

Ontario Energy Board

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
S.O. 1998, c. 15, Sched. B;

AND IN THE MATTER OF an application by Cambridge
and North Dumfries Hydro Inc. for an order approving just and
reasonable rates and other charges for electricity distribution to
be effective May 1, 2014.

**COMMENTS ON DRAFT ISSUES LIST OF
ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")**

December 23, 2013

These are the comments of Energy Probe Research Foundation ("Energy Probe") with respect to the Draft Issues List attached as Appendix B to Procedural Order No. 1 dated December 16, 2013.

Energy Probe has had the opportunity to review the comments of the School Energy Coalition ("SEC"). Energy Probe shares the view of the SEC that the proposed issues list has fundamental flaws: potential legal concerns and uncertainty, implicit establishment of new tests and policies, and unnecessary expansion of the rate application process.

Energy Probe is concerned that the proposed issues list may unnecessarily prolong the proceeding.

Energy Probe has provided a proposed issues list in Appendix A. This proposed issues list was initially presented in the submissions on the issues lists by the Vulnerable Energy Consumers Coalition ("VECC") in EB-2013-0155, EB-2013-0159 and EB-2013-0160.

Energy Probe submits that the proposed issues listed under Phase I and Phase II in Appendix A are the result of experience gained by intervenors and distributors over several years. These issues are simple, easily understood by all parties and cover all the components of the revenue requirement and the recovery of the revenue requirement. All parties have experience dealing with them in previous cost of service applications. This experience allows the parties to benefit from regulatory efficiencies gained through this knowledge.

Phase III in Appendix A includes all of the additional issues that are being introduced in the proposed issues list in the procedural order, while continuing to include the issues that have been developed in practice over the last number of years that do not have a direct impact on the revenue requirement, or the recovery of the revenue requirement.

Energy Probe believes that its proposed issues list will result in more comprehensive and detailed settlement agreements as the issues are clearly defined and specific.

If the Board believes that the proposed issues list included in the procedural order is a more appropriate starting point for comments, then Energy Probe has provided comments below on changes that it believes are needed. Where changes or additions have been proposed, Energy Probe has highlighted the text through the use of italics and underlining.

Issue 2.1

With respect to Issue 2.1, Energy Probe submits that more clarity is required around the phrase "delivering on Board-approved plans from its most recent cost of service decision". As the Board is aware, only the test year capital expenditure amounts and OM&A amounts were approved by the Board. As a result, there are no Board approved plans from the last cost of service decision dealing with either capital expenditures or OM&A. Energy Probe submits that it would be useful if the Board could specify the Board-approved plans to which the issue refers.

Issue 3

Energy Probe submits that there needs to be an additional issue included in Issue 3 - Customer Focus. As the Board is aware, the most significant issue identified in the majority of customer surveys is the cost of electricity. Energy Probe submits that this should be reflected in the Issues List with the addition of the following issue:

3.2 Are the proposed rates just and reasonable?

Issue 4.2

If the Board determines that there does not need to be an issue in 7 - Revenue Requirement related to the level of OM&A expenses (see below), then Energy Probe submits that Issue 4.2 should be expanded as follows:

4.2 Are the applicant's proposed OM&A expenses clearly driven by appropriate objectives and is the proposed level of expenses appropriate?

Issue 4.3

Energy Probe submits that Issue 4.3 is incomplete in that it only refers to reasonable rates rather than just and reasonable rates. Further, the issue as is currently worded is biased in that it deals only with reasonable rate increases. This can be corrected through the following changes:

4.3 Are the applicant's proposed operating and capital expenditures appropriately paced and prioritized to result in just and reasonable rates, or is any additional rate mitigation required?

Issue 7

Energy Probe notes that there is no sub-issue in Issue 7 - Revenue Requirement related to the level of OM&A expenses. Energy Probe further submits that the level of OM&A expenses is not adequately covered under Issue 4.2. As a result, there should be a sub-issue in the revenue requirement section of the Issues List that addresses one of the largest components of the revenue requirement:

7.X1 Is the proposed level of OM&A expenses appropriate?

Similarly, Energy Probe submits that the historical level of OM&A expenses should be reviewed in order to determine an appropriate basis for comparison of the test year forecasts.

7.X2 Were the OM&A expenses for the last test year through the current bridge year appropriate and prudent, and do they present a reasonable foundation on which to base the forecast of OM&A expenses for the Test Year?

Issue 7.1

Energy Probe submits that Issue 7.1 should be expanded to include a reference to historical and forecast capital additions to rate base, as shown below. Rate base is an accumulation of everything that has happened since the last cost of service decision. As a result the test year rate base cannot be examined fully without the ability to review historical additions to rate base.

7.1 Is the proposed Test year rate base including *historical and forecast capital additions* and the working capital allowance reasonable?

Another way to get the same result is to split issue 7.1 into two parts. The first sub-issue would be as follows:

7.1.1 Is the proposed Test year rate base including *forecast capital additions* and the working capital allowance reasonable?

This would take into account the forecasted bridge and test year capital additions that need to be reviewed in order to determine if the test year rate base is appropriate.

The second part of the issue would deal separately with the prudence and levels of capital expenditures in historical years from the most recent cost of service decision, including any variance between bridge and test year forecasts in the last application.

7.1.2 Were all capital expenditures from the last test year to the last year of historical data in the current application prudently incurred and were the actual capital expenditures incurred in the bridge and test years from the last cost of service application reflective of the Board approved rate base in that proceeding?

Issue 7.3

Energy Probe notes that the Applicant does not pay corporate income taxes, but rather pays PILs. As a result, Issue 7.3 should be as stated below:

7.3 Are the proposed levels of taxes/PILs appropriate?

Issue 7.4

Energy Probe submits that in addition to the allocation of the shared services and corporate costs, the level of these costs is also an issue. Allocating the correct way does not mean that the costs being allocated are appropriate. The wording should be amended as follows:

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

Issue 8

Energy Probe notes that there is no specific issue addressing the CDM impacts in either the load forecast or that used as the baseline for future LRAM calculations. Energy Probe submits that there should be such an issue, as follows:

8.X Does the load forecast appropriate reflect the impacts of historical and forecasted CDM and are these CDM impacts appropriately reflected in the base case for the LRAM variance account?

Issue 8.6

Energy Probe submits that the issue should be expanded to include bill impacts. This is needed because of the significant differences in bill impacts upon customers in the same rate class.

8.6 Is the proposed Tariff of Rates and Changes and bill impacts an accurate representation of the application, subject to the Board's findings on the application?

**APPENDIX A
ENERGY PROBE PROPOSED ISSUES LIST**

Phase I – Revenue Requirement

1. Rate Base

1.1 Has the Applicant an asset management plan which reasonably ensures that it can meet its future customer and public policy requirements?

1.2 Has the Applicant maintained its assets in accordance with customer service requirements and kept its assets in reasonable condition?

1.3 Is the historical rate base in accordance with prior asset plans and if not are the changes reasonable

1.4 Is the proposed rate base for the test year appropriate and in accordance with the proposed asset plan?

1.5 Is the working capital allowance for the test year appropriate?

1.6 Is the capital expenditure forecast for the test year appropriate?

2. Operating Costs

2.1 Is the overall OM&A forecast for the test year appropriate?

2.2 Are the methodologies used to allocate shared services and other costs appropriate?

2.3 Is the proposed level of depreciation/amortization expense for the test year appropriate?

2.4 Are the test year compensation costs and employee levels appropriate?

2.5 Is the test year forecast of property taxes appropriate?

2.6 Is the test year forecast of PILs appropriate?

3. Capital Structure and Cost of Capital

3.1 Is the proposed capital structure, rate of return on equity and short term debt rate appropriate?

3.2 Is the proposed long term debt rate appropriate?

Phase II – Recovery of Revenue Requirement

4. Load Forecast and Operating Revenue

4.1 Is the load forecast methodology including weather normalization appropriate?

4.2 Are the proposed customers/connections and load forecasts (both kWh and kW) for the test year appropriate?

4.3 Is the impact of CDM appropriately reflected in the load forecast?

4.4 Is the proposed forecast of test year throughput revenue appropriate?

4.5 Is the test year forecast of other revenues appropriate?

5. Cost Allocation

5.1 Is the Applicant's cost allocation study and model appropriate?

5.2 Are the proposed revenue to cost ratios for each class appropriate?

6. Rate Design

6.1 Are the fixed to variable splits for each class appropriate?

6.2 Are the proposed retail transmission service rates appropriate?

6.3 Are the proposed LV rates appropriate?

6.4 Are the proposed loss factors appropriate?

Phase III - Performance & Responsiveness

7. Performance Measures

7.1 Has the Applicant responded appropriately to all relevant Board directions from previous proceedings?

7.2 Are the Applicant's economic and business planning assumptions for the test year appropriate?

7.3 Is service quality, based on the Board specified performance indicators, acceptable?

7.4 Is the Applicant's benchmark performance reasonable and does the applicant support its improvement

7.5 Has the Applicant sought sufficient customer feedback?

7.6 Has the Applicant responded sufficiently to its customer focus programs and to customer complaints?

8. Public Policy Responsiveness

8.1 Has the Applicant met all of its public policy requirements.

8.2 Are the proposed expenditures (capital& operating) paced and prioritized resulting in a balanced approach to rate changes?

8.3 Has the Applicant met its requirements to deliver conservation and demand management programs?

8.4 Is the proposal related to LRAM appropriate?

8.5 Does the Green Energy Plan meet the mandated requirements

8.6 Has the Applicant met all its requirements in respect to smart metering implementation and ongoing operations?

9. Regulatory Accounting

9.1 Is the capitalization policy and allocation procedure appropriate?

9.2 Are the deferral and variance account balances, cost allocation methodology and disposition period appropriate?

9.3 Are the proposed rate riders to dispose of the account balances appropriate?

9.4 Are the proposed new deferral and variance accounts appropriate?

9.5 Has the Applicant made the appropriate adjustments for IFRS or MGAAP ?