April 18, 2008

BY EMAIL & COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St, Suite 2701
Toronto ON M4P 1E4

Dear Ms. Walli:

Board File No. EB-2007-0928
Erie Thames Powerlines Corp. – 2008 Rates Rebasing Application
Argument of Energy Probe

Pursuant to Procedural Order No.2, issued March 14, 2008, please find two hard copies of the Argument of Energy Probe Research Foundation. An electronic copy of this submission will be forwarded in PDF format.

Should you require additional information, please do not hesitate to contact me.

Yours truly,

David S. MacIntosh
Case Manager

cc: Chris White, Erie Thames Powerlines Corp. (By email)
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EB-2007-0928

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 Erie Thames Powerlines Inc. for an order approving or fixing just and reasonable rates and other charges for the distribution of electricity to be effective May 1, 2008.

ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")

ARGUMENT

April 18, 2008

ERIE THAMES POWERLINES INC.
2008 RATES

EB-2007-0928

ARGUMENT OF ENERGY PROBE RESEARCH FOUNDATION

Introduction

1. This is the Argument of the Energy Probe Research Foundation ("Energy Probe") related to the setting of 2008 rates for Erie Thames Powerlines Inc. ("ETPL") effective May 1, 2008.

2. This Argument has been structured to reflect the major components of the ETPL evidence. Where readily available, Energy Probe has attempted to provide the impact of its submissions on the revenue requirement of ETPL. 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 will be determined by ETPL and Board Staff. An example of a comprehensive impact analysis would include the direct impact on rate base of a reduction in $10,000 in OM&A expenses and a $25,000 reduction in capital expenditures. Depreciation expense would also be directly impacted by the capital expenditure change. The indirect impacts would include the change in total cost of capital and taxes (due to CCA, interest and OM&A expense changes).

3. ETPL's evidence has changed significantly and often during this process, mainly as the result of incorrect links between figures in various sections of the evidence. This is seen in summary by the change in the revenue sufficiency calculation. As shown in the response to Energy Probe #23, the original filing had a revenue sufficiency of $317,071 and was revised to $281,418 in the IR response. These changes were primarily the result of corrections to the original evidence. In the response to Energy Probe Supplemental #11, the revised figure was corrected to a sufficiency of $414,638. This change reflected a correction in the arithmetic in the original response, and also reflected a significant

change in the income tax amount. As a result, it has proven difficult to determine which set of figures are the correct figures.

4. In the Argument that follows, Energy Probe will highlight the impact of a number of the drivers of the revenue requirement. These items will be shown based on the impact of the net sufficiency (i.e. before any gross up for taxes). For comparison purposes, the net revenue sufficiency forecast by ETPL is $414,638 (Schedule 11 attached to Energy Probe Supplementary Interrogatory #11).

Rate Base

a) Net Fixed Assets

5. Energy Probe notes that there is some confusion related to the calculation of the rate base figure for 2008 due to calculation errors and different figures provided in different parts of the evidence. Board Staff reviewed this problem in their Interrogatory #19 and in Supplemental Interrogatory #6. It appears that the net fixed asset figure for 2008 of $16,558,122 provided in the response to part (f) of Board Staff Supplemental Interrogatory #6 is the appropriate figure. Energy Probe has provided the calculation based on the response to Board Staff Interrogatory #19c and is included in Appendix A of this Argument.

6. Energy Probe notes, however, that the net fixed asset component of rate base for 2006 of $16,403,819 shown in Exhibit 2, Tab 1, Schedule 2 does not appear to be correct. Although these figures also appear in the response to Board Staff Interrogatory #19a, the response in part (c) of that same response would seem to suggest that these are in fact year-end figures, rather than the average of the opening and closing balances for the year. The proper net fixed asset figure appears to be $15,921,144 as shown in that response.

7. Similarly, the net fixed asset figure for 2007 shown in Exhibit 2, Tab 1, Schedule 2 also overstates that true value of $16,433,859 shown in the Board Staff interrogatory response. The figure provided in the response to part (c) of Board Staff Interrogatory #19 for 2008 net fixed assets is $17,232,597 and is incorrect. The response to Board Staff Supplemental Interrogatory #6c states that the correct figure is $16,652,345, which is a closing balance figure. This correction also changes the rate base figure which averages the opening and closing balances.

8. The net impact is that net fixed assets are projected to grow by approximately 0.8% in 2008, following growth of 3.2% in 2007.

b) Capital Expenditures in 2008

9. ETPL is forecasting the gross capital expenditures in 2008 to total $1,623,000. When a total of $500,000 in contribution and grants is taken into account, the net capital expenditures total $1,123,000.

10. The 2008 net capital expenditure forecast is in line with the 2006 and 2007 figures. Further detail in the capital expenditures for the test year is provided in Exhibit 2, Tab 3, Schedule 1. Energy Probe accepts that these capital expenditures for the test year are reasonable.

c) Working Capital

11. The working capital allowance component of rate base for ETPL is shown in Exhibit 2, Tab 1, Schedule 2. It totals $5,597,256, or more than 25% of the total rate base forecast in the test year. ETPL has calculated this figure using the default 15% factor applied to controllable expenses and power supply expenses. The power supply expenses account for nearly 88% of the working capital allowance claim.

12. In addition to adjusting this claim to reflect any changes in OM&A expenses approved by the Board, Energy Probe submits that the Board should adjust the claim related to the power supply expenses to reflect more recent information.

13. The cost of power is shown on page 3 of Exhibit 2, Tab 4, Schedule 1. Account 4705 – Power Purchased accounts for the bulk of the cost of power expenses. ETPL has provided a forecast that is based on a $0.05704 per kWh forecast (Energy Probe Interrogatory #5b). This interrogatory response indicates that this forecast is a weighted average of the current spot price and the RPP and that this forecast has not been updated since the forecast was prepared.

14. Energy Probe submits that the forecast rate per kWh should be updated to reflect the most recent forecast presented to the Ontario Energy Board by Navigant Consulting on October 12, 2007. The weighted average cost for 2008 based on this forecast is approximately $0.05430 per kWh, or a reduction of approximately 4.8%. Applying this reduction reduces the cost of power from $25,455,869 to $24,233,059. The net result is a reduction in the cost of power (account 4705) of $1,222,810. Application of the 15% factor results in a reduction in the working capital component of rate base of approximately $183,421.

15. The power supply expenses also include a forecast of $2,429,770 for the network transmission cost and $2,205,242 for the connection transmission cost (Ex. 2, Tab 4, Schedule 1, page 3). These costs do not reflect the reduction effective November 1, 2007 for transmission rates (EB-2007-0759 Decision dated October 17, 2007). The response to Energy Probe Interrogatory #5 shows that the use of the new transmission rates reduces the costs for accounts 4714 – Charges – NW and 4716 – Charges – CN by $451,348 and $115,726, respectively. The net result is a reduction in the transmission costs of $567,074. Application of the 15% factor results in a reduction in the working capital component of rate base of approximately $85,061.

16. In aggregate, these reductions in the working capital allowance associated with the cost of power and transmission costs total more than $268,000, or more than 1.2% of the claimed rate base amount of $22,154,852.

d) Customer Deposits

17. Energy Probe submits that the default methodology of calculating the working capital allowance component of rate base as 15% of OM&A and power supply costs is overly generous.

18. To offset this inflation of rate base, Energy Probe submits that the Board should partially offset the working capital allowance by the level of customer deposits held by the company. Customer deposits are a source of working capital for the company and, as such, should be reflected as a reduction in the required working capital allowance. This has been the Board's practice for natural gas distributors for decades. Based on the response to Energy Probe Interrogatory #5c, the forecasted level of customer deposits is $725,478 for the test year.

19. The reduction in rate base to reflect customer deposits is equivalent to reducing the percentage of OM&A and power supply costs from 15% to approximately 13.05% in the calculation of the working capital allowance.

20. Energy Probe notes that this is similar to the outcome of a number of other 2008 cost of service applications that have been accepted by the Board. In particular, in the Settlement Agreement in EB-2007-0706 (Enersource), the factor applied to OM&A and power supply costs was reduced to 13.3%. Similarly, in the Settlement Agreement in EB-2007-0713 (Hydro Ottawa), the agreed upon factor was 12.5%. Finally, in EB-2007-0680 (Toronto Hydro), an independent report from Navigant Consulting concluded that the working capital requirement for Toronto Hydro was 12.45% of OM&A expenses and power supply costs.

OM&A Expenses

21. ETPL's forecast of OM&A expenditures for the 2008 test year have been revised significantly throughout this proceeding due to a number of cell reference errors. Energy Probe believes that the most up-to-date forecast for OM&A expenses is found in the schedule attached to Energy Probe Supplemental Interrogatory #4. The OM&A figures provided in this response are shown in Table A below.

Table A – OM&A Expenses

Category	Actual 2006	Forecast 2007	Forecast 2008
Operation	71,733	41,682	34,756
Maintenance	1,266,425	1,444,132	1,461,897
Billing and Collections	963,228	1,054,982	1,073,487
Community Relations	36,709	28,879	28,879
Admin and General	1,867,296	1,785,091	1,829,740
Total OM&A	4,205,391	4,354,766	4,428,759
% change		3.6%	1.7%

22. As the above table illustrates, ETPL is requesting an increase in OM&A expenses in 2008 of 1.7%, following an increase in the bridge year of 3.6%. The majority of the increase in 2008 is in the administrative and general expenses category.

a) Executive Services

23. ETPL is billed for use of its parent company's executive team based on their utilization (Ex. 4., Tab 2, Sch. 4, pg. 1). ETPL's parent company is Erie Thames Power Corporation ("ETPC").

24. Table B below shows the increase in the overall executive services costs in 2006 through 2007 and shows the composition of the change between the cost associated with the ETPL Board of Directors and the costs associated wit the employees of ETPC. The figures are taken from the responses to Energy Probe Interrogatory #16a and Energy Probe Supplemental Interrogatory #5a.

Table B – Executive Services Paid to ETPC

	Actual 2006	Forecast 2007	Forecast 2008
ETPC Board of Directors	**68,926**	**84,231**	**104,438**
$ Change		15,305	20,207
% Change		22.2%	24.0%
ETPC Employees	**434,703**	**527,727**	**682,943**
$ Change		93,024	155,216
% Change		21.4%	29.4%
Total Charged to ETPL	**503,629**	**611,958**	**787,381**
$ Change		108,329	175,423
% Change		21.5%	28.7%

25. According to the response provided in Energy Probe Interrogatory #16a, the increase in costs from 2006 to 2007 is attributable to the addition of 4 independent directors to the ETPL Board as part of complying with the Affiliate Relationship Code requirements and the addition of 3 executives in the third quarter of 2007. The employee count in ETPC has gone from 4 in 2006 to 7 in 2007. The full impact of the addition of the three executives and the four independent directors are reflected in the 2008 increase over the 2007 forecast.

26 As shown in Table B above, the increase in the executive services costs charged to ETPL are projected to increase by more than $108,000 in 2007 (21.5%) and a further $175,000 (28.7%) in 2008. The increase in the number of directors accounts for a small portion of the increase in each year. In 2007 the director related portion is approximately $15,000 and in 2008, the increase in approximately $20,000 of the $175,000 total.

27. The majority of the increase is related to the growth in ETPC executives from 4 to 7. The resulting increase is $93,000 in 2007 and a further $155,000 in 2008. The three new positions that have been added are General Counsel, Communications Director and a Senior Vice President of Strategic Planning and Business Development. The annual cost of these three positions, including benefits is $197,563 (Energy Probe Supplemental Interrogatory #5b&c).

28. As part of its rationale for these higher costs paid to an affiliate, ETPL states that as an offset to the addition of the corporate lawyer and finance personnel outside services have reduced (Ex. 4, Tab 2, Sch. 3, pg. 4). However, the decrease in outside services in 2008 (Ex. 4, Tab 2, Sch. 1) is only $102,000, leaving a net increase of more than $95,000.

29. Energy Probe submits that ETPL has not provided sufficient justification for a net increase to ratepayers of $95,000. ETPL has not provided sufficient evidence to support the need to pay more for these positions through an affiliate than it paid to others as outside services.

<u>b) ETPC Board of Directors</u>

30. ETPL is proposing that their ratepayers should pay for two sets of Board of Directors. The response to Energy Probe Interrogatory #16b states that:

> *"ETPL is charged 100% of the corporate governance costs including directors fees and related expenses in respect of the ETPL Board of directors. Costs associated with the ETPC Board and other executive costs are allocated based on revenues of the various affiliates."*

31. Energy Probe submits that it is not appropriate for ratepayers to bear the costs of the parent company, ETPC, Board of Directors in addition to the Board of Director costs for ETPL. As shown in Table B above, the amount associated with the ETPC Board of Directors in 2008 is $104,438. This figure was confirmed in the response to Energy Probe Supplemental Interrogatory #6a. This response indicated that the total costs associated with the ETPC Board in 2008 was $142,431, of which $104,438 was allocated to ETPL.

32. The costs associated with the parent company's corporate governance including its Board of Directors should be a shareholder expense. Ratepayers properly pay the costs related to the Board of Directors of the distribution utility, but they should not be expected to pay for a second set of Directors associated with the parent company.

Depreciation & Amortization

33. Energy Probe has reviewed the calculation of the depreciation and amortization expense (Energy Probe Interrogatory #17). It appears that ETPL is using depreciation rates that correspond to those in the 2006 EDR Handbook. As a result, subject to any change in asset mix, Energy Probe supports the depreciation and amortization expense calculations.

Revenues

a) Customer Forecasts

34. The evidence indicates that ETPL has consistently under forecast the number of customers for the 2007 bridge year in the residential and general service customer classes. This under forecast results in 2008 forecast numbers being too low in the categories. The following table illustrates the forecast for 2007 (Ex. 3, tab 2, Sch. 1, pg. 5) as compared to the actual number of customers (Energy Probe Supplemental Interrogatory #2). Customer classes where the actual and forecast figures were the same have not been included in the table.

Table C – Bridge Year Customers

Customer Class	Actual 2007	Forecast 2007	Difference
Residential	12,335	12,328	7
GS<50 kW	1,388	1,375	13
GS>50 to 999 kW	141	138	3

35. For both of the GS customer classes shown in Table C, the actual number of customers at the end of 2007 is equal to the forecasted number of customers at the end of 2008. In other words, ETPL has already hit its 2008 forecast in these categories at the end of 2007.

36. Energy Probe submits that the Board should increase the customers forecast for 2008 by an amount equal to the difference in the 2007 actual as compared to forecast difference. In other words, residential customers in 2008 should be increased by 7, GS <50 kW should be increased by 13, and GS >50 to 999 kW should be increased by 3. Based on the normalized 2008 average consumption which can be calculated from the information provided in the schedule attached to the response of Energy Probe Supplemental #2, the corresponding increases in volumes would be as follows:

- Residential – 7 customers x 9,893 kWh/customer = 69,251 kWh
- GS < 50 kW – 13 customers x 29,150 kWh = 378,950 kWh
- GS >50 to 999 kWh – 3 customers x 611,899 kWh = 1,835,697 kWh
- GS >50 to 999 kWh – 3 customers x 2,550 kW = 7,650 kW.

37. Using these incremental customer numbers and volumes, the incremental revenues, cost of power, transmission charges, etc., can be estimated and used to adjust the revenue requirement.

b) Normalized Average Use

38. ETPL has calculated the normalized average use per customer (for the weather sensitive customer classes) based on the weather normal retail kWh for 2004 divided by the number of customers in 2004. The 2004 weather normal data is based on information generated by Hydro One using their weather normalization model for the Cost Allocation process (Ex. 3, Tab 2, Sch. 1).

39. The result of this methodology is that the normalized average use per customer for weather sensitive customer classes is assumed to be flat, neither declining nor increasing. Given the lack of information to determine otherwise, Energy Probe submits that the Board should accept this assumption for the purpose of setting rates in 2008.

c) Ethanol Plant

40. ETPL has included the capital expenditures associated with the line extension to serve the new Aylmer Ethanol Plant in 2007 (Ex. 2, Tab 3, Sch. 3). However, it does not appear that ETPL has included any distribution revenue in the 2008 forecast. As shown in the response to Energy Probe Supplemental Interrogatory #12, ETPL expects this customer to fall into the GS >3000 kW rate class. A review of the customer forecast for this rate category shown in Exhibit 3, Tab 2, Schedule 1, page 5 shows only 1 customer in 2007 and 2008. This number is unchanged from the historical levels of 2002 through 2006 (Energy Probe Interrogatory #7).

41. The estimated annual distribution revenue from this customer has been estimated to be $189,850 and is schedule to start up in June of 2008, although full production is not expected until early to mid 2009 (Energy Probe Supplemental Interrogatory #12a&c). Based on this information Energy Probe submits that distribution revenues should increased for the 2008 test year by approximately $47,500. This represents a reduction to the annual distribution revenue of $189,850 by 50% to reflect start up half way through 2008 and a further 50% reduction to reflect that the plant is not expected to be at full production in 2008.

Taxes

42. Energy Probe submits that ETPL should calculate its income and capital taxes using the most recent information available, including tax rates that are applicable to 2008.

a) Capital Tax

43. ETPL used a rate of 0.285% to calculate the 2008 capital tax amount of $20,391 (Ex. 4, Tab 3, Sch. 1). As the Board is aware, the Ontario Government reduced this rate to 0.225% for 2008. Based on the response to Energy Probe Interrogatory #18, including Schedule 18, the Ontario capital tax using this lower rate totals $16,098, a reduction of $4,293 or approximately 21%.

b) Income Tax

44. The response to Energy Probe Interrogatory #18 and Energy Probe Supplemental Interrogatory #9 also provide an update to the income tax calculation using recently announced rates for 2008.

45. ETPL originally calculated their income tax to be $282,461 (Ex. 4, tab 3, Sch. 1). Based on the response to Energy Probe Interrogatory #18, this has been reduced to $232,365. This reduction is primarily related to two changes made by ETPL. The first is a reduction in the federal income tax rate from 20.5% to 19.5%. Energy Probe agrees with this reduction. The second change is the increase in the CCA deduction from $826,372 to $911,843. This increase was solely due to the moving the 2006 distribution system assets from Class 1 to Class 47, as should have been done (Energy Probe Supplemental Interrogatory #9b). Energy Probe submits that the increase in the CCA deduction is appropriate.

46. However, Energy Probe submits that the amount of $232,365 as calculated still does not reflect the most recent income tax rates that have been announced by the provincial government.

47. As indicated in the response to Energy Probe Interrogatory #18c, ETPL utilized a provincial tax rate of 5.5% and a SBD clawback rate of 4.667%. The threshold for the Ontario SBD utilized was $400,000. In additional the provincial income tax rate applicable to income in excess of this threshold is 14.0%. Table D below shows the calculation of the provincial income tax based on the ETPL rates used (and are based on a taxable income of $836,719 taken from the response to Energy Probe Interrogatory #18).

Table D – Provincial Income Tax as Calculated Using ETPL Rates

Tax on first $400,000 @5.50%	$22,000
Clawback on next $1,128,519 @4.667%	$20,382
Tax on all over $400,000 @ 14.00%	$61,141
Total Provincial Income Tax	$103,522

48. On December 13, 2007, the Ontario Government announced a number of new tax initiatives in the 2007 Ontario Economic Update and Fiscal Review. Among these was the reduction in the capital tax rate noted above. Another significant change was an increase in the small business deduction threshold from $400,000 to $500,000. The clawback rate was changed from 4.667% to 4.25% and this rate applies to taxable income between $500,000 and $1,500,000. Based on these new provincial tax rates, Energy Probe has recalculated the provincial income tax payable by ETPL as shown in Table E below.

Table E – Provincial Income Tax as Calculated Using Announced Rates

Tax on first $500,000 @5.50%	$27,500
Clawback on next $1,000,000 @4.250%	$14,311
Tax on all over $500,000 @ 14.00%	$47,141
Total Provincial Income Tax	$88,952

49. The reduction in the provincial income tax is substantial. A comparison of Table E with Table D shows that the decrease in the total provincial income tax is $14,570. This is a reduction of more than 14%.

50. Again, Energy Probe submits that the Board direct ETPL to use the most recent information available, including the above noted changes to the Ontario small business deduction, when it calculates the income and capital tax component of its revenue requirement.

Deferral and Variance Accounts

51. ETPL is applying for the disposition of 5 RSVA accounts (1580, 1582, 1584, 1586, 1588) and the LV variance account (1550) (Ex. 5, Tab 1, Sch. 3).

52. The Board recently indicated (by a letter dated February 19, 2008) that it intended to launch an initiative for the review and disposition of account 1588. The Board further indicated that it would consider whether to extend this initiative to all of the RSVA and RCVA accounts. Energy Probe therefore submits that the Board should not order the disposition of any of the RSVA accounts at this time.

53. Account 1550 is related to the LV costs incurred in 2006 but not recovered, along with interest up to April 30, 2008. Based on the response to Board Staff Interrogatory #40, ETPL's approved 2006 distribution rates included a provision for LV costs. However, because these rates were not approved until January 1, 2007, no LV revenues were collected in 2006. The projected April 30, 2008 balance in this account, including interest is $370,764. The allocation of this amount is based on kWh and ETPL is seeking to dispose of this balance over a 2 year period.

54. It is unclear whether ETPL used the appropriate prescribed interest rates in calculating the interest on this account, since interest has been calculated through to the end of April, 2008 and the prescribed interest rate for the second quarter of 2008 was released by the Board after ETPL filed its evidence.

55. Subject to verifying the final balance as of April 30, 2008, Energy Probe agrees with the disposition of this account, the proposed allocation of the account among rate classes, and the two year recovery period.

Cost of Capital

a) Capital Structure

56. ETPL is requesting a deemed capital structure of 46.67% equity and 53.33% debt (including 4.0% short term debt) for the 2008 test year. Energy Probe agrees with this deemed capital structure for the test year as it complies with the OEB Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors dated December 20, 2006.

b) Return on Equity

57. The ETPL evidence is based on a requested return on equity of 8.68% (Ex. 6, tab 1, Sch. 1). However, ETPL confirmed that the ROE requested would be adjusted to reflect the Board approved formula adjustments that reflect the January Consensus Forecasts and the actual 10 and 30 year Government of Canada bond yields (Energy Probe Interrogatory #21). Based on the Board's March 7, 2008 letter regarding the Cost of Capital Parameter Updates for 2008 Cost of Service Applications, the return on equity figure to be used in 8.57%. Energy Probe submits that this figure be used in place of the 8.68% used by ETPL.

c) Short Term Debt Rate

58. Similarly, ETPL has utilized a short term debt rate of 4.77% (Ex. 6, Tab 1, Sch. 2) in their evidence. However, as stated in response to Board Staff Interrogatory #28, ETPL proposes that the short term debt rate be updated. This update would be based on the same information as that noted above related to the ROE. Energy Probe supports this update of the short term debt rate and notes that in the Board's March 7, 2008 letter referenced above this rate has been calculated as 4.47%.

d) Long Term Debt Rate

59. ETPL has included a long term debt rate of 7.25% in its revenue requirement calculations. According to ETPL this was the Board approved rate when set (Board Staff Interrogatory #30e) and that this rate has been approved by the Board on several occasions. Moreover, ETPL states that the 7.25% is the appropriate rate for 2008 because in the Board Report, at Section 2.2.1, the Board states that "The Board has determined that for embedded debt the rate approved in prior Board decisions shall be maintained for the life of each active instrument, unless a new rate is negotiated, in which case it will be treated as new debt."

60. A review of Section 2.2.1 of the Board Report also states that "For all variable-rate debt and for all affiliate debt that is callable on demand the Board will use the current deemed long-term debt rate. When setting distribution rates at rebasing these debt rates will be adjusted regardless of whether the applicant makes a request for the change."

61. According to ETPL's 2006 Audited Financial Statements (Ex. 1, Tab 3, Sch. 1) this long term debt has a rate of interest that "is currently 7.25% an is set by the Board of Directors, from time to time" (Note 12). The term of the debt is also "undefined".

62. In light of the long term debt not having a fixed interest rate or a fixed term, Energy Probe submits that the Board may want to treat this debt as a variable rate debt instrument from an affiliated party that is callable, given the lack of a defined term. According to Section 2.2.1 of the Board Report, under such circumstances, the interest rate to be applied is the current deemed long-term debt rate. As provided in the Board's March 7, 2008 letter, this rate is 6.10%, which is significantly below the 7.25% set by the Board of Directors. Energy Probe submits that the 6.10% is the appropriate rate for affiliated long-term debt that does not have a fixed rate or defined term.

Revenue to Cost Ratios

63. ETPL is proposing to move all rate classes to a 101% revenue to cost ratio, with the exception of the Street Light classification. This classification would be moved to a ratio of 70%. At a ratio of 70%, the Street Light class requires a subsidy of $113,716 from the other customer classes. Hence the need to set the ratios for all the other customer classes at 101%, rather than 100%.

64. All of these proposed revenue to cost ratios are within the ranges specified in the Board's November 28, 2007 EB-2007-0667 Report of the Board. As such Energy Probe can support the proposed revenue to cost ratios for the 2008 test year.

65. However, Energy Probe does not support ETPL's proposal to move the Street Light class to a revenue to cost ratio of 100%, along with the necessary changes to all other rate classes, upon the next rebasing window (Ex. 8, Tab 1, Sch. 2, pg. 3). Energy Probe submits that the Board should direct ETPL to adjust the revenue to cost ratio for the Street Light class to 100% (with a corresponding decrease for other rate classes) during the incentive regulation period.

66. Specifically, Energy Probe submits that the ratio should be raised to 85% in 2009 and to 100% in 2010. This would ensure that there was not remaining cross subsidization issues to be resolved during the next rebasing filing. There is not reason, in the view of Energy Probe, to delay moving the Street Lighting class to a level that no longer involves the subsidization by customers from other rate classes.

Costs

67. Energy Probe requests that it be awarded 100% of its reasonably incurred costs. Recognizing the size of ETPL, Energy Probe has attempted to minimize its time on this application, while at the same time ensuring a thorough review.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

April 18, 2008

Randy Aiken

Consultant to Energy Probe

Appendix A - Rate Base Calculation

	2006			2007			2008		
	Gross	Acc. Dep	Net	Gross	Acc. Dep	Net	Gross	Acc. Dep	Net
Total Opening Balance	18,623,457	(3,184,989)	15,438,468	20,412,047	(4,008,229)	16,403,818	21,362,379	(4,898,482)	16,463,897
Total Additions	1,795,445	(4,573)	1,790,872	950,332	0	950,332	1,123,000	0	1,123,000
Total Depreciation	0	(818,667)	(818,667)	0	(890,253)	(890,253)	0	(934,557)	(934,557)
Total Adjustments	(6,855)	0	(6,855)	0	0	0	0		0
Total Closing Balance	20,412,047	(4,008,229)	16,403,818	21,362,379	(4,898,482)	16,463,897	22,485,379	(5,833,039)	16,652,340
Rate Base	19,517,752	(3,596,609)	15,921,143	20,887,213	(4,453,356)	16,433,858	21,923,879	(5,365,761)	16,558,119
(average of opening & closing balances)						3.2%			0.8%

Source: Board Staff Interrogatory #19C