



Milton Hydro Distribution Inc.

Response to Technical Conference Interrogatories

December 3, 2010

EB-2010-0137

Board staff Questions for Technical Conference

2011 Electricity Distribution Rates

EB-2010-0137

1) Ref: Board staff IRR # 4 – Land Purchase

In its response to Board staff interrogatory #4, Milton Hydro states that: “Milton Hydro has included the land as it is being used and is useful...The purchased property will see construction activity once the building plans have been approved in 2011 and the contract awarded in 2012, however in the interim Milton Hydro requires the property to store transformers and poles due to the limited space at Lawson Rd. Milton Hydro intends to erect a fenced compound to facilitate additional storage on the property.”

a) Please state whether or not there is presently a building on this property in which the assets are being stored, or, if not please elaborate on the storage arrangements for these assets.

b) Please provide the value of the assets currently stored on the property.

.Response:

- a) Milton Hydro states that there are no buildings on the property – it is open un-serviced field at this time. It is Milton Hydro’s intention is to erect an enclosed fenced compound area, gravel base for storage of large heavy items such as transformers and poles.
- b) Milton Hydro is currently using the property to store poles which have a nominal value. Once the fence is constructed the transformers and remaining poles will have a value of approximately \$1,000,000.

2) Ref: Board staff IRR # 7 – Conversion Upgrades/Rebuild to 27.6Kv

In part a) Board staff asked Milton Hydro to “describe the impact on the system if the projects listed on page 57 were spread over 3 years.” In its response Milton Hydro noted that “the possible impacts of delaying projects include reduced reliability for customers and increased operating costs associated with increased failure rate.”

Please comment on whether Milton Hydro is suggesting in its response that in the event the specific projects listed on page 57 were spread over three years, the possible impacts noted in the response would be applicable to these projects and, if so, why.

Response:

An increased failure rate is one of the possible results of spreading out the projects listed on page 57 over three years. The projects listed on pg 57 are phases of an overall plan to replace the cables, extending one phase could cascade the whole program and therefore increase the probability of failure particularly for projects slated at the end of the overall program. This should not be interpreted as suggesting that failures will occur as a result of the spreading out the projects. The potential of an increased failure rate is a possibility in areas where rebuilds are delayed. Milton Hydro does not run its plant to the point of failure before taking corrective action. This would not reflect good utility practice.

3) Ref: Board staff IRR #8 – Capital Contribution

In paragraph one of its response Milton Hydro states that:

“Milton Hydro requires all subdivisions be constructed by the developer to Milton Hydro specifications as outlined in Milton Hydro’s subdivision agreement and subject to inspection by Milton Hydro. Once completed Milton Hydro receives the appropriate engineering documentation and declaration attesting to the subdivision costs. At this time Milton Hydro records the assets and an offsetting capital contribution. As lots are connected and load is realized over the five year horizon, Milton Hydro contributes back its proportionate share of the assets as determined by an economic evaluation and reduces the capital contribution. The net effect is an asset is realized and the capital contribution reduced accordingly.”

Please discuss the accounting treatment of capital contributions in further detail (e.g. is a cash or accrual basis used).

Response:

When Milton Hydro receives the appropriated documentation and declaration attesting the to the subdivision costs and an entry is booked to Capital Assets (B/S) and a credit to Capital Contribution (B/S) for the amount of the subdivision costs. There is no exchange of funds at this time as the developer has undertaken the construction costs. The net effect at this point is zero to capital. Milton Hydro prepares the economic evaluation annually based on the number of lots connected and in service. Based on the number of lots in service, Milton Hydro contributes back its proportionate share of the assets. In doing so the entry is a debit to Contributed Capital and a credit to Cash. By reducing the Capital Contribution the related asset is realized in the accounts of Milton Hydro. At year end an accrual is made to recognize any outstanding payments.

4) Ref: Board staff IRR # 9 – FIT/microFIT project

In response a-c) Milton Hydro stated that "Milton Hydro cannot complete the above table as the \$150,127 is an estimate of Milton Hydro's expected capital investments required to connect FIT/MicroFIT projects and is not based on specific projects..." subsequently Milton Hydro stated "in October 2010 Milton Hydro entered into preliminary discussions with a potential FIT applicant in regards to the installation of a 250 kW solar rooftop unit. Milton Hydro would be required to convert the existing 27.6 kV line from single phase to three phase. The estimate for this work was \$78,000 of which Milton Hydro's portion would be \$22,500 and the customer responsible for the balance."

- a) Please reconcile Milton Hydro's portion of \$22,500 for this projects with Milton Hydro's proposed capital expenditures of \$150,127.
- b) Milton Hydro stated that "the \$150,127 is an estimate of Milton Hydro's expected capital investments required to connect FIT/microFIT projects and is not based on specific projects..." On what basis did Milton Hydro estimate this capital investment; please provide a list of criteria.

Response:

- a) Milton Hydro's portion in the amount of \$22,500 would be part of the \$150,127 and the balance available for other FIT/microFIT projects.
- b) Milton Hydro does not have a list of criteria, this amount is a best estimate at the time of preparing the forecast.

5) Ref: Board Staff IRR #10 and E 3/ p. 6 – System Load Regression Model

Milton Hydro stated that it has not considered any other economic variable or income variable. In response to Board staff IR #10 b) Milton Hydro provided a load forecast based on a regression model including Ontario GDP as an economic variable.

- a) Please provide the regression model for the load forecast provided in interrogatory response #10 b).
- b) Please confirm that a step-wise regression methodology was used.
 - i) If not, please explain why not.
- c) Please provide an alternative model using an economic or income variable other than GDP.
- d) Please provide an alternative model including the GDP, excluding number of customers.

Response:

- a) **Milton Hydro will need to take an Undertaking on this Interrogatory as there is insufficient time to copy and prepare the Excel models and links.**
- b) Milton Hydro confirms that a step-wise approach was undertaken as a means to maximize the number of regression variables that were statistically significant.
- c) **Milton Hydro will need to take an Undertaking on this Interrogatory as there is insufficient time to copy and prepare the Excel models and links.**
- d) **Milton Hydro will need to take an Undertaking on this Interrogatory as there is insufficient time to copy and prepare the Excel models and links.**

6) Ref: Board Staff IRR # 16 - Load Forecast

The table provided in the interrogatory response is entitled “Customer Class kWh Forecast Before Adjustment for CDM Target”. The statement in the paragraph preceding the table notes that “The allocation of the CDM target reduction is provided in the following table 7 and also in the Application at Exhibit 3, Page 12, Table 7.”

Please provide an explanation as to how the table provides the allocation of the CDM target reduction.

Response:

Milton Hydro cut and pasted the explanation to OEB Staff IRR # 16 from its Application. The last sentence referring to Table 7 being provided should have read the kWhs used to allocate the CDM Target are provided in Exhibit 3, Page 12, Table 7.

7) Ref: Board Staff IRR #20 e, f) and 23 b) – Meter Reading Expense

In response to Board staff's interrogatory concerning whether or not any cost saving or productivity gains have been realized since the switch to the new automated meter reading regime Milton Hydro stated that "Milton Hydro will not realize any cost savings since the switch to [the] new automated meter reading regime", but listed the productivity gains achieved.

- a) Please provide the cost-benefit analysis conducted prior to entering into the service contract agreement signed August 21, 2007. If no cost-benefit analysis was used to determine the value of this service, state why not. Please also discuss why the referenced productivity gains would not result in cost savings.
- b) In part f) Milton Hydro stated that it "outsourced its Smart Meter function due to the unknowns involved with the process through the transition period with the MDM/R, the new technology involved and resource requirements. " Please clarify if cost savings were a factor in the decision to outsource. If yes, what were the savings?

Response:

- a) Milton Hydro has provided the following chronological set of events that have led to the implementation of its Smart Meter Investment Plan and selection of vendors. This information is also available at the OEB as Milton Hydro was one of the thirteen named distributors that were identified as priority installations for the purposes of Ontario Regulation 427/06

2004-2005

- Milton Hydro had 4,000+ phone based Trilliant (Nertec) AMR installed
- Evaluated 3 AMI technologies available in Ontario; Tantalus, Elster, Trilliant
- Milton Hydro made the decision to field trial the Trilliant AMI technology

2005

- Milton Hydro deployed the first ever Trilliant field trial consisting of 300 meters and 2 collectors to further evaluate the AMI technology

- May 1, 2005 OEB introduced voluntary TOU pricing
- Oct 1, 2005 TOU pricing to 1800 residential customers
- On November 3, 2005, the Provincial Government of Ontario introduced the Energy Conservation Responsibility Act, 2005.
 - installation of 800,000 smart meters in Ontario homes and businesses by 2007
 - installation in all homes and businesses to be completed by 2010.
 - Milton Hydro was one of 13 Local Distribution Companies (LDC) to be named as a priority installation of smart meters

2006

- The field trial proved to be successful
- Deployed 4000 additional Trilliant AMI meters in the field

2007-2008

- Completed the Milton Hydro urban rollout of smart meters

2008-2010

- Milton Hydro completed the smart meters rollout in its rural service area

Milton Hydro has contracted with Trilliant through the entire Smart Meter initiative and to make a vendor change in 2007 would have required Milton Hydro to re-evaluate its entire Smart Meter investment and to start its Smart Meter program from the beginning. As Milton Hydro was identified as a priority installation beginning over was not a consideration in meeting the targets of the Provincial Government.

The productivity gains have resulted in the savings of time allowing Milton Hydro employees to carry out other daily functions. Milton Hydro cannot quantify a dollar value to this time.

- b) In reference to part a) above, Milton Hydro did not make the decision to use Trilliant based on cost savings but rather on the technology available at the time.

8) Ref: Board Staff IRR #16 and EP IRR #2

In the first reference Milton Hydro replied that “Milton Hydro was assigned CDM targets which must be achieved over the four year period...[and] this mandatory reduction in kWh and kW demand directly reduces Milton Hydro’s expected load and therefore Milton Hydro has provided for this mandatory reduction in its load forecast.” In the second reference Milton Hydro stated that “the significance of “at the time” is to leave the door open for Milton Hydro to file an LRAM/SSM application in the future.

a) Please confirm that any LRAM/SSM application in the future would only account for CDM savings above and beyond the mandatory CDM targets.

i) If no, please explain why not.

ii) If yes, please provide an estimate of possible further savings.

Response:

- a) Milton Hydro would be required to review all CDM savings achieved and compare the results to its CDM Targets to determine any differences. Milton Hydro would not double count CDM savings achieved through the reduction to its load forecast and actual realized CDM savings. Milton Hydro is not in a position to address further CDM savings at this time.

9) Ref: Board Staff IRR #40, EP IRR #49 and Exhibit 8/Appendix A

In the first and second reference Milton Hydro provided bill impacts for different smart meter disposition scenarios. Staff noted that in E8/Appendix A of the application, Milton does not show a separate smart meter disposition rate rider in its bill impact calculation. Please explain and provide a bill impact calculation as shown in E8/Appendix A for each of the classes (typical usage) and scenarios listed in Board Staff IRR #40 and EP IRR #49.

Response:

Milton Hydro included a credit smart meter rider of (\$0.43) for all metered customers in Exhibit 3, Appendix A. The credit is reflected right below the Monthly Service Charge in the bill impact calculations.

10) Ref: Board Staff IRR #41

In the application Milton Hydro requested to dispose of its Smart Meter variance accounts 1555 and 1556. In its response Milton Hydro reaffirmed its request to continue the Smart Meter variance account 1555 in order to track the disposition of the \$598,879 balance and incidental capital expenditures.

- a) Please provide a more detailed explanation as to how Milton Hydro intends to use account 1555 to track the disposition of the \$598,879 balance.
- b) Please provide further explanation as to the nature and quantum of incidental capital expenditures expected by Milton Hydro.

Response:

- a) Milton Hydro intends to continue using account 1555 to track the actual dollar amount of the Smart Meter credit applied to customers accounts as a draw-down of the \$598,879 credit balance. By doing so will allow for any credit or debit balance remaining to be disposed of in final disposition. In addition, and as noted in part b) below, Milton Hydro may continue to incur some capital expenditures which would be tracked through account 1555.
- b) Milton Hydro is 85% rural distribution and in order to communicate with the Smart Meters the installation of additional collectors and or repeaters are being required. The extent of this installation is not known at this time as Trilliant assess the communications on an ongoing basis.

11) Ref: VECC 23 c)

Milton Hydro stated that “The Cost Allocation Model is based on Milton Hydro’s 2011 trial balance as set out at Tab I3 TB Data, which includes Milton Hydro’s meter capital, USoA 1860 and the meter maintenance forecast for the 2011 Test Year.”

Milton Hydro further stated that “Milton Hydro also completed all the required input tabs for the Cost Allocation Model” and that “the cost allocation methodology in a cost of service rate application is based on reasonable cost drivers and not class specific tracked costs.”

- a) Please identify the costs allocated to each class associated specifically with smart meters that flow from the inputs in the Cost Allocation model.
- b) Please provide a cost allocation scenario allocating the smart meter costs to only those classes that have received smart meters.

Response:

- a) Milton Hydro is not able to identify the Smart Meter costs specifically allocated to each class from the Cost Allocation model. The capital costs are included in the 2010 trial balance as set out in the Journal Entry derived from the OEB FAX #8 issued August 8, 2008 and therefore become part of the 2011 capital portion of the trial balance. The cost allocation methodology in a cost of service rate application is based on reasonable cost drivers which are used in allocating all costs provided in the model through the trial balance to each class accordingly.
- b) Milton Hydro did not track the capital and OM&A by customer class. The Smart Meter adder was collected from all metered customers as provided in Milton Hydro’s decision.

12) Ref: Board Staff IRR #42

Milton Hydro indicated that it tracked the removal of the existing meters by meter type and year of installation and removed the Net Book Value (“NBV”) from the meter capital account 1860 and transferred the NBV to the Smart Meter Variance account 1555.

- a) Since transferring the removed stranded meter costs to the sub-account, was the recording of depreciation expenses continued in order to reduce the net book value through accumulated depreciation? If so, please provide the total depreciation expense amount for the period from the time the stranded meters were transferred to the sub-account to December 31, 2009.
- b) If no depreciation expenses were recorded to reduce the net book value of stranded meters through accumulated depreciation, please provide the total depreciation expense amount that would have been applicable for the period from the time the stranded meters were transferred to the sub-account to December 31, 2009.
- c) Were carrying charges recorded for the stranded meter cost balances in the subaccount, and if so, please provide the total carrying charges recorded to December 31, 2009.
- d) In the outlined format of the table shown below, Summary of Stranded Meter Cost, please provide the data to derive the total “Residual Net Book Value” amounts for each year.

Table 1 - Summary the Residual Net Book Value of Stranded Meter Costs

Response:

- a) When stranded meter costs were transferred to account 1555 Milton Hydro did not record any further depreciation.

- b) Milton Hydro has provided the following table which sets out the depreciation that would have been recorded on the stranded meters

Year	Yearly Depreciation if Booked	Depreciation to Dec 31, 2009
2007	21,745	65,235
2008	13,126	26,251
2009	556	556
2010	278	-
		92,042

- c) When stranded meter costs were transferred to account 1555 no further carrying charges were recorded.
- d) Milton Hydro has completed the following table as requested.

Part d) Table 1 - Summary of Residual Net Book Value of Stranded Meter Costs						
	A	B	C = (A-B)	D	E	F = (C-D-E)
Year	Gross Asset	Accumulated Depreciation	Net Asset	Proceeds on Disposition	Contributed Capital	Residual NBV
2006	0		0			0
2007	543,627	296,996	246,631			246,631
2008	328,138	147,168	180,970	1,375		179,595
2009	13,895	11,580	2,315	2,252		63
2010 (1)	6,938	3,891	3,047			3,047
Total	892,598	459,636	432,963	3,627	-	429,335
(1) 2010 Stranded Meters is a forecast number						

Please note that is a correction to OEB Interrogatory # 42 part c) – Proceeds on disposition of smart meters was reported to be \$5,002 in error. The correct proceeds on disposition is \$3,627.