



THE BOARD OF DIRECTORS

Chair, GAIL REGAN

President, Cara Holdings Ltd.

Secretary/Treasurer, ANNETTA TURNER

ANDREW ROMAN

Barrister & Solicitor, Miller Thomson

ANDREW STARK

Rotman School of Management, University of Toronto

GEORGE TOMKO

Resident Expert, PSI Initiative, University of Toronto

MICHAEL TREBILCOCK

Chair, Law & Economics, University of Toronto

MARGARET WENTE

Columnist, The Globe and Mail

President, PATRICIA ADAMS

MAX ALLEN

Producer, IDEAS, CBC Radio

ANDREW COYNE

National Editor, Maclean's

GLENN FOX

Professor of Economics, University of Guelph

IAN GRAY

President, St. Lawrence Starch Co.

CLIFFORD ORWIN

Professor of Political Science, University of Toronto

January 18, 2011

BY EMAIL AND 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-2010-0132
Hydro One Brampton Networks Inc. – 2011 Cost of Service Application
Energy Probe – Final Argument

Pursuant to Direction from the Board Panel, given on December 7, 2010, during the Oral Hearing, attached please find the Final Argument of Energy Probe Research Foundation (Energy Probe) in respect of the EB-2010-0132 proceeding for the consideration of the Board.

Should you require additional information, please do not hesitate to contact me.

Yours truly,

Original Signed by

David S. MacIntosh
Case Manager

cc: Scott Miller, Hydro One Brampton Networks Inc. (By email)
Michael Engelberg, Hydro One Networks Inc. (By email)
Randy Aiken, Aiken & Associates (By email)
Intervenors of Record (By email)

Energy Probe Research Foundation 225 BRUNSWICK AVE., TORONTO, ONTARIO M5S 2M6

Phone: (416) 964-9223 Fax: (416) 964-8239 E-mail: EnergyProbe@nextcity.com Internet: www.EnergyProbe.org

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 Hydro
One Brampton Networks Inc. for an order approving just
and reasonable rates and other charges for electricity
distribution to be effective January 1, 2011.

**ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")**

ARGUMENT

January 18, 2011

**HYDRO ONE BRAMPTON NETWORKS INC.
2011 RATES**

EB-2010-0132

ARGUMENT OF ENERGY PROBE RESEARCH FOUNDATION

A - INTRODUCTION

This is the Argument of the Energy Probe Research Foundation ("Energy Probe") related to the setting of 2011 rates for Hydro One Brampton Networks Inc ("HOBNI") effective January 1, 2011.

This Argument has been structured to reflect the major components of the HOBNI evidence. Where readily available, Energy Probe has attempted to provide the impact of its submissions on the revenue requirement of HOBNI. However, in order to minimize intervenor time and costs, a comprehensive impact analysis has not been undertaken. If the Board accepts any or all of the Energy Probe submissions, it is assumed that the direct and indirect impacts will be determined by HOBNI and reviewed by intervenors and Board Staff through the associated draft rate order. An example of a comprehensive impact analysis would include the direct impact on rate base of a reduction in \$100,000 in OM&A expenses and a \$250,000 reduction in capital expenditures. Depreciation expense would also be directly impacted by the capital expenditure change. The indirect impacts would include the change in total cost of capital and income taxes (due to CCA and interest expense changes) and the change in the working capital allowance.

a) A Sufficiency

HOBNI is forecasting a revenue sufficiency, after adjusting the cost of capital to the reflect the Board's November 15, 2010 letter related to the "Cost of Capital Parameter Updates for 2011 Cost of Service Applications for Rates Effective January 1, 2011".

HOBNI made a number of adjustments to the cost of service application based on the change from IFRS to GAAP and the interrogatory and technical conference responses filed as part of this proceeding. A summary of the changes made to the application was provided by HOBNI in its November 8, 2010 Update to the Board and intervenors related to "Hydro One Brampton Networks Inc. Update to 2011 Cost of Service Filing Submitted June 30, 2010".

Exhibit K1.1, which is based on Appendix A and the Revenue Requirement Work Form attached to the HOBNI update letter noted above, shows a gross revenue deficiency of \$116,379, along with a revenue requirement adjustment for the cost of capital change for the return on equity and the deemed short term interest rate in the Board's November 15, 2010 letter. This adjustment is a reduction in the revenue requirement of \$432,127. The net result is an overall revenue sufficiency of \$315,748.

As shown in the table on the following page, the resulting total revenue requirement is approximately \$62.415 million. This is an increase of approximately 10.7% in the 2011 test year revenue requirement from that approved by the Board for 2006 rates.

b) But is it Really a Sufficiency?

Mr. Shepherd discussed the components of the changes in costs with the HOBNI witnesses (Tr. Vol. 2, pp. 15-27). The table on the following page demonstrates the changes in the components of the revenue requirement based on the 2006 Board Approved figures and the proposed 2011 Test Year figures that reflect the changes related to the adoption of return on equity and the deemed short term interest rate that result from the Board's November 15, 2010 letter and noted in Exhibit K1.1

Total operating revenue increases by just over \$6 million, reflecting the increase in the revenue requirement. The cost associated with taxes have decreased by approximately \$8.1 million, reflecting a reduction of \$7.2 million for income taxes and a reduction of \$0.9 million for capital taxes. There is also a small decrease in depreciation expense of

approximately \$0.3 million. In total, the increase in revenue and decrease in costs result in an increase in net income after PILs of about \$14.4 million.

Offsetting the increase in net income is an increase in the cost of capital of approximately \$6 million (\$3.3 million for interest and \$2.7 for return on equity), along with an increase of approximately \$8.4 million for OM&A. These increased costs total \$14.4 million, offsetting the increase noted above.

	2006 OEB <u>Approved</u> (1)	2011 Test <u>Year</u> (2)	<u>Difference</u>
Distribution Revenue	53,394,209	58,429,022	5,034,813
Other Revenue	<u>3,008,438</u>	<u>3,986,412</u>	<u>977,974</u>
Total Operating Revenue	56,402,647	62,415,434	6,012,787
OM&A	13,748,003	22,176,435	8,428,432
Amortization Expense	12,792,510	12,447,839	(344,671)
Capital Taxes	864,244	0	(864,244)
Interest Expense	<u>9,527,121</u>	<u>12,854,531</u>	<u>3,327,410</u>
Total Utility Expenses	36,931,878	47,478,805	10,546,927
Net Income Before Taxes	19,470,769	14,936,629	(4,534,140)
PILs Income Taxes	<u>9,376,631</u>	<u>2,146,367</u>	<u>(7,230,264)</u>
Net Income After PILs Income Taxes	10,094,138	12,790,262	2,696,124
Required Net Income After PILs Income Taxes	10,094,138	12,790,262	2,696,124
Net Income Sufficiency/(Deficiency)	0	0	0
Gross Income Sufficiency/(Deficiency)	0	0	0
Total Revenue Requirement	<u>56,402,647</u>	<u>62,415,434</u>	<u>6,012,787</u>
(1) Exhibit 12, Tab 4, Schedule 34, Table 1			
(2) Exhibit K1.1 with cost of capital adjustments included			

Energy Probe notes that the above calculation would have been significantly different if not for the proposed change in asset lives proposed by HOBNI as the result of its depreciation study. As Mr. Gribbon indicated, the depreciation expense would have increased the deficiency (and the corresponding revenue requirement) by about \$9 million (Tr. Vol. 2, pp. 17-18). In other words, the total revenue requirement would have been approximately \$71.4 million in the 2011 test year, or an increase of 26.6% over the 2006 Board approved revenue requirement. More importantly, this would have represented an increase of almost 14% in revenues (and rates) from those generated at current rates of \$62,731,182 (shown in Exhibit K1.1 as \$58,744,770 for distribution revenue and \$3,986,412 for other operating revenue (net)).

Energy Probe submits that the Board should keep in mind this 14% impact on rates that would have taken place in the absence of any changes to the depreciation rates used. The decline in the depreciation expense from that which would have otherwise been included in the revenue requirement is much different than, for example, the decline in the taxes included in the revenue requirement. The decline in the tax component of the revenue requirement has no impact on future rates or future revenue requirements. The decrease in the depreciation expense, however, does have a direct impact on future rates and revenue requirements. In future cost of service filings, the fixed asset component of rate base will be higher as the result of lower accumulated depreciation using the longer asset lives from the depreciation study. This will result in a higher cost of capital being included in future revenue requirements than there would be in the absence of a change in the depreciation rates used. Ratepayers will still pay for the total cost of the assets through depreciation, just over a longer period of time, accompanied by an increase in the cost of capital associated with the remaining value of those assets.

B - RATE BASE

a) 2010 Capital Expenditures

As detailed on page 8 of Exhibit 2, Tab 5, Schedule 7.0, HOBNI had included \$304,643 in its 2010 capital expenditure forecast related to the renovation of space at the Sandalwood Administration facilities that was rented to a day-care tenant. An additional

\$60,000 was budgeted for a reconfiguration of the day-care parking area. HOBNI indicated that it would undertake this expenditure only if and when a new tenant was found.

In the response provided at Exhibit 12, Tab 2, Schedule 14, HOBNI indicated that no tenant had been found. Moreover, Mr. Gribbon confirmed that this was still the case during the oral hearing (Tr. Vol. 1, pp 44-45). Mr. Gribbon further indicated that these expenditures would only be made in 2011 if it found a tenant or determined that it needed to renovate the space for its own use. He then clarified that he did not expect this space would be needed for HOBNI's own use, other than for its current use, which was storage.

Based on the lack of need for these expenditures in 2010 or 2011, Energy Probe submits that the expenditures related to the former day-care rental space, which total \$364,643 should be removed from the calculation of the test year rate base, as should the associated depreciation expense included in the 2011 revenue requirement.

b) Replacement of Vehicles

i) 2010 Expenditure

As shown in Exhibit 2, Tab 2, Schedule 1.2 (blue page update), HOBNI has included \$1,904,000 in capital additions in 2010 for transportation equipment. These expenditures are described in detail in Exhibit 2, Tab 5, Schedule 7.0, page 7. Included in these expenditures is the purchase of a chassis for a 2011 replacement of a 14 year old sling bucket truck.

As indicated in the response to Energy Probe Interrogatory #17(c) (Exhibit 12, Tab 2, Schedule 17), the capital expenditure for this chassis in 2010 is \$137,198. The response provided by HOBNI also indicates that this amount, along with the associated expenditure for 2011 will go into service once completed in 2011.

Based on this evidence, Energy Probe submits that the \$137,198 included in the capital expenditures for 2010 should be removed from the calculation of rate base in 2010 and

the subsequent opening balance for 2011. This expenditure should be added to the 2011 capital additions and included in the closing rate base balance since this expenditure is only used and useful when the entire vehicle is placed into service in 2011.

Moving this 2010 expenditure out of the 2010 rate base and into the 2011 rate base will decrease the test year rate base and the test year depreciation expense (because of the half year rule).

ii) Removal of Net Book Value from Rate Base

HOBNI is forecasting capital expenditures in both 2010 and 2011 to replace a number of vehicles in its fleet. No adjustments to fixed asset continuity schedule have been reflected as a result of the replacement of these vehicles (Exhibit 2, Tab 2, Schedule 1.2, pages 1 & 2 (blue page update)). No adjustment would be needed if the vehicles being replaced are fully depreciated and there is no net book value of the assets. This is similar to the disposals for gross assets and accumulated depreciation shown in Exhibit 2, Tab 2, Schedule 1.1 for 2008 and 2009. As shown in the same schedule for 2006 and 2007, the disposals related to transportation equipment result in a reduction to rate base as the reduction to accumulated depreciation was less than the reduction of the gross asset values.

As shown in the response to Exhibit 12, Tab 2, Schedule 17 (part (b)), the net book value of the vehicles scheduled to be replaced in 2011 is \$73,250. HOBNI has not made any reduction in rate base for 2011 for these vehicles that will be replaced in 2011, while at the same time adding the full capital expenditures for the new vehicles. Energy Probe submits that this is not appropriate. When the vehicles are replaced, they should be removed from rate base as they are no longer used or useful. In addition to the removal from rate base, the depreciation expense associated with these replaced vehicles should be reduced.

c) Working Capital

i) Cost of Power Methodology

Energy Probe does not support the methodology used by HOBNI to calculate the commodity component of the cost of power. HOBNI has used a single rate per kWh regardless of whether the customer is an RPP or non-RPP customer (Exhibit 12, Tab 2, Schedule 10, part (a)). The use of the single RPP price was confirmed by Mr. Miller (Tr. Vol. 1, pp. 46-47).

Energy Probe submits that the estimation of the kWh's that are associated with RPP consumers and the kWh's associated with non-RPP consumers and the application of the appropriate prices to these different volumes to calculate the cost of power component of the working capital allowance is appropriate. This is especially important for a utility like HOBNI where the working capital allowance associated with the power supply expense (excluding transmission and wholesale costs included in the cost of power) represents more than 12% of the total rate base. This percentage is based on a cost of power of \$270,480,528 shown in Exhibit 2, Tab 4, Schedule 2.0, Table 3. Fifteen percent of this cost is \$40,572,079 and the forecasted rate base is \$331,010,920 (Undertaking J1.13). It is imperative, in the view of Energy Probe, to estimate as accurately as possible the impact on rate base of the commodity cost of power.

Energy Probe Interrogatory #10 (Exhibit 12, Tab 2, Schedule 10) requested that HOBNI update the cost of power component of the working capital allowance to reflect the calculation if the RPP and non-RPP volumes and associated prices were used. It is clear that the use of RPP and non-RPP volumes has a significant impact on the cost of power. Based on the methodology used by HOBNI, the commodity cost of power is \$270,480,528 (Exhibit 2, Tab 4, Schedule 2.0, page 4) if the RPP/non-RPP split is ignored, while based on the 35.0%/65.0% RPP/non-RPP volume split (part (b) of Exhibit 12, Tab 2, Schedule 10), the cost of power declines to \$257,805,304 (Part (c) of Exhibit 12, Tab 2, Schedule 10). This is a reduction of 4.7% or nearly \$12.7 million, which translates into a reduction in rate base of more than \$1.9 million.

HOBNI commented in the response to part (c) of Exhibit 12, Tab 2, Schedule 10 that the non-RPP price suggested by Energy Probe did not include the "Adjustment to Address

Bias Towards Unfavourable Variance" or the "Adjustment to Clear Existing Variance". HOBNI concluded during the oral component of the proceeding that these adjustments should not be included as part of the non-RPP price (Tr. Vol. 1, page 47). Energy Probe agrees with this conclusion.

Energy Probe notes that the Board has endorsed the RPP/non-RPP approach in numerous Decisions, including the EB-2009-0267 Corrected Decision and Order dated April 7, 2010 for Kitchener-Wilmot Hydro Inc. At page 26 of that Decision, the Board stated:

"The Board acknowledges that the RPP price has previously been used as the common proxy for the commodity price estimate in the WCA calculation in past applications, and has been accepted as such by the Board in decisions. However, and notwithstanding the Board's agreement that a more general review of the WCA methodology may be warranted, the Board agrees with Energy Probe and finds that the WCA should be determined in a way that recognizes the split between RPP and non-RPP customers. The precise split will vary from time to time, but the magnitude of the variation is unlikely to be significant while the current approach of assuming 100% RPP volumes is clearly inaccurate."

Energy Probe submits that the use of separate prices for RPP and non-RPP volumes provides a more accurate estimate of the commodity cost of power. Given the significant impact on rate base, it is submitted that the Board should direct the distributor to reflect this methodology in its working capital allowance calculation.

ii) Cost of Power Update

In the EB-2009-0267 Corrected Decision and Order dated April 7, 2010 for Kitchener-Wilmot Hydro Inc. the Board stated (at page 26) that:

"The Board concludes that the most accurate data should be used in the calculation of working capital, and notes that all parties agree with this approach."

Consistent with this Decision and others in which the Board directed the applicants to update the cost of power to reflect the most recent information available, Energy Probe submits that the cost of power should be updated to reflect the most recent cost of power forecast currently available.

The forecast prepared by HOBNI used the OEB Regulated Price Plan Price Report May 1, 2010 to April 30, 2011 (Exhibit 12, Tab 2, Schedule 10). Since the forecast was prepared, the OEB has released the Regulated Price Plan Price Report November 1, 2010 to October 31, 2011 which is dated October 18, 2010. Based on the RPP and non-RPP prices from this Report, HOBNI has calculated the 2011 cost of power to be \$259.6 million (Tr. Vol. 1, pp. 47-48). Energy Probe accepts this figure as accurately reflecting the updated RPP and non-RPP prices.

In summary, Energy Probe submits that the cost of power used in the working capital allowance calculation should be reduced from \$270.5 million to \$259.6 million to reflect both the RPP/non-RPP volumes and the most recent RPP and non-RPP pricing forecasts available. Based on the use of the 15% factor, this reduction of \$10.9 million in the commodity cost of power will result in a reduction to rate base of \$1.635 million.

iii) Changes to Controllable Expenses

Energy Probe submits that if the Board makes any adjustments to the controllable OM&A expenses in its Decision, these changes should be reflected in the calculation of the working capital component of rate base.

C - GREEN ENERGY ACT PLAN

Energy Probe has reviewed the submissions of Board Staff in relation to all of the issues associated with the Green Energy Act Plan and adopts those submissions as its own.

D - REVENUES

a) Forecast Methodology

Energy Probe accepts the forecast methodology used by HOBNI given the data limitations and the fact that it has been approved by the Board in other rate applications. However, Energy Probe also submits that the use of the estimated model should be done on a consistent basis. This issue is discussed further below in relation to the use of average degree days used in the forecast.

b) Adjustments to the Forecast

Energy Probe submits that there should be a number of adjustments made to the forecast that would provide a more accurate and reasonable forecast.

i) Updated GDP Forecast

Similar to the Board's conclusion noted above with respect to the calculation of the cost of power associated with the working capital allowance where the Board indicated that "the most accurate data should be used", Energy Probe submits that the most accurate data should be used to calculate the load forecast.

The equation used by HOBNI to forecast kWh purchases includes a number of explanatory variables (Exhibit 3, Tab 2, Schedule 3.0, Table 1) that are easily forecast, such as the number of peak hours, number of days in the month, the spring fall flag and the blackout flag. Other variables are relatively easy to predict because they change slowly (population) or are based on historical averages (heating and cooling degree days).

Gross domestic product ("GDP"), on the other hand, is more difficult to forecast and the forecasts can change significantly over a relatively short period of time.

As indicated in part (a) of Exhibit 12, Tab 2, Schedule 19, the GDP forecasts used by HOBNI in the equation were based on Ministry of Finance forecasts from March, 2010. In part (d) of the response, the most recent forecasts from five of the large Canadian banks were provided. When this updated forecast was used, the kWh and kW forecast changed significantly, as shown in the table provided in response to part (e) of the interrogatory. Energy Probe further notes that the Total kW figure of 5,862,912 shown in the 2011 Original column is incorrect. HOBNI provided the correct figure of 5,745,177 kW in Undertaking J1.5. Based on this corrected figure, the -1.27% change for Total kW in interrogatory response is replaced by +0.75%.

The change in the GDP forecast to reflect the most recent forecasts available results in an increase in kWh's of 0.6% and increase in the kW billing units of 0.75%. Energy Probe

submits that this is a significant change in the forecast and should be reflected in the Board's findings. Energy Probe has estimated the impact to be an increase in distribution revenues at current rates of approximately \$190,000, as illustrated in the following table.

		2011 GDP		Difference	Rate	Revenue
		<u>2011 Original</u>	<u>Revised</u>			<u>Impact</u>
Residential	KWh's	1,107,769,581	1,110,853,385	3,083,804	0.0154	47,491
GS < 50 kW	KWh's	290,725,436	291,259,984	534,548	0.0178	9,515
USL	KWh's	4,899,876	4,949,236	49,360	0.0178	879
GS > 50 kW	kW's	3,079,920	3,095,075	15,155	2.2935	34,758
Intermediate	kW's	1,879,169	1,897,380	18,211	3.7355	68,027
Large Use	kW's	697,451	707,702	10,251	2.9023	29,751
SLR	kW's	88,637	88,366	-271	2.2046	<u>-597</u>
Total						189,824

ii) Normal Degree Days

HOBNI has used a 30 year average, from 1980 through 2009, to forecast heating and cooling degree days (Exhibit 12, Tab 2, Schedule 21). Energy Probe submits that this is not appropriate, in that HOBNI indicates that it has used the multifactor regression model similar to the one used by THESL in EB-2009-0139 (Exhibit 3, Tab 2, Schedule 1.0). HOBNI also references a number of other applications in which the Board approved a similar approach. As shown in the response to the Energy Probe interrogatory referenced above, THESL used a 10 year average for heating and cooling degree days. The other distributors referenced by HOBNI in Exhibit 3, Tab 2, Schedule 1.0 did not use a 30 year period to average heating and cooling degree days. They either used the 10 year period used by THESL or periods of similar length. For example, Burlington Hydro used a 13 year period to calculate the average.

Energy Probe submits that the use of the 30 year period is not justified. A shorter period, such as the 10 year period used by THESL more accurately reflects recent weather trends. As a result, Energy Probe submits that the forecast should be normalized based on a 10 year average for heating and cooling degree days.

The response provided in Exhibit 12, Tab 2, Schedule 21, part (b) indicates that the kWh forecast for the 2011 test year would be 3,915,093,435 when the 10 year heating and cooling degree average is used. This is an increase of 0.4% from the level based on the 30 year average.

Energy Probe submits that this increase should be reflected in the load forecast, in addition to the increase related to the GDP forecast discussed in the previous section. While the increase in the kW forecast was not provided, or requested, in Exhibit 12, Tab 2, Schedule 21, there is no reason to expect that it would not be proportional to the increase in the kWh forecast relative to that for the kWh forecast for the GDP change. Based on that relationship (i.e. 0.6% increase in kWh and 0.75% increase in kW), the corresponding increase in the kW forecast associated with change in heating and cooling degree days would be approximately 0.5%. The overall distribution revenue impact would be proportional to the revenue impact calculated above for the GDP change. With an impact on volumes of about two-thirds as that for the GDP change, the revenues would be approximately \$125,000 higher than forecast for the degree day change.

iii) kW Forecast Methodology

The methodology used by HOBNI to calculate the kW billing determinants is described in Exhibit 3, Tab 2, Schedule 6.0 and involves the exponential smoothing of the historical kW/kWh ratios. Energy Probe submits that this methodology should be rejected by the Board. HOBNI has not provided any evidence to suggest it is a more accurate methodology than the simple average of the ratios used by THESL and others.

In the response to Energy Probe Interrogatory #26 (Exhibit 12, Tab 2, Schedule 26) and substantially corrected in Technical Conference Exhibit JT1.6, the impact of using the standard approach which averages the ratios over the 2003 through 2009 period in place of the exponential smoothing increases revenues in aggregate by \$46,366. Energy Probe submits that this increase is appropriate, as it reflects a methodology approved by the Board in previous cost of service applications.

iv) Customer Forecast

Energy Probe submits that HOBNI has substantially under forecast customer additions in both the bridge and test years by using an unproven technique and/or incorrectly applying the methodology. This technique involves exponentially smoothing the number of customers and then using the growth rates from these exponentially smoothed numbers to forecast the growth in the bridge and test years.

As shown in Exhibit 12, Tab 2, Schedule 22, part (a) and discussed in part (b), the exponentially smoothed number of residential customers is less than the actual average number of customers in all years. Similar results can be seen for the other rate classes. HOBNI indicates that this is not an issue, since the growth rates based on the exponentially smoothed data are applied to the actual number of customers. However, as indicated in part (e) of the response, HOBNI is not aware of any LDC having used, or the Board having approved this exponential smoothing methodology to forecast customers.

At page 8 of Exhibit 3, Tab 2, Schedule 3.0, HOBNI states that it has applied the growth rate for the exponentially smoothed 2009 data. Energy Probe submits that this is not what was done to forecast the 2010 and 2011 customers. As an example, consider the residential customer class. In Table 6 of Exhibit 3, Tab 2, Schedule 3.0, the exponentially smoothed number of customers for 2008 and 2009 are 118,639 and 120,998, respectively. The 2009 figure is 2.0% higher than the 2008 figure. This is reflected by the figure of 1.02 shown in Table 7 of Exhibit 3, Tab 2, Schedule 3.0. However, as shown in the response to Undertaking J1.6, the growth rates used for the residential class in 2010 (and 2011) was only 1.05%. Similarly, the growth rates used for the other rate classes are not consistent with the figures derived for 2009.

Energy Probe notes that on an actual basis, the number of customers in the 2010 bridge year are substantially above the forecast. In particular, a comparison of the actual number of customers in August, 2010 provided in part (j) of Exhibit 12, Tab 2, Schedule 22, with the forecast provided in Undertaking J1.6 for the same month shows an increase of 770 residential customers and 48 GS < 50 kW customers. While the actual number of

GS > 50 kW customers is 5 below the forecasted level, the number of intermediate customers is 5 above the forecast. The impact of this difference is substantial, as shown in the following table and incorporates only the difference up to August, 2010.

Customers <u>August 2010</u>	<u>Actual</u>	<u>Forecast</u>	<u>Difference</u>	<u>Rate</u>	<u>Annual Revenue</u>
Residential	123,306	122,536	770	10.60	97,944
GS < 50 kW	7,795	7,747	48	20.27	11,676
GS > 50 kW	1,540	1,545	-5	101.68	-6,101
Intermediate	115	110	5	1,410.45	<u>84,627</u>
Total					188,146

Energy Probe submits that the Board should increase the revenue forecast for the Intermediate class by \$84,627 to reflect the increase in the number of customers in this class that has already taken place, instead of the decline forecast by HOBNI. Similarly, the revenue forecast should be reduced by \$6,101 for the GS > 50 kW class to reflect the slower growth than forecast.

For the two classes with a large number of customers (Residential and GS < 50 kW), Energy Probe submits that a reasonable forecast would be to take the 2009 actual figures and gross them for the bridge and test years by the 2009 actual percentage growth. The actual number of residential customers grew by 1.66% in 2009, while the GS < 50 kW class grew by 1.24% (Table 5 of Exhibit 3, Tab 2, Schedule 3.0). Applying these growth rates to the actual 2009 number of customers result in a residential forecast of 125,093 residential customers (an increase of 1,433) and in a GS < 50 kW forecast of 7,717, a decrease of 176). Based on the recent historical figures and the fact that the economy is expected to perform better in 2010 and 2011 than it did in 2009, these forecasts are probably conservative, but are reasonable in the view of Energy Probe.

Based on existing monthly charges, the change in the number of residential customers would increase the test year revenues by \$182,278 (1,433 x 12 x \$10.60) and the corresponding decrease in GS < 50 kW revenues would be \$42,810 (176 x 12 x \$20.27).

v) CDM Forecast

HOBNI has reduced the volume forecast by 64,010,000 kWh's to reflect its share of the of the provincial CDM impact assumed for 2011 (Exhibit 3, Tab 2, Schedule 2.0, pages 3-4). Energy Probe submits that this estimate is both out of date and too large for the 2011 test year.

In the EB-2010-0215/EB-2010-0216 Decision and Order dated November 12, 2010, the Board specified the GWh savings target over the 2011 through 2014 period for each distributor in Ontario. The HOBNI target is 189.54 GWh. The total energy savings target over this four year period for the province is approximately 6,000 GWh. In contrast, HOBNI used a provincial figure of 2,386 GWh for 2011 as the starting point for its calculation. The derivation of this figure is described in Undertaking J1.7. In that response, HOBNI indicated that "to date, the official CDM target for the province is still the 2007 IPSP", which was the foundation of the 2,386 GWh forecast used by HOBNI for 2011.

Energy Probe submits that the appropriate CDM target to include in the volume forecast for HOBNI for 2011 is 19 GWh, not 64 GWh. This figure is based on the specific target of approximately 190 GWh assigned to HOBNI by the Board for the cumulative savings for 2011 through 2014 and represents 1/10th of this cumulative target.

Distributors such as HOBNI will be expected to provide on-going CDM plans throughout the 2011 to 2014 period to reduce consumption by the targeted amounts. HOBNI indicated during the hearing that it plans to split this four year obligation equally over four years (Tr. Vol. 1, pp. 83-84). Energy Probe submits that this is not appropriate or is a miscalculation.

If the official CDM target of 190 GWh was split equally between the four years, then this would seem to imply a CDN target of 47.5 GWh for HOBNI in each of 2011 through 2014. However, this would result in **cumulative** savings well in excess of the four year target of 190 GWh. CDM savings that are achieved in one year are expected to persist in

subsequent years. In other words, if HOBNI achieves 47.5 GWh of savings in 2011 and these savings persist in 2012, 2013 and 2014, it will have met its cumulative savings target of 190 GWh without having to do any CDM programs after 2011. The 2011 savings would produce the cumulative savings required without the pursuit of any further savings. Energy Probe does not believe that this is practical or the intention of the targets. Indeed if this was the intention then instead of a four year cumulative savings target, the target could have simply been stated as one-fourth of the cumulative figure, but achieved in 2011.

On the other hand, the achievement of equal **incremental** savings in each of 2011 through 2014 is a reasonable approach for distributors to follow. The effort, and resources required, to achieve CDM savings of 190 GWh over this four year period would be equal across all years. In order to achieve the target, the distributor would have to obtain 1/10th of its overall cumulative target. This can be seen through a simple mathematical exercise.

If the four year cumulative target is 100 units and an equal incremental amount is achieved by the distributor in each of the four years then the target will be met as follows. In the first year, 10 units are obtained. In the second year, 20 units are obtained, consisting of the second year of the results from the first year, plus the incremental 10 units achieved in the second year. In the third year, 30 units would be obtained, consisting of the third year of the results from the first year, the second year of the results from the second year and the incremental 10 units achieved in the third year. The fourth year would generate total savings of 40 units. In aggregate the total savings are 100 units (10 + 20 + 30 + 40), achieving the target.

In summary, Energy Probe submits that the CDM target should be reduced to 19 GWh in the 2011 load forecast to reflect the current official CDM targets for the province and a reasonable expectation of when those savings will be achieved.

In the event that the Board approves a load forecast that includes a CDM reduction in excess of the 19 GWh figure noted above, Energy Probe further submits that the LRAM to be calculated for 2011 should be based on the estimate included in the load forecast.

c) Other Distribution Revenue

HOBNI is forecasting other distribution revenue of \$3,986,412 for the 2011 test year (Exhibit 3, tab 4, Schedule 1.0). Energy Probe accepts this forecast as reasonable, with the two exceptions noted below.

i) Miscellaneous Energy Charges

As shown in Table 2 of Exhibit 3, Tab 4, Schedule 1.1, HOBNI forecast \$57,025 in the 2010 bridge year for "Miscellaneous Energy Charges (was Bell Co)" line. The corresponding figure for the 2011 test year is \$0.

HOBNI indicated that this reduction in revenues shown in this specific line was the result of modifications to the billing system so that the specific charges are used rather than the miscellaneous category (Exhibit 12, Tab 2, Schedule 29, part (g)). HOBNI provided further clarification at the technical conference indicating that these revenues were reallocated from the miscellaneous energy charges line to the lines labeled "account setup charge" and "collection of account charge" (Tech. Conf. Tr., pp. 48-49).

However, a review of those line items in Table 2 of Exhibit 3, Tab 4, Schedule 1.1 shows a reduction in revenues for those two lines between 2010 and 2011, taking into account the \$57,000 shown as miscellaneous in 2010. Specifically, the account set up charge increases by only \$10,400 in 2011 and the collection of account charge increases by only \$11,000. Energy Probe submits that these increases would appear to be reasonable in light of the historical revenues recorded and the growth in the number of customers served by HOBNI in the test year. However, they do not appear to be reasonable when the \$57,000 in miscellaneous revenue is taken into account. The net impact of these three accounts is a reduction in revenues of more than \$35,600.

Energy Probe submits that while the miscellaneous revenues have been placed into the accounts noted by HOBNI as a result of a modification to their billing system, it does not appear that this change has been reflected in the 2011 revenue forecast. Energy Probe therefore submits that the Board should increase the specific service charge revenue forecast 2011 by the \$57,000 that is shown for 2010 and not included in the account setup and collection of account charges.

ii) Sale of Vehicles Being Replaced

As indicated in the response to part (c) of Exhibit 12, Tab 2, Schedule 29, HOBNI has not included any revenue from the sale of the vehicles that are forecast to be replaced in 2011. In particular, HOBNI claims that no revenue is shown due to the uncertain nature of the future market values at auction of the vehicles being replaced and that the forecast assumes that the net gain or loss will be close to zero.

Energy Probe does not agree that no revenue should be forecast. As shown in Appendix E to Exhibit 2, Tab 6, Schedule 1.1, HOBNI had an independent third party Fleet Assessment prepared less than one year ago. This assessment included estimates of the market values of the individual components of the fleet. In the response to Exhibit 12, Tab 2, Schedule 17, at part (b), the market value based on this assessment of the vehicles being replaced is provided, along with the remaining net book value of these vehicles. The market value exceeds the net book value by more than \$65,000.

Energy Probe submits that this gain should be reflected in account 4355 - Gain on Disposition of Utility and Other Property. If the Board believes that the gain on the sale of these vehicles is uncertain due to the nature of future market values at auction, then it is submitted that at least half of the estimated gain, or \$32,500, should be included in the revenue forecast based on the evidence in this proceeding from the third party assessment.

E - OM&A EXPENSES

Energy Probe has reviewed the change in OM&A costs on the basis of both an overall or envelope approach (part (a) below) as well as specific adjustments of individual expenses (part (b) below) arrived at through a more comprehensive review of the OM&A expenses.

a) Overall Increase in OM&A Costs

HOBNI is forecasting total OM&A costs, excluding depreciation, PILS and interest costs of \$22,206,535 for the 2011 test year as shown in the response to Energy Probe Interrogatory #32 (Exhibit 12, Tab 2, Schedule 32). This is an increase of 8.9% in 2011 from the level of \$20,393,300 forecast for the 2010 bridge year, which, in turn, was an increase of 14.3% from the level recorded in 2009.

The following table is based on the information provided in the table on page 1 of Exhibit 12, Tab 2, Schedule 32 and adjusted for 2011 as in Exhibit K1.1.

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Total OM&A	16,155,651	15,925,811	17,173,680	17,836,429	20,393,300	22,176,435
% Change		-1.4%	7.8%	3.9%	14.3%	8.7%

As noted above, in addition to the 8.7% increase in 2011, HOBNI is forecasting an increase in 2010 OM&A costs of 14.3%. Over the period from 2006 through 2009, the average increase is 3.4% per year while the average increase for the last two years of actual expenses (2008 & 2009) is 5.85%. However, the average increase forecast by HOBNI for 2010 and 2011 is 11.5% which is nearly double the average rate of increase recorded for 2008 and 2009.

Combining the CGAAP based OM&A costs shown in the above table with the number of customers shown in Table 1 of Exhibit 4, Tab 2, Schedule 1.4 shows that the OM&A cost per customer would rise to \$154.00 in 2010 and to \$165.63 in 2011. This is an increase from the \$136.19 per customer shown for 2009, \$133.62 for 2008, \$126.37 for 2007 and \$134.30 for 2006. In other words, the average OM&A cost per customer, which rose a

total of 1.4% between 2006 and 2009 is forecast to rise 13.1% in 2010 and a further 7.6% in 2011.

Energy Probe submits that these forecasted annual increases in 2010 and 2011 are not appropriate or justified.

In response to Energy Probe Interrogatory #32 (c), HOBNI provided the most recent year-to-date figures for OM&A for the 2010 bridge year for the same period in 2009 (June). The June year-to-date figure for 2010 shown in the interrogatory response is 2.1% above the figure for the corresponding period in 2009. This is a far cry from the 14.3% increase forecast for the 2010 bridge year. Indeed, as can be seen from the above table, the increase in the OM&A expense forecast for the 2010 bridge year is more than \$2.5 million. On an actual basis through half of the bridge year, the OM&A expense is less than \$200,000 above the level recorded in 2009.

Energy Probe submits that a reasonable maximum increase in OM&A expenses is 5.5%, based on both the average actual increase recorded in 2008 and 2009 (7.8% and 3.9%, respectively) along with the 2.1% increase recorded in the first half of 2010 on an actual basis. The 5.5% is the weighted average growth rate over this 2.5 year period, giving equal weights to the 2008 and 2009 figures and a one-half weighting to the 2010 results through June. This increase is still more than 4 times the increase in the GDPIPPFDD of 1.3% (discussed in further detail below).

Applying this increase of 5.5% to the actual 2009 figure of \$17,836,429 yields a 2010 bridge forecast of \$18,817,433 and a 2011 test year forecast of \$19,852,391. This, in turn, is a reduction of \$2,324,044 from the level currently included in the test year revenue requirement. The \$19,852,391 is equivalent to an OM&A cost per customer of \$148.28, an increase of 8.9% from the level recorded in 2009.

Partially offsetting the reduction noted above are a number of added expenses that should be added onto the OM&A expense for the 2010 test year. The first of these is the added

expense related to the MDMR that HOBNI has included in its OM&A forecast for the test year, in the amount of \$758,949 (Tr. Vol. 1, page 54). This is a new expense that Energy Probe believes should be reflected in the revenue requirement.

Energy Probe recommends that the Board establish a variance account around the amount of \$758,949. HOBNI agreed with this approach, in place of their original request for a deferral account (Tr. Vol. 1, pp 54-55). Given the uncertainty currently associated with the new MDMR costs, Energy Probe submits that a variance account is appropriate in this instance.

The second addition to OM&A costs is an amortization of the increase in OMERS costs of \$1.5 million over the four year period 2011 through 2014, resulting in an increase in costs of \$375,000. The \$1.5 million figure is composed of \$1.0 million for the 2011 through 2013 period as identified in the HOBNI's September 2, 2010 letter that provided an update to the cost of service filing. In addition to this amount, an additional \$0.5 million was identified as potential cost for 2014 (Tr. Technical Conference REVISED, page 153). HOBNI originally requested a deferral account for the OMERS related costs, but indicated that if an amount was included in the revenue requirement, it would be happy with a variance account (Tr. Vol. 1, page 55).

Energy Probe submits that the amortization of the forecasted costs over four years an inclusion of this amount (\$375,000) in the revenue requirement, along with the establishment of a variance account around this amount is appropriate. These are incremental costs, but their quantum is subject to a degree of uncertainty at this time.

Adjusting the reduction of \$2,324,044 recommended by Energy Probe for the two incremental expenses noted above results in a net reduction in the OM&A forecast, as recommended by Energy Probe, of \$1,190,095 on an envelope basis.

b) Specific Adjustments

The following is a list of adjustments that Energy Probe submits are reasonable in light of the evidence provided in this proceeding.

i) Regulatory Cost Amortization

HOBNI has forecast total regulatory costs associated with its 2011 cost of service application to be \$70,000 (Exhibit 4, Tab 2, Schedule 3.0, Table 6). HOBNI has also indicated that it did not amortize these costs over the expected IRM term because the impact was deemed to be not material (Exhibit 12, Tab 2, Schedule 37).

Energy Probe submits that the Board has a well established policy of amortizing cost of service application costs over the cost of service rebasing year and the expected number of years under IRM. HOBNI has indicated that it expects to file its next cost of service application for rates effective January 1, 2015 (Exhibit 12, Tab 2, Schedule 37).

Energy Probe submits the \$70,000 in costs related to this proceeding should be amortized over the 2011 through 2014 period, resulting in test year cost of \$17,500 and a reduction in the revenue requirement of \$52,500.

ii) Bad Debt

HOBNI is forecasting a bad debt expense of \$525,300 in 2011 and \$515,004 in 2010 (Exhibit 4, Tab 2, Schedule 1.2, Table 2). These forecasts are down from the \$967,834 recorded in 2009, but substantially above the average level recorded in 2006 through 2008 of \$334,306. HOBNI explained that the increase in bad debt expense in 2009 was driven by the collapse of the auto sector and the bankruptcies of three large customers.

In response to an Energy Probe interrogatory (Exhibit 12, Tab 2, Schedule 33, part (d)) HOBNI indicated that based on the most recent year-to-date figures available (June), bad debt expense for 2010 was \$143,556, compared to the 2009 figure for the same period, excluding the large one-time bankruptcies of \$371,124.

Assuming that the bad debt expense more than doubled for all of 2010 relative to the \$143,556 recorded in the first half of the year, the bad debt expense would still be less than \$300,000. Energy Probe submits that the test year expense should be reduced to the average figure recorded in 2006 through 2008 noted above of \$334,306, a reduction of approximately \$191,000. There is no evidence to support the figure forecast by HOBNI.

iii) Collection Costs

HOBNI is forecasting collection costs of more than \$1 million in each of the bridge and test years: \$1,027,587 in 2010 and \$1,082,799 in 2011 (Exhibit 4, Tab 2, Schedule 1.2, Table 2). The collection cost recorded in 2009 was \$772,456 while in the previous three years, the costs averaged just over \$600,000 per year.

As shown in the response provided in part (f) of Exhibit 12, Tab 2, Schedule 35, the June year-to-date collection cost was \$463,107 in 2010 as compared to \$405,458 for the same period in 2009. This is an increase of 14.1%. Based on six months of actual data, Energy Probe submits that the increase forecast for 2010 should be equivalent to a 14.2% increase over 2009 for 2010. This would yield a forecast for 2010 of \$882,145, which is approximately \$145,000 lower than the bridge year forecast. This reduction would then be carried forward to 2011, resulting in a forecast collection cost of approximately \$937,800. In light of the past level of expenditures in this category, along with the trend in higher costs, Energy Probe submits that this is a reasonable estimate for 2011.

iv) Board of Directors Fees

HOBNI has indicated that it has included \$14,714 in its revenue requirement for costs related to the Board of Directors of its parent company, Hydro One Inc. (Exhibit 12, Tab 2, Schedule 39). Energy Probe submits that this is not appropriate and these costs should be removed from the revenue requirement.

HOBNI has its own Board of Directors and there is no need for a second Board of Directors to provide oversight. As the Board concluded in the EB-2009-0259 Decision and Order dated March 1, 2010 for Burlington Hydro Inc., this was not justified.

v) Other Miscellaneous Costs

As shown in Exhibit KT1.5, HOBNI has a significant increase shown in the 'Other' line of the cost driver table that shows the changes between 2009 and 2010. The increase in this line item is \$335,147 in 2010, followed by a decrease of \$101,106 in the 2011 test year, for a net increase from 2009 of \$234,041. Energy Probe notes that based on the information provided in Exhibit KT1.5, the net impact between 2006 and 2009 was a reduction in these other costs. The average increase over the 2007 through 2009 period is less than \$45,000 per year.

Energy Probe also notes that the increase in 2010 in this line item is in excess of the \$300,000 materiality threshold for HOBNI (Exhibit 1, Tab 3, Schedule 8.0) but HOBNI has not provided any justification for the increase.

Energy Probe submits that the increase in the 'other' line should be reduced by \$134,000. HOBNI has not provided any justification for the significant increase in the bridge year and the carryover of most of this increase into the test year. Further, Energy Probe notes that this reduction is similar to the corrections noted in parts (c) and (e) of the response to Energy Probe Interrogatory #35 (Exhibit 12, Tab 2, Schedule 35) that indicated two of the other cost driver lines had been overestimated by double counting costs that were already accounted for under Wages and Benefits. These specific amounts were \$86,568 for postage and stationery costs and \$62,135 for information systems expenses.

The proposed reduction of \$134,000 would replace the increase in 2011 over 2009 from approximately \$234,000 to \$100,000, which represents an increase that is still higher than the average impact of this cost driver in the 2007 through 2009 period.

vi) Employee Additions

Table 1 in Exhibit 4, Tab 4, Schedule 2.0 shows the actual and forecasted full time equivalent employee headcount from 2006 Board approved level of 183 to a forecast for the test year of 231. Of most concern to Energy Probe is the significant increase shown

in 2010 and 2011. Over the bridge and test years HOBNI is forecasting the addition of 20 FTEE's, an increase of nearly 10% over the 211 employees shown for 2009.

A number of the planned hires for 2010 did not take place (Exhibit 12, Tab 2, Schedule 35, part (a)). These positions may be filled in 2011. However, Energy Probe submits that the incremental additions forecast for 2011 have not been adequately justified. At Exhibit 4, Tab 2, Schedule 1.3, page 13, HOBNI lists 5 new incremental positions to be filled in 2011. The total costs associated with these 5 positions in the 2011 test year is shown to be \$254,516 (Exhibit 4, Tab 2, Schedule 1.3, page 13).

As shown in Table 1 of Exhibit 4, Tab 4, Schedule 2.0, the growth in FTEE's was relatively stable between 2007 and 2009, with the addition of 5 FTEE's in 2008, and 4 in 2009. The increase in 2010 of 14 FTEE's is three times the average increase between 2007 and 2009. Based on this increase, Energy Probe submits that there should be no additional FTEE's required for the 2011 test year. The revenue requirement should be reduced by the costs associated with the 5 forecasted positions for 2011 of \$254,516.

Energy Probe notes the discrepancy in the increase in FTEEs shown in Exhibit JT1.13 and in Table 1 of Exhibit 4, Tab 4, Schedule 2.0 (both of which indicate a net increase of 6 FTEEs) with the 5 positions described on page 13 of Exhibit 4, Tab 2, Schedule 1.3.

Energy Probe further notes that the number of FTEEs shown for 2010 and 2011 in Table 1 of Exhibit 4, Tab 4, Schedule 2.0 are both higher than the year-end staff headcount included in the Hydro One Brampton Networks Inc. IFRS Business Plan, Financial Summary and Staffing Request 2011-2015 (page 8) submitted to the Board of Directors for approval on June 9, 2010 and filed in Appendix AG in this proceeding. In particular, the number of staff is lower in the presentation to the Board of Directors by 7 positions in both 2010 and 2011 relative to what HOBNI filed in the rates proceeding three short weeks later.

vii) Incentive Pay

Based on the blue page update to Exhibit 4, Tab 4, Schedule 9.0 and the number of FTEEs eligible to receive an incentive payment found in Exhibit 4, Tab 4, Schedule 9.1, the total cost of the incentive payments included in the revenue requirement is \$544,987 calculated as shown in the following table.

	<u>FTEEs</u>	<u>Amount</u>	<u>Incentive</u>
Executive	3	41,559	124,677
Management	35	9,944	348,040
Non-Union	30	2,409	<u>72,270</u>
Total			544,987

As indicated in the response to Energy Probe Interrogatory #38 (Exhibit 12, Tab 2, Schedule 38), HOBNI has forecast the incentive payments for 2011 to be 66.7% of the maximum incentive available. HOBNI has also indicated that the scorecard used to determine the level of the incentives paid out is not weighted between the shareholder value/benefits and ratepayer value/benefits.

Energy Probe submits that the Board should reduce the amount of incentive payments included in the revenue requirement from \$544,987 to \$272,494, a reduction of the same amount. This reflects the fact that HOBNI is not able to provide an estimate of the allocation of the benefits that are driving the incentive payments to its employees between those that accrue to the ratepayer (such as increased efficiencies) versus those that accrue to the shareholder (such as increased returns). Energy Probe also notes that it is not clear why the proportion of the maximum incentives obtainable is forecast at 66.7%. HOBNI failed to provide this figure on an actual basis for the years 2006 through 2009, as requested in part (b) of Exhibit 12, Tab 2, Schedule 38.

viii) Inflationary Increases

As indicated in the response provided in Exhibit 12, Tab 2, Schedule 30 and the evidence at Exhibit 4, Tab 1, Schedule 1.0, HOBNI forecast an increase of \$0.6 million related to inflation between 2009 and 2011. These inflation forecasts are based on increases in the

Consumer Price Index ("CPI") of 1.9% in 2010 and 2.1% in 2011 (Exhibit 4, Tab 1, Schedule 4.0). Energy Probe submits that use of the CPI is not appropriate. The inflationary adjustment should be based on the same inflation factor used in the IRM adjustment, as the Board has determined that the Implicit Price Index for National Gross Domestic Product - Final Domestic Demand ("GDPIPPFDD") is more relevant for distributors than is the CPI.

As the Board is aware the increase in the GDPIPPFDD used in the 2010 IRM price cap was 1.3% based on the actual increase in 2009. The average for the first three quarters of 2010 is under this level at just over 1.2%.

Prorating the \$600,000 increase related to a 2.0% average increase in the CPI for 2010 and 2011 to a level of 1.25% for the GDPIPPFDD for those same years would result in a reduction in the inflationary impact to \$375,000, a reduction of \$225,000 from that forecast. Energy Probe submits that this is a more reasonable forecast for the impact of inflation on OM&A costs.

ix) CDM Position

As noted in Exhibit 4, Tab 2, Schedule 1.3, page 13, HOBNI had included \$70,949 associated with the hiring of an additional position to ensure that the CDM targets are achieved. In the response provided in Undertaking J1.9, HOBNI confirmed that the costs associated with this position is included in the cost of the OPA Tier One Programs. As a result HOBNI has concluded that it will not require funding for the salary of the CDM hire to be included in the revenue requirement. Energy Probe accepts this update and submits that this results in a reduction in the OM&A costs of \$70,949.

x) Summary

The following table summarizes the specific submissions of Energy Probe with respect to the reductions in OM&A proposed in this submission.

	<u>OM&A Cost Reduction</u>
Regulatory Cost Amortization	\$52,500
Bad Debt	\$191,000
Collection Costs	\$145,000
Board of Director Fees	\$14,714
Other Miscellaneous Costs	\$134,000
Employee Additions	\$254,516
Incentive Pay	\$272,494
Inflationary Increases	\$225,000
CDM Position	\$70,949
Total	\$1,360,173

The total shown in the above table of \$1,360,173 exceeds the \$1,190,095 overall reduction in OM&A costs recommended by Energy Probe on an envelope basis by more than \$170,000. It is therefore submitted that the reduction of \$1,190,095 proposed by Energy Probe is a conservative reduction in OM&A costs.

F - DEPRECIATION & AMORTIZATION

a) Depreciation Rates Used

Energy Probe does not have any issues with the rates used or the componentization framework utilized in the depreciation review conducted by Foster Associates Inc. as illustrated in Exhibit JT1.11.

b) Half Year Rule

As can be seen in the calculations in Exhibit KT1.6, HOBNI has used the half year rule for calculating the test year depreciation expense. Energy Probe has reviewed the test year calculations provided in Exhibit KT1.6 and believe they reflect the appropriate use of the half year rule. As a result Energy Probe submits that the Board should accept the depreciation expense as calculated by HOBNI.

c) Changes to Capital Expenditures

If the Board makes any changes to the capital expenditure forecast for 2010 or 2011, then Energy Probe submits that these changes should be reflected in the calculation of the depreciation expense calculated for the 2011 test year.

G - TAXES

Energy Probe submits that the distributor should calculate its income taxes using the most recent information available, including tax rates that are expected to be applicable to 2011. This would include any changes that result from federal and provincial budgets that is known to the Board and other parties when the Decision is issued. Further, the appropriate tax rates should be applied. There are different federal and provincial tax rates that are applicable at different levels of taxable income.

a) General Income Tax Rates

As shown in Exhibit 4, Tab 8, Schedule 1.0, HOBNI has used a federal tax rate of 16.50% and a provincial tax rate of 11.75% for 2010. Energy Probe submits that these tax rates are appropriate, subject to the use of the provincial small business deduction rates noted below.

b) Provincial Small Business Deduction

The provincial small business deduction provides a lower provincial corporate income tax rate of 4.5% on the first \$500,000 of business income. The surtax on taxable income between \$500,000 and \$1.5 million that clawed back this reduction in provincial corporate taxes was eliminated on July 1, 2010.

HOBNI originally indicated that it did not qualify for the provincial small business deduction (Exhibit 12, Tab 2, Schedule 46). However, after reviewing the issue, HOBNI is now aware that it is eligible for the provincial small business rate (Undertaking J1.4).

HOBNI has indicated in the response provided at Undertaking J1.4 that the benefit of this reduction is estimated to be \$5,632. No calculations were provided to justify this amount. Energy Probe submits that this benefit is understated.

Energy Probe has calculated that the provincial small business deduction reduces income taxes by \$36,250. This reduction is associated with the first \$500,000 in taxable income and reflects the difference between the 11.75% general provincial tax rate and the small business tax rate of 4.5%. This 7.25% differential in the tax rate, when multiplied by the \$500,000, results in the reduction of \$36,250.

Energy Probe submits that the reduction associated with the provincial small business deduction, for which HOBNI now indicates that it is eligible, should be applied to the HOBNI revenue requirement. Energy Probe further submits that the reduction in income taxes is \$36,250, not \$5,632 as estimated by HOBNI.

c) Tax Credits

As can be seen in the evidence at Exhibit 4, Tab 8, Schedule 4.0 and specifically in the response to part (c) through (f) of Exhibit 12, Tab 2, Schedule 46, HOBNI did not make any deductions to reduce taxes for available tax credits such as the Apprenticeship Training Tax Credit (federal or provincial), the Co-operative Education Tax Credit or the Investment Tax Credit. HOBNI claimed that these deductions, which were claimed in for PILs purposes in previous years, were considered immaterial. Energy Probe disagrees.

Mr. Gribbon indicated that the value of these credits claimed on the 2009 tax return was \$40,000 for the Ontario Apprenticeship Tax Credit, \$9,000 for the Federal Apprenticeship Job Creation Tax Credit and \$15,000 for the Cooperative Education Tax Credit. In aggregate, these credits totaled \$64,000 in 2009 (Tech. Conf. Tr., page 80). Energy Probe further notes that the Ontario Apprenticeship Tax Credit and the Cooperative Education Tax Credit were enhanced for expenditures that took place after March 26, 2009. In other words, the 2009 tax credits claimed by HOBNI in 2009 would be higher if the amounts were annualized to reflect the current limits.

HOBNI did not make any changes as part of the various updates filed throughout this rates proceeding to take the tax credits into account. Mr. Gribbon confirmed that HOBNI did not include any of these tax credits in its revenue requirement calculations (Tr. Vol. 1, page 59). Mr. Gribbon then went on to indicate (Tr. Vol. 1, page 60) that these tax credits are not a certain tax credit that HOBNI would experience in the future.

Apparently Mr. Gribbon was concerned that HOBNI may or may not hire apprentices or fully qualified individuals. Energy Probe notes that as with any forecast, there is always uncertainty. On this specific issue, Energy Probe submits that the evidence is clear. Mr. Gribbon indicated that HOBNI had forecast the number of staff additions that would be apprentice positions. Specifically, as shown in Exhibit 4, Tab 4, Schedule 8.0, Table 1 shows the addition of 3 line apprentice positions (2 in 2010 and 1 in 2011). HOBNI was unable to provide a specific forecast for the number of positions that would be eligible for the three tax credits in 2011.

Based on the forecast increase of three apprentice positions in 2010 and 2011 and using the 2009 tax credits as a starting point, Energy Probe submits that the Ontario Apprenticeship Tax Credit should be increased from \$40,000 to \$70,000 to reflect the three additional positions that qualify for this credit that were forecast to be hired in 2010 and 2011. Each position is eligible for a tax credit of \$10,000. Similarly, the Federal Apprenticeship Job Creation Tax Credit should be increased from \$9,000 to \$15,000 to reflect the three additional apprentice positions. Each position is eligible for the federal tax credit of \$2,000 per position. The Cooperative Education Tax Credit would stay at the 2009 level of \$15,000. In aggregate, Energy Probe submits that tax credits of \$100,000 ($\$70,000 + \$15,000 + \$15,000$) should be reflected in the income tax calculation for the 2011 test year.

Energy Probe notes that in addition to the inclusion of the tax credits as a direct reduction to the amount of tax payable, the tax credits need to be reflected as an addition to income. In other words, the net impact of the tax credits is the after tax value (71.75%) of the credits claimed.

Based on the addition of \$100,000 to the taxable income and the application of the total tax rate of 28.25%, this would increase taxes payable by \$28,250. Application of the tax credits in the amount of \$100,000 will result in a net reduction in taxes of \$71,750.

d) Capital Cost Allowance

Energy Probe has reviewed the revised capital cost allowance schedules shown in Appendix AW to Exhibit 12, Tab 1, Schedule 52 for 2010 and 2011 and believe they accurately reflect the GAAP based capital additions for both years. It is further noted that the correction noted by and agreed to by HOBNI in the response provided at Exhibit 12, Tab 2, Schedule 45 has been properly incorporated in the revised CCA calculations, as confirmed by Mr. Gapic (Tr. Vol. 1, page 61).

Energy Probe submits that any changes to the capital additions in 2010 and 2011 should be reflected as changes in the CCA additions.

e) Update to Regulatory Taxable Income

Energy Probe submits that if the regulatory taxable income is changed as a result of the Board's Decision, then the income tax calculation should also be updated to reflect the revised level of regulatory taxable income.

H - LOSS ADJUSTMENT FACTOR

HOBNI has calculated its total loss factor based on the average wholesale and retail kWh for a five year historical period from 2005 through 2009 (Exhibit 8, Tab 5, Schedule 1.1). The average total loss factor is 1.0349 over this period, which is a small decrease from the current approved loss factor of 1.0356.

The use of a 5 year average for the calculation of the total loss factor is the preferred approach to be used in the calculation of the loss factor, as specified in the update to Chapter 2 of the Filing Requirement for Transmission and Distribution Applications, issued June 28, 2010.

Energy Probe submits that the total loss factor as estimated by HOBNI for 2010 is appropriate.

I - COST OF CAPITAL

a) Capital Structure

HOBNI has used a deemed capital structure of 56% long term debt, 4% short term debt and 40% equity. This complies with the December 20, 2006 Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors. Energy Probe accepts this as being appropriate.

b) Allowed Return on Equity

In its original evidence (Exhibit 5, Tab 1, Schedule 2.0), HOBNI indicated that it understood that the Board would finalize the return on equity for 2011 rates based on January 2011 market interest rate information. However, HOBNI has applied for a 2001 rates year that begins January 1, 2011, rather than May 1, 2011.

The Board issued a letter dated November 15, 2010 that set out the cost of capital parameter updates for 2011 cost of service applications for rates effective January 1, 2011. The return on equity was calculated to be 9.66%. Energy Probe submits that this is the appropriate figure to be used by HOBNI.

Based on the revenue requirement adjustment and the associated footnote found at the bottom of Exhibit K1.1 of (\$432,127) it appears that HOBNI has accepted that the appropriate return on equity is 9.66%.

c) Short Term Debt Rate

Energy Probe submits that the short term debt rate should be 2.43% to reflect the Board's November 15, 2010 letter. Similar to the return on equity adjustment noted above, it appears HOBNI has reflected this change in Exhibit K1.1. Energy Probe agrees with this adjustment.

d) Long Term Debt Rate

HOBNI has calculated its weighted average long-term debt rate to be 6.76%, as shown in Table 2 of Exhibit 5, Tab 1, Schedule 2.0. This figure is based on an existing debt instrument for \$143 million at a rate of 6.95% and two new debt issues. The first is a 2010 debt instrument in the amount of \$10 million at a rate of 5.71% and the second is a 2011 debt instrument in the amount of \$47 million at a rate of 6.41%. Both of these proposed issues were for 30 year terms.

The interest rate forecasts used for 2010 were based on Hydro One Inc. bond rates that were prepared based on the November 2009 edition of Consensus Forecasts while the 2011 bond rates were based on the long term forecast from the October 2009 edition of Consensus Forecasts. Hydro One credit spreads were based on an average of indicative new issue spreads for November 2009 from the dealers in Hydro One's medium term note syndicate (Exhibit 5, Tab 1, Schedule 2.0, page 3).

Energy Probe submits that the interest rate forecasts should be updated. The forecasts used by HOBNI are now more than a full year old and are out of date. Energy Probe submits that the rates should be updated to use September, 2010 data, the same time period used by the Board to set the cost of capital parameters in its November 15, 2010 letter.

This was an issue in the recently completed EB-2010-0002 transmission rate case for HOBNI's sister company, Hydro One Networks Inc. In the Decision with Reasons dated December 23, 2010, the Board found (at page 50) that:

"The Board is also persuaded by the BOMA/LPMA submission respecting the desirability of consistent updating of all debt forecasts. Accordingly the Board directs Hydro One to update its forecast of long term debt with the most current information, which is September 2010 data."

Energy Probe submits that HOBNI should be directed to update its long term debt forecast to reflect September, 2010 data reflected in the Board's November 15, 2010 letter that set out the cost of capital parameter updates for 2011 cost of service applications for rates effective January 1. The deemed cost of long-term debt in that letter was 5.48%.

In addition to the updated rate, Energy Probe notes that HOBNI has changed its forecast related to the need for additional long-term debt. HOBNI is now forecasting that no long term debt would be issued in 2010 and that the 2011 amount would be \$42 million (Tr. Vol. 1, pp. 151-153).

Based on the updated deemed long-term debt rate of 5.48% and the forecasted issuance of \$42 million of additional debt in 2011, the weighted average cost of long term debt shown in Table 2 of Exhibit 5, Tab 1, Schedule 2.0 would decline from 6.76% to 6.62%. When applied to the deemed long term debt (56%) component of the revised rate base figure of \$331,010,921 (Exhibit K1.1), the reduction from 6.76% to 6.62% results in a reduction in interest expense of \$259,513 ($\$331,010,921 \times 0.56 \times (0.0676 - 0.0662)$).

J - DEFERRAL AND VARIANCE ACCOUNTS

a) Accounts and Amounts to be Cleared

Energy Probe submits that the accounts and the amounts proposed to be cleared by HOBNI, as shown in Exhibit 9, Tab 2, Schedule 2.1 (blue page update) are appropriate, with the exception of the tax related accounts (accounts 1562 and 1592).

Energy Probe has reviewed the comprehensive submission of Board Staff related to this issue and are in general agreement with Staff. In particular, Energy Probe supports the submission related to the PILs tax impact of changes in regulatory assets and collections that (Staff Submission dated January 14, 2011, page 51):

" the Board should insist that Hydro One Brampton includes the negative SIMPIL entries related to tax deductions of regulatory assets from 2001 through 2005 or removes the impact of the recoveries of regulatory assets (amounts recorded in account 1590) in its SIMPIL calculations and reconciliations that true up to ratepayers."

Energy Probe also supports the submissions related to the interest expense clawback which are summarized in the last paragraph on page 56 of the Staff Submission.

Staff have provided two options for the Board to consider in proceeding with the disposition of this component of the 2011 rate application (Staff Submission, pages 57-58). Under either option, Staff is recommending that the Board make a final determination on these two distinct issues. Given the amount of evidence provided in this proceeding, Energy Probe agrees with Staff. It is not clear what additional evidence could be required in order to allow the Board to make a decision on these two issues. Given that these two issues constitute the vast majority of the amounts to be cleared in this account (1562), Energy Probe supports option 1. If the Board makes a determination in this proceeding related to either or both of these issues, Energy Probe sees no value in delaying the recovery or rebate of the approved amounts.

Energy Probe submits that HOBNI has not provided sufficient justification for its proposals related to either of the two issues. Based on the table provided in the Staff Submission at page 57, the recovery from ratepayers of \$5,592,315 proposed by HOBNI would turn into a customer rebate of \$2,841,943 if the Board accepted the Staff submissions. This is a potential swing of more than \$8 million.

Energy Probe agrees with the Staff proposal related to the disposition period. If the amount is as proposed by HOBNI, then a two year recovery is appropriate, while if the amount is a rebate, then a one year disposition to customers would be appropriate.

b) Allocation to Customer Classes

Based on the statement on page 1 of Exhibit 9, Tab 1, Schedule 1.0 that HOBNI has allocated the balances requested for disposition based on the default cost allocation methodology as set out in the *Report of the Board on Electricity Distributor's Deferral and Variance Account Review Initiative* (EB-2008-0046) dated July 31, 2009, Energy Probe accepts the allocation of the balances for recover to the customer classes as being appropriate.

c) Recovery Period

HOBNI proposes to recover the balances in the deferral and variance accounts over a two year period (Exhibit 9, Tab 2, Schedule 2.0). Energy Probe accepts this proposal given the overall impact on bills. Based on the blue page update of Exhibit 9, Tab 2, Schedule 2.1, this would recover a total amount of \$6,548,397 from ratepayers.

However, should the Board defer its Decision with regards to the deferred payments in lieu of taxes, then Energy Probe would support the recovery of the remaining balances over 1 year based on the reduction in the rate impact. In this instance, Energy Probe submits that recovery of the LRAM/SSM balance could also be done over 1 year rather than 2.

d) New Accounts

HOBNI has listed the new deferral and variance accounts that it is requesting on pages 6 and 7 of its Argument-in-Chief dated December 17, 2010. Energy Probe accepts the creation of these new accounts with the following exceptions.

Energy Probe does not agree that the three IFRS Deferral Account related accounts should be approved by the Board in this proceeding. As noted in the argument-in-chief, HOBNI has agreed to have these three deferral accounts dealt with in a future generic hearing.

With respect to the deferral account for incremental OMERS costs in 2011, 2012 and 2013, Energy Probe has submitted that an estimate of the increase in these costs should be amortized over the 2011 through 2014 period and included in the 2011 OM&A costs. In place of the deferral account, a variance account would be set up to record any variances from the \$375,000 included in the revenue requirement for this cost.

HOBNI originally requested a variance account for the recovery of the Late Payment Settlement Costs, along with a rate rider \$0.28 per metered customer per month for a period of one year (Exhibit 9, Tab 1, Schedule 3.0, page 7. During the oral hearing, HOBNI indicated that it would not be opposed to withdrawing this request from this proceeding and allowing it to be the subject of the Board's decision in the generic proceeding EB-2010-0295 (Tr. Vol. 1, pp. 85-86). Energy Probe supports the removal of the request for both the variance account and the rate rider from this proceeding and that HOBNI would be subject to the outcome of the generic proceeding.

K - COST ALLOCATION & RATE DESIGN

Energy Probe submits that the proposed revenue to cost ratios shown in Exhibit 12, Tab 1, Schedule 40 are appropriate. In particular, based on the status quo ratios shown in the response, three ratios are below the Board target ranges (GS 50 to 699 kW, USL and Street Lighting) while the ratio for the GS < 50 kW class is above the target range.

The HOBNI proposals would reduce the GS < 50 kW class to the top of the range and bring the ratios for the three classes below the bottom of the ranges up to the bottom of the range. The incremental revenue would allow a small reduction in the ratio for the residential class, bringing it closer to unity, and a significant reduction for the Intermediate rate class from 150% to 130%. Energy Probe believes these adjustments are appropriate.

If the Board determines that the movement for the Street Lighting class from 12.40% to 70% is excessive for the 2011 test year, then it is submitted that this ratio should be increased half way to 70%, or 41.2% in the test year, with a further adjustment to 70% in 2012. The lower revenue contribution from this class in 2011 would be reflected in a slightly higher revenue to cost ratio for the Intermediate class. This class would then benefit from the additional revenue in 2012.

With respect to the split between the fixed and variable proportions of the rates, Energy Probe supports the HOBNI proposal to maintain the same fixed/variable proportions currently in effect for all classes (Exhibit 8, Tab 2, Schedule 1.0, page 1) except street lighting. Energy Probe takes no position on the proposed change for this class.

L - LRAM & SSM

Energy Probe has had the opportunity to review the submissions of VECC related to the LRAM and SSM issues. Energy Probe adopts the submissions of VECC.

M - SMART METERS

Energy Probe has reviewed the submissions of Board Staff related to the Smart Meter Disposition Rate Rider, the Smart Meter Funding Adder and the treatment of Stranded Meters.

Energy Probe agrees with the submissions related to the Smart Meter Disposition Rate Rider and has no concerns related to this rate rider. However, Energy Probe does not see any need to discontinue the Smart Meter Funding Adder as proposed by Staff. Energy Probe believes the continuation of the adder would result in regulatory efficiencies. The Staff proposal could entail HOBNI filing an application in 2012 for a prudence review of the balances to be recovered. In addition some mechanism would need to be developed to allow HOBNI to include the additional smart meters in rate base, while under the IRM mechanism. Continuation of the rate adder would result in the balances being dealt with as part of the next cost of service rebasing application.

With respect to stranded meters, Energy Probe supports the Staff proposal for an appropriate recovery mechanism. Specifically, Energy Probe submits that it is no longer appropriate for HOBNI to receive rate base treatment for stranded meters that are no longer used and useful when the new smart meters are also included in rate base.

Energy Probe supports the removal of the stranded assets from rate base and the transfer of the net book value to a separate account as proposed by Staff. The revenue from the rate rider, along with any proceeds from the sale or scrap of the stranded meters would be used to draw down the balance in this account. Energy Probe submits that the proposed recovery period should be as short as possible, taking into account the overall bill impacts associated with all the changes resulting from this rates proceeding.

N - COSTS

Energy Probe requests that it be awarded 100% of its reasonably incurred costs. Recognizing the size of Hydro One Brampton Networks Inc., Energy Probe has attempted to minimize its time on this application, while at the same time ensuring a thorough review.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

January 18, 2011

Randy Aiken

Consultant to Energy Probe