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November 22, 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)
Notice of Intervention: EB-2011-0054

Please find enclosed the submissions of VECC in the above noted proceeding.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

EB-2011-0054

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 Hydro Ottawa Limited for an order approving just and reasonable rates and other charges for electricity distribution to be effective January 1,2012.

FINAL SUBMISSIONS OF THE VULNERABLE ENERGY CONSUMERS COALITION

(VECC)

1. These are the final submissions of VECC with respect to the unsettled issues.

2. With respect to the unsettled issues concerning:

   a) the calculation of Hydro Ottawa's working capital allowance, and
   b) the appropriate long term debt rate for Hydro Ottawa,

   VECC has reviewed, agrees with and adopts the submissions of Energy Probe.

3. With respect to the unsettled issues related to the transition to IFRS, VECC has reviewed, agrees with and adopts the submissions of the School Energy Coalition.

4. VECC respectfully submits the following with respect to the unsettled issues concerning Hydro Ottawa's:

   a) Operations, Maintenance and Administration Budget for the 2012 test year,
   b) 2012 Load Forecast,
   c) LRAM claim, and

d) proposal for disposition of Smart Meter related amounts.

OPERATIONS, MAINTENANCE AND ADMINISTRATION

5. The Table below is reproduced from Exhibit D1/T1/S2/pg.2 and shows the major categories of OM&A.

	2008 Board Approved	2008 Actual	2009 Actual	2010 Actual	2011 Budget	2012 Budget
Operation	$13,062,449	$11,752,560	$11,364,065	$11,971,416	$12,061,906	$11,883,322
Maintenance	5,111,152	5,183,949	5,171,079	5,663,033	8,462,994	9,274,548
Billing and Collecting	11,716,820	10,365,089	10,233,636	9,142,479	11,925,750	12,085,194
Community Relations	4,759,853	4,588,888	4,594,942	4,932,698	6,093,455	6,911,671
Administrative and General	20,679,522	19,738,418	20,670,993	21,641,059	22,790,434	23,736,696
Pre-Tax Total	**$55,329,796**	**$51,628,904**	**$52,034,715**	**$53,350,685**	**$61,334,539**	**$63,891,431**
Taxes	1,758,250	1,741,965	1,793,952	1,597,804	1,770,695	1,806,109
Total OM&A Expenses	**$57,088,046**	**$53,370,869**	**$53,828,667**	**$54,948,488**	**$63,105,234**	**$65,697,541**
Pre-Tax Change		**-6.69%**	**0.79%**	**2.53%**	**14.96%**	**4.17%**

What is a reasonable growth rate in OM&A

6. Ottawa Hydro's Operating, Maintenance and Administration costs have risen 15.5 % from the 2008 Board approved budget, or by 24% from 2008 actual spending. The GDP-IPI increase over the past two years has been 1.3%[1]. During the same period, if one removes the adjustment for suite metering, the average growth in customers was approximately 1.5%. Based on these trends one would expect an annual growth in OM&A expenses of between 2.5% and 3.5% per annum. In fact the actual and projected growth as requested in the application is between 3.5% and 6% - almost doubles the expected rate.

7. However, this is not the actual annual growth rate of Ottawa's expenses. Subsequent to the setting of base rates in 2008 the utility was able to

[1] Exhibit K1/Issue 1.2/IR#1

reduce OM&A costs in 2008 and then keep costs well below the rate of inflation and customer growth. This was done while exceeding its approved return on equity.[2]

8. On a cost per customer basis the evidence at L1.8 shows that the Utility was able to maintain an average of approximately $177 per customer. The 2012 OM&A is an increase of over 16% in per customer costs.

9. Ottawa Hydro's ability to control the rate of growth of expenses is an expected result of the incentive rate plan. During the incentive period of the plan, when rates are detached from costs, the Utility is motivated to keep costs down. In fact, the evidence at K4/Issue4.1/IR#25 (VECC#39) shows that during the IRM period the utility's budgeting process explicitly pursued "flat lining" costs.[3]

10. There was a significant increase in the 2010 executive incentives bonuses. These bonuses were paid out for 2009 performance. As stated at Undertaking L2.3 the increase in executive performance pay was related to corporate performance for "financial strength." In VECC's submission this shows that during the IRM period Ottawa Hydro executives were financially motivated to achieve more aggressive financial targets and were able to deliver on the objective of lowering costs.

11. In cross-examination VECC sought to see if the principles applied during IRM are the same as those in the rebasing year. The response was disconcerting:

> To say it's an inflationary factor not to exceed our revenue increase, that principle doesn't apply as directly in a rebasing year, as you can appreciate.[4]

12. VECC does not accept the premise that there is a departure or disconnect in budgeting under IRM and budgeting for a rebasing year. The Utility's response suggests that it sees the rebasing as an opportunity to "catch-up" on past shortfalls in spending.

13. Hydro Ottawa also suggests that the IRM savings were one-time events and are not sustainable. In VECC's submission the Board should treat such assertions with caution, especially in the absence of compelling evidence. In this application there is no evidence of service deterioration during the IRM period and no evidence that past OM&A reductions are unsustainable. It is clear, as set out below, that there are a number of areas in which the

[2] Exhibit K5/Issue 5.1/IR#2: Transcript, Volume1 pgs. 128-129.
[3] Transcript Volume 2, p. 29.
[4] Transcript Volume 2, p.31.

Utility could continue to control costs so as to keep them in line with inflation and customer growth.

14. During the IRM period, when rates are set in a mechanistic way, cost reductions provide no benefit to ratepayers. There is however, a risk to ratepayers. The risk is that the utility will reduce costs at the expense of service performance or asset maintenance. This asymmetrical risk is offset by the potential for sustainable OM&A savings (i.e. efficiencies) that are embedded in rates upon rebasing. If the Utility is able to increase OM&A costs significantly upon rebasing, and in excess of past experience, there will be no long-run efficiencies and no long-term benefits of IRM to ratepayers. The cross-examination by CCC at Vol. 1, pages 126 -136 effectively develops this point. To accept the proposed OM&A is to turn the IRM policy into a policy of quasi rate-freezes. Such an outcome would increase incentives to defer needed spending during the IRM period. It is also difficult to understand what benefit ratepayers received if the OM&A costs are higher than would have been the case had rates been set annually using l cost of service.

15. A 2.5% growth rate in OM&A would provide for a 2012 OM&A (pre-tax) of between $58.1 and $62.3 million depending on whether the starting point is the 2008 Board-approved OM&A budget or the 2008 actual OM&A. In VECC's submission a growth rate of 2-3% per annum growth is more in line with customer growth and inflation.

Are OM&A reductions reasonable?

16. In VECC's submission it is not particularly useful to provide specific recommendations on how to reduce the proposed OM&A budget. The Utility is best placed to make the changes and trade-offs that will be required. However, in support of VECC's argument that a lower OM&A structure is achievable, sustainable and reasonable, a number of cost categories are examined in detail below. The purpose of this analysis is to simply demonstrate that there are areas of uncertainty or inordinate growth from which the Utility could make reductions.

Executive and Management Incentives

17. Table 1 at Undertaking L2.2 Hydro Ottawa shows the OM&A per customer targets used for the Organizational Effectiveness measure of corporate performance. This table is reproduced below.

Table 1: OM&A Per Customer Targets

	2008	**2009**	**2010**	**2011**
OM&A Per Customer	NA	$220	$236	$250

18. While VECC notes that the OM&A targets may not be strictly comparable to the OM&A per customer figures shown at Exhibit L1.8, they are nevertheless instructive. They demonstrate Hydro Ottawa's aggressiveness (or lack thereof) in motivating and providing incentives to management to find long-term efficiencies. VECC notes that between 2009 and 2011 (no figure was given for 2012) the cost per customer cost target grows by over 13%. In VECC's submission these targets are far more generous than what would be expected from both historical and actual growth in OM&A per customer. VECC submits that there is latitude for more rigorous performance targets which would, in turn, encourage savings in 2012 and beyond.

Compensation and Labour

19. 60% of Hydro Ottawa's gross OM&A costs are related to labour.[5] A significant increase in Hydro Ottawa's compensation costs is due to the transfer of 17 positions from an affiliate to the Utility. Hydro Ottawa explained that 4% of the 4.2% increase from 2011 to 2012 is due to an increase in compensation including benefits.[6] Included in this is an increase in overtime from the actual amount of $1.8 and $1.9 million in 2009 and 2010 respectively, to a forecast of $ 2.44 million in 2012.

20. In VECC's submission under the current economic environment it is not unreasonable to expect the Utility to operate with an increase in labour compensation (wages and benefits) of no more than 3%. A reduction of 1% in salaries and benefits would yield savings of nearly $400,000.

21. VECC also submits that the overtime estimates for 2012 are in excess of past experience by at least $500,000. In VECC's cross-examination of this issue the Utility failed to provide an explanation for the 2012 increase, simply noting that a similar budgeted amount for 2010 was not spent. The Utility also stated that while these costs were up in 2011 this was due to storm damage in the city of Ottawa.[7]

22. In VECC's submission there is room within the compensation and overtime categories for sustainable reductions of approximately $1 million.

[5] Transcript Volume 1 pg. 121.
[6] Transcript Volume 1 pg. 121.
[7] Transcript Volume 2 pg. 26.

Community Relations – Customer Service Strategy

23. Hydro Ottawa proposes an increase in Community Relations costs as shown below: (From D1/T1/S1/p.5).

	USofA	2008 Board Approved $	2008 Actual $	2009 Actual $	2010 Actual $	2011 Budget $	2012 Budget $
Community Relations		**$4,759,852**	**$4,588,888**	**$4,594,942**	**$4,932,698**	**$6,093,455**	**$6,911,671**
Community Relations - Sundry	5410	4,515,270	4,388,497	4,470,513	4,748,231	5,892,595	6,727,367
Demonstration and Selling Expenses	5510	244,582	200,391	124,429	184,467	200,860	184,305

24. The Community Relations category shows a 49% in increase from the 2008 Board approved. In VECC's submission the evidence on the proposed Customer Service Strategy and Communications Costs does not support such a significant increase. While evidence was provided on the increase, in VECC's submission the Utility did not put forward a sufficiently comprehensive plan demonstrating the need and costing for this increase.

25. In cross-examination VECC queried the Utility as to the apparent inconsistency in the evidence as to the ongoing costs of the Customer Service Strategic Plan (see K4/Issue 4.1/IR #17 –CCC#26). It was suggested that $630,000 of the operating costs were in fact non-recurring. In a prolonged response on the various aspects of the program, Mr. Simpson concluded by saying:

    So, as I mentioned earlier, there is not an expectation that the operating costs will decrease from the 2012 levels. They may be diverted to different directions as the strategy continues, but they will be maintained.[8]

26. VECC also notes that the current 2011 spending does not support the increase in this area. At K4/Issue 4.1/IR#9 Energy Probe IR#36, there is an examination of the 2010 June year-to-date as compared to the equivalent 2011 year-to-date. The Table below shows the results with respect to Community Relations.

	USofA	2010 YTD June $	2011 YTD June $
Community Relations		**$2,508,233**	**$2,484,385**
Community Relations - Sundry	5410	2,402,288	2,423,606

[8] Transcript Volume 2, pgs.18-19.

Demonstration and Selling Expenses	5510	105,945	60,778

27. Based on the budgetary increases as between 2010 and 2011 one would expect the June 2011 year-to-date spending to be approximately 23.5% higher than the prior year. This suggests that 2011 spending will fall short of the proposed budget and by as much as $577,000.

28. The potential non-recurring costs of $630,000 and the potential under spending in this category suggest that the Utility could reduce spending in this area by at least $1.1 million. The average spending for the three years 2008 through 2010 was $4.5 million. A 3% increase from 2010 for 2011 and 2012 would provide an increase of no more than $300,000. From this point of view the utility could reduce costs in this category by at least $1.8 million.

29. In VECC's submissions Ottawa Hydro could look at making reductions in this category by between $1.1 and $1.8 million.

Smart Meter OM&A Costs

30. Ottawa Hydro had deployed 99% of its smart meters by the end of 2009.[9] The metering investment substantively took place between 2006 and 2009 (see Table 5, I2/T1/S1/pg.10). The substantive costs of metering are reproduced below.

From D1/T1/S1/pg.5 Table1

	USofA	2008 Board Approved $	2008 Actual $	2009 Actual $	2010 Actual $	2011 Budget $	2012 Budget $
Maintenance		**$5,111,153**	**$5,183,949**	**$5,171,079**	**$5,663,033**	**$8,462,994**	**$9,274,548**
Maintenance of Meters	5175	788,317	482,607	576,393	592,924	833,052	1,523,535
Billing and Collecting		**$11,716,819**	**$10,365,089**	**$10,233,636**	**$9,142,479**	**$11,925,750**	**$12,085,194**
Meter Reading Expense	5310	1,000,000	708,787	497,472	347,829	1,525,732	1,556,256

31. When cross-examined on the issue of the increase in Billing and Collection Cost the Utility responded as follows:

[9] Exhibit A3/T1/S1/ Hydro Ottawa Holdings Inc. 2009 Annual Report pg. 17

MR. SIMPSON: Maybe I'll expand on the answer, but the primary increase there from '10 to '11 relating to meter reading expense where, with the rollout of smart meters, our actual meter reading expense has declined, as we no longer need to do meter reading.

And as noted on page 5 of D2-1-4, with the effort that's been concentrated on the deployment of smart meters, there's been a high proportion of labour costs that have been allocated to capital. And with that substantially complete now, smart meters that were first deployed at the onset are now five years old, and the technician crews on an operating basis are now turning back to maintenance efforts on the smart-meter meter maintenance activities.[10]

32. This response indicates that meter reading costs should actually be declining.

33. In respect to the increase in maintenance costs VECC submits that meters which are less than 6 years old are unlikely to require maintenance costs in excess of the costs in 2008.

34. Hydro Ottawa did not file specific evidence to support the higher smart meter maintenance costs. Nor did it compare the older “dumb” metering costs to the new smart meter in an attempt to demonstrate why an asset of virtually all new meters should require such high maintenance costs. The response of Hydro Ottawa suggests that there is simply a plan to redeploy resources that were used to install meter to maintaining these meters. VECC notes that the onus lies with the applicant to provide compelling evidence especially when the increase in costs is counter-intuitive.

35. Acceptance of the proposed smart meter related operating costs erodes the economic rationale of the residential smart meter program. Unless specific evidence is provided to the contrary utilities should be able to maintain (with inflationary increases) the metering costs of the prior meter technology, especially since these costs are being offset by lower meter reading costs.

36. Even if one allows for a moderate real increase in meter maintenance costs Hydro Ottawa should be able to find savings of between $500,000 and $700,000 in this category.

[10] Transcript Volume 1 pg. 141.

Corporate Services

37. Notwithstanding the fact that Corporate services from affiliates were reduced by the transfer of 17 employees there are significant increases in this category. A table showing these costs from Undertaking L2.4 is reproduced below.

Service Offered	2008 Actual $000	2009 Actual $000	2010 Actual $000	2011 Budget $000	2012 Budget $000	2012 Budget* $000
Legal, Corporate Admin & Regulatory	$460	$609	$571	$550	$194	$567
Finance, Internal Audit & Risk Mgmt	977	2,026	2,666	2,690	1,627	2,781
HR, Safety & Environment	380	621	493	720	547	742
Corporate Communications	123	166	232	300	154	309
Information Mgmt. &Technology	n/a	n/a	n/a	850	179	876
Management	320	469	797	640	607	659
Conservation	n/a	n/a	n/a	150	192	192
TOTAL	$2,260	$3,891	$4,759	$5,900	$3,500	$6,125

*2012 Budget assuming no transfer of positions

38. Ottawa Hydro suggests that without the transfer of 17 staff affiliate service costs would have increased by 171% from 2008 actuals.

39. The impact of moving the 17 positions is shown here as $2,625,000. Even with the removal of these positions Ottawa Hydro is proposing to increase payments to its affiliates by 55% from what it paid in 2008. The evidence filed is not explicit in what services continue to be performed by the affiliate. For example, VECC notes that in 2011 IT service costs went from nil to $850,000. Yet despite the transfer of employees there continues to be an IT charge of $179,000 in 2012.

40. In VECC's submission it would not be unreasonable to expect Ottawa Hydro to be able to reduce affiliate services costs by between $200,000 and $500,000.

Conclusion

41. As stated above, the purpose of these detailed submissions is not to suggest specific changes to Hydro Ottawa's operations. In fact, VECC has refrained from making similar observations on other categories of OM&A costs. Rather the purpose of examining some of the more significant cost areas is to demonstrate that it would not be unreasonable to reduce the OM&A to a 3% growth rate from 2008. The above analysis shows that simply examining a few areas of OM&A one is able to find possible savings of nearly $3 million.

42. Hydro Ottawa has shown it has the ability to achieve greater savings given the appropriate management incentives. It is not unreasonable to believe the Utility can operate effectively with an increase equivalent to a 3% annual growth rate from its actual 2008 spending. In VECC's submission the Board should approve an OM&A figure no higher than a 3% escalation per year from Hydro Ottawa's actual 2008 pre-tax OM&A figures. This would yield on a pre-tax, CGAAP basis, OM&A in the amount of approximately $58 million for 2012. This figure should then be adjusted for MIFRS (see Exhibit J1/T1/S1).

LOAD FORECAST

Hydro's Ottawa's Application

43. Hydro Ottawa forecasts system energy purchases using a regression model that relates historical system energy purchases to GDP, weather variables (HDD and CDD), calendar variables and various binary to capture seasonality and mark-off any anomalous observations[11]. Total billed energy (prior to any adjustments for CDM) is then determined by adjusting for losses[12].

44. In order to establish the sales by customer class specific models are developed also using economic and weather data and used to develop class specific forecasts for the bridge and test year. These class specific forecasts are then summed and "calibrated" so that the resulting total equals the billed energy forecast derived from the system purchase forecast[13]. The resulting customer class forecasts are then adjusted for CDM and Suite Metering in order to obtain the load forecast by customer class for rate setting purposes[14].

45. Hydro Ottawa's position is that use of the system purchase forecast (adjusted for losses) is the appropriate way to establish total billed sales and that the class-specific forecasts should be used only to apportion this forecast amongst the customer classes. The reason Ottawa cites for this is the fact that the customer class models are developed using historical billed energy by month as opposed to the actual energy consumed in each month[15].

VECC's Submissions

46. VECC's only concern with respect to Ottawa's load forecast methodology is its reliance on the total purchased energy forecast (adjusted for losses) to

[11] Exhibit C1, Tab 1, Schedule 1, pages 3-4 and Attachment X, page 1. See also Exhibit K3, Issue 3.1, IR #8.
[12] Transcript Volume 1, page 46.
[13] Transcript Volume 1, pages 49-50 and Exhibit MT1.3.
[14] Exhibit LT2.8
[15] Argument-in-Chief, page 41.

establish total billed energy as opposed to simply relying on the sum results of its customer class-specific models to establish total billed energy.

47. VECC notes that in many of the 2011 test year Rate Applications reviewed and approved by the Board electricity distributors utilized customer class-specific models to forecast billed energy, including Kingston[16], Milton[17], Parry Sound[18], and Toronto[19]. VECC also notes that some of the remaining distributors (e.g., Waterloo North[20], Brampton[21] and Niagara Peninsula[22]) tested customer-class specific models but found that the models estimated were not satisfactory.

48. In Ottawa's case, the Company has confirmed that the class-specific models forecast sales reasonably well and, with the exception of USL (a small customer class), have adjusted R-squared values between 0.718 and 0.961[23]. As a result, there is no rationale for rejecting them on the basis that they are not satisfactory models.

49. Ottawa states that the "calibration" is required in order to account for the fact the historical data used to estimate the models was monthly billing data and not monthly consumption data[24]. However, Ottawa has already accounted for this problem. As explained in response to Board Staff's interrogatories[25], the models used lagged variables for weather and economic parameters in order to recognize that they were based on billed data. However, for purposes of forecasting 2011 and 2012 sales by class the models used un-lagged explanatory variables so that the results would represent forecast consumption for the month concerned.

50. Contrary to Ottawa's contention[26], there really are two different forecasts of billed energy for 2012. One is based on system purchases and the second one is based on billed energy forecasts for each customer class. Ottawa Hydro has adopted the one based on system purchases and therefore must calibrate the individual class forecasts so as to reconcile with the total from this approach.

[16] EB-2010-0136, Exhibit 3, Tab 1, Exhibit 2, Attachment 1
[17] EB-2010-0137, Exhibit 3, pages 10-11.
[18] EB-2010-0140, Exhibit 3, Tab 2, Schedule 1, pages 1-3.
[19] EB-2010-0142, Exhibit K1, Tab 1, Schedule 1, pages 3-5.
[20] EB-2010-0144, Exhibit 3, page 5.
[21] EB-2010-0132, Exhibit 3, Tab 2, Schedule 1, page 2.
[22] EB-2010-0138, Exhibit 3, page 14.
[23] Exhibit C1, Tab 1, Schedule 1, page 10 and Transcript Volume 1, pages 67-68.
[24] Undertaking L2.1
[25] Exhibit K3,Issue 3.1, IR #4
[26] Transcript, Volume 1, page 52.

51. What is interesting is that the two models give virtually the same results in four of the twelve months of the year[27]. In VECC's submission, this suggests that the approach used by Ottawa to allow for the fact it is using billed energy to estimate its models is appropriate and the results from customer-class based approach are also a reasonable basis for a forecast.

52. Ottawa Hydro has not been able to provide any details as to the relative accuracy of the two approaches[28]. Given this situation, VECC submits that Ottawa load forecast should be based on the sum of the customer class specific results. The resulting load forecast, after the CDM and Suite Metering adjustments, is set out in Undertaking L2.1. VECC's rationale is three-fold:

- The general approach adopted by other utilities has been to use customer class-specific models unless they prove to be inappropriate,
- Ottawa's customer class-specific models are reasonable, and
- There is no evidence to suggest that the accuracy of the customer class-specific model is any less.

53. Finally, in its submissions, Board Staff purportedly calculates the growth in total class sales between 2010 and 2012 under both approaches and concludes that the growth rate based on Hydro Ottawa's approach is more reasonable[29]. The problem with Board Staff's argument is that it uses the 2010 weather normalized sales value based on Hydro Ottawa's approach as the starting point for calculating the growth rates for both methodologies. Using the class-specific equations would, in all likelihood, yield a different value for 2010 total class sales and, therefore, a different 2010-2012 growth rate than the 1.55% calculated by Board Staff[30]. As a result, the data used in Board Staff's analysis is flawed and so are the conclusions.

LRAM

Hydro Ottawa's Application

54. Hydro Ottawa has requested an LRAM of $859,000 which represents its estimated lost revenue in 2009 to 2011 for 2009 and 2010 OPA programs[31].

55. Hydro Ottawa has not made any claim with the respect to its 2008 CDM program impact in 2008-2011 on the basis that an adjustment for 2008 CDM programs was included in the load forecast used to set the 2008 rates

[27] Transcript, Volume 1, page 51.
[28] Transcript, Volume 1, page 52.
[29] Board Staff Submission, page 7.
[30] Since Hydro Ottawa has not done any back forecasting based on the class specific approach the 2010 the comparable weather normalized value is not available.
[31] Argument-in-Chief, page 37.

and, therefore implicitly, also built into the IRM-based rates for 2009-2011[32]. When confronted with the fact that the actual 2008 programs savings were less than the 2008 CDM adjustment, Ottawa took the position that the Decision for 2008 was to adjust the forecast by a certain amount and that parties (the utility and ratepayers) should live with that Decision[33]. Furthermore, Ottawa suggested that to true-up the 2008 CDM adjustment would be counter to the CDM Guidelines[34] issued by the Board and result in retro-active rate making[35].

VECC's Submissions

56. The Board's Guidelines for Electricity Distributor Conservation and Demand Management (EB-2008-0037) specifically state that:

Unforecasted CDM results can have the effect of eroding distributor revenues due to lower than forecast throughput. Distributors recover fixed distribution costs through both a fixed and a variable rate, which is set based on a forecast of consumption, including natural changes in energy efficiency. If actual consumption is less than the forecasted amount used for rate-setting purposes, the distributor earns less revenue than it otherwise would have, all other things being equal. Since the intention and effect of CDM activities is to reduce capacity and energy use, it also has the effect of reducing throughput and associated distributor revenues, which can result in a disincentive for distributors to deliver CDM programs.

A mechanism to compensate for distributor-induced lost revenues is intended to remove the disincentive. LRAM is a retrospective adjustment, which is designed to recover revenues lost from distributor supported CDM activities in a prior year. It is designed to compensate a distributor only for unforecasted lost revenues associated with CDM activities undertaken by the distributor within its licensed service area. (emphasis added)

57. To-date LRAM applications made by electricity distributors have involved CDM impacts in years for which there were no CDM savings explicitly built into the load forecast underpinning rate, i.e., forecasted CDM savings were effectively zero. As a result, all CDM program savings represented "unforecasted CDM results".

58. Hydro Ottawa is one of the first distributors to be making an LRAM claim for program years where CDM savings have been explicitly incorporated into the load forecast used to set the rates for those years[36]. Specifically, the load forecast underpinning the rates for 2008-2011 included 42,667 MWh

[32] Transcript Volume 1, page 69.
[33] Transcript Volume 1, pages 77-79.
[34] Transcript Volume 1, page 84 and Argument-in-Chief, pages 37-38.
[35] Argument-in-Chief, page 38.
[36] Transcript, Volume 1, page 82.

and 7,633 kW of CDM savings[37]. However, the actual CDM savings achieved through from 2008 3rd tranche and OPA programs was only 26,103 MWh, 13,131 MWh and 13,130 MWh in 2008, 2009 and 2010 respectively[38].

59. In principle, unforecasted CDM results and associated lost revenues represent the difference what was actually achieved and what was included in the load forecast underlying the rates for these years. If this result was positive then VECC submits the Board's Guidelines for Electricity Distributors is clear, Ottawa would eligible to apply for an LRAM based on the difference, i.e., the unforecasted CDM results.

60. However, Ottawa's 2008 program results were less than forecasted such that over the four year period (2008-2010) the revenue impact of the actual CDM results is $541,801 less than what was (implicitly) incorporated into rates for the period[39]. Two issues arise from this result.

61. First, do the Board's Guidelines allow for negative values for "unforecasted CDM results" and "unforecasted lost revenues" which would effectively result in a "refund" to rate payers?

62. Second, while applications for LRAM are currently made at discretion of the electricity distributor (i.e., there is no requirement that distributors make an LRAM application), should such applications be mandatory in situations where the unforecasted CDM results and the resulting unforecasted lost revenue are negative?

63. With respect to the first question, VECC submits that the answer is yes. The bases for this conclusion are four-fold:

- First, the arithmetic of subtracting one number from another is simple and results can obviously be positive or negative.
- Second, as noted during the oral hearing[40], to not allow for negative values effectively removes any incentive for distributors to achieve their forecasted savings and allows them to be rewarded for savings they have not achieved. In VECC's view such results are contrary to the intent of the LRAM as set out in the Board's Guidelines for Electricity Distributors.
- Third, the Board's CDM Guidelines for Natural Gas Utilities explicitly require the comparison of actual vs. forecast CDM savings and recognize that the result could be positive or negative[41]. VECC is not submitting that Electricity

[37] Transcript Volume 1, pages 69-70.
[38] Technical Conference Undertaking LT2.8
[39] Oral Hearing Undertaking L1.6
[40] Transcript Volume 1, page 78.
[41] Transcript Volume 1, pages 82-83.

Distributors should be subject to the policies specifically established for Natural Gas Utilities, as suggested by Ottawa. Rather, it is VECC's submission that when the Board's policies for Electricity Distributors are open to interpretation – as currently appears to be the case[42] - it is instructive to look to the Board's policy as it applies to regulated natural gas distributors to help resolve the issue.

- Finally, to not allow for negative LRAM values and refunds to ratepayers would result in an unfair treatment of rate payers as compared to electricity distributors.

64. Hydro Ottawa has suggested that there should be no "true-up" for 2008 programs since the CDM adjustment was approved by the Board. It also notes that the adjustment was part of a Settlement Agreement which did not include any request for a true-up[43]. VECC submits that the Settlement Agreement and subsequent Board approval were dealing with load forecast underpinning 2008 rates and do not represent any decision, precedent or agreement as to how an LRAM should be calculated after the fact. All they did was established the CDM adjustment that would be incorporated for rate setting purposes.

65. Hydro Ottawa has also suggested that to introduce a negative LRAM would represent retroactive rate making[44]. VECC disagrees. Electricity Distributors have been applying for and the Board has been approving positive LRAMs (and recovery from customers) for the last several years. If positive LRAMs are acceptable and not considered as retroactive rate making then there is no reason why negative LRAMs should be considered so.

66. Hydro Ottawa is applying for an LRAM for 2009 and 2010. In doing so it has used the results from its (the OPA's) 2009 and 2010 programs and assumed zero "forecasted CDM results". VECC submits that, consistent with preceding discussion, an appropriate interpretation of the Board's Guidelines for Electricity Distributors requires the calculation to also consider the forecasted results for these years from 2008 programs as well as the actual savings/results in these years from 2008 programs as set out in Oral Hearing Undertaking L1.6. The lost revenues for 2009 and 2010 associated with the CDM adjustment incorporated into rate setting are $519,454 and $521,196 respectively. The actual lost revenues for the two years from 2008 CDM results are $329,491 and $330,743 respectively. Overall the total impact of considering the effect of forecast vs. actual 2008

[42] Transcript Volume 1, page 84.
[43] Transcript Volume 1, pages 77-78.
[44] Argument-in-Chief, page 38.

program results in 2009 and 2010 would be to reduce the LRAM claim by $380,416 (excluding interest effects)[45].

67. With respect to the second question, Hydro Ottawa has not applied for an LRAM for 2008. The Board's current practice is to allow Electricity Distributors to apply for LRAM at their discretion. For example, earlier this year the Board indicated that distributors wishing to seek an LRAM for 2010 or earlier years were to include the request as part of their 2012 Rate Application. However, the actual decision as to whether or not to apply was left to the distributors. In VECC's view such an approach is inappropriate. The result is likely to be that Distributors will apply for LRAM in those years where the unforecasted CDM savings and associated revenues are positive (i.e., the distributor gets to recover the difference from consumers) but not apply in those years when the values are negative and the results would be a refund to consumers. Clearly, this is unfair. However, it does represent a change in approach and the Board needs to consider whether it is reasonable to make the change for past program years. VECC notes that, if the Board were to approve a negative LRAM based on the impact in 2008 of actual vs. forecast 2008 program results, the result would be a further $161,386 reduction in the total LRAM claim (excluding interest effects)[46].

68. In its submissions, Board Staff has referenced page 18 of the Board's CDM Guidelines where it states:

The LRAM is determined by calculating the energy savings by customer class and valuing those energy savings using the distributor's Board-approved variable distribution charge appropriate to the class. The calculation does not include any Regulatory Asset Recovery rate riders, as these funds are subject to their own independent true-up process. Lost revenues are only accruable until new rates (based on a new revenue requirement and load forecast) are set by the Board, as the savings would be assumed to be incorporated in the load forecast at that time.

69. Based on this paragraph, Board Staff has concluded that the Guidelines do not support the truing up of the CDM effects embedded in a rebasing year. In VECC's view the paragraph is open to some interpretation. Based on the statement that "lost revenues are only accruable until new rates (based on a new revenue requirement and load forecast) are set by the Board)" it is fair to conclude that lost revenues associated with CDM programs implemented in years prior to the new revenue requirement's test year are not recoverable for the test year or subsequent years. This is reasonable since the load forecast for the test year will typically be developed utilizing historical purchased/sales data which already reflects the CDM programs from those years. Indeed this was the basis for VECC's argument in the

[45] The values reported here are calculated from Oral Hearing Undertaking L1.6 – using the lost revenue calculations for 2009 and 2010.
[46] Based on the forecast vs. actual lost revenue values reported for 2008 in Oral Hearing Undertaking l1.6.

Hydro One Brampton 2012 IRM application (EB-2011-0174) that the Company (which rebased in 2011) should not be eligible for supposed impacts of 2009 and 2010 CDM programs on 2011 sales.

70. However, in VECC's submission, the interpretation of the Board's Guidelines becomes less certain when dealing with the impact of CDM programs implemented in the test year on revenues in both the test and future years. The reasons for this are three-fold:

- First, as noted earlier, not all distributors have allowed for CDM impacts in the load forecasts developed for purposes of rebasing their rates over the 2008-2011 period. Indeed, for 2008, Ottawa was one of the very few that did so. As a result, the "assumption" that CDM savings are built into the load forecast is not always correct.

- Second, when CDM savings have been built into the load forecast the estimates have been focused strictly on the impacts for the test year. There has been no attempt to allow for the fact that with loss of persistence the impacts of the test year CDM programs may be considerably less in the subsequent IRM years (as was the case with Ottawa Hydro). Therefore, even if one were to "assume" that the CDM program savings are properly accounted for in the test year, it is unreasonable to assume that they will be properly accounted for in the subsequent IRM years. As noted earlier, in Ottawa's case, the negative LRAM due to the impact 2008 programs in 2009 and 2010 is $380,416. Indeed, if the Board adopts Staff's interpretation then, in considering future applications, parties will need to adopt an entirely new approach to determining the test year CDM adjustment (i.e., one that also considers whether the savings will persist during the IRM period).

- Finally, as stated at the start of the Guideline's section on LRAM, the entire focus of the LRAM is to deal with unforecasted CDM results and unforecasted revenue impacts. This suggests that where ever a forecast is involved there is the potential need for an LRAM, which would also include unforecasted results for the test year.

71. In summary, VECC submits that the Board should provide the following relief in view of the evidence before it:

    a) Hydro Ottawa's LRAM claim for lost revenues in 2009 and 2010 due to CDM programs should be reduced by $380,416 (plus interest) to account for the fact that the savings in those years from 2008 CDM programs were less than forecasted for rate setting purposes, and

    b) A negative (i.e., refund to customers) LRAM of $161,386 (plus interest) should be approved based on the fact that the actual 2008 CDM savings program savings in 2008 were less than forecasted for rate setting purposes.

SMART METERS

INTRODUCTION

72. At issue is the appropriate disposition of smart meter costs by Hydro Ottawa up to December 31, 2011, costs which have been offset by revenues received by Hydro Ottawa through the Smart Meter Funding Adder (the "SMFA").

73. The amount "owing" to Hydro Ottawa after accounting for the approved revenue requirement and the total revenue received by Hydro Ottawa through the SMFA is $1,511,583.63. That net amount "owing" was approved in the Settlement Agreement before the Board; the manner in which Hydro Ottawa collects that amount from the various rate classes was left open as an issue in this hearing.[47]

74. Hydro Ottawa proposes to collect the net amount owing through a Smart Meter Disposition Rider (an "SMDR") of .41 cents per meter per month across all classes for a period of one year.[48] As Hydro Ottawa indicates in its updated Application at Exhibit I1, Tab 1, Schedule 2, page 7:

> Hydro Ottawa proposes to use customer numbers to dispose of the Smart Meter variance accounts as this was the same allocator as the rate adder.

75. VECC objects to the clearance of the Smart Meter variance accounts on the basis of customer numbers as it aggravates the existing over-recovery of smart meter costs from ratepayers in the residential rate class that resulted from the use of customer numbers as the allocator for the rate adder. Instead, VECC submits, the Board should either:

a) require that the disposition of the Smart Meter variance accounts be performed in accordance with the principle of full cost causality, with the actual costs for each rate class determined and class specific rate riders implemented so as to rectify the cross subsidization of Smart Meter costs to the detriment of the Residential Rate Class, or

b) In the alternative, if the Board is of the view that a full cost allocation analysis is unwarranted, the Board should require Hydro Ottawa to employ a "proxy" approach as approved in the Decision in EB-2010-0209, pages 14 to 15, which results in the proposed rate riders set out in Undertaking 1.4. For greater clarity, were the

[47] Settlement Agreement, EB-2011-0054, Filed 2011-11-01, page 17 and attachment to Schedule C page 19 of 23.
[48] Ibid, attachment to Schedule C page 19 of 23, as well as UT 1.4.

Board to approve the "proxy" approach, Hydro Ottawa's proposed one year .41 cent rider across all classes would be replaced with the following one year class specific riders:

Residential:	($.56)
GS <50:	$6.71
GS 50-1500:	$35.87
GS 1500-5000:	$40.75
Large Users:	$50.92

THE CROSS SUBSIDY

76. As noted above, the SMFA has collected revenue for smart meter costs from customers on a per customer basis, meaning that, regardless of the actual smart meter costs incurred by a particular customer, all customers paid the same amount.

77. This, VECC submits, is a clear violation of cost causality principles, and results in a material cross subsidy between the Residential Rate Class and the other rate classes that are incurring Smart Meter costs, as the per customer costs are clearly not uniform across all customers regardless of class.

78. As illustrated in LT1.14[49], the result of questions from both VECC and Board Staff requesting, amongst other things, the per meter capital cost (including installation) for each class, the per unit meter and installation costs by class vary wildly, from $145.17 per residential customer to $2,022.77 per Large User. Yet Hydro Ottawa proposes that residential and Large User customers pay identical Smart Meter costs through the disposition of the Smart Meter variance accounts.

79. Ideally, VECC submits, the Board would require a full cost allocation analysis to identify the directly allocable costs for each class as well as an appropriate allocation of the remaining costs using a robust cost allocation methodology. However, in the context of Smart Meter costs and the clearance of Smart Meter amounts, the Board has previously accepted a "proxy" approach, specifically in the context of the Decision in EB-2010-0209. VECC submits that while the "proxy" approach does not purport to reflect a full cost allocation, it is based on the per unit meter costs including installation; because those per unit costs account for the majority of Smart Meter costs, the Board has accepted the proxy approach as directionally preferable to a simple per customer or per meter approach as is proposed by Hydro Ottawa.

[49] LT1.14 was later updated through UT 1.4, although the update did not affect the per unit cost by class including meter and installation costs.

80. VECC notes that in a further Powerstream decision released by the Board on November 21, 2011 in EB-2011-0128, pages 12 to 13, the Board accepted VECC's proposal that full cost causality should be implemented in recovering Smart Meter costs, as Powerstream had provided the relevant data and the difference between Powerstream's proxy approach and full cost causality was significant.

THE DATA IN THIS CASE

81. As Hydro Ottawa concedes, in its case, the costs of the meters and the installation costs were tracked separately, and, more importantly, the residential costs were recorded separately from the Commercial costs.[50]

82. Hydro Ottawa raised some concerns about the fact that demand and collector meters were not recorded separately. However, in breaking out those costs in UT 1.5 it is clear, VECC submits, that those costs are only a small part of the meter costs (approximately 2% of the total meter costs) the bulk of which are allocated to the Residential Rate class in any event.

83. The results of LT 1.14, as updated by UT 1.4, illustrate that the Smart Meter revenue requirement associated with the Residential rate class is $23,461,366; yet the revenue collected from the Residential rate class through the SMFA to date is actually $25,332,628, representing an over collection from the Residential rate class of $1,871,262.

THE PROPER RESULT

84. As noted earlier, Hydro Ottawa's proposal is to exacerbate this over-collection by continuing to collect money from the Residential rate class through a .41 cent rate rider. In VECC's view this is clearly inappropriate based on the evidence before the Board of the costs incurred to provide smart meters to the Residential rate class.

85. It appears that Hydro Ottawa does not accept VECC's proposed approach, which is either to require a full cost allocation analysis or, in the alternative, use the "proxy" approach based on the Powerstream Decision (EB-2010-0209):

> Mr. Cass:
> Now, in that same undertaking response -- that's the response to technical conference Undertaking LT1.14 -- Hydro Ottawa's evidence was that it does not have the proper data to perform a calculation based on a cost allocation approach.
> Hydro Ottawa's evidence and position set out in that undertaking response is that the numbers that it developed in order to answer

[50] LT1.14

the undertaking, because a request was made to do some numbers, should not be used for the purpose contended for by some intervenors. In other words, Hydro Ottawa provided the numbers because it was requested to do so, but it should not be taken in any way that it's Hydro Ottawa's position that those numbers ought to be used.
MS. HARE: Mr. Cass, is that the Undertaking L1.5?
MR. CASS: I'm referring to technical conference LT1.14.[51]

86. VECC is puzzled as to why Ottawa would take a position that clearly favors its Commercial Customers at the expense of its Residential Customers, even though the result is revenue neutral for the utility, regardless of which method (a full cost allocation review, the PowerStream Decision based proxy approach, or G-2008-002) is employed.

87. VECC submits that it is clear that the relative potential benefits for commercial customers from the Smart Meter program are correspondingly large compared to a residential customer, particularly small volume residential customers. Accordingly cost causality and matching of costs and benefits are in favour of either a full cost allocation or a Powerstream proxy approach.

88. VECC submits that Board direction is required, first to Hydro Ottawa to fairly allocate its Smart Meter Revenue Requirements to the rate classes and second to other LDCs that are proposing to similarly allocate costs based on a uniform cost per meter/customer, so that this issue does not have to be re-examined in every proceeding. There is every reason to believe, VECC submits, that the same disparity in actual smart meter costs between classes exists across all LDCs, and that accordingly perpetuating a per meter or per customer approach to recovering smart meter costs will impose unjustified cross subsidization at the expense of the Residential Rate classes across Ontario.

RELIEF REQUESTED

89. In summary, VECC submits that Hydro Ottawa, and every other LDC that was required to install smart meters, should be directed to come forward with proposals that, if possible, reflect principles of full cost causality when determining the appropriate recovery of amounts related to smart meter costs deferred in variance accounts.

90. In the alternative, in this case, Hydro Ottawa should be required to implement class specific riders in accordance with the “proxy” approach developed in LT1.14 and updated in UT 1.4 in order to reduce the cross subsidy related to smart meter costs, in the event the Board determines that

[51] Transcript, Volume 3, page 44.

Hydro Ottawa does not have the information to perform a full cost allocation analysis.

91. In the result, Residential ratepayers will be refunded money that they overpaid in relation to smart meter costs, while other rate classes will come closer to paying the costs actually incurred to provide smart meters to them. Hydro Ottawa, under any scenario, will recover the smart meter costs it incurred.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 22nd DAY OF NOVEMBER 2011