EB-2008-0237

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 Niagara-on-the-Lake Hydro Inc. pursuant to section 78 of the *Ontario Energy Board Act* for an Order or Orders approving just and reasonable rates for the delivery and distribution of electricity.

FINAL SUBMISSIONS

On Behalf of The

VULNERABLE ENERGY CONSUMERS COALITION (VECC)

January 12, 2009

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Vulnerable Energy Consumers' Coalition (VECC)
Final Argument

1 The Application

1.1 Niagara-on-the Lake Hydro Inc. ("NOTL" or "the Applicant" or "the Utility") filed an application ("the Application") with the Ontario Energy Board ("the Board") on August 6, 2008 under section 78 of the *Ontario Energy Board Act,* 1998, for electricity distribution rates effective May 1, 2009. The Application requested a distribution revenue requirement of $5,191,140 for the 2009 Test Year and claimed a revenue deficiency of $206,184 for the Test Year at existing rates. The requested percentage increase in distribution revenues was 4.5%.[1]

1.2 On November 17, 2008, NOTL, in response to some interrogatories filed by Board Staff and intervenors, revised some components of its original pre-filed evidence and included the revised information with its interrogatory responses. The revised Test Year revenue requirement requested was $5,166,535 based on a claimed revenue deficiency of $181,579. This reduced the requested percentage increase in distribution revenues to 3.9%.[2]

1.3 NOTL has also asked for (i) approval to clear the deferral/variance account balances as at April 30, 2009 in Account No. 1508, Other Regulatory Assets, and Account No. 1550, Low Voltage, over a 3-year period,[3] (ii) approval of a rate rider of $1.00 per customer per month to fund Smart Meter Activities,[4] and (iii) approval to recover 2005, 2006, and 2007 LRAM and 2005 and 2006 SSM amounts by LRAM and SSM rate riders over a two-year period ending April 30, 2011.[5]

1.4 The following sections contain VECC's final submission regarding the various

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[1] Exhibit 7/Tab 1/Schedule 1 as originally filed
[2] Exhibit 7/Tab 1/Schedule 1 revised November 17, 2008
[3] Exhibit 5/Tab 1/Schedule 1
[4] Exhibit 9/Tab 1/Schedule 1, pages 6-7
[5] Exhibit 10/tab 1/Schedule 2

aspects of NOTL's Application.

2 Rate Base and Capital Spending

Capital Spending

2.1 VECC notes that NOTL has made significant capital expenditures since 2006 on projects which are expected, *inter alia*, to reduce line losses: these projects include the Village of Queenston Restoration/Upgrade, the Queenston Road Conversion/Upgrade, the Line 8 Upgrade, the Concession 2 Conversion, the York Road Upgrade, the Hwy. 55 to Stewart Road Project, the Chautauqua Project, and the Concession 5 Upgrade.[6] In the case of the Village of Queenston Restoration/Upgrade, NOTL incurred capital expenditures totaling $526,753 over the period 2006-2008.[7] Over the same period, NOTL also spent a total of $360,965 on the Queenston Road Conversion/Upgrade project[8] and $250,627 on the York Road Conversion/Upgrade[9], both of which are intended to improve line loss performance.

2.2 In 2007 and 2008, NOTL spent a total of $301,106 on the Chautauqua Project[10], which is also intended, in part, to lower line losses. Furthermore, NOTL plans on making additional capital expenditures in 2009 of $200,000 on Queenston Road Conversion/Upgrade project and $1,000,000 on the Chautauqua Project.[11]

2.3 While VECC takes no issue with the capital spending projects proposed for 2008 and 2009, VECC submits that ratepayers should see the benefit of the above spending reflected in a lower line loss factor than would be otherwise assumed (see section 5).

[6] See Exhibit 2/Tab 3/Schedule 1, pages 6-10, pages 15-18, pages 25-26, and pages 32-33. Each of these projects is expected to improve line loss performance according to the evidence.
[7] Exhibit 2/Tab 3/Schedule 2, pages 1-2
[8] Exhibit 2/Tab 3/Schedule 2, page 2
[9] Ibid, pages 2-3
[10] Ibid, page 3
[11] Ibid, pages 2 and 3

Smart Meters

2.4 According to NOTL it has been authorized to proceed with the implementation of smart metering. Therefore, according to the Board's G-2008-0002 Guideline on Smart Meter Funding and Cost Recovery, it qualifies for the $1.00/month smart meter rate adder.

2.5 VECC notes that some of NOTL's smart metering costs are expected to be for requirements in excess of minimum functionality[12]. VECC submits that the question of whether or not such costs are recoverable from ratepayers is a matter to be dealt with when NOTL seeks to dispose of its smart meter-related variance accounts. A similar observation applies to NOTL's planned spending associated with functions for which the SME has exclusive authority[13].

Working Capital

2.6 VECC submits that the rate used for the cost of power used to calculate the working capital allowance should be updated to reflect the most recent forecast available. VECC notes that the most recent forecast of the cost of power for 2009 is contained in the OEB's October 2008 Regulated Price Plan Report where in the average RPP price for the next 12 months is quoted[14] as $60.30/MWh.

2.7 However, also VECC notes that other distributors[15] undergoing 2009 cost of service reviews have indicated that they are not billed by the IESO for all components of the RPP price and indeed are billed for different components for non-RPP customers. VECC submits that the OEB should work with distributors and the IESO to establish a common approach to determining what elements of the RPP Price Report should be included in the Cost of Power for purposes of determining working capital allowances. VECC also notes that the approach may have to take into account the relative sales to RPP and non-RPP customers.

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[12] OEB Staff #5 (iii)
[13] OEB Staff #5 (iv)
[14] Page (iii)
[15] For example see COLLUS Power's (EB-2008-0226) response to VECC #43 b).

2.8 VECC further submits that the working capital allowance should also reflect the most current estimate of the costs of Hydro One Network's transmission services for 2009.

Adjustments for Meter Disposals

2.9 In response to interrogatories from Energy Probe,[16] NOTL indicated that there were omissions in respect of meter disposals for 2008 and 2009.

2.10 VECC submits that the full effect of the meter disposals, in terms of reducing rate base and reducing depreciation costs should be reflected in NOTL's 2009 rates. VECC has reviewed Energy Probe's submissions on this issue and concurs that it does not appear that NOTL has fully reflected the removal of these assets in its IR response.

3 <u>Load Forecast and Revenue Offsets</u>

Load Forecast

3.1 NOTL's load forecast methodology consists[17] of three steps:

- First, a weather normalized forecast of total system purchases is developed based on a multifactor regression analysis that includes weather, economic output and seasonal calendar variables as independent explanatory variables. This forecast is then adjusted for losses to produce a weather-normalized billed energy forecast.
- Second, specific adjustments are made to the total billed kWh forecast to account for the closure of the Cangro plant and CDM.
- Third, based on customer count forecasts and trends in non-weather normalized per customer use forecasts of total (non-weather normalized) use are developed for each customer class. These forecasts are then adjusted (based on the

[16] Energy Probe Interrogatories #5 and #8
[17] Exhibit 3/Tab 2/Schedule 2

relative weather sensitivity of each class) so that the sum of individual customer class forecasts equals the total billed kWh forecast developed in Steps #1 and #2.

3.2 In terms of the methodology used to develop the total system billed kWh, VECC has a number of concerns. First, no clear explanation provided as to why, given the various model statistics considered, Model 3A was selected[18] out of the 17 different models evaluated. Also, it is not clear to VECC why none of the models considered included customer count (either in total or by class) as an explanatory variable. As discussed further below, one reason for doing so would be to provide a linkage between the first and third steps of the overall forecast methodology.

3.3 Another concern of VECC's regarding the forecast of total billed kWhs (which is also raised by Energy Probe) is the use of the proposed 1.0501 loss factor to determine the relationship between purchased and billed kWhs[19]. Ideally the econometric model would have been developed using billed kWh. If this approach had been used the adjustment would have been based on the actual loss factors over the 1996-2008 period used to estimate the model. However, since the model was developed using purchased kWhs the adjustment to billed load should be based on the loss factors as they existed during this period.

3.4 NOTL's Application does not include loss factors for this entire period. The best information available[20] is the average loss factor for the 2003-2007 period (1.0463). VECC submits that this is the value that should be used to establish the forecast billed quantities for 2008 and 2009.

3.5 With respect to the proposed adjustment for the closure of the Cangro plant, VECC agrees that this is a major event. VECC also agrees that some adjustment is necessary, but not for the reasons stated by NOTL. NOTL claims[21] that major events which emerge in 2008 can not be modelled using regression analysis of

[18] Exhibit 3/Tab 2/Schedule 2, pages 5-7
[19] Exhibit 3/Tab 2/Schedule 2, page 18
[20] Exhibit 4/Tab 2/Schedule 7, Table 1
[21] Exhibit 3/Tab 2/Schedule 2, page 14

historic data prior to 2008. VECC does not entirely agree. While the model was estimated using pre-2008 data, the model forecasts 2008 and 2009 purchases using forecasts of the explanatory variables for these years. If the forecast of the explanatory variables adequately captures the major events for 2008 and 2009 then no further adjustment would be required.

3.6 However, since the forecast prepared by NOTL uses an outdated economic outlook from the Toronto Hydro Application of 2007[22], VECC agrees that some adjustment is needed for 2008 and 2009. In terms of the determination of the size of the adjustment, VECC agrees with the submissions by Energy Probe regarding the loss factor that should be used[23] (i.e., 1.0463 as oppose to 1.051) and the fact that some allowance should be made for the alternate use anticipated for the facility.

3.7 With respect to NOTL's CDM adjustment[24], VECC has similar concerns to those expressed by Energy Probe. The impact of the 2007 CDM savings is captured in the specification of the regression model and, therefore is already captured in forecast consumption for 2008 and 2009. Also, while VECC is willing to acknowledge the need for a "Cangro adjustment", the magnitude of the CDM adjustment is significantly less[25]. There are likely other local factors that are not captured by the regression analysis that could have a similar minor impact (up or downwards) on the load forecast. VECC's concern is that by adjusting the results of the regression analysis for just CDM, NOTL is being selective in terms of what minor factors to adjust for. In VECC's view the CDM adjustment should not be included in the development of the 2008 and 2009 load forecasts.

3.8 Finally, VECC has serious concerns about the third step of the NOTL methodology and, in particular, the way the total billed kWh developed using the regression

[22] Exhibit 3/Tab 2/Schedule 2, page 12
[23] VECC's reasoning regarding loss factor to be used here is the same as that outlined in paragraph 3.3.
[24] Exhibit 3/Tab 2/Schedule 1, pages 15-16
[25] In 2009 the CDM adjustment is 12 of the Cangro adjustment – Exhibit 3/Tab 2/Schedule 2, Tables 8 & 9

analysis are combined with the per customer non-weather normalized forecast to determine the weather normalized 2008 and 2009 projection by customer class. The third step relies heavily on a customer count forecast that is developed independently of the overall billed kWh load forecast such that there is no relationship between the two. Furthermore, the method for integrating the two approaches leads to counter intuitive results. For example, increasing the forecast customer count for one customer class will reduce the total sales forecast for the other (weather sensitive) customer classes.

3.9 However, the NOTL forecast represents the best information available at this time. As result, VECC (somewhat reluctantly) submits that the OEB should accept the results of the NOTL load forecast methodology – subject to changes to the loss factor, Cangro and CDM adjustments discussed above. However, similar to the recommendation made in the Toronto Hydro case[26], NOTL should be directed to work with other distributors to develop a more comprehensive and integrated approach to load forecasting.

Miscellaneous Revenues

3.10 NOTL's Miscellaneous Revenues consist of Late Payment Charges, Specific Service Charges and Other Distribution Revenues[27].

3.11 NOTL's 2008 experience to-date[28] indicates that 2008 Late Payment Charge and Specific Service Charge revenues are tracking (and indeed exceeding) 2007 results and VECC sees no basis for the forecasted decreases in 2008 of $2,382 and $3,270 respectively. VECC submits that, at a minimum, the 2008 and 2009 forecast values for these two revenue items should be set equal to the 2007 actual values. VECC notes that this adjustment will more than offset the impact of the error that NOTL has identified in response to Energy Probe #11 g).

3.12 VECC has reviewed and concurs with Energy Probe's submissions regarding the inclusion of the carrying charge interest on balances in regulatory asset, deferral

[26] OEB Decision, EB-20070-0680, pages 32-33
[27] Exhibit 3/Tab 2/Schedule 1,Table 1
[28] Energy Probe #11 a) - f)

and variance accounts in the determination of miscellaneous revenues. The balances in these accounts are improved for carrying costs and refunded to/recovered from customers when the associated accounts are cleared. In NOTL's case, reducing miscellaneous revenues by the value of these carrying costs would result in double charging customers. Removal of these charges would increase 2009 Miscellaneous Revenues by $15,372[29].

4 Operating Costs

General - OM&A Costs

4.1 NOTL's historic and projected Test Year OM&A expenses are presented, along with an analysis of the cost drivers in their response to an interrogatory from Board Staff.[30]

4.2 Overall, from the 2006 Board approved OM&A costs ($1,481,413) to NOTL's proposed 2009 Test Year OM&A costs ($1,867,474), the change is the same as would be experienced if costs were increased by 8.0% in each year, 2006-2009 inclusive.

4.3 VECC takes no issue with the cost drivers that are identified as "Company Priorities" by NOTL in the response to the Board Staff IR.[31] These contribute a total increase in OM&A costs in 2009 of $146,613 over the Board approved 2006 amount.

4.4 VECC similarly takes no issue with the cost drivers identified as "External Drivers, Company-wide."[32]

4.5 However, VECC does not accept that the $20,000 increase for "NOTL Energy Inc. Management fees" is appropriate.[33] VECC notes that the pre-filed evidence shows that Niagara-on-the Lake Energy Inc. is the holding company, 100% owned

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[29] Energy Probe, #12 a)
[30] Board Staff IR# 1.2 b) and c)
[31] Ibid, page 5, Table 4
[32] Ibid
[33] Ibid

by the municipality, for both NOTL and its affiliate "Energy Services Niagara Inc. ("ESNI").[34] The evidence also states that "The President of NOTL Hydro reports to the Board of Directors of NOTL Hydro."[35] (Emphasis added.) As such, VECC submits that it is inappropriate for ratepayers to be assessed any costs for the holding company's Board of Directors.

4.6 Also, NOTL has forecast the 2009 rate rebasing costs to be $100,000 and proposes to recover this amount over three years. VECC has reviewed Energy Probe's submissions on this issue and supports them inasmuch as a $20,000 reduction in these forecasted costs is appropriate given there is no oral hearing in this case and the recovery of the remaining $80,000 should be over a four-year period.

5 Losses

5.1 NOTL is proposing to retain its current loss factor of 1.0501. In its Application, NOTL indicates that its average loss factor over the past five years has been 1.0463. NOTL's rationale for maintaining the loss factor at 1.0501 is that there is a debit balance in the power purchase variance account and this approach will serve to reduce this balance[36].

5.2 VECC disagrees with NOTL's proposal. As Energy Probe has noted, setting loss factors arbitrarily too high is not the appropriate way to manage RSVA balances. Furthermore, there are other RSVA accounts[37] (e.g., Account #1580 and #1586) that currently have credit balances (i.e., monies owed to customers) that will also be impacted by the level of the loss factor. Finally, VECC notes that the average loss factor over the last three years was only 1.0445 and that NOTL is undertaking significant capital spending (see section 2 above) that will reduce losses in the future. Based on these facts, VECC submits that the Board should approved a loss factor of no more than 1.0445 for NOTL.

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[34] Exhibit 1/Tab 1/Schedule 15, page 1
[35] Ibid, line 42
[36] Exhibit 4/Tab 2/Schedule 7, page 1
[37] OEB Staff #8.1

6 Cost of Capital/Capital Structure

6.1 A promissory note due to the Town of Niagara-on-the-Lake makes up a significant portion of NOTL's overall long term debt. In its initial Application, NOTL indicated that this long term note was issued in 2000 and with an interest rate of 7.25%. However, when asked to provide a copy of the note[38], NOTL filed a copy of a replacement note issued in July 2008 with a 10 year (renewable) term and an interest rate of 7.25%. In response to OEB Staff #3.1 (ii), NOTL explains that it considers the 7.25% rate to be appropriate since the note was originally issued in 2000, this rate was approved in previous OEB decisions and the rate has never been renegotiated.

6.2 VECC does not agree with NOTL's characterization of the circumstances. The Board's Report on Cost of Capital and 2nd Generation Incentive Regulation does indicate that for long term debt with affiliates the long term debt rate approved in prior decisions shall be maintained for the life of the instrument unless renegotiated. However, the Report also states[39] that "for all affiliate debt that is callable on demand the Board will use the current deemed long-term debt rate". VECC submits that the reason parties sought a copy of the promissory note during the interrogatory process was, in part, to confirm whether the note was best characterized as a long-term note or a demand note. However, as a copy of the original 2000 Note was not provided, there is no information available to conclusively resolve this issue.

6.3 Instead, in response to parties' requests, NOTL provided a copy of a "replacement note". In VECC's view the July 2008 Note represents a new note and, based on the Board's Report, the applicable rate should be the lower of a) the rate as set out in the Note or b) the Board's deemed long term debt rate at that time. As the Board's deemed long-term debt rate for 2008 is 6.1%, VECC submits that this is the rate that should be attributed to the Town's promissory note for purpose of determining NOTL's long-term cost of debt.

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[38] OEB Staff #3.1 (i) and Energy Probe #21
[39] Section 2.2.1

6.4 VECC anticipates that NOTL will take the position that the 2008 Note is not a new note but rather a replacement note issued to clarify certain administrative or housekeeping matters. VECC submits that it is impossible for the other parties or the Board to test this characterization as a copy of the original note was not provided. VECC also draws the Board's attention to its Decision[40] regarding Horizon Utilities' 2008 rates where a similar issue arose and Board found the "replacement note" was new debt. VECC submits that the OEB should reject any attempt NOTL makes to characterize the 2008 Note as not being a new note but rather "housekeeping".

7 Deferral and Variance Accounts

7.1 VECC has no submissions regarding NOTL's proposal to dispose of the December 31, 2007 balances (plus interest to April 30, 2009) in Accounts #1508 and #1550 other than to note that the interest rates used to determine the accrued interest up to April 30, 2009 should be based on the Board's prescribed values..

8 Payments in Lieu of Taxes

Comments on Methodology and Tax Rate

8.1 The OEB Staff Submission noted that the approach taken by NOTL in calculating PILs "results in a higher tax rate. ... While NOTL's methodology is not incorrect, it diverges from the Board's established methodology. ... Parties may wish to comment on the Applicant's methodology and on the selection of the applicable tax rate."[41]

8.2 VECC submits that calculation of the PILs component of the revenue requirement should respect the following principles:

- The Board approved methodology should be used absent a compelling and tested rationale for diverging from the Board approved methodology;

[40] EB-2007-0697, pages 23-25
[41] Ontario Energy Board Staff Submission, January 2, 2009, page 22

- The calculation should reflect all applicable tax savings: in particular the calculation should not result in a higher effective tax rate than that which the utility is entitled to; and

- The best PILs estimate available should be included in rates.

8.3 VECC submits that no rationale has been provided by NOTL for diverging from the Board approved methodology. As such, NOTL should be required to adhere to the approved methodology.

8.4 VECC further submits that NOTL's PILs obligation should be calculated using the small business income tax rate and clawback rather than using the higher 33% rate NOTL used in calculating PILs.

8.5 Finally, VECC notes the Board's Staff's estimate that "NOTL is requesting approximately $42,000 more in PILs using its methodology than would otherwise arise using the Board's established methodology. Board staff notes that this amount is 0.88% of the base revenue requirement and therefore is immaterial."[42] VECC respectfully submits that it would be inappropriate to include an additional $42,000 in the revenue requirement that arises solely due to an Applicant's choice to diverge from Board approved methodology absent compelling evidence that such divergence is in the public interest.

9 <u>Cost Allocation</u>

Results of NOTL's Cost Allocation Informational Filing

9.1 In response to VECC #1 a) NOTL has provided the results of its Cost Allocation Informational filing, the results of which are summarized in the Application[43]. Key points to note from the results are:

- The revenue to cost ratios for all of NOTL's customer classes are within the Board's Guidelines, except for GS>50 (at 183.49% vs. 180% ceiling); Street Lights (at 14.85% versus 70% minimum) and Sentinel Lights (at 23.88% versus

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[42] Ibid
[43] Exhibit 8/Tab 1/Schedule 2, Table 1

70% minimum).

- The run includes a Sentinel Light class which NOTL is proposing to eliminate for 2009. For purposes of the 2009 Application the service revenue requirement proportion that would have been attributed to Sentinel Lights is pro-rated across the other customer classes[44].
- NOTL's Cost Allocation Informational filing treated the revenue reduction from the transformer ownership allowance as a "cost" and allocated it to all customer classes. At the same time the revenues for the GS>50 class were reported based on no adjustment/discount for transformer ownership[45].
- The Cost Allocation filing was based on the customer class usage and count values as per the 2006 EDR Application.

Use of the Cost Allocation Informational Filing Results in Setting 2009 Rates

9.2 NOTL has used the distribution (percentages) of revenue requirement from the Cost Allocation Informational filing to determine what portion of the 2009 revenue requirement would represent 100% cost responsibility for each customer class. VECC has a three concerns regarding this approach.

9.3 First, NOTL is proposing to allocate the "cost" of the transformer ownership allowance solely to the GS>50 class. VECC agrees with this change and notes that it is consistent with the approach approved for a number of distributors' 2008 rates[46]. However, with this change, it is no longer appropriate to use the results of NOTL's Cost Allocation Informational filing as the reference point for revenue to cost ratio changes. In VECC #1 d) NOTL was requested to provide a revised version of its Cost Allocation Informational filing consistent with its proposed approach regarding the transformer ownership allowance.

9.4 VECC submits that these results more closely represent the appropriate reference point to use. However, they require one adjustment. Since NOTL excludes the

[44] Exhibit 8/Tab 1/Schedule 2, page 4
[45] VECC #1 b)
[46] For example, Horizon Utilities, Hydro Ottawa and Enersource Mississauga.

cost of the transformer ownership allowance from the revenue requirement that is allocated at Table 6 in Exhibit 8/Tab 1/Schedule 2, it should have been fully excluded from the calculations done in response to VECC #1 d). Doing so simply involves reducing both the revenues and costs attributed to the GS>50 class by $41,202 and results in a revenue to cost ratio for that class of 1.79 (versus 1.7449).

9.5 With the proposed elimination of the Sentinel Light class, NOTL is proposing to reassign its revenue requirement responsibility to all customer classes. NOTL has noted that the affected customers will be transferring to either the Street Light or USL classes[47]. NOTL's rationale for assigning the revenue responsibility to all customer classes is based on the fact that Street Lighting is already experiencing a large increase[48]. VECC submits that this is not a justifiable reason.

9.6 The purpose of the cost allocation exercise is to determine cost responsibility. Issues regarding impact should be addressed at the implementation phase as discussed in the Board's Cost Allocation guidelines. Implementation and bill impact issues should not be addressed by changing the cost allocation methodology itself. NOTL should be directed to reassign the revenue requirement responsibility for the Sentinel Light class consistent with how the customers are being reassigned to customer classes.

9.7 VECC's final concern is with NOTL's use of the class revenue requirement distribution from the Cost Allocation Informational filing to determine 100% cost responsibility for 2009[49]. This approach only works if the billing parameters (i.e., kWhs, kWs and customer count) represent close to the same proportions by class in 2009 as they did in the Cost Allocation filing. The reason for this is that costs are allocated to classes based on allocation factors that reflect the relative loads and customer count by class. If these relative values change then so will the relative cost responsibility by customer class. Indeed, a number of the utilities

[47] Board Staff 9.1 c)
[48] VECC #5 a)
[49] Exhibit 8/Tab 1/Schedule 2, Table 5

filing 2009 Rate Application have recognized this issue and have assessed the ongoing validity of their Cost Allocation Informational filing as part of their 2009 Rate Application[50].

9.8 In response to VECC #4 b) NOTL has provide the relative kWhs and customer count by class for both 2009 and for its Cost Allocation filing and there are some differences. While they may look small, these differences could translate into a material changes in cost responsibility. For example, the Residential share of the kWhs changes from 33.2% to 36.3% - which is roughly a 9% increase. However, at the same time the share of customers declines by 7.5%. One way to get an indication as to the overall shift is to compare the responsibility for distribution revenue from the Cost Allocation filing with that which arises from using 2009 billing parameters and 2008 rates. The following table provides such a comparison, while Appendix A sets out the determination of revenues by customer class based on 2009 billing parameters and 2008 rates.

Comparison of Distribution Revenue Responsibility

	2009 @ Current Rates	**Cost Allocation Filing**
Residential	47.53%	47.00%
GS<50	21.44%	23.64%
GS>50	29.80%	28.14%
Street Lights	0.83%	0.71%
USL	0.41%	0.37%
Sentinel Lights	N/A	0.14%

9.9 While the values are relatively close for most customer classes there are some differences, most markedly for the GS<50 class. Indeed it is likely this difference that created the anomalies noted by the School Energy Coalition during the interrogatory process[51].

[50] Examples include Westario Power (EB-2008-0250); COLLUS Power (EB-2008-0226) and Bluewater Power (EB-2008-0221)
[51] SEC #12 a)

9.10 In VECC's view, where such anomalies exist a preferred approach is to assume that revenues at current rates are consistent with the revenue to cost ratios determined via the cost allocation informational filing and use this as the starting point to determine the allocation of the distribution revenue requirement that would yield 100% cost responsibility for each class. VECC submits that since no efforts were made to realign the revenue to cost ratios in 2007 or 2008, there is no reason to assume that the current revenue to cost ratio for each class would be any different than those arising from the cost allocation informational filing.

9.11 In Appendix B VECC has set out the determination of the class shares of the distribution revenue requirement for 2009 using this approach. The results are summarized below and contrasted with NOTL's values[52]. In performing the calculations VECC was unable (due to a lack of information) to reassign the Sentinel Light costs to just the USL and Street Light classes and a further adjustment would be required to effect this change as well.

Summary of Class Shares of Base Distribution Revenue
Assuming 100% Cost Responsibility

	NOTL's Values	VECC's Recommended Values
Residential	52.88%	53.72%
GS<50	25.75%	23.41%
GS>50	15.75%	16.30%
Street Lights	5.26%	6.15%
USL	0.36%	0.42%

9.12 VECC submits that the preceding Revenue Share values (adjusted to reflect the actual transfer of sentinel Light customers) should be used as the reference point for any cost allocation adjustments. It should be noted that VECC's recommended values were calculated using NOTL's proposed Service Revenue Requirement and that the revenue to cost ratios used by the Board are calculated based on total

[52] As discussed in the following paragraph, the values recommended by VECC are based on NOTL's proposed revenue requirement.

revenues (distribution revenue plus miscellaneous revenues) divided by total costs (i.e. Service Revenue Requirement). Should the Board approve a different overall Service Revenue Requirement, then the recommended values will change slightly as a result of the need to also account for miscellaneous revenues by customer class.

Proposed Revenue to Cost Ratios

9.13 NOTL is proposing that the revenue to cost ratio for the various classes be adjusted as follows:

- The values for Residential and GS<50 should be moved 50% of the way to 100% (from 89.59% and 92.47% respectively[53]).
- The value for USL should be moved to 100% (from 97.9%).
- The value for Street Lights be moved 50% of way to 70% (the low end of the Board's target range)
- GS>50 be adjusted to balance the over revenue requirement.

9.14 As noted earlier, with the change in the transformer ownership allowance treatment and the elimination of the Sentinel Lighting class, the Street Lighting class is the only one outside the Board's target ranges for revenue to cost ratios. It is VECC's submission that NOTL should adjust its revenue to cost ratio for Street Lighting as proposed and the additional revenues should be used to reduce the revenue to cost ratio for the GS>50 class. There is no reason to adjust the revenue to cost ratios for the other classes. VECC further submits that by using VECC's proposed values as the reference/starting point for the distribution revenue shares will eliminate the issues NOTL identified in response to VECC #3 a).

9.15 VECC submits that this approach to adjusting NOTL's revenue to cost ratios is consistent with its Decisions regarding 2008 rates:

[53] VECC #1 d)

- Barrie Hydro (EB-2007-0746, page 13) – where the Board concluded the ratio for the GS>50 class should not be increased as it was already within the recommended range.
- Espanola (EB-2007-0901, page 15) and PUC (EB-2007-0931, page 15) – where the Board stated:

  The Board is prepared to adopt the general principle that, where the proposed ratio for a given class (Column 2) is above the Board's target range (Column 3), there should be a move of 50% toward the top of the range from what was reported in its Informational Filing (Column 1). None of Espanola's classes are in this situation. Where the revenue to cost ratios in the Informational Filing (Column 1) are below the Board's ranges (Column 3), the rates for 2008 shall be set so that the ratios for these classes shall move by 50% toward the bottom of the Board's target ranges.

- Guelph Hydro (EB-2007-0742, page 24) – where the Board similarly stated:

  As the Board has noted in the Cost Allocation Report, cost causality is a fundamental principle in setting rates. However, observed limitations in data affect the ability or desirability of moving immediately to a revenue to cost framework around 100%. The Board's target ranges are a compromise until such time as data is refined and experience is gained.
  In other decisions, the Board has adopted the general principle that, where the proposed ratio for a given class (Column 2) is above the Board's target range (Column 3), there should be a move of 50% toward the top of the range from what was reported in its Informational Filing (Column 1). None of Guelph's classes are in this situation.

- Wellington North (EB-2007-0693, page 29) – where the Board stated:

  An important element in the Board's report on cost allocation was its express reservation about the quality of the data underpinning cost allocation work to date. The report frankly indicated that the Board did not consider all of the data underpinning the report to be so reliable as to justify the application of the report's findings directly into rate cases. For this reason, among others, the Board established the ranges depicted above and mandated the migration of revenue to cost ratios currently outside the ranges to points within the ranges, but not to unity. In short, the ranges reflect a margin of confidence with the data underpinning the report. No point within any of the ranges should be considered to be any more reliable than any other point within the range. Accordingly, there is no particular significance to the unity point in any of the ranges.
  As is noted above, with the exception of the street lighting and sentinel lighting classes, all of the Applicant's proposed revenue to cost ratios fall within the range as provided in the Board's report on cost allocation. The Board will not approve any further movement within the ranges as requested by a number of the intervenors in this proceeding, and by the Applicant itself with respect to the Residential class.

9.16 VECC concurs with NOTL's proposal[54] to move the Street Lighting class to 70% over the subsequent two years. In each case, the additional revenues should be used to reduce the rates for the GS>50 class.

10 Rate Design

10.1 VECC notes that NOLTL's current residential monthly fixed charge of $17.10[55] is within the range established by the Board's November 2008 Guidelines[56]. As a result, VECC agrees with NOTL's proposal to maintain the current fixed/variable split for 2009 rates.

11 Retail Transmission Rates

11.1 On November 28, 2008, NOTL filed an update to Exhibit 9/Tab 1/Schedule 3 which included proposed increases for its Retail Transmission Network and Connection rates of 9.23% and 13.2% respectively. In calculating the Retail Transmission Connection rate adjustment, NOTL appears to have included the loads associated with the Hydro One Networks "unilateral load assignment" which is currently a matter of dispute between the parties and awaiting a decision from the OEB[57].

11.2 While this approach may be prudent, VECC is concerned that, under an IRM regime, a considerable period may elapse before the rate is properly reduced, should the Board find in NOTL's favour. VECC submits that NOTL should be directed to file for revised Retail Transmission Connection rates in the event that the Board determines the unilateral load assignment by Hydro One Networks is inappropriate[58].

12 LRAM/SSM

[54] Energy Probe, #22
[55] Exhibit 9/Tab 1/Schedule 1, page 3 (excludes smart meters)
[56] VECC #6 a)
[57] VECC#7 b)
[58] To facilitate implementation, the new rate could be made effective at same time as the next RPP commodity price adjustment.

12.1 As part of its Application, NOTL is seeking recovery of LRAM amounts for 2005-2007 and SSM amounts for 2005-2006. The total amount requested was $20,731[59]. In response to an Energy Probe interrogatory[60], NOTL acknowledged that the SSM claim should be reduced to remove PILS gross-up which reduces the total claim to $17,638.

12.2 NOTL has not performed a third party independent assessment of its CDM results, as required by the OEB, and argues that such an assessment is not cost-effective given the size of the claim[61]. While VECC has some sympathy for NOTL's position, VECC also strongly supports the need for independent review and validation of CDM savings[62]. VECC is also concerned that granting NOTL's request may set a dangerous precedent. If the Board decides to acquiesce to NOTL's request, it should make it clear that this in no way changes its expectations regarding future LRAM/SSM claims by either NOTL or other distributors.

13 Recovery of Reasonably Incurred Costs

13.1 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.

Respectfully Submitted on the 12th Day of January 2009

Michael Buonaguro
Counsel for VECC

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[59] Exhibit 10/Tab 1/Schedule 2, page 1
[60] Energy Probe #23
[61] Energy Probe #24
[62] In VECC's view monitoring and evaluations costs should be considered as part of the overall cost of a CDM program and included in costs used to assess the overall economics of a program prior to its approval.

APPENDIX A

Comparison of Revenue Responsibility

	2009 @ Current Rates							Cost Allocation Filing			
	Volumes		Rates		Tx	Total		Reported		Total	%
	Fixed	Variable	Fixed	Variable	Allowance	Revenue	%	Dx Rev	Tx Allow	Revenue	
Residential	6,584	66,320,829	17.47	0.0123		2,196,016	47.53%	1,996,674		1,996,674	47.00%
GS<50	1,209	34,349,093	39.87	0.012		990,623	21.44%	1,004,372		1,004,372	23.64%
GS>50	123	207,437	463.48	3.4654	26,063.93	1,376,885	29.80%	1,236,741	41,202	1,195,539	28.14%
Street Lights	1,953	2,900	1.1	4.3107		38,281	0.83%	30,285		30,285	0.71%
USL	32	302,169	39.87	0.012		18,936	0.41%	15,511		15,511	0.37%
Sentinel Lights						N/A		5,750		5,750	0.14%
Total						4620741		4,289,333		4,248,131	

Notes:
1) Cost Allocation filing based on VECC #1 d)
2) 2009 Volumes from Exhibit 3/Tab 2/Schedule 2, page 29
3) 2008 Rates from Exhibit 9/Tab 1/Schedule 1, page 3 and Schedule 5
4) 2009 @ Current Rates TOA based on 60 cents per kW

APPENDIX B

Calculation of Class Revenue Shares
Based on 2009 Revenues @ Current Rates and 100% Cost Responsibility

	Total	Residential	GS <50	GS>50-Regular	Street Light	Sentinel	USL
Cost Allocation Results - Revenue							
Distribution Revenue	4,248,131	1,996,674	1,004,372	1,195,539	30,285	5,750	15,511
Miscellaneous Revenue	185,211	111,335	49,445	19,511	2,733	377	1,808
Total Revenue	4,433,342	2,108,009	1,053,817	1,215,051	33,019	6,127	17,319
Total Revenue %		47.11%	23.55%	27.15%	0.74%	0.14%	0.39%
Dx Revenue %		46.55%	23.42%	27.87%	0.71%	0.13%	0.36%
Misc Revenue %		60.11%	26.70%	10.53%	1.48%	0.20%	0.98%
- Adjustment for Sentinel Lights							
Total Revenue %		47.61%	23.80%	27.45%	0.75%		0.39%
Dx Revenue %		47.06%	23.67%	28.18%	0.71%		0.37%
Misc Revenue %		60.24%	26.75%	10.56%	1.48%		0.98%
Misc $	185,211	111,563	49,546	19,551	2,739		1,812
Cost Allocation Results - Revenue Requirement							
Revenue Requirement (includes NI)	4,433,341	2,352,825	1,139,669	678,754	219,125	25,277	17,690
%		53.07%	25.71%	15.31%	4.94%	0.57%	0.40%
- Adjustment for Sentinel Lights							
Total Rev. Requirement %		53.38%	25.85%	15.40%	4.97%		0.40%
Reassigned Rev Req	4,433,341	2,366,317	1,146,205	682,646	220,382		17,791
Adjustment Factor for Rev=RR		1.1224	1.0876	0.5618	6.6733		1.0270
2009 Rates							
2009 Dx Revenue at Current Rates	4,620,741	2,196,016	990,623	1,376,885	38,281		18,936
Determination of 100% Dx Revenue Allocation							
- Misc Revenue (2009 Rates)	361,622	217,825	96,738	38,174	5,348		3,538
- Total Revenue (@ Current Rates)	4,982,363	2,413,841	1,087,361	1,415,058	43,629		22,474
- Adjusted Total Rev 100% Cost by Class	5,001,128	2,709,332	1,182,577	794,990	291,147		23,082
- Adjusment to Reconcile 2009 SRR	5,191,140	2,812,270	1,227,507	825,194	302,209		23,959
- 2009 Dx Revenue for 100% R/C Ratio	4,829,518	2,594,445	1,130,769	787,021	296,861		20,421
- Dx Revenue Proportions for 100%		53.72%	23.41%	16.30%	6.15%		0.42%

Notes:
1) Calculations based on original SRR of $5,191,340 per Exhibit 9/Tab 1/Scheudle 1, page 7
2 Cost Allocation results based on VECC $1 d) - with GS>50 adjusted to exclude TOA revenues and costs
3) For details on revenues at current rates see Appendix A