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BY EMAIL and RESS

June 21, 2012
Our File No. 20120033

Ontario Energy Board
2300 Yonge Street
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Toronto, Ontario
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Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2012-0033 – Enersource 2013 COS

We are counsel for the School Energy Coalition. Pursuant to Procedural Order #1, these are SEC's submissions with respect to the Draft Issues List.

1. General

With respect to Issue 1.1, it is submitted that the issue of the proposal for cost of service rates for 2014 should be treated as a threshold issue. The Board has consistently advised LDCs over the last couple of years that, if they choose to depart from the one year COS, three years IRM cycle, they must provide justification for doing so within certain known parameters. Several utilities, including Toronto Hydro, Hydro Ottawa, and Norfolk have had out of sequence COS requests denied on this threshold issue.

SEC therefore proposes that Issue 1.1 be redesignated by the Board as a threshold issue, as follows:

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> "Has the Applicant met the Board's threshold test to consider the 2014 proposal for rates on a cost of service basis?"

This has implications for the wording of many other issues. In our submission, once the threshold issue has been determined by the Board, the wording of other issues that refer to both 2013 and 2014 can be finalized. If the threshold test has been met, then the wording would stand (subject to our comments below). If the threshold test has not been met, then references to 2014 should, in our submission, be removed.

SEC has reviewed in draft the submissions of Energy Probe with respect to rate-setting for 2015 and 2016, and agrees that if 2014 meets the threshold test and is determined on a cost of service basis, the additional issue Energy Probe proposes should be added.

With respect to Issue 1.3, it is submitted that the words "based on the Board specific performance indicators" should be removed. Adherence to those indicators is a compliance issue. The issue that should concern the Board in a rates proceeding is whether service quality in the broader sense is acceptable. It is the balancing of overall service quality against costs that is at the centre of the Board's rate-setting process.

2. <u>Rate Base</u>

Energy Probe in its draft submissions has proposed that an issue be added with respect to the lead/lag study. SEC agrees.

3. <u>Operating Revenue</u>

SEC believes that Issue 3.1 would be clearer if there were a specific reference to customer numbers, load, and demand. As currently worded, it is not clear that all three are in issue, given that the issue appears limited to load. Alternatively, the reference to "billing determinants" could be removed from Issue 3.1, and a new issue added:

> "Are the forecast billing determinants for each rate class appropriate?"

4. <u>Operating Costs</u>

With respect to Issue 4.4, it is submitted that the wording should refer to the methodology as well as the dollar allocation. We are concerned that it could be argued the methodology is not in issue, and we can only pursue whether the allocation within that methodology is appropriate. We therefore propose the following wording:

> "Are the methodology (including the cost drivers used) for the allocation of shared services and corporate costs, and the actual allocation of costs for each of 2013 and 2014, appropriate?"

5. <u>Capital Structure and Cost of Capital</u>

In both Issues 5.1 and 5.2, it is submitted that the issues should not be limited to rates, but should include the dollar amounts proposed to be included in revenue requirement. SEC therefore proposes that the issues be reworded as follows:

> "5.1 Are the proposed capital structure, cost and rate of return on equity, and cost and interest rate for short term debt, for 2013 and 2014, appropriate?
>
> 5.2 Is the proposed cost and interest rate for long term debt for 2013 and 2014 appropriate?"

6. <u>Cost Allocation</u>

Issue 6.1 is limited to the methodology for cost allocation, which is generally prescribed by the Board. The more important issue, in our submission, is whether the costs allocated are appropriate. SEC therefore proposes the following revised wording:

> "Is the allocation of costs between rate classes for 2013 and 2014, including both the methodology and amounts allocated, appropriate?"

7. <u>Rate Design</u>

No submissions.

8. <u>Deferral and Variance Accounts</u>

Issue 8.3 is limited to new deferral and variance accounts. The Board's normal practice is to review all deferral and variance accounts, so that old ones that are no longer needed can be removed. SEC therefore proposes the following revised wording:

> "Are the deferral and variance accounts proposed for the 2013 and 2014 years, including both existing and proposed new accounts, appropriate?"

9. <u>Modified International Financial Reporting Standards</u>

SEC proposes that the following new issue be added:

> "9.3 Have all impacts of the transition to MIFRS been properly identified, and is the treatment of each of those impacts appropriate?"

10. Smart Meters

No Submissions.

Conclusion

SEC notes that, if the Board accepts our submission that the consideration of 2014 on a cost of service basis should be treated as a threshold issue, certain of the timelines in Procedural Order #1 may no longer be appropriate. However, it would appear to us that, even allowing for interrogatories on that threshold issue, and submissions, the proceeding can still be completed within the current calendar year.

All of which is respectfully submitted.

Yours very truly,
JAY SHEPHERD P. C.

Jay Shepherd

cc: Wayne McNally, SEC (email)
Interested Parties