PUBLIC INTEREST ADVOCACY CENTRE
LE CENTRE POUR LA DÉFENSE DE L'INTÉRÊT PUBLIC

January 20, 2015

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-2014-0071 Espanola Regional Hydro Distribution Corporation
Submissions of Vulnerable Energy Consumers Coalition (VECC)

Please find enclosed the submissions of VECC in the above-noted proceeding. We have also directed a copy of the same to the Applicant.

Thank you.

Yours truly,

Michael Janigan
Counsel for VECC

Cc: Espanola Regional Hydro Distribution Corporation

EB-2014-0071

ONTARIO ENERGY BOARD

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

AND IN THE MATTER OF an application by
Espanola Regional Hydro Distribution Corporation
for an order approving just and reasonable rates and other charges
for electricity distribution to be effective May 1, 2015.

Submissions of Vulnerable Energy Consumers Coalition (VECC)

VECC's submissions address Espanola's request for an adjustment to its base rates given its earnings in the prior year.

Over-Earnings in 2013

- Espanola`s 2013 ROE is 29.92%.[1]

- The Board's Filing Requirements state:[2]

3.2.10 Off-ramps

"For each of the Board's three rate-setting options, a regulatory review may be triggered if a distributor's earnings are outside of a dead band of +/- 300 basis points from the Board-approved return on equity. The Board monitors results filed by the distributors as part of their reporting and record-keeping requirements and determines if a regulatory review is warranted. Any such review will be prospective, and could result in modifications, termination or the continuation of the respective Price Cap IR or Annual IR Index plan for that distributor.

The Board reminds distributors that the filing of an application for an increase to base rates during the IR period or under the Annual IR index is the decision of the applicant; it is not a Board requirement. A distributor whose earnings are in excess of the dead band can refrain from seeking an adjustment to its base rates through a Price Cap IR or Annual IR Index plan. If not, the level of earnings may be raised as an issue in the application.

A distributor may choose to file only for disposition of Group 1 deferral and variance account balances in accordance with Board policies, without applying for adjustments to its base rates."

---

[1] 2013 Yearbook Data
[2] Chapter 3 Filing Requirements for Electricity Distributors Rate Applications for Price Cap Incentive Rate-Setting and Annual Incentive Rate-Setting Index dated July 25, 2014 (page 13)

- The table below shows Espanola's return on equity compared to the Board-approved return on equity[3]:

	2011	2012	2013	2014
Espanola ROE	-0.56%	-13.19%	29.92%	15.11%
Board Approved ROE	8.57%	9.12%	9.12%	9.12%
Difference	-9.13%	-22.31%	20.80%	5.99%

- In its application with respect to off ramps Espanola states:

"An off ramp is based on a pre-defined set of conditions under which a plan, based on any of the three rate-setting methods, would be terminated or modified before its normal end-of-term date due to excessive over or under earnings. In this application, ERHDC is not applying for an off-ramp. *"*

- Espanola provided the following information and statements in response to interrogatories on its 2013 over-earnings:

    - A Chart that provided the driver's for the 29.92% in over-earnings and an adjusted 2013 ROE.[4]

    - Espanola provided an adjusted/normalized ROE of 10.83% for 2013 that reflects the specific removal of revenue drivers and cost drivers.[5]

    - Espanola explained the over-earning as due to timing variances which caused under-earnings in 2012 and over-earnings in 2013.[6]

    - Espanola stated the average ROE of 8.36% for 2012 and 2013 is within the dead band of the Board approved ROE of 9.12%.[7]

    - Espanola expects the over-earnings to continue.[8] Espanola forecasts the ROE for 2014 to be 15.11%[9]. The calculation includes a downward adjustment to account for revenue drivers related to current rate riders (smart meters/lost revenue). Espanola has not identified any one time cost drivers in 2014.

    - When calculating the average ROE over the 4-year period of the 2012 COS Rate Application, Espanola indicates it will be within the dead band of the Board approved

[3] VECC IR 1(c)
[4] Board Staff IR 9(a)
[5] Board Staff IR 9(b)
[6] VECC IR 1
[7] Board Staff IR 9(b)
[8] Board Staff IR 9(c)
[9] Board Staff IR 9(e)

ROE of 9.12%.

- In considering the above, Espanola feels it is reasonable to apply for an increase to base rates.

- VECC has reviewed Board Staff submissions. Board Staff undertook two high level recalculations and analyses of Espanola's 2013 ROE to compare to Espanola's adjusted 2013 ROE to account for timing variances, one time nature of costs and excluding costs where Espanola provided limited details. Board Staff`s recalculated ROE (17.17% and 20.94%) are still in access of 300 basis points above the Board-approved 2013 ROE of 9.12%.

- Board Staff noted that under similar over-earning circumstances, the Board has previously ordered Wasaga Distribution Inc. to file for early rebasing (EB-2011-0103).

- Board Staff took that position that although the Board has reasonable grounds to deny the Price Cap adjustment because Espanola is scheduled to file a cost of service application in 2015 for 2016 rates, it does not oppose a Price Cap adjustment in Espanola's application.

- VECC acknowledges that Espanola has under-earned in 2011 and 2012. However, VECC is concerned with the significant level of over-earning in 2013 and Espanola's expectation that it will continue in 2014. There is no evidence that the over-earning trend will not continue in 2015. In VECC's view, Espanola's explanation of the drivers and Board Staff's analysis confirms that it is unclear whether Espanola's normalized 2013 ROE of 10.8% is appropriate.

- VECC submits the return in 2013 and forecast for 2014 is materially above the level that underpins Espanola's base rates. On this basis, VECC submits the Board should deny the Price Cap adjustment requested in Espanola's application. VECC submits this approach appropriately responds to the interests of customers.

Recovery of Reasonably Incurred Costs

VECC submits that its participation in this proceeding has been focused and responsible.

Accordingly, VECC requests an order of costs in the amount of 100% of its reasonably-incurred fees and disbursements.

All of which is respectfully submitted this 20th of January 2015.