenue deficiency is $459,007

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

7.1.1. For working capital FFPC 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

7.1.2. FFPC bills all of its customers on a monthly basis . 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 completed lead-lag studies have shown much lower working capital requirements and nearer to 11% of controllable costs.

7.1.3. While VECC is mindful of the recent decisions 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 previously billed on a bi-monthly basis. Over the past four years and with the introduction of smart metering and time-of-use rates billing frequency has changed from bi-monthly to predominantly monthly billing. This change undermines the theoretical premise of the default value.

7.1.4. 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, even if that evidence was reviewed in other proceedings, but which is the result of actual lead-lag studies.

7.1.5. With respect to 2014 rate base in our submission FFPC should make the appropriate adjustments for removal of the Long-Term Load Transfer project and 50% of the transformer project. These submissions are similar to those made by Board Staff.

7.2. Are the proposed levels of depreciation/amortization expense appropriately reflective of the useful lives and accounting policies?

7.2.1. VECC supports the submissions of Board Staff with respect to this issue.

7.3. Are the proposed levels of taxes appropriate?

7.3.1. Under the not-for profit model used by FFPC no taxes are payable. However, as noted in our submissions on cost of capital this might be adjusted should be Board determine that it is prudent for the Utility to incorporate a minimal equity return.

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

7.4.1. Overall shared service costs have decreased since the last cost of service filing as shown below[21].

[21] Exhibit 4, Tab 2, Schedule 5, pg.3

Name of Company				Annual Price for Service			Bridge	Test
From	To		Pricing Methodology	2010	2011*	2012	2013	2014
Town of Fort Frances	FFPC	*Meter Reading- 5310*	*Wages/Benefits*	$ 29,616	$ 8,774	$ 5,488	$ 6,000	$ -
Town of Fort Frances	FFPC	*Customer Billing-5315*	*Contract*	$ 43,881	$ 38,583	$ 47,619	$ 65,000	$ 65,000
Town of Fort Frances	FFPC	*Collecting-5320*	*Contract*	$ 86,499	$ 76,807	$ 91,960	$ 72,000	$ 75,000
Town of Fort Frances	FFPC	*Accounting Services*	*Contract*	$ 26,475	$ 24,508	$ 29,498	$ 28,000	$ 29,000
Town of Fort Frances	FFPC	*GIS Services*	*Wages/Benefits*	$ 9,675	$ 10,744	$ 11,276	$ 12,000	$ 12,000
Town of Fort Frances	FFPC	*Office Space Cost-5670*	*Costs/space used*	$ 13,284	$ 13,284	$ 13,284	$ 13,284	$ 13,284
		Total		**$ 209,430**	**$ 172,700**	**$ 199,125**	**$ 196,284**	**$ 194,284**
			Percentage Change v	**-5.71%**	**-21.27%**	**13.27%**	**-1.45%**	**-1.03%**

**Error was made that booked all of the December 2011 contracted expenses in 2012, inflating 2012 expenses .*

7.4.2. Total affiliate costs were $200,583 in 2006, the year of last cost of service filing. With the removal of meter reading services they would have been $164,724. This represents an 18% increase in costs since 2006 which is near the expected inflationary increase.

7.4.3. As noted by Board Staff no details were provided on the methodology used for allocation. However, the calculations appear consistent as between 2006 and 2014. We presume the Board's review in 2006 considered the appropriateness of the allocation methodology.

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

7.5.1. FFPC requested cost of capital is shown below.

		(%)	($)	(%)	($)
	Debt				
1	Long-term Debt	56.00%	2,684,334	4.88%	130,995
2	Short-term Debt	4.00%	191,738	2.11%	4,046
3	**Total Debt**	**60.00%**	**2,876,072**	**4.70%**	**135,041**
	Equity				
4	Common Equity	40.00%	1,917,381	0.00%	$ -
5	Preferred Shares	0.00%	$ -	0.00%	$ -
6	**Total Equity**	**40.00%**	**1,917,381**	**0.00%**	**$ -**
7	**Total**	**100.00%**	**4,793,453**	**2.82%**	**135,041**

7.5.2. FFPC is requesting a 0% return on equity. It has chosen this strategy for two reasons. First, it is the policy of its shareholder to maintain low rates. Second operating as a not-for-profit utility provides protection

against a legal attack on the Historic Power Agreement. FFPC stated that it does not believe operating a profit is prohibited under the agreement, but out of an abundance of caution prefers to seek a 0% return stating:

> *FFPC has no way of determining whether an opponent could successfully convince the courts that earning a rate of return precludes obtaining the benefits under the Agreement. It is FFPC's understanding that the courts would seek to construe the Agreement as a whole, in light of the change in circumstances. However, FFPC believes that if FFPC were to earn a rate of return, that change in circumstances is likely to cause an opponent to launch a legal challenge.*[22]

7.5.3. In fact, FFPC sought and was granted a 3% return on equity for its recovery of smart meter costs (EB-2012-0327). It has been running at a loss for every year between 2007 and 2012.[23]

7.5.4. FFPC holds no long-term debt, but proposes to use the Board's default rate for the notional amount of debt of its capital structure. Because no debt has been issued by the municipality there is no way other than the declaration of a dividend to transfer earning to its shareholder.

7.5.5. In 2012 FFPC had investments of $2.35 million. This represents a significant portion of total assets. In FFPC has current cash reserves which are in excess of 10 years of the implied return of equity. FFPC responded positively to the suggestion made by Board Staff to use a reserve fund to stabilize funding requirements.

7.5.6. In VECC's submission nothing precludes FFPC from earning a rate of return sufficient to enable stable long-term operations. A 0% return for the purpose of rates is not prudent since simply based on variations in demand induced by weather a utility will over earn in some years and under earn in others. While FFPC has been able to build up a considerable reserve this is due to the fact that while rates recover the Board approved debt costs the Utility is actually debt free.

7.5.7. In our submissions it is unlikely that the Historic Power Agreement would be threatened by having rates calculated with the inclusion of

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[22] 7.5-Staff-27
[23] 6.1-Staff-23

modest return (1-3%) since in the long-run such a return would equate to zero. We also suggest that if FFPC were to do so under an order of the Board it would have the added protection of a regulatory defense.

7.5.8. With respect to long-term debt we believe it would be prudent for the Utility to restructure so as to have affiliated debt issued by shareholder. This could be done by the declaration of a dividend which would then be lent back in whole or part to the Utility. This is the common structure of municipal held utilities in Ontario.

7.5.9. Since the overall cost of capital is significantly below the allowable amount VECC supports the current cost consequences of FFPC's proposal. However, if the Utility continues to operate under the current capital structure we would in the future argue for reduction in the returns provided for long-term debt. We would do so based on the principle that a utility which operates with an actual capital structure significantly different than the deemed structure is both gaming the rate making scheme and putting customers at financial risk.

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

7.6.1. In its Application FFPC forecast Other Revenues for 2014 of $103,033[24]. As result of the April 4, 2014 Teleconference, this forecast was updated to $108,033 to include $5,000 of cost recovery from the Town of Fort Frances for water billing[25].

7.6.2. In response to interrogatories FFPC provided its actual Other Revenues for 2013, which were materially higher than Application's forecasts for both 2013 and 2014[26]. FFPC claims that some of the difference can be attributed to one-time events (e.g. Non-Utility Rental). However, VECC notes that there has been Non-Utility Rental income for each of the last four years ranging from $1,673 to $44,786 and averaging $24,184 per year. Even if the latest year's value of $44,786 is excluded the three year average for the prior years is $17,317 as compared to a 2014 forecast value of zero.

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[24] Exhibit 3, Tab 3, Schedule 2, page 4
[25] April 4, Teleconference, VECC #1 a)
[26] May 29, 2014 Teleconference, 7.6-VECC-41

7.6.3. Similarly, VECC also notes that there have been Retail Service Revenues (Accts. 4082 and 4084) ranging from $586 to over $3,000 each year since 2008, with an average of roughly $2,000 per annum. However, no allowance has been made in the 2014 forecast for any such revenues.

7.6.4. VECC submits that it would be reasonable to increase the forecast for 2014 Other Revenue by at least $10,000 to allow for additional revenues in these two areas and that even this value is materially less than the historical average. This would result in an Other Revenue Forecast for 2014 of $118,033.

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?

7.7.1. We have no submissions under this issue

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?

Customer Count

8.1.1. In its Application FFPC has forecast the customer count for each rate class using the historical growth rate over the period from 2003-2012[27]. This approach leads to a decrease in customer count for 2013 and 2014 for the Residential and GS<50 customer classes, an increase of one customer over the same period for the GS>50 class and no change for the Streetlights and USL classes[28]. This forecast did not change as a result of the interrogatory process.

8.1.2. During the interrogatory process FFPC provided the actual customer count by class for 2013[29]. There are two classes whose actual 2013 values

[27] Exhibit 3, Tab 2, Schedule 1, pages 10-11
[28] Exhibit 3, Tab 2, Schedule 1, page 3
[29] 8.1–VECC–27

are materially out of line with the 2013 and 2014 forecast. The first is Residential where the 2013 actual count is 3,242 down from 3,308 in 2012 and also lower than the forecast 2013 and 2014 values of 3,299 and 3,290 respectively. However, while the circumstances regarding the local economy are uncertain[30], there are prospects for Residential customer count increase in 2014 due to: i) the LTLT elimination and ii) the new subdivision that was constructed in 2013[31]. As a result, VECC submits that the 2014 forecast Residential customer count as set out in the Application is appropriate.

8.1.3. With respect to the Streetlighting class, the 2013 connections increased to 1,030 (versus a forecast for 2013 and 2014 of 1,006). In this case, VECC submits that the actual 2013 connection count should be used for 2014.

8.1.4. For the remaining customer classes, FFPC's 2014 forecast appears reasonable.

Volume Forecast (Prior to CDM Adjustments)

8.1.5. FFPC's load forecast is based on a forecast of 2014 IESO purchases which is then converted to billed load and disaggregated by customer class[32]. The purchased power forecast is based on a regression model that uses monthly data from 2003-2012 and relates purchases to weather, calendar, economic and customer count variables.

8.1.6. The resulting regression model is robust in that it has a high Adjusted R Square value, the coefficients for all of the variables included are statistically significant and all of the coefficients have the intuitively correct sign[33]. During the interrogatory process FFPC indicated that other alternative specifications tested did not yield similarly satisfactory results[34].

8.1.7. Overall FFPC's purchased power forecast model is reasonable. However the forecast variables for 2014 will need to be adjusted to reflect any

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[30] The current expectation is that Resolute Forest Products will permanently close its Fort Frances pulp and paper operation per 8.1–VECC–28 b).
[31] 7.6-VECC-41
[32] Exhibit 3, Tab 2, Schedule 1, page 5
[33] Exhibit 3, Tab 2, Schedule 1, page 7
[34] April 4, 2014 Teleconference VECC #4 b), 8.1-Staff-30 and 8.1-VECC-29 a)

changes approved by the Board in its 2014 forecast customer count.

8.1.8. The approach used by FFPC to disaggregate its 2014 purchased power forecast by customer class is similar to that used by other distributors (and accepted by the Board) in their cost of service-based rate applications. Again, the only adjustment required would be to update the calculations for any revisions to the customer count by rate class for 2014.

CDM Adjustment

8.1.9. FFPC has manually adjusted its 2014 billed load forecast by 1,148,561 kWh to account for the impact, in that year, from 2012-2014 CDM programs[35]. VECC notes that the forecast CDM savings for 2012-2014 align with FFPC's CDM target and that the 2012 and 2014 values have both been adjusted to reflect one-half of the full year's impact[36]. VECC submits that FFPC's proposed CDM adjustment is appropriate.

8.1.10. FFPC is also proposing a value of 1,789,706 kWh for its 2014 LRAM calculation[37]. VECC submits that this value is also appropriate.

8.1.11. For those classes that are demand billed (GS>50 and Streetlighting), FFPC has used the average 2003=2012 historical ratio of kW/kWh to convert its kWh forecast to billing kW. VECC agrees with this approach[38].

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

Cost Allocation Methodology

8.2.1. In its Application FFPC has used the Board's 2014 cost allocation model. FFPC has also revised the weighting factors for Services, Billing & Collecting, Meter Capital and Meter Reading to reflect its service territory[39] as directed by the Board in its March 2011 Report. The load profiles used by FFPC are the same as those in its original

[35] April 4, 2014 Teleconference, VECC #6 a)
[36] Exhibit 3, Tab 2, Schedule 1, page 16
[37] Exhibit 3, Tab 2, Schedule 1, page 17
[38] Exhibit 3, Tab 2, Schedule 1, page 120
[39] Exhibit 7, Tab 1, pages 1-5 and 8.2-Staff-31

informational filing, only scaled to match the 2014 load forecast[40].

8.2.2. Overall, VECC submits that FFPC's cost allocation is appropriate for use in determining revenue to cost ratios for purposes of setting 2014 rates but has not been 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).

Proposed 2014 Revenue to Cost Ratios

8.2.3. The following table sets out the 2014 Status Quo Revenue to Cost (R/C) ratios for each customer class based on the Cost Allocation model filed by FFPC.

REVENUE TO COST RATIOS – 2014 STATUS QUO AND PROPOSED		
Customer Class	**2014 Status Quo R/C Ratios**	**2014 Proposed R/C Ratios**
Residential	83.44%	97.50%
GS<50	86.40%	97.50%
GS>50	227.47%	120.00%
Street Lighting	94.69%	97.50%
USL	119.68%	119.31%

Notes: Per Appendix 2-P and Board Staff #8 from the April 4th teleconference

8.2.4. VECC submits that FFPC's approach to adjusting its revenue to cost ratios for 2014 is appropriate, in that FFPC has reduced the ratio for GS>50 to the top end of the target range for that class and increased the ratios for all classes with values below 100% so as to address any revenue deficiency.

8.2.5. VECC notes that the cost allocation model will need to be revised to reflect any changes in the revenue requirement and/or load forecast approved for 2014. However, a similar approach should be used to address any revenue to cost ratios that initially fall outside the Board's approved target ranges by customer class.

[40] Exhibit 7, Tab 2, page 1

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

8.3.1. FFPC proposes to maintain the existing fixed-variable split for all rate classes[41]. However, for three out of its five customer classes (i.e., GS<50, GS>50 and USL) the current 2013 fixed charge is already higher than the "ceiling" as established by the cost allocation model[42]. For these three classes the Board should consider keeping the 2014 fixed charge at the 2013 level.

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

8.4.1. FFPC has based its 2014 loss factor on the historical average for the years 2008-2012[43]. VECC notes that the historical loss factors for this period are reasonably consistent and do not reflect any apparent trend. VECC submits that FFPC's proposed loss factor of 1.0470 is reasonable.

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

8.5.1. In response to questions[44] during the April 4th teleconference, FFPC provided an update to its proposed RTSRs based on the approved 2014 transmission rates. VECC submits that these revised RTSRs for 2014 are 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?

8.6.1. VECC has no submissions under this issue.

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[41] Exhibit 8, Schedule 1, page 3
[42] Exhibit 8, Schedule 1, page 3
[43] Exhibit 8, Schedule 1, page 13
[44] VECC #8

9. Accounting

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

9.1.1. VECC supports the submissions of Board Staff under this issue except for the issue of disposition of Account 1508 IFRS Transition Costs. We do not agree that the account should be disposed of it is to include 2013 amounts. We suggest that FFPC either dispose of the 2012 actuals or defer the disposition until it has completed all IFRS related spending and has a final balance for the account.

9.1.2. Board Staff has made a number of observations with respect to the smart meter disposition especially as it relates to the inclusion of the GS>50kW class. VECC supports the proposal of FFPC.

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?

9.2.1. FFPC is seeking to have rates as of May 1, 2014. We agree with Board Staff that based on the late filing date this should not be granted. In our submission rates should be declared on a forward basis subsequent to the issuance of the Board's final rate order.

9.2.2. 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.

All of which is respectfully submitted