

**Ontario Energy
Board**
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416-481-1967
Facsimile: 416-440-7656
Toll free: 1-888-632-6273

**Commission de l'énergie
de l'Ontario**
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273



BY EMAIL

March 02, 2011

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Hydro Ottawa Limited
2011 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2010-0326**

In accordance with the Notice of Application and Written Hearing, please find attached the Board Staff Submission in the above proceeding. Please forward the following to Hydro Ottawa Limited and to all other registered parties to this proceeding.

In addition please remind Hydro Ottawa Limited that its Reply Submission is due by March 22, 2011.

Yours truly,

Original Signed By

Christiane Wong
Analyst, Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2011 ELECTRICITY DISTRIBUTION RATES

Hydro Ottawa Limited

EB-2010-0326

March 02, 2011

**Board Staff Submission
Hydro Ottawa Limited
2011 IRM3 Rate Application
EB-2010-0326**

Introduction

Hydro Ottawa Limited ("Hydro Ottawa") filed an application (the "Application") with the Ontario Energy Board (the "Board") on November 30, 2010 under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that Hydro Ottawa charges for electricity distribution, to be effective May 1, 2011. The Application is based on the 2011 3rd Generation Incentive Regulation Mechanism.

The purpose of this document is to provide the Board with the submissions of Board staff based on its review of the evidence submitted by Hydro Ottawa.

In the interrogatory phase, Board staff identified certain discrepancies in the data entered in the application model by Hydro Ottawa. In response to Board staff interrogatories, which requested either a confirmation that these discrepancies were errors or an explanation supporting the validity of the original data filed with the application, Hydro Ottawa confirmed that they were errors and provided the corrected data. Board staff will make the necessary corrections to Hydro Ottawa's model at the time of the Board's decision on the application.

Board staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by Hydro Ottawa. Pursuant to Guideline G-2008-0001, updated on July 8, 2010, staff notes that the Board will update the applicable data at the time of this Decision based on any available updated Uniform Transmission Rates.

Hydro Ottawa is not proposing to dispose of its Group 1 deferral and variance account balances as at December 31, 2009 since the preset disposition threshold of \$0.001/kWh set forth in the EDDVAR Report was not exceeded. The balance in the account as at December 31, 2009, plus interest to April 30, 2011, is a debit of \$4,545,578.

Board staff makes a detailed submission on the following matter:

- Smart Meter Funding Adder
- Tax Sharing Rate Rider

Smart Meter Funding Adder

Discussion

Hydro Ottawa is requesting an increase to its smart meter from \$1.68 to \$2.13 per metered customer per month. In its Manager's Summary, Hydro Ottawa indicated that its implementation of the Province's Smart Meter Initiative is substantially complete. Hydro Ottawa stated that the revenue requirement for 2011 was calculated based on the actual capital additions from May 1, 2007¹ to date and forecasted capital additions for the remainder of 2010 and the 2011 calendar year and the forecasted OM&A for the 2011 calendar year. Hydro Ottawa stated that the revised funding adder is consistent with the Board's Decisions resulting from the Combined Smart Meter Proceeding (EB-2007-0063).

Submission

The Quantum of the Adder

Board staff has reviewed the Smart Meter Model filed by Hydro Ottawa, and submits that Hydro Ottawa appears to have correctly made inputs to the model. As such, Board staff takes no issue with Hydro Ottawa's proposed increase in the Smart Meter Funding Adder to \$2.13 per month per metered customer subject to staff's comments below.

Board staff observes that Hydro Ottawa has proposed that the funding adder be collected only from May 1 to December 31, 2011, a period of eight months in contrast to the twelve month rate year proposed by most distributors; Board staff understands that this is due to Hydro Ottawa proposing to align its rate year with its calendar fiscal year as part of its expected 2012 cost of service application.

Staff notes that Hydro Ottawa has not yet received approval to align its rate year with its fiscal year. Until that occurs, staff submits that it would not be appropriate to assume a January 1 start date for Hydro Ottawa's 2012 cost of service based rates. Staff notes

¹ In the Combined Smart Meter Proceeding conducted under File No. EB-2007-0063, Hydro Ottawa's actual costs for smart meter installed until April 30, 2007 were reviewed and approved.

that should the Board not wish to approve an eight month recovery period at this time, a twelve month recovery period would result in a funding adder of \$1.42 per month per metered customer. Hydro Ottawa may wish to confirm this number in its reply submission.

The Quantum of the Costs

Hydro Ottawa is in a slightly different situation from most other distributors in that it has had some smart meter costs reviewed and disposed (i.e. the assets reflected into distribution rate base) by the Board. Board staff notes that the total smart meter capital cost per meter of \$270.75 per meter² documented in this application is high relative to what has been observed for most other distributors, particularly those of larger urban utilities in Hydro Ottawa's cohort. In fact, this amount is nearly double the total Cost per Unit of \$135.58 per meter documented for Hydro Ottawa in the Combined Smart Meter Proceeding.³

While it can be expected that smart meter installation costs may increase, particularly as a utility installs meters in "hard to reach" locations, or due to installing smart meters for general service customers, which meters may be more expensive (i.e. for polyphase meters for customers with 2-phase or 3-phase service), the drivers for the significant increase in smart meter costs documented in the application are not readily apparent. Board staff submits that Hydro Ottawa should be expected to substantiate its documented costs and to fully explain the drivers of the smart meter cost increases when it applies for prudence review and disposition of these costs.

Staff notes that Hydro Ottawa is scheduled to file a cost of service application in 2012. At that time, it is expected that the majority of Hydro Ottawa's smart meter costs would be made available for a prudence review since Hydro Ottawa would have its costs audited to the end of 2010.

2 Cell C56, Sheet 3: LDC Assumptions and Data, of Attachment F

3 Decision with Reasons, EB-2007-0063, issued August 8, 2007, Appendix "A" (Non-confidential)

Tax Sharing Rate Rider

Discussion and Submission

Hydro Ottawa has calculated the tax change rate rider based on 8 months (May – December) of billing determinants in order that the end of the term of the rate rider will coincide with the introduction of new rates in 2012. The amount to be refunded to ratepayers is \$1,704,996. As noted above in the smart meter funding adder section of this submission, staff submits that it is premature to assume a January 1 start date for the 2012 rates, and so the tax sharing rate rider should be calculated based on a 12 month recovery period.

In response to Board staff interrogatory #6 Hydro Ottawa provided the consumption data that was reported as part of the RRR 2.1.5 billing determinants filing. In response to Board staff interrogatory #4, Hydro Ottawa provided the billing determinants used in the calculation of the eight month tax sharing rate rider. Staff is unclear whether Hydro Ottawa calculated the tax sharing rate rider using 8 months of the billed data that was filed in the original application or whether it was based on the RRR data filed in response to Board staff IR #6. Hydro Ottawa may wish to confirm which set of data it has used in its reply submission. If Hydro Ottawa has used the original data, it should explain why it has chosen not to use the data reported as part of the RRR filing.

Bill Impacts

Board staff notes that the total bill impact attributable solely to the proposed funding adder increase to \$2.13 per meter per month (keeping all other proposals in the application model as filed) is 0.4% for the residential class. Staff notes that the total bill impact for all elements of the application for a typical residential customer (including the funding adder of \$2.13) is 0.1%.

All of which is respectfully submitted