EB-2008-0227

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 **ENWIN Utilities Ltd.** for an order approving just and reasonable rates and other charges for electricity distribution to be effective **May 1, 2009**.

ARGUMENT-IN-CHIEF OF ENWIN UTILITIES LTD.

This Argument-in-Chief is advanced by *ENWIN* Utilities Ltd. ("EWU") pursuant to Procedural Order NO. 3, which was issued by the Ontario Energy Board (the "Board") on February 23, 2009 in respect of the above noted matter. As set out in Procedural Order No. 3, the scope of this Argument-in-Chief is limited to Issue 7.2, as provided for in the Board's Procedural Order No. 2, which was issued on November 28, 2008. Issue 7.2 reads: "Are the proposed revenue to cost ratios appropriate?"

EWU addresses Issue 7.2 in 3 parts below. Part A reviews the principles underlying EWU's original proposal for revenue-to-cost ratios, which was set out in the Application and Evidence. Part B reviews the effect of the Settlement Agreement, particularly the resolution of Issue 7.1, in modifying one of the underlying principles of revenue-of-cost ratio adjustments. Part C presents the proposed revenue-to-cost ratios.

PART A: Application and Evidence

In the Application and Evidence, Exhibit 8 addresses Cost Allocation and Exhibit 10 addresses Rate Design. At Exhibit 8-1-1, EWU provided information in respect of its Cost Allocation information filing of January 15, 2007 and EWU's revenue-to-cost ratio results related to the Board's Application of Cost Allocation for Electricity Distributors Report (EB-2007-0667) of November 28, 2007.

In Exhibit 8-1-1, EWU also provided updated revenue-to-cost ratios based on a report prepared by John Todd of Elenchus Research Associates. That report is Attachment A to Exhibit 8-1-1 ("ERA Report"). The ERA Report used the Board's Cost Allocation methodology and made updates to adjust for the significant declines of 2 of EWU's large use customers. The "bottom line" to the ERA Report is revised revenue-to-cost ratios ("R/C ratios"), which are set out in Table 8 of that report and are reproduced below:

Table 1: Starting Point R/C Ratios from ERA Report

Rate Classification	R/C Ratio
Residential	87.81%
General Service <50 kW	103.40%
General Service >50 kW	137.01%
Intermediate	40.70%
Large Use – Regular	172.93%
Large Use – 3TS	122.01%
Large Use – FA	94.84%
Street Lighting	23.81%
Sentinel Lighting	57.08%
USL	241.19%

These R/C ratios established the starting point from which EWU assessed the movements needed to bring R/C ratios closer to the applicable ranges, in accordance with EB-2007-0667.

In assessing the movements needed to bring the R/C ratios closer to the applicable ranges from the starting points identified in the ERA Report, EWU considered a number of principles. The principles and the sources of the principles are set out below:

Table 2: Principles and Principle Sources for R/C Ratio Adjustments

#	Principle	Source
1	R/C ratio starting points should be based on the results of the Board's Cost Allocation Information Filing	EB-2007-0667 (Board Report)
2	R/C ratio starting points should be updated by ERA Report	EWU decision in consultation with ERA
3	R/C ratios should move towards the Board's ranges	EB-2007-0667 (Board Report)
4	R/C ratios should not move away from 100%	EB-2007-0746 (Barrie Hydro Distribution Inc.)
5	Any point within a range is as acceptable as any other point within that range (until better data is available and other conditions)	EB-2007-0667 (Board Report) EB-2007-0693 (Wellington North Power Inc.)
6	Adjustments upwards should have regard for total bill impact	EB-2007-0693 (Wellington North Power Inc.) EB-2007-0746 (Barrie Hydro Distribution Inc.) EB-2007-0761 (Lakefront Utilities Inc.)
7	In order to mitigate bill impact, adjustments upwards should occur over 3 years	EB-2008-0014 (Atikokan Hydro Inc.)
8	It is acceptable for adjustments to be weighted 50% toward the range in the test year and the remaining 50% over the following 2 years	EB-2007-0693 (Wellington North Power Inc.) EB-2007-0698 (Brantford Power Inc.) EB-2007-0901 (Espanola Regional Hydro Distribution Corporation)

9	The Board may leave to the discretion of the LDC which classes that are within the ranges, but above 100%, should be reduced where there are no classes above their ranges	EB-2007-0693 (Wellington North Power Inc.)
10	The Affiliate Relationships Code is not applicable to classes that are open to customers other than affiliates	EB-2007-0680 (Toronto Hydro-Electric System Limited) EB-2007-0753 (Norfolk Power Distribution Inc.) EB-2007-0901 (Espanola Regional Hydro Distribution Corporation)

Having considered these principles, EWU proposed to:

- Decrease the R/C ratios for all rate classes above the Board's range;
- Increase the R/C ratios for all rate classes below the Board's range; and,
- Maintain the R/C ratios for all other rate classifications, except as necessary to maintain a total R/C ratio of 100%.

EWU proposed to follow the established methodology of effecting the decreases and increases over 3 year periods in order to mitigate bill impact for customers in classes with increasing R/C ratios. EWU proposed to move R/C ratios that were outside the ranges at least half of the distance towards the range in the test year, at least half of the remaining distance in the following year, and the remaining distance in the year thereafter. EWU's proposal was set out in response to Board Staff interrogatory 38(a) and is reproduced below:

Table 3: Initially Proposed R/C Ratio Adjustments

Rate Classification	**2008**	**2009**	**2010**	**2011**	**Range**
Residential	88%				85-115%
General Service <50 kW	103%				80-120%
General Service >50 kW	137%				80-180%
Intermediate	41%	62%	71%	80%	80-180%
Large Use – Regular	173%	142%	128%	115%	85-115%
Large Use – 3TS	122%	118%	116%	115%	85-115%
Large Use – FA	95%				85-115%
Street Lighting	24%	47%	59%	70%	70-120%
Sentinel Lighting	57%	64%	67%	70%	70-120%
USL	241%	170%	145%	120%	80-120%

PART B: Settlement Agreement

As part of the Settlement Agreement, which was approved by the Board on February 19, 2009, the Parties settled Issue 7.1. That issue read: "Is ENWIN's cost allocation appropriate?" In settling Issue 7.1, the Parties agreed that Principle #1 in Table 2 above should be modified. Particularly, the Parties agreed that the Board's Cost Allocation methodology should be adjusted in its treatment of the transformer ownership allowance. The Settlement Agreement noted the fact that the Board has looked upon this adjustment favourably in such Cost of Service cases as EB-2007-0697 (Horizon Utilities Corporation) and EB-2007-0706 (Enersource Hydro Mississauga Inc.). The Parties agreed that in place of the ERA Report's starting point R/C ratios (i.e. those set out and used in Tables 1 and 3 above), the appropriate starting point is R/C ratios calculated in EWU's response to VECC interrogatory 29(b). Those R/C ratios were reproduced in the Settlement Agreement and are reproduced below:

Table 4: Starting Point R/C Ratios per Settlement Agreement

	R/C Ratios per CA Model as Filed	R/C Ratios per VECC 29(b)
Residential	88%	90%
GS<50	103%	105%
GS>50	137%	144%
Intermediate	41%	-4%
Large Use – Regular	173%	121%
Large Use – 3TS	122%	102%
Large Use – FA	95%	94%
USL	241%	258%
Sentinel Lighting	57%	62%
Street Lighting	24%	26%

PART C: Proposed Revenue-to-Cost Ratios

Based on the agreed upon starting point, and based on the principles set out in Table 2, EWU proposes the following R/C ratio adjustments:

Table 5: Proposed R/C Ratio Adjustments

Rate Classification	**2008**	**2009**	**2010**	**2011**	**Range**
Residential	90%				85-115%
General Service <50 kW	105%				80-120%
General Service >50 kW	144%	138%	X%	Y%	80-180%
Intermediate	-4%	80%			80-180%
Large Use – Regular	121%	115%			85-115%
Large Use – 3TS	102%				85-115%
Large Use – FA	94%				85-115%
Street Lighting	26%	48%	59%	70%	70-120%
Sentinel Lighting	62%	62%	70%		70-120%
USL	258%	120%			80-120%

Rate Classes Currently Above the Board's Ranges
Using the agreed upon starting points, there are 2 rate classes above the Board's ranges: Large Use – Regular and USL. Moreover, with the agreed upon starting points, Large Use – Regular is only 6 basis points above the Board's range as compared to 58 points under the previous starting points.

As a result of these 2 factors, it is possible for EWU to reduce the R/C ratios for these 2 classes to the Board's range in the test year. EWU proposes to do so.

Rate Classes Currently Below the Board's Ranges
Using the agreed upon starting points, there are 3 rate classes below the Board's ranges: Intermediate, Street Lighting and Sentinel Lighting. Moreover, with the agreed upon starting points, Intermediate is 84 basis points below the Board's range as compared to 39 points under the previous starting points.

The Board has indicated in its decisions, such as those set out in Table 2, that in moving R/C ratios below the Board's range towards the bottom of the Board's range, total bill impact should be considered. The impacts are considered below:

Table 6: Total Bill Impact on Rate Classes Below the Ranges

Rate Classification	**Range**	**2008**	**Total Bill Impact Before R/C Ratio Adjustment**	**2009**	**Total Bill Impact After R/C Ratio Adjustment**
Intermediate	80-180%	-4%	-0.3%	80%	5.2%
Street Lighting	70-120%	26%	3.9%	48%	19.2%
Sentinel Lighting	70-120%	62%	40.2%	62%	40.2%

For the Intermediate class, given that the total bill impact of moving the R/C ratio directly to the range is 5.2%, which is below the Board's threshold of concern (10%), EWU proposes to move the Intermediate class to 80% in the test year.

For the Street Lighting class, EWU proposes moving the R/C ratio 50% to the range in the test year, despite the significant total bill impact of 19.2%. The Board has made it clear in decisions such as those listed with principle #8 in Table 2 that total bill impacts of greater than 10% are acceptable where the driver of the increase is addressing cost allocation issues. EWU proposes moving the R/C ratio for the Street Lighting class the remainder of the distance to the Board's range in increments of about 11 basis points in each of 2010 and 2011.

For the Sentinel Lighting class, EWU notes that the effect of the application, before making any adjustments for cost allocation, is an increase of 40.2% in the Sentinel Lighting class total bill. Given this significant increase, EWU proposes to not make any cost allocation adjustment to the R/C ratio for this class in the test year. EWU proposes to move the Sentinel Lighting class R/C ratio to the range in 2010.

<u>Rate Classes Currently Within the Board's Ranges</u>
Using the agreed upon starting points, there are 5 rate classes within the Board's ranges: Residential, General Service <50 kW, General Service >50 kW, Large Use – 3TS, and Large Use – FA. For 4 of these rate classes, EWU proposes to maintain R/C ratios. The exception is the General Service >50 kW rate class, for which EWU proposes decreased R/C ratios in the test year and 2 subsequent years.

The effect of increasing the R/C ratios for rate classes currently below the Board's range is to increase the revenue recovery from those rate classes. However, the proposed increases in 2009 are not fully offset by the decreases to Large Use – Regular and USL R/C ratios. In 2010 and 2011, there are no rate classes with R/C ratios above the Board's ranges to offset the increases in revenue recovery. In order to prevent over recovery, it is necessary to decrease the R/C ratio for a class or classes with R/C ratios above 100% that are already within the Board's ranges.

EWU proposes that the over recovery be offset with decreases to the General Service >50 kW rate class R/C ratios in 2009, 2010 and 2011. Once the USL class is moved to the Board's range, the General Service >50 kW class will have the highest absolute R/C ratio, though it is within the Board's range. EWU has calculated that in the test year, the General Service >50 kW R/C ratio may be decreased to 138% and EWU proposes to do so. EWU proposes that in 2010 and 2011 the General Service >50 kW R/C ratio be further reduced by the appropriate levels in order to offset the R/C ratio increases to Street Lighting and Sentinel Lighting, as applicable. In Table 5 above, these future decreases are represented as X% (2010) and Y% (2011).

All of which is respectfully submitted this 27th day of February, 2009.

__[*original signed*]__________________________
ENWIN Utilities Ltd.

Per: Andrew J. Sasso, Director, Regulatory Affairs