EB-2010-0142

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 Toronto Hydro-Electric System Limited for an order approving just and reasonable rates and other charges for electricity distribution.

ARGUMENT-IN-CHIEF
OF TORONTO HYDRO-ELECTRIC SYSTEM LIMITED

December 14, 2011

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A. INTRODUCTION

1. On September 30, 2011, Toronto Hydro-Electric System Limited ("THESL") filed the Suite Metering Supplementary Evidence as Exhibit L1, Tab 5, Schedules 1 and 2 (the "Supplementary Evidence") with the Ontario Energy Board (the "Board") in accordance with the Board's Partial Decision and Order dated July 7, 2011 (the "Partial Decision") and Procedural Orders No. 10 and 11 in this matter.

B. BACKGROUND

2. The Supplementary Evidence was prepared by THESL to facilitate the Board's effort to create and maintain a separate rate class for multi-residential customers that at the present time are served utilizing Quadlogic technology (the "New Rate Class"). THESL acknowledges that it is the Board's decision that the creation and maintenance of the New Rate Class is the most effective and transparent manner in which to ensure that procurement choices, as between licensed distributors and licensed unit sub-meter providers are made on a comparable economic basis.[1]

[1] Partial Decision at pg. 35.

3. The suite metering issue first arose in THESL's three year cost-of-service application in EB-2007-0680. At page 20 of the May 15, 2008 Decision in this matter the Board noted that:

> "At this time, for the purposes of this Decision, the Board will not consider differentiation in metering costs to be a pivotal consideration in entertaining the separation of the existing residential class or to direct the institution of contributions, capital or otherwise. This is an issue that requires consideration in a more generic proceeding, with appropriate notice to effected parties, directed towards rate design, and cost allocation."

4. The issue arose a second time in Powerstream's 2009 cost-of-service application (EB-2008-0244), where the Board panel was split between majority and minority opinions. The Majority Panel found at page 7 that:

> "The SSMWG intends to raise its issue in other rates proceedings. The Board's view is that consideration of the issue on a utility-specific basis going forward is not the best approach for two reasons. First, there are substantial differences in the rates and operating costs from one utility to the next. The conclusions drawn in one case will be of little if any value in the resolution of this matter. Second, this is clearly a matter of Board policy. The shaping of Board policy will of course need to consider this issue in the context of a number of other policy issues before the Board. In that regard, the Board will now have two decisions from rate proceedings as it considers this matter. In the Majority Panel's view, it would be advisable for the Board to take a generic approach in addressing this matter."

5. The Minority Panel disagreed, noting at page 14 that:

> "A generic decision is often the preferred solution but it cannot be an excuse for delay. This is the second time the Board has faced this issue. Moreover, it is not clear that this is necessarily a generic issue. All Ontario utilities will not be providing this service. And, we have heard that other utilities intend to carry out this activity through a separate subsidiary."

6. Instead, the Minority Panel would have required PowerStream to file a cost allocation methodology for this new service with estimates of the costs and revenues incurred to date in a manner that will allow the Board and the parties to determine whether revenues are covering costs. The Minority Panel explained at page 15:

> "It may be that revenues are covering costs and there is no basis for any further action let alone a generic proceeding. It's likely that the costs and revenues of this service are similar for all utilities. All utilities have similar residential rates and the cost of installing smart meters in condominiums is not likely to differ from utility to utility in a material fashion. The evidence in this proceeding that both the utility and competitors use virtually identical equipment.
>
> I do not believe that the condition I would attach to the rate order in any way compromises a generic initiative in the event the Board decides to pursue it. In a generic proceeding this information will be required in any event. If the Board elects not to implement a generic proceeding, the competitors will at least have the information necessary to argue the issue in a meaningful fashion."

7. The issue arose a third time in THESL's cost-of-service application for rates effective May 1, 2010. In its April 9, 2010 Decision at the bottom of page 28 and top of page 29, the Board determined that:

> "This is now the third time that the matter has arisen in a rate case. For the reasons that follow the Board finds that THESL should undertake a cost allocation study related to its provision of suite metering services. The study shall include an analysis of the implications of creating and maintaining a separate rate class for those customers served in this manner. The Board is of the opinion that the potential for cross-subsidization is ongoing and that there may be merit in the establishment of a separate rate class for multi unit residential customers that are served directly by THESL through its suite metering provision. This should be filed as part of the next cost of service application, which THESL intends to file later this year, but in any event no later than six months from the date of this Decision."

8. THESL complied with this requirement and filed its cost allocation study with the Board on December 1, 2010 (Exhibit L1, Tab 3, Schedule 1). On January 21, 2011 the Board ordered THESL to produce a further study on an alternative scenario by separating out those suite metering customers served by Quadlogic meters, and THESL complied by filing a further cost allocation study on February 18, 2011 (Exhibit L1, Tab 4, Schedule 1). THESL answered numerous written interrogatories on both of these studies and presented a witness panel for further questioning during the March 29, 2011 oral hearing.

9. It is in this context that the Board determined at page 35 of the Partial Decision that "the creation and maintenance of a separate rate class for multi-residential customers that at

the present time are served utilizing Quadlogic technology" is the most effective and transparent manner in which to ensure that procurement choices, as between licensed distributors and licensed unit sub-meter providers are made on a comparable economic basis.[2]

10. The Board has acknowledged that this issue is a "matter of Board policy" which "requires consideration in a more generic proceeding, with appropriate notice to affected parties, directed towards rate design, and cost allocation." THESL acknowledges that the Board has with the Partial Decision chosen to act now rather than to wait any longer to address this matter by way of a generic proceeding. In so doing, the Board has singled THESL out as unique vis-à-vis its LDC peers by ordering THESL alone to carry the burden of producing evidence to facilitate the creation and maintenance of a separate rate class for Quadlogic suite metering customers. THESL has readily and fully cooperated with the Board as it pursues its objective of designing the New Rate Class. THESL has dedicated its resources in this proceeding to preparing detailed Supplementary Evidence, to responding to two rounds of written interrogatories, to attending and responding to additional inquiries at the Technical Conference, and to presenting a witness panel to respond to further inquiries at last week's oral hearing. As requested, THESL has proposed a design for the New Rate Class and has fully detailed the methodology and the assumptions it has used, including filing a live cost allocation model and filing numerous model results based on requested variations to the assumptions used in the model.

C. THE SUPPLEMENTARY EVIDENCE

11. In Procedural Order No. 10, the Board ordered THESL to prepare the suite metering supplementary evidence and to:

    (a) make use of the guidance contained in the Partial Decision;

[2] Ibid.

(b) make use of the Board's cost allocation model and allocate to the new customer class all costs related to the Quadlogic meters; and

(c) propose a tariff for the new customer class and provide a detailed listing of all assumptions which it has made in undertaking its analysis, as well as any other information necessary to provide the Board with a complete understanding of the approach proposed.

12. As is more fully detailed below, THESL submits that it has fully complied with the Board's requirements for this phase of the proceeding.

(a) The Guidance in the Partial Decision

13. In the Partial Decision, the Board accepted that THESL has been operating in a fashion that conforms to established rate making and cost recovery principles as it conducts its cost allocation and economic evaluation exercises. The Board acknowledged the central tenet of rate making whereby the averaging of costs within a class of customers is considered to be a practical and fair manner in which to avoid the inefficiencies associated with excessively granular cost driver analysis. The pooling of common service costs amongst customers of a common class irrespective of their individual and actual contribution to those costs also recognizes that most often the customer has little or no control over its actual contribution level to these types of costs. The Board explained that the pooling principle responds to matters of both efficiency and fairness in the rate making process.[3] THESL has applied the same central rate making tenets to the creation of the New Rate Class.

14. However, the Board also explained that the rather unique regulatory framework involving both monopoly and competitive services occupying the same space introduces another consideration that must be recognised. The metering of individual multi-residential dwellings is a significant Government initiative and there is clear legislative intent that (i)

[3] Ibid. at pg. 34.

the provision of suite metering by regulated monopolies such as THESL is permitted; and (ii) a competitive market for the provision of unit sub-metering should also exist. In this context, the Board found that due to the existence of a competitive market for the provision of unit sub-metering it is appropriate to ensure that procurement choices, as between licensed distributors (suite metering) and licensed unit sub-meter providers (unit sub-metering) are made on a comparable economic basis both within the competitive unit sub-metering marketplace and between this competitive marketplace and the monopoly service.[4] In direct response to this guidance, THESL proposed a transitional meter-only rate for converting buildings to address an unintended outcome of the existing statutory and regulatory framework. THESL acknowledges that the Board will not be making any findings related to this transitional meter-only rate.[5] THESL intends to raise this issue to the Board's attention again in its next cost-of-service rate proceeding.

15. The Board agreed with THESL that it is not appropriate to base a rate class on a specific technology that is likely to evolve over time. Instead, the New Rate Class is initially identified on the basis of the current technology (Quadlogic meters) but the ongoing existence of the class is not predicated on the ongoing existence of this particular technology. The Board concluded that it would be more effective to utilize the existing cost allocation tools and input protocols to set a specific rate for these customers than to have THESL periodically perform the types of studies that have been produced for this application.[6] This, in turn, brings us to THESL's use of the Board's cost allocation model.

(b) The Board's Cost Allocation Model

16. THESL relied on the Board's cost allocation model and adjusted input assumptions only where the factual circumstances of the New Rate Class merited such an adjustment.

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[4] Ibid. pg. 34-35.
[5] Transcript of the Hearing on the SSMWG Motion dated October 14, 2011 at pg. 52, line 6-7.
[6] Supra. note 4 at pg. 35.

17. Specifically, THESL identified the number of customers that are expected to be served be by Quadlogic technology in 2012, to be 24,898 customers, which is a mid-year estimate of the number of customers served by this technology.[7]

18. THESL also updated the estimate of the monthly load for the Quadlogic customers based on the most recent information available for Quadlogic-served customers, which resulted in an average load of 334 kilowatt-hours per month for a Quadlogic customer.[8]

19. THESL then identified three significant cost drivers that differed as between Quadlogic customers and other residential customers, which were the same cost drivers as were identified in the two BDR studies. First, the meter capital cost for Quadlogic customers of approximately $550 per meter.[9] Second, the meter-reading costs for the Quadlogic customers relative to a residential meter resulted in a multiplier of 3.6 compared to a typical residential meter.[10] Third, to reflect the fact that only a small percentage of the Quadlogic customers are served by secondary assets the secondary costs that are attributable to the Quadlogic customers were reduced by adjusting the weighting factor down to 8 percent for the Quadlogic class.[11]

20. All other costs, including overall marketing costs, were allocated in accordance with the logic of the Board's cost allocation model.[12] On October 12, 2011 THESL filed the live cost allocation model to further increase the transparency and opportunity for analysis of the cost allocation assumptions and the sensitivity of the changes in those assumptions. All of these assumptions were fully explained in the Supplementary Evidence and were also provided in an itemized listing in Tab D of Exhibit KM1.2.

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[7] See Exhibit L1, Tab 5, Schedule 1 at pg. 1, line 26 to pg. 2, line 4.
[8] Ibid. at pg. 2, lines 6 to 20.
[9] Ibid. at pg. 4, lines 7 to 11.
[10] Ibid. at pg. 4, line 20 to pg. 5, line 2.
[11] Ibid. at pg. 5, lines 6 to 21.
[12] Ibid. at pg. 5, line 25 to pg. 6, line 2.

21. THESL has also provided evidence on the impacts of changes to certain key input assumptions into the cost allocation model, with the intent of providing additional information on the sensitivity of the models results to these inputs.[13]

22. In the Supplementary Evidence, THESL has not directly allocated any costs to the New Rate Class. This is consistent with the BDR studies, where the only costs that were directly allocated were Quadlogic specific marketing costs. THESL has no Quadlogic specific marketing costs in its 2012 budget.

23. THESL submits that the Board' s cost allocation model adequately allocates meter capital costs to the Quadlogic class using the meter allocation logic within the model. THESL acknowledges that direct allocation is another possible way to allocate meter costs. THESL provided information in the Supplementary Evidence on the impact of directly allocating the capital cost of Quadlogic meters, and has subsequently provided a more detailed impact assessment which included the proper allocation treatment of the remaining costs in the meter capital account.[14]

24. With respect to the results of the Cost Allocation Model, as demonstrated through the sensitivities provided by THESL in the Supplementary Evidence,[15] as well as through the results of various undertakings and interrogatories requesting running the Cost Allocation Model under differing input assumptions,[16] the resulting revenue-to-cost ratio for the Quadlogic class can vary from low of 90.2% to a high of 122.6%. THESL submits that this degree of variance is within the generally recognized degree of "tolerance" of the Board's Cost Allocation Model. The Board's own guidelines on the acceptable ranges for the revenue-to-cost ratios for rates implementation – which THESL acknowledges have been applied to the previously approved rate class definitions – recognize the degree

[13] Ibid. at pg. 6, line 23 to pg. 7, line 5.
[14] See Exhibit R4, Tab 1, Schedule 10 and Undertaking JH3.1.
[15] Supra. Note 5 at pg. 7, Table 3.
[16] See, for example, Exhibit R4, Tab 1, Schedule 20; Exhibit R4, Tab 3, Schedule 26; Exhibit R4, Tab 4, Schedule 10, and Undertakings JTC 2.7, 2.9 and JH3.1.

of variability within the model. The Board's 2007 Cost Allocation Report (EB-2007-0667) at page 2 summarizes the Board's views as follows:

> "The Board is cognizant of factors that currently limit or otherwise affect the ability or desirability of moving immediately to a cost allocation framework that might, from a theoretical perspective, be considered the ideal. These influencing factors include data quality issues and limited modelling experience, and are discussed in greater detail in section 2.3 of this Report. The Board also recognizes however, that cost allocation is, by its very nature, a matter that calls for the exercise of some judgment, both in terms of the cost allocation methodology itself and in terms of how and where cost allocation principles fit within the broader spectrum of rate setting principles that apply to – and the objectives sought to be achieved in – the setting of utility rates. The existence of the influencing factors does not outweigh the merit in moving forward on cost allocation. Rather, the Board considers that it is both important and appropriate to implement cost allocation policies at this time, and believes that the policies set out in this Report are directionally sound. With better quality data, greater experience with cost allocation modeling and further developments in relation to other rate design issues, the policies will be refined as required."

25. THESL submits that this should be an important consideration of the Board in developing the initial tariff for the New Rate Class.

(c) The Tariff for the New Rate Class

26. Using the methodology described above, THESL determined that the revenue-to-cost ratio for the New Rate Class for 2012 is 100.5 percent, which compares to the balance of the Residential class, whose revenue-to-cost ratio is 89.1 percent.[17]

27. To derive the tariff for the New Rate Class, THESL set the revenue-to-cost ratio at unity.[18] This resulted in a reduction of the revenue to be generated from that class by a marginal amount of approximately $44,000.

28. THESL has proposed a rate design for the New Rate Class – consisting of a fixed and variable component that is the same as the rate design of the remainder of the residential

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[17] Supra. Note 15 at pg. 6, lines 6 to 18.
[18] Ibid. at pg. 8, lines 1 to 12.

class. THESL submits that there is no reason to differentiate rate design for the Quadlogic class from other Residential customer. The resulting fixed and variable rates are based on collecting the same proportion of revenue from each of the fixed and variable components that is currently collected from the Residential class as currently defined. THESL submits that this is a fair and reasonable way of determining the initial rates that recover the full costs as allocated to the Quadlogic class and achieves the objective established by the Board in the Partial Decision.

29. The tariff for the New Rate Class can be found at Table 4 of Exhibit L1, Tab 5, Schedule 1. In short, for the New Rate Class, THESL is proposing a fixed rate of $16.29 per customer per 30-day period, and a variable rate of 2.701 cents per kilowatt-hour.[19] This compares to the remainder of the Residential class, which would pay a fixed rate of $20.16 per customer per 30 days, and a variable rate of 1.646 cents per kilowatt-hour. Both of these rates are based on the Revenue Requirement THESL has requested for 2012 in its EB-2011-0144 filing. These differences arise principally because of the different consumption characteristics of suite metered customers vis-à-vis the balance of the Residential customer class.[20]

E. CONCLUSIONS

30. Through the Supplementary Evidence, THESL submits that it has responded appropriately to the requirements of the Board’s Partial Decision and Procedural Orders. THESL has provided detailed information on the allocation of costs to the New Rate Class and has made an appropriate proposal for the initial tariff for this class that meets the Board’s objectives.

All of which is respectfully submitted this 14th day of December, 2011.

Original signed by J. Mark Rodger
J. Mark Rodger

[19] Ibid. at pg. 8, line 14 to pg. 9, line 5.
[20] Transcript dated December 7, 2011 at pg. 77, line 25 to pg. 78, line 2.

Original signed by John A.D. Vellone

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