AMPCO

April 18, 2011

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Re: Toronto Hydro-Electric System Limited
Application for an Electricity Distribution Rate Change
AMPCO's Final Submissions
Board File No. EB-2010-0142

Dear Ms. Walli:

Attached please find AMPCO's submission in the above proceeding.

Please do not hesitate to contact me if you have any questions or require further information.

Sincerely yours,

(ORIGINAL SIGNED BY)

Adam White
President
Association of Major Power Consumers in Ontario

Copy to: Toronto Hydro-Electric System Limited

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EB-2010-0142

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 approving just and reasonable distribution rates and other charges effective May 1, 2011.

FINAL SUBMISSIONS OF AMPCO

April 18, 2011

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Counsel to AMPCO

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 approving just and reasonable distribution rates and other charges effective May 1, 2011.

Final Submissions of AMPCO
April 18, 2011

I. Introduction

1. Toronto Hydro-Electric System Limited (THESL) filed a cost of service application on August 23, 2010 under section 78 of the Ontario Energy Board Act, 1998, S.O. 1998, c. 15 (schedule B), seeking approval for revenue requirements, corresponding rates and other specified items of relief for the rate year commencing May 1, 2011.

2. The parties to the Settlement Agreement dated March 25, 2011 were able to settle the vast majority of the issues except for the issues related to five topics: IRM, Emerging Requirements, Deferral and Variance Accounts, Suite Metering and Cost Allocation.
(THESL Argument-In-Chief, Paragraph 6)

3. Of the five issues not settled, the Association of Power Consumers in Ontario (AMPCO) has submissions to make with respect to only one issue, namely, Cost Allocation.

4. AMPCO has included herein submissions on the following Cost Allocation issues:

   A. Issue 7.1: Is Toronto's cost allocation appropriate?
   B. Issue 7.4: Are the proposed revenue to cost ratios for each class appropriate?

A. Issue 7.1: Is Toronto's cost allocation appropriate?

5. For the purposes of settlement of the issues in this proceeding, the parties agree to the cost allocation proposed by Toronto Hydro, with one exception: the intervenors do not agree on the methodology used by Toronto Hydro to account for the Transformer Ownership Allowance (TOA). *(Exhibit KH1.1, THESL Settlement Proposal)*

6. THESL is proposing the following Revenue to Cost ratios for 2011.

Rate Class	2010 Board Approved	2011 Test Year	Board Target Range
Residential	90.0	92.0	85-115
General Service < 50 kW	100.0	100.0	80-120
General Service 50-999 kW	115.5	114.6	80-120
Intermediate 1000-4999 kW	119.8	111.0	80-180
Large Use	108.1	104.0	85-115
Streetlighting	70.0	77.7	70-120
Unmetered Scattered Load	80.0	86.1	80-120

(Exhibit L1, Tab 1, Schedule 1, Page 1, Page 3)

7. Chapter 2 of the Filing Requirements for Transmission and Distribution Applications dated June 28, 2010 on page 25, under section 2.8.2 Treatment of Transformer Ownership Allowance states that "The applicant will calculate distribution revenue from each customer class net of any transformer ownership allowance".

8. THESL used the Ontario Energy Board's (OEB) Cost Allocation Model but made some minor changes to the model regarding the treatment of the TOA. THESL identified the transformer allowance to specific rate classes, and directly assigned the appropriate transformer and costs only to those classes that directly receive the transformer allowance credit – namely the GS 50-1000 kW, 1000-4999 kW, and Large User classes. *(Exhibit L1, Tab 1, Schedule 1, Page 5, THESL Argument-In-Chief, Paragraph 77)*

9. The dollar value of the transformer allowance is $11,479,841. *(Exhibit R1, Tab 11, Schedule 38, Appendix A)*

10. In response to VECC interrogatory #38 (h), THESL re-did the Cost Allocation model and removed the revenues ($11,479,841) associated with the TOA from the distribution revenues for each customer class and removed the TOA as a cost.
(Exhibit R1, Tab 11, Schedule 38, Appendix B, Corrected Jan 13, 2011)

11. The table below shows the resulting Revenue to Cost ratios from the Cost Allocation Model based on THESL's treatment of the TOA compared to VECC.

Rate Class	**THESL CA Model Run Starting R/C ratios**	**THESL - VECC Requested CA Model Run Starting R/C Ratios**
Residential	89.07	87.41
General Service < 50 kW	99.01	97.18
General Service 50-999 kW	120.45	129.62
Intermediate 1000-4999 kW	115.03	127.49
Large Use	105.45	118.18
Streetlighting	69.57	68.23
Unmetered Scattered Load	80.98	79.46
Reference	*Exhibit R1, Tab 1, Schedule 92, Appendix A*	*Exhibit R1, Tab 11, Schedule 38, Appendix B, Corrected Jan 13, 2011*

12. THESL has indicated that the costs it proposes to collect from each class is completely independent of the starting point. In response to cross examination by AMPCO's counsel about THESL's proposed revenue-to-cost ratios, the witness responded…"if I accepted Mr. Harper's methodology, would my revenue-to-cost ratio be any different in the end that I propose? My answer to this is, no, it wouldn't.
(Transcript Volume 1, Page 155, Line 4)

13. AMPCO submits that the starting point results are an issue for the Board to consider when approving revenue to cost ratios for the test year especially for rate classes where the starting point is outside the Board Approved Target Ranges which is the case for the Large Use and GS 50-999 kW

rate classes under THESL's cost allocation model run using the VECC methodology.

14. The Board's Report "Application of Cost Application for Electricity Distributors" dated November 28, 2007 (EB-2007-0667) indicates on Page 4 that "The ranges established by the Board are set out in section 3, and are intended to be minimum requirements. To the extent that distributors can address influencing factors that are within their control (such as data quality), they should attempt to do so and to move revenue-to-cost ratios nearer to one."

15. AMPCO submits that the THESL approach to the treatment of TOA in this application is the better approach. As noted in the Board's Report, Application of Cost Allocation for Electricity Distributors, dated November 28, 2007 (EB-2007-0667) on page 6, "As distributors apply this model in subsequent filings they will develop greater expertise in the application of data to the model, which in turn will allow for greater reliance on the outcomes". The Board also anticipates modelling improvements in the future and that "as distributors become more familiar with cost allocation concepts, they will better understand the blending of operating statistics and practice with accounting data, and they will more effectively and consistently use the models in the preparation of their rate applications".

16. THESL is confident in the data that is provided to the cost allocation model.

    AMPCO counsel Mr. Crocker asked the THESL witness Mr. Seal, "To the extent that distributors can address influencing factors that are within their control (such as data quality)…..And you would agree with me, as well, Mr. Seal, would you not, that the data quality - the quality of your data is improving year over year, improving all the time?

    Mr. Seal: I would argue we have good data all the time, but certainly we are always looking to improve."
    (Transcript Volume 1, Page157 , Line 5)

17. AMPCO submits that THESL's approach reflects improved data quality and an increase in the level of experience and understanding that THESL has gained with respect to cost allocation modelling.

THESL has data on the transformer allowance by rate class and the data is not bundled together which is the case with many utilities. AMPCO further submits that THESL's use of better data positively improves the outcome of the model, reflecting starting point revenue-to-cost ratios closer to one. As such, AMPCO supports the THESL approach regarding the treatment of transformer ownership allowance in the cost allocation model.

B. Issue 7.4: Are the proposed revenue to cost ratios for each class appropriate?

18. THESL's proposed revenue to cost ratios for all rate classes are with the Board's Approved Target Ranges. THESL continues to move incrementally the revenue to cost ratios towards unity for all rate classes.
(Exhibit L1, Tab 1, Schedule 1, Page 3)

19. THESL is proposing to move the Revenue to Cost ratio for the residential class from 90 to 92 and shift the allocation across all other rate classes on the same percentage basis as the residential sector (e.g. a one percent change in the under recovery of the residential class was matched by a one-percent change in the associated over or under recovery in other rate classes).
(Exhibit M1, Tab 1, Schedule 1, Page 6)

20. The Board's Report on Cost Allocation (EB-2007-0667) indicates on page 7 that "Distributors should endeavour to move their revenue to cost ratios closer to one if this is supported by improved cost allocations".

21. In this application, THESL has continued to move the Revenue-to-Cost ratios incrementally towards full cost recovery. However, THESL believes that an immediate move to full cost recovery is not warranted, principally for the reasons provided on page 6 of the Board's report: rate stability, avoidance of rate shock, and the possibility that continued improvements to the cost allocation methodologies might lead to changes in the calculated revenue to cost ratios.
(Exhibit M1, Tab 1, Schedule 1, Page 6)

22. Under THESL's proposed revenue-to-cost ratios in the test year, three rate classes are undercontributing (Residential, Streetlighting, and Unmetered Scattered Load), one rate class is paying the full cost of service (GS< 50 kW) and three rate classes are overcontributing and subsidizing the other rate classes (GS 50-999 kW, Intermediate 1000-4999 kW, and Large Use).

23. Moving revenue-to-cost ratios closer to unity or to unity is within the Board's mandate to set just and reasonable rates consistent with the principle of cost causality.

24. THESL's witness confirmed "..But we do fundamentally believe that at the end of the day, all customer classes should be paying their costs. So we did make that conscious decision to move classes".
(Transcript Volume 1, Page 158, Line 9)

25. Based on THESL's Settlement Agreement and THESL's proposed cost allocation where no settlement has been reached, the total bill impacts for each rate class are as follows:

Rate Class	**Total Bill Impacts**
Residential	1.0 %
GS< 50 kW	0.0 %
GS 50 - 999 kW	0.1 %
GS 1000-4999 kW	-1.1 %
Large Use	-0.6 %
Street Lighting	9.9 %
Unmetered Scattered Loads	2.8 %

(THESL Settlement Proposal, Appendix "C" – Rate Impacts, Page 1)

II. AMPCO Request

26. AMPCO argues that unity is the target and any other revenue-to-cost ratio is inconsistent with the principle of cost causality. In the setting of just and reasonable rates each customer class should be

paying the cost to service the class.

27. Aside form the Street Lighting rate class, the total bill impacts of THESL's proposed cost allocation on the other rates classes ranges from -1.1% to 2.8%.

28. With THESL's refinement of data and increased experience in cost allocation modelling, AMPCO requests that the Board order THESL to move the revenue-to-cost ratios to as close to unity as possible for all rate classes (except for the GS<50 kW class which is currently at unity).

III. Costs

29. The Board confirmed that AMPCO is eligible to apply for an award of costs under the Board's Direction on Cost Awards.

30. AMPCO submits that it participated responsibly in this proceeding and sought to limit its involvement to matters that are relevant to AMPCO.

31. AMPCO respectfully requests that it be awarded 100% of its reasonably incurred costs of participating in this proceeding.

ALL OF WHICH IS RESPECTFULLY submitted this 18th of April 2011.