September 24, 2012

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Re: Enersource Hydro Mississauga Inc.
2013/14 Electricity Rate Application
Submissions of AMPCO
Board File No. EB-2012-0033

Dear Ms. Walli:

Attached please find AMPCO submissions in the above proceeding.

Please do not hesitate to contact me if you have any questions or require further information.

Sincerely yours,

(ORIGINAL SIGNED BY)

Adam White
President
Association of Major Power Consumers in Ontario

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EB-2012-0033

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

AND IN THE MATTER OF an application by Enersource Hydro Mississauga Inc. for an Order seeking just and reasonable rates beginning January 1, 2013 and January 1, 2014. The application was filed on April 27, 2012, and updated on May 17, 2012, under section 78 of the *Ontario Energy Board Act*, *1998*, S.O. 1998, c.15 (Schedule B).

FINAL SUBMISSIONS OF AMPCO

September 24, 2012

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Final Submissions of AMPCO
September 24, 2012

I. Introduction

1. Enersource Hydro Mississauga Inc. ("Enersource") seeks electricity distribution rates effective January 1, 2013 for the 2013 Test Year and distribution rates effective January 1, 2014 for the 2014 incremental capital and return (ICR Year).

2. The Association of Major Power Consumers of Ontario ("AMPCO") intervened in the above-noted application by Enersource Hydro Mississauga Inc. ("Enersource") to raise concerns with respect to the following issues on the Issues List:

   1.1. Is the proposed approach to set rates for two years appropriate?
   1.2. What is the appropriate approach to set rates for 2015 and 2016?
   1.4 Is service quality acceptable?
   4.1. Is the proposed 2013 and 2014 OM&A forecast appropriate?
   6.1. Is the proposed cost allocation methodology for 2013 and 2014 appropriate?
   6.2. Are the revenues to cost and its revenue-to-cost ratios for 2013 and 2014 appropriate?

II. Issues

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

3. The Board's current regulatory framework is comprised of a four year term. The first year rates are set on the basis of a cost of service (COS) application followed by three years of rates set using a formula with an inflation factor and productivity factors (the IRM period).

4. Enersource's last COS application was in 2008. For the years 2009 to 2012, Enersource's rates were set under IRM. Enersource was eligible to apply for rates under COS for 2012 but requested a delay to 2013 in part because it required extra time to deal with the IFRS transition.[1]

5. Under the Board's current regulatory framework[2], Enersource's rates for 2014 would be set under IRM. In this application, Enersource is proposing a change to the current approach in 2014 whereby a second year of incremental capital and return (ICR) would be added. This approach includes separating the treatment of OM&A from capital for the 2014 ICR Year, and Enersource proposes to hold flat OM&A levels in rates over the two years, with greater incentive for increased productivity and performance outcomes.[3]

6. The table below summarizes Enersource's proposed increases in revenue requirement in 2013 and 2014 compared to its last Cost of Service application in 2008.[5]

	2008 Board Approved ($'000)	**2013 Test Year ($'000)**	**2014 ICR Year ($'000)**
Revenue Requirement	$114,704	$131,676	$ 134,983
Increase $		16,972	3,307
Increase %		**14.8%**[4]	**2.5%**

7. Enersource acknowledges that its treatment of capital for a two-year period departs from past practice.[6]

[1] Oral Hearing, Day 2, Transcript September 6, 2012, Page 120, lines 3-8
[2] Board Report, 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, July 14, 2008.
[3] Exhibit 1, Tab 2, Schedule 1, Page 6
[4] Undertaking J1.1 Day 1, Oral Hearing, September 4, 2012
[5] Board Staff IR#3
[6] Exhibit 1, Tab 2, Schedule 1, Page 2

8. Enersource relies in part on the Board's Renewed Regulatory Framework for Electricity (RRFE) as one reason for its proposed two year capital approach. Enersource states that the "Board has recognized the need for new ways to approach the challenges of managing the rate treatment of infrastructure investment and the structure of this proposed approach in this application is proposed in that context". Further, Enersource states its Application was prepared in the context of many discussions and ideas driven by the Renewed Regulatory Framework for Electricity ("RRFE").

9. Enersource indicates a two-year capital approach aligns with the timing of the Board' s Renewed Regulatory Framework for Electricity (RRFE), in that it can provide experience and information that may be helpful for the Board in finalizing that review.[7]

10. AMPCO submits that the Board should not dismiss out of hand the Enersource proposal to deviate from the Board's current rate making policies. AMPCO also submits, however, for the Board to approve Enersource's approach in advance of the release of the final details of the RRFE policy, Enersource must demonstrate that its proposal is based on sound rate making principles and a strong business case, and that the outcomes are aligned with the objectives of the RRFE and the interests of customers.

11. In response to interrogatories and questions during the Technical Conference and Oral hearing, Enersource provided the following additional information regarding its proposal:

    - Enersource is not proposing an approach that makes use of the ICM as based on the Board's past decisions on ICM proposals, Enersource's proposed 2014 capital projects could not be characterized as extraordinary or unanticipated and they could not be considered non-discretionary. They would not be facility-specific and discrete. For these reasons, Enersource concluded they would not be able to satisfy the definition of the ICM application.[8]

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[7] Exhibit 1, Tab 2, Schedule 1, Page 6

[8] Oral Hearing, Day 1, Transcript September 4, 2012, Page 46

- Enersource plans to spend the capital dollars in 2014 regardless of whether the Ontario Energy Board approves the application as filed.[9]

- Enersource has never said it cannot adequately manage its resources and financial needs during the remainder of the IRM plan period.[10]

- With respect to capital expenditures, Enersource's spending is business as usual. From 2008 to 2014 Enersource has spent a level amount of capital expenditures.[11]

- The table below shows Enersource's total capital expenditures from 2008 Board-approved to 2013, 2014 forecast.[12]

	2008 Board Approved	**2008 CGAAP**	**2009 CGAAP**	**2010 CGAAP**	**2011 MFRIS**	**2012 MFRIS**	**2013 MFRIS**	**2014 MFRIS**
Net Capital Additions ($'000)	$47,517	$51,503	$59,342	$53,028	$42,563	$64,486	$46,446	$45,624

- Enersource believes it is a good time to try this approach as there is going to be a greater requirement for capital on a go forward basis.[13] Enersource expects the wave of capital replacements and capital expenditures to increase in the upcoming five to six years.[14]

12. Given Enersource's capital spending is in a steady state for the next few years and the Board's RRFE is to be released in the near future and will be applicable for the 2014 rate setting year[15], AMPCO questions whether Enersource's rate setting proposal for 2014 is needed and appropriate at this time and thus does not support Enersource's approach to set rates for two years.

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[9] Oral Hearing, Day 1, Transcript September 4, 2012, Page 42
[10] Oral Hearing, Day 1, Transcript September 4, 2012, Page 42
[11] Oral Hearing, Day 1, Transcript September 4, 2012, Page 51
[12] Exhibit 2, Tab 2, Schedule 1, Page 1
[13] Oral Hearing, Day 1, Transcript September 4, 2012, Page 51
[14] Oral Hearing, Day 1, Transcript September 4, 2012, Page 53
[15] Ontario Energy Association, Speaker Series, Chair OEB Speech, September 14, 2012

13. Enersource did not prepare an analysis comparing the approach proposed in this Application, i.e., the ICR, with the existing IRM or IRM-ICM as part of its pre-filed application or in response to several interrogatories requesting this comparison. AMPCO submits that this comparison is essential for the Board to evaluate any proposed alternative over the status quo. Enersource finally provided the IRM calculation in response to undertaking J2.1[16] at the hearing on September 6, 2012. Based on an estimated price cap index of 0.41% (average of the approved IRM increases of the previous three years), Enersource estimated the 2014 revenue requirement under an IRM as $132,216, which is less than Enersource's ICR proposal. The difference between the proposed 2014 revenue requirement of $134,982 under an ICR and the estimated 2014 IRM revenue requirement is $2,767 million or 2.09%. This Further analysis of this comparison was not conducted.

14. Enersource is of the view that its proposed approach is just and reasonable, serving two primary purposes: it smoothes what are otherwise expected to be step rate increases to customers every rebasing year under the current cost of service rate setting model; and it more accurately provides compensation for the cost of capital.[17]

15. In its submissions, Board staff makes the following comments with respect to Enersource's rate smoothing argument.

> "The argument is essentially that by increasing rates now, customers benefit because there will be less of an increase in rates at that next cost of service rate application. While this is true, it also means that, all in, customers will have paid higher rates through the subject period. Board staff submits that the value proposition for this approach to rate smoothing (for the rate paying customer) has not been appropriately tested and should not be a key consideration in the Board's determination."[18]

16. AMPCO supports the submissions of Board Staff on this issue.

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[16] Oral Hearing, Day 2, September 6, 2012, Page 87
[17] Board Staff IR #8(b)
[18] Board Staff Submission, Page 6

17. Throughout the hearing and in its final submissions, Enersource referenced its shareholder interests first and foremost in responding to why its 2014 rates are just and reasonable, for example:

> Approval of 2014 rates would provide Enersource shareholders with compensation for capital costs actually incurred in that year (both capital expenditures and the cost of capital). Delaying recovery of the cost of capital until a future rebasing would effectively deny recovery of prudently incurred costs. It strikes AMPCO that Enersource's proposal appears to favour the shareholder over the customer. As such, AMPCO believes the interests of Enersource may not be properly aligned with the interests of the customer on this issue. [19]

18. In considering the above, AMPCO submits that Enersource has not provided a sound business case, need or compelling arguments regarding customer benefits to support its modified approach for setting rates in 2014. AMPCO submits that Enersource's proposal should not be approved by the Board.

Issue 1.1 What is the appropriate approach to set rates for 2015 and 2016?

19. As indicated above, it is AMPCO's understanding that the Board's RRFE will be in place to set rates for 2014.[20] As such, AMPCO submits that it is premature to determine now, the appropriate approach to set rates for 2015 and 2016.

20. If however, the Board's proposed timing or direction of the RRFE were to change prior to setting rates in 2014 and thus not in place for 2014, AMPCO submits that the Board's current regulatory framework would apply and the appropriate approach to set rates in 2015 and 2016 would be the 3rd Generation IRM framework, meaning Enersource would be in IRM years for 2015 and 2016.

Reliability

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[19] Enersource Final Submissions, Page 2
[20] Ontario Energy Association Speaker Series, September 14, 2012

Issue 1.4: Is the service quality acceptable?

21. Enersource believes that the reliability of its system remains high; however, there have been a rising number of interruptions and, therefore, an erosion of reliability; specifically in 2011. Enersource customers experienced an average of 53 minutes of power interruption in 2011, which is an increase of 18 minutes, or 51%, from 2010.[21]

22. The table below summarizes Enersource's service reliability statistics:[22] The OEB standard is that reliability should be within the range of three years of historical performance.

	2007	**2008**	**2009**	**2010**	**2011**	**2012 Target**
Interruptions	377	384	852	2,083	1.027	
Customers Affected	142,035	135,413	221,578	251,366	380,772	
SAIDI	0.65	0.33	0.61	0.58	0.89	
SAIDI (minutes)	38.7	**19.6**	**36.7**	**35.0**	**53.3**	**41.1**
SAIFI	0.78	**0.73**	**1.18**	**1.32**	**1.97**	**1.41**
SAIFI (MI)	4.0	3.9	5.3	3.2	5.0	
CAIDI	0.83	0.45	0.53	0.44	0.45	
CAIDI (Minutes)	49.8	26.8	31.2	26.5	27.0	**36.0**

23. System Average Interruption Frequency Index (SAIFI) is an indicator of the number of interruptions each customer experiences annually. System Average Interruption Duration Index (SAIDI) is an indicator of system reliability that expresses the average total length of outage customers experience in a year. Customer Average Interruption Duration Index (CAIDI) is an indication of the speed at which power is restored.

24. Table 1 shows Enersource's 2011 SAIDI and SAIFI indices are outside of the three-year historical range (2008 to 2010). From 2009 to 2011 SAIFI increased by 67% and SAIDI increased by 45%. In 2011, customers experienced 1.97 interruptions and 53.3 minutes of interruptions compared to 1.32

[21] Exhibit 1, Tab 1, Schedule 8, Page 6
[22] Exhibit 2, Tab 3, Appendix 1, Page 2, Table 3, Exhibit 2, Tab 2, Schedule 2, Appendix 1, VECC IR#3

interruptions and 35 minutes of interruptions per customer in 2010.

25. Enersource indicates that in 2012, July and August have been extremely bad from a reliability point of view.[23]

26. The main contributor to outages besides loss of supply and severe weather was a high number of equipment failures. Enersource indicates that underground primary cable failure was the largest type of equipment difficulty that contributed to the reduction in reliability performance in 2011; the 2011 cable failure numbers are the highest in Enersource's history.[24]

27. This number of outages creates significant difficulty for the Large Users of electricity; much more so than any other class of users. From the perspective of Large Users, the frequency of outages is much more of a concern than the duration of an outage. An outage of less than one minute or a voltage drop can have the same impact on Large Users as an outage of greater than one minute. In either case, a momentary outage or sustained outage can cause Large User facilities to be down anywhere from half an hour to several hours or more. AMPCO submits that the impacts of any outage on Large Users are significant and expensive with the likely result being lost productivity, financial hardship and potential loss of customers.

28. In undertaking JT1.9 from the Technical Conference on July 30, 2012, Enersource provided a graph of interruptions lasting less than one minute which showed that the events in 2011 are slightly below the upper limit of the 2008 to 2010 range.

29. At the oral hearing, Enersource acknowledged that Large Users are sensitive to outages:
"Mr. CROCKER: You recognize, do you not, that these less – these outages of less than a minute are significant to large users?
MR. PASTORIC: Yes, absolutely. We're in constant dialogue and, frankly, even some of the momentaries, there are situations where you don't even have a momentary, you have a voltage dip, and customers are so sensitive that their equipment comes off. So there are certain cases that aren't

[23] Oral Hearing, Day 2, Transcript September 6, 2012, Page 80, lines 14-16
[24] AMPCO IR#3

even recognized by the momentaries that are sensitive to our customers. And we're in constant dialogue with them to either rectify or talk to the other individuals who are upstream that may have an influencing factor."[25]

30. Of importance to AMPCO is how Enersource tracks and measures Large User reliability issues, how Enersource responds to Large Users with reliability issues and how Enersource's proposed capital programs address Large User reliability issues.

31. Enersource indicates that they have worked very closely with their Large Users and based on survey results, Large Users indicate they value reliability.[26] AMPCO's agrees; its members value reliable supply at affordable prices.

32. Enersource indicates that it has data which provides information on customer-by-customer outages with respect to Large Users and that it tracks reliability separately for the Large Users. Enersource indicated, however, it didn't have a specific benchmark. [27]

33. In the discussion around the appropriate metric to compare LDCs, Enersource has repeatedly indicated that any metric on a per customer basis is not appropriate due to the differences between customers. AMPCO submits that in terms of reliability, all customers should not be treated in the same way. The immediate and long term impact on a residential customer with an outage is not the same as for a Large Use customer. On this basis, AMPCO submits that when it comes to reliability, Large Users have special needs and their needs should be addressed separately.

34. At the Oral Hearing Mr. Morrison made the following comment:
"MR. MORRISON: The better information you have, the better the decision you can make with your maintenance dollars and your capital plan."[28]

[25] Oral Hearing, Day 2, Transcript September 6, 2012, Page 58, lines 9-27
[26] Oral Hearing, Day 2, Transcript September 6, 2012
[27] Oral Hearing, Day 2, Transcript September 6, 2012, Pages 60 -61
[28] Oral Hearing, Day 2, Transcript September 6, 2012, Page 64, lines 23-25

35. AMPCO submits that Enersource should develop a customer specific reliability measure for its Large User customer class and that it should benchmark reliability with respect to the Large User class. The use of a power quality factor for each customer class could also be investigated. AMPCO submits this data and information could then be used moving forward to better inform capital budget decisions regarding reliability improvements that impact the Large User class and other customers upstream.

36. Enersource's reliability driven investment program includes spending on subdivision rebuilds, overhead distribution sustainment, underground distribution sustainment, transformer replacement and automated switches/SCADA program. Table below shows Enersource's historical and proposed reliability driven investment program.[29]

2007 Actual CGAAP ($'000)	**2008 Actual CGAAP ($'000)**	**2009 Actual CGAAP ($'000)**	**2010 Actual CGAAP ($'000)**	**2011 Actual IFRS ($'000)**	**2012 Forecast IFRS ($'000)**	**2013 Forecast IFRS ($'000)**	**2014 Forecast IFRS ($'000)**
$13,457	$15,790	$19,291	$16,361	$12,707	$14,483	$16,326	$18,329

37. Enersource indicated on several occasions during this proceeding that its proposed capital program is designed to sustain and maintain reliability at the current levels, but not to improve it. [30]

38. With respect to capital plans, Enersource indicated that there is no specific project in the capital budget that targets the Large User with the least reliability; however, there are lots of maintenance activities that are within that budget that will work on the supplies to a lot of different large users, and hopefully help to sustain their reliability or improve it.[31]

39. AMPCO submits that Large User customers in Enersource's service area require improvements in addressing reliability moving forward to remain competitive. AMPCO does not intend this to mean that an increase in capital and OM&A spending is needed but rather a reallocation of current

[29] Exhibit 2, Tab 2, Schedule 2, Appendix 1, Table 13.7
[30] Oral Hearing, Day 2, Transcript September 6, 2012, Page 64, lines 10-13
[31] Oral Hearing, Day 2, Transcript September 6, 2012, Page 60-62

spending to allow for capital programs that address customer specific needs; Large User reliability needs in particular.

Operating Costs

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

40. Enersource's total operating costs rise from $40,476 (as approved by the Board for 2008) to $61,011 in the 2013 Test Year (excluding smart meter costs). Comparing 2008 Board approved to 2013 forecast, the increase in OM&A is $20.535 M or 50.7%.[32] Comparing 2008 actual to 2013 forecast, the increase is $25.871 or 68.8%. The table below show Enersource's historical and forecast OM&A costs, excluding smart meter costs .[33]

2008 Board Approved CGAAP ($'000)	2008 Actual CGAAP ($'000)	2009 Actual CGAAP	2010 Actual CGAAP	2011 Actual CGAAP	2011 Actual IFRS	2012 Forecast IFRS	2013 Forecast IFRS
$40,476	$36,140	$41,856	$44,680	$47,507	$50,032	$56,374	$61,011

41. As part of its filing, Enersource provided OM&A cost per customer as follows[34]:

	2008 Board Approved	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual
OM&A/customer	$221.84	$195.53	$240.48	$238.31	$261.54	$289.79	$306.74
# FTEs	368	360	378	383	377	383	391

[32] Exhibit 4, tab 1, Schedule 1, page 2
[33] Undertaking JT2.11
[34] Response to Board Staff IR#5, Appendix 2-L

42. Throughout this proceeding, it was established that Enersource's OM&A costs/customer are high when compared to other utilities using 2005 to 2010 yearbook data.[35]

43. During the proceeding, Enersource repeatedly took the position that it does not compare itself to other utilities except around reliability. In response to SEC IR#50 wherein the OM&A costs of LDCs are compared using yearbook data, Enersource states that it cannot confirm which utilities are comparable due to the many factors impacting the comparison such as capitalization policies of each utility, type of customers, asset management practices etc.

44. At the outset of the hearing, Enersource presented for the first time a different metric, total cost/throughput (kWh) which showed that Enersource performed better than most other utilities. AMPCO submits that another metric that may be worth consideration and may be more informative when comparing utilities is OM&A cost/rate base. Regardless, AMPCO submits that neither Enersource's total cost/kWh metric nor AMPCO's proposed OM&A cost/rate base metric have been tested by the Board and as should not be considered by the Board in this proceeding. The existing OM&A cost/FTE is the appropriate metric that should be used and on this basis, Enersource's OM&A costs/FTE are high.

45. AMPCO submits that the significant increases in OM&A between 2008 and 2013 demonstrate Enersource's inability to control spending during the IRM period.

46. AMPCO agrees with the submissions of Energy Probe that Enersource has apparently not achieved any sustainable productivity or efficiency gains related to OM&A expenses and 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.[36]

47. AMPCO supports Energy Probe's analysis and conclusions on Issue 4.1. Specifically, AMPCO adopts Energy Probe's submissions that the 2013 forecast of OM&A business unit expenses based on

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[35] SEC IR#50
[36] Energy Probe submission, Page 50

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 (level Board determined reasonable for Hydro Ottawa) from the Board approved figure of $40,476,000 in 2008.

48. Further, AMPCO agrees with Energy Probe that the Board should not direct specific spending cuts, but rather Enersource should manage its spending within the spending envelope approved by the Board as management is in the best position to prioritize its activities within the spending envelope provided.[37]

Cost Allocation & Rate Design

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

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

49. Enersource relied on the Report of the Board on the Review of Electricity Distribution Cost Allocation Policy (EB-2010-0219) issued March 31, 2011 and the Revised Cost Allocation Model (August 5, 2011) to complete its 2013 cost allocation submission. [38]

50. Enersource completed an initial Cost Study (EB-2005-0317) which was used as the basis for the rate design in Enersource's 2008 Electricity Distribution Cost of Service (COS) Rate Application (EB-2007-0706).[39] The 2008 Cost Study was based on 2004 data and version 1 of the cost allocation model.[40]

51. Enersource updated the Cost Study (now 2013 Cost Study) to reflect 2013 Test Year costs, annual loads, customer numbers, and hourly load profile demand values. [41]

52. The data used by Enersource in its 2013 Cost Study is consistent with the cost data that supports the proposed 2013 Test Year Revenue Requirement.[42]

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[37] Energy Probe Submission, Page 28
[38] Exhibit 7, Tab 1, Schedule 1, Page 3
[39] Exhibit 7, Tab 1, Schedule 1, Page 5
[40] Oral Hearing, Day 3, Transcript Pages 8 to 9
[41] Exhibit 7, Tab 1, Schedule 1, Page 4
[42] Exhibit 7, Tab 1, Schedule 1, page 9

53. Table 1 below shows Enersource's existing and proposed Revenue to Cost Ratios.[43]

Table 1: Summary of Existing & Proposed Revenue to Cost Ratios

Classes	2008 R/C Ratios %	Status Quo Ratios %	2013 Proposed Ratios %	Board Target Range %
Residential	91.5	85	**90**	85-115
GS<50 kW	111	113	**109**	80-120
GS>50 kW	111	112	**109**	80-120
GS>500 kW	91.5	108	**108**	85-115
Large User	111	124	**109**	70-120
Street Lighting	91.5	96	**96**	80-120
USL	111	147	**109**	80-120

54. Table 1 (in column 3) shows that Enersource's initial application of the 2013 Cost Study had two classes, Large Use and USL, outside the Board's required ranges. The remaining customer classes are within the Board's ranges. Enersource proposes to move the two customer classes outside of their target ranges to within their target ranges and to rebalance all classes within 10% of unity. Enersource is not proposing to re-balance revenue-to-cost ratios after the 2013 as all revenue to cost ratios are well within the Board's ranges.[44]

55. AMPCO notes two significant issues regarding Enersource's proposed 2013 revenue to cost ratios. Firstly, the proposed ratios do not demonstrate a material change towards unity for most rate classes. Secondly. For the residential class a move away from unity is proposed, from 91.5 to 90.

56. The Board Report on Cost Allocation for Electricity Distributors dated November 28, 2007 states on Page 4 "To the extent that distributors can address influencing factors that are within their control (such as data quality), they should attempt to do so and to move revenue-to-cost ratios closer than one." Again on Page 7 of the report, the Board states "Distributors should endeavour to move their revenue-to-cost ratios closer to one if this is supported by improved cost allocations".

[43] Exhibit 7, Tab 1, schedule 1, Appendix 2-O
[44] Exhibit 7, Tab1, Schedule 1, Page 11

57. AMPCO submits that Enersource's 2013 Cost Study and cost allocation modelling reflects an improvement in data quality and methodology from its 2008 COS application, with a greater reliance on the outcomes, due to the application of the Board's latest policy and updated model (version 2) regarding cost allocation. AMPCO submits that these factors contribute to a significant improvement in data and modelling from the 2008 Cost Study and cost allocation modelling that was based on 2004 data and version 1 of the Board's model.

58. Enersource has updated the Cost Study with 2013 Test Year capital and operating costs, 2013 forecast of energy load and customer counts by rate class, and new hourly load profile demand values. The 2013 demand values were updated by Hydro One Networks Inc. for all customer classes and incorporated into the 2013 Cost Study.[45] Enersource confirmed that the breakout of assets, capital contributions, depreciation, accumulated depreciation, customer data, and load data by primary, line transformer, and secondary categories were developed from the best data available to Enersource, from its engineering records, and its customer and financial systems.[46]

59. Under Enersource's proposal , two customers classes are under-contributing to revenue (residential and streetlighting) and the remaining five customer classes are over-contributing.

60. AMPCO argues that unity is the target and any other revenue to cost ratio is inconsistent with the principle of cost causality. In setting just and reasonable rates each customer class should be paying the cost to service the class, no more, no less. Otherwise cross-subsidization between customer classes occurs which AMPCO submits should be avoided.

61. AMPCO submits that the improvement in data quality and modelling supports moving the revenue to cost ratio closer to unity as opposed to the minimal change from 2008 proposed by Enersource to adjust revenue to cost ratios within 10% of unity.

[45] Exhibit 7, Tab 1, Schedule 1, Page 4
[46] Exhibit 7, Tab 1, Schedule 1, Page 6

62. Enersource indicates it is amenable to adjust customer class cost allocation ratios in future years towards unity.[47] AMPCO submits that given the improved cost allocation Enersource should be adjusting customer class allocation ratios towards unity in the 2013 & 2014 Test Years.

63. In considering the above, AMPCO submits that the Board should require Enersource to move its revenue to cost ratios for all classes towards unity in a phased approach over the 2013 and 2014 Test Years with 5 % in year one and the remaining almost 5 % in year two.

64. In response to Board Staff interrogatory #45 (Issue6.1) , Enersource provided Appendix 2-O Cost Allocation and Appendix 2-V 2013 Bill Impacts with the revenue to cost ratio for the residential class set at 95% instead of 90%. Enersource noted that by adjusting the residential revenue to cost ratio from 90% to 95%, all classes can be brought to within 5% of unity. Under this scenario, the total bill for a typical Residential RPP customer consuming 800 kWh per month would increase 7.6%, compared to a 6.1% increase proposed in the original prefiled evidence. In accordance with the Board's Filing Requirements, Enersource does not need to file a mitigation plan under this scenario as the total bill increase does not exceed 10%.

65. The Board Report on Cost Allocation for Electricity Distributors dated November 28, 2007 states on Page 7 that Distributors should not move their revenue -to-cost ratios farther away from one. AMPCO submits that Enersource's proposal to move the revenue to cost ratio for the residential class farther away from unity from 91.5 to 90 contravenes the Board's policy and should not be approved by the Board.

66. If the Board accepts Enersource's rebalancing of ratios to within 10% of unity, AMPCO submits that the revenue to cost ratio for the residential class should at a minimum remain at the 2008 level of 91.5.

[47] Board Staff IR #45 (b)

Costs

67. The Board confirmed that AMPCO is eligible to apply for an award of costs under the Board's Direction on Cost Awards.

68. AMPCO submits that it participated responsibly in this proceeding and sought to limit its involvement to matters that are relevant to AMPCO.

69. AMPCO respectfully requests that it be awarded 100% of its reasonably incurred costs of participating in this proceeding.

ALL OF WHICH IS RESPECTFULLY submitted this 24th of September 2012.