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September 23, 2014

BY FAX & BY 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-2014-0211
Halton Hills Hydro Inc. --- Z Factor Application
Energy Probe – Argument

Pursuant to Procedural Order No. 2, issued on September 9, 2014, please find attached the Argument of Energy Probe Research Foundation (Energy Probe) in the EB-2014-0211 proceeding for consideration by the Board.

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

Yours truly,

David S. MacIntosh
Case Manager

cc. Arthur Skidmore, Halton Hills Hydro (By email)
David Smelsky, Halton Hills Hydro (By email)
Randy Aiken, Aiken & Associates (By email)
Parties of Interest (By email)

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Ontario Energy Board

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 Halton Hills
Hydro Inc. for an order, approving the recovery of amounts
related to the restoration of electricity service in the Town of
Halton Hills due to the December 2013 Southern and Eastern
Ontario Ice Storm, to be effective November 1, 2014 for 24
months.

**ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")**

ARGUMENT

September 23, 2014

**HALTON HILLS HYDRO INC.
2014 Z-FACTOR APPLICATION**

EB-2014-0201

ARGUMENT OF ENERGY PROBE RESEARCH FOUNDATION

A- INTRODUCTION

This is the Argument of the Energy Probe Research Foundation (“Energy Probe”) related to the issues raised by the Z factor application of Halton Hills Hydro Inc. (“HHHI”).

Energy Probe takes no issue with the claim of Z factor eligibility. Energy Probe submits that HHHI has adequately substantiated the claim.

In particular, Energy Probe submits that the amounts claimed by HHHI (subject to the submissions below) are directly related to the Z factor event and are incremental to the base upon which rates were derived.

The amounts (again subject to the submissions below) were prudently incurred and are in excess of the Board-defined materiality threshold for HHHI of \$50,000 (Application, paragraph 1.9).

However, Energy Probe does take issue with the amount claimed and the allocation to and recovery from customers of the amount to be claimed. Energy Probe also makes a submission on the timing of the recovery of the costs.

Submissions on these issues are provided below.

B - SUBMISSIONS

a) Amount of the Z Factor Claim

HHHI is claiming a Z factor amount of \$1,561,372 that is related to incremental OM&A costs, including interest (Application, paragraph 1.4), but is not claiming any cost of capital related to incremental capital expenditures because the amount is small (Application, paragraph 1.5).

Energy Probe submits that the claim for overtime hours worked by Management should be disallowed. This amount, \$70,973, is shown in the response to a Board Staff interrogatory on Incremental Internal Labour Costs at page 10 of 33 of the responses.

The same interrogatory response indicates that HHHI does not have a written policy for payment of overtime for non-Union employees in support of the amounts shown in Table IRR1. The decision to pay overtime to management employees due to the ice storm was made by the President and Chief Executive Officer and the Board of Directors.

Energy Probe submits that in the absence of a written policy with respect to the payment of overtime to management personnel it is not appropriate to require ratepayers to pay for such overtime. Energy Probe submits there is no reason that HHHI ratepayers should pay for this management overtime when they do not pay for other management overtime that takes place during the normal course of business. This is a departure from HHHI's operating practices and should not be recoverable from ratepayers.

b) Allocation and Recovery

i) Allocation

Energy Probe submits that there are two allocation methodologies that the Board should consider in allocating costs to the rate classes.

The first of these is referenced in the Board Staff interrogatory related to the Allocation of Recovery Costs (page 24 of 33) and is based on the last OEB-approved distribution revenue by rate class. This allocation is consistent with the Board's Decision on The Combined Proceeding on Storm Damage Cost Claims (EB-2007-0514/0595/0571/0551) and the Board's Decision on Niagara-on-the-Lake Hydro Inc.'s wind storm damage Z-factor claim (EB-2011-0186), where the Board ruled that approved costs shall be allocated to the classes on the basis of distribution revenue.

Energy Probe notes that while this methodology has been approved by the Board in other proceedings, it suffers from the fact that distribution revenues do not provide a true view of costs because the revenue to cost ratios for rate classes are not all the same. This is clearly illustrated in Issue 7.2 in the Partial Settlement Agreement dated February 28, 2012 accepted by the Board in the EB-2011-0271 cost of service proceeding, where the revenue to cost ratios ranged from a high of 120% to a low of 96%. Energy Probe submits that the customers with a high revenue to cost ratio should not bare a higher proportion of their costs than customers in other rate classes. There is already a level of subsidization that is taking place through the divergent revenue to cost ratios that should not be extended to the recovery of a Z factor event.

The second alternative would be to allocate the costs among the rate classes in the same proportion as the costs included in accounts 5120 and 5135 in the last OEB approved cost allocation study. These accounts record the costs associated with the maintenance of

poles, towers and fixtures, and the maintenance of overhead conductors and devices, which includes tree trimming costs.

Energy Probe submits that the second alternative is the more appropriate way to properly allocate the costs to rate classes. If similar costs had been incurred on a preventative basis, such as additional tree trimming, the costs would be allocated to rate classes based on the Board approved cost allocation methodology. Energy Probe sees no reason to deviate from the principles of cost causality when allocated the costs associated with a specific event such as an ice storm.

In the response to Energy Probe Interrogatory #7, HHHI states that tree trimming is considered OM&A and therefore allocated based on the same basis as the revenue requirement that was derived from the cost allocation model and that, as a result, there would be no change from the allocation proposed by HHHI which is based on distribution revenue. Energy Probe respectfully disagrees. Individual components of OM&A are allocated in different proportions to rate classes. There is not one overall allocation of OM&A to rate classes. Even if there were, this allocation of OM&A would not be the same as the allocation of distribution revenue since the distribution revenue also includes a return on capital, depreciation and PILs expenses associated with rate base. Rate base is not allocated the same way as OM&A.

ii) Recovery

Energy Probe submits that the recovery of the Z factor amount through the use of a fixed rate rider is appropriate. Costs should be recovered based on a customer basis, rather than a consumption basis. This is because the costs proposed for recovery in this application are customer driven and not consumption driven.

However, Energy Probe submits that the Board should direct HHHI to base the monthly fixed rate rider on the forecast number of customers over the duration of the term of the rate rider rather than number of metered customers at the end of 2013 (26,299), as proposed by HHHI.

As shown in the response to Energy Probe Interrogatory #4 in Table IRR10, HHHI forecasts that it will have 824 more residential customers than it did at the end of 2013, while at the same time, having 88 less GS<50 customers than it did at the end of 2013, along with 15 fewer GS>50 customers and 11 fewer sentinel customers. The result is that residential customers will over contribute to the recovery of the Z factor claim, while the rate classes that have fewer customers in the future will under contribute to the class.

HHHI agrees that its proposal would result in over recovery of the balance in the Z factor account (Energy Probe Interrogatory #6d). This over collection will be tracked and refunded to customers in the future. However, it is not clear that it will be tracked at the rate class level, which would mean that the residential class could end up paying more than their allocated share of the costs because they are growing in terms of the number of customers while the other rate classes are stagnant or declining.

Energy Probe submits that it is better policy to set the rate rider based on readily available information (customer forecasts) rather than to set a rider that will, by definition, over collect from customers. This information has been provided by HHHI in Table IRR10.

In summary, Energy Probe submits that the fixed rate rider should be set based on the expected average number of customers/connections in each rate class over the term of the rate rider.

c) Timing of the Recovery

Energy Probe supports the timing of the recovery as proposed by HHHI, being November 1, 2014. Board Staff have asked why the recovery should not be delayed until May 1, 2015 when the distribution rates are adjusted. Energy Probe submits that the answer to that question from the customer's perspective is the increase in costs associated with six months of additional carrying costs on the account. All this does is increase costs to customers. It also pushes back the recovery of the costs a further six months away from the event that gave rise to the cost.

C - COSTS

Energy Probe requests that it be awarded 100% of its reasonably incurred costs. Energy Probe focused on the quantum and allocation of the Z factor claim.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

September 23, 2014

**Randy Aiken
Consultant to Energy Probe**