April 15, 2011

BY EMAIL & 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-2010-0125
Brant County Power Inc. – 2011 Cost of Service Application
Energy Probe – Argument

Pursuant to Procedural Order No. 5, issued April 12, 2011, please find attached the Argument of Energy Probe Research Foundation (Energy Probe) in the EB-2010-0125 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: Ed Glasbergen, Brant County Power (By email)
Heather Wyatt, Brant County Power (By email)
Scott Stoll, Aird & Berlis LLP (By email)
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Interested Parties (By email)

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EB-2010-0125

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 Brant County Power Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2011.

ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")

ARGUMENT

APRIL 15, 2011

BRANT COUNT POWER INC.
2011 RATES REBASING CASE
EB-2010-0125

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 Brant County Power Inc. ("BCP") on the one unsettled issue from the Settlement Agreement dated April 8, 2011. This unsettled issue is the final revenue to cost ratios for a number of rate classes.

Parties did agree that the revenue to cost ratios for the Street Lighting and Sentinel Lighting rate classes would be moved to 70%, being the bottom of the Board approved ranges for each of these rate classes. The additional revenue collected as a result of these increases would be applied first to the class most above a revenue to cost ratio of 100%. If and when there is more than one class that is equally above a revenue to cost ratio of 100%, then the additional revenue would be applied to these rate classes to reduce the revenue to cost ratios in a similar manner.

B - THE UNSETTLED ISSUE

The unsettled issue was the appropriateness of moving the revenue to cost ratios for rate classes that are already within the Board approved ranges.

Rate Class	Approved Range	Starting Point	BCP Proposal	Intervenor Proposal
Residential	85 - 115	92.38	100.00	92.38
GS < 50	80 - 120	102.77	100.00	102.77
GS 50 - 4,999	80 - 180	142.14	109.15	124.62
Street Lights	70 - 120	10.75	70.00	70.00
Sentinel Lights	70 - 120	32.88	70.00	70.00
USL	80 - 120	117.75	100.00	117.75

Source: Proposed Settlement Agreement dated April 8, 2011, page 24

As shown in the above table, BCP proposes to increase the Residential ratio to 100% and lower the GS < 50 and USL classes to 100%. This would allow the ratio for the GS 50 - 4,999 class to decline from 142.14% to 109.15%.

Energy Probe submits that the Residential, GS < 50 and USL ratios should not be adjusted as they are all within the Board approved ranges from the EB-2007-0667 Report of the Board on *Application of Cost Allocation for Electricity Distributors* issued on November 28, 2007 ("Board Report"). The additional revenue associated with the agreed to movement of the Street Lights and Sentinel Lights to 70% would be all allocated to the GS 50 - 4,999 class, allowing the revenue to cost ratio to decline from 142.14% to 124.62%. This figure is well within the approved range for this class. As such, Energy Probe submits there is no need for further movement within any of the ranges for any of the rate classes.

Energy Probe notes that in BCP's Submissions Regarding the Unsettled Issue, the "Report of the Board: Review of Electricity Distributor Cost Allocation Policy" (EB-2010-0219) is referred to as justification for the BCP proposal in that the GS > 50 range is being reduced to 80% to 120%. Energy Probe notes that this new range becomes effective for cost of service applications for the 2012 test year.

If the Board determines that further movement within the ranges is appropriate, then Energy Probe submits that the methodology described below under Part D - An Alternative would be appropriate.

C - BOARD POLICY

The Board policy on appropriate revenue to cost ratios has evolved over the last several years. The Board Report set the benchmark ranges for each rate class. In a number of cost of service application Decisions for 2008 rates (EB-2007-0901 - Espanola Regional Hydro Distribution Corporation, EB-2007-0931 - PUC Distribution Inc., EB-2007-0742 - Guelph Hydro Electric System Inc.), the Board concluded:

"As the Board has noted in the Cost Allocation Report, cost causality is a fundamental principle in setting rates. However, observed limitations in data affect the ability or desirability of moving immediately to a revenue to cost framework around 100%. The Board's target ranges are a compromise until such time as data is refined and experience is gained."

In those Decisions, the Board accepted the general principle that where the proposed ratio for a given class was above the Board's target range there should be a move of 50% toward the top of the range from what was reported in the Information Filing and where the ratios in the Informational Filing were below the Board's ranges there should be a move by 50% toward the bottom of the Board's target ranges.

The Board was even more specific in the EB-2007-0693 Decision and Order dated August 11, 2008 for Wellington North Power Inc. where it stated:

"The Board has adopted a practice in virtually all of the rebasing applications for 2008 rates where utilities have been obliged to move revenue-to-cost ratios to points within the ranges depicted above, wherever practicable, and closer to the range in circumstances where achieving the range would result in what is considered to be an unreasonable rate impact.

An important element in the Board's report on cost allocation was its express reservation about the quality of the data underpinning cost allocation work to date. The report frankly indicated that the Board did not consider all of the data underpinning the report to be so reliable as to justify the application of the report's findings directly into rate cases. For this reason, among others, the Board established the ranges depicted above and mandated the migration of revenue to cost ratios currently outside the ranges to points within the ranges, but not to unity. In short, the ranges reflect a margin of confidence with the data underpinning the report. No point within any of the ranges should be considered to be any more reliable than any other point within the range. Accordingly, there is no particular significance to the unity point in any of the ranges.

As is noted above, with the exception of the street lighting and sentinel lighting classes, all of the Applicant's proposed revenue to cost ratios fall within the range as provided in the Board's report on cost allocation. ***The Board will not approve any further movement within the ranges as requested by a number of the intervenors in this proceeding, and by the Applicant itself with respect to the Residential class.****"* (emphasis added)

In its Submission Regarding the Unsettled Issue, BCP indicates that the GS> 50 class has over-contributed and subsidized other rate classes. Based on the Board's view that no point within any of the ranges should be considered to be any more reliable than any other point within the range noted above, this is not the case. With the exception of Street Lights and Sentinel Lights, all of the revenue to cost ratios are within the Board's ranges. In other words, given the margin of confidence of the data underpinning the allocation of costs, there is no evidence to suggest that any of the rate classes within the Board approved ranges has over or under-contributed.

The BCP Submission then goes on to state that BCP believes the historical cross-subsidization has contributed to loss of GS > 50 kW customers. With all due respect, BCP has not provided any evidence in this proceeding to support this statement.

A review of the EB-2008-0237 Decision and Order dated March 25, 2009 for Niagara-on-the-Lake Hydro Inc. ("NOTL") shows a situation similar to that for BCP. In particular, based on the proper starting point that correctly reflected the transformer ownership allowance, the GS > 50 class had a revenue to cost ratio of 179.01%, just below the upper end of the Board approved range for this rate class. The Street Lighting and Sentinel Lighting classes were below the lower boundary of the range established by the Board, and were proposed to be moved to the bottom of the range over a number of years.

The School Energy Coalition ("SEC") submitted that the level of cross-subsidization by the GS > 50 kW class was unacceptable and that NOTL should be required to reduce the revenue to cost ratio for this class to 100% over the next two years.

In its Decision, the Board deviated from the policy reflected in previous decisions, as follows:

> *"The Board concurs with SEC regarding the level of cross-subsidization by the GS>50 KW customer class.* ***<u>While previous Board decisions have not approved any further movement for customer classes already within target ranges, there is no other mechanism to mitigate the cross-subsidization by the GS>50 kW customer class.</u>*** *The Board finds that* ***<u>it is within the utility's discretion to move</u>***

> ***towards revenue to cost ratio of unity as long as the impact can be borne by affected rate classes****. Accordingly, the Board finds that NOTL's proposal to set rates that move the revenue to cost ratio for residential and GS<50 kW customer classes half of the way towards 100% and to move USL to 100% is appropriate. The additional revenue shall be allocated to reduce the revenue to cost ratio for the GS>50 kW customer class."* (emphasis added)

Energy Probe notes that while similar to the NOTL situation described above, the revenue to cost ratio for the GS 50 - 4,999 rate class is significantly lower than the 179.01% starting point in the NOTL application. As noted in the table above, the starting point for this class for BCP is 142.14% and based on the additional revenues being allocated to this class from the Street Lighting and Sentinel Lighting classes, the revenue to cost ratio would be 124.62%.

Appendix C.2 of the Proposed Settlement Agreement dated April 8, 2011 shows the bill impacts based on the intervenor proposal of reducing the revenue to cost ratio for the GS 50 - 4,999 rate class to 124.62%. The total bill impacts range from an increase of 3.20% for a customer in this class with a demand of 50 kW and energy consumption of 25,000 kWh per month to 0.85% for a customer with a demand of 500 kW and energy consumption of 25,000 kWh per month.

Based on this total bill impact, Energy Probe submits there is no need to adjust this ratio down any further at this time, as it is both well below the top of the Board approved range and the total bill impacts do not suggest that any further rate mitigation is necessary.

D - AN ALTERNATIVE

Energy Probe submits that it would be inappropriate to increase the revenue to cost ratio for the Residential rate class, as proposed by BCP, when there are still two classes of customers (Street Lights and Sentinel Lights) that are significantly below the starting ratio for the Residential class of 92.38%.

If the Board determines that the revenue to cost ratio for the GS 50 - 4,999 rate class and/or the GS < 50 class and/or the USL class (the two other rate classes with a starting revenue to cost ratio above 100%) should be moved to 100%, then Energy Probe submits that these adjustments should be phased in over the 2012 through 2014 period. The starting point would be the revenue to cost ratios as proposed by the intervenors in the above table for 2011. This would already result in a significant reduction in the test year ratio for the GS 50 - 4,999 rate class as noted above.

The proposed phase-in in 2012 through 2014 would lower the revenue to cost ratio for the GS 50 to 4,999 class in equal steps (see table below) and would reduce the USL and GS < 50 class ratios in tandem as well. In particular, the ratio for the GS 50 - 4,999 and USL class would be reduced to 116.41% in 2012 and to 108.20% in 2013. In 2014 the levels would be decreased to 100%, as would the GS < 50 ratio.

The ratios that would need to be increased under this phase in are the Residential, Street Lights and Sentinel Lights. In 2012, Energy Probe estimates that these ratios would have to increase to 92.92% and in 2013 to 96.07%. In 2014, all the ratios would converge to 100%.

The following table shows the proposed ratios as estimated by Energy Probe over the 2012 through 2014 period, along with the 2011 test year ratios.

Rate Class	2011	2012	2013	2014
Residential	92.38	92.92	96.07	100.00
GS < 50	102.77	102.77	102.77	100.00
GS 50 - 4,999	124.62	116.41	108.20	100.00
Street Lights	70.00	92.92	96.07	100.00
Sentinel Lights	70.00	92.92	96.07	100.00
USL	117.75	116.41	108.20	100.00

This phase in would ensure that all ratios above 100% move down in a ratchet fashion. In other words, the highest moves down to the second highest and then they both move down to the third highest and then down to 100% in lock step with one another. The ratchet also works the same way for the classes where the ratios are below 100%. The

Street Lights and Sentinel Lights move up to the Residential figure and then all three increase by the same amount over the phase in period.

If the Board determines that further movement toward 100% should be achieved, Energy Probe submits that this is the most fair approach. It ensures that classes that are the farthest from 100% to start with are the ones the move the most at first (both up and down).

E - COSTS

Energy Probe requests that it be awarded 100% of its reasonably incurred costs. Recognizing the size of Brant County Power 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

April 15, 2011

Randy Aiken

Consultant to Energy Probe