December 7, 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-2011-0207
Woodstock Hydro Services Inc. – 2011 IRM Rates Application
Energy Probe – Argument

Pursuant to the Notice of Application and Hearing issued by the Board on October 12, 2011, attached please find the Argument of Energy Probe Research Foundation (Energy Probe) in the EB-2011-0207 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: Ross McMillan, Woodstock Hydro (By email)
Patricia Eitel, Woodstock Hydro (By email)
Randy Aiken, Aiken & Associates (By email)

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EB-2011-0207

Ontario Energy Board

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Sched. B, as amended;

AND IN THE MATTER OF an application by Woodstock Hydro Services Inc. for an Order or Orders approving or fixing just and reasonable rates and other charges for the distribution of electricity as of May 1, 2012.

ARGUMENT OF
ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")

December 7, 2011

WOODSTOCK HYDRO SERVICES INC.
2012 IRM CASE
EB-2011-0207

ARGUMENT OF ENERGY PROBE RESEARCH FOUNDATION

A - INTRODUCTION

Woodstock filed an application on September 22, 2011 under section 78 of the Ontario Energy Board Act, 1998, S.O. 1998, c. 15 (Schedule B), under the Board's guidelines for 3rd Generation Incentive Regulation Mechanism which provides for a mechanistic and formulaic adjustment to distribution rates between cost of service applications.

Woodstock's application included the use of the Incremental Capital Module to recover the costs of a new transformer station. The application also included requests to recover the impact of lost revenues associated with various conservation initiatives, the disposition of account 1562 and to make adjustments to the revenue to cost ratios.

This is the Argument of the Energy Probe Research Foundation (“Energy Probe”) related to the above noted issues.

B - INCREMENTAL CAPITAL MODULE REQUEST

Energy Probe has reviewed the request to recover the cost of the new transformer station and makes a number of submissions in the areas that follow.

i) Eligibility of the Expenditure for Recovery

Energy Probe submits that in order for a project to qualify for recovery through the Incremental Capital Module ("ICM") the project must be both non-discretionary and incremental.

The description of, need for and prudence of the project are discussed in the application at pages 12 through 19. The need for the station is further discussed in the response to the Vulnerable Energy Consumers Coalition ("VECC") Interrogatory #4.

The business case to support Woodstock's decision to have Hydro One provide the transformer station is discussed in the response to VECC Interrogatory #6.

Energy Probe submits, that based on the evidence in this application, the project is both non-discretionary and incremental. Further, it is submitted that both parts of the project, being the Commerce Way TS capital contribution and the Commerce Way TS wholesale metering should be eligible for recovery through the ICM.

ii) Calculation of the Threshold CAPEX

Woodstock originally calculated the incremental capital threshold at $2,522,948 (Application, page 20). However, this figure was based on a factor of 1.30% that resulted in a price cap index of 0.18%. This calculation was also based on a growth factor 0.00%. These figures are shown on Sheet E1.1 - Threshold Parameters of the Incremental Capital Workform ("ICW") shown in Appendix E.

As indicated in the response to Board Staff Interrogatory #1, the ICW was not properly calculating the growth rate to be used in the calculation. The correct growth rate was 5.79% and the resulting incremental capital threshold was calculated to be $4,154,210, also as shown in the response to Board Staff Interrogatory #1.

Energy Probe submits that this calculation should also be updated to reflect the 1.7% price escalator as announced by the Board on November 10, 2011. In the response to Energy Probe Interrogatory #3 Woodstock confirmed that the price cap index would need to be updated to the reflect the price escalator when it became available.

Energy Probe submits that the incremental capital threshold based on the correction to the growth factor and on the use of the updated price escalator should be $4,272,870, as calculated in the following table.

Price Escalator (GDP-IPI)	1.70%	
Less Productivity Factor	-0.72%	
Less Stretch Factor	-0.40%	
Price Cap Index	**0.58%**	**A**
Growth	**5.79%**	**B**
Dead Band	**20.00%**	**C**
Depreciation Expense	**2,060,280**	**D**
Acerage Net Fixed Assets	**22,711,431**	**E**
Working Capital Allowance	**5,406,174**	**F**
Rate Base	**28,117,605**	**G=E+F**
Ddepreciation (D)	**2,060,280**	**H**
Threshold Test	**207.39%**	**I=1+(G/H)*(B+A*(1+B))+C**
Threshold CAPEX	**4,272,870**	**J=H*I**

iii) Non-Discretionary CAPEX

Woodstock's forecasted capital expenditures for 2012 total $7,377,996, including $4,427,330 for the Commerce Way TS project. Woodstock has indicated that the capital expenditures forecast for 2012 excluding the Commerce Way TS project, which total $2,950,666 are non-discretionary (Energy Probe Interrogatory #4 & VECC Interrogatory #7). This level of spending is similar to the level approved by the Board for 2011 and similar to the levels posted for 2010 and expected to be achieved in 2011. Therefore, Energy Probe submits that the entire 2012 capital expenditure forecast should be considered as non-discretionary for the purposes of the ICM, subject to the comments in the following section.

iv) 2011 CAPEX vs. Board Approved

As shown in the response to VECC Interrogatory #7, the Board approved capital expenditure for 2011 was $2,919,673 and the expected expenditures for 2011 are $2,767,607, for a reduction from the approved amount of more than $150,000 or 5%. As further illustrated by the interrogatory response, this overall reduction was the result of lower than approved capital expenditures of more than $160,000 for general capital. In particular, the capital expenditures for buildings & fixtures, computer hardware and software, transportation, stores and communications are all well below the approved levels.

With the exception of communications, all of these areas have forecasted 2012 expenditures in excess of the reductions in 2011 compared to the Board approved figures.

For example, approved capital expenditures in the stores account were $40,000, but nothing is forecast to be spent in this account in 2011, and the forecast for 2012 is $40,000. Similarly, the approved level for computer hardware in 2011 was $140,000, but only $105,000 is forecast to be spent in 2011 for a variance of $35,000. The 2012 forecast is for expenditures of $100,000. Energy Probe submits that it appears that expenditures planned for and approved by the Board associated with these general capital items have been deferred to 2012.

Based on this deferral from 2011 Board approved to 2012 test year and the fact that the rates currently in place reflect a higher level of capital expenditures as approved by the Board for 2011 than what is now forecast to take place, Energy Probe submits that the amount of the 2012 capital expenditures should be reduced by $150,000. This reduction would reflect that Woodstock is already recovering the revenue requirement associated with this amount as if it were already built into rates. Without this adjustment, Woodstock would effectively be allowed to recover the revenue requirement on this amount of rate base twice.

v) Incremental Capital Amount

Energy Probe submits that the incremental capital amount as determined by the ICM should be $2,953,060 as determined as follows.

2012 CAPEX	7,377,996
Less 2011 Variance	(152,066)
less Threshold CAPEX	(4,272,870)
Incremental Capital	2,953,060

vi) Allocation

Woodstock is proposing to allocate the incremental revenue requirement arising from the ICM to the various rate classes on the basis of distribution revenues (Board Staff Interrogatory #4). Woodstock has justified using this allocation because the Commerce Way TS project was necessary due to general load growth in both the residential and general service customer classes. As a result, Woodstock believes that the benefits of increased capacity and reliability of supply should be shared by all customers and recovered on the basis of distribution revenue.

Energy Probe disagrees with the allocation methodology proposed by Woodstock. Energy Probe submits that the incremental revenue requirement arising from the Commerce Way TS project should be recovered from rate classes the same way it would be recovered if it was an asset included in rate base and allocated through the cost allocation model.

Energy Probe submits that the incremental revenue requirement should be recovered on the same basis as the recovery of transmission connection costs which uses the rate class share of transmission connection revenue. Energy Probe believes that this recovery better matches the cost of the project when it is included in rate base and allocated through the cost allocation model. The allocation based on this methodology is shown in the response to Board Staff Interrogatory #4.

Energy Probe notes that an alternative to the incremental revenue requirement for this project would have been to have Hydro One own the asset. Hydro One would then charge the costs to Woodstock through the transmission connection charge. These costs would then be allocated to rate classes as they are today for the existing transmission connection costs, based on the rate class share of transmission connection revenue.

The proposed Woodstock methodology would result in a significantly different allocation of costs to rate classes. Energy Probe submits that this difference cannot be justified on the basis of whether Woodstock or Hydro One owned the TS. Logically, the allocation of costs should be the same under either scenario and the allocation of the transmission connection charge is a reasonable, and Board approved, methodology for this type of costs.

vii) Fixed and/or Variable Rate Riders

Energy Probe submits that the recovery through fixed and/or variable rate riders should be consistent with the way that the costs are allocated. For example, if the Board approves the allocation of costs to rate classes based on distribution revenues, then it would be appropriate to recover the costs through both fixed and variable rate riders.

On the other hand, if the Board approves a different allocation methodology, then the rate riders should reflect the recovery based on the fixed and/or variable split that results from the allocator used.

C - REVENUE TO COST RATIO ADJUSTMENTS

Energy Probe has reviewed the adjustments as proposed in Appendix H of the evidence and believes they accurately reflect the EB-2010-0145 Settlement Agreement as described on page 50 of the application. Energy Probe therefore submits that the Board should accept the adjustments as filed.

D - LOST REVENUE ADJUSTMENT MECHANISM

Woodstock is requesting approval for a rate rider to recover lost revenues for conservation activities conducted in 2010, over a 12 month period. Energy Probe supports the submissions of the VECC on this issue.

E - DISPOSITION OF ACCOUNT 1562

Energy Probe makes no submissions on this issue. It has been assumed that Board Staff's review of this issue will ensure that the calculation and disposition of this account follow the principles as determined in the EB-2008-0391 proceeding and decision.

F - COSTS

Energy Probe requests that it be awarded 100% of its reasonably incurred costs. Energy Probe has focused its intervention in this application on the use of the incremental capital module and revenue to cost ratios, relying on other intervenors and Board staff to fully investigate the remaining issues.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

December 7, 2011

Randy Aiken

Consultant to Energy Probe