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November 22, 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-2011-0054
Hydro Ottawa Limited – 2012 Cost of Service Application
Energy Probe – Final Argument

Pursuant to direction provided by the Board Panel at the Oral Hearing on November 8, 2011, please find attached the Final Argument of Energy Probe Research Foundation (Energy Probe) in respect of the EB-2011-0054 proceeding for consideration by the Board.

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

Yours truly,

David S. MacIntosh
Case Manager

cc: Patrick Hoey, Hydro Ottawa Limited (By email)
Fred Cass, Aird & Berlis LLP (By email)
Randy Aiken, Aiken & Associates (By email)
Intervenors of Record (By email)

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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
Ottawa Limited for an order approving just and reasonable
rates and other charges for electricity distribution to be
effective January 1, 2012.

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

ARGUMENT

November 22, 2011

**HYDRO OTTAWA LIMITED
2012 RATES**

EB-2011-0054

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 2012 rates for Hydro Ottawa Limited ("Hydro Ottawa") effective January 1, 2012.

This Argument has been structured to reflect the issues for which there is an incomplete settlement or no settlement, based on the Board's acceptance of the Proposed Settlement Agreement dated November 1, 2011 in the November 4, 2011 Decision and Procedural Order No. 6. In addition, this Argument reflects the Board's acceptance of the Supplementary Settlement Agreement (Tr. Vol. 1, page 90).

Where readily available, Energy Probe has attempted to provide the impact of its submissions on the revenue requirement of Hydro Ottawa. 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 would be determined by Hydro Ottawa and reviewed by intervenors and Board Staff through the associated draft rate order.

B - UNRESOLVED ISSUES

a) Issue 1.1 - Are Hydro Ottawa's economic and business planning assumptions for 2012 appropriate? - Incomplete Settlement

The participating parties have accepted Hydro Ottawa's economic and business planning assumptions for 2012 except as they relate to OM&A expenses. These expenses are dealt with under Issue 4.1 below.

b) Issue 2.1 - Is the proposed rate base for the test year appropriate? - Incomplete Settlement

Rate base has not been settled with respect to the working capital allowance. Energy Probe deals with this issue under Issue 2.2 below.

c) Issue 2.2 - Is the working capital allowance for the test year appropriate? - Incomplete Settlement

Hydro Ottawa has forecast a Working Capital Allowance ("WCA") for the 2012 test year of \$105,971,000 (Exhibit B4, Tab 1, Schedule 1, Table 1). This forecast is based on a lead lag study that determined the WCA percentage to be 14.2% applied to the cost of power and OM&A expenses. No agreement was reached with respect to the WCA percentage or the OM&A expenses.

i) Lead Lag Study

Hydro Ottawa filed a Lead Lag Study at Exhibit B4, Tab 2, Schedule 1. This study was completed by Hydro Ottawa and was based on 2009 and 2010 data. Navigant was retained by Hydro Ottawa to provide an independent review of the lead lag study (Attachment U to Exhibit B4, Tab 2, Schedule 1). Energy Probe accepts the results of the Lead Lag Study with the following exceptions.

Issue 1 - Service Lag

The lead lag study utilizes a service lag of 30.24 days in both 2009 and 2010 that is based on a weighting of the number of customers/connections that are billed on a monthly and bimonthly basis. This weighting is shown in Tables 3 and 4 of Exhibit B4, Tab 2, Schedule 1. Energy Probe submits that this weighting is not appropriate. Energy Probe further submits that the proper weighting to be used to calculate the service lag is sales revenues.

Energy Probe submits that the use of a customer weighting over estimates the average service lag and that sales revenue weighting for the service lag, as is done for the other component of the revenue lag and for the expense leads and lags, is appropriate.

Ms. Scott confirmed that the other three components of the revenue lag (billing, collection and payment processing) are all weighted by sales dollars (Tr. Vol. 1, page 17). It was also confirmed that the service lead component of the expense lead calculation was weighted by dollars, consistent with the calculation of the payment lead time (Tr. Vol. 1, pages 11 - 14).

The service lag is the number of days between when the customer receives the service to when the meter has been read. The point at which the customer is deemed to receive the service is the midpoint of the period over which the service was provided.

Hydro Ottawa has indicated that it believes that the weighting of the days for the service lag between monthly and bimonthly read customers should be customer numbers because the issue of dollars has not entered the equation at the point when the meter has been read. Hydro Ottawa further states that the dollars do not enter the equation until the billing takes place (Tr. Vol. 1, pages 16 - 17). Mr. Subbakrishna also indicated that the service lag has nothing to do with when the company gets its money (Tr. Vol. 1, page 20). Energy Probe respectfully disagrees and submits that this approach is incorrect.

As agreed by Ms. Scott (Tr. Vol. 1, page 10), the purpose of a lead-lag study is to determine the amount of time it takes for a utility to realize revenues from its customers compared with the amount of time for the same utility to pay its vendors, and to the extent that there is a difference between the two, that results in a working capital requirement which has to be funded by investors. Ms. Scott also agreed that the lead lag study deals with cash flow needs.

A service lag that is weighted by customers based on meter reads has no impact on cash flow, without knowing what revenues are associated with the meters read. As illustrated by the cross-examination by Mr. Aiken (Tr. Vol. 1, pages 18-21) on the illustrative example provided at page 32 of Exhibit M1.4, the customer weighted lag would change from 30.248 days as presented to 15.352 days if the meter reading frequency were reversed. This illustrates that the service lag, calculated based on customer weighting, can swing between these two extremes, while at the same time, the amount of revenue collected by the utility and the timing of when it gets that money remains unchanged. In the example provided, the utility receives half of its revenue based on a service lag of 15.2 days and the other half based on a service lag of 30.4 days under both meter reading scenarios. The weighting of the service lag days by revenues provides a direct and reasonable link to the timing of cash flow. The customer weighted service lag does not.

This result can be seen even more clearly in the following scenario. If the revenue from the monthly customers were \$0 instead of \$99, the customer weighted lag endorsed by Hydro Ottawa would still be 30.248 days, whereas the dollar weighted lag endorsed by Energy Probe would be 15.2 days. Since the utility would receive all of its revenue after 15.2 days and not wait on average for 30.248 days, it is clear that the Energy Probe sales revenue approach provides a more accurate reflection of the actual cash flow enjoyed by

the utility. Energy Probe submits that this is a clear illustration of why a customer weighted service lag is inappropriate. It does not reflect when the utility gets its revenue. It only reflects when the meter is read and it leaves revenues out of the cash flow analysis.

Energy Probe further notes that the calculation of the service lag was an issue in the EB-2010-0131 proceeding for Horizon Utilities Corporation. In that proceeding, Energy Probe opposed the use of customer weighting in the calculation of the service lag and submitted that revenues were an appropriate weighting that should be used. In the Board's Decision and Order dated July 7, 2011, the Board indicated, under the heading of Board Findings, that (page 16):

"The Board has considered the many adjustments and corrections suggested by Energy Probe, and supported by other parties, in order to calculate the WCA. The Board is in agreement that these factors would reduce the WCA by approximately \$2.6 million, as suggested by Energy Probe."

The Board then went on to state that *"for the reasons set out above, the Board directs that a 13.5% working capital allowance will be used"*.

As shown in the response to Exhibit K2, Issue 2.2, Interrogatory #5 (also known as Energy Probe Interrogatory #15), the application of the sales revenue weights to the calculation of the service lag reduces the weighted days 22.07 in 2009 and 22.13 in 2010, as compared to the 30.24 for both years noted above in the original evidence. This is a reduction of more than 8 days, on average, and has a significant impact on the WCA percentage of 14.2% calculated and used by Hydro Ottawa. In particular, the response to Undertaking LT1.3 indicates that a change in the service lag by one day results in a change to the WCA percentage of 0.3. As a result, the reduction of 8 days proposed by Energy Probe would reduce the 14.2% WCA factor proposed by Hydro Ottawa to less than 12%. A more detailed analysis, incorporating the proposed changes to the collection lag discussed below, is provided below in the summary section.

Issue 2 - Collection Lag

Hydro Ottawa has calculated a collection lag of 25.47 days in 2009 and 25.36 days in 2010 (Exhibit B4, Tab 2, Schedule 1, Tables 7 & 8). Energy Probe submits that the collection lag as calculated by Hydro Ottawa should be rejected by the Board.

The Days Sales Outstanding ("DSO") calculation is based on data from Hydro Ottawa's customer information system and reflects receivables not yet paid and determines how long the receivables have been outstanding. However, as can be seen in the response to Exhibit K2, Issue 2.2, Interrogatory #5, part (b), the age of the receivables has not been

taken into account in the calculation. This failure was discussed at pages 23 through 26 of Volume 1 of the Transcript. Mr. Subbakrishna confirmed that he had expressed some concerns about using the DSO approach without actually using the age of the receivables.

Energy Probe submits that the Hydro Ottawa approach fails to pass a reasonableness test for accuracy. The only figures that impact the calculation of the collection lag by month are the number of days in the calendar month and the ratio of the total receivables in the month to the sales for that month. As shown in the response to part (b) of Exhibit K2, Issue 2.2, Interrogatory #5 and discussed orally (Tr. Vol. 1, page 24), changing the composition of the age of the receivables has no impact whatsoever on the calculation of the collection lag. Ms. Scott confirmed that this was the case (Technical Conference Transcript, September 26, 2011, pages 41 - 42); Energy Probe submits that this is not a reasonable outcome and should be rejected by the Board.

Energy Probe submits that using the age of the receivables, based on the midpoint of the bucket data available from Hydro Ottawa's customer information system to provide a weighted average age of the receivables on a month by month basis is a reasonable approach. As noted during the oral hearing (Tr. Vol. 1, page 27), Energy Probe accepts the changes proposed by Hydro Ottawa related to the days used for the first bucket of dollars receivable of 1 to 17 days from 8.5 days to 11.5 days and the division of the last bucket into two components with a corresponding change from 150 days to 242.5 and 408.5 days, respectively. These figures and the calculations that use them are found in the response to Undertaking LT1.2.

The calculation of the collection lag, using the age of the receivables, falls to 24.88 days in 2009 and 21.39 days in 2010. This represents an average decrease of 2.28 days from that calculated by Hydro Ottawa. These figures are confirmed by the data provided in the response to Oral Hearing Undertaking L1.3. Weighted by the dollars shown in the calculations, the 24.88 days for 2009 is the weighted dollar average of 14.52 days for monthly billed customers (with a weight of 46%) and 33.71 days for bi-monthly billed customers with a weight of 54%. The 2010 figure of 21.39 is the result of the 13.06 days for the monthly billed customers and 29.52 days for the bi-monthly billed customers applying the 2010 revenue weights shown in the response.

Again, with reference to Undertaking LT1.3 that indicates that a change in the revenue lag by one day results in a change to the WCA percentage of 0.3, the reduction of 2.28 days proposed by Energy Probe would reduce the 14.2% WCA factor proposed by Hydro Ottawa to approximately 13.5%, independent of the proposed reduction to the service lag. A more detailed analysis, incorporating the proposed changes to the service lag discussed above, is provided below in the summary section.

With respect to the days used in the calculation of the average age of the receivables, Mr. Subbakrishna stated that he believed that the use of 11.5 days in the first bucket low-balled the weighted average collection lags computed by Hydro Ottawa in the response to Undertaking LT1.2 because the Distribution System Code in Ontario provides for 16 days for customers to pay their bills (Tr. Vol. 1, pages 27-28). Energy Probe notes that Hydro Ottawa had no evidence to support their implied contention that customers do not pay their bills until the due date. In fact, Ms. Scott indicated that some customers do pay before the 16 day period is over.

More important, however, is that the receivables in the 1 to 17 day bucket shown in the response to Exhibit K2, Issue 2.2, Interrogatory #5 include significant receivables that are less than 16 days old because this bucket includes all receivables associated with customers billed immediately prior to the running of the receivables report. This was discussed at the technical conference. In particular, at page 42 of the September 26, 2011 transcript, an example was provided where a customer is billed on January 30th, 2009 and the receivables report was run on January 31st. The corresponding receivable for the January 30th invoice would all be included in the 1 to 17 day DSO bucket. This results in a significant portion of the receivables in the 1 to 17 day DSO bucket that are related to invoices issued in the previous 16 days. This analysis is what lead Energy Probe to originally suggest the use of 8.5 days as the midpoint of the age of the receivables in this bucket. In any event, Energy Probe submits that the 11.5 days used by Hydro Ottawa in the interrogatory response is appropriate. There is no evidence that it should be higher, and certainly no evidence that the 16 day weight should be applied to this bucket.

Issue 3 - Move to Monthly Billing

Hydro Ottawa plans to move to monthly billing in late 2013 (Tr. Vol. 1, pages 40 - 41). This change will substantially reduce the WCA percentage from 14.2% to 9.6%, as estimated by Hydro Ottawa (Exhibit K2, Issue 2.2, Interrogatory #2). This reduction is solely related to the reduction in the service lag to 15.2 days, as all customers will be billed on a monthly basis. Hydro Ottawa accepted, subject to check, that the 9.6% would decline to 8.9% if the changes to the collection lag discussed above were to be reflected in the lead lag study (Tr. Vol. 1, page 31).

Energy Probe notes that Hydro Ottawa indicated that there would be additional costs associated with moving to monthly billing (Tr. Vol. 1, page 40). Energy Probe agrees that there would be additional costs associated with moving to monthly billing for customers currently billed on a bimonthly basis. However, there may also be cost reductions for items such as bad debts and collection expenses. In any event, Energy Probe notes that these changes, including the reduction in the WCA factor, will be

reviewed in Hydro Ottawa's next rebasing application. Energy Probe is not suggesting that the Board should make any adjustment to the WCA factor to account for the reduction in the WCA factor over the IRM period.

Energy Probe submits that the Board should direct Hydro Ottawa to file an updated lead lag study to reflect the movement to monthly billing for all customers as part of its next cost of service application.

Issue 4 - Oral Hearing Undertaking L1.2

Energy Probe submits that the Board should ignore the new methodology proposed by Hydro Ottawa in the response to Undertaking L1.2. This new approach, in which all components of the revenue lag (service lag, billing lag, collection lag, payment processing lag) are un-weighted is a significant change from the weighted approach (by customers or revenues) included by Hydro Ottawa in its prefiled evidence. Parties had the opportunity to test this prefiled evidence. Hydro Ottawa is now proposing a change in the overall methodology and parties have not had the opportunity to test this methodology.

In addition to being contrary to its own evidence, the methodology outlined in the undertaking response does not correspond to the methodology approved in the Horizon case in EB-2010-0131. Energy Probe also notes that Hydro Ottawa has used a distribution revenue weights in the undertaking response. Energy Probe submits that using distribution revenue weights are incorrect. Sales revenue weights should be used so as to incorporate the cost of power and all sources of revenues that affect the company's cash flow. The distribution revenue weighting is 31% monthly and 69% bi-monthly. The sales revenue weighting, which includes recovery of the cost of power, is 55% monthly and 45% bi-monthly.

Energy Probe also notes that Hydro Ottawa is not proposing a similar approach with respect to the expense lead. If the revenue lag should be calculated on an un-weighted basis, why would it not be appropriate to use the same approach for expense leads?

The Navigant letter (Attachment U to Exhibit B4, Tab 2, Schedule 1) concluded that the methodology used by Hydro Ottawa was *"Generally **consistent**, in terms of methods used with other studies that have been presented before the OEB by Horizon Utilities ("Horizon"), Hydro One Networks ("HONI") and Toronto Hydro Electric System Limited ("THESL")."* This is no longer true with the change in methodology proposed in the undertaking response.

For all of the above reasons Energy Probe submits that the response to Oral Hearing Undertaking L1.2 should be given no weight.

Summary

Energy Probe submits that the appropriate WCA factor for Hydro Ottawa is 11.0%. The calculation of this figure, which reflects the submissions of Energy Probe with respect to the calculation of the service and collection lags is shown in Appendix A to this argument. The tables shown in Appendix A are taken from Exhibit B4, Tab 2, Schedule 1 and have been revised to reflect the service and collection lags proposed by Energy Probe. No other changes have been made. Arrows have been added to the tables in Appendix A to show the progression from one table to another to arrive at an average WCA factor of 11.0%. Energy Probe notes that if only the most recent year was used (2010), the WCA factor would be 10.5%.

In the EB-2010-0131 Decision and Order for Horizon Utilities noted above, the Board accepted Horizon's argument that a lead/lag study is undertaken based on the individual characteristics of the distributor, and therefore comparisons to other distributors may not be appropriate. The Board noted, however, that it must take notice of the results of the other study results such as those conducted for and filed by other distributors.

While Energy Probe agrees with this statement, it also submits that there are specific reasons why the WCA factor can, and should, vary from distributor to distributor that should be taken into account by the Board.

In the Horizon Decision, the Board set a WCA factor of 13.5%, virtually identical to that suggested by Energy Probe in that proceeding. The figure of 13.5% was based on a revenue weighted service lag that reflected the specific circumstances for Horizon. In particular, as shown in the response to Energy Probe Technical Conference Question #4 dated February 23, 2011 in the EB-2010-0131 proceeding, more than 75% of the company's sales revenues were from bi-monthly customers. This resulted in a revenue weighted service lag of 26.7 days for Horizon.

In the current Hydro Ottawa proceeding, however, only about 45% of the company's total sales revenues are from bi-monthly customers. This figure can be determined from Tables 3 and 4 in Exhibit K2, Issue 2.2, Interrogatory #5. This difference is the key factor that results in an average sales revenue weighted service lag for Hydro Ottawa of about 22 days, more than 4.5 days lower than that for Horizon. This difference in turn accounts for more than half of the decrease in the proposed WCA factor of 11.0% for Hydro Ottawa as compared to the 13.5% approved for Horizon, reflecting the difference in the individual characteristics of the two distributors.

Applied to the cost of power and OM&A expenses of about \$746 million shown in the updated evidence at Attachment H to Exhibit A2, Tab 1, Schedule 2, the reduction in the

WCA factor from 14.2% to 11.0% would result in a reduction to the test year rate base of about \$24 million.

ii) Changes to OM&A Expenses

Energy Probe submits that if the Board makes any adjustments to the OM&A expenses in its Decision, these changes should be reflected in the calculation of the working capital component of rate base. The reduction in property taxes, as agreed to in the Proposed Settlement Agreement should also be reflected in the calculation.

d) Issue 2.4 - Is the capitalization policy and allocation procedure appropriate? - No Settlement

This issue has been dealt with in this submission under Issue 11.1 below.

e) Issue 3.1 - Is the load forecast methodology including weather normalization appropriate? - Incomplete Settlement

The unresolved issue relates to the forecast of system energy and the kWh sales for each rate class. Ms. Scott provided an explanation of the methodology used to determine the kWh sales for each rate class, in conjunction with the system energy forecast (Tr. Vol. 1, page 45 - 46).

The Hydro Ottawa methodology involves two sets of forecasts. The first is a top down approach which forecasts system energy purchases on an aggregate level and then uses the loss factor to convert the purchases into a sales amount. The bottom up approach involves the forecast of monthly kWh sales for each of the eight rate classes. Both the bottom up and top down approach utilize regression equations estimated over several years of data. All of the equations estimated are statistically sound and significant. Energy Probe has no issues with this approach, to this point.

The Hydro Ottawa methodology then calibrates the forecasts by rate class so that the sum matches the loss adjusted purchase forecast. This calibration adjustment can be seen in Exhibit MT1.3. The loss adjusted system forecast for 2012 is 7,753,056 MWh. The unadjusted sum of the forecasts for the eight rate classes shown is 7,880,634 MWh. This latter figure is 1.6% higher than the loss adjusted system forecast.

Energy Probe submits that there is no reason to calibrate the forecasts for each of the eight rate classes so that the total matches the loss adjusted system forecast.

Hydro Ottawa justifies this adjustment based on the need to translate billed monthly data into calendar month data because they have bi-monthly and monthly billing.

A review of Exhibit MT1.3 shows, however, that the monthly calibration factors used in 2012 include only 1 that increases the sum of sales, 4 that have no impact one way or the other, and 7 that reduces the sum of the sales. If the calibration were needed to translate billed monthly data into calendar month data, one would expect a roughly equal number of increases and decreases with the total for the year being roughly equal. However, that is not the case.

In the response to Oral Hearing Undertaking L2.1, Hydro Ottawa states that it believes that the calibrated class forecasts are more accurate than the non calibrated class forecasts. Energy Probe submits that this statement is misleading. When asked about this very issue, Hydro Ottawa was not able to provide a comparison of the forecast accuracy of the top down approach (calibrated) relative to the bottom up approach (non calibrated) (Tr. Vol. 1, pages 52 - 55). Indeed the evidence is that Hydro Ottawa has not looked at such a comparison historically.

Energy Probe submits that the individual forecasts by rate class should be used to determine the kWh sales for each rate class. Each equation is statistically valid and reflects explanatory variables that are specific to each class. For example, some rate classes are very sensitive to heating and cooling degree days, while others are not impacted by either type of degree days.

The top down approach, while also statistically significant, cannot isolate the impacts of different types of factors among the different types of customers. As an example, heating and cooling degree days are significant explanatory variables in the system energy forecast equation even though they are not relevant to several of the rate classes included in the system energy purchases.

However, given the lack of data to review the accuracy of the two approaches relative to one another in this proceeding, Energy Probe submits that the forecasted sales by rate class should be set at 7,816,845 MWh (before CDM adjustments). This is the average of the loss adjusted system forecast and the sum of sales before any calibration. The adjustment should be prorated evenly across all rate classes.

f) Issue 3.2 - Are the proposed customers/connections and load forecasts (both kWh and kW) for the test year appropriate? - Incomplete Settlement

The customer/connection forecast was settled as part of the settlement agreement. The load forecast has been dealt with under Issue 3.1 above.

g) Issue 3.4 - Is the proposed forecast of test year throughput revenue appropriate? - No Settlement

The throughput revenue forecast is dependent on the load forecast, which is dealt with under Issue 3.1 above.

h) Issue 4.1 - Is the overall OM&A forecast for the test year appropriate? - No Settlement

Overall Increase in OM&A Costs

Hydro Ottawa is forecasting total OM&A costs, based on CGAAP and excluding property taxes, of \$63,891,432 for the 2012 test year as shown in Table 1 of Exhibit D1, Tab 1, Schedule 1. This is an increase of 19.8% from the level of \$53,350,684 actually spent in the last historical year, 2010. This increase is more than \$10.5 million and is significantly higher than any increase posted over a two year period in recent history (Tr. Vol. 1, page 13).

The following table summarizes the OM&A expenses, excluding property taxes.

	<u>2008 BA</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
OM&A	55,329,793	51,628,904	52,034,715	53,350,684	61,334,539	63,891,432
% Change		-6.7%	0.8%	2.5%	15.0%	4.2%

As can be seen in the above table, the average increase in OM&A in 2009 and 2010 was less than 2.0%. The increase between 2008 and 2010 is 3.3% or \$1.7 million. In stark contrast is the requested increase between 2010 and 2012 of 19.8% or \$10.5 million.

The figures in the above table also illustrate that Hydro Ottawa spent considerably less in 2008 than the Board approved figure of more than \$55 million. In fact, the 2008 spending was 6.7% or more than \$3.7 million lower than the Board approved figure. Expenditures in both 2009 and 2010 were also well below the Board approved figure for 2008. In aggregate, OM&A spending in 2008 through 2010, excluding property taxes, was just under \$9.0 million lower than the Board approved figure for 2008 applied to 2008, 2009 and 2010.

Over this same period, Hydro Ottawa's actual return on equity exceeded the 8.57% built into the 2008 rates (Tr. Vol. 1, page 129). As shown in the 2011-10-31 Update to Exhibit K5, Issue 5.1, Interrogatory #2, the actual return on equity for the regulated distribution utility was 9.5% in 2008, 10.3% in 2009 and 8.8% in 2010, for an average over this period in excess of the 8.57% of nearly 100 basis points. Based on the response to Exhibit K5, Issue 5.1, Interrogatory #1 (also known as Energy Probe Interrogatory #56) a 10 basis point change in the return on equity amounts to about \$367,000, a 100 basis point difference amounts to more than \$3.5 million. Over the 2008 to 2010 period, taking into account the lower rate base in these years relative to the test year, this means that Hydro Ottawa over earned by approximately \$9.0 million, virtually the same amount of OM&A savings relative to the 2008 Board approved level. In other words, Hydro Ottawa's shareholder benefitted directly from the reduction in OM&A.

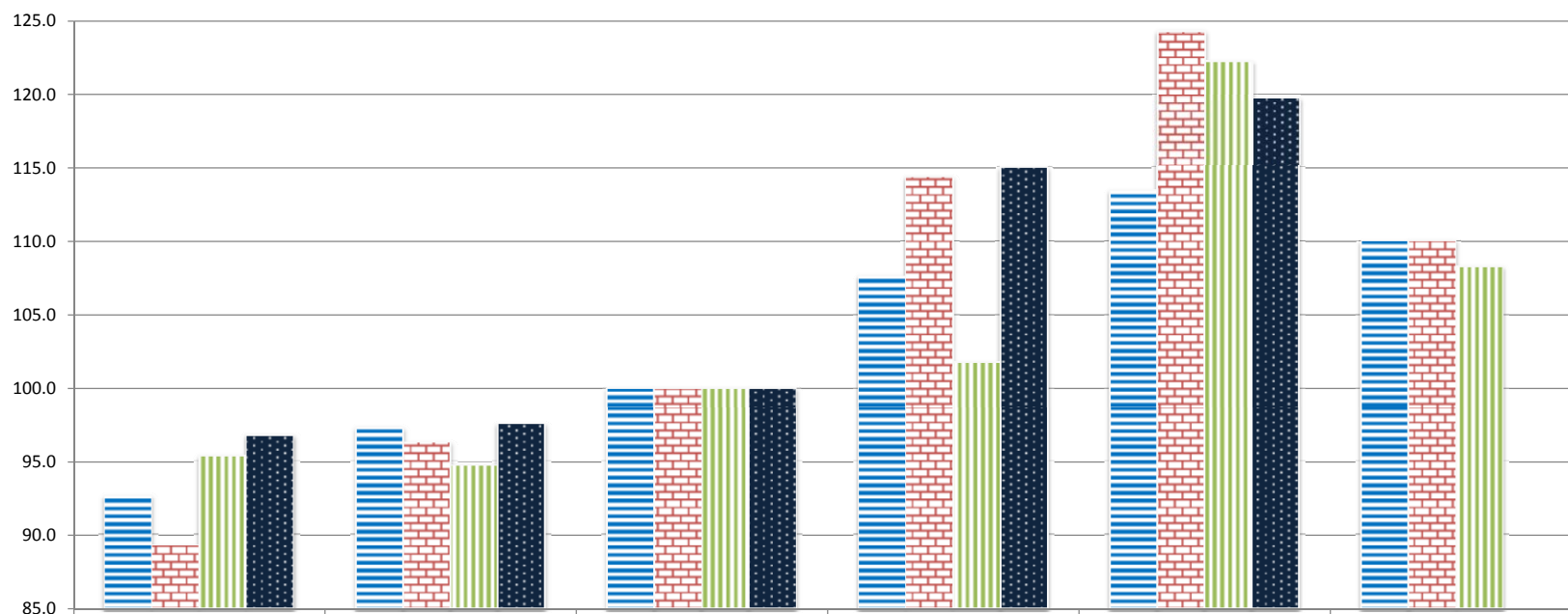
Energy Probe submits that Hydro Ottawa should be commended for controlling its OM&A expenses to the degree that is illustrated in the 2008 through 2010 figures. However, Energy Probe submits that the increase of nearly 20% between 2010 and 2012 is excessive and should be rejected by the Board.

Hydro Ottawa is following the same trajectory in OM&A costs that the Board has seen in a number of recent applications where parties were unable to agree on an appropriate level of OM&A expenses for a test year.

The bar graph on the following page shows the forecasted growth in OM&A expenditures for three historical years, the bridge year and the test year for Burlington Hydro Inc. ("Burlington"), Hydro One Brampton Networks Inc. ("Brampton") and Horizon Utilities Corporation ("Horizon"), along with the request by Hydro Ottawa. The graph also illustrated the Board's Decisions with respect to Burlington, Brampton and Horizon.

The graph shows the relative level of OM&A expenses for each of the utilities for three historical years, the bridge year and test year. The expenses have been indexed to 100 for each of the utilities in their last historical year when the application was filed, which is two years prior to the test year. Specifically, the Burlington figures reflect 2006 through 2008 actual data, a bridge year forecast for 2009 and a test year forecast for 2010. The Brampton and Horizon data reflect actual data for 2007 through 2009, a bridge year forecast for 2010 and a 2011 test year. The Hydro Ottawa data reflects actual data for 2008 through 2010, a 2011 bridge year and the 2012 test year forecast. The Board approved figures for Burlington, Brampton and Horizon are also shown in the graph. The actual data underpinning the index numbers are shown in Appendix B to this argument.

GROWTH IN OM&A EXPENDITURES BOARD APPROVED VS. PROPOSED INCREASES RECENT BOARD DECISIONS



	Historical Year -2	Historical Year -1	Historical Year	Bridge Year	Test Year	Board Approved
Burlington - EB-2009-0259	92.7	97.3	100.0	107.6	113.4	110.0
Brampton - EB-2010-0132	89.3	96.3	100.0	114.3	124.3	110.0
Horizon - EB-2011-0131	95.4	94.7	100.0	101.8	122.3	108.2
Ottawa - EB-2011-0054	96.8	97.5	100.0	115.0	119.8	

▬ Burlington - EB-2009-0259

▨ Brampton - EB-2010-0132

▬ Horizon - EB-2011-0131

▤ Ottawa - EB-2011-0054

As can be seen in the graph, the increase in OM&A expenses was slow and steady in each of the historical years. The level of increases varied by utility in the bridge year, with significant increases shown for Burlington and Brampton. Both of these utilities show a further significant increase between the bridge and test years. While the increase shown for the bridge year in Horizon was moderate, it was followed by a significant increase in the test year. The data for Hydro Ottawa illustrate a significant increase in the bridge year followed by a further increase in the test year. Regardless of whether the increase took place mainly in the test year, in the bridge year or in both years, the results were essentially the same. The rebasing application reflected a significant increase in the OM&A costs, notwithstanding the fact that historical costs were rising at a much slower pace.

Energy Probe submits that a review of the Board Decisions with respect to Burlington, Brampton and Horizon is appropriate given the similarities between the Hydro Ottawa proposals and those of the three distributors noted.

In the EB-2009-0259 Decision and Order dated March 1, 2010 for Burlington Hydro Inc., the Board found that (page 16):

*"The Board estimates that a reduction of at least \$375,000 is warranted for the specific items listed above. However, the Board also finds that Burlington has not adequately controlled its overall costs and the rate at which those costs are increasing over the period and will therefore reduce the OM&A by a total of \$450,000. **The resulting level of controllable OM&A of \$14.347 million represents an almost 10% increase over 2008 actual. The Board concludes that it is reasonable to expect Burlington to operate within this level of increased expenditure.**" (emphasis added)*

The Board further concluded that at an overall level, the increase of 13.4% in total controllable OM&A from 2008 actual (to 2010 test year) was *"excessive in light of prevailing conditions"* and *"reasonable expectations regarding cost control"* (page 15).

In the EB-2010-0132 Decision and Order dated April 4, 2011 for Hydro One Brampton Networks Inc., the Board approved an increase in the 2011 test year OM&A expenses of 10% over the 2009 actual spending.

In the Hydro One Brampton Decision, the Board provided further rationale for the 10% increase (page 23):

*"Given the relatively modest growth in customers forecast for the test period, and the relatively modest rate of inflation, and the lack of any compelling evidence why a large increase is warranted, the Board finds this increase to be excessive. The Board finds that an increase of 10% over 2009 actual spending is reasonable. **Given the 2.2% per annum forecast growth in customers, this allows for slightly less than 3% per annum increase in spending per customer, which is more than the rate of inflation.**"* (emphasis added)

In the EB-2010-0131 Decision and Order dated July 7, 2011 for Horizon Utilities Corporation, the Board approved an increase in the 2011 test year OM&A expenses based on an average annual increase of about 3% since the last Board approved budget in 2008 (page 31). This resulted in an increase of about 8.2% in 2011 relative to the historical year of 2009.

Energy Probe submits that the Board should apply similar reasoning as in the above three Decisions when determining an appropriate increase for OM&A for Hydro Ottawa.

Based on the Burlington Hydro Decision, the application of a 10% increase in the OM&A from 2010 (\$53,350,684) to 2012 would result in a 2012 figure of \$58,685,752, a reduction of approximately \$5.2 million from that proposed by Hydro Ottawa.

Based on the Hydro One Brampton Decision, the Board approved an increase of 5% per year (not compounded) which was made up of 2.2% for customer growth and 2.8% for the increase in spending per customer.

As shown in Undertaking L1.8, the percent change in the number of customers for 2011 and 2012 are forecast to be approximately 1.6% for Hydro Ottawa, substantially lower than that for Brampton.

Adding this customer growth figure of 1.6% to the 2.8% growth in the spending per customer allowed by the Board for Hydro One Brampton results in an increase of 4.4%, or 8.8% over two years.

If the 8.8% figure is applied to the actual OM&A expenditures from 2010 (\$53,350,684), the resulting 2011 expenditures would be \$58,044,544, a reduction from that forecast by Hydro Ottawa of more than \$5.8 million. This increase of 8.8% over the 2010 actual level results in a similar increase as resulted for Horizon, where the Board approved increase was 8.2% over the historical year to test year period.

Turning to the Horizon Decision, Energy Probe submits that the starting point for Hydro Ottawa should be the actual 2008 expenditures rather than the Board approved level. As noted above, in the Horizon Decision the Board used the 2008 Board approved OM&A expense as the starting point in determining the 2011 allowed expense.

Energy Probe notes that Horizon's actual OM&A expenses in 2008 were 98.6% of the Board approved level, a difference of less than \$0.6 million (Exhibit 4, Tab 2, Schedule 1, Table 4-1 in EB-2010-0131). This is in contrast to the situation in this proceeding where Hydro Ottawa's actual 2008 OM&A expenses were 93.3% of the Board approved amount, a difference of more than \$3.7 million. Hydro Ottawa was also able to maintained a level of OM&A expenditures below the 2008 Board approved level in both 2009 and 2010, while still managing to earn a return in excess of that built into the 2008 rates.

This is clearly different from the situation Horizon was in. In particular, Horizon's return on deemed equity was below the Board approved level of 8.57% in both historical years available, 2008 and 2009 (Exhibit 1, Tab 2, Schedule 1, page 6 of EB-2010-0131).

In light of this substantial difference in the circumstances of Hydro Ottawa relative to that of Horizon, Energy Probe submits it would not be appropriate to use the 2008 Board approved level of OM&A expenses as the starting point used for escalation purposes. Rather, the starting point should be the 2008 actual expenditures of \$51,628,904. Applying an average annual increase of 3% as was done by the Board in the Horizon case results in a 2012 test year OM&A figure of \$58,108,786, a reduction of just under \$5.8 million from the Hydro Ottawa forecast.

Energy Probe noted earlier that in the Burlington Hydro Decision, the Board noted that an increase of **13.4%** in total controllable OM&A from the 2008 actual to the 2010 test year forecast was **excessive in light of prevailing conditions** and **reasonable expectations regarding cost control**.

In this application, Hydro Ottawa is requesting Board approval of an increase of **19.8%** in OM&A, excluding property taxes, from the 2010 actual figure to the 2012 test year. Energy Probe submits that **there have been no significant changes in the prevailing conditions** since the March 2010 Decision for Burlington Hydro. Energy Probe also submits that the **reasonable expectations regarding cost control are equally applicable to Hydro Ottawa today as they were to Burlington Hydro in 2010**.

Based on the above analysis, Energy Probe notes that all three approaches result in OM&A in a relatively narrow range of \$58.0 to \$58.7 million for the 2012 test year, with a weighted average of approximately \$58.3 million. Energy Probe submits that an appropriate level of OM&A based on CGAAP for Hydro Ottawa in the 2012 test year is in this range. This level of OM&A should then be used as the starting point (with the agreed to amount of property taxes added) to adjust to the MIFRS based OM&A forecast for the 2012 test year shown in Table 6 of Exhibit J1, Tab 1, Schedule 1.

Forecast Accuracy

Energy Probe submits that Hydro Ottawa does not have a very good track record when it comes to accurately forecasting OM&A costs. In addition to the variance of \$3.7 million or 6.7% noted above related to the actual OM&A expenditures in 2008 relative to the Board approved figure, Hydro Ottawa has a significant variance in actual 2010 expenditures relative to that forecast for the 2010 bridge year in EB-2010-0133.

As shown in the response to Exhibit K4, Issue 4.1, Interrogatory #1 (also known as Board Staff Interrogatory #33), as part of the EB-2010-0133 application and evidence, Hydro Ottawa forecast a 2010 bridge year OM&A expense of \$59,644,369. This forecast was filed in June 2010, nearly half way through the 2010 bridge year. The actual 2010 expense was only \$53,350,685 or 10.6% and \$6.3 million lower than the bridge year forecast.

Energy Probe submits that these two forecasts, one for 2008 with an error of 6.7% and one for 2010 with an error of 10.6%, reflect on the ability of Hydro Ottawa to provide a credible forecast of OM&A. Energy Probe further notes that if the average of the two above figures (8.65%) is applied as a reduction to Hydro Ottawa's 2012 test year forecast of \$63,891,432, the net reduction is about \$5.5 million, resulting in an OM&A forecast of \$58.4 million, right in the middle of the range recommended by Energy Probe.

OM&A Cost Per Customer

Energy Probe notes that Hydro Ottawa's OM&A (excluding property taxes) per customer has been flat between 2008 and 2010 in the \$176 to \$177 range (Undertaking L1.8). This is forecast to increase by 13.6% in 2011 to \$201, followed by a further increase of 2.5% in 2012 to \$206.

Energy Probe submits that a reasonable increase in the OM&A cost per customer is 3% for both 2011 and 2012. This figure is significantly above the current rate of inflation which is running at less than 2%, as measured by the GDP-IPI for final domestic demand.

Applying a 3% growth rate for two year to the 2010 actual cost per customer of \$177.44 (\$53,350,684 divided by 300,664 customers) results in a 2012 average cost per customer of \$188.25. Multiplied by the number of customers in 2012 (310,111), the OM&A forecast would be \$58.4 million, again right in the middle of the range recommended by Energy Probe.

Specific Adjustments to OM&A

Energy Probe would normally provide an analysis of specific reductions to OM&A expenses that would approximate the overall reduction in OM&A expenditures proposed in part (a) above. However, this does not appear to be possible in this case.

As indicated by Mr. Simpson (Tr. Vol. 1, page 140) reclassifications at the USoA account level *"can sometimes skew the numbers"*.

Energy Probe also notes that in both the Hydro One Brampton and Horizon Utilities Decisions, the Board indicated that it was not inclined to delve into the specific numbers of FTEEs or the impact of whether work is done by full time staff or contracted out. The Board concluded that this was a matter for the utility to manage within the approved spending envelope.

Energy Probe submits that Hydro Ottawa should be able to manage within an approved spending envelope of \$58.0 to \$58.7 million by managing additions to FTEEs, managing wage and benefit increases and managing non-compensation costs in a low inflation environment.

i) Issue 4.2 - Are the methodologies used to allocate shared services and other costs appropriate? - No Settlement

Energy Probe has dealt with this issue under Issue 4.1 above.

j) Issue 4.4 - Are the 2012 compensation costs and employee levels appropriate? No Settlement

Energy Probe has dealt with this issue under Issue 4.1 above.

k) Issue 5.2 - Is the proposed long-term debt rate appropriate? - No Settlement

Hydro Ottawa is requesting a long-term debt rate of 5.39%, as shown in Table 1 of Exhibit E1, Tab 1, Schedule 1, Updated 2011-09-14. This updated evidence reflects a July 5, 2011 issuance of \$15 million at a rate of 5.65%. Further detail on the various long-term debt issues can be found in Exhibit K5, Issue 5.2, Interrogatory #3 (also known as Energy Probe Interrogatory #57).

Energy Probe has a number of submissions with respect to the different long-term debt issues shown in Table 1 of Exhibit E1, Tab 1, Schedule 1, Updated.

i) Callable Debt

The first three debt instruments shown in Table 1 (\$200 million issued July 1, 2005 with an interest rate of 5.140%; \$32.185 million issued July 1, 2005 with an interest rate of 5.900%; \$50.0 million issued December 20, 2007 with an interest rate of 5.318%) represent more than 75% of the total long debt forecast to be outstanding in the 2012 test year. Each of these three long term debt instruments, which are found in Attachment AG to Exhibit E1, Tab 1, Schedule 1, are demand promissory notes and are callable on demand to Hydro Ottawa's affiliate Hydro Ottawa Holding Inc. Mr. Grue confirmed that these debt instruments were demand promissory notes and callable on demand (Tr. Vol. 1, page 97).

Hydro Ottawa's position on these callable debt instruments is that the cost is an embedded actual cost and that these costs should not be subject to the ceiling determined by the Board's deemed long-term debt rate (Tr. Vol. 1, page 99). Energy Probe respectfully disagrees.

The Board's cost of capital policy as expressed in the EB-2009-0084 Report of the Board on the Cost of Capital for Ontario's Regulated Utilities dated December 11, 2009 ("Cost of Capital Report" or "Report") is quite clear.

At page 53 of the Report, the Board indicates that it will primarily rely on the embedded or actual cost for existing long-term debt instruments. This is the section that Mr. Grue was relying on to support the Hydro Ottawa position that the Board's deemed long-term debt rate should not apply as a ceiling to the three debt instruments. At the bottom of page 53 and through page 54 of the Report, the Board recognized that a deemed long-term debt rate continues to be required and that it would act as a proxy or ceiling for what would be considered to be a market-based rate by the Board in certain circumstances.

These circumstances are then listed in five bullet points. The fourth bullet point indicates that for debt that is callable on demand (within the test year period), the deemed long-term debt rate will be a ceiling on the rate allowed for that debt.

Energy Probe submits that each of the three callable debt instruments is callable within the test year. Mr. Grue indicated that Hydro Ottawa Holding Inc. sends a letter to Hydro Ottawa in the current year saying that these long term loans are not going to be called within the next 366 day period (Tr. Vol. 1, pages 112-113). Based on this testimony, there is no letter that has been issued by the holding company that indicates that it will not call these loans in the 2012 test year. This is because the current year is not yet 2012 and even if a letter was issued, it only covers 366 days, which means it would expire before the end of the 2012 test year if issued at this point in time.

Furthermore, any letter from the holding company does not change the actual debt instruments. They remain as demand promissory notes callable on demand with no restriction imposed on the notice required for repayment. Any letter provided by the holding company could be superseded by another letter revoking the impact of the first letter.

Any attempt by Hydro Ottawa to get a letter at this point in time in order to claim that these long term loans are not callable within the test year would be a blatant attempt to avoid a potential reduction in the deemed long term debt rate that would be applied as a ceiling to these loans. The Board has already had to deal with such an attempt by Kingston Hydro in EB-2010-0136. In the Decision and Order dated June 23, 2011, the Board found that:

"Kingston Hydro provided evidence that a resolution of its Board of Directors was made on July 6, 2010 that the affiliated debt would not be callable prior to 2012. The Board would have also expected to be provided with evidence that the holder of the debt was in agreement with this approach. Irrespective, the Board finds that it was not reasonable for Kingston Hydro to retain an above market debt rate at the time it made its resolution on long term affiliated debt. Kingston Hydro should have understood that the affiliated debt rate should have attracted the deemed debt rate that was in place at the time of its resolution. As such, the Board will not approve a debt rate of 7.25% for rate making purposes. Rather, Kingston Hydro is ordered to use 5.87%, the deemed debt rate that was in place at the time of its resolution." (page 41)

Hydro Ottawa's circumstances are similar to those of Kingston Hydro, with one notable exception. As Mr. Grue indicated, Hydro Ottawa subscribes to Bloomberg and Consensus and have the ability to replicate the Board's calculation of what the deemed long term debt rate would be, but they refused to provide that information based on September, 2011 data (Tr. Vol. 1, pages 105-106).

As noted by the Board in the Kingston Hydro Decision, it was not reasonable for that utility to retain an above market debt rate at the time it made its resolution on the affiliated long-term debt. Energy Probe submits that the same should apply to Hydro Ottawa. Hydro Ottawa knows what the deemed long term debt rate will be based on the September, 2011 Bloomberg and Consensus data. It would not be reasonable for Hydro Ottawa to try and obtain a letter covering all of 2012 and essentially locking in at 5.32% (the deemed long term debt rate currently in effect as of the time of writing) if it knows that the rate and the resulting ceiling will decline with the issuance of the Board's letter for those rate applications seeking January 1, 2012 rate changes.

By way of its' November 10, 2011 letter re Cost of Capital Parameter Updates for 2012 Cost of Service Applications for Rates Effective January 1, 2012, the Board has determined that the deemed long-term debt rate is 5.01%.

Energy Probe notes that Mr. Grue indicated that the letter from the holding company was to support the audit of the Hydro Ottawa financial statements allowing the debt in question to be classified as long-term debts (Tr. Vol. 1, page 113). This appears to be the only reason this letter is required. Energy Probe submits that this is not a reason to burden ratepayers with a rate higher than the Board's deemed long-term debt rate ceiling, which acts as a proxy for the market rate.

ii) Issuance and Administrative Costs

As shown in the Table in the response to Exhibit K5, Issue 5.2, Interrogatory #1 (also known as Board Staff Interrogatory #51), most of the debt instruments include issuance and/or administrative costs. The administrative costs are those incurred by the holding company and are described in detail in part (d) of the response to Exhibit K5, Issue 5.1, Interrogatory #4 (also known as VECC Interrogatory #45).

The issue with respect to these costs is whether or not these costs are included in, or on top of, the Board's deemed long-term debt rate. Hydro Ottawa contends that these costs are in addition to the Board's deemed long-term debt rate. This was illustrated in the July 5, 2011 debt issue discussed by Mr. Grue (Tr. Vol. 1, page 105). Even though the Board's deemed long-term debt rate was 5.32% based on the March 3, 2011 letter from the Board, Hydro Ottawa updated this based on Bloomberg and Consensus data at the time of issuance to arrive at 5.45%. Ten basis points were then added for each of issuance costs and administrative costs incurred by the holding company.

The Cost of Capital Report does not distinguish between a ceiling with and without issuance and administrative costs. The deemed long-term debt rate is clearly identified as acting as a proxy or ceiling for what would be considered to be a market-based rate to be used in the circumstances listed. The question, therefore, is whether or not a market-based rate includes issuance and administrative costs.

The issuance costs are the costs incurred for the underwriting, legal and administrative fees associated with the specific debt issues. Mr. Grue indicated (Tr. Vol. 1, pages 108 - 109) that if Hydro Ottawa was to go out to the market, they would incur similar costs as those it is paying the holding company. The Board is aware that utilities routinely include these one-time costs in the debt rate used for each of the loans to which they apply.

The administrative costs are incurred by the party issuing the debt. As noted earlier these are costs incurred by the holding company. Energy Probe submits that any rate at which a third party agrees to lend to another party would include recovery of its administrative costs associated with the loan. As a result, these costs should not be over and over the Board's deemed long-term debt rate.

Energy Probe submits that the issuance costs and administrative costs should not be in addition to the Board's deemed long-term debt rate ceiling. This would apply to both the individual tranches of \$15 million under the grid promissory note and to the callable demand promissory notes discussed above.

The Board's deemed long-term debt rate which acts as a proxy or ceiling for what would be considered to be a market-based rate is an all-in cost that includes the issuance and administrative costs paid to the affiliate. The Cost of Capital Report does not make an allowance for costs over and above the market-based rate ceiling.

Even if it did, Hydro Ottawa has not provided sufficient evidence that the basis point markups for each of the individual debt advances are covering actual costs incurred by its affiliate. Each \$15 million advance from the grid promissory note carries an incremental annual cost of \$15,000, based on the 10 basis points added to the cost to Hydro Ottawa. Based on the evidence in this proceeding that these costs cover credit agency fees, ongoing communications/meetings with credit rating agencies, ongoing meetings/communication with investment bankers etc. (Exhibit K5, Issue 5.1, Interrogatory #4), there is no suggestion that these costs double, triple or quadruple in magnitude when further \$15 million advances are made.

iii) July 5, 2011 Issue

Energy Probe submits that the underlying rate for the July 5, 2011 issuance should be reduced from 5.45% to 5.32%. This latter figure was the Board's deemed long-term debt rate that was in effect when this debt was issued. This would be consistent with Hydro Ottawa's use of 5.87% for the April 30, 2010 debt issue based on the February 24, 2010 letter from the Board (Tr. Vol. 1, pages 104 - 105).

iv) Forecast Issues

As shown in Table 1 of Exhibit E1, Tab 1, Schedule 1, Updated, and confirmed by Mr. Grue (Tr. Vol. 1, page 109) are forecast advances from the grid promissory note that have not yet been issued. Hydro Ottawa has forecast the rate applicable to these advances, inclusive of issuance and administrative costs, to be 5.75%.

Energy Probe submits that the Board should apply the deemed long-term debt rate calculated based on the September, 2011 Bloomberg and Consensus data of 5.01% as per the Board's November 10, 2011 letter and use this as a ceiling on the rates to be applied to this debt. This debt is from an affiliate, will have a fixed rate and a fixed term and therefore falls under the first bullet point of the circumstances listed at page 53 of the Cost of Capital Report related to when the Board's deemed long-term debt rate will act as a proxy or ceiling.

v) 30 Year Debt Rate Applied to Shorter Term Loans

In the Cost of Capital Report, the Board stated that the onus is on the electricity distribution utility to forecast the amount and cost of new or renewed long-term debt and that the electricity distribution utility also bears the burden of establishing the need for and prudence of the amount and cost of long-term debt, both embedded and new. The Board also stated at pages 52 and 53 of the Report that:

"The Board wishes to emphasize that the long-term debt guidelines relating to electricity distribution utilities are expected to evolve over time and are expected to converge with the process used by the Board to determine the amount and cost of long-term debt for natural gas distributors."

and that:

"The Board wishes to reiterate that the onus is on the distributor that is making an application for rates to document the actual amount and cost of embedded long-term debt and, in a forward test year, forecast the amount and cost of new long-term debt to be obtained during the test year to support the reasonableness of the respective debt rates and terms."

The grid promissory note, which is forecast to total \$90 million in the 2012 test year has a payment date of February 9, 2015 (Exhibit K5, Issue 5.2, Interrogatory #3, part (e)). With issue dates ranging from December 21, 2009 to July 1, 2012, this debt has terms ranging from just over 5 years to about 2.5 years in duration. Hydro Ottawa has calculated the rate payable on this debt based on the Board's deemed long-term debt rate. Energy Probe submits that this is not appropriate and should be rejected by the Board. There is no justification to require ratepayers to pay a 30 year based rate on term loans of 2.5 to 5 years in length.

Energy Probe submits that the Board would not allow a utility to recover the costs of a 2 to 5 year term loan with a fixed rate equivalent to a 30 year term if the rates were from a third party. There is no justification for doing so when the loan is from an affiliate. The Board would certainly never agree to pass on the costs of such arrangements should any of the regulated natural gas distributors bring forward such a proposal.

Hydro Ottawa justifies its proposal based on its intention to use the deemed rate as a bridge until it can refinance all of its debt with external debt in 2015 (Tr. Vol. 1, page 111). Energy Probe submits that this does not justify asking ratepayers to pay a 30 year rate on 2.5 to 5 year debt. This would be similar to a financial institution offering a customer a 2 year fixed rate mortgage (currently at a rate of about 3.3%) but requiring them to pay the 10 year fixed rate (currently at a rate of about 5.24%). No reasonable customer would accept such an arrangement. Energy Probe submits that the Board should reject the similar arrangement proposed by Hydro Ottawa.

When asked if Hydro Ottawa had considered borrowing this 2 to 5 year money from some source other than its affiliate, such as Infrastructure Ontario, Mr. Grue replied that they had looked at Infrastructure Ontario but because their bond indenture does not allow them to have any encumbrance on any of the assets of Hydro Ottawa Limited, they cannot borrow from Infrastructure Ontario (Tr. Vol. 1, pages 111-112). Based on this response, Hydro Ottawa did not approach any other lenders.

The bond indenture that does not allow any encumbrance on any of the assets in Hydro Ottawa Limited is between the holding company and trustee for the bondholders. Energy Probe submits that this bond indenture should not adversely affect ratepayers by requiring them to borrow at higher rates than would otherwise be available to the utility.

Energy Probe notes that in the Grid Promissory Note and each of the Demand Promissory notes found in Attachment AG to Exhibit E1, Tab 1, Schedule 1 there is a Subordination clause that states the obligation of Hydro Ottawa Limited is subordinated and postponed to the obligations of Hydro Ottawa Limited to a third party for the payment in full of any secured indebtedness and all security interests granted to secure such obligations of Hydro Ottawa Limited.

Lending rates for distributors from Infrastructure Ontario are publically available at <http://www.infrastructureontario.ca/Templates/RateForm.aspx?ekfrm=2147483942§or=ldc>. At the time of writing, 30 year term loans were available at a rate of approximately 4.1% while 4 year term loans were available at a rate of 2.2%. This illustrates the significant difference between the cost of 5 year and 30 year money.

Energy Probe submits that the three remaining forecast issues of debt should be costed at a rate of 2.2% given that they are for terms of less than 4 years. Energy Probe also submits that the Board should consider whether the first three issuances from the grid promissory note should be included at the Board's deemed long-term debt rate when this money reflects term loans of 5 years.

l) Issue 6.1 - Is the proposed elimination of the smart meter rate adder and the inclusion of the smart meter costs in the 2012 revenue requirement appropriate? - Incomplete Settlement

The unsettled portion of this issue is dealt with under Issue 9.1 below.

m) Issue 6.2 - Is the proposal to dispose of the balances in variance accounts 1555 and 1556 appropriate as a result of the Board's updated Filing Requirements? - Incomplete Settlement

The unsettled portion of this issue is dealt with under Issue 9.1 below.

n) Issue 9.1 - Are the account balances, cost allocation methodology and disposition period appropriate? - Incomplete Settlement

Energy Probe has had the opportunity to review the draft submissions of the Vulnerable Energy Consumers Coalition ("VECC") with respect to the smart meter disposition rider. Energy Probe supports those submissions and believes that the disposition should be rate class specific, following the principle of cost causality.

o) Issue 10.1 - Is the proposal related to LRAM appropriate? - No Settlement

Energy Probe has had the opportunity to review the draft submissions of VECC with respect to the LRAM proposals. Energy Probe supports those submissions.

p) Issue 11.1 - Is the proposed revenue requirement determined using modified IFRS appropriate? - No Settlement

Energy Probe has had the opportunity to review the draft submissions of the School Energy Coalition ("SEC") on the remaining unsettled matters of capitalization and depreciation under this issue. Energy Probe supports those submissions.

q) Issue 11.2 - Are the proposed new MIFRS deferral and variance accounts appropriate? - No Settlement

Energy Probe has had the opportunity to review the draft submissions of the SEC on the unsettled issue of the deferral account for future gains and losses on disposals of pooled assets. Energy Probe supports those submissions.

C - COSTS

Energy Probe requests that it be awarded 100% of its reasonably incurred costs. Energy Probe has attempted to minimize its time on this application, while at the same time ensuring a thorough review. This has been accomplished through cooperation with other intervenors to ensure no significant overlaps in cross-examination.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

November 22, 2011

Randy Aiken

Consultant to Energy Probe

APPENDIX A - TABLES FROM EXHIBIT B4, TAB 2, SCHEDULE 1

Table 2 - REVISED - Revenue Lag from Residential and General Service Customers

Revenue Lag Component	Days	
	2009	2010
Service Lag (1)	22.07	22.13
Billing Lag	18.11	18.24
Collections Lag (2)	24.88	21.39
Payment Processing, etc.	<u>1.15</u>	<u>1.13</u>
	66.21	62.89

(1) Exhibit K2, Issue 2.2, Interrogatory #5 (a)

(2) Undertaking LT1.2 - Hydro Ottawa's average aging days

Table 1 - REVISED - Revenue Lag

Source of Revenues	2009			2010		
	Revenue Lag (Days)	Weighting Factor	Weighted Revenue Lag	Revenue Lag (Days)	Weighting Factor	Weighted Revenue Lag
Revenues from Residential and Business Customers	66.21	98.42%	65.16	62.89	98.05%	61.66
Revenues from Services to Retailers	32.9	0.05%	0.02	30.15	0.04%	0.01
Revenues from Other Sources	96.16	1.54%	<u>1.48</u>	90.51	1.91%	<u>1.73</u>
TOTAL			66.65			63.40

Table 24 - REVISED - 2009 Working Capital Requirement Adjusted for HST

Expense Item Description	Revenue Lag (Days) A	Expense Lead (Days) B	Net Lag (Lead) Days C = A-B	Working Capital Factor D = F/E	Expenses from Financial Statements E	Working Capital Requirement F = E*C/365
Cost of Power	66.65	33.96	32.69	8.96%	587,958,000	52,665,251
OM&A Expense	66.65	11.28	55.37	15.17%	53,828,665	8,166,354
Interest on Long Term Debt	66.65	45.63	21.02	5.76%	14,642,000	843,387
PILs	66.65	13.59	53.06	14.54%	13,920,000	2,023,709
Debr Retirement Charges	66.65	33.82	32.83	9.00%	52,464,792	4,719,560
Sub-Total					722,813,457	68,418,261
HST					16,723,956	4,770,470
Capital Expense			-21.40		45,932,777	350,096
TOTAL (Including HST)					785,470,190	73,538,827
Working Capital as a % of OM&A plus Cost of Power						11.5%

Table 25 - REVISED - 2010 Working Capital Requirement Adjusted for HST

Expense Item Description	Revenue Lag (Days) A	Expense Lead (Days) B	Net Lag (Lead) Days C = A-B	Working Capital Factor D = F/E	Expenses from Financial Statements E	Working Capital Requirement F = E*C/365
Cost of Power	63.40	33.67	29.73	8.15%	621,842,000	50,657,464
OM&A Expense	63.40	11.18	52.22	14.31%	54,948,488	7,862,030
Interest on Long Term Debt	63.40	45.63	17.77	4.87%	15,542,000	756,840
PILs	63.40	-3.31	66.71	18.28%	13,773,000	2,517,410
Debr Retirement Charges	63.40	32.61	30.79	8.44%	52,701,411	4,446,295
Sub-Total					758,806,899	66,240,039
HST					17,106,564	4,770,470
Capital Expense			-21.05		50,050,932	375,245
TOTAL (Including HST)					825,964,395	71,385,754
Working Capital as a % of OM&A plus Cost of Power						10.5%

Table 26 - REVISED - Working Capital Allowance for Test Year

	2009	2010	Average
Working Capital as a % of Cost of Power and OM&A	11.5%	10.5%	11.0%

APPENDIX B - OM&A DATA USED FOR INDEXING

	Historical <u>Year -2</u>	Historical <u>Year -1</u>	Historical <u>Year</u>	Bridge <u>Year</u>	Test <u>Year</u>	Board <u>Approved</u>	<u>Source</u>
Burlington	12,090,104	12,692,225	13,045,099	14,036,567	14,796,994	14,347,000	EB-2009-0250 Decision and Order dated March 1, 2010, pages 8 & 16
Brampton	15,925,811	17,173,680	17,836,429	20,393,300	22,176,435	19,620,000	EB-2010-0132 Decision and Order dated April 4, 2011, pages 19 & 23
Horizon	37,004,670	36,749,191	38,804,535	39,500,000	47,457,439	42,000,000	EB-2010-0131 Decision and Order dated July 7, 2011, pages 28 & 31
Ottawa	51,628,904	52,034,715	53,350,684	61,334,539	63,891,432		EB-2011-0054, Exhibit D1, Tab 1, Schedule 1, Table 1