

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

AND IN THE MATTER OF an Application by Kitchener-
Wilmot Hydro Inc. for an Order or Orders approving just and
reasonable rates and other service charges for the distribution
of electricity to be effective as of January 1, 2014.

AND IN THE MATTER OF Rule 40 of the *Rules of Practice
and Procedure* of the Ontario Energy Board.

**WRITTEN SUBMISSIONS OF
ENERGY PROBE RESEARCH FOUNDATION**

May 21, 2014

A. INTRODUCTION

The School Energy Coalition ("SEC") brought a motion to review and vary the Decision and Order dated March 20, 2014 in EB-2013-0147 (the "Decision") with regard to one discrete but material issue. This issue was the appropriate Working Capital Allowance ("WCA") for Kitchener-Wilmot Hydro Inc. ("KWHI"). In that Decision, the Ontario Energy Board (the "Board") determined that because KWHI was not required to file a lead-lag study, it did not need to consider any WCA percentage other than the default of 13% set out in the Board's Filing Requirements.

Pursuant to the Board's Notice of Motion to Vary and Procedural Order No. 1 dated May 1, 2014 in this proceeding, these are the submissions of the Energy Probe Research Foundation ("Energy Probe").

Energy Probe notes that the SEC motion seeks only a review of the Board's determination with respect to Issue 2.2 "Is the working capital allowance for the test year appropriate?"

Energy Probe fully supports the SEC submissions dated May 12, 2014.

B. FACTS

In the previous rebasing application (EB-2009-0267), KWHI proposed in its reply submission that it would undertake a lead-lag study in support of its next cost of service application. The Board found that proposal timely and appropriate, but given that the appropriate WCA percentage was being raised in other proceedings, it recognized that the Board might undertake a generic proceeding. As a result the Board stated that it expected KWHI to support its WCA in its *"next rebasing application based on the outcome of this Board led process or based on the lead/lag study that KWHI stated it would undertake"* (EB-2009-0267 Corrected Decision and Order dated April 7, 2010, page 27).

In the EB-2013-0147 Application, KWHI proposed a WCA of 13%. This was based on the Board's letter of April 12, 2012 (Appendix A) which provided the rationale for changes to the 2013 Filing Guidelines for electricity transmission and distribution applications. That letter indicated that a distributor had two approaches to calculating the WCA. It could file a lead-lag study or use the default value of 13%. A distributor who had had been directed by the Board to carry out a lead-lag study or had voluntarily carried out a lead-lag study was not allowed to use the default percentage. KWHI maintained that as a result of this letter, it was not required to file a lead-lag study.

In the Decision, the Board found that KWHI had responded to all relevant Board directions from previous proceedings and KWHI's interpretation of the Board's letter was reasonable, and thereby concluded that KWHI was not required to perform a lead-lag study in support of its application.

Energy Probe, like SEC, does not challenge this finding.

However, the Board determined that there was a link between the issue of whether or not a lead-lag study was required in support of its current application based on the Board's EB-2009-0267 Decision and Order and the calculation of the working capital allowance for the 2014 test year. The Board then indicated that it would provide its findings on these matters on a hierarchical basis, by first determining whether KWHI should have filed a lead-lag study in response to the Board's previous decision.

Having determined that KWHI was not required to file a lead-lag study as a result of the previous Board decision and subsequent events with respect to the Board's April 12, 2012 letter, the Board then determined that it did not need to consider any WCA percentage other than the default 13%.

C. ISSUE AND ARGUMENT

The Board based this decision on the filing guidelines which state that in the absence of previous direction from the Board to undertake a lead-lag study, a distributor can file a lead-lag study or use the 13% default figure.

If the need for a lead-lag study was only driven by the Board's previous decision and the Board's decision in this proceeding relative to that Board direction, Energy Probe submits that this would be the end of the story.

However, Energy Probe submits that the Board erred in its Decision because it did not consider the evidence before it related to the movement from bi-monthly to monthly billing and the impact that has on the WCA.

The Board acknowledged the cost of moving residential, GS<50 and MicroFit customers to monthly billing was about \$500,000 (page 15 of the Decision and Order). The Board failed to consider the evidence related to the benefits to ratepayers of the move to monthly billing of improved cash flow.

Energy Probe agrees with SEC with respect to the role of the filing requirements as stated in paragraphs 25 through 33 of their submission. In particular, Energy Probe agrees that the Board was wrong to conclude that since KWHI was not required to file a lead-lag study as a result of the previous direction, it did not need to consider any number other than the default figure.

If there had not been any previous direction for KWHI to file a lead-lag study, and there was no issue in this proceeding related to whether or not KWHI had responded appropriately to all relevant Board directions from previous proceedings, Energy Probe submits that the WCA percentage would still have been an issue in the proceeding because of the proposal to move from bi-monthly to monthly billing for the vast majority of its customers.

The filing requirements clearly state that *"The filing requirements provide the minimum information that applicants must file for a complete application. However, applicants should provide any additional information that is necessary to justify the approvals being sought in the application"* (Filing Requirements for Electricity Distribution Rate Applications, July 17, 2013, Chapter 1, page 2).

By not considering the evidence related to a different WCA than the default level, the Board failed to review all the additional information on the record in this proceeding to justify the approval to recover the impacts of moving to monthly billing on customers through their rates. The Board only considered the incremental costs of the move, while not considering the incremental benefits of improved cash flow and the corresponding reduction in rate base that would reduce rates to customers.

Energy Probe spent a considerable amount of cross examination time and devoted a significant portion of its written argument in the EB-2013-0147 proceeding examining and arguing why the default 13% factor was not appropriate for a distributor moving to monthly billing (See Appendix B in the SEC Submission). As was clearly demonstrated the default value of 13% was based solely on distributors that billed the majority of their customers on a bi-monthly basis.

Energy Probe submits that the impact on not changing the WCA from the default level on ratepayers is material. As the KWHI witness confirmed, a one percentage point reduction in the WCA percentage results in a reduction in rates recovered from ratepayers of about \$160,000 (Tr. Vol. 1, page 72).

In the Argument dated January 23, 2014, Energy Probe submitted that an appropriate WCA is 9.365% rather than the 13% default level. This represents a reduction of 3.635 percentage points, which at a ratepayer impact of \$160,000 per percentage point, is a total ratepayer impact of more than \$580,000. KWHI's materiality threshold is \$175,000 (Exhibit 1, Tab 4, Schedule 1). Energy Probe notes that the ratepayer impact is not only material, but when compared to the approved base revenue requirement of \$38,449,392 (Appendix C-RRWF in Draft Rate Order dated April 4, 2014), this impact represents more than a 1.5% decrease in the base revenue requirement.

D. REMEDY

Energy Probe supports the remedy sought by SEC in their Motion.

E. COSTS

Energy Probe requests that it be awarded 100% of its reasonably incurred costs in connection with its participation in this proceeding.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

May 21, 2014

**Randy Aiken
Consultant to Energy Probe**