



MILTON HYDRO DISTRIBUTION INC.

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By RESS and Courier

December 15, 2011

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, ON
M4P 1E4

**Re Milton Hydro Distribution Inc., Distribution Licence ED-2003-0014
2012 IRM3 Electricity Distribution Rate Application
Final Reply Submission EB-2011-0183**

Please find attached Milton Hydro Distribution Inc.'s ("Milton Hydro") Final Reply Submission to its 2012 IRM3 Electricity Distribution Rate Application. Two hard copies are being delivered to your attention.

Should you require further information or clarification please contact me at 905-876-4611 ext. 246 or cameronmckenzie@miltonhydro.com.

Yours truly,

Original signed by Cameron McKenzie

Cameron McKenzie, CGA
Director, Regulatory Affairs

IN THE MATTER OF the Ontario Energy Board Act, 1998, being
Schedule B to the Energy Competition Act, 1998, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Milton Hydro
Distribution Inc. to the Ontario Energy Board for an Order or
Orders approving or fixing just and reasonable rates and other
service charges for the distribution of electricity as of May 1, 2012.

MILTON HYDRO DISTRIBUTION INC. (“Milton Hydro”)
APPLICATION FOR APPROVAL OF 2012 ELECTRICITY
DISTRIBUTION RATES

FINAL REPLY SUBMISSION

Filed: December 15, 2011

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APPLICATION FOR APPROVAL OF 2012 ELECTRICITY DISTRIBUTION

RATES

REPLY SUBMISSION

Introduction

- (a) The Applicant is Milton Hydro Distribution Inc. ("Milton Hydro"). Milton Hydro is a corporation incorporated pursuant to the Ontario *Business Corporations Act* with its head office in the Town of Milton. Milton Hydro carries on the business of distributing electricity within the Town of Milton.
- (b) Milton Hydro filed an application with the OEB on September 19, 2011, pursuant to section 78 of the Ontario Energy Board Act, 1998 as amended (the "OEB Act") for approval of its proposed distribution rates and other charges, effective May 1, 2012.
- (c) On October 13, 2011 Milton Hydro published the OEB Notice of Application and Written Hearing in the Milton Canadian Champion.
- (d) Milton Hydro received intervenor requests from the Vulnerable Energy Consumers Coalition ("VECC") and Ms. J Shewchun, and subsequently received interrogatories from VECC, Ms. J Shewchun and OEB Staff.
- (e) Milton Hydro filed its Interrogatory Responses on November 15, 2011.
- (f) The OEB Notice of Application and Written Hearing provided for intervenors to file written final submissions by December 5, 2011. Milton Hydro received written final submissions from OEB staff and VECC on December 5, 2011 and from Ms. Shewchun on December 7, 2011.

Milton Hydro's Reply Submission

OEB Staff opened their submissions by providing a summary of certain discrepancies or clarifications identified during the interrogatory phase. As stated in the OEB Staff submission Milton Hydro provided corrected data and clarification as requested in the interrogatories. OEB Staff have updated the information in the application models as required. Milton Hydro would like to acknowledge the assistance of OEB Staff in making these changes.

Milton Hydro provided the corrected data and clarification through the interrogatory process and based on the information provided OEB Staff have stated that they have no issues with the following matters:

- Updates to the Application models;
- Retail Transmission Service Rates subject to any available updated Uniform Transmission Rates;
- Proposed revenue to cost ratio adjustments related to the Street Lighting and Sentinel Lighting customer rate classes;
- Lost Revenue Adjustment ("LRAM") recovery in the amount of \$315,727;
- Disposition of USoA Account 1521 – Special Purpose Charge in the amount of \$17,293

Detailed submissions were made on the following matters:

OEB Staff:

- Bill Presentment of the Global Adjustment Sub-Account Rate Rider; and
- Review and Disposition of Deferral and Variance Accounts per the EDDVAR Report.

VECC:

- Revenue to Cost Ratio Adjustments; and
- Lost Revenue Adjustment Mechanism (LRAM Recovery)

Ms. Shewchun:

- No submission filed on the content, accuracy or omissions to Milton Hydro's 2012 IRM3 Application;
- Does not support the current request for a delivery charge increase; and
- Filed a second round of interrogatories which are attached as Appendix A with Milton Hydro's responses;

Milton Hydro's submission will address the detailed submission from OEB Staff and VECC in the order presented above, and Ms. Shewchun's interrogatories in Appendix A.

Bill Presentment of the Global Adjustment Sub – Account Rate Rider

In Milton Hydro's previous two Electricity Distribution Rate Applications, Milton Hydro applied for, and the OEB approved, the disposition of USoA 1588 – Global Adjustment Sub-Account and the presentment of the Global Adjustment Rate Rider as a separate line item with the Global Adjustment. Neither Decision indicated that the OEB approval was only an interim measure.

The global adjustment accounts for differences between the market price and the rates paid to regulated and contracted generators and for conservation and demand management programs. The global adjustment is in effect a true-up of the mechanism used for establishing electricity prices – actual market prices paid for electricity and regulated and contracted prices already established.

The OEB Consumer web site provides the following information to consumers under the heading –

Before Signing an Energy Contract: What You Should Consider;

Understanding the Global Adjustment (until January 1, 2011 known as the "Provincial Benefit"). It is principally your share of the difference between regulated and contract prices for electricity paid to certain generators and the market prices they would have received had they not been subject to regulation or contracts. It can be a charge or a credit.

*If you buy electricity from your utility, an estimate of this amount is already reflected in the electricity Regulated Price Plan prices set by the OEB, shown on the "Electricity" line of your bill. **If you buy from an electricity retailer, you will have to pay the Global Adjustment in addition to the contract price offered by the retailer. It will be shown as a separate item on your bill.** [Emphasis added].*

Furthermore, the OEB Disclosure Statement that all Retailers are required to provide to prospective new customers for signature also states the following:

If you are buying your electricity from your utility, your electricity price already includes your share of certain electricity-related costs that are referred to as the “Global Adjustment” (formerly the “Provincial Benefit”).

If you switch to a Retailer, you will have to pay your share of the Global Adjustment in addition to the contract price.

The Global Adjustment amount will be on a new separate line on your utility bill and can change from month to month. [Emphasis added].

The Independent Electricity System Operator (“IESO”) web site, Consumer Information page, calculates the wholesale price of electricity as the Hourly Price (Weighted Average) plus the Global Adjustment or where a customer has signed a contract with a Retailer the price of electricity is the price charged by the Retailer plus the Global Adjustment. The IESO explanation also states that the Global Adjustment will appear as a separate line to the bill.

Milton Hydro tracks the Global Adjustment billed to Non-RPP consumers and the Global Adjustment charged by the Independent Electricity System Operator in the Global Adjustment Sub – Account and applies for disposition through the annual rate application process. Milton Hydro identifies the Global Adjustment Rate Rider as a separate line with the Global Adjustment. The following Picture 1 sets out Milton Hydro’s bill presentment of the Global Adjustment and the Global Adjustment Rate Rider for a customer signed with a Retailer.

Picture 1

Global Adjustment Rate Rider – Customer Signed With Retailer

Electricity Provider: PLANET ENERGY (ONT) CORP - (866)755-9553		
PREVIOUS BALANCE		\$80.31
PAYMENT 2011-11-22		-\$80.31
Balance Forward		\$0.00
	RATE	USAGE
Electric Charges		CHARGES
Retailer Bill Amount		\$29.16
Delivery		\$29.44
Regulatory Charges		\$4.54
Debt Retirement Charge		\$4.72
Global Adjustment/Provincial		\$26.55
Global Adjustment Rate Rider		\$1.60
TOTAL ELECTRIC CHARGES		\$96.01

This same bill presentment is applicable to Standard Supply Service (“SSS”) customers who are eligible for RPP pricing but have opted out of RPP Pricing in order to pay the market price for electricity or those customers that are classified as Non-RPP customers. Milton Hydro has provided an example of the bill presentment for an SSS customer that is RPP eligible but has opted-out of RPP pricing in Picture 2 below.

Picture 2

Global Adjustment Rate Rider – SSS Customer Opted Out of RPP Pricing

	RATE	USAGE	CHARGES
Electric Charges			
Electricity	0.030421	574.44	\$17.47
Delivery			\$26.59
Regulatory Charges			\$3.90
Debt Retirement Charge			\$2.88
Global Adjustment/Provincial			\$22.19
Global Adjustment Rate Rider			\$1.33
TOTAL ELECTRIC CHARGES			\$75.44

Milton Hydro has provided an example of the bill presentment for a Non-RPP customer in Picture 3 below.

Picture 3
Global Adjustment Rate Rider – Non-RPP Customer

	<u>RATE</u>	<u>USAGE</u>	<u>CHARGES</u>
Electric Charges			
Electricity	0.029799	392882.41	\$11,737.51
SES Administrative Charge			\$0.25
Customer Charge			\$977.70
Transformer Allowance	0.600400	2209.42	-\$1,325.65
Distribution Charge-KW	2.624500	2209.42	\$5,798.62
Debt Retirement Charge	0.007400	379157.14	\$2,654.20
Transmission Connection	1.882700	2209.42	\$4,159.68
Transmission Network	2.222000	836.28	\$1,858.21
Wholesale Market Services	0.006500	392882.41	\$2,553.74
Global Adjustment/Provincial			\$1,512.91
Global Adjustment Rate Rider			\$903.63
TOTAL ELECTRIC CHARGES			\$46,785.70

The commodity of electricity is the only competitive portion of a customer's bill that a customer has a choice of prices should the customer sign with a Retailer, opt-out of RPP pricing or be a Non-RPP customer signed with a Retailer. The customer is able to see both the price of electricity on their bill plus the Global Adjustment and Global Adjustment Rate Rider charge or credit. The Global Adjustment and therefore the Global Adjustment Sub-Account are both specific to the pricing of electricity for this specific group of customers, that have made the decision to pay the competitive price for the electricity that they use. It is for this reason that Milton Hydro presents the Global Adjustment Rate Rider as a separate line item along with the Global Adjustment on the bill in order to reflect the true cost of electricity to the customer.

Milton Hydro submits that the total cost of the competitive electricity for all Retailer-signed and Non-RPP customers is the Retailer line item cost or the market price (weighted) plus the Global Adjustment plus the Global Adjustment Sub-Account Rate Rider. Milton Hydro further submits that its presentation of the Global Adjustment Rate Rider as a separate line item with the Global Adjustment provides complete transparency as to the total cost of electricity for these

1 customers. To do anything else with the Global Adjustment Rate Rider only under-estimates or
2 over-estimates the actual cost of electricity to the Retailer-signed or Non-RPP customer.

3
4 **Review and Disposition of Deferral and Variance Accounts per the EDDVAR Report**

5 Milton Hydro has reviewed OEB Staff interrogatories and their submission on the disposition of
6 Milton Hydro's Deferral and Variance Account balances. Milton Hydro separated the Global
7 Adjustment Sub-Account as a means of calculating the appropriate rate rider for the disposition
8 of the Global Adjustment Sub-Account. However, Milton Hydro has determined that it is still
9 able to calculate the Global Adjustment Sub-Account Rate Rider separately from the remaining
10 Group 1 Regulatory Accounts. Therefore, Milton Hydro concurs with OEB Staff in that the
11 disposition of the remaining deferral and variance account balances is *"in the public interest and*
12 *will mitigate intergenerational inequity"*. Milton Hydro has re-run the 2012 IRM Rate Generator
13 Model to include the Global Adjustment Sub-Account in the calculation of the Threshold Test for
14 disposition.

15
16 Milton Hydro's 2012 IRM3 Application, filed September 19, 2011, included the Deferred
17 Payments in Lieu of Taxes USoA 1562. In the OEB's letter dated November 4, 2011, Milton
18 Hydro's request for disposition of Account 1562 was disallowed and Milton Hydro was directed
19 to re-apply due to inconsistencies related to Milton Hydro's interest expense calculations. Milton
20 Hydro was advised that its request for disposition of Account 1562 will not be addressed as part
21 of Milton Hydro's 2012 IRM3 Application. As such, Milton Hydro has removed the Payments in
22 Lieu of Taxes USoA 1562 amounts from the continuity schedules and will file a subsequent
23 stand-alone application requesting disposition of Account 1562 no later than April 1, 2012 as
24 directed in the OEB's letter.

25
26 Milton Hydro has updated and filed a live version of the 2012 IRM Rate Generator Model with
27 this submission to include the Global Adjustment Sub – Account. The following Table 1, taken
28 from Tab 9 – 2012 Cont. Sched. Def_Var, summarizes the final Group 1 Regulatory Accounts
29 used to calculate the Threshold Test for disposition.

Table 1

Total Group 1 Regulatory Account Balances for Disposition

		2011				Projected Interest on Dec-31-10 Balances			2.1.7 RRR	
Account Descriptions	Account Number	Principal Disposition during 2011 - instructed by Board	Interest Disposition during 2011 - instructed by Board	Closing Principal Balances as of Dec 31-10 Adjusted for Dispositions during 2011	Closing Interest Balances as of Dec 31-10 Adjusted during 2011 Disposition	Projected Interest from Jan 1, 2011 to December 31, 2011 on Dec 31 -10 balance adjusted for disposition during 2011 ⁵	Projected Interest from January 1, 2012 to April 30, 2012 on Dec 31 -10 balance adjusted for disposition during 2011 ^{6, 7}	Total Claim	As of Dec 31-10 ⁴	Variance RRR vs. 2010 Balance (Principal + Interest)
Group 1 Accounts										
LV Variance Account	1550	-\$ 107,868	-\$ 1,312	-\$ 100,651	-\$ 216	-\$ 1,480	-\$ 490	-\$ 102,837	-\$ 210,047	-\$ 0
RSVA - Wholesale Market Service Charge	1580	-\$ 221,686	-\$ 120	-\$ 784,755	-\$ 6,740	-\$ 11,536	-\$ 3,824	-\$ 806,855	-\$ 1,013,301	-\$ 0
RSVA - Retail Transmission Network Charge	1584	\$ 105,654	\$ 1,404	\$ 255,406	\$ 1,159	\$ 3,754	\$ 1,245	\$ 261,563	\$ 363,619	-\$ 4
RSVA - Retail Transmission Connection Charge	1586	\$ 9,992	\$ 242	\$ 205,015	\$ 744	\$ 3,014	\$ 999	\$ 209,772	\$ 215,993	\$ 0
RSVA - Power (excluding Global Adjustment)	1588	-\$ 489,677	-\$ 842	-\$ 198,445	-\$ 547	-\$ 2,917	-\$ 967	-\$ 202,876	-\$ 689,512	\$ 0
RSVA - Power - Sub-Account - Global Adjustment	1588	\$ 688,738	\$ 3,891	\$ 1,418,330	-\$ 3,958	-\$ 20,849	-\$ 6,912	-\$ 1,450,049	-\$ 729,660	-\$ 0
Recovery of Regulatory Asset Balances	1590	-\$ 3	-\$ 2,427	\$ 0	\$ 158	\$ 0	\$ 0	\$ 158	-\$ 2,273	-\$ 0
Disposition and Recovery of Regulatory Balances (2008) ⁷	1595			\$ -	\$ -	\$ -	\$ -	\$ -		\$ -
Disposition and Recovery of Regulatory Balances (2009) ⁷	1595			\$ -	\$ -	\$ -	\$ -	\$ -		\$ -
Group 1 Sub-Total (excluding Account 1588 - Global Adjustment)		-\$ 14,850	\$ 835	-\$ 2,041,760	-\$ 9,401	-\$ 30,014	-\$ 9,949	-\$ 2,091,125	-\$ 2,065,180	-\$ 4
Group 1 Sub-Total (excluding Account 1588 - Global Adjustment)		-\$ 703,588	-\$ 3,056	-\$ 623,430	-\$ 5,443	-\$ 9,164	-\$ 3,038	-\$ 641,075	-\$ 1,335,520	-\$ 3
RSVA - Power - Sub-Account - Global Adjustment	1588	\$ 688,738	\$ 3,891	-\$ 1,418,330	-\$ 3,958	-\$ 20,849	-\$ 6,912	-\$ 1,450,049	-\$ 729,660	-\$ 0
Special Purpose Charge Assessment Variance Account	1521					-\$ 111	-\$ 88	-\$ 17,293	\$ 77,651	\$ 0
Deferred Payments in Lieu of Taxes	1562			\$ -	\$ -	\$ -	\$ -	\$ -		\$ -
Group 1 Total + 1521 + 1562		-\$ 14,850	\$ 835	-\$ 2,041,760	-\$ 9,401	-\$ 30,125	-\$ 10,038	-\$ 2,108,418	-\$ 1,987,529	-\$ 3
The following is not included in the total claim but are included on a memo basis:										
Board-Approved CDM Variance Account	1567							\$ -		\$ -
PILs and Tax Variance for 2006 and Subsequent Years (excludes sub-account and contra account below)	1592							\$ -		\$ -
PILs and Tax Variance for 2006 and Subsequent Years - Sub-Account HST/OVAT Input Tax Credits (ITCs)	1592							\$ -		\$ -
PILs and Tax Variance for 2006 and Subsequent Years - Sub-Account HST/OVAT Contra Account	1592							\$ -		\$ -
Disposition and Recovery of Regulatory Balances ⁷	1595	-\$ 110,930	-\$ 34,987	-\$ 232,526	-\$ 205,905	-\$ 3,418	-\$ 1,133	-\$ 442,982	-\$ 584,348	-\$ 0

Milton Hydro notes that the OEB Staff submission included a Total Claim for calculating the Threshold Test of (\$2,119,506) as per the excerpt below taken from the OEB Staff submission

Total Claim for Threshold Test (All Group 1 Accounts)		(2,119,506)
--	--	-------------

Milton Hydro is not able to reconcile to the OEB Staff dollar amount and has provided Milton Hydro's calculation of the Total Group 1 Regulatory Accounts in Table 2 below. This summary agrees to the 2012 IRM Rate Generator Model – Tab 9 – 2012 Cont. Sched. Def_Var and Table 1 above.

Table 2
Reconciliation of Original Application and this Revised Submission

Total Group 1 Regulatory Accounts per EDDVAR Report						
2011 Continuity Schedule - Managers Summary - Table 7						
Group 1 Sub - Total Excluding Global Adjustment						(641,075)
Special Purpose Charge Assessment Variance Account						(17,293)
						(658,368)
2011 Continuity Schedule - Managers Summary - Table 11						
RSVA - Power - Sub-Account - Global Adjustment						(1,450,049)
Total Group 1 Regulatory Accounts per EDDVAR Report						(2,108,417)

Milton Hydro has provided the Total Claim and Threshold Test, updated for the Global Adjustment Sub-Account, in Table 3 below. As discussed in the OEB Staff submission the Total Claim per kWh of \$0.00286 now exceeds the Group 1 Threshold Test of \$0.001/kWh as set out in the EDDVAR Report.

Table 3

Group 1 Regulatory Accounts & Threshold Test

Total Claim (including Accounts 1521 and 1562)	-\$	2,108,418
Total Claim for Threshold Test (All Group 1 Accounts)	-\$	2,091,125
Threshold Test ³ (Total Claim per kWh)	-	0.00286

The following Table 4 below sets out the billing determinants used to calculate the Deferral and Variance Account Rate Riders and the resulting Rate Riders by customer class.

Table 4
Deferral and Variance Account Rate Riders by Customer Class

Deferral and Variance Account Rate Riders - Group 1 Regulatory Assets							
Rate Class	Unit	Billed kWh	Billed kW	Accounts Allocated by kWh/kW (RPP) or Distribution Revenue	Deferral/Variance Account Rate Rider		
Residential	\$/kWh	260,408,065		(234,557)	(0.0009)	\$/kWh	
General Service Less Than 50 kW	\$/kWh	75,603,703		(68,097)	(0.0009)	\$/kWh	
General Service 50 to 999 kW	\$/kW	188,689,653	511,697	(169,954)	(0.3321)	\$/kW	
General Service 1,000 to 4,999 kW	\$/kW	112,523,353	230,486	(101,350)	(0.4397)	\$/kW	
Large Use	\$/kW	85,702,235	188,668	(77,198)	(0.4092)	\$/kW	
Unmetered Scattered Load	\$/kWh	1,519,815		(1,369)	(0.0009)	\$/kWh	
Sentinel Lighting	\$/kW	167,188	465	(151)	(0.3239)	\$/kW	
Street Lighting	\$/kW	6,320,787	17,810	(5,693)	(0.3197)	\$/kW	
Total		730,934,799	949,126	(658,369)			

Revenue to Cost Ratio Adjustments

Milton Hydro updated its revenue to cost ratios in response to the OEB Staff IR #4 and adjusted its revenue to cost ratios for the Street Lighting and Sentinel Lighting customer classes to the target minimum of 70% as part of Milton Hydro's 2012 IRM3 Application. Both OEB Staff and

1 VECC accept that Milton Hydro's revenue to cost ratios are in accordance with the EB-2010-
2 0137 Decision.

3
4 **Lost Revenue Adjustment Mechanism (LRAM Recovery)**

5 Milton Hydro filed an LRAM Application for recovery of \$315,727 in accordance with the OEB
6 Guidelines for Electricity Distributor Conservation and Demand Management EB-2008-0037
7 issued on March 28, 2008.

8
9 VECC reviewed Milton Hydro's LRAM Application and except for an incorrect input assumption
10 for CFLs in 2009, which was determined to be immaterial, VECC submitted that Milton Hydro's
11 LRAM claim should be approved by the OEB.

12
13 OEB Staff also submitted that there were no issues with the LRAM claim as filed.

14
15 **Conclusion and Relief Sought**

16 Milton Hydro provided corrected data and clarification through the interrogatory process which
17 OEB Staff have reviewed and stated that they have no issues with the following matters;

- 18 • Updates to the Application models;
- 19 • Retail Transmission Service Rates subject to any available updated Uniform
20 Transmission Rates; and
- 21 • Disposition of USoA Account 1521 – Special Purpose Charge in the amount of
22 \$17,293

23 Milton Hydro is seeking OEB Approval of its proposed Retail Transmission Service Rates and
24 the disposition of USoA Account 1521 – Special Purpose charge in the amount of \$17,293.

25
26 Milton Hydro's bill presentment of the Global Adjustment Rate Rider as a separate line item
27 along with the Global Adjustment has been approved by the OEB in Milton Hydro's previous two

1 Rate Application Decisions and consistently applied for the 2010 and 2011 rate years. Milton
2 Hydro submits that its presentation of the Global Adjustment Rate Rider as a separate line item
3 with the Global Adjustment provides complete transparency as to the total cost of electricity for
4 those customers that have signed with a Retailer, opted-out of RPP pricing or are Non-RPP
5 customers. Milton Hydro is seeking OEB Approval to continue with its bill presentment of the
6 Global Adjustment Sub – Account for the 2012 and subsequent rate years as presented in the
7 Picture 1, Picture 2 and Picture 3 above.

8
9 Milton Hydro has updated its 2012 IRM3 Rate Generator model for the Global Adjustment Sub –
10 Account – 1588 and recalculated the Deferral and Variance Account Rate Riders to include all
11 Group 1 Regulatory Accounts in accordance with the EDDVAR Report. Milton Hydro is seeking
12 OEB Approval of its proposed disposition of all Milton Hydro's Group 1 Regulatory Accounts
13 through the Deferral and Variance Account Rate Riders set out in Table 4 above.

14
15 Milton Hydro has adjusted its revenue to cost ratios to reflect the OEB Decision EB-2010-0137
16 and the adjustment to the Street Lighting and Sentinel Lighting customer classes to the target
17 minimum range of 70%. Milton Hydro is seeking OEB Approval of its proposed revenue to cost
18 ratios for 2012.

19
20 Milton Hydro filed for LRAM recovery for the years 2005 to 2010. The Application for recovery
21 and resulting LRAM Rate Riders were supported in the submissions of OEB Staff and VECC.
22 Milton Hydro is seeking OEB Approval for the recovery of its proposed LRAM claim in the
23 amount of \$315,727.

24
25 Milton Hydro has attached Appendix A with its responses to Ms. Shewchun's additional
26 interrogatories. Milton Hydro notes that Ms. Shewchun's interrogatories and submission do not
27 address the actual content of Milton Hydro's 2012 IRM3 Electricity Distribution Rate Application.
28 Milton Hydro submits that Ms. Shewchun's interrogatories are outside of the scope of this
29 proceeding and as such would respectfully request that the OEB not delay its decision on Milton

Hydro's 2012 IRM3 Electricity Distribution Rate Application based on Ms. Shewchun's current submission or any additional submissions that may be forthcoming.

All of which is respectfully submitted,

Original signed by Cameron McKenzie

Cameron McKenzie, CGA
Director, Regulatory Affairs

Appendix A attached.

Appendix A

IN THE MATTER OF the Ontario Energy Board Act, 1998, being
Schedule B to the Energy Competition Act, 1998, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Milton Hydro
Distribution Inc. to the Ontario Energy Board for an Order or
Orders approving or fixing just and reasonable rates and other
service charges for the distribution of electricity as of May 1, 2012.

MILTON HYDRO DISTRIBUTION INC. (“Milton Hydro”) APPLICATION FOR APPROVAL OF 2012 ELECTRICITY DISTRIBUTION RATES

Response to Ms. J. Shewchun Additional Interrogatories

Filed: December 15, 2011

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Interrogatory #1

Milton Hydro failed to respond in a satisfactory manner. There was a request for Milton Hydro to produce a Customer Impact Statement showing the total increase to residential bills with the Nov. 1, 2011 increase factored into their Customer Impact Statement. Milton Hydro acknowledged that their submission assumed “no change in electricity rates”, but failed to produce the requested document.

Original Response – November 15, 2011:

Milton Hydro’s proposed total bill increase for the average residential customer using 800 kWh is 1.98%. This assumes no change in electricity rates.

The Ontario Energy Board (“OEB”) set the price for electricity, effective November 1, 2011, in October. The impact on the Residential customer is contained in the OEB press release which states the following:

“The price change for RPP consumers on TOU pricing represents an increase of approximately \$2.11 on the “Electricity” line, or about 1.8% on the total bill, for a residential consumer with a typical consumption pattern who uses 800 kWh per month.”

Response – December 14, 2011:

No change to the original response of November 15, 2011 is required – The OEB set the price for electricity effective November 1, 2011 and provided the impact of the change in Time of Use electricity pricing of approximately \$2.11 per month for a residential consumer with a typical consumption pattern who uses 800 kWh per month. Add this to the total bill impact as filed by Milton Hydro, in the amount of \$2.02 and the total bill impact inclusive of the TOU price increase is \$4.13 or 4.03%

Interrogatory #2

Milton Hydro failed to respond in a satisfactory manner. Milton Hydro's response does not address the negative impact which will be experienced by the VULNERABLE CONSUMER. It can be assumed from their response that no consideration had been given to the ratepayers ability to pay, when Milton Hydro submitted their latest request for an increase. This is not acceptable. Every request for any hydro increase, and every approval of an increase must consider the customer's ability to pay, as well as the impact it would have on the fragile Ontario economy. As the Auditor General Report indicates, hydro increases ultimately lead to job losses in the province. These issues should be addressed by Milton Hydro in their submission to the Ontario Energy Board, and the Ontario Energy Board, who have been entrusted with regulating energy costs in the province, should want these issues to be addressed and be taken into consideration when a request for increase is examined.

Original Response – November 15, 2011:

Milton Hydro's portion of the rate application relates to an increase in distribution revenue of \$0.05 per month or \$0.60 per year for the average Residential customer using 800 kWh per month. The balance of the proposed increase is in respect of changes in regulatory variances and retail transmission service charges.

Response – December 14, 2011:

No change to the original response of November 15, 2011 is required however Milton Hydro would add the following – Milton Hydro's Distribution revenue (Fixed Monthly Customer Charge and Variable Distribution (kWh) Charge) impact, exclusive of changes in regulatory variances and retail transmission service charges beyond Milton Hydro's control, is \$0.05 per month, which is not considered a significant impact. All other charges are related to the provincial electricity market.

The OEB regulates the province's electricity and natural gas sectors in the public interest. The *Ontario Energy Board Act, 1998* Section 78. (3) states: "The Board may make orders approving or fixing just and reasonable rates for the transmitting or distributing of electricity or such other activity as may be prescribed and for the retailing of electricity in order to meet a distributor's obligations under section 29 of the *Electricity Act, 1998*. 2009, c. 12, Sched. D, s. 12 (1)".

The OEB key regulatory functions include:

- issuing codes, rules and guidelines for regulated entities to follow in their operations;
- licensing and oversight of market participants including generators, marketers and retailers;
- monitoring and enforcing compliance with regulations;
- approving the natural gas commodity price charged by gas distributors;
- approving and setting delivery rates for natural gas distribution and electricity distribution and transmission;
- approving facilities, including those for natural gas storage and the transmission of electricity;
- setting the price of electricity for certain consumers under the Regulated Price Plan and Time-of-Use plan;
- reviewing and setting regulatory policy; and
- approving amalgamations, acquisitions, divestitures and mergers of regulated entities.

Interrogatory #3

Milton Hydro failed to provide specific details about the efficiencies they have or are undertaking to reduce costs of business and to reduce the impact of rate increases on customers. What specific cost containment or reduction measures are being taken in human resources, salary increases and benefits, contracting services, physical plant, etc. in order to reduce operating costs? What dollar value can be assigned to these efficiencies? These issues need to be addressed in Milton Hydro's submission for yet another increase in delivery rates.

Original Response – November 15, 2011:

Milton Hydro is applying for an annual rate adjustment under the 3rd Generation Incentive Regulation Mechanism ("IRM3"). The very nature of an IRM application is to encourage distributors, including Milton Hydro to continue to improve efficiencies in order to reduce costs of business to reduce the impact of rate increases on customers. An IRM increase is the difference between price increases in the expenditure side of the Gross Domestic Product less two productivity percentages which limits a distributors distribution revenues unless the distributor is actually able to obtain the efficiency gains.

Response – December 14, 2011:

No change to the original response of November 15, 2011 is required however Milton Hydro would add the following for further clarification – the IRM process provides for an inflationary increase of 1.30% offset by a productivity and stretch factor of 1.12% on expenditures with the expectations of productivity efficiencies which results in an increase to existing rates of 0.18%. This revised Interrogatory refers to Cost of Service Rate Applications. Milton Hydro would refer to its 2011 Cost of Service Rate Application and responses to Interrogatories for details on Milton Hydro's distribution operations.

Interrogatory #4

Referencing the OEB Rules of Practice and Procedures Section 22 to 25 is not a satisfactory answer as to why a public meeting was rejected by Milton Hydro. The OEB Rules do not preclude holding a public meeting in Milton to explain the need for an increase in the hydro bill. After all, John Pickernell, assistant to the Board Secretary, stated on Dec 1, 2010 that when meetings are held in the community of the proposed hydro increase, there is greater participation in the hearing. In other words, a public meeting is well worth while. It is my understanding, and Milton Hydro can correct me if I am wrong, but the reason given to reject a public meeting was that the Milton ratepayers would not understand the presentation. Is the application for increase so mechanistic and formulaic that it cannot be explained to the ratepayers who pay the hydro bills?

Original Response – November 15, 2011:

Milton Hydro has filed its Application in accordance with the OEB Rules of Practice and Procedures (“the Rules”). The Rules provide for three levels of participation. In particular Part III – Proceedings, Section 22. Levels of Participation, sets out the levels of public participation available to any person. Sections 23 to 25 provide for Intervenor Status; Public Comment; and Observer Status. Milton Hydro submits that the Rules provide for Public participation in its Rate Application.

Response – December 14, 2011:

No change to the original response of November 15, 2011 is required however Milton Hydro would add the following – the process as set out provides for all levels of public participation. Milton Hydro Rate Applications are available to the public through the OEB’s website, Milton Hydro’s website and in hard copy at Milton Hydro’s office. Milton Hydro has always responded to questions on its Applications both through the interrogatory process and to customer questions by phone or in person at the office.

Interrogatory #5

Milton Hydro failed to provide an adequate response. The question asked was: Will profits increase with this request for an increase in distribution rates? Since Milton Hydro has steadily increased its profits over the years with each application for a rate increase especially when coupled with the usage rate increase, which the Ontario Energy Board automatically increases on Nov. 1st of each year, isn't it a logical assumption that this current application will add to profits which last year amounted to over a million dollars? Can Milton Hydro provide some dollar figures which at least shows an estimate of the profit increase and the profit which will be generated for the current calendar year.

Original Response –b November 15, 2011:

Milton Hydro's IRM3 Application provides for an increase to existing rates of 0.18% which amounts to approximately \$23,000 of additional distribution revenue. Profit is dependent on productivity.

Response – December 14, 2011:

No change to the original response of November 15, 2011 however Milton Hydro would add the following – controlling OM&A costs may result in a portion of the \$23,000 being in net income.

Milton Hydro earns its Distribution Revenue Requirement from the Fixed Monthly Customer Charge and the Variable Distribution (kWh) Charge. Milton Hydro must reiterate that it does not earn revenue on the other market related charges including the Electricity portion of the bill. Milton Hydro passes the price of electricity on to customers at the same price Milton Hydro pays to the market.

Interrogatory #6

The question asked: "Was this request for an increase approved by the Milton Hydro Board of Directors". Milton Hydro's response was: Milton Hydro's Board of Directors is aware of the proposed rate increase as filed with the OEB. Is Milton Hydro stating that the Board of Directors never approved this rate increase prior to submission to the OEB? Can Milton Hydro please provide Minutes of the Board Meeting where this increase was presented to the Board?

Original Response – November 15, 2011:

Milton Hydro's Board of Directors is aware of the proposed rate increase as filed with the OEB. The OEB have the final approval of the Application.

Response – December 14, 2011:

No change to the original response is required in response to the first part of this interrogatory.

New interrogatory:

Is Milton Hydro stating that the Board of Directors never approved this rate increase prior to submission to the OEB? Can Milton Hydro please provide Minutes of the Board Meeting where this increase was presented to the Board?

Response – December 14, 2011:

Milton Hydro's Board of Directors meet on a monthly basis and were advised, at the September 22nd meeting, of Milton Hydro rate application filed September 19, 2011.

Milton Hydro has provided an excerpt presented in the September 2011 Regulatory Report to Milton Hydro's Board of Directors. No recommendation or motion is required. The Regulatory Report was received.

2012 Incentive Regulation Mechanism Rate Applications

On September 19, 2011 Milton Hydro filed its 2012 Distribution Rate Application with the OEB. The Application is based on the OEB filing guidelines and models provided to those LDCs that are required to file under 3rd generation incentive regulation ("IRM3"). The increase to rates is calculated as a Price Cap Adjustment based on the following OEB formula: Gross Domestic Product Implicit Price Index ("GDP-IPI") less a Productivity Factor and a Stretch Factor. The OEB model uses an estimate of 1.30% for the GDP-IPI, which will be adjusted when Statistics Canada publishes the actual 2011 factor in early 2012. The Productivity Factor is 0.72% for all 3rd Generation IRM filers and a further 0.40% for the Stretch Factor. The calculated Price Cap Index which is applied to both the fixed and variable distribution rate is 0.18%.

Interrogatory #7

Milton Hydro did not adequately answer the question. What specific assets and liabilities were acquired from the Town of Milton and what are the dollar figures associated with these assets and liabilities. How many common shares were issued and what dollar figure can be assigned to the debt at the time of acquisition. Currently, and correct me if I am wrong, “deemed” debt generates over a million dollars each year for the Town of Milton. What current dollar and interest figures are used to calculate this “deemed” debt? What is the projected payment for this debt for the current calendar year.?

Original Response – November 15, 2011:

Deemed debt is the regulated amount of debt that a distributor may include in the calculation of its regulated return which is used to calculate revenue requirement for setting rates in a Cost of Service proceeding. Actual interest only is paid on the actual amount of debt.

Upon incorporation Milton Hydro Distribution Inc. acquired the assets and liabilities of the previous Milton Hydro-Electric Commission from the Town of Milton in exchange for common shares and debt. Milton Hydro pays interest, on this debt, to the Town of Milton.

Response – December 14, 2011:

No change to the original response is required to the original interrogatory response.

New interrogatory:

What specific assets and liabilities were acquired from the Town of Milton and what are the dollar figures associated with these assets and liabilities. How many common shares were issued and what dollar figure can be assigned to the debt at the time of acquisition. Currently, and correct me if I am wrong, “deemed” debt generates over a million dollars each year for the Town of Milton. What current dollar and interest figures are used to calculate this “deemed” debt? What is the projected payment for this debt for the current calendar year?

Response – December 14, 2011:

Milton Hydro acquired the distribution plant, receivables, inventory and liabilities of the previous Milton Hydro-Electric Commission.

The capital stock issued was 2,000 common shares and the debt in the form of a promissory note payable of \$14,934,210.

Deemed debt does not generate dollars for the Town of Milton Hydro. Milton Hydro would refer to its response to the original IR #7 for the explanation of deemed debt, see above .

The deemed debt is based on 60% of Milton Hydro's Rate Base as describe in detail in Milton Hydro's 2011 Cost of Service Application Exhibit 2 – Rate Base and Exhibit 5 – Cost of Capital and Capital Structure.

The interest payment to the Town of Milton for 2012 amounts to \$1,082,730.

Interrogatory #8

More information is needed to understand Milton Hydro's response in regard to theoretical models used to justify a request for increase. Could you please provide some support to justify your statement "By the time a distributor files the models, they have generally been thoroughly tested." What testing takes place, and could you provide an example?

Original Response – November 15, 2011:

The models used in Milton Hydro's IRM3 Application were prepared by OEB Staff and used by other electricity distributors in the preparation of IRM3 applications. In the event a distributor encounters an error, it is reported to OEB Staff for correction. By the time a distributor files the models they have generally been thoroughly tested.

Response – December 14, 2011:

No change to the original response is required.

New interrogatory:

Could you please provide some support to justify your statement "By the time a distributor files the models, they have generally been thoroughly tested." What testing takes place, and could you provide an example?

Response – December 14, 2011:

As stated in Milton Hydro's response to the original IR #8 and reproduced above, OEB Staff prepare and test the models and distributors use the models and report errors encountered back to OEB Staff. As an example of changes to models Milton Hydro would refer to the OEB website "What's New" and the posting for August 29, 2011, September 13, 2011 and October 18, 2011 advising distributors of updates to the 2012 IRM Rate Generator model and 2012 Tax Sharing Workform. See link below.

<http://www.ontarioenergyboard.ca/OEB/Industry/Regulatory+Proceedings/Applications+Before+the+Board/Electricity+Distribution+Rates/2012+Electricity+Distribution+Rate+Applications#20110829>

Interrogatory #9

In a letter, dated Dec. 7, 2010, Milton Hydro submitted a study by Kubas Consultants to support their position that the Milton Champion was an appropriate newspaper in which to announce their application for a rate increase. According to the OEB current requirements is by way of a notice to be made in a PAID periodical, whereas the Milton Champion is a free newspaper. The OEB approved the Milton's use of the Milton Champion.

However, the Kubas Report, upon which the OEB relied on to make their decision, does not specifically address the distribution of the Milton Champion. This study surveyed all the areas where Metroland Media Group distributes its newspapers, which encompasses 78 separate distribution or community areas. The data produced was based on the responses from 78 communities, not data collected just for the Milton Champion. There is no evidence in this report to substantiate Milton Hydro's claim in regard to the Milton Champion, as outlined in their letter of December 7, 2010. Additionally, this study used only residential telephone subscribers as their sample frame and this omitted the customers who are unlisted. Further, it is my understanding from recent information provided by the Milton Champion, that new subdivisions do not receive the Milton Champion. Milton is a fast growing community, and as the Milton Champion pointed out, it is extremely difficult to deliver the newspaper to these new subdivisions. despite best efforts. This difficulty amounts to thousands of Miltonians who would not receive the Milton Champion, and consequently not be aware of the proposed request for an increase to rates.

Would Milton Hydro agree that a more effective method of informing ratepayers of an application for a rate increase would be to include a notice in each customer's bill, 30 days before an application is made to increase rates? This would eliminate the contentious issue of which newspaper should be used to notify ratepayers of an application for an increase. Also, it would assure that all ratepayers have received notification.

Original Response – November 14, 2011:

Milton Hydro submitted evidence of circulation of the Milton Canadian Champion in its 2011 Cost of Service Application in response to the OEB Procedural Order No. 3 issued December 7,

2010. The number of copies circulated at the time exceeded the number of Milton Hydro Residential customers thereby providing ample coverage.

Milton Hydro filed its Application under the OEB Rules of Practice and Procedures.

Milton Hydro agrees that public input is important and would refer to its response to IR #4 above.

Response – December 14, 2011:

No change to the original response is required however Milton Hydro would add that Milton Hydro does not publish a Notice of Application until such time as the OEB acknowledges that the Application is complete and issues its direction to Milton Hydro.