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December 23, 2011

VIA MAIL and E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
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Dear Ms. Walli:

Re: Vulnerable Energy Consumers Coalition (VECC)
Final Submissions: EB-2011-0142
Toronto Hydro-Electric System Limited – Supplementary Suite Metering Evidence

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

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC

cc: Toronto Hydro-Electric System Limited

EB-2010-0142

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Sch.B, as amended;

AND IN THE MATTER OF an Application by Toronto Hydro-Electric System Limited for an Order approving just and reasonable rates for electricity distribution.

FINAL SUBMISSIONS

On Behalf of The

VULNERABLE ENERGY CONSUMERS COALITION (VECC)

December 23, 2011

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Vulnerable Energy Consumers Coalition (VECC)

Final Argument

1 Introduction

1.1 In its EB-2009-0139 Decision[1] regarding Toronto Hydro-Electric System's ("THES") 2010 rates the Board found 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.*

1.2 THES complied with this requirement and filed its cost allocation study with the Board on December 1, 2010 as part of its 2011 Distribution Rate Application (EB-2010-0142). Subsequently, the Board ordered THES to produce a further study on an alternative scenario by separating out those suite metering customers served by Quadlogic meters, and THES complied. In its Partial Decision regarding THES' application the Board made the following finding and determination[2]:

> *The Board finds 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 submetering) are made on a comparable economic basis both within the competitive unit sub-metering marketplace and between this competitive market place and the monopoly service. Within the competitive market place the conduct of the service providers will be driven by normal competitive forces and the best price will emerge. The determination of the true cost of the provision of suite metering as part of the monopoly service for comparison purposes is more complicated but the Board considers it to be warranted.*
>
> *The Board has determined 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 address the aforementioned issues.*

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[1] Page 29
[2] Page 35

1.3 In the same Decision the Board stated[3]:

> *The Board will therefore require supplementary evidence to be filed on this suite metering issue. The objective of the subsequent phase of the proceeding is to establish both the cost allocation protocols for the new customer class and to establish the initial tariff that THESL will charge for this service. The Board will issue a procedural order under the current docket number containing filing instructions to THESL and subsequent procedural steps to facilitate further discovery and examination to facilitate this objective.*
>
> *To be clear, all findings in this current Partial Decision and Order are final and will result in a final rate order for 2011 rates. Any rate implications that arise from the findings in the supplementary proceeding will be reflected in THESL's 2012 rates (whether determined as part of a rebasing or IRM application) and will not have retroactive effect in any way.*

1.4 THES filed this Supplementary Evidence on September 30, 2011 which included an updated cost allocation based on its proposed 2012 Revenue Requirement[4], updated cost allocation parameters and a separate Quadlogic customer class. Subsequent to this filing the evidence was subject to interrogatories, a technical conference and an oral hearing.

1.5 The following sections set out VECC's final submissions regarding THES' Supplementary Suite Metering Evidence.

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[3] Page 36

[4] THES' 2012 Distribution Rate Application is the subject of a separate proceeding: EB-2011-0144

2 Scope of the Proceeding

2.1 As indicated in the EB-2010-0142 Partial Decision and reiterated by the Panel Chair in the current proceeding[5], this phase of process was not to determine whether a separate Quadlogic Residential customer class ("Quadlogic class") would be established as that decision has already been made. Rather, it is VECC's understanding and submission that the purpose of this proceeding is to establish the appropriate cost allocation methodology/treatment for the Quadlogic class and the associated tariff design that should follow from the costs allocated to the class.

2.2 The Supplementary Evidence filed by THES used the Board's Updated Cost Allocation model. Also, to illustrate the impacts of its proposed cost allocation methodology and tariff design for the Quadlogic class, THES used its forecast 2012 costs as filed in EB-2011-0144[6]. VECC notes that the Board is currently considering, as part of the EB-2011-0144 proceeding, whether THES rates for 2012 should be set on a cost of service basis or using the Board's 3rd Generation IRM.

2.3 Assuming the Board was to set 2012 rates based on cost of service, the 2012 forecast costs used THES in this proceeding have not been approved by the Board. If these costs are revised for purposes of setting 2012 rates, then the revenue to cost ratios (including that for the Quadlogic class) resulting from the cost allocation methodology will change. Similarly, if the 2012 load/customer forecasts for 2012 are revised as a result of the EB-2011-0144 proceeding then the cost allocation results for the Quadlogic class will change. Finally, the EB-2011-0144 proceeding could well lead to adjustments in the allocation parameters for the other THES' other customer classes[7], which again would impact the

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[5] Volume 3, page 155
[6] Exhibit L1/Tab 5/Schedule 1,page 1
[7] For example, according to JH3.6 the cost allocation used in EB-2011-0144 does not account for the fact that even with the removal of the Quadlogic customers the Residential class will continue to have a number of Suite Metered customers and the Residential class' allocation factors will have to be adjusted to reflect the primary/secondary split for these customers.

allocation of costs to the Quadlogic class.

2.4 Furthermore, if the Board were to determine that THES' 2012 rates were to be set using an IRM mechanism applied to the 2011 (cost of service based) approved rates then the cost allocation results and rates determined based on THES' forecast costs would not be at all appropriate.

2.5 The overall result is that while the current proceeding can determine the appropriate cost allocation methodology and tariff design approach to be used for the Quadlogic class it can not establish what the status quo 2012 revenue to cost ratios are, what cost adjustments are required for to achieve a ratio of 100% for 2012 or what the actual 2012 rates for the Quadlogic class will be. VECC submits that these determinations will have to await the outcome of the EB-2011-0144 proceeding. Finally, VECC notes that as part of its Supplementary Evidence THES has proposed that any adjustments to the Quadlogic class' revenue to cost ratio be offset by changes to the Residential class' ratio[8]. Again VECC submits that while it is appropriate for this proceeding to make determinations regarding the appropriate revenue to cost ratio (target or value[9]) for the Quadlogic class, any decisions regarding the adjustments required to the revenue to cost ratios for other customer classes should be left to the EB-2011-0144 proceeding where the current status quo values for all the classes will be known (based on approved costs and allocation parameters) and can be compared with the Board's revenue to cost ratio guidelines and the impacts of any directed adjustments can be fully considered[10].

[8] Exhibit.L1/Tab 5/Schedule 1,page 8
[9] It falls to the Board to determine whether the revenue to cost ratio for the Quadlogic class should be set at 100% precisely or within a specified range around 100%.
[10] Technical Conference pages 75-77 indicates some of these considerations

3 Cost Allocation Methodology

3.1 In its Supplementary Evidence THES noted that changes were required to the cost allocation methodology as it applies to distribution secondary costs, the capital costs of meters and meter reading costs in order to properly incorporate the new Quadlogic class[11]. During the course of the proceeding, parties raised other issues that could impact the Quadlogic class' cost allocation treatment. Set out below are the various issues VECC has identified where the cost allocation treatment of the Quadlogic class requires resolution.

a) Meter Costs

3.2 There are two issues related to meter costs. The first is the cost value used for Quadlogic meters in the cost allocation model (Sheet I7.1) and the second is whether the meter costs for the Quadlogic class should be specifically identified and directly assigned or "allocated" using the Board model's allocation parameters.

3.3 THES has used a cost of $550 for Quadlogic meters. This represents the average cost for the meters expected to be in place in 2012 including both new installations and higher cost conversions[12].

3.4 While this value may change in the future depending upon inflation and the proportion of new versus conversion suites, it is the value for 2012 and VECC submits it is the appropriate value to use in the 2012 Cost Allocation currently before the Board.

3.5 In its current Evidence THES has included the cost of Quadlogic meters in the overall meter costs to be allocated to all customer classes and applied the Board's cost allocation methodology to allocate a portion of these costs to the Quadlogic class. When the issue of direct assignment was first raised with THES, the utility expressed the concern that the USOA account for meter costs also included

[11] Exhibit L1/Tab 5/Schedule 1, page 3
[12] Exhibit JT2.5 and Technical Conference, page 52

wholesale meter costs[13]. THES further noted that in order to do a proper direct assignment these wholesale meter costs would have to be removed but expressed concern that it did not have the specific detail to do so[14]. However, at the start of the oral proceeding[15] THES indicated that it had re-examined the meter costs in the USOA meter account and wholesale meter costs had not been included. As a result, THES agreed that there were no impediments to directly assigning the capital cost of Quadlogic meters to the Quadlogic class[16]. Indeed, in response to the Board Panel, THES filed an undertaking[17] that set out the impact of directly assigning the Quadlogic meter costs to the class.

3.6 It is generally accepted that direct assignment of cost is preferable to allocating costs and is the first step in a cost allocation study[18]. Additionally, in the context of the specific context leading to the creation of a Suite metering Class, directly assigning actual costs incurred by the class, where possible, is preferable to relying on indirect allocations. As a result, VECC submits that the Board should direct THES to directly assign the cost of Quadlogic meters to the Quadlogic class and assign the class a weight of "zero" for purposes of allocating the capital costs for the remaining balance of its retail meters.

3.7 VECC also notes THES comments[19] regarding the need to ensure that the depreciation and other costs associated with the Quadlogic meters are allocated properly. VECC submits that the Board should direct THES to review these costs to ensure they are being allocated properly and, preferably, by direct assignment if feasible.

b) Services

3.8 In its Supplementary Evidence THES has maintained a weighting factor of 1.0 (per

[13] OEB Staff #10
[14] Technical Conference, pages 41-42 and pages 68-69
[15] Volume 3, page 6
[16] Volume 3, pages 24-25 and page 91
[17] Exhibit JH3.1
[18] Cost Allocation Review, EB-2005-0317, page 30
[19] Volume 3, page 25

customer) for Services, the same factor as is applied to the Residential class[20]. However, THES has acknowledged that a weighting factor of less than one may be appropriate to recognize the fact that for a multi-unit building one service drop actually services as number of Residential customers[21].

3.9 On the other hand, the Quadlogic customers are located in buildings that require a service drop equivalent to that of a GS 50-999 class customer where the applicable weighting factor is 10 (per customer).

3.10 During the oral proceeding VECC's counsel explored the impact of these two factors[22] and THES witnesses agreed that based on the number of Quadlogic customers and related buildings served by secondary facilities in 2012 the appropriate weighting factor would be 0.064. VECC submits that the Board should direct THES to adopt this factor for 2012 and to use the associated logic[23] to derive the allocation factor in future years.

c) Meter Reading

3.11 Two issues related to meter reading arose during the proceeding. The first was with respect to the annual cost of meter reading for 2012, particularly with regard to THES' plans to move the reading of Quadlogic meters in-house. This issue impacts on the "Cost Relative to Residential Factor" set out in column C of Sheet I7.2 of the Cost Allocation model. The second issue was with respect to the determination of the number of "Units" for each class as set out in Sheet I7.2 which includes a multiplier for billing frequency (6 in the case of Residential and 12 in the case of the Quadlogic class).

3.12 In its Supplementary Evidence THES used a metering reading cost factor of 3.6 for the Quadlogic class (relative to 1.0 for smart meter residential customers)[24].

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[20] OEB Staff #19
[21] OEB Staff #19 a)
[22] Volume 3, pages 115-118
[23] That is divide 10 by the average number of Residential Quadlogic customers in buildings serviced by secondary facilities
[24] Exhibit L1, Tab 5, Schedule 1, page 4

This factor is lower than the 7.0 value used in the BDR study with reduction attributed to THES' plans to move the Quadlogic meter reading in-house[25].

3.13 One of the concerns raised regarding the use of the 3.6 factor is the fact it assumed that the in-house meter reading would start January 1sr, 2012 whereas it was not expected to occur until the end of the first quarter of 2012[26]. This means that for the first three months of 2012 the cost of meter reading would be similar to that used in the BDR study. THES has agreed that, based on this timing, the appropriate 2012 meter reading factor for the Quadlogic class is 4.3[27] based on a weighted average of the two costs. VECC agrees with this change for 2012. However, VECC notes that for subsequent years a factor of 3.6 would be appropriate (subject to an update of the relative costs).

3.14 A second concern with respect to the meter reading cost factor for the Quadlogic class is that the computer software costs of in-house metering are now expected to be $100,000 higher than what was included in the 2012 forecast cost used in the Cost Allocation[28]. A related concern is the fact that the costs captured in the Meter Reading USOA account (#5310) do not include hardware and software capital-related costs associated with meter reading[29]. These costs are recorded in separate accounts[30] and allocated according to the Cost Allocation model's prescribed treatment for those accounts.

3.15 Based on VECC's understanding of the Board's Cost Allocation model, the isolation and appropriate treatment these costs (along with comparable costs incurred for other customer classes) is not simple matter. VECC submits that, for now, the Board should accept the Cost Allocation Model's allocation of hardware and software costs associated with Meter Reading as being appropriate for purposes of the Quadlogic class. As to the overall level of cost to included (i.e.,

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[25] SSMG #7
[26] Technical Conference, page 27 and Volume 3, page 28
[27] Volume 3, pages 29-30
[28] Exhibit JTC2.4
[29] Technical Conference, page 29
[30] Exhibit JTC2.4

the additional $100,000), VECC submits that this is an issue to be dealt with as part of the EB-2011-0144 proceeding regarding THES' forecast 2012 costs and rates.

3.16 In its Supplementary Evidence THES describes how the determination of the "Units" value takes into account the number of meter reads and that for the Quadlogic class this value was updated from the once every two months (i.e., 6 the same value as used for Residential smart meters) used in the BDR Study to monthly (i.e., 12) in the current Evidence[31].

3.17 However, during the proceeding it became clear that both the Residential smart meters and the Quadlogic meters are read daily and the frequency of reading is therefore not a factor in the relative meter reading cost of the two types of meters[32]. Rather, the inclusion of the relative billing frequency in the determination of the weighting factors for meter reading (i.e., the determination of :"Units" in Sheet I7.2) is meant to reflect the fact that reading cost are likely to be higher if customers are billed monthly as opposed to every two months[33].

3.18 VECC submits that this adjustment for billing frequency is unnecessary and results in an over allocation of meter reading costs to the Quadlogic class relative to the Residential class and, indeed, all other classes. THES has provided the annual costs of meter reading per customer for the Residential and the Quadlogic classes and the relative ratio of the two costs is 3.6[34]. It is VECCs' view that this is the relative weighting that should be applied to the two classes when allocating meter reading costs. As can be seen form JH3.2 the approach used by THES results in the meter reading costs allocated to the Quadlogic class being 7.21 times greater than those allocated to the Residential class on a per meter basis. In conclusion, VECC submits that the allocation of meter reading cost should not include an adjustment for billing frequency. To the extent there is an impact on the relative costs of serving Residential smart meter customers versus Quadlogic customers

[31] Exhibit L1, Tab 5, Schedule 1, page 4
[32] OEB Staff #16
[33] Technical Conference, pages 70-71
[34] JTC2.2

due to billing frequency this should be captured in the allocation of billing costs (and not meter reading costs). Furthermore, any difference in metering costs due to billing frequency should already be captured in annual meter reading costs which THES has used to determine the 3.6 factor.

d) Primary/Secondary Split

3.19 In the current Evidence THES has assumed that 8% of the Quadlogic customers are serviced from its secondary system. This is the same factor as used in BDR's updated Cost Allocation Study[35].

3.20 The primary/secondary split is important as in the Board's Cost Allocation model the cost of line transformers and secondary distribution system are only allocated to those customers using these facilities. This allocation comes in two parts as the costs associated with line transformers and the secondary system are split between demand-related and customer-related costs using the minimum system. The demand costs are allocated based on the load attributed to the customers served at secondary voltages. This is captured in Sheet I8 of the Cost Allocation model where the loads associated with these facilities are roughly 8% of the total load for the Quadlogic class. Similarly, in Sheet I6.2, the secondary customer base is set at 8% of the total customer count for the class.

3.21 VECC's first issue is that, according to the 2012 forecast data provided by THES[36] the factor for 2012 is 6.9% and not 8%. In VECC's view, to the extent a primary/secondary split of customers is required for the 2012 Cost Allocation, the 6.9% factor should be used.

3.22 In the case of the demand-related portion of secondary costs, VECC agrees with THES' approach whereby relative customer count is used to establish the proportion of the Quadlogic class' load to be assigned secondary costs.

3.23 However, VECC does have an issue with THES' allocation of the customer portion

[35] Exhibit L1, Tab 5, Schedule 1, page 5
[36] JTC2.1

of the secondary costs. THES has applied its "8% factor" to the total number of Quadlogic customers in order to determine the customer count allocation factor for the Quadlogic class (i.e., 8% of the total 24,498 Quadlogic customers as per Sheet I6.2). The basis for this approach is THES' claim that the "allocator of secondary costs within the cost allocation model is number of customers"[37].

3.24 However, THES has acknowledged[38] that in instances, such as Street Lighting, where the number of connections differs from the number of customers, the number of connections is used by the model as the allocation factor for the customer portion of these costs. This aligns with VECC's understanding the logic of the Board's current Cost Allocation model that where values are provided for both customers and connections, the connections value is used in the allocation of these costs.

3.25 VECC notes that the number of secondary connections (i.e., 11 buildings[39]) associated with the Quadlogic class differs from the number of secondary customers (1710[40]). However, the value for the number of connections has not been input into THES' Cost Allocation model run[41]. Subject to any clarification THES may provide in its Reply Submissions, it is VECC's view that the allocation factor for the customer-related portion of the Quadlogic class' secondary costs should be the number of "secondary" connections.

3.26 A similar issue exists regarding the allocation of the customer portion of the primary system costs associated with Accounts #1830, 1835, 1840 and 1845 and VECC submits that a similar allocation factor (i.e. total number of Quadlogic connections/buildings) should be used in this instance as well.

3.27 VECC notes that THES has provided the results of its Cost Allocation based on using number of connections (as opposed to customers) in allocating the customer

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[37] Volume #3, page 97
[38] Technical Conference, pages 83-84
[39] OEB Staff 1 b)
[40] JTC2.1
[41] See Sheet I6.2, Row 19 – Nov 4th CA Model Version filed with IR responses

portion of primary and secondary cost[42].

3.28 Finally, while not specifically a matter for this proceeding, VECC notes that there are suite-metered customers in the (redefined) Residential class that are also located in buildings served directly off of THES's primary system[43]. As result, the cost allocation to this class should be adjusted so to recognize the fact that not all these customers use the secondary system. In VECC's view this is a matter to be pursued in THES' next cost of service proceeding when its overall cost allocation methodology will be subject to review. However, correcting for this fact will impact (decrease) the revenue to cost ratio for the Quadlogic class.

e) Meter Maintenance Costs

3.29 THES has included the costs of maintenance for Quadlogic meters in with the costs of maintenance for other meters and allocated the total costs to all classes (including the Quadlogic class) in accordance with the logic of the Board's Cost Allocation model[44].

3.30 During the interrogatory process and technical conference parties explored the relative inspection and maintenance cost for smart meters versus Quadlogic meters[45] and the evidence is that the warranties, resealing, repair and maintenance costs for the two types of meters are comparable. As a result, VECC agrees with THES' cost allocation treatment of meter maintenance costs.

f) Marketing Costs

3.31 The updated BDR Study of the Quadlogic class filed in the previous hearing included a direct allocation of $90,000 in marketing costs associated with the suite meter program. However, as there are no marketing costs budgeted for in the

[42] JTC2.9
[43] Exhibit L1, Tab 4, Schedule 1, page 14 (BDR's Alternative Scenario dated February 18, 2011).
[44] SSMG #6 d)
[45] Technical Conference pages 50-53 & 73-75 and SSMWG #6 d) & #24

2012, no marketing expenses were directly allocated in the current Evidence[46].

3.32 During the course of both the Technical Conference[47] and the Oral Proceeding[48] THES explained the change in circumstances. In particular, THES is no longer incurring costs to actively market suite metering. Rather the marketing role is the responsibility of the 3rd party vendor and included in the meter costs charged to the utility[49]. However, some parties took exception to this approach and pressed THES on the fact that its web-site provided information related to suite metering and its customer service staff still received/responded to calls[50].

3.33 VECC accepts THES' position that there is no basis for directly allocating marketing costs to the Quadlogic class for 2012 as it is no longer directly marketing suite metering and has no budget costs for the activity. With regards to the concerns that its web-site references suite metering and its customer service staff deal with calls on the matter, VECC notes that, via the cost allocation model, the Quadlogic class is allocated a portion of both Administrative & General costs (including advertising) as well as a portion of Customer Service costs. However, there do not appear to be any 2012 costs that can be uniquely attributed to the Quadlogic class and, therefore, a candidate for direct assignment.

g) Direct Assignment of Primary Feeders

3.34 In previous rate filings THES has directly assigned to the GS 50-999 class the costs of dedicated feeders used to serve the class' customers[51]. THES acknowledges that with the introduction of the Quadlogic class some of the directly allocated cost may no longer meet the required criteria of serving a single class – as the buildings concerned have both Residential (Quadlogic) customers as well as a GS 50-999 customer (i.e., the common elements). However, for purposes of its current Cost Allocation evidence THES has not done a detailed assessment

[46] Exhibit L1, Tab 5, Schedule 1, page 5 and OEB Staff #8
[47] Technical Conference, pages 88-89
[48] Volume 3, pages 62-67 and 70
[49] Volume 3, page 70
[50] Volume 3, pages 67 & 145 and Technical Conference, page 89
[51] SSMWG #20 b)

and revised the costs that should be directly assigned[52].

3.35 There are two issues that arise with respect to THES' current practice for directly assigning the costs of primary feeders. The first is the extent of the "problem". THES suggests that the problem arises with the classification of some Residential customers as Quadlogic class customers[53]. However, in VECC's view the problem is much more extensive, as the same mis-use of direct assignment exists for any building that encompasses both a GS >50 customer (representing the common/central elements) and Residential customers – regardless of whether or not there is a Quadlogic class. VECC submits that THES' cost allocation treatment of all such buildings needs to be reviewed in order to ensure that the primary feeders involved are not being directly assigned to the GS 50-999 class. However, VECC acknowledges that this is not the proceeding to do so and that such a review should occur within the context of a cost of service review of THES' rates.

3.36 The second issue is how the costs of the primary feeders used exclusively to serve such buildings (and previously directly assigned) should now be allocated. On this point VECC agrees with THES. Direct assignment is meant to be used when the facilities concerned service a single rate class. Since these feeders service customers from two rate classes (i.e., Residential – either Quadlogic or Smart Metered - and GS 50-999) they are not candidates for direct assignment and the costs should be include in the pool of costs to be allocated to all customer classes[54].

3.37 During the course of the oral proceeding the counsel for the School Energy Coalition (SEC) raised the concern that with the "conversion" of such buildings there would be a reallocation of the demand-related costs formerly allocated to the GS 50-999 class but the same adjustment would not occur for the customer-related costs resulting in a increase in rates for the GS 50-999 class overall[55]. During cross-examination the THES witnesses appeared to agree with the

[52] SSMWG #20 a) and Volume #3, page 53
[53] Volume #3 , page 53

proposition[56].

3.38 VECC does not agree with this proposition. What was overlooked in the exchange between the counsel for SEC and THES' witnesses was the fact that with conversion and the introduction of new Residential customers (in the either the Quadlogic class or the Residential class) in the building the overall number of customers increases. If the building's new residential customers are part of the Quadlogic class then the number of Quadlogic class customers will increase as will the number of Quadlogic class connections. The result will be that – contrary to the observations made during the oral proceeding[57] - the Quadlogic class will attract a larger portion of the customer-related costs and the other classes (including the GS 50-999) will attract a smaller portion. Indeed, one of the Panel members noted this fact at the end of exchange and the THES witnesses agreed.[58] .

h) Quadlogic Class Average Use

[54] Volume #3, pages 54, 55-57 and 60
[55] Volume #3, pages 132-135
[56] Volume #3, pages 136-137
[57] Volume #3, page 135
[58] Volume #3, pages 138-139

3.39 In the Updated BDR Study done using 2009 data the average monthly load for the Quadlogic class customer was estimated to be 361 kWh on a normalized basis. In the current filing a value of 334 kWh was used based on a more recent sample of Quadlogic customers[59].

3.40 THES has not been able to definitively explain the reasons for the change[60]. However, its evidence notes that both values are based on recent samples of Quadlogic customers (at the time) and that the variance in use across the individual units in the samples was fairly large[61]. VECC submits that the 334 kWh value used by THES is reasonable and appropriate for purposes of its 2012 Cost Allocation study.

4 Rate Design

4.1 In its Supplementary Evidence THES proposes that the revenue to cost ratio for the Quadlogic class be set at unity (100%) and that the rates be designed such that the same portion of revenue is collected from fixed versus variable charges as for the existing Residential rate class overall[62]. The rates for the redefined Residential class would designed to recover any rebalancing of the revenue requirement and be set also using the fixed-variable split for the existing class[63]. THES' view is that is a reasonable way of designing the rates for both classes (i.e., Residential and Quadlogic).

4.2 The problem with THES' approach is the two "new" classes of Residential customers have significantly different consumption characteristics. Based on the data in VECC #8, one can calculate an average monthly use per customer for the existing Residential class overall of 663 kWh. In contrast the average monthly use for the re-defined Residential class is 677 kWh versus a value of 333 kWh for the Quadlogic class. Applying the same fixed-variable split to each of the new classes

[59] Exhibit L1, Tab 5, Schedule 1, page 2 and OEB Staff #20
[60] SSMWG #4 a)
[61] OEB Staff #2 c)
[62] Exhibit L1, Tab 5, Schedule 1,page 8
[63] Volume #3, page 59

leads to a significantly higher variable rate and a significantly lower customer charge for the Quadlogic class as compared to the new Residential class[64].

4.3 In VECC's view a more reasonable approach would be to calculate the fixed-variable split for each of the classes based on current rates and apply this split to the cost to be recovered from each class after any revenue to cost ratio adjustments. The results of this approach are set out in VECC #8, Appendix B and yield Quadlogic class fixed and variable rates that are both marginally less than those for the (redefined) Residential class. In VECC's view these results will be more understandable by customers. VECC also submits that this approach is consistent with the principle of maintaining the existing fixed-variable split except it is applied to each of the new classes based on existing rates. VECC submits that the Board should adopt this approach for purposes of designing the Quadlogic class rates.

4.4 As noted in Section 2 another concern of VECC's is THES' proposal to assign any revenue reallocation required as a result of setting the Quadlogic class' revenue to cost ratio to unity to the Residential class. In VECC's view, the decision as to which classes should be affected by any required revenue reallocation should not be part of this proceeding. The introduction of the Quadlogic class will affect the revenue to cost ratios for all customer classes as will other changes in loads and costs. Adjustments to the revenue to cost ratios for other classes should be made within the context of: a) Any approved changes to the cost allocation methodology as it applies to other customer classes[65], b) the Status Quo ratios that result from loads and costs approved for all classes, c) Any direction the Board provides in this proceeding regarding the ratio to be applied to the Quadlogic class and d) the Board's established Guidelines on the appropriate ranges for the revenue to cost ratios for the other customer classes.

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[64] VECC #8

[65] As noted in Section 2 there are at least two areas (the primary/secondary split for the Residential class and the direct assignment of primary feeders costs to buildings with both GS 50-999 and Residential Smart Metered customers) where it appears changes should be made.

5 Recovery of Reasonably Incurred Costs

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

All of which is respectfully submitted this 23rd day of December 2011.