***PUBLIC INTEREST ADVOCACY CENTRE***

***LE CENTRE POUR LA DEFENSE DE L’INTERET PUBLIC***

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November 24, 2012

 **VIA MAIL and E-MAIL**

Ms. Kirsten Walli

Board Secretary

Ontario Energy Board

P.O. Box 2319

2300 Yonge St.

Toronto, ON

M4P 1E4

Dear Ms. Walli:

**Re: Vulnerable Energy Consumers Coalition (VECC)**

**Milton Hydro Distribution Inc. EB-2012-0148
Final Submissions of VECC**

Please find enclosed the submissions of VECC in the above-noted proceeding. We have also directed a copy of the same to the Applicant.

Thank you.

Yours truly,

Michael Janigan

Counsel for VECC

Encl.

cc: Milton Hydro Distribution Inc.Cameron McKenzie

**EB-2012-0148**

**ONTARIO ENERGY BOARD**

**IN THE MATTER OF**

the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15 (Schedule B), as amended;

**AND IN THE MATTER OF** an Application by Milton Hydro Distribution Inc. (“Milton Hydro”) for an order or orders approving or fixing just and reasonable
distribution rates effective May 1, 2013.

**Submissions of Vulnerable Energy Consumers Coalition (VECC)**

VECC will address the following matters in its submissions:

* Lost Revenue Adjustment Mechanism Recovery
* Recovery of Costs related to Smart Meter Deployment
	+ Prudence Review of Smart Meter Costs
	+ Recovery of Smart Meter Costs
	+ Cost Allocation & Calculation of Smart Meter Rate Riders

**Lost Revenue Adjustment Mechanism Recovery**

Milton Hydro is seeking recovery of its lost distribution revenue persistent through the years 2011 and 2012 resulting from the implementation of the Ontario Power Authority’s (OPA) Conservation and Demand Management (CDM) programs activities in 2010. Milton Hydro has calculated a total LRAM in the amount of $107,762 including carrying charges of $2,830.[[1]](#footnote-1) Milton Hydro engages a third party, SeeLine Group Ltd. To conduct an independent review of Milton Hydro’s LRAM claim and to confirm that the LRAM calculations are consistent with the OPA final results approved for Milton Hydro.

Milton Hydro indicates it did not include a reduction for load that would have resulted from the implementation of the 2010 OPA CDM programs in the load forecast used in Milton Hydro’s 2011 Cost of Service rate application for 2011 rates. Milton Hydro states that its 2011 load forecast was based on actual load up to and including December 31, 2009 and forecasted load for the 32010 Bridge Year and 2011 Test Year based on the regression analysis. Milton Hydro further states that any load reduction resulting from the implementation of OPA CDM programs in 2010 were not reflected in the load forecast used to set Milton Hydro’s 2011 distribution rates and as such, the load revenue is appropriately recoverable through an LRAM Application. Milton Hydro’s LRAM claim for the years 2005 to 2010 was approved as part of its 2012 IRM3 rate application.[[2]](#footnote-2)

In response to Board Staff IR#5, Milton Hydro states it did not explicitly state that it was not including 2010 CDM program impacts in its load forecast but it did clearly state that the data used in preparing its 2011 load forecast was based on actual consumption. Milton Hydro explains it did not make a manual adjustment for its 2011 load forecast to account for

2010 CDM program impacts as its 2011 Cost of Service Rate Application was filed on

August 26, 2010 before the preliminary and final 2010 OPA CDM Program results were released. Milton Hydro further submits its 2011 load forecast unmistakably indicates that Milton Hydro did not make provisions for its 2010 OPA CDM Programs and as such 2010 OPA CDM Program savings are not reflected in Milton Hydro’s load forecast upon which 2011 rates were set and therefore this application for LRAM recovery is appropriate.

VECC notes the Board’s updated 2012 CDM Guidelines state on page 11:

*“The 2008 CDM Guidelines also noted that lost revenues are only accruable until new rates (based on a new revenue requirement and load forecast) are set by the Board, as the savings would be assumed to be incorporated in the load forecast at that time. The LRAM principles outlined below are built on the foundation of those developed and discussed in the 2008 CDM Guidelines.”`*

*“The 2008 CDM Guidelines have prevailed to date unless there was explicit language within a distributor’s cost of service decision that CDM impacts were not included in the load forecast.”*

The updated CDM Guidelines also states on page 14:

*“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.*

 *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.”*

As discussed above, Milton Hydro’s updated load forecast was approved as part of its 2011 Cost of Service application (EB-2010-0137). VECC submits there was no explicit language in Milton Hydro’s Settlement Agreement or Decision that CDM impacts were not included in the load forecast. VECC submits that Milton Hydro’s rebased load forecast for 2011approved by the Board is final in all respects and includes the CDM savings from 2010. As per the CDM Guidelines these savings should not be accruable in 2011 or beyond.

VECC submits Milton Hydro’s LRAM request is inconsistent with the Board’s past and current CDM guidelines and the Board’s Decision in previous LRAM applications regarding similar requests.[[3]](#footnote-3)

For the reasons noted above, VECC submits that Milton Hydro’s LRAM request in this application should not be approved.

**Recovery of Costs related to Smart Meter Deployment**

Milton Hydro applied for full disposition of its smart meter variance accounts based on 2009 audited balances as part of its 2011 Cost of Service rate application resulting in a Smart Meter Disposition Rider of ($1.54) per month per metered customer with an ending April 30, 2012. The continuation of a Smart Meter Funding Adder was not required. The total account balances as at December 31, 2009 in the amount of $3,707,193 ($3,277,277 smart meters and $429,916 stranded meters) are included in rate base in Milton Hydro’s 2011 COS rate application which represents 95% of Milton Hydro’s smart meter capital investment.[[4]](#footnote-4)

Milton’ Hydro’s smart meter rollout was complete as of December 21, 2011. On August 29, 2012 Milton Hydro filed for final disposition of the capital expenditures incurred in 2010 and 2011 and related OM&A costs. As shown in Table 1 below, the amount requested for final disposition in this application is capital of $220,314 and OM&A of $248,393 for a total of $469,707. The installation of 36 residential smart meters in 2010 is included in this application.

**Table 1: Summary of Smart Meter Costs**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Audited Actual to end of 2010** | **Audited Actual to end of 2011** | **Total** |
| Capital | $98,402  | $150,991 | $220,314 |
| OM&A | $202,198 | $18,116 | $249,393 |
| **Total** | **$469,707** | **$86,544** | **$469,707** |

A total of 20,259 smart meters were installed as at December 31, 2011: 18,874 residential and 1,385 GS<50 kW. Milton Hydro’s application includes costs related to minimum functionality. Milton Hydro has not incurred any costs beyond minimum functionality.[[5]](#footnote-5)

In this application, Milton Hydro seeks:

* Approval to add a Smart Meter Incremental Revenue Requirement Rate Rider (SMIRR) to recover the annual incremental revenue requirement associated with the smart meters that would have occurred if the assets and operating expenses were incorporated into rate base. The SMIRR is proposed to be in place from May 1, 2013 for 2 years until Milton Hydro’s next planned Cost of Service application scheduled for 2015. At that time the remaining smart meter investment for 2010 and 2011 will be included in rate base.
* Milton Hydro proposes that the SMIRRs apply to all metered customers, consistent with Milton Hydro’s Smart Meter Funding Adder and Smart Meter Disposition Rider, both being a fixed monthly charge/credit to all metered customers.

**Prudence Review of Smart Meter Costs**

As shown in Table 2 below Milton Hydro indicates the average capital cost per meter is $174.34 and $194.41.[[6]](#footnote-6) In response to interrogatories, Milton Hydro provided explanations of the nature of its capital and operating costs in 2010 and 2011.[[7]](#footnote-7)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Description** | **EB-2010-0137** | **EB-2012-0148** | **TOTAL** | **Average Costs per Meter** |
| Total Meters Installed | 20,259 | 36 | 20,295 |  |
| Capital – Minimum Functionality | $3,277,278 | $220,314 | $3,497,592 | $172.34 |
| OM&A – Minimum Functionality | $198,513 | $249,393 | $447,906 | $22.07 |
| **TOTAL** | **$3,475,791** | **$469,707** | **$3,945,498** | **$194.41** |

**Table 2**: **Average Cost per Meter**

Appendix A of the Combined Proceeding Decision (EB-2007-0063, September 21, 2007) compares data for 9 out of 13 utilities and shows the total cost per meter ranged from $123.59 to $189.96, with Hydro One Networks Inc. being the main exception at $479.47, due in part for the need for more communications infrastructure and increased costs to install smart meters for customers over a larger and less dense service area.

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 is $226.92 (based on 4,382,194 meters (94% complete) with the total provincial investment in smart meter installation of $994,426,187).[[8]](#footnote-8)

VECC observes that Milton Hydro’s total average smart meter cost (Capital & OM&A) of $194.41 is within the Board’s range and well below the recent sector averages.

In considering the above, VECC takes no issue with Milton Hydro’s costs and submits its costs are reasonable.

**Recovery of Smart Meter Costs**

The Board’s Guideline G-2011-0001[[9]](#footnote-9) states the following:

“The Board expects that the majority (90% or more) of costs for which the distributor is seeking recovery will be audited.”

Milton Hydro states it is basing its application for disposition of its smart meter costs on its December 31, 2011 audited balances.[[10]](#footnote-10)

VECC submits the audited costs conform to the Board’s Guidelines.

**Cost Allocation & Calculation of Smart Meter Rate Riders**

Milton Hydro prepared its smart meter model consistent with the smart meter model filed in its 2011 COS application. In response to interrogatories Milton Hydro withdrew its calculations of the disposition rate rider in favour of using the OEB smart meter model version 3.0 to calculate rate riders to recover costs only from those customer classes which received smart meters. VECC submits using the OEB smart meter model is appropriate. Table 3 below sets out the SMDR and SMIRR values as calculated in the OEB model[[11]](#footnote-11) compared to Milton Hydro’s as filed SMIRR values. **[[12]](#footnote-12)**

**Table 3: SMDR & SMIRR Rate Riders: As Filed Compared to Revised**

|  |  |  |
| --- | --- | --- |
|  | **SMDR ($/month)****May 1, 2013 to April 30, 2014** | **SMIRR ($/month)****May 1, 2013 to next COS** |
| **Class** | **As Filed** | **OEB Model Board Staff #13**  | **As Filed**  | **OEB Model Board Staff #13**  |
| **Residential**  | $0.00 | $0.05 | $0.31 | $0.08 |
| **GS<50 kW** | $0.00 | ($0.28) | $0.31 | $0.07 |
| **GS>50-999 kW** | $0.00 | $0.00 | $0.31 | $0.00 |
| **GS 1000-4999 kW****Large Use** | $0.00 | $0.00 | $0.31 | $0.00 |

Section 3.5 of the Board’s Guideline G-2011-0001 states:

“In the Board’s decision with respect to PowerStream’s 2011 Smart Meter Disposition Application (EB-2011-0128), the Board approved an allocation methodology based on a class-specific revenue requirement, offset by class-specific revenues. The Board noted that this approach may not be appropriate or feasible for all distributors as the necessary data may not be readily available.

The Board views that, where practical and where the data is available, class-specific SMDRs should be calculated based on full cost causality. The methodology approved by the Board in EB-2011-0128 should serve as a suitable guide. A uniform SMDR would be suitable only where adequate data is not available.”

VECC IR#5 sought the calculation of class specific rate riders based on full cost causality. Specifically, VECC requested separate smart meter models for each customer class in order to recalculate the rate riders using class specific revenue requirements based on data at the customer class level. In its response, Milton Hydro referred VECC to its response to Board Staff IR#13 where Milton Hydro provided class specific SMDRs and SMIRRs based on the PowerStream cost allocation methodology. VECC submits the PowerStream methodology provides a proxy for revenue requirement but it does not reflect full cost causality.

In past Decisions[[13]](#footnote-13), the Board has found the cost causality approach of class specific models

to be more exacting and principled and has accepted VECC’s methodology where the utility

has calculated it and has the underlying data at the customer level. VECC notes that in the

PowerStream Decision EB-2011-0128 (Page 12), the Board noted the differences between

the rate riders (PowerStream methodology compared to VECC methodology) was significant

and the Board approved a change in cost allocation.

VECC submits that since this application includes only costs to install 36 smart meters for the residential class in 2010, Milton Hydro should have the data available at the customer level to appropriately allocate costs between customer classes and complete separate smart meter models and revenue requirements for each customer class. VECC submits Milton Hydro should provide, in its reply submissions, the information requested by VECC in IR#5, i.e. class specific revenue requirement models and revised SMDR and SMIRR rate riders based on full cost causality.

**Recovery of Reasonably Incurred Costs**

VECC submits that its participation in this proceeding has been focused and responsible.

Accordingly, VECC requests an order of costs in the amount of 100% of its reasonably-incurred fees and disbursements.

All of which is respectfully submitted this 24th day of November 2012.

1. Application, Page 19 [↑](#footnote-ref-1)
2. Application, Page 12 [↑](#footnote-ref-2)
3. EB-2011-0174 Decision, Hydro One Brampton Networks Inc. [↑](#footnote-ref-3)
4. Application, Page 24 [↑](#footnote-ref-4)
5. VECC IR#6 [↑](#footnote-ref-5)
6. VECC IR#4(e) [↑](#footnote-ref-6)
7. |Board Staff IR#8, Board Staff IR#12 [↑](#footnote-ref-7)
8. Monitoring Report Smart Meter Investment – September 2010, March 3, 2011 [↑](#footnote-ref-8)
9. Board Guideline G-2011-0001, Smart Meter Funding and Cost Recovery – Final Disposition, dated December 15, 2011, Section 3.5, Page 18 [↑](#footnote-ref-9)
10. Application, Page 24 [↑](#footnote-ref-10)
11. Board Staff IR#13(b) [↑](#footnote-ref-11)
12. Application, Appendix K [↑](#footnote-ref-12)
13. EB-2011-0143 Lakeland Power Distribution Ltd. Decision [↑](#footnote-ref-13)