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.

REPLY SUBMISSIONS
OF TORONTO HYDRO-ELECTRIC SYSTEM LIMITED

January 12, 2012

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A. INTRODUCTION

1. Toronto Hydro-Electric System Limited ("THESL") makes these submissions in reply to the submissions of Smart Sub-Metering Working Group ("SSMWG"), the Consumers Council of Canada ("CCC"), the Vulnerable Energy Consumers' Coalition ("VECC"), the School Energy Coalition ("SEC"), and Board Staff received December 22, 2011.

2. THESL received no submissions from any other party in this proceeding. THESL confirms and adopts the submissions it made in its December 14, 2011 Argument-in-Chief and has limited this reply to responding directly to the parties' submissions noted above. Capitalized terms used in this reply but not otherwise defined herein shall have the meaning ascribed to such terms in THESL's Argument-in-Chief.

3. It its submissions, Board Staff expressed its view that the scope of this phase of the proceeding is relatively limited: "It does not include whether or not a separate class should be established, or whether or not more than two classes should be established. It also does not include revisiting issues that were dealt with in developing the Board's cost

allocation model, or proposed revisions to that model."[1] THESL agrees. VECC and CCC similarly acknowledge the limited scope of the current phase of this proceeding.[2]

4. The proper scope of this phase of the proceeding is, in THESL's view, limited to determining whether THESL has fully complied with the Board's requirements for this phase of the proceeding, and if so, to determine what would be an appropriate cost allocation methodology and tariff design to be used for the Quadlogic class.

5. THESL has organized its submissions into three sections:

   (a) First, THESL responds to submissions related to whether THESL has fully complied with the Board's requirements for this phase of the proceeding;

   (b) Second, THESL responds to the submissions of Board Staff, the SSMWG, VECC and CCC on the assumptions made by THESL in preparing the Supplementary Evidence; and

   (c) Finally, THESL responds to the submissions of SEC on an issue that is outside the proper scope of this hearing.

6. Before moving into the body of the submissions, however, THESL will first address the implications of the Board's January 5, 2012 Decision with Reasons and Order on the Preliminary Issue in EB-2011-0144 (the "**Preliminary Issue Decision**"). In the Preliminary Issue Decision, the Board declined THESL's request to hear its 2012, 2013 and 2014 cost of service application.

7. The Preliminary Issue Decision raises a difficult issue in light of the Board's decision found at page 26 of the Partial Decision that:

[1] Board Staff Submission at pg. 4.
[2] VECC Submissions at para. 2.1 and CCC Submissions at para. 10

> "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."

8. Based on the Partial Decision, the data used by THESL in the Supplementary Evidence is based on forecast costs for 2012. However, because these forecasts have not been tested or approved by the Board, neither VECC nor CCC support their use to determine the actual rates for the new Quadlogic customer class.[3]

9. VECC explains its view that "the current proceeding can determine the appropriate cost allocation methodology and tariff design to be used for the Quadlogic class, [but] it cannot establish what the status quo 2012 revenue-to-cost ratios are, what cost adjustments are required to achieve a ratio of 100% for 2012 or what the actual 2012 rates for the Quadlogic class will be."[4]

10. CCC agrees, noting that because the Board has decided that THESL's 2012 rates are to be determined using the IRM formula, the new Quadlogic rate class should not be established until THESL's rates are next rebased under a cost of service approach.[5] CCC bases its submissions on the fundamental principles that the Board does not generally permit changes to the fixed and variable splits or revenue-to-cost ratios during IRM. Further, CCC notes that it is not aware of any case where a new rate class has been established during an IRM term and is concerned that if the Board permits such changes during IRM, the proceedings could become unnecessarily complex.[6]

11. VECC has already expressed concerns as to THESL's 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.[7] However, as VECC's concern illustrates, any other

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[3] CCC Submissions at para. 16 and VECC Submissions at para. 2.2
[4] VECC Submissions at para. 2.5.
[5] CCC Submissions at para. 18.
[6] Ibid.
[7] VECC Submissions at para. 4.4.

proposed reallocation would likely also cause concerns. This is typically why these contentious issues are left to the broader scope cost-of-service hearings rather than IRM proceedings.

12. THESL agrees with the principled concerns raised by CCC and VECC. THESL submits that the Board's Decision to dismiss the EB-2011-0142 application should effectively postpone the date at which the new rate class would be created to the time when the Board next accepts a Cost of Service Application from THESL.

B. THE BOARD'S REQUIREMENTS FOR THIS PHASE OF THE PROCEEDING

13. THESL made clear submissions in its Argument-in-Chief that it has fully complied with the Board's requirements for this phase of the proceeding, by making use of the guidance contained in the Partial Decision, making use of the Board's cost allocation model and allocating to the new customer class all costs related to the Quadlogic meters, and proposing a tariff for the new customer class and providing a detailed listing of all assumptions.

14. Several of the parties agreed with THESL in this respect. Notably, "Staff does not believe that there is any evidence on the record in this proceeding to suggest that Toronto Hydro has used the model in either an incorrect or inappropriate manner."[8] Similarly, "the Council agrees with THESL that it has responded to all of the Board's directions arising from the Partial Decision and subsequent procedural orders."[9]

15. Although the Board afforded all parties, including the SSMWG, an opportunity to file evidence on the suite metering issues in Procedural Order No. 10, the SSMWG chose not to do so.

[8] Board Staff Submissions at pg. 4.
[9] CCC Submissions at para. 14.

16. Having chosen not to file its own evidence, despite having a fully live version of the Cost Allocation Model and having expert advise on the use of the model, the SSWMG has resorted to attacking the credibility of THESL and the Supplementary Evidence to argue that "THESL should be required to engage an independent third party cost allocation firm to complete a further cost allocation study for 2012 using the Board's cost allocation methodology" subject to numerous particular adjustments.[10]

17. THESL submits that it has already engaged a reputable independent third party cost allocation firm, BDR, to prepare two cost allocation studies both of which are on the record in this proceeding.[11] Furthermore, in preparing the Supplementary Evidence the evidence is clear: "THESL has employed the Board's latest updated Cost Allocation Model, and the same general assumptions used in BDR's second report filed in this application as Exhibit L1, 22 Tab 4, Schedule 1, (which identified the Quadlogic customers as a separate class)."[12]

18. THESL submits that the SSMWG has simply not identified any good reason why THESL should be asked to incur the costs of engaging yet again another third party consultant to prepare yet another cost allocation study. In fact, what the SSMWG is suggesting is contrary to the Board's own stated purpose of this phase of the proceeding:

> "The Board has 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."[13]

19. By attacking the credibility of THESL and the Supplementary Evidence, the SSMWG is trying to shift the blame for its own failing to file evidence in this phase of the proceeding onto THESL, and is asking the Board to remedy the SSMWG's failing by requiring THESL to file a further cost allocation study. THESL submits that this is inappropriate.

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[10] SSWMG Submissions at para 8.
[11] See Exhibit L1, Tab 3, Schedule 1 and Exhibit L1, Tab 4, Schedule 1.
[12] Supplementary Evidence at pg. 1, lines 20-22.
[13] Partial Decision at pg. 35.

20. THESL will respond directly and unequivocally to each of the assertions of the SSMWG which attack the credibility of THESL and the Supplementary Evidence in-turn:

(a) The SSMWG asserts that by using an allocation of 8% of secondary costs for the Quadlogic class "THESL is proposing that the multi-unit residential customers in the Quadlogic Class be treated more favourably than multi-unit residential customers who are not served by Quadlogic meters" as a way to "decrease the revenue-to-cost deficiency."[14] This is simply not the case. BDR originally used an allocation of 8% of secondary costs to the Quadlogic customer class as part of its independent cost analysis in its February 18, 2011 Study.[15] The Supplementary Evidence is consistent with and is applying the same methodology that BDR used in its independent expert cost allocation study in this regard.

(b) The SSMWG asserts that "THESL questioned the appropriateness of BDR directly allocating $90,000 in promotional and marketing costs" and that "[i]t is apparent that THESL attempted to dissuade BDR from directly allocating these costs."[16] If one refers to the interrogatory response that the SSMWG relies upon (which is incorrectly cited by the SSMWG, but can be found at R3/T10/S6) there is simply no basis in fact for the SSMWG's suggestion. Rather, Mr. Seal clarified in response to the cross-examination of Mr. O'Leary that THESL did not take any exceptions to what BDR did in its report.[17]

(c) The SSMWG asserts that "[t]he history of THESL's actions in this proceeding and the generation of often intuitively incorrect results filed in evidence is important as it speaks to the credibility and reliability that can be placed upon THESL's evidence."[18] If the SSMWG had such serious concerns about the credibility and reliability of THESL's evidence, why didn't it file its own

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[14] SSWMG Submissions at para. 28-29.
[15] Exhibit L1, Tab 4, Schedule 1 at pg. 14, s. 4.6.3.
[16] SSMWG Submissions at para 21.
[17] See Mr. Seal's response to Mr. O'Leary's cross-examination at Tr. Vol. 3 pg. 16, lines 11-24.
[18] SSMWG Submission at para. 38.

evidence when it had the chance to do so? It is difficult to respond concisely to the SSMWG's bold and broad assertion, however, THESL has carefully detailed the history of its actions in respect of this proceeding at paragraphs 3 to 10 of its Argument-in-Chief and THESL submits that no part of this history calls into question the credibility or reliability of THESL's evidence. Rather, the record in this proceeding demonstrates that THESL has consistently taken a fair and balanced approach to this issue with a principle objective of providing evidence that is of assistance to the Board rather than to advocate for a particular outcome.[19]

(d) The SSMWG asserts that in preparing the first BDR study "[t]he obvious purpose of THESL's actions was to combine the smaller number of significantly more costly Quadlogic meters with the larger number of less expensive smart meters, and thereby reduce the average cost to the class THESL created."[20] This is not at all accurate. THESL submits that it was absolutely clear what the Board had directed it to do and THESL had simply complied fully and properly with the clear direction of the Board.[21] Notably, in the Decision and Order on SSMWG's Motion, the Board denied SSMWG's request for a further response to the interrogatory that was in dispute.[22] However, in this same decision the Board also determined that it would be <u>assisted</u> by the provision of an alternative scenario by THESL. THESL readily complied with this further request for information.

(e) The SSMWG asserts that "THESL's Response at Undertaking JH3.1 is Simply Wrong" and that "THESL does not view its own response at JH3.1 as credible and worthy of adoption."[23] This is simply false. THESL has already acknowledged that both the cost allocation model logic and direct allocation of

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[19] See, for instance, THESL's principled position regarding the direct allocation of Quadlogic meter costs at para. 23 of the Argument-in-Chief.
[20] SSMWG Submissions at para. 41.
[21] See the Submissions of THESL's Counsel in the EB-2010-0142 Motion Hearing Transcript dated Jan. 19, 2011 at Pg. 53, line 11 to Pg. 56, line 11.
[22] Decision and Order on Motion in EB-2011-0148 dated January 21, 2011 at pg. 6.
[23] SSMWG Submissions at para. 55 and 59.

meter costs are likely to provide reasonable estimates of the revenue to cost ratio.[24] The SSMWG's suggestion that THESL incorrectly applied the meter capital sheet and not allocated any costs based on composite indicators is simply incorrect. Both the SSMWG and the Board can refer to sheet E2 in the cost allocation model where THESL has completed the direct allocation, and the values for the composite allocators which are small (due to the model applying its logic correctly) but are non-zero.

(f) The SSMWG asserts that THESL's proposed fixed and variable charges "is intended to mask any revenue deficiency that exists and to give the new Quadlogic rate class a rate which appears on its face to be more attractive than the existing residential class" and to "completely hide the additional higher costs to acquire, install, maintain and read Quadlogic meters."[25] This is simply not the case. THESL proposed a fixed and variable split for the tariff based on full cost recovery – there is no revenue deficiency that can be masked as THESL has clearly indicated its methodology for deriving this rate structure.[26] THESL acknowledges that there are many ways that the initial rate can be set, and believes that its proposed tariff is a reasonable basis to collect the same proportion of revenue from each of the fixed and variable components that is currently collected from the Residential class.

21. In conclusion, THESL believes that it has fully complied with the Board's requirements for this phase of the proceeding. THESL submits that the assertions of SSMWG as noted above are frivolous and vexatious, and amount to an abuse of process that the Board should consider when determining whether or not the SSMWG participated responsibly in this proceeding. The SSMWG had ample opportunity to file evidence in this proceeding to raise the bar of discourse and assist the Board's determination of the issues associated with establishing the Quadlogic rate class. The SSMWG chose not to do so,

[24] THESL's Argument-in-Chief at para. 23.
[25] SSMWG Submissions at para. 60.
[26] Exhibit L1, Tab 5, Schedule 1 at pg. 7 and Exhibit R4, Tab 4, Schedule 8.

and has instead riddled its submissions with unsubstantiated claims and allegations which are both onerous and burdensome on the Board. THESL submits that the Board should choose to give weight to the tested evidence on the record, rather than the SSMWG's unsubstantiated arguments and conjecture.

C. THE COST ALLOCATION METHODOLOGY AND ASSUMPTIONS

22. It its submissions, Board Staff expressed its view that "the real issues and debate in this proceeding have related to the assumptions that have been made in using the Board's cost allocation model."[27] THESL agrees. Below, THESL provides its reply to the submissions of Board Staff and each of the intervenors in respect of each of these assumptions.

C.1 Number of Customers and Average Monthly Load

23. None of the parties dispute THESL's updated forecast of 24,898 customers to be served by Quadlogic meters in 2012 or THESL's updated estimate of the monthly load for the Quadlogic customers of 334 kWh per month. Board Staff considered the change in average monthly load between the Supplementary Evidence and the second BDR study (which is based on 2009 data), and concluded that it "considers this differential to be reasonable and accepts the assumptions made by Toronto Hydro related to the average monthly load in deriving the new suite metered residential class."[28] THESL submits that both of these updates represent the most recent information available for Quadlogic-served customers, and serve as a practical update to the 2009 numbers used in the second BDR cost allocation study.

C.2 Meter Capital Costs, Services, and Meter Reading

[27] Board Staff Submissions at pg. 4.
[28] Board Staff Submissions at pg. 5.

24. None of the parties dispute THESL's estimate of $550 for its 2012 installed per meter costs. Board Staff and VECC accepted this estimate as reasonable for use in 2012 based on the evidence on the record in this proceeding.[29] SSMWG identified this fact as an issue which is not in dispute.[30]

25. In the Supplementary Evidence, THESL has maintained a weighting factor of 1.0 per customer for Services, which is consistent with the factor that is applied to the Residential class. VECC (with the support of CCC) argues that a service factor of less than 1.0 should be used to recognize the fact that for a multi-unit building one service drop actually services a fairly large number of customers.[31] THESL agrees that conceptually a services weighting factor of less than 1.0 per customer may be appropriate. However, THESL is concerned that the factor of 0.064 suggested by VECC may be overly precise for use in the cost allocation logic for the new Quadlogic customer class because it is based upon the current, one-time, average of number of units per building served by secondary circuits. THESL submits that if the Board elects to direct THESL to adopt a services factor of less than 1.0 per Quadlogic metered customer, a round number of 0.1 would be sufficient to achieve the desired result without implying an overly confident level of precision in the underlying data. This is particularly relevant if the Board chooses to apply the new Quadlogic customer class to other LDCs (where the underlying data may differ).

26. In light of THESL's deferred transition to in-house meter reading until the end of the first quarter of 2012,[32] THESL accepts VECC's submission that for <u>2012 only</u> the appropriate meter reading factor for the Quadlogic class would be 4.3.[33] However, THESL submits that for all subsequent years a factor of 3.6 remains appropriate (subject to any updates on relative costs). VECC (supported by CCC) agrees.[34] However, the SSMWG appears to

[29] Board Staff Submissions at pg. 7 and VECC Submissions at para. 3.4.
[30] SSMWG Submissions at para. 3.
[31] VECC Submissions at para. 3.8-3.10.
[32] Transcript Vol. 3 at pg. 28, line 16-25.
[33] VECC Submissions at para. 3.13.
[34] Ibid.

gloss over this important and nuanced distinction when they suggest that the correct weighting factor is no less than 4.3.[35] THESL submits that the Board should take a long-term view of meter reading costs, rather than accepting an incorrect result derived based on a known short-term anomaly. Board Staff's view is that THESL's proposed weighting factor of 3.6 is reasonable based on the evidence on the record in this proceeding.[36] THESL agrees.

27. In response to Undertaking JTC 2.4, THESL noted that its budget for computer hardware and software related to bringing the meter reading function in-house for 2012 has increased by $100,000. These hardware and software costs are recorded in UofA Accounts 1920 and 1925 and are generally allocated in accordance with the logic of the Board's cost allocation model. THESL acknowledges that it is necessary to update the cost allocation model results to reflect this increase. However, THESL agrees with VECC[37] that the isolation and treatment of these costs is not straight forward, and that the Board's cost allocation model's allocation of hardware and software costs is appropriate for the purposes of assigning these costs to the Quadlogic class.

28. THESL also updated the meter reading allocation component of the cost allocation model (Tab I7.2) to reflect the fact that Quadlogic suite meters are being read and billed on a monthly basis, which is the same frequency as is used to read and bill the bulk meters for the common area load. VECC argues that this adjustment for billing frequency is unnecessary and results in an over allocation of meter reading costs to the Quadlogic class relative to all other classes.[38] VECC argues that the allocation of meter reading costs should not include an adjustment for billing frequency, as any such differences should rather be captured in the allocation of billing costs (and not meter reading costs).[39] THESL accepts that as a result of the functioning of the current metering technology, there is no longer a need to adjust the units used in this component of the spreadsheet.

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[35] SSMWG Submissions at para. 16.
[36] Board Staff Submissions at pg. 7.
[37] VECC Submissions at para. 3.15.
[38] VECC Submissions at para. 3.18.
[39] Ibid.

THESL notes that the Board's cost allocation model was developed prior to the widespread use of smart meters or Quadlogic meters, and the automatic reading that these meters employ. Rather, the traditional logic of the Board's model was based on the previous manual read meters when meter reading and billing were generally coincident.

C.3 Direct Allocation of Meter Costs

29. There is considerable debate in the submissions regarding whether THESL should be directed: (i) to use the Board's cost allocation model logic to allocate meter capital costs to the Quadlogic class; or (ii) to directly allocate meter capital costs to the Quadlogic customer class.

30. THESL expressed its view on the record that the Board's cost allocation model incorporates detailed information on costs by meter type for each rate class, and uses this information to allocate total recorded meter costs in account 1860 using sound allocation logic to all rate classes.[40] THESL believes this to be a reasonable methodology for all rate classes, including the new Quadlogic customer class. However, THESL also acknowledges that direct allocation is another possible methodology to allocate meter capital costs.

31. Ultimately, THESL submits that it is for the Board to decide which methodology it would prefer to adopt. To assist the Board in this regard, THESL performed a sensitivity analysis on its cost allocation model run using the direct allocation methodology.[41] THESL also noted in evidence a limitation of its direct allocation sensitivity analysis. Specifically, while the direct allocation methodology ensures that Quadlogic meter costs are allocated directly to the Quadlogic class, the remaining meter costs are allocated to all classes including the Quadlogic class using the model's weighted meter logic.[42] THESL did not originally propose zeroing out these other meter costs because THESL was

[40] Exhibit R4, Tab 1, Schedule 10.
[41] See Exhibit L1, Tab 5, Schedule at Table 3 (corrected Nov. 4, 2011).
[42] See the testimony of Mr. Seal in Transcript Vol. 3 at pg. 21, line 27 to page 23, line 11.

concerned that by doing so it could have inadvertent side-effects (THESL's particular concern at the time related to the proper allocation of wholesale meter costs).

32. In response to the cross-examination, THESL confirmed that after further investigation its original concern regarding wholesale meter costs was not an issue because those costs were included in a separate account.[43] As a result of this exchange, the Board panel asked THESL to redo the sensitivity analysis by directly allocating the Quadlogic meter costs to the Quadlogic class and to pull out the allocated other metering costs.[44] In response to this request, THESL prepared another sensitivity analysis in response to Undertaking JH3.1 by assigning zero costs to the Quadlogic class in Tab I7.1 of the cost allocation model.[45]

33. The SSMWG alleges that THESL's response to Undertaking JH3.1 is "intuitively wrong",[46] suggests that "THESL does not view its own response at JH3.1 as credible and worthy of adoption",[47] and alleges that THESL has ignored the impact of directly allocating Quadlogic meter costs on the composite allocators used in the Cost Allocation Models.[48] THESL disagrees (see paragraph 20(e) above). In response to Undertaking JH3.1, THESL provided additional evidence on the sensitivity of the cost allocation model by recalculating the revenue-to-cost ratio after directly allocating meter capital costs as well as related depreciation and meter expenses, to the Quadlogic class and ensuring no other customer meter capital costs are allocated to the class. THESL's intent was to assist the Board in its determination of which methodology is more appropriate. THESL denies that its response is "intuitively wrong" – this assertion relies on numerous simplifying assumptions including (most notably) ignoring entirely the proper allocation of secondary costs to the class. THESL also denies that it does not view its response at JH3.1 as credible – if the Board was to elect to adopt a direct allocation methodology as

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[43] See the exchange between Mr. Seal and Mr. Buenogaro in Transcript Vol. 3 at pg. pg. 89 line 6 to pg. 91, line 22.
[44] Ibid. at pg. 92, line 10-24.
[45] Undertaking JH3.1.
[46] SSMWG Submissions at para. 53.
[47] Ibid. at para. 54.
[48] Ibid. at para. 55.

illustrated in JH3.1, THESL would support the Board's decision. Finally, while the SSMWG is clearly critical of THESL's evidence on direct allocation, the SSMWG has chosen not to file any evidence of its own, despite having the fully populated live version of THESL's Cost Allocation Model, to support its alternative view of how the direct allocation should be accomplished.

34. It is in this context that the SSMWG argues that the Board should direct THESL to "create two input sheets for I7.1: (i) a value of "0" could be used on the first Input Sheet to directly allocate the Quadlogic meter costs to the Quadlogic Class; and (ii) a value other than "0" should be used by the composite allocators used in the allocation model. The goal is to ensure that appropriate costs remain properly allocated to the Quadlogic Class."[49] The SSMWG did not file any evidence in support of this proposal. In addition, because of the Board's design of the Cost Allocation Model, THESL was limited to making its adjustments only to the input area model. THESL did not, and indeed could not alter the fundamental logic of the model since it is "locked" to structural changes. However, this is exactly what the SSMWG proposes with this submission. THESL submits the SSMWG is proposing a fundamental change to the Board's Cost Allocation Model. Board Staff's submissions correctly indicates that these types submissions are outside of the scope of this proceeding.[50]

35. THESL has acknowledged that both direct allocation and using the cost allocation model's intrinsic meter allocation logic are both feasible ways to allocate meter capital costs. The SSMWG is clearly of the view that Quadlogic meter costs should be directly allocated to the Quadlogic class.[51] By contrast, Board Staff suggest that THESL has provided adequate justification for relying upon the intrinsic logic of the Board's cost allocation model particularly given the relatively small size of the Quadlogic class and the desirability of a uniform application of the cost allocation model to all customer

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[49] SSMWG Submissions at para. 8(a).
[50] Board Staff Submissions at pg. 4.
[51] SSMWG Submissions at para. 13.

classes.[52] VECC (which is supported by CCC) is of the view that the direct assignment of costs is preferable to allocating costs, and argues that the Board should direct THESL to adopt the methodology used in response to Undertaking JH3.1 subject to a further review to ensure that all costs are being allocated properly and preferably by direct assignment if feasible.[53]

36. THESL will comply with the direction of the Board in respect of whatever methodology it determines is appropriate.

C.4 Secondary Costs

37. In the original BDR study, BDR identified secondary lines as "the most critical component in distinguishing the costs of service"[54] for the individually metered suite subclass and the balance of the Residential class. In this study, BDR assigned a weighting factor of 30% to secondary costs assigned to the individually metered suite subclass.

38. In the updated BDR study, BDR explained that "given that the Quadlogic customers represent a small number of specifically identified residential complexes (48), THESL staff examined drawings of the connection configuration of all of the buildings. On this detailed and specific basis, it was determined that eight percent (8%) of the suites are served by secondary facilities. The allocation of secondary costs to the Quadlogic class was therefore weighted in this study by a factor of 8%."[55]

39. In the Supplementary Evidence, THESL continues to apply the BDR weighting factor of 8% for customers served using Quadlogic meters to reflect the fact that very few of the buildings with Quadlogic installations are served by secondary assets.

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[52] Board Staff Submissions at pg. 8.
[53] VECC submissions at para. 3.6 and 3.7
[54] Exhibit L1, Tab 3, Schedule 1, page 19-20.
[55] Exhibit L1, Tab 4, Schedule 1, page 14.

40. Board Staff "notes that the 8% assumption made by Toronto Hydro has remained relatively constant in the 2009 and 2012 period and there has been no other evidence provided that would suggest an alternative assumption. Board staff accepts Toronto Hydro's estimate."[56]

41. VECC argues that in light of the 2012 forecast data provided by THESL in response to Undertaking JTC2.1, a weighting factor of 6.9% should be used for 2012.[57] THESL believes that the 8% estimate of Quadlogic customers is a reasonable estimate to be applied for 2012, and that similar to the issue of services weighting factors, THESL believes that the 6.9% factor proposed by VECC, while based on the forecast number of Quadlogic customers to be served by secondary, implies a level of precision in the model data that does not generally exist.

42. SSMWG asserts that the proper allocation should be 10%, on the basis of THESL's evidence that 11 of the 113 buildings forecasted to use Quadlogic suite meters in 2012 are serviced by secondary circuits.[58] THESL disagrees on the basis that number of customers, not buildings, is the correct basis upon which to determine the secondary cost allocation percentage.[59] VECC agrees with THESL's approach to the extent relative customer count is used to establish the demand related portion of secondary costs.[60]

43. VECC goes on to draw an analogy between the treatment of the existing street lighting class and the new Quadlogic class to support their submission that the customer-related portion of the Quadlogic class' secondary costs should be allocated based on the number of 'secondary' connections.[61] On this issue, THESL submits that VECC is asking to change the fundamental logic of the Board's cost allocation model, which is beyond the proper scope of this proceeding.

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[56] Board Staff Submissions at pg. 9.
[57] VECC Submissions at para. 3.21.
[58] SSMWG Submissions at para. 26.
[59] Transcript Vol. 3, pg. 35, lines 20-25.
[60] VECC Submissions at para. 3.23.
[61] VECC Submissions at para. 3.25.

44. It is in this context that the SSMWG argues that "THESL's adjusting for secondary costs is contrary to sound cost allocation principles and will specifically prejudice the remaining residential class and circumvent the entire exercise if what THESL is proposing to do is sustained."[62] The SSMWG "submits that to "cherry pick" and remove such costs is both inappropriate and will only, in effect, defeat the goal of this proceeding, namely to identify, in a transparent fashion, the <u>additional costs</u> of serving Quadlogic customers."[63]

45. It is unclear to THESL how the SSMWG reconciles its unsubstantiated assertion that "adjusting for secondary costs is contrary to sound cost allocation principles" with the fact that BDR made such an adjustment in both of the cost allocation studies its filed in this proceeding. THESL disagrees that the purpose of this proceeding is only to identify "the additional costs of serving Quadlogic customers." THESL submits that it would be inappropriate to "cherry pick" only the additional costs of serving Quadlogic customers while completely ignoring what BDR identified as "the most critical component in distinguishing the costs of service"[64] for this new class of customers. THESL submits that ignoring the fact that very few of the buildings with Quadlogic installations are served by secondary assets in the creation of the new class will <u>not</u> help the Board to ensure that the new rate class acts as 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."[65]

46. Board Staff note that Sheet I6.2 of the Cost Allocation Model includes an assumption that all Residential customers are served from the secondary system, which implicitly assumes that all suite-metered customers other than those in the Quadlogic class are also served from this system.[66] Board Staff notes "that the effect of this assumption is that an overly-large share of costs is allocated to the new Residential class, relative to other

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[62] SSMWG Submissions at para. 27.
[63] SSMWG Submissions at para. 31.
[64] Exhibit L1, Tab 3, Schedule 1, page 19-20.
[65] Partial Decision at pg. 35.
[66] Board Staff submissions at pg. 9.

classes served at the lowest voltage levels."[67] Board Staff conclude by noting that "this assumption likely does not have any material effect on the revenue to cost ratios of any of the classes because the suite-metered customers are a relatively small portion of the Residential class in the study, as constituted", however Board Staff go on to explain that "it would have a larger effect if in the future any further sub-division of remaining suite-metered customers out of the new Residential class was to take place."[68] It is worth clarifying that the suite-metered customers referenced by Board Staff in these submissions represent those multi-unit residential building customers that are served by smart meters. This is the same group of customers that the SSMWG argued during the December 7, 2011 motion hearing are not comparable to the SSMWG's customer base, which are principally served as [GS>50] customers using the Quadlogic technology.

C.5 Primary Costs

47. VECC notes that in response to Undertaking JTC2.9, THESL used the number of connections (as opposed to customers) in allocating the customer portion of primary and secondary costs.[69] VECC argues that total number of Quadlogic connections/buildings should be used to allocate the customer portion of primary system costs associated with Accounts 1830, 1835, 1840 and 1845.[70] THESL believes this would be an inappropriate allocation, as all customers receive primary service.

48. The SSMWG argues that "if it is inappropriate to determine whether or not there are directly allocable primary costs which should remain applicable to the Quadlogic class, then it equally follows that you should not undertake a tracing exercise regarding secondary only in respect of Quadlogic buildings […]."[71] THESL disagrees with this argument by analogy. The SSMWG is obfuscating the issue when trying to compare the issue of direct allocation of primary costs (apples), on the one hand, and issue of a

[67] Ibid. at pg. 10.
[68] Ibid.
[69] VECC Submissions at para. 3.27.
[70] VECC Submissions at para. 3.26.
[71] SSMWG Submissions at para. 36.

customary adjustment to the model's allocation of secondary costs (oranges), on the other. THESL has always, as a matter of practice, adjusted the allocation of secondary costs to all rate classes to recognize that only a portion of those classes are served by secondary assets (See tabs I6.2 and I8 of the Cost Allocation Model). THESL is treating the new Quadlogic class similarly in this regard.

49. On the question of direct allocation of primary feeders, THESL's view is that direct allocation should only be used when the facilities service a single rate class. VECC (supported by CCC) agrees.[72] If the primary feeders serving the buildings in which the new Quadlogic customer class is located will as a result of the Board's determination in the Partial Decision be used to service two distinct rate classes: (i) the new Quadlogic class customers; and (ii) the common element GS 50-999 customer - there is no longer a sustained basis for direct allocation of those primary costs.

C.6 Meter Maintenance and Marketing Costs

50. The SSMWG repeatedly assert that it is more costly to maintain Quadlogic meters vis-à-vis traditional smart meters.[73] During the technical conference, THESL's witnesses provided evidence that warranties, resealing, repair and maintenance costs of the Quadlogic meters do not greatly differ from and are generally comparable to the costs incurred for providing similar services for smart meters.[74] The SSMWG has produced no evidence to support its assertion. On the basis of the evidence that is available, VECC agreed with THESL's cost allocation treatment of meter maintenance costs.[75] THESL submits that the Board should do the same.

51. The updated BDR study filed in this hearing included a direct allocation of $90,000 in marketing costs that were directly associated with the Quadlogic suite metering program. Because there are no marketing costs budgeted for 2012, no such marketing costs were

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[72] VECC Submissions at para. 3.36.
[73] SSMWG Submissions at paras. 62 and 69
[74] Technical conference transcript at pgs. 50-53 and 73-75.
[75] VECC Submissions at para. 3.29 and 3.30.

directly allocated to the new Quadlogic class. Put simply, THESL agrees with BDR's logic as it relates to the direct allocation of marketing costs associated with the Quadlogic suite metering program, but for 2012 there are simply no costs that warrant direct allocation. This is not to suggest that no marketing costs are attributed to this class. Rather, THESL's overall marketing expense has been allocated to the Quadlogic class based upon the logic of the Board's cost allocation model.

52. In its submissions the SSMWG makes reference to various print-outs taken from THESL's website at Exhibit KH3.2 at Tab 12, occasional direct call enquiries that THESL customer care receives (which THESL normally directs to its third party vendor), THESL's membership in trade organizations, and various giveaways at trade functions[76] all to support its assertion that "the actual costs on a fully allocated basis that THESL will incur for the purposes of promoting and marketing its Quadlogic Suite Meter program (either internally or to a third party vendor) be determined and directly allocated to the Quadlogic Class."[77]

53. THESL's witnesses clarified during the technical conference and again at the oral hearing that THESL is no longer incurring any costs to directly market the suite metering service. Rather, the marketing role has been transitioned to the same third party vendor that will supply the meters and the costs of those marketing efforts are now included in the increased costs of $550 per meter.[78]

54. It is in this context that Staff noted "that the issue of marketing costs was the subject of considerable scrutiny and that while it was not entirely clear as a result that all of these costs had necessarily been eliminated, it was also not clear that any remaining amounts would be significant."[79]

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[76] SSMWG Submissions at para. 19.
[77] Ibid. at para. 8(c).
[78] Technical Conference Transcript at pgs. 88-89. Oral Hearing Transcript Vol. 3
[79] Board Staff Submissions at pg. 7.

55. Similarly, "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."[80] THESL agrees with VECC's submissions in this regard.

C.7 Rate Design

56. In its Supplementary Evidence, THESL proposed a rate design fixed-variable split for the new Quadlogic rate class which, in THESL's view represented a reasonable basis upon which to establish the new customer tariff. Specifically, THESL has set a rate to achieve a revenue-to-cost ratio of 100% for the new Quadlogic class and has set the fixed and variable rates 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 its proposed rate design is also consistent with the Ontario Government's policy justification for introducing the suite metering initiative (to allow tenants to pay their own electricity bill based on their actual consumption, and help them manage their energy consumption).

57. THESL acknowledges that there are numerous reasonable approaches to the specific rate design.[81] Board Staff has taken a different approach by proposing to align the midpoints of the range of customer-related costs produced by the cost allocation study for both the Quadlogic class and the Residential class, which in Staff's view is "more appropriate than that proposed by Toronto Hydro since the proposal to have identical proportions of revenue from fixed versus variable charges is arbitrary, and runs contrary to the

[80] VECC Submissions at para. 3.33.
[81] Transcript Vol. 3 at pg. 84.

proportion of costs that are derived as customer-related versus demand-related in the cost allocation study."[82] THESL notes that Board Staff's proposed approach is no less arbitrary (why did Staff exclude the Avoided cost estimate of the fixed cost?). There are a range of assumptions that the Board may make to arrive at the appropriate fixed-variable split. The assumptions made by Board Staff in its approach are no less arbitrary than those made by THESL.

58. VECC, on the other hand, has proposed an approach that is based on calculating the fixed-variable split for each customer class and then applying this split to the costs to be recovered from each class after any revenue to cost ratio adjustments, which in VECC's view will be more understandable by customers and "is consistent with the principle of maintaining the existing fixed-variable split except that it is applied to each of the new classes based on existing rates."[83]

59. THESL acknowledges that each of these approaches represent reasonable attempts to propose a rate design for the new Quadlogic class, and that ultimately the determination of which approach to adopt is the Board's to make. THESL is in the Board's hands as to its preferred approach to rate design.

60. It is in this context that the SSMWG has proposed that the Board adopt a fixed monthly rate adder to recover the SSMWG's asserted revenue deficiency from the Quadlogic class.[84] The SSMWG suggests this approach on the basis of "transparency within the competitive unit sub-metering marketplace" and "for reasons of simplicity", asserting that "by leaving the residential rate the same for both classes, there will be no confusion amongst residential customers about why the difference in rates exist."[85] THESL fundamentally disagrees with this approach for a number of reasons. First, the SSMWG's approach to assign the entire differential to a fixed charge is arbitrary (the SSMWG has not adduced any evidence that the customer confusion they are purporting

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[82] Board Staff Submissions at para. 11.
[83] VECC Submissions at para 4.3.
[84] SSMWG Submissions at para. 8(e).
[85] SSMWG Submissions at para. 68.

to address – their argument is entirely speculative and based on conjecture) and strays from the principle of maintaining a similar fixed-variable split as between the Quadlogic class and the Residential class, an issue which both VECC and Board Staff raised and which the SSMWG purports to be concerned about.[86] Second, the SSMWG assumes implicitly that only additional costs will be reflected in the new Quadlogic customer class. As noted above, THESL does not believe it is appropriate to "cherry pick" additional costs but to ignore evidence of lower costs. Rather, THESL believes that the purpose of this exercise is to identify differences in cost drivers for the purposes of establishing an appropriate rate class. Given this, and based on the evidence filed in this proceeding, it is just as likely that the Quadlogic class rate adder may in-fact be negative, reflecting the lower costs incurred to service the Quadlogic customer class vis-à-vis other Residential customers. It is not clear to THESL that the SSMWG would support such a negative fixed price rate adder. Finally, the SSMWG's proposal would if accepted by the Board serve to fundamentally skew any comparisons between the utility Quadlogic service and the competitive market for sub-metering in favour of SSMWG's member constituency. And as noted in THESL's response to SSMWG interrogatory filed at Exhibit R4, Tab 3, Schedule 19, comparisons with the unregulated submetering rates are difficult in any event.

D. OUT-OF-SCOPE SUBMISSIONS

61. SEC in its submissions has raised a concern about how the creation of the new Quadlogic rate class will impact rates paid by the GS>50kW rate. Specifically, SEC asserts that when a building is suite metered by THESL, it is likely that the unit rates for the GS>50 kW class will go up because the building's billing determinates in that class will go down.[87]

62. VECC notes in its submissions that it does not agree with this proposition. "What was overlooked in the exchange between the counsel for SEC and THES' witnesses was the

[86] SSMWG Submissions at para. 66.
[87] SEC Submissions at pg. 1.

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 – 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."[88] VECC concludes by noting that one of the Panel members noted this fact at the end of exchange and THESL's witnesses agreed.[89]

63. In any event, THESL submits that the issue raised by SEC is clearly outside the scope of this hearing. The Board was clear in the Partial Decision that the purpose of this hearing is to establish the cost allocation protocols for the new Quadlogic customer class and to establish initial rates. In preparing the Supplementary Evidence THESL has complied with the Board's direction to make use of its cost allocation model.

E. CONCLUSION

64. In conclusion, 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.

[88] VECC Submissions at para 3.38.
[89] Transcript Vol. 3, pgs. 138-139.

All of which is respectfully submitted this 12th day of January, 2012.

Original signed by J. Mark Rodger
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