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Ontario

BY EMAIL

November 23, 2012

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

Dear Ms. Walli:

Re: Milton Hydro Distribution Inc.
2013 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2012-0148

In accordance with the Notice of Application and Hearing, please find attached the Board Staff Submission in the above proceeding. This document is also being forwarded to Milton Hydro Distribution Inc. and to registered parties to this proceeding.

Yours truly,

Original Signed By

Kelli Benincasa
Analyst, Applications & Regulatory Audit

Encl.

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2013 ELECTRICITY DISTRIBUTION RATES

Milton Hydro Distribution Inc.

EB-2012-0148

November 23, 2012

Board Staff Submission
Milton Hydro Distribution Inc.
2013 IRM3 Rate Application
EB-2012-0148

Introduction

Milton Hydro Distribution Inc. ("Milton Hydro") filed an application (the "Application") with the Ontario Energy Board (the "Board") on September 14, 2012, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that Milton charges for electricity distribution, to be effective May 1, 2013. The Application is based on the 2012 3rd Generation Incentive Regulation Mechanism ("IRM").

The purpose of this document is to provide the Board with the submissions of Board staff based on its review of the evidence submitted by Milton Hydro.

Board staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by Milton Hydro. Pursuant to Guideline G-2008-0001, updated on June 28, 2012 Board staff notes that the Board will update the applicable data at the time of this Decision based on any available updated Uniform Transmission Rates.

Milton Hydro completed the Deferral and Variance Account continuity schedule included in the Rate Generator Model at Tab 5 for its Group 1 Deferral and Variance Accounts. Milton Hydro's total Group 1 Deferral and Variance Account balances amount to a debit of $1,813,132. Based on the disposition threshold test calculation, the Group 1 Deferral and Variance Account balances equate to $0.0025 per kWh which exceeds the threshold of +/-$0.001 per kWh. As such, Milton Hydro has requested disposition of its Group 1 Deferral and Variance Account balances over a one-year period.

Board staff has reviewed the Model for Milton Hydro Group 1 Account balances and notes that the principal balances as of December 31, 2011 reconcile with the balances as reported as part of the 2.1.7 Reporting and Record-Keeping Requirements ("RRR"). Board staff therefore submits that the Group 1 Account balances should be disposed on a final basis. Board staff further notes that the requested disposition period of one year

is in accordance with the *Electricity Distributors' Deferral and Variance Account Review Initiative* (EB-2008-0046) ("the EDDVAR Report").

Board staff makes detailed submissions on the following matters:

- Lost Revenue Adjustment Mechanism ("LRAM"); and
- Smart Meter

Lost Revenue Adjustment Mechanism ("LRAM") Claim

Background

Milton has requested approval of an LRAM amount of $107,762 for persisting lost revenues from 2010 Conservation and Demand Management ("CDM") programs realized in 2011 and 2012.

Submission

On April 26, 2012 the Board issued updated Guidelines for Electricity Distributor Conservation and Demand Management (EB-2012-0003) (the "2012 CDM Guidelines). The 2012 CDM Guidelines note that "all elements of the 2008 CDM Guidelines are superseded by this document and the CDM Code."[1] Section 13.6 of the Board's 2012 CDM Guidelines outlines the information that is required when filing an application for LRAM for pre-CDM Code activities (i.e. any CDM activities undertaken before 2011). The 2012 CDM Guidelines are consistent with the 2008 CDM Guidelines with respect to how long lost revenues are accruable for CDM activities undertaken before 2011.

The Board's 2012 CDM Guidelines state:

> "The 2008 CDM Guidelines state as follows: "lost revenues are only accruable until new rates (based on a new revenue requirement and load forecast) are set by the Board, as the CDM savings would be assumed to be incorporated in the load forecast at that time." The intent of the LRAM in the 2008 CDM Guidelines was to keep electricity distributors revenue neutral for CDM activities implemented by the distributor during the years in which its rates were set using the incentive regulation mechanism, and that future LRAM claims should be unnecessary once a distributor rebases and updates its load forecast.

1 Section 1.2: Overview of the CDM Guidelines, *Guidelines for Electricity Distributor Conservation and Demand Management* (EB-2012-0003)

> The Board therefore expects that LRAM for pre-2011 CDM activities should be completed with the 2012 rate applications, outside of persisting historical CDM impacts realized after 2010 for those distributors whose load forecast has not been updated as part of a cost of service application."[2]

Milton's most recent load forecast was approved as part of its 2011 cost of service rate application (EB-2010-0137). Milton noted in response to Board staff interrogatory #5 that 2010 OPA CDM Programs savings are not reflected in its load forecast upon which 2011 rates were set as the 2011 load forecast was based on actual data from 2001 to 2009.

Board staff does not support Milton's request for recovery of an LRAM amount related to lost revenues in 2011 and 2012 from persisting impacts of 2010 CDM programs. Board staff submits that Milton's request for LRAM is inconsistent with the Board's decision in Hydro One Brampton's 2012 IRM application (EB-2011-0174), where the Board disallowed LRAM claims for the rebasing year as well as persistence of prior year programs in and beyond the test year on the basis that these savings should have been incorporated into the applicant's load forecast at the time of rebasing. Further, Milton's request is inconsistent with the 2012 CDM Guidelines as highlighted above. Board staff submits that Milton had an updated load forecast approved in 2011 and that this load forecast is final in all respects. Board staff submits that Milton's current LRAM request should be denied.

Smart Meter

Approvals Sought

- Smart Meter Incremental Revenue Requirement Rate Riders ("SMIRR") – A forecasted SMIRR of $0.31 per customer per month for the period of May 1, 2013 to April 30, 2015. These rate riders will collect the 2012 incremental revenue requirement related to smart meter costs to be incurred from January 1, 2012 to December 31, 2012, and in successive years until Milton Hydro rebases its rates through a cost of service application.

2 Section 13.6: LRAM & SSM for Pre-CDM Code Activities: *Guidelines for Electricity Distributor Conservation and Demand Management* (EB-2012-0003)

Updated Evidence

In response to Board staff and Vulnerable Energy Consumers Coalition ("VECC") interrogatories, Milton Hydro made the following updates:

- Milton Hydro withdrew its model and populated the OEB Smart Meter Model Version 3.0 (Board staff IR # 13b and VECC IR# 5)

Board staff has no issues with the updated evidence.

In its response to Board staff and VECC interrogatories, Milton Hydro filed a revised smart meter model and class-specific SMDRs and SMIRRs to reflect the updates noted in the Board staff and VECC interrogatories referenced above.

The revised class-specific SMDRs and SMIRRs calculated as a result of responses to Board staff and VECC interrogatories are summarized below:

Table 1: Original and Revised SMDRs and SMIRRs

Class	SMDR ($/month, from May 1, 2013 to April 30, 2015)		SMIRR ($/month, from May 1, 2013 to April 30, 2015)	
	Original	Revised	Original	Revised
Residential	$0.00	$0.05	$0.31	$0.08
GS <50 kW	$0.00	($0.28)	$0.31	$0.07
GS >50 kW	$0.00	$0.00	$0.31	$0.00
Large Use	$0.00	$0.00	$0.31	$0.00

Prudence of Smart Meter Costs and Minimum Functionality

Based on the costs provided by Milton in response to VECC's IR# 4 e, Board staff notes that the total cost per meter works out to an average of $194.41 (capital and OM&A) or $172.34 (capital only).

For comparison purposes, the Board's report, "Sector Smart Meter Audit Review Report", dated March 31, 2010, indicates a sector average capital cost of $186.76 per meter (based on 3,053,931 meters (64% complete) with a capital cost of $570,339,200

as at September 30, 2009). The review period was January 1, 2006 to September 30, 2009. The average total cost per meter (capital and OM&A) is $207.37 (based on 3,053,931 meters (64% complete) with a total cost of $633,294,140 as at September 30, 2009).

The Board followed up on this review on October 26, 2010 and issued a letter to all distributors requiring them to provide information on their smart meter investments on a quarterly basis. The first distributors' quarterly update represented life-to-date investments in smart meter implementation as of September 30, 2010 and as of this date, the average total cost per meter was $226.92.[3]

Board staff observes that Milton Hydro's costs are within the ranges seen in other applications and are below the average cost per meter. Board staff is of the view that Milton Hydro has provided adequate documentation on the prudence of the costs incurred for smart meter deployment and operation and for which Milton is seeking recovery in this Application.

Board staff also observes that the proposed SMIRR is $0.08/month for Residential customers. The SMIRR is, by design, a proxy for the incremental increase in distribution rates to recover the annualized capital-related and operating costs of smart meters as if they were in rate base and operating expenses. This is within the range of $3 to $4 that was originally estimated (albeit on limited and preliminary data) in the Board's Report on smart meters in 2005.[4] The Board has continued to use the $3 to $4 range as a bench-mark for assessing the appropriateness of the SMIRR and hence the smart meter costs underlying the rate. However, in this case, the bulk of Milton Hydro's smart meter costs were disposed of previously in the utility's 2011 cost of service application, and hence recovery of the ongoing revenue requirement for these costs are already factored into Milton Hydro's approved distribution rates. In this Application, the SMIRR is only to recover the ongoing annual revenue requirement for the additional smart meter costs incurred for the stub period in 2010. Given that the estimated SMIRR is relatively small – less than $0.10/month for applicable customers, Board staff has no

3 "Monitoring Report Smart Meter Investment – September 2010", March 3, 2011
4 *Smart Meter Implementation Plan - Report of the Board To the Minister*, January 26, 2005, pg. vi, http://www.ontarioenergyboard.ca/documents/communications/pressreleases/2005/press_release_sm_implementationplan_260105.pdf

issue with the level of the SMIRR, subject to comments on cost allocation later in this submission.

Costs Beyond Minimum Functionality

Milton Hydro's Application does not include a request to recover capital costs and OM&A costs beyond minimum functionality, as defined in the combined proceeding related to Smart Meters (EB-2007-0063) and in Guideline G-2011-0001[5].

Cost Allocation

Milton has calculated the class-specific smart meter revenue requirement using the following methodology:

- OM&A expenses have been allocated on the basis of the number of meters installed for each class;
- The Return and Amortization have been allocated on the basis of the capital costs of the meters installed for each class;
- PILS have been allocated based on the revenue requirement derived for each class before PILS; and
- Direct allocation by rate class of the SMFA revenue collected from the residential and GS < 50 kW rate classes (applicable only for the SMDR determination).

As noted previously, with the updated smart meter model filed in response to Board staff interrogatory # 13, the model calculates the following monthly SMDRs and SMIRRs:

	Uniform (Sheet 9)	Residential (Sheets 10A and 10B)	GS < 50 kW (Sheets 10A and 10B)
SMDR (in effect for 2 years)	$0.03	$0.05	($0.28)
SMIRR (in effect until Milton Hydro's next cost of service rates become effective)	$0.08	$0.08	$0.07

5 Guideline G-2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition (December 15, 2011)
http://www.ontarioenergyboard.ca/OEB/_Documents/Regulatory/OEB_Guideline_G-2011-0001_SmartMeters.pdf

While Board staff's review indicates that Milton Hydro has employed the approach correctly for allocating costs, the results appear anomalous. A review indicates that this might be because of the OM&A costs ($252,308.55, out of a total of $331,882.10, or over 75% of the deferred revenue requirement) was solely allocated to the Residential class, as the 36 new smart meters that were installed in 2010 were for that class.

However, Milton Hydro's evidence in the Application and in response to interrogatories indicates that much of the capital costs and the OM&A costs have been for the installation and operation of additional repeaters and collectors to improve remote meter reading. These costs are therefore for common infrastructure used to serve all customers with smart meters. Board staff therefore submits that allocating 100% of the OM&A expenses to Residential customers is inappropriate in these circumstances. This is not an error in Milton Hydro's approach, but is due to the fact that this Application deals solely with a small residual amount and is a situation for which the Board-issued Smart Meter Model was not fully designed to handle.

Given the "common" nature of many of these costs, and given that the costs at issue in this Application are only a small fraction of Milton Hydro's overall costs (the bulk of which have already been disposed of) Board staff submits that a uniform SMDR and SMIRR as calculated on sheet 9 of the Smart Meter Model would be preferable. For the SMIRR, there is no material difference between the uniform and allocated SMIRRs. For the SMDR, Board staff submits that a uniform SMDR of $0.03 per month for the Residential and GS < 50 kW would be a more appropriate recovery of the costs on a cost causality basis, as opposed to the class-specific calculation which would see a refund of $0.28 per month to GS < 50 kW, even though the OM&A costs would also be used to service customers in this class.

Stranded Meters

Milton Hydro has already disposed of their stranded meters in their Cost of Service application EB-2010-0137.

Operational Efficiencies

Milton Hydro has not addressed operational efficiencies in its understanding, but Board staff understands that Milton Hydro may have dealt with immediate operation

efficiencies and cost reductions (i.e. due to the elimination of manual meter reading in its 2011 Cost of Service application). As such, Board staff takes no issues with the absence of any further evidence on operational efficiencies at this time. However, Board staff submits that Milton Hydro should be prepared to address any further operational efficiencies and cost savings due to smart meter and TOU implementation in its next cost of service application, by which time the utility, and the industry as a whole, will have had a longer period for integrating smart meters and related infrastructure into there operations.

All of which is respectfully submitted