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July 28, 2009

BY EMAIL & BY COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St, Suite 2701
Toronto ON M4P 1E4

Dear Ms. Walli:

Board File No. EB-2008-0246
Tillsonburg Hydro Inc. – 2009 Rates Rebasing Application
Draft Rate Order Comments of Energy Probe

Pursuant to the Decision, issued by the Board on July 10, 2009, please find two hard copies of the Comments of Energy Probe Research Foundation (Energy Probe) in respect of the Draft Rate Order filed by the Applicant, dated July 24, 2009, in the EB-2008-0246 proceeding. An electronic version of this communication will be forwarded in PDF format.

Should you have any questions, please do not hesitate to contact me.

Yours truly,

David S. MacIntosh
Case Manager

cc: Steve Lund, Tillsonburg Hydro Inc. (By email)
Bryan Drinkwater, Tillsonburg Hydro Inc. (By email)
Kathi Litt, Elenchus Research Associates (By email)
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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
Tillsonburg Hydro Inc. for an order approving or fixing
just and reasonable rates and other charges for the
distribution of electricity to be effective May 1, 2009.

ENERGY PROBE RESEARCH FOUNDATION
(“ENERGY PROBE”)

COMMENTS ON DRAFT RATE ORDER

July 28, 2009

**TILLSONBURG HYDRO INC.
2009 RATES**

EB-2008-0246

COMMENTS ON DRAFT RATE ORDER

Energy Probe has a number of comments on the Draft Rate Order that was filed by Tillsonburg Hydro Inc. (“THI”) on July 24, 2009. These comments are provided under the headings below.

a) OM&A Reductions

The Board clearly stated that the reductions made by the Board in the Decision may also result in reductions related to the application of the 5% management fee on this items (Decision, page 18). At page 49 of the Decision, the Board explicitly stated that:

“The reductions made by the Board on certain items shall also reflect the associated reductions in the application of the 5% management on those items, as appropriate.”

Attachment B.3, page 2 of 2 provides a list of the OEB adjustments to the THI proposed OM&A expenses. As shown, these adjustments total \$271,725. It is unclear, however, whether all of the adjustments shown have been properly calculated to reflect the 5% management fee.

The Board denied the \$30,000 for paper and postage costs that THI had included in its budget (July 10, 2009 Decision, page 23). In Attachment B.3 THI has reduced the OM&A costs for this line item by \$31,500, which would include the 5% management fee added onto the \$30,000 cost. Energy Probe agrees that this is correct. Similarly, the reduction of \$21,825 related to the THI share of CIS capital costs appears to be correct, given that the \$308,500 total capital cost includes the 5% management fee, as indicated in an interrogatory response to Energy Probe (Exhibit 10, Tab 3, Schedule 27).

Energy Probe submits that it is clear, however, that THI has not reduced the rate rebasing applications costs as directed by the Board. In the Decision (page 27), the Board reduced the one-time costs associated with the 2009 rate application by \$125,000 (\$100,000 in consulting costs and \$25,000 in OEB costs). This results in a reduction of \$31,250, as this cost is amortized over 4 years. Attachment B.3 shows this as the reduction to OM&A costs associated with the rate rebasing application. However, as shown in the response to an Energy Probe interrogatory (Exhibit 10, Tab 3, Schedule 28) the 5% management fee was applied to both the consulting fees and the OEB costs that have been disallowed. Application of the management fee to the \$125,000 in disallowed costs yields a total of \$6,250. Amortized over 4 years, this would be a further reduction in OM&A costs in 2009 of \$1,562.50. Energy Probe submits that this reduction should be added to the reduction for the rate rebasing application to comply with the Board's Decision.

It is not clear to Energy Probe if there was any management fee associated with the reduction associated with the remaining four line items in Attachment B.3: the cost of living adjustment, the apprentice linemen, the ORA Manager, and the 2 incremental Board members. If a management fee was associated with any of these line items, it is not clear to Energy Probe whether these costs were implicitly included in the costs associated with these line items, as they were for the CIS capital costs or if they are add on costs as they are for rate rebasing costs and paper and postage costs. Energy Probe submits that THI should clarify whether these line items attract the management fee, and if so, do the reductions shown in Attachment B.3 include the management fee or are there additional reductions that should be reflected.

b) PILS Calculations

The Board directed THI to reflect in its draft rate order updated calculations for PILS and to attach as support an updated Exhibit 4, Tab 3, Schedule 1 and Schedule 2.

Attachment B.5 shows a level of PILS expenses, but does not show the calculation of PILS. As a result Energy Probe cannot determine if the \$51,903 shown as the PILS amount is correct. However, it does appear that THI has used the correct tax rate of 16.5% to gross up the PILS amount.

c) Disposition of Deferral and Variance Accounts

The Board directed THI to calculate rate riders associated with the credit to customers associated with the clearance of the deferral and variance accounts over a two year disposition period (Decision, page 37). However, it appears that THI has included a rebate period for these accounts of 8 months (Attachment E.8), apparently as a rate mitigation measure. Energy Probe does not object to this change in the disposition period.

However, it does not appear that THI has followed the Board direction to include documentation in the draft rate order showing the allocation of each account balance to each rate class (Decision, page 37). However, the figures are reasonably close to the figures provided in Attachment B.2 to THI's Reply Argument dated June 4, 2009, excluding the PILS account (1562). As a result Energy Probe is satisfied with the calculation of the associated rate riders by rate class.

d) Rate Mitigation

i) Impacts on Proposed 2009 Revenue to Cost Ratios

THI has made significant changes in the revenue to cost ratios from those proposed and approved by the Board. These changes are shown on page 2 of 41 of the draft rate order.

In its Decision (page 42) the Board indicated that if the resulting total bill impacts for a particular rate class exceeded 10%, then THI should identify these impacts and propose remedial options.

At page 41 of the Decision, the Board indicated that THI provided a revised version of its cost allocation informational filing that follows an approach that is consistent with its proposal regarding the transformer ownership allowance. The Board indicated that this was to be used as the starting point. Energy Probe assumes that this starting point is the revised cost allocation information filing provided in the response to an Energy Probe interrogatory (Exhibit 10, Tab 3, Schedule 40), as THI indicated in its Reply Argument (pages 29 – 30) that “setting rates that correctly reflect these treatments will result in its distribution rates being set on the same methodology as are other rebased or rebasing LDC’s rates”. THI was referring to the results from the Energy Probe interrogatory noted above.

While Energy Probe believes that rate mitigation is required, it does not agree with the measures taken by THI. The approach taken by THI increases the burden on the residential class by more than what is necessary.

As shown on page 2 of the draft rate order, THI is proposing a number of changes to help mitigate the impact on various customer classes. However, as shown in Attachment E.2 to the draft rate order, the net result is an increase in the total bill of less than 10% for some of the rate classes that THI is proposing to reduce the revenue to cost ratio for. In the zero sum game of cost allocation, this inevitably leads to an increase in the revenue to cost ratio and in rates for the residential rate class.

THI proposes to reduce the revenue to cost ratio to 69% from the previous proposal of 70% for the GS 50 – 499 kW customer class (page 2 of draft rate order), despite the fact that the resulting bill impact is 8.5%, significantly less than 10% (Attachment E.2, page 3 of 9).

THI proposes to reduce the revenue to cost ratio to 33% from the previous proposal of 45% for the GS > 1,500 kW customer class (page 2 of draft rate order), despite the fact that the resulting bill impact is 9.1%, again lower than the 10.0% threshold (Attachment E.2, page 9 of 9).

THI proposes to keep the revenue to cost ratio at 51% for the GS 500 – 1,499 kW customer class (page 2 of draft rate order), despite the fact that the increase for a typical customer is only 6.0% (Attachment E.2, page 8 of 9).

Each of these proposals shifts costs to the residential rate class unnecessarily. Energy Probe submits that the Board should direct THI to increase the rates to each of the three above noted rate classes so that their total bill impact is 10%. The additional revenues so generated would then be used to reduce the residential increase and help to move the residential revenue to cost ratio down towards the upper limit of 115% of the Board approved range. As shown in Exhibit 10, Tab 3, Schedule 40, the current revenue to cost ratio for the residential class is more than 139%.

Energy Probe also notes the confusion surrounding the proper starting point for the street lighting class. Based on using the number of connections for this class, as THI indicated in its Reply Argument it did and as it should (page 29), the revenue to cost ratio for this class of customers is shown as 45.81% in Exhibit 10, Tab 3, Schedule 40. However, at page 2 of the draft rate order, THI indicates that it would maintain the revenue to cost ratio for the street lighting class at 115%. This figure is more than double that shown in the Energy Probe interrogatory response. If any additional revenues should be generated from this class, it is submitted that revenue should be used to reduce the impact on residential customers.

Energy Probe submits that the Board should require THI to indicate what their starting point for revenue to cost ratios is and, if different from that shown in Exhibit 10, Tab 3, Schedule 40, justify any changes.

ii) Impacts on 2010 and 2011 Revenue to Cost Ratios

The draft rate order is silent on how the revenue to cost ratios in 2010 and 2011 would be adjusted, given the significant changes in 2009 that result from rate mitigation. The Board directed THI to move the ratios for classes that are below the minimum and above the maximum of the Board's target range by 50% of the difference in 2009 with the remaining 50% difference incorporated in THI's rates over the next two years by equal increments (Decision, page 41).

Energy Probe submits that it should be explicitly stated that THI will move the revenue to cost ratios for those classes that are still not within the Board approved ranges in 2009 in equal increments in 2010 and 2011 so that these classes are still moved to the minimum and maximum of the ranges within the two year time frame approved by the Board.

All of which is respectfully submitted

July 28, 2009

Randy Aiken

Consultant to Energy Probe