PUBLIC INTEREST ADVOCACY CENTRE
LE CENTRE POUR LA DEFENSE DE L'INTERET PUBLIC
ONE Nicholas Street, Suite 1204, Ottawa, Ontario, Canada K1N 7B7
Tel: (613) 562-4002. Fax: (613) 562-0007. e-mail: piac@piac.ca. http://www.piac.ca

Michael Buonaguro
Counsel for VECC
(416) 767-1666
VIA MAIL and E-MAIL

February 2, 2009

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: EB-2008-0205
Oshawa PUC Networks Inc. – 2009 Electricity Distribution Rate Application
Submissions of the Vulnerable Energy Consumers Coalition (VECC)
Part I: LRAM/SSM Claim; Smart Meter rate adder and 3GIRM adjustment

Please find enclosed the submissions of the Vulnerable Energy Consumers Coalition (VECC) on the Applicant's evidence in the above-noted proceeding regarding:

- 2006/2007 LRAM/SSM Claim
- Smart Meter rate adder and 3GIRM adjustment.

Note that we may have further submissions on the requested Incremental Capital adjustment by the deadline for filing submissions.

We have also be directed a copy of the same to the Applicant.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC

cc: Oshawa PUC Networks Inc.

EB-2008-0205

ONTARIO ENERGY BOARD

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

AND IN THE MATTER OF an Application by Oshawa PUC Networks Inc. pursuant to section 78 of the *Ontario Energy Board Act* for an Order or Orders approving just and reasonable rates for the delivery and distribution of electricity.

Oshawa PUC Networks Inc. 2009 Distribution Rate Adjustment Application

Submissions of the Vulnerable Energy Consumers Coalition (VECC)

The Application

Oshawa PUC Networks Inc. (Oshawa PUC) has applied under 3rd Generation IRM for 2009 rates including

- A new rate rider to reflect OPUCN's Lost Revenue Adjustment Mechanism ("LRAM") and Shared Savings Mechanism ("SSM") funds pursuant to the "Filing Requirements for Transmission and Distribution Applications" issued November 14, 2006.
- A change in the existing smart meter funding adder pursuant to OEB Guideline G-2008-002: Smart Meter Funding and Cost Recovery.
- An application for Incremental Capital pursuant to the guidelines contained in the IRM Report.

Issues upon which VECC wishes to Comment in this Part I submission

- **Lost Revenue Adjustment Mechanism("LRAM") and Shared Savings Mechanism ("SSM")**
- **Smart Meter Rate Adder**
- **3GIRM Adjustment**

Part I: LRAM/SSM Claim and Rate Rider

Oshawa PUC has filed a 2006 and 2007 LRAM claim of $192,021.15 for both 3rd Tranche MARR –funded and OPA- funded CDM programs executed in those years. Oshawa PUC has also filed for an SSM related to 3rd Tranche MARR funded CDM, In support of its 2006/2007 LRAM claim Oshawa PUC filed an independent (Enerspectrum) Review/Evaluation of its 2006 and results that was filed in last year's case, but has **not** provided an update, except in the form of an e-mail from Enerspectrum on the additional 2007 Traffic Light Signals Program that Oshawa PUC used to support the 2007 LRAM and SSM claim.

VECC has 4 general concerns that relate to the framework/rules under which the Oshawa PUC LRAM claim is filed and that in its view, result in a material overstatement of the kw/kwh savings and the $ LRAM claim. These concerns appear to be generically the same for all distributors that are filing LRAM claims for 2006 and or 2007 based on OPA funded CDM programs, including Every Kilowatt Counts (EKC) and in particular the major savings claimed for CFL-related measures. Our concerns include:

- Use of OEB Input assumptions rather than OPA input assumptions
- Variability among distributors related to calculation of (partial) Effectiveness
- Lack of adjustments for < 100% persistence
- Lack of OPA verification of results due to the (relatively new) OPA EVA program being focused on current and future CDM results

VECC's interpretation of the EB-2007-0037 Decision is that the use of the Board's TRC Guide and inputs and assumptions does not preclude the use of OPA assumptions for OPA-funded programs. The OPA provided its own Savings Calculator for the EKC campaigns and required its use by participating LDCs for reporting results that were compiled into the OPA Mearie Report on the 2006 EKC Campaigns.OPA also issued a revised EKC Program Calculator for use in OPA-funded 2007 campaigns[1].
Oshawa PUC used The OEB Guidelines for 3rd tranche MARR-funded CDM, but used the OPA EKC calculators to prepare its 2006 and 2007 LRAM claims for OPA-funded measures.

However, VECC notes that Hydro Ottawa used the OEB Guidelines except where there was no input assumption and then used other sources.

In addition, it should be noted that from 2006 to present, the OPA has modified its lifetime and gross savings estimates for a number of key Mass Market CDM measures, including CFLs.

To illustrate the problem the *current* OEB and the 2007 EKC Program Calculator and 2009 OPA measure and savings assumptions for a 15W CFL are shown below[2]

[1] Oshawa PUC Exhibit -Request for LRAM and SSM Adjustments Page 10 of 23
[2] Hydro Ottawa Response to VECC IR #2 part b) Page 5 of 6

MEASURE	OEB TRC GUIDE		OPA 2007 EKC Program Calculator		OPA 2009 Measures List	
	Life yrs	Gross kwh/yr*	Life yrs	Gross kwh/yr*	Life yrs	Gross kwh/yr*
CFL 15W	4	104	6	44.3	8	43

* Before adjustments for free ridership etc

Sources:

OEB Inputs and Assumptions for Calculating Total Resource Cost March 28, 2008
2007 OPA Every Kilowatt Counts Program Calculator
2009 OPA Measures and Assumptions List (Mass Market) November 2008 Page 93

The difference in gross kwh savings/yr (104-43.3/43) relates to a number of assumptions of which the number of hours operational use is the most significant. The OPA *2006* EKC Calculator used 104 kwh/unit/yr for 15w CFLs and the 2007 EKC calculator used 44.3 kwh/unit/yr. Other assumptions such as #units per coupon, lifetime and free ridership were also changed.

The materiality of VECCs concerns particularly about claimed CFL savings relates to the fact that like other distributors, Oshawa PUC has estimated that out of its total claimed kw/kwh savings, a significant amount (one third) is related to replacement of incandescent light bulbs with CFLs[3]. Similarly, for other measures errors in the measure input assumptions such as free-ridership, lifetime, inventory, operational profile, persistence and effectiveness can have a major impact (up or down) on actual savings and LRAM (and SSM) claims.

VECC suggests that the Board's Guidelines are key to a proper determination of the issue of whether the OPA input assumptions should be used in the evaluation of LRAM/SSM claims for OPA-funded CDM programs in 2006, 2007 and beyond:

> **7.3** (page 26)
> **LRAM**
> The input assumptions used for the calculation of LRAM should be the <u>best available at the time of the third party assessment referred to in section 7.5.</u> [emphasis added]
> For example, if any input assumptions change in 2007, those changes should apply for LRAM purposes from the beginning of 2007 onwards until changed again.

On January 27, 2009 the OEB issued its letter of Direction on use of OPA assumptions. That letter also confirms the above principle.

VECC submits that this means that at the time of a third party assessment, where available, OPA input assumptions should be used as the best available assumptions.

[3] Hydro Ottawa Response to VECC IR #9 Page 4 of 4

Certainly this applies to 2007 Mass Market measures such as CFLs regardless of whether these measures are rate-funded or OPA-funded.

The fact Oshawa PUC has not filed an independent assessment of its 3rd tranche and rate funded CDM programs for 2007 does not derogate from the application of this principle to Oshawa PUCs LRAM/SSM claim.

Ratepayers expect to compensate LDCs for the loss of load and energy delivered, but this must be based on realistic proxy for the actual savings.

Specific Concerns about the Oshawa PUC LRAM/SSM claim

Based on the evidence and IR responses from Oshawa PUC, there are two important and material issues that, in VECCs view, result in an overstatement of the 2007 LRAM and SSM claim.

These are in addition to the generic concerns about clamed savings for CFL-related Mass Market measures as noted above:

- Persistence of 2005/2006 measures
- Partial Effectiveness of 2007 Measures

<u>Persistence</u>

Like other Electricity Distributors Oshawa PUC has assumed that all residential mass market measures installed and for which an LRAM claim was made for 2005/2006 (both 3rd tranche and OPA programs) will continue to be 100% effective and persist 2007 and therefore the 2007 kw/lwh savings and LRAM/SSM claim will be identical to 2006 for these measures.

Oshawa PUC and Hydro Ottawa have relied upon part of the Board's EB-2008-0037 Decision and *Guidelines for Electricity Distributor Conservation and Demand Management* issued March 28 2008 Section 3.4.3. which states:

> "Distributors should account for the persistence of a CDM measure in 5 accordance with the inputs and assumptions posted on the Boards website" The Inputs and Assumptions posted on the Boards website state (page 15):
>
> „… persistence is a measure of how long a CDM measure is kept in place by the customer. There is a compelling argument for accounting for persistence in the assessment of CDM cost effectiveness, especially for measures which are easily replaced such as compact fluorescent light bulbs. However, at this time, distributors should assume 100% persistence in assessing CDM cost 13 effectiveness unless otherwise updated by the Board. While persistence is not likely 100%, for practicality, it is necessary to make some simplifying assumptions.‟

VECC submits that for LRAM claims that are in part based on prior years installations, for all mass market measures, particularly CFLs, the Board should require a discount factor to account for persistence.

<u>Partial Effectiveness</u>

The Boards Guidelines do not specifically require that distributors adjust gross kw/kwh savings for prescriptive measures to recognize the fact that in the first year of operation the installation date directly affects the kw/kwh savings.

Best practices suggests that this type of adjustment is necessary and the OPA requires this for its prescriptive mass market CDM measures. VECC notes that Hydro Ottawa has performed partial effectiveness adjustments for its 2005 and 2006 LRAM claims based on estimates of the timing of the various EKC campaigns. [4]

However, Oshawa PUC states in response to VECC IR #4 that it has complied with the Boards Guidelines and there is no approved measure for performing the type of proration suggested.

VECC disagrees --there are accepted methods for applying partial effectiveness factors and once again the issue is whether distributors should follow OPA assumptions and practices or whether they are prevented from doing so by the Boards Guidelines.

The result of not prorating savings is to inflate the effective savings in the first year and is unfair both to utilities who have applied a partial effectiveness factor and also to ratepayers who pay the LRAM and/or SSM in rates.

In the case of Oshawa PUC the issue is moot with regard to 2006 programs but is critical to the OPA-funded and 3rd tranche Marr funded 2007 measures.

VECC IR response Q5 c) shows the Impact on the 2007 portion of the LRAM/SSM claim. VECC does not accept the adjusted kwh savings in the last column of this Exhibit since it purports to show for most OPA funded 2007 measures that net savings are less than gross savings. For 15w CFLs VECC believes this is due to misstatement of the total kwh and kw energy savings.

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[4] EB-2008-0188 Tab C VECC LRAM/SSM Interrogatory responses IR#6 Page 2

However to illustrate the problem, the Oshawa PUC 2007 LRAM claim for 15W CFLs is broken out below:

Measure	**OPA EKC** **unit savings kwh/yr**	**2007 Partial Effectiveness Factor**[5]	**Net 2007 unit savings kwh/yr**	**# units** **2007 EKC** **(30%FR)**	**2007 Total kwh savings** **unadjusted**	**2007 Total kwh savings** **adjusted**
15W CFL Screw in Spring 2007	44.3	0.7	31.01	40,178	1,803,789	1,245,920
15W CFL Screw in Summer 2007	44.3	0.7	31.01	48,696	2,157,220	1,510,063
TOTAL					3,961,009	2,755,983
Difference **$LRAM@ 0.0108/kwh**					**1,205,026 kwh** **$13,014.28**	

Notes:
Based on Oshawa PUC IRR to VECC Question 5a) Unadjusted kwh numbers do not reconcile exactly, so as filed values used
Unit savings based on EKC 2007 Calculator -Assumes OPA did not change Unit kwh savings for CFLs until 2008
Hydro Ottawa (footnote below) used an average PE factor of 0.7 for the Spring and Summer EKC Campaigns

VECC once again points out the materiality of such an adjustment. Out of Oshawa PUCs total $124,723.12 2007 LRAM claim , 34% or $42,777.92 is due to CFL installations.

<u>LED Traffic Signal Replacement</u>
The one new non-residential program for 2007 is the LED Traffic Signal replacement program. According to the response to VECC IRs 1 and 5c) the claimed annual savings are 757,957kwh and the peak load reduction 25.7 kw.

In response to VECC IR#3 Oshawa PUC indicates that the installation occurred over a period of 4 months with completion in September 2007.[6]

VECC submits that the 2007 LRAM claim should be adjusted by applying a partial effectiveness factor of 0.4 (3/12+ 2/12). This results in a claim of $3,274 (757,957*0.4*0.0108) rather than the amount of $ $8,185.94 claimed by Oshawa PUC.

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[5] EB-2008-0188 Tab C VECC LRAM/SSM Interrogatory responses IRR #6 Page 2of 3.
(Apparently Hydro Ottawa assumed an average for the Spring and Summer Campaigns)
[6] Oshawa PUC IRR Response to VECC Question 3c)

SSM Claim

Oshawa PUCs 2007 SSM claim will not be materially changed due to application of the partial effectiveness factor for 2007 CDM Programs.

Summary

Oshawa PUC has used OPA assumptions for the majority of CDM measures implemented in 2007. However, it has not applied adjustments for persistence or for partial effectiveness. The PE adjustments are material and other distributors, for example Hydro Ottawa have made these adjustments.

Accordingly VECC submits that the Board should require Oshawa PUC to extend the partial effectiveness analysis example provided in this submission to other measures and to re-file its 2007 LRAM claim, including PE adjustments.

Part 1: 2009 Smart Meter Rate Adder

Oshawa PUCs evidence indicates that

> OPUCN has not yet begun installing smart meters and currently collects the approved smart meter funding adder of $0.30 per metered customer which has been approved for non-implementing distributors. A plan is in place to begin installing smart meters in 2009. To that end, OPUCN is applying for the implementation (of a) smart meter funding adder of $1.00 per metered customer.
>
> We are authorized to begin this installation by virtue of paragraph 8 of section 1(1) of O. Reg 427.06 and have included evidence with this application demonstrating that our smart meters will be procured pursuant to and in compliance with the August 14, 2007 Request for Proposal issued by London Hydro Inc.
>
> Pursuant to OEB Guideline G-2008-002: Smart Meter Funding and Cost Recovery we present the following information in support of this request.
>
> Estimated number of meters to be installed in 2009 51,000
> Estimated installed cost per meter $152
> Estimated total installation cost for 2009 $7,752,000
>
> OPUCN does not expect to purchase smart meters or advanced metering infrastructure whose functionality exceeds the minimum functionality adopted in O. Reg. 425/06

VECC is concerned that although technically Oshawa PUC has met the criteria for a SM rate adder of $1.00 per connection/month, the proposed $1.00 /connection/month 2009 Smart Meter Rate Adder is not supported (*at least in this filing*) by sufficient evidence on the total SM accomplishment over the 2009/2010 horizon, the capital and operating costs, including back office and IESO costs, the salvage/depreciation of stranded meters and importantly the balances in the SM deferral accounts.

Accordingly it is not possible to determine whether the rate adder over or under-collects the 2009 revenue requirement elated to Smart Meters.

VECC suggests that Board Staff satisfy themselves that the proposal is sound and will not cause a mismatch between costs and revenues related to Smart Meters.

Part I: Oshawa PUC 3GIRM Adjustment

VECC's submissions regarding Oshawa PUC's 3GIRM adjustments focus on the proposed Cost Allocation adjustment and the proposed Retail Transmission Rate Adjustment included in the Application.

Cost Allocation

With respect to the cost allocation adjustment, VECC notes that the Board's 3GIRM Supplementary Filing Module uses the shares (percentages) of a distributor's revenue requirement from the Cost Allocation Informational filing to determine what portion of the 2009 revenue requirement would represent 100% cost responsibility for each customer class. VECC has three concerns regarding this approach.

First, most distributors are now allocating the "cost" of the transformer ownership allowance solely to those classes receiving the discount. This is a change from the 2006 methodology. VECC notes that Board Staff has acknowledged this issue[7] and undertaken to correct the methodology for 2010 rates.

Second, and potentially more significant, is the use of the class revenue requirement distribution from the Cost Allocation Informational filing to determine 100% cost responsibility for 2009[8]. This approach only works if the billing parameters (i.e., kWhs, kWs and customer count) represent close to the same proportions by class in 2008 (the base for the 2009 IRM adjustment) as they did in the Cost Allocation filing. The reason for this is that costs are allocated to classes based on allocation factors that reflect the relative loads and customer count by class. If these relative values change then so will the relative cost responsibility by customer class. Indeed, a number of the utilities filing 2009 Rate Application have recognized this issue and have assessed the ongoing validity of their Cost Allocation Informational filing as part of their 2009 Rate Application[9].

[7] See Staff Submissions regarding Norfolk and Halton Hills 2009 3GIRM Applications.
[8] Model Sheet C1.1
[9] Examples include Westario Power (EB-2008-0250); COLLUS Power (EB-2008-0226) and Bluewater Power (EB-2008-0221)

In VECC's view, given the potential for such anomalies to exist, a preferred approach for 3GIRM Applications is to assume that revenues at current rates are consistent with the revenue to cost ratios underlying the rates established in the last cost of service review. This would ten be used as the starting point to determine the allocation of the distribution revenue requirement that would yield 100% cost responsibility for each class. VECC submits that Board should direct staff to also revisit this part of the Supplementary Module as part of its model redesign for 2010.

Finally, VECC notes that the Cost Allocation Informational filings included both distribution service revenues and miscellaneous revenues in the "revenue" values used to establish the revenue to cost ratios. In contrast, the Board's Supplementary filing module assumes that all revenues are derived from distribution service rates. The impact is likely to be small. However, this is another issue that VECC submits the Board should direct staff to revisit as part of its model redesign.

Retail Transmission Service Rates

In the 2009 3GIRM Rate Generator Module Oshawa has used a factor of 19.2% to increase its Retail Transmission Connection charges[10]. When asked for the source of this value, Oshawa pointed[11] to the OEB's Guideline for Electricity Distribution Retail Transmission Service Rates. However, it appears that Oshawa has derived its 19.2% value by summing the 18.6% increase for Line Connection Service Rates and the 0.6% increase for Transformation Connection Service Rates. In VECC's view this is incorrect. The retail transmission connection rate is meant to cover both of these wholesale charges and therefore should be increased by the weighted average increase attributable to the two. The response VECC 3GIRM IR #1 b) indicates that over the past 12 months roughly 26.8% of the total charges to Oshawa for Line and Transformation Connection were due to Line portion. This would suggest that the appropriate factor to use for increasing Retail Transmission Connection charges is 5.4%[12].

Costs

VECC requests an award of 100% of its legitimately incurred costs in accordance with the provisions of the Board's Notice of Application and Hearing.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 2nd DAY OF FEBRUARY 2009

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[10] See Sheet L2.1
[11] VECC 3GIRM IR #1 a)
[12] 5.4% = 26.8% x 18.6% + 73.2% x 0.6%