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November 13, 2008

BY EMAIL & 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-2007-0928
Erie Thames Powerlines Inc. – 2008 Rates Rebasing Application
2008 Draft Rate Order

Pursuant to the Decision and Order issued by the Board on October 27, 2008, Energy Probe Research Foundation (Energy Probe) encloses two hard copies of its Comments on the Draft Rate Order filed by the Applicant in the EB-2007-0928 proceeding.

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)
Graig Pettit, Erie Thames Powerlines Corp. (By email)
Randy Aiken, Aiken & Associates (By email)
Interested Parties (By email)

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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")**

COMMENTS ON DRAFT RATE ORDER

November 13, 2008

**ERIE THAMES POWERLINES INC.
2008 RATES**

EB-2007-0928

ENERGY PROBE COMMENTS – DRAFT RATE ORDER

- 1. Energy Probe has reviewed the EB-2007-0928 Draft Rate Order and has concerns with the information provided at page 26 of 54 and page 38 of 54. These concerns would then result in changes to the information on page 39 of 54 that shows the calculation of the Revenue Sufficiency Rider.**
- 2. The table at the bottom of page 26 shows the calculation of the distribution revenue requirement based on the Board's Decision. Energy Probe believes that it correctly reflects the adjustments related to the OM&A costs, return and PILS. However, upon a review of the revenue requirement provided in this table as compared to the proposed rates shown in the calculations on page 38 of 54, there appears to be a problem.**
- 3. In particular, the total revenue requirement shown on page 26 is \$7,035,403. This figure is based on the figure of \$6,503,701, with the \$531,702 related to revenue offsets added back in. This is required to put the distribution related revenue requirement on the same basis as the total revenues shown on page 38. The total revenue with proposed rates of \$7,195,606 on page 38 is \$160,203 higher than the associated revenue requirement. Energy Probe has attempted to reconcile these figures as follows.**
- 4. Energy Probe had expected the calculation in the Proposed Rates column in the table on page 38 of 54 to show total revenue of \$7,035,403, rather than \$7,195,606. This is because the revenue shown on page 38 should be the same as the distribution revenue requirement shown on page 26 (excluding the reduction related to the revenue offset).**

5. Energy Probe believes that there are two errors in the calculations in the table shown on page 38 of 54. The first error is in the level of interest shown of \$699,911 in both the Existing Rates and Proposed Rates columns. This figure should be \$689,500. This figure is the sum of the deemed long term interest of \$649,729 and the deemed short term interest of \$39,771, both of which are shown in the table on page 21 of 54. This also matches with the total return of \$1,579,150 shown in the table on page 26. This is comprised of \$889,650 return on equity and \$689,500 in deemed interest costs.
6. The second error is in the calculation of income taxes shown in both the Existing Rates and Proposed Rates columns in the table shown on page 38 of 54. It would appear that the tax has been calculated as 33.5% of the Utility Income Before Income Taxes line immediately above the tax figures. This calculation is incorrect in that it does not reflect adjustments to utility income for tax purposes, does not utilize the proper tax rate and does not take into account the capital tax.
7. Energy Probe has provided a revised table (attached) that shows the proper calculation of income and capital taxes, along with the change in the interest expense.
8. The calculation of the income taxes and total taxes is shown in the bottom portion of the table. The income tax is calculated based on the utility income before income taxes as calculated in the top section of the table, adjusted for additions and deductions to accounting income to arrive at the regulatory taxable income. These additions and deductions are taken from the tax calculations shown page 13 of 54 in the 2008 Test Decision column. The tax rate of 25.00% is also taken from this column on page 13 of 54. Finally, the capital tax of \$16,625 is also taken from the Decision column on page 13 of 54.

9. The income tax cost of \$563,262 in the Existing Rates column is then inserted on the Income Taxes line, resulting in utility income of \$1,684,309. With a required return on the equity component of rate base of \$889,650, this results in a net sufficiency of \$794,659. This figure is then grossed up, reflecting the tax rate of 25%, to arrive at the revenue sufficiency figure of \$1,059,546 shown at the top of the Proposed Rates column. This reduction results in total revenues of \$7,035,401, as expected based on the distribution revenue requirement figures noted earlier.

10. With this total revenue figure (\$7,035,401), the income taxes are calculated to be \$298,376, consistent with the figure calculated on page 13 of 54 in the 2008 Test Decision column. The net result is utility income equal to the required return on the equity component of rate base of \$889,650.

11. The calculated revenue sufficiency grossed up for taxes of \$1,059,546 should then be utilized in the calculations on page 39 of 54. In particular, the value of A would become (1,059,546), B would become (88,296) and C would become (618,069). This figure would then be used to calculate the rate riders related to the revenue sufficiency that would be used over the five month period beginning December 1, 2008. For example, the residential rate rider would be approximately \$(0.0068) rather than \$(0.0058). Similar changes would be expected for the other rate classes.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

November 13, 2008

Randy Aiken

Consultant to Energy Probe

Appendix A

Determination of Net Utility Income - Page 38 of 54

	<u>Existing Rates</u>	<u>Proposed Rates</u>	<u>Difference</u>	
Revenue Sufficiency Grossed Up		(1,059,546)		
Distribution Revenue	7,563,245	7,563,245	0	
Other Operating Revenue (Net)	<u>531,702</u>	<u>531,702</u>	<u>0</u>	
Total Revenue	8,094,947	7,035,401	(1,059,546)	
Costs and Expenses				
Distribution Costs	2,731,912	2,731,912	0	
Operation & Maintenance	1,461,897	1,461,897	0	
Depreciation & Amortization	935,609	935,609	0	
Property & Capital Taxes	28,458	28,458	0	
Interest	<u>689,500</u>	<u>689,500</u>	<u>0</u>	Page 21 of 54 (\$649,729 plus \$39,771)
Total Costs and Expenses	5,847,376	5,847,376	0	
Utility Income Before Income Taxes	2,247,571	1,188,025	(1,059,546)	
Income Taxes	<u>563,262</u>	<u>298,376</u>	<u>(264,886)</u>	See Below
Utility Income	<u>1,684,309</u>	<u>889,650</u>	<u>(794,659)</u>	
Rate Base	22,243,361	22,243,361		
Equity Portion	46.67%	46.67%		
Equity Component of Rate Base	10,380,977	10,380,977		
Target Return on Equity	8.57%	8.57%		
Return on Rate Base	889,650	889,650		
Revenue Sufficiency	794,659	0		

Calculation of Income Taxes

Utility Income Before Income Taxes	2,247,571	1,188,025	
Additions to Accounting Income	935,609	935,609	Page 13 of 54
Deductions from Accounting Income	<u>996,632</u>	<u>996,632</u>	Page 13 of 54
Regulatory Taxable Income	2,186,548	1,127,002	
Income Tax @ 25.00%	546,637	281,751	
Capital Tax	<u>16,625</u>	<u>16,625</u>	Page 13 of 54
Total Taxes	<u>563,262</u>	<u>298,376</u>	