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VIA MAIL and E-MAIL

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

Dear Ms. Walli:

Re: Toronto Hydro-Electric System Limited – 2011 Electricity Distribution Rate Application (EB-2010-0142)
Revised Draft Rate Order - VECC's Comments

The Vulnerable Energy Consumers Coalition has reviewed the revised Draft Rate Order (DRO) distributed by Toronto Hydro (THESL) on July 22, 2011.

In its Decision on Draft Rate Order dated July 21, 2011, the Board stated (page 3):

> *"The Board has reviewed the comments of parties on this matter and finds that Toronto Hydro should allocate the $300,000 amount to the customer classes <u>in accordance with the Board's cost allocation policy, outlined in EB-2007-0667 Report of the Board: Application of Cost Allocation for Electricity Distributors of November 28, 2007, as updated in the EB-2010-0219 Report of the Board Review of Electricity Distribution Cost Allocation Policy of March 31, 2011</u>. The Board finds that in accordance with this policy, this amount should be allocated on a pro-rata basis to all customer classes, other than the Large User class, in accordance with the approach used in the Board's cost allocation model."* (emphasis added)

In the Revised Draft Rate Order dated July 22, 2011, THESL has accounted for the $300,000 shortfall by increasing the revenue requirements for all customer classes (except Large Use), including those classes whose ratios were already above 100% (i.e., GS 50-999 and GS 1000-4999).

VECC has reviewed the Board's cost allocation policy as set out in the two referenced documents and observes that:

a) There is no policy statement directing that adjustments required to customer class ratios in order to maintain the approved revenue requirement be made in proportion to the remaining customer class' on a pro-rata basis, and
b) The EB-2007-0667 Report does require (page 7) that "Distributors should not move their revenue to cost ratios further away from one".

VECC also notes that in various Decisions issued over the previous 3 years the approach adopted by the Board has consistently required that revenue to cost ratios not move further away from one but that its approach has varied when it comes to dealing with the over/under recovery of revenue requirement due to "required" revenue to cost ratio adjustments. For example, in the case of 2008 Rates, the Board directed that the reductions required by Guelph Hydro (EB-2007-0742, page 24) be applied to all customer classes with ratios in excess of 100% whereas in the case of Halton Hills (EB-2007-0696, page 16) adjustments were only required for the two (out of three) customer classes with the highest ratios.

As a result, while THESL has calculated its revised DRO following a literal interpretation of the Board's July 21st direction, VECC submits that it is not in accordance with the Board's cost allocation policy as set out in EB-2007-0667. VECC acknowledges that the dollars involved and the resulting impacts are relatively small given THESL's overall revenue requirement. However, VECC is concerned about the precedent the Board's Decision in this case will set particularly given the changes that have been adopted in terms of acceptable revenue to cost ratio ranges for 2012 rates.

To this end VECC requests that the Board confirm its previously stated policy that revenue to cost ratios are not to move further away from 100%. VECC also requests that the Board clarify whether as a general policy it will require that future revenue to cost ratio adjustments required to reduce/increase revenues so as to maintain the approved revenue requirement should be applied to all customer classes whose current ratios are above/below 100% respectively on a pro-rata basis.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC