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Hydro Mississauga

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March 21, 2007

Ms. K. Walli
Ontario Energy Board
P. O. Box 2319
2300 Yonge Street, Suite 2700
Toronto, ON M4P 1E4

RE: EB-2007-0523

Dear Ms. Walli,

Please find enclosed Enersource Hydro Mississauga Inc.'s Reply Submissions in the above named proceeding.

Sincerely,

K. Litt

K. Litt
Manager, Rates and Regulatory

cc. R. Herman, COO Enersource Hydro Mississauga Inc.

EB-2007-0523

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 (Sched B);

AND IN THE MATTER OF an application by Enersource Hydro Mississauga Inc. for an Order or Orders pursuant to the *Ontario Energy Board Act, 1998*, for 2007 electricity distribution rates and related matters.

Enersource Hydro Mississauga Inc.

Reply Submissions

Introduction

Enersource Hydro Mississauga Inc. ("Enersource") seeks an order or orders of the Ontario Energy Board (the "OEB" or the "Board") authorizing distribution rates effective May 1, 2007. The requested distribution rates are based on Enersource's Board authorized rates for the 2006 rate year adjusted as permitted by the Board's Second Generation Incentive Rate Mechanism and adjusted to provide adequate funding for Enersource's Smart Meter ("SM") related investments through the operation of a Smart Meter Rate Adder ("SMRA"). The relief requested will to permit Enersource to charge distribution rates that recover the ongoing costs of providing service.

Status

Enersource filed its 2007 Electricity Distribution Rates ("2007 EDR") application on January 26, 2007. The Board issued its Notice of Application and Written Hearing for an Electricity Distribution Rate Change and Notice of Combined Proceeding and Hearing Related to Smart Meters (the "Notice"), dated February 8, 2007 and an accompanying Letter of Direction (the "Letter"). In accordance with the Board's Letter Enersource arranged for publication of the Notice on February 21, 2007. Also in accordance with the Board's Letter Enersource filed an Affidavit of Publication, dated March 5, 2007. The Board staff posed six clarifying questions on Enersource's 2007 EDR application by way of an email that was received on March 2, 2007. Enersource responded to staff's clarifying questions on March 9, 2007. Enersource provided further clarifications with respect to two of the responses on March 14, 2007. Board staff filed its written submissions with respect to Enersource's 2007 EDR on March 14, 2007, as stipulated by the Notice. These written Reply Submissions are filed 7 days after the deadline for interested parties to file submissions and also as stipulated by the Notice.

Concurrent with filing the 2007 EDR application, Enersource also filed a Smart Meter Implementation Plan ("SMIP") on December 15, 2006 and a 2007 Smart Meter Rate Adder Model ("SMRAM") on February 9, 2007.

The OEB Staff Submission

The Board Staff submission in Enersource's 2007 EDR deals only with the issue of the SMRA for 2007 (the "2007 SMRA"). Staff submits that the appropriate 2007 SMRA is $1.28/customer/month. The Staff did not make submissions on the prudence of SM related spending or revenue requirement estimates, as both these matters will be the subject of the Combined Proceeding and Hearing Related to Smart Meters (the "Combined Proceeding"). Enersource notes that none of the Board staff's clarifying questions or further clarifications concerned the costs relied on in the 2007 SMRA.

Enersource's 2007 SMRA is composed of four components:

- $1.28, being the amount determined using the OEB's SMRAM;
- $1.25, being the amount attributable to the disposition of existing meters removed from service;
- $0.03, being the amount attributable to the change out of Murray Jensen meter bases; and
- $0.04, being the amount attributable to the provision of SM and SM services to General Service > 50 kW ("GS>50kW") consumers.

The Staff relied on Enersource's component presentation to frame its submissions, they are as follows:

- $1.28 should be the 2007 SMRA incorporated by the Board in setting distribution rates effective May 1, 2007;

- $1.25 should not be incorporated in the 2007 SMRA because the Board does not have a policy on the recovery of disposition costs of existing meters and because this issue will be considered as part of the combined hearing;
- $0.03, related to Murray Jensen meter bases, should not be incorporated in the 2007 SMRA because it appears to fall outside of the Board's guidelines; and
- $0.04, related to GS.50kW customers, should not be incorporated in the 2007 SMRA because it appears to be outside the Board's guidelines and beyond the criteria and requirements of Ontario Regulation 426/06 ("OReg 426/06").

Other Factors

The staff submission references some of the factors that will inform the Board's decision. Other factors include:

- The Board must authorize just and reasonable rates that recover the ongoing costs of providing service;
- The 2007 SMRA is a funding mechanism;
- The OEB authorized variance accounts for SM revenues and capital expenditures will continue to operate;
- The OEB's January 19, 2007 letter to electricity distributors on Stranded Meter Costs;
- The disposition of the balances recorded in the variance accounts will be decided in a future proceeding;
- The status of the Board's 2007 EDR guidelines and its SMRA guidelines;
- Reading O Reg 426/06 in conjunction with O Reg 425/06;
- That neither the administrative nor evidentiary phases of the OEB's Combined Proceeding have commenced; and
- Whether undue rate shock will occur in the 2007 rate year or in a subsequent rate year.

The Issues

Enersource respectfully submits that in adjudicating Enersource's 2007 EDR application the Board must decide the appropriate 2007 SMRA based on the impact to consumers and its adequacy as a funding mechanism.

Enersource's Reply Submissions

Enersource respectfully submits that the appropriate 2007 SMRA is $2.57/metered-customer/month because it provides access to adequate funding and because it is not expected to result in rate shock to any customer class. Enersource replies to the Staff's specific submissions on the components of the proposed 2007 SMRA that the Staff was not able to support and then addresses the issue of the adequacy of the proposed 2007 SMRA as a funding mechanism.

<u>Disposition Costs</u>

Simply put, Board staff's submission is that it is premature to deal with the recovery of disposition costs because the Board's 2007 SMRAM did not provide for the determination of this component of the 2007 SMRA and because it will be an issue in the upcoming Combined Proceeding. Enersource notes that the Board's January 16, 2007 letter to LDCs directs LDCs to report stranded meter costs in a sub-account to account 1555, Smart Meter Capital and Recovery Offset Variance Account. The January 19, 2007 letter describes the appropriate entry as reflecting the pooled residual net book value cost of removed meters, less any net sale proceeds when received.

Enersource submits that the Board has turned its mind to the treatment of disposition costs and has concluded that they are eligible to be recorded in the SM variance account; this is demonstrated in the Board's January 16, 2007 letter to electricity distributors on Stranded Meter Costs. The Board's accounting direction is a stronger demonstration of the resolution of this issue than is a mo del's inclusion or exclusion of the cost. By parity of reasoning, if the variance accounts will record the costs of the stranded meters then it is appropriate to set the 2007 SMRA at a level that will provide the appropriate revenues. If the 2007 SMRA does not provide for the recovery of disposition costs then Enersource will lack access to an appropriate funding mechanism and not only will the balances in the variance accounts be higher than they ought to be, they will be unfavourable to rate payers. Enersource notes that the Board has issued Notice of the Combined Proceeding and has not commenced either the administrative or evidentiary activities of that proceeding. The Board's adjudication of this issue in this proceeding does not bind the Board panel in the Combined Proceeding.

For these reasons Enersource submits that it is appropriate for the Board to authorize a 2007 SMRA that provides for the recovery of disposition costs as calculated.

Murray Jensen meter base change out costs

Enersource submits that the staff's position - that it is inappropriate to authorize the 2007 SMRA in an amount that permits the recovery of these costs because they "... appear(s) to fall outside of the guidelines ..." - is an unwarranted enhancement of the status of guidelines. Enersource recognizes that the costs attributable to the change out of the Murray Jensen meter bases would have been incurred in the normal course of business and that the provision of SM to all customers by the end of 2010 significantly accelerates the date that these costs are incurred. For this reason Enersource can accept that these costs are properly recoverable through distribution rates, rather than through the 2007 SMRA, and that it is appropriate to revise the proposed 2007 SMRA downward to $2.57/metered-customer/month.

Costs attributable to General Service > 50 kW Consumers

Enersource submits that the 2007 SMRA should include the recovery of the costs to provide SM and SM related services to GS>50kW consumers. Ontario Regulation 426/06 ("OReg 426/06") when read in conjunction with Ontario Regulation 425/06 ("OReg 425/06") supports this submission. OReg 425/06 applies to residential and small general service consumers. Section 2 of OReg 426/06 provides that:

> "... a distributor may not recover its costs relating to functionality that exceeds the minimum functionality adopted in Ontario Regulation 425/06 (Criteria and Requirements for Meters and Metering Equipment, Systems and Technology) made under the *Electricity Act, 1998* unless the costs are approved by the Board".

The regulations do not appear to bar distributors from providing SM or SM services to consumers, other than residential and small general service, but rather to require Board approval of the costs. Enersource suggests that this aspect of the regulations informed the staff's position not to consider the prudence of the costs of SM in their submissions.

Enersource is not seeking either a determination of the prudence of the proposed SM costs attributable to GS>50 kW customers or Board approval of the 2007 costs of providing SM and SM services to GS>50 kW consumers. It is seeking authorization to charge distribution rates effective May 1, 2007 that include the recovery of an appropriate SMRA where the revenues will be recorded in variance accounts whose balances will be disposed of through rates in a future proceeding.

<u>Adequacy of the Funding Mechanism</u>

Enersource submits that the appropriate funding mechanism will be available if the Board authorizes a 2007 SMRA of $2.57/metered-customer/month. Furthermore, Enersource submits that authorizing a 2007 SMRA in a lesser amount will provide inadequate funding such that Enersource may not be able to realize the 2007 component of its SMIP. If the authorized 2007 SMRA is less than $2.57/metered-customer/month then the balances recorded in the variance accounts will be unfavourable to the rate payer. Disposing of these balances through rates in a future period may contribute to rate shock.

Conclusion

Enersource respectfully submits that the appropriate amount of the 2007 SMRA is $2.57/metered-customer/month. This amount is not expected to result in rate shock to any customer class in 2007. It is supported by both Enersource's SMIP and its SMRAM as the amount that recovers the costs incurred to provide SM and SM services on an ongoing basis, after eliminating the components related to the change out of Murray Jensen meter bases. A 2007 SMRA in this amount is considered an appropriate funding mechanism. Finally, all the revenues recovered through the 2007 SMRA will be recorded in a variance account that will be disposed of through rates in a future proceeding.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

K. Litt

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Manager, Rates and Regulatory
March 21, 2007