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ONE Nicholas Street, Suite 1204, Ottawa, Ontario, Canada K1N 7B7

Michael Buonaguro
Counsel for VECC
(416) 767-1666

January 26, 2011

VIA MAIL and E-MAIL

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

Dear Ms. Walli:

Re: Vulnerable Energy Consumers Coalition (VECC)
Final Submissions: EB-2010-0083
Festival Hydro Inc. – 2011 Electricity Distribution Rate Application

Please find enclosed the submissions of the Vulnerable Energy Consumers Coalition (VECC) in the above noted proceeding.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

cc: Mr. William Zehr
Festival Hydro Inc.

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 Festival Hydro Inc. pursuant to section 78 of the *Ontario Energy Board Act* for an Order or Orders approving just and reasonable rates for electricity distribution to be effective May 1, 2011.

FINAL SUBMISSIONS

On Behalf of The

VULNERABLE ENERGY CONSUMERS COALITION (VECC)

January 26, 2011

**Michael Buonaguro
Public Interest Advocacy Centre
34 King Street East
Suite 1102
Toronto, Ontario
M5C 2X8**

**Tel: 416-767-1666
E-mail: mbuonaguro@piac.ca**

Vulnerable Energy Consumers Coalition (VECC)
Final Argument

1 The Application

- 1.1 Festival Hydro Inc. (“Festival”) filed an application (“the Application”) with the Ontario Energy Board (“the Board” or “the OEB”), under section 78 of the Ontario Energy Board Act, 1998 for electricity distribution rates effective May 1, 2011. The Application was filed in accordance with the OEB’s guidelines for 3rd Generation Incentive Regulation, which provide for a formulaic adjustment to distribution rates and related charges.
- 1.2 As part of its Application Festival included:
- a) an increase in its 2011 Smart Meter Funding Adder from the \$1.00 per customer per month to \$1.52 per customer per month,
 - b) an adjustment to the customer class revenue to cost ratios and
 - c) a request to recover the impact of lost revenues associated with various conservation and demand management (CDM) activities (i.e., an LRAM recovery) along with a request for a shared savings mechanism (SSM) recovery.
- 1.3 The following sections set out VECC’s final submissions regarding these aspects of the Application.

2 2011 Smart Meter Funding Adder (SMFA)

- 2.1 The Manager’s Summary (page 4) indicates that:

Festival requests the Board approve a 2011 Smart Meter Rate Disposition Rider of **\$1.52** to be collected over a one year period commencing May 1, 2011. In addition, Festival requests the Board approve the discontinuation of the existing 2010 Smart meter rate adder of \$1.00. The smart meter rate adder will continue to apply to the selected rate classes, namely, Residential, Residential- Hensall, GS < 50 kW, GS > 50kW to 4,999 kW and Large Use¹.

¹ VECC notes that the \$1.52 is really a Smart Meter Funding Adder as Festival is not seeking disposition of its Smart Meter variance accounts.

2.2 In VECC IRR#2a) Festival provides the capital cost estimates to the end of 2010 for each class. This shows that Festival commercial meters are over three times more expensive and the total capital costs incurred to date are in the proportions of 86% Residential: 14% GS<50kW

Total Smart Meter Capital Costs - 2010	
Residential	3,052,042
GS <50	499,884
	3,551,926
Average Unit Capital Costs - installation & procurement (2010)	
Residential	166.19
GS<50	532.93

2.3 Festival also provided a comparison of the Smart Meter revenue collected to date from SMFAs. This shows that 89 % has been collected from the Residential Class and 10 % from the GS< 50 kW class (with a small amount from other classes)

2.4 VECC will not comment further on Festival’s historical Smart Meter costs and rate adder revenue since Festival is not currently applying for a Smart Meter disposition rate rider.

2011 and 2012 Smart Meter Implementation Plan and Funding Adder

2.5 In response to VECC’s request to calculate a 2011/2012 SMFA on a class – specific basis using Capital Cost to allocate the Revenue requirement ² Festival stated:

Festival has provided the requested information in the table below. Festival would note the Board Findings in EB-2010-0209, PowerStream, that a class specific calculation of the residual amounts for disposition of smart meter costs for each rate class is unwarranted as there is insufficient benefit given the additional complexity. Festival agrees with the Board finding and would oppose the use of a class specific rate rider.

2.6 VECC submits that Festival has selectively cited the Board’s EB-2010-0209 Decision. The Board also accepted PowerStream’s cost allocation (page 14ff). At page 17 it stated that “the Board finds that PowerStream’s original cost allocation

² SMFA Calculation Model Sheet 7

methodology is reasonable and based on the principle of cost causality”.

2.7 The approach used by PowerStream was the basis of VECC IRRs #2c and d.

2.8 Festival has provided the following capital costs and class-specific SMFA:

Estimated 2011 Total Capital Costs by Class				
Residential			119,222	81%
GS<50			28,852	19%
			<u>148,074</u>	

Class-Specific Revenue Requirement			
2010 Revenue Requirement			
	Total	Residential	GS<50kW
Net Fixed Assets	\$ 1,708,645	\$ 1,468,177	\$ 240,468
Working Capital Allowance	\$ 14,583	\$ 2,052	\$ 2,052
Rate Base Total	\$ 1,723,228	\$ 1,470,229	\$ 242,520
Revenue Requirement			
Short Term Interest	\$ -	\$ -	\$ -
Long Term Interest	\$ 54,812	\$ 47,098	\$ 7,714
Return on Equity	\$ 67,895	\$ 58,340	\$ 9,555
OM&A	\$ 97,223	\$ 83,540	\$ 13,683
Amortization	\$ 134,636	\$ 115,688	\$ 18,948
Grossed-up PILS	\$ (19,968)	\$ (17,157)	\$ (2,810)
Total	\$ 334,599	\$ 287,509	\$ 47,090
2011 Revenue Requirement			
	Total	Residential	GS<50kW
Net Fixed Assets	\$ 3,349,723	\$ 2,697,028	\$ 652,695
Working Capital Allowance	\$ 22,551	\$ 18,157	\$ 4,394
Rate Base Total	\$ 3,372,275	\$ 2,715,185	\$ 657,090
Revenue Requirement			
Short Term Interest	\$ -	\$ -	\$ -
Long Term Interest	\$ 107,265	\$ 86,365	\$ 20,901
Return on Equity	\$ 132,868	\$ 106,978	\$ 25,889
OM&A	\$ 150,343	\$ 121,048	\$ 29,294
Amortization	\$ 283,208	\$ 228,024	\$ 55,183
Grossed-up PILS	\$ 22,006	\$ 17,718	\$ 4,288
Total	\$ 695,690	\$ 560,134	\$ 135,556
Total Revenue Requirement for 2010 & 2011	\$ 1,030,289	\$ 847,643	\$ 182,646
Smart meter rate adder collected	\$ (656,432)	\$ (588,468)	\$ (67,964)
Carrying charges collected	\$ (18,558)	\$ (16,637)	\$ (1,921)
Proposed Smart meter recovery	\$ 355,298	\$ 242,538	\$ 112,760
2011 Expected Metered customers	\$ 19,500	\$ 17,481	\$ 2,019
Smart meter rate adder	\$ 1.52	\$ 1.16	\$ 4.65

This Table shows that using the above approach (which is consistent with

PowerStream's allocation of the forward Smart Meter revenue requirement) produces a vastly different result than a single aggregate SMFA.

2.9 VECC submits that using a single SMFA results in a major ongoing cross- subsidy of the Commercial GS<50 Class by the Residential class.

2.10 As far as the proposed SMFA for 2011 is concerned, VECC submits

- a) The original aggregate SMFA of \$1.52 per customer per month over-collects from residential customers.
- b) The class –specific residential SMFA shown in VECC IRR Table 2d will recover the revenue requirement in 2011 and is significantly fairer to residential ratepayers than an aggregate SMFA (\$1.12 vs \$1.52) as proposed by Festival (sheet 8 of SM Model).
- c) The class-specific SMFA of \$1.12 per residential customer/month should be approved.

3 Revenue To cost Ratios

3.1 In response to interrogatories, Festival has corrected the Transformer Ownership Worksheet and updated the overall Revenue Cost Ratio Adjustment Workform³. VECC has reviewed the revenue to cost ratio adjustments proposed by Festival and submits that:

- The adjustments are in accordance with the Board's EB-2009-0263 Decision, and
- The (updated) Revenue-Cost Ratio Adjustment Work Form has been completed appropriately.

³ VECC #7 a)

4 Lost Revenue Adjustment Mechanism (LRAM) and Shared Savings Mechanism (SSM)

LRAM

4.1 Festival has changed its LRAM claim⁴. The updated claim is shown below:

LRAM & SSM Totals - By Rate Class			
	LRAM \$	SSM \$	TOTAL \$
Third Tranche			
RESIDENTIAL	38,640.80	75,441.33	114,082.13
GENERAL SERVICE 50 TO 4,999 kW	-	(2,283.75)	(2,283.75)
OPA Programs			
RESIDENTIAL	159,879.31		159,879.31
GENERAL SERVICE <50kW	21,036.57		21,036.57
GENERAL SERVICE >50kW	95,382.43		95,382.43
LARGE USE	70,914.14		70,914.14
	385,853.25	73,157.57	459,010.82

The components of the change are:

- a) For Third Tranche Residential CDM programs substitution of OEB 2006 Input Assumptions for OPA 2010 Prescriptive measures and Assumptions values (increase to \$38,640.80 from \$20,675.88):
 - i. Removal of Savings from Water Heater Load Control (2006-2009)
 - ii. Changing kWh savings for SLEDs (2006-2009)
 - iii. Changing Savings from CFL bulbs (2006-2009)

⁴ VECC 5 a)

	As Filled			Updated			Variance
	kvarh	kW	\$	kvarh	kW	\$	\$
2006							
Load Control Systems- Water Heaters	1,134	993.00	\$17.14	0	0.00	\$0.00	-\$17.14
LED Seasonal Lighting	119,130	0.00	\$1,799.86	39,411	0.00	\$96.48	-\$1,204.43
CFL Bulbs	136,236	3.00	\$2,058.30	329,236	0.00	\$4,974.23	\$2,915.93
2007							
Load Control Systems- Water Heaters	1,305	1074.00	\$20.22	0	0.00	\$0.00	-\$20.22
LED Seasonal Lighting	119,568	0.00	\$0.49	39,554	0.00	\$612.79	\$612.30
CFL Bulbs	164,074	4.00	\$2,541.92	396,511	0.00	\$6,142.96	\$3,601.04
2008							
Load Control Systems- Water Heaters	1,305	1074.00	\$20.22	0	0.00	\$0.00	-\$20.22
LED Seasonal Lighting	119,568	0.00	\$1,852.34	39,554	0.00	\$612.76	-\$1,239.48
CFL Bulbs	608,628	14.00	\$9,428.70	1,470,850	0.00	\$22,786.01	\$13,357.31
2009							
Load Control Systems- Water Heaters	1,305	1074.00	\$20.18	0	0.00	\$0.00	-\$20.18
LED Seasonal Lighting	119,568	0.00	\$1,848.26	119,563	0.00	\$1,848.26	\$0.00
CFL Bulbs	608,628	14.00	\$1,068.36	608,628	14.00	\$1,068.36	\$0.00

b) Update of OPA Final Results for 2009 to 2010 final⁵ Residential LRAM increase to \$159,879.31 from \$143,391.43 (+\$16,487.88).

The total LRAM increase is \$28,405.

Third Tranche- Funded CDM

- 4.2 VECC is concerned with Festival's change of input assumptions from the OPA 2010 Prescriptive M&A List values to the OEB 2006 values and about the position of Festival with regard to the use of Best Available Input Assumptions as required by the Board's TRC Guidelines Section 7.3 and the Board's Letter of January 29, 2009 regarding its adoption of the OPA Measures and Assumptions List as the Best Available Input Assumptions.
- 4.3 VECC submits that Festival has misinterpreted and misapplied the Board's direction to use Best Available Input Assumptions at the time of the third party independent review.
- 4.4 Festival's (revised) interpretation of the Guidelines (VECC IRR#4) appears to be that the direction to apply the Best Available Input Assumptions at the time of the independent third party review only applies to the savings for measures installed in 2005-2008 that produce kWh and kW savings persisting beyond January 2009 or

⁵ Estimated Allocation of 2006-2009 Provincial Conservation Results to Local Distribution Company Service Territories - update to August 2010

new measures implemented after January 2009. Festival has therefore revised its kWh savings to use the OEB 2006 input assumptions for the savings for 3rd tranche CDM for the period 2005-2008 and the OPA values for the period for the same measures persisting beyond 2008.

4.5 VECC disagrees strongly with Festival's interpretation of the Board's Direction and notes that several other utilities have adopted this position.

4.6 For LRAM the Guidelines and Policy Letter of January 27, 2009 specify that

LRAM

The input assumptions used for the calculation of LRAM should be the best available at the time of the third party assessment [emphasis added] referred to in section 7.5.

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.....

4.7 VECC suggests that one reason for the Board's direction was to create a level playing field and a consistent approach to making LRAM claims as accurate as possible so that:

- ratepayers do not pay for savings that were not realized and
- incorporation of CDM into Load forecasts does not result in overstated loads.

4.8 VECC notes that since Fall 2006 OPA changed its input assumptions for CFLs, SLEDs and other mass market measures for all of its Every Kilowatt Counts (EKC) campaigns. Specifically, the savings for 15w CFLs was reduced from 104 kWh to 43 kWh the value subsequently incorporated into the OPA measures list. The kWh savings for C7 SLEDs was reduced from 57 kWh to 13.5 kWh (gross). Festival has now increased the savings for CFLs and SLEDs to the original OPA and OEB value.

- 4.9 VECC submits that for LRAM claims the use of best available assumptions should apply retroactively to prior years. The Board Guidelines adopted the “go forward” approach for SSM, but not for LRAM.
- 4.10 By reversing its position and revising its LRAM claim, Festival has gone against the independent third party review by Burman Consulting that consulted with Board staff and conducted its review and prepared the LRAM claim consistent with VECC’s interpretation of the Board’s direction.
- “For all programs/projects, the most recently published OPA assumptions and measures list were used in LRAM calculations [emphasis added] in accordance with OEB’s direction letter, Conservation and Demand Management (“CDM”) Input Assumptions Board File No.: EB-2008-0352, January 27, 2009 and consistent with recent Decision and Order EB-2009-0192 for Horizon Utilities Corporation that directed LRAM calculations use the most current available input assumptions for all CDM programs. (Burman Report Page 4)”
- 4.11 In Festival’s case the inconsistent use of input assumptions in the revised claim, particularly for Mass Market CDM Measures has increased the Residential third tranche claim due revisions to kilowatt hour savings and the LRAM claim for third tranche CDM programs.
- 4.12 VECC urges the Board to reject Festival’s revised Third Tranche residential LRAM claim and direct that for all Mass Market Measures (CFLs etc) the OPA Mass Market Measures and Assumptions List Annual Energy Savings (kwh) values be used, as was the case for the original claim verified by Burman.
- 4.13 VECC cannot verify that the original “as filed” LRAM claim is accurate. However Burman Consulting is an experienced and competent third party reviewer of LRAM/SSM claims and hence in default of requiring more time and effort by Festival, it should request Board staff to clarify/confirm free-ridership assumptions for the CFL giveaways. The OPA has provided estimates 10%-30% for its programs by EKC campaign for each year. These values should be used for similar non-OPA programs during the same year.
- 4.14 Accordingly, subject to the confirmation of free ridership assumptions that match of

those of OPA. The **original** LRAM claim for 3rd tranche CDM should either be modified or accepted.

LRAM & SSM Totals - By Rate Class

	LRAM \$	SSM \$	TOTAL \$
<u>Third Tranche</u>			
RESIDENTIAL	20,675.88	75,441.33	96,117.20
GENERAL SERVICE 50 TO 4,999 Kw	-	(2,283.75)	(2,283.75)
<u>OPA Programs</u>			
RESIDENTIAL	143,391.43		143,391.43
GENERAL SERVICE <50KW	24,139.87		24,139.87
GENERAL SERVICE >50KW	95,491.46		95,491.46
LARGE USE	73,749.74		73,749.74
	357,448.37	73,157.57	430,605.94

LRAM-OPA CDM Programs

4.15 Festival states in VECC IRR#5a):

The LRAM/SSM schedules have been updated based on the *Estimated Allocation of 2006-2009 Provincial Conservation Results to Local Distribution Company Service Territories - update to August 2010 Report* which was received from the OPA on December 1, 2010. As a result of the calculation updates, the total LRAM claim has increased by \$28,405.

4.16 VECC accepts for LRAM purposes, the OPA Verification of OPA-funded CDM programs, including the LRAM update as a result of the final 2009 OPA results.

SSM

4.17 Because of the non-retroactivity provision in the Guidelines for SSM claims for third tranche and rate-funded CDM, VECC accepts that Festival has used the OEB input assumptions for the years for the SSM claim as filed.

Summary

- 4.18 VECC urges the Board to reject Festival 's revised third tranche-funded CDM LRAM claim and direct that for all non- OPA Programs with Mass Market Measures the OPA Prescriptive Measures and Assumptions List Annual Energy Savings (kWh) values be used for LRAM claims.
- 4.19 With regard to free-ridership, the OPA has provided estimates for its programs by campaign and for each year. These values should be used for similar non-OPA programs for the same/similar mass market measures during the same year.
- 4.20 The precedent value of the Board's determinations in this case cannot be underestimated. Several other utilities are following Festival's approach and the aggregate impact on ratepayers is significant.

5 Recovery of Reasonably Incurred Costs

- 5.1 VECC submits that its participation in this proceeding has been focused and responsible. Accordingly, VECC requests an award of costs in the amount of 100% of its reasonably-incurred fees and disbursements.

All of which is respectfully submitted this 26th day of January 2011