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March 6, 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-2011-0123

**Guelph Hydro Electric Systems Inc. – 2012 Cost of Service Application
Energy Probe – Comments on Draft Rate Order**

Pursuant the Decision and Order issued by the Board on February 22, 2012, please find attached the Comments on the Draft Rate Order of Energy Probe Research Foundation (Energy Probe) in the EB-2011-0123 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: Kazi Marouf, Guelph Hydro Electric Systems (By email)
Cristina Birceanu, Guelph Hydro Electric Systems (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);

AND IN THE MATTER OF an application by Guelph
Hydro Electric Systems Inc. for an order approving or
fixing just and reasonable rates and other charges for the
distribution of electricity to be effective January 1, 2012.

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

**COMMENTS ON DRAFT RATE ORDER
MARCH 6, 2012**

**GUELPH HYDRO ELECTRIC SYSTEMS INC.
2012 RATES REBASING CASE
EB-2011-0123**

**COMMENTS OF ENERGY PROBE RESEARCH FOUNDATION ON DRAFT
RATE ORDER DATED FEBRUARY 29, 2012**

Energy Probe has reviewed the Draft Rate Order ("DRO") filed February 29, 2012.
Energy Probe has a number of comments, as detailed below.

1. PP&E Deferral Account

a) Background

Energy Probe submits that Guelph Hydro has not appropriately reflected the impact of the PP&E Deferral Account on the revenue requirement in the DRO. On pages 7 through 10 of the DRO Guelph Hydro explains and illustrates the way in which it reflected the PP&E deferral account in the revenue requirement. Guelph Hydro states on page 7 that it has adjusted/lowered the 2012 revenue requirement by \$1,526K (the difference in the closing net PP&E of CGAAP vs. MIFRS) and by \$485K (amortization and return on rate base). This latter figure is shown on page 10 of the DRO and comes from the Settlement Agreement.

On page 10 of the DRO, Guelph Hydro has provided a continuity schedule for 2012 that reflects the removal of the Zigbee chip from account 1860 meters. Energy Probe submits that this adjustment is correct. Guelph Hydro has added a line to the continuity schedule that is labeled "PP&E Account". This line shows a reduction in the 2012 capital additions of \$1,526,000 and an addition to accumulated depreciation of \$381,500. Energy Probe submits that this line item should not be included, as it does not properly reflect the adjustments needed to reflect the impact of the PP&E Deferral Account on the 2012 revenue requirement. The methodology utilized by Guelph Hydro does not provide the correct adjustments to the revenue requirement related to the return on rate base, depreciation or income taxes, as discussed in the following sections.

b) Return on Rate Base

By making the adjustments to the continuity schedule, Guelph Hydro has reduced rate base by \$572,250 which is the average of the opening net book balance (\$0) and the closing net book value (1,114,400) shown in the 2012 continuity schedule on page 10 of the DRO. Applying the weighted average cost of capital of 6.80% to the reduction in rate base of \$572,250 reduces the return on rate base by \$38,913. As the calculation shown on page 11 of the DRO, taken from the Settlement Agreement, the reduction in the return on rate base should be \$104,000 (actually \$103,500).

Energy Probe submits that the adjustments to gross fixed assets between the Settlement Agreement and the Per Board Decision columns on the Data Input sheet in the RRWF should be changed from (\$1,363,654) to (\$600,645). This reflects only the removal of the Zigbee chip capital costs. Similarly, the accumulated depreciation adjustment should be changed from \$269,550 to \$78,800. This change also reflects only the removal of the Zigbee chip and is the average of the 2011 and 2012 figures shown in Table 1 on page 7 of the DRO. Both of these adjustments reflect the removal of the PP&E deferral line from the continuity schedule for 2012.

The impact of this change is to increase the return on capital component of the revenue requirement by about \$38,900, excluding the impact on taxes which is dealt with below.

c) Adjustment to Depreciation

Guelph Hydro has made an adjustment to depreciation of (\$421,543) between the Settlement Agreement and the "Per Board Decision" columns on the Utility Income sheet of the Revenue Requirement Work Form ("RRWF") attached as Appendix D to the DRO. This figure reflects \$40,043 related to the removal of the Zigbee chip and \$381,500 related to the 4 year amortization of the PP&E Deferral account.

Energy Probe submits that the appropriate adjustment should be made to the depreciation expense for 2012 outside of the continuity schedule shown on page 10 of the DRO. The depreciation expense shown in a corrected continuity schedule with the PP&E deferral line removed would be \$5,008,672 (\$4,627,172 + \$381,500). The reduction to the depreciation expense to reflect the PP&E Deferral Account is \$485,000, as shown on page 7 of the DRO. This amount is comprised of the \$381,500 in amortization and \$103,500 in return on rate base.

The correct change in the depreciation expense is therefore (\$525,043) in place of the (\$421,543), resulting in a depreciation expense of \$4,134,524 in place of the \$4,238,024 shown in the Utility Income sheet of the RRWF. The \$525,043 reduction is the sum of the reduction of \$485,000 related to the PP&E Deferral account and the \$40,043 related to the Zigbee chip removal.

The impact of this change is to decrease the depreciation component of the revenue requirement by \$103,500.

d) Impact on Taxes

Guelph Hydro shows a grossed-up income tax amount of (\$91,512) on the Taxes/PILS sheet of the RRWF. This negative figure actually reduces the revenue requirement and does not make intuitive sense.

The only change that Guelph Hydro has made in calculation of the PILS amount between the "Settlement Agreement" and the "Per Board Decision" columns in the Taxes/PILS sheet is to adjustments required to arrive at taxable utility income from (\$4,586,542) to (\$5,008,085). This change reflects the reduction in the depreciation expense calculated by Guelph Hydro of (\$421,543). Depreciation is added back into utility net income to arrive at taxable income.

Energy Probe does not believe that Guelph Hydro should be including the impact of the reduction in the depreciation expense related to the PP&E deferral account to calculate the adjustments to arrive at taxable income. The \$485,000 component of the reduction in depreciation is for regulatory purposes only and should not be used for income tax calculation purposes.

Energy Probe submits that the correct adjustment figure in the "Per Board Decision" column should be (\$4,626,585) in place of the (\$5,008,085) figure used by Guelph Hydro. This reflects only the reduction in the depreciation expense associated with the remove of the Zigbee chip.

Energy Probe has estimated that the income tax calculation resulting from this change and the change in the return on capital noted earlier is an increase in grossed-up income taxes to be included in the revenue requirement from (\$91,512) to \$51,951, an increase of \$143,876.

In addition to the change in the depreciation addition to net utility income, Energy Probe notes that it does not appear that Guelph Hydro made any reduction to the deductions to net utility income related to the removal of the Zigbee capital costs in the capital cost allowance calculations.

e) Net Impact on Revenue Requirement

Based on the methodology proposed by Energy Probe described in the previous sections, Energy Probe submits that Guelph Hydro has inadvertently underestimated its revenue requirement by approximately \$80,000, as shown as follows:

Impact on Return on Rate Base	\$38,913
Impact on Depreciation Expense	(\$103,500)
Impact on Grossed-Up Taxes	<u>\$143,876</u>
Impact on Revenue Requirement	\$79,289

2. Appendix I - Foregone Revenue and Foregone Revenue Rate Rider Calculation

Energy Probe has reviewed the calculations in the Excel version of the table provided in Appendix I of the DRO and believes that the rate riders have been properly calculated. In particular the rate rider has been calculated to be recovered over a 9 month period. However, Energy Probe notes that the last column of the table shows a formula of " $G=F/A/10$ ". Energy Probe submits that this should be corrected to be " $G=F/A/9$ ". As noted above, the rate riders have been calculated based on a recovery over 9 months and the current heading is misleading.

3. Disposition of Group 1, Group 2, Account 1521 and LRAM Account Balances

The Board directed Guelph Hydro to reflect an April 1, 2012 implementation date for the Group 1 and Groups 2 account balances, Account 1521 and the LRAM rate riders. The Board did not specify if the balances in these accounts should be disposed over a period that was three months shorter than that proposed by Guelph Hydro due to the difference between the implementation date of April 1 and the effective date of January 1 or whether the balances should be disposed of over the same period of time as proposed by Guelph Hydro, but starting April, 2012.

In the DRO at page 5 under the heading of 'IMPLEMENTATION', Guelph Hydro has included a bullet point highlighting that it is proposing to use a sunset date of March 31 rather than December 31 for all new 2012 rate riders and adders listed in the tariff of Rates and Charges. For example, a rate rider that was originally proposed to run for 12 months from January 1, 2012 to December 31, 2012 would run from April 1, 2012 to March 31, 2012 under the Guelph Hydro proposal. The alternative would be to calculate new rate riders that dispose of the balances over a shorter period. In this example, that shorter period would be April 1, 2012 through December 31, 2012.

Energy Probe notes that some of the new 2012 rate riders/adders extend for 4 years and that Guelph Hydro has indicated that by moving the sunset date from December 31 to March 31, it will simplify the process of setting up the new rate riders and adders in their billing system.

Energy Probe submits that the Guelph Hydro proposal is reasonable and should be accepted by the Board.