EB-2010-0142

THE 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 Toronto Hydro-Electric System Limited for an Order or Orders approving or fixing just and reasonable distribution rates and other charges to be effective May 1, 2011.

Written Argument of The Consumers Council of Canada

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WRITTEN ARGUMENT OF THE CONSUMERS COUNCIL OF CANADA

I Introduction

1. On August 23, 2010, Toronto Hydro-Electric Limited ("THESL") applied to the Ontario Energy Board ("Board") for approval of its distribution rates and other charges commencing May 1, 2011. The issues list was finalized and approved by the Board on November 11, 2010. A Settlement Conference was convened on January 25, 2011, and subsequently adjourned to allow THESL to file an update to its evidence based on a number of accounting changes. The Settlement Conference was reconvened on February 28, 2011, and the parties reached a settlement on the majority of the issues in the case.

2. The Consumers Council of Canada ("Council") participated in the Settlement Conference and is a party to the Settlement Agreement filed by the Board on March 25, 2011.

3. The Council will make submissions on the following unsettled issues:

Incentive Regulation (Issue 1.5)
Emerging Requirements (Issues 4.1, 4.2, 9.1, 9.2 ad 9.3)
Deferral and Variance Accounts (Issue 6.1)
Suite Metering (Issues 7.2 and 7.3)
Cost Allocation (Issues 7.1 and 7.4)

II Incentive Regulation [Issue 1.5]

4. Issue 1.5 has three questions, as follows:

1. When would it be appropriate for Toronto Hydro to commence filing rate applications under incentive regulation?
2. Is this application an appropriate basecase for a future IRM application?
3. If not, why not?

5. We will address, first, questions 2 and 3. We will then address question 1.

(a) Is this application an appropriate base to commence filing rate applications under incentive regulation?

6. For the reasons set out below, the Council submits that the answer is "yes".

7. THESL's only "evidence" on Issue 1.5 was a letter to the Board dated March 25, 2011. The letter was marked as Exhibit KH1.2. The letter is more argument that "evidence". The timing of the filing of the letter provided no opportunity for written interrogatories. Indeed, given the nature of the "evidence", it is not clear whether interrogatories would have been useful. Mr. Sardana agreed that in assessing whether or the reasons, set out in Exhibit KH1.2, "are viable should be done on the basis of the facts before the Board in an application" (**Tr., Vol. 1, p. 185**)

8. Most of THESL's "evidence", and of its Argument-in-Chief ("AIC") on Issue 1.5, is directed at the last two questions. Reduced to its essence, THESL's position is that it would be unfair to treat the outcome of this application as the base for an IRM regime because THESL would never be properly compensated for its capital expenditures.

9. By THESL's own admission, it did not file its application on the basis that it could be considered as the base year for incentive regulation. THESL states that, had it known that its application would be considered as an incentive regulation rebasing application, "it would have brought a significantly different application, and furthermore would have made

significantly different business and operating plans in contemplation of that outcome." (**AIC, para. 25**)

10. The Council does not know what THESL means by "a significantly different application" or what "significantly different business and operating plans" THESL would have made. The application before the Board either reflects THESL's operating circumstances, or it does not. If it does not, then, among other things, the Board should not grant any of the relief that THESL seeks.

11. As will be discussed in detail below, the policy of the OEB is to require electricity LDCs to operate under incentive regulation regimes. THESL has chosen to ignore that policy, and to continue to file cost of service applications. However, from the time that the issues list was finalized, THESL was on notice that the outcome of this application could form the basis for an IRM regime. Knowing that, THESL elected to settle the major components of the case, taking the risk that the result would form the base for an IR regime. THESL cannot now complain if its decisions, to file its application in a particular way and to settle the principal components of the application, result in a decision it does not like.

12. THESL has provided no evidence, as opposed to argument, as to why the results of the settlement agreement it is a party to, should not form the base for the application of an IRM formula.

(b) When would it be appropriate for Toronto Hydro to commence filing rate applications under incentive regulation?

13. The Council submits that THESL's 2012 rate application is the appropriate time to file a rate application under incentive regulation.

14. THESL takes the position that it should not be subject to an IRM formula for the "foreseeable future" which, for all intents and purposes, means until THESL agrees. Accordingly, unless otherwise directed by the Board, THESL will continue to file cost of service applications. Indeed, THESL has already said that it is preparing its 2012 as a cost of service application. (**Ex. KH1.2**)

15. The question the Board must decide is whether it should, and can, direct THESL to file its next application as one for an IRM.

16. The use of the word "when" in the first question of Issue 1.5 suggests that the Board expects THESL to file an IRM application at some point. Had it been otherwise, the Board would have used the word "whether" in the question. That the Board would frame Issue 1.5 as it did is consistent with its general policy on incentive regulation for electricity LDCs and with specific directions it gave to THESL in its Decision in EB-2008-0680.

17. The Council submits that the Board's policy is to require electricity LDCs to operate under incentive regulation regimes. The policy, and the incentive regulation itself, provide for unusual circumstances. For example, the incentive regulation formula allows for flexibility and capital spending. However, the policy does not provide a blanket exception based on a LDC's view that it does not like the formula or does not want to operate under an incentive regulation regime.

18. The Council acknowledges that the Board's policy on incentive regulation for the electricity LDCs is driven in part by considerations of regulatory efficiency, if not necessity. The essence of the argument is that, as a practical matter, the Board could not process annual cost of service applications by more than 70 electricity LDCs.

19. However, the Board, in the context of both gas and electricity LDCs, has also expressed the view that IRM is a preferred method of regulation. In addition to considerations of regulatory efficiency, the Board has said that IRM regimes drive efficiencies, and have benefits for both ratepayers and utilities. THESL agrees that, among the policy reasons articulated by the Board in support of incentive regulation for electricity LDCs is that it imposes discipline on the LDCs, allows the LDCs to achieve a certain measure of efficiency, and allows ratepayers to benefit from those efficiencies. (**Tr., Vol. 1, p. 187**)

20. The Council submits that considerations of basic fairness require that the Board's policy on incentive regulation apply to all electricity LDCs.

21. The Board has stated that there may be circumstances under which an incentive regulation regime may not be appropriate for a particular LDC. THESL cites, and relies on, the

Board's acknowledgement of those circumstances, in paragraph 32 of its AIC. The Council notes that none of the exceptional circumstances cited in paragraph 32 obviously apply to THESL.

22. Given that it is Board policy to require LDCs to be on incentive regulation regimes, the question then becomes whether THESL can unilaterally decide it will not follow that policy. The Council submits that it is incumbent on THESL to prove that it cannot operate within an incentive regulation formula. It is not sufficient for THESL to simply assert that it cannot; it must prove that it cannot, and it must prove that it cannot based on evidence filed in support of an application to operate under an incentive regulation regime.

23. THESL's principal argument as to why an incentive regulation regime is inappropriate for its circumstances is its expressed need for substantial capital expenditures. THESL asserts that the amount of capital required exceeds its annual depreciation, with the result that an incentive regulation formula unfairly, and artificially, depresses its revenue requirement.

24. At a minimum, THESL's assertions about capital spending need to be examined, not simply taken at face value. By entering into a settlement agreement, THESL elected to avoid having its case for dramatically-increased capital spending examined. As was noted in cross-examination, THESL's capital expenditures, including the budget contemplated in the settlement agreement from the years 2006 to 2010 exceed, by some $600 million, THESL's original forecast of its capital spending requirements. (**Tr., Vol. 2, pp. 49-50**)

25. THESL cannot take the position that settlement agreements in the last two years reflect an acknowledgement by either the Board or the intervenors that THESL's stated capital needs are legitimate, let alone some implicit recognition that it cannot operate under an incentive regulation regime.

1. THESL submits that it has demonstrated in its past three cost of service rate filings that substantial year-over-year increases in ratebase are and will continue to be a necessity and that it cannot carry out vital infrastructure

renewal if capital expenditures are limited to the current level of depreciation; (**AIC, para. 13**)

2. THESL submits that its distribution system "requires substantial, continuing reinvestment in order to bring it to an acceptable operating condition and minimize the risk of severely disruptive service outages", something which has "been demonstrated and accepted by the Board and stakeholders in THESL's previous cost of service rate cases"; (**AIC, para. 36**)

3. THESL submits that the "evidence clearly shows that the pace of investment must substantially exceed depreciation, in 2011, and in coming years, and that freezing THESL's revenue requirement for 2012 by imposing 3GIRM would effectively be a finding that significant infrastructure renewal is not required, contrary to evidence that the Board has already accepted." (**AIC, para. 38**)

26. The Council submits that those three assertions are wrong. Parties enter into settlement agreements for a variety of reasons. Accepting a settlement agreement does not amount to accepting the positions reflected in the evidence. Just as importantly, the fact that the Board accepts a settlement agreement does not mean, directly or by implication, that it has accepted THESL's position with respect to, for example, its arguments about its ongoing need for substantial capital investment.

27. Since the Board believes that, as a matter of policy, electricity LDCs, including THESL, should, absent special circumstances, operate under an incentive regulation regime, then THESL should be required to file its next rate application on the premise that the rates will be set by an incentive regulation formula. As a corollary, if THESL believes that its circumstances are truly exceptional, such that it should not be subject to an incentive regulation regime, it should be required to prove that as part of that application.

28. The relief which THESL seeks, with respect to Issue 1.5, is that it be allowed to file under cost-of-service in 2012. (**Tr., Vol. 1, p. 191**) The Council submits that that request should be denied. THESL should be required to file its next application to have its rates set by an incentive regulation formula. If THESL believes that its circumstances are truly exceptional,

such that it should not be subject to an incentive regulation regime, it should be required to prove that as part of that application.

29. If the Board does not give that direction, THESL will continue to file COS applications and continue to say that the results of the application cannot fairly be treated as the basis for an IR regime.

30. A related, and important, question is whether the Board can require THESL, or indeed any LDC, to operate under an incentive regulation regime. The Council posed that question, albeit indirectly, when it asked THESL whether it had a position on the Board's jurisdiction to require it to operate under an incentive regulation regime.

31. The Board ruled that it did not want submissions from parties on that question. The Council respects that ruling, and will not herein make submissions on that question.

32. However, the Council submits that the question is an important one that needs to be resolved. Among other considerations, unless the question is resolved, THESL will continue to file cost of service applications even when directed by the Board to file an application to operate under an incentive regulation regime.

33. It is also realistic to assume that the question may have to be resolved in court. Given that, the Council submits that it would be preferable to start the process of considering the issue sooner rather than later. That would minimize the dislocation in the Board's rate setting process.

34. Accordingly, with respect to Issue 1.5, the Council asks that the Board direct THESL to file its next rate application on the premise that the result will serve as the base case for an incentive regulation regime. The Council submits that the Board should make it a condition of its decision that THESL file its 2012 application for approval of an incentive regulation regime.

35. If THESL does not believe that the Board has the authority to require it to operate under an incentive regulation regime, it should so state in its reply argument. The Board can then determine the mechanism by which the jurisdictional issue can be resolved.

36. This case is not the first occasion on which THESL has sought to avoid the Board's policy on incentive regulation. It tried to do so in EB-2007-0680, when it sought approval of a scheme for setting rates based on a multi-year cost-of service mechanism. The Board rejected THESL's proposal. In doing so, the Board expressed its expectation that, after 2009, THESL's rates "will be determined through the application of a formulaic adjustment using the then Board-approved methodology." (**Decision, EB-2007-0680, May 15, 2008, p. 7**)

37. Simply put, it is time for THESL to have its rates set under incentive regulation.

III Emerging Requirements [Issues 4.1, 4.2, 9.1, 9.2 and 9.3]

38. The Board, in Procedural Order No. 4, dated January 12, 2011, determined that three capital projects for 2011 would not be eligible for settlement. These included THESL's proposed energy storage project (which would have no impact of the 2011 revenue requirement), the electric vehicle charging infrastructure program and the fleet and equipment services expenditures under the general plant category due to the inclusion of "green" vehicle purchases. On March 25, 2011, THESL withdrew its request for approval of the energy storage project.

(a) Electric Vehicles Charging Infrastructure

39. In 2011 THESL is proposing to spend $600,000 to install several electric vehicle charging stations in its franchise area. THESL indicated that, given the expectation that electric vehicles will be promoted throughout Ontario as a matter of provincial policy, it wants to understand the technologies in the market, how they perform, and the potential impacts on the grid. (**Tr., Vol. 1, p. 84-85**) This is a pilot project and was not subject to a business case analysis. (**Tr., Vol. 1, p. 86**)

40. With respect to the electric vehicle charging stations, the Council supports the introduction of the pilot, despite the fact that no business case analysis has been undertaken. Given recent government policy pronouncements, the Council expects that electric vehicles will be coming to Ontario. It is reasonable to assume that a pilot of this type will be useful in allowing THESL to understand what they will need to do to accommodate this development. There could be a significant impact on load and load patterns and it is important for THESL to be able to assess the impact of those load changes on their distribution system. As noted by THESL

it will also help to develop safety, operating and control procedures and practices related to the electric vehicles infrastructure connected to the THESL grid. (**AIC, p. 15**)

41. The Council submits that THESL should be required to file a report on the pilot. To the extent there is any further expansion of the project THESL should be required to obtain Board approval. In the longer term the Council does not believe it is appropriate for THESL, within its regulated operations, to be owning and operating electric vehicle charging stations. This will be an issue for the Board to determine in the future. However, although the Council sees merit in undertaking the pilot, so the impacts on the distribution system can be assessed, in the future, to the extent this becomes a competitive business, THESL should be required to move the assets into an unregulated entity.

(b) Fleet and Equipment Services

42. THESL has included approximately $2 million in its 2011 capital budget which represents a premium for the purchase of hybrid vehicles or other alternative technologies such as biodiesel fuel trucks and electric vehicles. (**Tr., Vol. 1, p. 85**). This was referred to in the hearing as "greening the fleet".

43. THESL admitted that it did not undertake a formal business case for these incremental expenditures and instead relied on the fact that this type of expenditure is consistent with their corporate social responsibility objectives and shareholder direction (**Tr., Vol. 1, p. 102**). THESL also want to reduce its carbon footprint by 50% by 2020 (Tr., Vol. 1, p. 130) THESL indicated that it had not quantified to what extent the hybrid or electric vehicles maintenance costs would be impacted (**Tr., Vol. 1. p. 123**).

44. It is difficult to oppose THESL's drive to reduce its carbon footprint. Clearly there are environmental benefits to be gained by "greening the fleet". However, as with all other capital projects, it is incumbent on THESL to provide a business case analysis in order to justify the expenditures. How much of its fleet should be made green? Over what time period should this transformation be undertaken? Is this the best way to use ratepayer funds to achieve a reduced corporate footprint? Is there plan the best way to "green the fleet"? From the Council's perspective none of these questions have been asked. THESL has not justified that the benefits that will be gained though the purchase of these vehicles will outweigh the costs. The Council

submits that the Board should allow for half of the $2 million expenditure for 2011, requiring THESL to provide, in its next rebasing proceeding a more comprehensive and complete analysis to justify further expenditures for "greening the fleet".

IV Deferral and Variance Accounts [Issue 6.1]

45. The Council accepts THESL's proposals with respect to Deferral and Variance Accounts with one exception, the clearance of the costs related to International Financial Reporting Standards ("IFRS"). THESL is seeking to recover $6.1 million from ratepayers.

46. During cross-examination Mr. Coulllard indicated that approximately half of the total IFRS costs that THESL was seeking recovery for related to the fact that THESL did not have a fixed asset ledger that would provide the information the auditors were requesting for IFRS (**Tr., Vol. 2, pp. 34-36**). This is not the type of cost that the Board intended for recovery when it allowed for IFRS recovery. They are not directly related to IFRS implementation but instead relate to correcting a deficiency in THESL's records system.

47. The Council submits that the Board should also look to what other LDCs have spent when assessing the reasonableness of THESL's IFRS costs. Horizon Utilities Corporation, Hydro Ottawa and other utilities spent less than $1 million. In addition, Enbridge Gas Distribution spent $3.8 million. (**Tr., Vol. 2, p. 33**) THESL has not, in our view, justified why it is so out of line relative to other like utilities. The Board should reduce the amount allowed by $3 million, bringing THESL's costs (a smaller utility) more in line with those of Enbridge.

V Suite Metering [Issues 7.2 and 7.3]

48. The Board determined that the issues related to THESL's suite metering activities should not form part of any settlement agreement and should therefore go to hearing. Before setting out the submissions on the issues it is important to provide the context in which this issue has come before the Board.

49. In THESL's 2008-2009 rate proceeding (EB-2007-0680) Board Staff questioned whether sub-metering customers in condominiums who cause higher metering costs should be paying higher rates through a balancing contribution or through the creation of the a separate rate class. In its Decision the Board concluded:

> It is true that there can be many elements of distribution costs that are not driven uniformly by sub groups of a given rate classification. At this time, for the purposes of the Decision, the Board will not consider differentiation in metering costs to be a pivotal consideration in entertaining the separation of the existing residential class or to direct the institutions of contributions, capital or otherwise.
>
> This is an issue that requires consideration in a more generic proceeding, with appropriate notice to the effected parties, directed toward rate design, and cost allocation. (**Decision with Reasons EB-2007-0680**)

50. In Powerstream Inc.'s 2009 rate application the issue was raised again by the Smart Sub-Metering Working Group ("SSMWG"), a group of licensed companies offering smart sub-metering services to condominiums. In that proceeding the SSMWG asked the Board to consider whether the costs and revenues associated with these activities should be included in Powerstream's rates. The SSMWG alleged that, because Powerstream did not require a contribution for the higher cost meter for condominium customers, there is a cross subsidy for these customers by the other residential ratepayers. The SSMWG argued that the cross-subsidy harms the competitive market generally and the members of the SSMWG in particular. The SSMWG argued that Powerstream should only be able to carry out these activities through an affiliate. (**Decision with Reasons, EB-2008-0244, pp. 3-4**)

51. The Board (in a majority decision) determined that Powerstream should be permitted to carry out these activities given the passage of Ontario Regulation 442/07, which allows licensed distributors to install smart meters in existing condominiums. (**Decision with Reasons, EB-2008-0244, p. 4**) The SSMWG has argued that if the Board permitted this activity it should be treated as a stand-alone program and costed on a fully allocated basis. If the program were less profitable than the rest of the distribution business, revenue should be imputed. The Board concluded that the SSMWG had not convinced it that the alleged cross-subsidy existed, and that even if it did exist, the Board was not convinced it was material. In addition, the Board indicated its preference for taking a generic approach in addressing this issue in the future. (**Decision with Reasons, EB-2008-0244**)

52. In the Powerstream proceeding, the Council agreed that in the absence of a cost allocation study the Board did not have sufficient evidence to grant the relief requested by the SSMWG. In addition, the Council made the following submission:

> The CCC submits that the evidence in this case does not suggest the need for a fundamental reconsideration of how rates are set. Class rate-making has been the accepted standard in Ontario. Although the costs to serve each residential consumer, or each sub-component of the residential rate class, differ, rates are based on the average cost. To create a new rate class for condominium customers would require a consideration of the costs to serve all of the various sub-classes within the existing rate classes. The Board has an ongoing process to consider rate design changes, and it would be appropriate to examine the issue of a separate design for suite metering outside of that process.
>
> ...If the Board is persuaded that the rules governing the participation of the LDCs in the suite metering business need to be clarified, in order to preserve a truly competitive market, the CCC submits that the Board should convene a generic process in which all stakeholders, including the provincial government can make their positions known. (**Argument, Consumers Council of Canada, EB-2008-0244**).

53. In THESL's 2010 rate proceeding (**EB-2009-0139**) the issue was framed in the following way, "Is THESL's cost allocation in respect of residential consumers residing in individually metered residential buildings (suite metered customers)?" The SSMWG produced evidence that concluded that, "whether viewed from an incremental standpoint for 2010 or viewed cumulatively, it appears that THESL is not recovering sufficient revenues from its suite metered customers to offset the increases capital and OM&A expenditures associated with the installation and operation of the suite meters". (**Evidence of the SSMWG, EB-2009-0139**). The Board was not convinced that evidence established that a cross-subsidy was occurring. However, the Board was convinced that there was a pressing need for THESL to file a cost allocation study in order for this issue to be properly assessed. The Board noted that, following a compliance hearing, THESL was required by the Board to among other things alter it Conditions of Service and make it clear that condominium developers and unit-holders are able to choose between suppliers. (**Decision with Reasons, EB-2009-0139**).

54. In response to the Board’s direction, THESL filed a cost allocation study on November 29, 2010, as a part of the pre-filed evidence in this proceeding. The report prepared by BDR is entitled, "Cost of Service Study for Individually Metered Suites in Multi-Residential Buildings" ("**BDR Report -1**") The BDR Report-1 concluded that suite-metered customers are

paying their full costs of service, and more, and are not subsidized by other customers. In addition, the revenue to cost ratios for suite-metered customers and non-suite metered customers are both in ranges deemed acceptable to the Board. (**Ex. L1/T3/S1, p. 2-3**)

55. In response to a Motion filed by the SSMWG the Board directed THESL to produce additional evidence, in the form of a new cost allocation study which would divide the residential class into three groups; traditional residential consumers, suite-metered customers that are served by smart meters and suite-metered customers served by Quadlogic electronic metering systems. That evidence was filed on February 18, 2011. The results of the second study indicate that the revenue to cost ratio for the "Quadlogic" group is about .95 whereas the overall residential class is approximately .9. (**Ex. L1/T4**)

56. THESL's evidence was that it accepted the numbers in the BDR reports. In addition, THESL made it clear that it did not see the need for a separate rate class for suite-metered customers or the need to provide them a credit. (T**r., Vol. 1, p. 51-52**) Specifically, THESL concluded:

> From our view, generally, we regard the suite-metered customers as residential customers, and within any particular class, whether it is a residential class, whether it is a general service class that we have, there are going to be differences in individual customers or potential sub-classes of customers within that group, in terms of revenue to cost ratios that are received or concluded for that particular class or sub-class of customers. So, on that basis, our view is that within the residential class, which is where our suite-metered customers reside, we do not see a basis for distinguishing between the suite-metered and the non-suite metered customers. (**Tr., Vol. 1, p. 55**)

57. The Council recognizes that the suite-metering issue is unique given the fact that suite metering is a service, offered by the regulated utility, THESL in this case, and other private service providers. The Board must consider whether the rates for these customers are just and reasonable. In addition, the Board may wish to consider whether there is an adverse impact on the competitive market caused by the monopoly service provider.

58. Although the Council is not certain as to what relief the SSMWG will seek from the Board, there are a number of potential outcomes. The SSMWG could seek to have the Quadlogic customers, or the entire group of suite metered customers moved to a new rate class.

In addition, the Board could require that developers pay a contribution to cover the incremental cost of the Quadlogic meter relative to a normal smart meter.

59. The evidence in this case is not, in our view, sufficient for the Board to move off of its long-standing rate-making principles. Every residential consumer imposes different costs on the system, but rates are based on average costs. The Council submits that, for the Board to isolate one specific type of residential consumer that is served by one specific type of technology would be a dangerous precedent. The Board may well be required to look at every rate class and redefine how those classes are determined to the extent different technologies are used to serve certain customers. As the Council has submitted in earlier applications if the Board intends to move off of its longstanding rate-making principles, it should only do so in the context of a broader review that considers all aspects of rate design.

60. The fundamental concern of the SSMWG was that the suite metered customers that are provided service though the Quadlogic meters are being subsidized by the other residential consumers. The evidence of BDR was that that was simply not the case. (**Tr., Vol. 1, p. 67, Ex. L1/T4**) The costs of the meters may well be higher, but the secondary costs in many cases are lower. (**Tr., Vol. 1, p. 60**) The very problem that the SSMWG assumed existed does not exist.

61. On the issue of whether or not developers should be required to cover the premium associated with the Quadlogic meters, the Council urges the Board to reject this proposal. Different technologies are used throughout a distribution system. Different meters are used to serve different customers. To charge for the incremental cost of the Quadlogic metering system would violate accepted rate-making principles that are based on average cost. As noted by BDR and THESL some buildings with Quadlogic systems have no secondary costs so Quadlogic customers are not necessarily more costly for the system overall.

62. On the issue of the competitiveness of the suite metering market, there was no evidence adduced that THESL is somehow thwarting that competition or acting in a way that is bringing harm to the other service providers. It may well be difficult for the members of the SSMWG to compete with THESL given THESL's position as a regulated utility, and a longstanding service provider. However, the Government of Ontario has promoted competition

in this market, by allowing alternate service providers while at the same time requiring THESL to continue to provide the service. If THESL is undermining the ability of the other service providers to compete, evidence to demonstrate this should be brought the Board in the appropriate context.

63. In summary, the Council does not see the need for a reconsideration of how suite metered customers are charged for their electricity service. The Council believes it is appropriate for these customers to be kept within the overall residential class of customers. The evidence does not demonstrate that suite metered customers who are serviced through a Quadlogic system or any other suite metering system are being subsidized by the other residential consumers. To reiterate, moving off of accepted class rate-making principles should only be done after careful consideration and through a broad-based generic process.

VI Cost Allocation [Issues 7.1 and 7.4]

64. On November 28, 2007, the Board produced a report entitled, "Application of Cost Allocation for Electricity Distributors" (EB-2007-0667). In that Report, the Board established benchmark ranges of revenue to cost ratios for each rate class. The Board also indicated that a distributor should attempt to move their revenue to cost ratios closer to 1.0 if supported by improved cost allocations.

65. The Council has had the opportunity to review the submission made by the Vulnerable Energy Consumers Coalition (“VECC”) on the issue and is in substantial agreement with its positions.

66. To summarize:

- Cost allocation is not a precise science and the current cost allocation model has data deficiencies;
- The Board indicated in the Report that distributors should only move their established revenue to cost ratios, if they are already in the range set out in the Report, if this is supported by improved cost allocations;
- THESL has not improved it cost allocation process from that used in previous cases;(**Tr., Vol. 2, p. 16**)

- Moving ratios for classes already in the Board-approved ranges is only appropriate if there has been an improvement in the cost allocation information underpinning the ratios;
- The Board has been making decisions, in other cases, that are not necessarily consistent, approving further movement towards 1.0 in some cases and not in others;
- The Council supports the Board adopting a uniform approach in setting revenue to cost ratios. In essence, once the rate class revenue to cost ratios are in the range, and absent improved cost allocation methodologies, they should be maintained;
- The one exception would be shifts required to absorb shifts in ratios for those classes outside of the range.

67. A consistent policy would avoid the need in every proceeding for continued debate over the appropriate level of revenue to cost ratios.

68. With respect to the issue of the transformer ownership allowance the Council adopts the analysis set out by VECC. In effect, THESL's approach is not consistent with the Board's June 2010 Filing Guidelines for Transmission and Distribution Applications and the alternative approach defined by VECC should be adopted.

VII Costs

69. The Council asks that it be awarded 100% of its reasonably incurred costs for its participation in this proceeding.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

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