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February 14, 2012

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-2011-0178
Kingston Hydro Corporation – 2011 IRM Rates Application
Energy Probe – Submissions**

Pursuant to the Notice of Application and Hearing issued by the Board on December 12, 2011, attached please find the Argument of Energy Probe Research Foundation (Energy Probe) in the EB-2011-0178 proceeding for the consideration of the Board.

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

Yours truly,

David S. MacIntosh
Case Manager

cc: Randy Murphy, Kingston Hydro (By email)
Nancy Taylor, Utilities Kingston (By email)
Randy Aiken, Aiken & Associates (By email)
Interested Parties (By email)

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Ontario Energy Board

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

AND IN THE MATTER OF an application by Kingston
Hydro Corporation for an order or orders approving or fixing
just and reasonable distribution rates to be effective May 1,
2012.

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

February 14, 2012

**KINGSTONE HYDRO CORPORATION
2012 IRM CASE
EB-2011-0178**

ARGUMENT OF ENERGY PROBE RESEARCH FOUNDATION

A - INTRODUCTION

Kingston Hydro Corporation ("Kingston") filed an application dated September 30, 2011 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.

Kingston's application included the use of the Incremental Capital Module to recover the costs associated with four incremental capital projects and a request to recover the impact of lost revenues associated with various conservation initiatives. The application also requested the disposition of shared tax savings and adjustments to retail transmission service rates.

This is the Argument of the Energy Probe Research Foundation ("Energy Probe") related to the first two of the above noted issues. Energy Probe makes no submissions with respect to the disposition of shared tax savings and adjustments to retail transmission service rates.

B - INCREMENTAL CAPITAL MODULE REQUEST

Energy Probe has reviewed the request to recover the cost of the four incremental capital projects shown in Table 1 of Exhibit 6 and makes a number of submissions in the areas that follow.

i) Eligibility of the Expenditures for Recovery

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

The description of, need for and prudence of the project are discussed in the application in Exhibit 6. Further information on the four projects has been provided in the responses

to School Energy Coalition Interrogatories #3 through #9 and in the responses to Board Staff Interrogatories #5 through #15.

The total cost associated with these four projects is \$3.5 million, with a breakdown of the costs provided in the response to the Vulnerable Energy Consumers Coalition ("VECC") Interrogatory #3.

The costs noted in the response to VECC Interrogatory #3 include labour, vehicles, materials and contracts. Kingston confirmed that the labour and vehicle costs for each of the four projects are incremental costs and would not be incurred if the projects did not proceed (Energy Probe Interrogatory #2).

Kingston has indicated that none of the incremental capital projects are discretionary in nature (Board Staff Interrogatory #5).

Kingston has indicated that one of the major drivers in the need for each of the four projects is public and employee safety (Exhibit 6, page 1). Other drivers include regulatory compliance and business system performance and reliability. All of the drivers fit within the long term planning requirements. Energy Probe submits that these drivers are all reasonable.

Kingston has indicated that all four of the proposed incremental projects are of equal priority (Board Staff Interrogatory #6b) and that "based on careful considerations and analysis" it has prioritized projects that need to be completed in 2012 versus projects that may need to be completed in subsequent years (Board Staff Interrogatory #9c). Energy Probe accepts that Kingston is in the best position to prioritize the projects that need to be completed in 2012, taking into account both the other capital expenditures needed for 2012 along with the ability to finance all the capital expenditures for the year.

Energy Probe submits, that based on the evidence in this application, the four projects are both incremental and non-discretionary. Further, it is submitted that all of the projects should be eligible for recovery through the ICM.

ii) Calculation of the Threshold CAPEX

Kingston originally calculated the incremental capital threshold at \$2,490,780 (Exhibit 5, page 10). However, this figure was based on an inflation 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 on page 9 of Exhibit 5.

Growth Factor

As indicated in the response to Energy Probe Interrogatory #1c, the ICW was not properly calculating the growth rate to be used in the calculation. As noted above, the growth rate shown on page 9 of Exhibit 5 is 0.00%. However, this figure was based on an effective non-calculation of the growth since no number was provided in the ICW spreadsheet for the denominator used in the calculation.

In the response to Energy Probe Interrogatory #1c, Kingston has calculated the expected growth factor is now (0.15%). This calculation is shown on page 2 of the response to the interrogatory. In particular, the numerator used in the calculation is \$11,290,163 and the denominator is \$11,307,193. Energy Probe submits that this calculation is in error. In particular, Energy Probe submits that Kingston has reversed the numerator and the denominator in the calculation.

The numerator in the calculation is labeled 2011 Re-based Forecast and shows a figure of \$11,290,163. However, a review of the ICW provided at Exhibit 5 shows that the figure of \$11,290,163 is calculated on page 7, which is labeled Load Actual - Most Recent Year.

Similarly, the figure of \$11,307,193 shown in the response to Energy Probe Interrogatory #1 is shown in the denominator labeled 2010 Audited RRR. However, as shown on page 5 of Exhibit 5, the figure of \$11,307,193 is calculated as re-based revenue from rates.

Energy Probe submits that the calculation of the growth rate is correctly labeled on page 2 of the interrogatory response but that the numbers have been inadvertently reversed, based on the calculation of the figures shown on pages 5 and 7 of Exhibit 5. The corrected growth figure is +0.15%, based on a calculation of \$11,307,193 divided by \$11,290,163.

Energy Probe, therefore, submits that the growth factor to be used in the calculation of the Threshold CAPEX should be 0.15%, not (0.15%) as calculated by Kingston.

Inflation Factor

Energy Probe submits that the calculation of the Threshold CAPEX should also be updated to reflect the price escalator as announced by the Board in early 2012 that will be used for May 1, 2012 rate changes. In the response to Energy Probe Interrogatory #1a Kingston confirmed that the price cap index would need to be updated to reflect the price escalator when it became available.

Productivity Factor and Stretch Factor

Energy Probe submits that the productivity factor of (0.72%) and the stretch factor of (0.40%) are both appropriate for Kingston based on the response to Energy Probe Interrogatory #1b.

Energy Probe submits that the incremental capital threshold based on the correction to the growth factor and on the use of the most recent price escalator established by the Board of 1.70% for IRM applications with a January 1, 2012 effective date should be \$2,723,741, as calculated in the following table. Energy Probe notes that the 1.70% is used as a proxy in the following calculation for the rate that will be calculated and published by the Board in early 2012 for use for rates with an effective date of May 1, 2012.

Price Escalator (GDP-IPI)	1.70%	
Less Productivity Factor	-0.72%	
Less Stretch Factor	-0.40%	
Price Cap Index	0.58%	A
Growth	0.15%	B
Dead Band	20.00%	C
Depreciation Expense	2,012,215	D
Average Net Fixed Assets	31,703,726	E
Working Capital Allowance	10,586,069	F
Rate Base	42,289,795	G=E+F
Depreciation (D)	2,012,215	H
Threshold Test	135.36%	I=1+(G/H)*(B+A*(1+B))+C
Threshold CAPEX	2,723,741	J=H*I

iii) Non-Discretionary CAPEX

Kingston's forecasted capital expenditures for 2012 total \$6,025,000, including \$3,500,000 for the four projects for which Kingston is seeking recovery through the incremental capital module (Exhibit 8, page 1). Kingston has indicated that the capital expenditure forecast for 2012 excluding the four projects for which Kingston is seeking recovery through the incremental capital module, which total \$2,525,000 (shown in Table 1 of Exhibit 7) are non-discretionary (Energy Probe Interrogatory #3d).

Energy Probe submits that the 2012 capital expenditure forecast (excluding the four projects) of \$2,525,000 should be considered as non-discretionary for the purposes of the ICM. There is no evidence to suggest that any part of the \$2,525,000, which is all related to distribution assets, is discretionary.

iv) 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	6,025,000
less Threshold CAPEX	<u>(2,723,741)</u>
Incremental Capital	3,301,259

The amount calculated in the above table would be adjusted to reflect an updated price escalator (inflation index) if it is different than the current rate of 1.70% used for those applications with a January 1, 2012 effective date.

v) Allocation & Recovery

Kingston is proposing to allocate the incremental revenue requirement arising from the ICM to the various rate classes on the basis of distribution revenues (Exhibit 5, page 13). This page also indicates that Kingston proposes to recover the incremental capital rate rider using Option A through both the fixed and variable charges.

Energy Probe accepts both the allocation and the recovery methodology as being acceptable.

C - LOST REVENUE ADJUSTMENT MECHANISM

Kingston is requesting approval for a rate rider to recover lost revenues for conservation activities conducted in 2010, over a 12 month period beginning May 1, 2012 and ending April 30, 2012. Energy Probes submits that this is an appropriate period over which to recover the approved LRAM.

Energy Probe supports the submissions of the VECC on the remaining issues related to the LRAM.

D - 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

February 14, 2012

Randy Aiken

Consultant to Energy Probe