EB-2012-0033

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 Enersource Hydro Mississauga Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective January 1, 2013 and January 1, 2014.

ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")

ARGUMENT

September 21, 2011

ENERSROUCE HYDRO MISSISSAUGA INC.
2013 & 2014 RATES
EB-2012-0033

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 2013 and 2014 rates for Enersource Hydro Mississauga Inc. ("Enersource") effective January 1, 2013 and January 1, 2014.

This Argument has been structured to reflect the Final Issues List. Where readily available, Energy Probe has attempted to provide the impact of its submissions on the revenue requirement of Enersource Hydro. 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 Enersource Hydro and reviewed by intervenors and Board Staff through the associated draft rate order process.

B - SUBMISSIONS ON ISSUES

1. GENERAL

1.1 Is the proposed approach to set rates for two years appropriate?

The Board outlined its 3rd Generation Incentive Regulation Plan ("3GIRM") for Ontario`s electricity distributors in the *Report of the Board on 3rd Generation Incentive Regulation for Ontario`s Electricity Distributors* dated July 14, 2008 and the *Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario`s Electricity Distributors* dated September 17, 2008. The 3GIRM framework includes a rebasing year in which rates are set based on a cost of service application followed by three years ("IRM term") of rates set using a price cap that reflects both an inflation factor and productivity factors.

The 3GIRM framework included a number of elements that were designed to deal with the needs of distributors in special circumstances that could arise during the IRM term. These elements included an Incremental Capital Module ("ICM") that was meant to address the treatment of incremental capital investments needs that might arise during the IRM term. The framework also included Z factor adjustments and an off ramp provision.

Energy Probe submits that the Enersource proposal is clearly outside the Board's policy framework with respect to their proposal to set 2014 rates. Enersource agreed that their proposal deviated from the 3rd GIRM policy (Tr. Vol. 1, page 41).

Energy Probe further submits that it should be guided by its Decision With Reasons and Order on the Preliminary Issue in EB-2011-0144 dated January 5, 2012 for Toronto Hydro-Electric System Limited. Energy Probe submits that the circumstances between that case and the current Enersource proposal for 2014 rates are very similar.

As the Board noted in the EB-2011-0144 Decision, if a distributor applies using cost of service during the IRM period, it is considered an early rebasing, and a departure from the Board's policy.

Energy Probe submits that the Board should consider the Enersource application for 2014 rates as an early rebasing application. The Enersource proposal has all of the components of a cost of service application for 2014. It reflects changes in rate base for the 2014 test year based on capital additions and depreciation that are forecast for both the test and bridge years. In this instance the bridge year is the first cost of service year, 2013.

All of the elements tied to the change in rate base, including the cost of capital, depreciation and income taxes have been forecast as if they were part of a cost of service application. OM&A forecasts have been forecast to be equal to the forecast for 2013. Revenues for the 2014 test year have been forecast to be equal to those forecast for the previous test year. In other words, all of the elements that would be included in a cost of service application have been included in the 2014 revenue requirement calculation.

The Board also noted in the EB-2011-0144 Decision that panels considering individual rate applications are not bound by the Board's policy and that when justified by specific circumstances they may choose not to apply the policy, or a part of the policy.

Energy Probe submits that the same rationale should be applied to the Enersource request for 2014 rates, even if the Board does not accept the Energy Probe submission that what Enersource has filed is cost of service application for 2014.

In the Board's April 20, 2010 letter regarding *Early Rebasing Applications*, the Board stated that:

> *"A distributor, including the four distributors referred to above, that seeks to have its rates rebased in advance of its next regularly scheduled cost of service proceeding must justify, in its cost of service application, why an early rebasing is required notwithstanding that the "off ramp" conditions have not been met. Specifically, the distributor must clearly demonstrate why and how it cannot adequately manage its resources and financial needs during the remainder of its IRM plan period. Distributors are advised that the panel of the Board hearing the application may consider it appropriate to determine, as a preliminary issue, whether the application for rebasing is justified or whether the application as framed should be dismissed."*

While the above reference was specifically related to early rebasing applications, Energy Probe submits that it should apply equally to the Enersource application because the result is the same. Enersource decided not to follow the Board's 3GIRM policy and given the statement issued above by the Board to all distributors, Energy Probe submits that there is an onus on Enersource to "*clearly demonstrate why and how it cannot adequately manage its resources and financial needs during the remainder of its IRM plan period*".

In the EB-2011-0144 Decision (page 6) the Board also noted that it was for the applicant to determine the form of the application "*in full knowledge of the Board's policy and in full knowledge of the test which must be met in the event the application departs from that policy.*"

Energy Probe submits that Enersource has failed to demonstrate any need to deviate from the Board's 3GIRM policy. With respect to the ability to manage its resources and financial needs during the remainder of the IRM period, Enersource provided no such information. In fact, the evidence in this proceeding is that it would not experience any problems managing its resources and financial needs under IRM (Tr. Vol. 1, pages 42-44).

Enersource has also not provided any evidence of system deterioration. In fact, their evidence is that their service quality indicators are quite good in comparison to other distributors.

Ms. DeJulio indicated that the current environment as described in the application was "*business as usual for Enersource with respect to the required capital expenditures*" and that in their view "*this is probably a good time, during a relatively stable period, to try*

this different approach and see what kind of effects come out of it" (Tr. Vol. 1, pages 51-52).

Energy Probe submits that during a period of business as usual with capital expenditures being flat, in a relatively stable period is not a time to deviate from the 3GIRM policy. In fact, this is exactly the period in which this policy should achieve its maximum results in terms of productivity gains that are to be shared with ratepayers upon rebasing.

The stability of the level of capital expenditures is shown in Table 17.6 on page 129 of Exhibit 2, Tab 2, Schedule 2, Appendix 1. Under IFRS the level of capital expenditures, excluding the approximately $20 million forecast for 2012 associated with the purchase of the Derry Road building, vary from a low of $42,159,000 to a high of $46,209,000. These levels are also considerably lower than the expenditures recorded in both 2009 and 2010 while Enersource was under IRM.

Enersource tries to justify its proposal is fair based on two arguments. The first is the ability to compensate shareholders for investments that are made every year in the system. The second is to mitigate step rate increases for ratepayers.

With respect to the first argument, Energy Probe submits that Enersource already has the ability to compensate its shareholders for investments that are made every year during an IRM term. This ability is called productivity and efficiency improvements. This includes controlling OM&A expenses (discussed elsewhere in this submission), managing financing costs, and spending appropriate amounts of capital that maintain reliability, add customers and reduce maintenance costs by replacing assets nearing the end of life.

Energy Probe submits that the Enersource proposal allows the shareholder to earn the Board allowed return on equity without doing the hard word that needs to be done that will benefit both the shareholders and the ratepayers in the long term through lower cost increases.

In other words, the incentive to achieve productivity and efficiency gains is reduced under the Enersource proposal. Apparently "business as usual" at Enersource also means not striving for changes that would allow the shareholder to earn an appropriate level of compensation under IRM. Energy Probe submits that the Board should send a clear signal to Enersource that business as usual is not a justification for the shareholder to earn an appropriate level of compensation on investments during an IRM term.

The second argument used to justify the proposal is that ratepayers do not like to see small increases over the IRM term followed a large step increase in the rebasing year. Of course, once again, Enersource has failed to provide any evidence to support this view from ratepayers (Tr. Vol. 1, pages 113-115). In fact, Mr. Pastoric indicated that with respect to the customer feedback from their surveys, customers see more from a value point of view rather than a step change in the whole bill.

Energy Probe submits that while rate stability and predictability in increases is important to customers, so is the timing of rate increases. If rates will be at a certain level four years from now under two scenarios, where in one the rate increases are low for three years followed by a larger increase, while in the other the increases are equal in all four years, the question becomes whether consumers would be willing to pay more on a net present value basis, which is what would result from the latter scenario that comes from the Enersource proposal. Energy Probe submits that this is not very likely the desired outcome for ratepayers. It also introduces the always delicate issue of intergenerational inequity by having ratepayers pay more now just to keep the rate increase lower for some year in the future. This is not a cost based approach, nor is it an incentive based approach. It is clearly a shareholder return guarantee approach.

Energy Probe notes that the impact on ratepayers is significant between that proposed by Enersource and what would likely be the outcome under the application of the price cap for 2014 under 3GIRM. As shown in the response to Undertaking J2.1, the 2013 proposed revenue requirement is $131,676,000, while that for the 2014 ICR proposal is $134,983,000. This is an increase of 2.5%. With inflation hovering around the 2% level, the price cap increase for 2014 is likely to be around the same level as that for 2012, or 0.88%. In other words, the Enersource proposal results in an increase of 3 times more than the IRM price cap. In fact, using the 0.41% average used by Enersource in the undertaking response, the increase is 6 times as much as it would be under 3GIRM.

For all of the above reasons Energy Probe submits that the Board should deny the application for the methodology to set 2014 rates as proposed by Enersource.

If the Board accepts some form of the 2014 ICR proposal, Energy Probe submits that the Board should also reflect a higher revenue forecast for 2014, as is illustrated in Undertaking J3.6. The increase in revenues is the result of customer additions in both 2013 and 2014. The customers added in 2013 will generate a full year of revenues in 2014 and the 2014 additions generate revenues for part of the year.

In both cases, these customer additions have costs that are reflected both in the capital expenditures closed to rate base and the resulting revenue requirement calculation for 2014. To include the depreciation and return on capital cost components associated with these customer additions in the revenue requirement, but not reflecting the increase in revenues generated by these same customers would not result, in the view of Energy Probe, in just and reasonable rates.

If the Board approves use of the 2014 ICR model, Energy Probe also submits that the capital expenditures included in rate base in both 2013 and 2014 should only reflect non-discretionary expenditures in both years. This would be consistent with the approach used for the ICM in 3GIRM. The Board's policy states that the ICM model including amounts claimed should be clearly non-discretionary.

In addition, Energy Probe supports the use of an asymmetric variance account on the 2014 property plant and equipment ("PP&E") component of rate base. If the 2014 PP&E component of rate base is higher than that forecast and approved by the Board in this proceeding, Enersource said that they would be willing to take the risk if it were to overspend relative the budget and would not ask to recover those expenditures (or the associated return and depreciation) from ratepayers (Tr. Vol. 1, page 119).

Under further cross-examination, Enersource stated that its' intention is not to over-earn and that if something needs to be reset for what is tracked in the variance account, they would be willing to do that. This was in the context of the questioning of what would happen if the capital expenditures for 2012 and/or 2013 were lower than forecast, resulting in a lower opening rate base in 2014 (Tr. Vol. 1, pages 120-121). The use of an asymmetric variance account around the Board approved PP&E component of rate base for 2014 would protect ratepayers not only from under spending in 2014, but also from under spending in 2012 and 2013. Energy Probe believes that the nature of the 2014 ICR model proposal requires this type of protection for ratepayers.

1.2 What is the appropriate approach to set rates for 2015 and 2016?

Energy Probe submits that the appropriate approach to set rates for 2015 and 2016 is based on the rate adjustments that arise from the Board's 3rd Generation IRM Model. This rate setting model was established as part of the Reports noted in the previous issue.

This was Board's policy and approach that was in place when Enersource applied to the Board to set 2013 rates, and as such, should be used by Enersource to complete the four year cycle of the IRM methodology which should consist of a rebasing year (2013) followed by three years under IRM.

1.3 Has Enersource responded appropriately to all Board directions from previous proceedings?

No outstanding directives arising from previous Board directives have been identified in this proceeding.

1.4 Is service quality acceptable?

Energy Probe makes no submissions on this specific issue.

1.5 Is the proposal to align the rate year with Enersource's fiscal year, and for rates effective January 1, 2013 and January 1, 2014 appropriate?

Energy Probe does not oppose the alignment of the rate year with Enersource's fiscal year effective January 1, 2013.

2. Rate Base

2.1 Is the proposed rate base for 2013 and 2014, including capital expenditures for 2013 and 2014, appropriate?

Energy Probe has no serious issues associated with the capital expenditure forecasts for 2013 and 2014 with the exceptions noted below. As shown on the table provided on page 1 of Exhibit K1.3, net capital additions forecast for both 2013 and 2014 are very comparable to the levels in previous years when adjustments for smart meters and building investments are made and the adjustment from MIFRS to CGAAP is reflected. A number of averages are shown in the table and Enersource agreed that regardless of which average was selected, the averages were all very close to one another (Tr. Vol. 1, pages 92-93). Energy Probe agrees with this assessment. Energy Probe also notes that the composition of projects appears to be relatively constant from one year to another.

However, Energy Probe does have some concerns related to the building investments in 2012, 2013 and 2014. Energy Probe did have the opportunity to review a draft of the submissions of the School Energy Coalition in respect of this matter and supports those submissions.

Energy Probe also has concerns with the level of customer contributions forecast for 2012, 2013 and 2014 in the three areas of industrial and commercial services, new subdivisions and road projects, as identified in Exhibit I, Issue 2.1, Energy Probe IR#3.

In particular, Energy Probe submits that the total customer contributions in these three areas of $2.8 million for each of 2012, 2013 and 2014 are understated. Based on the analysis presented on page 16 of Exhibit K1.3, the forecast for 2012 would be $3.416 million in 2012, $3.103 million in 2013 and $3.060 million in 2014. This analysis, replicated below, is based on using the average capital contributions as a percentage of the gross capital expenditures in these three areas over the historical period 2007 through 2011. As noted earlier, the capital additions to rate base have been relatively flat over this period and the forecast period of 2012 through 2014.

TABLE 1 - CUSTOMER CONTRIBUTIONS

(Source: Issue 2.1, Energy Probe #3)

						Total	Fcst	Fcst	Fcst
Capital Expenditures	2007	2008	2009	2010	2011	2007 - 2011	2012	2013	2014
Ind & Com Services	5,897	4,729	5,634	3,372	3,452	23,084	2,926	2,560	2,560
New Subdivisions	9,029	3,761	(4,461)	12,083	3,331	23,743	2,443	2,247	2,247
Road Projects	1,446	3,171	1,589	3,601	2,457	12,264	1,776	1,687	1,599
Aid to Construction									
Ind & Com Services	751	2,548	3,162	3,112	1,911	11,484	1,600	1,600	1,600
New Subdivisions	8,826	1,980	(5,279)	4,082	933	10,542	600	600	600
Road Projects	370	2,388	533	1,289	1,466	6,046	600	600	600
							2,800	2,800	2,800
Ratio									
Ind & Com Services	12.7%	53.9%	56.1%	92.3%	55.4%	49.7%	54.7%	62.5%	62.5%
New Subdivisions	97.8%	52.6%	118.3%	33.8%	28.0%	44.4%	24.6%	26.7%	26.7%
Road Projects	25.6%	75.3%	33.5%	35.8%	59.7%	49.3%	33.8%	35.6%	37.5%
Using 2007-2011 Averages									
Ind & Com Services						49.7%	1,456	1,274	1,274
New Subdivisions						44.4%	1,085	998	998
Road Projects						49.3%	876	832	788
							3,416	3,103	3,060

Energy Probe submits that the Enersource evidence on this issue is not credible. Mr. Macumber indicated that the way their contributions work is that they perform the economic evaluation and it depends on the type of customer that is coming (Tr. Vol. 1, page 106). However, as their evidence indicates, Enersource is forecasting the same level of contributions for each of the three categories despite changes in the level of capital expenditures for these categories of investment in each year. In other words there does not appear to be a link to project specific costs and contributions or any link between the total expenditures in each category and the forecast of contributions.

Based on the figures provided above, the impact on rate base of the Energy Probe analysis on customer contributions is a reduction in rate base in 2013 of approximately $750,000 and in 2014 of just over $1 million.

2.2 Is the proposed Working Capital Allowance for 2013 and 2014 appropriate?

Enersource is proposing using a working capital allowance based on a percentage of 13.5% of OM&A expenses and the cost of power (Exhibit 2, Tab 1, Schedule 4). The 13.5% has been estimated based on the study filed in Exhibit 2, Tab 1, Schedule 4, Appendix 1. Energy Probe accepts the results of that study with one key exception related to the calculation of the service lag.

Enersource has calculated the service lag using customer weights rather than revenue weights. A weighting is required because Enersource bills residential customers on a bi-monthly basis and all other customers on a monthly basis. The weight is shown in Table 2 of the study. The mid-point of the bi-monthly meter reads is 30.42 days and is assigned a weight of 89.04% and the mid-point of the monthly meter reads is 15.21 days and is assigned a weight of 10.96%. This results in weighted service lag of 28.75 days.

Energy Probe agrees with the mid-point figures of 30.42 days and 15.21 days, but submits that the customer weighting is not appropriate.

Enersource agreed that the working capital allowance represents the estimated cash flow required by the distributor to be paid in advance of recovery (Tr. Vol. 3, pages 47-48).

Energy Probe submits that a service lag based on customer weights cannot reflect cash flow, whereas a service lag based on revenue (or dollar) weights does reflect cash flow.

Consider the following simple example where a distributor has 1,000 customers that are billed bi-monthly and 1 customer that is billed monthly. The average bill for the bi-monthly customers is $1, while the average bill for the monthly customer is $1,000. Assuming that the billing, collection and payment processing lags are the same for both groups of customers, and for mathematical simplicity are 0 days, the distributor will receive $1,000 after 15.21 days from the monthly customer and another $1,000 after 30.42 days from the bi-monthly customers. On average the distributor receives their money 22.8 days after providing service, which is the dollar weighted average of 15.21 and 30.24 days.

Using customer weights in this example, produces a lag of 30.4 days. Yet, as the example shows, the distributor received half of the money after only 15.21 days and will get the remaining half 0.02 days after this weighted lag.

If the situation was reversed, and the 1,000 customers were billed monthly and the 1 customer was billed bi-monthly, there would be change in when the distributor received its money. They would still receive $1,000 after 15.21 days and the other $1,000 after 30.42 days, albeit from different customers at the different times. However, their cash flow would not change. Under the customer weighted methodology, the weighted service lag would be 15.23 days. Clearly this is not reflective of what is actually taking place in that the distributor received half of the money after 15.21 days and will have to wait another 15.21 days to get the other half.

Energy Probe notes that Enersource agrees that the billing and payment processing lags are the same for customers that are billed monthly and bi-monthly and indicated that it had no evidence of any difference in the collection lags for these customers (Exhibit I, Issue 2.2, Energy Probe IR#2).

Using the 2010 revenue data in Table 4 of Exhibit 2, Tab 1, Schedule 4, Appendix 1, the revenue weighting for the bi-monthly customers would be 23.52% and 76.48% for the monthly customers. This would reduce the service lag from 28.75 days to 18.79 days. This is a significant impact and has a significant impact on the working capital requirements of the company.

The reduction in the service lag by 9.96 days reduces the total revenue lag by the same amount, from 72.40 days to 62.44 days. This reduction in turn reduces the net lead days shown in Table 19 of Exhibit 2, Tab 1, Schedule 4, Appendix 1 by the same amount.

The net result is a reduction in the working capital percentage from 13.5% to 10.4%. This calculation is shown in Table 2, which is revised version of Table 19 from Exhibit 2, Tab 1, Schedule 4, Appendix 1 with the revenue lag reduced by 9.96 days to reflect a dollar weighted service lag in place of the customer weighted service lag.

Table 2 - Revised Dollar Weighted Service Lag

	Revenue Lag days	Expense Lead Days	Net Lead Days	Test Year 2010	Amounts Required ($)
EXPENSES					
Cost of Power	62.44	32.65	29.79	598,063,000	48,811,772
OM&A Expenses	62.44	9.73	52.71	44,357,000	6,405,637
Interest on LT Debt	62.44	-14.88	77.32	18,241,000	3,864,093
Debt Retirement Charge	62.44	32.61	29.83	55,200,000	4,511,277
Income Tax	62.44	15.05	47.39	9,811,000	1,273,817
Total				725,672,000	64,866,596
HST				3,514,150	1,902,022
				729,186,150	66,768,618
Cash Working Capital as a % of Cost of Power and OM&A					10.4%

Energy Probe has no issues with any of the expense lead calculations or the other revenue lag components.

Energy Probe submits that the service lag should reflect cash flow. This requires the service lag to be based on a dollar weighting, not a customer weighting. Energy Probe notes that Enersource has used dollar weights for the other components of the revenue lag, being the billing lag, collection lag and payment processing lag.

As a result, Energy Probe submits that the working capital allowance should be reduced to 10.4%, which is a more accurate reflection of cash flow requirements than the 13.5% proposed by Enersource. Applying this reduction to the $794 million cost of power and OM&A expenses would reduce rate base by about $24.6 million and the cost of capital by about $1.6 million before factoring in the reduction in the gross deficiency due to PILs.

Energy Probe notes that Enersource provided an update to the lead/lag study in the response to Exhibit I, Issue 2.2, Board Staff IR#14 that resulted in a working capital percentage of 17.1%. However, Energy Probe would like to point out that this update was based on actual data for 2010 and that the driver behind the increase to 17.1% is an increase in the collection lag from 29.12 days to 42.53 days. In the absence of this increase in the collection lag, the working capital requirement percentage would actually decline from 13.5% in the original study to approximately 13.1% in the updated study, as illustrated in Table 3 below.

This table is a revised version of Table 19 in the Attachment to Exhibit I, Issue 2.2, Board Staff IR#14 with the collection lag maintained at the figure from the original study of 29.12 days instead of being increased to 42.53 days.

Table 3 - Updated Study with Collection Lag Unchanged

	Revenue Lag days	Expense Lead Days	Net Lead Days	Test Year 2013	Amounts Required ($)
EXPENSES					
Cost of Power	70.74	32.81	37.93	733,280,000	76,200,850
OM&A Expenses	70.74	8.75	61.99	61,099,000	10,376,786
Interest on LT Debt	70.74	28.00	42.74	16,453,000	1,926,579
Debt Retirement Charge	70.74	33.75	36.99	53,890,000	5,461,345
Income Tax	70.74	4.71	66.03	2,981,000	539,275
Total				867,703,000	94,504,836
HST				9,990,420	9,585,987
				877,693,420	104,090,823
Cash Working Capital as a % of Cost of Power and OM&A					13.1%

Energy Probe further notes that Enersource changed the aging categories in the response to the Board Staff interrogatory from that used in the original evidence. In particular, and having the biggest impact on the increase in the collection days, Enersource reduced the number of days in the final aging categories from accounts that were overdue by more than 137 days to 121 days. The contribution of this component increased from 2.82 days to 19.70 days, accounting for more than all of the increase in the overall collection lag. Enersource provided no evidence in support of the change.

In the original evidence Enersource noted that over-due accounts greater than 365 days are considered write-off accounts. In the response to Board Staff #14, Enersource says that over-due accounts greater than 121 days are considered write-off accounts. Again, Enersource provided no evidence to support this significant change.

As well, Enersource justified additional OM&A expenditures related to a new accounts receivable manager and the selection of two third party collection agencies (Exhibit 4, Tab 1, Schedule 3, page 13). This new position and the new collection agencies came on stream in 2011 (Tr. Vol. 3, pages 52-53). As a result the response to the Board Staff interrogatory, which was based on 2010 data, would not have reflected the impact of these additional expenditures which would be expected to reduce the length of the age of the collectables, along with a reduction in level of bad debt.

Based on the above, Energy Probe submits that the response to Board Staff IR#14 should be given little, if any, weight. Significant changes were not supported by any evidence; nor do they reflect the additional expenditures that Enersource has incurred beginning in 2011 to reduce the level of uncollectable amounts. If the additional cost has been money well spent, the collection lag will have been reduced.

Energy Probe also notes that if the customer weighted service lag is replaced with the more relevant and appropriate dollar weighted service lag, the 13.1% shown in Table 3 falls to 10.4%, the same result as noted above based on the original study.

Energy Probe submits that the evidence does not support a working capital allowance percentage in excess of the default value of 13% that the Board established in its April 12, 2012 letter *Update to Chapter 2 of the Filing Requirements for Transmission and Distribution Applications - Allowance for Working Capital*. As noted above, Energy Probe believes that a percentage of 10.4% is appropriate as it reflects the evidence and a properly weighted service lag. However, should the Board have concerns over the methodology of either the Enersource study or the modifications submitted by Energy Probe, then it is submitted that the default value of 13.0% should be used.

It is submitted that Enersource should adjust the calculation of the working capital allowance to reflect any changes to the load forecast and/or any changes to the OM&A expense forecast based on the Board approved figures.

Finally, Energy Probe submits that the Board should direct Enersource to investigate the additional costs and working capital allowance reduction that would follow from Enersource moving from bi-monthly to monthly billing of its residential customers and report the results as part of its next cost of service application. As shown in the response to Exhibit I, Issue 2.2, Energy Probe #2h, the working capital allowance percentage would drop from 13.5% to 9.3% if Enersource went to monthly billing for its residential customers. This would reduce rate base by approximately $33 million (based on a differential of 4.2% applied to $794 million in cost of power and OM&A costs), with a corresponding reduction in the revenue requirement of more than $2 million before the adjustment for PILs. If the additional costs of billing monthly as compared to bi-monthly are less than this amount, then this could be a win-win situation for both the distributor and its ratepayers. The costs incurred by ratepayers would be reduced and the cash flow for the distributor would be enhanced.

2.3 Is the proposed Green Energy Act Plan appropriate?

Energy Probe makes no submissions on this specific issue.

2.4 Is the capitalization policy and allocation procedure for 2013 and 2014 appropriate?

Energy Probe has no issues with the capitalization policy and allocation procedure for 2013 and 2014. However, Energy Probe does take issue with the level of capitalization as forecast by Enersource in the test year. This issue is dealt with below under Issue 4.1 dealing with the level of OM&A.

3. Operating Revenue

3.1 Is the proposed load forecast for 2013 and 2014, including billing determinants, appropriate?

Load Forecast

The Enersource load forecast is based on one equation for the purchased volumes. This equation is shown in Attachment A to Exhibit 3, Tab 1, Schedule 2. This equation assigns a negative coefficient to the population variable which is conceptually counter-intuitive as it implies that the load decreases as the population increases.

There is a positive correlation between total system load and population (Undertaking J3.4), yet the coefficient on the population variable is negative. This is because of the inclusion of a trend variable in the equation that is highly correlated with the population variable. The level of correlation is 98.7% (Undertaking J3.3). This results in a problem with multicollinearity in the estimated equation and results in a negative coefficient on the population variable, even though it is positively correlated with the total system load.

Despite the counter-intuitive sign on the population variable, Enersource continues to support their methodology because it has produced energy consumption forecasts within 1.7% to weather-corrected energy purchases (Undertaking J3.4).

Energy Probe submits that the load forecast (purchases) should be based on the equation found in the response to Exhibit I, Issue 3.1, Board Staff IR#25d. This equation removes the population variable. Two of the remaining coefficients are no longer statistically significant at the 95% level of confidence, but they are still statistically significant at a high level of confidence. The build up variable is significant at a level of confidence of 94.81% and the temperature cubed variable is significant at a 88.65% level of confidence. Both of these figures can be derived from the attachment to the response to the Staff interrogatory.

Enersource notes these changes and further notes that the adjusted r-squared measure of goodness of fit declines from 0.987 to 0.985, while the mean absolute percent error increases from 0.86% to 0.90%. Energy Probe notes that these are tiny changes and would disappear if the results were shown with one less decimal place.

Energy Probe notes that the Board has dealt with a very similar situation in another proceeding. In the EB-2009-0259 proceeding, Burlington Hydro Inc. used a regression model that assigned a negative coefficient to the number of customers. When the number of customers variable was replaced by a population variable, the regression model produced a negative coefficient on the population variable. In both cases, the coefficients were counter-intuitive.

In the Decision and Order dated March 1, 2010, the Board noted the following:

> *"However, with respect to the regression model, Energy Probe submitted that Burlington put too much significance on the comparison of the R2 statistics across different versions of the model. Energy Probe maintained that a good fit is important but irrelevant if some of the estimated coefficients have incorrect signs. Energy Probe concluded that the forecast should be based on the equation that excludes both number of customers and population as variables, noting that the remaining coefficients have signs that are expected*

and are statistically significant and therefore there is a high level of confidence in the result. Energy Probe proposed that the load forecast should be 1,703 GWh on a billed basis." (page 5)

Energy Probe makes the same submissions in this case. Enersource has put too much significance on the R-squared statistics across equations but has ignored the fact that some equations have the wrong sign.

In the EB-2009-0259 proceeding, the Board found the following:

"With respect to the load forecast methodology, the Board will adopt the proposal of Energy Probe.

The Board agrees with Board staff and intervenors that a regression analysis which includes coefficients with counter-intuitive signs is not sufficiently robust to use for purposes of deriving rates. While Burlington maintains its weather adjusted 2009 results are very close to its model-derived forecast, Burlington's weather adjustment factor was chosen from amongst a set of adjustment factors derived from predicted historical values. There is little to substantiate the choice of adjustment factor and the Board concludes that the analysis does not support a conclusion that the proposed forecast is reasonable." (page 7)

Energy Probe submits that the Board should come to the same finding in this proceeding. As shown in the response to Board Staff IR#25d, the increase in the load forecast of using the equation that excludes the population variable is 30,207 MWh. This increase translates into an increase in the revenue forecast of roughly $300,000.

In addition to the above, Energy Probe has a number of concerns related to the methodologies used by Enersource, many of which were not identified in the evidence or interrogatory responses. In many cases it was not until the conclusion of the technical conference that some of the differences in the methodologies used by Enersource as compared to other distributors were known. These differences include using medians instead of means for the degree day explanatory variables, using a 10 degree day base for heating degrees rather than the industry standard 18, and calculating degree days using a different methodology than that used by Environment Canada. As a result, there is no evidence on the record to indicate whether any of these differences result in a significant difference to the forecast than would the standard methodologies and Energy Probe is not able to assess the methodologies used and to compare them to the standard practices of other distributors.

Energy Prove submits that the Board should direct Enersource, in its next cost of service filing, to clearly identify all assumptions and methodologies used in load forecasting. This would include the provision of live Excel spreadsheets that would include all the data used as part of the original evidence.

There is one area, however, where Energy Probe believes a change is warranted. This deals with the timeframe used to calculate normal degree days. Enersource is using the median of 31 years of historical data. Energy Probe submits that this is not appropriate, as it is likely to minimize any changes due to the warming trend that has taken place, especially in the last decade. Since Enersource is a summer peaking utility the warming trend will result in an increased throughput. As shown in the load forecast equation proposed by Enersource, and in the replacement equation recommended by Energy Probe in the Board Staff interrogatory, the coefficient on cooling degree days is larger than that on heating degree days. This means that for every one additional cooling degree day more throughput is added than for the corresponding decrease of one hearing degree day.

The use of the median over the last 11 year historical period is more comparable to the time horizon used by most other electricity distributors and is more likely to represent a reasonable forecast of normal weather. The use of the 31 year period underestimates any warming trend that may be taking place, and results in an under forecast of energy consumption. The impact on the revenue requirement was estimated by Enersource to be a reduction in the deficiency of about $400,000 if the median of the last 11 years was used in place of the last 31 years (Exhibit I, Issue 3.1, Energy Probe IR#6c).

CDM Adjustment

Energy Probe relies on the analysis of VECC related to the adjustments made to the forecast for CDM.

Demand Forecast

Energy Probe accepts and supports the removal of the 80,000 kW adjustment that was removed as a result of the August 23, 2012 filing. Mr. Bonadie indicated that the removal of this downward adjustment in the demand forecast results in a reduction in the revenue deficiency of approximately $350,000 (Tr. Vol. 3, page 51). Energy Probe submits that this estimate is accurate and should be accepted by the Board.

Energy Probe further submits that the demand forecast should be calculated using the kW to kWh ratios rather than the load factor approach used by Enersource. The use of the kW to kWh ratios has been used by virtually all of the other distributors in Ontario and the methodology is well understood and has been accepted by the Board in numerous proceedings.

The figures provided in the response to Exhibit I, Issue 3.1, Energy Probe IR#10 are annual figures. The load factors shown on page 2 of that response were reflected on page 4 of the response to show the calculation of the kW demand billing determinants. The footnote indicated that the difference from that forecast and that included in the demand forecast were due to rounding of the load factors.

As became evident during cross examination (Tr. Vol. 3, pages 122-125), Enersource did not provide the actual data used to calculate the load factors. This actual data was based on a monthly data, not annual data, as the interrogatory response lead parties to believe. As a result, intervenors did not have the opportunity to review the methodology using the data that Enersource was actually using. Energy Probe, therefore, is not in a position to support the demand forecast as presented by Enersource.

However, the information needed to use the kW to kWh ratio, as approved by the Board and used by other distributors over the last several years, is on the record in the response to the Energy Probe interrogatory noted above. The following table takes the 2007 through 2011 historical data for metered kWh's and kW's and calculates the ratio and then applies the average of these ratios to the forecasted energy (with line losses removed) from the same interrogatory response. This difference is then multiplied by the current 2012 charge per kW.

TABLE 4 - REVISED DEMAND FORECAST

(Source: Exhibit I, Issue 3.1, Energy Probe IR # 10)

Year	GS 50-499	GS 499-5000	Large User	SL	Total
		Metered kWh			
2007	2,295,138,843	2,418,440,232	1,016,874,990	38,604,861	
2008	2,248,327,551	2,301,035,852	1,055,880,062	39,292,319	
2009	2,112,001,401	2,173,434,670	1,009,596,919	39,271,032	
2010	2,130,676,736	2,207,078,156	1,072,366,029	39,595,309	
2011	2,132,641,331	2,169,087,426	1,038,245,079	39,839,581	
Total	10,918,785,862	11,269,076,336	5,192,963,079	196,603,102	
		Demand (kW)			
2007	6,487,946	5,400,270	1,747,676	109,052	
2008	6,355,155	5,277,864	1,842,419	109,605	
2009	6,352,348	5,081,457	1,800,927	110,507	
2010	6,303,886	5,084,891	1,831,545	111,465	
2011	6,265,460	4,997,505	1,837,737	112,096	
Total	31,764,795	25,841,987	9,060,304	552,725	
		kW/kWh Ratio			
2007	0.002826821	0.002232956	0.001718673	0.002824826	
2008	0.002826614	0.002293690	0.001744913	0.002789476	
2009	0.003007739	0.002337985	0.001783808	0.002813957	
2010	0.002958631	0.002303902	0.001707948	0.002815106	
2011	0.002937887	0.002303967	0.001770042	0.002813684	
Average	0.002911538	0.002294500	0.001745077	0.002811410	
		Forecasted Energy			
2013	2,139,657,427	2,249,538,514	997,124,443	19,019,721	
Billing Demand – Fcst	6,229,695	5,161,566	1,740,059	53,472	
Billing Demand - EHM (1)	6,222,022	5,154,338	1,737,267	49,889	
Difference	7,673	7,228	2,792	3,583	
Current Rates	4.2044	2.0981	2.9225	10.2587	
Change In Revenue	32,259	15,165	8,159	36,759	92,342

(1) - Includes 80,000 kW Adjustment from August 23, 2012 update

As shown in Table 4 above, the result is an increase in demand revenues of nearly $100,000. Energy Probe submits that this is an appropriate increase to the forecast provided by Enersource. It is based on a methodology that has been used and approved by the Board in numerous rate proceedings, while the monthly data used by Enersource was not available for discovery by intervenors or the Board.

3.2 Is the proposed forecast of other regulated rates and charges for 2013 and 2014 appropriate?

Energy Probe submits that the revenue forecast from a number of line items for 2013 have been under forecast. In aggregate, these items total a revenue increase of approximately $500,000. Each of these line items is described below, along with the increase in revenue as proposed by Energy Probe.

Interest Revenue - Enersource is forecasting interest revenue of $50,207 in the 2013 test year, a decline from $377,164 forecast for 2012 and actual interest of $735,310 in 2011 (Exhibit 3, Tab 3, Schedule 1, Appendix 2). This decline is explained in Table 3 of Exhibit 3, Tab 3, Schedule 1 is the result of a significant decline in average cash balances, partially offset by an increase in the interest rate. However, as shown in Exhibit I, Issue 3.2, Energy Probe IR#1, interest revenue for the year-to-date period ending in June 2012 is $478,000 and is already higher than the forecast for the entire year. Further, the year-to-date June interest revenue in 2012 is running about 80% higher than the interest revenue in the same period in 2011, when the interest revenue totalled $735,310. In other words, there is no evidence to suggest that the average cash balance has been reduced significantly from that in 2011. Given this impact in the bridge year, Energy Probe submits that the 2013 forecast should not be accepted as being reasonable.

If the Board simply doubled the actual revenue received in the first half of 2012, this would result in more than $950,000 in interest revenue in the 2012 bridge year. Assuming that the average cash balance is then reduced by 50% in 2013 rather than as forecast in 2012 (which has not happened) and assuming no change in the average interest rate, the interest revenue in 2013 would be approximately $475,000. This is an increase of $425,000 over that forecast by Enersource. Energy Probe submits that the forecast of $475,000 is reasonable, given the levels recorded in the first half of 2012 relative to the forecast.

Specific Service Charges - As shown in the response to Exhibit I, Issue 3.2, Energy Probe IR#3, Enersource is forecasting a decline in account 4235 from $657,994 in 2011 to $631,900 in 2012, with a small increase to $635,150 for 2013. However, on a year-to-date basis for June, 2012, revenues in this account are actually a little above the revenues for the corresponding period in 2011.

Energy Probe submits that the 2011 actual revenue of $657,994 is an appropriate forecast for the 2012 bridge year, and that rather than a small increase in 2013, this figure should also be used for 2013. Revenues in this account have been relatively flat with small increases shown for several of the years of historical data. Increasing the forecast to $658,000, results in a net increase of $23,000 in this account.

Pole Rental - As shown in Exhibit I, Issue 3.2, Energy Probe IR#3, Enersource is forecasting a decline in account 4210 between 2011 and 2012, followed by a small increase in 2013. Revenues in this account have increased steadily between 2008 and 2011. On a year-to-date basis for June, 2012, actual revenues are nearly $20,000 ahead of the pace recorded in 2011. Despite this, Enersource is forecasting a decline in 2012 revenues of more than $10,000 for the 2012 bridge year. Energy Probe submits that the evidence does not support this decline. Pole rental revenue should be consistent month to month. As a result, Energy Probe submits that an appropriate pole rental revenue forecast for 2012 is double the amount recorded in the first six months of the year, or $568,000. Energy Probe further submits that this is an appropriate forecast for the 2013 test year, even though the test year is likely to see additional growth in revenues, continuing the trend shown between 2008 and 2011. The test year forecast of $568,000 is an increase of $36,000 from that forecast by Enersource.

SSS Administration Charge - The number of transactions shown on Exhibit 3, Tab 3, Schedule 1, Appendix 1 for 2013 (2,143,856) are not consistent with the average number of SSS customers shown in Exhibit 3, Tab 3, Schedule 1, Appendix 3 of 183,485. Taking this figure and multiplying by 12 results in a figure of 2,201,820. Application of the $0.25 per month charge results in a revenue projection of $550,455, which is an increase of approximately $15,000 from that forecast by Enersource.

On an Envelope Approach, as shown in the response to Exhibit I, Issue 3.2, Energy Probe IR#3, Enersource is forecasting a reduction in total other revenue of more than $427,000 in 2012 as compared to 2011, followed by a further reduction of more than $348,000 in 2013. Energy Probe submits that these reductions are not supported by the evidence. As shown in the interrogatory response, June 2012 year-to-date actual revenues are more than $112,000 above revenues in the corresponding period in 2011.

In other words, revenues are actually higher in 2012 than in 2011, not lower, as forecast by Enersource. On an annualized basis, 2012 total other revenues are projected to be $5,840,000 (2,784,792 / 2,672,687 x 5,605,397). This is an increase of more than $660,000 from the level forecast by Enersource for the bridge year. If this differential is applied to the 2013 test year, and even with acceptance of the forecast of a decline between 2012 and 2013, the overall impact is an increase in 2013 for other revenue of $660,000, which is higher than the individual line items noted above.

4. Operating Costs

4.1 Is the proposed 2013 and 2014 OM&A forecast appropriate?

Enersource is forecast total OM&A costs in the 2013 test year of $61,011, as shown in Undertaking JT2.11. This is an increase of 50.7% over the amount approved by the Board that was included in the 2008 revenue requirement. This represents an annual compound increase of more than 8.2% per year between 2008 and 2013. On an actual basis, the increase between 2008 and 2013 is 68.8%, or 11.0% per year on a compound annual basis.

Embedded within this increase are changes related to the IFRS overhead burdens which can no longer be capitalized, smart metering costs and costs associated with the asset management plan initiative and the new administration building.

Envelope Approach

Energy Probe submits that the increase in OM&A needs to be looked at in three components. The first deals with the normal expenses that the utility has incurred on an ongoing basis. The second is the cost associated with new or incremental costs that were not incurred or forecast to be incurred in 2008, the last time rates were set on a cost of service basis. The third component is the impact of the change to IFRS.

Table 5 below shows the components of the increase in OM&A and is consistent with the data provided in Undertaking JT2.11. Bad debt has been moved from the Other Key Drivers section to the Business Unit section, as bad debt is an ongoing expense of the distributor.

TABLE 5 - OM&A COSTS (000's $'s)

SOURCE: UNDERTAKING JT2.11

Business Unit or Key Driver	2008	2008	2009	2010	2011	2012	2013
					MIFRS	MIFRS	MIFRS
Business Unit	**Rates**	**Actual**	**Actual**	**Actual**	**Actual**	**Forecast**	**Forecast**
Health Safety & Security	654	597	606	580	676	821	846
Customer Care	7,639	6,653	7,365	8,318	8,014	8,901	8,975
Engineering & Operations	9,435	8,517	11,399	11,821	12,229	13,062	13,923
Metering	980	662	707	714	1,544	1,721	1,632
Exec. Admin & Corp. Allocation	9,980	9,921	10,664	10,823	11,171	11,785	12,574
ISTS	5,457	4,477	4,971	5,862	6,279	7,559	8,227
Regulatory Affairs	1,074	898	1,053	1,215	1,340	1,473	1,518
Facilities Management	1,488	1,378	1,157	811	991	1,420	1,377
Bad Debt Expense	1,575	1,270	1,253	2,802	3,706	3,600	3,550
Other Expenses	2,194	1,767	2,681	1,734	1,437	1,876	1,904
SUB-TOTAL	**40,476**	**36,140**	**41,856**	**44,680**	**47,387**	**52,218**	**54,526**
Other Key Drivers							
Asset Mgmt Plan Initiative	0	0	0	0	120	287	1,153
New Admin Building	0	0	0	0	0	847	1,668
One-Time Costs	0	0	0	0	0	0	251
Removal of IMS Costs	0	0	0	0	0	0	(88)
Smart Metering Costs	0	0	0	0	0	0	727
SUB-TOTAL	**0**	**0**	**0**	**0**	**120**	**1,134**	**3,711**
TOTAL OPERATING COSTS - CGAAP	**40,476**	**36,140**	**41,856**	**44,680**	**47,507**	**53,352**	**58,237**
IFRS Overhead Burdens	0	0	0	0	2,525	3,022	2,774
TOTAL OPERATING COSTS - MIFRS	**40,476**	**36,140**	**41,856**	**44,680**	**50,032**	**56,374**	**61,011**

Table 5 illustrates that on a CGAAP basis, Enersource is forecasting OM&A costs for the 2013 test year of $58,237,000. This is an increase of just under 44% from the Board approved costs for 2008, which translates into an annual compound increase in costs of 7.5% per year. Energy Probe submits that this reflects a lack of spending discipline under IRM. Enersource has apparently not achieved any sustainable productivity or efficiency gains related to OM&A expenses.

Enersource has not indicated that there were any special circumstances that would have resulted in high levels of OM&A expenses either during the IRM term or the bridge and test years. In fact, Enersource has reported good service quality indicators on a consistent basis (Exhibit 2, Tab 3, Schedule 1).

Energy Probe submits that if Enersource is able to significantly increase its required OM&A upon rebasing, there will be no efficiency gains or benefits of IRM to ratepayers. Enersource has failed to deliver these benefits to its customers based on their forecast.

Energy Probe submits that the Board should consider the forecast increase for Enersource in light of the EB-2011-0054 Decision and Order, as corrected December 30, 2011, for Hydro Ottawa Limited for rates effective January 1, 2012. In that proceeding, the Board stated that "*it considers the comparisons to other proceedings to be informative and in some instances where a record is lacking in detail it becomes a very important element to consider*" (page 13). The Board went on to state that it was able to base its determinations primarily on the record before it in that proceeding and found that Hydro Ottawa had provided sound rationale for most of its requirements.

Energy Probe notes that Hydro Ottawa was included in the CLD Cohort and is included in the Proxy Cohort as described in Enersource's Shareholder Agreement (Exhibit K1.1) that Enersource compared itself to. As such, a comparison to what the Board approved for Hydro Ottawa is appropriate.

In the EB-2011-0054 proceeding Hydro Ottawa asked for a test year (2012) OM&A increase that was 15.5% above the Board approved 2008 level, or an effective annual compound increase of 3.7% per year. As noted above, Enersource is asking the Board to approve an increase of nearly 44%, or 7.5% on an annualized basis between the Board approved 2008 level and the 2013 test year forecast. All of these figures are on a CGAAP basis.

At pages 13 and 14 of the EB-2011-0054 Decision, the Board stated:

> *"Compensation is an area of specific concern to the Board. The Board notes Hydro Ottawa's compensation costs are based largely on negotiated settlements with its unionized workforce. The Board further notes that that the management compensation increases are tracking upward at the same pace as those settled on in negotiated settlements. These increased costs have been incurred at a time when compensation related benefit costs of various types have also increased. The Board recognizes that these particular benefit costs may not be under complete management control but the same cannot be said for the cost increases incurred in direct salaries to the management group nor the costs that are a result of the negotiations with the unionized*

employee group. It is the Board's expectation that costs be contained as a whole and where there is little the company can do to control costs in some areas it must make up for it in areas where it does have control. There does not appear to be an attempt at this overall control approach given the direct compensation increases that are planned.

The Board will therefore provide for a level of revenue utilizing an envelope approach. Given some growth in the customer forecast, an identified need for some additional staff and increases in compensation, the Board has determined that the forecast OM&A envelope will be $61.1 M. This is based on a 2.5% year over year escalation of 2008 approved levels.

The Board will not direct specific spending cuts, as these are matters for Hydro Ottawa to manage within the spending envelope approved by the Board. The Board expects that Hydro Ottawa will be able to prioritize its business activities and implement planned projects within the envelope approved. The Board notes that Hydro Ottawa has demonstrated its focus on customer care and many of its spending programs are designed to improve customer value. The Board's establishment of an allowance cap that is less than proposed is intended to adjust the pace at which the these improvements occur to a rate that it considers more appropriate in the context of avoiding adverse rate impacts."

Energy Probe submits that the underlying rationale for the Board Decision in EB-2011-0054 is equally applicable to Enersource in this proceeding.

Compensation increases at Enersource have been similar to those at Hydro Ottawa at 3% per year or more. Compensation related benefit costs have also increased. Energy Probe agrees with and endorses the Board's expectations, as expressed in the Hydro Ottawa Decision, that costs should be contained as a whole and where there is little that a distributor can do to control costs in some areas it must make up for it in areas where it does have control. It is the submission of Energy Probe that Enersource, like Hydro Ottawa, has not made an attempt at this overall cost control given the direct compensation increases that are planned.

Energy Probe notes that in the Hydro Ottawa Decision, the 2.5% year over year escalation of 2008 Board approved OM&A expenses was related in part to growth in the customer forecast. Energy Probe notes that the customer growth (excluding USL and street lighting connections) for Ottawa Hydro averaged approximately 1.7% per year, while the growth for Enersource is lower, averaging 1.5% over the 2008 through 2013 period (Exhibit 3, Tab 1, Schedule 2, Attachment 6).

Energy Probe also notes that the inflation environment has not changed since the Board Decision in the Hydro Ottawa case.

Energy Probe notes that the 2.5% annual increase that the Board determined was reasonable for Hydro Ottawa is also reasonable for Enersource. As shown in Table 6 below, on a year-to-date basis for June, 2012, total OM&A costs have increased by only 1.9% over the corresponding period in 2011. This is despite an increase forecast for 2012 on an increase of 12.7% over the 2011 level (both on a MIFRS basis).

TABLE 6 - YEAR-TO-DATE OM&A (000's $'s)

Business Unit	YTD JUNE 2011	YTD JUNE 2012	Exhibit I Source
Health Safety & Security	348	275	Issue 4.1, EP#2
Customer Care	3,949	3,740	Issue 4.1, EP#4
Engineering & Operations	6,976	7,540	Issue 4.1, EP#6
Metering	562	696	Issue 4.1, EP#8
Exec. Admin & Corp. Allocation	4,707	4,640	Issue 4.4, EP#4
ISTS	3,186	3,514	Issue 4.1, EP#10
Regulatory Affairs	628	734	Issue 4.1, EP#11
Facilities Management	777	646	Issue 4.1, EP#12
Bad Debt Expense	2,047	1,586	Issue 4.1, EP#5
Other Expenses	444	705	Issue 4.1, EP#14
Total	23,624	24,076	
% Change		1.9%	

In light of all of the above, Energy Probe submits that the 2013 forecast of OM&A business unit expenses based on CGAAP should be reduced from $54,526,000 as forecast by Enersource to $45,795,000. This is a reduction of $8,731,000 and reflects an annual increase of 2.5% per year from the Board approved figure of $40,476,000 for 2008.

With respect to the Other Key Drivers shown in Table 5 above, Energy Probe has no issues with the additional costs shown in this section, other than to note that while smart metering costs are new in 2013, the 2008 Board approved figures would have included costs associated with conventional meters and that these costs no longer exist in 2013. Similarly, the costs associated with the new administration building are shown as new, there should be a reduction in the costs associated with the existing administration building since the use of that building will decline. Similarly, Energy Probe has no issues with the forecasted level of OM&A related to the IFRS overhead burdens.

Energy Probe further submits that the Board should not direct specific spending cuts, but rather Enersource should manage its spending within the spending envelope approved by the Board. Enersource management is in the best position to prioritize its activities within the spending envelope provided.

Specific Adjustments to OM&A

As noted above, Energy Probe does not believe that the Board should make specific spending cuts. However, in order to assist the Board in determining an appropriate amount that could be reduced, Energy Probe provides the following list of potential adjustments, with an estimated amount and rationale.

a) Increase in Enersource Corporation Cost - $1,880,000

There has been a significant increase in both the total cost associated with Enersource Corporation ("EC") employees and the percentage that is allocated to Enersource Hydro since 2008. In the 2008 cost of service proceeding, total costs associated with EC were $4,864,798, with 83.8% of these costs, or $4,076,709 allocated to the regulated distributor. The forecast for 2013 is a total cost of the EC employees of $7,516,359, with 93.4% of these costs allocated to Enersource Hydro (Exhibit I, Issue 4.4, Energy Probe IR#3b, Attachment). This significant increase is despite an increase in the number of employees of only 2, going from 50 to 52.

Using the same 2.5% per year growth in costs as submitted under the envelope approach applied to the 2008 Board approved EC cost of $4,864,798 results in a total cost for 2013 of $5,504,072. This is a reduction of $2,012,287 from the 2013 forecast. Multiplying this by the proposed allocation factor of 93.4% results in a reduction in the amount included in the revenue requirement of $1,879,475.

Energy Probe notes that the application of the 2.5% year over year increase in costs should be viewed as being generous, since the growth in these costs is not related to the growth in the number of customers served by Enersource Hydro. The services provided by EC are mostly administrative functions that are independent of the number of customers served.

b) Increase in Allocation Percentage from Enersource Corporation - $530,000

Reducing the allocation percentage from 93.4% to 83.8%, as used in 2008, and applying this difference to the $5,504,072 noted above, results in a reduction in costs of $528,391.

Energy Probe submits that this reduction in the allocation back to the previous approved level is appropriate because Enersource has indicated that there is no more work being done for the regulated distributor than there was in the past. Enersource Hydro is allocated a larger percentage of the cost because there was a reduction in the amount of work done for other affiliates that were active in 2008 but are not now.

There is no justification for allocating a larger percentage of costs to the regulated distributor because other unregulated endeavours have been scaled back or closed down. Energy Probe submits that the number of employees at EC should have been reduced to reflect this lower level of work required when these other endeavours were shut down or scaled back.

c) Capitalization - $1,975,000

Based on the information provided in Exhibit 4, Tab 3, Schedule 1, Appendix 2-K, Enersource capitalized 29.4% of total compensation in 2008, 29.1% in 2009 and 30.8% in 2010. Each of these years was based on CGAAP accounting. The capitalization ratio in the 2008 Board approved figures was 25.7%. With the actual 2008 ratio above this, ratepayers are effectively paying for this difference in capitalization twice. First, it was built into their 2008 rates at the higher expensed level. Now that rates are being rebased, the higher capitalized amount is included in rate base.

On an actual basis in 2011 under MIFRS, the capitalization ratio was 26.1%. The forecast for 2013 is 20.7%. Energy Probe submits that Enersource has not provided any justification for the significant reduction in the amount capitalized between 2011 and 2013. Given what occurred in 2008, Energy Probe is concerned that ratepayers could once again end up paying twice. Rates for 2013 will reflect the expensing of nearly 80% of the total compensation costs. If the actual level of capitalization is similar to that recorded in 2011, expenses will be lower and rate base will be higher. This increase in rate base will result in higher depreciation, return on capital and PILs costs in a future revenue requirement.

Energy Probe submits that the Board should set the 2012 capitalization ratio equal to that of 2011, the only historical year available under MIFRS. Increasing the 2013 capitalization ratio from 20.7% to 26.1%, applied to the total compensation cost of $36,579,014 would reduce the OM&A component by about $1,975,000. This amount should then be transferred to capital additions.

d) Bad Debt - $730,000

As shown in the response to Exhibit I, Issue 4.1, Energy Probe IR#5e, the year-to-date June, 2012 bad debt expense was $1,586,000, a reduction from the $2,047,000 recorded over the same period in 2011. The year-to-date figure for 2012 represents only 77.5% of the corresponding costs in 2011.

Applying this ratio to the actual 2011 expense of $3,706,000 (Undertaking JT2.11) results in a projected cost of $2,872,000 for 2012, which is a reduction of $727,850. Energy Probe submits that this reduction should be carried forward to 2013. Enersource has forecast only a small decrease between 2012 and 2013 ($50,000), while it is apparent that the 2012 forecast is significantly too high to begin with based on six months of actual data.

e) Incentive Plan - $960,000

The total incentive pay forecast in 2013 for Enersource Hydro employees is approximately $1,540,000. This figure can be calculated from figures provided in Appendix 2-K of Exhibit 4, Tab 3, Schedule 1. This amount does not include the incentive pay paid to employees of Enersource Corporation. This amount has been included in the total compensation discussed in part (a) above.

As indicated in the response to Exhibit I, Issue 4.1, Energy Probe IR#14b, Enersource has assumed that it will fully achieve its targets. Energy Probe submits that this assumption is not appropriate. The incentives should be set such that there is no reasonable assurance that the entire amount will be achieved. Otherwise the value of incentive payments is lost on employees. Energy Probe submits that the Board should use a 50% factor to calculate the most probably amount of the incentives to be paid. This reduces the amount included in the revenue requirement to about $750,000.

In addition, Enersource indicates that there are four performance measures associated with the incentive payments, being reliability, safety, service quality requirements and Enersource net income (Exhibit 4, Tab 3, Schedule 1, page 15). Energy Probe notes that 3 out of these 4 performance measures directly impact ratepayers. The fourth, net income, benefits the shareholder. As a result, it is submitted that 75% of the remaining $750,000 should be paid for by ratepayers. The net result is a reduction in the amount to be included in the revenue requirement by about $962,500.

f) Base Salaries - $260,000

Enersource is forecasting an increase in salaries of 3.25% for both Union and non-Union employees in the 2013 test year. This follows several years of similar increases. Energy Probe submits that these increases are high and should be reduced to a more appropriate level of 2% for the purposes of setting rates. Based on the response to Undertaking J3.2, a 1% reduction in salary increases results in a reduction of $209,000 in total salary costs (including EC) allocated to OM&A. Therefore a reduction from 3.25% to 2.0% would result in a reduction of approximately $261,250.

Energy Probe notes that the reduction in base salaries would also result in lower benefit costs, but has not attempted to quantify these additional savings.

g) Additional FTE's - $730,000

As shown in Appendix 2-K of Exhibit 4, Tab 3, Schedule 1, the number of FTE's at Enersource Hydro has been constant over the 2009 through 2011 period at between 325 and 328. This is forecast to increase to 331 in the 2012 bridge year and then to 339 in the 2013 test year. Energy Probe submits that the evidence does not support the need for the additional 8 FTE's forecast for 2013. Under the IRM term Enersource was able to function with 325 to 331 FTE's. There were no major issues related to lack of staff that caused any deterioration in service quality to ratepayers. Energy Probe submits that the company should be able to continue functioning effectively without any adverse impacts to service quality or customer care with 331 FTE's.

This results in a reduction in the FTE's of 8 positions. Energy Probe has estimated the total costs associated with these new positions to be approximately $920,000. This estimate is based on the data in Appendix 2-K and excludes the incentive pay as this item has been dealt with separately in part (e) above. Based on the capitalization ratio in Appendix 2-K, this would reduce OM&A expenses by about $730,000, with the remaining $190,000 showing up as a reduction in capitalized costs.

h) Board of Directors of Enersource Corporation - $148,000

As shown in the response to Exhibit I, Issue 4.4, Energy Probe IR#1, there is approximately $148,000 included in the revenue requirement associated with the Board of Directors of Enersource Corporation. These costs are over and above the costs included in the revenue requirement associated with the Board of Directors of Enersource Hydro Corporation.

Energy Probe submits that it is not appropriate to recover the costs associated with two Boards of Directors from ratepayers. In particular, the costs associated with the Board of Directors of the parent corporation should be paid out of dividends received from Enersource Hydro.

The Board dealt with this issue in EB-2007-0928. In the Decision and Order dated October 27, 2008, the Board stated:

> *"In its responses to interrogatories from Energy Probe, Erie Thames disclosed that the corporate costs of its parent company ETPC were allocated based on revenues of the various affiliates. The projected 2008 allocation of ETPC's costs to Erie Thames is $104,438 and is included in Erie Thames' applied for revenue requirement.*
> *Energy Probe argued that it is not appropriate for ratepayers to bear the costs of the parent company's Board of Directors in addition to the Board of Directors costs for Erie Thames. Erie Thames did not reply to this aspect of Energy Probe's argument.*
>
> *The Board agrees with Energy Probe.*
>
> *The costs of the parent company are shareholder costs to the account of its shareholders and are to be paid for with parent company revenues. In appropriate circumstances, the parent company can receive dividends from the distribution company funded out of its Return on Equity. To expense these costs out of the operating revenues of Erie Thames would be contrary to regulatory principle and inappropriate.*
>
> *The Board therefore disallows the ETPC's Board of Directors cost of $104,438 from the applied for revenue requirement."*

Energy Probe submits the same rationale applies in the current circumstances and the $148,000 included in the revenue requirement for the EC Board of Directors should be disallowed.

i) Property Taxes - $80,000

As shown in Appendix 2-J to Exhibit 4, Tab 2, Schedule 1, property taxes have remained relatively flat between 2008 and 2011, at about $865,000 per year. Enersource has forecast an increase to $1,200,000 in the 2013 test year. Part of this increase is due to the new building and to new substations. The new building cost is $200,000 (Undertaking JT2.1) and the new substations accounts for an additional $53,000 from the level shown in 2011 (Exhibit I, Issue 4.1, Energy Probe #6f and Exhibit 4, Tab 1, Schedule 4, Table 2. This leaves an unexplained shortfall of approximately $82,000 that has not been accounted for.

j) Summary

The sum of the above adjustments is approximately $7.3 million. It is not intended to be an exhaustive list of where cost reductions could be achieved, but is intended to show where a significant portion of the reductions proposed under the envelope approach could be found.

4.2 Is the proposed level of depreciation/amortization expense for 2013 and 2014 appropriate?

Energy Probe has no issues with the level of depreciation/amortization expense in either 2013 or 2014, other than to note that these expenses will need to be revised should the Board approve any changes to the capital expenditure forecasts.

4.3 Is the proposed PILs and property taxes forecast for 2013 and 2014 appropriate?

Energy Probe has made submissions related to the property tax forecast as part of the submissions on Issue 4.1 relating to the specific adjustments to OM&A.

With respect to the PILs forecasts for 2013, Energy Probe submits that the Board should increase the tax credits from $200,000 to $242,000. As shown in the response to Exhibit I, Issue 4.3, Energy Probe IR#2, Enersource originally forecast 2013 and 2014 co-op tax credits of $60,000 and apprenticeship tax credits of $140,000, for a total of $200,000. These forecasts were "estimates" back on the tax credits received in the recent past. Part (e) of the interrogatory response reflects the actual tax credits claimed in 2011 and a reflect an actual value of $76,000 for the co-op tax credit and $166,000 for the apprenticeship tax credits, for a total of $242,000.

Given that Enersource did not do a detailed forecast of the number of positions eligible for the tax credits or the amount of the credit for each of those positions, Energy Probe submits that the last year of actual data is the best forecast available.

Energy Probe notes that Enersource did update the provincial tax rate to reflect the cancellation of the scheduled reduction from 11.5% to 11.0% effective July 1, 2012, resulting in the use of the 11.5% rate for both 2013 and 2014. Energy Probe supports this change.

Any changes in the level of taxable income as a result of the Board's decision in this proceeding should be reflected in the calculation of PILs.

4.4 Is the proposed allocation of shared services and corporate costs appropriate?

Energy Probe has made submissions with respect to the proposed level and allocation of shared services from Enersource Corporation as part of its submissions on Issue 4.1 relating to the specific adjustments to OM&A.

5. Capital Structure and Cost of Capital

5.1 Is the proposed capital structure, rate of return on equity and short term debt cost for 2013 and 2014 appropriate?

Energy Probe accepts the proposed capital structure as it follows the Board's policy in this area. Similarly, the rate of return on equity and short term debt rates will be set in compliance with the Board's policy.

5.2 Is the proposed long term debt cost for 2013 and 2014 appropriate?

Enersource has calculated the weighted average cost of its long term debt using the Internal Rate of Return ("IRR") function, as shown in Attachment 1 to Exhibit 5, Tab 1, Schedule 1. This calculation results in a long-term debt rate of 5.09%. Energy Probe submits that this is not appropriate and that the weighted average cost of the long term debt should be based on the interest costs for the 2013 test year.

As shown in Attachment 1, the interest costs in each year of the bond repayment schedules is $11,123,700 (or a coupon rate of 5.297%) for the $210 million issue and $4,973,100 (or a coupon rate of 4.521%) for the $110 million issue. The total interest payment is $16,096,800 on a total principle of $320 million, resulting in a long term debt rate of 5.03%. This is the figure that Energy Probe submits should be used in the calculation of the cost associated with the deemed long term debt.

While the differential is small at only 6 basis points, application of this differential to the deemed long term debt of $351 million (Exhibit I, Issue General RRWF, Board Staff IR#3, Appendix 2-C(i)) results in a reduction in the revenue deficiency of more than $210,000.

6. Cost Allocation

6.1 Is the proposed cost allocation methodology for 2013 and 2014 appropriate?

Energy Probe believes that the cost allocation methodology for 2013 is appropriate and notes that Enersource did not carry out a separate cost allocation study for 2014. However, should the Vulnerable Energy Consumers Coalition ("VECC") identify any issues in their submissions with respect to this issue, Energy Probe defers to those submissions.

6.2 Are the revenue-to-cost ratios for 2013 and 2014 appropriate?

Energy Probe does not support the revenue-to-cost ratios as proposed by Enersource.

Energy Probe does believe that the appropriate starting point in the review of revenue-to-cost ratios are the ratios that come out of the cost allocation model for the 2013 test year at existing rates, as shown in Table 3 in Exhibit 7, Tab 1, Schedule 1. This is the starting point used by Enersource.

However, as can be seen in Tables 2 and 3 in Exhibit 7, Tab 1, Schedule 1, Enersource is proposing to change the revenue-to-cost ratios for a number of rate classes that are already within the Board approved ranges from the EB-2010-0219 *Report of the Board: Review of Electricity Distribution Cost Allocation Policy* dated March 31, 2011. Energy Probe submits that changes for rate classes that are already within the Board approved range should be limited to changes needed to maintain overall revenue neutrality when some classes that are outside of the range are move to the top and/or bottom of the Board approved ranges for those classes.

In the current application, the only classes outside of the Board approved ranges are the General Service Large Use and Unmetered Scattered Load ("USL") classes. The Large Use class has a revenue-to-cost ratio of 124%, while the top of the Board approved range is 115%. Similarly, the USL has a ratio of 147%, while the top of the range is 120%. Energy Probe supports moving both of these classes to the top of their respective ranges.

In order to offset the revenue reduction from these two classes from moving their revenue-to-cost ratios down to the top of their ranges, Energy Probe submits that those classes with ratios less than 100% should be increased to the point where the additional revenue offsets the reduction. In this case, an increase in the Residential revenue-to-cost ratio from 85% to 86% is sufficient to maintain overall revenue neutrality (Exhibit I, Issue 6.1, VECC IR#49).

Energy Probe supports that this approach mirrors the type of adjustments that the Board found as being appropriate in the EB-2010-0131 Decision and Order dated July 7, 2011 for Horizon Utilities Corporation. In that Decision and Order the Board stated:

> *"The Board finds, however, that the proposed revenue-to-cost ratios are not appropriate and not consistent with the Board's revenue to cost policy, which establishes ranges of tolerance around revenue-to-cost ratios of one and adopts an incremental approach, whereby changes to revenue-to-cost ratios within the range are to be supported by improvements to the cost allocation model.*
>
> *The Board is of the view that updating the pre-existing cost allocation model with test year data is an insufficient "improvement" for the purpose of supporting the movement within class ranges, as the Board recognizes that the results will vary somewhat due to data limitations and volatility.*
>
> *For those customer classes with starting revenue-to-cost ratios greater or less than the upper or lower end of the range provided by the Board in EB-2007-0667,* ***Horizon is directed to move the customer class ratio to the upper or lower boundary, as appropriate****, and* ***to adjust the other class ratios only as required to reconcile with the overall approved revenue requirement****."* (emphasis added)

Enersource proposes to reduce the GS < 50 kW class from 113% to 109%, the GS 50-499 kW class from 112% to 109%, the Large Use Class from 115% to 109% and the USL class from 120% to 109%. Offsetting these decreases is an increase in the Residential ratio from 86% to 90%. These are the changes that Energy Probe does not support. As noted in the Horizon Decision and Order, other class ratios (i.e. those that already fall within the Board approved ranges) should only be adjusted as required to reconcile with the overall approved revenue requirement. The Enersource cost allocation model, updated with test year data, is not a sufficient improvement for the purpose of supporting the movement within class ranges.

7. Rate Design

7.1 Are the fixed to variable splits for each class for 2013 and 2014 appropriate?

Energy Probe makes no submissions on this specific issue.

7.2 Is the proposed implementation of a Low Voltage Service Rate, the introduction of the Unmetered Scattered Load class, and the merger of the Small Commercial < 50kw class into the General Service < 50kw class appropriate?

Enersource proposes to introduce a new Unmetered Scattered Load ("USL") class by separating the USL customers from the Small Commercial rate class in which they currently reside (Exhibit 7, Tab 1, Schedule 1). Enersource is also proposing to merge the remaining Small Commercial customers with the General Service < 50 kW class.

In the EB-2010-0219 Report of the Board on the Review of Electricity Distribution Cost Allocation Policy dated March 31, 2011, the Board indicated that it expected each distributor to include a separate USL rate class as part of the cost of service application in both the CA Model and in the Tariff of Rates and Charges (Section 2.5.4). Energy Probe agrees with this policy and submits that the Enersource proposal is in compliance with the Board's policy and has been properly implemented.

Energy Probe also supports the proposal to merge the Small Commercial < 50 kW class into the General Service < 50 kW class. This merger is appropriate because of the small size of the Small Commercial class after the USL customers are removed. With only 168 customers forecast for the 2013 test year (Exhibit 3, Tab 1, Schedule 2, Attachment 6), and given that the customers in this class are similar to small customers in the General Service < 50 kW class there is not a need for this separate class for these customers to continue. Enersource noted that there is no significant difference between these customers and those in the General Service < 50 kW class in terms of service setup, billing, collections or meter reading to justify the continuation of a separate rate class (Exhibit 7, Tab 1, Schedule 1, page 8).

With respect to the implementation of a low voltage service rate, Energy Probe is relying on the review of the issue by VECC and supports their submissions, if any, on this issue.

7.3 Are the proposed Total Loss Adjustment Factors appropriate?

Enersource proposes to continue with its current total loss factor of 1.0360 rather than update the figure to the average of the last five years of historical data (Exhibit 8, Tab 7, Schedule 1). The 1.0360 figure is lower than the five year average of 1.0375 and reflects the removal of 2007 data from the analysis. That year experienced an unusually high total loss factor. Energy Probe accepts the use of the 1.0360 factor as being reasonable.

7.4 Are the proposed retail transmission service rates appropriate?

Energy Probe is relying on the review by Board Staff and VECC to ensure that the proposed retail transmission service rates are appropriate.

7.5 Is the proposed Tariff of Rates and Charges for 2013 and 2014 appropriate?

Energy Probe makes no submissions on this specific issue as it is effectively subsumed by a number of issues that impact on the proposed revenue requirement, allocation of costs and rate design proposals.

8. Deferral and Variance Accounts

8.1 Are the deferral and variance account balances, allocation methodology and disposition period(s) appropriate?

Energy Probe has no issues with respect to the account balances, allocation methodology and the disposition period proposed.

8.2 Are the proposed rate riders appropriate?

Energy Probe believes that the rate riders have been appropriately calculated.

8.3 Are the deferral and variance accounts, including both existing and proposed new accounts, appropriate?

Please see the submissions under Issue 9.2 below. Energy Probe makes no submissions on the other accounts requested.

9. Modified International Financial Reporting Standards

9.1 Is the treatment and disposition of the Property Plant & Equipment adjustments due to the transition to MIFRS appropriate?

Energy Probe is relying on the analysis of Board Staff and others to ensure that the treatment and disposition of the PP&E adjustments due to the transition to MIFRS are appropriate.

Energy Probe does note that Enersource has requested a refund period of one year rather than following the Board's guidance found in the *Addendum to Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism* (EB-2008-0408) dated June 13, 2011.

Energy Probe further notes that Enersource has requested a separate rate rider rather than embedding the impact in distribution rates. Energy Probe notes that this may result in problems if and when rates for subsequent years are set on a price cap basis. Energy Probe submits that the four-year period, that would result from the Board's Addendum should be followed unless there are extenuating circumstances.

Enersource indicates that one of the main reasons for requesting disposition over one year instead of four is to help mitigate rate volatility caused by the proposed recovery of stranded meter costs over a one year period (Exhibit I, Issue 9.1, Board Staff IR#55). Energy Probe makes submissions on the stranded meter cost recovery period in Issue 10.2 below and submits that the recovery should be over 4 years, in order to mitigate the significant increase on customers of a one year recovery period.

9.2 Are the proposed new MIFRS deferral and variance accounts appropriate?

Enersource is requesting a deferral account to be established to capture the impact of the post-employment adjustment resulting from MIFRS.

In the *Addendum to Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism* (EB-2008-0408) dated June 13, 2011, the Board indicated that it would not approve the creation of a generic account for IFRS related impacts on P&OPEB accounts occurring at the date of transition. The Board indicated that the option remained for utilities to seek their own account if they could demonstrate the likelihood of a large cost impact up transition to IFRS.

In the response to Exhibit I, Issue 9.2, Board Staff IR#56, Enersource indicated is requesting to dispose of $619,000, which is the net of the two amounts described in the response. This amount is below the materiality threshold for Enersource of $645,000 (Exhibit 1, Tab 4, Schedule 1).

Energy Probe submits that since the net amount is below the materiality threshold, it cannot be considered to be a large amount and the Board should deny the request to establish the deferral account.

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

Energy Probe submits that Enersource has identified all of the material impacts of the transition to MIFRS and that the treatment of each of those impacts is appropriate.

10. Smart Meters

10.1 Are the proposed quanta and nature of smart meter costs, including the allocation and recovery methodologies appropriate?

Energy Probe supports the allocation of smart meter costs based on an allocation methodology that is based on class specific revenue requirements. This is especially important where there is a significant difference in the average cost per meter by rate class, as shown in Table 4 of Exhibit 9, Tab 2, Schedule 1. In particular, the residential cost per meter is only about 30% of the cost of the meters for the GS < 50 kW class.

Enersource has recalculated the SMDR using the Smart Meter Model Version 3.0 and updated the information used to calculate rate class specific rate riders as shown in Attachment 1 to Exhibit I, Issue 10.1, Board Staff #58b. Energy Probe supports this methodology.

10.2 Is the proposed treatment of stranded meter costs appropriate?

Energy Probe makes no submissions with respect to the calculation of the remaining net book value associated with the stranded meter costs that are to be recovered.

However, Energy Probe submits that the methodology used by Enersource to allocate the stranded meter costs between the Residential, GS < 50 kW and GS > 50 kW classes is not appropriate. Enersource proposed to allocate the costs based on the number of smart

meters installed. The rationale for this is that the net book value of stranded meters by rate class is not available (Exhibit I, Issue 10.2, Board Staff IR#67).

Energy Probe submits that there are more accurate ways to split the net book value of the stranded meters among the three rate classes than simply the number of smart meters installed for each class. This allocator does not take into account the significant difference in the relative costs of the meters among the rate classes.

Energy Probe submits that the Board should direct Enersource to allocate the costs based on the weighted average number of customers in each rate class where the weights are the relative costs from Enersource's prior cost allocation studies. This allocation and the resulting rate riders were provided in the response to Undertaking JT1.2. Energy Probe submits that the allocation shown in this undertaking is more representative of the expected net book value of the stranded meters by rate class as they reflect a relative weighting of the costs of those meters used in a previous cost allocation model filing. As such, Energy Probe submits that the Board should approve the rate riders that come out of the use of this methodology.

As for the disposition period, Enersource is requesting a one year period. Energy Probe notes that the rate riders represent significant cost increases for customers regardless of which methodology is ultimately approved by the Board. In order to mitigate rate increases in the 2013 test year, Energy Probe submits that the Board should consider increasing the recovery period to up to 4 years.

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. For example, Energy Probe relied on VECC with respect to cost allocation issues, while other intervenors relied on Energy Probe for PILs related issues.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

September 21, 2012

Randy Aiken
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