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November 6, 2012

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

Dear Ms. Walli:

Re: Hydro One Brampton Networks Inc. 2013 IRM3 Distribution Rate Application Response to OEB and VECC Submissions (Board File No. EB-2012-0135)

In response to the Ontario Energy Board's ("the Board") Staff and the Vulnerable Energy Consumers Coalition ("VECC") submissions dated October 23, 2012, Hydro One Brampton Networks Inc. ("Hydro One Brampton") respectfully provides its reply submission.

Please find attached to this letter, two paper copies of Hydro One Brampton's responses to the Board Staff and VECC submissions for the 2013 IRM3 Electricity Distribution Rate Application.

If additional information is required, please contact the undersigned.

Sincerely,

Scott Miller

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cc: Remy Fernandes, President & CEO, Hydro One Brampton Networks Inc.
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APPLICATION FOR APPROVAL OF 2013 ELECTRICITY DISTRIBUTION RATES
RESPONSE TO BOARD STAFF AND VECC SUBMISSIONS

Introduction

Hydro One Brampton Networks Inc. ("HOBNI") filed an application with the Ontario Energy Board (the "Board"), on August 15, 2012, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that HOBNI charges for electricity distribution, to be effective January 1, 2013. The Application is based on the 2013 3rd Generation Incentive Regulation Mechanism ("IRM").

On September 24, 2012, HOBNI received a series of interrogatories from Board staff and the Vulnerable Energy Consumers Coalition ("VECC"). On October 9, 2011, HOBNI responded to those interrogatories and also withdrew its request for an ICM Rate Rider. On October 23, 2012, HOBNI received Board staff's and VECC's submissions pertaining to the Application. HOBNI submits this document in response to Board staff's and VECC's submissions.

HOBNI's reply to Submissions by Board staff and VECC pertaining to HOBNI's request for Recovery of Lost Revenue through the Lost Revenue Adjustment Mechanism ("LRAM"):

HOBNI has submitted a request to recover lost revenues using the Board-created Lost Revenue Adjustment Mechanism (LRAM) in this rate application. The LRAM recovery mechanism was established by the Board to compensate distributors for reductions to LDCs' throughputs and distribution revenue caused by reductions in demand and energy sales directly attributable to CDM programs implemented by distributors.

Since LRAM was initiated, the concept has been that distributors are to be kept financially whole and were to be compensated for their losses in revenue due to the implementation of CDM programs. In the previous CDM Guidelines, the Board held that CDM programs should not act as a disincentive to distributors[1]. In HOBNI's case the Board approved recovery of its lost revenue for CDM programs for years up to and including 2009. However, for the 2010 program year, HOBNI has not been kept financially whole. In HOBNI's 2012 IRM3 application, the Board approved LRAM for only the 2010 portion of the demand and energy reductions for the 2010 CDM programs but denied HOBNI's claim for lost revenue pertaining to the 2011 capacity and energy reductions caused by its 2010 CDM programs. There has therefore been a disincentive

[1] Section 5.0 page 18 of the Guidelines for Electricity Distributor Conservation and Demand Management EB-2008-0037.

to HOBNI to complete its 2010 CDM programs, which is not in the spirit of the reason LRAM was established in the first place.

The 2008 CDM Guidelines stated:

"Lost revenues are only accruable until new rates (based on new revenue requirement and load forecast) are set by the Board, as the savings would be assumed to be incorporated in the load forecast at that time.[2]"

The preceding statement from those CDM guidelines assumes that the savings should have been factored into the load forecast, and this assumption is not valid. There was no mechanism in the 2008 CDM Guidelines to incorporate the savings into the load forecast at that time, causing an unfair treatment of distributors for the "stub year", i.e. the year preceding the cost-of-service rate year. Moreover, HOBNI or any other distributor preparing a load forecast based on the Multivariate Regression Analysis approach would not have been able to incorporate these savings into their load forecast unless it was implicitly deducted from the outputs of the regression analysis for the test year load forecast. In HOBNI's case, the Board would not approve any further reductions to its 2011 load forecast beyond the 2011 to 2014 CDM program years.

In April 2012 the OEB updated its Conservation and Demand Management Guidelines. HOBNI understood that the updated guidelines addressed the inequity of the previous 2008 CDM Guidelines, based on the excerpt in Subsection 13.6, page 15, of the OEB-updated CDM Guidelines dated April 26, 2012, which states:

"If making an application for LRAM in association with CDM programs delivered before 2011, distributors should note that, as mentioned above, it is the Board's expectation that these LRAM applications are only for persisting historical impacts realized after 2010."

HOBNI understood this preceding quote to mean that HOBNI would now be able to recover persisting lost revenues pertaining to 2010 CDM programs going forward since it did not update its 2011 load forecast for the savings from 2010 CDM Programs. In its submission Board Staff stated that they do not support HOBNI's request for recovery and disagreed with HOBNI's understanding of the 2012 CDM Guidelines.

[2] Subsection 5.2 of Guidelines for Electricity Distributor Conservation and Demand Management EB-2008-0037

If it was not the Board's intention to change the CDM Guidelines to allow distributors to recover lost revenues with respect to the stub year, then HOBNI submits that this inequity to distributors needs to be addressed so that they are kept whole with respect to lost revenues caused by CDM programs. HOBNI urges the Board to reconsider this matter since this is a generic issue that impacts not only HOBNI but also other distributors.

If the Board does not intend to reconsider this matter, then HOBNI requests that it be permitted to include the savings from 2010 CDM programs as part of the actual results at the customer rate class level to be recorded in the new LRAM variance account 1568.

HOBNI submits that there was no means to include the 2011 savings from 2010 CDM programs in its 2011 load forecast, supported by the following:

- The approach that a multivariate regression analysis uses is to analyze how a single dependent variable is affected by the values of one or more independent variables for a historic period of time. The single dependent variable in this case is the monthly aggregate kWhs purchased, and the independent variables include, for example, monthly GDP indices, cooling and heating degree-days, etc.
- The regression analysis used to forecast the 2011 load was based on actual kWh purchases to the end of 2009 since values for 2010 were not available for forecasting purposes due to the timing of HOBNI's rate application. The independent variables, on the other hand, were forecasted to the end of 2011.
- The regression analysis factors in CDM savings only to the extent of the data used in the regression analysis for the time period of historical actual kWhs purchased. Since 2010 actual data was not used in the regression analysis, the effect of 2010 CDM programs could not have possibly been included in the 2011 load forecast.
- In addition, in HOBNI's 2011 cost-of-service application, the Board decided that it would allow an adjustment to HOBNI's 2011 load forecast for only 10% of the cumulative CDM target for the period of 2011 to 2014.

HOBNI respectfully submits that it is entitled to the recovery of this lost revenue and requests that the Board approve the recovery of revenue that it lost in 2011 and expects to lose in 2012, either by way of the LRAM rate rider requested, or through the use of the new LRAM variance account 1568, as part of its actual results for 2011 and 2012.